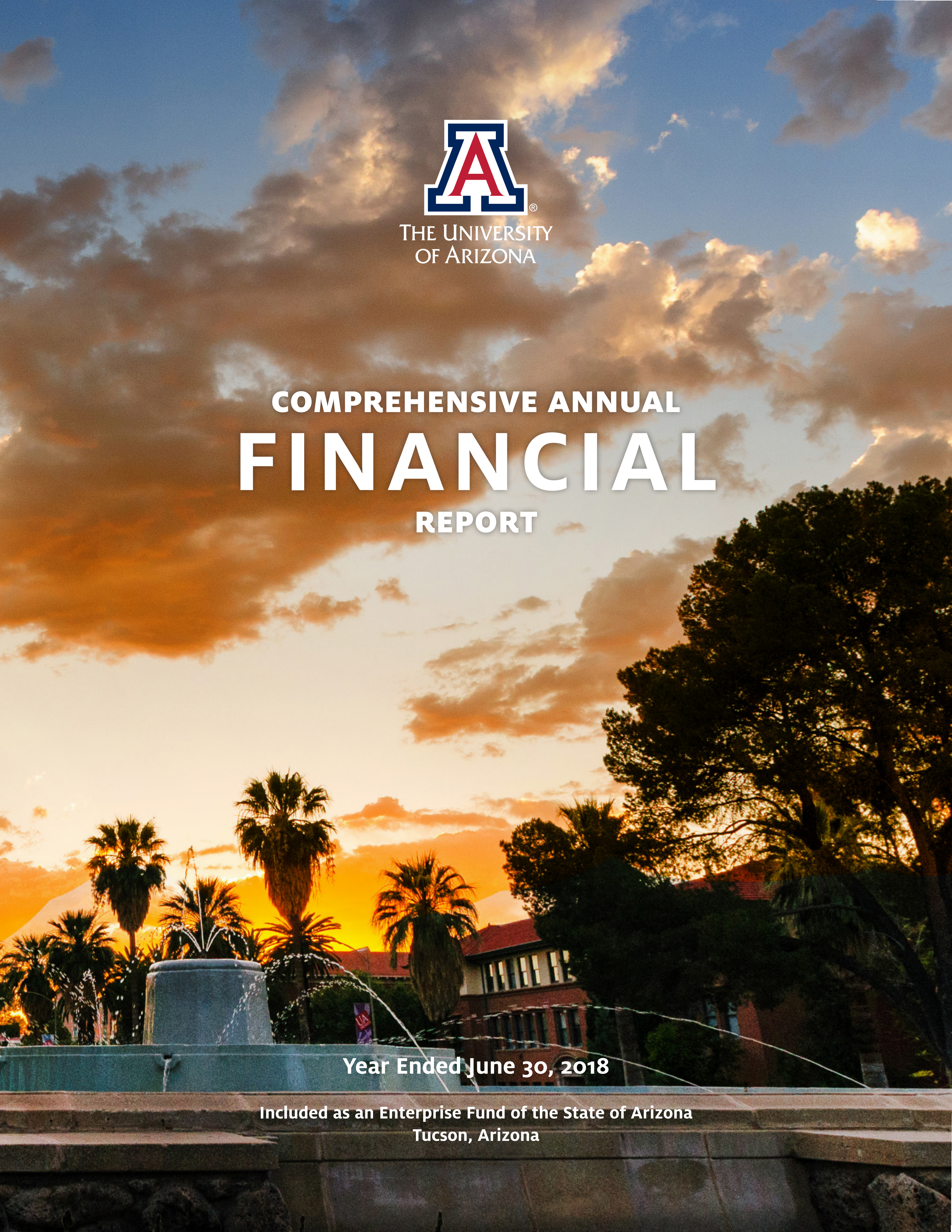

The University of Arizona

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Year Ended June 30, 2018

Included as an Enterprise Fund of the State of Arizona
Tucson, Arizona

BERGER MEMORIAL FOUNTAIN

View of the Berger Memorial Fountain from Old Main. There are 13 spouts representing the University of Arizona students who lost their lives in World War One. Today, the fountain represents tradition and a hope-filled leap into the future. Proud graduates dawn regalia and snap photos next to the fountain, joining thousands of Arizona Wildcats before them.

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2018

Tucson, AZ
Prepared by the Financial Services Office
Included as an Enterprise Fund of the State of Arizona

Photo: Jacob Chinn

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INTRODUCTORY SECTION

Photo: UA Marketing & Brand Management

A MESSAGE FROM THE PRESIDENT

I have been very honored to serve as the 22nd president of the University of Arizona for a little over a year now, and I am more excited than ever for the future of the University. Over this past year, our strategic planning team has engaged with nearly 10,000 UA community members and supporters to develop a clear roadmap for where we want to go. We are going to create more value for our students by emphasizing the tools that make successful individuals – leadership, communication, problem-solving, creative- and critical-thinking, and teamwork. When employers come to hire Arizona students or recruit them for graduate school, they are going to know the kind of innovative thinkers and doers that graduate from our degree programs.

The UA has an incredible foundation, and I am confident that our new strategic plan will build on it to drive the success of the University and our students in creating positive economic, cultural, and social impact for our region.

STUDENT SUCCESS

Our goal is to graduate students who have the skills they need to lead in the Fourth Industrial Revolution. We will develop disruptive problem solvers and master adaptive learners who are prepared to lead meaningful lives and create positive impact in our society. We want to make sure that our students are career-ready even before they complete their degree. We achieve this goal by ensuring they have many hands-on educational experiences in their chosen fields while they are still at the UA.

In order to ensure that we have college-ready students, we partner with our local high schools to offer STEM-focused programs, like the UA's KEYS Research Internship that focuses our next generation on innovating to help others. These programs also keep high-potential students in our state, as metrics show that almost 70% of KEYS interns decide to stay in Arizona at one of our public universities – most of them at the UA, with over 80% of those students entering STEM-related disciplines.

Once our students are at the UA, we do everything we can to ensure they have the best possible learning environment. We are developing the new Honors Village, which will be one of the premier infrastructures and ecosystems for the honors experience in the United States. And reimagined campus facilities will feature collaborative learning spaces that engage students with cutting-edge technology, as well as inviting spaces that support student wellness and health. The UA community uses these spaces to create vibrant learning experiences. For instance, the student-led innovation program HackAZ is the largest student-run hackathon in the southwest, and it brings together talented students from across the country to take part in the emerging tech ecosystem. Or our Engineering Senior Design Day, which works with multinational companies in Sonora who sponsor design projects so that UA students get an opportunity to solve real-world challenges in engineering and advanced manufacturing.

GRAND CHALLENGES

The UA's role in Arizona's future is to be a catalyst and source of expertise in the Fourth Industrial Revolution. We foster true innovation, which demands the cultivation of curiosity, creativity, willingness to take chances, and dynamic collaboration alongside and woven into our education and service missions.

UA-led research programs like the OSIRIS-REx asteroid return mission are changing how we see the Universe. And through the All of Us precision health program – the largest NIH award in Arizona history – UA scientists are reshaping the future of modern medicine.

It is very important that the outstanding discovery and research done every day by UA faculty, students, and staff can be translated to benefit humankind. One great example is the UA's leadership in autonomous vehicle technology. For instance, Lunewave Inc. is bringing incredible technology to market based on the invention of UA Professor of Electrical and Computer Engineering Hao Xin. Lunewave is developing cutting-edge Luneburg lens antennae and radar sensors that perform well in poor weather at a lower cost than traditional systems. The UA is poised to be a major contributor as autonomous vehicle technology continues to grow into a strong part of Arizona's innovation ecosystem with great potential for our future economy.

SOCIAL, CULTURAL, ECONOMIC IMPACT

As Southern Arizona continues to grow, the University of Arizona will celebrate and leverage our unique people and place to drive social, cultural, and economic impact across the region and nation. One vital component of this is Tech Launch Arizona, which drives resulting economic and societal benefit from the research innovation ecosystem by commercializing UA-created knowledge. This past year, TLA has record breaking success, including 275 invention disclosures and 16 startup licensee companies formed. Recent companies like SinfoníaRx, Illuminos Therapeutics, and Regulonix have spun out of the UA and are already impacting our regional economy.

Another great example is Tech Parks Arizona, which generates, attracts and retains innovative technology companies and talent in alignment with the research, mission and goals of the University of Arizona. The UA Tech Park is one of the largest employment centers in the region hosting 52 companies and organizations that employ 5,870 skilled workers from 15 different industries. The UA Tech Park and its resident companies have an annual economic impact of $2.0 billion on the state.

Finally, one of the most significant examples is our designation as a Hispanic-Serving Institution, which opens up new sources of funding that will support programs benefitting all UA students and faculty members. This new status and the programs we build around it will be a driving force for the social and cultural impact we will have in our region. The HSI designation will allow the UA to expand existing programs or create new ones to build and support our diverse student body as we help them achieve their hopes and dreams.

GLOBAL ENGAGEMENT

As the UA strengthens our engagement with and commitment to our community and region, we will also set a new standard of global leadership by embracing educational partnerships, scaling collaborative research, and expanding access to global experiences for our students. We have combined the offices of International Education and Global Initiatives into one unit called University of Arizona Global, which will help prepare our students to be leaders in an interconnected world by ensuring that they have many learning opportunities abroad and by making the UA a truly global campus where service to our community brings the best of the world to Arizona and shares the best of Arizona with the world.

INSTITUTIONAL EXCELLENCE

In all of our work at the UA, we are focused on creating an environment where everyone can thrive. This means an inclusive and equitable community, with a commitment to service – to one another and to our students and our state – and streamlined processes and services that maximize our effectiveness and stewardship of state funding and student tuition.

The UA has a bright future, but we cannot reach our potential as a university or as a catalyst for our region alone. I ask our community, region, and state to partner with us, and I look forward to working with our state leaders and communicating openly about our commitment to our students and to Arizona's citizens as we open up new possibilities for everyone.

Most sincerely,

Robert C. Robbins
President

LETTER OF TRANSMITTAL

Lisa Rulney, Interim Senior Vice President for Business Affairs and Chief Financial Officer

October 24, 2018

To President Robert Robbins, Members of the Arizona Board of Regents and the University of Arizona community:

I respectfully submit The University of Arizona's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2018. The CAFR includes the Management's Discussion and Analysis (MD&A) and the basic financial statements, as well as other supplemental information that helps the reader gain an understanding of the University's financial position, activities and economic landscape of the surrounding area. Responsibility for the accuracy, completeness, and fairness of the data presented, including all disclosures, rests with the University's management. We believe to the best of our knowledge the information is accurate in all material respects and fairly presents the University's financial position, revenues, expenses, and other changes in net position.

The University is responsible for implementing and maintaining an internal control structure to safeguard and prevent misuse of the University's assets. We believe our system of internal controls is sound and sufficient to disclose material deficiencies in controls to the auditors and the Arizona Board of Regents' (ABOR) Audit Committee. Because the cost of a control should not exceed the benefits to be derived, the objective is to provide reasonable, rather than absolute assurance, that the financial statements are free of any material misstatements and to provide management with reasonable, although not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition.

The University's CAFR is intended to fulfill the State of Arizona Transparency Law, Arizona Revised Statutes §41-725. Additionally, federal guidelines and bond covenants require that the University's accounting and financial records be subject to an annual independent audit. The University's annual audit is performed by the State of Arizona Office of the Auditor General. The reports resulting from the audit are shared with University management, the ABOR Business and Finance Committee, ABOR Audit Committee, and the Arizona Board of Regents. The audit of the University's federal financial assistance programs is performed by the Office of the Auditor General in conjunction with the statewide Single Audit. The independent auditors' report can be found on page 16 of the Financial Section wherein the auditors' opinion on the fair presentation of the financial statements is an unmodified opinion.

The CAFR is prepared in accordance with generally accepted accounting principles (GAAP) and in conformance with standards of financial reporting as established by the Governmental Accounting Standards Board (GASB) using the guidelines as recommended by the Government Finance Officers Association of the United States and Canada (GFOA). The MD&A is presented to supplement the financial statements by providing the necessary information for the reader to gain a broad understanding of the University's financial position and results of operation. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the independent auditors' report.

INSTITUTIONAL PROFILE

History – 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.

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.

Enrollment – Today, the University has gained an average of 922 students per year for the last five years. It serves 44,831 students through 17 colleges offering 372 degree programs and is ranked among the leading research universities in the country.

Enrollment Statistics - Academic Year 2017-18

Undergraduate enrollment - Fall 2017		35,123
Graduate and Professional enrollment - Fall 2017		9,708
Degrees awarded - Bachelor's		6,949
Degrees awarded - Advanced		2,933
Tuition and fees for full-time student - Resident	$	12,248
Tuition and fees for full-time student - Non-resident	$	35,678

The University's 2,634 full-time equivalent faculty and 1,194 full-time equivalent graduate teaching and research assistants and associates educate a diverse student population. The University's student population is 51.7% female, 24.0% Hispanic, 5.7% Asian, 3.7% African American or Black, and 1.3% American Indian. It includes students from all fifty states, the District of Columbia, and 109 foreign countries. International students represented 8.8% of the Fall 2017 enrollment; this figure is majorly attributed to foreign students from China (46.1%), India (8.8%), Saudi Arabia (8.1%), Mexico (4.6%), and Republic of Korea (3.3%).

Component Units – The basic financial statements of the University include the operations of The University of Arizona Foundation, Inc., University of Arizona Alumni Association, Law College Association of The University of Arizona, Campus Research Corporation, and Eller Executive Education, all discretely presented component units. More information relating to the component units can be found in Notes 2 and 13 to the financial statements.

Budget – The University is responsible for planning, developing and controlling its budget and expenses in accordance with Arizona Board of Regents and University policies, and state and federal laws and regulations. The Arizona Board of Regents approves the University's annual operating budget in accordance with ABOR policy 3-403. The budget includes the general purpose (state general funds and tuition and fees) budget and the local funds budget which consists of the designated, restricted and auxiliary funds. The State Legislature reviews the University's local funds budget and adopts and appropriates the general purpose budget through legislation.

After the budget has been approved, the University monitors the budget through UAccess Financials, the University financial enterprise system. While there are many controls built into UAccess Financials, colleges and departments also use financial reports to monitor budgetary compliance. Additionally, the Financial Services Office, a part of the UA's central administration, prepares quarterly financial status reports to management and the Arizona Board of Regents to update them on actual revenues and expenses. The report includes a comparison of actuals to budget and highlights the changes that occur throughout the fiscal year. It also projects revenues, expenses and net position for the end of the fiscal year.

Economic Condition

Local Economy – As reported by the Economic and Business Research Center of the University of Arizona's Eller College of Management in June 2018, the State of Arizona's economy entered into 2018 with modest forward momentum. The State continues to add jobs and residents at a faster pace than the nation, and the State's unemployment rate is comparable to 2017 numbers.

State personal income gains accelerated to 4.3% in calendar year (CY) 2017, equal to the 4.3% growth in CY 2016. Growth in Arizona's retail sales increased to 5.4% in 2017, up from 2.4% in 2016. According to the 2018 Index of State Economic Momentum, Arizona ranked 5th in economic momentum, 3rd in personal income growth, and 9th for employment growth.

Employment increased 2.4% in CY 2017 for the state, close to last year's 2.6% rate, with population growth increasing from 1.1% to 1.5%. Using data through June 2017, job gains specific to the Tucson area have been noted in mining and construction, education and health services, government, and manufacturing.

Long-Term Planning

Long-term planning – The University of Arizona's new Strategic Plan will guide the University's long term planning effectively through 2025. Building on the progress made under the Never Settle plan, the new strategic plan will outline the University of Arizona's strategies and priorities through 2025 with a strong focus on student success and graduating the next generation of leaders and disruptive problem solvers ready to improve global society in the Fourth Industrial Revolution, a convergence of biological, digital, and physical technologies that is transforming how we interact with each other and the world around us. In this context, the UA's student-centric mission will be elevated by advancement in research excellence, innovations in educational quality and access, global and community impacts and engagement, and increasing efficiency. The University's strategic priorities include:

- Student Success - The UA will build a diverse and high potential student body, providing students with an integrated support ecosystem, the skills and mindset to lead in the Fourth Industrial Revolution economy and an affordable degree that enables them to achieve their hopes and dreams. By recruiting high-performing students, achieving significant increases in first-time full-time student retention, and active and student-centered teaching, the UA will create positive outcomes for students, with 90% of graduates employed or enrolled in graduate school within 6 months of receiving their degree by 2025.

- Research - The UA will be a preeminent research institution that fully leverages Fourth Industrial Revolution advancements to lead in the areas of space, natural and built environments, health and human and intelligent systems. Building from strengths in space, optical and environmental sciences, and our unique partnership with Banner Health, the UA will fulfill its land-grant mission by meeting Arizona's needs in the 21st century economy.

- Positive Impact for Arizona - The UA will become a leading HSI institution and arts and humanities destination that fully embraces collaboration to fuel social impact, cultural development and economic growth. Strong, wide-ranging partnerships with the private, public and non-profit sectors will enhance the UA's impact and create new opportunities for our state.

- Global Engagement and Impact - The UA will set a new standard of engagement by embracing global educational partnerships, scaling global research, and extending access to global experiences for students. Rooted in Arizona and proud of our many heritages as a state, the UA will work with global partners to extend social good, research impact, and economic opportunity around the world while preparing students to succeed in an interdependent and interconnected world.

- Values-Led - Ensure the UA lives its values and innovative culture to enable an efficient, high performing academic and administrative enterprise. The UA's focus on service to Arizona will be complemented by excellence in administrative service to students, faculty, and staff, and we will create a university culture that continues the UA tradition of being a great place to learn, research, and work.

All of the strategies and initiatives within the University's Strategic Plan will contribute significantly toward fulfilling the University's mission as part of the Arizona Board of Regents' goals for higher education in Arizona. These goals include increasing the number of citizens with the skills and understanding to contribute to economic development and improve the quality of life, advancing research that creates new knowledge, enhances education, and addresses social, cultural, and economic needs, fostering civic engagement and improving economic competitiveness, and streamlining operations and business practices to maximize efficiencies.

The strategic plan is being developed in the context of the Fourth Industrial Revolution, which will have profound impacts on the financial, social, political and cultural settings in which the University operates. As we continue to function and plan for a sustainable future we are focused on a future defined by high-impact teaching, research, and service, mindful of the real challenges facing Arizona as a state and the university as an institution. Parameters such as the following continue to guide the University's planning:

- Arizona's need for an educated citizenry and a workforce prepared for the jobs of tomorrow

- The rich cultural, economic, and educational diversity of Arizona and its students

- Educational and social imperatives arising from the global changes brought by the Fourth Industrial Revolution

- Challenges facing Arizona and the nation in areas such as health care, science, policy, and natural resources

Resource assumptions are also central to effective strategic planning. The University's changing resource base challenges management to develop innovative alternative funding sources. Although development of the programs and initiatives rest on a multifaceted financial base, progress depends in part on the ability of the State to provide adequate funding resources for student enrollment growth while maintaining program quality and breadth.

Advancing research is critical to the University's mission and the State economy, and it drives the teaching mission of the UA by providing a context in which students learn from the world's premier experts in their fields. However, these goals cannot be achieved without enhancing the University's research infrastructure. During the 2017 legislative session, the Governor and the legislature established a capital infrastructure fund and gave universities the authority to use the funding to bond for deferred maintenance and research infrastructure projects. The first of these projects was the UA's Animal and Comparative Biomedical Sciences Building (or Building 90 as it has come to be known). In October 2017, Governor Ducey and President Robbins participated in a ground breaking ceremony that kicked off the repairs and renovation work in Building 90 and across campus.

While there are parameters and resource assumptions that the University considers when developing an effective strategic plan, management is committed to advancing the University in every area identified in the new plan. In summary, the University is committed to increasing retention and graduation rates of students, leveraging research funding for maximum impact, using technology transfer to support the creation of new business and new opportunity for Arizona, expanding online educational offerings, enhancing community college partnerships and streamlining operations and business practices.

In his first year as UA President, Dr. Robert C. Robbins initiated the new strategic planning process, and will further his vision through the new plan to continue moving the University forward as a comprehensive land grant, AAU and Research I University.

Major Initiatives

Annually, the University reports to the Arizona Board of Regents an update of the strategic plan. The report outlines progress of the plan and the strategies, tactics, and initiatives that were deployed to help the University meet its strategic goals. It identified the key opportunities and challenges the University faced, and how the University overcame those challenges and seized the opportunities.

The University offers an extensive and varied group of research, graduate and professional programs. For decades, the University has been one of the top research universities in the nation (23rd among public research universities in fiscal year 2017) according to the National Science Foundation. With its abundance of space, physical, biological and health sciences programs and interdisciplinary strengths, the University has tremendous potential for further research expansion.

High-quality research programs secure extensive federal and corporate funding, enrich instructional programs and provide tremendous education and research opportunities for the students, as well as contribute to the economic engine of the City of Tucson and State of Arizona.

The following are a few notable research and educational activities reported in fiscal year 2018 that showcase some of the University's major initiatives:

- The University of Arizona continues to be at the forefront of space and planetary sciences. In fiscal year 2018, the University-led Origins Spectral Interpretation Resource Identification and Security-Regolith Explorer (OSIRIS-REx) mission which launched in September of 2016, has already begun completing research tasks while it travels to Bennu, a near-Earth asteroid, to bring back a sample to Earth for study. OSIRIS-REx captured asteroid Bennu in its PolyCam camera at a distance of 1.4 million miles in August of 2017, beginning its asteroid operations campaign. It is expected to arrive at Bennu in December of 2018, after which it will study the asteroid for over a year before attempting to secure a sample and return it to Earth for study in 2023. If successful, OSIRIS-REx will be the first U.S. mission to achieve this goal.

- In May 2018, the University of Arizona and our clinical partner, Banner Health, received an award totaling up to $60 million over five years from the National Institutes of Health as part of the All of Us program. This replaces a previous award of $43 million for the NIH precision medicine cohort program. The UA and Banner will enroll more than 150,000 participants from the Southwestern U.S., Alaska and Wyoming over five years to share health and medical data for researchers to study health disparities and other challenges. The UA-Banner program is tied to an effort to enroll 1 million or more participants across the country, one of the largest longitudinal cohorts ever formed in the U.S. This study will create a national resource that will improve treatment and prevention strategies as physicians and other health care professionals are able to take into account patients' differences in lifestyle, environment, and genetics to provide more individualized and more effective health care.

- The UA's new strategic plan prioritizes service and impact in Arizona, and our recent designation as a Hispanic-Serving Institution (HSI) is a tremendous accomplishment that brings new tools and resources for that work. After meeting initial eligibility requirements in 2016, which includes at least 25% of UA students identifying as Hispanic, completing the process to earn designation demonstrates the University's commitment to serving the state and region. HSI designation makes more federal funding available in areas including financial aid, student services like counseling and academic tutoring, and faculty development, all of which will go towards creating the best possible learning environment for every UA student. Individual colleges are including the HSI designation in position summaries for faculty recruitment and a project-based leadership program, the HSI fellows program, has been created to broaden the scope of the UA's work in this area while deepening its impact.

- The UA-led CyVerse project embodies the principles of the Fourth Industrial Revolution. Recently renewed for a third round of funding from the National Science Foundation, CyVerse is a computational infrastructure housed at the UA's BIO5 Institute and used by biological scientists and other researchers worldwide. Its capacity to analyze enormous data sets in a short amount of time has made new insights available when they otherwise would have been out of reach for decades. One example is the mapping of the human immunome, or all the possible immune receptors the immune system might generate. With traditional computational methods this process would have taken around 106 years. With CyVerse it took 17 days, bringing us one huge step closer to finding cures for illnesses like cancer, autoimmune diabetes and asthma, and infections, as well as developing improved diagnostic tests.

Integrated Strategic Planning – The goal of the University's Integrated Strategic Planning is to couple the University's academic planning and research planning with a renewed framework for campus development that will provide the physical and virtual setting needed to achieve our academic and research aspirations and a financial plan that maps the means for the University to achieve its goals. It is a three-pronged process designed to maximize opportunities and promote the successful future the University envisions. The University is enhancing the integrated strategic planning by incorporating a multi-year financial planning process. The multi-year financial planning consists of three year history, current budget and three years forecast. The process utilizes a bottom up data and information gathering from departments and colleges. The information will allow management to perform a comprehensive assessment of current and forward looking operation investments, resources and needs in order to determine whether they are aligned with the University strategic priorities.

Awards and Acknowledgments

Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the University for its CAFR for the fiscal year ended June 30, 2017. This was the fifth consecutive year that the University has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for one year only. We believe our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

In the most recent ranking (fiscal year 2017) the National Science Foundation (NSF) ranked the University of Arizona as the U.S.'s No. 6 university for research expenditures in the physical sciences, and No. 1 among all public and private U.S. institutions in Astronomy science R&D expenditures. Overall, the UA's ranking among public research universities was 23rd, and it was ranked as the nation's 38th institution among all public and private universities and colleges. The University has a rich history of developing strengths based on its unique physical and cultural environment. Per US News & World Report, UA ranks No. 3 among public graduate institutions in Geology, as well as having the largest mineral database in the world. The same report ranks UA No. 3 among U.S. public graduate programs in management information systems, and No. 5 among public undergraduate programs for Entrepreneurship. Additionally, the Business Journals ranked the UA in the top 100 of all U.S. four-year public institutions, based on 19 indicators of academic excellence, affordability and diversity. The National Jurist Magazine named the James E. Rogers College of Law as a Best Value Law School with an A grade up from an A- in 2016.

Preparation of this CAFR required extensive time and efforts. The completion of the report would not have been possible without the professionalism and dedication from staff and student employees in the University's Financial Services Office (FSO) including Financial Management, Operations, Procurement and Contracting, Capital Finance, UAccess Financials Support, Bursar's Office, FSO Technology, Outreach, Investment Office, and FSO Administration, as well as the business officers at the Office of Budget and Planning and the colleges and departments. In addition, we recognize the valuable contributions from the University Information Technology Services team and University Analytics and Institutional Research.

