Arizona State University
2007 Financial Report

Arizona State University is in a period of rapid growth that is being carefully planned for each of its four campuses. The model being used is "One University in Many Places."

ASU is leading an effort both to reconceptualize the nation's youngest major research university and to establish a new paradigm for public higher education through the creation of a prototype solution-focused institution that combines the highest levels of academic excellence, maximum societal impact, and inclusiveness to a broad demographic. The "New American University" now emerging is a comprehensive knowledge enterprise committed to discovery, creativity, and innovation.

Although a single and unified institution, our strategy is to operate from four differentiated campuses of equally high aspiration, with each campus representing a planned clustering of related colleges and schools ("One University in Many Places"). A federation of strong entrepreneurial colleges, schools, departments, and interdisciplinary institutes and centers ("school-centrism") are increasing academic excellence, fostering creativity, and maximizing the real-world impact of the problem-focused research university of the future.

ARIZONA STATE UNIVERSITY

2007 FINANCIAL REPORT

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* Component units are financially interrelated organizations whose goals are to support Arizona State University.

A LETTER FROM THE PRESIDENT OF ARIZONA STATE UNIVERSITY

ARIZONA STATE UNIVERSITY

We are pleased to present the 2007 Financial Report for Arizona State University. ASU is mid-point in a decade of unprecedented change and decisive maturation, positioning itself to emerge as a prominent national university committed to discovery, creativity, and innovation. Consistent with the vision of the research university as a catalyst for transformation, we have undertaken the task of designing an institution that combines the highest levels of academic excellence, inclusiveness to a broad demographic, and maximum societal impact. The New American University now emerging reflects our ongoing effort to build a sustainable environment and economy for Arizona, leverage regional competitive advantage through strategic global engagement, and tackle the major challenges of our age.

At once the youngest and the largest of the roughly 150 public and private research universities in our nation, ASU is the only American research institution planning for significant enrollment growth. Because the infrastructure of our state university system has not kept pace with population growth, ASU is expanding its capacity to provide academic programs of the highest quality to the many gifted and creative students who do not conform to a standard academic profile, as well as offering access to students who demonstrate every potential to succeed but lack the means to pursue a four-year undergraduate education. The current level of investment in undergraduates through scholarship and need-based gift support is approaching $100 million annually and for graduate students exceeds $50 million. We have greatly expanded both our investments in general financial aid and in programs designed to help low-income Arizona students attend and graduate. The number of students enrolled from families below the poverty line has risen by roughly 500 percent, and we have increased the number of Pell Grant recipients by one-third, from 9,200 to 12,300 recipients.

The emerging stature of our university is underscored by the growing number of recipients on the faculty roster of prestigious national and international honors. During the past five years ASU has recruited more members of the National Academies than the sum total of Academy members on the faculty in its more than forty-five years as a Ph.D.-granting institution. Record numbers of students continue to be honored with national scholarships and awards, and we welcome more freshmen National Merit Scholars than almost any public university in the nation. And while the freshman class has increased in size by 33 percent during the past five years, enrollment of students of color has increased by 64 percent.

Although we are first and foremost committed to educating the students of Arizona, we are equally a discovery organization. As we look back on the past five years, we note a number of important milestones, including the establishment of major interdisciplinary research initiatives such as the Biodesign Institute, the Global Institute of Sustainability (GIOS), MacroTechnology Works, and the Center for the Study of Religion and Conflict. During this period ASU has established more than a dozen new interdisciplinary schools, including the School of Global Studies, the School of Human Evolution and Social Change, and the School of Earth and Space Exploration.

Research related spending, including sponsored projects and Technology and Research Initiative funding (TRIF), reflects the success of an institution in competing for funding from sponsors, including federal, state, and private sources, and is an important indicator of the overall contribution of an institution both to the knowledge base and the regional economy. In the past six years, ASU has doubled its research related spending. In FY 2007 overall research related spending, including sponsored projects and TRIF, were up 7.4 percent, totaling $218 million. During FY 2006 that figure first surpassed the $200 million level. ASU is one of only a handful of major research universities without both an agricultural and medical school to have attained this distinction. Peer institutions in this category include Caltech, MIT, and Princeton.

During the past five years we have initiated a dramatic infrastructure expansion to create more than seven million square feet of new academic space, including world-class research facilities such as the Biodesign Institute complex, named 2006 Laboratory of the Year by *R&D Magazine*. Consistent with our institutional commitment to sustainability, four recently completed buildings have been recipients of a Leadership in Energy and Environmental Design (LEED) designation from the U.S. Green Building Council (USGBC), including a platinum ranking for the second Biodesign building. Advancing our intent to encourage residential options on our campuses, Hassayampa Academic Village was completed during FY 2007, bringing to the Tempe campus almost 2,000 new beds and additional classrooms. Ground breaking took place for the Vista del Sol complex, comprising almost 1,900 apartment-style beds, and in FY 2008 for the Barrett Honors College complex, comprising 1,700 beds and academic space. While both projects are being constructed with private capital provided by a third party partner of ASU, the housing will be managed in a manner consistent with ASU student life programming and standards.

The Comprehensive Development Plan being implemented is redefining the relationships between the four differentiated ASU campuses, the clusters of colleges and schools that comprise each campus, and the university and surrounding metropolitan region. The successful 2006 City of Phoenix bond election allowed us to advance the innovative living/learning environment envisioned during our master planning process, and our new Downtown Phoenix campus opened for classes last August. The City of Phoenix has assumed responsibility for the acquisition and renovation of the campus buildings, which will be transferred to the university when all debt related to the bond election has been defeased. During the summer of 2006 both the College of Public Programs and the College of Nursing and Healthcare Innovation relocated downtown, and during the past year construction started on the new Walter Cronkite School of Journalism and Mass Communication building and a 1,250-bed public/private partnership student housing facility. Both will be available for initial occupancy in the summer of 2008. In terms of enrollment, both the nursing and journalism schools are the largest in the nation.

ASU and the University of Arizona are transforming downtown Phoenix and improving healthcare in Arizona by working together to create a twenty-first century model for biomedical teaching and research. Just east of the new downtown campus, the joint biomedical campus is home to the University of Arizona College of Medicine's Phoenix program in partnership with ASU, which welcomed its first cohort of first-year medical students in August 2007. The Translational Genomics Research Institute (TGen), a strategic partner, is fully operational on the site, and the ASU Department of Biomedical Informatics in collaboration with UA has also located on the campus. Consistent with our public engagement we continue to advance clinical partnerships with institutions such as Mayo Clinic.

In order for ASU to realize its objectives, it is essential for the university to leverage all of its available assets. As a part of the master planning process, certain ASU land holdings have been designated for investment purposes through commercial (non-university) development by private developers pursuant to either long-term ground leases or sale, under overall coordination of the Office of Real Estate Development. As shown in this report, the estimated current values of the investment land holdings on June 30, 2007, based on appraisals and other independent third-party valuations, totaled more than $200 million. During FY 2007 eleven acres of land on the Tempe Town Lake were sold for $20.2 million and lease options were entered into for fifteen adjoining acres at favorable financial terms. The Association of University Real Estate Officials named this new Marina Heights development the "Real Estate Deal of the Year." As long-term ground leases and sales occur, the investment land holdings will become important future revenues streams for ASU.

During FY 2007 the endowment provided an investment return of 19.1 percent. Its value as of June 30 was $478 million, up 21 percent from $395 million on June 30, 2006. The value of the endowment has nearly doubled during the past three years—on June 30, 2004, it stood at $248 million. Four years ago the ASU Foundation retained the services of Cambridge Associates, a leading institutional investment consultancy, to assist the university and related entities in strategic fulfillment of fiduciary responsibilities. Our endowment investment program provides a solid foundation as we embark on ambitious fundraising initiatives.

In accordance with the financial reporting requirements of the Governmental Accounting Standards Board, the ASU audited financial report also includes information about independent component organizations financially related to the university, including the ASU Foundation. Net assets (fund balances) for these related organizations totaled $560 million, comprised largely of donor-restricted endowment funds. In viewing the financial status of the university, it is essential to consider ASU in the context of its very important component organizations. Most of ASU's endowments and many of its capital facilities are held by these component units. Total university revenues for 2007 were $1.36 billion, a 16 percent increase over one year. Revenues for the component units were $244 million. On a combined basis, ASU and component organization revenues for 2007 totaled $1.6 billion. With regard to increases in net assets (fund balances), ASU and its component units recorded an impressive $154 million increase over one year, representing a remarkable 10 percent of total revenues. Although fluctuations in net assets may be anticipated during the next several years as new research facilities come on line, ASU and its related organizations anticipate a continuing long-run trend of annual increases in net assets, especially insofar as the university and the ASU Foundation receive important private gifts.

ASU is a public asset that belongs to all the citizens of Arizona, and its progress to date is the result of the effort and dedication of the many constituencies it serves. As ASU launches ambitious capital fundraising initiatives and its research enterprise continues to mature, the trend of increasing revenues and net assets for the university and related organizations is expected to continue. ASU's evolving financial position reflects both the growing success of the new "culture of academic enterprise" and the investment of individuals, foundations, corporations, and governments that recognize that a competitive world-class research university is essential both to the success of the region and the needs of society.

Michael M. Crow
President

INDEPENDENT AUDITORS' REPORT

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

Members of the Arizona State Legislature

The Arizona Board of Regents

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of the Arizona State University as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based solely on the reports of the other auditors.

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

As described in Note A, the University's financial statements are intended to present the financial position, and the changes in financial position and, where applicable, cash flows of only those portions of the business-type activities, major fund, and aggregate discretely presented component units of the State of Arizona that are attributable to the University. They do not purport to, and do not, present fairly the financial position of the State of Arizona as of June 30, 2007, and the changes in financial position and, where applicable, cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and aggregate discretely presented component units of the Arizona State University as of June 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

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

The information included in A Letter from the President of Arizona State University, Arizona State University Management's Discussion and Analysis, Arizona State University Combined Sources and Uses, and Arizona State University Enrollment sections listed in the table of contents has not been subjected to the auditing procedures applied in our audit of the financial statements and, accordingly, we express no opinion on such information.

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

Debbie Davenport
Auditor General

November 15, 2007

ARIZONA STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview

The following Management's Discussion and Analysis (MD&A) of Arizona State University's financial statements provides an overview of the financial position, and programs and activities of the University for the year ended June 30, 2007. This discussion has been prepared by management and should be read in conjunction with the financial statements and the accompanying notes.

The financial statements presented in this report encompass the University and its discretely presented component units; however, the MD&A focuses only on the University, unless specifically stated otherwise. Information on the component units can be found in this financial report on an aggregated basis in the component units' statement of financial position and statement of activities, as well as in Note N – Component Units (Financially Interrelated Organizations). Financial information for the component units is presented based upon the Financial Accounting Standards Board's (FASB) reporting model for nongovernment non-profit organizations, and is presented on separate pages from the University's financial statements. The University uses the Governmental Accounting Standards Board's (GASB) reporting model for its financial statements.

Arizona State University (University) is a public, state-supported institution. The financial information presented for the University represents activity for all four campuses. ASU at the Downtown Phoenix campus is the University's newest campus and held its first classes during the 2006/2007 academic year.

While audited financial statements for the prior fiscal year are not presented in the financial statements or notes of this financial report, condensed data from the prior fiscal year is presented in the MD&A in order to identify certain increases and decreases between years.

The three basic financial statements for the University are the statement of net assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows.

ASU - Statement of Net Assets

The statement of net assets presents the financial position of the University at the end of the fiscal year using a format that shows current and noncurrent assets and liabilities, and reports net assets in three separate categories. At June 30, 2007 the University's assets were $1,888.1 million, liabilities were $997.6 million, and net assets were $ 890.5 million; an increase of $47.4 million from fiscal 2006.

Summarized Schedule of Assets, Liabilities, and Net Assets		
(Dollars in millions)	**2007**	**2006**
ASSETS		
Current assets	$ 197.6	$ 184.1
Noncurrent assets (excluding capital assets)	281.0	258.0
Noncurrent capital assets, net	1,409.5	1,323.6
Total Assets	**$1,888.1**	**$1,765.7**
LIABILITIES		
Other liabilities	$ 125.3	$ 115.5
Long term debt liabilities	872.3	807.1
Total Liabilities	**$ 997.6**	**$ 922.6**
NET ASSETS		
Invested in capital assets, net	$ 595.8	$ 580.3
Restricted:		
Nonexpendable	62.0	54.8
Expendable	77.0	62.9
Unrestricted	155.7	145.1
Total Net Assets	**$ 890.5**	**$ 843.1**

Assets are what the University owns and are generally measured in current value, except for property and equipment, which are recorded at historical cost less accumulated depreciation. Current assets are generally considered to be convertible to cash within one year. Liabilities are what the University owes to others or what it has collected from others before it has provided the related services. Liabilities are typically recorded at current values. Current liabilities are amounts becoming due and payable during the ensuing fiscal year. The statement of net assets provides a picture of the net assets (assets less liabilities) of the University and their availability for expenditure by the University. The change in net assets for the year is generally one indicator of whether the overall financial condition of the University has improved during the year when considered with non-financial facts such as enrollment levels and the condition of the University's facilities.

Overall the University's financial position showed a $47.4 million increase in net assets between fiscal 2006 and 2007. Current assets increased by $13.5 million between years, and noncurrent assets, excluding capital assets, increased by $23.0 million. At June 30, 2007 current assets primarily consisted of cash and cash equivalent investments, short term investments, and net accounts receivable. The most significant increase in current assets occurred in the short term investments due to additional cash funds received near fiscal year end. Noncurrent assets, excluding capital assets, consist of restricted cash and cash equivalent investments, endowment investments, other investments, and student loans receivable. The increase in noncurrent assets was primarily due to a $13.8 million increase in endowment investments and a $10.6 million increase in other (operating fund) investments. The increase in endowment investments was primarily due to attractive investment returns on the University's endowment portfolio. Total University cash and investments at June 30, 2007 was $396.9 million compared to a June 30, 2006 total of $361.8 million.

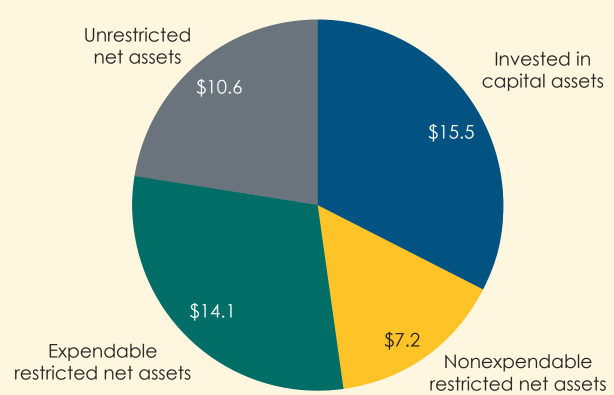
Capital assets, net of accumulated depreciation increased by $85.9 million. The increases primarily occurred in the buildings, construction in progress, and equipment categories. Construction in progress outstanding at June 30 is net of any capital assets placed into service during the year. For fiscal 2007 the primary projects included in construction in progress were the Polytechnic campus Academic Complex and the University Police Department facility. The building completed in fiscal 2007 was the Arizona Biomedical Collaborative Building 1.

Other liabilities, increased $9.8 million or 8.5% primarily due to an increase in deferred revenue. Deferred revenue increased by $6.0 million primarily due to an increase in funding received for sponsored projects grants prior to expenses being incurred.

There was a net $65.2 million increase in capital debt liabilities for fiscal 2007. This category includes the University's bonds payable, certificates of participation, lease purchase obligations, and capital leases. In fiscal 2007 ASU issued $76.3 million in system revenue bonds. The bonds were issued primarily to fund classroom and laboratory renovations and deferred maintenance, infrastructure upgrades, land acquisition, site preparation, and construction of a new University Police Department facility. There was also a $12 million capital lease recorded during fiscal 2007 related to Hassayampa Academic Village (HAV). HAV provides housing for approximately 1,900 students and includes academic facilities, a learning resource center, and retail space. The academic facilities, learning center, and retail space of HAV comprise the $12 million capital lease to ASU.

The $47.4 million increase in net assets occurred across all net asset categories. Invested in capital assets increased by $15.5 million, nonexpendable restricted net assets increased by $7.2 million, expendable restricted net assets increased by $14.1 million, and unrestricted net assets increased by $10.6 million. The increase in nonexpendable restricted net assets primarily occurred in endowment funds whose earnings are primarily used for scholarships to ASU students. Within expendable restricted net assets, those to be utilized by academic departments or for capital projects showed the greatest areas of increase in fiscal year 2007. The increase in unrestricted net assets was primarily due to the sale of 10.62 acres of land owned by the University along the Rio Salado Parkway in Tempe.

Fiscal Year 2007 Net Asset Increase: $47.4 million
(Dollars in millions)



ASU - Capital and Debt Activities

To further its goals of becoming a comprehensive university with national standing for its colleges and schools, as well as contributing to the economic, social, and cultural vitality and health and well-being of the community through research, the University has made a strategic decision during the past few years to increase its instruction and research related capital investments and to improve the infrastructure of its campuses. Debt, especially tax-exempt debt, continues to provide a low-cost source of capital for the University to use for funding its capital investments in order to help achieve its educational and research missions and other strategic objectives. Facilities under construction, or recently completed, include projects which will be ultimately debt service funded from state appropriations (primarily certain research facilities) and internal University funds.

