

Annual Financial Report

For the Year Ended

June 30, 1996



Arizona Board of Regents

EX-OFFICIO

The Honorable J. Fife Symington
Governor of Arizona

The Honorable Lisa Graham Keegan
Superintendent of Public Instruction

APPOINTED

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Tucson

Judy Gignac
Sierra Vista

Eddie Basha
Chandler

John F. Munger
Tucson

Rudy Campbell
Tempe

Don Ulrich
Paradise Valley

Arthur Chapa
Tucson

John Schmitt
Student Regent

Kurt Davis
Cave Creek

The University of Arizona Administration

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President

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*Executive Vice President and
Provost of Arizona International Campus*

Paul Sypherd
*Senior Vice President for
Academic Affairs & Provost*

Saundra Taylor
Vice President for Student Affairs

Joel D. Valdez
*Senior Vice President for
Business Affairs*

Ronald E. Smith
Controller

Michael A. Cusanovich
*Vice President for Research and
Graduate Studies*

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Equal Employment Opportunity Affirmative Action Employer



As higher education faces increased competition for dwindling resources, The University of Arizona has continued to excel in providing a quality education to its students, expanding research efforts and providing public service activities throughout the state. Faced with the threat of reduced state appropriations as a percentage of total revenue, the University continues to emphasize ways to improve efficiency and effectiveness of programs throughout the institution. This effort is exemplified by the commitment of resources to support formal business process reengineering efforts and significant investments in campus technology.

The annual financial report of The University of Arizona is published for use by all interested persons and submitted as a public accounting of the University's financial operations for the fiscal year ended June 30, 1996. The financial information presented in this report is designed to enable the reader to understand how the University managed its resources to meet the overall mission of the institution. The financial statements and additional related highlights provide the evidence of the institution's continued growth and stability as we prepare to meet the challenges during the coming year. Comments and questions relating to the information provided are always welcomed.

Joel Valdez Ronald E. Smith
Senior Vice President Controller
for Business Affairs

Enrollment Highlights

Academic Enrollment (Headcount)	Undergraduate	Graduate	Total Fall 1995	Total Fall 1994
Agriculture	1,991	510	2,501	2,364
Architecture	444	38	482	498
Arts & Sciences - General	4,841		4,841	5,057
Business & Public Administration	4,637	475	5,112	5,088
Education	723	998	1,721	1,684
Engineering & Mines	2,536	808	3,344	3,544
Fine Arts	1,878	314	2,192	2,230
Health-Related Professions	122		122	202
Humanities	1,035	415	1,450	1,487
Interdisciplinary Programs		461	461	486
Law		491	491	484
Medicine		556	556	491
Nursing	257	163	420	427
Optical Sciences		138	138	140
Pharmacy		298	298	285
Science	2,811	843	3,654	3,698
Social & Behavioral Sciences	4,412	988	5,400	5,469
Correspondence/Non-Degree	466	1,128	1,594	1,672
Total Enrollment	26,153	8,624	34,777	35,306
Other Enrollment Statistics	Fiscal Year:	1995-96	1994-95	1 990-91
Enrollment - undergraduate (fall)		26,153	26,468	27,522
Enrollment - graduate (fall)		8,624	8,838	8,213
Degrees awarded-bachelor		4,612	4,807	4,118
Degrees awarded-advanced		2,086	2,045	1,818
Tuition per full-time student:				
Resident		1,884	1,828	1,478
Nonresident				

			7,912	7,434	6,484
Faculty and Staff					
Instructional Faculty			1,592	1,588	1,652
Staff, Administrators, Professional			10,935	10,445	11,159
Admissions - Fall 1995	In-State	Out-of-State	Total	Freshmen	Transfers
Undergraduate					
Applications	9,273	12,802	22,075	16,307	5,768
Admissions	8,041	9,510	17,551	13,635	3,916
Matriculations	4,462	2,316	6,778	4,557	2,221
Graduate (not including Law, Medicine, and Pharmacy)					
Applications	1,855	7,159	9,014		
Admissions	1,549	2,332	3,881		
Matriculations	1,303	1,144	2,447		

Financial Highlights

Funding Sources	1996	1995	1991
State Appropriations	\$ 282,488	\$ 267,411	\$ 243,420
Tuition & Fees	134,053	129,481	105,344
Federal Grants & Contracts	218,344	233,086	156,248
State and Local Grants & Contracts	12,270	12,261	5,670
Private Gifts, Grants & Contracts	66,742	66,425	71,052
Auxiliary Enterprise Operations	80,146	75,049	62,440
Investment Income & Net Realized Gains	15,586	15,740	15,702
Additions to Plant Facilities	87,630	73,507	99,169
Retirement of Indebtedness	12,022	10,619	6,718
Other Sources	43,299	26,540	15,324
Total Funding Sources	\$ 952,580	\$ 910,119	\$ 781,087

Funding Uses	1996	1995	1991
Instruction	\$ 204,419	\$ 197,640	\$ 177,661
Research	193,650	207,921	149,293
Public Service	30,407	27,736	22,478
Academic Support	57,332	53,878	53,590
Student Services	12,884	12,701	15,656
Institutional Support	49,125	45,856	38,383
Operation & Maintenance of Plant	37,037	35,877	30,954
Scholarships & Fellowships	54,994	52,448	40,573
Auxiliary Enterprise Operations	82,173	76,035	61,366
Indirect Costs Recovered	41,096	40,157	33,764
Facility Additions & Disposals	90,620	56,161	98,131
Debt Servicing	31,734	30,505	6,718
Other Uses	1,472	1,114	18,403
Total Funding Uses	\$ 886,943	\$ 838,029	\$ 746,970

Funding Sources Over Funding Uses

\$ 65,637 \$ 72,090 \$ 34,117

Endowment (investments at market value; land at book value) \$ 92,057 \$ 81,405 \$ 63,666



Balance Sheet

(in thousands of dollars)

