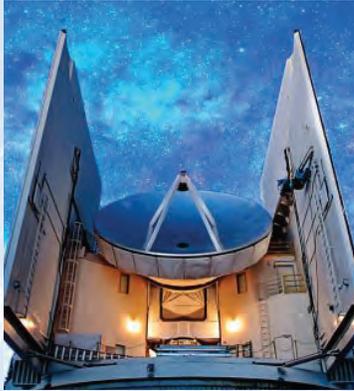




# Annual Financial Report

*Year Ended  
June 30, 2012*



Connecting the Submillimeter Telescope at the UA's Arizona Radio Observatory to others in Chile and Hawaii, astronomers have created a huge, single virtual telescope that has allowed astronomers to observe the area around a supermassive black hole with unprecedented sharpness – 2 million times finer than human vision. Photo: Dave Harvey/UA



Libin Zhu, a lab manager in the UA College of Agriculture and Life Sciences, researches the survivability of *Salmonella* on copper alloys with varying copper concentrations. The bacteria cells sometimes died out on copper surfaces within hours, while they survived for up to two weeks on stainless steel. Photo: Beatriz Verdugo, UANews



The U.S. Food and Drug Administration approved Anascorp®, an antivenom produced in Mexico and tested in clinical trials, for use in treating patients suffering the effects of scorpion sting. Clinical trial lead investigator and director of the University of Arizona's VIPER (Venom Immunochemistry, Pharmacology and Emergency Response) Institute, Leslie Boyer, MD, said "This is the first-ever drug approved for this use by the FDA". Photo: Jeb Zirato, AHSC BioCommunications

**Cover:**

The University of Arizona's Biosphere 2 serves as a center for research, outreach, teaching and life-long learning about Earth, its living systems, and its place in the universe. Photo: Joe Martinez, UA Biosphere 2

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The Arizona State Museum, the oldest and largest anthropology museum in the southwest, is home to the world's largest and most comprehensive collection of Southwest Indian pottery. It hosts researchers from around the world and provides events, exhibits, and summer camp programs for the community. Photo: Arizona State Museum



## A Message from the President

As your 21st president, I am honored to report on the University of Arizona's status and progress in this Annual Financial Report – the first of my tenure.

When I met with UA students, faculty, administrators, staff, and supporters on that hot, July day not so long ago, I saw, felt, and heard enthusiasm, optimism, and pride in excellence. I share these sentiments. Despite increasing costs, growing demands for higher-education opportunities, and the many needs of our state as it looks to turn the corner on a serious recession, with each passing day I grow more excited about the possibilities before us as a community.

As we continue to work as a team, speaking with clarity and acting with passion, the University of Arizona can and will fulfill its rightful mission. By meeting challenges head-on, and with thoughtful and careful fiscal planning, we will preserve our standards of excellence and our preeminence as a higher-education institution and succeed at setting new standards for community engagement and work force impact. Areas that will afford us some of these opportunities for growth and achievement include land use planning, water resources management, providing jobs for a growing population, transportation, and technology development and transfer.

In the meantime, the following items comprise only a fraction of the many reasons for which we can celebrate.

### **Economic Impact of the UA Science and Technology Park**

The Office of University Research Parks has concluded a study documenting the UA Tech Park's contribution to the economy of Pima County. The Park and its resident companies, which remain one of the region's largest employers, had an impact of \$2.67 billion in Pima County – \$1.81 billion of which was in direct impacts, such as wages paid and supplies and services purchased.

### **Tech Launch Arizona**

The UA's Technology Commercialization Center, formed late last year, has its inaugural executive director, David N. Allen, in place. Through a robust, entrepreneurial approach, Tech Launch will bundle and enhance the UA's activities revolving around technology commercialization by facilitating the transfer of discoveries into intellectual property and inventions.

### **STARS Gold Rating**

The UA has achieved STARS (Sustainability Tracking, Assessment & Rating System) Gold Rating from the Association for the Advancement of Sustainability in Higher Education. The UA is only one of 30 institutions in the U.S. and Canada to receive this rating, which measures progress in education and research; operations; and planning, administration, and engagement.

### **Health Sciences Education Building in Phoenix**

This state-of-the-art medical education building opened in July and a grand opening was held the first week of October 2012. Adorned in Arizona copper, this 268,000 square foot building has educational space for the UA Colleges of Medicine – Phoenix, Public Health and Pharmacy. Some of the exciting features are a simulation center with the newest technology, a beautiful library with functional space for students, interactive computer learning studios and many classrooms and small group learning spaces. Northern Arizona University also has a small portion of the building for their physical therapy and physician assistant's programs. This iconic building symbolizes the University of Arizona's presence in the Capitol City.

### **BIO5 Institute and iPlant**

Information- and computer scientists and biologists at the BIO5 Institute have helped create a digital system allowing biological sciences to manipulate extremely large data sets. The iPlant Collaborative involves partnerships with The University of Texas-Austin's Texas Advanced Computing Center, New York's Cold Spring Harbor Lab, Purdue University, and the University of North Carolina-Wilmington.

### **MacArthur Fellowship**

Astronomer and optical scientist Olivier Guyon is the first Southern Arizona resident in a decade to be named a MacArthur Fellow. Prof. Guyon, who holds a joint appointment in the College of Science's Department of Astronomy and the College of Optical Sciences, is developing glare-eliminating techniques for taking images of yet-to-be-discovered planets orbiting suns far beyond our solar system. The MacArthur Foundation also recognized his work in reducing the functional complexity and engineering costs for these methods because they will, in the future, be affordable even for amateur astronomers and schools.

### **American Institute for Medical and Biological Engineering (AIMBE)**

College of Engineering Professor Wolfgang Fink has been elected to the AIMBE's College of Fellows. Prof. Fink is recognized for his remarkable contributions in ophthalmology and vision sciences. AIMBE Fellows represent the top 2 percent in their field.

A cross-disciplinary visionary, Fink is fusing the sciences of vision and robotics, working towards a future where planetary research will be conducted by intelligent robots that could include satellites, airships, and fleets of land and lake rovers – all working autonomously.

The enthusiasm, optimism, and pride in excellence of which I spoke at the beginning of this message are among the defining traits of an institution widely respected for its teaching, discovery, and community involvement. It is well known that the National Science Foundation ranks the UA No. 18 among all public universities, and No. 2 in terms of research expenditures for the physical sciences. But these honors, prestigious though they are, only tell a portion of our attainment; we must also address our obligation and threefold commitment, as Arizona's land-grant university, to education, research, and community service.

While it is evident that UA faculty and students share their knowledge, their time, and their resources throughout the state and around the world, and that we are making great strides in knowledge production and technology transfer, our future will also unfold in a state and local context and population growth will compound the need for an educated citizenry and for a culturally and socially productive Arizona.

As we confidently travel the far-seeing course that our founders charted while we were yet a territory, I thank you sincerely for supporting the University of Arizona.

Most cordially,

Ann Weaver Hart  
President



Darla Keneston

## 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 has gained an average of 500 students per year for the last five years. It serves 39,236 students through 18 colleges offering 345 degree programs and is ranked among the leading research universities in the country.

### Enrollment Statistics – Academic Year 2011 - 2012

Undergraduate enrollment – Fall 2011	30,665
Graduate and Professional enrollment – Fall 2011	8,571
Degrees awarded – Bachelor's	6,195
Degrees awarded – Advanced	2,382
Tuition and fees for full-time student – Resident	\$10,035
Tuition and fees for full-time student – Non-resident	\$25,494

The University's 2,509 full time equivalent faculty and 1,372 full time equivalent graduate teaching and research assistants and associates educate a diverse student population. The student population is 52.3% female, 18.5% Hispanic, 7.1%

Asian or Pacific Islander, 3.8% Black, and 2.8% Native American. It includes students from all fifty states and 111 foreign countries. International students totaled 6.8% of the Fall 2011 enrollment, with the largest numbers of foreign students hailing from the People's Republic of China, India, Korea, Mexico and Saudi Arabia.

### Research Excellence

The University offers an unusually extensive and varied group of research, graduate and professional programs. During the past 25, years the University has emerged as one of the top research universities in the nation (30th among all public and private universities and colleges), according to the National Science Foundation. With its abundance of physical, biological and health sciences 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.

The University's outstanding research programs provide advances in applied and basic or pure knowledge that fulfill the institution's obligation to the State and the nation. Such programs attract internationally 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, enriching instructional programs and providing tremendous education and research opportunities for the students, as well as helping to provide up-to-date facilities and equipment.

## Strengths

In the most recent ranking (fiscal year 2010) the National Science Foundation (NSF) ranked the University of Arizona as America's No. 2 university for research expenditures in the physical sciences, which includes astronomy, physics and chemistry. Among all public and private universities and colleges, the UA was ranked as the nation's 30th institution in research expenditures. A persistent theme in the University's history has been developing strengths based on its unique physical and cultural environment. Some examples follow:

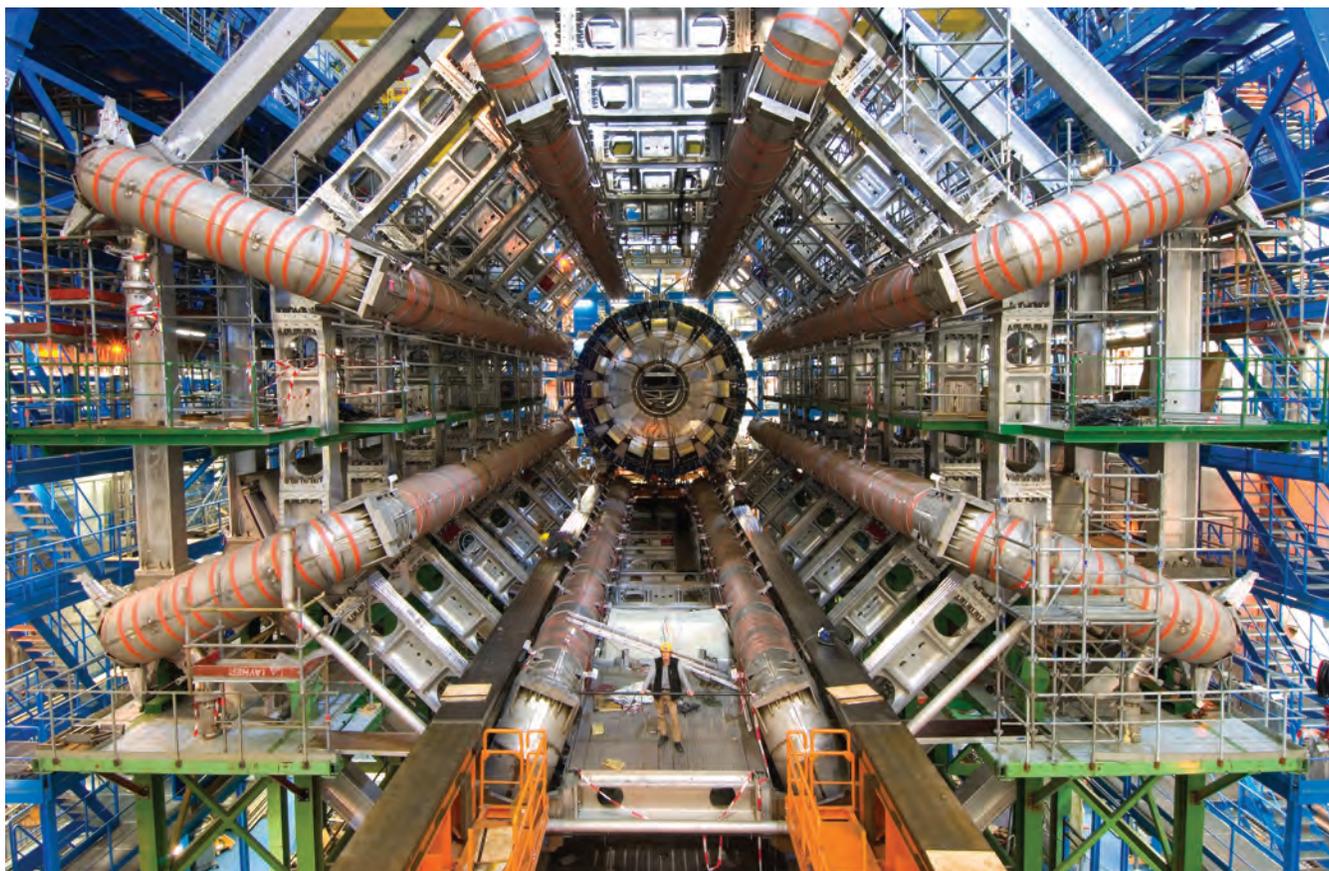
- A University of Arizona-led bi-national project was launched to address vulnerability, adaptation and resilience to climate change – including the management of drought and water demands. Research team members from the UA and Mexico will present findings marking the beginning of a two-year interdisciplinary assessment of adaptation strategies in the Southwest U.S. and Northwest Mexico. The National Oceanic and Atmospheric Administration, a federal agency focused on the condition of the oceans and the atmosphere, has funded the UA and its partners through its Climate and Societal Interactions Program.
- The University of Arizona department of immunobiology and the Arizona Center on Aging have won a five-year, \$11.8 million contract from the National Institute of Allergy and Infectious Diseases, part of the National Institutes of Health, to study declining immunity among the aging. The main goal is to understand why older adults seem to be susceptible to certain infections and conditions. The award achieves a goal of building a healthy, robust community of older adults by greatly reducing deaths and illness from infections, a common and serious problem among seniors.
- The University of Arizona received about \$1 million in patents and other developments last year, sustaining the institution's 20-year trend of successful inventions. While original patents, copyrights and inventions are developed by many of the UA's colleges, much of the growth has been seen in research-intensive areas like the College of Optical Sciences and other units within the College of Science. Copyright has also become prominent in the James E. Rogers College of Law. Overall, the University has 170 active U.S. patents, 170 applications that are in the process of becoming patents and 90 provisional patents. The College of Optical Sciences filed 52 of those provisional patents last year, and the college also passed seven patents the same year, a process that takes about three to 10 years.
- The University of Arizona's College of Optical Sciences has been awarded \$11.8 million dollar contract by the Association of Universities for Research in Astronomy, or AURA, to polish the 4.2-meter primary mirror for the Advanced Technology Solar Telescope, or ATST. When operational in Hawaii, the ATST will become the world's largest solar telescope. This glass mirror will serve as the primary focusing element to create high-resolution images of the fine scale structure of the sun. The large size and precision of the mirror will allow the telescope to provide data that helps scientists to address basic questions of solar magnetism and how its changing outputs affect the earth.
- The second of seven 27-foot diameter mirrors for the Giant Magellan Telescope was cast on January 2012 inside a rotating furnace at the UA's Steward Observatory Mirror Lab. Giant Magellan Telescope, the largest telescope ever built, is set to begin science operations in 2020 at the Las Campanas Observatory in northern Chile.
- University of Arizona College of Engineering professor Wolfgang Fink has been elected to the College of Fellows of the American Institute for Medical and Biological Engineering (AIMBE). Fink was elected for his outstanding contributions in the field of ophthalmology and vision sciences with a particular focus on diagnostics and artificial vision systems. The AIMBE College of Fellows consists of 1,000 outstanding bioengineers in academia, industry and government. Fellows are nominated each year by their peers and represent the top 2 percent of their field.
- The University of Arizona Office of University Research Parks, or OURP, has released a new study documenting the economic impact of the UA Science and Technology Park, or UA Tech Park, and its significant contribution to Pima County's economy. The University of Arizona Tech Park and its resident companies had an economic impact of \$2.67 billion in Pima County. This included \$1.81 billion in direct economic impacts such as wages paid and supplies and services purchased and \$861 million in indirect and induced dollar impacts. The study also showed that the Tech Park remains one of the largest employment centers in the region. In total, the Tech Park and its companies generated 14,322 jobs (direct, indirect and induced) in the regional economy.
- The University of Arizona has earned a STARS Gold Rating in recognition of its campus-wide sustainability efforts from the Association for the Advancement

