ASU® Arizona State University

2005
FINANCIAL REPORT

On the front cover

Clockwise from the top –
In August 2004 ASU welcomed 58,156 students to its campuses. Included were 162 National Merit Scholars and over 7,700 first time freshmen. More than 27% of the first time freshmen on the campuses were rated in the top 10% of their high school graduating classes. During the past 11 years ASU has had more students than any other public university selected for the *USA Today's* ranking of the nation's top 20 undergraduates. When compared against private universities, ASU ranks 3rd overall in students selected for this ranking. ASU's student population represents all 50 states and more than 140 nations. As a part of the University's initiatives to enhance the freshmen classroom experience, the average class size of core freshmen classes, such as English composition and college algebra courses, has been reduced. ASU's Barrett Honors College is considered among the top honors colleges in the nation and selectively recruits academically outstanding undergraduates. In the 2004/2005 academic year ASU had one of the largest classes of freshmen National Merit Scholars of any public university.

ASU is committed to community outreach through its schools and colleges, non academic departments, and student organizations. Often these programs involve interaction with local schools or neighborhoods. Programs include helping American Indian students who have an interest in health care programs explore those interests in the nursing, math, and science fields; exposing the children of migrant farm workers to various technology programs and equipment; providing professional development resources to Arizona's K 12 teachers through a web portal; and preparing minority engineering students for the college experience. Over 650 members of the ASU family participated in the annual ASU Cares project in March 2005, which helped to revitalize one of the oldest neighborhoods in downtown Phoenix.

The Nelson Fine Arts Center is home to the ASU Art Museum. The ASU Art Museum has been called "the single most impressive venue for contemporary art in Arizona". It serves a diverse community of artists and audiences through innovative programming that is interdisciplinary, educational, and relevant to life today.

ASU's faculty roster includes growing numbers of recipients of prestigious national and international honors, and members of the National Academy of Sciences, the National Academy of Engineering, the American Academy of Arts and Sciences, the American Academy of Nursing, and Fellows of the American Association for the Advancement of Science. Edward C. Prescott (pictured), the W.P. Carey Chair of Economics in the ASU W.P. Carey School of Business, was awarded the 2004 Nobel Prize in economic sciences in October 2004. The span of Dr. Prescott's research includes seminal work in business cycles, economic development, general equilibrium theory, and finance. George Poste, director of the Biodesign Institute at ASU, was named 2004 Scientist of the Year by *R&D Magazine*. The award honors Dr. Poste's career as a world renowned researcher, scholar, and policy maker, as well as his leadership in establishing the Biodesign Institute at ASU as a confluence of leading edge technologies.

The Biodesign Institute is located on the Tempe campus of ASU. The Biodesign Institute maintains a research culture attractive to scientists uniquely capable of working across disciplines and in close cooperation with industry. The Biodesign Institute Building A (pictured) opened in late 2004 and was funded by ASU revenues. Among the Biodesign Institute research discoveries that are being translated to commercial endeavors are a drug with the potential to save the lives of stroke victims, new tests to diagnose diseases more quickly and accurately; devices that rapidly detect explosives and biowarfare agents; and the use of DNA forensics for law enforcement. In 2003, the Arizona legislature passed a far sighted research infrastructure bill that is enabling construction of four other ASU research buildings including Biodesign Institute Building B. These four research facilities are scheduled to open during fiscal 2006 and add approximately 450,000 square feet of research space to the ASU campuses.

The Herberger College of Fine Arts celebrated its 40th anniversary in the 2004/2005 academic year. The academic programs of the college are within the Schools of Art and Music and the Departments of Dance and Theatre. The College also includes the Institute for Studies in the Arts and the ASU Art Museum. Besides serving ASU's undergraduate and graduate students, the Herberger College of Fine Arts offers area adults and children the opportunity to enroll in a vast array of fine arts classes administered and taught by the College's faculty and students. Programs include ensemble workshops, Native American music and public art seminars, and arts based curricula provided to local classrooms.

In October 2004 the nation and the world tuned in to see the final 2004 Presidential Debate which was held at ASU's Gammage Auditorium on the Tempe campus and covered by more than 2,500 local, national, and international media. The television audience for the debate was more than 50 million people worldwide. The debate, sponsored by the Commission of Presidential Debates, focused on such domestic issues as economics, healthcare, education, and social security reform.

ARIZONA STATE UNIVERSITY

2005 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

ASU
ARIZONA STATE UNIVERSITY

We are pleased to present the 2005 Financial Report for Arizona State University. The accomplishments of the past year demonstrate the important strides ASU continues to make in its ascent to the top ranks of public research universities. The choices that transitioned ASU from a territorial normal school to a national university with global impact were not made in a vacuum, because no institution advances in isolation. 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: students, alumni, parents, faculty, staff, members of the community, civic and business groups, business and industry, local governments and municipalities, friends of the university, and philanthropic foundations—those who understand the significance of its mission and are committed to the success of both the university and the region.

The New American University now emerging at ASU represents a pioneering effort to redefine the American research university, and to provide for the region an institution that addresses its unique demands and dynamics while leveraging its competitive advantage through strategic global engagement. Whether providing access to the best possible education for the students of Arizona, generating economic growth through its groundbreaking interdisciplinary research enterprise, or improving the quality of life and quality of place for all Arizonans, ASU is on track to build a great university here in metropolitan Phoenix.

ASU is expanding and intensifying its capacity for teaching and discovery in all disciplines while addressing the challenges of burgeoning enrollment with a distributed model. Although a single and unified institution, our strategy is to operate from four differentiated campuses of equally high aspiration, with each campus representing a planned clustering of related colleges and schools. We are making headway with our plans, and it is particularly rewarding to see the progress that has been made in the realization of the Downtown Phoenix campus. Not only will it revitalize the historic urban core of the city, the campus will serve as the nexus of the public mission of the university.

A glance at some milestones from the past year suggests the accelerating pace of change that now defines our institutional culture, and reinforces the new territories we are charting. Last October's announcement that Edward Prescott, of the W. P. Carey Chair of Economics in the W. P. Carey School of Business, had been awarded the 2004 Nobel Prize in economic sciences underscores our emerging stature and our growing roster of distinguished faculty. A record number of our students were honored with national scholarships and awards, including 15 Fulbright scholarships, and, as during the previous academic year, ASU welcomed more freshmen National Merit Scholars than almost any public university in the nation.

Last December's opening of the first building of the Biodesign Institute at ASU marked a milestone in the dramatic expansion of the university's research infrastructure. This unprecedented investment was made possible by a research infrastructure bill passed by the state legislature in June 2003, which authorized almost $200 million of lease-purchase capital financing for new research facilities. As of June 30, 2005, all of our lease-purchase financed facilities were in construction, along with other important projects, including a combined heat and power facility to support the biodesign corridor, and a major new residential housing complex.

The objective of ASU's Comprehensive Development Plan guiding the transformation of the campuses is to create buildings and grounds that reflect the scope and stature of a world-class institution, and to provide for students a vibrant living/learning environment that will foster an institutional culture consistent with the spirit and climate of the region, as well as its objectives for a sustainable future. Consistent with this vision is the new McAllister Academic Village (MAV), the first residential facility to be built on the Tempe campus since 2001. Freshmen entering in the fall of 2006 will be the first class to live in the new $145 million complex that includes two-bed and four-bed suites, shared study areas, lounge space with kitchen facilities, and access to interior courtyards. The facility also includes classrooms, faculty offices, and a learning resource center for tutoring and small group study.

ASU continues to pursue strategies to increase revenue source diversification to decrease reliance on state appropriations. Although the dollar amount of state appropriations in future years should undoubtedly increase, we anticipate that state appropriations, as a percentage of total funding sources, will continue to decrease over the long-term. Among measures taken to boost other revenue sources during FY 2005, was an increase in tuition and fees—$466 for undergraduates and $1,330 for graduate students, which followed increases of $1,010 and $1,210 respectively for the previous year. Despite these tuition increases, enrollment over this two-year period increased by almost 3,000 students, marking six years of consecutive enrollment increases. According to the Arizona Board of Regents' 2004/2005 Tuition and Mandatory Fees Survey of 50 state universities, ASU remains one of the lowest priced state universities in the nation in terms of tuition costs.

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While increasing by $15 million since 2002, state appropriations as a percentage of total ASU revenues have decreased from 39 to 32 percent. During this same period tuition and fees have increased by $114 million, and as a percentage of total ASU revenues from 23 to 29 percent. While grant and contract revenues, primarily for research, have significantly increased—by $45 million during the same period—as a percentage of total ASU revenues, these sources have remained relatively flat, in the range of 17 to 18 percent. With completion of major new research facilities in 2006, this revenue source is also expected to increase significantly, not only in total dollars, but as a percentage of total ASU revenues.

In addition to the expansion of the research infrastructure, strategies enacted to stimulate sponsored projects growth include more aggressive hiring of senior research-oriented faculty, and accelerated rates of hiring across all faculty levels to increase the critical mass of faculty in the sciences and engineering; salary incentive plans to reward more research-productive faculty; increased expectations for faculty research activity; and focused investment of funding from the Technology and Research Initiative Fund (TRIF), into strategic initiatives that are expected to lead to growth of new research clusters and to produce competitive proposals for large grant/contract opportunities. The efforts are yielding dividends as evidenced by a 17 percent increase in research grants and contracts revenues during 2005.

In accordance with the relatively new financial reporting requirements of the Governmental Accounting Standards Board, first implemented in 2004, the ASU audited financial report includes more information about independent component organizations financially related to the university, including the ASU Foundation, ASU Alumni Association, Sun Angel Foundation, Collegiate Golf Foundation, ASU Research Park, and the Arizona Capital Facilities Finance Corporation ("related organizations"). Net assets (fund balances) for these related organizations total approximately $329 million, comprised largely of donor-restricted endowment funds. In the past ASU disclosed financial information for these entities only in the notes to the audited financial statements. In viewing the financial status of ASU, it is important not only to consider ASU by itself, but also the 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 2005 were $1.044 billion, a 12 percent increase in one year, marking the first time that ASU's revenues have topped $1 billion. Revenues for the component units were $138 million, an impressive 37 percent increase. On a combined ASU and component organization basis, 2005 revenues totaled almost $1.2 billion.