The major facility completed during fiscal 2007 in conjunction with the University of Arizona was the Arizona Biomedical Collaborative Building 1 (ABC 1). The ABC 1 building is located in downtown Phoenix and the ASU portion houses the Ira A. Fulton School of Engineering's Department of Biomedical Informatics.

The ABC 1 building is part of the Phoenix Biomedical campus which consists of the University of Arizona College of Medicine -Phoenix in partnership with Arizona State University. The University of Arizona and ASU have collaborated to create the first college of medicine in the Phoenix area. This allows for sharing of resources, and economies of scale for the operations of the College of Medicine, the ASU Department of Biomedical Informatics and other ASU downtown colleges and programs. The ABC 1 building provides state-of-the-art infrastructure and the environment necessary to conduct cooperative, cutting-edge biomedical research. Research will focus on understanding and addressing significant health problems – cancer, diabetes, neurological diseases, and metabolic diseases – and the development of research-enabling technologies such as bioinformatics and proteomics. This research is aimed at generating direct impacts in the community, by developing new tools and techniques that help researchers understand underlying processes determining the manifestation of these diseases. Locating the chosen areas of research at ABC 1 will encourage synergistic, cross-institution collaboration and complimentary growth not only between universities, but also with the adjacent Translational Genomics Research Institute (TGen) and other research entities in Phoenix. The facility will provide the core infrastructure from which faculty can compete in the global marketplace of ideas, stimulating and strengthening advances in science and human health needs as well as the regional economy.

Construction in progress at June 30, 2007 included the ASU Police Department Facility in Tempe and the Polytechnic Campus Academic Complex. The Polytechnic campus Academic Complex will provide the space, enrollment growth and program expansion for the Morrison School of Management and Agribusiness, the College of Science and Technology, the School of Educational Innovation and Teacher Preparation, and East College.

ASU - Statement of Revenues, Expenses, and Changes in Net Assets

The statement of revenues, expenses, and changes in net assets presents the University's operating, nonoperating, and capital related financial activity during the fiscal year. The statement differentiates between operating and nonoperating revenues and expenses, and displays the increase/decrease from operations for the fiscal year. Operating revenues are generally provided by the University's principal ongoing operations such as student tuition and fees, sponsored research grants and contracts, and sales and services of the University's auxiliary units. State appropriations are considered nonoperating revenues, under the GASB reporting model, as are gifts, the University's share of state sales tax used for technology and research initiatives fund (TRIF), and other revenues for which the University does not give equal value directly to the resource provider in exchange for the resources received.

Summarized Schedule of Revenues, Expenses, and Changes in Net Assets		
(Dollars in millions)	**2007**	**2006**
Operating revenues		
Tuition and fees, net	$ 399.9	$ 349.4
Federal grants and contracts, research and financial aid	184.0	174.4
Auxiliary enterprises, net	118.2	106.7
Other operating revenues	85.5	79.7
Total operating revenues	$ 787.6	$ 710.2
Operating expenses	1,263.7	1,115.8
Operating loss	**$ (476.1)**	**$ (405.6)**
Net nonoperating revenues (expenses)		
State appropriations	$ 423.1	$ 368.6
Other revenues	106.1	86.4
Other expenses	(46.8)	(42.8)
Income before other revenues, expenses, gains, or losses	6.3	6.6
Capital appropriations and other revenues	22.5	6.9
Special item	-	(7.8)
Gain on sale of land	18.6	-
Increase in net assets	**$ 47.4**	**$ 5.7**
Net assets at beginning of year	843.1	837.4
Net assets at end of year	**$ 890.5**	**$ 843.1**

Revenues to support ASU's basic activities, including both operating and nonoperating revenues, capital additions, and gain on sale of land increased by $185.8 million in fiscal year 2007, a 16% increase from fiscal year 2006. State of Arizona operating appropriations, along with student tuition and fees are the primary funding sources for the instructional mission of the University. Grants and contracts allow researchers and talented students across the University, and on all campuses, to make significant discoveries in a wide range of fields. Private gifts are another important revenue source and are used to provide financial aid to students, support faculty and university initiatives, and to fund capital projects. Sales and services revenues of auxiliary enterprises include athletic ticket sales, student housing, and bookstore operations.

Overall operating revenues increased by $77.4 million between years with the increases primarily occurring in net tuition and fees. The increase in tuition and fees revenues was due to increases in tuition and fees/rates and a 4% increase in enrollment. The $9.6 million, 6%, increase in federal grants and contracts was across several areas of research. The growth in research activity is highlighted in the three year comparison shown below.

3 Year Comparison of Sponsored Projects
Grants Awarded, But Not Spent at Fiscal Year End

(Dollars in millions)

2007	$ 163.6
2006	153.8
2005	142.1

Operating expenses increased by 13%, or $147.9 million between years. Increases occurred across all categories of operating expenses with the largest increases in instruction, research, and operation and maintenance of plant. The majority of the increase is due to an increase in personal services and benefits related to a University wide salary increase.

Instruction expenses increased by $42.1 million primarily due to an increase in personal services and benefits related to a university wide salary increase and an increase in the number of faculty positions.

Research expenses increased by $17.5 million. There were a variety of research projects that brought in major funds in fiscal 2007. Those research projects included:

- The Flexible Display Initiative Center funded by the U.S. Army
- The Lunar Reconnaissance Orbiter Camera project funded from NASA
- A Department of Education grant that went to a program at ASU's Speech and Hearing Science department to maximize learning opportunities for young children with disabilities
- A National Institutes of Health grant for a project to explore plant-made microbiocides and mucosal vaccines

Operation and maintenance of plant increased by $18.6 million with $12 million being utility related expenses primarily for the new research buildings; Biodesign B Building, the three Interdisciplinary Science and Technology Buildings (ISTB), and the new Downtown Phoenix campus facilities, and utility rate increases for the other ASU facilities. Operations and maintenance costs associated with the research buildings and the Downtown Phoenix campus facilities also contributed to this increase.

Net nonoperating revenues increased by $70.2 million in fiscal 2007 with the increase largely due to increased state appropriations ($54.5 million), along with increases in ASU's share of the state sales tax for technology and research initiative fund (TRIF) ($9.5 million), and net investment income ($8.3 million), slightly offset by an increase between years in interest paid on capital debt ($4.5 million). Included in the increased state appropriations was approximately $33 million from the Arizona Legislature to fund legislatively approved general salary increases, funding for health insurance and State of Arizona retirement system increases. TRIF funding for each university is determined by the Arizona Board of Regents (ABOR). Revenue is based on a percentage of overall state sales tax. As the State's sales tax collections increase, so does the available TRIF funding. The increase was primarily related to funds retained by ABOR at the end of fiscal 2006 and allocated to ASU in fiscal 2007. Net investment income increased due to increases in unrealized gains on the endowments held by the University and an increase in interest rates earned on the University's operating fund investments.

Net Assets. ASU had an overall increase in net assets of $47.4 million at the end of the fiscal year. Net investment in capital assets increased by $15.5 million between years, while restricted net assets (nonexpendable and expendable) increased by $21.3 million. Unrestricted net assets had a $10.6 million increase between years, primarily due to the sale of 10.62 acres of land owned by the University along the Rio Salado Parkway in Tempe.

Combined Sources and Uses *(Dollars in millions)*

	2007		2006		Percentage Change
SOURCES					
State appropriations (includes capital appropriations)	$ 429.6	32%	$ 368.6	31%	17%
Tuition and fees, net	399.9	29%	349.4	30%	14%
Grants and contracts	219.0	16%	211.4	18%	4%
Private and capital gifts	49.2	4%	45.6	4%	8%
Share of state sales tax (TRIF)	31.6	2%	22.1	2%	43%
Auxiliary enterprises	118.2	9%	106.7	9%	11%
Other sources	110.4	8%	68.3	6%	62%
Total sources	**$1,357.9**	**100%**	**$1,172.1**	**100%**	**16%**
USES					
Instruction and academic support	$ 575.0	44%	$ 519.2	45%	11%
Research and public service	187.8	14%	167.3	14%	12%
Student services and scholarships and fellowships	113.0	8%	102.0	9%	11%
Institutional support	113.1	9%	99.3	8%	14%
Operation and maintenance of plant	83.3	6%	64.7	6%	29%
Auxiliary enterprises	113.4	9%	97.1	8%	17%
Depreciation	78.1	6%	66.1	6%	18%
Other uses	46.8	4%	50.7	4%	(8%)
Total uses	**$1,310.5**	**100%**	**$1,166.4**	**100%**	**12%**

ASU - Statement of Cash Flows

The statement of cash flows presents information about the changes in the University's cash position using the direct method of reporting sources and uses of cash. The direct method reports all major cash inflows and outflows at gross amounts, differentiating these activities into cash flows arising from operating activities; noncapital financing activities, including state appropriations; capital and related financing activities, including bond proceeds from debt issued for major capital projects, such as to construct buildings or to upgrade infrastructure; and investing activities.

Cash flows for operating activities will typically be negative for state universities since GASB requires state appropriations, as well as private gifts, to be reported as cash flows from noncapital financing activities. Net cash flows from capital and related financing activities is the difference between capital gifts and grants, debt proceeds, and proceeds from sales of capital assets, less cash used for capital purchases, interest paid on capital debt and leases, and principal paid on capital debt and leases. Cash flows from investing activities show all uses of cash and cash equivalents to purchase investments, and all increases in cash and cash equivalents as a result of selling investments or earning investment income.

The University's primary sources of cash during fiscal 2007 were state appropriations, tuition and fees revenues, grants and contracts revenues, and auxiliary enterprises revenues, such as athletic revenues, student housing, and bookstore. The primary uses of cash were salaries and benefits for faculty, staff, and student employees, payments to suppliers of goods and services to the University, and purchases of capital assets, which include facility construction and major renovation costs, as well as purchases of capital equipment.

ASU's Component Units (Financially Interrelated Organizations)

In the financial report are the University's component units' financial statements, presented on an aggregated basis and on separate pages from the financial statements of the University. Fiscal 2004 was the first year for the component units to be included in accordance with the requirements of GASB Statement No. 39 – Determining Whether Certain Organizations Are Component Units. ASU's component units included in these statements are the ASU Foundation, Arizona Capital Facilities Finance Corporation (ACFFC), ASU Alumni Association, Sun Angel Foundation, Sun Angel Endowment, ASU Research Park Inc., Collegiate Golf Foundation, and Mesa Student Housing LLC. These component units are non-profit corporations controlled by separate Boards of Directors whose goals are to support Arizona State University. The University does not appoint a voting majority to any of the Boards. Even though these organizations support the University, they are not subsidiaries of the University, nor are they directly controlled by the University. For more information on these component units, please refer to Note N to the financial statements. The importance of the component units to the University is that these units hold significant assets and annually receive significant revenues that benefit the University and/or its students.

Aggregated Statement of Financial Position for the University's Component Units *(Dollars in millions)*

	June 30	
	2007	**2006 (as restated)**
Assets		
Cash and Investments	$ 633.4	$ 582.5
Capital assets, net	254.3	237.8
Receivables, net	129.2	74.8
Other assets	107.9	92.0
Total assets	**$ 1,124.8**	**$ 987.1**
Liabilities		
Bonds payable	$ 416.7	$ 417.3
Other liabilities	148.4	116.2
Total liabilities	**$ 565.1**	**$ 533.5**
Net assets		
Unrestricted	$ 32.8	$ 38.4
Temporarily restricted	219.5	150.4
Permanently restricted	307.4	264.8
Total net assets	**$ 559.7**	**$ 453.6**

Included in fiscal 2007 investments on the component units' statement of financial position is $72.8 million in endowment investments held by the ASU Foundation in trust for the University under terms of an endowment trust agreement. There is a corresponding liability of $72.8 million recorded in liabilities under ASU endowment trust agreement. The $72.8 million in endowment investments held by the ASU Foundation in trust for the University are included in endowment investments on the University's statement of net assets. The largest portion of the net assets for the component units is permanently restricted endowment funds, primarily at the ASU Foundation, which represents approximately one-half of total net assets. Annual income from permanently restricted endowments is used primarily to support the University, directly through transfer payments by the component units to the University.

Included in fiscal 2007 payments to ASU is $32.7 million from ASU Foundation, which includes $28.4 in cash donation transfers, and $14.8 million from Sun Angel Foundation, which are entirely cash donation transfers. These are recorded as private non operating and capital private gifts on the University's statement of revenues, expenses, and changes in net assets.

Aggregated Statement of Activities for the University's Component Units *(Dollars in millions)*	June 30	
	2007	**2006 (as restated)**
Revenues		
Contributions	$ 121.6	$ 134.5
Other revenues	122.3	94.0
Total revenues	**$ 243.9**	**$ 228.5**
Expenses		
Payments to ASU	$ 49.5	$ 39.6
Other expenses	88.3	63.8
Total expenses	**$ 137.8**	**$ 103.4**
Increase in net assets	$ 106.1	$ 125.1
Net assets at beginning of the year	453.6	328.5
Net assets at end of the year	**$ 559.7**	**$ 453.6**

Phase II of the Hassayampa Academic Village (HAV) opened for residents in the Fall of 2007. HAV is a coeducational residence hall that promotes a "living-learning" community that helps students succeed at the University.

Combined ASU and Component Units

In reviewing and analyzing the overall financial status of the University, it is important to include the component units due to their significant assets and annual revenues used in support of the University and/or its students. It is also important to know whether the combined net assets of the University and its component units are increasing or decreasing; and to know the composition of the net assets in order to determine the discretion available by the University or its component units in the use of these funds.

At the combined net assets (fund balance) level, there should be no significant eliminations between ASU and its component units. Eliminations would primarily be at the revenues/expenses and assets/liabilities level.

High Level Summary of Financial Activity of ASU and its Component Units on a Combined Basis *(Dollars in millions)*

	2007			2006		
	ASU	ASU Component Units	Combined	ASU	ASU Component Units (as restated)	Combined (as restated)
Net assets at beginning of the year, as restated	$ 843.1	$ 453.6	$ 1,296.7	$ 837.4	$ 328.5	$ 1,165.9
Increase/(decrease) in net assets	47.4	106.1	153.5	5.7	125.1	130.8
Net assets at end of year	**$ 890.5**	**$ 559.7**	**$ 1,450.2**	**$ 843.1**	**$ 453.6**	**$ 1,296.7**

The University had an increase of $47.4 million in net assets for fiscal 2007. The ASU component units (principally the ASU Foundation) had a $106.1 million increase in net assets, principally the result of successful fundraising. On a combined basis for ASU and its component units, there was a $153.5 million increase in net assets, equating to approximately 10% of total ASU and component unit revenues. There was for the component units a $0.3 million restatement of net assets at the beginning of the year.

End of the Year Net Assets *(Dollars in millions)*

	2007			2006		
	ASU	ASU Component Units	Combined	ASU	ASU Component Units (as restated)	Combined (as restated)
Invested in capital assets	$ 595.8		$ 595.8	$ 580.3		$ 580.3
Unrestricted net assets	155.7	$ 32.8	188.5	145.1	$ 38.4	183.5
Restricted net assets:						
Nonexpendable/Permanently	62.0	307.4	369.4	54.8	264.8	319.6
Expendable/Temporarily	77.0	219.5	296.5	62.9	150.4	213.3
Net assets at end of year	**$ 890.5**	**$ 559.7**	**$ 1,450.2**	**$ 843.1**	**$ 453.6**	**$ 1,296.7**

The College of Nursing and Healthcare Innovations is located at the Downtown Phoenix campus. The College of Nursing and Healthcare Innovations is the largest supplier of nurses in Arizona with Bachelor of Science degrees in nursing, Master of Science degrees in community health, and Advanced Nurse Practitioners certifications.

Economic Outlook

The economic outlook for ASU and its component units continue to be positive. The University continues to receive increased financial support from the Arizona Legislature, research sponsors and increased student enrollment. This continued financial support will allow the university to attain its vision to be a new American University, promoting excellence in its research, increasing access to all qualified students, and working with the community to positively impact social and economic development.

The University experienced growth in fiscal year 2007 from increased state appropriations, tuition and fees, and research grants and contracts funding. This growth pattern is expected to continue through fiscal 2008. Anticipated state general fund operating appropriations for fiscal 2008 are $496.3 million, a 17% increase over fiscal 2007. This support by the Arizona Legislature shows a willingness to continue to work with the University in its mission to provide a high level educational experience to the students on each of the University's four campuses. The increased fiscal 2008 state appropriations will be used to partially fund student enrollment growth, as well as to fund state specified salary adjustments and increases in employee benefits, as well as key academic programs such as the Biomedical Informatics Program. ASU also received special line item appropriations of $14.5 million for research infrastructure lease-purchase payments. This funding will be used to make the first debt service payments associated with the financing for research infrastructure projects consisting of the Biodesign Institute at ASU building B, Interdisciplinary Science and Technology buildings I, II and III, and the Arizona Biomedical Collaborative building 1. At the date of this Management and Discussion Analysis, state tax revenues are down, but there is no indication that the university will be adversely affected by the decline in tax revenue collections.