of Sustainability in Higher Education, or AASHE, a group that measures and encourages sustainability in all aspects of higher education. The UA is one of only 30 institutions in the U.S. and Canada to receive the association's gold rating. AASHE's STARS program is the only one of its kind that involves publicly reporting comprehensive information related to a college or university's sustainability performance. Participants report achievements in three overall areas: education and research; operations; and planning, administration and engagement. The rating reflects a commitment by the entire UA community and a year-long process to collect data and information from a variety of UA departments, programs and administrative offices.

- Two internationally respected authorities on the environment are the latest to be named Regents' Professors at the University of Arizona. The decision came from the Arizona Board of Regents. The Board created the designation of Regents' Professor as an honored position reserved for faculty scholars of exceptional ability who

have achieved national and international distinction. The title recognizes the highest academic merit and is awarded to faculty members who have made a unique contribution to the quality of the University through distinguished accomplishments in teaching scholarship, research or creative work. Robert J. Glennon and Thomas W. Swetnam, both experts in environmental science, are the latest UA inductees.

- Biologists, computer programmers and information scientists at the UA's BIO5 Institute have created a computer cyberinfrastructure that enables biological sciences researchers to process immense data sets. What began as an initiative to give plant biologists access to the computing power necessary to analyze the extremely large sets of data that were newly permeating the field of biology, now has expanded to include projects and scientists from all fields of biology and biomedical sciences. The University of Arizona leads the iPlant Collaborative, which is based at the University of Arizona's BIO5 Institute. Collaborating institutions include the



Decades of work by University of Arizona physicists who built part of the massive instrument called an ATLAS detector (shown above) were rewarded by the announcement that the Higgs boson, a subatomic particle, had likely been observed. Photo: Maximilien Brice, CERN

Texas Advanced Computing Center, the University of Texas in Austin, Cold Spring Harbor Laboratory in New York, the University of North Carolina at Wilmington and Purdue University.

- In August 2012, the Mars rover Curiosity was photographed by the University of Arizona-led HiRISE camera aboard NASA's Mars Reconnaissance Orbiter. HiRISE images will serve as road maps once the rover sets out to explore Gale Crater near the Martian equator. HiRISE stands for High-Resolution Imaging Science Experiment. The UA-led HiRISE camera has been photographing Mars aboard NASA's Mars Reconnaissance Orbiter for the past six years.

### Opportunities and Challenges

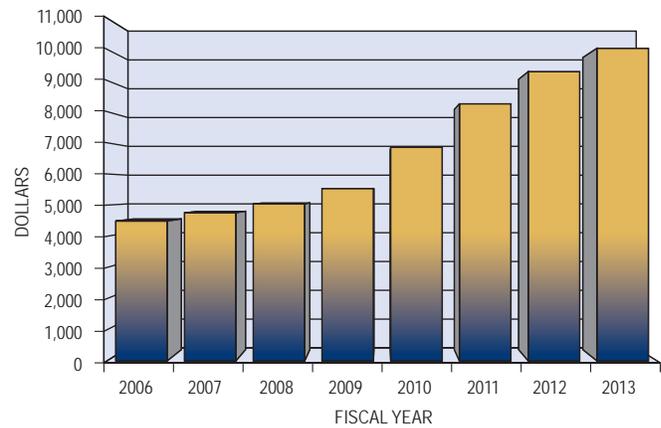
The University has been meeting the needs of the people of the State through its strong liberal arts program and nationally acclaimed expertise in business, engineering, and natural and medical sciences. Given continuing increases in population and the potential for economic growth, the State will increasingly 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 continues to regard the University as well positioned to continue its sound 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 has been increasing its competitiveness in obtaining sponsored research funds through the expansion of laboratory-oriented facilities and by pursuing organizational and programmatic initiatives (e.g., optics, biotechnology, medicine). The University has been awarded sponsored research funds from the National Aeronautics & Space Administration, National Science Foundation and National Cancer Institute as well as various other federal agencies.

For instructional purposes the University is primarily dependent upon tuition and fees and State appropriations, 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, appropriated funds may increase or be reduced dependent upon the State's revenues or changes to the tax base that supports government services. Resident undergraduate tuition continues to be among the lowest of our peer public universities in the nation. So long as financial aid resources increase, there is some market capacity for modest tuition increases in the future.

Resident Tuition & Fees FY 2006 - 2013



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 continues to project rapid growth in post-secondary education enrollment over the next several 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**

**MELANIE M. CHESNEY**  
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, 2012, 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, 2012, 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, 2012, 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.

2910 NORTH 44<sup>TH</sup> STREET • SUITE 410 • PHOENIX, ARIZONA 85018 • (602) 553-0333 • FAX (602) 553-0051

Our audit was conducted for the purpose of forming opinions on the University's financial statements. The Message from the President, Institutional Profile, and Management's Discussion and Analysis are presented for purposes of additional analysis and are not required parts of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

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

October 12, 2012



Steward Observatory Mirror Lab. Two 8.4-meter mirror castings appear side by side in this wide angle panorama view inside the Lab's mirror polishing area. On the left undergoing optical testing is the first mirror blank (of eight planned) cast for the Giant Magellan Telescope Observatory (GMTO). On the right is the mirror casting for the Large Synoptic Survey Telescope (LSST), undergoing polishing of its dual curvature upper surface.

Photo: © University of Arizona, Ray Bertram, Steward Observatory

## Management's Discussion and Analysis

The following management's discussion and analysis (MD&A) provides an overview of the University of Arizona's financial performance based on currently known facts, decisions and conditions and is designed to assist readers in understanding the accompanying financial statements. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles and focus on the University as a whole. The MD&A, financial statements and notes, are the responsibility of University management. The MD&A should be read in conjunction with the financial statements and notes.

The financial statements encompass the University and its discretely presented component units; however, the MD&A focuses only on the University. Information relating to the component units can be found in their separately issued financial statements. The University's financial report includes three basic financial statements: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. While audited financial statements for the 2010-2011 fiscal year are not presented with this report, condensed data will be presented in the MD&A to illustrate certain increases and decreases.

## Overview of Financial Statements

### Statement of Net Assets

The Statement of Net Assets presents the financial position of the University at fiscal year end. From the data presented, readers of this statement are able to determine the assets available to continue the operations of the University. They are also able to determine how much the University owes vendors, investors and lending institutions. Finally, the Statement of Net Assets provides a picture of the net assets (assets minus liabilities) and their availability for expenses of the University. The change in net assets is one indicator of whether the financial condition has improved or worsened during the year when considered with nonfinancial facts, such as enrollment levels and the condition of facilities.

## CONDENSED SCHEDULE OF ASSETS, LIABILITIES AND NET ASSETS

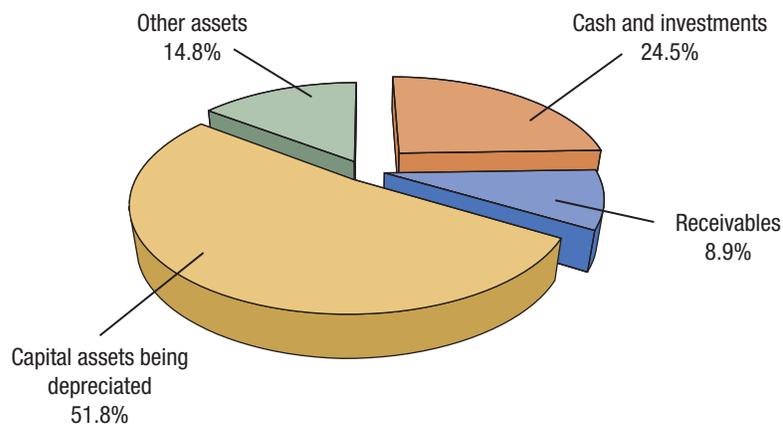
A comparison of the University's assets, liabilities and net assets (in thousands of dollars) at June 30, 2012, and at June 30, 2011, is as follows:

	2012	2011	% Change
Other assets	\$ 868,432	\$ 956,681	-9%
Capital assets	<u>1,637,048</u>	<u>1,497,586</u>	9%
<b>Total assets</b>	<b><u>\$ 2,505,480</u></b>	<b><u>\$ 2,454,267</u></b>	<b>2%</b>
Other liabilities	\$ 149,021	\$ 178,623	-17%
Long-term liabilities	<u>1,230,398</u>	<u>1,206,557</u>	2%
<b>Total liabilities</b>	<b><u>\$ 1,379,419</u></b>	<b><u>\$ 1,385,180</u></b>	<b>0%</b>
Net assets			
Invested in capital assets, net of related debt	\$ 578,931	\$ 522,909	11%
Restricted - nonexpendable	113,968	115,307	-1%
Restricted - expendable	122,904	137,768	-11%
Unrestricted	<u>310,258</u>	<u>293,103</u>	6%
<b>Total net assets</b>	<b><u>\$ 1,126,061</u></b>	<b><u>\$ 1,069,087</u></b>	<b>5%</b>

### Total Assets

Assets are what the University owns and are measured in current value, except for capital assets, which are recorded at historical cost less applicable accumulated depreciation. The following table and chart present total assets by dollars and percent:

Cash and investments	\$ 613,062	24.5%
Receivables	223,070	8.9%
Capital assets being depreciated	1,298,573	51.8%
Other assets	370,775	14.8%
<b>Total Assets</b>	<b><u>\$2,505,480</u></b>	<b><u>100.0%</u></b>



Total assets for the University increased by \$51.2 million in comparison to fiscal year 2010-2011. There was an increase in net capital assets of \$139.5 million offset by a decrease of \$88.3 million from spending down of restricted investments with bond trustees for project construction expenses and the subsequent effects of less investment interest receivables. During the 2011-2012 fiscal year, disbursements of \$159.2 million were made for construction in progress. The University also received a gift of land and facilities of the Biosphere 2 complex with a value of \$31.6 million.