In regards to increases in net assets (fund balances), ASU and its component units had a $37.8 million increase, representing approximately 3 percent of total revenues. Although fluctuations in net assets may be anticipated during the next several years as new research facilities come online, ASU and its related organizations anticipate a continuing long-run trend of annual increases in net assets, especially insofar as the university family, and the ASU Foundation, receive important private gifts.
In order for ASU to realize its objectives, it is essential for the university to leverage all of its available assets. As periodically required by the Arizona Board of Regents, during fiscal 2005 the university completed a comprehensive Campus Master Plan to guide the overall physical direction, needs, and development of the university. As a part of the campus master planning process, certain land holdings of the university have been designated for investment purposes through commercial (non-university) development by private developers pursuant to either long-term ground leases or sale, under overall coordination of the university's Office of Real Estate Development and ASU Foundation. As shown in the accompanying financial report, the estimated current value, based on appraisals and other independent third-party valuations of the investment land holdings, on June 30, 2005 was almost $200 million. As long-term ground leases and sales occur, the investment land holdings will become an important future revenue stream for ASU.

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 its related organizations is expected to continue. The university's evolving financial position reflects both the growing success of the new "culture of academic enterprise" and the investment of individuals, foundations, corporations, and governments that recognize that a competitive world-class research university is essential both to the success of the region and the needs of society.

Michael M. Crow
President

INDEPENDENT AUDITORS' REPORT

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

Members of the Arizona State Legislature

The Arizona Board of Regents

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of Arizona State University as of and for the year ended June 30, 2005, 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 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

As discussed in Note A, the University's financial statements are intended to present the financial position, and the changes in financial position and cash flows, where applicable, 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, 2005, and the changes in financial position and cash flows, where applicable, 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, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note A, the University implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*, for the year ended June 30, 2005, which represents a change in accounting principle.

As described in Note A, the University changed its method of calculating depreciation on research buildings to a straight-line method based on the estimated useful life of each building component, which represents a change in the application of an accounting principle.

The information presented in A Letter from the President of Arizona State University, Management's Discussion and Analysis, Arizona State University Combined Sources and Uses, and Arizona State University Enrollment sections listed in the 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.

Debbie Davenport
Auditor General

November 18, 2005

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ARIZONA STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview

The following Management's Discussion and Analysis (MD&A) of Arizona State University's financial statements provides an overview of the financial position, and programs and activities of the University for the year ended June 30, 2005. This discussion has been prepared by management and should be read in conjunction with the financial statements and the accompanying notes.

The financial statements presented in this report encompass the University and its discretely presented component units; however, the MD&A focuses only on the University, unless specifically stated otherwise. Information on the component units can be found in this report on an aggregated basis in the component units' statement of financial position and statement of activities, as well as in Note M. 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 this report, condensed data from the prior fiscal year is presented in the MD&A in order to identify certain increases and decreases between years. Restatements of certain prior year information have been made in order to present comparable information, but have not been audited.

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

ASU - Statement of Net Assets

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

The University's assets, liabilities, and net assets at June 30, 2005 and 2004 are summarized below (Dollars in millions).

		2005	2004
ASSETS			
	Current assets	$ 180.2	$ 170.0
	Noncurrent assets (excluding capital assets)	325.8	268.4
	Noncurrent capital assets, net	1,245.9	1,101.4
	Total Assets	$ 1,751.9	$ 1,539.8
LIABILITIES			
	Current liabilities	$ 102.4	$ 88.6
	Noncurrent liabilities	812.1	609.4
	Total Liabilities	$ 914.5	$ 698.0
NET ASSETS			
	Invested in capital assets, net	$ 572.5	$ 584.7
	Restricted:		
	Nonexpendable	48.7	44.2
	Expendable	55.9	63.1
	Unrestricted	160.3	149.8
	Total Net Assets	$ 837.4	$ 841.8

Overall the University's financial position showed a $4.4 million decrease in net assets between fiscal 2004 and 2005 a result of the University adopting the componentized method of depreciation for research buildings, which increased current year expenses by $15 million. Current assets increased by $10.2 million between years, and noncurrent assets, excluding capital assets, increased by $57.4 million. At June 30, 2005 current assets primarily consisted of cash and cash equivalent investments and net accounts receivable. Net accounts receivable increased by $33.8 million between years largely due to $20.3 million in site preparation and construction costs related to the ASU McAllister Academic Village project. This receivable was recorded in the agency funds and was cleared in August 2005 from proceeds of the $145.0 million revenue bonds issued by the Arizona Capital Facilities Finance Corporation (ACFFC), a component unit of the University. Current cash and cash equivalents and short term investments netted a $26.0 million decrease between years, while noncurrent cash and cash equivalents and investments showed a $58.7 million increase between years, largely due to unspent restricted proceeds of the 2005 Certificates of Participation (COPS) issue remaining at the trustee at June 30, 2005. Fiscal 2005 total cash and investments was $413.2 million, an increase of $32.7 million from the fiscal 2004 total of $380.5 million.

Capital assets, net of accumulated depreciation increased by 13% or $144.5 million over the prior fiscal year. During fiscal 2005 the Biodesign Institute's first building, Biodesign A, and the Student Union at the Polytechnic campus were both completed and occupied. Biodesign A is the first world class, self contained, flexible, dedicated research facility at ASU. The Student Union at the Polytechnic campus is a student centered facility that provides facilities for both educational and social activities. Also completed during fiscal 2005 was the Decision Theater at ASU which gives policy makers a new tool to visualize the long term impact of their policy choices in a three dimensional environment. During fiscal 2005 substantial progress was also made on the Biodesign Institute's Building B and the Interdisciplinary Science and Technology Buildings I, II, and III. Estimated completion and occupation for these research buildings is fiscal 2006. Once completed they will add over 415,000 square feet of research space at the Tempe campus, and 39,000 square feet at the Polytechnic campus.

Current liabilities increased by 16%, or $13.8 million due to increases in accounts payable and the current portion of bonds and lease purchases payable. There was a $202.7 million, or 33%, increase in noncurrent liabilities with the increases coming in lease purchases and capital leases long term liabilities. In fiscal 2005 ASU issued $49.9 million in system revenue refunding bonds. The net proceeds of this issue were used to purchase U.S. Government securities which were deposited in an irrevocable trust to be used to retire various maturities of the 2000 and 2002 system revenue bonds. The 2005 COPS issued are being used to construct Biodesign B and Interdisciplinary Science and Technology Buildings I, II, and III. The increase in capital leases relates to a long term commitment the University has made to occupy four floors of the new ASU Foundation building, in order to free office space on the core of the Tempe campus for academic needs, and a parking structure adjacent to the ASU Foundation building. The capital lease agreement with the ASU Foundation is for 30 years with principal payments totaling $29.4 million.

Overall there was a $4.4 million decrease in net assets between years. Related to the decrease was the change the University made to the componentized method of straight line depreciation for research buildings. Although it resulted in a higher depreciation expense of $15 million, management believes this change is a preferable accounting principle and it is the method which will be used for ensuing indirect cost calculations. Without this change, the University would have shown an increase in net assets between years. The increase in unrestricted net assets of $10.5 million was related to net assets that will be used to pay for specific strategic initiatives of the University, including faculty start up expenses for new teaching and research faculty.

<u>ASU - Capital and Debt Activities</u>

To fulfill its mission the University has made a strategic decision to increase its research related capital investments and to improve the infrastructure of its campuses. Debt, especially tax exempt debt, provides a low cost source of capital for the University to use to fund its capital investments and to help achieve its educational and research mission and other strategic objectives. Facilities under construction, or recently completed, include projects which will be ultimately funded from state capital appropriations (specific research facilities), private gifts, and internal university funds.

During fiscal 2005 the University incurred approximately $223 million in new debt obligations primarily in the forms of certificates of participation and a new capital lease obligation. Certificates of participation (COPS) issued in fiscal 2005 are being used for research facility projects, including Biodesign Institute Building B and Interdisciplinary Science and Technology Buildings I, II, and III. Annual debt service for the COPS issued in 2005 will be funded by the State of Arizona beginning in fiscal 2008. In fiscal 2005 ASU recorded a capital lease with the ASU Foundation, LLC, an Arizona limited liability company whose sole member is the ASU Foundation, a component unit of the University. The University has agreed to lease four stories of the new ASU Foundation building and related parking spaces for 30 years, and has recorded a capital lease of $29.4 million related to this agreement. Also in fiscal 2005 the University issued system revenue refunding bonds, at a lower interest rate than the bond issues being refunded, which resulted in a $3.9 million reduction in future debt service payments, with an economic gain to the University of $2.4 million, based on present value savings.

Major facilities completed during fiscal 2005 were the Biodesign Institute Building A, the Student Union at the Polytechnic campus, and the Decision Theater. The Biodesign Institute Building A houses research that can lead to plant based vaccines that can be easily grown and distributed in third world countries, enhanced pharmaceuticals, improved bio materials to aid surgeons with organ transplant procedures and treatments, new DNA sequencing to help diagnose and fight disease, biological remediation of contaminated water, and instant blood tests on a single computer chip. The new Student Union at the Polytechnic campus strives to create a student centered learning environment that celebrates diversity and intellectual inquiry. The Student Union includes meeting space for students and others, dining facilities, a branch of the ASU Bookstore, and has a wireless computer network and data ports available for students wishing to use their own computers, as well as computers available for use in the Dining Commons and game room. The Decision Theater at ASU was largely funded by a $3 million private gift from Ira A. Fulton, a leading Arizona businessman and philanthropist. The Decision Theater features a 270 degree screen where researchers can see the effects of public policy decisions played out before them. The goal of the Decision Theater is to provide interactive forums that will identify and assess probable outcomes of real world decisions, review the potential impacts of varying policy decisions, and provide visualizations of alternative scenarios and scientific analyses produced by complex and integrated computer models.