ASU continues to see increases in student enrollment with the fiscal 2008 enrollment exceeding 64,000 students. This continues the annual trend of increasing enrollment at ASU. Since fall 2002 the University's enrollment has increased by more than 8,000 students. In 15 years ASU is projecting a student enrollment of approximately 90,000 students in total for all four campuses. Enrollment at West, Polytechnic, and Downtown Phoenix campuses are projected to be approximately 15,000 students at each of these campuses with the remaining students enrolled at the Tempe campus. This represents an average annual growth of 1,500 to 2,000 students. This growth is consistent with the enrollment growth seen over the last five years. Below is a comparison of enrollment between fiscal 2007 and fiscal 2008.

Enrollment	Fall		
	2007	2006	% increase
Total headcount (non-duplicated)	64,394	63,278	1.8%
Total full time equivalents	60,543	59,068	2.5%
By campus (headcount)			
Tempe	51,481	51,234	0.5%
West	8,664	8,211	5.5%
Polytechnic	8,752	6,545	33.7%
Downtown Phoenix	6,595	6,229	5.9%

The Polytechnic campus has experienced significant growth with an increase of 33.7%. To accommodate the growth at the Polytechnic campus, a new academic complex consisting primarily of three new buildings totalling 240,000 square feet is scheduled for completion in summer 2008. The debt service for these new facilities is being funded from state appropriations. The enrollment of Downtown Phoenix campus will continue to increase as new facilities open in the fall of 2008 and the relocation of the Walter Cronkite School of Journalism and Mass Communication from the Tempe campus. Enrollment at the Tempe campus is expected to remain relatively stable.

In January 2007 ASU began enrolling students in the world's first established School of Sustainability. This new university program encompasses diverse fields such as science, technology, public policy, economics, education, and urban planning. All of these fields and others can contribute to addressing global environmental issues such as the greenhouse effect, the growing scarcity of water, and the need for alternative energy sources. The establishment of the School of Sustainability has evolved from the University's Global Institute of Sustainability which is currently involved in research projects in the following areas: water use, conservation, and banking; sustainable construction techniques and sustainable materials; rapid urbanization including housing and growth and planned communities; transportation and alternative fuels; greenhouse effect and urban heat islands; and environmental health issues, including ozone pollution and "brown clouds".

The first phase of the Downtown Phoenix campus began in the fall of 2006. Courses are currently being offered through the College of Public Programs and the College of Nursing and Healthcare Innovations. In the fall of 2008, the Walter Cronkite School of Journalism and Mass Communication and KAET-TV/Channel 8, the Public Broadcasting Station serving the Phoenix metropolitan area, will move to the Downtown Phoenix campus. Unique to the Downtown Phoenix campus is its geographical proximity to a full range of government, media, nonprofit, legal, medical and business venues, where students can gain internships, receive mentoring, network with professionals or obtain a job while going to school. By 2020, the campus is projected to have 15,000 students across 20 acres in downtown Phoenix. Once the campus is fully built, it will integrate academic, public, private and residential development in a diverse and modern living and learning environment.

Relationships with clinical partners have also expanded research and academic opportunities. ASU currently has nine clinical partners Mayo, Barrow Neurological Institute, Banner Health, Translational Genomics, Carl T. Hayden VA Medical Center, Maricopa Integrated Health System, Sun Health Research Institute, Phoenix Children's Hospital and Scottsdale Health Care. The partnerships are geared toward real world training for students and providing applied research support to local hospitals and health care facilities.

ASU was named as one of the best national universities in the 2008 edition of "America's Best Colleges" by U.S. News & World Report. ASU has advanced its position among the nation's top universities, ranking 124, up six spots from 130 last year. The progress moves the University into the top tier of the rankings. Rankings are based upon criteria such as student performance, quality of its faculty, alumni giving, and expenditures per student. ASU saw gains in graduation rate performance, the University's six year graduation rate, freshman in the top 10 percent of their high school class, freshman retention rate, average faculty compensation, percentage of faculty with terminal degrees, percentage of faculty who are full-time, expenditures per student, percentage of classes with fewer than 20 students, and alumni giving.

ASU offers outstanding resources for study and research including libraries and museums with important collections, studios and performing arts spaces for creative endeavor, and unsurpassed state-of-the-art scientific and technological research facilities. ASU is a new model for American higher education, an unprecedented combination of academic excellence, broad access, and impact. This New American University is a single, unified institution comprising four differentiated campuses that positively impact the economic, social, cultural and environmental health of the communities it serves. Its research is inspired by real world application, blurring the boundaries that traditionally separate academic disciplines. ASU serves more than 64,000 students in metropolitan Phoenix, Arizona, the nation's fifth largest city. ASU champions intellectual and cultural diversity, and welcomes students from all fifty states and more than one hundred nations.

ARIZONA STATE UNIVERSITY
STATEMENT OF NET ASSETS

June 30, 2007
(Dollars in thousands)

ASSETS	
Current Assets:	
Cash and cash equivalent investments	$ 102,575
Short-term investments	23,743
Accounts receivable, net of allowance of $15,132	57,188
Student loans receivable	1,695
Inventories	9,747
Deferred expenses	2,594
Total Current Assets	$ 197,542
Noncurrent Assets:	
Restricted cash and cash equivalent investments	$ 91,359
Endowment investments	100,661
Other Investments	78,516
Student loans receivable, net of allowance of $1,349	10,472
Capital assets (Total of $ 1,409,504)	
Nondepreciable Assets -	
Land, Designated for -	
University operations	73,846
Investment property	8,043
Construction in progress and other	66,059
Depreciable assets, net of accumulated depreciation -	
Buildings	1,007,447
Equipment and other	254,109
Total Noncurrent Assets	$ 1,690,512
Total Assets	$ 1,888,054
LIABILITIES	
Current Liabilities:	
Accounts payable and accrued liabilities	$ 45,480
Compensated absences	2,879
Employee retirement and benefits deposits	1,768
Deferred revenues	27,206
Funds held for others	16,930
Bonds payable/certificates of participation/lease purchases - Funded by:	
University operating revenues	22,136
State of Arizona appropriations/share of state sales tax	13,070
Capital leases with component units	744
Total Current Liabilities	$ 130,213
Noncurrent Liabilities:	
Compensated absences	$ 22,275
Employee retirement and benefits deposits	8,196
Other liabilities	578
Bonds payable/certificates of participation/lease purchases - Funded by:	
University operating revenues	492,741
State of Arizona appropriations/share of state sales tax	268,527
Capital leases with component units	75,060
Total Noncurrent Liabilities	$ 867,377
Total Liabilities	$ 997,590
NET ASSETS	
Invested in capital assets, net of related debt	$ 595,819
Restricted (Total of $138,943):	
Nonexpendable:	
Scholarships and fellowships	42,597
Academic department uses	7,969
Student loans	11,469
Expendable:	
Scholarships and fellowships	23,585
Academic department uses	45,617
Student loans	1,291
Capital projects	5,921
Debt service	494
Unrestricted (Note G)	155,702
Total Net Assets	**$ 890,464**

The accompanying notes are an integral part of the financial statements.

ARIZONA STATE UNIVERSITY
COMPONENT UNITS'
STATEMENT OF FINANCIAL POSITION

June 30, 2007
(Dollars in thousands)

ASSETS	
Cash and cash equivalent investments	$ 20,920
Receivables-	
Pledges receivables	114,620
Other receivables	14,581
Total Receivables	129,201
Investments-	
Investments in securities	553,310
Other investments	59,106
Total Investments	612,416
Net direct financing leases with ASU	75,804
Property and equipment, net of accumulated depreciation	254,275
Other assets	32,131
Total Assets	$ 1,124,747
LIABILITIES	
Liability under ASU endowment trust agreement	$ 72,822
Bonds and obligations under capital lease	416,703
Unearned revenue	26,143
Other liabilities	49,423
Total Liabilities	$ 565,091
NET ASSETS	
Unrestricted	$ 32,802
Temporarily restricted	219,495
Permanently restricted	307,359
Total Net Assets	$ 559,656

The accompanying notes are an integral part of the financial statements.

ARIZONA STATE UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Year ended June 30, 2007
(Dollars in thousands)

OPERATING REVENUES	
Student tuition and fees, net of $79,741 in scholarship allowances, pledged as security for revenue bonds	$ 399,890
Federal grants and contracts -	
Research grants and contracts, indirect cost recovery portion pledged as security for revenue bonds	147,797
Financial aid grants	36,176
State and local grants and contracts, indirect cost recovery portion pledged as security for revenue bonds	5,670
Nongovernmental grants and contracts, indirect cost recovery portion pledged as security for revenue bonds	27,125
Sales and services, partially pledged as security for revenue bonds -	
Auxiliary enterprises, net of $3,924 in scholarship allowances	118,237
Educational departments	45,517
Other revenues, partially pledged as security for revenue bonds	7,230
Total Operating Revenues	$ 787,642
OPERATING EXPENSES (Note I)	
Educational and general -	
Instruction	$ 425,744
Research	144,781
Public service	42,992
Academic support	149,280
Student services	49,823
Institutional support	113,072
Operation and maintenance of plant	83,265
Scholarships and fellowships	63,223
Auxiliary enterprises	113,434
Depreciation -	
Buildings	44,423
Equipment and other	33,662
Total Operating Expenses	$ 1,263,699
Operating Loss	$ (476,057)
NONOPERATING REVENUES (EXPENSES)	
State operating appropriations	$ 423,120
Share of state sales tax - technology and research initiative fund	31,566
Private gifts	39,222
Financial aid trust funds, including $3,723 in state trust fund appropriations	6,606
Net investment income, partially pledged as security for revenue bonds	28,700
Interest on indebtedness	(33,283)
Other expenses	(13,540)
Net Nonoperating Revenues	$ 482,391
Income Before Other Revenues, Expenses, Gains, or Losses	$ 6,334
State capital appropriations	6,452
Capital grants	2,190
Capital private gifts	9,614
Additions to permanent endowments	368
Gain on sale of land	18,624
Property conveyance to ASU	3,800
Increase in Net Assets	47,382
Net Assets at Beginning of Year	843,082
Net Assets at End of Year	**$ 890,464**

The accompanying notes are an integral part of the financial statements.

ARIZONA STATE UNIVERSITY
COMPONENT UNITS'
STATEMENT OF ACTIVITIES

Year ended June 30, 2007
(Dollars in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
REVENUES				
Contributions	$ 15,443	$ 57,232	$ 48,942	$ 121,617
Rental revenue	21,966			21,966
Sales and services	22,282			22,282
Net investment income	(2,600)	63,661		61,061
Net assets released from restrictions	58,124	(51,782)	(6,342)	
Other revenues	16,973			16,973
Total Revenues	$ 132,188	$ 69,111	$ 42,600	$ 243,899
EXPENSES				
Payments to ASU-				
Cash donation transfers	$ 43,293			$ 43,293
Cost reimbursements	483			483
Property donation transfers	124			124
Scholarship funds	3,710			3,710
Rent	1,933			1,933
Program services	13,634			13,634
Personal services, operations, and administrative expenses	40,842			40,842
Fundraising expenses	938			938
Interest	12,347			12,347
Depreciation/amortization	9,888			9,888
Other expenses	10,651			10,651
Total Expenses	$ 137,843			$ 137,843
Increase in Net Assets	(5,655)	69,111	42,600	106,056
Net Assets at Beginning of Year, as restated (Note N)	38,457	150,384	264,759	453,600
Net Assets at End of Year	$ 32,802	$ 219,495	$ 307,359	$ 559,656

The accompanying notes are an integral part of the financial statements.

ARIZONA STATE UNIVERSITY
STATEMENT OF CASH FLOWS

Year ended June 30, 2007
(Dollars in thousands)

CASH FLOWS FROM OPERATING ACTIVITIES	
Student tuition and fees	$ 390,841
Grants and contracts (federal, state, local, and nongovernmental)	224,137
Sales and services of auxiliary enterprises	117,756
Sales and services of educational activities	40,812
Payments to employees for salaries and benefits	(780,695)
Payments to suppliers for goods and services	(313,282)
Payments for scholarships and fellowships	(79,790)
Student loans issued	(3,015)
Student loans collected	2,691
Other receipts	10,377
Net cash used for operating activities	$ (390,168)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State appropriations	$ 423,120
Share of state sales tax - technology and research initiative fund	27,339
Private gifts for other than capital purposes	39,424
Financial aid trust funds	7,673
Direct lending program receipts	155,547
Direct lending program disbursements	(157,968)
Funds held for others received	249,884
Funds held for others disbursed	(244,270)
Net cash provided by noncapital financing activities	$ 500,749
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital gifts and grants	$ 4,837
State appropriations	6,452
Proceeds from issuance of capital debt	80,859
Proceeds from sale of capital assets	19,965
Purchases of capital assets	(168,210)
Principal paid on capital debt and leases	(25,787)
Interest paid on capital debt and leases	(33,625)
Other disbursements	(8,708)
Net cash used for capital and related financing activities	$ (124,217)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	$ 82,319
Purchases of investments	(86,561)
Interest received on investments	18,480
Net cash provided by investing activities	$ 14,238
Net increase in cash and cash equivalent investments	602
Cash and cash equivalent investments at beginning of year	193,332
Cash and cash equivalent investments at end of year	$ 193,934
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	$ (476,057)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	78,085
Changes in assets and liabilities:	
Increases in -	
Accounts receivable, net	1,639
Deferred expenses	131
Compensated absences	1,573
Employee retirement and benefits deposits	1,901
Deferred revenues	4,941
Decreases in -	
Inventories	(813)
Student loans receivable, net	(429)
Accounts payable and accrued liabilities	(1,139)
Net cash used for operating activities	$ (390,168)
SIGNIFICANT NONCASH TRANSACTIONS	
Refinancing of long-term debt	$ 65,385
Assets acquired through capital lease	11,989
Capital private gifts - in kind portion	7,614
Property conveyance to ASU	3,800
Retirement or sale of capital assets (book value amount)	(6,921)

The accompanying notes are an integral part of the financial statements.

ARIZONA STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note A - Organization and Summary of Significant Accounting Policies

The accounting policies of Arizona State University (the University) conform to U.S. generally accepted accounting principles applicable to public institutions engaged only in business-type activities adopted by the Governmental Accounting Standards Board (GASB).

Reporting Entity

Arizona State University is a major research university located in metropolitan Phoenix with a total Fall 2006 enrollment of 63,278 students. The accompanying statements of the University include the activity of the Tempe campus, West campus (located in northwest Phoenix adjacent to Glendale), Polytechnic campus (located in Mesa), and the Downtown Phoenix campus, as well as its discretely presented component units. For financial reporting purposes, the University's portion of the statements includes those funds directly controlled by the University. Control by the University is determined on the basis of financial accountability. The University is classified as a state instrumentality per Internal Revenue Code Section 115. Since fiscal responsibility for the University remains with the State of Arizona, the University is considered a part of the reporting entity for the State's financial reporting purposes.

Also included are the Arizona State University's discretely presented component units, comprised of its two major component units, the ASU Foundation and the Arizona Capital Facilities Finance Corporation (ACFFC), and several smaller component units consisting of the ASU Alumni Association, Collegiate Golf Foundation, Mesa Student Housing, LLC, Arizona State University Research Park, Inc. (ASU Research Park), Sun Angel Foundation, and Sun Angel Endowment.

These component units are nonprofit corporations controlled and governed by separate Boards of Directors whose goals are to support Arizona State University. The University does not appoint a voting majority to any of the Boards. Even though these organizations support the University, they are not subsidiaries of the University, nor are they directly or indirectly controlled by the University. The assets of the component units are the property of the component units and do not belong to the University. The University does not have ownership of the financial and capital resources of the component units and does not have the authority to mortgage, pledge, or encumber the assets of these organizations.

Four of these organizations, the ASU Foundation, ASU Alumni Association, Sun Angel Foundation, and Sun Angel Endowment, receive funds primarily through donations and dues, and contribute funds to the University for support of various programs. All of the organizations, except for the Collegiate Golf Foundation, are included as discretely presented component units in accordance with GASB Statement Nos. 14 and 39, since they are all legally separate tax-exempt organizations in which:

- ♦ The economic resources received or held by the separate organizations are entirely or almost entirely for the direct benefit of the University, its component units, or its constituents;
- ♦ The University is entitled to, or has the ability to otherwise access a majority of the economic resources received or held by the separate organizations; and
- ♦ 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.

ASU component units consist of:

- ASU Foundation - disburses resources at the discretion of the ASU Foundation's independent board of directors, in accordance with donor directions and ASU Foundation policy. The majority of assets held by the ASU Foundation are endowments restricted for donor specified programs and purposes, the principal of which may not be spent. The directors of the ASU Foundation are entitled to make all decisions regarding the business affairs of the ASU Foundation, including without limitation, distributions made to the University.
- Arizona Capital Facilities Finance Corporation (ACFFC) - provides facilities for either use by students of the University or the University itself.
- ASU Alumni Association - receives funds primarily through donations, dues, and affinity partners, and contributes funds to the University for support of various programs.
- Collegiate Golf Foundation - operates a University-owned golf course. The Collegiate Golf Foundation is included as a discretely presented component unit because it is a legally separate organization that the University believes would be misleading to exclude due to its financial relationship to the University, and for consistency in the reporting of all component units.
- Mesa Student Housing, LLC - provides facilities for either use by students of the University or the University itself.
- Arizona State University Research Park, Inc. (Park) - manages a research park to promote and support research activities, in coordination with the University. In developing the research park, the Park has issued bonds guaranteed by the University.
- Sun Angel Foundation - receives funds primarily through donations and contributes funds to the University for support of various athletic programs.
- Sun Angel Endowment - receives funds primarily through donations, with the annual earnings being used for various programs in support of intercollegiate athletics.

