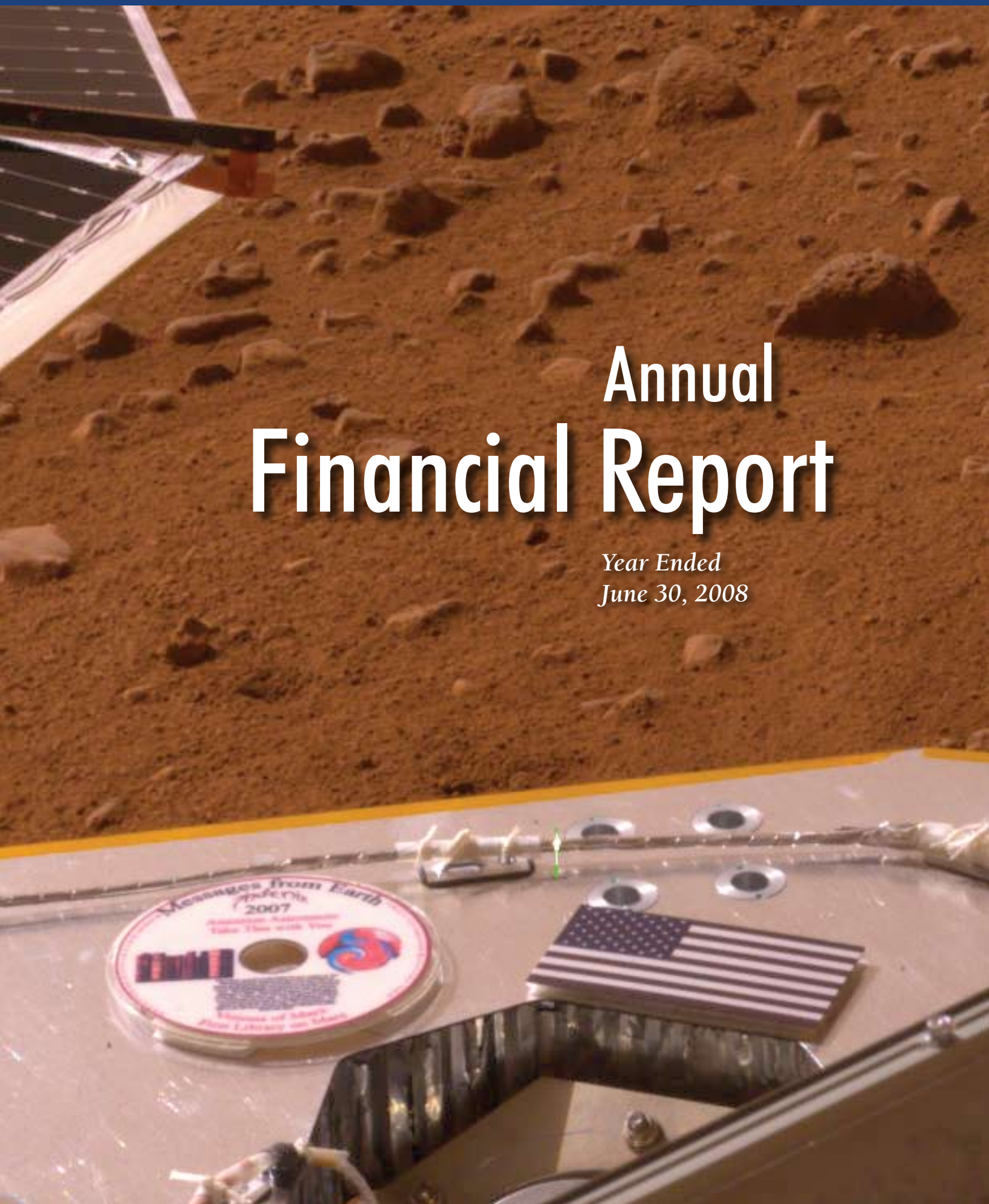
THE UNIVERSITY OF ARIZONA

Annual Financial Report

Year Ended June 30, 2008



The University of Arizona made its mark on Mars and on earth this year with the incredibly successful Phoenix Mars Mission. It was a world-class effort by a talented team who dared to dream big and pursued their goals with passion and diligence. The spacecraft traveled 420 million miles, landed safely and sent back information that may change the way we understand the Red Planet forever. This mission was out of this world, but extraordinary things are happening every day at the UA.

Artist rendition by Corby Waste, Jet Propulsion Laboratory (2)

NASA/JPL/UA/Lockheed Martin

The University of Arizona

Sid Leach

Phoenix Landing Site: NASA/JPL-Caltech/The University of Arizona/MSSS
Cover: NASA/JPL-Caltech/The University of Arizona/Texas A&M

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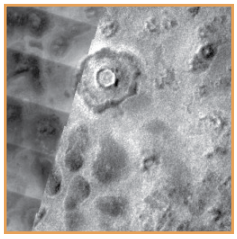
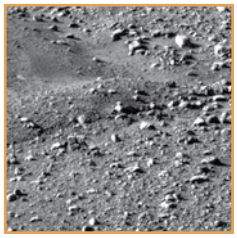
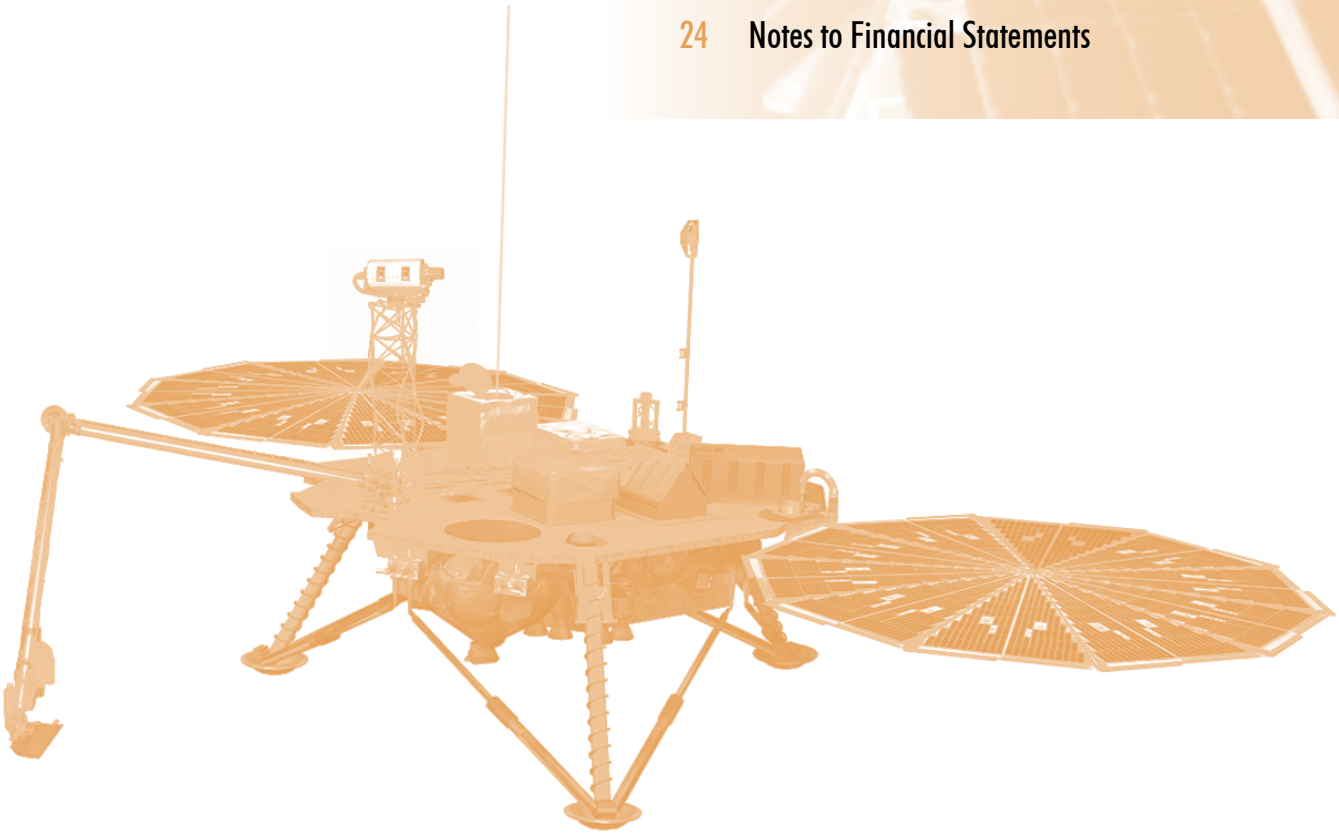






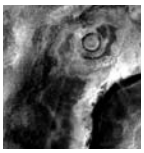
A Message from the President

As The University of Arizona enters the 2008/2009 fiscal year it does so with robust and growing enrollment and increasing national stature. With more than 6,700 students, this year's freshman class is the largest in UA history. SAT scores of the incoming class remain the best of Arizona's three public universities. We have a record number of national achievement scholars and since 2006 have seen freshman applications increase by 36 percent.

It is evident from these sorts of numbers that students and families in this state place a high value on a University of Arizona degree. Parents want their children here. Employers want our graduates. And the State of Arizona benefits from the huge economic impact of our research and outreach activities. The support of so many constituent groups played a major role in the strong financial position with which the University ended the 2007/2008 year.

In the fiscal year 2008, the University's operating revenues increased by $54 million, or 7 percent, over the previous fiscal year. When we entered the fiscal year in July 2007, new state investment in the University was directed to support critical areas: a much-needed salary increase helped our invaluable faculty, staff, and appointed professionals; our students saw benefits from Student Success funding to support instructional and academic support programs; the Research Infrastructure bill was fully funded; and funding to continue our build-out of The University of Arizona College of Medicine – Phoenix in partnership with Arizona State University. That cumulative increase grew our state appropriation by 6 percent, rising from $421 million to $445 million.

Other revenue sources also grew. Increased student enrollment resulted in tuition and fees rising by $22 million. Federal grant and contract revenue increased by $10.9 million, or 4 percent. State and local grants and contracts grew by $3.7 million, a 22 percent increase to a total of $20 million. Nongovernmental grants and contracts grew by $4.5 million, or 8 percent. Sales and services of educational units increased from $24.5 million to $25.8 million, a 5 percent increase over 2007. Auxiliary enterprises increased from $143.9 million to $154.1 million.



The University's operating expenses increased by 7 percent to an all-time high of $1.375 billion.

The national and state economic downturn experienced in the 2007-08 year negatively impacted our state funding both as we closed the 2008 fiscal year and we entered the 2009 fiscal year. Moving through the 2009 fiscal year, we are very mindful of the difficult economic situation that continues to confront our state and nation.

To address what we expect will ultimately be a substantial decline in state appropriations after the promising start entering into the 2008 fiscal year; The University of Arizona is taking proactive steps to address both the budget challenge and how to push ourselves to be world-class in everything we do. In consultation with the deans, key faculty and administrators, the University has undertaken a restructuring process that will be the most radical in the UA's history. It will change the way we operate, insulate us against future fluctuations in the state appropriation, and make us stronger as a University.

By merging and realigning units and streamlining our administrative costs, we will be able to invest more in those areas where we can excel.

The restructuring that we have begun reflects our overall strategic priorities, and will strengthen and sustain our standing as a world-class university that is truly Arizona's best.

We feel confident that The University of Arizona is poised to advance even further in the ranks of America's great public research universities. We are proud of the accomplishments of recent years, and even more proud of the changes we are initiating that will make our future brighter still.

Sincerely,

Robert N. Shelton

Institutional Profile

The University of Arizona was established as a land grant institution in 1885, 27 years before the Arizona Territory became a state. The years following World War II and the Korean War were a period of substantial growth for the University. In the late 1950s, enrollment greatly increased, with the University gaining an average of more than 1,200 students per year for 17 years. During this period, the foundation was laid for the development of a leading research institution. Today, the University serves 37,217 students through 19 colleges offering 346 degree programs, and is ranked among the leading research universities in the country.

Enrollment Statistics – Academic Year 2007 - 2008

Undergraduate enrollment – Fall 2007	29,070
Graduate enrollment – Fall 2007	8,147
Degrees awarded – Bachelor's	5,568
Degrees awarded – Advanced	2,214
Tuition and fees for full-time student – Resident	$5,048
Tuition and fees for full-time student – Non-resident	$16,282

The University's 2,291 full time equivalent faculty and 1,271 full time equivalent graduate teaching and research assistants and associates educate a diverse student population. The student population is 52.9% female, 14.6% Hispanic, 5.9% Asian or Pacific Islander, 3.1% Black, and 2.5% Native American. It includes students from all fifty states, and 119 foreign countries. International students totaled 6.1% of the Fall 2007 enrollment, with the largest numbers of foreign students hailing from the People's Republic of China, India, Korea, Mexico and Japan.

Research Excellence

The University offers an unusually extensive and varied group of research, graduate and professional teaching programs. During the past 25 years the University has emerged as one of the top universities in the nation (top 13th among public research universities), according to the National Science Foundation. With its abundance of biological sciences, medical programs and interdisciplinary strengths, the University has tremendous potential for further research expansion.

The University was one of the original Carnegie Research I institutions. In 1985, the University was elected to membership in the Association of American Universities, a prestigious group limited to North America's preeminent public and private research universities.

Eminent research programs provide advances in applied and basic or pure knowledge that fulfill the University's obligation to the State and the nation. Such programs attract truly distinguished faculty who serve the University's students through a comprehensive range of undergraduate and graduate programs.

High-quality research programs secure extensive federal and corporate funding that enriches instructional programs by providing tremendous education and research opportunities for the students, as well as helping to provide up-to-date facilities and equipment.

Strengths

A persistent theme in the University's history has been developing strengths based on its unique physical and cultural environment. Some examples follow:

- As Arizona's land grant institution, arid land agriculture, mining and geological studies became early focal points of a broad range of research, teaching and public service activities. The College of Agriculture and Life Sciences is dedicated to improving the quality of life for people in Arizona, the nation and the world. The Cooperative Extension Service has faculty and staff in all of Arizona's counties, on Indian Reservations, and in over 30 communities and research centers.

- The National Science Foundation (NSF) ranked The University of Arizona as America's No. 1 university for research expenditures in the physical sciences, which includes astronomy, physics and chemistry. Overall, the UA's ranking among public research universities remained 13th, and it remained the nation's 21st institution among all public and private universities and colleges.

- Researchers at The University of Arizona, in collaboration with Washington University, Cold Spring Harbor Laboratory, and Iowa State University, have completed a working draft of the corn genome. The $29.5 million project, funded by the National Science Foundation, U.S. Department of Agriculture, and the U.S. Department of

Vincenzo Testa and Cristian DeSantis

Energy, may lead to strains of corn that require less water and adapt better to climate change.

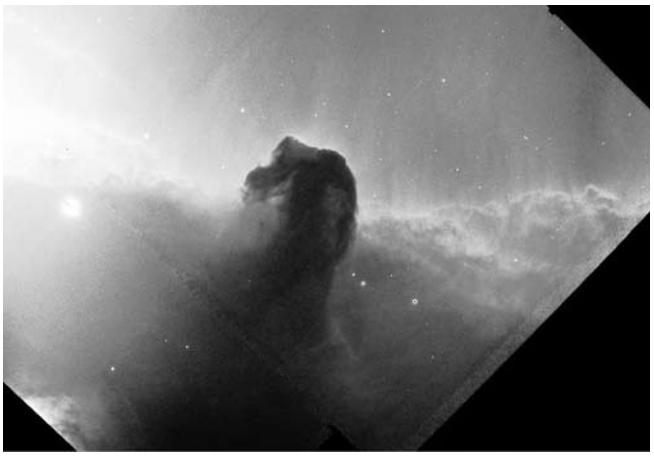
- The National Science Foundation awarded $50 million to a UA-led research team; the iPlant Collaborative brings together many types of scientists in an unprecedented way to study the biggest problems in biology. The iPlant center is located at the UA's BIO5 Institute, and brings together more than 10 UA departments, across colleges. iPlant will create both physical and computer space for experts to work and communicate together as they propose, identify, and solve grand-challenge questions in the plant biology field. The project has considerable outreach efforts in K-12 and higher education, and will transform scientific collaboration.

- The Arizona Cancer Center received $6.5 million from the National Cancer Institute to support research projects involving two new anti-cancer drugs. This grant is a renewal of the Cancer Center's longest running investigator-initiated grant, which has funded drug development projects since 1975.

- University of Arizona researchers tested a drug combination that has been found to reduce the risk of a precursor to colon cancer by 95 percent. The clinical work was funded in part by the Specialized Program of Research Excellence (SPORE) in Gastrointestinal Cancers, which was renewed by the National Cancer Institute in 2007, for another 5 years funded at $12 million.

