ASU Arizona State University

2008 Financial Report

In 1958 a statewide ballot initiative was approved by the voters of Arizona which changed the name of Arizona State College to Arizona State University. When the name change took place, the school consisted of one campus and four colleges with approximately 9,700 students. ASU now serves over 67,000 students across four campuses in over 20 colleges and schools. ASU traces its development over the last 50 years into a major academic and research institution, through the efforts and dedication of the citizens of Arizona, and the other constituencies it serves.

ARIZONA STATE UNIVERSITY

2008 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 2008 Financial Report for Arizona State University. As we observe our 50th anniversary as a comprehensive university, progress on all fronts characterizes a decade of unprecedented transformation and decisive maturation. Fifty years ago few would have predicted ASU's emergence as a world-class research institution committed to teaching, discovery, creativity, and innovation. Nor would anyone have imagined ASU pioneering a new model for the American research university that challenges the conventional wisdom on higher education. Newsweek terms it "one of the most radical redesigns in higher learning since the modern research university took shape in nineteenth-century Germany." And according to an April 2007 editorial from the leading international scientific journal Nature, questions about the future of the contemporary research university are being examined "nowhere more searchingly than at Arizona State University."

For the third year ASU has been ranked as one of the top 100 universities globally in the authoritative international assessment of the Institute of Higher Education, Shanghai Jiao Tong University. Placing 93rd in their 2008 "Academic Ranking of World Universities" signals that ASU has attained international recognition. Unlike other rankings, the indicators of the Jiao Tong methodology weight academic quality as a function of the scientific and scholarly contributions of faculty, including research citations and output as measured by publication in leading journals. ASU ranks 52nd among U.S. universities in the assessment. In 2008 U.S. News and World Report ranked ASU in the top tier of national universities for the first time, and three of our colleges made the elite top 25 list of graduate programs.

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 enrollment capacity. Our mission is to serve the citizens of Arizona through an institution that combines the highest levels of academic excellence, inclusiveness to a broad demographic, and maximum societal impact. We reject the notion that excellence and access cannot be achieved in a single institution. With our egalitarian admissions standards, ASU offers access to as many students as are qualified to attend. ASU champions diversity, and while the freshman class has increased in size by 42 percent since 2002, enrollment of students of color has increased by 100 percent. Investment in undergraduates through scholarship and need-based gift support is approaching $100 million annually and for graduate students exceeds $50 million. We have 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. Since 2002 ASU has recruited more members of the National Academies than the sum total of Academy members on the faculty in its nearly fifty 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 other public university in the nation. Although we are first and foremost committed to educating Arizona students, we are equally a cutting-edge discovery enterprise, focused on finding solutions to the most pressing problems that confront global society. Consistent with our objective of creating differentiated learning and research environments, we have conceptualized and launched 16 new transdisciplinary schools, including the School of Human Evolution and Social Change, the School of Materials, and the School of Earth and Space Exploration, and more than 40 cutting-edge institutes and centers. Among these are the Biodesign Institute; the Center for the Study of Religion and Conflict; and the Global Institute of Sustainability (GIOS), incorporating the world's first School of Sustainability.

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 2008 overall research-related spending, including sponsored projects and TRIF, was up 8.9 percent over the prior year, totaling nearly $238 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. According to the National Science Foundation, ASU is now among the top 20 leading research universities without a medical school.

During the past five years we have initiated a dramatic infrastructure expansion to create more than 7 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 LEED designation from the U.S. Green Building Council (USGBC), including a platinum ranking for the second Biodesign building. Expanding 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. The Vista del Sol complex, comprising almost 1,900 apartment-style beds, was completed during FY 2008, along with ground breaking for the Barrett Honors College complex, comprising 1,700 beds and academic space. While both Vista del Sol and Barrett 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. Additionally, the first phase of the Taylor Place student residential complex at the new Downtown Phoenix campus was completed in FY 2008, providing about 700 new beds. The second phase of this complex is scheduled for completion in FY 2009 and will add over 500 additional new beds for this new campus.

In FY 2008 the Board of Regents approved ASU's recommendation for setting tuition for FY 2009 and beyond. The tuition and mandatory fees for incoming resident undergraduate students is now set at the top of the lower one-third of rates in effect at the 50 surveyed states, and the plan is to maintain that position in the future. The base tuition for current resident undergraduate students will increase by 5 percent in subsequent years until five years after admission as a freshman, thus providing tuition predictability. The 5 percent commitment assumes no unusual levels of inflation and no substantial change in the level of state support. The tuition rate for all other students is set annually based on a variety of factors, including ASU's cost and budgetary needs, and the rates charged by other states. The tuition rate increases approved in FY 2008 for the subsequent academic year varied for resident undergraduates, from 5 percent for continuing students to 12 percent for new students. The tuition rate increase for graduate students was in the 8 percent to 9 percent range, and 5 percent for nonresident undergraduates.

The annual state appropriation investment for ASU increased in FY 2008 by $53.4 million—a 12 percent increase. This was after a $13.4 million mid-year budgetary revertment. Included in the FY 2008 state appropriation was $14.5 million for research infrastructure capital financing that statutorily is scheduled to continue until 2031. ASU issued $206 million of debt to finance five new research facilities with the annual debt service being funded from this $14.5 annual capital appropriation.

The Comprehensive Development Plan being implemented is redefining the relationships among 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 our new Downtown Phoenix campus, which opened for classes in August 2006. The City of Phoenix has assumed responsibility for the acquisition and renovation of campus buildings, which will be transferred to the University when all debt related to the bond election has been defeased. During summer 2006, both the College of Public Programs and the College of Nursing and Healthcare Innovation (CNHI) relocated downtown, and during the past year construction was completed on the new Walter Cronkite School of Journalism and Mass Communication building. Ground was broken during the past year on the second building for the CNHI, with scheduled opening in summer 2009. ASU and the University of Arizona continue to transform downtown Phoenix and improve healthcare in Arizona by working together to create a twenty-first century model for biomedical teaching and research. 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.

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, 2008, based on appraisals and other independent third-party valuations, totaled $270 million. As long-term ground leases and sales occur, the investment land holdings will become important future revenues streams for ASU. During the last year, the deed restriction on 385 acres located at the Polytechnic campus was lifted by the federal government, making this land now available for commercial development and providing an important funding source for future capital development at this campus.

During the last three years endowments have provided an average annual return of 11.2 percent, even though the return for FY 2008 was close to zero as a result of the recent challenging market conditions. The value of the endowments as of June 30 was $490 million, up 25 percent from $395 million on June 30, 2006. The value of the endowments has nearly doubled during the past four years—on June 30, 2004, it stood at $248 million. Five years ago, the ASU Foundation retained the services of Cambridge Associates, a leading institutional investment consultancy, to assist the University and related entities in maximizing the investment return of the endowments. The ASU endowment investment program for the last several years has been in the upper quartile among all universities. 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 for these related organizations totaled $593 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 FY 2008 were $1.47 billion, an 8 percent increase over the prior year. Revenues for the component units were $192 million. On a combined basis, ASU and component organization revenues for FY 2008 totaled $1.7 billion.

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 a competitive world-class research university is essential both to the success of the region and the needs of global 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 Arizona State University as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based solely on the reports of the other auditors.

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

As described in Note 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, 2008, and the changes in financial position and, where applicable, cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

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

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

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

January 9, 2009

ARIZONA STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview

The Management's Discussion and Analysis (MD&A) of Arizona State University's (ASU, University) financial statements provides an overview of the financial position and activities of the University for the year ended June 30, 2008. This discussion has been prepared by management and should be read in conjunction with the financial statements and 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.

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. Certain fiscal 2007 amounts have been adjusted in order to provide comparability to fiscal 2008, including the reclassification of certain revenues previously reported as operating to nonoperating.

The financial information of ASU is presented in three financial statements: the statement of net assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows. All three statements are reported on a consolidated basis for the University as a whole.

ASU is a public state supported university with a Fall 2007 enrollment of over 64,300 students. Goals of ASU include increasing access to its educational resources, promoting excellence in its research, and among its students and faculty, and working with the community (both locally and globally) to positively impact social and economic development. Available resources are primarily used by the University to achieve these goals, rather than to generate a financial profit in its financial statements.

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 four separate categories.

Assets are what the University owns and are generally measured in current value, except for capital assets (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. A summarized comparison of the University's assets, liabilities and net assets (dollars in millions) at June 30, 2008 and June 30, 2007 follows.

Summarized Schedule of Assets, Liabilities, and Net Assets *(Dollars in millions)*

	2008	2007 (as restated)
ASSETS		
Current assets	$ 175.6	$ 197.6
Noncurrent assets (excluding capital assets)	211.3	281.0
Noncurrent capital assets, net	1,529.9	1,409.5
Total Assets	**$1,916.8**	**$1,888.1**
LIABILITIES		
Other liabilities	$ 182.2	$ 125.3
Long term debt liabilities	840.2	872.3
Total Liabilities	**$1,022.4**	**$ 997.6**
NET ASSETS		
Invested in capital assets, net	$ 725.5	$ 595.8
Restricted:		
Nonexpendable	42.3	38.7
Expendable	99.2	100.3
Unrestricted	27.4	155.7
Total Net Assets	**$ 894.4**	**$ 890.5**

Overall for fiscal 2008, the University's financial position showed a $3.9 million increase in net assets. Current assets decreased by $22.0 million between years, and noncurrent assets, excluding capital assets, decreased by $69.7 million. At June 30, 2008 current assets primarily consisted of cash and cash equivalent investments and net accounts receivable. Noncurrent assets, excluding capital assets, consisted of restricted cash and cash equivalent investments, endowment investments, other investments, and net student loans receivable. The most significant change in noncapital assets occurred in the University's cash and investments categories (excluding endowment investments) which reflected a $100.9

million decrease between years. The decrease was primarily the result of the University's decision to construct the Polytechnic Academic Complex in advance of obtaining financing, as well as the restoration and renovation of the Memorial Union in advance of the receipt of insurance proceeds. The Polytechnic Academic Complex financing was completed in November 2008, which helped to replenish the University's cash and investments portfolios. This decrease in cash and investments was slightly offset by a $13.5 million increase in accounts receivable. The increased accounts receivable is due to the recording of outstanding insurance proceeds of $10.7 million at June 30, 2008, related to a November 2007 fire at the Tempe campus Memorial Union. The outstanding insurance receivable is the current amount agreed upon as due to the University by the insurance carriers as of June 30, 2008. Additional insurance proceeds are expected, but the additional amount has not yet been agreed upon by the University and insurance carriers, and is not reflected in the accounts receivable balance at June 30, 2008.

Capital assets, net of accumulated depreciation increased by $120.4 million. The increases primarily occurred in the buildings and equipment categories, with decreases occurring in the construction in progress and works of art and historical treasures categories. Construction in progress outstanding at June 30 is net of any capital assets placed into service during the year. For fiscal 2008 the primary construction or renovation projects completed or near completion were the Polytechnic Academic Complex, Memorial Union fire restoration and renovation, the University Police Department facility, and the Global Institute of Sustainability (GIOS) building.

The decrease in works of art and historical treasures is the result of a change in the strategic direction of the University regarding seven historical printing presses which were donated to the ASU Herberger College of the Arts (College) in fiscal 2002. At the time of donation, the presses had an appraised value of $20.3 million, and the University's plan was to display the presses for their historical relevance to print research. The College has since had a change in its strategic direction regarding the future of the printing presses at ASU, and in fiscal 2008 began the process of determining the sales value of the presses to either printing press brokers or other institutions interested in displaying the presses. Information to date indicates the sales value of the printing presses is very limited, resulting in the University's decision to reduce the asset value of the printing presses on its June 30, 2008 financial statements by $20.1 million. This decrease is reflected in a separate line on the Statement of Revenues, Expenses, and Changes in Net Assets as a special item.

Other liabilities, exclusion of capital debt liabilities, increased $56.9 million between years primarily due to increased accounts payable and accrued liabilities. On July 1, 2007 the University implemented a new human resources system and correspondingly changed the pay frequency for most University faculty and staff members from twice a month (the 15th and end of the month) to every two weeks (alternate Fridays). The increased accounts payable and accrued liabilities is largely the result of outstanding payroll and related employee benefits which were earned through June 30, 2008 but paid to employees in July 2008. Prior to fiscal 2008 the University paid all employees on June 30th of the fiscal year, therefore having no outstanding payroll liability at the end of the fiscal year. With the change in payroll cycles, at June 30, 2008 eleven days of pay had been earned by employees but had not been paid. The resulting liability was approximately $36 million.