For financial reporting purposes at the University level, only the component units' statement of financial position and statement of activities are included in the University's financial statements as required by generally accepted accounting principles for public colleges and universities. The single most significant cash transaction between the University and its component units during fiscal 2007 was the transfer of a $6.5 million discretionary gift to ASU from the ASU Foundation. Also in fiscal 2007 the University made $9.5 million in payments for service agreements to the ASU Foundation regarding development activities management and support services and technology transfer and intellectual property management services.

Financial statements of these component unit organizations are audited by independent auditors. All of the above units have a fiscal year end of June 30, 2007. Because the University's component units use a nongovernmental generally accepted accounting principles (GAAP) reporting model, the University has chosen to present their aggregated financial information on pages separate from the financial statements of the University. To obtain individual audited financial statements for any of the aforementioned component units, please contact: Arizona State University Financial Services, P.O. Box 875812, Tempe, AZ 85287-5812; or (480) 965-3601.

ASU's Basis of Presentation and Accounting

The accompanying financial statements of the University include a statement of net assets; a statement of revenues, expenses, and changes in net assets; and a statement of cash flows, each of which provide a comprehensive, entity-wide perspective of the University. A statement of net assets provides information about the assets, liabilities, and net assets of the University at the end of the year. Assets and liabilities are classified as either current or noncurrent. Net assets are classified according to external donor restrictions, or availability of assets to satisfy the University's obligations. A statement of revenues, expenses, and changes in net assets provides information about the University's financial activities during the year. Revenues and expenses are classified as either operating or nonoperating, and all changes in net assets are reported, including capital additions and additions to endowments. A 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 equivalent investments are classified as operating, noncapital financing, capital and related financing, or investing activities.

The University's portion of the financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The University follows Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989; Accounting Principles Board Opinions; and Accounting Research Bulletins, unless such pronouncements conflict with GASB pronouncements. The University has elected not to apply the FASB Statements and Interpretations issued after November 30, 1989 to its financial statements.

For financial reporting purposes under GASB, the University is considered a public institution engaged only in business-type activities. Accordingly, the University's financial statements have been presented under the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus emphasizes the long-term effects of operations on overall net resources, i.e., total assets and total liabilities. The statement of revenues, expenses, and changes in net assets prepared using the economic resources measurement focus includes only transactions and events that increase or decrease net assets during the year. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has been incurred, or benefit has been received. All significant intra-university transactions have been eliminated.

Summary of Significant Accounting Policies

Cash and cash equivalent investments. In accordance with GASB Statement No. 9, all highly liquid investments with an original maturity of three months or less, are considered to be cash and cash equivalent investments. University funds invested through the State of Arizona's Local Government Investment Pool are considered cash and cash equivalent investments, since such investments are available for withdrawal by the University at any time, even though some of the investments of the Pool are invested for over three months. In accordance with GASB, all restricted cash and cash equivalent investments, including funds held by a bond trustee, are shown as noncurrent cash and cash equivalent investments.

Donor restricted endowments. Donor restricted endowments that are available for expenditure are reported as restricted and expendable on the Statement of Net Assets.

Investments. Short-term, endowment, and other investments are stated at fair value at June 30, 2007. Fair value typically is the quoted market price for investments. Investment income includes realized and unrealized gains and losses on investments.

Accounts receivable. Accounts receivable includes $15.4 million related to student tuition and fee payments due from students and agencies making payments on behalf of students. Also outstanding at June 30, 2007 was $6.9 million from Federal grant sponsors and $3.3 million from nongovernmental grant sponsors, primarily for the reimbursement of allowable expenses made pursuant to the University's grants and contracts. Additionally, accounts receivable is $5.4 million due from the State of Arizona, including $4.3 million in technology and research initiatives fund. At June 30, 2007, the University had recorded a $4.4 million receivable from ACFFC, a component unit of the University. The receivable related to Hassayampa Academic Village construction costs incurred on behalf of ACFFC by ASU, as developer and project manager, before receipt of reimbursement from the bond trustee on behalf of ACFFC.

Student loans receivable. Loans receivable from students bear interest primarily at 5% and are generally repayable in installments to the University over a ten-year period commencing nine months from date of separation from the University. Student loans receivable are recorded net of an allowance for estimated uncollectible amounts and related collection costs.

Inventories. Auxiliary enterprises use various methods to value their inventory. The ASU Bookstore comprises approximately 80% of the total inventory reported on the statement of net assets and its inventory is valued at cost using the retail method.

Capital assets. Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. The University's capitalization policy includes all equipment and works of art and historical treasures with a unit cost of $5,000 or more. In addition, all equipment under a unit cost of $5,000 purchased in bulk for a newly constructed, acquired, or leased facility to become initially operational is also capitalized on a vintage concept basis and depreciated over 5 years. Equipment capitalized under the vintage concept is accounted for on the University's property system on a composite basis rather than an individual asset basis. New construction, as well as renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of structures and have a project cost of at least $100,000 are capitalized. Non-capital equipment and facility costs, routine repairs, and maintenance are charged to operating expenses in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 40 years for non-research buildings and infrastructure, 10 to 50 years for research buildings, 10 years for library books, and 5 to 12 years for equipment. The University does not depreciate works of art and historical treasures that are considered inexhaustible and are held for exhibition, education, research, and public service.

The University utilizes the componentized depreciation method for its research buildings, which is consistent with the method used for government cost-reimbursement purposes. Under the componentized depreciation method, building costs are segregated into component categories with useful lives ranging from 10 to 50 years, and depreciated on a straight line method basis. Prior to fiscal 2005 research buildings were depreciated using the same method still utilized for non-research buildings, which is to use the straight-line method over estimated useful lives of typically 40 years.

Compensated absences. Compensated absences are employee vacation leave balances, which have been earned, but not used. Vacation leave benefits are accrued as a liability on the statement of net assets and reported as an expense in the statement of revenues, expenses, and changes in net assets as employees earn the benefits.

Deferred revenues. Deferred revenues consist primarily of student tuition and fees and residential housing payments related to the ensuing year. Also included are amounts received from grant and contract sponsors which have not yet been earned.

Lease purchases. The University records as a lease purchase, direct financing arrangements where the University is directly acquiring property by the leasing of the property from lenders or the seller of the property, with title to the property transferring from the lenders or sellers to the University upon completion of the lease payments, consisting of principal and interest.

Capital leases. In accordance with FASB Statement No. 13, *Accounting for Leases*, the University records as a capital lease, property arrangements with a separate entity where the University is leasing a building constructed or acquired and owned by the separate entity, but located on University owned land. Upon eventual termination of the ground lease, the University through the ground lease termination receives effective title to the building. The net present value of the building lease payments are recorded as a building acquisition with a corresponding liability of capital leases. All present capital leases are with component units of the University.

Net assets. The University's net assets are classified based on the following three categories:

- Invested in capital assets, net of related debt: includes capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.
- Restricted:
    - Nonexpendable – gifts that have been received for endowment purposes, the corpus of which cannot be expended, and the balance in the Perkins Loan program.
    - Expendable – grants, contracts, gifts, and other resources that have been externally restricted for specific purposes.
- Unrestricted: all other net assets, including those designated by management for specific purposes. Substantially all unrestricted net assets are committed and/or designated for educational and research programs and initiatives, or capital projects.

When an expense is incurred that can be paid from either restricted or unrestricted net assets, the University's policy is to allow the department incurring the expense to determine the appropriate funding source. Factors used by departments to determine which resources to use include relative priorities of the department in accordance with the University's strategic initiatives, externally imposed matching requirements of certain restricted funds, and any pertinent lapsing provisions of the available restricted or unrestricted funding resources. Major capital purchases are many times split funded from multiple restricted and unrestricted funding sources.

Revenues/Expenses**.** Revenues and expenses are classified as operating or nonoperating. Operating expenses are those incurred in conducting the primary programs and services of the University. Generally, revenues generated by the University, such as student tuition and fees, sales and services of auxiliary enterprises, and most Federal, state, local, and private research grants and contracts are considered operating. Other significant revenues relied upon for operations, including state appropriations, private gifts, and investment activity, are considered nonoperating revenues, as defined by GASB Statement No. 35.

Scholarship allowances. Student tuition and fee revenues and other student related revenues are reported net of scholarship allowances in the statement of revenues, expenses, and changes in net assets. Scholarship allowances are the difference between the stated charge for services provided by the University, and the amount that is paid by the students (and/or third parties making payments on a student's behalf). To the extent that revenues from programs such as Pell Grants and University funded scholarships are used to satisfy tuition and fees, and other student charges, the University has recorded a scholarship allowance.

Not included in scholarship allowances is $7.8 million in faculty and staff tuition waivers that are recorded as either instruction or institutional support program expenses on the statement of revenues, expenses, and changes in net assets – and as personal services and benefits expenses, in Note I.

Technology and research initiatives fund (TRIF). As passed by Arizona voters in November 2000, TRIF is generated from a part of a 0.6% education sales tax. Collection of the tax began on June 1, 2001. As the governing board of the three state universities, the Arizona Board of Regents (ABOR) administers the portion of the collected education sales tax which funds the universities' TRIF initiatives. The ABOR receives funding requests from each university and determines the amount and duration of awards. The ABOR is required to submit an annual report to the governor and other Arizona state officials which uses a detailed set of performance measures to determine the overall effectiveness of each TRIF funded initiative. The research efforts of the Biodesign Institute at ASU is the University's primary use of its TRIF allocations.

Note B - Cash and Investments

General

At year end, the University's deposits and investments totaled $396.9 million. This balance is considered below in our analysis of deposit and investment risk, as required by GASB Statement No. 40 *Deposit and Investment Risk Disclosures*.

Included in the University's deposits and investments are capital projects and bond debt service funds totaling $92.4 million, which are held in trust by various commercial banks. In addition, endowment funds totaling $100.7 million make up a portion of the deposits and investments. These funds are primarily invested in the ASU Pooled Endowment Fund, managed under contract by the ASU Foundation. The University also participates in the Arizona Student Financial Aid Trust (ASFAT), which was established by the Arizona Board of Regents and is funded by the Arizona State Legislature and student fees. ASFAT is managed by the University of Arizona on behalf of all three state universities.

Statutory and Board of Regents' Policies

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

The Statutes do not specifically address investment policy of the universities, rather ABOR policy governs in this area. ABOR policy requires that each university arrange for the safekeeping of securities by a bank or other financial institutions approved by ABOR. Also under ABOR policy, the University is limited to investing its pooled operating funds and capital projects funds in collateralized certificates of deposit and repurchase agreements with commercial banks, United States Treasury securities and other Federal agency securities, or in the local government investment pools (LGIP) administered by the State Treasurer's Office.

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

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

The State of Arizona Board of Investment provides oversight for the State of Arizona Treasurer's pools. The fair value of a participant's portion in the pool approximates the value of that participant's pool shares and the participant's shares are not identified with specific investments.

Deposit and Investment Risk

Custodial Credit Risk. University policy for its operating funds requires collateralization for all certificates of deposit and repurchase agreements. Beyond this requirement and those established by Statute or the Board, the University does not have a policy that specifically addresses custodial credit risk.

Credit Risk. With regard to credit risk, University policy mirrors that of the Board in that it restricts investment of the operating funds to collateralized certificates of deposit and repurchase agreements, United States Treasury securities and other Federal agency securities, or to the State of Arizona Treasurer's investment pool. Capital projects and bond debt service funds are invested by the bond trustee in accordance with the applicable financing indenture, generally limited to United States Treasury securities and other Federal agency securities, certificates of deposit (minimum rating of P-1/A-1), commercial paper (minimum rating of P-1/A-1+), and money market funds rated AAAm or better invested in short-term debt securities. For its endowments, the University has entered into a contract for management of the Pooled Endowment Fund by the ASU Foundation, subject to the ASU Foundation's investment policy.

Credit Quality Rating for Debt Securities at June 30, 2007 *(Dollars in thousands)*

Investment Description	Fair Value	Not Rated	Standard and Poor's			
			AAAm	AAA	A-1+	AA-
Money Market Mutual Funds	$ 53,960	$ 3,524	$ 50,436			
State of Arizona LGIP (Pool 5)	86,687	86,687				
Federal Agency Securities	139,363	89		$ 96,476	$ 42,513	$ 285
Bond Mutual Funds	6,115	6,115				
Arizona Student Financial Aid Trust, debt securities	7,180	7,180				
Total	**$ 293,305**	**$ 103,595**	**$ 50,436**	**$ 96,476**	**$ 42,513**	**$ 285**

AAAm, AAA, and A-1+ are the highest ratings assigned by Standard and Poor's for money market funds, long-term issues, and short-term issues, respectively.

Concentration of Credit Risk. Neither University policy for the operating funds, nor the capital projects and bond debt service financing indentures, limit investments with a single issuer due to the conservative nature of permitted investments. At June 30, 2007, fixed income securities issued by federally sponsored agencies and owned directly by the University in its non-endowment fund portfolios comprised a significant portion of the University's total investment portfolio. Specifically, securities issued by the Federal National Mortgage Association, the Federal Home Loan Bank, and the Federal Home Loan Mortgage Corporation had fair values, respectively, of $42.4 million, $41.0 million, and $50.7 million and comprised, respectively, 11%, 11%, and 13% of the University's total investments.

Interest Rate Risk. University policy and state law for the operating funds limits the maximum maturity of any fixed rate issue to five years. The capital projects funds portfolio is not limited as to the overall maturity of its investments, with the funds invested per the financing indentures to coincide with capital spending needs and debt service requirements, which are typically less than three years, with the additional limitation that certificates of deposit and commercial paper have maximum maturities of 360 days and 270 days, respectively.

Interest Rate Risk for the University's Debt Investments at June 30, 2007 - utilizing the weighted average maturity methods *(Dollars in thousands)*

Investment Description	Fair Value	Weighted Average Maturity (Years)
Money market mutual funds	$ 53,960	0.1
State of Arizona LGIP (Pool 5)	86,687	0.2
Federal agency securities	139,363	1.5
Bond mutual funds	6,115	6.5
Arizona Student Financial Aid Trust, debt securities	7,180	7.1
Subtotal, before U.S. treasury securities	$ 293,305	
U.S. Treasury securities	4,720	8.4
Total	**$ 298,025**	

At June 30, 2007, the University held $4.1 million of investments in U.S. Treasury zero coupon securities maturing between 2012 and 2019, which may be considered highly sensitive to interest rate fluctuations. Remaining $0.6 million of U.S. Treasury securities were not considered highly sensitive to interest rate fluctuations.

Foreign Currency Risk. Non-endowment funds may not be invested in international securities. The ASU Pooled Endowment Fund is managed under contract by the ASU Foundation and the University of Arizona through the Arizona Student Financial Aid Trust. Foreign investments consist of mutual funds and pooled investments. At June 30, 2007, the University's endowment investments of $100.7 million included international investments totaling $34.0 million, with 81% in foreign equity investments, 5% in foreign fixed income investments, and 14% in other foreign marketable and non-marketable investments.

Note C - Capital Assets

In May 2007, the Federal Government conveyed to the University 19.52 acres of land and a building located at the University's Polytechnic campus. The property transfer is conditional upon the use of the property for educational purposes in accordance with the terms of the deed. The appraised value of the property was $3.8 million as of the date of conveyance.

Construction in progress additions reflected below represent expenses for new projects net of capital assets placed in service. It is estimated $84.8 million in additional expenses will be required to complete projects under construction at June 30, 2007. Construction in progress encumbrances committed through purchase orders at June 30, 2007 totaled $64.1 million.

Capital Asset Activity for the year ended June 30, 2007 *(Dollars in thousands)*

	Beginning Balances	Additions/ Increases	Retirements/ Decreases	Ending Balances
Capital Assets				
Land -				
University Operations	$ 70,982	$ 5,997	$ (3,133)	$ 73,846
Investment Property	6,225	3,133	(1,315)	8,043
Infrastructure	99,840	9,310	(68)	109,082
Buildings	1,398,817	71,863	(5,126)	1,465,554
Construction in Progress	3,880	26,868	-	30,748
Equipment	246,138	42,923	(17,607)	271,454
Works of Art and Historical Treasures	34,159	1,223	(71)	35,311
Library Books	193,486	12,753	(688)	205,551
Total	$ 2,053,527	$ 174,070	$ (28,008)	$ 2,199,589
Less Accumulated Depreciation:				
Infrastructure	$ 26,866	$ 2,591	$ (5)	$ 29,452
Buildings	415,336	44,422	(1,651)	458,107
Equipment	145,754	21,145	(15,610)	151,289
Library Books	141,998	9,927	(688)	151,237
Total	$ 729,954	$ 78,085	$ (17,954)	$ 790,085
Capital Assets, Net	**$ 1,323,573**	**$ 95,985**	**$ (10,054)**	**$ 1,409,504**

Land Investment Property

As periodically required by the Arizona Board of Regents, the University completed, during fiscal 2005, a comprehensive Campus Master Plan to guide the overall physical direction, needs, and development of the University. As a part of the campus master planning process, certain land holdings of the University have been designated for investment purposes through commercial (non university) development by private developers pursuant to either long term ground leases or sale, under overall coordination of the University's Real Estate Development Office.