All four of the COPS funded research building projects mentioned above are scheduled for completion and occupancy during fiscal 2006. Once completed these facilities will add approximately 450,000 square feet of flexible and dedicated research laboratories and related space. Biodesign Institute Building B will contain projects related to innovative medical solutions and novel approaches to the study of infectious diseases and vaccinology. Interdisciplinary Sciences and Technology Building (ISTB) I will provide state of the art laboratory research and graduate education space and special purpose laboratories, as well as office and conference space for the expansion of the School of Life Sciences, Harrington Department of Bioengineering, and related areas. Research will focus on metabolic biology and sociocomplexity, kinesiology and bioengineering. ISTB II will be home to rapidly expanding programs in advanced pavement materials and transportation planning, geotechnical engineering, fluid dynamics and sustainable materials. ISTB III is on the Polytechnic campus and provides space for focused areas of excellence in health and wellness, applied cognitive sciences, and applied biological sciences.

Upon occupancy of the new research facilities, the University will have improved its ability to compete nationally for top researchers as well as to secure new grants. These facilities also will allow other departments occupying the newly vacated space to become more efficient by consolidating their programs in the existing buildings. With the success of ASU's new and ongoing research programs, the University will be able to help achieve excellence and leadership in other areas where there is no opportunity for obtaining large grants, allowing the University to further its goal of improving the human condition of the residents of Arizona and the world, through the appropriate application of knowledge.

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 net income or loss 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 funding (TRIF), and other revenues for which the University does not give equal value in exchange for the resources received.

The revenues, expenses, and changes in net assets for the years ended June 30, 2005 and 2004, are summarized as follows. Included in the 2004 information is the cumulative effect of a change in accounting principle, related to the fiscal 2005 change to the componentization method of depreciation for research buildings. (Dollars in millions):

	2005	2004
Operating revenues		
Tuition and fees, net	$ 302.1	$ 253.3
Federal grants and contracts, research and financial aid	161.3	136.9
Auxiliary enterprises, net	99.7	94.7
Other operating revenues	60.1	58.6
Total operating revenues	$ 623.2	$ 543.5
Operating expenses	1,013.5	881.3
Operating loss	$ (390.3)	$ (337.8)
Net nonoperating revenues (expenses)		
State appropriations	$ 335.9	$ 312.6
Other revenues	72.8	62.5
Other expenses	(35.1)	(45.6)
Loss before other revenues, expenses, gains, or losses	(16.7)	(8.3)
Capital additions and other gains	12.3	16.7
Special item voluntary retirement program for faculty		(6.9)
Increase/(Decrease) in net assets	$ (4.4)	$ 1.5
Net assets, beginning of year	841.8	853.7
Cumulative effect of a change in accounting principle		(13.4)
Net assets at end of year	$ 837.4	$ 841.8

Revenues to support ASU's basic activities, including both operating and nonoperating revenues and capital additions and other gains, increased by $108.9 million in fiscal 2005, a 12% increase from fiscal 2004. State of Arizona operating appropriations, along with student tuition and fees are the main funding sources for the instructional mission of the University. Grants and contracts allow researchers, many times with the assistance of undergraduate and graduate students, to meet the needs of community with work that matters to society. Private gifts are another important revenue source and are used to provide financial aid to students, support faculty and university initiatives, and to fund capital projects. Sales and services revenues of auxiliary enterprises include athletic ticket sales, student housing, and bookstores operations.

Overall operating revenues increased by $79.7 million between years with the increases primarily occurring in tuition and fees revenues, net of scholarship allowances, and federal research grants and contracts. The increase in tuition and fees revenues was due to increases in academic year tuition and fees, as well as a slight increase in student enrollment. The additional revenues generated from the tuition increases went to increased financial aid commitments and to improve the quality of the academic experience for students.

The $24.4 million, 18%, increase in federal operating grants and contracts was across several areas of research including work being done at the Flexible Display Center at ASU to develop real time battlefield maps using flexible display technology (funded from a $43.7 million U.S. Army grant over 5 years awarded in fiscal 2004). At the School of Life Sciences, federally funded projects ranged from work on developing a safer small pox vaccine to seeking ways to increase the participation of underrepresented minorities in biomedical research. Among the ways the Biodesign Institute is using federal grants is in developing a public biological database, producing plant based vaccines to protect against bio warfare pathogens, and developing an integrated system that automatically performs forensic analysis. Other topics receiving new or increased federal funding during fiscal 2005 included the examination of cultural interaction between Mexican American children to predict adaptation over time, the examination of the behavioral processes of peer victimization and school adjustment difficulties; and the enhancement of graduate student opportunities for minority students in a new multidisciplinary area in math and sciences.

Operating expenses increased by 15%, or $132.2 million between years. Increases occurred across all areas of operating expenses due to a state mandated $1,000 annual increase to all eligible full time employees with annual salaries of less than $30,000. There was also a modest merit increase pool of funds which was allocated to high performing faculty and staff who met certain requirements. Along with the salary increases there were increases in employee related expenses such as retirement and FICA matches, and employer funded portions of health and dental insurance premiums. These programs were funded from a combination of state appropriations and internal university funds. The operating expense categories with the largest increases were instruction, research, academic support, institutional support, and depreciation.

Instruction expenses increased by $40.5 million with increases occurring in most areas largely due to faculty and staff salary and benefits increases, as well as the addition of 180 new faculty members for the 2004/2005 academic year. Other targeted instruction programs included the effort by the College of Nursing to increase the number of nurses in Arizona, the University initiative to lower the class size of first year mathematics classes, and a program by the School of Social Work to better prepare students to be competent and effective child welfare practitioners. Research expenses increased by $19.0 million between years with the increase occurring in many of the federally funded projects mentioned above, as well as projects funded from other sources including private foundations and industry.

Approximately $15 million of the $19.7 million increase in depreciation was the result of the change made by the University to a componentized method of straight line depreciation for use in calculating depreciation on research buildings. This change is consistent with the depreciation method used by many major research universities for financial reporting and indirect cost calculation purposes.

Net nonoperating revenues increased by $44.2 million in fiscal 2005 with the increase largely due to increased state appropriations ($23.3 million) and private (noncapital) gifts ($5.0 million), as well a decrease between years in noncapital expenses on construction projects. The increase in state appropriations was for the funding of the state mandated pay increase and employee benefits mentioned above, and an increase in funding to partially support student enrollment growth. The increase in private gifts was used as support for several critical programs of the University including the funding of new faculty start up costs, developing distance learning courses, creating the Virginia G. Piper Center for Creative Writing, and increased support for KAET, the University's public broadcasting television station that has an average viewership of 1.7 million Arizonans a week. The decrease in noncapital project expenses was due to the opening of two large academic related facilities in fiscal 2004 (Coor Hall a seven story classroom and academic office building, and the Brickyard on Mill Avenue building which houses the Ira A. Fulton School of Engineering) which incurred large noncapital classroom and office furniture expenses before occupation.

Net Assets. ASU had an overall decrease in net assets of $4.4 million at the end of the fiscal year. The decrease in net assets occurred in the net invested in capital assets category and was due to the change in depreciation (a noncash expense) to a componentization method for research buildings. The net assets categories of restricted nonexpendable, restricted expendable, and unrestricted showed increases in net assets between years.

Another useful presentation of revenues and expenses is by combined sources and uses. Combined sources and uses for the years ended June 30, 2005 and 2004, as restated, follows (Dollars in millions):

	2005		2004		Percentage Change
SOURCES					
State appropriations	$ 335.9	32%	$ 312.6	34%	8%
Tuition and fees, net	302.1	29%	253.3	27%	19%
Grants and contracts	189.4	18%	166.3	18%	14%
Private cash and capital gifts	42.2	5%	31.2	4%	35%
Share of state sales tax (TRIF)	22.6	2%	21.6	2%	5%
Auxiliary enterprises	99.7	9%	94.7	10%	5%
Other sources	52.3	5%	55.6	5%	(6%)
Total Sources	$1,044.2	100%	$ 935.3	100%	12%
USES					
Instruction and academic support	$ 480.0	46%	$ 427.1	46%	12%
Research and public service	144.4	14%	123.0	13%	17%
Student services and institutional support	125.1	11%	102.3	10%	22%
Operation and maintenance of plant	53.8	5%	46.1	5%	17%
Scholarships and fellowships, net	47.4	5%	44.6	5%	6%
Auxiliary enterprises	91.3	9%	86.4	9%	6%
Depreciation	71.5	7%	51.8	6%	38%
Other uses	35.1	3%	52.5	6%	(33%)
Total Uses	$1,048.6	100%	$ 933.8	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, including state appropriations; capital and related financing activities, including bond proceeds from debt issued for major capital projects, such as to construct buildings or to upgrade infrastructure; and investing activities.

Cash flows for operating activities will typically be negative for state universities since GASB requires state appropriations, as well as private gifts, to be reported as cash flows from noncapital financing activity. 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 2005 were state appropriations, tuition and fees revenues, federal grant revenues, and debt proceeds. 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 includes facility construction and major renovation costs, as well as purchases of capital equipment.