Respectfully Submitted,

Lisa Rulney
Interim Senior Vice President, Business Affairs and
Chief Financial Officer

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

The University of Arizona

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Christopher P. Morrill

Executive Director/CEO

ARIZONA BOARD OF REGENTS

JUNE 30, 2018

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Governor of Arizona

Honorable Diane Douglas
Superintendent of Public Instruction

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Ron Shoopman, *Vice Chair*
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Ram Krishna, *Secretary*
Yuma

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Paradise Valley

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Lyndel Manson, *Regent*
Flagstaff

Karrin Taylor Robson, *Regent*
Phoenix

Vianney Careaga, *Student Regent*
Tucson

Aundrea DeGravina, *Student Regent*
Gilbert

EXECUTIVE ADMINISTRATION

JUNE 30, 2018

Dr. Robert C. Robbins
President

Michael D. Dake
Senior Vice President, Health Sciences

Jon Dudas
Senior Vice President, Secretary of the University, and Chief of Staff

Jeff Goldberg
Interim Senior Vice President for Academic Affairs and Provost

Gregg Goldman
Senior Vice President, Business Affairs and Chief Financial Officer

Laura Todd Johnson
Senior Vice President for Legal Affairs and General Counsel

Steve Moore
Senior Vice President and Chief Marketing and Communications Officer

John-Paul Roczniak
President and Chief Financial Officer, UA Foundation and Vice President of Development

Melinda Burke
President, Alumni Association and Vice President, Alumni Relations

David Heeke
Vice President and Director of Athletics

Lisa Rulney
Vice President, Financial Services

Kathryn E. Whisman
Associate Vice President/Chief Budget Officer, Office of Budget and Planning

ORGANIZATION CHART

JUNE 30, 2018

President, The University of Arizona
Robert C. Robbins

- **President & CEO UA Foundation**
  JP Roczniak
- **Vice President and Director, Athletics**
  Dave Heeke
- **Senior Vice President, Secretary of the University, and Chief of Staff**
  Jon Dudas
- **Senior Vice President for Legal Affairs and General Counsel**
  Laura Todd Johnson
- **Senior Vice President, Business Affairs and CFO**
  Gregg Goldman
- **Senior Vice President, Health Sciences**
  Michael D. Dake
- **Interim Senior Vice President for Academic Affairs and Provost**
  Jeff Goldberg
- **Senior Vice President and Chief Marketing and Communications Officer**
  Steve Moore
- **President, Alumni Association and Vice President, Alumni Relations**
  Melinda Burke

Photo: Jacob Chinn

FINANCIAL SECTION

Photo: UA Research, Discovery & Innovation

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

ARIZONA AUDITOR GENERAL
LINDSEY A. PERRY

JOSEPH D. MOORE
DEPUTY AUDITOR GENERAL

Independent auditors' report

Members of the Arizona State Legislature

The Arizona Board of Regents

Report on the financial statements

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, 2018, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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 statements were audited by other auditors whose reports 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 other auditors' reports. 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 from material misstatement. The other auditors did not audit the aggregate discretely presented component units' financial statements in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the University's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of matters

As discussed in note 1 to the financial statements, the University's financial statements are intended to present the financial position, 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's transactions. They do not purport to, and do not, present fairly the financial position of the State of Arizona as of June 30, 2018, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

As discussed in note 1 to the financial statements, for the year ended June 30, 2018, the University adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Our opinion is not modified with respect to this matter.

Other matters

Required supplementary information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 20 through 29, schedule of the University's proportionate share of the net pension liability on page 69, schedule of the University's pension contributions on page 69, and schedule of the University's proportionate share of the total OPEB liability on page 69 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and other information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The combining statements on pages 70 through 71 and the introductory and statistical sections listed in the table of contents are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The combining statements are management's responsibility and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards by us and the other auditors. In our opinion, based on our audit, the procedures performed as described above, and the reports of the other auditors, the combining statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other reporting required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we will 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 solely 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 the effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Lindsey Perry, CPA, CFE
Auditor General

October 24, 2018

Photo: UA Marketing & Brand Management

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, data, 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, notes, and other required supplementary information 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 Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. While audited financial statements for fiscal year 2017 are not presented with this report, condensed data will be presented in the MD&A to illustrate certain increases and decreases in comparing with fiscal year 2018 data.

Key Reporting Implementations

In fiscal year 2018, the University implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, as amended by GASB Statement No. 85, *Omnibus 2017*. GASB Statement No. 75 established standards for measuring and recognizing assets or liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures related to other postemployment benefits (OPEB) provided through defined benefit OPEB plans. A summary of the restatement of net position due to the implementation of GASB Statement No. 75 can be found in Note 1 of the accompanying notes to the financial statements.

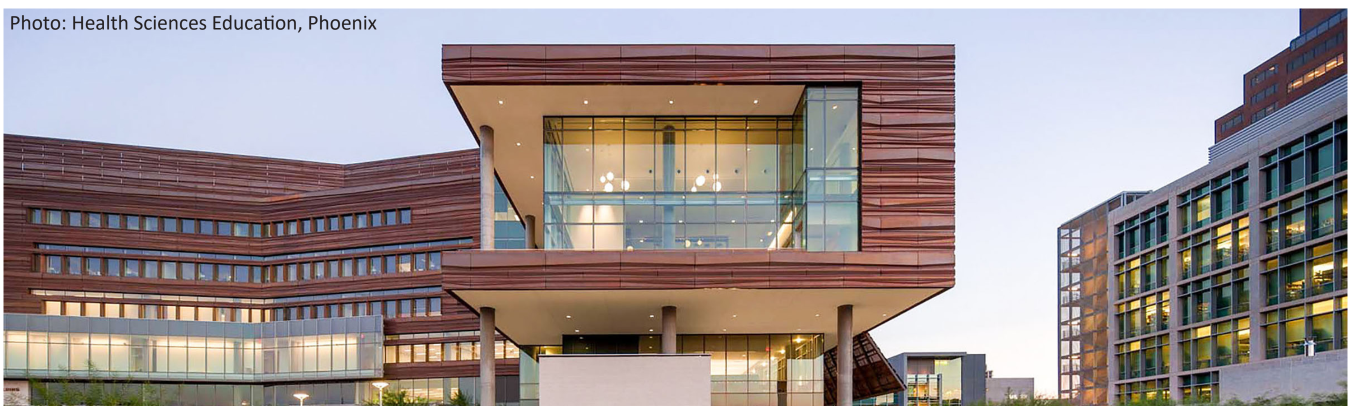


Photo: Health Sciences Education, Phoenix

OVERVIEW OF FINANCIAL STATEMENTS

Statement of Net Position

The Statement of Net Position (SNP) presents the financial position of the University at fiscal year-end. This information allows stakeholders to review the assets available to continue the operations of the University and how much the University owes vendors, investors and lending institutions. The SNP also provides a summary of the University's net position. The change in net position is one indicator of whether the financial condition has improved or worsened during the fiscal year. The change in net position should be analyzed in conjunction with nonfinancial facts, such as, but not limited to, enrollment levels and the condition of University facilities.

Condensed Schedule of Net Position

A comparison of the University's assets, deferred outflows of resources (consumption of the University's net position that is applicable to a future reporting period), liabilities, deferred inflows of resources (acquisition of net position by the University that is applicable to a future reporting period), and net position (in thousands of dollars) at June 30, 2018 and at June 30, 2017, is as follows:

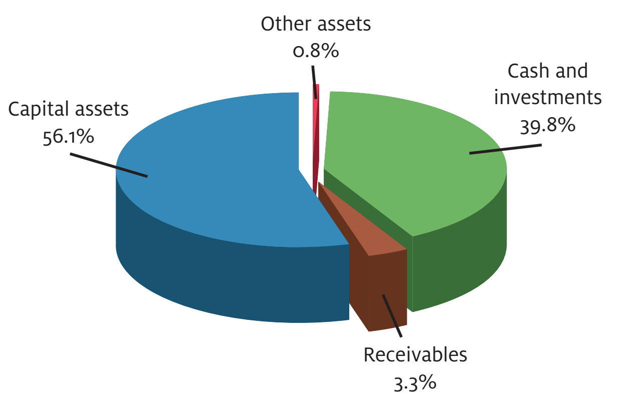
		FY 2018		FY 2017- As Restated*		% Change
Other assets	$	1,721,775	$	1,747,108		-1.4%
Capital assets		2,200,593		2,071,667		6.2%
Total assets	**$**	**3,922,368**	**$**	**3,818,775**		**2.7%**
Total deferred outflows of resources	**$**	**121,208**	**$**	**160,176**	*	**-24.3%**
Other liabilities	$	219,059	$	205,832		6.4%
Long-term liabilities		2,476,778		2,491,114	*	-0.6%
Total liabilities	**$**	**2,695,837**	**$**	**2,696,946**	*	**0.0%**
Total deferred inflows of resources	**$**	**308,099**	**$**	**304,720**		**1.1%**
Net position						
Net investment in capital assets	$	776,373	$	730,135		6.3%
Restricted - nonexpendable		154,227		142,774		8.0%
Restricted - expendable		244,542		241,080		1.4%
Unrestricted (deficit)		(135,502)		(136,704)	*	-0.9%
Total net position	**$**	**1,039,640**	**$**	**977,285**	*	**6.4%**

*The University implemented GASB Statement No. 75 in fiscal year 2018. The implementation of GASB Statement No. 75 resulted in a restatement of the University's beginning net position from fiscal year 2017 of $(157,460), which is reflected in the comparative table shown above.

Total Assets

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

Cash and investments	$	1,561,375	39.8%
Receivables		127,378	3.3%
Capital assets		2,200,593	56.1%
Other assets		33,022	0.8%
Total assets	**$**	**3,922,368**	**100.0%**

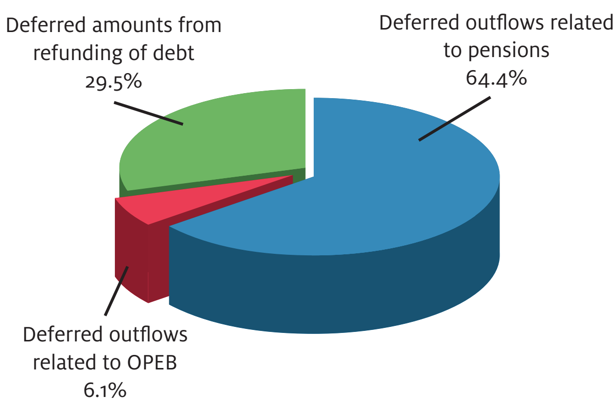


When compared to fiscal year 2017, the University's total assets increased by $103.6 million. This change is primarily attributable to an increase in capital assets of $128.9 million offset by decreases in receivables of $18.6 million and cash and investments of $18.0 million. The net increase in capital assets is primarily due to an increase in construction in progress for the Health Sciences Innovation building of $90.7 million and net increases in assets being depreciated of $39.5 million mainly due to the Bioscience Research Laboratories building (see Capital and Debt Analysis on page 28 for more information). The decrease in receivables is mainly due to a timing difference in the receipt of lottery revenues from the State of Arizona for the Stimulus Plan for Economic and Education Development (SPEED) Revenue Bonds. The decrease in cash and investments is primarily due to decreases of $28.0 million in restricted investments with bond trustees and $11.0 million in long-term investments related to the Large Binocular Telescope (LBT), which is included in other assets beginning in fiscal year 2018, offset by increases of $16.6 million related to endowment investments and $2.4 million related to the Academic Enhancement Fund (AEF). The decrease in restricted investments with bond trustee is due to the spend down of bond proceeds of $101.3 million for the Health Sciences Innovation building, $25.1 million for the Bioscience Research Laboratories building, and $2.8 million for the Biomedical Sciences Partnership building, offset by the new debt issuance of the 2018A System Revenue Bonds of $89.6 million for the Honors College Community Support and Auxiliary Services Project and Intercollegiate Athletics Projects and the 2018B System Revenue Bonds of $13.4 million for deferred maintenance projects in the Animal and Comparative Biomedical Sciences building (Building 90).

Total Deferred Outflows of Resources

Deferred outflows of resources are consumptions of the University's net position that are applicable to a future reporting period. The following table presents total deferred outflows of resources, in thousands of dollars and percent:

Deferred outflows related to pensions	$ 78,054	64.4%
Deferred outflows related to OPEB	7,361	6.1%
Deferred amounts from refunding of debt	35,793	29.5%
Total deferred outflows of resources	**$ 121,208**	**100.0%**

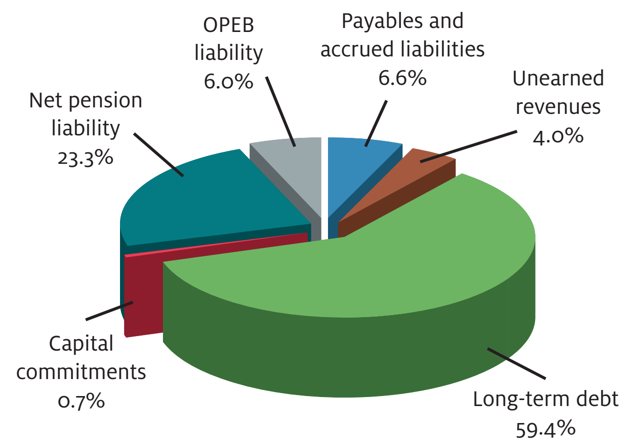


The decrease in deferred outflows of $39.0 million is primarily attributed to a decrease in deferred outflows of resources related to pensions due to actuarial adjustments provided by the Arizona State Retirement System (ASRS) and Public Safety Personnel Retirement System (PSPRS).

Total Liabilities

Liabilities are what the University owes to others or resources it has collected from others before it has provided services. The following table and chart present total liabilities, in thousands of dollars and percent:

Payables and accrued liabilities	$ 178,380	6.6%
Unearned revenues	107,276	4.0%
Long-term debt	1,600,953	59.4%
Capital commitments	19,574	0.7%
Net pension liability	628,186	23.3%
OPEB liability	161,468	6.0%
Total liabilities	**$ 2,695,837**	**100.0%**

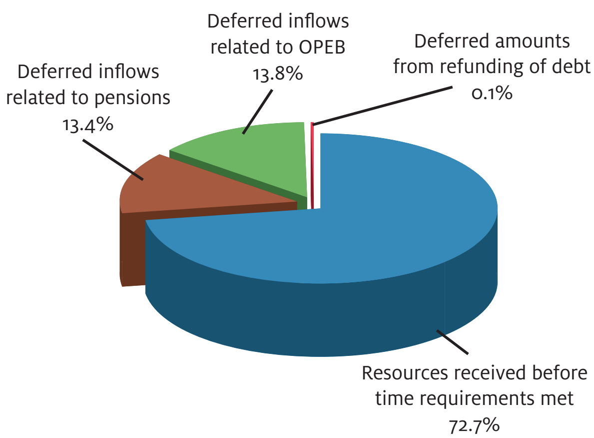


Total liabilities decreased by $1.1 million compared to fiscal year 2017 primarily due to decreases in other postemployment benefits (OPEB) liability of $49.9 million and $22.6 million in net pension liability, offset by increases in long-term debt of $52.2 million and payables and accrued liabilities of $19.0 million. The decrease in net OPEB liability and net pension liability is due to actuarial adjustments as provided by the Arizona Department of Administration (ADOA), ASRS and PSPRS. The increase in long-term debt represents the new debt issuance of the 2018AB System Revenue Bonds of $110.8 million and 2018AB Certificates of Participation of $59.6 million, as well as the increase of bond premium of $21.1 million, which is primarily due to the new debt issuances. This is offset by principal payments on System Revenue Bonds, Certificates of Participation, and capital leases of $73.3 million and refunded principal for Certificates of Participation of $66.0 million. The change in payables and accrued liabilities is primarily due to increases in miscellaneous payables of $7.1 million due to timing differences, compensated absences of $5.2 million, accrued payroll and benefits of $4.5 million, and construction and bond interest accruals of $2.2 million.

Total Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net position by the University that is applicable to a future reporting period. The following table and chart present total deferred inflows of resources, in thousands of dollars and percent:

Resources received before time requirements met	$ 223,943	72.7%
Deferred inflows related to pensions	41,356	13.4%
Deferred inflows related to OPEB	42,598	13.8%
Deferred amounts from refunding of debt	202	0.1%
Total deferred inflows of resources	**$ 308,099**	**100.0%**



The increase in deferred inflows of $3.4 million is primarily attributed to a $22.4 million increase for cost and market value changes of Academic Enhancement Fund (AEF) investments offset by the annual $18.7 million distribution to the University relating to the AEF Trust Agreement.

Total Net Position

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

Net investment in capital assets	$ 776,373	74.6%
Restricted	398,769	38.4%
Unrestricted (deficit)	(135,502)	-13.0%
Total net position	**$1,039,640**	**100.0%**

Total net position increased by $62.4 million in fiscal year 2018, which is attributed to increases in net investment in capital assets and restricted net position. Net investment in capital assets increased by $46.2 million primarily due to an increase in capitalized construction costs for the Health Sciences Innovation building of $90.7 million, as well as land acquisitions totaling $11.2 million. These are offset by an increase in long-term debt of $52.2 million primarily attributed to the issuance of the 2018AB System Revenue Bonds. Restricted net position increased by $14.9 million primarily due to an increase in capital projects. The increase in capital projects is mainly due to the Oro Valley Veterinary Medical Facility improvement project of $8.0 million and the Biomedical Sciences Partnership Building shell space project of $7.3 million, offset by the spend down of gift revenues for an Intercollegiate Athletics renovation project of $1.5 million. Unrestricted net position reflects a deficit balance of $135.5 million. This deficit is due to the implementation of GASB Statement No. 75 for other postemployment benefits other than pension.

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position presents the University's revenues earned and the expenses incurred during fiscal year 2018, regardless of when cash is received or paid. Activities are reported as either operating or non-operating. 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 non-operating revenues. During the fiscal year, the University incurred capital financing costs; these costs are reported as non-operating expenses.

Condensed Schedule of Revenues, Expenses and Changes in Net Position

A comparison of the University's operations (in thousands of dollars) for the years ended June 30, 2018 and 2017 is as follows:

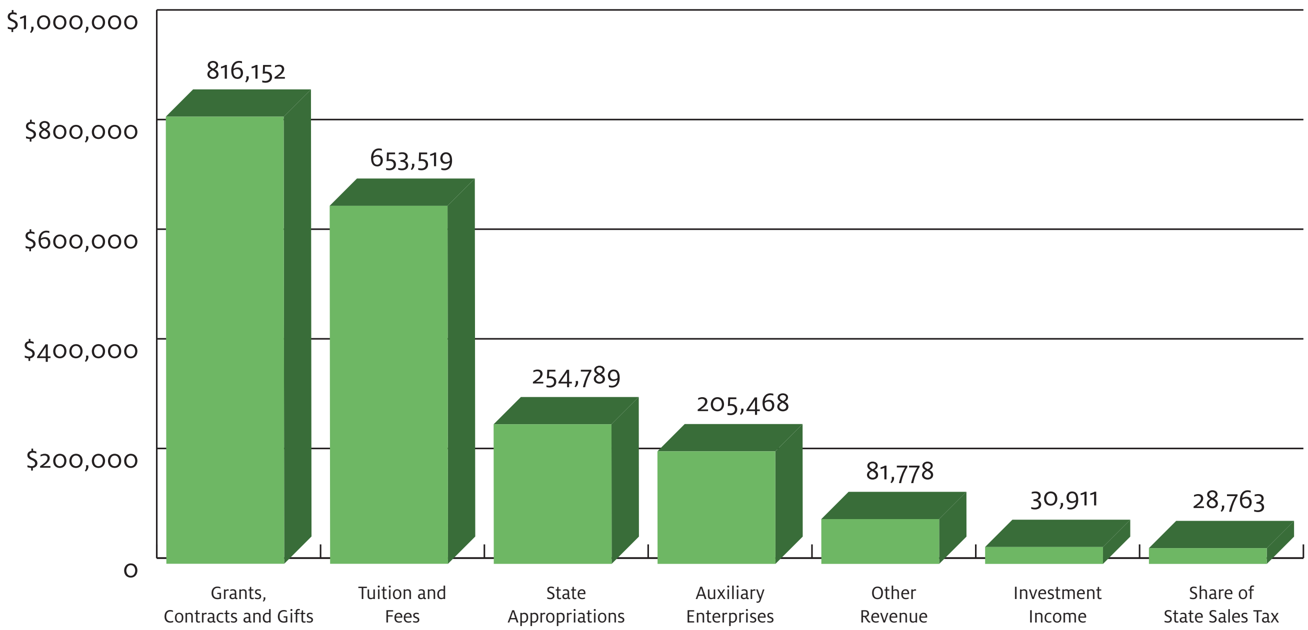
	FY 2018	FY 2017- As Restated*	% Change
Operating revenues			
Student tuition and fees, net	$ 653,519	$ 653,725	0.0%
Grants and contracts	499,866	513,983	-2.7%
Auxiliary enterprises, net	205,468	210,496	-2.4%
Other	72,738	70,238	3.6%
Total operating revenues	**$ 1,431,591**	**$ 1,448,442**	**-1.2%**
Operating expenses			
Instruction and academic support	$ 808,239	$ 773,837	4.4%
Research and public service	509,040	486,733	4.6%
Student services and scholarships	129,674	110,906	16.9%
Institutional support and operation of plant	249,309	234,110	6.5%
Auxiliary enterprises	175,576	164,539	6.7%
Depreciation	135,565	132,726	2.1%
Total operating expenses	**$ 2,007,403**	**$ 1,902,851**	**5.5%**
Operating loss	**$ (575,812)**	**$ (454,409)**	**26.7%**
Non-operating revenues (expenses)			
State appropriations	$ 254,789	$ 245,146	3.9%
Grants, contracts and gifts	316,286	290,388	8.9%
Share of state sales tax revenues	28,763	27,618	4.1%
Investment income	30,911	31,962	-3.3%
Interest expense on debt	(53,275)	(51,253)	3.9%
Other non-operating revenues, net	9,040	11,072	-18.4%
Net non-operating revenues	**$ 586,514**	**$ 554,933**	**5.7%**
Income before capital and endowment additions	**$ 10,702**	**$ 100,524**	**-89.4%**
Capital appropriations	14,249	21,978	-35.2%
Other capital and endowment additions	37,404	33,181	12.7%
Increase in net position	**$ 62,355**	**$ 155,683**	**-59.9%**
Net position, end of year	**$ 1,039,640**	**$ 977,285** *	**6.4%**

*The University implemented GASB Statement No. 75 in fiscal year 2018. The implementation of GASB Statement No. 75 resulted in a restatement of the University's beginning net position from fiscal year 2017 of $(157,460), which is reflected in the comparative table shown above.

Total Revenues

The following chart represents total revenues of $2,071,380 for fiscal year 2018:

Total Revenues (in thousands)



Operating and non-operating grants, contracts and gifts: Grants, contracts and gifts increased by $11.8 million or 1.5% in comparison to fiscal year 2017. Revenues vary from year to year for many reasons, including the availability of funding from sponsors, the commencement or closure of particularly large sponsored projects, and unanticipated gift revenues. The increase is mainly attributed to a $6.9 million increase for academic support programs related to local inter-governmental agreements (IGA) and $4.3 million in additional grant funding for students.

State appropriations: State appropriations increased by $9.6 million or 3.9% due to an increase in state revenue projections for the year.

Investment income: A summary of investment income (in thousands of dollars) for the years ended June 30, 2018 and 2017 is as follows**:**

	FY 2018		FY 2017		% Change
Pooled operating funds	$	15,197	$	14,467	5.0%
Deposits with trustees for capital projects		2,305		1,010	128.2%
Endowments		13,409		16,485	-18.7%
Total investment income	**$**	**30,911**	**$**	**31,962**	**-3.3%**

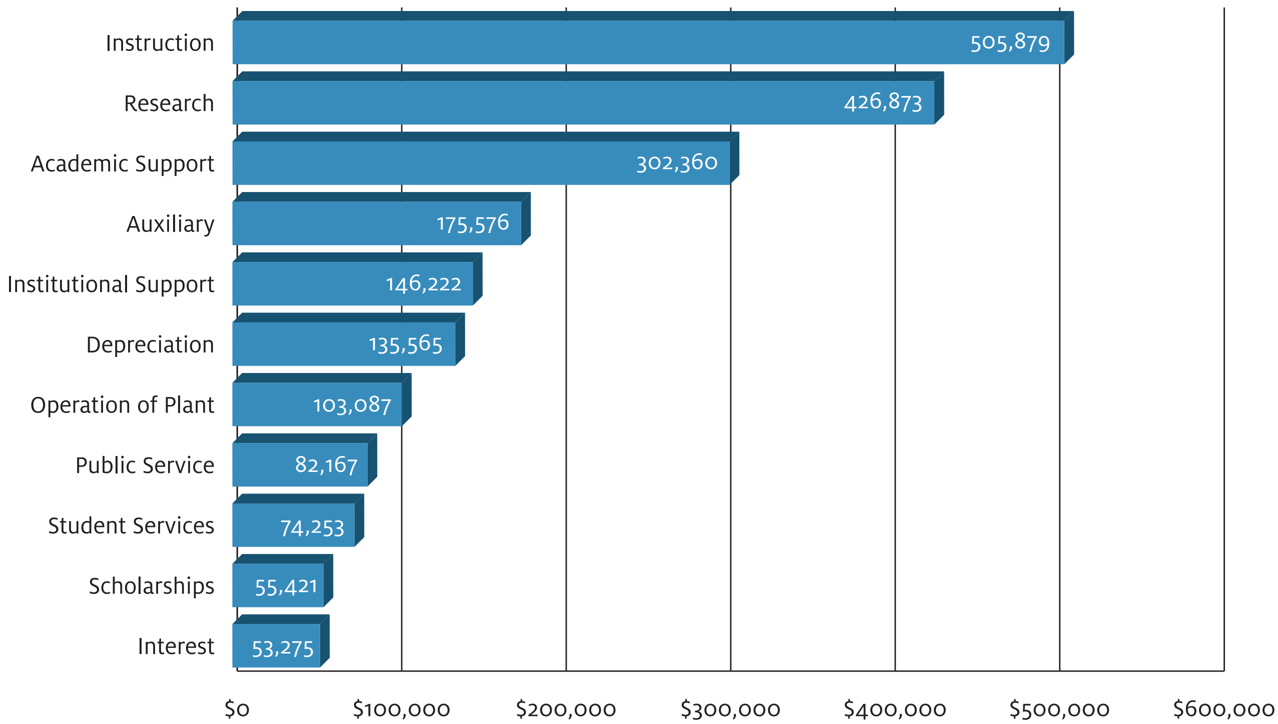
Total investment income decreased by $1.1 million or -3.3%. Pooled operating funds are invested in short and long-term debt instruments. The change in investment income is primarily due to a decrease of $3.1 million in realized and unrealized gains in the fair value for endowments offset by increases of $1.3 million in interest earnings on deposits with trustees for capital projects due to the issuance of the 2018AB System Revenue Bonds and $0.7 million in realized and unrealized earnings on pooled operating funds.

Capital appropriations and other capital and endowment additions: The total balance for capital appropriations and other capital and endowment additions in fiscal year 2018 is $51.7 million. This is an overall decrease of $3.5 million or -6.4% in comparison to fiscal year 2017. In fiscal year 2018, capital appropriations decreased by $7.7 million mainly due to a one-time appropriation of $8.0 million from the state for capital improvements that was received in fiscal year 2017. This amount is offset by increases in additions to permanent endowments of $2.4 million and capital gifts of $2.1 million. Additions to permanent endowments increased by $2.4 million due to increases in new permanent endowments and additions to existing endowments.