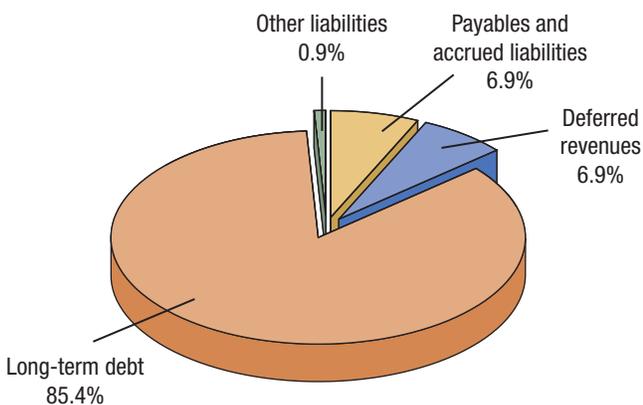


Student Union Memorial Center

## Total Liabilities

Liabilities are what the University owes to others or what it has collected from others before it has provided the services. The following table and chart present liabilities by dollars and percent:

Payables and accrued liabilities	\$ 94,733	6.9%
Deferred revenues	94,877	6.9%
Long-term debt	1,177,773	85.4%
Other liabilities	12,036	0.9%
<b>Total Liabilities</b>	<b>\$ 1,379,419</b>	<b>100.0%</b>

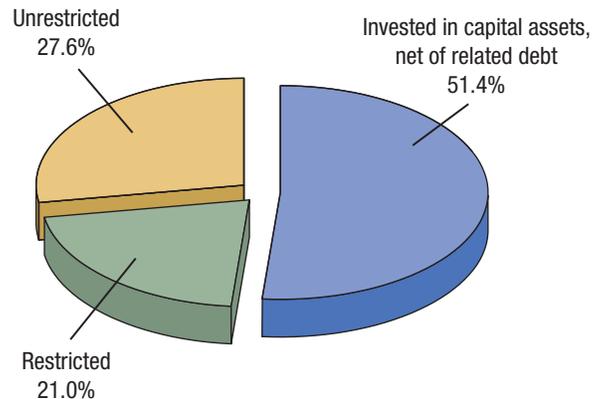


Total liabilities decreased by \$5.8 million, a net change from the following: a reduction in accounts payable and accrued payroll totaling \$44.0 million offset by net increases in deferred revenue and deposits of \$1.8 million, funds held for others of \$5.7 million and long-term debt of \$30.9 million. The increase in long-term debt included bonds and

certificates of participation issuances to pay for acquiring or constructing capital facilities and infrastructure and for refunding obligations from previously issued bonds and certificates of participation.

## Total Net Assets

Net assets are divided into three categories. Invested in capital assets, net of related debt, represents the historical cost of capital assets reduced by the balance of related outstanding debt and accumulated depreciation. Restricted net assets include amounts that have been restricted for use by an external party and are further broken down into nonexpendable and expendable. Restricted nonexpendable net assets are those that are required to be retained in perpetuity. Restricted expendable net assets include amounts restricted by external parties for such things as debt service, academic and departmental uses, scholarships and fellowships and capital projects. Finally, unrestricted net assets include amounts institutionally designated or committed to support specific academic and research programs and for working capital requirements. The following chart represents net asset categories by percent:



Unrestricted net assets increased 6% from \$293.1 million in fiscal year 2011 to \$310.3 million in fiscal year 2012 primarily because of increases in unrestricted endowment contributions. Unrestricted endowment contributions increased by \$15.6 million in the comparison to the 2010-2011 fiscal year.

## Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets presents the University's revenues earned and the expenses incurred during the 2011-2012 fiscal year, regardless of when cash is received or paid. Activities are reported as either operating or nonoperating. Generally, operating revenues are earned in exchange for providing goods and services. Operating expenses are incurred in the normal operation of the University, including a provision for depreciation on capital assets. Certain revenue sources that the University relies on for operations, including State appropriations, gifts, grants and investment income are required by GASB Statement No. 35 to be classified as nonoperating revenues. Nonoperating expenses include capital financing costs.

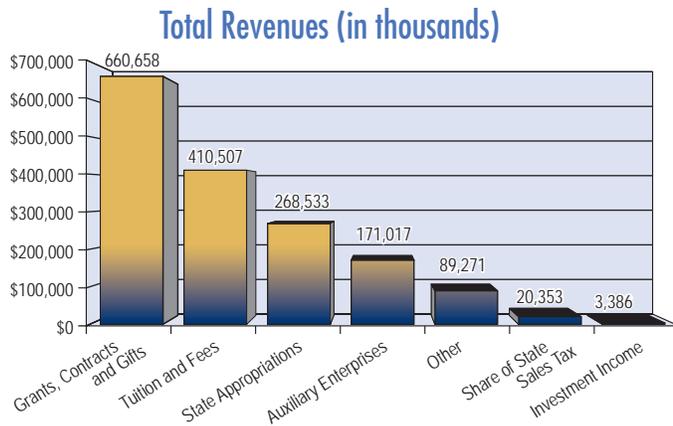
### CONDENSED SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

A comparison of the University's operations (in thousands of dollars) for the year ended June 30, 2012, and for the year ended June 30, 2011, is as follows:

	2012	2011	% Change
Total revenues			
Student tuition and fees	\$ 410,507	\$ 379,199	8%
Grants, contracts and other appropriations	564,457	548,858	3%
State appropriations	268,533	330,297	-19%
Auxiliary enterprises	171,017	171,372	0%
Share of State sales tax revenues	20,353	19,954	2%
Gifts	96,201	87,355	10%
Investment income	3,386	28,686	-88%
Other operating revenues	61,627	47,405	30%
Other nonoperating revenues, net	27,644	13,849	100%
<b>Total revenues</b>	<b><u>\$ 1,623,725</u></b>	<b><u>\$ 1,626,975</u></b>	<b>0%</b>
Total expenses			
Instruction and academic support	\$ 547,144	\$ 493,588	11%
Research and public service	503,305	479,480	5%
Student services and scholarships	91,572	87,906	4%
Institutional support and operation of plant	184,951	177,644	4%
Auxiliary enterprises	148,858	158,914	-6%
Depreciation	107,561	107,770	0%
Interest expense on debt	44,391	50,447	-12%
<b>Total expenses</b>	<b><u>\$ 1,627,782</u></b>	<b><u>\$ 1,555,749</u></b>	<b>5%</b>
<b>Income before capital and endowment additions</b>	<b>\$ (4,057)</b>	<b>\$ 71,226</b>	<b>-106%</b>
Capital and endowment additions	61,031	24,258	152%
<b>Increase in net assets</b>	<b><u>\$ 56,974</u></b>	<b><u>\$ 95,484</u></b>	<b>-40%</b>
<b>Net assets, beginning of year</b>	<b><u>1,069,087</u></b>	<b><u>973,603</u></b>	<b>10%</b>
<b>Net assets, end of year</b>	<b><u><u>\$ 1,126,061</u></u></b>	<b><u><u>\$ 1,069,087</u></u></b>	<b>5%</b>

## Total Revenues

The following chart represents total revenues for the 2011-2012 fiscal year:



**Student tuition and fees:** Tuition and fees rose by \$31.3 million due to approved tuition and fee increases in comparison to the prior year. In-state undergraduate resident tuition and fees increased by \$1,048, or 12.7%, to \$9,285 (net of \$750 tuition rebate), while out-of-state undergraduate tuition and fees increased by \$897, or 3.6%, to \$25,494.

**Grants, contracts and other appropriations:** Grants, contracts and appropriations revenues increased by \$15.6 million or 3.0% in comparison to the prior year. Revenues vary from year to year for many reasons, including the availability of funding from sponsors, the commencement or closure of particularly large projects and deferred revenues. In fiscal year 2012, the increase is due primarily to the University's local and private grants and contracts offset by deferred revenues. Local grants and contracts included \$13.8 million from Pima County for an Arizona Health Care Cost Containment System (AHCCCS) intergovernmental agreement. Additionally, private grants increased by \$11.2 million which included revenues from The University of Arizona Medical Center Clinical Assistants program, Resident Teaching Emergency Medicine program, Giant Magellan Telescope, and other private grants and contracts.

**State appropriations and share of state sales tax revenues:** State appropriations decreased by \$61.8 million, or 18.7% in fiscal year 2012 due to statewide budget reductions. The share of sales tax revenues from the TRIF fund increased slightly in year over year comparisons.

**Auxiliary Enterprises:** Revenues from auxiliary enterprises remained flat at \$171.0 million in comparison to fiscal year 2011 of \$171.3 million.

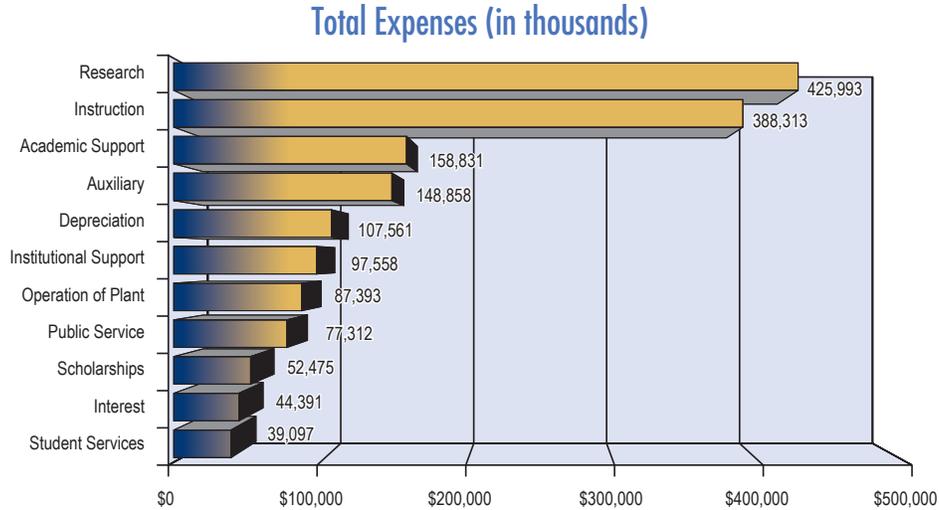
**Investment income:** A summary of investment income (in thousands of dollars) for the years ended June 30, 2012 and 2011 follows:

	2012	2011	% Change
Pooled operating funds	\$ 11,196	\$ 10,524	6.4%
Deposits with trustees for capital projects	325	1,023	-68.2%
Endowments	(8,135)	17,139	-147.5%
<b>Total investment income</b>	<b>\$ 3,386</b>	<b>\$ 28,686</b>	<b>-88.2%</b>

Pooled operating funds are invested in short term instruments. The net increase in pooled operating funds investment income is attributable to prudent investment strategies. Deposits with trustees investment income decreased in correlation with the spending down of bond proceeds for project construction expenses. Participation in public markets through externally managed funds generated net losses in the Endowment Growth and Income Pool during fiscal year 2012 due to an overall decrease in world financial market values as investors' risk appetites lessened.

## Total Expenses

The following chart represents total expenses for the 2011-2012 fiscal year:

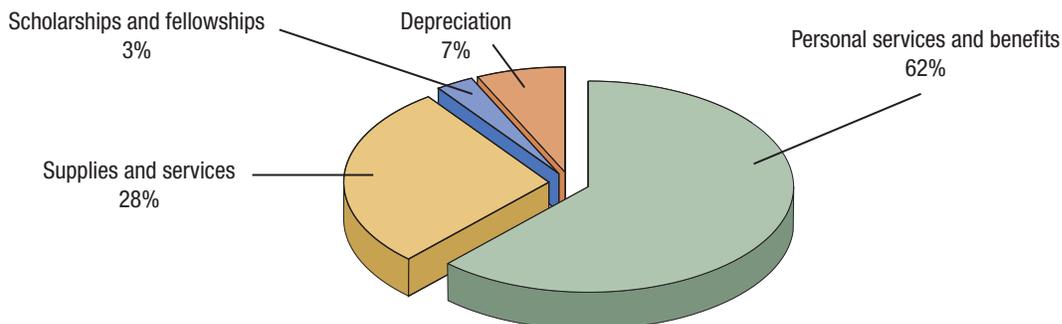


Total expenses increased by \$72.0 million or 4.6% in comparison to fiscal year 2010-2011. The primary expense functions driving the increase were expenses for academic support, research, and instruction. Academic support expenses increased by \$34.9 million, research expenses increased by \$20.7 million, and instruction expenses increased by \$18.5 million in comparison to the prior year. Highlighting these increases in expenses for academic support included expenses for the Clinical Assistants program at The University of Arizona Medical Center for \$11.9 million and for the Pima County intergovernmental agreement for AHCCCS for \$24.8 million. Expenses for research included payments to AHCCCS for the Phoenix Children's Hospital Safety Net Program for \$5.6 million and payments for developing technology for large optical components and systems for \$7.9 million. Lastly, instruction expenses increased in part due to increases in employee related expenses.