ASU's Component Units (Financially Interrelated Organizations)

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

An aggregated statement of financial position for the University's component units at June 30, 2005 and 2004 follows (Dollars in millions):

Assets	2005	2004
Cash and investments	$ 495.5	$ 338.2
Capital assets, net	149.2	99.1
Receivables, net	55.2	58.4
Other assets	63.2	80.7
Total assets	$ 763.1	$ 576.4
Liabilities		
Bonds payable	$ 279.2	$ 193.5
Other liabilities	155.4	96.6
Total liabilities	$ 434.6	$ 290.1
Net assets		
Permanently restricted	$ 207.0	$ 197.7
Temporarily restricted	94.3	81.0
Unrestricted	27.2	7.6
Total net assets	$ 328.5	$ 286.3

Included in fiscal 2005 investments on the component units' statement of financial position is $56.8 million in endowment investments held by the ASU Foundation in trust for the University under terms of an endowment trust agreement. There is a corresponding liability of $56.8 million recorded as well as an additional $4.0 million recorded in other liabilities for funds due the University from the ASU Research Park ($3.5 million) and the Collegiate Golf Foundation ($0.5 million). The $56.8 million in endowment investments held by the ASU Foundation in trust for the University are included in endowment investments on the University's statement of net assets. The University has recorded the $3.5 million receivable from the ASU Research Park as both a current receivable ($1.0 million) for the portion anticipated to be received in fiscal year 2006, and a noncurrent receivable ($2.5 million) for the portion anticipated to be received in fiscal year 2007, or later. The largest portion of the net assets for the component units is permanently restricted endowment funds, primarily at the ASU Foundation, which represents approximately two thirds of total net assets. Annual income from permanently restricted endowments is used to support the University, either by the component units or through transfer payments by the component units to the University.

An aggregated statement of activities for the University's component units for the years ended June 30, 2005 and 2004 follows (Dollars in millions):

Revenues	2005	2004
Contributions	$ 69.8	$ 42.9
Other revenues	67.8	58.1
Total revenues	$ 137.6	$ 101.0
Expenses		
Payments to ASU	$ 36.8	$ 26.8
Other expenses	55.8	44.1
Total expenses	$ 92.6	$ 70.9
Extraordinary items	$ (2.8)	
Increase in net assets	$ 42.2	$ 30.1
Net assets at beginning of the year, as restated	286.3	256.2
Net assets at end of the year	$ 328.5	$ 286.3

Included in fiscal 2005 other revenues are $8.7 million from the University to the Foundation for services provided to the University for development and technology transfer related activities. These expenses are reflected as institutional support and academic support, respectively, on the University's statement of revenues, expenses, and changes in net assets. Included in fiscal 2005 payments to ASU is $32.3 million in cash donation transfers from the ASU Foundation to ASU departments which are recorded as private gifts on the University's statement of revenues, expenses, and changes in net assets.

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. A high level summary of fiscal 2005 and 2004 financial activity of ASU and its component units on a combined basis follows (Dollars in millions):

	2005			2004		
	ASU	ASU Component Units	Combined	ASU	ASU Component Units	Combined
Net assets at beginning of the year	$ 841.8	$ 286.3	$ 1,128.1	$ 853.7	$ 256.2	$ 1,109.9
Increase/(decrease) in net assets	(4.4)	42.2	37.8	1.5	30.1	31.6
Cumulative effect of change in accounting principle				(13.4)		(13.4)
Net assets at end of year, as restated	$ 837.4	$ 328.5	$ 1,165.9	$ 841.8	$ 286.3	$ 1,128.1

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.

Even though the University had a slight decrease of $4.4 million in net assets for fiscal 2005, equating to less than one half of 1% of total University revenues, the ASU component units (principally the ASU Foundation) had a $42.2 million increase in net assets, principally the result of successful fundraising. On a combined basis for ASU and its component units, there was a $37.8 million increase in net assets, equating to approximately 3% of total ASU and component unit revenues.

End of the year net assets for the years ended June 30, 2005 and 2004 consisted of the following (Dollars in millions):

	2005			2004		
	ASU	ASU Component Units	Combined	ASU	ASU Component Units	Combined
Invested in capital assets	$ 572.5		$ 572.5	$ 584.7		$ 584.7
Restricted net assets:						
Nonexpendable/Permanently	48.7	$ 207.0	255.7	44.2	$ 197.7	241.9
Expendable/Temporarily	55.9	94.3	150.2	63.1	81.0	144.1
Unrestricted net assets	160.3	27.2	187.5	149.8	7.6	157.4
Net assets at end of year, as restated	$ 837.4	$ 328.5	$ 1,165.9	$ 841.8	$ 286.3	$ 1,128.1

Economic Outlook

The University experienced strong growth in fiscal 2005 from a variety of funding sources. This growth pattern is expected to continue through fiscal 2006. Anticipated state operating appropriations for fiscal 2006 are $360.4 million, a 7% increase over fiscal 2005. The increased fiscal 2006 state appropriations will be used to partially fund student enrollment growth, as well as to fund state mandated salary adjustments and increases in employee benefits. ASU continues to see increases in student enrollment, with fall 2005 enrollment being over 61,000 students. This increase represents an overall 5% increase in enrollment over fall 2004, and a 10% increase in non resident enrollment. This increased enrollment comes despite tuition increases that have occurred over the past few years. This increased enrollment supports ASU's ongoing efforts to more appropriately value the cost of education provided to its students. State appropriations and tuition are the primary funding sources for the University's instruction mission, and with the anticipated increases in both sources in fiscal 2006 ASU anticipates increases in its direct instruction and academic support expenses.

Research is funded by federal, state, and private grants, as well as Technology and Research Initiative Funding (TRIF) which is provided by specifically voter approved sales tax allocations. ASU is partnering with major research institutions and companies both in and outside of Arizona on research that is focused on improving the human condition. Fiscal 2005 showed a 22% increase in federal research grants received by ASU, as well as a 10% increase in nongovernmental grants. With the completion and occupancy of the four new research buildings in fiscal 2006, there is every indication that this trend will continue as ASU positions itself to provide the necessary resources to compete for and receive significant governmental and privately funded research grants and contracts. With a beginning date of July 1, 2005 Dr. Roy Curtiss, co director of the Center for Infectious Disease and Vaccinology in the Biodesign Institute at ASU, is using a $14.8 million multi year grant from the Bill and Melinda Gates Foundation to improve a vaccine against bacterial pneumonia so it requires only one oral dose in place of the current vaccine which requires four injections given at specific intervals. New fiscal 2006 federally funded grants awarded to date include grants to fund research involving vaccines against Hepatitis C, a new smallpox vaccine, paleoclimatic and paleoenvironmental context of the origin of modern humans in South Africa, auditory function and speech perception of cochlear implants, improving reading comprehension in bilingual children, and advancing efforts to repair or replace lost function for people with spinal cord injuries or other neurological disorders.

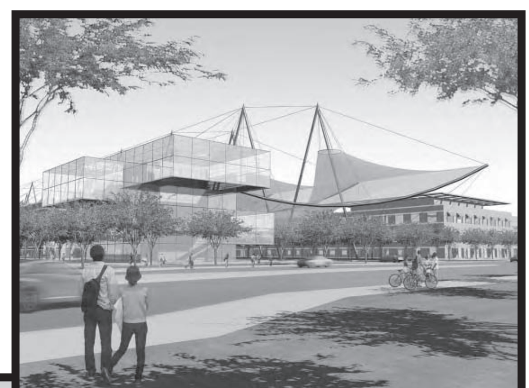
Partnerships are important to the University in its academic and research fields as well as its nonacademic programs. Research and academic partnerships will continue to be a fundamental part of ASU's future. In September 2005, $8.9 million in grants to the Biodesign Institute at ASU and the Translational Genomics Research Institute (TGen) based in Phoenix were announced. With this award the Biodesign Institute and TGen become part of the Center of Medical Countermeasures Against Radiation, a consortium lead by Columbia University, which also includes Harvard University and is funded by the National Institutes of Health. This ASU and TGen partnership will focus on development of devices that will quickly screen radiation victims in case of terrorist attacks.

In June 2005 ASU and the City of Phoenix (City) entered into an agreement regarding the establishment of an ASU campus in downtown Phoenix intended to ultimately serve 15,000 students with a faculty and staff of 1,800. To date the City has begun purchasing property identified as critical to the establishment of the campus. In fall 2006 the campus is expected to have 2,500 students attending ASU classes offered by University College, the College of Nursing, and the College of Public Programs. In March 2006 voters of the City of Phoenix will have the opportunity to approve a bond issue that includes the permanent funding needed for the City to purchase the land and construct or renovate the buildings required for the ASU at downtown Phoenix campus. The educational program costs and operating costs of the facilities will be paid for by ASU. The benefits to ASU of this partnership will be the ability to provide for its growing student population and to put some of its academic programs closer to their professional counterparts. The partnership allows the City of Phoenix to realize the economic benefits of having thousands of students and staff studying, working, and living in the core of downtown Phoenix.

In February 2005 Ira A. Fulton, chief executive officer of Fulton Homes, Inc., and an ASU alumnus, announced the establishment of challenge grants for seven ASU colleges and ASU's Intercollegiate Athletics (ICA) Department. Donations received by the designated colleges will be matched by Mr. Fulton, up to specific thresholds. The program is seen by Mr. Fulton as an investment in ASU's future and encourages involvement by students, alumni, and others in the community. Through September 2005 the ICA Fulton Challenge had raised $2.7 million in matching donations. The funds provided by the ICA Fulton Challenge will provide resources to ASU's athletic program, which includes 22 teams and over 500 student athletes.

In June 2004 the City of Scottsdale approved zoning for the ASU Scottsdale Center for New Technology and Innovation. Groundbreaking on the Center is expected in early 2006. The Center is a partnership between the City of Scottsdale, the ASU Foundation, and ASU. Scottsdale is leasing 37 acres on the site to the ASU Foundation for eventual development of 1.2 million square feet of primarily research and office space, with a small component of retail services. Scottsdale is also providing infrastructure, landscape design, and site engineering. ASU will be among the first tenants of the Center, on an operating lease basis, relocating programs to the Center that complement the private tenants. Among the ASU programs expected to move will be Arizona Technology Enterprises, a technology transfer organization that helps bring research of ASU to the marketplace, and ASU Technopolis, an entrepreneurial training program for people working in the technology and life sciences fields. The Center will focus on technology commercialization, entrepreneurship, and business development.