Total Expenses

The following chart represents total expenses by functional classification of $2,060,678 for fiscal year 2018:

Total Expenses (in thousands)



Total expenses increased by $106.6 million or 5.5% in comparison to fiscal year 2017. The primary functional expense classifications driving the change were instruction, research, student services and operation of plant. Instruction and research expenditures increased by $46.5 million and $29.4 million, respectively, primarily due to increases in personal services and benefits and supplies and services. Student services and operation of plant expenditures increased by $18.2 million and $15.2 million, respectively, mainly due to increases in personal services and benefits and supplies and services.

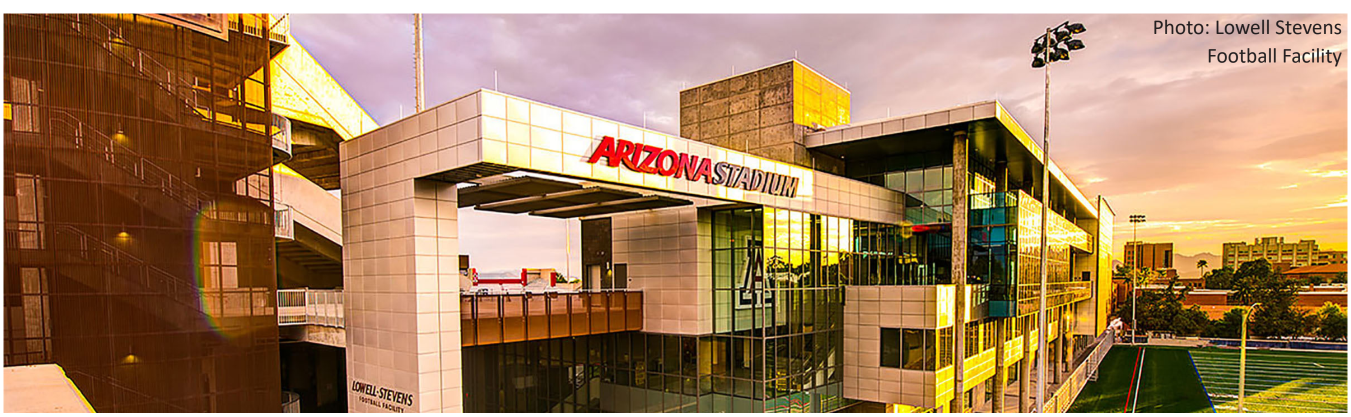
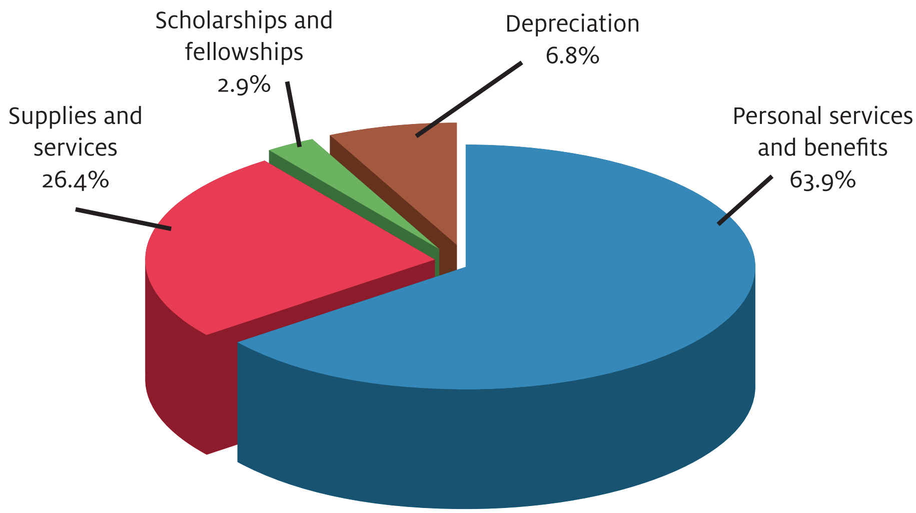


Photo: Lowell Stevens Football Facility

Operating Expenses by Natural Classification

In addition to programmatic (functional) classification of operating expenses, a summary of the University's expenses by natural classification (in thousands of dollars), as listed in Note 12, for the years ended June 30, 2018 and 2017 follows:

	FY 2018	FY 2017	% Change
Personal services and benefits	$ 1,283,072	$ 1,229,939	4.3%
Supplies and services	530,930	482,530	10.0%
Scholarships and fellowships	57,836	57,656	0.3%
Depreciation	135,565	132,726	2.1%
Total operating expenses	**$ 2,007,403**	**$ 1,902,851**	**5.5%**



Condensed Statement of Cash Flows

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. Due to the categorization of operating and non-operating expenses by GASB, cash flows from operating activities are typically a net cash use. Net cash flows from noncapital financing activities is a major funding source for operating expenses and includes state appropriations, donations, and other activities not covered in the other sections. Cash flows from 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. The following summarizes cash flows for fiscal years 2018 and 2017 (in thousands of dollars):

Cash Provided By (Used For):	FY 2018	FY 2017
Operating activities	$ (464,708)	$ (295,594)
Noncapital financing activities	619,329	567,142
Capital financing activities	(195,512)	(93,241)
Investing activities	39,093	(212,532)
Net increase (decrease) in cash and cash equivalents	**(1,798)**	**(34,225)**
Cash and cash equivalents, beginning of year	114,914	149,139
Cash and cash equivalents, end of year	**$ 113,116**	**$ 114,914**

CAPITAL AND DEBT ANALYSIS

The University of Arizona's capital program is developed through a formal process involving internal committees, the Arizona Board of Regents (ABOR), and the State Joint Committee on Capital Review (JCCR). The process starts with the preparation of a comprehensive annual Capital Improvement Plan (CIP) as required by Arizona Revised Statutes §41-793 and ABOR policy 7-106. The CIP presents the University's 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 focuses on addressing space deficiencies in academic, research, student services/support services, and deferred maintenance. The CIP also provides a summary of the University debt information including debt ratio projections to comply with ABOR policy and State statutes. The projects in the CIP are prioritized at a later date by University management and presented to ABOR for approval through the Capital Development Plan (CDP). The CDP presents immediate need for capital projects in the coming 12 months including the estimated budget costs of the project, how the project aligns with the University's strategic plan, funding source(s), and any associated debt information. Projects to be financed by debt must also be reviewed by the State Joint Committee on Capital Review (JCCR).

During fiscal year 2018, the University completed and placed in service the Bioscience Research Laboratories building on the University's Main Campus. The Bioscience Research Laboratories building was constructed at a total cost of $123.5 million and was financed by System Revenue Bonds (SRBs), Stimulus Plan for Economic and Education Development (SPEED) Revenue Bonds, and University funds. The Bioscience Research Laboratories building provides 172,600 gross square feet of space to meet critical research capacity on the University's Main Campus. The Bioscience Research Laboratories building houses state of the art multi-disciplinary laboratory, clinical, and imaging space necessary to attract top level researchers and increase research grants, disclosures, patents, and rankings. The close proximity to other research-related facilities will create opportunities for collaboration, contributing to the University's research community. In addition, there were ongoing building projects under construction including the Health Sciences Innovation building ($165.0 million). This project is necessary to meet the University's strategic priority of growing research. Other projects under construction are the Intercollegiate Athletics Projects ($67.2 million) and the Honors College Community Support and Auxiliary Services Project ($53.3 million). These two projects create new student service spaces, improve existing sports facilities, enhance student and fan experiences, and improve student recruitment, retention, and success.

The University generally finances capital improvements and acquisitions through the issuance of System Revenue Bonds (SRBs), Stimulus Plan for Economic and Education Development (SPEED) Revenue Bonds, or Certificates of Participation (COPs). Stimulus Plan for Economic and Education Development (SPEED) was authorized by the Arizona State Legislature to stimulate the state's economy through capital construction for state universities. This legislation also authorizes the use of state lottery revenue allocations to fund up to 80 percent of the annual debt service on all projects financed by SPEED Revenue Bonds. The three state universities are responsible for at least 20 percent of the debt service. Prior to issuing any non-refunding Bonds or COPs, the University must provide a financing and funding plan in the CDP for ABOR approval. Additionally, the project is required to be reviewed by the State Joint Committee on Capital Review (JCCR). 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, 2018, the University's debt ratio was 5.0%. The University's credit rating on its outstanding SRBs is Aa2 by Moody's and AA- by Standard and Poor's.

During fiscal year 2018, the University issued one System Revenue Bond with two series. The System Revenue Bond Series 2018A (SRB 2018A) was issued for $94.0 million to finance the construction of the Honors College Community Support and Auxiliary Services Project and Intercollegiate Athletics Projects. The System Revenue Bond Series 2018B (SRB 2018B) was issued for $16.8 million to finance deferred maintenance projects in the Animal and Comparative Biomedical Sciences building (Building 90). SRB 2018B is the first University project to benefit from the Capital Infrastructure Fund established by Arizona Revised Statutes §15-1671. Pursuant to the statute, one-half of the debt service will be paid by State Appropriations tied to the new bonding authority, and one-half will be paid by University matching funds. Additionally, the University issued one Refunding Certificate of Participation with two series. The Certificate of Participation Series 2018A was issued for $27.1 million to refund the remaining outstanding portion of the 2007B Certificate of Participation. The Certificate of Participation Series 2018B was issued for $32.4 million to refund the remaining outstanding portion of the 2007D Certificate of Participation.

On December 15, 2017 the University entered into a ground lease agreement with American Campus Communities (ACC) to develop a student housing project including student housing, academic support space, and a dining facility for enhancing services and providing better experiences to the University's Honors College students. The ground lease is for a period of 40 years with four ten-year options to renew. Additionally, the University entered into a development agreement with ACC to design and construct the dining facility, Honors College academic spaces, satellite Campus Recreation Center, and parking facilities at a total cost to the University of $53.3 million. Upon completion of the projects, the University will enter into a master sublease with ACC which will allow the University to operate the student housing facility, including leasing the beds, managing residence life programming and staffing of the facility. The master sublease will be effective and continue for five years from the target opening date. The master sublease may be extended for successive one year terms, subject to the continuation of the ground lease. These new facilities will create the first full-service, living-learning community on the University campus, giving Honors students the unique opportunity to participate in a vibrant culture of active learners throughout their entire day.

Detailed capital asset and debt information can be found in Notes 5 and 8, respectively, in the accompanying notes to the financial statements.

ECONOMIC OUTLOOK

The State of Arizona economy maintains a modest growth, forecasted to grow at the rate of 3.6% for fiscal year 2019 in comparison to 3.9% in fiscal year 2018. The forecasted base revenue includes adjustments for the Urban Revenue Sharing program, and previously enacted tax law changes have adjusted revenue up. These adjustments resulted in an overall estimated increase in the State's total General Fund revenues by $599.7 million, or 6.0%, for fiscal year 2019 in comparison to fiscal year 2018.

Highlights of the State fiscal year 2019 budget included increases to the baseline for certain areas with higher priority: $176 million to the Arizona Department of Education (ADE) for the first year of a K-12 teacher salary increase of 20% statewide by fiscal year 2021, $100 million to ADE for increasing Additional Assistance funding as part of a 5 year plan, $35 million for increased retirement rate costs in the Department of Corrections (ADC), Department of Public Safety (DPS), and elected officials' agencies, $15 million for increased inmate healthcare costs at ADC, and $10 million for a 2.5% hospital provider rate increase in the Arizona Heath Care Cost Containment System (AHCCCS). Additionally, highlights of reductions to the State fiscal year 2019 budget included adjustments from the baseline of the following areas: $35 million from fund-shifting some AHCCCS Proposition 204 spending to the Hospital Assessment, $18 million in ADE savings from requiring desegregation taxes to be levied as a secondary rather than a primary property tax, $7 million from fund shifts to non-General Fund sources in DPS and the Department of Environmental Quality, and $5 million from caseload savings in the Department of Economic Security's (DES) Temporary Assistance for Needy Families cash benefits program used in the Department of Child Safety.

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 University experienced an increase in total appropriations of $8.7 million or approximately 3.2% by the State for fiscal year 2019. The fiscal year 2019 total appropriation to the University of Arizona is $277.7 million. It is anticipated that the State will continue to take a conservative approach to State spending and budgeting in the immediate fiscal periods to come.

While the University and Arizona Board of Regents recognize the fiscal pressures the State of Arizona has been managing, the University has continued the guaranteed tuition program which started in the fall of 2014. The guaranteed tuition program for qualified incoming students is a constant tuition rate set by ABOR for eight semesters. The program continues to receive great support from parents and students because of the transparency throughout the four-year degree. For fiscal year 2019 incoming students, the Arizona Board of Regents voted to increase undergraduate tuition by 1.8% for residents with non-residents experiencing a 1.9% increase.

Since the University is ultimately subject to the same economic variables that affect other financial entities, it is difficult 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.

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET POSITION

June 30, 2018 *(in thousands of dollars)*

Assets

Current assets		
Cash and cash equivalents (Note 3)	$	87,912
Short-term investments (Note 3)		216,300
Receivables:		
Accounts receivable (net of allowances of $2,319)		57,442
Government grants receivable		48,937
Student loans (net of allowances of $163)		1,567
Inventories		6,808
Prepaid expenses		14,714
Total current assets	**$**	**433,680**
Noncurrent assets		
Restricted cash and cash equivalents (Note 3)	$	25,204
Restricted investments with trustee (Note 3)		257,743
Restricted investments with bond trustees (Note 3)		181,063
Long-term investments (Note 3)		489,155
Endowment investments (Note 3)		303,998
Equity interest in joint venture (Note 4)		11,458
Student loans receivable (net of allowances of $2,552)		19,432
Prepaid expenses		42
Capital assets, not being depreciated (Note 5)		487,216
Capital assets, being depreciated, net (Note 5)		1,713,377
Total noncurrent assets	**$**	**3,488,688**
Total Assets	**$**	**3,922,368**

Deferred Outflows of Resources

Deferred outflows related to pensions (Note 10)	$	78,054
Deferred outflows related to OPEB (Note 11)		7,361
Deferred amounts from refunding of debt		35,793
Total Deferred Outflows of Resources	**$**	**121,208**

STATEMENT OF NET POSITION (CONTINUED)

Liabilities

Current liabilities		
Accounts payable	$	61,408
Accrued payroll and benefits		50,375
Accrued compensated absences, current portion (Note 7)		11,992
Unearned revenue and deposits (Note 6)		107,276
Pension liability, current portion (Note 10)		4,221
Current portion of long-term debt (Note 8)		
To be funded by University revenues		60,762
To be funded by State of Arizona appropriations and State Lottery monies		15,506
Capital commitments, current portion (Note 4)		4,950
Total current liabilities	**$**	**316,490**
Noncurrent liabilities		
Accrued compensated absences (Note 7)	$	54,605
Net pension liability (Note 10)		623,965
OPEB liability (Note 11)		161,468
Long-term debt (Note 8)		
To be funded by University revenues		1,114,132
To be funded by State of Arizona appropriations and State Lottery monies		410,553
Capital commitments (Note 4)		14,624
Total noncurrent liabilities	**$**	**2,379,347**
Total Liabilities	**$**	**2,695,837**

Deferred Inflows of Resources

Deferred inflows related to pensions (Note 10)	$	41,356
Deferred inflows related to OPEB (Note 11)		42,598
Deferred amounts from refunding of debt		202
Resources received before time requirements met (Note 3)		223,943
Total Deferred Inflows of Resources	**$**	**308,099**

Net Position

Net investment in capital assets	$	776,373
Restricted for nonexpendable:		
Endowments		127,940
Student loans		26,287
Restricted for expendable:		
Scholarships and fellowships		13,533
Academic/departmental uses		184,852
Capital projects		21,423
Debt service		24,734
Unrestricted (deficit)		(135,502)
Total Net Position	**$**	**1,039,640**

See Notes to Financial Statements


Photo: Chemistry Building Expansion

STATEMENT OF FINANCIAL POSITION – COMPONENT UNITS

June 30, 2018 *(in thousands of dollars)*

	University of Arizona Foundation	Other	Total
Assets			
Cash and cash equivalents	$ 39,567	$ 10,631	$ 50,198
Pledges receivable	40,846	776	41,622
Other receivables	-	2,849	2,849
Investments in marketable securities	964,442	19,755	984,197
Other investments	-	215	215
Property and equipment, net	3,346	24,350	27,696
Other assets	2,698	6,791	9,489
Total Assets	**$ 1,050,899**	**$ 65,367**	**$ 1,116,266**
Liabilities and Net Assets			
Liabilities			
Accounts payable and accrued expenses	$ 3,842	$ 2,004	$ 5,846
Fair value of endowments managed for the University	195,550	-	195,550
Annuities payable and other trust liabilities	23,795	-	23,795
Deferred revenue and deposits	-	7,038	7,038
Short-term and long-term debt	-	5,553	5,553
Other liabilities	-	146	146
Total Liabilities	**$ 223,187**	**$ 14,741**	**$ 237,928**
Net Assets			
Unrestricted	$ 15,812	$ 40,377	$ 56,189
Temporarily restricted	139,505	4,390	143,895
Permanently restricted	672,395	5,859	678,254
Total Net Assets	**$ 827,712**	**$ 50,626**	**$ 878,338**
Total Liabilities and Net Assets	**$ 1,050,899**	**$ 65,367**	**$ 1,116,266**

See Notes to Financial Statements

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Year Ended June 30, 2018 *(in thousands of dollars)*

Operating Revenues

Student tuition and fees, net of scholarship allowances of $214,043	$	653,519
Federal grants and contracts		304,183
State grants and contracts		13,592
Local grants and contracts		2,424
Nongovernment grants and contracts		179,667
Sales and services of educational departments		54,180
Auxiliary enterprises, net of scholarship allowances of $7,176		205,468
Other operating revenues		18,558
Total operating revenues	**$**	**1,431,591**

Operating Expenses

Educational and general		
Instruction	$	505,879
Research		426,873
Public service		82,167
Academic support		302,360
Student services		74,253
Institutional support		146,222
Operation and maintenance of plant		103,087
Scholarships and fellowships		55,421
Auxiliary enterprises		175,576
Depreciation (Note 5)		135,565
Total operating expenses	**$**	**2,007,403**
Operating Loss	**$**	**(575,812)**

Nonoperating Revenues (Expenses)

State appropriations	$	254,789
Share of State sales tax revenues		28,763
Federal grants and appropriations		78,951
State and other government grants		25,968
Nongovernment grants and contracts		129,621
Gifts		81,746
Investment income		30,911
Interest expense on debt		(53,275)
Other nonoperating revenues, net		9,040
Net nonoperating revenues	**$**	**586,514**
Income before Capital and Endowment Additions	**$**	**10,702**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (CONTINUED)

Capital grants, gifts and conveyances	$	11,447
Capital appropriations		14,249
Capital commitment - State Lottery Revenue		21,211
Additions to permanent endowments		4,746
Total capital and endowment additions	**$**	**51,653**
Increase in Net Position	**$**	**62,355**

Net Position

Net Position - Beginning of year, as restated		977,285
Net Position - End of year	**$**	**1,039,640**

See Notes to Financial Statements

Photo: Gregor Orbino

STATEMENT OF ACTIVITIES – COMPONENT UNITS

Year Ended June 30, 2018 *(in thousands of dollars)*

	University of Arizona Foundation	Other	Total
Revenues			
Sales and services	$ 3,100	$ 2,518	$ 5,618
Contributions	169,082	1,275	170,357
Rental revenues	-	15,008	15,008
Investment income	53,249	1,302	54,551
Other income	13,198	3,059	16,257
Total revenues	**$ 238,629**	**$ 23,162**	**$ 261,791**
Expenses			
Program services:			
Leasing related expenses	-	$ 10,798	$ 10,798
Payments to the University	$ 62,072	191	62,263
Payments on behalf of the University	12,156	5,095	17,251
Supporting services:			
Management and general	7,036	3,163	10,199
Fundraising	7,692	403	8,095
Total expenses	**$ 88,956**	**$ 19,650**	**$ 108,606**
Increase in Net Assets	**$ 149,673**	**$ 3,512**	**$ 153,185**
Net Assets - Beginning of year	**$ 678,039**	**$ 47,114**	**$ 725,153**
Net Assets - End of year	**$ 827,712**	**$ 50,626**	**$ 878,338**

See Notes to Financial Statements

Photo: Liam Frederick

STATEMENT OF CASH FLOWS

Year Ended June 30, 2018 *(in thousands of dollars)*

Cash Flows from Operating Activities		
Tuition and fees	$	655,530
Grants and contracts		494,636
Payments for salaries, wages and benefits		(1,306,674)
Payments to suppliers		(526,752)
Payments for scholarships and fellowships		(57,836)
Loans issued to students		(5,522)
Collections on loans to students		2,755
Auxiliary enterprise receipts		208,167
Sales and services of educational departments		52,769
Other receipts		18,219
Net cash used for operating activities	**$**	**(464,708)**
Cash Flows from Noncapital Financing Activities		
State appropriations	$	254,789
Share of State sales tax receipts		28,679
Gifts, contracts and grants for other than capital purposes		321,692
Nonoperating receipts for other than capital purposes		11,209
Direct Loans received		263,466
Direct Loans disbursed		(260,433)
Funds held for others received		13,461
Funds held for others disbursed		(13,534)
Net cash provided by noncapital financing activities	**$**	**619,329**
Cash Flows from Capital Financing Activities		
Proceeds from issuance of capital debt, including premiums	$	192,672
Capital appropriations, grants and gifts received		22,362
Capital commitment - State Lottery revenue		42,731
Build America Bonds - federal subsidy		2,929
Proceeds from sale of capital assets		230
Purchase of capital assets		(263,794)
Principal paid on capital debt and leases		(132,049)
Interest paid on capital debt and leases		(60,593)
Net cash used for capital financing activities	**$**	**(195,512)**

STATEMENT OF CASH FLOWS (CONTINUED)

Cash Flows from Investing Activities

Proceeds from sales and maturities of investments	$	402,582
Interest and dividends on investments		29,767
Purchase of investments		(393,256)
Net cash provided by investing activities	**$**	**39,093**
Net Decrease in Cash and Cash Equivalents	**$**	**(1,798)**

Cash and Cash Equivalents

Cash and Cash Equivalents - Beginning of year		114,914
Cash and Cash Equivalents - End of year	**$**	**113,116**

Reconciliation of Operating Loss to Net Cash Used for Operating Activities

Operating loss	$	(575,812)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation expense		135,565
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:		
Net pension liability		(22,848)
Deferred outflows of resources related to pensions		39,166
Deferred inflows of resources related to pensions		(42,924)
OPEB liability		(49,863)
Deferred outflows of resources related to OPEB		548
Deferred inflows of resources related to OPEB		42,598
Receivables, net		(4,522)
Equity interest in joint venture		(426)
Inventories		493
Prepaid expenses		(2,501)
Accounts payable		6,872
Accrued payroll and benefits and compensated absences		9,721
Unearned revenue and deposits		(775)
Net cash used for operating activities	**$**	**(464,708)**

Significant Noncash Transactions

Gifts and conveyances of capital assets	$	3,334
Change in fair value of investments		7,074
Change in fair value of equity interest in joint venture		(1,479)
Change in fair value of restricted investment with trustee		22,437
Refinancing long-term debt		65,950
Amortization of bond discount, prepaid insurance, and deferred cost of refundings		(5,343)
Amortization of bond premium		8,067
Net loss on disposal of capital assets with an original cost of $25,303, accumulated depreciation of $21,198 and cash proceeds of $230		(3,875)

See Notes to Financial Statements

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 an integral part of the State of Arizona's Tri-University system, which is an enterprise fund in the State of Arizona's *Comprehensive Annual Financial Report*.

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

For the year ended June 30, 2018, the University implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, as amended by GASB Statement No. 85, *Omnibus 2017*. GASB Statement No. 75 established standards for measuring and recognizing net assets or liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/ expenditures related to other postemployment benefits (OPEB) provided through defined benefit OPEB plans. In addition, the implementation of GASB Statement No. 75 resulted in a beginning net position restatement as well as additional footnote disclosures in Note 11.

Net position as of July 1, 2017 has been restated as follows for the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, as amended by GASB Statement No. 85, *Omnibus 2017*.

Net position as previously reported at June 30, 2017	$ 1,134,745,000
Prior period adjustment - implementation of GASB 75:	
OPEB liability (measurement date as of June 30, 2016)	(165,369,000)
Deferred outflows - University contributions and benefit payments made during fiscal year 2017	7,909,000
Total prior period adjustment	$ (157,460,000)
Net position as restated, July 1, 2017	**$ 977,285,000**

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

- The Statement of Net Position provides information about assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position 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. Deferred outflows/inflows of resources are resources that have been consumed or acquired that are applicable to a future reporting period. Net position is the residual amount and is classified according to external donor restrictions and availability of assets to satisfy University obligations. Net investment in capital assets represents capital assets less accumulated depreciation and the amount of related outstanding debt for those assets. Nonexpendable restricted net position is comprised of gifts received for endowment purposes and revolving student loan funds, the corpus of which cannot be expended. Expendable restricted net position represents grants, contracts, gifts, and other resources that have been externally restricted for specific purposes. Unrestricted net position includes the remaining amounts of net position, 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 Position 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 position 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.

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.
- 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 applicable 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 2018, the expendable rate was established at 4% of the three-year average market value ending December 31, 2016. Donor restricted endowments that are available for expenditure are reported as restricted and expendable on the Statement of Net Position.

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

Capital Assets, Special Collections and Historical Treasures

- Capital assets are reported at actual cost or, if donated, at acquisition value.
- The University maintains special collections and historical treasures for educational purposes and public exhibition. These special collections include Kress, Pfeiffer, and Gallagher artwork, Ansel Adams, Harry Callahan, and Edward Weston 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:

Asset Category	Capitalization Threshold ($)	Estimated Useful Life (yrs)
Land	1	n/a
Construction in progress	100,000	n/a
Buildings and improvements	100,000	15 – 50
Infrastructure	100,000	10 – 100
Equipment:		
Various equipment, machinery, vehicles and other	5,000	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

Deferred Outflows/Inflows of Resources – The statement of net position includes separate sections for deferred outflows of resources and deferred inflows of resources. The separate financial statement element deferred outflows of resources represents a consumption of net position that applies to future periods; these will be recognized as an expense in future periods. The University is reporting deferred outflows for a deferred charge on refunding which results from the difference in the carrying value of refunded debt and its reacquisition prices, and for deferred pension and OPEB amounts as detailed in Notes 10 and 11.