There was a net $32.1 million decrease in long term debt liabilities for fiscal 2008 primarily due to retirement of debt. This category includes the University's bonds payable, certificates of participation, lease purchase obligations, and capital leases. The University did not issue any new project debt in fiscal 2008.

Net assets increased in fiscal 2008 by $3.9 million, primarily caused by a slight increase in restricted net assets of the University. The increase in restricted net assets occurred primarily in endowment funds whose earnings are used to provide scholarships and fellowships to ASU students. Also in fiscal 2008 there was a $129.7 million increase in invested in capital assets, net of related debt and a corresponding $128.3 million decrease in unrestricted net assets. At the end of fiscal 2008 the University had incurred expenses for several major construction projects in advance of obtaining project financing, or in the case of the Memorial Union in advance of receiving insurance proceeds. Total costs incurred for the Polytechnic Academic Complex through June 30, 2008 were $88.8 million, and the expenses associated with the Memorial Union project at June 30, 2008 were approximately $41.5 million. Overall during fiscal 2008 approximately $110 million in unrestricted net assets was temporarily used for unfunded construction projects. Funding for the largest project, the Polytechnic Academic Complex will be through revenue bonds which were issued in November 2008. The University is in the process of receiving insurance proceeds related to the Memorial Union fire. The total amount to be received has not yet been determined.

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 continues to expand its campuses and to renovate existing facilities. The University did not issue any new project debt in fiscal 2008, but did issue $103.7 million in variable rate system revenue refunding bonds backed by a letter of credit from Lloyd's of London, and subsequently retired $103.0 million in variable rate system revenue bonds which were backed by bond insurance.

The Polytechnic Academic Complex opened Fall 2008 and is primarily comprised of three new academic buildings.

Wind turbines on the building that houses the Global Institute of Sustainability are just one of many ways ASU is making a commitment to becoming a green campus.

At the end of fiscal 2008 the Polytechnic Academic Complex was close to completion. This complex is primarily comprised of three new academic buildings which add general university classrooms, classroom laboratories, and other specialized instruction spaces to the campus, as well as faculty and departmental offices. The facilities also contain space for enrollment growth and program expansion to serve a planned campus enrollment of 10,000 students. The complex was open in time for Fall 2008 classes.

Other major construction or renovation projects during the year included the Memorial Union (MU) renovation, the Global Institute of Sustainability building, and the University Police Department facility, as well as furniture and equipment for the new Walter Cronkite School of Journalism and Mass Communication building.

The Global Institute of Sustainability (GIOS) was established in 2004 and now occupies a recently renovated building on the Tempe campus that previously housed the College of Nursing and Health Innovation, which is now located at the Downtown Phoenix campus. GIOS advances sustainability research, education, business practices, and the University's operations, with an emphasis on solutions that are relevant to an urbanizing world. Its first-in-the-nation School of Sustainability was established in 2007 and offers integrated degree programs that explore and advance practical solutions to environmental, economic, and social challenges. Key features of the GIOS building include energy producing wind turbines and solar panels, extra insulation, natural lighting, recycled carpet tiles and drought tolerant plants.

The Walter Cronkite School of Journalism and Mass Communication building opened Fall 2008 at ASU's Downtown Phoenix campus. Eight/KAET is the University-operated PBS television station that will also be operated from this building. The building was built by the City of Phoenix as part of its commitment to support development of the Downtown Phoenix campus.

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 or significant value directly to the resource provider in exchange for the resources received. A summarized comparison of the University's revenues, expenses, and changes in net assets (dollars in millions) for fiscal 2008 and 2007 follows.

Summarized Schedule of Revenues, Expenses, and Changes in Net Assets *(Dollars in millions)*

	2008	2007 (as restated)
Operating revenues		
Tuition and fees, net	$ 436.7	$ 399.9
Research grants and contracts	162.2	145.9
Auxiliary enterprises, net	135.6	118.2
Other operating revenues	59.6	52.7
Total operating revenues	$ 794.1	$ 716.7
Operating expenses	1,393.5	1,263.7
Operating loss	**$ (599.4)**	**$ (547.0)**
Net nonoperating revenues (expenses)		
State operating appropriations	$ 468.4	$ 423.1
Grants and contracts	77.1	70.9
Other revenues	90.8	106.1
Other expenses	(53.4)	(46.8)
Income/(Loss) before other revenues, expenses, gains, or losses	$ (16.5)	$ 6.3
Capital appropriations and other revenues	25.0	22.5
Gain on sale of land		18.6
Asset impairment of previously donated historical treasures	(20.1)	
Insurance recovery, net of impairment loss	15.5	
Increase in net assets	**$ 3.9**	**$ 47.4**
Net assets at beginning of year	890.5	843.1
Net assets at end of year	**$ 894.4**	**$ 890.5**

Revenues to support ASU's basic activities, including both operating and nonoperating revenues and capital related activities, increased by $113.0 million in fiscal 2008, an 8% increase from fiscal 2007. 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 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 in University owned facilities, and bookstore operations.

Overall, operating revenues increased by $77.4 million between years with increases occurring in, net tuition and fees, research grants and contracts, and auxiliary revenues, with increases of $36.8 million, $16.3 million, and $17.4 million respectively. Net tuition and fees increased due to both an increase in tuition rates and an increase in student enrollment. The Fall 2007 University headcount enrollment was 64,394 students, an approximately 2% increase from Fall 2006. The growth in the research grants and contracts revenue primarily occurred in nongovernmental grants and contracts which increased by over 95% between fiscal 2008 and fiscal 2007, largely the result of previous investments by the University related to initiatives at ASU's Biodesign Institute and Global Institute of Sustainability. The chart below shows unspent awards at June 30th for the last three years.

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

(Dollars in millions)	**2008**	**2007**	**2006**
	$186.2	$163.6	$153.8

Operating expenses increased by 10%, or $129.8 million between years with increases occurring across all categories of operating expenses. Salaries, wages, and benefits paid to ASU employees increased by 9%, or $69.0 million, between years. The increase was due to both a 4% increase in faculty positions between years, and a state employee pay increase program. Effective for July 1, 2007, all eligible employees received cost of living and/or performance based increases as part of a state wide program for employees of the State of Arizona. The focus of the program as implemented at ASU was to recognize those employees with the strongest contribution and performance through merit based adjustments. ASU continues to evolve into an educational institution widely recognized for its academic excellence. Instruction expenses are the direct costs of providing instruction to students, and increased across all colleges and schools during fiscal 2008 with the most substantial increase occurring in salaries, wages, and benefits. In Fall 2007 the University had added over 100 additional faculty positions when compared to Fall 2006. Graduate assistants and associates, who conduct many of the lab classes and provide other classroom support to the faculty increased by approximately 50 positions. In addition to the $35.4 million increase in instruction expenses, academic support expenses increased by $17.5 million between years. Academic support includes the cost of administering the instructional programs of the University, as well as the University's libraries and academic information technology expenses which support these programs. Increases in institutional support were largely related to the new human resources and student systems, and the associated direct and indirect costs of these systems. Net scholarship and fellowship expenses increased by approximately 8% between years, approximately the same increase that occurred in net tuition and fees revenues; indicating that in general, financial aid awards, including academic and need based, kept pace with increased tuition and fees rates. Programs such as the Gates Millennium Scholars, which promotes academic excellence and gives students from diverse backgrounds the opportunity to pursue their academic and career goals without financial barriers that make it difficult for them to attend and succeed in college, are critical partners in the University's quest to increase access to its educational resources.

The 15% increase in research expenses was largely funded by increased nongovernmental grants and contracts at the Biodesign Institute and the Global Institute of Sustainability (GIOS). These increases are seen as returns on strategic investments the University has made in these programs, including newly constructed or renovated facilities and strategic hirings to fill leadership or key research positions.

The Biodesign Institute at ASU strives to prevent and cure disease; overcome the pain and limitations of injury; renew and sustain our environment; and secure a safer world. Key research includes developing a new form of biofuel using microorganisms that can be converted directly to high-energy fuels used in internal combustion engines or directly by power generating stations. The Biodesign Institute also has a number of projects underway exploring various aspects of solar energy, including one project aimed at making solar panels more efficient and less costly to produce - therefore allowing Sunbelt states like Arizona to more fully utilize their most abundant renewable energy source. A personalized medicine initiative led by scientists from the Biodesign Institute and other highly regarded research centers is also underway. The goal of the project is to advance research in personalized medicine by pursuing research projects to develop molecular diagnostics for specific diseases which will more effectively diagnose and manage disease from early detection through therapeutic follow-up. The project will focus on lung cancer which is extremely difficult to treat, does not have reliable tools for early detection, and has no known cure when in advanced stages. Another goal of the project is to demonstrate that earlier detection and intervention can reduce health care costs. This project highlights ASU's participation in collaborative research. This public-private initiative is expected to serve as a model for other internal collaborations among partners looking to share research and development costs and to gain access to each other's information, networks and markets.

The ASU Global Institute of Sustainability (GIOS) brings sustainability education into local K-12 classrooms and provides training and research opportunities. The recently developed School of Sustainability was the first school in the nation to offer undergraduate and graduate degrees in sustainability. GIOS assembles teams of scientists and engineers across disciplines to tackle the most pressing problems for urban populations in the 21st century. These include:

- meeting energy needs
- managing limited water supplies
- planning for sustainable development and land use, and
- developing materials and technologies to improve undesirable conditions such as the urban heat-island effect, polluted air, and depletion of nonrenewable resources.

Recent achievements related to GIOS initiatives include the ASU Sustainability Solutions Summit in Washington DC which brought together a panel of business, government, advocacy and academia to address sustainability problems. Included on the panel were the presidents of ASU, Ford Motor Company, the Dial Corporation, and the chairman of the board of Wal-Mart. ASU also was named by Princeton Review as one the nation's greenest universities; by Kaplan College as one of the nation's top 25 environmentally responsible universities; and by *Sierra* magazine, a publication of the Sierra Club, as one of the nation's top 10 'coolest' schools for its efforts to stop global warming.

Nonoperating revenues increased by $36.2 million in fiscal 2008 with the increase largely due to increased state operating appropriations ($45.3 million), offset by a decrease in net investment income ($17.3 million). The increased fiscal 2008 state appropriations were partially used to fund student enrollment growth, as well as student success programs, such as faculty and advisor support. The decrease in investment income was the result of the overall declining investment markets, as well as less university cash being available for investing. Nonoperating expenses increased by $6.6 million between years due largely to increased interest on indebtedness.

In fiscal 2008 ASU received its initial state capital appropriations of $14.5 million for research infrastructure capital financing payments. This ongoing funding is to be used to make the 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 University's portion of the Arizona Biomedical Collaborative Building 1. Also, included in Other Revenues and Expenses (capital activity and additions to endowments) was $15.5 million in insurance proceeds, net of impairment loss related to the Memorial Union fire, and a $20.1 million decrease to the book value of previously donated printing presses.

Net Assets. ASU had an overall increase in net assets of $3.9 million at the end of the fiscal year. As noted earlier, net investment in capital assets increased by $129.7 million between years, while restricted net assets (nonexpendable and expendable) increased by $2.5 million. Unrestricted net assets had a $128.3 million decrease between years, primarily due to several major construction projects being completed, in advance of permanent financing, or in the case of the Memorial Union in advance of insurance proceeds being received, and resulting in a temporary use of unrestricted net assets. In November 2008 the University issued $103.7 million in revenue bonds financing related to the Polytechnic Academic Complex.

Combined Sources and Uses *(Dollars in millions)*

	2008		2007		Percentage Change
SOURCES					
State appropriations (includes capital appropriations)	$ 482.9	33%	$ 429.6	32%	12%
Tuition and fees, net	436.7	30%	399.9	29%	9%
Grants and contracts	241.6	16%	219.0	16%	10%
Private and capital gifts	50.9	4%	49.2	4%	3%
Share of state sales tax (TRIF)	28.1	2%	31.6	2%	(11%)
Auxiliary enterprises	135.6	9%	118.2	9%	15%
Other sources	95.1	6%	110.4	8%	(14%)
Total sources	**$1,470.9**	**100%**	**$1,357.9**	**100%**	**8%**
USES					
Instruction and academic support	$ 627.9	43%	$ 575.0	44%	9%
Research and public service	209.4	14%	187.8	14%	12%
Student services and scholarships and fellowships	122.0	8%	113.0	8%	8%
Institutional support	129.1	9%	113.1	9%	14%
Operation and maintenance of plant	94.5	6%	83.3	6%	13%
Auxiliary enterprises	127.2	9%	113.4	9%	12%
Depreciation	83.4	6%	78.1	6%	7%
Other uses	73.5	5%	46.8	4%	57%
Total uses	**$1,467.0**	**100%**	**$1,310.5**	**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 and investing activities.