June 30, 1996, with comparative totals at June 30, 1995											
	Current Operating Funds					Nonoperating Funds				Total All Funds	
	Unrestricted					Total Current Operating Funds	Student Loan Funds	Endowment and Similar Funds	Agency Funds	Plant Funds	Memorandum Only
General Operating Funds	Designated Funds	Auxiliary Enterprises Funds	Restricted Funds		1996						1995
Assets											
Cash and investments (See VI)	\$14,424	\$47,681	\$21,167	\$13,837	\$97,109	\$1,443	\$68,657	\$10,375	\$32,413	\$209,997	\$217,991
Donated land				209	209		2,299		242	2,750	2,778
Notes, accounts receivable and unbilled charges, less allowance: 1996--\$1,880; 1995--\$2,252	242	6,910	4,583	25,560	37,295	14,168	986	454	8,374	61,277	57,957
Inventories and supplies	39	267	7,490		7,796			155		7,951	8,468
Due from other funds		58			58				64	122	721
Physical properties (See VII)									1,248,451	1,248,451	1,196,483
Total Assets	\$14,705	\$54,916	\$33,240	\$39,606	\$142,467	\$15,611	\$71,942	\$10,984	\$1,289,544	\$1,530,548	\$1,484,398
Liabilities and Fund Balances											
Liabilities:											
Accounts payable	\$1,643	\$1,781	\$2,570	\$3,694	\$9,688	\$6		\$140	\$7,727	\$17,561	\$17,908
Accrued payroll	8,174	2,083	1,694	5,819	17,770	6				17,776	16,881
Deferred revenue and deposits	2,866	2,444	4,637	18	9,965	4			88,670	98,639	104,312
Funds held for others								10,844		10,844	13,596
Due to other funds			122		122					122	721
Capitalized lease obligations and other long-term liabilities (See IX)									66,555	66,555	68,075
Bonds payable (See VIII)									249,910	249,910	259,401
Total Liabilities	12,683	6,308	9,023	9,531	37,545	16		10,984	412,862	461,407	480,894
Fund Balances (See V)	2,022	48,608	24,217	30,075	104,922	15,595	71,942		876,682	1,069,141	1,003,504
Total Liabilities and Fund Balances	\$14,705	\$54,916	\$33,240	\$39,606	\$142,467	\$15,611	\$71,942	\$10,984	\$1,289,544	\$1,530,548	\$1,484,398

Fund Balances consist of:											
Restricted:											
Amount obligated for outstanding purchase orders				\$14,871	\$14,871	\$12				\$14,883	\$18,173
U.S. Government grants refundable						12,205				12,205	11,907
Endowment							\$38,116			38,116	35,742
Quasi-endowment							20,522			20,522	20,845
General				15,204	15,204	3,378			\$14,056	32,638	27,362
Designated:											
Amount obligated for outstanding purchase orders		\$2,949	\$3,036		5,985				11,405	17,390	14,161
Summer sessions		4,703			4,703					4,703	4,482
Quasi-endowment							13,304			13,304	11,896
General	\$2,022	40,956	21,181		64,159					64,159	54,746
Net Investment in Plant									851,221	851,221	804,190
Total Fund Balances	\$2,022	\$48,608	\$24,217	\$30,075	\$104,922	\$15,595	\$71,942		\$876,682	\$1,069,141	\$1,003,504

[See notes \(I-XI\) to Financial Statements](#)

Statement of Changes in Fund Balances

(in thousands of dollars)

	Current Operating Funds				Total	Nonoperating Funds					Total All Funds		
	Unrestricted						Plant Funds						
	General	Designated	Auxiliary	Restricted	Current	Student	Endowment	Unexpended	Debt	Investment	Memorandum Only		
	Operating	Funds	Enterprises	Funds	Operating	Loan	and Similar	Plant	Service	In	Plant	1996	1995
Revenues and Other Additions													
Unrestricted current revenues	\$363,001	\$106,073	\$94,549		\$563,623							\$ 563,623	\$ 537,891
Tuition and fees				\$79	79		\$ 490					569	574
Federal grants and contracts				181,232	181,232	\$ 236		\$ 788				182,256	197,886
State grants and contracts				9,703	9,703							9,703	9,870
Local grants and contracts				1,774	1,774							1,774	1,593
Private gifts, grants and contracts				46,923	46,923	38	1,055	6,020		\$2,024		56,060	54,603
Federal appropriations				2,017	2,017			6,189				8,206	2,368
State appropriations				536	536	50	80	10,232				10,898	8,044
Investment income including net realized gains				2,828	2,828	78	896	37	\$1,841			5,680	7,072
Interest on													

loans receivable						331					331	342
Additions to plant facilities including amounts expended												
from current funds: 1996 - \$38,433; 1995 - \$34,576										87,630	87,630	73,507
Retirement of indebtedness										12,022	12,022	10,619
Other additions								8,922	5	4,901	13,828	5,750
Total revenues and other additions	363,001	106,073	94,549	245,092	808,715	733	2,521	32,188	1,846	106,577	952,580	910,119
Expenditures and Other Deductions												
Educational and general expenditures	363,464	67,807		208,577	639,848						639,848	634,057
Auxiliary enterprises expenditures			82,173		82,173						82,173	76,035
Indirect costs recovered				41,096	41,096						41,096	40,157
Cancellation of loans and provision for bad debt						28					28	341
Administrative and collection costs						186					186	220
Expended for plant facilities (including noncapitalized expenditures of \$3,663 in 1996 and \$3,712 in 1995)								51,921			51,921	41,422
Interest on indebtedness including \$939 capitalized as												
construction in progress in 1996 and \$1,221 in 1995									19,712		19,712	19,886
Disposal of plant facilities										38,699	38,699	14,739
Refunded to grantors or				1,144	1,144		4				1,148	449