- Arizona Health Sciences Center (AHSC) serves as the core of a broad network of health services throughout the State with a focus on excellence in health promotion, health restoration and health maintenance. Ranked as the top program of its kind in the country, the Arizona Telemedicine Program provides faculty and other medical consultation to rural physicians and other health professionals through high-resolution video imaging.

- The UA's School of Information Resources and Library Science (SIRLS) received a grant of nearly $1 million from the Institute of Museum and Library Services. The grant will continue the Knowledge River program, which



Emanuel Giallongo, LBC PI, Vincenzo Testu, Stefano Gallozzi and the LBC Team

provides outreach services and educational opportunities for Hispanics and American Indians seeking careers as librarians. SIRLS has conducted this program for 6 years, and the additional funding will bring additional courses, visiting lecturers, professional seminars, and enhanced recruitment efforts.

- The clear skies of the Southwest have attracted generations of outstanding astronomers and planetary scientists, as well as the telescopes needed for their important work. An assembly of major telescopes and facilities has helped to make the University a world center for astronomy and planetary sciences, with cooperative projects with Germany, Italy and the Vatican. This reputation will be enhanced by the international astrophysical observatory on Mt. Graham, and by recent international prominence gained from University designed and built instruments.

- The Phoenix Mars Lander Mission is operated for NASA by the Lunar and Planetary Laboratory at The University of Arizona in partnership with the Jet Propulsion Laboratory, Lockheed Martin, and the Canadian Space Agency. In addition to these major partners, scientists from academic institutions and laboratories around the world will participate in the mission. Peter Smith of The University of Arizona's Lunar and Planetary Laboratory heads the Phoenix Mission, the first mission to Mars led by an academic institution.

- In May, the Phoenix spacecraft landed in the northern polar region of Mars, to begin several months of study. The landing brought cheers from mission team members and observers in Tucson, at NASA's Jet Propulsion Laboratory, and Lockheed Martin Space Systems, as well as the rest of the nation. The spacecraft was launched in August 2007, and has made amazing discoveries to date, including identifying water in a soil sample. Since the landing, Phoenix has been studying soil with a chemistry lab, the TEGA instrument, a microscope, probes, and cameras. The science team is trying to determine if raw materials for life are present in the water ice. The High Resolution Imaging Science Experiment (HiRISE) camera, which is run from The University of Arizona, captured images of the Phoenix Lander's descent, which is the first time that one spacecraft has captured the descent of another spacecraft. Both the Phoenix project and HiRISE (part of the NASA Mars Reconnaissance Orbiter) were funded by NASA. The $325 million Phoenix Mars contract was awarded by NASA in 2003.

- Research of past cultures in Arizona has resulted in archaeological leadership in the Southwest setting. As an offshoot, this has led to leadership in the Classical and Middle East settings as well.

- The many Native American communities in the State have presented the University with opportunities not only to study and help preserve rich cultures, but also to assist these communities in their economic and educational development.

- Astronomy and archaeology provided the intellectual basis for development of a new science, dendrochronology. The study of tree rings as indicators of past environments is of increasing importance in identifying worldwide environmental trends.

- The location of the University, near the international boundary with Mexico, and the special social, economic, legal and political circumstances of the border zone provide outstanding educational, research and service opportunities in various Hispanic language, literature, and cultural programs.

- The University of Arizona co-leads a team that partnered to form the Center for Excellence for Border Security and Immigration. The center was established by the U.S. Department of Homeland Security. Research activities at the UA will focus on surveillance, screening, data fusion, and other technologies, such as unmanned aerial vehicles, as well as population dynamics, immigration administration and policy, enforcement, border risk management and international governance. The project, at the Eller College of Management, includes programs across campus, and the partnership includes institutions at both the southern and northern borders of the United States. The center will receive $15 million over six years.

- During fiscal year 2008, the Office of Technology Transfer (OTT) generated approximately $690,000 dollars in licensing income, a decrease from fiscal year 2007. OTT executed a total of 47 Major Agreements compared to 37 in fiscal year 2007. The University received 100 technically and administratively complete invention Disclosures from faculty and staff, and 19 U.S. Patents were issued to ABOR on behalf of the University. OTT and its Licensees filed 48 full U.S. Patent Applications including divisional, continuation and PCT (Patent Cooperation Treaty) applications along with an additional 91 U.S. Provisional Patent Applications to provide a one-year evaluation period for various technologies. This was against 54 and 90 respectively for fiscal year 2007.

Opportunities and Challenges

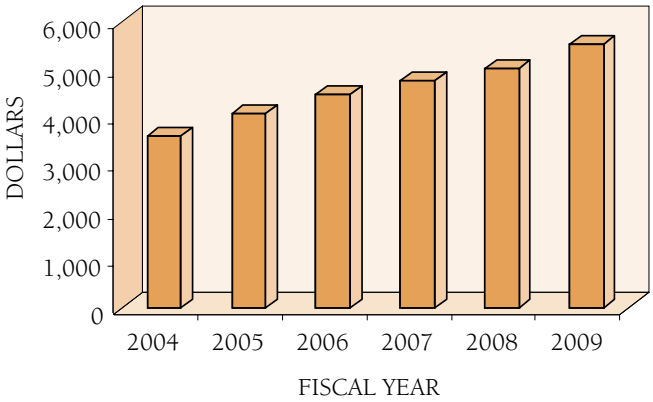
The University has been meeting the needs of the people of the State through numerous programs in business, engineering, and natural and medical sciences. Given continuing increases in population and the potential for economic growth, the State will increasingly face challenges and opportunities in areas as diverse as water resource management, transportation, education, land use planning, technology development and transfer, and the provision of jobs for a growing population. The University has assisted in attracting corporations to the State and, through its faculty and graduates, has stimulated important business enterprises, especially in optics and biotechnology. The latter has unique potential now, based on the University's strong programs in medicine, agriculture and science, and on rapidly expanding federal funding for biotechnology research.

Management regards the University as well positioned to continue its strong financial condition and service to students, patients, the research community, citizens of Arizona and our country. Future successes are largely dependent upon cost containment, the ability to recruit and retain the highest quality students, faculty and staff, and ongoing financial and political support from the State government.

The University is increasing its competitiveness in obtaining sponsored research funds by the expansion of laboratory-oriented facilities and by pursuing organizational and programmatic initiatives (e.g., optics, biotechnology, medicine).

For instructional purposes the University is dependent upon State appropriations and tuition and fees, with gifts providing some additional revenues, primarily for scholarships. The main revenue sources for government services, including public education, are State sales and income taxes. Consequently, as the State economy continues to decline (or the State alters the tax base that supports government services), appropriated funds may increase slowly or be reduced moderately dependent upon the ebb and flow of sales tax revenues. Since resident tuition continues to be among the lowest of the public universities in the nation, there are opportunities to increase tuition, as long as financial aid resources also increase.

Resident Tuition and Fees FY 2004 - 2009



Private gift contributions are an important supplement to the fundamental support from the State of Arizona and are a significant factor in the growth of academic, research, and patient care units. Economic pressures affecting donors may also affect the future level of support afforded the University from corporate and individual giving.

The State is continuing to project rapid growth in college enrollment over the next ten years, and the University is making every effort to meet those needs, while continuing to preserve our standards of excellence and maintaining a leadership position in higher education.

Independent Auditors' Report

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

Members of the Arizona State Legislature

The Arizona Board of Regents

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of the University of Arizona as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based solely on the reports of the other auditors.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the aggregate discretely presented component units were not audited by the other auditors in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

As described in Note 1, the University's financial statements are intended to present the financial position, and the changes in financial position and, where applicable, cash flows of only those portions of the business-type activities, major fund, and aggregate discretely presented component units of the State of Arizona that are attributable to the University. They do not purport to, and do not, present fairly the financial position of the State of Arizona as of June 30, 2008, and the changes in financial position and, where applicable, cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and aggregate discretely presented component units of the University of Arizona as of June 30, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

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As described in Note 1, the University implemented the provisions of the Governmental Accounting Standards Board Statement Nos. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions;* 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues;* and 50, *Pension Disclosures (an amendment of GASB Statements No. 25 and No. 27)*, for the year ended June 30, 2008, which represents changes in accounting principles.

The information included in A Message from the President, Institutional Profile, and the Management's Discussion and Analysis sections listed in the table of contents has not been subjected to the auditing procedures applied in our audit of the financial statements and, accordingly, we express no opinion on such information.

In accordance with *Government Auditing Standards*, we will also issue our report on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters at a future date. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Debbie Davenport
Auditor General

November 25, 2008

Management's Discussion and Analysis

Introduction

The following discussion and analysis provides an overview of the financial position and activities of the University for the year ended June 30, 2008. Information for the year ended June 30, 2007, is also provided for comparative purposes; however, to ensure comparability, certain 2007 amounts have been adjusted to reflect reclassifications made in 2008. This discussion was prepared by management and is focused on the University. It should be read in conjunction with the financial statements and accompanying notes, which follow this section.

Using the Financial Statements

The University's financial report includes three statements: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows.

The Statement of Net Assets presents the financial position of the University at the end of the fiscal year and includes all assets and liabilities of the University. Assets and liabilities are classified as either current or noncurrent. Current liabilities are obligations that will be paid within one year of the statement date. Current assets are those resources available to satisfy current liabilities. The difference between total assets and total liabilities, referred to as net assets, is one indicator of the financial condition of the University. Generally, assets and liabilities are measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation.

The Statement of Revenues, Expenses and Changes in Net Assets provides information about the University's financial activities during the year. Revenues and expenses are classified as either operating or nonoperating, and all changes in net assets are reported, including capital contributions and additions to endowments. Under the reporting standards, nonoperating revenues include state appropriations, nonexchange grants, gifts and investment income. As a result of these standards, the University typically will appear to operate at a loss. By comparison, the total change in net assets is a better indicator of whether the overall financial condition has improved or worsened during the year.

The Statement of Cash Flows reflects the inflows and outflows of cash and cash equivalents during the year. It shows the various cash activities by type, reconciling the beginning cash and cash equivalents amount to the ending cash and cash equivalents amount, which is shown on the Statement of Net Assets described above. In addition, this statement reconciles cash flows from operating activities to operating income/(loss) on the Statement of Revenues, Expenses and Changes in Net Assets described above.

The University of Arizona

Condensed Financial Statement Information

SUMMARIZED SCHEDULE OF ASSETS, LIABILITIES AND NET ASSETS

A summarized comparison of the University's assets, liabilities and net assets (in thousands of dollars) at June 30, 2008, and at June 30, 2007, is as follows:

	2008	2007	% Change
Other assets	$ 682,650	$ 744,231	-8%
Capital assets	1,313,658	1,271,772	3%
Total assets	**$ 1,996,308**	**$ 2,016,003**	**-1%**
Other liabilities	$ 139,697	$ 208,335	-33%
Long-term liabilities	985,249	979,185	1%
Total liabilities	**$ 1,124,946**	**$ 1,187,520**	**-5%**
Net assets			
Invested in capital assets, net of related debt	$ 460,964	$ 410,573	12%
Restricted - nonexpendable	94,610	91,591 *	3%
Restricted - expendable	158,554	160,544 *	-1%
Unrestricted	157,234	165,775	-5%
Total net assets	**$ 871,362**	**$ 828,483**	**5%**

*To ensure comparability these 2007 amounts have been adjusted to reflect the reclassification of certain endowments between expendable and nonexpendable, made in 2008.

The University's financial position continued to improve in fiscal year 2008. Net assets increased by $42.9 million primarily due to the University's ongoing investment in its capital assets.

Assets and Liabilities

Other assets consist of cash and cash equivalents, investments, receivables, inventories, and deferred expenses.

Other liabilities consist of trade accounts payable, accrued payroll and benefits, and the current portions of deferred revenues and funds held for others.

During fiscal year 2008, the University continued its position in cash and cash equivalents to maximize investment income by extending duration to capture higher interest rates that appear to be headed down due to market volatility and exited the Securities Lending program.

Net Assets

The small decrease in restricted expendable comes from the net effect of recognition of a decline in the market value of endowment investments offset by increased revenues from sponsored agreements and several large gifts to the University. Net investment in capital assets increased due to spending for leasehold improvements, new and ongoing construction projects, and equipment acquisitions.

Although unrestricted net assets are not subject to externally imposed stipulations, substantially all of the University's unrestricted net assets have been designated for various academic and research programs and initiatives, and for capital projects.

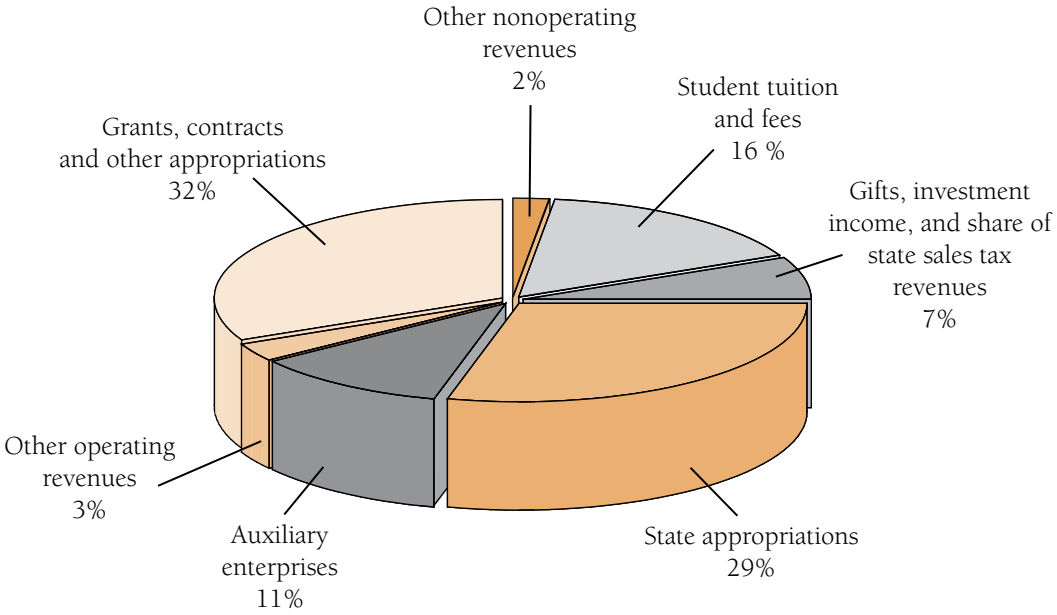
SUMMARIZED SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

A summarized comparison of the University's operations (in thousands of dollars) for the year ended June 30, 2008, and for the year ended June 30, 2007, is as follows:

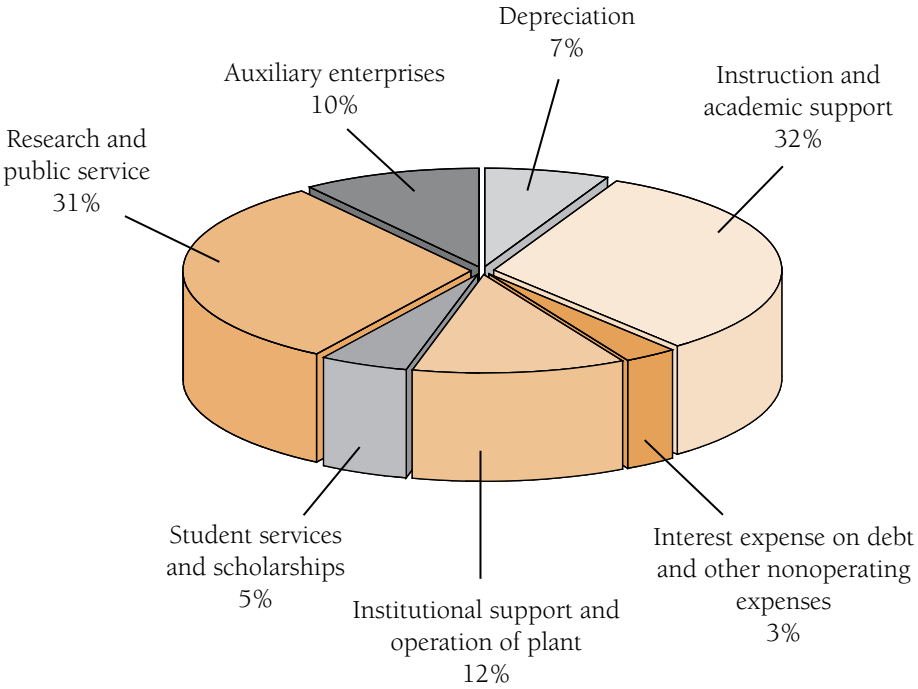
	2008	2007	% Change
Total revenues			
Student tuition and fees	$ 231,536	$ 209,521	11%
Grants, contracts and other appropriations	446,519	422,149	6%
State appropriations	416,658	389,897	7%
Auxiliary enterprises	154,112	143,910	7%
Share of State sales tax revenues	28,360	30,744	-8%
Gifts	71,348	58,083	23%
Investment income	4,176	42,163	-90%
Other operating revenues	39,695	36,705	8%
Other nonoperating revenues	30,565	28,894	6%
Total revenues	**$ 1,422,969**	**$ 1,362,066**	**4%**
Total expenses			
Instruction and academic support	$ 448,672	$ 420,362	7%
Research and public service	445,455	416,473	7%
Student services and scholarships	71,006	65,724	8%
Institutional support and operation of plant	171,058	157,662	8%
Auxiliary enterprises	140,785	130,567	8%
Depreciation	98,084	93,999	4%
Interest expense on debt	41,121	38,426	7%
Other nonoperating expenses	5,877	3,771	56%
Total expenses	**1,422,058**	**1,326,984**	**7%**
Income before capital and endowment additions	**$ 911**	**$ 35,082**	**-97%**
Capital and endowment additions	41,968	27,141	55%
Increase in net assets	**$ 42,879**	**$ 62,223**	**-31%**
Net assets, beginning of year	**828,483**	**766,260**	**8%**
Net assets, end of year	**$ 871,362**	**$ 828,483**	**5%**

The following graphs illustrate operating and nonoperating revenues and expenses for the year ended June 30, 2008.