Cash flows from operating activities will typically be negative for state universities since GASB requires state appropriations, as well as private gifts and nonexchange grants, 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 2008 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. ASU's component units included in these statements are the ASU Foundation, Arizona Capital Facilities Finance Corporation (ACFFC), ASU Alumni Association, ASU Research Park, Inc., Collegiate Golf Foundation, Downtown Phoenix Student Housing, LLC, Mesa Student Housing, LLC, Sun Angel Endowment, and Sun Angel Foundation. These component units are non-profit corporations controlled by separate Boards of Directors whose goals are to support Arizona State University. 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. A tenth component unit, University Public School Initiative (UPSI), became operational in fiscal 2009 and will be included in subsequent financial reports. UPSI, in partnership with ASU, local schools, and the community will work to improve the quality of education available to Arizona students as well as to improve the success rates of Arizona students in entering and graduating from college. 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	
	2008	**2007 (as restated)**
Assets		
Cash and investments	$ 689.2	$ 633.6
Capital assets, net	350.2	253.6
Receivables, net	163.3	129.2
Other assets	109.5	107.9
Total assets	**$ 1,312.2**	**$ 1,124.3**
Liabilities		
Bonds payable	$ 540.1	$ 416.7
Other liabilities	179.5	148.4
Total liabilities	**$ 719.6**	**$ 565.1**
Net assets		
Unrestricted	$ 6.5	$ 32.2
Temporarily restricted	233.7	219.6
Permanently restricted	352.4	307.4
Total net assets	**$ 592.6**	**$ 559.2**

Included in fiscal 2008 investments on the component units' statement of financial position is $68.1 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 $68.1 million recorded in liabilities under the caption "liability under ASU endowment trust agreement." The $68.1 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 60% 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 2008 payments to ASU of $51.0 million is $30.8 from ASU Foundation, which includes $26.1 in cash donation transfers, and $10.1 million from Sun Angel Foundation, which are entirely cash donation transfers. These are recorded as private nonoperating 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	
	2008	**2007 (as restated)**
Revenues		
Contributions	$ 118.0	$ 121.8
Other revenues	73.8	122.3
Total revenues	**$ 191.8**	**$ 244.1**
Expenses		
Payments to ASU	$ 51.0	$ 54.0
Other expenses	107.4	84.5
Total expenses	**$ 158.4**	**$ 138.5**
Increase in net assets	$ 33.4	$ 105.6
Net assets at beginning of the year	559.2	453.6
Net assets at end of the year	**$ 592.6**	**$ 559.2**

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.

The University had an increase of $3.9 million in net assets for fiscal 2008. The ASU component units (principally the ASU Foundation) had a $33.4 million increase in net assets. On a combined basis for ASU and its component units, there was a $37.3 million increase in net assets, a $115.7 million decrease from the combined restated fiscal 2007 increase in net assets of $153.0 million. The largest single factor leading to the decrease between years was the decrease in net investment income for ASU and its component units from $89.7 million in fiscal 2007, to $11.2 million in fiscal 2008, due to lower investment returns caused by the ongoing investment market conditions. Fiscal 2007 component units' net assets have been reduced (restated) by $0.5 million as the result of prior period adjustments.

End of the Year Net Assets of ASU and its Component Units on a Combined Basis *(Dollars in millions)*

	2008			2007		
	ASU	ASU Component Units'	Combined	ASU (as restated)	ASU Component Units' (as restated)	Combined (as restated)
Invested in capital assets	$ 725.5		$ 725.5	$ 595.8		$ 595.8
Unrestricted net assets	27.4	$ 6.5	33.9	155.7	$ 32.2	187.9
Restricted net assets:						
Nonexpendable/Permanently	42.3	352.4	394.7	38.7	307.4	346.1
Expendable/Temporarily	99.2	233.7	332.9	100.3	219.6	319.9
Net assets at end of year	**$ 894.4**	**$ 592.6**	**$ 1,487.0**	**$ 890.5**	**$ 559.2**	**$ 1,449.7**

Economic Outlook

The economic outlook for ASU and its component units continues to be positive. The University continues to receive increased financial support from the Arizona Legislature and research sponsors as well as increased student enrollment. A new funding source in fiscal 2008 was a $14.5 million state appropriation to be used for the debt service payments of research infrastructure facilities of the University. This appropriation continues through fiscal 2031. Near the end of fiscal 2008 the University had its state operating appropriations reduced by $13.4 million in response to the overall budget picture of the State of Arizona. At the beginning of fiscal 2009 the University's initial state appropriations budget was reduced by $24.2 million, again due to stresses on the State's budget. The net decrease in state appropriations between fiscal 2009 and fiscal 2008 to date is $2.7 million, due to increased student enrollment growth funding received in fiscal 2009, which largely offset the initial fiscal 2009 budget reduction. The amount of the fiscal 2009 budget shortfall for the State of Arizona is not known. The University can not predict the amount of any potential additional reduction in its state appropriations in fiscal 2009. But overall, the Arizona Legislature has shown a willingness to continue to work with the University in its mission to provide a high level educational experience to the students of Arizona.

In June 2008, the Arizona Legislature established the Stimulus Plan for Economic and Educational Development (SPEED). This legislation authorizes $1.0 billion in financing for university capital projects by the three state universities, with revenues from the Arizona State Lottery Commission being identified as the funding source for up to 80% of the debt financing payments related to these capital projects, with the universities responsible for at least 20% of the debt financing expense. The intent of this legislation is to help the Arizona economy recover through additional new jobs in construction and related industries, while at the same time addressing deferred maintenance and other critical building needs at the universities. Exclusive of the Phoenix Biomedical Campus (PBC), which is a joint project among ASU, University of Arizona, and Northern Arizona University, ASU's planned share of this capital projects pool is approximately $190 million. ASU's total planned share of this financing, including PBC, is $307.5 million. The PBC received a separate allocation of $470.0 million inclusive of ASU's PBC allocation of $117.5 million. The majority of ASU's $190 million allocation is currently planned to be used for deferred maintenance and building renewal and renovations at the Tempe, West, and Polytechnic campuses.

ASU continues to see healthy increases in tuition and fees revenues with the Fall 2008 enrollment exceeding 67,000 students. This continues the annual trend of increasing enrollment at ASU. In 15 years ASU is projecting a student enrollment of between 90,000 to 100,000 students in total for all four campuses. Even though the University has seen a continued increase in the number of students enrolled, at the same time there has been a steady increase in the academic credentials of the University's student body. Fall 2008 saw the largest freshman class in school history. It also includes more than 5,400 transfer students from other colleges and 4,500 new graduate students. With a new ranking of fourth best in "Up and Coming Schools" in the 2009 edition of "America's Best Colleges" by *U.S. News & World Report*, ASU anticipates an even greater surge in applications in the future.

The academic quality of the incoming freshman class also continues to rise. For Fall 2008, ASU has more freshmen from the top 10% of their high school classes than Harvard, Yale, Princeton or Stanford. With 168 National Merit Scholars entering ASU in Fall 2008, ASU is again one of the top schools in the country for this elite group of students. The number of National Hispanic Scholars attending ASU has increased by 165% over the past five years. The average high school grade point average of incoming freshmen is at an all time high. Both SAT and ACT scores for the freshman class also showed a substantial increase. In fact, the growth ASU has recently seen in attracting students with the highest academic standing has outpaced the University's overall enrollment growth. The increase in both the quantity and quality of ASU's student body is fully expected to continue.

Enrollment	Fall		
	2008	2007	% increase
Total headcount (non-duplicated)	67,082	64,394	4%
Total full time equivalents	64,011	60,543	6%
By campus (headcount)			
Tempe	52,734	51,481	2%
West	9,572	8,664	10%
Polytechnic	9,614	8,752	10%
Downtown Phoenix	8,431	6,595	28%

Providing housing for its students continues to be a priority for ASU. The Vista del Sol residential complex opened in August 2008 and shows how the University has been able to provide this housing, without utilizing its own resources. Vista del Sol was built and is managed by a third party on land leased to them by the University. This is a 65 year lease with two ten year options to renew. ASU also receives a percentage of gross revenues. Vista del Sol is on the southern boundary of the Tempe campus and is intended for the University's upperclassmen and graduate students. The $130 million, 1,840 bed complex opened at capacity with a waitlist in place. The decision to use a third party to develop and manage the property was based on the University's higher priority related to academic and research facilities, and the existence of a private market industry for student housing. The selection of the third party was through a rigorous request for proposal process aimed to select a private developer possessing a demonstrated track record of successful student housing projects and financial strength. At the end of the lease term, ASU may either take possession of the improvements at no cost, or may direct the developer to clear the leased land of all improvements at their sole cost. Also open in Fall 2008 was Taylor Place a residential complex in downtown Phoenix which provides housing to students enrolled in courses at the Downtown Phoenix campus. Taylor Place was built and is managed by a component unit of the University. For more information about Taylor Place see Note K to the financial statements.

ASU at the Downtown Phoenix campus continues its evolution as the Walter Cronkite School of Journalism and Mass Communication moved into its new building at the Downtown Phoenix campus in time for the Fall 2008 semester. The Cronkite building is the culmination of a unique partnership between a major university and a major metropolitan city. In 2006, a $223 million bond issue was strongly supported by the citizens of Phoenix in a 2 to 1 voting margin. The Cronkite building represents the largest single portion of that investment and is a state-of-the-art building that offers students the opportunity to learn their chosen trades in a facility that is equipped with the latest technology in close proximity to the major media outlets in Phoenix. The journalism students join those of the College of Public Programs and the College of Nursing and Healthcare Innovation on the ASU at the Downtown Phoenix campus.

Construction of an additional College of Nursing and Healthcare Innovation (CNHI) building in downtown Phoenix began in spring 2008. This building is also being built out of proceeds from the 2006 City of Phoenix bond issue. Scheduled for completion in summer 2009, the building will house the CNHI offices, as well as other non-nursing ASU units and some City of Phoenix offices. All buildings on the Downtown Phoenix campus are the property of the City of Phoenix, but are leased by the University at a nominal amount. Upon satisfaction of the permanent financing indebtedness undertaken by the City of Phoenix, all property will be transferred to the University, according to the terms of an intergovernmental agreement between the City of Phoenix and ASU.

ASU is in a period of advancement. ASU is elevating the quality of its academic programs in order to reach its goal of attaining national standing in the academic quality for each of its schools or colleges. ASU's student body continues to grow both in numbers and in its academic achievements bringing students of the highest academic caliber to its campuses. ASU's research and discovery programs continue to gain national and international accolades and to enhance the regional competitiveness of the Phoenix area. ASU is continuing its emergence as one of the nation's best research institutions – addressing some of society's biggest challenges ranging from improving our environment for future generations to discovering new ways of conquering diseases. This comes at a time when support from all revenue streams has been increasing, including overall support from the State of Arizona. However, due to the financial uncertainty related to the current national and state economic condition, the University is aware that governmental funding sources, either state or federal, may be more limited in the near future. The University's administration has, and will continue, to take necessary steps to reorganize and combine programs and administrative areas, while still maintaining the academic integrity of the University's schools and colleges in order to continue to support high-priority initiatives during a period of potentially limited increases in governmental funding sources.

Vista del Sol residential complex opened in Fall 2008. The complex was built and is managed by a third party on land leased to them by the University.