ASU is committed to maintaining a sound financial position while continuing its progress towards becoming a top tier public research university, and providing a comprehensive quality education to its students through continued support from the State of Arizona as well the University's private donors and research and educational partners.



Clockwise from the upper left: artist renderings of ASU Biodesign Institute Building B, the new ASU Scottsdale Center for New Technology and Innovation, and ASU at the downtown Phoenix campus.

ARIZONA STATE UNIVERSITY
STATEMENT OF NET ASSETS

June 30, 2005
(Dollars in thousands)

ASSETS	
Current Assets:	
Cash and cash equivalent investments	$ 89,252
Short term investments	12,244
Accounts receivable, net of allowance of $4,200	66,423
Student loans receivable	1,182
Inventories	9,484
Deferred expenses	1,582
Total Current Assets	$ 180,167
Noncurrent Assets:	
Restricted cash and cash equivalent investments	$ 167,857
Endowment investments	76,178
Other Investments	67,696
Accounts receivable	2,366
Student loans receivable, net of allowance of $1,306	10,563
Deferred expenses	1,195
Capital assets (Total of $ 1,245,939)	
Nondepreciable Assets	
Land, Designated for	
University operations	74,188
Investment property	5,173
Construction in progress and other	145,721
Depreciable assets, net of accumulated depreciation	
Buildings	823,258
Equipment and other	197,599
Total Noncurrent Assets	$ 1,571,794
Total Assets	$ 1,751,961
LIABILITIES	
Current Liabilities:	
Accounts payable and accrued liabilities	$ 41,891
Compensated absences	1,869
Employee retirement and benefits deposits	3,458
Deferred revenues	22,105
Funds held for others	13,535
Bonds payable	11,205
Lease purchases	8,298
Total Current Liabilities	$ 102,361
Noncurrent Liabilities:	
Compensated absences	$ 18,500
Employee retirement and benefits deposits	4,444
Other liabilities	551
Bonds payable	392,982
Lease purchases	331,320
Capital leases	64,395
Total Noncurrent Liabilities	$ 812,192
Total Liabilities	$ 914,553
NET ASSETS	
Invested in capital assets, net of related debt	$ 572,551
Restricted for:	
Nonexpendable:	
Scholarships and fellowships	30,529
Academic department uses	6,963
Student loans	11,176
Expendable:	
Scholarships and fellowships	17,309
Academic department uses	35,375
Student loans	1,332
Capital projects	417
Debt service	1,481
Unrestricted (Note H)	160,275
Total Net Assets	**$ 837,408**

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

ARIZONA STATE UNIVERSITY COMPONENT UNITS' STATEMENT OF FINANCIAL POSITION

June 30, 2005
(Dollars in thousands)

ASSETS	
Cash and cash equivalent investments	$ 7,189
Receivables	
Pledges receivables	47,373
Other receivables	7,810
Total Receivables	55,183
Investments	
Investments in securities	324,172
Investments held in trust for ASU	56,770
Other investments	107,454
Total Investments	488,396
Net direct financing leases	35,035
Property and equipment, net of accumulated depreciation	149,179
Other assets	28,155
Total Assets	$ 763,137
LIABILITIES	
Liability under ASU endowment trust agreement	$ 56,771
Bonds payable	279,212
Unearned revenue	48,031
Other liabilities	50,609
Total Liabilities	$ 434,623
NET ASSETS	
Permanently restricted	$ 206,989
Temporarily restricted	94,275
Unrestricted	27,250
Total Net Assets	$ 328,514

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, 2005
(Dollars in thousands)

OPERATING REVENUES	
Student tuition and fees, net of scholarship allowances of $68,855	$ 302,090
Federal grants and contracts	
Research grants and contracts	125,381
Financial aid grants	35,972
State and local grants and contracts	2,465
Nongovernmental grants and contracts	23,765
Sales and services	
Auxiliary enterprises, net of $1,644 in scholarship allowances	99,679
Educational departments	28,230
Other revenues	5,675
Total Operating Revenues	$ 623,257
OPERATING EXPENSES (Note I)	
Educational and general	
Instruction	$ 358,907
Research	108,213
Public service	36,155
Academic support	121,118
Student services	40,171
Institutional support	84,921
Operation and maintenance of plant	53,823
Scholarships and fellowships	47,429
Auxiliary enterprises	91,314
Depreciation	
Buildings	43,505
Equipment and other	28,015
Total Operating Expenses	$ 1,013,571
Operating Loss	$ (390,314)
NONOPERATING REVENUES (EXPENSES)	
State appropriations	$ 335,874
Share of state sales tax technology and research initiative funding	22,609
Private gifts	31,748
Financial aid trust funds	3,448
Net investment income	14,989
Interest on indebtedness	(22,818)
Other expenses	(12,217)
Net Nonoperating Revenues	$ 373,633
Loss Before Other Revenues, Expenses, Gains, or Losses	$ (16,681)
Capital grants	1,767
Capital private gifts	10,005
Additions to permanent endowments	489
Decrease in Net Assets	(4,420)
Net Assets at Beginning of Year, as Restated (Note A)	841,828
Net Assets at End of Year	**$ 837,408**

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

ARIZONA STATE UNIVERSITY COMPONENT UNITS' STATEMENT OF ACTIVITIES

Year ended June 30, 2005
(Dollars in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
REVENUES				
Contributions	$ 31,402	$ 28,219	$ 10,173	$ 69,794
Rental revenue	13,068			13,068
Sales and services	6,915			6,915
Net investment income	2,779	7,823	8,819	19,421
Reclassification of donor intent		9,816	(9,816)	
Net assets released from restrictions	39,951	(39,951)		
Other revenues	21,214	7,168	98	28,480
Total Revenues	$ 115,329	$ 13,075	$ 9,274	$ 137,678
EXPENSES				
Payments to ASU				
Cash donation transfers	$ 32,264			$ 32,264
Cost reimbursements	1,404			1,404
Property donation transfers	773			773
Scholarship funds	2,402			2,402
Program services	15,673			15,673
Personal services, operations, and administrative expenses	17,109			17,109
Fundraising expenses	6,505			6,505
Interest	5,332			5,332
Other expenses	11,214			11,214
Total Expenses	$ 92,676			$ 92,676
Increase in Net Assets before Extraordinary Item	22,653	13,075	9,274	45,002
Extraordinary Items (Primarily early debt extinguishment)	(2,765)			(2,765)
Increase in Net Assets after Extraordinary Item	19,888	13,075	9,274	42,237
Net Assets at Beginning of Year, as Restated (Note M)	7,362	81,200	197,715	286,277
Net Assets at End of Year	$ 27,250	$ 94,275	$ 206,989	$ 328,514

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

ARIZONA STATE UNIVERSITY
STATEMENT OF CASH FLOWS

Year ended June 30, 2005
(Dollars in thousands)

CASH FLOWS FROM OPERATING ACTIVITIES	
Student tuition and fees	$ 306,636
Grants and contracts (federal, state, local, and nongovernmental)	176,946
Sales and services of auxiliary enterprises	96,150
Sales and services of educational activities	35,009
Payments to employees for salaries and benefits	(646,003)
Payments to suppliers for goods and services	(239,279)
Payments for scholarships and fellowships	(65,832)
Student loans issued	(2,601)
Student loans collected	2,917
Other payments	(2,539)
Net cash used for operating activities	$ (338,596)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State appropriations	$ 335,874
Technology and research initiatives funding (TRIF)	21,790
Private gifts for other than capital purposes	32,191
Financial aid trust funds	2,979
Direct lending program receipts	162,229
Direct lending program disbursements	(162,409)
Funds held for others received	80,709
Funds held for others disbursed	(102,431)
Other payments	(5,362)
Net cash provided by noncapital financing activities	$ 365,570
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital gifts and grants	$ 5,311
Proceeds from issuance of capital debt	195,110
Purchases of capital assets	(177,432)
Principal paid on capital debt and leases	(10,321)
Interest paid on capital debt and leases	(20,872)
Net cash used for capital and related financing activities	$ (8,204)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	$ 82,975
Purchases of investments	(88,008)
Interest received on investments	8,711
Net cash provided by investing activities	$ 3,678
Net increase in cash and cash equivalent investments	22,448
Cash and cash equivalent investments at beginning of year, as restated	234,661
Cash and cash equivalent investments at end of year	$ 257,109
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	$ (390,314)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	71,520
Changes in assets and liabilities:	
Increases in	
Accounts receivable, net	(13,840)
Compensated absences	2,026
Inventories	(1,973)
Deferred expenses	(88)
Employee retirement and benefits deposits	204
Decreases in	
Student loans receivable, net	233
Accounts payable and accrued liabilities	(4,327)
Deferred revenues	(2,037)
Net cash used for operating activities	$ (338,596)
SIGNIFICANT NONCASH TRANSACTIONS	
Refinancing of long term debt	$ 46,910
Assets acquired through capital lease	29,395
Gifts and conveyances of capital assets	6,459

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

ARIZONA STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note A - Organization and Summary of Significant Accounting Policies

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

During the year ended June 30, 2005, the University implemented the provisions of the GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, which establishes and modifies disclosure requirements related to deposit and investment risks. Disclosures of the University's deposit and investment risks are included in Note B.

Reporting Entity

Arizona State University is a major research university located in metropolitan Phoenix with a total Fall 2004 enrollment of 58,156 students. The accompanying statements of the University include the activity of the Tempe campus, West campus (located in northwest Phoenix adjacent to Glendale), Polytechnic campus (located in Mesa), and the downtown Phoenix campus, as well as its discretely presented component units. For financial reporting purposes, the University's portion of the statements includes those funds directly controlled by the University. Control by the University is determined on the basis of financial accountability. The University is classified as a state instrumentality per Internal Revenue Code Section 115. Since fiscal responsibility for the University remains with the State of Arizona, the University is considered a part of the reporting entity for the State's financial reporting purposes.