Deferred inflows of resources represent an acquisition of net position that will be recognized as revenue in future periods. The University is reporting deferred inflow amounts resulting from refunding of debt, pension and OPEB amounts as described in Notes 10 and 11, and resources received before time requirements were met from an affiliation agreement between the University and Banner Health which created the "Academic Enhancement Fund" for the benefit of the Arizona Health Science Center. These amounts will be recognized as an inflow of resources in future periods.

Pension and Other Postemployment Benefits - For purposes of measuring the net pension and other postemployment benefits (OPEB) liabilities, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the plans' fiduciary net position and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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 Position.

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, Law College Association of the University of Arizona, Campus Research Corporation, and Eller Executive Education, 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* and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34* have set forth criteria to be considered in determining financial accountability.

For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion under GASB Statement No. 14, *The Financial Reporting Entity*, a financial benefit or burden relationship also would need to be present between the primary government and the organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, GASB Statement No. 61 clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making that determination. GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units, an amendment of GASB Statement No. 14*, provides additional criteria for determining whether certain organizations are component units. Organizations that are legally separate, tax-exempt entities and that meet all of the following criteria should also be considered component units, with discrete presentation. These criteria are (1) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the University, its component units, or its constituents; (2) the University, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization; and (3) the economic resources received or held by an individual organization that the University, or its component units, is entitled to, or has the ability to otherwise access, are significant to the University.

Discretely Presented Component Units

The University of Arizona Foundation, Inc. (Foundation) is a legally separate, nonprofit, tax-exempt organization controlled by a separate Board of Directors. The principal goals of the Foundation are to support the University through various fund-raising activities and to contribute funds to the University in support of various programs. Although the University does not control the timing or amount of receipts from the Foundation, the Foundation's restricted resources are significant to the University and can only be used by, or for the benefit of, the University or its constituents. As the University is also entitled to these resources, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements. The Foundation's financial statements are not publicly available. For information regarding the Foundation's financial statements, contact The University of Arizona Foundation Comptroller at the following address: The University of Arizona Foundation, Financial Services Office, 1111 N. Cherry Ave., Room 403, Tucson, Arizona 85721-0109.

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 University of Arizona Science and Technology Park (Tech Park) and related properties. CRC currently leases from the University the remaining 67% of building space of the Tech Park not leased to the Arizona Research Park Authority. CRC is responsible for assisting in the development of the presently undeveloped portions of the Tech 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 and can access its resources (i.e., leased property and new building construction on the property), fiscal dependency and a benefit/burden relationship exist between the entities, making CRC a component unit. As CRC does not meet any of the blending criteria in GASB Statement No. 14, as amended, 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, 9070 South Rita Road, Suite 1750, Tucson, Arizona 85747.

Eller Executive Education (EEE) is a legally separate, tax-exempt, nonprofit corporation governed by a separate Board of Directors, all members of which are appointed by the President of the University of Arizona. EEE was established to advance the missions of the Eller College of Management and University of Arizona through noncredit, non-degree programs for business, government, and nonprofit leaders. Through leadership and business programs for local, regional, and international organizations, EEE helps organizations solve their leadership challenges. Given that these programs are customized and unlike any typical university course, EEE is able to fill an education market that is not otherwise effectively addressed by the University of Arizona. In the process, EEE advances University goals in outreach, workforce, and faculty development. As the University President appoints all EEE board members and can remove any member at will, the University can impose its will on EEE, making EEE a component unit. As EEE does not meet any of the blending criteria in GASB Statement No. 14, as amended, EEE 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 EEE at the following address: Eller Executive Education, P.O. Box 210108, Tucson, Arizona 85721-0108.

NOTE 3. DEPOSITS AND INVESTMENTS

A. General

At year end, the University's deposits and investments had a fair value of $1,561,375,000. The required disclosures are included in sections B through D of this footnote.

Included in the University's deposits and investments are capital project funds totaling $181,063,000 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.

Endowment funds totaling $195,550,000 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 (SEC) as an investment company. The Foundation's Investment Committee is responsible for oversight of the Pool in accordance with Foundation policies. 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 $38,384,000.

Further, the University is the sole beneficiary of the University of Arizona Academic Enhancement Fund Trust (Trust). Trust assets totaled $257,743,000 at June 30, 2018, and are recorded in the University's Statement of Net Position as restricted investments with trustee. Trust assets, less University contributions to the trust, are offset by a $223,943,000 deferred inflow of resources because not all time requirements have been met. The purpose of the Trust is to provide ongoing funding over 30 years, beginning in fiscal year 2015, in the form of $20 million annual distributions to the University for academic enhancements, faculty recruitment, and program development at the Arizona Health Science Center. The University has entered into an investment agreement with a third party, Banner Health, to direct the investment activity of the trustee in accordance with

Banner policies. In the event the Trust becomes insolvent or does not generate sufficient income to make the annual distributions, Banner Health is contractually obligated to make the annual distribution payments to the University from other sources.

B. Statutory and Board of Regents' Policies

Arizona Revised Statutes requires collateral for deposits at 102 percent of all deposits of the University not covered by federal deposit insurance. 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 State of Arizona Treasurer's pools are not registered with the SEC. The State of Arizona Board of Investment provides oversight for the State of Arizona Treasurer's pools.

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 comptroller's demand deposit account. Beyond this requirement, the University does not have a policy that specifically addresses custodial credit risk. At June 30, 2018, $19,923,000 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, $195,550,000 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 on the following page.

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	Aaa/AAA	Aa/AA	A/A	Baa/BBB	Ba/B
				Moody's/Standard & Poor's Rating			
Certificates of Deposit*	$ 32,131,000	$ 26,640,000		$ 5,491,000			
Corporate Bonds	571,294,000	9,894,000	$ 9,404,000	48,617,000	$ 261,803,000	$ 235,423,000	$ 6,153,000
Federal Agency Securities	144,392,000			144,392,000			
Fixed Income Mutual Funds	6,027,000	6,027,000					
Money Market Mutual Funds	137,159,000		137,159,000				
Municipal Bonds	1,638,000			1,638,000			
State Treasurer's Pool 3	1,795,000	1,795,000					
Total	**$ 894,436,000**	**$ 44,356,000**	**$ 146,563,000**	**$ 200,138,000**	**$ 261,803,000**	**$ 235,423,000**	**$ 6,153,000**

* Although most of the certificates of deposit are unrated by Moody's Investor Service or Standard & Poor's, $17,969,000 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 United States Treasury securities, the University does not have an investment in any single issuer that exceeds 5% of the overall portfolio.

Interest Rate Risk – The University does not have a formal policy for interest rate risk. The following chart presents the interest rate risk for the University's debt investments at June 30, 2018, utilizing the segmented time distribution method:

Investment Type	Fair Value	< 1 Year	1-5 Years	6-10 Years	> 10 Years
			Maturity Date		
Certificates of Deposit	$ 32,131,000	$ 5,464,000	$ 25,482,000	$ 1,185,000	
Corporate Bonds	571,294,000	182,127,000	377,937,000	11,230,000	
Federal Agency Securities	144,392,000	81,020,000	60,489,000	2,883,000	
Fixed Income Mutual Funds	6,027,000		2,673,000	3,251,000	$ 103,000
Money Market Mutual Funds	137,159,000	137,159,000			
Municipal Bonds	1,638,000		1,638,000		
State Treasurer's Pool 3	1,795,000		1,795,000		
US Treasury Securities	108,544,000	82,880,000	25,553,000	111,000	
Total	**$ 1,002,980,000**	**$ 488,650,000**	**$ 495,567,000**	**$ 18,660,000**	**$ 103,000**

Foreign Currency Risk – The University's foreign investments at June 30, 2018 are shown in the table on the right. Foreign currency - denominated investments are part of the University's endowment portfolios. 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
Common Stocks	Various	$ 515,000
Equity Mutual Funds	Various	17,464,000
Fixed Income Mutual Funds	Various	821,000
Mutual Funds - Asset Allocation	Various	845,000
Total		**$19,645,000**

D. Fair Value of Investment Assets

The University measures and categorizes its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines establish a three-tier hierarchy of inputs to valuation techniques used to measure fair value, as follows:

- Level 1: Quoted prices for identical investments in active markets that are accessible at the measurement date;
- Level 2: Inputs, other than quoted market prices included within Level 1, that are observable, either directly or indirectly;
- Level 3: Prices or valuations that require inputs that are significant to the fair value measurement and unobservable.

The University has the following fair value measurements as of June 30, 2018:

		Hierarchy Fair Value		
	As of June 30, 2018	**Level 1**	**Level 2**	**Level 3**
Investments by Fair Value Level				
Certificates of Deposit	$ 32,131,000		$ 32,131,000	
Common Stocks	4,322,000	$ 3,785,000	537,000	
Corporate Bonds	571,294,000		571,294,000	
Equity Mutual Funds	34,451,000	34,451,000		
Federal Agency Securities	144,392,000		144,392,000	
Fixed Income Mutual Funds	3,621,000	3,621,000		
Money Market Mutual Funds	137,056,000	137,056,000		
Municipal Bonds	1,638,000		1,638,000	
Mutual Funds - Asset Allocation	759,000	759,000		
Preferred Stocks	2,157,000		2,157,000	
Private Equities	1,032,000			$ 1,032,000
Real Estate	557,000			557,000
US Treasury Securities	108,544,000	108,544,000		
Total investments by fair value level	**$ 1,041,954,000**	**$ 288,216,000**	**$ 752,149,000**	**$ 1,589,000**
Other Investments at Fair Value				
Academic Enhancement Fund Trust	257,743,000			
Split Interest Endowment	9,071,000			
State Treasurer's Pool 3	1,795,000			
University of Arizona Foundation	195,550,000			
Total other investments at fair value	**$ 464,159,000**			
Investments at Net Asset Value (NAV)				
Equity Mutual Funds	3,133,000			
Total investments at net asset value	**$ 3,133,000**			
Total investments at fair value	**$ 1,509,246,000**			

Investments Classified in Fair Value Hierarchy

Investments categorized as Level 1 of the fair value hierarchy are valued using unadjusted prices quoted for identical assets in active, exchange and brokered markets for those securities. Investments categorized as Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Investments categorized as Level 3 of the fair value hierarchy are valued using various methods. The fair value of private equities are valued using multiple pricing options. For managed assets, business appraisers use valuation methodologies based on a number of assumptions to create the price. For non-managed assets, pricing is provided by various sources including the issuer or private investment manager. Real estate is valued by using the market approach industry standard valuation technique which includes independent appraisals.

Other Investments at Fair Value

The fair values of the Academic Enhancement Fund Trust and Split Interest Endowment are derived from their respective custodial bank's independent pricing services. The University has beneficial interests in these investment accounts, and determines fair value based on the University's percentage of beneficial interest, which is the unit of account for purposes of fair value determination.

The fair value of a participant's portion in the State Treasurer's Pool 3 approximates the value of that participant's pool shares and the participant's shares are not identified with specific investments. Investments in the State Treasurer's investment pools are valued at the pool's share price multiplied by the number of shares the University held.

The fair value of the University's position in the University of Arizona Foundation Pool is based on the University's proportionate share of the Pool, which is valued at marked-to-market monthly.

Investments at Net Asset Value

Equity mutual funds include event-driven hedge funds investing in corporate financial restructurings, major operational reorganizations, distressed situations, and other events. The funds are valued using the Net Asset Valuation per share and have a quarterly redemption frequency with 90 days' notice. There are no unfunded commitments.

NOTE 4. JOINT VENTURE AND JOINTLY GOVERNED ORGANIZATION

Joint Venture – The University is a participant in the Large Binocular Telescope Corporation (LBT). LBT was formally incorporated as a nonprofit corporation in August 1992 pursuant to a Memorandum of Understanding, as amended, executed on February 24, 1989, between the University and INAF Astrophysical Observatory in Florence, Italy. 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, Istituto Nazionale di Astrofisica, Research Corporation for Science Advancement, The 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 $18,309,000 and contributions of services and materials of $3,451,000, which is recorded as equity interest in joint venture on the statement of net position. 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 and depreciation of the property and equipment commenced. The University recorded its proportionate share of the use of the viewing/observation rights, $1,479,000 in calendar year 2018, as a reduction in its equity interest. At June 30, 2018, the equity interest totaled $11,458,000. According to the most recent audited financial statements of LBT for the year ended December 31, 2017, assets, liabilities, revenues and expenses totaled $121.0 million, $2.9 million, $14.5 million, and $18.5 million, respectively. For information regarding LBT's financial statements, contact The University of Arizona Comptroller at the following address: The University of Arizona, Financial Services Office, 1303 E. University Blvd., Box 4, Tucson, Arizona 85719-0521.

Jointly Governed Organization – 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 fourteen members of the GMTO Board of Directors, and is one of twelve 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 its voluntary contributions to the project. The University has recognized an intangible asset related to the costs incurred during the Design Development and Construction/Commissioning Phases. The University has also signed agreements outlining capital commitments to the GMTO between June 2016 and June 2022. Capital commitments related to the GMTO are as follows:

GMTO Capital Commitments

Beginning balance	$	18,924,000
Additions		6,100,000
Reductions		5,450,000
Ending balance	**$**	**19,574,000**
Current portion	**$**	**4,950,000**

The University has contributed a total of $46,526,000 to the GMTO as of June 30, 2018. The University has been and will 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, 2018, the University has received contractual payments related to the project from the GMTO and related partners totaling $70,294,000. Contractual payments were for projects related to mirror construction and process development and include the acquisition of glass and mold materials, the development of mirror testing systems, design study, and engineering support.

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018, was as follows:

	Beginning Balance June 30, 2017	Additions	Retirements	Transfers/ Reclasses	Ending Balance June 30, 2018
Land	$ 113,268,000	$ 11,200,000			$ 124,468,000
Construction in progress:					
Real property	224,544,000	196,796,000		$ (124,692,000)	296,648,000
Intangible assets	60,000,000	6,100,000			66,100,000
Total non-depreciable/amortizable capital assets	$ 397,812,000	$ 214,096,000		$ (124,692,000)	$ 487,216,000
Buildings and improvements	$ 2,525,817,000	$ 1,783,000	$ (8,192,000)	$ 124,283,000	$ 2,643,691,000
Infrastructure	271,856,000	3,253,000		409,000	275,518,000
Equipment	502,257,000	35,385,000	(14,333,000)		523,309,000
Intangible assets	100,327,000				100,327,000
Library materials	314,390,000	14,079,000	(2,778,000)		325,691,000
Total depreciable/amortizable capital assets	$ 3,714,647,000	$ 54,500,000	$ (25,303,000)	$ 124,692,000	$ 3,868,536,000
Less: accumulated					
depreciation/amortization					
Buildings and improvements	$ 1,189,056,000	$ 78,603,000	$ (5,460,000)		$ 1,262,199,000
Infrastructure	134,932,000	9,304,000			144,236,000
Equipment	381,689,000	27,907,000	(12,960,000)		396,636,000
Intangible assets	75,886,000	6,974,000			82,860,000
Library materials	259,229,000	12,777,000	(2,778,000)		269,228,000
Total accumulated depreciation/amortization	$ 2,040,792,000	$ 135,565,000	$ (21,198,000)		$ 2,155,159,000
Depreciable/amortizable capital assets, net	$ 1,673,855,000	$ (81,065,000)	$ (4,105,000)	$ 124,692,000	$ 1,713,377,000
Capital assets, net	**$ 2,071,667,000**	**$ 133,031,000**	**$ (4,105,000)**		**$ 2,200,593,000**

In addition to expenditures through June 30, 2018, it is estimated that $280,554,000 will be required to complete projects under construction or planned for construction. Of that amount, $149,040,000 is contractually encumbered.

NOTE 6. UNEARNED REVENUE AND DEPOSITS

Unearned revenue consists primarily of amounts received from grants and contract sponsors that have not yet been earned under the terms of the agreements as well as tuition and fees received in advance. Unearned revenue also includes amounts received in advance of an event, such as advance ticket sales for sporting events.

Unearned revenue and deposits at June 30, 2018 consist of the following:

Current Unearned Revenue and Deposits

Unexpended cash advances received for sponsored programs	$ 75,227,000
Tuition and fees	16,291,000
Auxiliary sales and services	11,213,000
Other unearned revenue	3,217,000
Deposits	1,328,000
Total current unearned revenue and deposits	**$ 107,276,000**

NOTE 7. ACCRUED COMPENSATED ABSENCES

Compensated absences consist of vacation leave earned by employees based on services already rendered. These balances are accrued when earned. Employees may carry forward from one calendar year to the next up to 264 accrued vacation hours depending on classification and years of service. Upon termination, accrued hours up to 176 will be paid. At fiscal year-end, the University accrued all compensated absence balances accumulated to date as a liability in the financial statements. 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 (ASDA). The University pays a percentage of its payroll for RASL to ASDA and does not have further liability. Accrued compensated vacation for the year ended June 30, 2018, was as follows:

Beginning balance	$ 61,363,000
Additions	54,774,000
Reductions	(49,540,000)
Ending balance	**$ 66,597,000**
Current portion	**$ 11,992,000**

NOTE 8. LONG-TERM DEBT & LEASE OBLIGATIONS

Long-term debt activity for the year ended June 30, 2018 was as follows:

	Beginning Balance June 30, 2017	Additions	Reductions	Ending Balance June 30, 2018	Due Within One Year
Bonds payable	$ 1,090,805,000	$ 110,835,000	$ (34,725,000)	$ 1,166,915,000	$ 34,925,000
Certificates of participation	302,176,000	59,565,000	(96,980,000)	264,761,000	31,945,000
Capitalized lease obligations	16,308,000		(794,000)	15,514,000	551,000
Subtotal long-term debt	$ 1,409,289,000	$170,400,000	$ (132,499,000)	$ 1,447,190,000	$ 67,421,000
Premium on sale of debt	141,103,000	21,111,000	(8,344,000)	153,870,000	8,860,000
Discount on sale of debt	(1,657,000)		1,550,000	(107,000)	(13,000)
Total long-term debt	**$1,548,735,000**	**$ 191,511,000**	**$(139,293,000)**	**$1,600,953,000**	**$ 76,268,000**

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, 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 as defined by State Statute. 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 University 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 January 30, 2018, the University sold System Revenue Bonds Series 2018A (2018A Bonds) for $93,995,000 and Series 2018B (2018B Bonds) for $16,840,000 dated February 14, 2018 as described below.

Series	Amount	Description	Interest Rate Range	Maturity Dates
2018A	$75,860,000	Serial Bonds	3.25% to 5.00%	2019 to 2040
	$18,135,000	Term Bonds	4.00% to 5.00%	June 1, 2043
2018B	$11,890,000	Serial Bonds	3.00% to 5.00%	2019 to 2038
	$4,950,000	Term Bonds	3.50%	June 1, 2043

The 2018A Serial Bonds include bonds with maturity dates on June 1, 2026 through and including June 1, 2035 and June 1, 2036 through and including any date thereafter and will be subject to optional redemption on June 1, 2025 and June 1, 2028, respectively, without premium. The 2018A Term Bonds with maturity on June 1, 2043 are subject to mandatory redemption without premium. The 2018A Bonds sold at a premium of $12,330,000. The University realized net proceeds of $105,725,000 after payment of $600,000 for issuance costs and underwriter discounts. The net proceeds were used to finance the Honors College Community Support and Auxiliary Services Project and the Intercollegiate Athletics Project.

The 2018B Bonds maturing on or after June 1, 2029 will be subject to optional redemption on June 1, 2028 and on any date thereafter without premium. The 2018B Bonds with maturity on June 1, 2043 are subject to mandatory redemption without premium. The 2018B Bonds sold at a premium of $1,308,000. The University realized net proceeds of $17,999,000 after payment of $149,000 for issuance costs and underwriter discounts. The net proceeds were used to finance the Building 90 Deferred Maintenance Project.

In fiscal year 2016, the University refunded, in advance of maturity, a portion of outstanding System Revenue Bonds Series 2009A. At June 30, 2018, the outstanding principal balance of the refunded bonds was $159,305,000, which will be paid by investments held in an irrevocable trust with a fair value of $163,313,000. Accordingly, the trust account assets and liability for these defeased bonds are not included in the University's financial statements.

In fiscal year 2017, the University refunded, in advance of maturity, a portion of outstanding System Revenue Bonds Series 2012A. At June 30, 2018, the outstanding principal balance of the refunded bonds was $9,650,000, which will be paid by investments held in an irrevocable trust with a fair value of $11,067,000. Accordingly, the trust account assets and liability for these defeased bonds are 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. Due to the federal sequestration, the University will receive a 6.6% reduction (totaling $103,000) in the federal interest subsidy for the August 1, 2018 debt service payment and a 6.2% reduction (totaling $188,000) in the federal interest subsidy for the February 1 and August 1, 2019 debt service payments.

The following schedule details outstanding bonds payable at June 30, 2018:

Issue	Original Amount	Year of Final Maturity	Interest Rates	Outstanding Principal
2008A – System Revenue Bonds	$ 43,105,000	2019	5.00%	$ 1,135,000
2009A – System Revenue Bonds	202,370,000	2020	4.00-5.00%	11,100,000
2012A – System Revenue Bonds	74,050,000	2042	4.00-5.00%	58,945,000
2012B – System Revenue Refunding Bonds	21,860,000	2022	2.62-3.29%	9,860,000
2012C – System Revenue Refunding Bonds	43,920,000	2034	2.055-3.912%	29,625,000
2013A – System Revenue Bonds	69,175,000	2048	3.00-5.00%	66,100,000
2013B – System Revenue Refunding Bonds	34,985,000	2048	3.375 -5.00%	30,370,000
2014 – System Revenue Refunding Bonds	16,025,000	2029	4.00-5.00%	11,670,000
2015A – System Revenue Refunding Bonds	103,950,000	2045	4.00-5.00%	103,950,000
2015B – System Revenue Refunding Bonds	14,660,000	2020	1.625-1.925%	7,295,000
2016 – System Revenue Refunding Bonds	175,385,000	2039	3.00-5.00%	175,385,000
2016A – System Revenue Refunding Bonds	44,175,000	2040	3.00-5.00%	40,725,000
2016B – System Revenue Bonds	142,390,000	2046	4.00-5.00%	142,390,000
2018A – System Revenue Bonds	93,995,000	2043	3.25-5.00%	93,995,000
2018B – System Revenue Bonds	16,840,000	2043	3.00-5.00%	16,840,000
Subtotal - System Revenue Bonds	$ 1,096,885,000			$ 799,385,000
2010 – SPEED Revenue Bonds	$ 147,475,000	2045	5.058-6.643%	$ 139,810,000
2011 – SPEED Revenue Bonds	39,595,000	2030	4.25-5.00%	35,455,000
2013 – SPEED Revenue Bonds	70,125,000	2049	3.75-5.00%	67,875,000
2014 – SPEED Revenue Bonds	129,185,000	2045	3.00-5.00%	124,390,000
Subtotal – SPEED Revenue Bonds	$ 386,380,000			$ 367,530,000
Total	**$ 1,483,265,000**			**$1,166,915,000**

The following schedule details debt service requirements to maturity for System and SPEED Revenue Bonds payable at June 30, 2018:

Year	Principal	Interest
2019	$ 34,925,000	$ 57,305,000
2020	40,530,000	54,338,000
2021	38,160,000	52,618,000
2022	39,835,000	50,856,000
2023	41,695,000	48,937,000
2024-28	219,275,000	213,306,000
2029-33	227,955,000	156,397,000
2034-38	214,540,000	104,791,000
2039-43	208,095,000	51,057,000
2044-48	98,395,000	9,344,000
2049	3,510,000	70,000
Total	**$ 1,166,915,000**	**$ 799,019,000**

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, 2018. 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, 2018, pledged revenues totaled $1.28 billion of which 6.8% ($86.6 million) was required to cover current year debt service. Future annual principal and interest payments on the bonds are expected to require approximately 5% of pledged revenues. Future pledged revenues required to pay all remaining debt service for the bonds through final maturity of August 1, 2048 is $1.96 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 January 17, 2018, the University issued Refunding Certificates of Participation Series 2018A (2018A Certificates) for $27,135,000 and Series 2018B (2018B Certificates) for $32,430,000 dated February 8, 2018 as described below.

Series	Amount	Description	Interest Rate Range	Maturity Dates
2018A	$27,135,000	Serial Certificates	5.00%	2018 to 2022
2018B	$32,430,000	Serial Certificates	5.00%	2018 to 2031

The 2018A Certificates are subject to extraordinary redemption dates pursuant to the debt document. The 2018A Certificates sold at a premium of $2,062,000. The University realized net proceeds of $28,960,000 after payment of $237,000 for issuance costs and underwriter discounts. The net proceeds were used to current refund $28,695,000 of the Certificates of Participation Series 2007B. The refunding generated a net present value economic gain of $1,612,000 (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 $125,000 in the first year and an average of $390,000 in years two through five. This refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $775,000. This difference, reported in the accompanying financial statements as a deferred outflow of resources, is being amortized to interest expense through the year 2022 using the straight-line method.

The 2018B Certificates maturing on and after June 1, 2029 are subject to optional redemption without premium. The 2018B Certificates sold at a premium of $5,411,000. The University realized net proceeds of $37,561,000 after payment of $280,000 for issuance costs and underwriter discounts. The net proceeds were used to current refund $37,255,000 of the Certificates of Participation Series 2007D. The refunding generated a net present value economic gain of $3,464,000 (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 $101,000 in the first year and an average of $306,000 in years two through fourteen. This refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $2,109,000. This difference, reported in the accompanying financial statements as a deferred outflow of resources, is being amortized to interest expense through the year 2031 using the straight-line method.