Investment and endowment income	1,593	7,942	40	9,575	2,737	12,312	11,481
Sales and services of educational departments	1	14,177		14,178		14,178	11,970
Sales and services of auxiliary enterprises			80,146	80,146		80,146	75,049
Other	37	2,994	715	3,746	3,945	7,691	6,708
Total current revenues	363,001	106,073	94,549	563,623	208,603	772,226	761,057
Expenditures and Mandatory Transfers							
Educational and general:							
Instruction	156,309	32,336		188,645	15,774	204,419	197,640
Research	42,910	9,288		52,198	141,452	193,650	207,921
Public service	11,332	917		12,249	18,158	30,407	27,736
Academic support	52,862	3,026		55,888	1,444	57,332	53,878
Student services	10,779	1,385		12,164	720	12,884	12,701
Institutional support	32,541	15,828		48,369	756	49,125	45,856
Operation and maintenance of plant	34,843	2,194		37,037		37,037	35,877
Scholarships and fellowships	21,888	2,833		24,721	30,273	54,994	52,448
Educational and general expenditures	363,464	67,807		431,271	208,577	639,848	634,057
Mandatory transfers:							
Loan fund matching grants		12		12	26	38	10
Principal and interest	375	25,667		26,042		26,042	18,257
Total educational and general	363,839	93,486		457,325	208,603	665,928	652,324
Auxiliary enterprises:							
Expenditures			82,173	82,173		82,173	76,035
Mandatory transfers for principal and interest			7,482	7,482		7,482	7,213
Total auxiliary enterprises			89,655	89,655		89,655	83,248
Total expenditures and mandatory transfers	363,839	93,486	89,655	546,980	208,603	755,583	735,572
Other transfers and additions (deductions):							
Restricted receipts over transfers to revenue					(4,607)	(4,607)	1,741
Voluntary transfers, net	505	(2,221)	(4,023)	(5,739)	3,795	(1,944)	(12,841)
Refunded to grantors					(1,144)	(1,144)	(449)
Net increases (decreases) in fund balances	\$ (333)	\$ 10,366	\$ 871	\$ 10,904	\$ (1,956)	\$ 8,948	\$ 13,936

[See notes \(I-XI\) to Financial Statements](#)

Notes to Financial Statements

June 30, 1996

I. FUND ACCOUNTING

To recognize any limitations and restrictions placed on the use of the resources available to the University, the accounts are maintained according to the principles of fund accounting. Therefore, the resources are classified for accounting and reporting purposes into funds according to the activities or objectives specified. Separate accounts are maintained in each fund. However, in the accompanying financial statements, individual funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been reported by fund group.

For each fund group, fund balances restricted by outside sources are identified and separated from fund balances allocated to specific purposes by action of the Arizona Board of Regents or the Administration. Externally restricted funds may be used only for the purposes established by the source of such funds. In contrast, designated funds are controlled by the Administration of the University in achieving its institutional purposes.

Changes in the use of resources require an accounting transfer of the resources to the fund with the activity or objective to be accomplished. Mandatory transfers are those required to meet legally binding agreements such as bond indentures. Other transfers result from decisions by the Arizona Board of Regents or the Administration as to permitted use of funds.

II. FUND DESCRIPTIONS

The current operating funds and their functions are as follows:

The **General Operating Funds** account for activities of State appropriations and Federal agriculture appropriations.

The **Designated Funds** account for the recovery of indirect costs from sponsored research and academic year tuition and fees retained by the University. Summer session and extension teaching programs, unrestricted gifts and income from short-term and long-term investments are also included in these funds. The purposes of these funds are determined by the Arizona Board of Regents and University Administration.

The **Auxiliary Enterprises Funds** account for the revenues and expenditures of revenue-producing, substantially self-supporting activities that perform a service to the student body, faculty and public but are not themselves educational activities. Auxiliary enterprises activities include student housing, bookstores, student unions, stores, intercollegiate athletics and others.

The **Restricted Funds** account for governmental and private gifts, grants and contracts. The purposes are restricted by the donor or supporting agency. Funds not used for the restricted purpose may revert to the sponsor or donor. Revenues of the Restricted Funds are reported only to the extent of expenditures and mandatory transfers in the Statement of Current Operating Funds Revenues, Expenditures and Other Changes.

The non-operating funds and their functions are as follows:

The **Student Loan Funds** account for loans made to assist students in the financing of their education.

The **Endowment and Similar Funds** account for private gifts and other funds that require the principal be permanently invested and only the income be utilized for general or specific requirements. Quasi-endowment funds have been established by the Arizona Board of Regents or the Administration for the same purpose as endowment funds, except that principal and income may be expended for general or specific requirements.

The **Agency Funds** account for deposits held in custody for others. These include funds held for the University Physicians, Inc., Arizona State University and Northern Arizona University student financial aid trust funds, Boyce Thompson Arboretum and others.

The **Plant Funds** account for activities relating to institutional properties. These include the total investment and debt incurred in the financing of University properties.

III. BASIS FOR REPORTING

The accompanying financial statements present all funds under the authority of the University. The basic criterion for inclusion is the exercise of financial accountability. Financial accountability for the University remains with the State of Arizona; therefore the University is considered part of the reporting entity for the state's financial reporting purposes. The financial statements do not include financially interrelated organizations described in [Note IV](#).

The financial statements are prepared on the accrual basis of accounting. The Statement of Current Operating Funds Revenues, Expenditures and Other Changes is a statement of financial activities for current operating funds during the current reporting period. It is not intended to present the results of operations or the net income or loss for the period as would a statement of income.

The accounting policies followed by the University conform to generally accepted accounting principles as applied to governmental colleges and universities in the AICPA College Guide Model as defined in Governmental Accounting Standards Board Statement No. 15. The methods of applying those policies which materially affect the determination of financial position, current operating funds revenues, expenditures and other changes and the current changes in fund balances are summarized below:

Investments and donated land are stated at cost or fair market value at the date of acquisition, as appropriate.

Inventories and supplies are stated at the lower of cost (determined by the first-in, first-out method) or market.

Physical properties are stated at cost or fair market value at date of acquisition, as appropriate. Special collections are carried at a nominal value of \$1 per collection.

Capital expenditures reported as current operating expenditures also appear as additions to the Plant Funds. As permitted by generally accepted accounting principles, the University does not provide for depreciation of physical properties.

Tuition and fees revenue (net of refunds) includes \$22,203,000 of waivers charged to Scholarships and Fellowships and \$2,939,000 of waivers for faculty and staff benefits charged to the appropriate expenditure programs to which the applicable personnel relate.

Summer session revenue and expenditures are reported within the fiscal year in which the summer session's program is predominantly conducted.

Revenue and accounts receivable include amounts received and expended by the University under Federal and State funded research, student aid and other programs. Both the direct and indirect costs of these programs are subject to audit by cognizant governmental agencies or their appointees. The University expects that adjustments or repayments, if any, resulting from such audits would not have a significant effect on the financial statements.