Operating & Nonoperating Revenues



Operating & Nonoperating Expenses



Operating and Nonoperating Revenues

Student tuition and fees: Tuition and fees rose by $22 million due to increased tuition. In-state undergraduate resident tuition and fees increased by $282, or 6%, to $5,048, while out-of-state undergraduate tuition and fees increased by $1,310, or 8.7%, to $16,282.

Grants, contracts and other appropriations:

- **Federal grants and contracts:** Revenues increased by $10.9 million or 4% in fiscal year 2008. Revenues vary from year to year for many reasons, including the availability of funding from sponsors and the commencement or closure of particularly large projects.
- **State and other government grants and contracts:** $20.4 million in state and local grants and contracts were received for the fiscal year, an increase of $3.7 million, or 22.4% from the previous year.
- **Nongovernment grants and contracts:** Increased by $4.5 million or 8% from the previous fiscal year.
- **Nonoperating government and nongovernment grants and appropriations:** Non-exchange grants and appropriations increased from $59.8 million in 2007 to $65.0 million in FY 2008, an increase of nearly 9%.

State Appropriations: Appropriations, including the University's share of state sales taxes, increased from $421 million to $445 million, an increase of $24 million over the prior fiscal year. The increase of 6% in state appropriations and sales tax revenues is related to funding for enrollment growth, faculty retention, faculty pay increases and increased health insurance costs. In addition, a capital appropriation for Research Infrastructure Capital Financing was received in the amount of $14 million to pay debt service charges for research buildings constructed in fiscal years 2007 and 2008.

Auxiliary enterprises: Increased from $143.9 million to $154.1 million. This was a 7% increase over the previous fiscal year.

Gifts: Increased from $58.1 million to $71.3 million. This was a 23% increase over the previous fiscal year. The increase can be attributed to donations for building construction and scholarships.

Investment income: Pooled operating funds are invested in short term instruments. The $0.8 million increase in investment income within the pooled operating funds is the result of purchasing agency securities with higher yields and longer duration while they were available. Investment income earned on capital projects deposits with trustees was reduced by $1.2 million due to the average balance of funds decreasing in FY08 vs. FY07. Participation in the public markets generated a loss in the Growth Income Pool (endowment investments). In FY 07, the University had an annual return of 15.51% before administrative costs and payouts versus an annual return of -5.71% for FY 08. This represents a net dollar decrease of $23.4 million. Realized losses for the year amounted to $13.1 million.

(in thousands of dollars)	**2008**	**2007**
Pooled operating funds	$ 21,264	$ 20,428
Deposits with trustees for capital projects	1,820	3,062
Endowments	(18,908)	18,673
Total investment income	$ 4,176	$ 42,163

Other operating revenues:

- **Sales and services of educational departments:** Increased from $24.5 million to $25.8 million. This was a 5% increase from 2007.
- **Other operating revenues:** Increased from $12.2 million to $13.9 million. This was a 14% increase from 2007.

Other nonoperating revenues: Decreased from $25.1 million to $24.7 million. This was a 2% decrease from the previous fiscal year.

Nonoperating Expenses

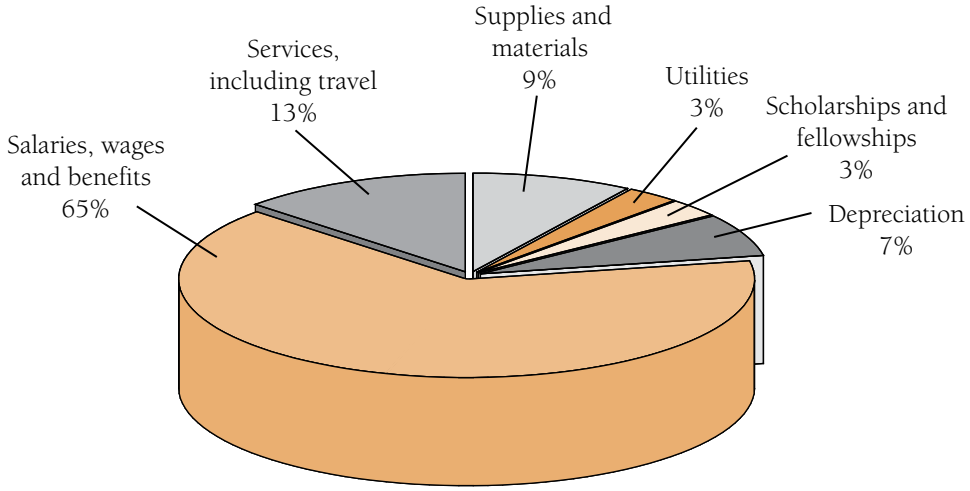
- Interest expense on debt increased by 7% from $38.4 million in 2007 to $41.1 million in 2008 due to debt payments on newly commissioned buildings.
- Other nonoperating expenses: Increased from $3.8 million to $5.9 million. This was a 56% increase from 2007.

Operating Expenses

In addition to programmatic (functional) classification of operating expenses, a summary of the University's expenses by natural classification (in thousands of dollars) as listed in Note 11 for the years ended June 30, 2008, and 2007 follows:

Natural Classification of Operating Expenses:	2008	2007	% Change
Salaries, wages and benefits	$ 898,364	$ 838,739	7%
Supplies and materials	125,906	117,423	7%
Services, including travel	172,222	159,569	8%
Utilities	42,107	39,663	6%
Scholarships and fellowships	38,377	35,394	8%
Depreciation	98,084	93,999	4%
Total Operating Expenses	**$ 1,375,060**	**$ 1,284,787**	**7%**

Natural Classification of Operating Expenses for the year ended June 30, 2008



Operating expenses were $1.375 billion for the fiscal year ended June 30, 2008. This was an increase over the previous fiscal year of $90 million, or 7%. Expenses increased primarily due to increases in salaries and wages (5.2%), benefits (13.6%), supplies and materials (7.2%), services (7.9%), utilities (6.1%), scholarships (8.4%) and increased depreciation expenses (4.3%). Changes in the major categories of expense are as follows:

- **Total compensation** is comprised of academic and staff salaries, hourly compensation, and benefits. Compensation and benefits increased by 7% for the fiscal year, from $839 million to $898 million.
- **Scholarships & Fellowships** increased from $35 million to $38 million, an 8% increase.
- **Utilities** increased by $2.4 million from the previous fiscal year, to $42 million, an increase of 6%.
- **Supplies and materials** increased by 7% in 2008, from $117 million to $126 million.
- **Services, including travel** increased from $160 million to $172 million, an increase of 8%.
- **Depreciation** expense of $98 million is $4 million more than 2007, an increase of 4%.

David Harvey

Capital and Debt Analysis

The University of Arizona manages its building and infrastructure capital through a comprehensive Capital Improvement Plan (CIP) as required by Arizona Revised Statutes §41-793 and Arizona Board of Regents (ABOR) policy 7-106. The CIP outlines the University's building inventory and capital improvement strategies for addressing deficiencies in academic and research space; support service space; managing building renewal and deferred maintenance projects; and expanding student dormitory and parking capacities. New projects presented in the CIP include project descriptions, justifications, and funding sources for construction and maintenance costs. A summary report of the University's debt capacity is also presented to demonstrate the ability to finance additional capital projects through debt instruments. As the University continues to experience growth and space deficiencies, maintaining a CIP is critical to address current space needs as well as strategically plan for future space requirements.

In fiscal year 2007-08, the University completed construction of the McClelland Park Norton School of Family and Consumer Science Building, the Helen S. Schaefer Poetry Center, the Intercollegiate Athletic Gymnastics Training Center, and the Cherry Avenue Parking Garage Expansion. The two new buildings and the gymnastics facility provided an additional 91,433 gross square feet for academic and student athletic disciplines. These projects were possible through gift contributions by generous donors to the University. The parking garage expansion funded by auxiliary revenues created 250 additional parking spaces to serve the campus population. This project also provided access enhancement for the disability population by installing an elevator system to the garage.

The University generally finances capital improvements and acquisitions through the issuance of System Revenue Bonds (SRBs) and Certificates of Participation (COPs). Prior to the issuance of SRBs or COPs, a financing and funding plan must be submitted for review and approval by the Arizona Board of Regents and the State Joint Committee on Capital Review. The amount of debt the University is able to issue is limited by State law (Arizona Revised Statutes §15-1683) and ABOR policy 7-102(D) (3) using a debt ratio limit. The debt ratio limit established by ABOR policy and State law is 8% (total SRBs and COPs debt service to total operating expenses and debt service). At June 30, 2008 the University's debt ratio was 5.2%.

During fiscal year 2007-08, the University issued System Revenue Bonds Series 2008A for $43.1 million and System Revenue Refunding Bonds Series 2008B for $18.1 million. The SRBs 2008A were issued to finance the Deferred Renovation and Building Renewal Project for $10 million, the Student Recreation Center Expansion Project for $27.6 million, the Hazardous Waste Facility Enclosure Project for $2.8 million, and the Tree Ring Lab Project for $2.4 million of a $3.2 million project budget. The remaining bond proceeds of $300,000 were used to pay costs of issuance. The SRBs 2008B were issued to redeem the SRBs 1998 with an outstanding principal balance of $18 million. The remaining bond proceeds of $100,000 were used to pay costs of issuance. Detailed debt service information associated with these debt issues is available in Note 8 of the accompanying notes to the financial statements.

The University's capital project financing process was subject to a performance audit by the State of Arizona Office of the Auditor General in fiscal year 2007-08. For more information

regarding the performance audit, visit the Office of the Auditor General website at www.auditorgen.state.az.us. The report is entitled Arizona's Universities – Capital Project Financing, Report No. 08-02 dated May 23, 2008.

Economic Outlook

As evidenced by the recent wild market fluctuations on Wall Street, the economy of the United States is undergoing significant stresses. The State of Arizona continued to experience weak economic conditions which resulted in a negative effect on the State's revenue projections and ultimately forced budget rescissions for The University of Arizona ($12.4 million). Further reductions in State general fund appropriations to the University have been incorporated into the University's operating budget for FY 2009. If the national economy continues to decline, it is anticipated that State revenues will continue to decline as well in FY 2009, thereby forcing additional budget rescissions in the current year. The University of Arizona continues to evaluate programmatic and institutional changes necessary to serve as a center for advanced graduate and professional studies while emphasizing research and providing excellence in undergraduate programs. University management continuously works to develop long and short term strategic plans to address this and other challenges to the financial health of the institution. At the same time, the Arizona Board of Regents and the three State universities are actively evaluating creative solutions to contain costs and generate new revenues in order to continue providing quality and affordable education.


David Harvey

The State Legislature recognized how the three Universities function as economic engines for the Arizona economy with the passage of House Bill 2211, 48th Legislature second regular session – The Stimulus Plan for Economic and Education Development. The bill authorizes the issuance of $1 billion dollars of capital debt to fund construction of the Phoenix Biomedical Campus, the Del Webb School of Construction at ASU with the remaining funding divided equally to fund each of the three universities' highest priority facilities development/improvement needs.

The University requested and received approval from the Arizona Board of Regents to increase tuition this past fiscal year. Due to increased financial needs to attract and retain talented faculty and staff, it is the intention of management to continue these requests until the University reaches the top of the bottom one third of the top fifty public institutions in tuition costs.

Since the University is ultimately subject to the same economic variables that affect other financial entities, it is not possible to predict future outcomes. Management is well aware of the challenges ahead and is working diligently to continue to provide quality instruction, research and public service to the State of Arizona and the nation.

Statement of Net Assets

June 30, 2008 *(in thousands of dollars)*

Assets

Current assets	
Cash and cash equivalents (Note 3)	$ 157,920
Short-term investments (Note 3)	30,750
Receivables:	
Accounts receivable (net of allowances of $668)	30,605
Government grants receivable	55,076
Student loans (net of allowances of $286)	1,073
Inventories	9,699
Deferred expenses	6,196
Total current assets	**$ 291,319**
Noncurrent assets	
Restricted cash and cash equivalents (Note 3)	$ 18,320
Restricted investments with bond trustees (Note 3)	37,843
Long-term investments (Notes 3 and 4)	86,082
Restricted investments held for others (Note 3)	38,018
Endowment investments (Note 3)	175,220
Student loans receivable (net of allowances of $1,618)	16,630
Long-term receivables	9,184
Deferred expenses	10,034
Capital assets, not being depreciated (Note 5)	139,977
Capital assets, being depreciated, net (Note 5)	1,173,681
Total noncurrent assets	**$ 1,704,989**
Total Assets	**$ 1,996,308**

Liabilities

Current liabilities	
Accounts payable	$ 42,220
Accrued payroll and benefits	38,201
Accrued compensated absences (Note 7)	5,807
Deferred revenue and deposits (Note 6)	54,529
Funds held for others	9,647
Current portion of long-term debt (Note 8)	
Funded by University revenues	35,885
Funded by State of Arizona appropriations	5,030
Total current liabilities	**$ 191,319**
Noncurrent liabilities	
Deferred revenue and deposits (Note 6)	$ 24,970
Accrued compensated absences (Note 7)	30,138
Funds held for others	43,095
Long-term debt (Note 8)	
Funded by University revenues	642,394
Funded by State of Arizona appropriations	193,030
Total noncurrent liabilities	**$ 933,627**
Total Liabilities	**$ 1,124,946**

Net Assets

Invested in capital assets, net of related debt	$ 460,964
Restricted for nonexpendable:	
Endowments	76,734
Student loans	17,876
Restricted for expendable:	
Scholarships and fellowships	32,224
Academic department uses	113,446
Capital projects	3,409
Debt service	9,475
Unrestricted	157,234
Total Net Assets	**$ 871,362**

See Notes to Financial Statements

Statement of Financial Position – Component Units

June 30, 2008 *(in thousands of dollars)*

Assets

Cash and cash equivalents	$	67,982
Pledges receivable		47,601
Other receivables		2,365
Investments in marketable securities		403,221
Other investments		6,155
Property and equipment, net		15,033
Other assets		8,433
Total Assets	**$**	**550,790**

Liabilities and Net Assets

Liabilities

Accounts payable and accrued expenses	$	6,022
Annuities payable and other trust liabilities		19,474
Deferred revenue and deposits		3,468
Short-term and long-term debt		9,829
Other liabilities		648
Total Liabilities	**$**	**39,441**

Net Assets

Unrestricted	$	30,371
Temporarily restricted		147,555
Permanently restricted		333,423
Total Net Assets	**$**	**511,349**
Total Liabilities and Net Assets	**$**	**550,790**

See Notes to Financial Statements

Statement of Revenues, Expenses and Changes in Net Assets

Year Ended June 30, 2008 *(in thousands of dollars)*

Operating Revenues

Student tuition and fees, net of scholarship allowances of $95,515	$	231,536
Federal grants and contracts		296,338
State and other government grants and contracts		20,370
Nongovernment grants and contracts		64,750
Sales and services of educational departments		25,789
Auxiliary enterprises, net of scholarship allowances of $3,991		154,112
Other operating revenues		13,906
Total operating revenues	**$**	**806,801**