The following schedule details outstanding Certificates of Participation payable at June 30, 2018:

Issue	Original Amount	Year of Final Maturity	Interest Rates	Outstanding Principal
1999A Fixed Student Union Certificates	$ 21,607,000	2020	5.125%	$ 266,000
2006 Arizona Biomedical Research Collaborative Building Project	18,240,000	2031	4.30-5.00%	12,115,000
2012A-2 Refund COPS 2003A	10,190,000	2022	2.78-3.42%	4,915,000
2012B Refund COPS 2002B	20,600,000	2023	4.00-5.00%	12,310,000
2012C Refund COPS 2003B & 2004A	124,940,000	2031	3.00-5.00%	108,255,000
2015A Refund COPS 2005A-2005D, 2005F-2005I, 2006A-2006C, & 2006E	89,470,000	2025	5.00%	62,580,000
2015B Refund COPS 2006C, 2006D, & 2007A	13,810,000	2025	1.62-3.09%	12,260,000
2018A Refund COPS 2007B	27,135,000	2022	5.00%	21,795,000
2018B Refund COPS 2007D	32,430,000	2031	5.00%	30,265,000
Total	**$ 358,422,000**			**$ 264,761,000**

The following schedule details debt service requirements to maturity for Certificates of Participation payable at June 30, 2018:

Year	Principal	Interest
2019	$ 31,945,000	$ 12,636,000
2020	33,431,000	11,167,000
2021	30,560,000	9,548,000
2022	30,040,000	8,046,000
2023	24,065,000	6,572,000
2024-28	75,220,000	19,548,000
2029-31	39,500,000	3,902,000
Total	**$ 264,761,000**	**$ 71,419,000**

Capital Leases – The University has entered into various long-term leases to acquire real estate and equipment. 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 following schedule details debt service requirements to maturity for capital leases payable at June 30, 2018:

Year	Capital Lease Payments
2019	$ 1,018,000
2020	1,013,000
2021	1,010,000
2022	889,000
2023	939,000
2024-28	4,882,000
2029-33	4,497,000
2034-38	499,000
2039-43	523,000
2044-48	549,000
2049-53	604,000
2054-58	738,000
2059-63	773,000
2064-68	811,000
2069-72	679,000
Total minimum lease payments	$ 19,424,000
Less: interest	(3,910,000)
Present value of net minimum lease payments	**$ 15,514,000**

Capital Asset Financing – Following is a summary of capital assets financed by certificates of participation and capital leases at June 30, 2018:

Land	$ 13,925,000
Buildings and improvements	487,663,000
Infrastructure	34,870,000
Equipment	22,125,000
Total cost of assets	$ 558,583,000
Less: accumulated depreciation	(294,068,000)
Carrying value of assets	**$ 264,515,000**

Operating Leases – The University has entered into certain operating leases, generally with options for annual renewal, and other rental agreements for real property and equipment. For fiscal year 2018, rent expenses totaled $32,379,000.

The following schedule details future operating lease payments to maturity for property leases greater than $100,000:

Year	Operating Lease Payments
2019	$ 1,902,000
2020	910,000
2021	570,000
2022	435,000
2023	220,000
2024 – 2025	441,000
Total	**$ 4,478,000**

Photo: Ed Flores


Photo: Keith Wagner

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. From time to time, various claims and lawsuits associated with the normal conduct of University business are pending or may arise against the University. In the opinion of University management, any losses from the resolution of any other pending claims or litigation not covered by the Risk Management Division should not have a material effect on the University's financial statements. The University has no significant risk of unfunded 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. PENSION PLANS

The University participates in the Arizona State Retirement System (ASRS), a cost-sharing, multiple-employer defined benefit pension plan, and two defined contribution plans which are described below. The University also contributes to the Public Safety Personnel Retirement System (PSPRS), a state administered agent multiple-employer defined benefit pension plan. Although a PSPRS net pension liability has been recorded at June 30, 2018, PSPRS has not been further disclosed due to its relative insignificance to the University's financial statements.

Changes in the University's net pension liability during the fiscal year ended June 30, 2018, were as follows:

Beginning balance	$	650,761,000
Increases		68,359,000
Decreases		(90,934,000)
Ending balance	**$**	**628,186,000**
Current portion*	**$**	**4,221,000**

*The current portion is attributable to the defined contribution pension plans.

A. Defined Benefit Plan

Arizona State Retirement System

Full benefit eligible Classified Staff are required, and full benefit eligible University faculty, academic professionals, and administrative officers have the option, to participate in the Arizona State Retirement System (ASRS) defined benefit plan.

The ASRS administers a cost-sharing multiple-employer defined benefit pension plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 2. ASRS is a component unit of the State of Arizona. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. That report may be obtained by visiting: www.azasrs.gov

Benefits Provided – The ASRS provides retirement and survivor benefits. State statute establishes benefits terms. Retirement benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

	Retirement Initial Membership Date:	
	Before July 1, 2011	**On or after July 1, 2011**
Years of service and age required to receive benefit	Sum of years and age equals 80	30 years age 55
	10 years age 62	25 years age 60
	5 years age 50 *	10 years age 62
	any years age 65	5 years age 50 *
		any years age 65
Final average salary is based on	Highest 36 consecutive months of last 120 months	Highest 60 consecutive months of last 120 months
Benefit percent per year of service	2.10 % to 2.30%	2.10 % to 2.30%

* With actuarially reduced benefits

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earning. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member's death. For retired members, the retirement benefit option chosen determines the survivor benefit. For all other members, the beneficiary is entitled to the member's account balance that includes the member's contributions and employer's contributions, plus interest earned.

Contributions – In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2018, statute required active ASRS members to contribute at the actuarially determined rate of 11.34 percent of the members' annual covered payroll for retirement benefits, and statute required the University to contribute at the actuarially determined rate of 10.9 percent of the active members' annual covered payroll for retirement benefits. In addition, the University was required by statute to contribute at the actuarially determined rate of 9.26 percent of annual covered payroll of retired members who worked for the University in positions that an employee who contributes to the ASRS would typically fill. The University's contributions to the pension plan for the year ended June 30, 2018, were $43,892,000.

Pension Liability – At June 30, 2018, the University reported a liability of $598,493,000 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined using updated procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2016, to the measurement date of June 30, 2017. The total pension liability as of June 30, 2017, reflects a change in actuarial assumption related to changes in loads for future potential permanent benefit increases. The University's proportion of the net pension liability was based on the University's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2017. The University's proportion measured as of June 30, 2017 was 3.84 percent which was a decrease of 0.01 from its proportion measured as of June 30, 2016.

The net pension liability measured as of June 30, 2018, will reflect changes of actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016. The change in the University's net pension liability as a result of these changes is not known.

Pension Expense and Deferred Outflows/Inflows of Resources – For the year ended June 30, 2018, the University recognized pension expense for ASRS of $16,368,000. At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	-	$ 17,946,000
Changes of assumptions or other inputs	$ 25,994,000	17,896,000
Net difference between projected and actual earnings on pension plan investments	4,297,000	-
Changes in proportion and differences between University contributions and proportionate share of contributions	-	4,808,000
University contributions subsequent to the measurement date	43,892,000	-
Total	**$ 74,183,000**	**$ 40,650,000**

The $43,892,000 reported as deferred outflows of resources related to ASRS pensions resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized as an increase or (decrease) in pension expense as follows:

Year ending June 30	
2019	$ (27,656,000)
2020	$ 23,833,000
2021	$ 7,231,000
2022	$ (13,767,000)
2023	-

Actuarial Assumptions — The significant actuarial assumptions used to measure the total pension liability are as follows:

Actuarial valuation date	June 30, 2016
Actuarial roll forward date	June 30, 2017
Actuarial cost method	Entry age normal
Asset valuation	Fair value
Investment rate of return	8.00%
Projected salary increases	3.00-6.75%
Inflation	3.00%
Permanent benefit increase	Included
Mortality rates	1994 GAM Scale BB

Actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012.

The long-term expected rate of return on ASRS pension plan investments was determined to be 8.70 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Equity	58%	6.73%
Fixed income	25%	3.70%
Real estate	10%	4.25%
Multi-asset	5%	3.41%
Commodities	2%	3.84%
Total	**100%**	

Discount Rate – The discount rate used to measure the ASRS total pension liability was 8 percent, which is less than the long-term expected rate of return of 8.7 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board's funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the University's Proportionate Share of the ASRS Net Pension Liability to Changes in the Discount Rate – The following table presents the University's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7 percent) or 1 percentage point higher (9 percent) than the current rate:

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
University's proportionate share of the net pension liability	$768,176,000	$598,493,000	$456,708,000

Pension Plan Fiduciary Net Position – Detailed information about the pension plan's fiduciary net position is available in the separately issued ASRS financial report.

B. Defined Contribution Plans

Plan Descriptions – In accordance with ARS §15-1628, defining the authority under which benefit terms are established or may be amended, University faculty, academic professionals, and administrative officers have the option to participate in defined contribution pension plans. For the year ended June 30, 2018, plans offered by the Teachers Insurance Annuity Association/College Retirement Equities Fund (TIAA/CREF) and Fidelity Investments Tax-Exempt Services Company (Fidelity) were approved by the Arizona Board of Regents. 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. Non-vested contributions held by the University earn interest. 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 companies.

Funding Policy – The Arizona State Legislature establishes the contribution rates for active plan members and the University. For the year ended June 30, 2018, plan members and the University were each required by statute to contribute an amount equal to 7 percent of a member's compensation.

Pension Liability – At June 30, 2018, the University reported a liability of $13,289,000 for non-vested defined contributions. If individuals terminate employment prior to vesting, any non-vested University contributions are retained by the University.

Pension Expense – For the year ended June 30, 2018, the University recognized pension expense for Defined Contribution Plans of $25,854,000. The University's recognized pension expense includes forfeitures totaling $1,564,000 for the year ended June 30, 2018.

NOTE 11. OTHER POST-EMPLOYMENT BENEFITS

Other postemployment benefits (OPEB) provided as part of University employment include the Arizona Department of Administration (ADOA) sponsored single-employer defined benefit postemployment plan as well as the ASRS sponsored cost-sharing, multi-employer defined benefit plan for the Long-Term Disability Fund and the Health Benefit Supplement Fund. University public safety personnel who are regularly assigned to hazardous duty participate in the Public Safety Personnel Retirement System (PSPRS). PSPRS administers an agent multi-employer defined benefit health insurance premium benefit plan. Although an ASRS and PSPRS net OPEB liability has been recorded at June 30, 2018, these plans have not been further disclosed due to the relative insignificance to the University's financial statements.

Changes in the University's OPEB liability during the fiscal year ended June 30, 2018, were as follows:

Beginning balance	$	211,331,000 *
Increases		-
Decreases		(49,863,000)
Ending balance	**$**	**161,468,000**

**Due to the implementation of GASB Statement No. 75, the University's beginning OPEB liability balance and net position were restated from fiscal year 2017.*

The Arizona Department of Administration

Plan Descriptions – The Arizona Department of Administration (ADOA) administers a single-employer defined benefit postemployment plan that provides medical and accident benefits to retired State employees, including University employees and their dependents. Title 38, Chapter 4 of the A.R.S. assigns the authority to establish and amend the benefit provisions to the Arizona State Legislature. The ADOA pays the medical costs incurred by retired employees minus a specified premium amount, which is paid for entirely by the retiree or on behalf of the retiree. These premium rates are based on a blend of active employee and retiree experience, resulting in a contribution basis which is lower than the expected claim costs for retirees only, which results in an implicit subsidization of retirees by the State. ADOA does not issue a separate, publicly available financial report.

A portion of the ADOA plan's implicit rate subsidy represents a liability to the University for its proportionate share of the total OPEB liability. The total OPEB liability is allocated to the University based on its percentage of contributions to the ADOA medical and dental plans.

Benefits Provided – The ADOA provides medical and accident benefits to retired State employees and their dependents. Dental and vision benefits are also available, but are not valued as there is no implicit subsidization in the retiree rates.

Funding Policy – The ADOA's current funding policy for the single-employer plan is pay-as-you-go for OPEB benefits. There are no dedicated assets at this time to offset the total OPEB liability.

OPEB Liability – At June 30, 2018, the University reported a liability of $161,905,000 for its proportionate share of the ADOA's total OPEB liability. The total OPEB liability was measured as of June 30, 2017 and was determined by an actuarial valuation as of that date. The total OPEB liability as of June 30, 2017, reflects the following changes of benefit terms and actuarial assumptions:

- A limit was placed on the out-of-pocket maximum for the EPO health insurance option and copays were increased for all health insurance options.
- The discount rate increased due to changes in the bond index.
- Per capita costs and contributions and related trend rates were updated to reflect updated experience.
- Assumed retirement rates, turnover rates, disability incidence rates, and mortality rates for healthy and disabled lives were updated to be the same as those used for ASRS' annual actuarial valuation.

The University's proportion measured as of June 30, 2016 and 2017, was 19.20 percent.

OPEB Expense and Deferred Outflows/Inflows of Resources – For the year ended June 30, 2018, the University recognized negative OPEB expense for ADOA of $1,349,000. At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to other postemployment benefits from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions or other inputs	-	$ 36,115,000
Difference between expected and actual experience	-	3,836,000
University benefit payments subsequent to the measurement date	$ 4,941,000	-
Total	**$ 4,941,000**	**$ 39,951,000**

The $4,941,000 reported as deferred outflows of resources related to ADOA OPEB resulting from University benefit payments subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ADOA OPEB will be recognized in OPEB expense as follows:

Year Ended June 30		
2019	$	(6,223,000)
2020	$	(6,223,000)
2021	$	(6,223,000)
2022	$	(6,223,000)
2023	$	(6,223,000)
Thereafter	$	(8,836,000)

Actuarial Assumptions – The significant actuarial assumptions used to measure ADOA's total OPEB liability are as follows:

Actuarial valuation date	June 30, 2017
Actuarial cost method	Entry age normal
Salary increases	2.70 to 7.20% varying by years of service
Discount rate	3.58%
Healthcare cost trend rates:	
Medical (pre-65)	6.50% graded to 4.50% by 0.50%
Medical (post-65)	4.50%
Prescription drug	9% graded to 4.50% by 0.50%
Administrative costs	3%
Contribution trend rates	7% graded to 4.50% by 0.50%
Mortality rates:	
Employees	RP-2014 Employee Mortality Tables projected generationally from 2014 with 1% improvement per year
Healthy Retirees and Spouses	2017 State Retirees of Arizona Mortality Tables projected generationally from 2017 with 1% improvement per year
Disabled Retirees	RP-2014 Disabled Retiree Mortality Tables projected generationally from 2014 with 1% improvement per year

Benefit projections assume the specified premium amount will follow the current pattern of practice of being paid for entirely by the retiree or on behalf of the retiree. The specified premium amounts are projected to increase at the contribution trend rates noted above. Actuarial assumptions used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2016.

Discount Rate – The discount rate was based on the Bond Buyer 20-Bond General Obligation Municipal Bond index.

Sensitivity of the University's Proportionate Share of the ADOA's Total OPEB Liability – The following table presents the University's proportionate share of the total OPEB liability calculated using the discount rate of 3.58 percent, as well as what the University's proportionate share of the total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.58 percent) or 1 percentage point higher (4.58 percent) than the current rate:

	1% Decrease (2.58%)	Current Discount Rate (3.58%)	1% Increase (4.58%)
University's proportionate share of the total OPEB liability	$190,242,000	$161,905,000	$139,540,000

The following table presents the University's proportionate share of the total OPEB liability calculated using the healthcare cost and contribution trend rates stated above, as well as what the University's proportionate share of the total OPEB liability would be if it were calculated using healthcare cost and contribution trend rates that are 1 percentage point lower or 1 percentage point higher than the current rates:

	1% Decrease In Trend Rates	Current Trend Rate	1% Increase In Trend Rates
University's proportionate share of the total OPEB liability	$136,241,000	$161,905,000	$195,230,000

NOTE 12. OPERATING EXPENSES BY CLASSIFICATION

Operating expenses by functional and natural classification for the year ended June 30, 2018 consist of the following:

	Personal Services and Benefits	Supplies and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	$ 417,673,000	$ 88,206,000			$ 505,879,000
Research	298,468,000	128,405,000			426,873,000
Public service	55,673,000	26,494,000			82,167,000
Academic support	212,541,000	89,819,000			302,360,000
Student services	52,014,000	21,681,000	$ 558,000		74,253,000
Institutional support	107,062,000	39,160,000			146,222,000
Operation and maintenance of plant	35,818,000	67,269,000			103,087,000
Scholarships and fellowships	560,000		54,861,000		55,421,000
Auxiliary enterprises	103,263,000	69,896,000	2,417,000		175,576,000
Depreciation				$ 135,565,000	135,565,000
Total operating expenses	**$ 1,283,072,000**	**$530,930,000**	**$ 57,836,000**	**$ 135,565,000**	**$ 2,007,403,000**

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* – includes assets and contributions that are not restricted by donors or for which such restrictions have expired.
- *Temporarily restricted net assets* – includes contributions for which donor imposed restrictions have not been met (either by the passage of time or by actions of the Foundation or University), 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* – includes 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 overnight money market accounts and U.S. Government or U.S. Treasury money market funds. 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. fixed income obligations and mutual funds, REIT funds and international fixed income mutual funds are valued based on quoted market prices.

Investments in real estate and natural resources limited partnerships are recorded at fair value as determined by the fund manager. Absolute return limited partnership and fund 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. Private capital, private credit, and natural resource limited partnership interests are recorded at fair value as determined by the fund manager. Investments in alternative securities are highly susceptible to valuation changes. Investment income or loss comprises the sum of realized and unrealized gains and losses on investments and interest and dividends, net of investment expenses including the Foundation's endowment 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 and includes them in other assets on the statement of financial position.

Annuities Payable and Other Trust Liabilities

Annuities payable and other trust liabilities of $23,795,000 at June 30, 2018, are stated at the actuarially computed present value of future payments to the annuitants, which approximates fair value. 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 ($1,002,000 in the year ended June 30, 2018). The fair values of assets held in trust at June 30, 2018 total $36,510,000, of which $1,395,000 were unrestricted, $6,651,000 were temporarily restricted and $28,464,000 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.

Fair Value of Financial Instruments

The Foundation's cash and cash equivalents, pledges receivable, investments in securities, financing leases and annuities payable and other trust liabilities represent financial instruments. The carrying value of cash and cash equivalents, pledges receivable, financing leases and annuities payable and other trust liabilities approximates fair value.

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. CRC has recorded in the financial statements a building and related debt for which ABOR, on behalf of the University, holds the title to the building under the requirements of a lease.

Solar Zone Development

CRC has an agreement with Tucson Electric Power (TEP) to develop a portion of the Tech Park for a series of projects focused on the advancement of solar energy technologies. Under the terms of the agreement, CRC incurred 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

CRC 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 Tech 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. Costs related to the construction of the water project are capitalized as incurred and allocated to specific phases of the project. These capitalized costs are expected to be reimbursed over time through the realization of the protected water rights. As each phase of the project is complete, CRC negotiates cost reimbursement from the end water user. These reimbursements are recognized as other revenue in the period that they are determined realizable. The allocated capitalized costs related to each phase are expensed in the period that the related reimbursement is recognized.

B. Investments:

The University of Arizona Foundation

Investments in securities are comprised of the following amounts at June 30, 2018:

	Carrying Value	Cost
Absolute return and private credit limited partnerships and funds	$ 318,428,000	$ 268,490,000
Domestic/international equity securities and mutual funds	264,181,000	200,830,000
U.S. fixed income obligations and mutual funds	104,674,000	104,759,000
Private equity limited partnerships	96,703,000	73,653,000
REIT funds and real estate limited partnerships	66,506,000	61,762,000
Natural resources limited partnerships	110,979,000	100,530,000
International fixed income mutual funds	2,971,000	2,853,000
Totals	**$ 964,442,000**	**$ 812,877,000**

Fair value is determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. Market or observable inputs are the preferred source of values, followed by assumptions based on hypothetical transactions in the absence of market inputs. As a basis for considering such assumptions, the Foundation utilizes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1 – Quoted prices in active markets for identical securities.

Level 2 – Other significant observable inputs (including quoted prices for similar securities, interest rates, credit risk, etc.) and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the investments.

Level 3 – Significant unobservable inputs (including investee partnership's own assumptions in determining the fair value of investments). The inputs into determination of fair value require management's judgement or estimation of assumptions that market participants would use in pricing the investments. The fair values are determined using factors involving considerable judgement.

Certain of the Foundation's investments are in "alternative" investment funds and limited partnerships (private equity, real estate, private credit, natural resources, and absolute return funds). The Foundation values its investments in alternative investment funds and limited partnership interests at the net asset value (NAV) as determined by the fund manager as a practical expedient to fair value. NAVs are updated monthly for domestic/international equity, absolute return and certain private credit investments, and the Foundation uses the NAV as of the valuation date. As the NAVs for the real estate, natural resources, private equity and certain private credit partnerships are provided quarterly, the Foundation uses the latest NAV made available by the fund manager prior to the valuation date.

It is required that when observable market data is available, it be used in determining the fair value measurement. When inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement.


Photo: Bill Timmerman

The following table presents the Foundation's investments in securities at June 30, 2018, by valuation hierarchy:

	Quoted Prices In Active Markets for Identical Securities (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	June 30, 2018
Absolute return funds	$ 41,670,000			$ 41,670,000
Domestic/international equity securities and mutual funds	164,126,000			164,126,000
U.S. fixed income obligations and mutual funds	104,674,000			104,674,000
REIT funds	31,931,000			31,931,000
Natural resources limited partnerships	10,154,000	$ 19,378,000		29,532,000
International fixed income mutual funds	2,971,000			2,971,000
Totals	**$ 355,526,000**	**$ 19,378,000**		374,904,000
Investments measured at NAV				589,538,000
				$964,442,000

In accordance with Accounting Standards Codification (ASC) 820-10, investments that were measured at Net Asset Value (NAV) per share have not been classified in the fair value hierarchy but have been summarized in the table. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statement of financial position.

Additional information on investments that are measured at NAV per share as a practical expedient:

	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Multi-strategy hedge funds	$ 120,938,000	$ 13,500,000	Monthly, quarterly, annually	14-90 days
Equity long-only hedge funds	100,055,000	-	Monthly, quarterly, semi-annually, triennially	30-90 days
Equity long/short hedge funds	74,566,000	-	Annually, triennially, quinquennially	60-120 days
Fixed income hedge funds	60,822,000	-	Quarterly	45-90 days
Natural resources limited partnerships	81,447,000	29,943,000	Not Applicable	N/A
Private equity limited partnerships	96,703,000	81,162,000	Not Applicable	N/A
Private real estate limited partnerships	34,574,000	41,043,000	Not Applicable	N/A
Private credit limited partnerships	20,433,000	25,844,000	Not Applicable	N/A
	$ 589,538,000	**$ 191,492,000**		

C. Endowment

The University of Arizona Foundation

The Foundation's endowment consists of approximately 2,550 individual funds (1,870 for the Foundation and 680 for the University) 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. The endowment pool is subject to the Arizona Management of Charitable Funds Act which was signed into law on April 14, 2008.

Effective December 31, 2010, the Foundation's endowment also includes the endowment assets owned by The University of Arizona which it manages for the University under the terms of a development services and asset management agreement. The fair value of the University endowment assets are reported as both permanently restricted investment assets and as a liability for the fair value of endowment managed for the University.

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 each endowment account as specified by the donors. The Foundation considers the following factors in making a determination to appropriate donor-restricted endowment funds:

- The net rate of return earned by each endowment account in each of the five most recent fiscal years
- The net real rate of return (as measured by the Higher Education Price Index) earned by the Endowment in each of the five most recent fiscal years (i.e., the duration and preservation of the Endowment Fund)
- Payout rates established by other university endowments as published in the National Association of College and University Business Officers (NACUBO)-Commonfund Study of Endowments
- Any unusual or extraordinary circumstances impacting the University's flow of funds from other sources (i.e., tuition revenues, State appropriations, etc.)
- The extent to which programs benefiting from the Payout Rate rely on these funds to achieve their goals and objectives (i.e., the purposes of the institution and the Endowment Fund)
- General economic conditions
- The possible effect of inflation or deflation
- The expected total return from income and appreciation of investments per the most recent asset allocation study

The Foundation charges an endowment fee (Endowment Fee), a percentage (1.35% in fiscal 2018) 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. Endowment fees of $7,888,000 were recognized by the Foundation in 2018; an additional $2,616,000 in such fees was collected on behalf of the University in 2018. The Foundation considers the following factors in setting the Endowment Fee:

- The external costs of managing the Endowment
- The internal costs to manage and provide stewardship for the Endowment
- Recommendations from staff and independent investment consultants
- Endowment fee rates established by other university endowments as published in the NACUBO-Commonfund Study of Endowments

The Foundation's goal is to manage Endowment assets such that the annual nominal return exceeds the annual "hurdle rate" (the sum of the Payout Rate and the Endowment Fee) so the Endowment principal is able to grow and continue to fund in perpetuity the set of activities envisioned by the donor at the time of the gift. The Foundation expects its Endowment funds to provide an annual average rate of return of 8.0% with a standard deviation of 14.6% over a 20 year period. Actual returns in any given year may vary from this goal. These returns and risks reflect a broadly diversified asset allocation including domestic and international equities, domestic and international fixed income securities, private equity, private credit, absolute return, and real asset strategies.

The following shows the composition of the Endowment by net asset type at June 30, 2018 (the University Endowment Assets are classified as Donor-Restricted Endowment Funds for financial reporting purposes):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment funds			$ 826,052,000	$ 826,052,000
Board-Designated Endowment funds	$ 3,710,000	$ 36,076,000		39,786,000
Totals	**$ 3,710,000**	**$ 36,076,000**	**$ 826,052,000**	**$ 865,838,000**

The following shows the changes in Endowment net assets for the fiscal year ending June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 6,502,000	$ 32,960,000	$ 702,316,000	$ 741,778,000
Investment return:				
Investment income			17,528,000	17,528,000
Less endowment fee			(10,504,000)	(10,504,000)
Net appreciation	208,000	1,116,000	47,244,000	48,568,000
Total investment return	208,000	1,116,000	54,268,000	55,592,000
Contributions/transfers	(3,000,000)	2,000,000	93,254,000	92,254,000
Appropriation for payout			(23,786,000)	(23,786,000)
Endowment net assets, end of year	**$ 3,710,000**	**$ 36,076,000**	**$ 826,052,000**	**$ 865,838,000**

D. Pledges Receivable

The University of Arizona Foundation

Unconditional promises are included in the financial statements as pledges receivable and contribution revenue of the appropriate net asset category. These amounts 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. Pledges receivable at June 30, 2018 totaled $40,846,000.

E. Property and Equipment

Campus Research Corporation

Property and equipment consisted of the following as of June 30, 2018:

Building, infrastructure and improvements	$ 33,091,000
Furniture, equipment and other property	7,070,000
Total	$ 40,161,000
Less accumulated depreciation	(15,936,000)
Property and equipment, net	**$ 24,225,000**

F. Long-Term Debt

Campus Research Corporation

Bonds payable, Series A, payable in scheduled monthly installments of principal plus interest at the floating taxable bond rate (remarketed weekly) through June 2022.	$	2,924,000
Note payable, Wells Fargo Bank, payable in monthly installments of $15,000 including interest at 3.75% through December 2023.		753,000
Note payable, Wells Fargo Bank, payable in monthly installments of $22,000 including interest at 3.99% through December 2026.		1,922,000
		5,599,000
Less unamortized deferred financing fees		(69,000)
Total long-term debt	**$**	**5,530,000**

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

Wells Fargo Bank Arizona issued a letter of credit with an original amount of approximately $11,400,000 to enhance the sale of the bonds and CRC 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.

G. Interest Rate Swap Agreement

Campus Research Corporation

CRC has 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. Under the swap agreement, CRC pays interest at the fixed rate and receives interest at the variable rate. The agreement was not designated as a cash flow hedge.