## Operating Expenses by Natural Classification (in thousands)

In addition to programmatic (functional) classification of operating expenses, a summary of the University's expenses by natural classification, as listed in Note 11, for the years ended June 30, 2012 and 2011 follows:

<b>Natural Classification of Operating Expenses:</b>	<b>2012</b>	<b>2011</b>	<b>% Change</b>
Personal services and benefits	\$ 981,904	\$ 953,033	3%
Supplies and services	445,084	393,606	13%
Scholarships and fellowships	48,842	50,893	-4%
Depreciation	107,561	107,770	0%
<b>Total Operating Expenses</b>	<b>\$ 1,583,391</b>	<b>\$ 1,505,302</b>	<b>5%</b>



## Condensed Statement of Cash Flows

The following summarizes cash flows for the 2012 and 2011 fiscal years (in thousands):

<b>Cash Provided By (Used For):</b>	<b>2012</b>	<b>2011</b>
Operating Activities	\$ (404,778)	\$ (319,362)
Noncapital Financing Activities	500,944	522,749
Capital Financing Activities	(201,698)	(219,893)
Investing Activities	135,434	(128,132)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>29,902</b>	<b>(144,638)</b>
Cash and Cash Equivalents, Beginning of Year	53,823	198,461
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 83,725</b>	<b>\$ 53,823</b>

The statement of cash flows provides additional information about the University's financial results by reporting the major sources and uses of cash and cash equivalents. This statement assists in evaluating the University's ability to generate net cash flows, its ability to meet its financial obligations as they come due and its need for external financing. Cash flows from operating activities show the net cash used by the operating activities of the University. Cash flows from the capital financing activities include all plant funds and related long-term debt activities. Cash flows from investing activities show all the uses of cash and cash equivalents to purchase investments, and all the increases in cash and cash equivalents as a result of selling investments or earning income on cash and investments. Finally cash flows from the noncapital financing activities include State appropriations, donations and other activities not covered in other sections.

## Capital and Debt Analysis

The University of Arizona manages its buildings and infrastructure through a formal evaluation process by internal committees, the Arizona Board of Regents, and the State Joint Committee on Capital Review. The process starts with the preparation of 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 presents the University strategic plan on space and capital acquisition to meet short and long-term requirements. It outlines the current capital funding allocation for the University, specifically for building renewal, deferred maintenance, facility leases, and other critical construction projects. The CIP covers a three-year period and is focused on addressing space deficiencies in academic, research, student housing and support services facilities. The CIP also provides current debt information and demonstrates the University's ability to issue debt instruments to finance capital acquisitions.

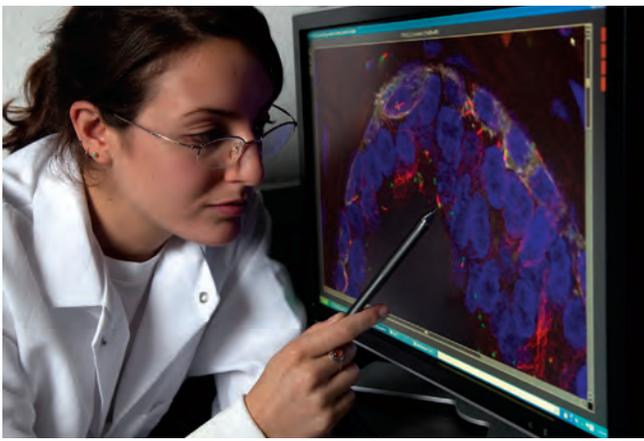
The University prepares a space inventory of all buildings and facilities annually. The space inventory provides critical information to management for capital planning. It identifies the occupants and allocated spaces to various programs

such as instruction, research, auxiliary, student services, and institutional support.

During fiscal year 2012, the University completed several building renewal and minor renovation projects involving energy efficiency, life and safety issues, labs, student services,



Health Sciences Education Building, Phoenix Biomedical Campus  
Photo: Keven Siegert



Nadia Hassounah, a second year Cancer Biology Graduate Interdisciplinary Program (CBIO) student at the University of Arizona Cancer Center, examines a digital scan of human tissue. Photo: David Sanders Photography

and the Computer Data Center. The renovation projects encompassed 23,400 gross square feet at a total cost of \$34.1 million. In addition, there were other buildings under construction including the Health Sciences Education Building (\$136 million), Arizona Stadium North End Zone Expansion (\$72.3 million), Bryant Bannister Tree-Ring Building (\$12 million), La Paz and Santa Cruz dormitory renovations (\$10.1 million), and campus Building Renewal projects to upgrade fire alarm and sprinkler systems, electrical code, heating, ventilation and air conditioning systems, mechanical systems, and building structural components (\$42.8 million).

The University generally finances capital improvements and acquisitions through the issuance of System Revenue Bonds (SRBs) and Certificates of Participation (COPs). Prior to issuing any Bonds or COPs, the University must submit a financing and funding plan to the Arizona Board of Regents for approval and to the State Joint Committee on Capital Review for their review. The amount of debt the University is able to issue is limited by a debt ratio of 8% as defined by State law (Arizona Revised Statutes §15-1683) and ABOR policy 7-102(D)(3). The debt ratio is determined by annual debt service on Bonds and COPs as a percentage of total operating expenses and debt service. At June 30, 2012, the University's debt ratio was 5.1%. The University's credit ratings on its outstanding System Revenue Bonds are Aa2 by Moody's and AA by Standard and Poor's.

During fiscal year 2011-12, the University issued System Revenue Bonds Series 2012A for \$74.1 million and System Revenue Refunding Bonds Series 2012B for \$21.9 million. The Series 2012A Bond was issued to finance the North End Zone project and refund a portion of the University's outstanding SRBs. The Series 2012B Bond was issued to also refund a portion of the University's outstanding SRBs. Additionally, the University issued Refunding Certificates of Participation Series 2012A-C for \$157.9 million to refund a portion of the University's outstanding COPs. Detailed debt issuance and debt service information is available in Note 8 of the accompanying notes to financial statements.

## Economic Outlook

The State of Arizona's economic recovery continues to gain momentum even though the progress has been slower than normal. Recent readings show retail sales increasing at an 8% annual rate. The State also reported its revenues outpacing its estimates, having grown by 8.7%, which points to steady economic improvement. Highlights of the State fiscal year 2013 budget included \$59 million in new K-12 education spending, \$39 million for Seriously Mentally Ill services, \$21 million in increased University funding, and \$17 million for automation projects. For fiscal year 2013, the projected base revenue growth is 5.1%. The State is still benefitting from Governor Brewer's efforts to enact the temporary three year one cent sales tax increase in calendar year 2010. However, this temporary sales tax is due to expire in May 2013. The fiscal year 2013 appropriation to the University is \$269 million, which does not include the \$78 million deferral of its base funding in fiscal year 2012. The State has made its prior year deferral payments. Despite signs of steady economic improvement, it is anticipated that the State will take a conservative approach to state spending and budgeting in the immediate fiscal periods to come.

The University of Arizona continuously evaluates 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 has been diligently working to develop long- and short-term strategic plans to address these programmatic and institutional changes 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.

The Arizona Board of Regents voted to freeze undergraduate tuition for in-state students for the 2012-2013 fiscal year with non-resident undergraduate students experiencing a modest 3% increase. While the University and Arizona Board of Regents recognize the fiscal pressures the State of Arizona has been managing, it may become necessary to continue raising tuition to offset the declining State appropriations.

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, 2012 (in thousands of dollars)

## Assets

### Current assets

Cash and cash equivalents (Note 3)	\$ 73,294
Short-term investments (Note 3)	50,635
Receivables:	
Accounts receivable (net of allowances of \$1,250)	44,602
Receivable from the State of Arizona	78,930
Government grants receivable	70,214
Student loans (net of allowances of \$273)	1,459
Inventories	9,553
Deferred expenses	12,973
<b>Total current assets</b>	<b><u>\$ 341,660</u></b>

### Noncurrent assets

Restricted cash and cash equivalents (Note 3)	\$ 10,431
Restricted investments with bond trustees (Note 3)	122,437
Long-term investments (Notes 3 and 4)	159,885
Endowment investments (Note 3)	196,380
Student loans receivable (net of allowances of \$2,344)	15,598
Long-term receivables	12,267
Deferred expenses	9,774
Capital assets, not being depreciated (Note 5)	338,475
Capital assets, being depreciated, net (Note 5)	1,298,573
<b>Total noncurrent assets</b>	<b><u>\$ 2,163,820</u></b>
<b>Total Assets</b>	<b><u>\$ 2,505,480</u></b>

## Liabilities

### Current liabilities

Accounts payable	\$ 34,864
Accrued payroll and benefits	18,328
Accrued compensated absences (Note 7)	7,504
Deferred revenue and deposits (Note 6)	89,507
Funds held for others	6,322
Current portion of long-term debt (Note 8)	
To be funded by University revenues	40,665
To be funded by State of Arizona appropriations and State Lottery monies	5,950
<b>Total current liabilities</b>	<b><u>\$ 203,140</u></b>

### Noncurrent liabilities

Deferred revenue and deposits (Note 6)	\$ 5,370
Accrued compensated absences (Note 7)	34,037
Funds held for others	5,714
Long-term debt (Note 8)	
To be funded by University revenues	818,787
To be funded by State of Arizona appropriations and State Lottery monies	312,371
<b>Total noncurrent liabilities</b>	<b><u>\$ 1,176,279</u></b>
<b>Total Liabilities</b>	<b><u>\$ 1,379,419</u></b>

## Net Assets

Invested in capital assets, net of related debt	\$ 578,931
Restricted for nonexpendable:	
Endowments	93,460
Student loans	20,508
Restricted for expendable:	
Scholarships and fellowships	25,762
Academic/department uses	84,776
Capital projects	186
Debt service	12,180
Unrestricted	310,258
<b>Total Net Assets</b>	<b><u>\$ 1,126,061</u></b>

See Notes to Financial Statements

# Statement of Financial Position – Component Units

June 30, 2012 (in thousands of dollars)

## Assets

Cash and cash equivalents	\$ 53,232
Pledges receivable	4,374
Other receivables	2,464
Investments in marketable securities	601,520
Other investments	4,233
Property and equipment, net	29,792
Other assets	9,843
<b>Total Assets</b>	<b>\$ 705,458</b>

## Liabilities and Net Assets

### Liabilities

Accounts payable and accrued expenses	\$ 4,768
Fair value of endowment managed for the University	160,423
Annuities payable and other trust liabilities	20,284
Deferred revenue and deposits	6,287
Short-term and long-term debt	9,344
Other liabilities	1,306
<b>Total Liabilities</b>	<b>\$ 202,412</b>

### Net Assets

Unrestricted	\$ 31,686
Temporarily restricted	105,820
Permanently restricted	365,540
<b>Total Net Assets</b>	<b>\$ 503,046</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 705,458</b>

See Notes to Financial Statements



# Statement of Revenues, Expenses and Changes in Net Assets

Year Ended June 30, 2012 (in thousands of dollars)

## Operating Revenues

Student tuition and fees, net of scholarship allowances of \$176,426	\$ 410,507
Federal grants and contracts	362,478
State grants and contracts	14,117
Local grants and contracts	26,820
Nongovernment grants and contracts	77,662
Sales and services of educational departments	50,721
Auxiliary enterprises, net of scholarship allowances of \$6,773	171,017
Other operating revenues	10,906
<b>Total operating revenues</b>	<b>\$ 1,124,228</b>

## Operating Expenses

Educational and general	
Instruction	\$ 388,313
Research	425,993
Public service	77,312
Academic support	158,831
Student services	39,097
Institutional support	97,558
Operation and maintenance of plant	87,393
Scholarships and fellowships	52,475
Auxiliary enterprises	148,858
Depreciation (Note 5)	107,561
<b>Total operating expenses</b>	<b>\$ 1,583,391</b>
<b>Operating Loss</b>	<b>\$ (459,163)</b>

## Nonoperating Revenues (Expenses)

State appropriations	\$ 268,533
Share of State sales tax revenues	20,353
Federal grants and appropriations	77,276
State and other government grants	1,865
Nongovernment grants	4,239
Gifts	96,201
Investment income	3,386
Interest expense on debt	(44,391)
Other nonoperating revenues, net	27,644
<b>Net nonoperating revenues</b>	<b>\$ 455,106</b>
<b>Income before Capital and Endowment Additions</b>	<b>\$ (4,057)</b>

Capital grants, gifts and conveyances	\$ 44,363
Capital appropriations - Research Infrastructure Capital Financing	14,253
Additions to permanent endowments	2,415
<b>Total capital and endowment additions</b>	<b>\$ 61,031</b>
<b>Increase in Net Assets</b>	<b>\$ 56,974</b>

## Net Assets

Net Assets - Beginning of year	1,069,087
<b>Net Assets - End of year</b>	<b>\$ 1,126,061</b>