The current book value, i.e. historical cost at time of the original acquisition, and estimated current value, based primarily on appraisals and other independent third party valuations within the last two years, of the University's investment property at June 30, 2007, are as follows (Dollars in thousands):

Book Value	$ 8,043
Current Value	$ 157,640

The University's investment property consists of the following:

ASU at the Tempe campus. The Rio Salado Land consists of 24.7 acres along the Tempe Town Lake, on the Rio Salado River, with 15.2 acres west of Rural Road and 9.5 acres east of Rural Road, directly accessible from major streets. The best and highest use of this land is mixed commercial office, apartments, condominiums, and retail, and not University use. Even though there is presently some university surface (non-parking structure) overflow parking on a portion of this land, the plans of the University are that most, if not all, of the present overflow parking needs at this site will disappear as the metropolitan Phoenix area Light Rail System, presently under construction, is located through the campus and increased emphasis on bus ridership and other forms of alternate transportation occurs. If there are any further University parking needs, such parking will probably be located at satellite locations, e.g., rented off-campus parking for football games. The 24.7 acres will not be needed for University facilities. The 15.2 acres west of Rural Road are presently under lease options and the 9.5 acres east of Rural Road are presently under analysis and negotiation for potential long-term lease or sale.

ASU at the West campus. The investment property consists of approximately 64 acres on the northeast side perimeter of this campus at the corner of two major streets. This land is presently vacant and will not be needed for University facilities for the contemplated full build out of this campus. This campus, exclusive of the approximately 64 acres for investment purposes, consists of 236 acres. The highest and best use of the approximately 64 acres is mixed-use, including commercial office and retail, and non-university affiliated multi-family residential. Requests for Proposals (RFP) were issued in early fiscal 2007 for long-term ground leases to developers for non-university, commercial purposes. Pursuant to the RFP process, six proposals for market based residential housing, primarily intended for the general public, and three proposals for University Town Square, intended for retail and office usage, were received. A potential developer has been selected with negotiations in process.

ASU Research Park. The Park consists of 323 acres that are ground leased to the ASU Research Park, Inc., a component unit of the University. Other than one University facility occupying less than 10% of the leasable Park acres, originally constructed by a private firm for its own use and not the University, the Park land is either occupied by or presently available for occupancy by independent private commercial firms, with approximately 80% of the Park's leasable acres being presently leased. The primary present purpose of the Park is to generate revenue for the University with over $1 million, after all costs, annually being generated for ASU.

Other Investment Property. Consists of:

- 2.8 acres in downtown Tempe, known as Block 12. The downtown Tempe land is mostly vacant and has no university operations located on it. The highest and best use has been determined to be primarily mixed-use retail, entertainment, and high density, multi-family residential.
- 9.0 acres at the intersection of Price Road/Loop101/202 freeways and the Rio Salado Parkway, several miles from the Tempe campus. The Price Road/Loop101/202 freeway land is immediately adjacent to 34.0 acres sold by the University three years ago, with the remaining 9.0 acres presently being retained by the University as an investment due to its location. The highest and best use of the 9.0 acres is its sale to a commercial developer and not University use.

Other Land Holdings

In addition to the above land investment property, there is other land located at the Polytechnic campus that is not currently available for investment purposes (commercial development) due to present deed restrictions, but has been designated by ASU for investment purposes upon lifting of the deed restrictions. This land is presently subject to a deed restriction from the U.S. Government, depending on the parcel until 2026 to 2031, that would not permit use of the land for non-educational purposes, with there being a likely earlier lifting of the deed restrictions. As of June 30 2007, lifting of the deed restrictions is in process.

This landholding consists of the following:

ASU at the Polytechnic campus. The property consists of approximately 381 acres on the perimeter of this campus directly accessible from major streets. The majority of this land is presently vacant. This campus, exclusive of the 381 acres intended for future investment purposes, consists of approximately 241 acres.

A portion of the approximately 381 acres presently has outdated single housing units on it originally constructed by the Air Force when the land occupied by this campus was an Air Force base. Over the long run, these housing units will be replaced by apartment style student housing located on land designated for university use. Pursuant to the Campus Master Plan, the acres designated for university use is sufficient for the eventual full build out of this campus, including the eventual replacement with apartment style student housing.

The current book and estimated current value, based on fiscal 2007 appraisals of this other land (presently reflected as university operations land) is as follows (Dollars in thousands):

Book Value	$ 10,566
Current Value	$ 57,699

Total Land Investment Property and Other Land Holdings

The total current book and estimated current value, based on appraisals and other independent third party valuations within the last two years, of the land investment property and the other land to be designated as land investment property upon lifting of the deed restrictions are as follows (Dollars in thousands):

Book Value	$ 18,609
Current Value	$ 215,339

Note D - Bonds Payable, Certificates of Participation, and Lease Purchases, including an Interest Rate Swap Arrangement (Derivative)

At June 30, 2007, the University has issued a combination of fixed and variable rate bonds and fixed rate certificates of participation (COPs). The University's fixed rate bonded and non-bonded debt consists of various issues of system revenue bonds and COPs that are generally callable at a prescribed date with interest payable semi-annually. Certain system revenue bonds and COPs of the University have been defeased through advance refundings by depositing sufficient U.S. Government securities to pay all future debt service in an irrevocable trust. Accordingly, the liabilities for these defeased bonds and COPs are not included in the University's financial statements. The principal amount of all such bonds and COPs outstanding at June 30, 2007 was $46.9 million and $65.4 million, respectively.

Bonds Payable, Certificates of Participation and Other Long-Term Lease Obligations at June 30, 2007 *(Dollars in thousands)*

	Average Interest Rate	Final Maturity	Balance 07/01/2006	Additions	Reductions	Balance 6/30/2007	Current Portion
Bonds:							
1993 System Revenue Refunding Bonds	4.93%	07/01/08	11,550		$ (4,695)	$ 6,855	$ 5,000
2000 System Revenue Bonds	5.86%	07/01/11	2,610		(375)	2,235	400
2002 System Revenue Bonds	4.84%	07/01/27	44,860		(2,155)	42,705	2,250
2002 System Revenue Refunding Bonds	4.16%	07/01/19	129,765		(7,065)	122,700	6,820
2003 System Revenue Refunding Bonds	4.35%	07/01/17	7,130			7,130	
2003 A/B Variable Rate Demand System Revenue Bonds	3.71%	07/01/34	103,000			103,000	
2004 System Revenue and Refunding Bonds	4.93%	07/01/34	39,145		(140)	39,005	2,450
2005 System Revenue Refunding Bonds	4.24%	07/01/27	49,290		(195)	49,095	205
2007 System Revenue Bonds	4.46%	07/01/36		$ 76,260		76,260	
Subtotal: Par Amount of Bonds			$ 387,350	$ 76,260	$ (14,625)	$ 448,985	$ 17,125
Certificates of Participation:							
1991 Towers Project (through the ASU Foundation)	6.89%	07/01/10	$ 1,815		$ (315)	$ 1,500	$ 340
1999A Downtown Center	5.75%	07/01/24	4,935		(155)	4,780	165
1999B Downtown Center	8.00%	07/01/24	4,690		(115)	4,575	125
2002 Certificates of Participation	4.75%	07/01/26	95,460		(67,700)	27,760	3,080
2004 ASU West Campus Refunding	2.36%	07/01/09	22,495		(5,365)	17,130	5,550
2004 Certificates of Participation	4.89%	09/01/30	80,275			80,275	1,915
2005A Certificates of Participation	4.36%	09/01/30	110,115			110,115	2,760
2006 Certificates of Participation	4.52%	06/01/31	15,810			15,810	500
2006 Refunding Certificates of Participation	4.15%	07/01/26		$ 65,890		65,890	1,310
Other Lease Purchases	3.16% - 5.61%	02/01/18	10,279	1,582	(2,317)	9,544	2,336
Subtotal: Par Amount of COPS/Lease Purchases			$ 345,874	$ 67,472	$ (75,967)	$ 337,379	$ 18,081
Total Par Amount of Bonds, COPS, and Other Lease Purchases			$ 733,224	$ 143,732	$ (90,592)	$ 786,364	$ 35,206
Premium/(Discount) on Sale of Bonds and COPS			14,570	8,548	(3,718)	19,400	
Deferred Amount on Refundings			(5,080)	(4,971)	761	(9,290)	
Total Bonds Payable/COPS/Lease Purchases			**$ 742,714**	**$ 147,309**	**$ (93,549)**	**$ 796,474**	**$ 35,206**

The University has outstanding two series of variable rate demand system revenue bonds, Series 2003A and 2003B, totaling $103 million with final maturities of July 1, 2034. Both series continue to bear interest at a weekly rate not to exceed 12% per annum based upon prevailing market conditions, as determined by the respective remarketing agents. The bonds are subject to conversion, at the option of the Arizona Board of Regents on behalf of the University, to a different or alternate adjustable rate mode, or a fixed rate pursuant to the bond indenture. The interest rate in effect on June 30, 2007 was 3.70% for the Series 2003A and 3.72% for the Series 2003B bonds.

The variable rate bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest on seven days' notice and delivery to the remarketing agents. If the remarketing agents are unable to resell the bonds, the University has a Standby Purchase Agreement with Bank of America, N.A. to extend credit through the purchase of the unremarketed bonds. Assuming all of the $51.5 million Series 2003A and $51.5 million Series 2003B bonds are not resold within 90 days, the University would be responsible to make annual installment principal payments of $20.6 million over a five-year period, plus interest to be calculated as established in the Standby Purchase Agreement. The University has agreed to pay Bank of America, N.A. an annual commitment fee of 0.18% on the outstanding principal for the Standby Purchase Agreement. The Standby Purchase Agreement is valid through October 15, 2008. As of the audit opinion letter date, the University was in the process of terminating the current Standby Purchase Agreement and entering into a new agreement.

Effective January 1, 2007, the University entered into a swap agreement on $103 million, notional amount, relating to the 2003 variable rate demand system revenue bonds (2003 Bonds). The $103 million in bond principal is not exchanged; it is only the basis on which the interest payments are calculated. The notional amount under the swap decreases as principal payments are made on the 2003 Bonds so the notional amount equals the principal outstanding under the bonds. The intention of the swap is to effectively change the variable rate interest on the 2003 Bonds to a fixed rate of 3.91%. The swap agreement expires on July 1, 2034. Under the terms of the swap agreement, the University pays the counterparty interest calculated at a fixed rate of 3.91% and receives payments from the counterparty based on the BMA Municipal Swap Index that is set weekly. The BMA rate at June 30, 2007 was 3.73%. At June 30, 2007, the synthetic fixed interest rate on the bonds is shown below:

Interest Rate Swap:	Terms	Rates (%)
Fixed payment to counterparty	Fixed	3.91
Variable payment from the counterparty	BMA	(3.73)
Net interest rate swap payments		.18
Variable-rate bond coupon payments	Spread to BMA	3.71
Synthetic fixed interest rate on bonds		3.89

As of June 30, 2007, the swap had a fair value of $2,721,844, which represents the cost to the counterparty to terminate the swap. The fair value was developed by an independent third party, with no vested interest in the transaction, using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps.

As of June 30, 2007, the University was exposed to credit risk of the counterparty on the termination payment because the swap had a positive fair value. The swap counterparty was rated AA- by Fitch and Standard & Poor's and Aa3 by Moody's Investor Services as of June 30, 2007. Based on the current ratings, the counterparty was not required to provide collateral. In the event a rating downgrade occurs, the counterparty may be required to provide collateral if the University's overall exposure exceeds predetermined levels. Collateral may be held by the University or a third party custodian.

The swap exposes the University to basis risk should the weekly BMA rate paid by the counterparty fall below the weekly interest rate due on the bonds which is also a variable rate with a spread to BMA. This basis risk can be the result of a downgrade of the University's rating or the pricing of the University's bonds by the remarketing agents at rates higher than the BMA index.

The University continues to pay interest to the bondholders at the variable rate provided by the bonds. However, during the term of the swap agreement, the University effectively pays a fixed rate on the debt. If a default occurs regarding the swap agreement, the non-defaulting party may designate a date to terminate the agreement. The University will revert to a variable rate if the counterparty defaults or if the swap is terminated. A termination of the swap agreement may also result in the University making or receiving a termination payment.

In December 2006, the University issued $65.9 million of refunding COPs, with an average interest rate of 4.15%, to refund a portion of the outstanding 2002 COPs totaling $65.4 million with an average interest rate of 4.75%. The net proceeds of $70.8 million, after the net addition of $4.9 million for bond premium, underwriting fees, and other issuance costs, were used to purchase U.S. Government securities which were deposited in an irrevocable trust in order to retire the 2014 through 2026 maturities of the 2002 COPs on July 1, 2012. The refunded debt is considered defeased and related liabilities are not included in the University's financial statements. The issuance of the refunding COPs at a lower interest rate than the rate for the refunded debt resulted in a $2.9 million reduction in future debt service payments, with an economic gain of $2.3 million based upon the present value savings. The bonds were issued at a premium with a net addition of $2.1 million for bond premium, underwriting fees, bond insurance, and other issuance costs.

In February 2007, the University issued $76.3 million in system revenue bonds at an average interest rate of 4.46%. The bonds were issued primarily to fund classroom and laboratory renovations and deferred maintenance, infrastructure upgrades, land acquisition, site preparation, and construction of a new University Police Department facility.

Securities and cash restricted for bonds and COPs debt service held by the trustee at June 30, 2007 totaled $24.2 million and $14.2 million respectively. Payment commitments to investors, including interest, for bonds, lease purchases, and other long-term lease obligations, using the interest rate in effect at June 30, 2007 for variable rate issues, are shown below:

Bonds and Notes Payable *(Dollars in thousands)*

	System Revenue Bonds			Certificates of Participation		Other Lease Purchases	
Fiscal Year	Principal	Interest	Net Payments on Swap Agreement at 0.18%	Principal	Interest	Principal	Interest
2008	$ 17,125	$ 21,339	$ 186	$ 15,745	$ 14,776	$ 2,336	$ 439
2009	19,135	18,958	186	14,825	14,263	2,219	335
2010	21,555	17,909	186	15,300	13,641	1,644	233
2011	22,705	16,832	183	10,420	13,243	1,723	155
2012	23,895	15,726	178	10,375	12,854	569	72
2013-2017	129,545	60,082	823	59,390	56,200	1,022	114
2018-2022	79,225	37,104	685	75,265	39,668	31	2
2023-2027	68,845	21,148	509	74,145	20,738		
2028-2032	41,550	9,003	284	52,370	4,393		
2033-2037	29,405	1,660	38				
Total	**$ 448,985**	**$ 219,761**	**$ 3,258**	**$ 327,835**	**$ 189,776**	**$ 9,544**	**$ 1,350**

The University has pledged portions of its gross revenues towards the payment of debt related to various system revenue bonds outstanding at June 30, 2007. These pledged revenues include student tuition and fees, certain auxiliary enterprises revenue, investment income, and indirect cost recovery revenue. Pledged revenues do not include state appropriations, gifts, endowment income, or other restricted revenues.

The University presently plans to issue approximately $33 million in system revenue bonds and $103 million in certificates of participation during fiscal 2008.

Funding Responsibility for the June 30, 2007 Outstanding Debt *(Dollars in thousands)*

	Current Portion	Noncurrent Portion	Total
From Arizona State University operating revenues	$ 22,136	$ 492,741	$ 514,877
From State of Arizona provided state appropriations and share of state sales tax (ASU in substance acting as conduit)	13,070	268,527	281,597
	$ 35,206	**$ 761,268**	**$ 796,474**

Note E - Capital Leases (All with Component Units)

In July of 2005, the University entered into a ground lease with McAllister Academic Village, LLC, an Arizona limited liability company, whose sole member is ACFFC, for the construction of the McAllister Academic Village (MAV) living, learning and retail facility now operated under the name of Hassayampa Academic Village (HAV). The facility houses approximately 1,900 students and was completed in two phases with the first phase of approximately 900 beds completed in the fall of 2006 and the second phase of approximately 1,000 beds completed in May 2007. HAV also includes academic facilities, a learning resource center, and food and retail facilities. In July 2005, MAV issued $145 million in tax-exempt variable rate demand system revenue bonds to fund construction of the facility.

ACFFC has overall responsibility for the residential portion, comprising approximately 92% of the facility, including budgetary approval, with the University capital leasing the non-residential portion of the facility. The University will make annual lease payments of approximately $600,000 annually over 40 years. The lease agreement is based on the variable interest rate bonds issued by MAV, LLC. Cash outflows for lease payments are scheduled to begin in fiscal 2008.

In October 2003, the University entered into a 30 year lease agreement with Arizona State University Foundation, LLC, an Arizona limited liability company, of which the sole member is ASU Foundation, an Arizona non-profit corporation and component unit of the University. The University leases four floors of office space in the Fulton Center (formally known as the ASU Foundation building) and the related parking structure.

The lease agreement related to the Flexible Display Center located in the ASU Price-Elliott Research Park continues to be based on the variable interest rate of the lease revenue bonds issued in April 2004 by Nanotechnology Research, LLC an Arizona limited liability company, of which the sole member is ACFFC. Cash outflows for lease payments began in fiscal 2007.