Operating Expenses

Educational and general		
Instruction	$	345,242
Research		373,943
Public service		71,512
Academic support		103,430
Student services		29,146
Institutional support		85,657
Operation and maintenance of plant		85,401
Scholarships and fellowships		41,860
Auxiliary enterprises		140,785
Depreciation (Note 5)		98,084
Total operating expenses	**$**	**1,375,060**
Operating Loss	**$**	**(568,259)**

Nonoperating Revenues (Expenses)

State appropriations	$	416,658
Share of State sales tax revenues		28,360
Federal grants and appropriations		58,667
State and other government grants and appropriations		3,589
Nongovernment grants		2,805
Gifts		71,348
Investment income		4,176
Interest expense on debt		(41,121)
Other nonoperating revenues, net		24,688
Net nonoperating revenues	**$**	**569,170**
Income before Capital and Endowment Additions	**$**	**911**
Capital grants, gifts and conveyances	$	25,173
Capital appropriations – Research Infrastructure Capital Financing		14,253
Additions to permanent endowments		2,542
Total capital and endowment additions	**$**	**41,968**
Increase in Net Assets	**$**	**42,879**

Net Assets

Net Assets - Beginning of year	$	828,483
Net Assets - End of year	**$**	**871,362**

See Notes to Financial Statements

Statement of Activities – Component Units

Year Ended June 30, 2008 *(in thousands of dollars)*

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues				
Sales and services	$ 848			$ 848
Contributions	2,279	$ 46,929	$ 32,429	81,637
Rental revenues	10,087			10,087
Investment income	4,128	(4,900)	(380)	(1,152)
Net assets released from restriction	63,253	(52,427)	(10,826)	
Other income	9,329	4,384	82	13,795
Total revenues	**$ 89,924**	**$ (6,014)**	**$ 21,305**	**$ 105,215**
Expenses				
Program services:				
Leasing related expenses	$ 7,624			$ 7,624
Payments to the University	44,376			44,376
Payments on behalf of the University	22,904			22,904
Supporting services:				
Management and general	5,727			5,727
Fund raising	6,097			6,097
Other expenses	743			743
Total expenses	**$ 87,471**			**$ 87,471**
Increase/(decrease) in Net Assets	**$ 2,453**	**$ (6,014)**	**$ 21,305**	**$ 17,744**
Net Assets - Beginning of year	27,784	153,653	312,168	493,605
Transfers	134	(84)	(50)	
Net Assets - End of year	**$ 30,371**	**$ 147,555**	**$ 333,423**	**$ 511,349**

See Notes to Financial Statements

The University of Arizona

Statement of Cash Flows

Year Ended June 30, 2008 *(in thousands of dollars)*

Cash Flows from Operating Activities

Tuition and fees	$ 230,289
Grants and contracts	375,372
Payments for salaries, wages and benefits	(889,749)
Payments to suppliers	(340,199)
Payments for scholarships and fellowships	(38,377)
Loans issued to students	(31,864)
Collections on loans to students	29,711
Auxiliary enterprise receipts	153,861
Sales and services of educational departments	26,332
Other receipts	13,908
Net cash used for operating activities	**$ (470,716)**

Cash Flows from Noncapital Financing Activities

State appropriations	$ 416,658
Share of State sales tax receipts	28,027
Gifts and grants for other than capital purposes	119,391
Other nonoperating receipts	31,854
Federal Family Education Loans received	122,694
Federal Family Education Loans disbursed	(122,855)
Funds held for others received	86,445
Funds held for others disbursed	(85,995)
Net cash provided by noncapital financing activities	**$ 596,219**

Cash Flows from Capital Financing Activities

Proceeds from issuance of capital debt, including premiums	$ 48,629
Capital grants, gifts, and appropriations received	34,718
Proceeds from sale of capital assets	166
Purchase of capital assets	(136,539)
Principal paid on capital debt and leases	(41,465)
Interest paid on capital debt and leases	(41,319)
Net cash used for capital financing activities	**$ (135,810)**

Cash Flows from Investing Activities

Proceeds from sales and maturities of investments	$ 225,992
Interest and dividends on investments	18,049
Purchase of investments	(159,848)
Net cash provided by investing activities	**$ 84,193**
Net increase in Cash and Cash Equivalents	**$ 73,886**

Cash and Cash Equivalents

Cash and Cash Equivalents - Beginning of year	$ 102,354
Cash and Cash Equivalents - End of year	**$ 176,240**

See Notes to Financial Statements

Statement of Cash Flows (Concluded)

Year Ended June 30, 2008 *(in thousands of dollars)*

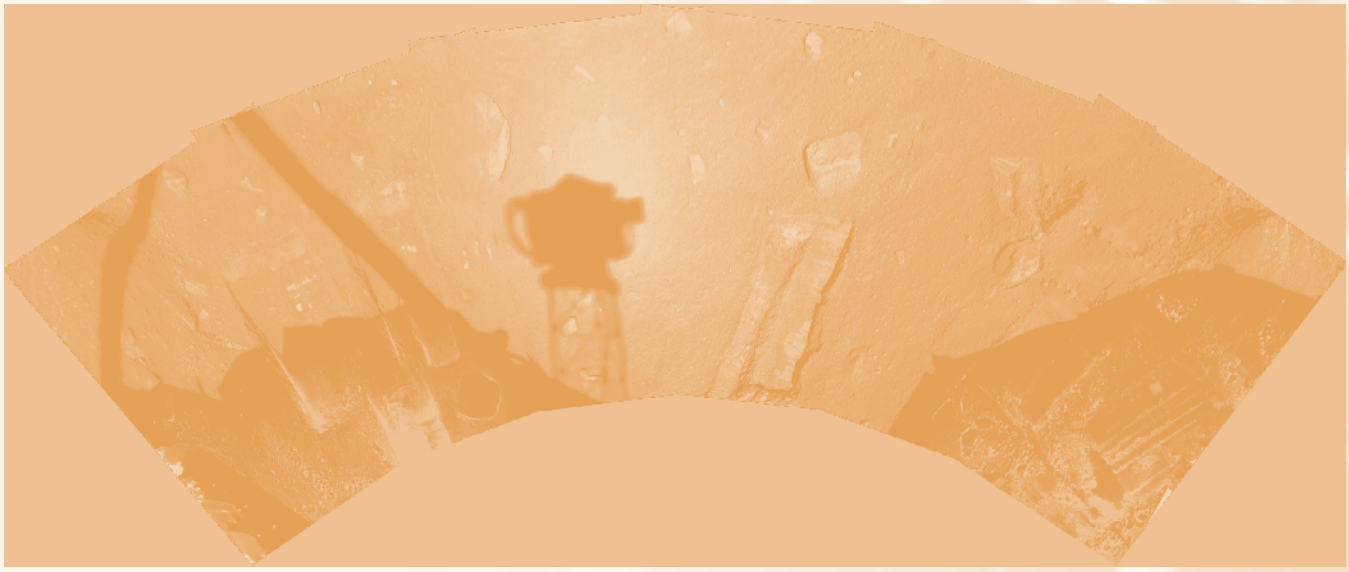
Reconciliation of Operating Loss to Net Cash Used for Operating Activities

Operating loss	$ (568,259)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation expense	98,084
Changes in assets and liabilities:	
Receivables, net	(8,498)
Inventories	(1,680)
Deferred expenses	(4,692)
Accounts payable	5,937
Accrued payroll and benefits and compensated absences	8,615
Deferred revenue and deposits	(223)
Net Cash Used for Operating Activities	**$ (470,716)**

Significant Noncash Transactions

Gifts and conveyances of capital assets	$ 743
Change in fair value of investments	(11,925)
Refunding of long-term debt	17,970
Amortization of bond discount and issuance costs	(2,250)
Amortization of bond premium	1,402
Net loss on disposal of capital assets with an original cost of $18,256, accumulated depreciation of $13,724 and cash proceeds of $166	(4,366)
Amortization of IBM deferred rent	4,900

See Notes to Financial Statements



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NOTES TO FINANCIAL STATEMENTS

NOTE 1. BASIS OF PRESENTATION & SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements include all activities that are directly controlled by the University. In addition, the financial statements include the financial position and activities of the University's discretely presented component units as described in Notes 2 and 13. Fiscal responsibility for the University remains with the State of Arizona; therefore, the University is considered part of the State's reporting entity for financial reporting purposes.

The financial statements are presented in accordance with U.S. generally accepted accounting principles (GAAP) applicable to governmental colleges and universities engaged in business-type activities as adopted by the Governmental Accounting Standards Board (GASB). The University follows Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements. The University has chosen the option not to follow FASB Statements and Interpretations issued after November 30, 1989.

The component units are legally separate private nonprofit organizations that report under FASB standards. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the component units' financial information included in the University's financial report. Accordingly, those financial statements have been reported on separate pages following the respective counterpart financial statements of the University.

For the year ended June 30, 2008, the University implemented the provisions of GASB Statement Nos. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*; 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*; and 50, *Pension Disclosures (an amendment of GASB Statements No. 25 and No. 27)*. GASB Statement No. 45 establishes governmental employer accounting and financial reporting requirements for postemployment benefit other than pensions. GASB Statement No. 48 establishes note disclosure requirements for governments that pledge future revenues as security for its debt. GASB Statement No. 50 amends GASB Statement Nos. 25 and 27 to require governmental employers to present certain additional pension disclosures in the notes.

The financial statements include a Statement of Net Assets; a Statement of Revenues, Expenses and Changes in Net Assets; and a Statement of Cash Flows.

- The Statement of Net Assets provides information about the assets, liabilities, and net assets of the University at June 30. Assets and liabilities are classified as either current or noncurrent. Current liabilities are obligations that will be paid within one year of the statement date and current assets are those resources available to satisfy current liabilities. Net assets are the residual amounts and are classified according to external donor restrictions and availability of assets to satisfy University obligations. Invested in capital assets, net of related debt, represents capital assets less accumulated depreciation and the amount of related outstanding debt for those assets. Nonexpendable restricted net assets are gifts received for endowment purposes and revolving student loan funds, the corpus of which cannot be expended. Expendable restricted net assets represent grants, contracts, gifts, and other resources that have been externally restricted for specific purposes. Unrestricted net assets include all other net assets, including those that have been designated by management to be used for other than general operating purposes.

- The Statement of Revenues, Expenses and Changes in Net Assets provides information about the University's financial activities during the year. Revenues and expenses are classified as either operating or nonoperating, and all changes in net assets are reported, including capital contributions and additions to endowments. Operating revenues and expenses are those that generally result from exchange transactions. Accordingly, revenues such as tuition and fees, sales and services of auxiliary enterprises and most government and nongovernment research grants and contracts are considered operating. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, as defined by GASB Statement No. 35, including state appropriations, nonexchange grants, gifts and investment income. Operating expenses include the cost of sales and services, administrative expenses, and depreciation of capital assets. Other expenses, such as interest expense on debt, are considered to be nonoperating expenses.

- The Statement of Cash Flows provides information about the University's sources and uses of cash and cash equivalents during the year. Increases and decreases in cash and cash equivalents are classified as operating, noncapital financing, capital and related financing, or investing activities.

The financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. The University eliminates all internal activity.

Significant Accounting Policies

The methods of applying GAAP that materially affect financial presentation are summarized below:

Cash and Investments

- Cash equivalents include all highly liquid investments with an original maturity of 90 days or less.

- Investments are stated at fair value at June 30. Fair value typically is the quoted market price for securities.

- Investment income includes interest and dividend earnings and changes in fair value of investments during the fiscal year from the investment of endowment, operating and trustee funds.

Endowment Spending Rate Policy – Arizona State law permits the University to expend the entire net appreciation of endowment fund investments. When determining the spending rate for endowment funds, the Investment Committee and University administration consider long- and short-term needs, total investment return and price level trends, and general economic conditions. For fiscal year 2008, the expendable rate was established at 4% of the three year average market value ending December 31, 2006. Donor restricted endowments that are available for expenditure are reported as restricted and expendable on the Statement of Net Assets.

Inventories – Inventories consist primarily of bookstore items and resale supplies. They are stated at the lower of cost (determined by the first-in, first-out or the weighted average method) or market.

Capital Assets, Special Collections and Historical Treasures

- Capital assets are stated at cost at the date of acquisition or, if donated, at fair market value at date received.

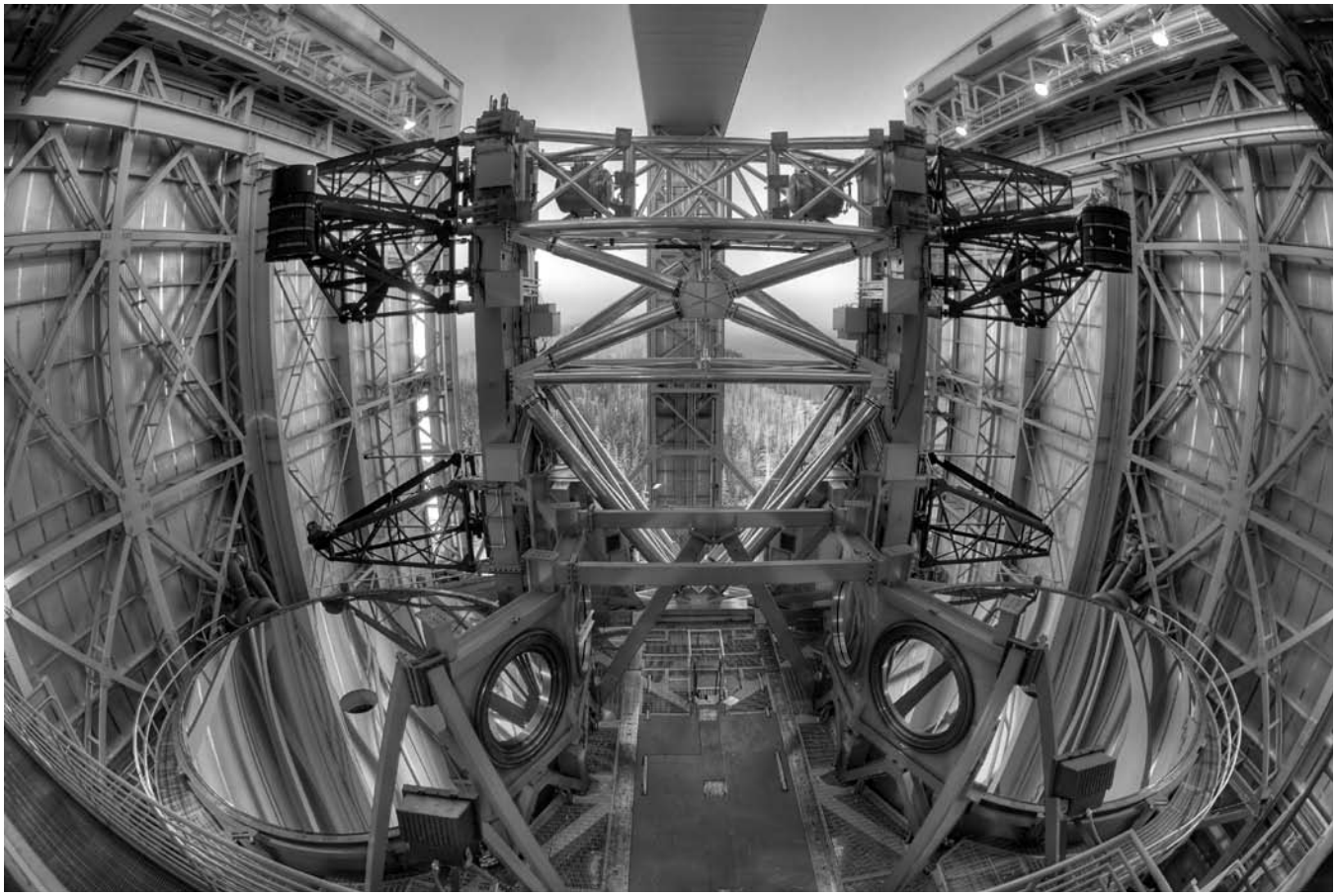
- The University maintains special collections and historical treasures for educational purposes and public exhibition. These special collections include Kress, Pfiefer, and Gallagher artwork, Ansel Adams, Richard Avedon, and Edward Westin photography collections, American Indians of the Southwest archeological collection, pottery whole vessel collection, and several medical and law book collections. They are not subject to disposal for financial gain or encumbrance. Accordingly, such collections are not capitalized for financial statement purposes but are inventoried for property control purposes.

- Interest incurred during the construction phase of projects is capitalized, net of interest earned on the invested proceeds over the same period.