ARIZONA STATE UNIVERSITY
STATEMENT OF NET ASSETS

June 30, 2008
(Dollars in thousands)

ASSETS	
Current Assets:	
Cash and cash equivalent investments	$ 76,730
Short-term investments	13,274
Accounts receivable, net of allowance of $20,774	70,722
Student loans receivable	1,665
Inventories	10,406
Deferred expenses	2,827
Total Current Assets	$ 175,624
Noncurrent Assets:	
Restricted cash and cash equivalent investments	$ 58,684
Endowment investments	95,447
Other investments	46,559
Student loans receivable, net of allowance of $1,426	10,568
Capital assets (Total of $ 1,529,897)	
Nondepreciable Assets -	
Land, Designated for -	
University operations	58,796
Investment property	24,527
Construction in progress and other	23,543
Depreciable assets, net of accumulated depreciation -	
Buildings	1,140,362
Equipment and other	282,669
Total Noncurrent Assets	$ 1,741,155
Total Assets	$ 1,916,779
LIABILITIES	
Current Liabilities:	
Accounts payable and accrued liabilities	$ 90,767
Compensated absences	2,221
Employee retirement and benefits deposits	3,340
Deferred revenues	32,007
Funds held for others	20,150
Current portion of bonds payable/certificates of participation/lease purchases -	
Funded by: University operating revenues	24,578
State of Arizona appropriations/share of state sales tax	12,915
Current portion of capital leases with component units	1,470
Total Current Liabilities	$ 187,448
Noncurrent Liabilities:	
Compensated absences	$ 21,905
Employee retirement and benefits deposits	11,230
Other liabilities	543
Bonds payable/certificates of participation/lease purchases - Funded by:	
University operating revenues	472,469
State of Arizona appropriations/share of state sales tax	255,310
Capital leases with component units	73,486
Total Noncurrent Liabilities	$ 834,943
Total Liabilities	$ 1,022,391
NET ASSETS	
Invested in capital assets, net of related debt	$ 725,527
Restricted (Total of $141,493):	
Nonexpendable:	
Scholarships and fellowships	27,727
Academic department uses	3,777
Student loans	10,775
Expendable:	
Scholarships and fellowships	42,727
Academic department uses	50,718
Student loans	2,401
Capital projects	2,798
Debt service	570
Unrestricted (Note G)	27,368
Total Net Assets	**$ 894,388**

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

ARIZONA STATE UNIVERSITY COMPONENT UNITS' STATEMENT OF FINANCIAL POSITION

June 30, 2008
(Dollars in thousands)

ASSETS	
Cash and cash equivalent investments	$ 15,335
Receivables-	
Pledges receivables	147,671
Other receivables	15,663
Total Receivables	$ 163,334
Investments-	
Investments in securities	551,082
Investments held in trust for ASU	68,180
Other investments	54,609
Total Investments	$ 673,871
Net direct financing leases	74,956
Property and equipment, net of accumulated depreciation	350,210
Other assets	34,490
Total Assets	$ 1,312,196
LIABILITIES	
Liability under ASU endowment trust agreement	$ 68,086
Bonds and obligations under capital lease	540,121
Unearned revenue	25,365
Other liabilities	86,027
Total Liabilities	$ 719,599
NET ASSETS	
Unrestricted	$ 6,512
Temporarily restricted	233,668
Permanently restricted	352,417
Total Net Assets	$ 592,597

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, 2008
(Dollars in thousands)

OPERATING REVENUES	
Student tuition and fees, net of $89,648 in scholarship allowances	$ 436,657
Research grants and contracts, including $125,082 in federal grants	162,178
Sales and services -	
Auxiliary enterprises, net of $5,667 in scholarship allowances	135,590
Educational departments	49,007
Other revenues	10,645
Total Operating Revenues	$ 794,077
OPERATING EXPENSES (Note I)	
Educational and general -	
Instruction	$ 461,082
Research	166,271
Public service	43,071
Academic support	166,778
Student services	53,959
Institutional support	129,104
Operation and maintenance of plant	94,582
Scholarships and fellowships	68,006
Auxiliary enterprises	127,229
Depreciation -	
Buildings	45,695
Equipment and other	37,753
Total Operating Expenses	$ 1,393,530
Operating Loss	$ (599,453)
NONOPERATING REVENUES (EXPENSES)	
State operating appropriations	$ 468,406
Share of state sales tax - technology and research initiative fund	28,161
Financial aid grants, including $40,397 in federal grants	42,198
Grants and contracts, including $21,676 in federal grants	34,905
Private gifts	42,620
Financial aid trust funds, including $5,322 in state trust fund appropriations	8,680
Net investment income	11,387
Interest on indebtedness	(36,929)
Other expenses	(16,492)
Net Nonoperating Revenues	$ 582,936
Loss Before Other Revenues, Expenses, Gains, or Losses	$ (16,517)
State appropriations - research infrastructure debt service financing (through fiscal 2031)	14,472
Capital grants, including $1,826 in federal grants	2,283
Capital private gifts	7,576
Additions to permanent endowments	735
Special Item - Asset impairment of previously donated historical treasures	(20,100)
Extraordinary Item - Insurance recovery, net of impairment loss	15,475
Increase in Net Assets	3,924
Net Assets at Beginning of Year	890,464
Net Assets at End of Year	**$ 894,388**

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

ARIZONA STATE UNIVERSITY
COMPONENT UNITS'
STATEMENT OF ACTIVITIES

Year ended June 30, 2008
(Dollars in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
REVENUES				
Contributions	$ 11,047	$ 60,668	$ 46,239	$ 117,954
Rental revenue	29,184			29,184
Sales and services	25,642	114		25,756
Net investment income	465	(627)		(162)
Net assets released from restrictions	47,333	(46,152)	(1,181)	
Other revenues	19,012	51		19,063
Total Revenues	$ 132,683	$ 14,054	$ 45,058	$ 191,795
EXPENSES				
Payments to ASU-				
Cash donation transfers	$ 36,124			$ 36,124
Cost reimbursements	421			421
Property donation transfers	251			251
Scholarship funds	4,079			4,079
Rent	10,142			10,142
Program services	17,929			17,929
Personal services, operations, and administrative expenses	47,538			47,538
Fundraising expenses	963			963
Interest	17,524			17,524
Depreciation/amortization	12,056			12,056
Other expenses	11,406			11,406
Total Expenses	$ 158,433			$ 158,433
Increase/(Decrease) in Net Assets	(25,750)	14,054	45,058	33,362
Net Assets at Beginning of Year, as restated (Note N)	32,262	219,614	307,359	559,235
Net Assets at End of Year	$ 6,512	$ 233,668	$ 352,417	$ 592,597

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

ARIZONA STATE UNIVERSITY
STATEMENT OF CASH FLOWS

Year ended June 30, 2008
(Dollars in thousands)

CASH FLOWS FROM OPERATING ACTIVITIES	
Student tuition and fees	$ 432,864
Grants and contracts (federal, state, local, and nongovernmental)	161,257
Sales and services of auxiliary enterprises	124,355
Sales and services of educational activities	47,951
Payments to employees for salaries and benefits	(841,528)
Payments to suppliers for goods and services	(344,367)
Payments for scholarships and fellowships	(75,537)
Student loans issued	(1,666)
Student loans collected	1,986
Other receipts	11,965
Net cash used for operating activities	$ (482,720)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State operating appropriations	$ 468,406
Share of state sales tax - technology and research initiative fund	27,981
Grants and contracts (primarily financial aid)	75,720
Private gifts for other than capital purposes	40,631
Financial aid trust funds	8,487
Direct lending program receipts	177,678
Direct lending program disbursements	(175,738)
Funds held for others received	251,391
Funds held for others disbursed	(250,837)
Other disbursements	(1,533)
Net cash provided by noncapital financing activities	$ 622,186
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State appropriations - research infrastructure debt service financing (through fiscal 2031)	$ 14,472
Capital gifts and grants	7,295
Proceeds from issuance of capital debt	4,016
Proceeds from insurance recovery for Memorial Union fire	10,000
Purchases of capital assets	(218,418)
Principal paid on capital debt and leases	(36,600)
Interest paid on capital debt and leases	(39,422)
Net cash used for capital and related financing activities	$ (258,657)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	$ 63,188
Purchases of investments	(23,698)
Interest received on investments	21,181
Net cash provided by investing activities	$ 60,671
Net decrease in cash and cash equivalent investments	(58,520)
Cash and cash equivalent investments at beginning of year	193,934
Cash and cash equivalent investments at end of year	$ 135,414
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	$ (599,453)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	83,448
Changes in assets and liabilities:	
Increases in -	
Receivables, net	(532)
Inventories	(659)
Deferred expenses	(154)
Accounts payable and accrued liabilities	20,911
Deferred revenues	10,142
Employee retirement and benefits deposits	4,605
Decreases in -	
Compensated absences	(1,028)
Net cash used for operating activities	$ (482,720)
SIGNIFICANT NONCASH TRANSACTIONS	
Refinancing of long-term debt	$ 103,000
Memorial Union fire insurance reimbursement receivable	10,700
Capital equipment acquired through lease purchase	6,362
Unrealized loss on endowments	(8,292)
Asset impairment of previously donated historical treasures	(20,100)

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

ARIZONA STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

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 2007 enrollment of 64,394 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 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, ASU Research Park, Collegiate Golf Foundation, Downtown Phoenix Student Housing LLC, Mesa Student Housing, LLC, Sun Angel Endowment, and Sun Angel Foundation. The University has determined that the ASU Foundation and ACFFC are the two major component units based on an evaluation of both (1) the component unit's significance relative to the total component units and (2) the nature and significance of the component unit's relationship to the University. The two major component units constitute 83%, 73%, 95% and 78% of the total component units' assets, liabilities, net assets, and revenues, respectively.

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.
- 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.
- 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.
- Downtown Phoenix Student Housing LLC - provides facilities for use by students of the University.
- Mesa Student Housing, LLC - provides facilities for use by students of the University.
- Sun Angel Endowment - receives funds primarily through donations, with the annual earnings being used for various programs in support of intercollegiate athletics.
- Sun Angel Foundation - receives funds primarily through donations and contributes funds to the University for support of various athletic programs.

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 2008 was the transfer of a $5 million discretionary gift to ASU. Also in fiscal 2008 the University made $10.3 million in payments for service agreements to the ASU Foundation for 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, 2008. 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.

ARIZONA STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

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 the year ended June 30, 2008, the University implemented the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*; GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*; and GASB Statement No. 50, *Pension Disclosures (an amendment of GASB Statements No. 25 and No. 27)*. GASB Statement No. 45 establishes governmental employer accounting and financial reporting requirements for postemployment benefits other than pensions. GASB Statement No. 48 establishes note disclosure requirements for governments that pledge future revenues as security for its debt. GASB Statement No. 50 amends GASB Statement Nos. 25 and 27 to require governmental employers to present certain additional pension disclosures in the notes. The implementation of these standards had no effect on the amounts recorded as revenues, expenses, or net assets on the University's 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, 2008. 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 $17.9 million related to student tuition and fee payments due from students and others making payments on behalf of students; and $10.7 million for insurance proceeds related to the November 2007 fire at the Memorial Union, on the Tempe campus. This receivable represents amounts agreed upon as due to the University by the insurance carriers as of June 30, 2008. The University anticipates receiving additional insurance payments, but any such additional amounts have not yet been agreed upon by the University and the insurance carriers and therefore are not recorded as receivables at June 30, 2008.

Also included in the June 30, 2008 receivables balance was $8.8 million from Federal grant sponsors and $4.2 million from nongovernmental grant sponsors, primarily for the reimbursement of allowable expenses made pursuant to the University's grants and contracts. In addition at June 30, 2008, there was $6.2 million in receivables due from ACFFC, a component unit of the University. The receivables related to Hassayampa Academic Village construction costs, operating expenses, and percentage rent incurred on behalf of ACFFC by ASU, as developer and project manager, before receipt of reimbursement from the bond trustee on behalf of ACFFC. The University also had recorded $3.9 million as due from the State of Arizona for the University's technology and research initiatives fund, which is funded from a portion of the state's sales tax revenue; and $3.1 million due from the City of Mesa related to water and wastewater infrastructure projects for the newly constructed Polytechnic Academic Complex, on the University's Polytechnic campus in Mesa, Arizona.

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 current 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. Operating revenues generally result from exchange transactions. Accordingly, revenues such as tuition, bookstore sales, and residential life changes are considered to be operating revenues. In addition, grants and contracts for the purposes of providing research are considered operating revenues because of the exchange aspects commonly associated with these types of grants. Other revenues, such as state appropriations, gifts, and grants and contracts not generally generated from exchange transactions are considered to be nonoperating revenues. Nonexchange grants and contracts include those for the purpose of student financial aid, primarily Pell financial aid grants and those for purposes other than research, since the providers of these grants and contracts do not typically receive direct benefits, or equal or significant value, for those grants and contracts. Operating expenses, in accordance with GASB Statement No. 35, include salaries, wages, benefits, supplies, services, and depreciation on capital assets, irrespective as to whether the revenues associated with these expenses are operating or nonoperating revenues. Other expenses such as interest expense on debt are considered to be nonoperating expenses.