Capital lease commitments to lessors at June 30, 2007 based on present value of lease payment *(Dollars in thousands)*

	Average Interest Rate	Final Maturity	Balance 07/01/2006	Additions	Reductions	Balance 06/30/2007	Current Portion
Hassayampa Academic Village	3.71%	2045		$ 11,989		$ 11,989	$ 149
Fulton Center	4.89%	2034	$ 29,395		$ (580)	28,815	595
Flexible Display Center	4.54%	2034	35,000			35,000	
Total: Capital Leases			**$ 64,395**	**$ 11,989**	**$ (580)**	**$ 75,804**	**$ 744**

Lease payment commitments, including interest reimbursement to the lessor at the rates in effect at June 30, 2007 for the variable rate leases, consisted of the following (Dollars in thousands):

Fiscal Year	Capital Lease Payments
2008	$ 3,657
2009	4,829
2010	4,826
2011	4,827
2012	4,818
2013-2017	24,073
2018-2022	24,021
2023-2027	23,968
2028-2032	23,883
2033-2037	11,302
2038-2042	2,967
2042-2045	1,784
Total minimum lease payments	$ 134,955
Less amount representing interest	(59,151)
Present value of net minimum lease payments	**$ 75,804**

Note F - Compensated Absences

The University has recorded a liability for accruals of vacation leave earned, but not taken at fiscal year end. Changes in accrued compensated absences for the year ended June 30, 2007 consisted of the following (Dollars in thousands):

Balance 07/01/2006	Additions	Reductions	Balance 06/30/2007	Current Portion
$ 23,581	$ 24,499	$ (22,926)	$ 25,154	$ 2,879

Note G - Unrestricted Net Assets

As discussed in the Summary of Significant Accounting Policies, the University is following standards for external reporting purposes, which require net assets to be classified for accounting and reporting purposes into one of three net asset categories according to externally imposed restrictions. Unrestricted net assets, as defined by GASB Statement No. 35, are not subject to externally imposed stipulations; however, they are subject to internal designations. For example, unrestricted net assets may be designated for specific purposes by actions of management or may otherwise be limited by contractual purchase obligation agreements with outside parties. As of June 30, 2007, substantially all of the University's unrestricted net assets were from University generated revenues and were internally designated for academic and research programs and initiatives, and capital projects.

Note H - Operating Leases

Brickyard. In July 2004, the ASUF Brickyard, LLC, an Arizona limited liability company of the ASU Foundation, a component unit of the University, purchased the Brickyard office building and parking facility in downtown Tempe for $34.5 million, and is master leasing the entire facility to the University pursuant to a 15 year lease. This lease has no purchase options for the University. Approximately 65% of the facility is being used by the University for classrooms, offices, and research areas, with the remaining portion being rented by the University to various firms for retail and restaurant operations. The annual rent paid by the University to the ASU Foundation is approximately $2.8 million.

SkySong 1, LLC Operating Lease. In June 2006, the University entered into a 15 year operating lease with SkySong 1, LLC for approximately 80,000 square feet of office space within a development to be known as the ASU/Scottsdale Center for Innovation and Technology. The Innovation Center is being developed as a home for activities and organizations that co-mingle and stimulate new forms of global commerce, research, technology, art, education and economic development. ASU's planned use of the leased space will focus on supporting entrepreneurial development activities, interdisciplinary research programs in engineering-related fields, and education technology. The lease commenced in September 2007, with future minimum lease payments from fiscal 2008 until fiscal 2023 of $35.0 million.

The future minimum lease payments for Brickyard and SkySong are as follows (Dollars in thousands):

	Operating Lease Payments	
Fiscal Year	**Brickyard**	**SkySong**
2008	$ 2,782	$ 1,667
2009	2,777	2,034
2010	2,783	2,077
2011	2,784	2,120
2012	2,795	2,166
2013-2017	13,990	11,554
2018-2022	5,620	12,907
2023		452
Total	**$ 33,531**	**$ 34,977**

Note I - Operating Expenses by Classification

Operating expenses by functional and natural classification for the year ended June 30, 2007, are summarized as follows (Dollars in thousands):

	Year ended June 30, 2007				
	Personal Services and Benefits	**Supplies and Services**	**Scholarships and Fellowships**	**Depreciation**	**Total**
Instruction	$ 383,351	$ 42,287	$ 106		$ 425,744
Research	100,114	42,676	1,991		144,781
Public service	24,791	18,085	116		42,992
Academic support	103,673	44,758	849		149,280
Student services	37,230	12,350	243		49,823
Institutional support	69,562	38,624	4,886		113,072
Operation and maintenance of plant	30,079	53,186			83,265
Scholarships and fellowships	684	383	62,156		63,223
Auxiliary enterprises	42,818	66,952	3,664		113,434
Depreciation				$ 78,085	78,085
Total Operating Expenses	**$ 792,302**	**$ 319,301**	**$ 74,011**	**$ 78,085**	**$ 1,263,699**

Note J - Retirement Plans

At June 30, 2007 the University is participating in one cost-sharing multiple-employer defined benefit pension plan and three defined contribution pension plans. The following disclosures are required by Governmental Accounting Standards Board (GASB) Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers.* In addition to the below mentioned plans, there are two other retirement plans totaling $0.7 million in total University and employee contributions for the year ended June 30, 2007.

Defined Benefit Plan

Plan Description. The *Arizona State Retirement System* (ASRS) administers a cost-sharing multiple-employer defined benefit pension plan that covers eligible employees of the University. Benefits are established by state statute and provide retirement, death, long-term disability, survivor, and health insurance premium benefits. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of Arizona Revised Statutes (A.R.S.) Title 38, Chapter 5, Article 2. The ASRS issues a publicly available annual financial report that includes its financial statements and required supplementary information. That report may be obtained by writing to the ASRS, 3300 North Central Avenue, P.O. Box 33910, Phoenix, Arizona 85067-3910 or by calling (602) 240-2000 or (800) 621-3778.

Funding Policy. For the year ended June 30, 2007, active ASRS members and the University were each required by statute to contribute at the actuarially determined rate of 9.10% (8.60% retirement and 0.50% long-term disability) of the employees' annual covered payroll. The Arizona State Legislature establishes and may amend active plan members' and the University's contribution rates. Both the University and the covered employees made the required contributions for the years ended June 30, 2007, 2006, and 2005 as follows (Dollars in thousands):

Fiscal Year	Contribution Rates (Each)	University Contributions	Employee Contributions	Total Contributions
2007	9.10%	$ 22,698	$ 22,698	$ 45,396
2006	7.40%	16,855	16,855	33,710
2005	5.70%	11,880	11,880	23,760

Defined Contribution Plans

Plan Description. In accordance with A.R.S. § 15-1628, University faculty, academic professionals, service professionals and administrative staff have the option to participate in defined contribution pension plans. These plans are administered by independent insurance and annuity companies approved by the Arizona Board of Regents. For the year ended June 30, 2007, plans offered by the Teachers Insurance Annuity Association/College Retirement Equities Fund (TIAA/CREF), Variable Annuity Life Insurance Company (VALIC), and Fidelity Investments Tax-Exempt Services Company (Fidelity), were approved by the Arizona Board of Regents. Benefits under these plans depend solely on the contributed amounts and the returns earned on the investment of those contributions. Contributions made by employees vest immediately and University contributions vest no later than after five years of full-time employment. Employee and University contributions and associated returns earned on investments may be withdrawn starting upon termination of employment, death, or retirement. The distribution of employee contributions and associated investment earnings are made in accordance with the employee's contract with the applicable insurance and annuity company. University contributions and associated investment earnings must be distributed to the employee in the form of an annuity paid over the employee's life.

Funding Policy. The Arizona State Legislature establishes and may amend active plan members' and the University's contribution rates. For the year ended June 30, 2007, plan members and the University were each required by statute to contribute an amount equal to 7.00% of an employee's compensation. Contributions to these plans for year ended June 30, 2007, were as follows (Dollars in thousands):

	Contribution Rates (Each)	University Contributions	Employee Contributions	Total Contributions
TIAA/CREF	7.00%	$ 12,880	$ 12,880	$ 25,760
VALIC	7.00%	1,819	1,819	3,638
Fidelity	7.00%	4,265	4,265	8,530

Note K - ASU at the Downtown Phoenix campus

In June 2005 the University and the City of Phoenix (City) entered into an intergovernmental agreement related to the development of an ASU campus in downtown Phoenix. Development of the campus is seen as a partnership between the University, the City of Phoenix, and area neighborhoods and businesses to help with the revitalization of the historic urban core of Phoenix. Per the terms of the agreement the City has acquired land and existing buildings which have been identified by the University as being within the proposed boundaries of the ASU at the Downtown Phoenix campus. All property will be owned by the City of Phoenix, until such a time as the property is conveyed to the University.

The Downtown Phoenix campus is the University's fourth and newest campus and is intended to provide an academically-rigorous university experience which will integrate academic, public, private, and residential development in a diverse and dynamic living/learning environment for students.

Permanent Financing. In March 2006 Phoenix resident voters approved a bond program which included approximately $188 million in permanent funding for the development of facilities for the ASU at the Downtown Phoenix campus, and approximately $35 million for other investments in the campus districts.

Academic Programs. In July and August 2006, ASU's College of Public Programs and College of Nursing and Healthcare Innovations moved to the Downtown Phoenix campus from the University's Tempe campus, completing phase one of the campus development. During the last year, construction has started on two new major buildings, the Walter Cronkite School of Journalism and Mass Communication and a 1,250 bed public/private partnership student housing facility. Both of these facilities will be available for initial occupancy in the summer of 2008, which will complete phase two of the campus development.

Development of Properties. The University is responsible for the master planning of the Downtown Phoenix campus, subject to reasonable review and approval by the City of Phoenix. Development of new on-campus student housing facilities will be the responsibility of the University with the City's consent, but at no cost to the City. Campus parking will not be the financial responsibility of the City. Demolition of acquired buildings not intended for use by the University or the City will be the responsibility of the City. The City has the right to convey or lease to a third party all or part of the acquired properties not leased to the University. Beginning in July 2008, the University will make annual payments to the renewal and replacement fund at the rate of $2 per square foot of space occupied by the University, until the property is conveyed to the University. The City and the University will agree on the scope and function of any incidental and ancillary private development on the ASU at the Downtown Phoenix campus.

Leasing and Transfer of Property. The University (subject to Arizona Board of Regents' review and approval) leases from the City the space the University occupies. The lease term is equal to the term of the permanent financing, with an option for the University to purchase the leased property subject to full defeasance of any outstanding debt. The University pays all costs for the operation and regular maintenance of the facilities it leases. Five years from the effective date the University will make a good faith effort, contingent on the City having provided the needed funding, ASU's overall financial capabilities and the need to invest in other program development at the Downtown Phoenix campus, to begin making monthly lease payments to the City to assist the City with reducing the permanent financing indebtedness or to assist the City with other development of the campus. The amount of the lease payments will be based on a negotiated percentage of market rent and will be re-evaluated every three years.

Purchase Option. The University may, prior to the satisfaction of the permanent financing, purchase all or a portion of the leased property from the City for the amount of the indebtedness applicable to the leased property subject to full defeasance of any outstanding debt. Upon satisfaction of the permanent financing indebtedness, the University's leases will terminate and the leased properties will be transferred to the University at no additional cost, under the condition that the property will be used for the purpose of providing Arizona State University-related post secondary education.

Mercado Property. The University will transfer property it owns in downtown Phoenix, known as the Mercado property, to the City when final payment of outstanding debt on the property has been made, which is to occur on June 15, 2024. The City has the option to purchase the Mercado property at any time after the construction of the new Downtown Phoenix campus facilities, and prior to June 15, 2024, subject to certain conditions. The University has agreed to cooperate with the City to maximize the effective use of the Mercado in augmenting the Downtown Phoenix campus facilities.

Note L - Rio Salado Parkway Land Sale and Lease

In June, 2007, ASU sold 10.62 acres and entered into an agreement to lease 15.15 acres of land located north of Rio Salado Parkway and west of Rural Road in Tempe to SunCor Development Company. SunCor is scheduled to construct condominiums on the purchased land, and construct office, retail and potentially a hotel on the leased land. The land sale price for the 10.62 acres was $20.2 million, resulting in a gain on the land sale of $18.6 million after transaction and consulting costs to ASU and the book value of the land. The Lease Option Agreement for the 15.15 acres contains 5 ground lease phases which must be exercised by specified dates ranging from 2009 to 2021. The lease term for each lease is 99 years. Upon exercise of each lease option, there is an option payment in cash (prepaid rent for the full lease term) at the current appraised land value at time of the lease being exercised.

In addition to the prepaid land rents, ASU receives a one-time participation rent payment at the time individual buildings built under the land lease are sold to institutional brokers. The participation rent payment is 2% of the gross sales price received by SunCor as determined by an appraisal process. In the event SunCor does not sell a building within the first 4 years after its occupancy, ASU has the option to exercise a one-time "sale put" based on an appraisal at time of the "sale put" option by ASU, where ASU receives 2% of the appraised value of the building. In addition to the participation rent, ASU receives a 0.5% (1/2 of 1%) transfer fee based on the gross sales price on each subsequent sale of a building by future owners during the entire 99 year term of the lease. One of the 5 sites is for a hotel which has a different, but more financially attractive to ASU, rent structure. SunCor is responsible for payment of "in-lieu" property taxes typical to a redevelopment area as well as "in-lieu" lake operations and maintenance expenses.

ASU has a remote contingent liability for a presently, not specifically determinable, amount that would not be material to ASU's overall financial position for three major capital project improvements to the SunCor sites. This would only occur (1) if another 9.5 acre parcel in the same area designed by ASU for sale or lease, never occurs, (2) SunCor fails to enter into one or more of the leases, (3) SunCor constructs an ASU owned academic building on a severed parcel, or (4) ASU defaults and fails to execute a lease on a particular parcel. The site capital improvements, which significantly increase the value of the property, consist of (1) drainage improvements, (2) a roadline along the property line between the sale and lease property for access and utilities, and (3) relocation of overhead power lines at an estimated cost of $4.5 million. If ASU was to become liable for any of these improvements, the intent of ASU for most scenarios would be to have a new developer reimburse ASU for these capital costs, and majority of which could be financed over 15 years through a City of Tempe formed improvement district.

Note M - Other Matters

Risk Management. Pursuant to A.R.S. § 41-621, the University participates in a self-insurance program administered by the State of Arizona, Department of Administration, Risk Management Section. The State's Risk Management Program covers the University, subject to certain deductibles, for risks of loss related to such situations as theft, damage and destruction of property, buildings, and equipment; errors and omissions; injuries to employees; natural disasters; and liability for acts or omissions of any nature while acting in authorized governmental or proprietary capacities and in the course and scope of employment or authorization, except as prescribed in A.R.S. § 41-621. Loss risks not covered by the Risk Management Section and where the University has no insurance coverage are losses arising from contractual breaches and losses that arise out of and are directly attributable to an act or omission determined by a court to be a felony. 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 Section should not have a material effect on the University's financial statements. Also, in accordance with the disclosure requirements of GASB Statement No. 10, we note that judgments and claims not covered by the Risk Management Section during the three years ended June 30, 2007, have not been material to the University's financial statements.

Legal Matters. In August 2003, four University of Arizona students filed a lawsuit against the Arizona Board of Regents (ABOR) and the State in Pima County, Arizona Superior Court. The complaint alleged that the tuition increase approved by the ABOR for the 2003-04 academic year violated the State's Constitution. The complaint also asserted that the State has not provided funding to the three universities governed by the ABOR at the level required by the State Constitution. The complaint sought (i) a declaratory judgment that the actions of each of the defendants violated the State Constitution, (ii) preliminary and permanent injunctive relief to prevent the ABOR from imposing the tuition increase and to compel repayment of any amounts already collected, and (iii) preliminary and permanent injunctive relief ordering the State to set in place a plan to provide increased funding for maintenance, operation and improvement of the State's universities. In March 2004, the Superior Court granted the ABOR's and the State's motion to dismiss the case. In the related minute entry, the Court held that in the exercise of its legislative and administrative function, which includes setting tuition levels for the State's three universities, the ABOR is absolutely immune from suit and that the conduct of the business of the State Legislature is absolutely immune from suit.

In March 2004, the plaintiffs filed a notice of appeal with the Arizona Court of Appeals. In November 2006, the Arizona Court of Appeals issued its decision reversing the Superior Court's decision to dismiss with respect to the ABOR and remanding the case back to the Superior Court. The ABOR filed a petition for review by the Arizona Supreme Court. In August 2007, the Arizona Supreme Court issued its decision in support of the ABOR and agreed with the ABOR that the question of whether the tuition increase ran afoul of the "as nearly free as possible clause in the State Constitution" is a nonjusticiable political question and that the Superior Court properly dismissed the students' claims against the ABOR.