Transfer of construction debt from Unexpended Plant Funds to Investment In Plant is accomplished as the construction proceeds are expended. The Statement of Changes in Fund Balances includes \$20,847,000 of voluntary transfers all of which are associated with construction and debt. There is no net effect to the Plant Fund group as a whole.

The financial information shown for fiscal year 1994-1995 in the accompanying financial statements is included as a basis for comparison with fiscal year 1995-1996 and represents summarized totals only. Certain prior year items in the accompanying financial statements have been reclassified, without effect on total fund balances, revenues or expenditures, to conform with the current year's classifications.

IV. RELATED ORGANIZATIONS

The financial statements of The University of Arizona do not include the operations of the University of Arizona Foundation, Inc., the University Physicians, Inc., the Arizona Research Park Authority and the Campus Research Corporation (renamed from the Rita Road Campus Corporation in January 1996).

The University Foundation, Inc. is a nonprofit corporation controlled by a separate Board of Directors. The principal goals of the Foundation are to support The University of Arizona through various fund-raising activities, and to contribute funds to the University for support of various programs. According to the audited financial statements of the Foundation for the year ended June 30, 1995, assets, liabilities, revenues and expenditures totaled \$122 million, \$76 million, \$25 million, and \$24 million, respectively.

The University Physicians, Inc. (UPI) is a nonprofit corporation established to provide medical services and to support The University of Arizona in its teaching and research missions. UPI is controlled by a Board of Directors, comprised of the Dean, all clinical department heads, twelve other faculty physicians, and four community members. The primary purpose of UPI is to assist the University's College of Medicine in achieving the fulfillment of its teaching and research. According to the audited financial statements of UPI for the year ended June 30, 1995, assets, liabilities, revenues and expenditures totaled \$74 million, \$25 million, \$97 million, and \$85 million, respectively.

The Arizona Research Park Authority (ARPA) is a nonprofit corporation created with the permission of the Arizona Board of Regents (ABOR) and designated by Arizona law as a political subdivision of the State, governed by a separate board of directors which by law may not include officers or employees of ABOR. ARPA was established under the State's industrial development authority statute to assist in the acquisition, improvement, and operation of university research parks and related properties. In August 1994, ARPA, with the approval of ABOR, sold \$98 million nontransferable special revenue bonds to International Business Machines Corporation (IBM) to enable the University to acquire from IBM a 345-acre developed industrial site (the "Research Park") near Tucson, Arizona, together with 1,000 acres of adjacent unimproved land (collectively, the University of Arizona Science and Technology Park or the "Park"). The transaction was accomplished through the following steps: (1) the University agreed to pay \$98 million to IBM for title to the entire Park; (2) ARPA and Campus Research Corporation jointly agreed to lease the developed portion of the Park from the University for a period of 30 years with a prepaid rental of \$98 million; (3) ARPA subleased 79% of the building space in the developed portion of the Park to IBM for periods of up to 30 years for a rental sufficient to pay debt service on ARPA's bonds; and (4) ARPA used the \$98 million received from its bond sale to make the rental prepayment to the University which, in turn, applied the money to purchase the entire Park from IBM. The bonds are payable solely from lease rentals paid by IBM. If IBM defaults or cancels its lease, the bonds must be surrendered and discharged. Title to the entire Park resides in the University and neither the Park nor any payments by the University secures ARPA's bonds. Audited financial statements for the year ended June 30, 1995, reflecting assets, liabilities, revenues and expenditures are not available.

The Campus Research Corporation (CRC) is a nonprofit corporation governed by a separate Board of Directors and was established to assist the University in the acquisition, improvement and operation of the Research Park and related properties. CRC leases from the University the remaining 21% of the building space of the Research Park that is not leased to ARPA (see preceding paragraph). CRC is responsible for developing presently undeveloped portions of the research park and for subleasing to the University or to third parties existing unoccupied space, newly developed space, and space now occupied by IBM or its subtenants once the current subleases expire. The University is responsible only for payment of its proportional share of operation expenses. All income received by CRC from its activities, after payment of expenses and financial reserves, will be turned over to the University. Audited financial statements for the year ended June 30, 1995, reflecting assets, liabilities, revenues and expenditures are not available.

V. COMPENSATED ABSENCES

The University has not made accruals for vacation pay and other compensated absences. If the accruals were made, General Operating Fund, Designated Fund, Auxiliary Enterprises Fund and Restricted Fund liabilities would be increased by approximately \$14,003,000, \$1,918,000, \$2,419,000, and \$4,630,000, respectively. The University management believes that this omission does not have a significant effect on the accompanying financial statements as a whole based on materiality and considering that the General Operating Fund Liability would be funded by the subsequent year's appropriations from the State Legislature.

VI. CASH AND INVESTMENTS

The University follows Arizona Board of Regents policies which require that deposits be made only to accounts authorized by the Board and at depository banks that

have been approved. Pooled operating investments are restricted to the purchase of collateralized time certificates of deposit and repurchase agreements with commercial banks, and United States obligations such as Treasury bills, notes, bonds and obligations of agencies sponsored by the United States Government.

Gifts and grants received as endowments or for restricted purposes are invested according to conditions stipulated by the donor or grantor; however, if no conditions are imposed, such funds are usually invested in one of two Consolidated Endowment Pools. The Consolidated Endowment Pools function as highly-diversified investment funds under the control of the University Investment Committee whose responsibility is to define, develop, and implement investment objectives, policies and restrictions relating to the Endowment funds held by the University. The primary investment objective of one pool is maximum long-term total return from income and capital appreciation under a policy of maximum investment productivity at an acceptable level of risk and volatility. The primary investment objective of the other pool is to maximize the current income earned. The Separately Held Endowment funds are separately invested according to the terms of the donor's gift or the administrator.

Cash and securities on deposit with trustees are held in trust for the University by various commercial banks. Trust funds are invested by the trustee in accordance with the Board's authorizing resolutions.