The swap was issued at market terms so that it had no value at inception. The notional amount under the agreement decreases as principal payments on the note are made. The duration of the swap agreement is structured to coincide with the maturity of the note. As required by GAAP, the carrying amount of the swap has been adjusted to fair value at June 30, 2018. CRC's derivative instrument held for risk management purposes at June 30, 2018 had a notional amount of $2,924,000 and a fair value of $146,000.

H. Project Operation Agreement (POA)

Campus Research Corporation

CRC has an agreement with IBM whereby all common services at the Tech 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 2019. Exercise of contractual extensions contained within the IBM master lease agreement will extend the POA according to the terms of the lease agreement.

CRC is required to pay a monthly amount based on an annual operating budget for these services that is prepared by IBM. A quarterly analysis of 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 CRC 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. CRC is responsible for any capital expenditures allocated to this tenant in excess of the maximum.

Photo: Gregor Orbino

I. Related Party Transactions

The University of Arizona Foundation

During fiscal year 2017, the University and the Foundation entered in to an agreement whereby the University would pay for agreed-upon services. The Foundation received $3,100,000 for services rendered for the year ended June 30, 2018.

The Foundation leases land, buildings, and equipment to the University under various financing and operating leases with terms of up to ten years. The Foundation received payments of $84,000 from the University for the year ended June 30, 2018.

The University of Arizona Alumni Association

Under the Administrative Services Agreement between the Alumni Association and the Arizona Board of Regents, for and on behalf of the University, the University provided the Alumni Association with allocated support of $1,547,000 and in-kind of $103,000 for the year ended June 30, 2018.

Eller Executive Education

EEE has an Affiliation Agreement with the Arizona Board of Regents, for and on behalf of the University through June 2022. The agreement covers policies, procedures, working relationships, respective rights and responsibilities between EEE and the University. The University provides the services of certain employees to perform management and program support functions on a part-time basis for EEE, for which EEE must reimburse the University for all salary and employee related expenses. Program expenses relating to the University during the year ended June 30, 2018 were $406,000.

The Organization also contributed $191,000 to the University or to specific colleges within the University during the year ended June 30, 2018.

Law College Association of the University of Arizona

During the year ended June 30, 2018, the Association distributed funds or paid distributions on behalf of the Law College of the University of Arizona in the amount of $1,036,000.

J. Concentrations

Eller Executive Education

At June 30, 2018, three customers accounted for 97% of accounts receivable, and three customers comprised 54% of total revenue for the year then ended.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY – ARIZONA STATE RETIREMENT SYSTEM

Year Ended June 30

Reporting Fiscal Year (Measurement Date)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	2014 - 2009
University's proportion of the net pension liability	3.84%	3.85%	3.91%	3.94%	Information Not Available
University's proportionate share of the net pension liability	$ 598,493,000	$ 621,697,000	$ 608,338,000	$ 582,754,000	
University's covered payroll	$ 375,912,000	$ 362,043,000	$ 362,516,000	$ 365,347,000	
University's proportionate share of the net pension liability as a percentage of its covered payroll	159.21%	171.72%	167.81%	159.51%	
Plan fiduciary net position as a percentage of the total pension liability	69.92%	67.06%	68.35%	69.49%	

SCHEDULE OF UNIVERSITY PENSION CONTRIBUTIONS – ARIZONA STATE RETIREMENT SYSTEM

Fiscal Year Ended June 30	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Statutorily required contribution	$ 43,892,000	40,395,000	39,128,000	39,376,000	38,172,000	34,946,000	33,099,000	28,741,000	26,043,000	25,366,000
University's contribution in relation to the statutorily required contribution	$ 43,892,000	40,395,000	39,128,000	39,376,000	38,172,000	34,946,000	33,099,000	28,741,000	26,043,000	25,366,000
University's contribution deficiency (excess)	-	-	-	-	-	-	-	-	-	-
University's covered payroll	$ 403,949,000	375,912,00	362,043,000	362,516,000	365,347,000	351,279,000	335,350,000	318,990,000	312,266,000	317,472,000
University's contributions as a percentage of covered payroll	10.87%	10.75%	10.81%	10.86%	10.45%	9.95%	9.87%	9.01%	8.34%	7.99%

SCHEDULE OF UNIVERSITY'S PROPORTIONATE SHARE OF THE TOTAL OPEB LIABILITY – ARIZONA DEPARTMENT OF ADMINISTRATION

Year Ended June 30

Reporting Fiscal Year (Measurement Date)	2018 (2017)	2017 - 2009
University's proportion of the total OPEB liability	19.20%	Information Not Available
University's proportionate share of the total OPEB liability	$ 161,905,000	
University's covered-employee payroll	$ 718,904,000	
University's proportionate share of the total OPEB liability as a percentage of its covered-employee payroll	22.52%	

**There are no dedicated assets at this time to offset the total OPEB liability.*

SUPPLEMENTARY INFORMATION

COMBINING STATEMENT OF FINANCIAL POSITION – OTHER COMPONENT UNITS

June 30, 2018

(in thousands of dollars)

	Other				
	Campus Research Corporation	**Law College Association**	**UA Alumni Association**	**Eller Executive Education**	**Total Nonmajor Component Units**
Assets					
Cash and cash equivalents	$ 9,002	$ 375	$ 930	$ 324	$ 10,631
Pledges receivable	-	417	359	-	776
Other receivables	1,045	-	1,757	47	2,849
Investments in marketable securities	-	11,981	7,774	-	19,755
Other investments	-	170	45	-	215
Property and equipment, net	24,225	-	125	-	24,350
Other assets	6,689	7	95	-	6,791
Total Assets	**$ 40,961**	**$ 12,950**	**$ 11,085**	**$ 371**	**$ 65,367**
Liabilities and Net Assets					
Liabilities					
Accounts payable and accrued expenses	$ 1,652	$ 104	$ 185	$ 63	$ 2,004
Deferred revenue and deposits	3,590	-	3,386	62	7,038
Short-term and long-term debt	5,530	-	23	-	5,553
Other liabilities	146	-	-	-	146
Total Liabilities	**$ 10,918**	**$ 104**	**$ 3,594**	**$ 125**	**$ 14,741**
Net Assets					
Unrestricted	$ 30,043	$ 2,934	$ 7,154	$ 246	$ 40,377
Temporarily restricted	-	4,053	337	-	4,390
Permanently restricted	-	5,859	-	-	5,859
Total Net Assets	**$ 30,043**	**$ 12,846**	**$ 7,491**	**$ 246**	**$ 50,626**
Total Liabilities and Net Assets	**$ 40,961**	**$ 12,950**	**$ 11,085**	**$ 371**	**$ 65,367**

COMBINING STATEMENT OF ACTIVITIES – OTHER COMPONENT UNITS

Year Ended June 30, 2018

(in thousands of dollars)

	Other				
	Campus Research Corporation	**Law College Association**	**UA Alumni Association**	**Eller Executive Education**	**Total Nonmajor Component Units**
Revenues					
Sales and services	-	-	$ 1,033	$ 1,485	$ 2,518
Contributions	-	$ 659	616	-	1,275
Rental revenues	$ 15,008	-	-	-	15,008
Investment income	27	853	422	-	1,302
Other income	210	493	2,356	-	3,059
Total revenues	**$ 15,245**	**$ 2,005**	**$ 4,427**	**$ 1,485**	**$ 23,162**
Expenses					
Program services:					
Leasing related expenses	$ 10,798	-	-	-	$ 10,798
Payments to the University	-	-	-	$ 191	191
Payments on behalf of the University	-	$ 1,520	$ 2,790	785	5,095
Supporting services:					
Management and general	1,811	184	777	391	3,163
Fundraising	-	101	302	-	403
Total expenses	**$ 12,609**	**$ 1,805**	**$ 3,869**	**$ 1,367**	**$ 19,650**
Increase in Net Assets	**$ 2,636**	**$ 200**	**$ 558**	**$ 118**	**$ 3,512**
Net Assets - Beginning of year	**$ 27,407**	**$ 12,646**	**$ 6,933**	**$ 128**	**$ 47,114**
Net Assets - End of year	**$ 30,043**	**$ 12,846**	**$ 7,491**	**$ 246**	**$ 50,626**

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STATISTICAL SECTION

Photo: Taylor Noel Photography

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NET POSITION BY COMPONENT

As of June 30 *(in thousands of dollars)*	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Net investment in capital assets	$ 776,373	$ 730,135	$ 687,149	$ 637,380	$ 612,081	$ 610,237	$ 578,931	$ 522,909	$ 490,309	$ 466,674
Restricted, Non-expendable	154,227	142,774	134,356	138,464	138,512	122,635	113,968	115,307	101,263	94,307
Restricted, Expendable	244,542	241,080	238,522	218,805	161,894	124,582	122,904	137,768	127,599	140,375
Unrestricted	(135,502)	20,756	(80,965)	(124,204)	373,103	361,244	310,258	293,103	254,432	179,821
Total Net Position	**$ 1,039,640**	**$ 1,134,745**	**$ 979,062**	**$ 870,445**	**$ 1,285,590**	**$ 1,218,698**	**$ 1,126,061**	**$ 1,069,087**	**$ 973,603**	**$ 881,177**
Expressed as a percent of the total	%	%	%	%	%	%	%	%	%	%
Net investment in capital assets	74.6	64.3	70.2	73.2	47.6	50.1	51.4	48.9	50.4	53.0
Restricted, Non-expendable	14.8	12.6	13.7	16.0	10.8	10.1	10.1	10.8	10.4	10.7
Restricted, Expendable	23.6	21.3	24.4	25.1	12.6	10.2	10.9	12.9	13.1	15.9
Unrestricted	(13.0)	1.8	(8.3)	(14.3)	29.0	29.6	27.6	27.4	26.1	20.4
Total Net Position	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Percentage increase/(decrease) from prior year	%	%	%	%	%	%	%	%	%	%
Net investment in capital assets	6.3	6.3	7.8	4.1	0.3	5.4	10.7	6.6	5.1	1.2
Restricted, Non-expendable	8.0	6.3	(3.0)	-	12.9	7.6	(1.2)	13.9	7.4	(0.3)
Restricted, Expendable	1.4	1.1	9.0	35.2	29.9	1.4	(10.8)	8.0	(9.1)	(11.5)
Unrestricted	(752.8)	(125.6)	(34.8)	(133.3)	3.3	16.4	5.9	15.2	41.5	14.4
Total Net Position	**(8.4)**	**15.9**	**12.5**	**(32.3)**	**5.5**	**8.2**	**5.3**	**9.8**	**10.5**	**1.1**

Note: The University implemented GASB 65 in FY 2014; historical data has not been restated in the statistical section.
The University implemented GASB 68/71 in FY 2015; historical data has not been restated in the statistical section.
The University implemented GASB 75/85 in FY 2018; historical data has not been restated in the statistical section.

CHANGE IN NET POSITION

Fiscal Year Ended June 30 *(in thousands of dollars)*	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Revenues										
Operating Revenues										
Student tuition and fees, net of scholarship allowance	$ 653,519	$ 653,725	$ 608,679	$ 554,768	$ 484,809	$ 461,580	$ 410,507	$ 379,199	$ 329,586	$ 269,447
Federal grants and contracts	304,183	297,409	283,083	290,967	308,291	366,363	362,478	352,835	324,919	303,115
State grants and contracts	13,592	14,201	14,191	8,121	11,286	11,697	14,117	43,272	28,737	24,868
Local grants and contracts	2,424	2,082	1,533	1,754	1,614	2,749	26,820	-	-	-
Nongovernment grants and contracts	179,667	200,291	243,468	174,556	96,096	92,540	77,662	64,539	74,447	67,629
Sales and services of educational departments	54,180	51,753	52,934	51,436	44,321	35,951	50,721	36,731	28,873	29,936
Auxiliary enterprises	205,468	210,496	206,710	203,740	191,163	190,199	171,017	171,372	165,594	154,698
Other operating revenues *	18,558	18,485	14,172	29,749	16,387	14,285	10,906	10,674	9,804	10,356
Total Operating Revenues	**$1,431,591**	**$1,448,442**	**$1,424,770**	**$1,315,091**	**$1,153,967**	**$1,175,364**	**$1,124,228**	**$1,058,622**	**$ 961,960**	**$ 860,049**
Expenses										
Operating Expenses										
Educational and general										
Instruction	$ 505,879	$ 459,357	$ 460,005	$ 417,300	$ 425,722	$ 391,545	$ 388,313	$ 369,734	$ 357,916	$ 357,515
Research	426,873	397,512	391,122	421,973	396,680	435,536	425,993	405,271	395,008	385,467
Public Service	82,167	89,221	78,604	78,231	84,572	91,118	77,312	74,209	70,370	69,843
Academic support	302,360	314,480	344,380	264,336	203,545	173,414	158,831	123,854	100,415	105,426
Student services	74,253	56,022	53,033	47,187	46,380	42,625	39,097	32,396	27,608	28,223
Institutional support	146,222	146,185	129,501	136,347	117,956	99,886	97,558	90,525	83,080	85,264
Operation and maintenance of plant	103,087	87,925	84,418	87,079	86,097	88,757	87,393	87,119	86,342	83,111
Scholarships and fellowships	55,421	54,884	51,808	57,158	64,070	58,145	52,475	55,510	55,316	46,673
Auxiliary enterprises	175,576	164,539	164,187	167,150	160,938	156,954	148,858	158,914	144,096	144,707
Depreciation	135,565	132,726	125,455	124,870	116,781	113,345	107,561	107,770	101,226	99,657
Total Operating Expenses	**$2,007,403**	**$1,902,851**	**$1,882,513**	**$1,801,631**	**$1,702,741**	**$1,651,325**	**$1,583,391**	**$1,505,302**	**$1,421,377**	**$1,405,886**
Operating loss	**$ (575,812)**	**$ (454,409)**	**$ (457,743)**	**$ (486,540)**	**$ (548,774)**	**$ (475,961)**	**$ (459,163)**	**$ (446,680)**	**$ (459,417)**	**$ (545,837)**
Nonoperating Revenues (Expenses)										
State appropriations	$ 254,789	$ 245,146	$ 241,257	$ 270,538	$ 265,038	$ 254,654	$ 268,533	$ 330,297	$ 330,297	$ 348,941
Share of State sales tax revenues	28,763	27,618	25,025	24,964	23,576	20,773	20,353	19,954	20,102	22,547
Federal grants and appropriations	78,951	65,128	77,423	79,316	79,287	83,064	77,276	80,955	74,308	63,172
Federal fiscal stabilization funds	-	-	-	-	-	-	-	755	28,313	60,824
State and other government grants	25,968	21,722	5,609	14,138	16,353	17,261	1,865	3,506	3,415	4,681
Nongovernment grants and contracts	129,621	123,478	128,111	114,408	91,890	99,249	4,239	2,996	3,942	2,676
Gifts	81,746	80,060	80,890	89,975	78,287	74,530	96,201	87,355	79,164	78,156
Investment income	30,911	31,962	10,046	6,638	43,229	20,619	3,386	28,686	18,133	(19,749)
Interest expense on debt	(53,275)	(51,253)	(49,748)	(46,293)	(50,596)	(47,643)	(44,391)	(50,447)	(45,077)	(40,887)
Gain on Sale of Capital Assets	-	-	-	46,874	-	-	-	-	-	-
Other nonoperating revenues, net	9,040	11,072	9,480	18,103	20,009	13,440	27,644	13,849	16,063	10,175
Net Nonoperating Revenues	**$ 586,514**	**$ 554,933**	**$ 528,093**	**$ 618,661**	**$ 567,073**	**$ 535,947**	**$ 455,106**	**$ 517,906**	**$ 528,660**	**$ 530,536**
Income/(Loss) before Capital and Endowment Additions	**$ 10,702**	**$ 100,524**	**$ 70,350**	**$ 132,121**	**$ 18,299**	**$ 59,986**	**$ (4,057)**	**$ 71,226**	**$ 69,243**	**$ (15,301)**
Capital grants, gifts and conveyances	$ 11,447	$ 9,304	$ 3,472	$ 36,489	$ 31,985	$ 9,697	$ 44,363	$ 7,279	$ 7,080	$ 7,548
Capital appropriations	14,249	21,978	9,594	11,204	14,253	14,253	14,253	14,253	14,253	14,253
Capital commitment - State Lottery Revenue	21,211	21,520	22,169	11,604	9,599	6,470	-	-	-	-
Additions to permanent endowments	4,746	2,357	3,032	2,793	4,831	2,231	2,415	2,726	1,850	3,315
Increase in Net Position	**$ 62,355**	**$ 155,683**	**$ 108,617**	**$ 194,211**	**$ 78,967**	**$ 92,637**	**$ 56,974**	**$ 95,484**	**$ 92,426**	**$ 9,815**
Total Revenues	$2,123,033	$2,109,787	$2,040,878	$2,042,135	$1,832,304	$1,791,605	$1,684,756	$1,651,233	$1,558,880	$1,456,588
Total Expenses	2,060,678	1,954,104	1,932,261	1,847,924	1,753,337	1,698,968	1,627,782	1,555,749	1,466,454	1,446,773
Increase in Net Position	**$ 62,355**	**$ 155,683**	**$ 108,617**	**$ 194,211**	**$ 78,967**	**$ 92,637**	**$ 56,974**	**$ 95,484**	**$ 92,426**	**$ 9,815**

**In compliance with Arizona Revised Statues 35-391, the University of Arizona discloses the following: For fiscal year 2018, the University received a rebate in the amount of $1.9 million from J.P. Morgan for Purchase Card purchases for the year.*

CHANGE IN NET POSITION (CONTINUED)

(Expressed as a percent of Total Revenues / Total Expenses)

Fiscal Year Ended June 30	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Revenues	%	%	%	%	%	%	%	%	%	%
Operating Revenues										
Student tuition and fees, net of scholarship allowance	30.8	31.0	29.8	27.2	26.5	25.8	24.4	23.0	21.1	18.5
Federal grants and contracts	14.3	14.1	13.9	14.2	16.8	20.4	21.5	21.4	20.8	20.8
State grants and contracts	0.6	0.7	0.7	0.4	0.6	0.7	0.8	2.6	1.8	1.7
Local grants and contracts	0.1	0.1	0.1	0.1	0.1	0.2	1.6	-	-	-
Nongovernment grants and contracts	8.5	9.5	11.9	8.5	5.2	5.2	4.6	3.9	4.8	4.6
Sales and services of educational departments	2.6	2.5	2.6	2.5	2.4	2.0	3.0	2.2	1.9	2.1
Auxiliary enterprises	9.7	10.0	10.1	10.0	10.4	10.6	10.2	10.4	10.6	10.6
Other operating revenues	0.9	0.9	0.7	1.5	0.9	0.8	0.6	0.6	0.6	0.7
Total Operating Revenues	**67.4**	**68.7**	**69.8**	**64.4**	**63.0**	**65.6**	**66.7**	**64.1**	**61.7**	**59.0**
Expenses										
Operating Expenses										
Educational and general										
Instruction	24.5	23.5	23.8	22.6	24.3	23.0	23.9	23.8	24.4	24.7
Research	20.7	20.3	20.2	22.8	22.6	25.6	26.2	26.0	26.9	26.6
Public Service	4.0	4.6	4.1	4.2	4.8	5.4	4.7	4.8	4.8	4.8
Academic support	14.7	16.1	17.8	14.3	11.6	10.2	9.8	8.0	6.8	7.3
Student services	3.6	2.9	2.7	2.6	2.6	2.5	2.4	2.1	1.9	2.0
Institutional support	7.1	7.5	6.7	7.4	6.7	5.9	6.0	5.8	5.7	5.9
Operation and maintenance of plant	5.0	4.5	4.4	4.7	4.9	5.2	5.4	5.6	5.9	5.7
Scholarships and fellowships	2.7	2.8	2.7	3.1	3.7	3.4	3.2	3.6	3.8	3.2
Auxiliary enterprises	8.5	8.4	8.5	9.0	9.2	9.2	9.1	10.2	9.8	10.0
Depreciation	6.6	6.8	6.5	6.8	6.7	6.7	6.6	6.9	6.9	6.9
Total Operating Expenses	**97.4**	**97.4**	**97.4**	**97.5**	**97.1**	**97.2**	**97.3**	**96.8**	**96.9**	**97.2**
Operating loss	**(27.9)**	**(23.3)**	**(22.4)**	**(23.8)**	**(29.9)**	**(26.6)**	**(27.3)**	**(27.1)**	**(29.5)**	**(37.5)**
Nonoperating Revenues (Expenses)										
State operating appropriations	12.0	11.6	11.8	13.2	14.5	14.2	15.9	20.0	21.2	24.0
Share of State sales tax revenues	1.4	1.3	1.2	1.2	1.3	1.2	1.2	1.2	1.3	1.5
Federal grants and appropriations	3.7	3.1	3.8	3.9	4.3	4.6	4.6	4.9	4.8	4.3
Federal fiscal stabilization funds	-	-	-	-	-	-	-	-	1.8	4.2
State and other government grants	1.2	1.0	0.3	0.7	0.9	1.0	0.1	0.2	0.2	0.3
Nongovernment grants and contracts	6.1	5.9	6.3	5.6	5.0	5.5	0.3	0.2	0.3	0.2
Gifts	3.9	3.8	4.0	4.4	4.3	4.2	5.7	5.3	5.1	5.4
Investment income	1.5	1.5	0.5	0.3	2.4	1.2	0.2	1.7	1.2	(1.4)
Interest expense on debt	(2.6)	(2.6)	(2.6)	(2.5)	(2.9)	(2.8)	(2.7)	(3.2)	(3.1)	(2.8)
Gain on Sale of Capital Assets	-	-	-	2.3	-	-	-	-	-	-
Other nonoperating revenues, net	0.4	0.5	0.5	0.9	1.1	0.8	1.6	0.8	1.0	0.7
Net Nonoperating Revenues	**27.6**	**26.3**	**25.9**	**30.3**	**30.9**	**29.9**	**27.0**	**31.4**	**33.9**	**36.4**
Income/(Loss) before Capital and Endowment Additions	**0.5**	**4.8**	**3.4**	**6.5**	**1.0**	**3.3**	**(0.2)**	**4.3**	**4.4**	**(1.1)**
Capital grants, gifts and conveyances	0.5	0.4	0.2	1.8	1.7	0.5	2.6	0.4	0.5	0.5
Capital appropriations	0.7	1.0	0.5	0.5	0.8	0.8	0.8	0.9	0.9	1.0
Capital commitment - State Lottery Revenue	1.0	1.0	1.1	0.6	0.5	0.4	-	-	-	-
Additions to permanent endowments	0.2	0.1	0.1	0.1	0.3	0.1	0.1	0.2	0.1	0.2
Increase in Net Position	**2.9**	**7.4**	**5.3**	**9.5**	**4.3**	**5.2**	**3.4**	**5.8**	**5.9**	**0.7**

CHANGE IN NET POSITION (CONTINUED)

(Percentage increase (decrease) from prior year)

Fiscal Year Ended June 30	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Revenues	%	%	%	%	%	%	%	%	%	%
Operating Revenues										
Student tuition and fees, net of scholarship allowance	-	7.4	9.7	14.4	5.0	12.4	8.3	15.1	22.3	16.4
Federal grants and contracts	2.3	5.1	(2.7)	(5.6)	(15.9)	1.1	2.7	8.6	7.2	2.3
State grants and contracts	(4.3)	0.1	74.7	(28.0)	(3.5)	(17.1)	(67.4)	50.6	15.6	22.1
Local grants and contracts	16.4	35.8	(12.6)	8.7	(41.3)	(89.8)	100.0	N/A	N/A	N/A
Nongovernment grants and contracts	(10.3)	(17.7)	39.5	81.6	3.8	19.2	20.3	(13.3)	10.1	4.4
Sales and services of educational departments	4.7	(2.2)	2.9	16.1	23.3	(29.1)	38.1	27.2	(3.6)	16.1
Auxiliary enterprises	(2.4)	1.8	1.5	6.6	0.5	11.2	(0.2)	3.5	7.0	0.4
Other operating revenues	0.4	30.4	(52.4)	81.5	14.7	31.0	2.2	8.9	(5.3)	(25.5)
Total Operating Revenues	**(1.2)**	**1.7**	**8.3**	**14.0**	**(1.8)**	**4.5**	**6.2**	**10.0**	**11.8**	**6.6**
Expenses										
Operating Expenses										
Educational and general										
Instruction	10.1	(0.1)	10.2	(2.0)	8.7	0.8	5.0	3.3	0.1	3.6
Research	7.4	1.6	(7.3)	6.4	(8.9)	2.2	5.1	2.6	2.5	3.1
Public Service	(7.9)	13.5	0.5	(7.5)	(7.2)	17.9	4.2	5.5	0.8	(2.3)
Academic support	(3.9)	(8.7)	30.3	29.9	17.4	9.2	28.2	23.3	(4.8)	1.9
Student services	32.5	5.6	12.4	1.7	8.8	9.0	20.7	17.3	(2.2)	(3.2)
Institutional support	-	12.9	(5.0)	15.6	18.1	2.4	7.8	9.0	(2.6)	(0.5)
Operation and maintenance of plant	17.2	4.2	(3.1)	1.1	(3.0)	1.6	0.3	0.9	3.9	(2.7)
Scholarships and fellowships	1.0	5.9	(9.4)	(10.8)	10.2	10.8	(5.5)	0.4	18.5	11.5
Auxiliary enterprises	6.7	0.2	(1.8)	3.9	2.5	5.4	(6.3)	10.3	(0.4)	2.8
Depreciation	2.1	5.8	0.5	6.9	3.0	5.4	(0.2)	6.5	1.6	1.6
Total Operating Expenses	**5.5**	**1.1**	**4.5**	**5.8**	**3.1**	**4.3**	**5.2**	**5.9**	**1.1**	**2.2**
Operating loss	**26.7**	**(0.7)**	**(5.9)**	**(11.3)**	**15.3**	**3.7**	**2.8**	**(2.8)**	**(15.8)**	**(3.9)**
Nonoperating Revenues (Expenses)										
State operating appropriations	3.9	1.6	(10.8)	2.1	4.1	(5.2)	(18.7)	-	(5.3)	(16.3)
Share of State sales tax revenues	4.1	10.4	0.2	5.9	13.5	2.1	2.0	(0.7)	(10.8)	(20.5)
Federal grants and appropriations	21.2	(15.9)	(2.4)	-	(4.5)	7.5	(4.5)	8.9	17.6	7.7
Federal fiscal stabilization funds	N/A	N/A	N/A	N/A	N/A	N/A	(100.0)	(97.3)	(53.5)	N/A
State and other government grants	19.5	287.3	(60.3)	(13.5)	(5.3)	825.5	(46.8)	2.7	(27.0)	30.4
Nongovernment grants and contracts	5.0	(3.6)	12.0	24.5	(7.4)	2,241.3	41.5	(24.0)	47.3	(4.6)
Gifts	2.1	(1.0)	(10.1)	14.9	5.0	(22.5)	10.1	10.3	1.3	9.5
Investment income	(3.3)	218.2	51.3	(84.6)	109.7	508.9	(88.2)	58.2	(191.8)	(572.9)
Interest expense on debt	3.9	3.0	7.5	(8.5)	6.2	7.3	(12.0)	11.9	10.2	(0.6)
Gain on Sale of Capital Assets	N/A	N/A	(100.0)	100.0	N/A	N/A	N/A	N/A	N/A	N/A
Other nonoperating revenues, net	(18.4)	16.8	(47.6)	(9.5)	48.9	(51.4)	99.6	(13.8)	57.9	(58.8)
Net Nonoperating Revenues	**5.7**	**5.1**	**(14.6)**	**9.1**	**5.8**	**17.8**	**(12.1)**	**(2.0)**	**(0.4)**	**(6.8)**
Income/(Loss) before Capital and Endowment Additions	**(89.4)**	**42.9**	**(46.8)**	**622.0**	**(69.5)**	**(1,578.6)**	**(105.7)**	**2.9**	**(552.5)**	**(1,779.6)**
Capital grants, gifts and conveyances	23.0	168.0	(90.5)	14.1	229.8	(78.1)	509.5	2.8	(6.2)	(70.0)
Capital appropriations	(35.2)	129.1	(14.4)	(21.4)	-	-	-	-	-	-
Capital commitment - State Lottery Revenue	(1.4)	(2.9)	91.0	20.9	48.4	100.0	N/A	N/A	N/A	N/A
Additions to permanent endowments	101.4	(22.3)	8.6	(42.2)	116.5	(7.6)	(11.4)	47.4	(44.2)	30.4
Increase/(Decrease) in Net Position	**(59.9)**	**43.3**	**(44.1)**	**145.9**	**(14.8)**	**62.6**	**(40.3)**	**3.3**	**841.7**	**(77.1)**