- Capital assets, other than land and construction in progress, are depreciated over their estimated useful lives using the straight line method. The capitalization thresholds and estimated useful lives for capital assets of the University are as follows:

Asset Category	Capitalization Threshold ($)	Estimated Useful Life (yrs)
Infrastructure	100,000	20 - 100
Buildings and improvements	100,000	20 - 50
Equipment	5,000	3 - 25
Library materials	1	10
Land	1	n/a
Construction in progress	100,000	n/a

Scholarship Allowances – A scholarship allowance is the difference between the stated charge for tuition and fees and the amount paid by the student or third parties making payments on behalf of the student. Accordingly, some types of student financial aid such as fee waivers, Pell grants, and scholarship awards are considered to be scholarship allowances if used to pay tuition and residence fees. These allowances are netted against tuition and auxiliary revenues in the Statement of Revenues, Expenses and Changes in Net Assets.



Marc-Andre Besel and Wiphu Rujopakarn

Restricted and Unrestricted Resources – The University has both restricted and unrestricted resources available for most programs. Restricted resources are externally restricted for a specific purpose and primarily include sponsored research grants and contracts and gifts. The University's policy regarding whether to first apply restricted or unrestricted resources is made on a case-by-case basis. Restricted resources remain classified as such until spent.

NOTE 2. COMPONENT UNITS

The financial statements of the University include the operations of The University of Arizona Foundation, Inc., The University of Arizona Alumni Association, the Law College Association of The University of Arizona and the Campus Research Corporation, all discretely presented component units. For financial reporting purposes, only the statement of financial position and statement of activities are included in the University's financial statements as required by U.S. generally accepted accounting principles for public colleges and universities. Discretely presented component units are reported on separate pages following the University's respective counterpart financial statements because those component unit financial statements are prepared in accordance with non-governmental U.S. generally accepted accounting principles (i.e., FASB). Each discretely presented component unit discussed below has a June 30 year-end with the exception of the Law College Association which has a May 31 year-end.

Component units can be defined as legally separate entities for which the University is considered to be financially accountable. GASB Statement No. 14 – *The Financial Reporting Entity* has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the University to impose its will on that organization; or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the University. GASB Statement No. 39 – *Determining Whether Certain Organizations Are Component Units* provides additional criteria for determining whether certain organizations are component units. Organizations

that are legally separate, tax-exempt entities and that meet all of the following criteria should also be considered component units, with discrete presentation. These criteria are (1) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the University, its component units, or its constituents; (2) the University or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization; and (3) the economic resources received or held by an individual organization that the University, or its component units, is entitled to, or has the ability to otherwise access, are significant to the University.

Discretely Presented Component Units

The University of Arizona Foundation, Inc. (Foundation) is a legally separate, nonprofit, tax-exempt organization controlled by a separate Board of Directors. The principal goals of the Foundation are to support the University through various fund-raising activities, and to contribute funds to the University in support of various programs. Although the University does not control the timing or amount of receipts from the Foundation, the Foundation's restricted resources are significant to the University and can only be used by, or for the benefit of, the University or its constituents. As the University is also entitled to these resources, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements. The Foundation's financial statements are not publicly available. For information regarding the Foundation's financial statements, contact The University of Arizona Comptroller at the following address: The University of Arizona, Financial Services, P.O. Box 3310, Tucson, Arizona 85722-3310.

The University of Arizona Alumni Association (Alumni Association) is a legally separate, tax-exempt, nonprofit corporation governed by a separate Board of Directors and was established to serve the University and its graduates, former students, and friends by attracting, organizing and encouraging them to advance the University's missions – teaching, research, and public service. There is an Administrative Service Agreement between the Alumni Association and the University whereby the University provides staff, facilities and services to the Alumni Association and the Alumni Association agrees to provide an organizational framework for volunteer service and other activities to benefit and promote the University. As the economic resources held by the Alumni Association are significant to the University and are entirely or almost entirely for the direct benefit of the University, and as the University is entitled to a majority of the economic resources received or held by the Alumni Association, it is considered a component unit of the University and is discretely presented in the University's financial statements. Complete copies of the financial statements of the aforementioned component unit can be obtained by contacting the Alumni Association at the following address: Alumni Association, The University of Arizona, P.O. Box 210109, Tucson, Arizona 85721-0109.

The Law College Association of The University of Arizona (Law Association) is a legally separate, tax-exempt, nonprofit corporation governed by a separate Board of Directors and was established to provide support and financial assistance to the College of Law at The University of Arizona. The Law Association funds provide support to the College on many levels, from endowed student scholarships to named faculty professorships. The funds also provide support for various academic programs. As the economic resources held by the Law Association are significant to the University and are entirely or almost entirely for the direct benefit of the University, and as the University is entitled to a majority of the economic resources received or held by the Law Association, it is considered a component unit of the University and is discretely presented in the University's financial statements. Complete copies of the financial statements of the aforementioned component unit can be obtained by contacting the Law Association at the following address: Law College Association, The University of Arizona, P.O. Box 210176, Tucson, Arizona 85721-0176.

Campus Research Corporation (CRC) is a legally separate, tax-exempt, nonprofit corporation governed by a separate Board of Directors and was established to assist the University in the acquisition, improvement, and operation of the UA Science and Technology Park (Park) and related properties. CRC currently leases from the University the remaining 67% of building space of the Park not leased to the Arizona Research Park Authority. CRC is responsible for assisting in the development of the presently undeveloped portions of the

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Park and for subleasing unoccupied space, newly developed space, and space now occupied by IBM or its subtenants once the current subleases expire. The University is responsible for payment of the operational expenses associated with the space occupied by University departments, offices, and programs. All income received by CRC from its activities, after payment of expenses and financial reserves, will be distributed to the University. During fiscal year 2008, no funds were distributed to the University. As the University approves CRC's budget, fiscal dependency exists between the entities, making CRC a component unit. As CRC provides services to all tenants of the Park, not just the University, by acting as the property management company, CRC is presented as a discrete component unit in the University's financial statements. Complete copies of the financial statements of the aforementioned component unit can be obtained by contacting the Chief Financial Officer at the following address: The University of Arizona Science and Technology Park, 9030 South Rita Road, Suite 302, Tucson, Arizona 85747.

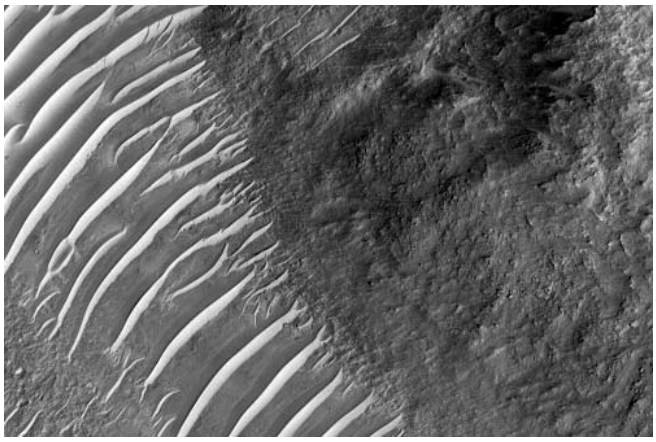
NOTE 3. DEPOSITS & INVESTMENTS

A. General

At year end, the University's deposits totaled $497,000, while investments had a fair value of $543,656,000. The required disclosures are included in sections B, C and D of this footnote.

Included in the University's deposits and investments are capital project funds totaling $39,860,000 which are held in trust by various commercial banks. Of this amount, $37,843,000 is available for future construction costs, and $2,017,000 is from bond proceed earnings for unrestricted purposes. Trust funds are invested in accordance with the Board's authorizing resolutions, as disclosed in section B of this footnote.

In addition, endowment funds make up a portion of the deposits and investments. These funds are primarily invested in the Consolidated Endowment Growth/Income Pool. Included within the pool are balances invested on behalf of the Arizona Student Financial Aid Trust (ASFAT). The University currently invests all funds for ASFAT, which was established by the Arizona Board of Regents and is funded by the Arizona State Legislature and student fees. Funds invested for other universities are recorded as investments held for others and include the following at fair value: Arizona State University - $27,526,000 and Northern Arizona University - $10,492,000. The University's ASFAT funds are recorded as endowment investments at $19,364,000.



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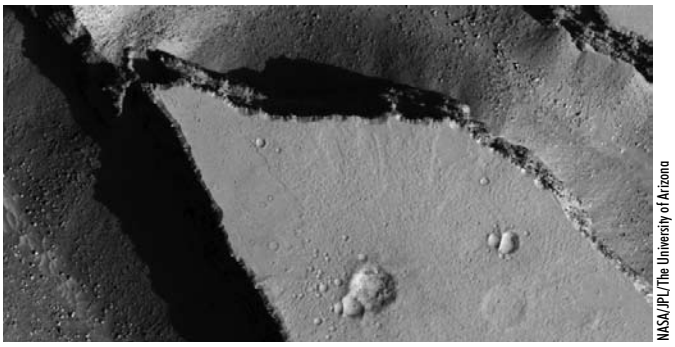

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Also included within the endowment funds are certain endowments held by external trustees. At June 30, 2008, University endowments totaling $17,624,000 are held and invested by bank trustees according to donor specifications. These externally held endowments are further discussed in the custodial credit risk disclosure in section C of this footnote.

B. Statutory and Board of Regents' Policies

Arizona Revised Statutes require that deposits of the University, not covered by federal deposit insurance, be secured by government bonds or by a safekeeping receipt of the institution accepting the deposit. Further policy regarding deposits is provided by the Arizona Board of Regents. According to Board policy, deposits can be made only at depository banks approved by the Board.

The Statutes do not specifically address the investment policy of the University; rather Board of Regents' policy governs in this area. Board policy requires that the University arrange

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for the safekeeping of securities by a bank or other financial institution approved by the Board. Also under Board policy, the University is limited to investing its pooled operating funds and capital projects funds in collateralized certificates of deposit and repurchase agreements, United States Treasury securities, Federal agency securities, investment grade corporate bonds or in the government investment pool administered by the State Treasurer's Office.

With regard to endowments, Board of Regents' policy dictates that these funds are to be invested under the direction of an investment committee designated by the president of each university. At The University of Arizona, the investment committee is responsible for defining, developing, and implementing investment objectives, policies, and restrictions. However, if donors restrict investments, Board policy requires that the University invest those funds separately as directed by the donor, and the individual endowments bear all changes in value.

Neither the Statutes nor Board policies include any specific requirements for concentration of credit risk, interest rate risk, or foreign currency risk for investments of the universities.

C. Deposit & Investment Risk

Custodial Credit Risk:

University policy requires collateralization for all certificates of deposit, repurchase agreements and cash balances held in the controller's demand deposit account. Beyond this requirement and those established by Statute or the Board, the University does not have a policy that specifically addresses custodial credit risk. At June 30, 2008, $17,624,000 of the University's total deposits and investments is exposed to custodial credit risk as follows: some of the University's endowment funds are held by trustees. These deposits and securities are held by the counterparties in the names of the individual donors as irrevocable trusts for the benefit of the University.

Credit Risk:
With regard to credit risk, University policy mirrors that of the Board in that it restricts investment of the operating and capital projects funds to collateralized certificates of deposit and repurchase agreements, United States Treasury securities, Federal agency securities, investment grade corporate bonds or in the government investment pool administered by the State Treasurer's Office. University policy also dictates that government debt securities must be used to collateralize certificates of deposit and repurchase agreements to conform to Statute. When investing endowment funds, University policy requires corporate bonds and notes to be of investment grade quality, rated Baa or higher by Moody's Investor Service, at the time of purchase. The Moody's credit quality ratings for the University's investments in debt securities at June 30, 2008, are disclosed in the following table:

			Moody's				
Investment Type	**Fair Value**	**Not Rated**	**AAA**	**AA**	**A**	**BAA**	**B**
State Treasurer's Pool	$ 1,288,000	1,288,000					
Federal Agency Securities *(including repurchase agreement collateral)*	194,232,000		194,232,000				
Money Market Mutual Funds	147,384,000	23,691,000	123,693,000				
Corporate Bonds	19,141,000	1,084,000	6,664,000	2,632,000	4,536,000	4,221,000	4,000
International Fixed Income Fund	12,583,000			12,583,000			
Other Bond Investments	9,167,000	1,788,000	5,636,000	1,213,000	530,000		
Totals	**$ 383,795,000**	**27,851,000**	**330,225,000**	**16,428,000**	**5,066,000**	**4,221,000**	**4,000**

Concentration of Credit Risk:
Other than United States Treasury securities and other Federal agency securities, which can represent greater than 5% of total investments, University policy limits investment in a single issuer to 5% or less of the fair value of the total portfolio. Except for those issuers allowed by policy, the University does not have an investment in any single issuer that exceeds 5% of the overall portfolio. At June 30, 2008, the University had investments in FHLB, FFCB, and FHLMC agency securities, which included investments collateralizing repurchase agreements, with a fair value of $106,047,000, $35,072,000, and $28,084,000 or 19.5%, 6.4%, and 5.2% of total investments, respectively.

Interest Rate Risk:
The University's investment policy for the operating funds limits a significant proportion, although not a fixed percentage, of the portfolio to authorized securities with maturities of one year or less. Also, the maximum maturity of any fixed rate issue may not exceed three years and the final maturity of any floating rate issue may not exceed five years. The capital projects and endowment funds portfolios have no such limitation. The following chart presents the interest rate risk for the University's debt investments at June 30, 2008, utilizing the segmented time distribution method:

Investment Type	Fair Value	Maturity Date < 1 Year	1-5 Years	6-10 Years	> 10 Years
State Treasurer's Pool	$ 1,288,000		1,288,000		
U.S. Treasury Securities	3,438,000	79,000	825,000	223,000	2,311,000
Repurchase Agreements	81,904,000	81,904,000			
Money Market Mutual Funds	147,384,000	147,384,000			
Federal Agency Securities	113,694,000	30,952,000	67,432,000	2,773,000	12,537,000
Corporate Bonds	19,141,000	751,000	8,166,000	3,493,000	6,731,000
International Fixed Income Fund	12,583,000			12,583,000	
Other Bond Investments	9,167,000		974,000	5,856,000	2,337,000
Totals	**$ 388,599,000**	**261,070,000**	**78,685,000**	**24,928,000**	**23,916,000**

At June 30, 2008, the University held $113,694,000 or 21% of investments in Federal agency securities, including FHLB, FFCB, FHLMC, FNMA and SBA, which may be considered to be highly sensitive to interest rate fluctuations.

Foreign Currency Risk:
University policy allows no more than 20% of the endowment fund portfolio to be invested in foreign-based companies. Other funds may not be invested in international securities. At June 30, 2008, the University held investments in two international mutual funds, Artio Global Institutional Equity Strategy Fund and Brandywine International Opportunistic Fixed Income Portfolio, for $26,477,000 (12%) and $12,583,000 (6%) of the endowment portfolio, respectively.

D. Securities Lending

During the fiscal year, the University elected to discontinue participation in securities lending. This investment option remains available to the University.

NOTE 4. JOINT VENTURE

The University is a participant in the Large Binocular Telescope Corporation (LBT). LBT was formally incorporated as a nonprofit corporation in August 1992 pursuant to a Memorandum of Understanding, as amended, executed on February 24, 1989, between the University and Arcetri Astrophysical Observatory in Florence, Italy (Arcetri). The purpose of the joint venture is to design, develop, construct, own, operate, and maintain a binocular telescope currently being constructed in Arizona. The current members of LBT are the University, INAF Astrophysical Observatory, Research Corporation, Ohio State University, and LBT Beteiligungsgesellschaft (LBTB).

The University has committed resources equivalent to 25% of LBT's construction costs and annual operating costs. As of June 30, 2008, the University has made cash contributions of $18,159,000 toward the project's construction costs, which were recorded as long-term investments on the statement of net assets. The University's financial interest represents future viewing/observation rights. As of December 31, 2007, the assets have been substantially completed and the telescope has entered the commissioning phase. During calendar year 2007, the telescope has become operational for research purposes thus depreciation of the property and equipment has commenced. The University recorded its proportionate share of the use of the viewing/observation rights, $676,000 in calendar year 2007, as a reduction in its investment. At June 30, 2008, the investment totaled $17,483,000. According to the audited financial statements of LBT for the year ended December 31, 2007, assets, liabilities, revenues, and expenses totaled $121 million, $3 million, $12 million, and $10 million, respectively. For information regarding the LBT's financial statements, contact The University of Arizona Comptroller at the following address: The University of Arizona, Financial Services, P.O. Box 3310, Tucson, Arizona 85722-3310.