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 $8.7 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 $290.7 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 $58.1 million, which are held in trust by various commercial banks. In addition, endowment funds totaling $95.4 million, including $68.1 million managed by the ASU Foundation, 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

For nonendowment (operating) funds, 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. The ABOR Investment policy applicable to University investments is consistent with the scope of the Arizona State Treasurer's authorizing statutes and investment policy. The University policy is presently more restrictive than ABOR policy and 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.

ABOR policy addresses requirements for concentration of credit risk and interest rate risk, but neither ABOR policy nor the Statutes include any specific requirements on 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 ABOR, the University does not have a policy that specifically addresses custodial credit risk.

Credit Risk. With regard to credit risk, University policy is presently more stringent than that of ABOR 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, 2008 *(Dollars in thousands)*

			Standard and Poor's			
Investment Description	**Fair Value**	**Not Rated**	**AAAm**	**AAA**	**A-1+**	**AA-**
Money market mutual funds	$ 43,575	$ 1,617	$ 41,958			
State of Arizona LGIP (Pool 5)	85,212	85,212				
Federal Agency Securities	74,224	102		$ 58,021	$ 16,060	$ 41
Bond mutual funds	6,763	6,763				
Arizona Student Financial Aid Trust, debt securities	7,691	7,691				
Total	**$ 217,465**	**$ 101,385**	**$ 41,958**	**$ 58,021**	**$ 16,060**	**$ 41**

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, 2008, 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 $20.3 million, $31.7 million, and $16.7 million and comprised, respectively, 7%, 11%, and 6% 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, 2008 - utilizing the weighted average maturity methods *(Dollars in thousands)*

Investment Description	Fair Value	Weighted Average Maturity (Years)
Money market mutual funds	$ 43,575	0.1
State of Arizona LGIP (Pool 5)	85,212	0.1
Federal agency securities	74,224	1.7
Bond mutual funds	6,763	5.5
Arizona Student Financial Aid Trust, debt securities	7,691	6.4
Subtotal, before U.S. Treasury securities	$ 217,465	
U.S. Treasury securities	6,431	7.6
Total	**$ 223,896**	

At June 30, 2008, the University held $5.1 million of investments in U.S. Treasury zero coupon securities maturing between 2013 and 2020, which may be considered highly sensitive to interest rate fluctuations. The remaining $1.3 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, 2008, the University's endowment investments of $95.4 million included international investments totaling $32.6 million, with 64% in foreign equity investments, 14% in foreign fixed income investments, and 22% in other foreign marketable and non-marketable investments.

Note C - Capital Assets

Construction in progress additions reflected below represent expenses for new projects net of capital assets placed in service. It is estimated $18.5 million in additional expenses will be required to complete projects under construction at June 30, 2008. Construction in progress encumbrances committed through purchase orders at June 30, 2008, totaled $14.8 million.

In November 2007, the Memorial Union was significantly impaired as a result of fire damage. An impairment loss of $5.2 million has been calculated for the damage. The amount of the impairment loss is based on a calculation using the Restoration Cost Approach, in which a ratio of the estimated cost to restore the impaired assets' service utility divided by the total replacement cost of the building is multiplied by the book value of the asset. The insurance recovery recorded this year totaled $20.7 million which resulted in a net gain of $15.5 million that has been recorded on the Statement of Revenues, Expenses and Changes in Net Assets as an extraordinary item.

Included in the decrease in Works of Art and Historical Treasures shown below is a $20.1 million reduction in the asset value of seven historical printing presses, donated to the University in fiscal 2002 and recorded at appraised value. The reduction is due to a change in the University's strategic direction regarding the presses from the initial plan to display the presses, to the current plan to possibly sell the presses. The adjustment brings the book value of the presses to the anticipated sales value.

Capital Asset Activity for the year ended June 30, 2008 *(Dollars in thousands)*

	Balance 07/01/2007	Additions/ Increases	Retirements/ Decreases	Balance 06/30/2008
Capital Assets				
Land -				
University Operations	$ 73,846	$ 1,434	$ (16,484)	$ 58,796
Investment Property	8,043	16,484		24,527
Infrastructure	109,082	2,465	(9)	111,538
Buildings	1,465,554	190,419	(21,434)	1,634,539
Construction in Progress	30,748	7,690	(30,748)	7,690
Equipment	271,454	53,915	(11,542)	313,827
Works of Art and Historical Treasures	35,311	1,837	(21,295)	15,853
Library Books	205,551	11,743	(874)	216,420
Total	$ 2,199,589	$ 285,987	$ (102,386)	$ 2,383,190
Less Accumulated Depreciation:				
Infrastructure	$ 29,452	$ 2,741	$ (4)	$ 32,189
Buildings	458,107	45,695	(9,625)	494,177
Equipment	151,289	24,773	(9,738)	166,324
Library Books	151,237	10,239	(873)	160,603
Total	$ 790,085	$ 83,448	$ (20,240)	$ 853,293
Capital Assets, Net	**$ 1,409,504**	**$ 202,539**	**$ (82,146)**	**$ 1,529,897**

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 by 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, 2008, are as follows (Dollars in thousands):

Book Value	$ 24,527
Current Value	$ 269,601

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 highest and best 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 is any further University parking needs, such parking will probably be accommodated through an additional parking structure on land designated for university operations. 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.

ASU at the Polytechnic campus. The property consists of approximately 384.6 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 384.6 acres intended for future investment purposes, consists of approximately 228.4 acres.

A portion of the approximately 384.6 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 384.6 acres located at the Polytechnic campus is now available for investment purposes (commercial development) due to a Consent to Transfer Agreement dated December 6, 2007 between the federal government and the university, which effectively lifted the previous deed restriction thereby allowing the University to use the 384.6 acres for commercial purposes.

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 four 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.
- 22.5 acres in Tempe, known as the Community Services Building Site, is located about two miles from the Tempe campus. Even though there are presently some university operations in the Community Services Building, it is only temporary, with the best use being commercial investment land.
- 3.3 acres in Tempe, known as Gateway, is primarily vacant commercial land.
- 0.6 acres in Tempe, known as Art Annex, where the best use of the land is commercial development.
- 37.0 acres near Payson, Arizona, known as Camp Tontozona, which is in the process of being placed on the market for sale.

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

At June 30, 2008, 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, 2008 was $46.9 million and $65.4 million, respectively.

Bonds Payable, Certificates of Participation and Other Long-Term Lease Obligations at June 30, 2008 *(Dollars in thousands)*

	Average Interest Rate	Final Maturity	Balance 07/01/2007	Additions	Reductions	Balance 6/30/2008	Current Portion
Bonds:							
1993 System Revenue Refunding Bonds	4.93%	07/01/08	$ 6,855		$ (5,000)	$ 1,855	$ 1,855
2000 System Revenue Bonds	5.86%	07/01/11	2,235		(400)	1,835	420
2002 System Revenue Bonds	4.84%	07/01/27	42,705		(2,250)	40,455	2,330
2002 System Revenue Refunding Bonds	4.16%	07/01/19	122,700		(6,820)	115,880	10,635
2003 System Revenue Refunding Bonds	4.35%	07/01/17	7,130			7,130	
2003 A/B Variable Rate Demand System Revenue Bonds	N/A	07/01/34	103,000		(103,000)		
2004 System Revenue and Refunding Bonds	4.93%	07/01/34	39,005		(2,450)	36,555	2,525
2005 System Revenue Refunding Bonds	4.24%	07/01/27	49,095		(205)	48,890	210
2007 System Revenue Bonds	4.46%	07/01/36	76,260			76,260	1,160
2008 A/B Variable Rate Demand System Revenue Refunding Bonds	1.49%	07/01/34		$ 103,680		103,680	
Subtotal: Par Amount of Bonds			$ 448,985	$ 103,680	$ (120,125)	$ 432,540	$ 19,135
Certificates of Participation:							
1991 Towers Project (through the ASU Foundation)	6.89%	07/01/10	$ 1,500		$ (340)	$ 1,160	$ 360
1999A Downtown Center	5.75%	07/01/24	4,780		(165)	4,615	170
1999B Downtown Center	8.00%	07/01/24	4,575		(125)	4,450	135
2002 Certificates of Participation	4.75%	07/01/26	27,760		(3,080)	24,680	3,185
2004 ASU West Campus Refunding	2.36%	07/01/09	17,130		(5,550)	11,580	5,725
2004 Certificates of Participation	4.89%	09/01/30	80,275		(1,915)	78,360	1,975
2005A Certificates of Participation	4.36%	09/01/30	110,115		(2,760)	107,355	2,855
2006 Certificates of Participation	4.52%	06/01/31	15,810		(500)	15,310	420
2006 Refunding Certificates of Participation	4.15%	07/01/26	65,890		(1,310)	64,580	
Other Lease Purchases	3.16% - 6%	02/01/18	9,544	$ 7,119	(3,639)	13,024	3,533
Subtotal: Par Amount of COPS/Lease Purchases			$ 337,379	$ 7,119	$ (19,384)	$ 325,114	$ 18,358
Total Par Amount of Bonds, COPS, and Other Lease Purchases			$ 786,364	$ 110,799	$ (139,509)	$ 757,654	$ 37,493
Premium/(Discount) on Sale of Bonds and COPS			19,400		(2,605)	16,795	
Deferred Amount on Refundings			(9,290)	(648)	761	(9,177)	
Total Bonds Payable/COPS/Lease Purchases			**$ 796,474**	**$ 110,151**	**$ (141,353)**	**$ 765,272**	**$ 37,493**

The University issued $103.7 million of Variable Rate Demand System Revenue Refunding Bonds, Series 2008A and 2008B, to refund the outstanding 2003 variable rate demand system revenue bonds totaling $103 million in June 2008. The net proceeds of $103 million, after the net deduction of $0.7 million for underwriting fees and other issuance costs, were used to call the 2003 variable rate demand system revenue bonds. Both series have a final maturity date of July 1, 2034. Both series 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, 2008 was 1.45% for the Series 2008A and 1.53% for the Series 2008B 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 to the remarketing agents. To provide credit and liquidity support for the Bonds, the University entered into an Irrevocable Letter of Credit and Reimbursement Agreement (LOC) with Lloyds TSB Bank PLC upon execution of the refunding bonds. The LOC expires on June 18, 2009 and upon request by the University and approval by the Bank may be extended for at least one year. Assuming all of the Series 2008A and Series 2008B bonds are not resold within 90 days, the University would be responsible to make quarterly installment principal payments of $5.2 million over a five-year period, plus interest to be calculated as established in the letter of credit. The University has agreed to pay TSB Bank, PLC, an annual commitment fee for the letter of credit of 0.50% per annum on the stated amount which consists of outstanding principal of the bonds, plus 51 days of interest, at an assumed rate of 12% per annum.

Effective January 1, 2007, the University entered into a swap agreement on $103 million, notional amount, relating to the 2008 variable rate demand system revenue bonds (2008 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 2008 Bonds. The intention of the swap was to effectively change the variable rate interest on the 2008 Bonds to a synthetic fixed rate. 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 the SIFMA Municipal Swap Index set weekly. The SIFMA rate at June 30, 2008 was 1.55%. At June 30, 2008, the synthetic fixed interest rate on the bonds was:

Interest Rate Swap:	Terms	Rates (%)
Fixed payment to counterparty	Fixed	3.91
Variable payment from the counterparty	SIFMA	(1.55)
Net interest rate swap payments		2.36
Variable-rate bond coupon payments	Spread to SIFMA	1.49
Synthetic fixed interest rate on bonds		3.85

As of June 30, 2008, the swap had a fair value of $(2.3) million, which represents the cost to the University 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, 2008, the University was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the University would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated A+ by Fitch, A by Standard & Poor's and A1 by Moody's Investor Services as of June 30, 2008. 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 SIFMA 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 SIFMA. 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 agent at rates higher than the SIFMA 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's making or receiving a termination payment.