The Havasupai Tribe and seventy-three of its members have asserted claims against the Arizona Board of Regents (ABOR) and others arising out of a research project initiated by Arizona State University (ASU) in the early 1990s. Allegations are made respecting both ASU and the University of Arizona (UA), the latter being based upon the facts that one of the researchers moved to UA while the research was continuing and that UA faculty were involved in certain of the research. The Plaintiffs assert a variety of legal theories based on the contention that blood samples donated by members of the Tribe were used for purposes in addition to those described to the Tribe and the participants in the research prior to its initiation. The individual Plaintiffs seek $10 million in compensatory damages and $15 million in punitive damages. The operative complaint by the Tribe seeks unspecified amounts of compensatory and punitive damages. The claims for punitive damages against ABOR have been dismissed. By orders of April 30, 2007 and August 28, 2007, the Maricopa County Superior Court granted summary judgment against both the Tribe and the individuals. All Plaintiffs have filed notices of appeal. The State of Arizona Attorney General's Office is providing legal representation. The University cannot predict the outcome at this time, but intends to vigorously defend itself. It is anticipated that any judgment against the University would be covered by State Risk Management insurance.

On May 3, 2005, Dr. George Pettit filed a complaint against the Arizona Board of Regents (ABOR) and the University and, on August 2, 2005, amended his complaint to include 14 individual defendants (officers and employees of the University and their spouses) and Arizona Science and Technology Enterprises, LLC, and a number of claims, for unspecified monetary damages. On September 22, 2005, the case was removed to the United States District Court. The amended complaint contains 14 counts relating, primarily, to the University's decision not to renew the plaintiff's employment as the Director of the Cancer Research Institute and as the holder of the Dalton Chair of Cancer Research and Medicinal Chemistry for the 2005-2006 academic year. On November 4, 2005, the defendants filed two motions to dismiss asking the Court to dismiss the majority of the plaintiff's claims. The plaintiff filed his response in which he conceded to dismissal of certain claims and parties and opposed defendants' motion as to other claims and parties.

On August 28, 2006, the Court issued its opinion, dismissing defendant ASU and defendants Jonathan Fink, George Poste, David Young, and Yung Chang, and their respective spouses from the case. The Court also dismissed the plaintiff's claims for injunctive relief (Count 2), "Violation of Arizona Whistleblower Law" (Count 3), breach of contract (Count 5), interference with contract (Count 6), defamation (Count 8), conspiracy (Count 9), wrongful discharge (Count 10), intentional infliction of emotional distress (Count 11), fraud (Count 12), and conversion (Count 13), and dismissed the claim for violation of 42 U.S.C. § 1983 (Count 4) against defendants Crow, Glick and Ward in their individual capacities. On September 12, 2006, the remaining defendants answered the remaining counts of the complaint, denying its material allegations and raising numerous affirmative defenses. On April 30, 2007, the plaintiff filed a motion for leave to amend his complaint for a second time. On August 24, 2007, the Court denied the motion. On January 10, 2007, the remaining individual defendants filed a motion for judgment on the pleadings as to counts 4 and 14. The Court has not ruled on that motion. Discovery has not yet commenced. ASU cannot predict the outcome of these matters at this time, but is pursuing a vigorous defense. Some, but not all judgments, if any, against ASU would be covered by State Risk Management Insurance.

On June 21, 2006, the Arizona Attorney General commenced a proceeding for review of administrative action on behalf of the State of Arizona Land Department. The litigation is primarily against the Arizona Navigable Stream Adjudication Commission. The Commission conducted a proceeding under Arizona law and determined that the lower Salt River is not navigable. ASU owns land adjacent to the current channel of the lower Salt River. ABOR/ASU is named as a defendant in the Attorney General's action because ASU was one of a number of parties that participated in and therefore became a party to the Commission proceedings. ASU submitted a brief to the Commission and appeared before the Commission during its proceedings. On August 3, 2007, the Superior Court ruled in favor of ASU and the other defendants and upheld on administrative appeal the Commission's determination that the lower Salt River was not navigable at Arizona statehood. The Arizona Attorney General and certain other parties that were plaintiffs in the Superior Court have filed notices of appeal. ASU cannot predict the outcome at this time, but intends to vigorously defend the ruling of the Superior Court and the determination of the Commission. If this matter and any subsequent proceedings to determine navigability were to be eventually determined to be adverse to ASU, it potentially could adversely affect ASU's ownership of land adjacent to the Salt River.

Federal Grants. Federal grants provided to the University are subject to review and audit by Federal agencies. In the opinion of the University, any adjustments or repayments which may be required would not be material to the overall financial condition of the University.

Power Plant. In November 2004, the University entered into a privatized/third party agreement with Arizona Capital Facilities Finance Corporation (ACFFC), a component unit of the University, for the construction and operation by a third party energy management firm of a co-generation power plant on the University's Tempe campus with the power plant providing to the University a portion of its energy (electrical, chilled water and steam) needs. The contract with ACFFC is for 25 years, along with a related ground lease, and calls for minimum annual energy purchase obligations on the part of the University of approximately $7 million to cover the ACFFC's fixed management services and capital costs. Additional billing amounts will be based on a pass through to the University of the service provider's variable costs, primarily natural gas. Related to this agreement, ACFFC issued $51.6 million of variable rate demand revenue bonds in November 2004. In December 2004 ACFFC entered into a swap agreement that effectively fixed the interest rate on the revenue bonds at 3.124%. In June 2007, ACFFC also entered into a constant maturity swap as an overlay to the 2004 swap, on the anticipation that in the future there will be a steeper yield curve than in existence at June 30, 2007, which historically was relatively flat as of this date. The yield curve returning to a historically steeper slope will result in financial benefits to ACFFC and the University.

This new power plant is at least as efficient and produces electric, chilled water and steam energy at the same or lower cost than the older cooling and heating plant which also continues to operate. The new power plant has allowed for less utilization of the older less efficient power plant. Even though the University has a minimum annual purchase obligation of approximately $7 million for the new power plant, this is less than the University's other Tempe campus utility purchases of approximately $19 million annually, which is not presently under a minimum annual energy purchase commitment.

Central Plant. The University is in the process of entering into a privatized/third party agreement with ACFFC for the construction and operation by a third party energy management firm of a central plant on the University's Polytechnic campus to provide chilled water and emergency power for certain buildings on that campus. The contract with ACFFC will be for 25 years, along with a related ground lease, and will call for minimum annual purchase obligations by the University of approximately $2 million to cover the ACFFC's fixed capital and management services costs. Additional billing amounts will be based on a pass through to the University of the service provider's variable costs, primarily electricity. It is contemplated that related to this agreement, ACFFC will issue approximately $18 million of fixed rate revenue bonds.

Hassayampa Academic Village (formerly McAllister Academic Village). In July 2005, the University entered into a ground lease with ACFFC for the construction and operation of the Hassayampa Academic Village (HAV) residential facility. In August 2005 ACFFC issued $145.0 million in variable rate demand revenue bonds. The project consisting of approximately 1,900 beds for freshmen residential students was constructed in two phases, with initial occupancy in August 2006 for phase one and August 2007 for phase two.

The ACFFC has overall responsibility for the residential portion, comprising about 92% of the facility, including budgetary approval, with the University capital leasing the non-residential portion of the facility. The ACFFC has contracted out management of the residential portion, with the contract for the residential life program and room assignments, including rent collections, being with the University's Residential Life Department. Custodial and maintenance services are being contracted out to private firms.

In order for ACFFC to obtain the lowest cost and most efficient financing arrangement possible for the residential portion of the facility, the University entered into a contingent commitment to make up any debt service funding deficiencies to the bondholders of the HAV debt, if such a situation should ever exist. The non-residential portion of the facility is a capital lease of the University based on the net present value of the lease payments to be made by the University.

ASU at the West campus housing (Las Casas). In June 2005, ACFFC refunded the bonds for this project by issuing $16.0 million of refunding bonds. In order for ACFFC to obtain the lowest and most efficient financing arrangement possible, the University entered into a contingent commitment to make up any debt service funding deficiencies to the bondholders of the Las Casas debt, if such a situation should occur. In July 2007, ACFFC contracted responsibility for the residential portion to the university's Residential Life Department and responsibility for the custodial and maintenance services to a private firm.

Downtown Phoenix Student Housing. In September, 2007, ASU entered into a ground lease with Downtown Phoenix Student Housing, LLC for the construction and operation of the Downtown Phoenix campus Student Housing. This housing project of 1,250 beds is being constructed in two phases, with the first phase scheduled for completion by August 2008 and the second phase by August 2009. This LLC was formed in early fiscal 2008 and in September, 2007 issued $142.5 million of fixed rate bonds. In conjunction with this student housing, to the extent that an occupancy rate of 99% is not achieved during the academic year, in the four year period from Fall 2008 to Spring 2012, ASU has agreed to directly lease a varying percentage of the remaining student beds up to an occupancy rate of 99%. ASU's maximum potential of required direct leasing over the four years is $3.4 million. Starting with fiscal 2008, Downtown Phoenix Student Housing, LLC will become another component unit of ASU.

Tempe campus Privatized Housing. In December 2006, ASU has entered into two ground lease agreements with American Campus Communities (ACC) for two student housing projects located on land owned by the University that will be ground leased to ACC. Upon the completion of the projects, ACC will transfer title to the facilities, unencumbered, to ASU subject to a leasehold interest under which ACC will maintain and operate the facilities. The ground leases are each for a period of 65 years with two 10-year options to renew. The University has no obligation to support the facilities financially or to guarantee occupancy.

Vista del Sol consists of 1,859 apartment-style beds with amenities such as pool and community center, parking garage, and retail space. Upon completion in fiscal 2009, ASU will receive a combination of fixed and variable rent, with variable rent being approximately 8% of gross revenues for the first five years and 8.7% thereafter. ACC will provide project costs of approximately $130 million which they may finance up to, but not to exceed, 75%. There is no legal recourse to ASU in the event of default on any financing.

Barrett Honors College will provide housing and academic space for the Barrett Honors College including 1,700 beds, classrooms, faculty offices, and dining. Estimated project cost is $110 million and the project is scheduled to open fall 2009 (fiscal 2010). Barrett Honors College will be 100% equity (cash) financed by ACC. ASU will receive fixed annual rent of $250,000 for the first 10 years and variable rent of 2.35% of gross revenues thereafter.

Note N – Component Units (Financially Interrelated Organizations)

Arizona State University's discretely presented component units are comprised of two major component units, the ASU Foundation and Arizona Capital Facilities Finance Corporation (ACFFC), and several smaller component units consisting of the ASU Alumni Association, Sun Angel Foundation, Sun Angel Endowment, ASU Research Park, Inc., Collegiate Golf Foundation, and Mesa Student Housing, LLC.

Prior Period Adjustments

The accompanying financial information for fiscal 2006 has been restated to correct an error in the financial statements for the ASU Research Park in the calculation of rents receivable resulting in a $303 thousand understatement of previously reported deferred rents receivable. Additionally, there is a restatement of net assets between currently restricted and temporarily restricted net assets for the ASU Foundation. During fiscal 2007, the net asset balances of the Foundation's endowment funds were analyzed and reviewed in conjunction with the ASU Foundation board approved investment and spending policies, generally accepted accounting principles and applicable Arizona Revised Statutes. As part of that process, it was determined that the net appreciation on endowed gifts previously categorized as permanently restricted net assets were, in fact, temporarily restricted. Consequently, the permanently restricted net assets of approximately $35.2 million as of June 30, 2006 have been reclassified as temporarily restricted net assets to reflect this correction. During fiscal 2007, the net appreciation on endowed gifts is included in temporarily restricted net investment return. The restated net assets for all component units are (Dollars in thousands):

Restatement of Net Assets	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, June 30, 2006, as previously reported	$ 38,154	$ 115,184	$ 299,959	$ 453,297
Change in net assets due to prior period adjustments	303	35,200	(35,200)	303
Net assets, July 1, 2006, as restated	**$ 38,457**	**$ 150,384**	**$ 264,759**	**$ 453,600**

Summary of Significant Accounting Policies

Basis of presentation. The component unit financial statements have been prepared on the accrual basis of accounting, following the recommendations of the Financial Accounting Standards Board (FASB) in Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, organizations are required to report information regarding their financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Income taxes. All of ASU's component units, except the Collegiate Golf Foundation and Arizona Capital Facilities Finance Corporation (ACFFC), qualify as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code (IRC) and, therefore, there is no provision for income taxes. In addition, they qualify for the charitable contribution deductions and have been classified as organizations that are not private foundations. Any income determined to be unrelated business taxable income (UBTI) would be taxable. ACFFC is classified as a Section 501(c)(4) organization, a tax-exempt organization but not qualified for the charitable contribution deductions, and the Collegiate Golf Foundation is not a tax-exempt organization.

Use of estimates. The preparation of the component units' financial statements, in conformity with U.S. generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Contributions. Contributions are recorded in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends, or the purpose of the restriction is accomplished), temporarily or permanently restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. Restricted support where the restriction is met in the same period as the donation is made, is shown as an addition to unrestricted support.

Pledges Receivable

The ASU Foundation's pledges receivable (unconditional promises to give) are recorded at their net realizable value, which is net of a discount. Pledges are discounted using the applicable risk free rate at the date the pledge was recognized. The discount rates range from 5.6% to 10.9%. An allowance for uncollectible pledges is estimated based on the ASU Foundation's collection history and is recorded as a reduction to contribution support and revenue and an increase in the allowance for uncollectible pledges.

The Sun Angel Foundation's pledges receivable are recorded at their net realizable value using a 5.14% discount rate for the year ended June 30, 2007.

Pledges receivable balances *(Dollars in thousands)*

	ASU Foundation	Sun Angel Foundation	Total
Gross pledges receivable	$ 136,120	$ 5,841	$ 141,961
Present value discount	(23,100)	(691)	(23,791)
Allowance for uncollectible pledges	(3,450)	(100)	(3,550)
Net pledges receivable	**$ 109,570**	**$ 5,050**	**$ 114,620**

Promises to give receivables *(Dollars in thousands)*	ASU Foundation	Sun Angel Foundation	Total
Receivable in one year	$ 30,225	$ 1,302	$ 31,527
Receivable in two to five years	66,273	3,297	69,570
Receivable after five years	39,622	1,242	40,864
Total gross pledges to be received	**$ 136,120**	**$ 5,841**	**$ 141,961**

The ASU Foundation had existing conditional promises to give totaling $30.0 million at June 30, 2006. These pledges were recognized in fiscal 2007 as pledges receivable when the conditions were removed by the donor.

Key members of the ASU Foundation's Board of Directors and Board of Trustees have made contributions and pledges to the ASU Foundation in the current and prior years. At June 30, 2007 and 2006, gross pledges receivable include approximately $94 million and $51 million (undiscounted), respectively, from these key members. During fiscal 2007 and 2006, the ASU Foundation recognized approximately $47 million and $72 million, respectively, of contribution revenue from these donors.

Direct Financing Lease Agreement

ASU Foundation. ASU Foundation leases a portion of the Fulton Center building (ASU Foundation's headquarters) to the University under a direct financing lease. At the end of the lease, ASU Foundation and Affiliates will gift their portion of the building to the University and the University will receive title to the building. ASU Foundation's net investment in this direct financing lease is $28.8 million.

Arizona Capital Facilities Financial Corporation. Pursuant to a Sublease Agreement, Nanotechnology Research, LLC, a wholly-owned subsidiary of ACFFC, leases its interest in the ASU Research Park to the University, which will pay rent at times and in amounts sufficient to pay all principal and interest (after utilization of amounts held in the Capitalized Interest Accounts) on the Series 2004 Bonds, as well as all fees and expenses related to the Series 2004 Bonds. The Sublease Agreement is a net lease, and Nanotechnology is entitled to receive the rents and all other sums payable pursuant to the Sublease Agreement free from all taxes, charges, fees, and expenses, all of which will be paid by the University. During fiscal 2007, the University remitted payments totaling $944,976 which is recorded as rental revenue in the accompanying financial statements. There were no payments received during 2006, as sufficient funds remained in the Capitalized Interest Accounts.

The Sublease Agreement commenced April 7, 2004, and continued until June 30, 2005, with successive automatic annual renewals for the period July 1 through June 30 of each year without action on the part of Nanotechnology or the University, through the period ending March 31, 2034. The Sublease Agreement is subject to early termination by Nanotechnology or the University upon the payment in full of the Series 2004 Bonds. Upon termination or expiration of the Sublease Agreement, Nanotechnology's interest in the premises, including all buildings and improvements on the leased premises, transfers to the University without further consideration. Therefore, the lease is classified as a direct financing capital lease.

Lease payments are based on a variable interest rate currently determined on a weekly basis. The average interest rate approximates 4.54% at June 30, 2007. Lease payments commence once the Capitalized Interest Accounts are fully utilized, which occurred in fiscal 2007. ACFFC's net investment in this nanotechnology facility direct financing lease is $35.0 million. In addition, there is a $12.0 million net investment in direct financing lease by ACFFC for the Hassayampa Academic Village facility.

Investments in Securities

The ASU Foundation reports investments in accordance with SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Under SFAS No. 124, the ASU Foundation is required to report investments in equity securities that have readily determinable fair values, and all investments in debt securities, at fair value. Equities, fixed income, and mutual funds, are stated at fair market value, based on quoted market prices. Investment securities, in general, are exposed to various risks, such as interest rate credit and overall market volatility.

The ASU Foundation investment policy is approved by the ASU Foundation's Board of Directors. The approved investment policy defines the calculation of the amount made available for spending from the endowment pools. At June 30, 2007, ASU Foundation made approximately $11.5 million available for spending according to the following approved rate:

- If the current market value of an endowment is greater than the total of gifts to that endowment, the approved rate is 4.0%.
- If the current market value of an endowment is less than the total of gifts to that endowment, the approved rate is:
    - 2%, if an endowment agreement is signed by the donor and ASU Foundation and the agreement permits spending in this circumstance, or
    - 0%, if an endowment agreement is not signed by the donor and ASU Foundation and the agreement does not permit spending in this circumstance.