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008, was as follows:

	Beginning Balance July 1, 2007	Additions	Retirements	Transfers/ Reclasses	Ending Balance June 30, 2008
Land	$ 59,684,000	$ 12,327,000	$ (316,000)	$ 130,000	$ 71,825,000
Construction in progress	49,153,000	85,313,000	(40,000)	(66,274,000)	68,152,000
Total non-depreciable capital assets	$ 108,837,000	$ 97,640,000	$ (356,000)	$ (66,144,000)	$ 139,977,000
Buildings and improvements	$ 1,461,094,000	$ 9,611,000	$ (2,150,000)	$ 66,294,000	$ 1,534,849,000
Infrastructure	156,589,000	600,000	(207,000)	7,008,000	163,990,000
Equipment	398,654,000	25,350,000	(14,209,000)	(7,158,000)	402,637,000
Library materials	210,659,000	11,301,000	(1,334,000)		220,626,000
Total depreciable capital assets	$ 2,226,996,000	$ 46,862,000	$ (17,900,000)	$ 66,144,000	$ 2,322,102,000
Less: accumulated depreciation					
Buildings and improvements	$ 580,470,000	$ 51,143,000	$ (844,000)	$ 4,509,000	$ 635,278,000
Infrastructure	53,238,000	6,442,000	(183,000)	(77,000)	59,420,000
Equipment	266,258,000	30,279,000	(11,363,000)	(4,432,000)	280,742,000
Library materials	164,095,000	10,220,000	(1,334,000)		172,981,000
Total accumulated depreciation	$ 1,064,061,000	$ 98,084,000	$ (13,724,000)		$ 1,148,421,000
Depreciable capital assets, net	$ 1,162,935,000	$ (51,222,000)	$ (4,176,000)	$ 66,144,000	$ 1,173,681,000
Capital assets, net	$ 1,271,772,000	$ 46,418,000	$ (4,532,000)	$ 0	$ 1,313,658,000

In addition to expenditures through June 30, 2008, it is estimated that $916,145,000 will be required to complete projects under construction or planned for construction. Of that amount, $43,859,000 is contractually encumbered.

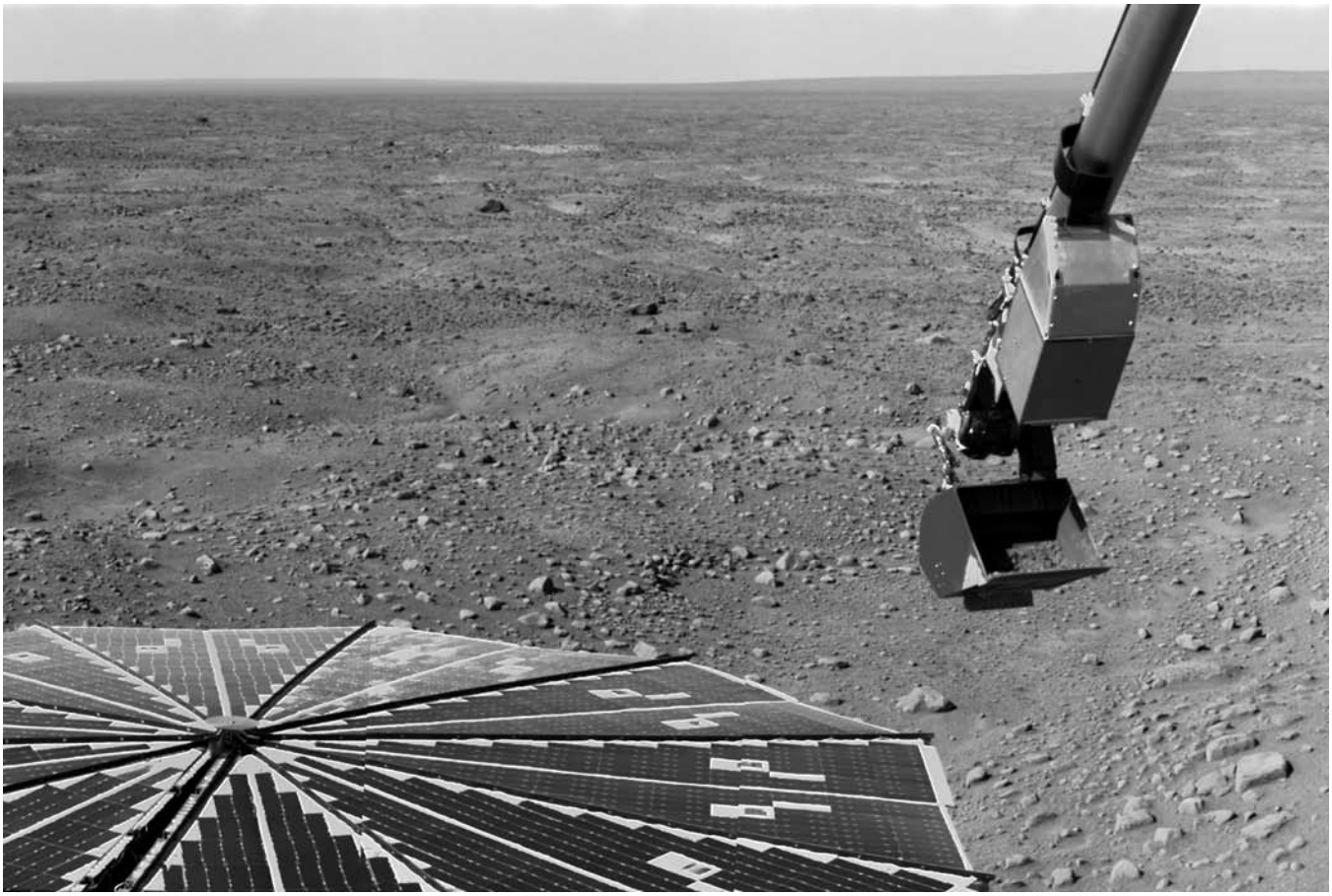
NOTE 6. DEFERRED REVENUE AND DEPOSITS

Deferred revenue consists primarily of amounts received from grants and contract sponsors which have not yet been earned under the terms of the agreements and the unamortized portion of the IBM lease (see discussion below) related to the acquisition of The University of Arizona Science and Technology Park (Park). Deferred revenue also includes amounts received in advance of an event, such as advance ticket sales for sporting events.

Arizona Research Park Authority (ARPA) was established under the State's industrial development authority statute to assist in the acquisition, improvement and operation of university research parks and related properties. In August 1994, ARPA sold $98 million of transferable special revenue bonds to International Business Machines Corporation (IBM) to enable the University to acquire from IBM a 345-acre developed industrial site near Tucson, Arizona, together with 1,000 acres of adjacent unimproved land (collectively, The University of Arizona Science and Technology Park or the "Park"). The bonds are payable solely from lease rentals paid by IBM. If IBM defaults or cancels its lease, the bonds must be surrendered and discharged. Title to the entire Park resides with the University and neither the Park nor any payments by the University secures ARPA's bonds. Since the original transaction, IBM has reduced its leasehold to 33% of the building space for periods up to the remaining term of 6 years. The University has recorded the value of the Park as a capital asset and is amortizing the associated deferred revenue over a 20 year period.

Deferred revenue and deposits at June 30, 2008, consist of the following:

Current Deferred Revenue and Deposits	
Unexpended cash advances received for sponsored programs	$ 36,248,000
Auxiliary sales and services	6,029,000
IBM lease related to the acquisition of the Park	4,900,000
Tuition and fees	4,145,000
Other deferred revenues	1,751,000
Deposits	1,456,000
Total current deferred revenue and deposits	$ 54,529,000
Noncurrent Deferred Revenue and Deposits	
IBM lease related to the acquisition of the Park	$ 24,970,000



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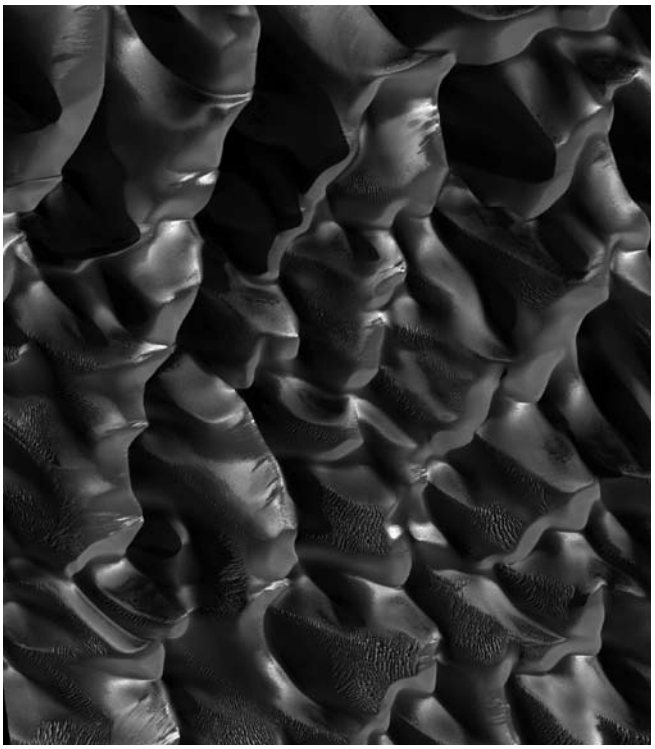
NOTE 7. ACCRUED COMPENSATED ABSENCES

The University accrues vacation when earned. At fiscal year-end, the University accrued up to the maximum 22 days allowed by University policy for which an employee can be paid upon termination of employment. The University does not accrue sick time. Upon retirement, employees with a minimum of 500 hours of accumulated sick time are paid a formulated amount from the Retiree Accumulated Sick Leave (RASL) fund administered by the Arizona State Department of Administration. The University pays a percentage of its payroll to RASL annually and does not have further liability. Accrued compensated vacation for the year ended June 30, 2008, was as follows:

Beginning balance	$ 33,607,000
Additions	42,975,000
Reductions	(40,637,000)
Ending balance	$ 35,945,000
Current portion	$ 5,807,000



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NOTE 8. LONG-TERM DEBT & LEASE OBLIGATIONS

Long-term debt activity for the year ended June 30, 2008, was as follows:

	Beginning Balance July 1, 2007	Additions	Reductions	Ending Balance June 30, 2008	Due Within One Year
Bonds payable	$ 297,015,000	$ 61,195,000	$ (39,205,000)	$ 319,005,000	$ 22,725,000
Certificates of participation	517,007,000	186,000	(13,470,000)	503,723,000	14,060,000
Capitalized lease obligations	55,609,000	5,888,000	(6,970,000)	54,527,000	4,320,000
Subtotal long-term debt	$ 869,631,000	$ 67,269,000	$ (59,645,000)	$ 877,255,000	$ 41,105,000
Premium on sale of debt	18,226,000	1,838,000	(1,597,000)	18,467,000	1,451,000
Discount on sale of debt	(3,160,000)	0	144,000	(3,016,000)	(144,000)
Deferred costs of refundings	(17,457,000)	(395,000)	1,485,000	(16,367,000)	(1,497,000)
Total long-term debt	$ 867,240,000	$ 68,712,000	$ (59,613,000)	$ 876,339,000	$ 40,915,000

Bonds – The University's bonded debt consists of various issues of system revenue bonds that are generally callable with interest payable semi-annually. Bond proceeds are used to pay for acquiring or constructing capital facilities and infrastructure. Bond proceeds are also used for refunding obligations from previously issued bonds.

On January 15, 2008, the University sold System Revenue Bonds Series 2008A (2008A Bonds) for $43,105,000 dated January 30, 2008. The 2008A Bonds include $20,915,000 of serial bonds with interest rates ranging from 4.00% to 5.00% and maturity dates ranging from 2008 to 2027. The 2008A Bonds also include three term bonds consisting of $5,420,000 with an interest rate of 4.25% due June 1, 2030; $6,180,000 with an interest rate of 5.00% due June 1, 2033; and $10,590,000 with an interest rate of 4.50% due June 1, 2040. The 2008A Bonds with maturity on or after June 1, 2019, are subject to optional redemption without premium. The 2008A Bonds with maturity on June 1, 2030, June 1, 2033 and June 1, 2040 (the "Term Bonds") are subject to mandatory sinking fund redemption without premium pursuant to the debt documents. The 2008A Bonds sold at a premium of $1,349,000. The University realized net proceeds of $42,713,000 after payment of $1,741,000 for issuance costs, underwriter discounts and interest rate management fee. The net proceeds were used to finance the Deferred Renovation, Building Renewal and Infrastructure Project, the Student Recreation Center Expansion Project, the Tree Ring Laboratory Project, and the Hazardous Waste Facility Enclosure Project.

On April 10, 2008, the University sold System Revenue Refunding Bonds Series 2008B (2008B Bonds) for $18,090,000 dated April 30, 2008. The 2008B Bonds include $18,090,000 of serial bonds with interest rates ranging from 3.50% to 4.50% and maturity dates ranging from 2009 to 2018. The 2008B Bonds sold at a premium of $489,000. The University realized net proceeds of $18,397,000 after payment of $182,000 for issuance costs, and underwriter discounts. The net proceeds were used to redeem the outstanding System Revenue Bonds Series 1998 totaling $17,970,000. The redemption generated a net present value benefit of $1,069,000 (difference between the present values of the old debt and the new debt service payments) for the University. The redemption reduced the University's debt service by $1,064,000 in the first year with no debt service reductions in the following years. The redemption resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $395,000. This difference, reported in the accompanying financial statements as a deduction from long-term debt, is being charged to operations through the year 2018 using the straight-line method.

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In fiscal year 2003, the University refunded, in advance of maturity, a portion of outstanding System Revenue Bonds Series 2000A. At June 30, 2008, the outstanding principal balance of the refunded bonds was $3,025,000, which will be paid by investments held in an irrevocable trust with a fair value of $3,149,000. Accordingly, the trust account assets and liability for these defeased bonds are not included in the University's financial statements.

In fiscal year 2005, the University refunded, in advance of maturity, a portion of outstanding System Revenue Bonds Series 1998 and the remaining principal balance of System Revenue Bonds Series 2000A. The System Revenue Bonds Series 1998 outstanding principal was redeemed on June 1, 2008. At June 30, 2008, the total outstanding principal balance for the refunded System Revenue Bonds Series 2000A was $14,210,000, which will be paid by investments held in an irrevocable trust with a total fair value of $14,665,000. Accordingly, the trust account assets and liability for these defeased bonds are not included in the University's financial statements.

The following schedule details outstanding bonds payable at June 30, 2008:

Issue	Original Amount	Year of Final Maturity	Interest Rates	Outstanding Principal
1992A – System Revenue Refunding Bonds	$ 55,490,000	2016	6.00-6.20%	$ 43,905,000
2002 – System Revenue Refunding Bonds	93,080,000	2011	4.00-5.25%	35,800,000
2003 – System Revenue Refunding Bonds	30,805,000	2024	3.50-5.00%	30,805,000
2004A – System Revenue Bonds	17,780,000	2029	3.75-5.00%	16,025,000
2004B – System Revenue Bonds	50,265,000	2034	3.00-5.00%	49,850,000
2005A – System Revenue Bonds	35,570,000	2031	3.00-5.00%	34,090,000
2006A – System Revenue Refunding Bonds	17,645,000	2020	5.00%	17,645,000
2007 – System Revenue Bonds	31,010,000	2032	4.00-5.00%	30,415,000
2008A – System Revenue Bonds	43,105,000	2040	4.00-5.00%	42,380,000
2008B – System Revenue Refunding Bonds	18,090,000	2018	3.50-4.50%	18,090,000
Total	$ 392,840,000			$ 319,005,000

The following schedule details debt service requirements to maturity for System Revenue Bonds payable at June 30, 2008:

Year	Principal	Interest
2009	$ 22,725,000	$ 15,437,000
2010	23,860,000	14,276,000
2011	24,720,000	13,132,000
2012	13,340,000	11,907,000
2013	17,260,000	11,237,000
2014-18	80,980,000	43,283,000
2019-23	57,115,000	25,697,000
2024-28	37,385,000	14,676,000
2029-33	29,715,000	6,524,000
2034-38	8,540,000	1,827,000
2039-40	3,365,000	229,000
Total	$ 319,005,000	$ 158,225,000

The University has pledged portions of its gross revenues towards the payment of debt related to all system revenue and system revenue refunding bonds outstanding at June 30, 2008. The bonds generally provide financing for various capital projects of the University. These pledged revenues include student tuition and fees, auxiliary enterprise revenue, sales and service revenue and other operating revenues such as indirect cost recovery and certain investment income. Pledged revenues do not include state appropriations, gifts, endowment income or other restricted revenues. At June 30, 2008 pledged revenues totaled $632.4 million of which 5.7% ($36.2 million) was required to cover current year debt service. Future pledged revenues required to pay all remaining debt service for the system revenue and system revenue refunding bonds through final maturity of June 1, 2040 is $477.2 million.