Securities and cash restricted for bonds and COPs debt service held by the trustee at June 30, 2008 totaled $27.4 million and $12.8 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, 2008 for variable rate issues, are shown below:

Bonds Payable, Certificates of Participation and Other Long-Term Lease Obligations at June 30, 2008
(Dollars in thousands)

	System Revenue Bonds			Certificates of Participation		Other Lease Purchases	
Fiscal Year	Principal	Interest	Net Payments (Receipts) on Swap Agreement	Principal	Interest	Principal	Interest
2009	$ 19,135	$ 16,682	$ 2,448	$ 14,825	$ 14,263	$ 3,533	$ 535
2010	21,555	15,632	2,448	15,300	13,641	2,950	441
2011	22,730	14,603	2,397	10,420	13,243	2,708	300
2012	23,920	13,547	2,342	10,375	12,854	1,266	172
2013	25,140	12,416	2,286	10,775	12,389	938	115
2014-2018	120,760	44,664	10,472	62,275	53,213	1,629	140
2019-2023	71,815	25,752	8,566	75,305	35,921		
2024-2028	68,670	12,297	6,136	72,625	17,105		
2029-2033	37,590	4,674	3,039	40,190	2,371		
2034-2037	21,225	630	164				
Total	**$ 432,540**	**$ 160,897**	**$ 40,298**	**$ 312,090**	**$ 175,000**	**$ 13,024**	**$ 1,703**

The University has pledged portions of its gross revenues towards the payment of debt related to various senior lien system revenue bonds outstanding at June 30, 2008. The related revenue bonds are primarily for new academic and research facilities, academic and laboratory renovations and infrastructure improvements. 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. At June 30, 2008 pledged revenues totaled $638.7 million of which 6.1% ($39.1 million) was required to cover current year debt service. Future pledged revenues required to pay all remaining debt service for system revenue bonds through final maturity of July 1, 2036 is $633.7 million. In addition, the University has pledged the same revenues on a subordinate basis to secure the Series 2006 Arizona State University Research Park, Inc. Development Refunding Bonds. Research Park bonds outstanding at June 30, 2008 were $11.6 million with annual debt service payments of approximately $1.2 million through July 1, 2021.

In November 2008 the University issued $104.1 million in senior lien bonds to fund the (previous) construction of the Polytechnic Academic Complex. The bonds have a 20 year maturity at an interest rate of 5.89%. Additionally in fiscal 2009, the University presently plans to issue approximately $70 million in senior lien bonds and $33 million in subordinated lien bonds for the Stimulus Plan for Economic and Educational Development (SPEED). Up to 80% of the related debt service of these subordinated lien bonds will be paid from Arizona State Lottery Commission revenues, with the balance being the responsibility of the University.

Funding responsibility for the June 30, 2008 outstanding debt *(Dollars in thousands)*

	Current Portion	Noncurrent Portion	Total
From Arizona State University operating revenues	$ 24,578	$ 472,469	$ 497,047
From State of Arizona provided state appropriations and share of state sales tax (ASU in substance acting as conduit)	12,915	255,310	268,225
	$ 37,493	**$ 727,779**	**$ 765,272**

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. In September 2008, the 2005 Bonds were refunded from variable rate to fixed rate bonds by the Series 2008 Refunding Bonds at an average interest rate of 5.36%.

ACFFC has overall responsibility for the residential portion, comprising approximately 92% of the facility, including budgetary approval, with the University leasing the non-residential portion of the facility. Cash outflows for lease payments are scheduled to begin in fiscal 2009.

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 and the related parking structure.

The lease agreement related to the Flexible Display Center located in the ASU 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.

Capital lease commitments to lessors at June 30, 2008 based on present value of lease payment *(Dollars in thousands)*

	Average Interest Rate	Final Maturity	Balance 07/01/2007	Additions	Reductions	Balance 06/30/2008	Current Portion
Hassayampa Academic Village	9.00%	2045	$ 11,989			$ 11,989	$ 83
Fulton Center	4.89%	2034	28,815		$ (595)	28,220	615
Flexible Display Center	10.00%	2034	35,000		(253)	34,747	772
Total: Capital Leases			**$ 75,804**		**$ (848)**	**$ 74,956**	**$ 1,470**

Capital lease payment commitments includes interest reimbursement to the lessor at the rates in effect at June 30, 2008 for the variable rate lease. Capital leases book value includes original book value and accumulated depreciation for capital leased assets.

Capital lease payment commitments *(Dollars in thousands)*

Fiscal Year	Capital Lease Payments
2009	$ 7,348
2010	7,322
2011	7,291
2012	7,257
2013	7,196
2014-2018	35,032
2019-2023	33,158
2024-2028	30,844
2029-2033	28,020
2034-2038	7,968
2039-2043	3,866
2044-2045	1,357
Total minimum lease payments	$ 176,659
Less amount representing interest	(101,703)
Present value of net minimum lease payments	**$ 74,956**

Capital leases book value as of June 30, 2008 *(Dollars in thousands)*

	Book Value	Accumulated Depreciation	Net Book Value
Hassayampa Academic Village	$ 11,989	$ (599)	$ 11,390
Fulton Center	29,395	(3,419)	25,976
Flexible Display Center	34,877	(3,661)	31,216

ARIZONA STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

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, 2008 consisted of the following (Dollars in thousands):

Balance 07/01/2007	Additions	Reductions	Balance 06/30/2008	Current Portion
$ 25,154	$ 23,334	$ (24,362)	$ 24,126	$ 2,221

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, 2008, 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 74% 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, an Arizona limited liability company of the ASU Foundation, 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 use of the leased space focuses on supporting entrepreneurial development activities, interdisciplinary research programs in engineering-related fields, and education technology.

University Center. In April 2007, the University entered into an operating lease with St. Paul Properties, Inc for office space within a complex known as University Center. The office space is being used to house University departments. The lease commenced in July 2007, with future minimum lease payments from fiscal 2009 until fiscal 2011.

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

	Operating Lease Payments			
Fiscal Year	**Brickyard**	**SkySong**	**University Center**	**Total**
2009	$ 2,777	$ 2,034	$ 1,038	$ 5,849
2010	2,783	2,077	987	5,847
2011	2,784	2,120	409	5,313
2012	2,795	2,166		4,961
2013	2,790	2,212		5,002
2014-2018	14,009	11,809		25,818
2019-2023	2,811	10,892		13,703
Total	**$ 30,749**	**$ 33,310**	**$ 2,434**	**$ 66,493**

ASU's Fall 2007 headcount was 64,394 students, an increase of over 1,100 students from Fall 2006.

Note I - Operating Expenses by Classification

Operating expenses by functional and natural classification for the year ended June 30, 2008, are summarized as follows (Dollars in thousands):

	Year ended June 30, 2008				
	Personal Services and Benefits	Supplies and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	$ 412,334	$ 42,835	$ 5,913		$ 461,082
Research	111,047	54,022	1,202		166,271
Public service	24,980	17,934	157		43,071
Academic support	117,430	48,255	1,093		166,778
Student services	41,794	11,923	242		53,959
Institutional support	77,823	50,938	343		129,104
Operation and maintenance of plant	34,254	60,328			94,582
Scholarships and fellowships	597	662	66,747		68,006
Auxiliary enterprises	40,997	81,473	4,759		127,229
Depreciation				$ 83,448	83,448
Total Operating Expenses	**$ 861,256**	**$ 368,370**	**$ 80,456**	**$ 83,448**	**$ 1,393,530**

Note J - Retirement Plans

At June 30, 2008 the University is participating in one cost-sharing multiple-employer defined benefit pension, health, and long-term disability plan and three defined contribution pension plans. The following disclosures are required by Governmental Accounting Standards Board (GASB) Statement No. 50, *Pension Disclosures (an amendment of GASB Statements No. 25 and No. 27)*. In addition to the below mentioned plans, there are two other retirement plans totaling $0.8 million in total University and employee contributions for the year ended June 30, 2008.

Defined Benefit Plan

Plan Description. The Arizona State Retirement System (ASRS) administers a cost-sharing, multiple-employer defined benefit plan that covers employees of the University. Benefits are established by State statute and provide retirement, death, long-term disability, survivor, and health insurance premium benefits. ASRS (through its Retirement Fund) provides retirement (i.e., pension), death, and survivor benefits; the Health Benefit Supplement Fund provides health insurance premium benefits (i.e., a monthly subsidy); and the Long-Term Disability Fund provides long-term disability benefits. The System is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The ASRS issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the Arizona State Retirement System, 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2000 or 1-800-621-3778.

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, 2008, active plan members were required by statute to contribute at the actuarially determined rate of 9.6 percent (9.1 percent for retirement and 0.5 percent for long-term disability) of the members' annual covered payroll and the University was required by statute to contribute at the actuarially determined rate of 9.6 percent (8.05 percent for retirement, 1.05 percent for health insurance premium, and 0.5 percent for long-term disability) of the members' annual covered payroll. The University's contributions for the current and two preceding years, all of which were equal to the required contributions, were as follows (Dollars in thousands):

Fiscal Year	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund	Total Contributions
2008	$ 21,278	$ 2,775	$ 1,322	$ 25,375
2007	18,832	2,619	1,247	22,698
2006	13,142	2,574	1,139	16,855

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, 2008, plans offered by the Teachers Insurance Annuity Association/College Retirement Equities Fund (TIAA/CREF), Variable Annuity Life Insurance Company (VALIC), and Fidelity Investments Tax-Exempt Services Company (Fidelity), were approved by the Arizona Board of Regents. 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, 2008, 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, 2008, were as follows (Dollars in thousands):

	Contribution Rates (Each)	University Contributions	Employee Contributions	Total Contributions
TIAA/CREF	7.00%	$ 13,297	$ 13,297	$ 26,594
VALIC	7.00%	1,879	1,879	3,758
Fidelity	7.00%	5,157	5,157	10,314

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. The ongoing 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, except the residential life facility, will be owned by the City of Phoenix, until such a time as the property is conveyed to the University. The City of Phoenix has recently completed the first new academic building on the campus, and is well along in construction of the second new academic building.

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

During fiscal 2008, the Downtown Phoenix campus was the home to the College of Public Programs and the College of Nursing and Healthcare Innovation. Fall 2007 enrollment was 6,595 students, a 6% increase from Fall 2006. During summer 2008, the City of Phoenix completed construction of the Walter Cronkite School of Journalism and Mass Communication. The Cronkite School moved into the new building in time for Fall 2008 classes. With the addition of the new journalism school to the academic programs offered at the Downtown Phoenix campus, Fall 2008 enrollment for the campus increased to 8,431 students, a 28% increase over Fall 2007. For Fall 2008, there were over 900 ASU faculty and staff members working on the Downtown Phoenix campus.

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 Innovation moved into existing buildings on the Downtown Phoenix campus from the University's Tempe campus, completing phase one of campus development. The new downtown Phoenix home of the Walter Cronkite School of Journalism and Mass communication opened in time for the Fall 2008 semester. Funded through bonds issued by the City of Phoenix, the new Cronkite home is intended to be a public space through speaker series, movie nights and other special programming aimed at the general public. The building will also house the University's Public Broadcasting System station – KAET/Eight. Features of the six story building include 17 fully mediated classrooms, nearly 1,000 classroom seats, 280 digital workstations for students and a 144 seat theater. This building as well as Taylor Place, a new residential facility for Downtown Phoenix campus students, were open in time for Fall 2008 classes, signaling the completion of phase two of the campus development.

Still under construction is an additional College of Nursing and Healthcare Innovation building - also being constructed by the City of Phoenix from the 2006 bond proceeds. The College of Nursing and Healthcare Innovation building is scheduled for completion in fall 2009.

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. The new on-campus student housing facility, Taylor Place, was developed and is managed by a third party on land leased to ASU from the City of Phoenix, and then subleased to the non-profit entity which owns the residential building and improvements. The lease between ASU and the City of Phoenix is of no cost to ASU. The 40 year sublease requires annual lease payments to be paid directly to the City of Phoenix by the non-profit entity. The lease guarantees the transfer of ownership of the land and improvements to ASU at no cost upon termination of the lease and any project indebtedness. Although managed by the third party, ASU provides residential life services to the students living in Taylor Place. To the extent that an occupancy rate of 99% is not achieved during the four year academic period from Fall 2008 to Spring 2012, the University has a potential direct leasing commitment of room space. The maximum exposure to ASU is $3.4 million, with the fiscal 2009 liability being a potential $1.4 million. Based on current occupancy rates for Fall 2008, the University anticipates it will be required to fulfill its full direct leasing commitment for fiscal 2009.