OPERATING EXPENSES BY NATURAL CLASSIFICATION

Fiscal Year Ended June 30 *(in thousands of dollars)*	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Personal Services and Benefits	$ 1,283,072	$ 1,229,939	$ 1,248,749	$ 1,138,615	$ 1,048,926	$ 1,005,283	$ 981,904	$ 953,033	$ 912,762	$ 921,236
Supplies and Services	530,930	482,530	454,215	479,021	470,546	472,323	445,084	393,371	355,586	342,581
Scholarships and Fellowships	57,836	57,656	54,094	59,125	66,488	60,374	48,842	51,128	51,803	42,412
Depreciation	135,565	132,726	125,455	124,870	116,781	113,345	107,561	107,770	101,226	99,657
Total Operating Expenses by Natural Classification	**$ 2,007,403**	**$ 1,902,851**	**$ 1,882,513**	**$ 1,801,631**	**$ 1,702,741**	**$ 1,651,325**	**$ 1,583,391**	**$ 1,505,302**	**$ 1,421,377**	**$ 1,405,886**
Expressed as a percent of the total	%	%	%	%	%	%	%	%	%	%
Personal Services and Benefits	63.9	64.6	66.3	63.2	61.6	60.9	62.0	63.3	64.2	65.5
Supplies and Services	26.4	25.4	24.1	26.6	27.6	28.5	28.1	26.1	25.0	24.4
Scholarships and Fellowships	2.9	3.0	2.9	3.3	3.9	3.7	3.1	3.4	3.6	3.0
Depreciation	6.8	7.0	6.7	6.9	6.9	6.9	6.8	7.2	7.1	7.1
Total Operating Expenses by Natural Classification	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Percentage increase/(decrease) from prior year	%	%	%	%	%	%	%	%	%	%
Personal Services and Benefits	4.3	(1.5)	9.7	8.6	4.3	2.4	3.0	4.4	(0.9)	2.5
Supplies and Services	10.0	6.2	(5.2)	1.8	(0.4)	6.1	13.1	10.6	3.8	0.8
Scholarships and Fellowships	0.3	6.6	(8.5)	(11.1)	10.1	23.6	(4.5)	(1.3)	22.1	9.3
Depreciation	2.1	5.8	0.5	6.9	3.0	5.4	(0.2)	6.5	1.6	1.6
Total Operating Expenses by Natural Classification	**5.5**	**1.1**	**4.5**	**5.8**	**3.1**	**4.3**	**5.2**	**5.9**	**1.1**	**2.2**

ACADEMIC YEAR TUITION AND REQUIRED FEES

Fiscal Year Ended June 30	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Resident Undergraduate										
University of Arizona	$ 12,248	$ 11,789	$ 11,424	$ 10,957	$ 10,391	$ 10,035	$ 10,035	$ 8,237	$ 6,842	$ 5,542
percent increase from prior year	3.9%	3.2%	4.3%	5.4%	3.5%	0.0%	21.8%	20.4%	23.5%	9.8%
PAC-12 Public Average	$ 11,586	$ 10,885	$ 10,866	$ 10,217	$ 10,150	$ 10,294	$ 9,831	$ 8,990	$ 7,803	$ 6,811
percent increase/(decrease) from prior year	6.4%	0.2%	6.4%	0.7%	(1.4%)	4.7%	9.4%	15.2%	14.6%	7.7%
ABOR Peers Average	$ 11,904	$ 11,613	$ 11,454	$ 11,289	$ 11,130	$ 11,012	$ 10,659	$ 9,855	$ 8,928	$ 8,435
percent increase from prior year	2.5%	1.4%	1.5%	1.4%	1.1%	3.3%	8.2%	10.4%	5.9%	6.5%
Non-Resident Undergraduate										
University of Arizona	$ 35,678	$ 34,987	$ 32,652	$ 29,421	$ 27,073	$ 26,231	$ 25,494	$ 24,597	$ 22,251	$ 18,676
percent increase from prior year	2.0%	7.2%	11.0%	8.7%	3.2%	2.9%	3.6%	10.5%	19.1%	14.7%
PAC-12 Public Average	$ 33,561	$ 31,640	$ 30,492	$ 28,088	$ 27,698	$ 28,062	$ 27,510	$ 26,753	$ 25,123	$ 22,812
percent increase/(decrease) from prior year	6.1%	3.8%	8.6%	1.4%	(1.3%)	2.0%	2.8%	6.5%	10.1%	6.8%
ABOR Peers Average	$ 34,457	$ 32,728	$ 31,480	$ 30,159	$ 29,315	$ 28,756	$ 27,918	$ 26,512	$ 24,960	$ 23,500
percent increase from prior year	5.3%	4.0%	4.4%	2.9%	1.9%	3.0%	5.3%	6.2%	6.2%	5.6%
Resident Graduate										
University of Arizona	$ 12,812	$ 12,397	$ 12,062	$ 11,723	$ 11,511	$ 11,122	$ 10,825	$ 9,027	$ 7,632	$ 6,332
percent increase from prior year	3.3%	2.8%	2.9%	1.8%	3.5%	2.7%	19.9%	18.3%	20.5%	9.8%
PAC-12 Public Average	$ 13,246	$ 13,057	$ 12,897	$ 12,007	$ 11,710	$ 11,810	$ 11,494	$ 10,321	$ 9,824	$ 9,093
percent increase/(decrease) from prior year	1.4%	1.2%	7.4%	2.5%	(0.9%)	2.8%	11.4%	5.1%	8.0%	6.8%
ABOR Peers Average	$ 14,358	$ 13,994	$ 13,760	$ 13,247	$ 13,031	$ 12,770	$ 12,339	$ 11,515	$ 10,853	$ 10,183
percent increase from prior year	2.6%	1.7%	3.9%	1.7%	2.0%	3.5%	7.2%	6.1%	6.6%	7.9%
Non-Resident Graduate										
University of Arizona	$ 32,762	$ 32,149	$ 30,384	$ 28,705	$ 27,383	$ 26,533	$ 25,787	$ 24,889	$ 22,544	$ 18,969
percent increase from prior year	1.9%	5.8%	5.8%	4.8%	3.2%	2.9%	3.6%	10.4%	18.8%	14.5%
PAC-12 Public Average	$ 28,223	$ 27,978	$ 27,336	$ 25,622	$ 24,918	$ 24,558	$ 24,051	$ 22,722	$ 21,823	$ 20,513
percent increase from prior year	0.9%	2.3%	6.7%	2.8%	1.5%	2.1%	5.8%	4.1%	6.4%	8.0%
ABOR Peers Average	$ 29,413	$ 28,673	$ 28,077	$ 27,474	$ 26,995	$ 26,456	$ 25,682	$ 24,507	$ 23,465	$ 22,504
percent increase from prior year	2.6%	2.1%	2.2%	1.8%	2.0%	3.0%	4.8%	4.4%	4.3%	4.7%

Sources: University of Arizona Fact Book

A complete list of the University of Arizona's fifteen ABOR peers can be found at http://factbook.arizona.edu.

Tuition rates are approved by the Arizona Board of Regents.

PAC-12 Tuition and Fees were acquired from universities' websites.

PRINCIPAL REVENUE SOURCES

Fiscal Year Ended June 30 *(in thousands of dollars)*	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Tuition and Fees, net of scholarship allowance	**$ 653,519**	**$ 653,725**	**$ 608,679**	**$ 554,768**	**$ 484,809**	**$ 461,580**	**$ 410,507**	**$ 379,199**	**$ 329,586**	**$ 269,447**
percent of total revenue	31%	31%	30%	27%	26%	26%	24%	23%	21%	18%
percent increase/(decrease) from prior year	0%	7%	10%	14%	5%	12%	8%	15%	22%	16%
State of Arizona Government										
State and local grants and contracts	$ 16,016	$ 19,044	$ 18,604	$ 12,905	$ 16,054	$ 17,639	$ 43,979	$ 46,244	$ 31,569	$ 27,860
State appropriations	254,789	245,146	241,257	270,538	265,038	254,654	268,533	330,297	330,297	348,941
Technology and research initiatives funding	28,763	27,618	25,025	24,964	23,576	20,773	20,353	19,954	20,102	22,547
Capital appropriations and capital commitments (1)	35,460	43,498	31,763	22,808	23,852	20,723	14,253	14,253	14,253	14,253
AZ State Government	**$ 335,028**	**$ 335,306**	**$ 316,649**	**$ 331,215**	**$ 328,520**	**$ 313,789**	**$ 347,118**	**$ 410,748**	**$ 396,221**	**$ 413,601**
percent of total revenue	16%	16%	16%	16%	18%	18%	21%	25%	25%	28%
percent increase/(decrease) from prior year	0%	6%	(4%)	1%	5%	(10%)	(15%)	4%	(4%)	(14%)
Federal Government										
Federal grants and contracts	$ 304,183	$ 297,409	$ 283,083	$ 290,967	$ 308,291	$ 366,363	$ 362,478	$ 352,835	$ 324,919	$ 303,115
Federal fiscal stabilization funds	-	-	-	-	-	-	-	755	28,313	60,824
Financial aid grants	53,746	49,990	52,037	52,165	51,290	49,469	49,239	48,182	42,275	28,099
Capital grants	-	-	-	-	-	-	-	-	-	-
Federal Government	**$ 357,929**	**$ 347,399**	**$ 335,120**	**$ 343,132**	**$ 359,581**	**$ 415,832**	**$ 411,717**	**$ 401,772**	**$ 395,507**	**$ 392,038**
percent of total revenue	17%	16%	16%	17%	20%	23%	24%	24%	25%	27%
percent increase/(decrease) from prior year	3%	4%	(2%)	(5%)	(14%)	1%	2%	2%	1%	22%
Total from principal revenue payers	**$ 1,346,476**	**$ 1,336,430**	**$ 1,260,448**	**$ 1,229,115**	**$ 1,172,910**	**$ 1,191,201**	**$ 1,169,342**	**$ 1,191,719**	**$ 1,121,314**	**$ 1,075,086**
percent of total revenue	63%	63%	62%	60%	64%	66%	69%	72%	72%	74%
percent increase/(decrease) from prior year	1%	6%	3%	5%	(2%)	2%	(2%)	6%	4%	4%

Due to the economic downturn in FY 2009, state appropriation funding decreased and tuition rates were increased to offset the decrease in state appropriation.
(1) Includes Arizona Lottery capital commitment received in FY 2013, FY 2014 , FY 2015, FY 2016, FY 2017, and FY 2018.

LONG-TERM DEBT

Fiscal Year Ended June 30 *(in thousands of dollars)*	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
System Revenue Bonds and SPEED Revenue Bonds	$ 1,166,915	$ 1,090,805	$ 953,005	$ 984,265	$ 788,685	$ 811,285	$ 686,090	$ 637,140	$ 622,265	$ 498,650
Plus Unamortized Premium/(Discount)	124,003	115,487	91,269	68,835	36,311	37,823	26,002	17,787	15,128	16,288
Less Deferred amount on Refundings *	-	-	-	-	-	(8,179)	(5,109)	(3,225)	(3,880)	(4,563)
Net System Revenue Bonds and SPEED Revenue Bonds	**$ 1,290,918**	**$ 1,206,292**	**$ 1,044,274**	**$ 1,053,100**	**$ 824,996**	**$ 840,929**	**$ 706,983**	**$ 651,702**	**$ 633,513**	**$ 510,375**
Certificates of Participation	$ 264,761	$ 302,176	$ 331,861	$ 354,736	$ 377,990	$ 400,720	$ 425,530	$ 459,951	$ 475,439	$ 489,859
Plus Unamortized Premium/(Discount)	29,760	23,959	26,478	29,001	19,145	20,864	22,878	5,313	5,737	6,161
Less Deferred amount on Refundings *	-	-	-	-	-	(13,301)	(14,575)	(8,678)	(9,493)	(10,307)
Net Certificates of Participation	**$ 294,521**	**$ 326,135**	**$ 358,339**	**$ 383,737**	**$ 397,135**	**$ 408,283**	**$ 433,833**	**$ 456,586**	**$ 471,683**	**$ 485,713**
Total Bonds Payable	$ 1,290,918	$ 1,206,292	$ 1,044,274	$ 1,053,100	$ 824,996	$ 840,929	$ 706,983	$ 651,702	$ 633,513	$ 510,375
COPs Payable	294,521	326,135	358,339	383,737	397,135	408,283	433,833	456,586	471,683	485,713
Capital and Operating Leases Payable	15,514	16,308	17,134	41,699	37,555	38,543	36,957	38,605	39,877	51,621
Total	**$ 1,600,953**	**$ 1,548,735**	**$ 1,419,747**	**$ 1,478,536**	**$ 1,259,686**	**$ 1,287,755**	**$ 1,177,773**	**$ 1,146,893**	**$ 1,145,073**	**$ 1,047,709**
Long Term Debt (whole dollars)										
per student FTE	$ 36,279	$ 35,546	$ 32,771	$ 34,881	$ 30,881	$ 31,943	$ 30,058	$ 30,121	$ 30,860	$ 29,312
per Dollar of State Appropriations and State Capital Appropriations	$ 5.95	$ 5.80	$ 5.66	$ 5.25	$ 4.51	$ 4.79	$ 4.16	$ 3.33	$ 3.32	$ 2.88
per Dollar of Total Grants and Contracts	$ 2.17	$ 2.13	$ 1.91	$ 2.16	$ 2.07	$ 1.89	$ 2.08	$ 2.09	$ 2.24	$ 2.24
Data Used in Above Calculations										
Total Student FTE	44,129	43,570	43,323	42,388	40,791	40,314	39,183	38,076	37,106	35,743
State appropriations and State Capital Appropriations	$ 269,038	$ 267,124	$ 250,851	$ 281,742	$ 279,291	$ 268,908	$ 282,786	$ 344,550	$ 344,550	$ 363,194
Grants and Contracts	$ 738,688	$ 726,420	$ 743,216	$ 685,400	$ 609,596	$ 682,620	$ 566,607	$ 548,103	$ 510,868	$ 468,766

** There will no longer be deferred amounts on refunding reported as liabilities due to the implementation of GASB Statement No. 65 beginning in FY 2014.*

SUMMARY OF RATIOS

Summary of Composite Financial Index Ratios

Fiscal Year Ended June 30	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
COMPOSITE FINANCIAL INDEX										
+ Primary Reserve Ratio	**0.13**	**0.20**	**0.14**	**0.12**	**0.36**	**0.34**	**0.31**	**0.35**	**0.34**	**0.31**
/ Strength Factor	0.133	0.133	0.133	0.133	0.133	0.133	0.133	0.133	0.133	0.133
= Ratio / Strength Factor	0.98	1.50	1.05	0.90	2.71	2.56	2.33	2.63	2.56	2.33
* Weighting Factor	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%
= Ratio Subtotal	0.34	0.53	0.37	0.32	0.95	0.89	0.82	0.92	0.89	0.82
= Ratio 10.00 Cap Subtotal	0.34	0.53	0.37	0.32	0.95	0.89	0.82	0.92	0.89	0.82
+ Return on Net Assets Ratio	**12.7%**	**13.7%**	**6.2%**	**17.5%**	**9.3%**	**8.5%**	**1.4%**	**10.4%**	**9.2%**	**(3.6%)**
/ Strength Factor	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
= Ratio / Strength Factor	6.35	6.85	3.10	8.75	4.65	4.25	0.70	5.20	4.60	(1.00)
* Weighting Factor	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
= Ratio Subtotal	1.27	1.37	0.62	1.75	0.93	0.85	0.14	1.04	0.92	(0.20)
= Ratio 10.00 Cap Subtotal	1.27	1.37	0.62	1.75	0.93	0.85	0.14	1.04	0.92	(0.20)
+ Net Operating Revenues Ratio	**0.7%**	**5.5%**	**3.7%**	**7.3%**	**1.4%**	**3.8%**	**(0.3%)**	**4.6%**	**4.8%**	**(1.5%)**
/ Strength Factor	1.30%	1.30%	1.30%	1.30%	1.30%	1.30%	1.30%	1.30%	1.30%	1.30%
= Ratio / Strength Factor	0.54	4.23	2.85	5.62	1.08	2.92	(0.23)	3.54	3.69	(1.00)
* Weighting Factor	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
= Ratio Subtotal	0.05	0.42	0.28	0.56	0.11	0.29	(0.02)	0.35	0.37	(0.10)
= Ratio 10.00 Cap Subtotal	0.05	0.42	0.28	0.56	0.11	0.29	(0.02)	0.35	0.37	(0.10)
+ Viability Ratio	**0.2**	**0.3**	**0.2**	**0.2**	**0.6**	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**
/ Strength Factor	0.417	0.417	0.417	0.417	0.417	0.417	0.417	0.417	0.417	0.417
= Ratio / Strength Factor	0.48	0.72	0.48	0.48	1.44	1.20	1.20	1.20	1.20	1.20
* Weighting Factor	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%
= Ratio Subtotal	0.17	0.25	0.17	0.17	0.50	0.42	0.42	0.42	0.42	0.42
= Ratio 10.00 Cap Subtotal	0.17	0.25	0.17	0.17	0.50	0.42	0.42	0.42	0.42	0.42
Composite Financial Index	**1.83**	**2.57**	**1.44**	**2.80**	**2.49**	**2.46**	**1.35**	**2.73**	**2.60**	**0.94**
Composite Financial Index with 10.00 Cap	**1.83**	**2.57**	**1.44**	**2.80**	**2.49**	**2.46**	**1.35**	**2.73**	**2.60**	**0.94**

The Composite Financial Index (CFI) provides a methodology for a single overall financial measurement of the institution's health based on the four core ratios. The CFI uses a reasonable weighting plan and allows a weakness or strength in a specific ratio to be offset by another ratio result, which provides a more balanced measure. The CFI provides a more holistic approach to understanding the financial health of the institution. The CFI scores are not intended to be precise measures; they are indicators of ranges of financial health that can be indicators of overall institutional well-being when combined with non-financial indicators.

Composite Financial Index calculation includes component unit information. Detail of ratio calculations are on the following pages.

SUMMARY OF RATIOS (CONTINUED)

Fiscal Year Ended June 30 *(in thousands of dollars)*	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
PRIMARY RESERVE RATIO										
Unrestricted Net Assets	$ (135,502)	$ 20,756	$ (80,965)	$ (124,204)	$ 373,103	$ 361,244	$ 310,258	$ 293,103	$ 254,432	$ 179,821
Unrestricted Net Assets - Component Units	56,189	52,612	44,154	43,592	39,419	33,945	31,686	31,848	28,178	25,095
Expendable Restricted Net Assets	244,542	241,080	238,522	218,805	161,894	124,582	122,904	137,768	127,599	140,375
Temporarily Restricted Net Assets - Component Units	143,895	128,288	122,486	126,134	125,534	114,430	105,820	138,951	138,133	141,096
Investment in Plant - Component Units	(27,696)	(26,777)	(33,163)	(32,712)	(31,088)	(30,743)	(29,792)	(29,720)	(26,616)	(14,841)
Expendable Net Assets	**$ 281,428**	**$ 415,959**	**$ 291,034**	**$ 231,615**	**$ 668,862**	**$ 603,458**	**$ 540,876**	**$ 571,950**	**$ 521,726**	**$ 471,546**
Operating Expenses	$ 2,007,403	$ 1,902,851	$ 1,882,513	$ 1,801,631	$ 1,702,741	$ 1,651,325	$ 1,583,391	$ 1,505,302	$ 1,421,377	$ 1,405,886
Nonoperating Expenses	53,275	51,253	49,748	46,293	50,596	47,643	44,391	50,447	45,077	40,887
Component Unit Total Expenses	108,606	103,419	110,428	130,081	119,033	87,516	129,492	85,761	80,778	74,779
Total Expenses	**$ 2,169,284**	**$ 2,057,523**	**$ 2,042,689**	**$ 1,978,005**	**$ 1,872,370**	**$ 1,786,484**	**$ 1,757,274**	**$ 1,641,510**	**$ 1,547,232**	**$ 1,521,552**
Expendable Net Assets	$ 281,428	$ 415,959	$ 291,034	$ 231,615	$ 668,862	$ 603,458	$ 540,876	$ 571,950	$ 521,726	$ 471,546
Total Expenses	$ 2,169,284	$ 2,057,523	$ 2,042,689	$ 1,978,005	$ 1,872,370	$ 1,786,484	$ 1,757,274	$ 1,641,510	$ 1,547,232	$ 1,521,552
Ratio	**0.13**	**0.20**	**0.14**	**0.12**	**0.36**	**0.34**	**0.31**	**0.35**	**0.34**	**0.31**

Measures the financial strength of the institution by indicating how long the institution could function using its expendable reserves to cover operations should additional net assets not be available. A positive ratio and an increasing amount over time denote strength.

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
RETURN ON NET ASSETS RATIO										
Change in Net assets	$ 215,540	$ 224,673	$ 96,154	$ 229,469	$ 163,058	$ 138,868	$ 21,734	$ 151,930	$ 122,890	$ (50,153)
Total Net Assets (Beginning of Year)	$ 1,702,438	$ 1,635,225	$ 1,539,071	$ 1,309,602	$ 1,755,900	$ 1,629,107	$ 1,607,373	$ 1,455,443	$ 1,332,553	$ 1,382,832
Ratio	**12.7%**	**13.7%**	**6.2%**	**17.5%**	**9.3%**	**8.5%**	**1.4%**	**10.4%**	**9.2%**	**(3.6%)**

Measures total economic return. While an increasing trend reflects strength, a decline may be appropriate and even warranted if it represents a strategy on the part of the institution to fulfill its mission.

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
NET OPERATING REVENUES RATIO										
Income/(Loss) before Capital and Endowment Additions	$ 10,702	$ 100,524	$ 70,350	$ 132,121	$ 18,299	$ 59,986	$ (4,057)	$ 71,226	$ 69,243	$ (15,301)
Component Units Change in Unrestricted Net Assets Before Extraordinary or Special Items	3,577	8,458	562	4,173	5,474	2,259	(162)	3,670	3,083	(5,276)
Adjusted Income/(Loss) before Capital and Endowment Additions and Component Units Change in Unrestricted Net Assets Before Extraordinary or Special Items	$ 14,279	$ 108,982	$ 70,912	$ 136,294	$ 23,773	$ 62,245	$ (4,219)	$ 74,896	$ 72,326	$ (20,577)
Total Operating Revenues	$ 1,431,591	$ 1,448,442	$ 1,424,770	$ 1,315,091	$ 1,153,967	$ 1,175,364	$ 1,124,228	$ 1,058,622	$ 961,960	$ 860,049
State Appropriation and State related revenues	306,791	294,486	271,891	309,640	304,967	292,688	290,751	353,757	353,814	376,169
Non-capital Gifts and Grants, net	81,746	80,060	80,890	89,975	78,287	74,530	96,201	87,355	79,164	78,156
Financial Aid Trust Funds *	2,729	2,761	2,880	3,030	3,154	3,193	3,042	2,972	2,832	2,992
Investment Income/(Loss), net	30,911	31,962	10,046	6,638	43,229	20,619	3,386	28,686	18,133	(19,749)
Component Units Total Unrestricted Revenue	112,932	111,633	110,779	134,054	124,081	89,506	107,967	83,484	83,422	69,899
Adjusted Net Operating Revenues	$ 1,966,700	$ 1,969,344	$ 1,901,256	$ 1,858,428	$ 1,707,685	$ 1,655,900	$ 1,625,575	$ 1,614,876	$ 1,499,325	$ 1,367,516
Adjusted Income/(Loss) before Capital and Endowment Additions and Component Units Change in Unrestricted Net Assets Before Extraordinary or Special Items	$ 14,279	$ 108,982	$ 70,912	$ 136,294	$ 23,773	$ 62,245	$ (4,219)	$ 74,896	$ 72,326	$ (20,577)
Adjusted Net Operating Revenues	$ 1,966,700	$ 1,969,344	$ 1,901,256	$ 1,858,428	$ 1,707,685	$ 1,655,900	$ 1,625,575	$ 1,614,876	$ 1,499,325	$ 1,367,516
Ratio	**0.7%**	**5.5%**	**3.7%**	**7.3%**	**1.4%**	**3.8%**	**(0.3%)**	**4.6%**	**4.8%**	**(1.5%)**

Measures whether the institution is living within available resources. A positive ratio and an increasing amount over time, generally reflects strength.