Certificates of Participation – The University utilizes Certificates of Participation and various capital leases to acquire buildings, equipment and land. The Certificates are generally callable, and the capital leases are subject to prepayment.

In fiscal year 2003, the University refunded, in advance of maturity, a portion of outstanding Certificates of Participation Series 2001B. At June 30, 2008, the outstanding principal balance for the Certificates of Participation Series 2001B was $3,795,000, which will be paid by investments held in an irrevocable trust with a fair market value of $3,998,000. Accordingly, the trust account assets and liability for these defeased certificates are not included in the University's financial statements.

In fiscal year 2005, the University refunded, in advance of maturity, a portion of outstanding Certificates of Participation Series 1999 and 2001A. At June 30, 2008, the total outstanding principal balance for the Certificates of Participation Series 1999 and 2001A was $22,740,000, which will be paid by investments held in an irrevocable trust with a fair value of $23,258,000. Accordingly, the trust account assets and liability for these defeased certificates are not included in the University's financial statements.

In fiscal year 2006, the University refunded, in advance of maturity, a portion of outstanding Certificates of Participation Series 1999. At June 30, 2008, the total outstanding principal balance for the Certificates of Participation Series 1999 was $3,290,000, which will be paid by investments held in an irrevocable trust with a fair value of $3,318,000. Accordingly, the trust account assets and liability for these defeased certificates are not included in the University's financial statements.

In fiscal year 2007, the University refunded, in advance of maturity, a portion of outstanding Certificates of Participation Series 2001A, 2001B, and 2002A. At June 30, 2008, the total outstanding principal balance for the Certificates of Participation Series 2001A, 2001B, and 2002A was $59,195,000, which will be paid by investments held in an irrevocable trust with a fair value of $60,736,000. Accordingly, the trust account assets and liability for these defeased certificates are not included in the University's financial statements.

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The following schedule details outstanding Certificates of Participation payable at June 30, 2008:

Issue	Original Amount	Year of Final Maturity	Interest Rates	Outstanding Principal
1999A Fixed Student Union Certificates	$ 21,607,000	2020	5.125-5.30%	$ 3,963,000
1999 Parking Garage, Res. Life Certificates	18,635,000	2009	5.00%	175,000
2001A Park Std. Union, Learning Svcs., 6th Street Garage, TEP Bldg.	31,695,000	2012	4.10-4.450%	3,060,000
2001B Gittings Bldg., Highland Infra., Life Sci.	21,425,000	2014	4.75-5.00%	2,185,000
2002A Student Housing, Health Bldg., UA North	76,965,000	2022	4.380-5.50%	19,700,000
2002B Meinel Bldg., Refund COPS 1994B	29,845,000	2023	3.30-5.125%	27,780,000
2003A Refund COPS 1997 & Portion of COPS 2001B	10,615,000	2022	3.50-5.00%	10,615,000
2003B Medical Research Bldg., Biomedical Sciences & Biotech. Bldg., Technology Infrastructure	153,960,000	2031	3.767-5.25%	147,125,000
2004A Chemistry Bldg. Expansion, Res. Life Phase I, Highland Pkg. Garage, Refund COPS 1994A	42,020,000	2029	3.60-5.25%	36,575,000
2005A Refund COPS 1999A	12,660,000	2024	4.00-5.00%	12,660,000
2005B Refund COPS 1999	14,825,000	2024	5.00%	14,825,000
2005C Refund COPS 2001A	16,330,000	2022	4.125-5.00%	16,330,000
2005D Refund COPS 1999A & B	6,655,000	2020	4.125-5.00%	6,655,000
2005E Refund COPS 1999	3,555,000	2014	3.375-4.136%	3,520,000
2005F Refund COPS 2000A & 2001A	14,915,000	2025	3.50-4.50%	13,425,000
2005G Refund COPS 2001B, 2002A, & 2003A	2,245,000	2020	4.125-4.375%	2,245,000
2005H Refund COPS 2002B	770,000	2020	4.125-4.375%	770,000
2005I Refund COPS 2003B, 2004A	1,320,000	2020	4.125-4.375%	1,320,000
2006A Refund COPS 1999A & 1999B	35,785,000	2024	3.875-5.00%	35,785,000
2006B Refund COPS 2000A & 2001A	12,395,000	2025	3.625-4.50%	11,675,000
2006C Refund COPS 2001B, 2002A, & 2003A	6,100,000	2020	4.25-4.375%	6,100,000
2006D Refund COPS 2002B	1,285,000	2020	4.25-4.375%	1,285,000
2006E Refund COPS 2003B & 2004A	3,085,000	2020	4.25-4.375%	3,085,000
2006 Arizona Biomedical Research Collaborative Building Project	18,240,000	2031	4.00-5.00%	17,785,000
2007A Refund COPS 2001A	12,035,000	2025	3.50-4.50%	12,035,000
2007B Refund COPS 2001B & 2002A	50,150,000	2022	4.00-4.50%	50,150,000
2007D Refund COPS 2004B	42,895,000	2031	3.50-4.00%	42,895,000
Total	$ 662,012,000			$ 503,723,000

The following schedule details debt service requirements to maturity for Certificates of Participation payable at June 30, 2008:

Year	Principal	Interest
2009	$ 14,060,000	$ 23,434,000
2010	14,625,000	22,800,000
2011	15,705,000	22,180,000
2012	21,852,000	21,913,000
2013	23,061,000	21,005,000
2014-18	138,249,000	85,788,000
2019-23	157,921,000	49,453,000
2024-28	77,730,000	19,468,000
2029-31	40,520,000	3,806,000
Total	$ 503,723,000	$ 269,847,000

The University of Arizona

Capital Leases – The University has entered into various long-term leases to acquire equipment and enhance fixtures and infrastructure. These leases are classified as capital leases since they provide a bargain purchase option, a transfer of ownership by the end of the lease term, or comply with other accounting criteria. Major leases entered into this fiscal year are the Art Studio Building in the amount of $2,850,000 with a 7% interest rate and a final payment date of June 1, 2015 and the Corleone Center in the amount of $2,046,000 with a 7% interest rate and a final payment date of January 1, 2017.

The following schedule details debt service requirements to maturity for capital leases payable at June 30, 2008:

Year	Capital Lease Payments
2009	$ 7,075,000
2010	6,179,000
2011	5,948,000
2012	5,681,000
2013	5,666,000
2014-18	17,709,000
2019-23	13,154,000
2024-28	13,328,000
2029-33	12,644,000
2034-36	3,372,000
Total minimum lease payments	90,756,000
Less: interest	(36,229,000)
Present value of net minimum lease payments	$ 54,527,000

Capital Assets Financing – Following is a summary of capital assets financed by certificates of participation and capital leases at June 30, 2008:

Land	$	6,366,000
Buildings and improvements		501,088,000
Infrastructure		53,761,000
Equipment		23,927,000
Total cost of assets		585,142,000
Less: accumulated depreciation		(109,649,000)
Carrying value of assets	$	475,493,000

Operating Leases – The University has entered into certain operating leases, generally with options for annual renewal, and other rental agreements for real property and equipment. For fiscal year 2008, rent expenses totaled $21,606,000.

The following schedule details future operating lease payments to maturity:

Year		Operating Lease Payments
2009	$	3,727,000
2010		2,185,000
2011		1,747,000
2012		1,781,000
2013		286,000
Total	$	9,726,000

NOTE 9. SELF-INSURANCE PROGRAM

The University is exposed to various risks of loss related to: torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The University participates in a self-insurance program administered by the State of Arizona Department of Administration, Risk Management Section. Arizona Revised Statutes §41-621 et seq provides that losses eligible for coverage and not covered by insurance will be paid by the State from the self-insurance program or by a future appropriation from the State Legislature. Loss risks not covered by Risk Management and for which the University has no insurance coverage are losses that arise from contractual breaches, or are directly attributable to an act or omission determined to be a felony by a court of law. With this exception, the University has no significant risk of loss beyond adjustments to future years' premium payments to the State's self-insurance program. All estimated losses for unsettled claims and actions of the State are determined on an actuarial basis and are included in the State of Arizona Comprehensive Annual Financial Report.

NOTE 10. RETIREMENT PLANS

The University participates in one cost-sharing multiple-employer defined benefit pension plan and four defined contribution pension plans.

A. Defined Benefit Plan

Plan Description. The Arizona State Retirement System (ASRS) administers a cost-sharing multiple-employer defined benefit pension plan that covers employees of the state of Arizona, including University employees, and employees of participating political subdivisions and school districts. Benefits are established by State statute. The ASRS provides retirement, death, and survivor benefits through its Retirement Fund; health insurance premium benefits (i.e. a monthly subsidy) through its Health Benefit Supplement Fund; and long-term disability benefits through its Long-Term Disability Fund. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of ARS Title 38, Chapter 5, Article 2. The ASRS issues a publicly available comprehensive annual financial report that includes its financial statements and required supplementary information. That report may be obtained by writing to the ASRS, 3300 North Central Avenue, PO Box 33910, Phoenix, Arizona 85067-3910, or by calling (602) 240-2000 or (800) 621-3778.

Funding Policy. For the year ended June 30, 2008, active ASRS members were required to contribute at the actuarially determined rate of 9.6 percent (9.1 percent retirement and 0.5 percent long term disability) of the members' annual covered payroll. The University was required to contribute at the actuarially determined rate of 9.6 percent (8.05 percent for retirement, 1.05 percent for health insurance premium, and 0.5 percent for long-term disability) of the members' annual covered payroll. The Arizona State Legislature establishes and may amend active plan members' and the University's contribution rates.

The University's contributions for the current and two preceding years, all of which were equal to the required contributions were as follows:

Years ended June 30,	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2008	$ 23,834,000	$ 3,097,000	$ 1,477,000
2007	20,890,000	3,243,000	1,405,000
2006	15,148,000	2,971,000	1,301,000

B. Defined Contribution Plans

Plan Description. In accordance with ARS §15-1628, University faculty, academic professionals, and administrative officers have the option to participate in defined contribution pension plans. For the year ended June 30, 2008, plans offered by the Teachers Insurance Annuity Association/College Retirement Equities Fund (TIAA/CREF), Variable Annuity Life Insurance Company (VALIC), and Fidelity Investments Tax-Exempt Services Company (Fidelity) were approved by the Arizona Board of Regents. In addition, employees hired before July 1, 1972, have the option to participate in the defined contribution plan administered by the ASRS. Benefits under these plans depend solely on the contributed amounts and the returns earned on investments of those contributions. Contributions made by members vest immediately; University contributions vest after five years of full-time employment. Member and University contributions and associated returns earned on investments may be withdrawn upon termination of employment, death, or retirement. The distribution of member contributions and associated investment earnings are made in accordance with the member's contract with the applicable insurance and annuity company.

Funding Policy. The Arizona State Legislature establishes the contribution rates for active plan members and the University. For the year ended June 30, 2008, plan members and the University were each required by statute to contribute an amount equal to 7 percent of a member's compensation, except for an 8.55 percent University contribution for the ASRS plan. Contributions to these plans for the year ended June 30, 2008, were as follows:

Plan	University Contributions	Member Contributions	Total Contributions
TIAA/CREF	$ 13,834,000	$ 13,834,000	$ 27,668,000
VALIC	785,000	785,000	1,570,000
Fidelity	6,344,000	6,344,000	12,688,000
ASRS	72,000	63,000	135,000

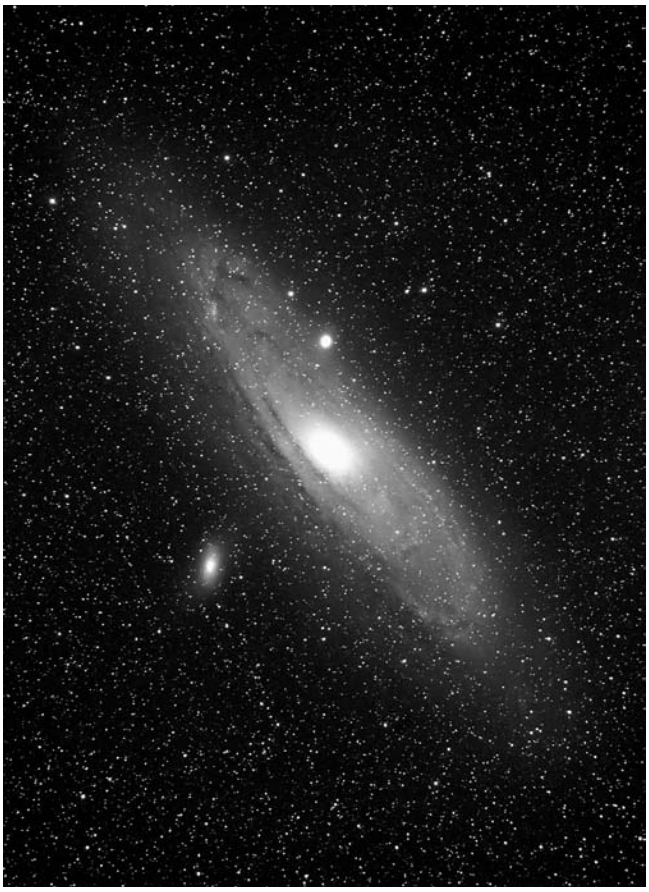
NOTE 11. OPERATING EXPENSES BY NATURAL CLASSIFICATION

Operating expenses by natural classification for the year ended June 30, 2008, consist of the following:

Category	
Salaries and wages	$ 685,657,000
Benefits	212,707,000
Supplies and materials	125,906,000
Services, including travel	172,222,000
Utilities	42,107,000
Scholarships and fellowships	38,377,000
Depreciation	98,084,000
Total operating expenses	$ 1,375,060,000

NOTE 12. CONTINGENT LIABILITIES

In February 2004, two cases were filed arising from the same set of circumstances that lists a variety of causes of action based upon alleged violations of cultural and religious privacy and violations of human subjects research protocols. The Havasupai Tribe and 73 of its members have asserted claims against the Arizona Board of Regents and others arising out of a research project initiated by Arizona State University (ASU) in the early 1990s. Allegations are made respecting both ASU and the UA, the latter being based upon the facts that one of the researchers moved to the UA while the research was continuing and that UA faculty members were involved in certain aspects of the research. The plaintiffs assert a variety of legal theories based on the contention that blood samples donated by members of the Tribe were used for purposes other than those described to the Tribe and the participants prior to the initiation of the research. The individual plaintiffs seek $10 million in compensatory damages and $15 million in punitive damages. The operative complaint by the Tribe seeks unspecified amounts of compensatory and punitive damages. The claims for punitive damages against ABOR have been dismissed. By orders of April 30 and August 28, 2007, the Maricopa County Superior Court granted summary judgement against both the Tribe and the individuals. All plaintiffs have filed notices of appeal and oral arguments were held on June 11, 2008. The State of Arizona Attorney General's Office is providing legal representation for the universities. Management is not able to predict at this time what the ultimate outcome of the case will be but intends to defend itself vigorously and is exploring alternative dispute resolution. It is anticipated that an adverse judgment in the litigation described above would be covered by the statutory self-insurance program under the Risk Management Section of the State of Arizona Department of Administration.



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NOTE 13. DISCRETELY PRESENTED COMPONENT UNIT DISCLOSURES

A. Summary of Significant Accounting Policies

The University of Arizona Foundation

Basis of Accounting

For financial reporting purposes, three net asset categories are utilized to reflect resources according to the existence or lack thereof of externally (donor) imposed restrictions. A description of the three net asset categories follows.

- *Unrestricted net assets* – include assets and contributions that are not restricted by donors or for which such restrictions have expired.
- *Temporarily restricted net assets* – include contributions for which donor imposed restrictions have not been met (either by the passage of time or by actions of the Foundation), charitable remainder unitrusts, pooled income funds, gift annuities, and pledges receivable for which the ultimate purpose of the proceeds is not

permanently restricted. Donor-restricted contributions are classified as temporarily restricted even if restrictions are satisfied in the same reporting period in which the contributions are received.

- *Permanently restricted net assets* – include contributions, charitable remainder unitrusts, pooled income funds, gift annuities, and pledges receivable which require by donor restriction that the corpus be invested in perpetuity. Included in permanently restricted net assets is the Foundation's Endowment.

Cash and Cash Equivalents
Cash and cash equivalents include monies held in certificates of deposit, overnight money market accounts, and money market funds. Cash equivalents are stated at cost, which approximates fair value.