See Notes to Financial Statements

# Statement of Activities – Component Units

Year Ended June 30, 2012 (in thousands of dollars)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues</b>				
Sales and services	\$ 849			\$ 849
Contributions	423	\$ 50,488	\$ 14,419	65,330
Rental revenues	12,032			12,032
Investment income	1,678	(828)	1,134	1,984
Net assets released from restriction	81,925	(64,863)	(17,062)	
Other income	11,060	2,909	88	14,057
<b>Total revenues</b>	<b>\$ 107,967</b>	<b>\$ (12,294)</b>	<b>\$ (1,421)</b>	<b>\$ 94,252</b>
<b>Expenses</b>				
Program services:				
Leasing related expenses	\$ 10,445			\$ 10,445
Payments to the University	68,680			68,680
Payments on behalf of the University	16,410			16,410
Supporting services:				
Management and general	6,112			6,112
Fund raising	6,578			6,578
Other expenses	48	\$ 21,178	\$ 41	21,267
<b>Total expenses</b>	<b>\$ 108,273</b>	<b>\$ 21,178</b>	<b>\$ 41</b>	<b>\$ 129,492</b>
<b>Increase/(decrease) in Net Assets</b>	<b>\$ (306)</b>	<b>\$ (33,472)</b>	<b>\$ (1,462)</b>	<b>\$ (35,240)</b>
<b>Net Assets - Beginning of year</b>	<b>31,848</b>	<b>138,951</b>	<b>367,487</b>	<b>538,286</b>
Transfers	255	344	(599)	
Reclassification of funds with deficiencies	(111)	(4)	115	
<b>Net Assets - End of year</b>	<b>\$ 31,686</b>	<b>\$ 105,819</b>	<b>\$ 365,541</b>	<b>\$ 503,046</b>

See Notes to Financial Statements



Meinel Optical Sciences Building

© FJ Gaylor

# Statement of Cash Flows

Year Ended June 30, 2012 (in thousands of dollars)

## Cash Flows from Operating Activities

Tuition and fees	\$ 413,131
Grants and contracts	465,239
Payments for salaries, wages and benefits	(1,010,639)
Payments to suppliers	(470,780)
Payments for scholarships and fellowships	(48,842)
Loans issued to students	(4,024)
Collections on loans to students	3,418
Auxiliary enterprise receipts	175,042
Sales and services of educational departments	61,788
Other receipts	10,889
<b>Net cash used for operating activities</b>	<b>\$ (404,778)</b>

## Cash Flows from Noncapital Financing Activities

State appropriations	\$ 268,533
Share of State sales tax receipts	20,772
Gifts and grants for other than capital purposes	187,239
Other nonoperating receipts	21,583
Direct Loans received	211,720
Direct Loans disbursed	(210,767)
Funds held for others received	125,077
Funds held for others disbursed	(123,213)
<b>Net cash provided by noncapital financing activities</b>	<b>\$ 500,944</b>

## Cash Flows from Capital Financing Activities

Proceeds from issuance of capital debt, including premiums	\$ 73,402
Capital grants and gifts received	23,646
Proceeds from sale of capital assets	215
Purchase of capital assets	(213,690)
Principal paid on capital debt and leases	(41,596)
Interest paid on capital debt and leases	(43,675)
<b>Net cash used for capital financing activities</b>	<b>\$ (201,698)</b>

## Cash Flows from Investing Activities

Proceeds from sales and maturities of investments	\$ 379,400
Interest and dividends on investments	36,297
Purchase of investments	(280,263)
<b>Net cash provided by investing activities</b>	<b>\$ 135,434</b>
<b>Net increase in Cash and Cash Equivalents</b>	<b>\$ 29,902</b>

## Cash and Cash Equivalents

Cash and Cash Equivalents - Beginning of year	53,823
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 83,725</b>

See Notes to Financial Statements

# Statement of Cash Flows

Year Ended June 30, 2012 (in thousands of dollars)

## Reconciliation of Operating Loss to Net Cash Used for Operating Activities

Operating loss	\$ (459,163)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation expense	107,561
Changes in assets and liabilities:	
Receivables, net	(5,041)
Inventories	(948)
Deferred expenses	(9,369)
Accounts payable	(15,115)
Accrued payroll and benefits and compensated absences	(28,735)
Deferred revenue and deposits	6,032
<b>Net Cash Used for Operating Activities</b>	<b><u><u>\$ (404,778)</u></u></b>

## Significant Noncash Transactions

Gifts and conveyances of capital assets	\$ 33,984
Change in fair value of investments	(9,968)
Refinancing long-term debt	199,835
Amortization of bond discount and issuance costs	(2,059)
Amortization of bond premium	1,558
Net loss on disposal of capital assets with an original cost of \$19,072, accumulated depreciation of \$17,109 and cash proceeds of \$215	(1,748)
Amortization of IBM deferred rent	4,900

See Notes to Financial Statements



The BIO5 Institute at the University of Arizona mobilizes top researchers in five disciplines – agriculture, engineering, medicine, pharmacy, and science – to find creative, collaborative solutions to humanity's most pressing health and environmental challenges.

# 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.

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 represents grants, contracts, gifts, and other resources that have been externally restricted for specific purposes. Unrestricted net assets includes 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 financing, or investing activities.

The financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded at the same time liabilities are incurred, regardless of when the related cash flows take place. State appropriations are recognized as revenue in the year in which the appropriation is first made available for use. Grants and donations are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The University eliminates all internal activity.



GMT1: Kevin Law and Leslie Utley of the Mirror Lab polishing staff inspect the progress of the final stages of polishing the glass surface.  
 Photo: © University of Arizona, Ray Bertram, Steward Observatory

## 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 managed by the University, 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 2012, the expendable rate was established at 4% of the three-year average market value ending December 31, 2010. 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 reported at actual cost 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, Pfeifer, 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, construction in progress and intangible assets with indefinite useful lives, 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:

<b>Asset Category</b>	<b>Capitalization Threshold (\$)</b>	<b>Estimated Useful Life (yrs)</b>
Infrastructure	100,000	10 - 100
Buildings and improvements	100,000	15 - 50
Equipment: Various equipment, machinery, vehicles and other	5,000 - 100,000	3 - 25
Intangible assets, computer software ≥ \$10 million	10,000,000	10
Intangible assets, computer software < \$10 million	1,000,000	5
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 or dormitory charges 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.

**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., 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.

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.



Ashley Wide and Maggie Heard, researchers at Biosphere 2, monitor habitat conditions. Biosphere 2 brings together a powerful, multidisciplinary team with expertise in hydrology, geology, geochemistry, ecology, biology, physics, engineering, and atmospheric sciences to tackle the problem of sustaining a healthy planet. Photo: Joe Martinez, UA Biosphere 2

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, James E. Rogers College of Law at the University of Arizona, 1201 E. Speedway Blvd., 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 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. 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.



Established in the 1940's as a small collection of agricultural pests, the University of Arizona Insect Collection now contains approximately 2 million insect specimens, labeled and archived for research and reference.

Photo: Department of Entomology

## NOTE 3. DEPOSITS AND INVESTMENTS

### A. General

At year end, the University's deposits and investments had a fair value of \$613,062,000. The required disclosures are included in sections B and C of this footnote.

Included in the University's deposits and investments are capital project funds totaling \$122,437,000 which are held in trust by a commercial bank and available for future construction costs. Trust funds are invested in accordance with the Board's authorizing resolutions, as disclosed in section B of this footnote.

In addition, endowment funds totaling \$160,423,000 managed by The University of Arizona Foundation, (Foundation) make up a portion of the deposits and investments. These funds are primarily held in a pooled endowment fund managed under a service contract with the Foundation and invested in the Foundation's Endowment Pool (Pool). The University's endowment assets are maintained separately on the financial system of the Foundation, and receive a proportional share of the Pool activity. As such, the Foundation owns the assets of the Pool; the University has an interest in the Pool, which is considered an external investment pool to the University. The Pool invests in a variety of asset classes, including common stocks, fixed income, foreign

investments, private equity and hedge funds. The Pool is not registered with the Securities and Exchange Commission as an investment company. The Foundation's Investment Committee is responsible for oversight of the Pool in accordance with Foundation policies. The fair value of the University's position in the Pool is based on the University's proportionate share of the Pool, which is marked-to-market monthly. Included in these investments are balances invested on behalf of the Arizona Student Financial Aid Trust (ASFAT). ASFAT was established by the Arizona Board of Regents and is funded by the Arizona State Legislature and student fees. The University's ASFAT funds are recorded as endowment investments at \$23,263,000.

### 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 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 in certificates of deposit, collateralized 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.

Investment of capital project funds held with bond trustees are subject to investment policy set by the Board and included in bond indentures. The monies may be invested in obligations of or guaranteed by the federal government or any of the senior debt of its agencies, sponsored agencies, corporations, sponsored corporations or instrumentalities; or in certificates of deposit of federally insured banks, trust companies or savings and loan associations in the State of Arizona.

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.

The University's deposit and investment policies follow the Board's policies.

## C. Deposit and Investment Risk

### **Custodial Credit Risk:**

University policy for its operating funds requires all repurchase agreements to be collateralized with government debt securities or cash balances held in the controller's demand deposit account. Beyond this requirement, the University does not have a policy that specifically addresses custodial credit risk. At June 30, 2012, \$15,937,000 of the University's total deposits and investments is exposed to custodial credit risk since a portion 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 restricts investment of the operating funds to certificates of deposit and collateralized repurchase agreements, United States Treasury securities, Federal agency securities, investment grade corporate bonds or the government investment pool administered by the State Treasurer's Office. When investing operating funds, University policy requires corporate bonds and notes to be of investment grade quality, rated Baa or higher by Moody's Investors Service, at the time of purchase.

The University does not have a formal policy that specifically addresses credit risk over endowment funds. As indicated in Section A of this note, \$160,423,000 of the University's endowment funds are held in the Foundation's Endowment Pool, which is not rated. The Foundation's Investment Committee manages the credit risk of the Pool's investments. Other University endowment funds held by external trustees are invested in accordance with donor restrictions and those investments' credit quality ratings are included in the table below.

In prior years, the University only reported the Moody's credit quality ratings for its investments in debt securities. Beginning June 30, 2012, the University used both Moody's and Standard & Poor's to determine the credit quality ratings of its debt securities. When a debt security investment was rated by only one of the rating agencies, that credit quality rating was disclosed. When a debt security was rated by both rating agencies, the University disclosed the credit quality rating with the greatest degree of risk.

Investment Type	Fair Value	Not Rated	Moody's/Standard & Poor's Rating			
			Aaa/AAA	Aa/AA	A/A	Baa/BAA
Fixed Income Mutual Funds	\$ 14,573,000	14,573,000				
Negotiable Certificates of Deposit*	23,326,000	23,326,000				
Corporate Bonds	96,331,000		2,163,000	16,196,000	72,726,000	5,246,000
Federal Agency Securities	97,718,000			97,718,000		
Money Market Mutual Funds	99,906,000		99,906,000			
Municipal Bonds	3,954,000		252,000	2,452,000	1,250,000	
State Treasurer's Pool	2,267,000	2,267,000				
<b>Totals</b>	<b>\$ 338,075,000</b>	<b>40,166,000</b>	<b>102,321,000</b>	<b>116,366,000</b>	<b>73,976,000</b>	<b>5,246,000</b>

\*Although some of the negotiable certificates of deposit are unrated by Moody's Investor Service, \$13,326,000 is covered by federal deposit insurance and would be returned to the University in the situation of default by the issuer.

**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, 2012, the University had investments in the Federal Home Loan Mortgage Corporation with a fair value of \$41,661,000 or 6.8% of total investments.

**Interest Rate Risk:**

University policy for its operating funds limits the maximum maturity of any fixed-rate or variable-rate security to five years from the settlement date of purchase. The endowment fund portfolio has no such limitation. The following chart presents the interest rate risk for the University's debt investments at June 30, 2012, utilizing the segmented time distribution method:

Investment Type	Fair Value	Maturity Date			
		< 1 Year	1-5 Years	6-10 Years	> 10 Years
Fixed Income Mutual Funds	\$ 14,573,000	4,103,000	1,297,000	9,078,000	95,000
Negotiable Certificates of Deposit	23,326,000	10,794,000	12,283,000	249,000	
Corporate Bonds	96,331,000	40,649,000	55,510,000	172,000	
Federal Agency Securities	97,718,000	19,188,000	78,530,000		
Money Market Mutual Funds	99,906,000	99,906,000			
Municipal Bonds	3,954,000	510,000	3,444,000		
State Treasurer's Pool	2,267,000		2,267,000		
U.S. Treasury	11,090,000		11,090,000		
<b>Totals</b>	<b>\$ 349,165,000</b>	<b>175,150,000</b>	<b>164,421,000</b>	<b>9,499,000</b>	<b>95,000</b>

At June 30, 2012, the University held \$97,718,000 or 16% of investments in Federal agency securities, including Federal Farm Credit Banks, Federal Home Loan Banks, Federal Home Loan Mortgage Corporation and Federal National Mortgage Association, which may be considered to be highly sensitive to interest rate fluctuations because borrower repayment terms may vary.

**Foreign Currency Risk:**

The University's foreign-currency denominated investments at June 30, 2012 are shown in the table below. These investments are part of the University's endowment portfolio and are invested by external trustees. University policy does not include any specific requirements for foreign currency risk. University endowment funds held by external trustees are invested in accordance with donor restrictions.

Investment Type	Currency	Fair Value
Bond/Mutual Funds	Various	\$ 8,252,000
Asset Allocation Mutual Funds	Various	6,167,000
Equity Mutual Funds	Various	2,283,000
Miscellaneous	Various	80,000
<b>Total</b>		<b>\$ 16,782,000</b>



The Arizona Health Sciences Center reaches across the state of Arizona and well beyond its borders to provide health-care education, research, patient care and service for Arizonans and their neighbors today and in the future.