At year-end, the University's bank balance is \$2,194,000. Of this balance, \$153,000 is covered by federal depository insurance. The remaining balance is collateralized by U.S. Government obligations held by the bank's trust department in the University's name. Securities are collateralized as follows:

1. Certificates of deposit are covered by FDIC or SIPC insurance.
2. Repurchase agreements are col-lateralized with securities held by the University's custodial banks in the University's name.
3. Common stocks, preferred stocks and corporate bonds are registered in the name of and held by the University or are held by the University's custodial bank in the name of the University in a book entry system. These securities were either purchased from a broker/dealer or a financial institution by the University.
4. U.S. Treasury and Agency Government obligations:
 - a. \$63,523,000 are registered in the name of and held by the University or are held by the University's custodial bank in the name of the University in a book entry system. These securities were either purchased from a broker/dealer or a financial institution by the University.
 - b. \$34,644,000 are held by major financial institutions in the name of the University. The financial institutions act as both custodial and purchasing agent for these investment transactions.
 - c. \$5,746,000 are held by trustees. Bond funds held by trustees include money market funds invested in U.S. Government obligations, U.S. Government obligations, and obligations of agencies sponsored by the Federal Government held in the trustee's Federal Reserve Bank account. These securities are recorded in the University's name in the records of the trustee. The trustee acts as both custodial and purchasing agent for these investment transactions.
5. Endowment funds held by trustees include deposits, mutual funds, common stocks, corporate bonds, U.S. Government obligations, obligations of agencies sponsored by the Federal Government and mortgage backed notes receivable. These deposits and securities are held by the trustees as irrevocable trusts in the names of the individual donors for the benefit of the University according to the donors' stipulations.
6. At June 30, 1996, the University held investment contracts with both a major insurance company and a bank amounting to \$1,503,000 of proceeds from the 1994A Certificates of Participation and \$1,187,000 of proceeds from the 1994B Certificates of Participation, respectively.
 - a. The Guaranteed Investment Contract (GIC) with the insurance company is uncollateralized. The insurance company is rated Aa3/AA+ and there is a provision in the contract requiring collateralization of the investment with U.S. Government obligations if the company's rating falls below A2 by Moody's or below A by Standard & Poors, or the University may terminate the contract.
 - b. The Bank Investment Contract (BIC) is also uncollateralized. The bank is rated Aaa/AAA and there is a provision in the contract whereby if the bank's rating falls below Aa but is at least A by Moody's and below AA but is at least A by Standard & Poors, then the bank must collateralize the investment with U.S. Government obligations. If the rating falls below A/A, then the University has the option to terminate the contract.

Deposits and Investments, at June 30, 1996, consist of the following:

Deposits:	Total Cost	Total Market
Cash on Deposit with State Treasurer	\$ 3,058,000	\$ 3,058,000
Cash	-5,557,000	-5,557,000
Securities:		
Certificates of deposit	160,000	160,000
Repurchase Agreements	47,470,000	47,470,000
Common Stocks	20,656,000	37,787,000
Preferred Stocks	634,000	651,000
Corporate Bonds	28,385,000	27,820,000
U.S. Treasury and Agency Govt. obligations	103,913,000	103,563,000
Endowments held by trustees	8,588,000	13,035,000
Investment contracts (GIC & BIC)	2,690,000	2,690,000

Totals \$ 209,997,000 \$ 230,677,000

The cash overdraft results from an aggressive short-term investment policy in which the University invests its funds until outstanding check are cashed.

Deposits and Investments, at June 30, 1996, by management areas are as follows:

	Total Cost	Total Market
Current Operating Funds:		
Cash on Deposit with State Treasurer	\$ 3,058,000	\$ 3,058,000
Cash and short-term investments	45,289,000	45,175,000
Long-term investments	48,762,000	48,182,000
Endowment Funds:		
Consolidated Pools:		
Cash and short-term investments	1,884,000	1,880,000
Long-term investments	47,157,000	61,653,000
Separately held:		
Cash and short-term investments	2,351,000	2,351,000
Long-term investments	8,677,000	9,853,000
Funds held by trustees	8,588,000	13,035,000
Plant Funds:		
Cash and short-term investments	11,533,000	11,533,000
Funds held by trustees	20,880,000	20,908,000
Other Nonoperating Funds:		
Cash and short-term investments	5,789,000	5,803,000
Long-term investments	6,029,000	7,246,000
Totals	\$ 209,997,000	\$ 230,677,000

VII. PHYSICAL PROPERTIES

Physical Properties at June 30, 1996, consist of the following:

Buildings and Improvements	\$ 683,535,000
Land	70,177,000
Equipment	327,392,000
Library Materials	111,822,000
Construction in Progress	55,525,000
Total Physical Properties	\$ 1,248,451,000

In addition to expenditures through June 30, 1996 it is estimated that \$57,008,000 will be required to complete projects under or planned for construction. Of this amount \$21,943,000 is contractually encumbered. On April 1, 1996, the University changed its equipment capitalization criteria from \$500 or more in valuation and two years or more life expectancy to \$1,000 and one year, resulting in a one-time write off of \$23,927,000 in assets.

VIII. BONDS PAYABLE

Bonds Payable at June 30, 1996, consist of the following:

	Interest	Year of Maturity	Original Issue	Currently Outstanding
Student Housing Revenue Bonds	3.0-3.75%	2002-2008	\$ 8,500,000	\$ 2,935,000
1988 - System Revenue Bonds	6.3-7.0%	1999	31,950,000	2,390,000
1990A - System Revenue Bonds	6.5-9.0%	2003	46,300,000	9,580,000
1990B - System Revenue Bonds	6.9-9.4%	2003	39,630,000	7,485,000
1991 - System Revenue Bonds	6.0-8.5%	2010	9,665,000	4,575,000
1992 - System Revenue Bonds	3.1-6.625%	2011	113,150,000	110,835,000
1992A - System Revenue Bonds	2.9-6.2%	2016	55,490,000	53,185,000
1993 - System Revenue Bonds	2.7-5.0%	2017	42,085,000	31,310,000
1994 - System Revenue Bonds	4.8-6.35%	2014	28,500,000	27,615,000
			\$ 375,270,000	\$ 249,910,000

Principal and interest on bonds outstanding at June 30, 1996, are collateralized by registration fees, tuition, rentals and other charges and such obligations are generally callable by the University. The principal amounts due over the next five years are as follows:

1997	\$ 9,360,000
1998	9,830,000
1999	10,335,000
2000	10,865,000
2001	11,515,000

Cash and securities on deposit with trustees, restricted for retirement of bonded indebtedness and renewals and replacements, are \$507,000 and \$645,000 respectively, at June 30, 1996, as required by the bond indentures. In addition, \$10,645,000 was held by trustees for payment of future construction costs.