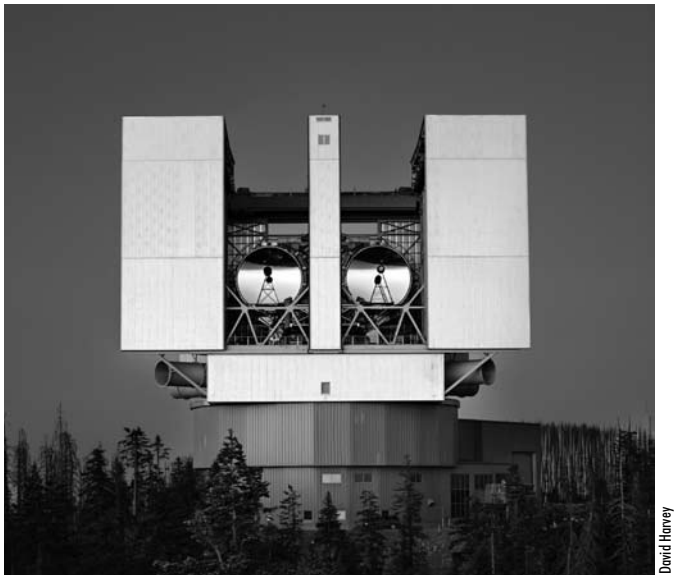
Investments in Securities
Investments in securities are stated at fair value or net asset value. Such investments are exposed to various risks, including market risk, company-specific risk, country-specific risk, interest rate risk, liquidity risk and credit risk. Investments in domestic and international equity securities and mutual funds, U.S. government and agency obligations and mutual funds, corporate bonds, REIT funds and international fixed income mutual funds are valued based on quoted market prices. Investments in real estate and timber partnerships are recorded at net asset value as determined by the general partner based on the appraised value of the partnerships' assets. Absolute return limited partnership interests are recorded at net asset value based on quoted market prices (where the underlying investment is a mutual fund) or as determined by the fund manager. Investments in alternative securities are highly susceptible to valuation changes. Private capital and commodity limited partnership interests are recorded at net asset value as determined by the fund manager. Investment income or loss comprises the sum of realized and unrealized gains and losses on investments and interest and dividends, less an investment management fee.

Collections
Collections (principally photographs, prints and negatives) are recorded at a nominal value.

Annuities Payable and Other Trust Liabilities
Annuities payable and other trust liabilities of $19,474,000 at June 30, 2008 are stated at the actuarially computed present value of future payments to the annuitants. The excess of the fair values of assets received (classified according to their nature in the statement of financial position) pursuant to annuity agreements over the actuarially computed annuities payable (using market rates in effect on the contribution date) is recorded as contributions in the year received. The fair values of such assets held in trust at June 30, 2008 total $37,744,000, of which $2,342,000 were unrestricted, $13,798,000 were temporarily restricted and $21,604,000 were permanently restricted.

Net Assets Released From Restriction
Expenses are not incurred in the temporarily restricted or permanently restricted net asset categories. As the restrictions on these net assets are met, the assets are reclassified to unrestricted net assets. The total assets reclassified are reported as net assets released from restriction in the accompanying statement of activities.

Campus Research Corporation
Property, Equipment and Depreciation
Property and equipment are stated at cost and depreciation is provided for using the straight-line method over the estimated useful lives of the assets. Expenditures for major improvements to property are capitalized and expenditures for repairs and maintenance are expensed as incurred. In addition, the Corporation has recorded in the financial statements a building and related debt for which the ABOR on behalf of UA holds the title to the building, under the requirements of a lease.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B. Investments

The University of Arizona Foundation

Investments are comprised of the following amounts at June 30, 2008:

	Carrying Value	Cost
Domestic/international equity securities and mutual funds	$ 132,117,000	$ 126,142,000
U.S. fixed income obligations and mutual funds	70,646,000	69,841,000
Absolute return limited partnerships and funds	121,501,000	102,400,000
REIT fund, real estate and timber partnerships	22,473,000	25,249,000
International fixed income mutual funds	20,470,000	21,297,000
Private capital and commodity limited partnerships	26,799,000	22,521,000
Totals	$ 394,006,000	$ 367,450,000

C. Endowments

The University of Arizona Foundation

The Foundation's endowment consists of approximately 1,200 individual funds established for a variety of purposes. In accordance with accounting principles generally accepted in the United States, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Foundation has also invested certain unrestricted and temporarily restricted assets in its endowment pool. These invested funds have been marked-to-market. The endowment pool is subject to the Arizona Management of Charitable Funds Act, which was signed into law on April 14, 2008.

As a result of explicit donor stipulations contained in its endowment agreements, the Foundation classifies as permanently restricted net assets (1) the original value of gifts donated to the endowment, (2) subsequent gifts to the endowment, and (3) all realized and unrealized appreciation or depreciation experienced by the endowment fund.

The endowment payout rate ("Payout Rate"), a percentage (4% of the average fair value at the calendar year-end of the three previous years) of the fair value of the Endowment as determined from time to time by the Foundation's Board, is made available to support the purposes of the individual accounts comprising the Endowment as specified by the donors.

The Foundation charges a cost recovery fee, a percentage (1.25% in 2008) of the fair value of the Endowment as determined from time to time by the Foundation's Board, which is paid from the Endowment to defray the Foundation's costs of holding, managing and stewarding the Endowment, including costs for safeguarding, investing and accounting for such funds. Cost recovery fees of $3,946,000 were recognized in 2008.

D. Pledges Receivable

The University of Arizona Foundation

Unconditional promises are included in the financial statements as pledges receivable and revenue of the appropriate net asset category. Unconditional promises are recorded at their net realizable value using yields on U.S. Treasury obligations of equivalent maturity dates at the end of the fiscal year in which they were received. Unconditional promises at June 30, 2008 totaled $15,873,000.

Law College Association

At May 31, 2008, the Association had unconditional promises to give pledged for future support. Net of present value discounts and allowances for doubtful pledges, these unconditional promises totaled $31,728,000. Note that 92% of the Association's gross pledges receivable come from an individual donor.

E. Property and Equipment

Campus Research Corporation

Property and equipment consisted of the following as of June 30, 2008:

Building and infrastructure improvements	$ 13,553,000
Furniture, equipment and other property	598,000
Total	14,151,000
Less accumulated depreciation	(2,932,000)
Property and equipment, net	$ 11,219,000

F. Long-Term Debt

Campus Research Corporation

Bonds payable, Series A, payable in scheduled monthly installments of principal plus interest at the floating taxable bond rate (remarketed weekly) through May 2013, with a lump sum payment of $6,142,000 due in June 2013.	$ 7,282,000
Non interest bearing note payable, Arizona Commerce and Economic Development Commission, payable in monthly principal installments of $2,000 through April 2016, unsecured.	174,000
Note payable, Wells Fargo Bank, payable in monthly installments of $22,000 including interest at 7.25% through June 2010.	483,000
Note payable, Wells Fargo Bank, payable in monthly installments of $26,000 including interest at 5% through June 2015. There is a prepayment penalty associated with this note if the entire balance is paid prior to July 2009.	1,876,000
Total long-term debt	$ 9,815,000

The bonds and notes payable to Wells Fargo Bank are collateralized by leasehold interests in real property and an assignment of rents and require the Corporation to be in compliance with certain financial and nonfinancial covenants.

Wells Fargo Bank Arizona issued an $11,400,000 letter of credit to enhance the sale of the bonds and the Corporation entered into a reimbursement agreement with the bank, which provides real property as collateral to the bank. The letter of credit is renewed annually in July at the outstanding bond amount plus 45 days of interest.

The Series A bonds payable bear interest at a market rate of interest as stated above. However, the Corporation entered into an interest rate swap contract with Wells Fargo that effectively converts the interest rate on the Series A bonds to 6.3%. Under the swap contract, the Corporation pays interest at the fixed rate and receives interest at LIBOR (proxy rate), which was 2.78% at June 30, 2008. The notional amount under the swaps decreases as principal payments are made on the bonds so that the notional amount equals the principal outstanding under the bonds.

The swap was issued at market terms so that they had no fair value at inception. As required by U.S. generally accepted accounting principles, the carrying amount of the swap has been adjusted to fair value at June 30, 2008 which, because of changes forecasted in levels of LIBOR, resulted in reporting a liability for the fair value of the future net payments forecasted under the swap. The change in fair value is recorded as a component of the change in net assets for 2008 and the liability is included in the balance sheet at June 30, 2008.

G. Project Operation Agreement (POA)

Campus Research Corporation

The Corporation has an agreement with IBM whereby all common services at the Park are to be provided by the Managing Operator, which is currently IBM. Common services consist of the operation, maintenance and repair of the central utility system, project fire and security services, and the common areas. The term of the agreement coincides with the IBM master lease agreement that expires in August 2014. Exercise of the contractual extensions contained within the IBM master lease agreement will extend the POA according to the terms of the lease agreement.

In October 2004, the Corporation issued a notice of default to IBM asserting that IBM is not complying with the terms of the POA in its responsibility to maintain the Park. The lack of maintenance has caused a significant increase in the Corporation's repairs and maintenance costs necessary to maintain the building systems and infrastructure at a minimum acceptable level. The incurrence of such costs has contributed to the Corporation's overall decrease in profitability since 2004 and has placed at risk the Corporation's ability to attract new tenants and retain existing tenants.

The Corporation has entered into formal mediation and arbitration with IBM to enforce the provisions of the POA. No receivable or payable has been recorded related to this uncertainty.

H. Condensed Financial Statements of Major Component Units

Major Component Units Statement of Financial Position June 30, 2008	**The University of Arizona Foundation**	**Other Component Units**	**Total**
Assets			
Cash, cash equivalents and investments	$ 460,958,000	$ 16,400,000	$ 477,358,000
Pledges receivable	15,873,000	31,728,000	47,601,000
Property and equipment, net	3,670,000	11,363,000	15,033,000
Other assets	3,868,000	6,930,000	10,798,000
Total Assets	**$ 484,369,000**	**$ 66,421,000**	**$ 550,790,000**
Liabilities and Net Assets			
Liabilities			
Annuities payable and other trust liabilities	$ 19,474,000		$ 19,474,000
Short-term and long-term debt		$ 9,829,000	9,829,000
Other liabilities	3,859,000	6,279,000	10,138,000
Total Liabilities	**$ 23,333,000**	**$ 16,108,000**	**$ 39,441,000**
Net Assets			
Unrestricted	$ 18,221,000	$ 12,150,000	$ 30,371,000
Temporarily restricted	113,166,000	34,389,000	147,555,000
Permanently restricted	329,649,000	3,774,000	333,423,000
Total Net Assets	**$ 461,036,000**	**$ 50,313,000**	**$ 511,349,000**
Total Liabilities and Net Assets	**$ 484,369,000**	**$ 66,421,000**	**$ 550,790,000**

I. Condensed Financial Statements of Major Component Units, Continued

Major Component Units Statement of Activities Year Ended June 30, 2008	The University of Arizona Foundation	Other Component Units	Total
Revenues			
Contributions	$ 74,191,000	$ 7,446,000	$ 81,637,000
Rental revenues		10,087,000	10,087,000
Investment income	(1,587,000)	435,000	(1,152,000)
Other income	10,662,000	3,981,000	14,643,000
Total revenues	**$ 83,266,000**	**$ 21,949,000**	**$ 105,215,000**
Expenses			
Program services:			
Leasing related expenses		$ 7,624,000	$ 7,624,000
Payments to the University	$ 44,376,000		44,376,000
Payments on behalf of the University	12,783,000	10,121,000	22,904,000
Supporting services:			
Management and general	4,019,000	1,708,000	5,727,000
Fund raising	5,943,000	154,000	6,097,000
Other expenses		743,000	743,000
Total expenses	**$ 67,121,000**	**$ 20,350,000**	**$ 87,471,000**
Increase in Net Assets	**$ 16,145,000**	**$ 1,599,000**	**$ 17,744,000**
Net Assets - Beginning of year	444,891,000	48,714,000	493,605,000
Net Assets - End of year	**$ 461,036,000**	**$ 50,313,000**	**$ 511,349,000**

Brian Spurlock

Lute Olson

"He has meant the world to this University and college basketball for a quarter century."

– Jim Livengood
Athletics Director, The University of Arizona

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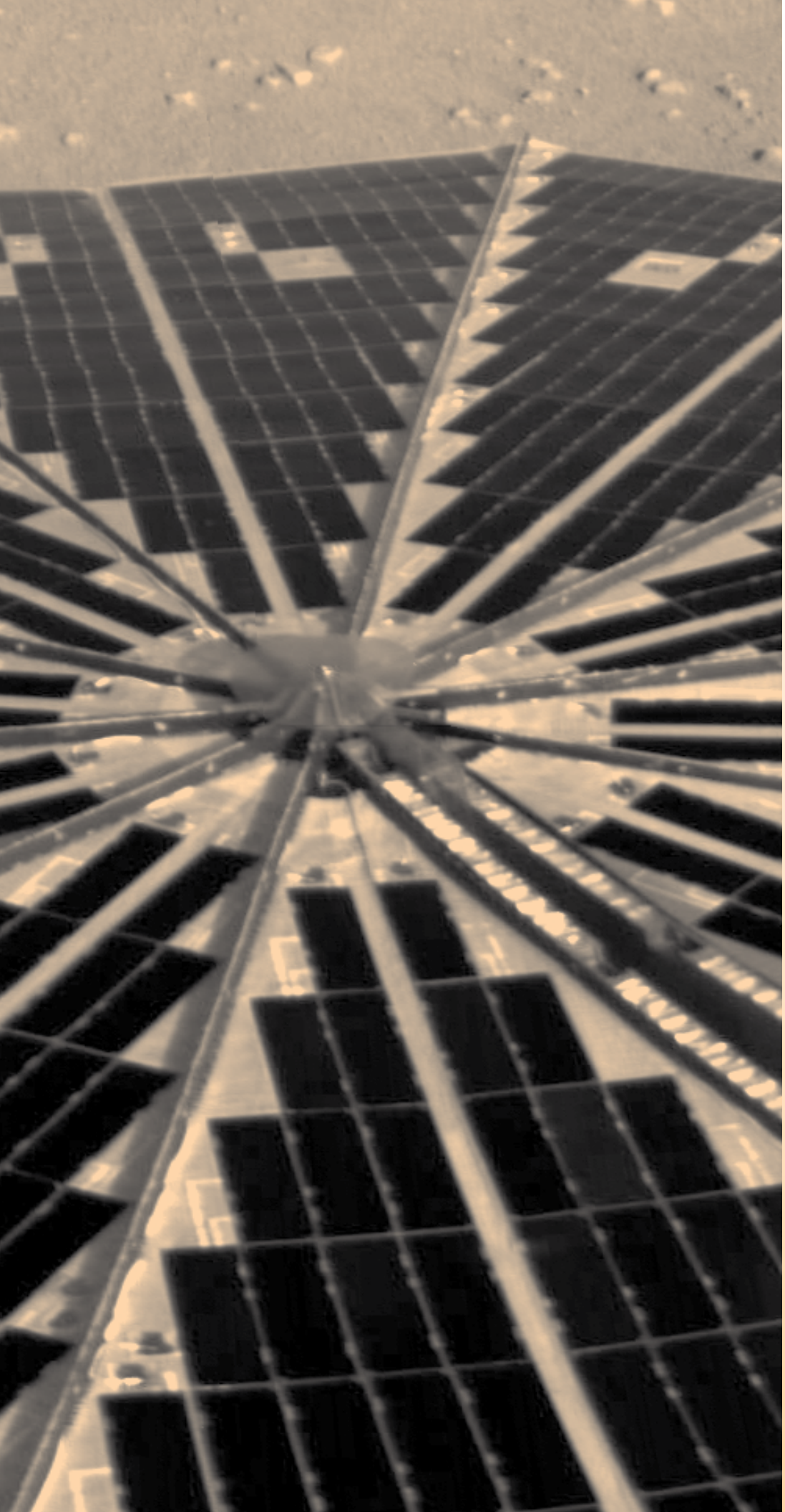

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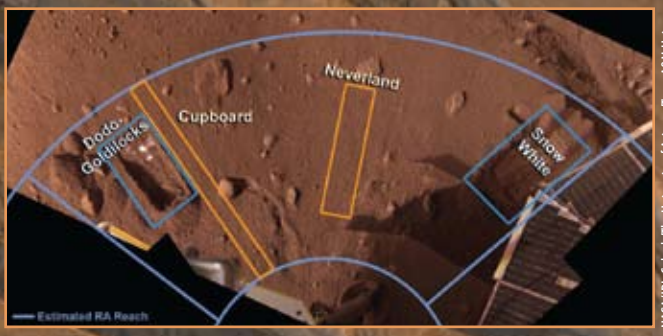
and the Information Technology Services team

Artist rendition: Corby Waste/JPL



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