Photo: AHSC BioCommunications

## NOTE 4. JOINT VENTURE AND JOINTLY GOVERNED ORGANIZATION

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 located 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. The University has made total 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 had been substantially completed and the telescope entered the commissioning phase. During calendar year 2007, the telescope became operational for research purposes; thus, depreciation of the property and equipment commenced. The University recorded its proportionate share of the use of the viewing/observation rights, \$801,000 in calendar year 2011, as a reduction in its investment. At June 30, 2012, the investment totaled \$14,420,000. According to the financial statements of LBT for the year ended December 31, 2011, assets, liabilities, revenues and expenses totaled \$130 million, \$3 million, \$14 million, and \$13 million, respectively. For information regarding LBT's financial statements, contact the University of Arizona Comptroller at the following address: University of Arizona, Financial Services, P.O. Box 3310, Tucson, Arizona 85722-3310.

The Giant Magellan Telescope Organization (GMTO) is a non-stock, nonprofit, jointly governed corporation founded to own and administer the planning, design, construction and operation of the 25-meter Giant Magellan Telescope, a proposed astronomical telescope and its associated buildings, equipment and instrumentation, to be located in northern Chile. The GMTO is jointly governed by several leading educational and research institutions from the United States, South Korea, and Australia, including the University of Arizona. The University comprises two of the fifteen members of the GMTO Board of Directors, and is one of eleven founders and participants. The GMTO will hold all rights, title and interest to and in the telescope. Although the University does not have a defined equity interest, as a founder the University will receive viewing rights to the telescope in proportion to their voluntary contributions to the project.

Although no contributions were made during the current fiscal year, the University has contributed \$9,750,000 to the GMTO as of June 30, 2012, and future contributions are expected. The University will also be responsible for manufacturing the telescope's mirrors and will receive compensation from other GMTO founders and participants based on individual contractual agreements. As of June 30, 2012, the University has received payment on 6 contracts related to the project: \$23,564,000 from Observatories of the Carnegie Institution of Washington for mirror construction and process development; \$7,767,000 from the GMTO for mirror construction; \$3,766,000 from the GMTO for acquisition of glass and mold materials, \$2,029,000 from the GMTO for acquisition of glass; \$2,481,000 from the Observatories of the Carnegie Institution of Washington to develop mirror testing systems; and \$371,000 from the GMTO to develop mirror testing systems.

## NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012, was as follows:

	Beginning Balance July 1, 2011	Additions	Retirements	Transfers/ Reclasses	Ending Balance June 30, 2012
Land	\$ 76,442,000	\$ 14,889,000			\$ 91,331,000
Construction in progress	144,185,000	159,179,000		\$ (56,220,000)	247,144,000
Total non-depreciable capital assets	<u>\$ 220,627,000</u>	<u>\$ 174,068,000</u>		<u>\$ (56,220,000)</u>	<u>\$ 338,475,000</u>
Buildings and improvements	\$ 1,776,890,000	\$ 27,517,000	\$ (2,882,000)	\$ 30,145,000	\$ 1,831,670,000
Infrastructure	188,376,000	2,468,000		9,877,000	200,721,000
Equipment	471,377,000	34,534,000	(14,325,000)	16,198,000	507,784,000
Library materials	255,568,000	10,399,000	(1,865,000)		264,102,000
Total depreciable capital assets	<u>\$ 2,692,211,000</u>	<u>\$ 74,918,000</u>	<u>\$ (19,072,000)</u>	<u>\$ 56,220,000</u>	<u>\$ 2,804,277,000</u>
Less: accumulated depreciation					
Buildings and improvements	\$ 794,110,000	\$ 56,469,000	\$ (2,305,000)		\$ 848,274,000
Infrastructure	80,923,000	7,845,000			88,768,000
Equipment	338,512,000	32,183,000	(12,939,000)		357,756,000
Library materials	201,707,000	11,064,000	(1,865,000)		210,906,000
Total accumulated depreciation	<u>\$ 1,415,252,000</u>	<u>\$ 107,561,000</u>	<u>\$ (17,109,000)</u>		<u>\$ 1,505,704,000</u>
Depreciable capital assets, net	<u>\$ 1,276,959,000</u>	<u>\$ (32,643,000)</u>	<u>\$ (1,963,000)</u>	<u>\$ 56,220,000</u>	<u>\$ 1,298,573,000</u>
Capital assets, net	<u>\$ 1,497,586,000</u>	<u>\$ 141,425,000</u>	<u>\$ (1,963,000)</u>		<u>\$ 1,637,048,000</u>

In addition to expenditures through June 30, 2012, it is estimated that \$844,398,000 will be required to complete projects under construction or planned for construction. Of that amount, \$90,389,000 is contractually encumbered.

## NOTE 6. DEFERRED REVENUE AND DEPOSITS

Deferred revenue consists primarily of amounts received from grants and contract sponsors that have not yet been earned under the terms of the agreements, tuition and fees received in advance, 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 (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 two 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.



Blake Coughenour, a graduate research associate in the UA College of Optical Sciences, is among the graduate students working to optimize a new concept in solar energy production. Led by Roger Angel, director for the Steward Observatory Mirror Lab, the project carries the promise of providing a viable alternative to fossil fuels.

Deferred revenue and deposits at June 30, 2012, consist of the following:

<b>Current Deferred Revenue and Deposits</b>	
Unexpended cash advances received for sponsored programs	\$ 49,534,000
Auxiliary sales and services	6,294,000
IBM lease related to the acquisition of the Park	4,900,000
Tuition and fees	11,960,000
Other deferred revenues	16,019,000
Deposits	800,000
Total current deferred revenue and deposits	<u>\$ 89,507,000</u>
<b>Noncurrent Deferred Revenue and Deposits</b>	
IBM lease related to the acquisition of the Park	<u>\$ 5,370,000</u>

## 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, 2012, was as follows:

Beginning balance	\$ 38,558,000
Additions	48,349,000
Reductions	(45,366,000)
Ending balance	<u>\$ 41,541,000</u>
Current portion	<u>\$ 7,504,000</u>

## NOTE 8. LONG-TERM DEBT AND LEASE OBLIGATIONS

Long-term debt activity for the year ended June 30, 2012, was as follows:

	<b>Beginning Balance July 1, 2011</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance June 30, 2012</b>	<b>Due Within One Year</b>
Bonds payable	\$ 637,140,000	\$ 95,910,000	\$ (46,960,000)	\$ 686,090,000	\$ 21,885,000
Certificates of participation	459,951,000	158,100,000	(192,521,000)	425,530,000	21,361,000
Capitalized lease obligations	<u>38,605,000</u>	<u>551,000</u>	<u>(2,199,000)</u>	<u>36,957,000</u>	<u>2,316,000</u>
Subtotal long-term debt	\$ 1,135,696,000	\$ 254,561,000	\$ (241,680,000)	\$ 1,148,577,000	\$ 45,562,000
Premium on sale of debt	25,684,000	30,707,000	(5,071,000)	51,320,000	3,102,000
Discount on sale of debt	(2,584,000)		144,000	(2,440,000)	(144,000)
Deferred costs of refundings	(11,903,000)	(8,999,000)	1,218,000	(19,684,000)	(1,905,000)
Total long-term debt	<u>\$ 1,146,893,000</u>	<u>\$ 276,269,000</u>	<u>\$ (245,389,000)</u>	<u>\$ 1,177,773,000</u>	<u>\$ 46,615,000</u>

**Bonds** – The University’s bonded debt consists of various issues of system revenue bonds and Stimulus Plan for Economic and Educational Development (SPEED) 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 and for refunding obligations from previously issued bonds.

For all outstanding SPEED revenue bonds, up to 80% of the debt service payments are payable from the University’s SPEED revenue bond account monies, which are derived from certain revenues of the Arizona State Lottery. To the extent SPEED revenue bond account monies are not sufficient to make debt service payments, the SPEED revenue bonds are secured by a pledge of certain gross revenues, such as student tuition and fees, but that pledge is subordinate to the pledge of those gross revenues for the University’s system revenue bonds.

On March 27, 2012, the University sold System Revenue Bonds Series 2012A (2012A Bonds) for \$74,050,000 and System Revenue Refunding Bonds Taxable Series 2012B (2012B Bonds) for \$21,860,000 dated April 25, 2012. The 2012A Bonds include \$39,965,000 of serial bonds with interest rates ranging from 2.00% to 5.00% and maturity dates ranging from 2013 to 2032. The 2012A Bonds also include two term bonds consisting of \$14,970,000 with an interest rate of 5.00% due June 1, 2037 and \$19,115,000 with an interest rate of 5.00% due June 1, 2042. The 2012A Bonds with maturity on or after June 1, 2023, are subject to optional redemption without premium. The 2012A Bonds with maturity on June 1, 2037 and June 1, 2042 are subject to mandatory sinking fund redemption without premium pursuant to the debt documents. The 2012A Bonds sold at a premium of \$9,686,000. The University realized net proceeds of \$83,211,000 after payment of \$525,000 for issuance costs and underwriter discounts. The net proceeds were used to finance the North End Zone Project at Arizona Stadium and to refund in advance of maturity a portion of the System Revenue Bonds Series 2004A totaling \$9,335,000. The redemption generated a net present value benefit of \$757,000 (difference between the present values of the old debt and the new debt service payments) for the University. The advance refunding reduced the University’s debt service by \$233,000 in the first year, increased it by \$3,000 in the second year, and reduced debt services by an average of \$38,000 in years three through sixteen. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$1,204,000. This difference, reported in the accompanying financial statements as a deduction from long-term debt, is being charged to operations through the year 2029 using the straight-line method. The refunded

System Revenue Bonds will be paid by investments held in an irrevocable trust with a combined carrying value of \$10,204,000. The refunded debt is considered defeased and is not included in the University’s financial statements.

The 2012B Bonds include \$21,860,000 of serial bonds with interest rates ranging from 0.62% to 3.29% and maturity dates ranging from 2013 to 2022. The 2012B Bonds are subject to optional redemption at a redemption price equal to the greater of (1) par, or (2) the net present value of remaining debt service payments, discounted to the date of redemption at a rate based on United States Treasury Securities plus 25 basis points. The University realized net proceeds of \$21,694,000 after payment of \$166,000 for issuance costs and underwriter discounts. The net proceeds were used to refund in advance of maturity a portion of the System Revenue Bonds Series 2003 totaling \$20,250,000. The advance refunding generated a net present value benefit of \$1,589,000 (difference between the present values of the old debt and the new debt service payments) for the University. The advance refunding reduced the University’s debt service by \$494,000 in the first year and an average of \$110,000 in years two through eleven. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$1,649,000. This difference, reported in the accompanying financial statements as a deduction from long-term debt, is being charged to operations through the year 2022 using the straight-line method. The refunded System Revenue Bonds will be paid by investments held in an irrevocable trust with a combined carrying value of \$21,203,000. The refunded debt is considered defeased and is not included in the University’s financial statements.

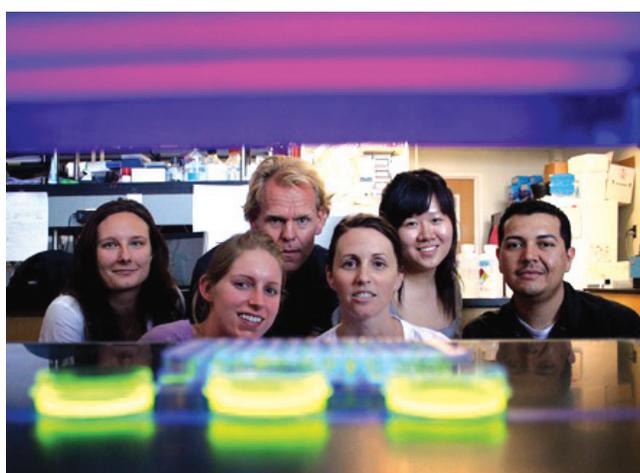
The University’s outstanding SPEED Revenue Bonds Series 2010 were issued as designated Build America Bonds under the provisions of the American Recovery and Reinvestment Act. As such, the University is eligible to receive direct payments from the U.S. Treasury Department equal to 35% of the interest payments on such bonds on each interest payment date. In order to receive such payments, the University must file certain required information with the federal government between 90 and 45 days prior to the interest payment date. The amount paid to the University by the federal government may be reduced or eliminated due to such issues as failure by the University to submit the required information, any amounts owed by the University to the federal government, or changes in the law that would reduce or eliminate such payments. The University is currently not aware of any such issues that may adversely affect the amount of payments to be received from the federal government related to such designated Build America Bonds.