In fiscal years 1977, 1990, 1992 and 1993 the University refunded in advance of maturity certain outstanding revenue bonds. At June 30, 1996, the outstanding principal balance of the refunded bonds is \$112,185,000 which will be paid by investments held in trust with a carrying value of \$84,944,000. These amounts are not included in the accompanying financial statements.

IX. LEASES AND OTHER LONG-TERM LIABILITIES

The University has entered into certain operating leases (generally, the leases include options for annual renewal) and other rental agreements for real property, equipment and films generally for periods not in excess of one year. During the 1995-1996 fiscal year, rent expenditures amounted to \$9,303,000.

The University also acquired a building, certain computer, telecom-munications and farm equipment, and agricultural land under various capital leases and certificates of participation (COPs). At June 30, 1996, the balance sheet includes \$39,979,000 representing the cost of assets included in land, buildings, and equipment.

Cash and securities on deposit with the trustee, restricted for retirement of certificates of participation, are \$8,016,000 at June 30, 1996. In addition, \$1,067,000 is held by trustee for payment of future construction costs.

In 1991 the University refunded in advance of maturity certain outstanding certificates of participation. At June 30, 1996, the outstanding principal balance of the refunded certificates was \$16,355,000 which will be paid by investments held in trust with a carrying value of \$17,237,000. These amounts are not included in the accompanying financial statements.

Summary of Future Lease Payments at June 30:

Capitalized Operating Leases & COPs Leases

1997	\$ 7,376,000	\$ 656,000
1998	7,140,000	546,000
1999	7,611,000	235,000
2000	5,945,000	153,000
2001	5,902,000	103,000
Thereafter	76,304,000	206,000
Total minimum lease payments	110,278,000	\$ 1,899,000
Less: Amount representing interest	(43,723,000)	
Present value of net minimum lease payments	\$ 66,555,000	

X. PENSION PLANS

Full-time, permanent employees of the University are, in general, required to be members of an authorized retirement program. The program, consisting of several plans described below, is funded through payroll deductions from covered employees' gross earnings and amounts contributed by the University. In general, employees' rights vest after five years of service under all plans. University contributions for, and interest forfeited by, employees who leave employment before five years of service are used to reduce the University's future-period contribution requirements. Retirement payments are obligations of the respective retirement funds and not of the University.

Eligible Faculty, Academic Professionals and Administrators at the University may select from the following retirement plans: Arizona State Retirement System, TIAA/CREF Retirement Plan, VALIC Retirement Plan, Fidelity Investments Retirement Plan and Aetna Variable Annuity Retirement Plan. The former is a defined benefit plan and the latter four are defined contribution plans. Eligible classified staff belong to the Arizona State Retirement System.

A. Defined Benefit Plan - Arizona State Retirement System

The Arizona State Retirement System is a cost-sharing multiple-employer defined benefit pension plan. The payroll for employees covered by the System for the year ended June 30, 1995 was approximately \$4,228,265,000. The University's total payroll for the year ended June 30, 1996 was \$416,554,000; the base salary amount for those employees who participate in the Arizona State Retirement System was \$189,838,000.

Employees who retire at or after age 65 with any number of years of credited service, at or after age 62 with 10 or more years of credited service, or at

or after any combination of years of service and age that totals 80, are entitled to a monthly benefit of 2 percent of their average monthly earnings, as defined in the plan, for each year of credited service. Employees who are age 50 or older with at least five years of credited service may retire early and receive reduced retirement benefits. The plan also provides death benefits and limited retiree health benefits. Benefits are established by state statute.

The Legislature established a new long-term disability program and removed the long-term disability benefit from the plan. Effective October 1, 1995, that liability for current beneficiaries was transferred to the new program.

The actuarially determined contribution rate for both employees and employers for fiscal year 1995-96 was 3.95 percent of compensation (\$7,499,000 each). This contribution rate would have covered the actuarially determined current service costs plus amortization of the unfunded past service liability over a rolling 30-year period, which is being phased in. The current amortization period is 11 years. However, during the year ended June 30, 1996, state statutes required that both employees and the University contribute an amount equal to only 3.36 percent of the employee's base salary. Both the University and the covered employees made the required 3.36 percent contribution, amounting to \$6,379,000 from each source, totaling \$12,758,000.

The actuarial computation of the contribution rate is made two years in advance based on June 30 information and, therefore, the rate for fiscal year 1995-96 was based on June 30, 1994 information.

The amount reported below as "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the plan's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among government pension plans and employers. The System does not make separate measurements of assets and the pension benefit obligation for individual employers.

The pension benefit obligation at June 30, 1995, (the date of the last actuarial valuation) for the System as a whole, determined through an actuarial valuation performed as of that date, was \$10,289,740,000. The System's net assets available for benefits on that date were \$10,752,930,000 (market value \$12,464,462,000), resulting in net assets in excess of the pension benefit obligation of \$463,190,000. The University's contribution represented approximately 4.02 percent of total contributions required of all participating employers.

Historical trend information for all years available presenting the System's progress in accumulating sufficient assets to pay benefits when due is presented in the Arizona State Retirement System 41st Component Unit Financial Report for the Year Ended June 30, 1995.

B. Defined Contribution Plans

The University offers pension benefits for its eligible Faculty, Academic Professionals and Administrators through its defined contribution plans - TIAA/CREF, VALIC, Fidelity Investments and Aetna Variable Annuity. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. State statute requires that both the employee and the University contribute an amount equal to 7 percent of the employee's base salary.

The University's total payroll in fiscal year 1995-96 was \$416,554,000. The University's contributions were calculated using the base salary amount of \$148,531,000 for those employees who selected a defined contribution plan. Both the University and the covered employees made the required 7 percent contribution. For the defined contribution plans each source contributed \$10,397,000 for a total of \$20,794,000.