ASU Foundation has ownership of certain cash and cash equivalents that are not in the possession of ASU Foundation but are held, along with other marketable securities, by outside investment managers for the benefit of the ASU Foundation. Although these cash and cash equivalents are readily available to ASU Foundation, it is the intent of ASU Foundation to hold these cash and cash equivalents for investment purposes and, accordingly, these cash and cash equivalents are classified as investment assets in the accompanying combined financial statements.

ASU Endowment Trust Agreement

In March 2003, the ASU Foundation and the University entered into a trust agreement, appointing the ASU Foundation the trustee of selected University endowments. In accordance with the trust agreement, the ASU Foundation receives a management fee for providing these services. Unrealized and realized gains and losses, and interest and dividends, if any, are added to or subtracted from the recorded value of the invested trust assets managed by the ASU Foundation. The invested trust assets are separate from ASU Foundation investments, and a corresponding liability is also presented for the fair value of the invested trust assets managed for the University. Not included in the ASU Foundation Investments Held in Trust total in the table below is approximately $2.1 million in cash and cash equivalents held by the ASU Foundation on behalf of the University at fiscal year end.

Investment Summary

Investment Summary *(Dollars in thousands)*

	ASU Foundation Investments	ASU Foundation Investments Held in Trust	ACFFC	Other Component Units	Total
Money market funds and cash equivalents	$ 26,652	$ 1	$ 33,701	$ 18,630	$ 78,984
Equities:					
Domestic	111,422	18,920		5,584	135,926
International	112,004	22,533			134,537
Total equities	223,426	41,453		5,584	270,463
Fixed Income	84,051	11,239		1,966	97,256
Mutual funds:					
Inflation hedge	74,943	16,116			91,059
Other				1,588	1,588
Total mutual funds	74,943	16,116		1,588	92,647
Other securities	5,990	1,909	1,831	4,230	13,960
Other investments	58,295		811		59,106
Total investments	**$ 473,357**	**$ 70,718**	**$ 36,343**	**$ 31,998**	**$ 612,416**

Property and Equipment

Property and Equipment consists of *(Dollars in thousands)*

	ASU Foundation	ACFFC	Other Component Units	Total
Cost or donated value:				
Construction in progress		$ 2,942		$ 2,942
Buildings and improvements	$ 17,374	186,110	$ 15,947	219,431
Furniture, fixtures, and equipments	4,947	38,488	3,435	46,870
Land leasehold improvements			13,518	13,518
Other property and equipment		509	2,985	3,494
Total property and equipment	$ 22,321	$ 228,049	$ 35,885	$ 286,255
Accumulated depreciation	(2,123)	(16,551)	(13,306)	(31,980)
Net property and equipment	**$ 20,198**	**$ 211,498**	**$ 22,579**	**$ 254,275**

The ASU Foundation completed construction of a new headquarters office building and related facility and placed them into service in February 2005. The building is located on land leased to the ASU Foundation by the University. The lease obligation is $10 per year. The lease term is for 30 years with two 5-year renewal options. A portion of the building was leased to the University under a direct financing lease and the University will receive title to the building at the end of the lease (the ASU Foundation will gift their portion of the building to the University at the end of the lease).

Bonds and Obligation under Capital lease

Bonds and Obligation under Capital Lease *(Dollars in thousands)*

	Final Maturity	ASU Foundation	ACFFC	Other Component Units	Total
Series 2006 Development Refunding Bonds (ASU Research Park)	2021			$ 12,325	$ 12,325
Series 2005A Variable Rate Demand Revenue Bonds	2045		$ 96,700		96,700
Series 2005B Variable Rate Demand Revenue Bonds	2045		48,345		48,345
Series 2005 Tax-Exempt Bonds	2035		16,005		16,005
Series 2004 Variable Rate Demand Revenue Bonds	2030		51,605		51,605
Series 2004A Variable Rate Revenue Bonds	2034	$ 22,420			22,420
Series 2004B Variable Rate Revenue Bonds	2022	11,275			11,275
Series 2004A Variable Rate Demand Lease Revenue Bonds	2034		20,175		20,175
Series 2004B Variable Rate Demand Lease Revenue Bonds	2034		14,825		14,825
Series 2003 Lease Revenue Term Bonds	2023	20,400			20,400
Series 2003 Lease Revenue Term Bonds	2028	10,575			10,575
Series 2003 Lease Revenue Term Bonds	2034	16,625			16,625
Series 2003 Serial and Term Bonds	2035		13,355		13,355
Series 2002 Bonds	2018		28,185		28,185
Series 2001A Term Bonds (Mesa Student Housing, LLC)	2032			19,935	19,935
Series 2000 Serial and Term Bonds	2032		10,445		10,445
Capital Lease	2011	2,800			2,800
Unamortized bond premium (discount)			1,060	(352)	708
		$ 84,095	**$ 300,700**	**$ 31,908**	**$ 416,703**

Future debt service principal payment commitments to investors *(Dollars in thousands)*

Year Ending June 30,	ASU Foundation	ACFFC	Other Component Units	Total
2008	$ 1,020	$ 1,945	$ 1,030	$ 3,995
2009	1,723	3,060	1,070	5,853
2010	1,799	5,410	730	7,939
2011	1,875	6,025	760	8,660
2012	1,988	6,615	785	9,388
Thereafter	75,690	277,645	27,533	380,868
	$ 84,095	**$ 300,700**	**$ 31,908**	**$ 416,703**

Financial Statement Information

The following represents summary financial information for ASU's two major component units (ASU Foundation and ACFFC) and all other component units combined (Dollars in thousands):

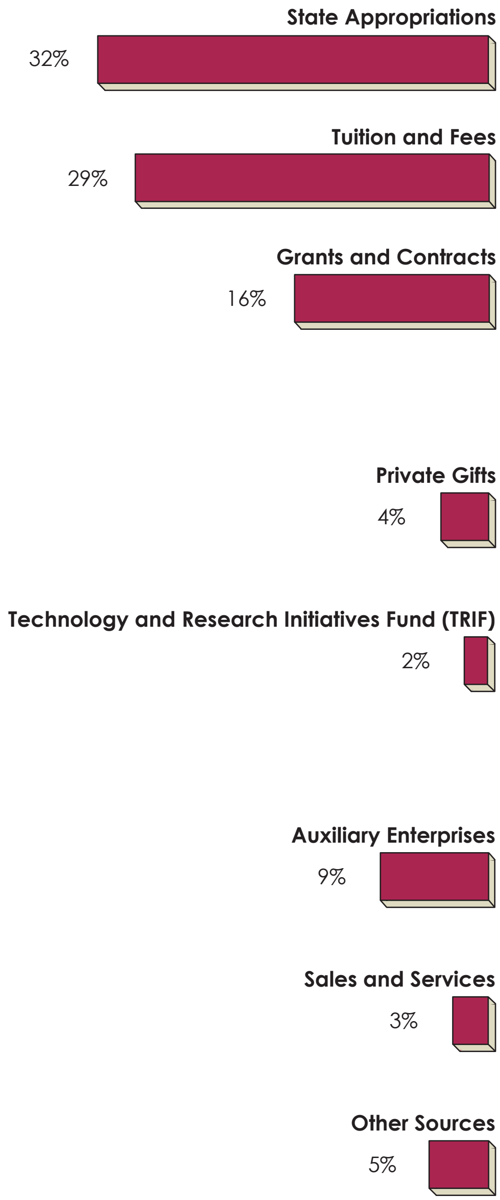
Component Units Statement of Financial Position June 30, 2007				
	ASU Foundation	ACFFC	Other Component Units	Total
Assets				
Investments	$ 544,075	$ 36,344	$ 31,997	$ 612,416
Property and equipment, net	20,198	211,498	22,579	254,275
Other assets	176,981	59,928	21,147	258,056
Total assets	$ 741,254	$ 307,770	$ 75,723	$ 1,124,747
Liabilities				
Bonds and obligation under capital lease	$ 84,095	$ 300,700	$ 31,908	$ 416,703
Other liabilities	105,233	21,690	21,465	148,388
Total liabilities	$ 189,328	$ 322,390	$ 53,373	$ 565,091
Net Assets				
Unrestricted	$ 32,736	$ (14,620)	$ 14,686	$ 32,802
Temporarily restricted	213,673		5,822	219,495
Permanently restricted	305,517		1,842	307,359
Total net assets (deficit)	**$ 551,926**	**$ (14,620)**	**$ 22,350**	**$ 559,656**

Component Units Statement of Activities Year ended June 30, 2007				
	ASU Foundation	ACFFC	Other Component Units	Total
Revenues				
Contributions	$ 105,853		$ 15,764	$ 121,617
Rental revenue	495	$ 10,364	11,107	21,966
Net investment income	55,074	1,567	4,420	61,061
Other revenue	20,274	9,791	9,190	39,255
Total revenues	$ 181,696	$ 21,722	$ 40,481	$ 243,899
Expenses				
Program services -				
Payments to ASU	$ 32,759		$ 16,784	$ 49,543
Other program services	13,226		408	13,634
Personal services, operations, and administrative expenses	18,356	$ 7,431	15,993	41,780
Depreciation/amortization	1,548	6,958	1,382	9,888
Other expenses	7,666	13,325	2,007	22,998
Total expenses	$ 73,555	$ 27,714	$ 36,574	$ 137,843
Increase/(decrease) in net assets	108,141	(5,992)	3,907	106,056
Net assets (deficit) at beginning of year, as restated	443,785	(8,628)	18,443	453,600
Net assets (deficit) at end of year	**$ 551,926**	**$ (14,620)**	**$ 22,350**	**$ 559,656**

ARIZONA STATE UNIVERSITY
COMBINED SOURCES AND USES

Sources

For the year ended June 30, 2007
(Dollars in millions)



State Appropriations	$ 429.6	Represents State of Arizona legislative appropriations for operations of the University and $6.5 million in capital appropriations.
Tuition and Fees	399.9	Includes $479.6 million in tuition and fees, net of $79.7 million in scholarship allowances.
Grants and Contracts	219.0	Represents governmental and nongovernmental grants and contracts for both research activities ($182.8 million) and financial aid programs ($36.2 million). Federally funded grants and contracts used for research activities totaled $150.0 million, including capital grants.
Private Gifts	49.2	Voluntary private support from individuals, foundations, and corporations, including $9.6 million in capital gifts.
Technology and Research Initiatives Fund (TRIF)	31.6	TRIF is generated from part of a 0.6% education sales tax approved by Arizona voters in November 2000 as part of an economic development strategy for the state. TRIF revenue is primarily used to support the research efforts of the ASU Biodesign Institute.
Auxiliary Enterprises	118.2	Represents operations of essentially self-supporting activities such as bookstore, intercollegiate athletics, residential halls, and parking.
Sales and Services	45.5	Sales and services of educational departments, including ASU-hosted national and international conferences and programs.
Other Sources	64.9	Includes $28.7 million in net investment income and $18.6 million in gain on sale of land.
Total Sources	**$ 1,357.9**	

Note:

The Combined Sources and Uses statement highlights major financial data. The explanations provided are not intended to be all-inclusive.

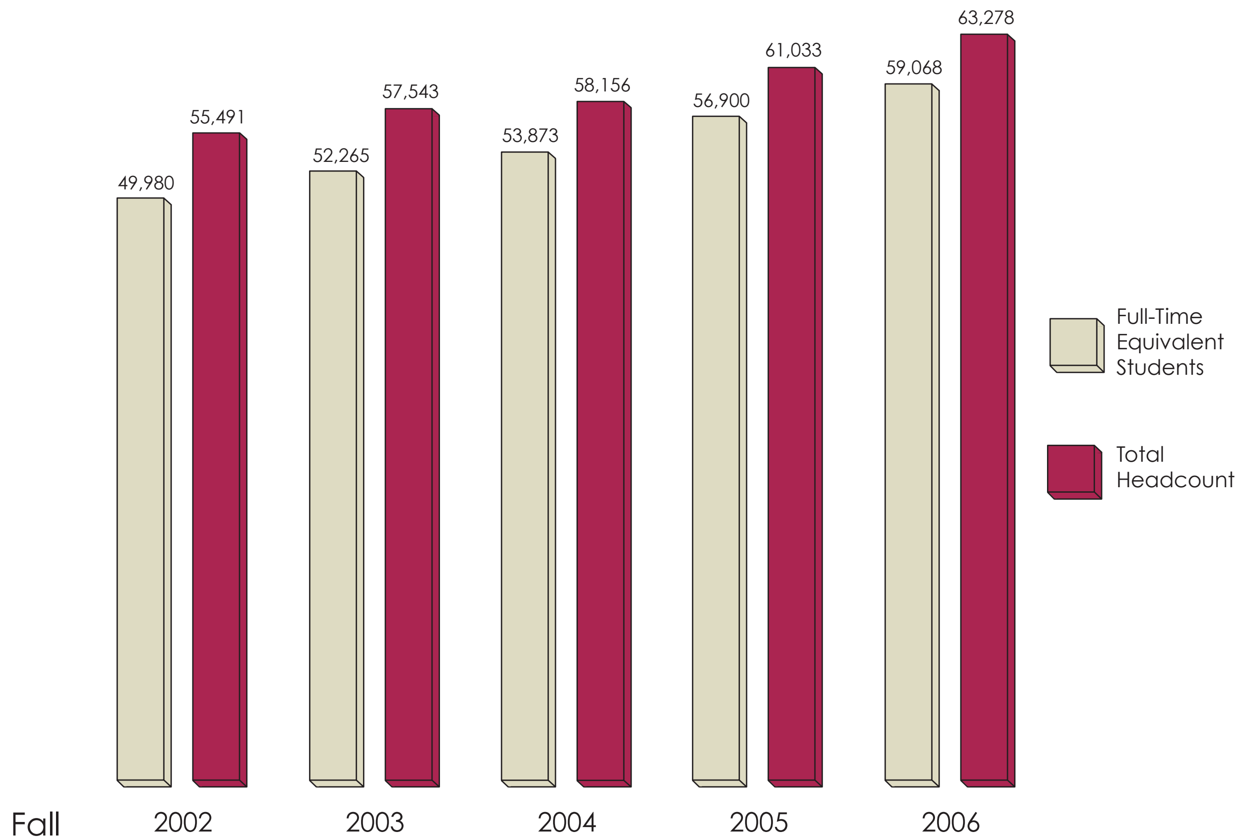
This statement provides an overview of total financial operations of all campuses of Arizona State University. Restricted and unrestricted operating and nonoperating funds are included. Restricted funds have specific purposes stipulated by outside donors and agencies.

Unrestricted funds may be designated by management for specified purposes, including academic and research programs and initiatives, or capital projects. Sources and uses are allocated and controlled by budgets.

Uses

Instruction and Academic Support	44%	**$ 575.0**	Consists of (1) instruction expenses totaling $425.7 million, which include credit and non-credit courses for academic, occupational, and vocational instruction for regular academic year and summer sessions, and continuing education, and (2) academic support expenses totaling $149.3 million, which include libraries, academic information technology support, and academic administration.
Research and Public Service	14%	**187.8**	Represents (1) research expenses of $144.8 million for activities specifically organized to produce research outcomes, and (2) public service expenses of $43.0 million for non-instructional services beneficial to individuals and groups external to the University, such as public broadcasting and community service programs.
Student Services and Scholarships and Fellowships	8%	**113.0**	Consists of (1) student services expenses totaling $49.8 million, which include admissions, registrar, student activities, counseling, career guidance, student financial aid administration, and student health services, and (2) scholarships and fellowships expenses of $63.2 million, which includes restricted grants, including $30.4 million of federally funded Pell grants, and institutionally awarded merit and need-based scholarships beyond tuition and residential life charges.
Institutional Support	9%	**113.1**	Includes development/fundraising, community relations, financial operations, human resources, public safety, and administrative information technology support.
Operation and Maintenance of Plant	6%	**83.3**	Represents expenses for the operation and maintenance of plant, including services related to facilities and grounds, and utility costs. Not included are amounts charged to auxiliary enterprises.
Auxiliary Enterprises	9%	**113.4**	Consists of departments managed as essentially self-supporting activities that furnish services to students and staff for a fee directly related to, but not necessarily equal to, the cost of the service.
Depreciation	6%	**78.1**	Depreciation is computed using the straight-line method over the estimated useful life of each asset. Depreciation for buildings was $44.4 million and was primarily related to academic and research buildings.
Other Uses	4%	**46.8**	Consists primarily of interest payments on debt service and non-capital expenses on plant project accounts.
Total Uses		**$ 1,310.5**	

ARIZONA STATE UNIVERSITY
ENROLLMENT



Degrees Granted in Academic Year 2006-2007

Undergraduate	10,137
Graduate	3,492
	13,629

Fall 2006 Enrollment

Undergraduate	50,755
Graduate	12,523
Resident (Arizona)	46,538
Non-Resident	16,740

ASU Arizona State University

Arizona State University vigorously pursues affirmative action and equal opportunity in its employment, activities, and programs.

Compiled and edited by the ASU Financial Services Office