**Prior to FY2018, Financial Aid Trust Funds were appropriated directly to ABOR on behalf of the universities. Beginning in Fiscal Year 2018, these funds are appropriated directly to the universities.*

SUMMARY OF RATIOS (CONTINUED)

Fiscal Year Ended June 30 *(in thousands of dollars)*	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
VIABILITY RATIO										
Unrestricted Net Assets	$ (135,502)	$ 20,756	$ (80,965)	$ (124,204)	$ 373,103	$ 361,244	$ 310,258	$ 293,103	$ 254,432	$ 179,821
Unrestricted Net Assets - Component Units	56,189	52,612	44,154	43,592	39,419	33,945	31,686	31,848	28,178	25,095
Expendable Restricted Net Assets	244,542	241,080	238,522	218,805	161,894	124,582	122,904	137,768	127,599	140,375
Temporarily Restricted Net Assets - Component Units	143,895	128,288	122,486	126,134	125,534	114,430	105,820	138,951	138,133	141,096
Expendable Net Assets	$ 309,124	$ 442,736	$ 324,197	$ 264,327	$ 699,950	$ 634,201	$ 570,668	$ 601,670	$ 548,342	$ 486,387
University Long Term Debt, net capital leases with CUs	$ 1,600,953	$ 1,548,735	$ 1,419,747	$ 1,478,536	$ 1,259,686	$ 1,287,755	$ 1,177,773	$ 1,146,893	$ 1,145,073	$ 1,047,709
Component Units Long Term Debt	5,553	6,024	4,255	5,279	6,682	8,105	9,344	10,487	9,374	9,109
Total Adjusted University Debt	$ 1,606,506	$ 1,554,759	$ 1,424,002	$ 1,483,815	$ 1,266,368	$ 1,295,860	$ 1,187,117	$ 1,157,380	$ 1,154,447	$ 1,056,818
Expendable Net Assets	$ 309,124	$ 442,736	$ 324,197	$ 264,327	$ 699,950	$ 634,201	$ 570,668	$ 601,670	$ 548,342	$ 486,387
Total Adjusted University Debt	$ 1,606,506	$ 1,554,759	$ 1,424,002	$ 1,483,815	$ 1,266,368	$ 1,295,860	$ 1,187,117	$ 1,157,380	$ 1,154,447	$ 1,056,818
Ratio	**0.2**	**0.3**	**0.2**	**0.2**	**0.6**	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**

Measures the ability of the institution to cover its debt as of the statement of net position date, should the institution need to do so. A positive ratio of greater than 1:1 generally denotes strength.

SUMMARY OF RATIOS – OTHER RATIOS

Fiscal Year Ended June 30 *(in thousands of dollars)*	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
OPERATING MARGIN EXCLUDING GIFTS										
Income/(Loss) before Capital and Endowment Additions	$ 10,702	$ 100,524	$ 70,350	$ 132,121	$ 18,299	$ 59,986	$ (4,057)	$ 71,226	$ 69,243	$ (15,301)
Capital appropriations	14,249	21,978	9,594	11,204	14,253	14,253	14,253	14,253	14,253	14,253
Less: Non-capital Gifts	(81,746)	(80,060)	(80,890)	(89,975)	(78,287)	(74,530)	(96,201)	(87,355)	(79,164)	(78,156)
Less: Net investment return	(30,911)	(31,962)	(10,046)	(6,638)	(43,229)	(20,619)	(3,386)	(28,686)	(18,133)	19,749
Less: Other nonoperating revenue, net	(9,040)	(11,072)	(9,480)	(18,103)	(20,009)	(13,440)	(27,644)	(13,849)	(16,063)	(10,175)
Adjusted Income/(Loss) before Capital and Endowment Additions	$ (96,746)	$ (592)	$ (20,472)	$ 28,609	$ (108,973)	$ (34,350)	$ (117,035)	$ (44,411)	$ (29,864)	$ (69,630)
Total Operating Revenues	$ 1,431,591	$ 1,448,442	$ 1,424,770	$ 1,315,091	$ 1,153,967	$ 1,175,364	$ 1,124,228	$ 1,058,622	$ 961,960	$ 860,049
Less: Scholarships and Fellowships	(55,421)	(54,884)	(51,808)	(57,158)	(64,070)	(58,145)	(52,475)	(55,510)	(55,316)	(46,673)
State Appropriation and share of sales tax	280,823	272,764	266,282	295,502	288,614	275,427	288,886	350,251	350,399	371,488
Federal fiscal stabilization funds	-	-	-	-	-	-	-	755	28,313	60,824
Financial aid grants	53,746	49,990	52,037	52,165	51,290	49,469	49,239	48,182	42,275	28,099
Grants and contracts (Nonoperating)	155,589	145,200	133,720	128,546	108,243	116,510	6,104	6,502	7,357	7,357
Financial Aid Trust Funds *	2,729	2,761	2,880	3,030	3,154	3,193	3,042	2,972	2,832	2,992
Capital appropriations	14,249	21,978	9,594	11,204	14,253	14,253	14,253	14,253	14,253	14,253
Adjust Net Operating Revenues less Non-capital Gifts and Grants	$ 1,883,306	$ 1,886,251	$ 1,837,475	$ 1,748,380	$ 1,555,452	$ 1,576,071	$ 1,433,277	$ 1,426,027	$ 1,352,073	$ 1,298,389
Adjusted Income/(Loss) before Capital and Endowment Additions	$ (96,746)	$ (592)	$ (20,472)	$ 28,609	$ (108,973)	$ (34,350)	$ (117,035)	$ (44,411)	$ (29,864)	$ (69,630)
Adjust Net Operating Revenues less Non-capital Gifts and Grants	$ 1,883,306	$ 1,886,251	$ 1,837,475	$ 1,748,380	$ 1,555,452	$ 1,576,071	$ 1,433,277	$ 1,426,027	$ 1,352,073	$ 1,298,389
Ratio	**(5.1%)**	**(0.0%)**	**(1.1%)**	**1.6%**	**(7.0%)**	**(2.2%)**	**(8.2%)**	**(3.1%)**	**(2.2%)**	**(5.4%)**

A more restrictive measure of whether the institution is living within available resources. A positive ratio and an increasing amount over time generally reflect strength.

**Prior to FY2018, Financial Aid Trust Funds were appropriated directly to ABOR on behalf of the universities. Beginning in Fiscal Year 2018, these funds are appropriated directly to the universities.*

SUMMARY OF RATIOS – OTHER RATIOS (CONTINUED)

Fiscal Year Ended June 30 *(in thousands of dollars)*	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
RESEARCH EXPENSES TO TOTAL OPERATING EXPENSES										
Operating Expenses	$ 2,007,403	$ 1,902,851	$ 1,882,513	$ 1,801,631	$ 1,702,741	$ 1,651,325	$ 1,583,391	$ 1,505,302	$ 1,421,377	$ 1,405,886
Less: Scholarships and Fellowships	(55,421)	(54,884)	(51,808)	(57,158)	(64,070)	(58,145)	(52,475)	(55,510)	(55,316)	(46,673)
Interest on Debt	53,275	51,253	49,748	46,293	50,596	47,643	44,391	50,447	45,077	40,887
Total Adjusted Operating Expenses	$ 2,005,257	$ 1,899,220	$ 1,880,453	$ 1,790,766	$ 1,689,267	$ 1,640,823	$ 1,575,307	$ 1,500,239	$ 1,411,138	$ 1,400,100
Research Expenses	$ 426,873	$ 397,512	$ 391,122	$ 421,973	$ 396,680	$ 435,536	$ 425,993	$ 405,271	$ 395,008	$ 385,467
Total Adjusted Operating Expenses	$ 2,005,257	$ 1,899,220	$ 1,880,453	$ 1,790,766	$ 1,689,267	$ 1,640,823	$ 1,575,307	$ 1,500,239	$ 1,411,138	$ 1,400,100
Ratio	**21%**	**21%**	**21%**	**24%**	**23%**	**27%**	**27%**	**27%**	**28%**	**28%**

Measures the institution's research expense to the total operating expenses.

Fiscal Year Ended June 30 *(in thousands of dollars)*	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
NET TUITION PER STUDENT										
Student Tuition and Fees, net	$ 653,519	$ 653,725	$ 608,679	$ 554,768	$ 484,809	$ 461,580	$ 410,507	$ 379,199	$ 329,586	$ 269,447
Financial Aid Grants	56,475	52,751	54,917	55,195	54,444	52,662	52,281	51,154	45,107	31,091
Less Scholarships and Fellowships	(55,421)	(54,884)	(51,808)	(57,158)	(64,070)	(58,145)	(52,475)	(55,510)	(55,316)	(46,673)
Net Tuition and Fees	$ 654,573	$ 651,592	$ 611,788	$ 552,805	$ 475,183	$ 456,097	$ 410,313	$ 374,843	$ 319,377	$ 253,865
Net Tuition and Fees	$ 654,573	$ 651,592	$ 611,788	$ 552,805	$ 475,183	$ 456,097	$ 410,313	$ 374,843	$ 319,377	$ 253,865
Undergraduate, Graduate, and Professional FTE	44,129	43,570	43,323	42,388	40,791	40,314	39,183	38,076	37,106	35,743
Net Tuition per Student (whole dollars)	**$ 14,833**	**$ 14,955**	**$ 14,122**	**$ 13,042**	**$ 11,649**	**$ 11,314**	**$ 10,472**	**$ 9,845**	**$ 8,607**	**$ 7,103**

Measures the institution's net student tuition and fees received per student.

Fiscal Year Ended June 30 *(in thousands of dollars)*	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
STATE APPROPRIATIONS PER STUDENT										
State Appropriations	$ 254,789	$ 245,146	$ 241,257	$ 270,538	$ 265,038	$ 254,654	$ 268,533	$ 330,297	$ 330,297	$ 348,941
Capital Appropriations	14,249	21,978	9,594	11,204	14,253	14,253	14,253	14,253	14,253	14,253
Adjusted State Appropriations	$ 269,038	$ 267,124	$ 250,851	$ 281,742	$ 279,291	$ 268,907	$ 282,786	$ 344,550	$ 344,550	$ 363,194
State Appropriations	$ 269,038	$ 267,124	$ 250,851	$ 281,742	$ 279,291	$ 268,907	$ 282,786	$ 344,550	$ 344,550	$ 363,194
Undergraduate, Graduate, and Professional FTE	44,129	43,570	43,323	42,388	40,791	40,314	39,183	38,076	37,106	35,743
State Appropriation per Student (whole dollars)	**$ 6,097**	**$ 6,131**	**$ 5,790**	**$ 6,647**	**$ 6,847**	**$ 6,670**	**$ 7,217**	**$ 9,049**	**$ 9,286**	**$ 10,161**

Measures the institution's dependency on state appropriations.

SUMMARY OF RATIOS – DEBT RELATED RATIOS

Fiscal Year Ended June 30 *(in thousands of dollars)*	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
EXPENDABLE RESOURCES TO DEBT										
Unrestricted Net Assets	$ (135,502)	$ 20,756	$ (80,965)	$ (124,204)	$ 373,103	$ 361,244	$ 310,258	$ 293,103	$ 254,432	$ 179,821
Expendable Restricted Net Assets	244,542	241,080	238,522	218,805	161,894	124,582	122,904	137,768	127,599	140,375
Expendable Net Assets	**$ 109,040**	**$ 261,836**	**$ 157,557**	**$ 94,601**	**$ 534,997**	**$ 485,826**	**$ 433,162**	**$ 430,871**	**$ 382,031**	**$ 320,196**
Expendable Net Assets	$ 109,040	$ 261,836	$ 157,557	$ 94,601	$ 534,997	$ 485,826	$ 433,162	$ 430,871	$ 382,031	$ 320,196
Total Adjusted University Debt	$ 1,600,953	$ 1,548,735	$ 1,419,747	$ 1,478,536	$ 1,259,686	$ 1,287,755	$ 1,177,773	$ 1,146,893	$ 1,145,073	$ 1,047,709
Ratio	**0.07**	**0.17**	**0.11**	**0.06**	**0.4**	**0.4**	**0.4**	**0.4**	**0.3**	**0.3**

Measures the ability of the institution to cover its debt using expendable resources as of the statement of net position date.

Fiscal Year Ended June 30 *(in thousands of dollars)*	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
TOTAL FINANCIAL RESOURCES TO DIRECT DEBT										
Unrestricted Net Assets	$ (135,502)	$ 20,756	$ (80,965)	$ (124,204)	$ 373,103	$ 361,244	$ 310,258	$ 293,103	$ 254,432	$ 179,821
Expendable Restricted Net Assets	244,542	241,080	238,522	218,805	161,894	124,582	122,904	137,768	127,599	140,375
Non-expendable Restricted Net Assets	154,227	142,774	134,356	138,464	138,512	122,635	113,968	115,307	101,263	94,307
Total Financial Resources	**$ 263,267**	**$ 404,610**	**$ 291,913**	**$ 233,065**	**$ 673,509**	**$ 608,461**	**$ 547,130**	**$ 546,178**	**$ 483,294**	**$ 414,503**
Total Financial Resources	$ 263,267	$ 404,610	$ 291,913	$ 233,065	$ 673,509	$ 608,461	$ 547,130	$ 546,178	$ 483,294	$ 414,503
Total Bonds, COPs and Capital Leases	$ 1,600,953	$ 1,548,735	$ 1,419,747	$ 1,478,536	$ 1,259,686	$ 1,287,755	$ 1,177,773	$ 1,146,893	$ 1,145,073	$ 1,047,709
Ratio	**0.16**	**0.26**	**0.21**	**0.16**	**0.5**	**0.5**	**0.5**	**0.5**	**0.4**	**0.4**

A broader measure of the ability of the institution to cover its debt as of the statement of net position date.

Fiscal Year Ended June 30 *(in thousands of dollars)*	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
DIRECT DEBT TO ADJUSTED CASH FLOW										
Net Cash Used by Operating Activities	$ (464,708)	$ (295,594)	$ (287,171)	$ (336,897)	$ (402,380)	$ (362,458)	$ (404,778)	$ (319,362)	$ (385,905)	$ (414,248)
State Appropriations and Federal Stabilization Funds	254,789	245,146	241,257	270,538	265,038	254,654	268,533	331,052	358,610	409,765
Share of State Sales Tax - TRIF	28,763	27,618	25,025	24,964	23,576	20,773	20,353	19,954	20,102	22,547
Non-capital Grants and Contracts, Gifts, Other (1)	316,286	290,388	292,033	297,837	265,817	274,104	179,581	175,567	189,142	209,509
Adjusted Cash Flow from Operations	**$ 135,130**	**$ 267,558**	**$ 271,144**	**$ 256,442**	**$ 152,051**	**$ 187,073**	**$ 63,689**	**$ 207,211**	**$ 181,949**	**$ 227,573**
Total Adjusted University Debt Outstanding	$ 1,600,953	$ 1,548,735	$ 1,419,747	$ 1,478,536	$ 1,259,686	$ 1,287,755	$ 1,177,773	$ 1,146,893	$ 1,145,073	$ 1,047,709
Adjusted Cash Flow from Operations	$ 135,130	$ 267,558	$ 271,144	$ 256,442	$ 152,051	$ 187,073	$ 63,689	$ 207,211	$ 181,949	$ 227,573
Ratio	**11.85**	**5.79**	**5.24**	**5.77**	**8.28**	**6.88**	**18.49**	**5.53**	**6.29**	**4.60**

(1) Includes: Financial aid grants, grants and contracts, private gifts, and financial aid trust funds.

Measures the financial strength of the institution by indicating how long (in years) the institution would take to repay the debt using the cash provided by its operations. A decreasing ratio over time denotes strength.

Fiscal Year Ended June 30 *(in thousands of dollars)*	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
DEBT SERVICE TO OPERATIONS										
Interest and Fees Paid on Debt and Leases	$ 53,275	$ 51,253	$ 49,748	$ 46,293	$ 50,596	$ 47,643	$ 44,391	$ 50,447	$ 45,077	$ 40,887
Principal Paid on Debt and Leases	132,499	79,838	254,284	197,381	47,605	120,436	241,680	42,572	52,272	41,241
Less: Principal Paid from Refinancing Activities	(65,950)	(15,685)	(181,440)	(157,050)	-	(71,115)	(199,835)	-	-	-
Debt Service	**$ 119,824**	**$ 115,406**	**$ 122,592**	**$ 86,624**	**$ 98,201**	**$ 96,964**	**$ 86,236**	**$ 93,019**	**$ 97,349**	**$ 82,128**
Debt Service	$ 119,824	$ 115,406	$ 122,592	$ 86,624	$ 98,201	$ 96,964	$ 86,236	$ 93,019	$ 97,349	$ 82,128
Operating Expenses	$ 2,007,403	$ 1,902,851	$ 1,882,513	$ 1,801,631	$ 1,702,741	$ 1,651,325	$ 1,583,391	$ 1,505,302	$ 1,421,377	$ 1,405,886
Ratio	**6.0%**	**6.1%**	**6.5%**	**4.8%**	**5.8%**	**5.9%**	**5.4%**	**6.2%**	**6.8%**	**5.8%**

Measures the institution's dependence on borrowed funds as a source of financing its mission and the relative cost of borrowing to overall expenditures. The ratio measures the relative cost of debt to overall expenses and a declining trend is generally desirable, however the ratio can spike during times of specific funding activity.

DEBT SERVICE COVERAGE FOR SENIOR LIEN SYSTEM AND SUBORDINATE LIEN SYSTEM REVENUE BONDS

Fiscal Year Ended June 30 *(in thousands of dollars)*	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Tuition and Fees, net of scholarship allowance	$ 653,519	$ 653,725	$ 608,679	$ 554,768	$ 484,809	$ 461,580	$ 410,507	$ 379,199	$ 329,586	$ 269,447
Receipts from Other Major Revenue Sources (Facilities Revenues)	416,819	410,659	402,760	397,917	374,153	351,162	339,498	339,520	315,907	305,137
Net Revenues Available for Debt Service	**$ 1,070,338**	**$ 1,064,384**	**$ 1,011,439**	**$ 952,685**	**$ 858,962**	**$ 812,742**	**$ 750,005**	**$ 718,719**	**$ 645,493**	**$ 574,584**
Senior Lien Bonds Debt Service										
Interest on Debt	$ 31,849	$ 28,936	$ 24,121	$ 23,290	$ 24,887	$ 23,379	$ 21,030	$ 22,984	$ 24,593	$ 15,437
Principal Paid on Debt	25,135	23,820	25,205	21,575	22,600	21,895	17,375	24,720	23,860	22,725
Senior Lien Bonds Debt Service Requirements	**$ 56,984**	**$ 52,756**	**$ 49,326**	**$ 44,865**	**$ 47,487**	**$ 45,274**	**$ 38,405**	**$ 47,704**	**$ 48,453**	**$ 38,162**
Coverage	**18.78**	**20.18**	**20.51**	**21.23**	**18.09**	**17.95**	**19.53**	**15.07**	**13.32**	**15.06**

Bond Resolution Covenant: The Gross Revenues of the University for each fiscal year will be at least 150% of the Maximum Annual Debt Service due in any fiscal year

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Subordinate Lien Bonds Debt Service										
Interest on Debt	$ 20,044	$ 20,458	$ 21,412	$ 14,442	$ 13,362	$ 11,176	$ 10,450	$ 5,586	-	-
Principal Paid on Debt	9,590	9,260	-	-	-	-	-	-	-	-
Subordinate Lien Bonds Debt Service Requirements	**$ 29,634**	**$ 29,718**	**$ 21,412**	**$ 14,442**	**$ 13,362**	**$ 11,176**	**$ 10,450**	**$ 5,586**	**-**	**-**
Combined Senior/Subordinate Lien Debt Service	**$ 86,618**	**$ 82,474**	**$ 70,738**	**$ 59,307**	**$ 60,849**	**$ 56,450**	**$ 48,855**	**$ 53,291**	**$ 48,453**	**$ 38,162**
Coverage	**12.36**	**12.91**	**14.30**	**16.06**	**14.12**	**14.40**	**15.35**	**13.49**	**13.32**	**15.06**

Debt Service Assurance Agreement and SPEED Bond Resolution Covenant: The Gross Revenues of the University for each fiscal year will be at least 100% of the annual debt service due on all outstanding parity bonds and subordinate obligations.

ADMISSIONS, ENROLLMENT AND DEGREES EARNED

Fall enrollment of fiscal year	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
ADMISSIONS - FRESHMEN										
Applications	33,608	36,166	35,236	32,723	26,481	26,329	26,871	26,626	24,625	22,544
Accepted	28,089	28,433	26,961	24,417	20,546	20,251	19,175	20,065	19,207	18,158
Enrolled	7,360	7,753	7,466	7,744	6,881	7,401	7,300	7,025	6,966	6,709
Accepted as Percentage of Application	84%	79%	77%	75%	78%	77%	71%	75%	78%	81%
Enrolled as Percentage of Accepted	26%	27%	28%	32%	33%	37%	38%	35%	36%	37%
Average SAT scores - Total	1136	1123	1121	1113	1114	1116	1109	1100	1104	1103
Verbal	563	555	541	549	549	550	547	543	547	526
Math	575	568	553	564	565	566	561	557	561	543
ENROLLMENT										
Undergraduate, Graduate and Professional FTE	44,129	43,570	43,323	42,388	40,791	40,314	39,183	38,076	37,106	35,743
Undergraduate, Graduate and Professional Headcount	44,831	43,625	43,088	42,236	40,621	40,223	39,236	39,086	38,767	38,057
Men (Headcount)	21,673	21,011	20,833	20,345	19,520	19,264	18,729	18,734	18,440	18,084
Percentage of Total	48.3%	48.2%	48.3%	48.2%	48.1%	47.9%	47.7%	47.9%	47.6%	47.5%
Women (Headcount)	23,158	22,614	22,255	21,891	21,101	20,959	20,507	20,352	20,327	19,973
Percentage of Total	51.7%	51.8%	51.7%	51.8%	51.9%	52.1%	52.3%	52.1%	52.4%	52.5%
African American (Headcount)	1,679	1,601	1,510	1,402	1,266	1,540	1,487	1,438	1,341	1,221
Percentage of Total	3.7%	3.7%	3.5%	3.3%	3.1%	3.8%	3.8%	3.7%	3.5%	3.2%
White (Headcount)	22,040	22,069	22,198	22,050	21,825	22,303	22,485	23,099	23,599	23,476
Percentage of Total	49.2%	50.6%	51.5%	52.2%	53.7%	55.4%	57.3%	59.1%	60.9%	61.7%
Other (Headcount)	21,112	19,955	19,380	18,784	17,530	16,380	15,264	14,549	13,827	13,360
Percentage of Total	47.1%	45.7%	45.0%	44.5%	43.2%	40.7%	38.9%	37.2%	35.7%	35.1%
DEGREES EARNED										
Bachelor's	6,949	7,089	6,745	6,370	6,494	6,351	6,195	5,827	5,914	5,612
Master's	1,997	1,977	1,756	1,706	1,667	1,574	1,569	1,337	1,502	1,418
Doctoral	530	524	528	475	450	455	445	471	479	451
Professional	406	383	411	395	404	395	368	353	345	326

Sources: University of Arizona Fact Book and Office of Institutional Research & Planning

DEMOGRAPHIC DATA

Fiscal Year Ended June 30	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Arizona Population	7,016,270	6,931,071	6,829,397	6,731,484	6,626,624	6,553,255	6,482,505	6,413,158	6,343,154	6,280,362
Arizona Personal Income (in millions)	$ 292,108	$ 278,925	$ 266,756	$ 261,314	$ 249,027	$ 235,781	$ 227,287	$ 216,590	$ 212,873	$ 226,465
Arizona Per Capita Personal Income	$ 41,633	$ 40,243	$ 39,060	$ 37,895	$ 36,823	$ 35,979	$ 35,062	$ 33,773	$ 33,560	$ 36,059
Arizona Unemployment Rate	4.70%	5.00%	5.60%	5.90%	6.90%	8.00%	9.50%	10.50%	9.90%	6.00%

Sources: U.S. Bureau of Economic Analysis & Arizona Department of Administration and Bureau of Labor Statistics

PRINCIPAL EMPLOYERS

	Calendar Year Ended June 30, 2018			Calendar Year Ended December 31, 2009		
Employer	Full-Time Equivalent Employees	Rank	Percentage of Total County Employment	Full-Time Equivalent Employees	Rank	Percentage of Total County Employment
University of Arizona	11,251	1	2.40%	10,575	2	2.20%
Raytheon Missile Systems	9,600	2	2.00%	11,539	1	2.40%
State of Arizona	8,580	3	1.80%	9,329	3	1.90%
Davis Monthan AFB	8,406	4	1.80%	7,509	4	1.50%
Pima County Government	7,060	5	1.50%	6,235	8	1.30%
Tucson Unified School District	6,770	6	1.40%	7,227	5	1.50%
Banner - University Medicine	6,272	7	1.30%			
US Border Patrol	5,739	8	1.20%			
Freeport-McMoran Copper	5,530	9	1.20%	5,987	9	1.20%
Wal-Mart Stores, Inc.	5,500	10	1.20%	6,715	6	1.40%
Fort Huachuca				6,463	7	1.30%
City of Tucson				5,635	10	1.20%
Total	**74,708**		**15.80%**	**77,214**		**15.90%**
Total Work Force			**477,589**			**486,400**

Sources:
Pima County CAFR FY 2009
Arizona Daily Star 200 FY 2016
Economic and Business Research Center, Eller College of Management FY 2018

FACULTY AND STAFF

Fall employment of fiscal year	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
FACULTY										
Full-time	2,235	2,211	2,363	2,343	2,297	2,246	2,229	2,160	2,165	2,088
Part-time	855	859	795	801	752	776	693	642	591	657
Total Faculty	**3,090**	**3,070**	**3,158**	**3,144**	**3,049**	**3,022**	**2,922**	**2,802**	**2,756**	**2,745**
Percentage Tenured	52.4%	51.4%	49.4%	48.0%	49.5%	50.0%	51.6%	54.1%	55.8%	56.8%
Tenured Track - Dept. Head	85	85	89	90	91	97	98	96	94	-
Tenured Track - Faculty	1,535	1,493	1,470	1,420	1,419	1,413	1,409	1,419	1,445	1,559
Total Tenured Track	1,620	1,578	1,559	1,510	1,510	1,510	1,507	1,515	1,539	1,559
STAFF										
Full-time	7,720	7,231	7,786	7,775	7,663	7,506	7,407	7,260	7,168	7,495
Part-time	4,813	4,755	4,586	4,696	4,630	4,770	4,832	4,772	4,472	4,423
Total Staff	**12,533**	**11,986**	**12,372**	**12,471**	**12,293**	**12,276**	**12,239**	**12,032**	**11,640**	**11,918**
Total Faculty and Staff	**15,623**	**15,056**	**15,530**	**15,615**	**15,342**	**15,298**	**15,161**	**14,834**	**14,396**	**14,663**

Source: University of Arizona Fact Book

CAPITAL ASSETS

Fiscal Year Ended June 30	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Academic/Support Facilities	646	651	651	643	647	622	621	593	584	580
Auxiliary Facilities	71	75	74	74	71	70	71	68	69	63
Total	**717**	**726**	**725**	**717**	**718**	**692**	**692**	**661**	**653**	**643**

Source: University of Arizona Capital Improvement Plan from Planning, Design & Construction


Photo: Ed Flores

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