The following schedule details outstanding bonds payable at June 30, 2012:

<b>Issue</b>	<b>Original Amount</b>	<b>Year of Final Maturity</b>	<b>Interest Rates</b>	<b>Outstanding Principal</b>
1992A – System Revenue Refunding Bonds	\$ 55,490,000	2016	6.20%	\$ 22,910,000
2003 – System Revenue Refunding Bonds	30,805,000	2024	3.50-5.00%	10,555,000
2004A – System Revenue Bonds	17,780,000	2029	4.125-5.00%	4,670,000
2004B – System Revenue Bonds	50,265,000	2034	4.00-5.00%	42,130,000
2005A – System Revenue Bonds	35,570,000	2031	3.375-5.00%	30,865,000
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%	27,220,000
2008A – System Revenue Bonds	43,105,000	2040	4.00-5.00%	40,530,000
2008B – System Revenue Refunding Bonds	18,090,000	2018	3.50-4.00%	8,250,000
2009A – System Revenue Bonds	202,370,000	2039	3.00-5.00%	198,335,000
2012A – System Revenue Bonds	74,050,000	2042	2.00-5.00%	74,050,000
2012B – System Revenue Refunding Bonds	21,860,000	2022	0.62-3.29%	21,860,000
Subtotal – System Revenue Bonds	<u>\$ 598,040,000</u>			<u>\$ 499,020,000</u>
2010 – SPEED Revenue Bonds	147,475,000	2045	4.31-6.643%	147,475,000
2011 – SPEED Revenue Bonds	39,595,000	2030	4.25-5.00%	39,595,000
Subtotal – SPEED Revenue Bonds	<u>\$ 187,070,000</u>			<u>\$ 187,070,000</u>
Total	<u><u>\$ 785,110,000</u></u>			<u><u>\$ 686,090,000</u></u>

The following schedule details debt service requirements to maturity for System and SPEED Revenue Bonds payable at June 30, 2012:

<b>Year</b>	<b>Principal</b>	<b>Interest</b>
2013	\$ 21,885,000	\$ 35,185,000
2014	22,965,000	33,768,000
2015	21,550,000	32,663,000
2016	22,625,000	31,697,000
2017	27,230,000	30,554,000
2018-22	130,065,000	134,180,000
2023-27	125,440,000	103,133,000
2028-32	127,970,000	70,051,000
2033-37	92,425,000	41,618,000
2038-42	73,530,000	16,693,000
2043-45	20,405,000	2,071,000
Total	<u><u>\$ 686,090,000</u></u>	<u><u>\$ 531,613,000</u></u>



Georg Wondrak (back), associate professor in the College of Pharmacy, and graduate students. Wondrak's drug discovery research program examines conditions leading to skin cancer. Photo: Cassandra Lau

The University has pledged portions of its gross revenues towards the payment of debt related to all system revenue bonds, system revenue refunding bonds, and SPEED revenue bonds outstanding at June 30, 2012. 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, 2012, pledged revenues totaled \$924.6 million of which 5.3% (\$48.9 million) was required to cover current year debt service. Future annual principal and interest payments on the bonds are expected to require approximately 4 percent of pledged revenues. Future pledged revenues required to pay all remaining debt service for the bonds through final maturity of August 1, 2044 is \$1.22 billion.

**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.

On May 23, 2012, the University issued Refunding Certificates of Participation Series 2012A-1, Taxable Series 2012A-2, Series 2012B and Series 2012C (2012A-C Certificates) dated June 20, 2012 at a net premium of \$21,021,000 as described below:

Series	Amount	Description	Interest Rate Range	Maturity Date Ranges
2012A-1	\$ 2,145,000	Serial Certificates	2.00% to 3.00%	2013 to 2014
2012A-2	\$ 10,190,000	Taxable Serial Certificates	1.48% to 3.42%	2014 to 2022
2012B	\$ 20,600,000	Serial Certificates	2.00% to 5.00%	2014 to 2023
2012C	\$ 124,940,000	Serial Certificates	3.00% to 5.00%	2015 to 2031

The 2012A-C Certificates maturing on or after June 1, 2022 are subject to optional redemption prior to maturity without premium. There are also extraordinary redemption dates pursuant to the debt documents.

The University realized net proceeds from the 2012A-C Certificates of \$177,953,000 after payment of \$943,000 for issuance costs and underwriter discounts. The net proceeds were used for the following:

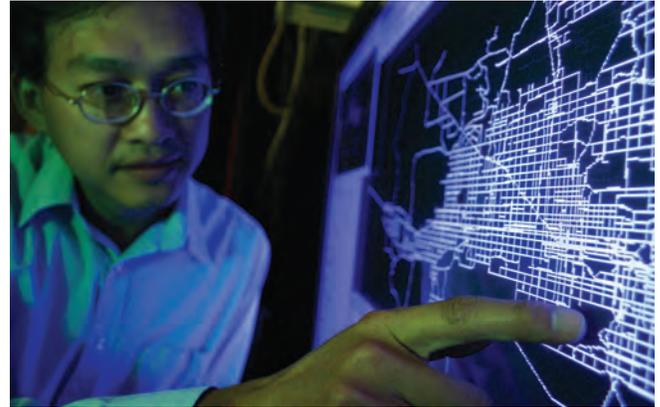
- Current-refund the Certificates of Participation Series 2001B and 2002B with an outstanding principal balance of \$25,765,000. The current refunding generated a combined net present value economic gain of \$3,561,000 (difference between the present values of the old debt and the new debt service payments) for the University. The refunding decreases the University's debt service by \$1,995,000 in year one and \$1,542,000 in year two. In addition, annual debt service decreases by an average of \$2,700 in years three through eleven. The current refunding resulted in a difference between the reacquisition price and the carrying amount of the old debt of \$588,000. This difference, reported in the accompanying financial statements as a deduction from long-term debt, is being amortized to interest expense through the year 2023 using the straight line method.
- Refund in advance a portion of the outstanding principal on the Certificates of Participation Series 2003A, 2003B and 2004A totaling \$144,485,000. The advance refunding generated a combined net present value economic gain of \$12,610,000 (difference between the present values of the old debt and the new debt service payments) for the University. The advance refunding decreases the University's debt service by \$1,086,000 in year one, \$833,000 in year two, \$6,185,000 in year three, \$4,203,000 in year four, and \$244,000 in year five. In addition, annual debt service decreases by an average of \$4,900 in years six through seventeen. The advance refunding resulted in a difference between the reacquisition price and the carrying amount of the old debt of \$7,390,000. This difference, reported in the accompanying financial statements as a deduction from long-term debt, is being amortized to interest expense through the year 2023 using the straight line method. The refunded Certificates of Participation Series 2003A, 2003B and 2004A will be paid by investments held in an irrevocable trust with a combined fair value of \$152,102,000. 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 Certificates of Participation payable at June 30, 2012:

<b>Issue</b>	<b>Original Amount</b>	<b>Year of Final Maturity</b>	<b>Interest Rates</b>	<b>Outstanding Principal</b>
1999A Fixed Student Union Certificates	\$ 21,607,000	2020	5.125-5.30%	\$ 3,930,000
2002A Student Housing, Health Bldg., UA North	76,965,000	2022	5.00-5.50%	3,365,000
2003A Refund COPS 1997 & Portion of COPS 2001B	10,615,000	2013	4.749%	885,000
2003B Medical Research Bldg., Biomedical Sciences & Biotech. Bldg., Technology Infrastructure	153,960,000	2014	4.749-5.211%	10,360,000
2004A Chemistry Bldg. Expansion, Res. Life Phase I, Highland Pkg. Garage, Refund COPS 1994A	42,020,000	2015	5.25%	7,605,000
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%	4,055,000
2005E Refund COPS 1999	3,555,000	2014	4.073-4.136%	2,075,000
2005F Refund COPS 2000A & 2001A	14,915,000	2025	4.00-4.50%	11,115,000
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	3.875-4.50%	9,965,000
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%	15,785,000
2007A Refund COPS 2001A	12,035,000	2025	4.00-4.50%	11,870,000
2007B Refund COPS 2001B & 2002A	50,150,000	2022	4.50%	49,520,000
2007D Refund COPS 2004B	42,895,000	2031	4.00%	42,720,000
2012A-1 Refund COPS 2001B	2,145,000	2014	2.00-3.00%	2,145,000
2112A-2 Refund COPS 2003A	10,190,000	2022	1.48-3.42%	10,190,000
2012B Refund COPS 2002B	20,600,000	2023	2.00-5.00%	20,600,000
2012C Refund COPS 2003B & 2004A	124,940,000	2031	3.00-5.00%	124,940,000
<b>Total</b>	<b>\$ 718,287,000</b>			<b>\$ 425,530,000</b>



Leslie Gunatilaka, PhD, director of the UA's Southwest Center for Natural Products Research and Commercialization, examines the roots of a plant being cultivated in his greenhouse using aeroponics.  
Photo: davidsandersphotos.com



Associate professor Yi-Chang Chiu, of the UA Department of Civil Engineering and Engineering Mechanics, uses computer models to study intelligent transportation and urban evacuation systems. Photo: UA College of Engineering

The following schedule details debt service requirements to maturity for Certificates of Participation payable at June 30, 2012:

Year	Principal	Interest
2013	\$ 21,361,000	\$ 19,551,000
2014	22,668,000	18,952,000
2015	17,664,000	18,487,000
2016	24,826,000	15,134,000
2017	30,170,000	15,707,000
2018-22	165,316,000	56,411,000
2023-27	89,725,000	23,399,000
2028-32	53,800,000	6,344,000
Total	<u>\$ 425,530,000</u>	<u>\$ 173,985,000</u>

**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. The largest lease entered into this fiscal year was with the University of Arizona Foundation for Mingus Springs 4H Camp in the amount of \$328,627 with a 3.00% interest rate and a final payment date of December 3, 2016.

The following schedule details debt service requirements to maturity for capital leases payable at June 30, 2012:

Year	Capital Lease Payments
2013	\$ 4,350,000
2014	3,833,000
2015	3,462,000
2016	3,155,000
2017	2,823,000
2018-22	13,146,000
2023-27	13,296,000
2028-32	13,489,000
2033-37	5,205,000
Total minimum lease payments	\$ 62,759,000
Less: interest	(25,802,000)
Present value of net minimum lease payments	<u>\$ 36,957,000</u>

**Capital Asset Financing** – Following is a summary of capital assets financed by certificates of participation and capital leases at June 30, 2012:

Land	\$ 7,629,000
Buildings and improvements	491,571,000
Infrastructure	34,273,000
Equipment	23,250,000
Total cost of assets	<u>\$ 556,723,000</u>
Less: accumulated depreciation	<u>(190,079,000)</u>
Carrying value of assets	<u><u>\$ 366,644,000</u></u>

**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 2012, rent expenses totaled \$23,239,000.

The following schedule details future operating lease payments to maturity:

Year	Operating Lease Payments
2013	\$ 3,219,000
2014	2,409,000
2015	1,725,000
2016	564,000
2017	335,000
Total	<u><u>\$ 8,252,000</u></u>

**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 Division. 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, 2012, active ASRS members were required to contribute at the actuarially determined rate of 10.74 percent (10.5 percent retirement and .24 percent long term disability) of the members’ annual covered payroll. The University was required to contribute at the actuarially determined rate of 10.74 percent (9.87 percent for retirement, .63 percent for health insurance premium, and 0.24 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:

<b>Years ended June 30,</b>	<b>Retirement Fund</b>	<b>Health Benefit Supplement Fund</b>	<b>Long-Term Disability Fund</b>
2012	\$ 33,099,000	\$ 2,113,000	\$ 826,000
2011	28,741,000	1,882,000	797,000
2010	26,043,000	2,061,000	1,249,000

## 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, 2012, 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, 2012, 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 a 7.26 percent member contribution and an 7.86 percent University contribution for the ASRS plan. Contributions to these plans for the year ended June 30, 2012, were as follows:

<b>Plan</b>	<b>University Contributions</b>	<b>Member Contributions</b>	<b>Total Contributions</b>
TIAA/CREF	\$ 14,190,000	\$ 14,190,000	\$ 28,380,000
VALIC	154,000	154,000	308,000
Fidelity	8,992,000	8,992,000	17,984,000
ASRS	14,000	13,000	27,000

## NOTE 11. OPERATING EXPENSES BY CLASSIFICATION

Operating expenses by functional and natural classification for the year ended June 30, 2012, consist of the following:

	Personal Services and Benefits	Supplies and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	\$ 339,696,000	\$ 48,617,000			\$ 388,313,000
Research	261,521,000	164,472,000			425,993,000
Public service	52,184,000	25,009,000	\$ 119,000		77,312,000
Academic support	107,130,000	51,701,000			158,831,000
Student services	30,218,000	8,656,000	223,000		39,097,000
Institutional support	71,873,000	25,685,000			97,558,000
Operation and maintenance of plant	36,837,000	50,556,000			87,393,000
Scholarships and fellowships	6,362,000		46,113,000		52,475,000
Auxiliary enterprises	76,083,000	70,388,000	2,387,000		148,858,000
Depreciation				\$ 107,561,000	107,561,000
Total Operating Expenses	<u>\$ 981,904,000</u>	<u>\$ 445,084,000</u>	<u>\$ 48,842,000</u>	<u>\$ 107,561,000</u>	<u>\$ 1,583,391,000</u>

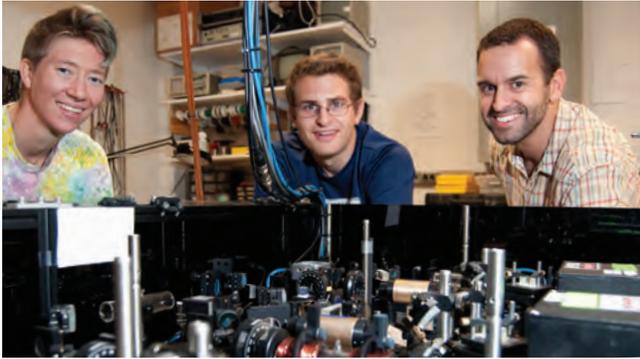


NASA selected the University of Arizona to lead OSIRIS-REx, an \$800 million sample-return mission to an asteroid. The mission will also study the feasibility of deflecting asteroids away from Earth orbits.