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

These component units are non profit 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 organization 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 Foundation's independent board of trustees, in accordance with donor directions and Foundation policy. The majority of assets held by the Foundation are endowments restricted for donor specified programs and purposes, the principal of which may not be spent. The trustees of the Foundation are entitled to make all decisions regarding the business affairs of the Foun dation, 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 dona tions and dues, and contribute funds to the University for sup port of various programs.
- Collegiate Golf Foundation operates a University owned golf course. The Collegiate Golf Foundation is included as a dis cretely presented component unit because it is a legally sepa rate organization that the University believes would be mislead ing to exclude due to its financial relationship to the University, and for consistency in the reporting of all component units.
- Mesa Student Housing, LLC provides facilities for either use by students of the University or the University itself.
- Arizona State University Research Park, Inc. (Park) develops a research park to promote and support research activities, in co ordination with the University. In developing the research park, the Park has issued bonds guaranteed by the University.
- Sun Angel Endowment receives funds primarily through donations and dues, and contribute funds to the University for support of various programs.
- Sun Angel Foundation receives funds primarily through dona tions and dues, and contribute funds to the University for sup port of various 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.

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, 2005. Because the University's component units use a nongovernmental generally accepted accounting principles (GAAP) reporting model, the University has chosen to present their aggregated financial information on pages separate from the financial statements of the University. To obtain individual audited financial statements for any of the aforementioned component units, please contact: Arizona State University Financial Services, P.O. Box 875812, Tempe, AZ 85287 5812; or (480) 965 3601.

ASU's Basis of Presentation and Accounting

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

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

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

Change in Accounting Principle

In fiscal 2005, the University changed its method of calculating depreciation on research buildings to a componentized method based on the estimated useful life of the building components. All other buildings continue to be depreciated using a basic straight line method over the estimated useful lives of the assets. Management believes this change is preferable under generally accepted accounting principles and it is the method which will be used for ensuing indirect cost calculations. This change resulted in a decrease of net assets related to building components which are now fully depreciated. The University's net assets reported as of June 30, 2004, have been restated as follows (Dollars in thousands):

Net assets June 30, 2004, as previously reported	$ 855,161
Cumulative effect of change in depreciation method	(13,333)
Net assets July 1, 2004, as restated	$ 841,828

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. During fiscal 2005 the University determined that the expendable portion of the Arizona Student Financial Aid Trust is more appropriately classified as a restricted cash equivalent, rather than a short tem investment as previously reported. This reclassification resulted in a $0.8 million increase in cash and cash equivalents at the beginning of the year as reported on the Statement of Cash Flows.

Investments. Short term, endowment, and other investments are stated at fair value at June 30, 2005. 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 approximately $12 million related to student tuition and fee payments due from students and agencies making payments on behalf of students. Auxiliary enterprises services provided to students, faculty and staff contributed $10 million to accounts receivable with the Bookstore and ICA each making up 40% of that balance. Included in accounts receivable is $5 million due from the State of Arizona, including $4 million in technology and research initiatives funding. Also outstanding at June 30, 2005 was $8 million from Federal grant sponsors and $3 million from nongovernmental grant sponsors, primarily for the reimbursement of allowable expenses made pursuant to the University's grants and contracts. The University has also recorded a $3.4 million receivable from the ASU Research Park, a component unit of the University. At June 30, 2005, the University had recorded in its agency funds a $20 million receivable from Arizona Capital Facilities Finance Corporation (ACFFC), a component unit of the University. The receivable related to McAllister Academic Village construction costs incurred on behalf of ACFFC by ASU, as developer and project manager, before permanent financing was obtained by ACFFC. In early August 2005, ACFFC reimbursed the entire amount of the outstanding receivable from bond proceeds.

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 79% 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. 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.

In fiscal 2005 the University adopted the componentized depreciation method for its research buildings. This change brings the University's financial statement depreciation methodology into conformity 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. Formally 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.

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

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

Not included in scholarship allowances is $6.0 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 funding (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 total $413.2 million. This balance is considered in our analysis of deposit and invest ment risk, as required by Statement No. 40 of the Governmental Accounting Standards Board, which the University has implemented for the fiscal year ended June 30, 2005.

Included in the University's deposits and investments are capital project and bond debt service funds totaling $167.9 million, which are held in trust by various commercial banks. In addition, endowment funds totaling $76.2 million make up a portion of the deposits and invest ments. 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 univer sities.

Statutory and Board of Regents' Policies

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

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

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

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

The State Board of Investment provides oversight for the State Treasurer's pools. The fair value of a participant's portion in the pool approxi mates the value of that participant's pool shares and the participant's share 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 agree ments. Beyond this requirement and those established by Statute or the Board, the University does not have a policy that specifically addresses custodial credit risk. At June 30, 2005, $1.1 million of the University's total deposits and investments was exposed to custodial credit risk as follows: The University received a large wire of funds late on June 30 that was not expected and could not be invested or col lateralized that day. This was an unusual occurrence and the University's deposits are almost always collateralized in excess of the amount required by Statute.

Credit Risk. With regard to credit risk, University policy mirrors that of the Board in that it restricts investment of the operating funds to collat eralized certificates of deposit and repurchase agreements, United States Treasury securities and other Federal agency securities, or to the State Treasurer's investment pool. Capital project 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 de posit (minimum rating of P 1/A 1), commercial paper (minimum rating of P 1/A 1+), and money market funds rated AAAm or better. 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. The Standard and Poor's credit quality ratings for debt securities at June 30, 2005, are disclosed in the following table (Dollars in thousands):

	Fair		Standard and Poor's	
Investment Description	Value	Not Rated	AAA	A 1+
Money Market Mutual Funds	$ 33,234	$ 33,234		
State of Arizona Local Government Investment Pool (Pool 5)	85,163	85,163		
Federal Agency Securities	199,379		$ 85,567	$ 113,812
Bond Mutual Funds	12,613	12,613		
Arizona Student Financial Aid Trust, debt securities	5,567	5,567		
	$ 335,956	$ 136,577	$ 85,567	$ 113,812

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

Concentration of Credit Risk. Neither University policy for the operating funds, nor the capital project and bond debt service financing indentures, limit investments with a single issuer due to the conservative nature of permitted investments. At June 30, 2005, 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 $97.1 million, $58.0 mil lion, and $36.9 million and comprised, respectively, 24%, 15%, and 9% of the University's total investments.

Interest Rate Risk. University policy for the operating funds limits the maximum maturity of any fixed rate issue to three years. The capital projects funds portfolio is not limited as to the overall maturity of its investments, with funds invested per the financing indentures to coin cide 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. The following chart presents the interest rate risk for the University's debt investments at June 30, 2005, utilizing the weighted average maturity method (Dollars in thousands):

Investment Description	Fair Value	Weighted Average Maturity (Years)
Money Market Mutual Funds	$ 33,234	0.1
State of Arizona Local Government Investment Pool (Pool 5)	85,163	0.2
Federal Agency Securities	199,379	0.8
U.S. Treasury Securities	2,665	2.8
Bond Mutual Funds	12,613	4.4
Arizona Student Financial Aid Trust, debt securities	5,567	5.1
	$ 338,621	

Foreign Currency Risk. Non endowment funds may not be invested in international securities. The ASU Pooled Endowment Fund is man aged under contract by the ASU Foundation and the University of Arizona through the Arizona Student Financial Aid Trust. Foreign invest ments consist of mutual funds and pooled investments. At June 30, 2005, the University's endowment investments of $76.2 million included international investments totaling $23.6 million, with 73% in foreign equity investments, 4% in foreign fixed income investments, and 23% in other foreign marketable and non marketable investments.

Note C - Capital Assets

Capital asset activity for the year ended June 30, 2005 consisted of the following (Dollars in thousands):

	Beginning Balances (as restated)	Additions/ Increases	Retirements/ Decreases	Ending Balances
Capital Assets:				
Land				
University Operations	$ 67,648	$ 6,540		$ 74,188
Investment Property	5,173			5,173
Infrastructure	81,547	8,469		90,016
Buildings	1,079,119	122,890	$ (175)	1,201,834
Construction in Progress	72,047	40,544		112,591
Equipment	205,638	27,538	(10,707)	222,469
Works of Art and Historical Treasures	30,886	2,244		33,130
Library Books	173,078	10,609	(1,251)	182,436
Total	$ 1,715,136	$ 218,834	$ (12,133)	$ 1,921,837
Less Accumulated Depreciation:				
Infrastructure	$ 22,524	$ 2,075		$ 24,599
Buildings	335,108	43,505	$ (37)	378,576
Equipment	130,865	16,659	(7,995)	139,529
Library Books	125,164	9,281	(1,251)	133,194
Total	$ 613,661	$ 71,520	$ (9,283)	$ 675,898
Capital Assets, Net	$ 1,101,475	$ 147,314	$ (2,850)	$ 1,245,939

The capital assets beginning balances have been adjusted to reflect changes made to correct inconsistencies in reporting among catego ries. Accumulated depreciation beginning balances have been adjusted for the change made to componentized depreciation for re search buildings, and for the category inconsistencies mentioned above. It is estimated $84.4 million in additional expenses will be required to complete projects under construction.