Campus parking is not the financial responsibility of the City. Demolition of acquired buildings not intended for use by the University or the City is 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 is making annual payments to a 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 is to 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 scheduled 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

During fiscal 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. This land is located along the south bank of Tempe Town Lake. SunCor plans to construct condominiums on the purchased land, and construct office and retail space and, potentially, a hotel on the leased land. The Lease Option Agreement for the 15.15 leased 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 the time the lease is 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 ground 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 designated 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 $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, the majority of which could be financed over 15 years through a City of Tempe 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, 2008, have not been material to the University's financial statements.

Legal Matters. On February 28, 2004, 52 individual members of the Havasupai Tribe, alleged damages arising from research conducted on Havasupai blood samples that were collected in the early 1990s. The plaintiffs allege that appropriate informed consent procedures were not followed and that unauthorized research was performed on the samples. One of the faculty members involved in the research moved from the University to the University of Arizona (UA) in the mid 1990s and has since moved to an out of state university. Plaintiffs have made claims for breach of fiduciary duty, fraud, intentional infliction of emotional distress, conversion, violation of civil rights, and negligence. The complaint names Arizona Board of Regents (ABOR), the University, and faculty from the University and UA. The plaintiffs seek $10 million in compensatory damages and $15 million in punitive damages. In addition, on June 29, 2004, the Havasupai Tribe filed an action against ABOR, the University, UA, and others arising from the same set of circumstances. The plaintiff seeks compensatory damages of $25 million and punitive damages of $25 million. On March 3, 2005 and May 2, 2005, the Federal Court dismissed the civil rights claim and dismissed some of the named defendants. After the plaintiffs voluntarily dismissed their only federal law claim, both cases were remanded to State Court and were consolidated. On April 20, 2006, in the Tilousi matter of this litigation, the Maricopa County Superior Court granted defendants' motion for summary judgment and dismissed the claims of 25 plaintiffs who failed to provide notice of their claims. On April 30, 2007, in the case brought by the Havasupai Tribe, the Court granted motions for summary judgment on behalf of ABOR and a professor and denied the plaintiff's motion for leave to file a third amended complaint with claims against ABOR and a professor. Similarly, in the Tilousi case, by Order of August 28, 2007 the Court granted summary judgment for all defendants on the ground that the notices of claim did not comply with the Arizona notice of claims statute. Both cases were appealed to the Arizona Court of Appeals, which heard argument on the issues related to the trial court dismissals for failure to provide adequate notice of claim under Arizona law. On November 28, 2008, the Arizona Court of Appeals reversed the trial court's grant of the defendants' motions for summary judgement in both cases and remanded both cases to the trial court for further proceedings. The State of Arizona Attorney General's Office is providing legal representation in both of these matters. The University cannot predict the outcome of these matters at this time, but intends to vigorously defend itself in these matters. Judgments, if any, against the University will 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 add 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 Dr. Pettit'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. Plaintiff conceded to dismissal of many counts and defendants. On August, 28, 2006, the Court granted the motions in part and denied the motions in part. The Court granted leave for plaintiff to file an amended conversion count, which he did. Defendant Chang filed another motion to dismiss on that count, which was granted on November 27, 2006. On January 10, 2007, a motion for judgment on the pleadings was filed on behalf of defendants, Crow, Glick, Ward, and ABOR. On March 5, 2007 the Court granted the motion after the plaintiff, acting pro-per, failed to file a timely response. On October 16, 2007, Pettit filed a motion to reconsider the Court's dismissal of defendants Crow, Ward, and Glick in their individual capacities under Count IV, claiming that the Court simply made a mistake in so dismissing them in their individual capacities. On December 10, 2007, the Court granted Pettit's motion to reconsider and reinstate Count IV against defendants Crow, Ward, and Glick in their individual capacities. On that same day, however, the Court dismissed Count VII and another defendant from the lawsuits, leaving three counts in the lawsuit: Count I – judicial review of administrative whistleblower decision against ABOR; Count IV – due process violations under 42 U.S.C. § 1983 against defendants Crow, Ward, and Glick in their individual capacities and in their official capacities for purposes of seeking declaratory or injunctive relief; and Count XIV – unconstitutionality of ABOR's whistleblower policy. In an order dated February 7, 2008, the Court granted defendants' motion for summary judgment on Count I. On February 28, 2008, Pettit conceded that there was a lack of jurisdiction to address Count XIV and the Court dismissed the count in an order dated March 13, 2008. In an Order dated May 30, 2008, the Court dismissed defendants Paul Ward, Jane Doe Ward, Jane Doe Crow and Jane Doe Glick as a result of stipulations by the parties. Currently, only Count IV of the lawsuit remains and only defendants Michael Crow and Milton Glick remain. A Motion to Dismiss Count IV on qualified immunity as well as defendants' Motion for Summary Judgment are currently pending a ruling by the Court. The University cannot predict the outcome of these matters at this time, but is pursuing a vigorous defense. It is anticipated that all or substantially all of the claims against the University will be covered by State Risk Management insurance should the plaintiff prevail.

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 appealed the decision. On September 9, 2008, the Arizona Court of Appeals heard oral argument on issues related to the appeal. A ruling from the Court of Appeals is currently pending. ASU cannot predict the outcome at this time, but intends to vigorously defend the ruling and determination made to date. 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, which were refinanced in July 2008. 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 acquisition 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, which were refinanced into fixed rate bonds in September 2008. 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.

West Student Housing (Las Casas). In May 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 sublease 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 completed in summer 2008 and the second phase scheduled for completion in summer 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 has become another component unit of ASU.

Tempe Privatized Student 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 transfers 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 approximately 1,840 apartment-style beds with amenities such as pool and community center, parking garage, and retail space. This project was completed in summer 2008. 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 provided 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, ASU Research Park, Inc., Collegiate Golf Foundation, Downtown Phoenix Student Housing, LLC, Mesa Student Housing, LLC, Sun Angel Endowment, and Sun Angel Foundation.

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 deduction 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 deduction, 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.

Prior Period Adjustments

The accompanying financial information for fiscal 2007 has been restated for Mesa Student Housing, LLC and the ASU Alumni Association. The restatement for Mesa Student Housing, LLC reflects management's decision to change the method of depreciation of the leasehold improvements to the terms of the underlying lease whereas the assets had been previously depreciated over 40 years in prior years. The required adjustments have been reflected as prior period adjustments in the financial statements for the year ended June 30, 2008. The net effect to beginning accumulated depreciation and unrestricted net assets was a change of approximately $0.7 million.

Also during 2008, the ASU Alumni Association's (Association) management reviewed its membership agreements and accounting policy for membership dues. Upon this review, the Association's management determined that based upon the level of tangible benefits provided to its members, the Association's membership dues meet the definition of contributions as the dues represent voluntary nonreciprocal transfers of assets from its members to the Association. In conformity with the Statement of Financial Accounting Standards No. 116, *Accounting for Contributions Received and Contributions Made*, contributions should be recognized as revenues or gains in the period received or receivable. In previous years the membership dues were accounted for as exchange transactions. As a result of the FASB 116 reinterpretation, the temporarily restricted and unrestricted net asset balances as of July 1, 2007 were restated. The prior period adjustment resulted in increases in unrestricted net assets of $0.2 million and temporarily restricted net assets of $0.2 million as of July 1, 2007.

Restated Net Assets for All Component Units consist of *(Dollars in thousands)*	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Net assets, June 30, 2007, as previously reported	$ 32,802	$ 219,495	$ 307,359	$ 559,656
Change in net assets due to prior period adjustments	(540)	119		(421)
Net assets, July 1, 2007, as restated	**$ 32,262**	**$ 219,614**	**$ 307,359**	**$ 559,235**

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 and loss allowance. Pledges are discounted using the applicable risk free rate at the date the pledge was recognized. The discount rates range from 3.8% to 10.9%. An allowance for uncollectible pledges is estimated based on the ASU Foundation's and Affiliate'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, 2008.

ASU Alumni Association's pledges receivable are recorded at their net realizable value using a discount rate from 3.8% to 6.0%.

Pledges receivable consist of *(Dollars in thousands)*

	ASU Foundation	Sun Angel Foundation	ASU Alumni Association	Total
Gross pledges receivable	$ 170,905	$ 11,043	$ 236	$ 182,184
Present value discount	(27,200)	(1,070)	(21)	(28,291)
Allowance for uncollectible pledges	(6,150)		(72)	(6,222)
Net pledges receivable	**$ 137,555**	**$ 9,973**	**$ 143**	**$ 147,671**

Gross pledges are receivable as follows *(Dollars in thousands)*

	ASU Foundation	Sun Angel Foundation	ASU Alumni Association	Total
Receivable in one year	$ 38,654	$ 2,411	$ 93	$ 41,158
Receivable in two to five years	104,784	7,605	143	112,532
Receivable after five years	27,467	1,027		28,494
Total gross pledges to be received	**$ 170,905**	**$ 11,043**	**$ 236**	**$ 182,184**

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, 2008 and 2007, gross unconditional pledges receivable from these members included approximately $78.8 million and $51 million (undiscounted), respectively. During fiscal 2008 and 2007, ASU Foundation recognized contribution revenue from these donors of approximately $31.5 million and $47.0 million, respectively.

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 $28.2 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 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 2008, the University remitted payments totaling $1.8 million which is recorded as rental income in the accompanying financial statements.

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 interest rate in effect at June 30, 2008 was 10%. The average interest rate for fiscal 2007 and 2008 was 4.34% and 4.82%, respectively. Lease payments commenced once the Capitalized Interest Accounts had been fully utilized, which was in 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 Building 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 Investment Committee of the Foundation's Board of Directors. The spending policy defines the calculation of the amount made available for spending from the endowment pools.

- 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:
    - 2.0%, if an endowment agreement is signed by the donor and the Foundation and the agreement permits spending in this circumstance, or
    - 0.0%, if an endowment agreement is not signed by the donor and the 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 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.

Investment Summary

Investments consist of *(Dollars in thousands)*

	ASU Foundation Investments	ASU Foundation Investments Held in Trust	ACFFC	Other Component Units	Total
Money market funds and cash equivalents	$ 52,023	$ 610	$ 29,759	$ 16,394	$ 98,786
Equities:					
Domestic	79,528	12,217		4,553	96,298
International	75,287	12,659		2,637	90,583
Total equities	154,815	24,876		7,190	186,881
Fixed Income	91,290	13,401		42,418	147,109
Mutual funds:					
Absolute return fund				1,152	1,152
Inflation hedge	116,604	23,177		2,094	141,875
Emerging markets	19,753	3,409		702	23,864
Total mutual funds	136,357	26,586		3,948	166,891
Other securities	9,113	2,707	1,831	5,944	19,595
Other investments	53,858		751		54,609
Total investments	**$ 497,456**	**$ 68,180**	**$ 32,341**	**$ 75,894**	**$ 673,871**

Property and Equipment

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

	ASU Foundation	ACFFC	Other Component Units	Total
Cost or donated value:				
Construction in progress		$ 15,359	$ 89,577	$ 104,936
Buildings and improvements	$ 17,397	187,954	65	205,416
Furniture, fixtures, and equipment	7,084	39,750	1,017	47,851
Leasehold improvements			31,927	31,927
Other property and equipment		661	3,017	3,678
Total cost or donated value	24,481	243,724	125,603	393,808
Accumulated depreciation	(3,088)	(25,388)	(15,122)	(43,598)
Net property and equipment	**$ 21,393**	**$ 218,336**	**$ 110,481**	**$ 350,210**

The ASU Foundation completed construction of a new headquarters office building and related parking 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 entire 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 Obligations under Capital lease

Bonds payable consist of *(Dollars in thousands)*	Final Maturity	ASU Foundation	ACFFC	Other Component Units	Total
Series 2007 Serial Bonds (Downtown Phoenix Student Housing)	2042			$ 9,080	$ 9,080
Series 2007 B Serial Bonds (Downtown Phoenix Student Housing)	2012			785	785
Series 2007 Tax-Exempt Bonds (Downtown Phoenix Student Housing)	2042			119,039	119,039
Series 2006 Development Refunding Bonds (ASU Research Park)	2021			11,640	11,640
Series 2005A Variable Rate Demand Revenue Bonds (Hassayampa Academic Village)	2045		$ 96,700		96,700
Series 2005B Variable Rate Demand Revenue Bonds (Hassayampa Academic Village)	2045		48,345		48,345
Series 2005 Tax-Exempt Bonds (West Campus Housing)	2035		16,005		16,005
Series 2004 Variable Rate Demand Revenue Bonds (Sun Devil Energy)	2030		51,605		51,605
Series 2004A Variable Rate Revenue Bonds (Brickyard)	2034	$ 22,420			22,420
Series 2004B Variable Rate Revenue Bonds (Brickyard)	2022	10,835			10,835
Series 2004A Variable Rate Demand Lease Revenue Bonds (Nanotechnology Research)	2034		20,175		20,175
Series 2004B Variable Rate Demand Lease Revenue Bonds (Nanotechnology Research)	2034		14,825		14,825
Series 2003 Lease Revenue Term Bonds (Fulton)	2034	47,020			47,020
Series 2003 Serial and Term Bonds (Adelphi II, Tempe campus housing)	2035		13,305		13,305
Series 2002 Bonds (Energy Management Services)	2018		26,470		26,470
Series 2001A Term Bonds (Mesa Student Housing, LLC)	2032			19,590	19,590
Series 2000 Serial and Term Bonds (Adelphi I, Tempe campus housing)	2032		10,265		10,265
Capital Lease	2011	2,800			2,800
Unamortized bond premium (discount)			839	(1,622)	(783)
		$ 83,075	**$ 298,534**	**$ 158,512**	**$ 540,121**

Arizona Capital Facilities Finance Corporation anticipates issuing approximately $63.5 million of revenue bonds for the Energy Management Services Phase II project and the Polytechnic campus central plant project in fiscal 2009. University Public Schools Initiatives, LLC anticipates issuing approximately $35 million of revenue bonds in fiscal 2009.