XI. SELF-INSURANCE PROGRAM

The University of Arizona 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 of Arizona participates in a self-insurance program administered by the State of Arizona, Department of Risk Management. Arizona statutes provide that any judgment assessed against the University not covered by insurance would be paid by the State from the self-insurance program or by a future appropriation from the State Legislature.

State of Arizona
Office of the
AUDITOR GENERAL
Independent Auditors' Report

Members of the Arizona State Legislature

The Arizona Board of Regents

We have audited the accompanying balance sheet of The University of Arizona as of June 30, 1996, and the related statements of changes in fund balances and current operating funds revenues, expenditures and other changes for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The University of Arizona as of June 30,

1996, and the changes in its fund balances and its current operating funds revenues, expenditures and other changes for the year then ended in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements of The University of Arizona taken as a whole. The accompanying supplemental schedule of bonds and capitalized leases and other long-term liabilities as of June 30, 1996, and the supplemental schedule of federal financial assistance for the year then ended are presented for purposes of additional analysis and are not a required part of the financial statements. The information in the schedules has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

In accordance with Government Auditing Standards, we will also issue reports on our consideration of the University's internal control structure and on its compliance with laws and regulations at a future date.

Douglas R. Norton
Auditor General

September 13, 1996

Supplemental Schedule of Bonds & Capitalized Leases & Other Long-term Liabilities

(in thousands of dollars)

June 30, 1996 Issue	Bonds Payable and Leases				Debt Service Commitments by Fiscal Year					
	Interest Rates	Year of Maturity	Original Issue	Currently Outstanding at June 30, 1996	1997	1998	1999	2000	2001	Thereafter
Student Housing:										
1962 - Sonora	3.375%	2002	\$ 1,500	\$ 366	\$ 72	\$ 70	\$ 68	\$ 66	\$ 69	\$ 63
1963 - Arizona	3.0 - 3.5%	2003	1,500	368	68	71	69	67	70	70
1965 - Coronado	3.0%	2005	3,000	1,016	134	131	132	134	136	486
1967 - Married Student Housing	3.75%	2008	2,500	1,185	123	125	122	123	125	852
System Revenue Bonds:										
1988 - System Revenue Bonds	6.3 - 7.0%	1999	31,950	2,390	1,199	1,199	268			
1990A - System Revenue Bonds	6.5 - 9.0%	2003	46,300	9,580	1,805	1,780	1,758	1,761	1,766	3,541
1990B - System Revenue Bonds	6.9 - 9.4%	2003	39,630	7,485	1,431	1,410	1,382	1,384	1,381	2,767
1991 - System Revenue Bonds	6.0 - 8.5%	2010	9,665	4,575	504	502	504	504	508	4,580
1992 - System Revenue Bonds	3.1 - 6.625%	2011	113,150	110,835	7,561	7,559	8,495	13,124	13,121	131,220
1992A - System Revenue Bonds	2.9 - 6.2%	2016	55,490	53,185	3,406	3,408	3,409	3,409	3,408	86,266
1993 - System Revenue Bonds	2.7 - 5.0%	2017	42,085	31,310	5,474	5,479	5,473	1,111	1,111	23,740
1994 - System Revenue Bonds	4.8 - 6.35%	2014	28,500	27,615	2,562	2,562	2,564	2,561	2,565	33,317
Total bonds payable			\$ 375,270	\$ 249,910	\$ 24,339	\$ 24,296	\$ 24,244	\$ 24,244	\$ 24,260	\$ 286,902
Capitalized Leases and Other Long-term Liabilities:										
Telecommunication Certificates	4.6 - 6.5%	2012	25,995	21,200	2,649	2,646	2,645	1,847	1,848	21,966
Educational Certificates	3.2 - 6.4%	2007	4,670	4,020	477	475	472	472	472	3,274
Residence Life Certificates	4.1 - 5.8%	2014	16,725	16,725	1,468	1,468	1,470	1,469	1,471	19,090
Maingate Admin Certificates	4.25 - 6.0%	2024	16,170	16,170	1,177	1,175	1,178	1,180	1,180	27,156
Agriculture Demonstration Farm	9.0%	2003	2,282	1,258	250	250	250	250	250	500
University Foundation Building	4.75 - 7.75%	2007	4,950	3,780	484	485	484	482	483	3,330
Other Capitalized Leases	4.6 - 9.22%	Various	4,107	3,402	871	641	1,112	245	198	988

Total capitalized leases and other long-term liabilities			\$ 74,899	\$ 66,555	\$ 7,376	\$ 7,140	\$ 7,611	\$ 5,945	\$ 5,902	\$ 76,304
Refunded Issues:										
Bonds:										
1968 - Student Union	5.25 - 5.5%	1998	3,000	350						
1977 - Revenue Refunding	6.0%	2002	22,315	22,315						
1988 - System Revenue Bonds	7.0 - 7.625%	2011	24,135	24,135						
1990A - System Revenue Bonds	6.5 - 9.0%	2015	33,210	32,435						
1990B - System Revenue Bonds	6.9 - 9.4%	2016	29,205	28,525						
1991 - System Revenue Bonds	6.5 - 8.5%	2017	4,425	4,425						
Total refunded bonds			\$ 116,290	\$ 112,185						
Certificates of Participation:										
1988 Telecommunications Certificates	6.1 - 7.6%	2003	27,595	16,355						
Total refunded issues			\$ 143,885	\$ 128,540						

95/96 Supplemental Schedule of Federal Financial Assistance

(in thousands of dollars)

Year Ended June 30, 1996

Federal Grantor/Pass-Through Grantor

Funding Agency

Expenditures

Federal Student Financial Aid Programs:

Department of Health & Human Services

Other Financial Aid Programs \$ 106

Subtotal Department of Health & Human Services 106

Department of Education

Federal Pell Grant Program 10,372

Federal Work Study Program 839

Federal Perkins Loan Program 231

Federal SEOG Program 1,096

Other Financial Aid Programs 40

Subtotal Department of Education 12,578

Miscellaneous Federal Agencies

Other Financial Aid Programs 759

Total Federal Student Financial Aid Programs \$ 13,443

Federal Research & Training Programs:

Agency for International Development \$ 655

Department of Energy 3,889

Department of the Interior 8,580

Department of Agriculture

Agriculture Extension Service 3,672

Agriculture Experiment Station 1,954

U.S. Department of Agriculture 4,027

U.S. Forestry Service 674

Other Programs 0

Subtotal Department of Agriculture 10,327

Department of Defense

Air Force 7,348

Army	3,071
Navy	3,881
Subtotal Department of Defense	14,300
Department of Commerce	1,215
Department of Health & Human Services	
Agency for Health Care Policy and Research	1,248
Division of Medicine	397
U.S. Dept. of Health & Human Services	8,625
Health Resources and Services Administration	1,472
National Cancer Institute	12,279
National Center for Nursing Research	236
National Heart, Lung & Blood Institute	5,835
National Institute on Aging	1,030
National Institute of Allergy & Infectious Diseases	1,421
National Institute of Child Health/Human Development	1,018
National Institute on Drug Abuse	3,681
National Institute of Diabetes, Digestive & Kidney Diseases	1,462
National Institute of Environmental Health Sciences	4,968
National Institute of General Medical Sciences	3,008
National Institutes of Health	8,098
National Institutes of Mental Health	1,426
National Institute of Neurological Disorders	1,860
Other Programs	4,045
Subtotal Dept. of Health & Human Services	62,109
Department of Justice	242
Department of Transportation	165
National Aeronautics & Space Administration	
NASA AMES Research Center	313
Goddard Space Flight Center	19,880
NASA Headquarters	6,072
Other Programs	682
Subtotal NASA	26,947
National Science Foundation	19,186
Department of Education	
Research	1,588
Training	3,334
Subtotal Department of Education	4,922
Environmental Protection Agency	1,024
Nuclear Regulatory Commission	817
National Endowment for the Humanities	255
National Endowment for the Arts	97
Miscellaneous Federal Agencies	
Defense Advanced Research Projects Agency	290
Defense Logistics Agency	17
Smithsonian	1,130
Veterans Administration	3,984
Other Programs	603
Subtotal Miscellaneous Federal Agencies	6,024
Through State Government	2,249
Through Local Government	445
Through For-profits	2,243
Through Non-profits	
Amity	74

Jet Propulsion Laboratory	8,063
Other Programs	7,689
Subtotal Through Non-profits	15,826
Through Miscellaneous Private	122
Total Federal Research & Training Programs	\$ 181,639
Total Federal Financial Assistance	\$ 195,082

See Notes to Schedule of Federal Financial Assistance

Notes to Schedule of Federal Financial Assistance

June 30, 1996

A. BASIS OF PRESENTATION

The purpose of the Schedule of Federal Financial Assistance is to summarize those expenditures of The University of Arizona for the year ended June 30, 1996, that have been financed by the U.S. government (federal awards). This schedule includes expenditures financed by all federal assistance and procurement relationships entered into directly between The University of Arizona and the federal government, and expenditures of subawards from nonfederal organizations made under federally sponsored agreements. For reporting purposes, federal awards have been classified into two types:

- o federal student financial aid programs
- o federal research & training programs

The accounting principles followed by The University of Arizona in each of these areas and used in preparing the accompanying schedule are as follows:

Federal Student Financial Aid Programs - Expenditures are recognized on the accrual basis for awards made to students and allowable administrative expenses incurred in connection with the student loan programs. The student financial aid programs are funded by the federal government under various programs. For loan programs only the federal portion of administrative costs are included in the Schedule. Other disbursements are discussed in Notes C and D.

Federal Research & Training Programs - Expenditures for direct costs are recognized as incurred using the accrual method of accounting and the cost principles set forth in OMB Circular A-21, Cost Principles for Educational Institutions. Under those cost principles and requirements of the individual grant agreements, certain types of expenditures are not allowable or are limited as to reimbursement. Moreover, expenditures include a portion of costs associated with general university activities (indirect costs) that are allocated to federal awards under negotiated formulas commonly referred to as indirect cost rates. Indirect costs and related revenues applicable to these cost recoveries are classified as unrestricted expenditures and revenues on the financial statements.

B. The University did not identify Catalog of Federal Domestic Assistance Numbers due to the large number of individual assistance programs. In addition, many of the assistance programs do not have Catalog of Federal Domestic Assistance Numbers as they are specific to the University.

C. The University administers the following Department of Education loan program:

CFDA
Number
Federal Perkins 84.038

For Department of Education program the following information is provided:

Loans outstanding at 6/30/96	\$11,964,000
New loans to students FY 95/96	1,834,000
Loans cancelled FY 95/96	74,000

The University administers the following Department of Health and Human Services (HHS) loan programs:

	CFDA Number
Nursing (NSL 2 Programs)	93.364
Health Profession (HPSL 4 Programs)	93.342

For Health and Human Services loan programs the following information is provided:

Loans outstanding at 6/30/96	\$2,484,000
New loans to students FY 95/96	324,000
Loans cancelled (recovered) FY 95/96	(4,000)

D. Federal Family Education Loans are not considered grants to the University since the University is responsible only for determining student eligibility and distributing the loans directly to students. Consequently, such loans distributed by the University during the year ended June 30, 1996, are not included in the Schedule of Federal Financial Assistance. However, because the Federal Family Education Loans Program is a Title IV, Higher Education Act student financial assistance program (CFDA number 84.032) sponsored by the U.S. Department of Education, it is considered a federal financial assistance program for single audit purposes. During fiscal year 1995/96 the University distributed approximately \$79 million of Federal Family Education Loans to students.

E. Revenues equal to the expenditures reported on the Schedule of Federal Financial Assistance are included in the accompanying basic financial statements as follows (in thousands of dollars):

Statement of Current Operating Funds Revenues, Expenditures and Other Changes:

Federal grants and contracts	\$181,655
Federal appropriations	5,549

Statement of Changes in Fund Balances - Items not recognized as revenue:

Federal portion of student loan funds:

Financial Aid expenditures	231
Transfers for Admin charges	110

Federal portion of plant funds:

Construction/renovations - current	6,977
FY 94/95 unexpended balance	860
Less: FY 95/96 unexpended balance	(300)

Total Federal Financial Assistance	\$195,082
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