Land Investment Property

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

The current book value, i.e. historical cost at time of original acquisition, and estimated current value, based on appraisals and other inde pendent third party valuations, of the University's investment property at June 30, 2005, are as follows (Dollars in thousands):

Book Value	$ 5,173
Current Value	$ 151,779

The University's investment property consists of the following:

ASU at the Tempe campus. The Rio Salado Land consists of 36.6 acres along the Tempe Town Lake, on the Rio Salado River, with 27.1 acres west of Rural Road and 9.5 acres east of Rural Road, directly accessible from major streets. The best and highest use of this land is mixed commercial office, apartments, condominiums, and retail, and not University use. Even though there is presently some university surface (non parking structure) overflow parking on a portion of this land, the plans of the University are that most, if not all, of the present overflow parking needs at this site will disappear as the metropolitan Phoenix area Light Rail System, presently under construction, is located through the campus and increased emphasis on bus ridership and other forms of alternate transportation occurs. If there are any further University parking needs, such parking will probably be located at satellite locations, e.g., rented off campus parking for football games. The 36.6 acres will not be needed for University facilities. The identification and analysis of options to obtain the best investment generating poten tial for this land has begun.

ASU at the West campus. The investment property consists of 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 64 acres for investment purposes, consists of 236 acres. The highest and best use of the 64 acres is mixed use, including commercial office and retail, and non university affiliated multi family residential. The planning for a long term ground lease to developers for non university commercial purposes is 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 Univer sity. 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 over 75% of the Park's leasable acres being presently leased. The primary present purpose of the Park is to generate revenue for the University with approximately $1 million, after all costs, annually being generated for ASU.

Other Investment Property. Consists of:

- 1.5 acres in downtown Tempe. The downtown Tempe land is mostly vacant and has no university operations located on it. The highest and best use has determined to be mixed use retail, entertainment, and high density, multi family residential, with no uni versity operations being located on it.
- 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 two 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 sale to a commercial developer and not University use.
- 2.1 acres two miles from campus that was sold in August 2005. The 2.1 acres sold in August 2005 was the site of the former univer sity president's house, but was not occupied by the university president during recent years. The highest and best use is non uni versity operations, which resulted in the decision to sell the land.

Other Land Holdings

In addition to the above land investment property, there is other land located at the Polytechnic campus that is not currently available for investment purposes (commercial development) due to present deed restrictions, but has been designated by ASU for investment pur poses upon lifting of the deed restrictions. This land is presently subject to a deed restriction from the U.S. Government until 2026 that would not permit use of the land for non educational purposes, with there being a likely earlier lifting of the deed restriction. The planning process and discussions with the Federal government for earlier lifting of the deed restrictions has already commenced.

This landholding consists of the following:

ASU at the Polytechnic campus. The property consists of 353 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 353 acres intended for future investment purposes, consists of 250 acres.

A portion of the 353 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 even tual full build out of this campus, including the eventual replacement with apartment style student housing.

The current book and estimated current value of this other land (presently reflected as university operations land) is as follows (Dollars in thousands):

Book Value	$ 9,790
Current Value	$ 35,374

Total Land Investment Property and Other Land Holdings

The total current book and estimated current value of the land investment property and the other land to be designated as land invest ment property upon lifting of the deed restrictions are as follows (Dollars in thousands):

Book Value	$ 14,963
Current Value	$ 187,153

Note D - Bonds Payable

Bonds payable at June 30, 2005, consisted of the following (Dollars in thousands):

	Average Interest Rate	Final Maturity	Balance 7/1/2004	Additions	Reductions	Balance 6/30/2005	Current Portion
Housing Revenue Bonds	3.70%	10/01/04	$ 56		$ (56)		
1991 System Revenue Bonds	7.13%	07/01/05	1,535			$ 1,535	$ 1,535
1993 System Revenue Refunding Bonds	4.93%	07/01/08	16,240		(4,690)	11,550	
2000 System Revenue Bonds	5.86%	07/01/11	13,815		(10,850)	2,965	355
2002 System Revenue Bonds	4.84%	07/01/27	84,345		(37,400)	46,945	2,085
2002 System Revenue Refunding Bonds	4.16%	07/01/19	136,280			136,280	6,515
2003 System Revenue Refunding Bonds	4.35%	07/01/17	7,130			7,130	
2003 A/B Variable Rate Demand System Revenue Bonds	2.27%	07/01/34	103,000			103,000	
2004 System Revenue and Refunding Bonds	4.93%	07/01/34	39,250			39,250	105
2005 System Revenue Refunding Bonds	4.24%	07/01/27		$ 49,900		49,900	610
Subtotal: Par Amount of Bonds			$ 401,651	$ 49,900	$ (52,996)	$ 398,555	$ 11,205
Premium on Sale of Bonds			10,868	1,791	(2,383)	10,276	
Deferred Amount on Refundings			(1,115)	(3,886)	357	(4,644)	
			$ 411,404	$ 47,805	$ (55,022)	$ 404,187	$ 11,205

The funding responsibility for the June 30, 2005, outstanding debt is as follows (Dollars in thousands):

From Arizona State University operating revenues	$ 382,466
From State of Arizona provided funding sources (ASU in substance acting as a conduit)	16,089
	$ 398,555

In April 2005, the University issued $49.9 million of system revenue refunding bonds, with an average interest rate of 4.24%, to refund a por tion of the outstanding 2000 and 2002 system revenue bonds totaling $46.9 million with an average interest rate of 5.64%. The net proceeds of $51.3 million, after the net addition of $1.4 million for bond premium, underwriting fees, and other issuance costs, were used to purchase U.S. Government securities which were deposited in an irrevocable trust in order to retire the 2012 through 2025 maturities of the 2000 bonds on 7/1/2009 and to retire the 2014 through 2021, 2026 and 2027 maturities of the 2002 bonds on 7/1/2012. The refunded debt is considered defeased and related liabilities are not included in the University's financial statements. The issuance of the refunding bonds at a lower interest rate than the rate for the refunded debt resulted in a $3.9 million reduction in future debt service payments, with an economic gain of $2.4 million based upon the present value savings.

At June 30, 2005, the University held a combination of fixed and variable rate bonds. The University's fixed rate bonded debt consists of various issues of system revenue bonds that are generally callable at a prescribed date with interest payable semi annually. In prior years, certain system revenue bonds of the University were 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 are not included in the University's financial statements. The principal amount of all such bonds outstanding at June 30, 2005 was $48.9 million.

The University had outstanding two series of variable rate demand system revenue bonds, Series 2003A and 2003B, totaling $103 million with final maturities of July 1, 2034. Both series continue to bear interest at a weekly rate not to exceed 12% per annum based upon prevailing market conditions, as determined by the respective remarketing agents. The bonds are subject to conversion, at the option of the Arizona Board of Regents on behalf of the University, to a different or alternate adjustable rate mode, or a fixed rate pursuant to the bond inden ture. The interest rate in effect on June 30, 2005 was 2.27% for the Series 2003A and 2.26% for the Series 2003B bonds.

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

Securities and cash restricted for bond debt service funds held by the trustee at June 30, 2005 totaled $25.8 million. The following schedule reflects future debt service payment commitments to investors, including interest, using the interest rate in effect at June 30, 2005, for vari able rate issues (Dollars in thousands):

	System Revenue Bonds	
	Principal	Interest
2006	$ 11,205	$ 16,307
2007	14,625	15,578
2008	17,125	14,777
2009	17,975	13,946
2010	18,915	13,004
2011 15	111,075	50,038
2016 20	80,595	27,016
2021 25	48,595	15,841
2026 30	44,495	6,413
2031 35	33,950	1,749
	$ 398,555	$ 174,669

The University has pledged portions of its gross revenues towards the payment of debt related to various system revenue bonds outstanding at June 30, 2005. These pledged revenues include student tuition and fees, auxiliary enterprises revenue, investment income, and indirect cost recovery revenue. Pledged revenues do not include state appropriations, gifts, endowment income, or other restricted revenues.

The University presently plans to issue approximately $80 million of system revenue bonds during fiscal 2006.

Note E - Lease Purchases

Certificates of Participation (COPS) and other long term obligations at June 30, 2005 consisted of the following (Dollars in thousands):

Certificates of Participation:	Average Interest Rate	Final Maturity	Balance 7/1/2004	Additions	Reductions	Balance 6/30/2005	Current Portion
1991 Towers Project							
(through ASU Foundation)	6.89%	07/01/10	$ 2,385		$ (275)	$ 2,110	$ 295
1993 West Campus Refunding	5.18%	07/15/05	4,070			4,070	4,070
1999A Downtown Center	5.75%	07/01/24	5,230		(145)	5,085	150
1999B Downtown Center	8.00%	07/01/24	4,900		(100)	4,800	110
2002 Certificates of Participation	4.75%	07/01/26	99,885		(2,180)	97,705	2,245
2004 West Campus Refunding	2.36%	07/01/09	22,495			22,495	
2004 Certificates of Participation	4.89%	09/01/30		$ 80,275		80,275	
2005 A Certificates of Participation	4.36%	07/01/30		110,115		110,115	
Other Lease Purchases	3.34% 10.00%	02/01/18	5,038	3,794	(1,556)	7,276	1,428
Subtotal: Par Amount of COPS/							
Other Lease Purchases			$ 144,003	$ 194,184	$ (4,256)	$ 333,931	$ 8,298
Premium on Sale of COPS			3,399	3,809	(615)	6,593	
Deferred Amount on Refundings			(1,132)		226	(906)	
			$ 146,270	$ 197,993	$ (4,645)	$ 339,618	$ 8,298

The funding responsibility for the June 30, 2005, outstanding debt is as follows (Dollars in thousands):

From Arizona State University operating revenues	$ 74,406
From State of Arizona provided state appropriations and other state funding sources (ASU in substance acting as a conduit)	259,525
	$ 333,931

During fiscal year 2005, the University issued $190.4 million in certificates of participation to fund the Research Infrastructure facility projects which included Biodesign Institute Building B and Interdisciplinary Science and Technology Buildings I, II, and III. The 2004 COPS were issued in July 2004 at an average interest rate of 4.89%. The 2005A COPS were issued in January 2005 at an average interest rate of 4.36%. The annual debt service will be funded by state appropriations in the amount of $14.5 million annually beginning in fiscal 2008. State appropria tions will also fund the University's portion of the Arizona Biomedical Collaborative project that will be debt financed during fiscal 2006.