The following schedule reflects future debt service payment commitments to investors:

Future debt service commitments consist of *(Dollars in thousands)*				
Year Ending June 30,	**ASU Foundation**	**ACFFC**	**Other Component Units**	**Total**
2009	$ 1,723	$ 3,060	$ 1,070	$ 5,853
2010	1,799	5,410	1,430	8,639
2011	1,875	6,025	1,515	9,415
2012	1,988	6,615	2,525	11,128
2013	1,755	7,380	1,525	10,660
Thereafter	73,935	270,044	150,447	494,426
	$ 83,075	**$ 298,534**	**$ 158,512**	**$ 540,121**

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:

Component Units
Statement of Financial Position
June 30, 2008
(Dollars in thousands)

	ASU Foundation	ACFFC	Other Component Units	Total
Assets				
Investments	$ 565,636	$ 32,340	$ 75,895	$ 673,871
Property and equipment, net	21,393	218,336	110,481	350,210
Other assets	193,412	57,405	37,298	288,115
Total assets	$ 780,441	$ 308,081	$ 223,674	$ 1,312,196
Liabilities				
Bonds payable	$ 83,075	$ 298,534	$ 158,512	$ 540,121
Other liabilities	102,292	38,789	38,397	179,478
Total liabilities	$ 185,367	$ 337,323	$ 196,909	$ 719,599
Net Assets				
Unrestricted	$ 24,301	$ (29,242)	$ 11,453	$ 6,512
Temporarily restricted	220,198		13,470	233,668
Permanently restricted	350,575		1,842	352,417
Total net assets (deficit)	**$ 595,074**	**$ (29,242)**	**$ 26,765**	**$ 592,597**

Component Units
Statement of Activities
Year ended June 30, 2008
(Dollars in thousands)

	ASU Foundation	ACFFC	Other Component Units	Total
Revenues				
Contributions	$ 98,519		$ 19,435	$ 117,954
Rental revenue	801	$ 16,117	12,266	29,184
Net investment income	(1,421)	1,217	42	(162)
Other revenue	24,654	10,217	9,948	44,819
Total revenues	$ 122,553	$ 27,551	$ 41,691	$ 191,795
Expenses				
Program services -				
Payments to ASU	$ 30,813	$ 7,604	$ 12,600	$ 51,017
Other program services	12,929		5,000	17,929
Personal services, operations, and administrative expenses	22,300	10,328	14,910	47,538
Depreciation/amortization	1,665	9,037	1,354	12,056
Other expenses	11,698	15,204	2,991	29,893
Total expenses	$ 79,405	$ 42,173	$ 36,855	$ 158,433
Increase (decrease) in net assets	43,148	(14,622)	4,836	33,362
Net assets (deficit), beginning of year, as restated	551,926	(14,620)	21,929	559,235
Net assets (deficit) at end of year	**$ 595,074**	**$ (29,242)**	**$ 26,765**	**$ 592,597**

ARIZONA STATE UNIVERSITY
COMBINED SOURCES AND USES

Sources

For the year ended June 30, 2008
(Dollars in millions)

State Appropriations	33%	**$ 482.9**	Represents State of Arizona legislative appropriations for operations of the University and $14.5 million in appropriations for research infrastructure capital financing.
Tuition and Fees	30%	**436.7**	Includes $526.3 million in tuition and fees, net of $89.6 million in scholarship allowances.
Grants and Contracts	16%	**241.6**	Represents governmental and nongovernmental grants and contracts for both sponsored program activities ($203.4 million) and financial aid programs ($38.2 million). For fiscal 2008 federally funded grants and contracts totaled $189.0 million and nongovernmental grants and contracts totaled $43.1 million.
Private Gifts	4%	**50.9**	Voluntary private support from individuals, foundations, and corporations, including $7.6 million in capital gifts.
Technology and Research Initiatives Fund (TRIF)	2%	**28.1**	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 received by ASU is primarily used to support the research efforts of the ASU Biodesign Institute.
Auxiliary Enterprises	9%	**135.6**	Represents operations of essentially self-supporting activities such as bookstore, intercollegiate athletics, residential halls, and parking.
Sales and Services	3%	**49.0**	Sales and services of educational departments, including ASU-hosted national and international conferences and programs.
Other Sources	3%	**46.1**	Includes $11.4 million in net investment income and $15.5 million in insurance recovery proceeds, net of impairment loss.
Total Sources		**$ 1,470.9**	

Note:

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

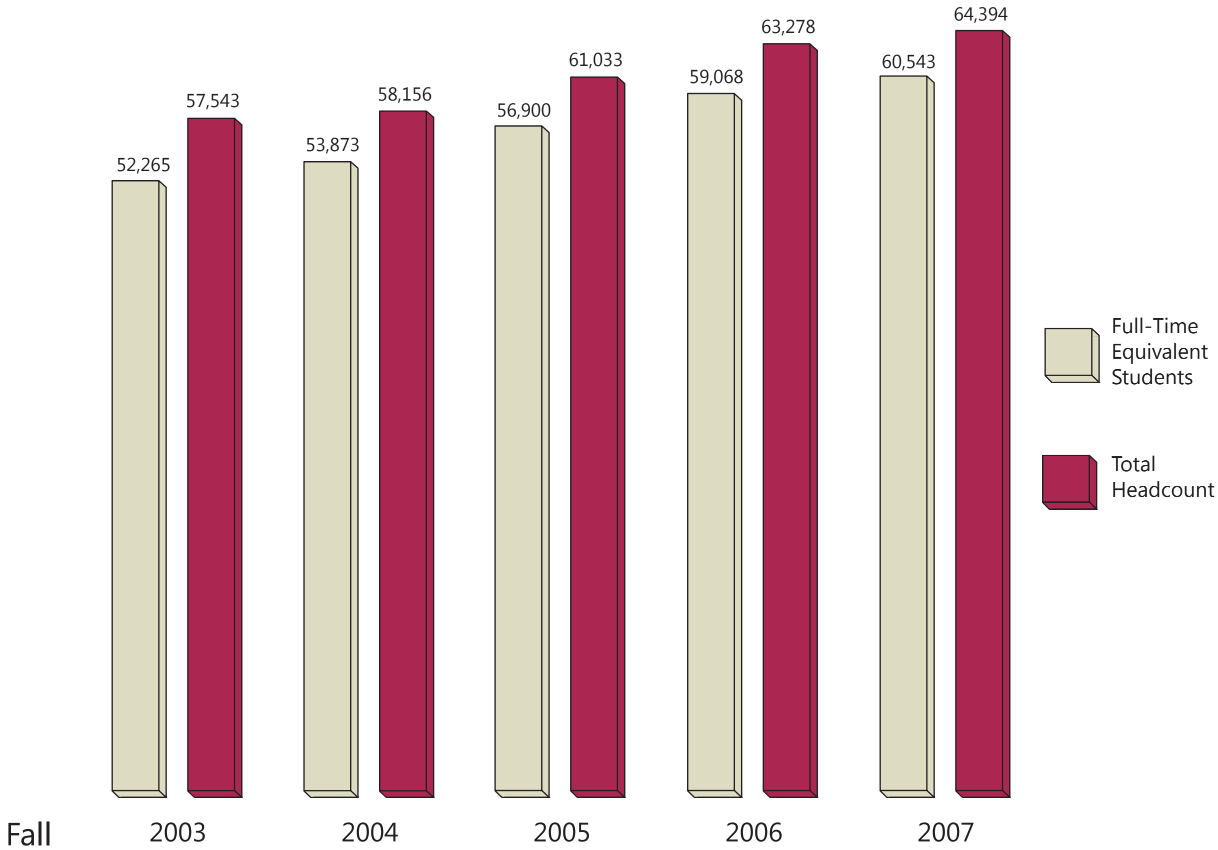
This statement provides an overview of total financial operations of all campuses of Arizona State University. Restricted and unrestricted operating and nonoperating funds are included. Restricted funds have specific purposes stipulated by outside donors and agencies.

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	43%	**$ 627.9**	Consists of (1) instruction expenses totaling $461.1 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 $166.8 million, which include libraries, academic information technology support, and academic administration.
Research and Public Service	14%	**209.4**	Includes (1) research expenses of $166.3 million for activities specifically organized to produce research outcomes, and (2) public service expenses of $43.1 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%	**122.0**	Consists of (1) student services expenses totaling $54.0 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 $68.0 million, which includes restricted grants, including $32.2 million of federally funded Pell grants, and institutionally awarded merit and need-based scholarships beyond tuition and residential life charges.
Institutional Support	9%	**129.1**	Includes development/fundraising, community relations, financial operations, human resources, public safety, and administrative information technology support.
Operation and Maintenance of Plant	6%	**94.5**	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%	**127.2**	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%	**83.4**	Depreciation is computed using the straight-line method over the estimated useful life of each asset. Depreciation for buildings was $45.7 million and was primarily related to academic and research buildings.
Other Uses	5%	**73.5**	Consists primarily of interest payments on debt service and non-capital expenses on plant project accounts. Also, includes $20.1 million related to the asset impairment of previously donated historical treasures.
Total Uses		**$ 1,467.0**	

ARIZONA STATE UNIVERSITY ENROLLMENT



Degrees Granted in Academic Year 2007-2008

Undergraduate	10,706
Graduate	3,738
	14,444

Fall 2007 Enrollment

Undergraduate	51,311
Graduate	13,083
Resident (Arizona)	46,217
Non-Resident	18,177

Arizona Board of Regents

EX OFFICIO

Janet Napolitano,
Governor of Arizona

Tom Horne,
Arizona Superintendent of Public Instruction

APPOINTED

Fred Boice
Robert Bulla
Ernest Calderón
Dennis DeConcini
Fred DuVal
LuAnn Leonard
Anne Mariucci
David Martinez III, Student Regent
Bob McLendon
Ross Meyer, Student Regent

Arizona State University Administration

as of November 2008

Michael M. Crow,
President

Elizabeth D. Capaldi,
Executive Vice President and Provost of the University

Morgan R. Olsen,
Executive Vice President, Treasurer and Chief Financial Officer

James A. Rund,
Senior Vice President for University Student Initiatives

Richard H. Stanley,
Senior Vice President and University Planner

Christine K. Wilkinson,
Senior Vice President and Secretary of the University

Virgil N. Renzulli,
Vice President for Public Affairs

R.F. “Rick” Shangraw,
Vice President for Research and Economic Affairs

Paul J. Ward,
Vice President for University Administration and Legal Affairs

Gerald E. Snyder,
Senior Associate Vice President for Finance and Deputy Treasurer

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