Conceptual image courtesy of NASA/Goddard/University of Arizona

## NOTE 12. SUBSEQUENT EVENT

On July 6, 2012, the University entered into an Intergovernmental Agreement (IGA) with Pima County Community College District (PCCCD) to terminate the Ground Lease Agreement, the Operating Agreement, the Sublease, and the Restated Sublease relating to the Northwest Campus Building owned by the University. The IGA allowed PCCCD to make a lease prepayment in the amount of \$3.4 million to acquire the building from the University. The University used the proceeds from the prepayment to defease the Certificates of Participation Series 2002A that financed the Northwest Campus Building.



Graduate students Kali Wilson (left) and Zach Newman (center) and Professor Brian P. Anderson (right) use laser light to create, manipulate, and probe microscopic droplets of ultracold atomic gases called Bose-Einstein condensates (BECs). The BEC researchers at the College of Optical Sciences study the fluid dynamics of these systems and aim to understand new details about this challenging topic.

## 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 U.S. Government or U.S. Treasury money market funds with original maturities of three months or less. Cash equivalents are stated at cost, which approximates fair value.

### Investments

Investments are stated at fair 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, and mutual funds, 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 fair value as determined by the general partner based on the appraised value of the partnerships' assets. Absolute return limited partnership interests are recorded at fair 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 fair 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

The Foundation capitalizes donated collections (principally photographs, prints and negatives to benefit the University of Arizona's Center for Creative Photography) at a nominal value.

### Annuities Payable and Other Trust Liabilities

Annuities payable and other trust liabilities of \$19,808,000 at June 30, 2012 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, 2012 total \$35,582,000, of which \$2,093,000 were unrestricted, \$9,719,000 were temporarily restricted and \$23,770,000 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 temporarily restricted net assets are met, the net assets are reclassified to unrestricted net assets. Payouts made from permanently restricted net assets are reported as released from restriction and transferred to unrestricted net assets. The total net 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. The Corporation has recorded in the financial statements a building and related debt for which ABOR on behalf of the UA holds the title to the building, under the requirements of a lease.

#### Solar Zone Development

The Corporation has an agreement with Tucson Electric Power (TEP) to develop a portion of the Park for a series

of projects focused on the advancement of solar energy technologies. Under the terms of the agreement, CRC is required to incur certain infrastructure costs to develop the land to facilitate the construction of a solar zone, and TEP reimbursed CRC for a portion of these costs. As CRC enters into various lease agreements with lessees who will construct solar projects, each lessee is charged a prorated portion of the development costs reimbursed by TEP, and those costs are refunded to TEP. Costs related to the development of the solar zone are capitalized as incurred. Reimbursements from TEP are recorded as deferred revenues. The capitalized costs and deferred revenues are allocated to the various solar projects and recognized as expenses and revenues over the term of the related leases

#### Protected Water Facility Rights

The Corporation developed a well, well pump, one million gallon storage tank, various booster pumps, piping, valving, electrical and other equipment and improvements required to operate a well booster station and water storage facility (water project) in accordance with their master water plan. The purpose of this development is to provide water throughout the Park. Once the water project is complete, title will pass to ABOR and ultimately to the City of Tucson in exchange for protected water rights.

## B. Investments

### The University of Arizona Foundation

Investments comprised the following amounts at June 30, 2012:

	Carrying Value	Cost
Domestic/international equity securities and mutual funds	\$ 196,467,000	\$ 190,561,000
Absolute return limited partnerships and funds	160,124,000	145,584,000
U.S. fixed income obligations and mutual funds	91,596,000	84,998,000
REIT funds, real estate and timber partnerships	54,540,000	57,362,000
International fixed income mutual funds	32,069,000	36,538,000
Private capital and commodity limited partnerships	53,682,000	49,203,000
Totals	<u>\$ 588,478,000</u>	<u>\$ 564,246,000</u>

## C. Endowment

### The University of Arizona Foundation

The Foundation's endowment consists of approximately 1,350 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, which are stated at fair value, are reported as due from the permanently restricted fund in the accompanying financial statements. 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 three previous calendar year-ends) of the fair value of each endowment account, 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 2012) 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 \$4,348,000 were recognized in 2012; an additional \$1,897,000 in such fees were collected on behalf of and transferred to the University in 2012.



Just as the UA’s land-grant mission has long been associated with the University having local impact, it is increasingly associated with work that has global relevance. For example, Rod Wing of the Arizona Genomics Institute works with wild rice and hybrids of cross-cultivated wild rice. He is among researchers at the UA working to improve crop production and yield for the benefit of communities around the world.

Photo: Norma Jean Gargas/UANews

## 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 in the fiscal year in which they were received. Unconditional promises at June 30, 2012 totaled \$3,622,000.

### *Law College Association of the University of Arizona*

At June 30, 2012, the Association had pledges receivable totaling \$673,000, net of present value discounts and allowances for doubtful pledges. A donor’s significant pledge, representing 95% of the gross pledges receivable for the year ended June 30, 2012 was not paid. Although management believes the entire pledge is likely collectible, the allowance for doubtful pledges has been increased from \$5.8 million to \$35.8 million to account for this uncertainty.

## E. Property and Equipment

### *Campus Research Corporation*

Property and equipment consisted of the following as of June 30, 2012:

Building, infrastructure and improvements	\$ 18,916,000
Furniture, equipment and other property	4,216,000
Total	\$ 23,132,000
Less accumulated depreciation	(6,291,000)
Property and equipment, net	\$ 16,841,000

Solar zone development:

At June 30, 2012 and 2011, approximately \$1,501,000 and \$2,158,000 of the costs included in solar zone development have not been placed in service. Reimbursed costs from TEP that were not recovered from specific projects totaling \$2,656,000 are included in deferred revenues at June 30, 2011. These reimbursed costs from TEP have been recovered from tenants and repaid to TEP during 2012.

## 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 June 2022.	\$ 6,143,000
Non interest-bearing note payable, Arizona Commerce and Economic Development Commission, payable in monthly principal installments of \$2,000 through April 2016, unsecured.	85,000
Note payable, Wells Fargo Bank, payable in aggregate monthly installments of \$55,000 including interest at various rates ranging from 4.71% to 5.84% through December 2016.	1,569,000
Note payable, Wells Fargo Bank, nonrevolving line of credit for \$2,000,000 converted to a term note in March 2011, payable in monthly installments of \$38,000 including interest at 30-day LIBOR plus 4.25% through March 2016. At June 30, 2012 and 2011, the 30-day LIBOR was 0.246% and 0.186%. Through March 2011, interest was payable monthly on the outstanding balance of the nonrevolving line at the prime rate with a floor of 5%.	1,533,000
Total long-term debt	\$ 9,330,000

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 letter of credit with an original amount of approximately \$11,400,000 to enhance



The Conserve to Enhance (C2E) program at the College of Agriculture and Life Sciences provides a direct connection between voluntary water conservation actions by water users and local environmental projects. The logic of C2E – using the environment as a motivation for implementation of water conservation – has its foundation in research on consumer attitudes and motivations.

Photo: Candice Rupprecht/ Water Resources Research Center

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 Corporation entered into an interest rate swap agreement with Wells Fargo Bank to reduce the variability in cash flows caused by changes in interest payments on the series A bonds. In January 2011, the Corporation entered into a series of agreements with the bank to modify the terms of their series A bonds. In conjunction with that transaction, the Corporation and bank terminated their existing swap and entered into a new swap agreement that matched the modified terms of the series A bonds. Under both swap agreements, the Corporation pays interest at the fixed rate and receives interest at the variable rate. Neither agreement was designated as a cash flow hedge.

The agreements were issued at market terms so that they had no value at inception. The notional amounts under the agreements decrease as principal payments on the notes are made. The duration of the agreements are structured to coincide with the maturity of the notes. As required by GAAP, the carrying amount has been adjusted to fair value at June 30, 2012. The Corporation's derivative instruments held for risk management purposes at June 30, 2012 had a notional amount of \$6,142,000 and a fair value of \$1,305,000.

## 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 contractual extensions contained within the IBM master lease agreement will extend the POA according to the terms of the lease agreement.

The Corporation is required to pay a monthly amount based on an annual operating budget for these services

that is prepared by IBM. The Corporation has the right to review and consult with IBM in the process of preparing the operating budget. A quarterly analysis of the central utility and occupant electric expenses is prepared for each building and its occupants and these costs are reconciled to the budget. Annual common service expenses are also reconciled to the budget. Based on these reconciliations, an additional charge or refund is assessed. Lease agreements between the Corporation and its tenants provide for either the inclusion of a factor for these costs in their monthly rent or a proration of these costs based on the quarterly budget and subject to a quarterly reconciliation. Leases with one tenant include a maximum on the amount of cumulative annual capital expenditures that will be paid by the tenant. The Corporation is responsible for any capital expenditures allocated to this tenant in excess of the maximum.

## H. Condensed Financial Statements of Major and Other Component Units

Component Units Statement of Financial Position June 30, 2012	The University of Arizona Foundation	Other Component Units	Total
<b>Assets</b>			
Cash, cash equivalents and investments	\$ 636,082,000	\$ 22,903,000	\$ 658,985,000
Pledges receivable	3,622,000	752,000	4,374,000
Property and equipment, net	12,937,000	16,855,000	29,792,000
Other assets	2,955,000	9,352,000	12,307,000
<b>Total Assets</b>	<b>\$ 655,596,000</b>	<b>\$ 49,862,000</b>	<b>\$ 705,458,000</b>
<b>Liabilities and Net Assets</b>			
<b>Liabilities</b>			
Fair value of endowment managed for the University	\$ 160,423,000		\$ 160,423,000
Annuities payable and other trust liabilities	19,808,000	\$ 476,000	20,284,000
Short-term and long-term debt		9,344,000	9,344,000
Other liabilities	3,003,000	9,358,000	12,361,000
<b>Total Liabilities</b>	<b>\$ 183,234,000</b>	<b>\$ 19,178,000</b>	<b>\$ 202,412,000</b>
<b>Net Assets</b>			
Unrestricted	\$ 9,603,000	\$ 22,083,000	\$ 31,686,000
Temporarily restricted	101,634,000	4,186,000	105,820,000
Permanently restricted	361,125,000	4,415,000	365,540,000
<b>Total Net Assets</b>	<b>\$ 472,362,000</b>	<b>\$ 30,684,000</b>	<b>\$ 503,046,000</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 655,596,000</b>	<b>\$ 49,862,000</b>	<b>\$ 705,458,000</b>

## I. Condensed Financial Statements of Major and Other Component Units, Continued

Component Units Statement of Activities Year Ended June 30, 2012	The University of Arizona Foundation	Other Component Units	Total
<b>Revenues</b>			
Contributions	\$ 64,156,000	\$ 1,174,000	\$ 65,330,000
Rental revenues		12,032,000	12,032,000
Investment income	1,932,000	52,000	1,984,000
Other income	9,285,000	5,621,000	14,906,000
<b>Total revenues</b>	<b>\$ 75,373,000</b>	<b>\$ 18,879,000</b>	<b>\$ 94,252,000</b>
<b>Expenses</b>			
Program services:			
Leasing related expenses		\$ 10,445,000	\$ 10,445,000
Payments to the University	\$ 68,680,000		68,680,000
Payments on behalf of the University	11,996,000	4,414,000	16,410,000
Supporting services:			
Management and general	4,357,000	1,755,000	6,112,000
Fund raising	6,340,000	238,000	6,578,000
Other expenses		21,267,000	21,267,000
<b>Total expenses</b>	<b>\$ 91,373,000</b>	<b>\$ 38,119,000</b>	<b>\$ 129,492,000</b>
<b>Increase (decrease) in Net Assets</b>	<b>\$ (16,000,000)</b>	<b>\$ (19,240,000)</b>	<b>\$ (35,240,000)</b>
Net Assets - Beginning of year	488,362,000	49,924,000	538,286,000
<b>Net Assets - End of year</b>	<b>\$ 472,362,000</b>	<b>\$ 30,684,000</b>	<b>\$ 503,046,000</b>



2012 College World Series Champions, the University of Arizona baseball team  
Photo: ©SWIsportsimages

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AHSC BioCommunications



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