Securities and cash restricted for certificates of participation debt service funds held by the trustee at June 30, 2005, totaled $28.9 million. Payment commitments to investors, including interest, for lease purchases and other long term obligations consisted of the following (Dol lars in thousands):

	Certificates of Participation		Other Lease Purchases	
	Principal	Interest	Principal	Interest
2006	$ 6,870	$ 14,974	$ 1,428	$ 318
2007	8,265	14,673	1,438	254
2008	13,935	14,243	938	197
2009	14,405	13,750	814	156
2010	14,860	13,146	511	120
2011 15	52,265	59,376	1,929	264
2016 20	65,650	44,883	218	21
2021 25	72,455	26,717		
2026 30	64,925	9,437		
2031	13,025	103		
	$ 326,655	$ 211,302	$ 7,276	$ 1,330

The University plans to issue approximately $15 million of certificates of participation in fiscal year 2006.

Note F - Capital Leases

Capital lease commitments to lessors at June 30, 2005 consisted of the following based on the net present value of the lease payments (Dollars in thousands):

	Average Interest Rate	Final Maturity	Balance 7/1/2004	Additions	Reductions	Balance 6/30/2005	Current Portion
Flexible Display Center	2.81%	2034	$ 35,000			$ 35,000	
ASU Foundation Building	4.89%	2034		$ 29,395		29,395	
Total			$ 35,000	$ 29,395		$ 64,395	

In October 2003, the University entered into a 30 year lease agreement with ASU Foundation LLC, an Arizona limited liability company, of which the sole member is the ASU Foundation, an Arizona non profit corporation and component unit of the University. The University leases four floors of office space in the ASU Foundation Building and the related parking structure. In fiscal 2005, upon completion and occupan cy of the building, the University recorded a capital lease of $29.4 million with lease payments of approximately $1.9 million annually.

The lease agreement related to the Flexible Display Center located in the Arizona State University Research Park continues to be based on the variable interest rate of the lease revenue bonds issued by Nanotechnology Research, LLC in April of 2004. Nanotechnology Research, LLC is an Arizona limited liability company, of which the sole member is Arizona Capital Facilities Finance Corporation, an Arizona non profit corporation and component unit of the University. Cash outflows for lease payments are not scheduled to begin until fiscal 2007, due to the availability of capitalized interest to fund lease payments through fiscal 2006.

Lease payment commitments, including interest reimbursement to the lessor at the rates in effect at June 30, 2005 for the variable rate lease, consisted of the following (Dollars in thousands):

	Capital Lease Payments
2006	$ 1,270
2007	2,055
2008	2,893
2009	3,650
2010	3,661
2011 15	18,476
2016 20	18,849
2021 25	19,304
2026 30	19,858
2031 34	16,388
Total minimum lease payments	$106,404
Less amount representing interest	(42,009)
Present value of net minimum lease payments	$ 64,395

Note G - Compensated Absences

The University has recorded a liability for accruals of vacation leave earned, but not taken at fiscal year end. Changes in accrued com pensated absences for the year ended June 30, 2005 follows (Dollars in thousands):

Balance 7/1/2004	Additions	Reductions	Balance 6/30/2005	Current Portion
$ 18,343	$ 19,823	$ (17,797)	$ 20,369	$ 1,869

Note H - 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 restrictions. 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, 2005, substantially all of the University's unrestricted net assets were from University generated revenues and were internally designated for aca demic and research programs and initiatives, and capital projects.

Note I - Operating Expenses by Classification

Operating expenses by functional and natural classification for the year ended June 30, 2005, are summarized as follows (Dollars in thou sands):

	Year ended June 30, 2005				
	Personal Services and Benefits	Supplies and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	$ 315,397	$ 42,080	$ 1,430		$ 358,907
Research	76,679	30,205	1,329		108,213
Public service	21,751	13,691	713		36,155
Academic support	82,561	38,316	241		121,118
Student services	31,594	8,473	104		40,171
Institutional support	60,322	24,596	3		84,921
Operation and maintenance of plant	23,601	30,222			53,823
Scholarships and fellowships	579	383	46,467		47,429
Auxiliary enterprises	34,962	53,732	2,620		91,314
Depreciation				$ 71,520	71,520
Total Operating Expenses	$ 647,446	$ 241,698	$ 52,907	$ 71,520	$ 1,013,571

Note J - Retirement Plans

The University participates in one cost sharing multiple employer defined benefit pension plan and five defined contribution pension plans. The following disclosures are required by Governmental Accounting Standards Board (GASB) Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*. In addition to the below mentioned plans, there are two other retirement plans totaling $0.5 million in total University and employee contributions for the year ended June 30, 2005.

Defined Benefit Plan

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

Funding Policy. For the year ended June 30, 2005, active ASRS members and the University were each required by statute to contribute at the actuarially determined rate of 5.70% (5.20% retirement and 0.50% long term disability) of the employees' annual covered payroll. The Arizona State Legislature establishes and may amend active plan members' and the University's contribution rates. Both the University and the covered employees made the required contributions for the years ended June 30, 2005, 2004, and 2003 as follows (Dollars in thou sands):

	Contributions Rates (Each)	University Contributions	Employee Contributions	Total Contributions
2005	5.70%	$ 11,880	$ 11,880	$ 23,760
2004	5.70%	10,769	10,769	21,538
2003	2.49%	4,408	4,408	8,816

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, 2005, plans offered by the Teachers Insurance Annuity Association/College Retirement Equities Fund (TIAA/CREF), Variable Annuity Life Insurance Company (VALIC), Fidelity Investments Tax Exempt Services Company (Fidelity), Aetna Life Insurance and Annuity Company (Aetna), and The Vanguard Group 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 earn ings 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, 2005, 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, 2005, were as follows (Dollars in thousands):

	Contributions Rates (Each)	University Contributions	Employee Contributions	Total Contributions
TIAA/CREF	7.00%	$ 10,644	$ 10,644	$ 21,288
VALIC	7.00%	1,635	1,635	3,270
Fidelity	7.00%	1,819	1,819	3,638
Aetna	7.00%	248	248	496
Vanguard	7.00%	938	938	1,876

Note K - ASU at the downtown Phoenix campus

In June 2005 the University and the City of Phoenix (City) entered into an intergovernmental agreement related to the development of an ASU campus in downtown Phoenix. Development of the campus is seen as a partnership between the University, the City of Phoenix, and area neighborhoods and businesses to help with the revitalization of the historic urban core of Phoenix. Per the terms of the agreement the City will acquire land (approximately 20 acres) and buildings which have been identified by the University as being within the proposed boundaries of the ASU at the downtown Phoenix campus. Once acquired, the land and improvements will be owned by the City of Phoe nix, until such a time as the property is conveyed to the University.

Interim Financing. The City of Phoenix City Council has authorized an amount not to exceed $100 million in 'interim financing' to be bor rowed by the City on a short term, interest only basis for the acquisition, demolition, renovation, tenant improvements, infrastructure, reloca tion, planning and all costs associated with acquiring the identified properties. The agreement obligates the University to pay 50% of the in terest only payments or 50% of the interest carrying cost on the interim financing for a period of three years, commencing December 2004. Should the interim financing need to be extended beyond three years, the City and the University will discuss the University's continued participation, but the University has no obligation to continue to participate in the interest payment and interest carrying cost obligations beyond the three year period. To the extent an amount to cover ASU's interest payments is obtained in permanent financing, an amount equivalent to the University's interest payments will be deposited in an 'Renewal and Replacement Reserve Fund'.

Permanent Financing. The City of Phoenix will hold a bond election in March 2006. If approved, the bonds will be used in the development of the ASU at the downtown Phoenix campus, as well as other City of Phoenix initiatives. The City is seeking permanent financing through bonds for the ASU downtown Phoenix campus project of approximately $233 million. The level of permanent funding obtained for this proj ect will ultimately determine the size of the downtown Phoenix campus and the types of academic programs that the University will deliver to the campus.

Academic Programs. Subject to the City obtaining the desired level of permanent funding for the downtown Phoenix campus, the University will provide the programs of the College of Nursing, University College, Walter Cronkite School of Journalism and Mass Communication, College of Public Programs, and KAET the University's public broadcast television station at the downtown Phoenix campus. Ultimately the downtown Phoenix campus is intended to accommodate 15,000 students and 1,800 faculty and staff. If the desired level of permanent funding is achieved it is anticipated these programs will be established by 2008 and the student population will be approximately 7,500 during the five year initial phase. The University anticipates opening the campus on a limited basis in fall 2006 with programs being offered by the College of Nursing, University College, and the College of Public Programs.

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

Leasing and Transfer of Property. The University (subject to Arizona Board of Regents' review and approval), upon occupancy of space in the downtown Phoenix campus, will lease from the City the space the University occupies. The lease term will be for a period of time 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 will directly pay all costs for the operation and regular maintenance of the facilities it leases. Five years from the effective date the University will make a good faith effort, contingent on its overall financial capabilities and the need to invest in other program development at the downtown Phoenix campus, to begin making monthly lease payments to the City to assist the City with reducing the permanent financing indebtedness or to assist the City with other development of the campus. The amount of the lease payments will be based on a negotiated percentage of market rent and will be re evaluated every three years.

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

Mercado Property. The University will transfer property it owns in downtown Phoenix, known as the Mercado property, to the City when final payment of outstanding debt on the property has been made, which is to occur on June 15, 2024. The City may purchase the Mercado property at any time after the construction of the new downtown Phoenix campus facilities from the permanent financing, and prior to June 15, 2024. The purchase price prior to June 15, 2024 will be the amount of any outstanding debt on the property and any non University related relocation costs.

Termination of Agreement. If the City of Phoenix voters do not approve the March 2006 bond election, either party may terminate the agreement, provided there have been good faith efforts made to amend the agreement to terms and conditions that will allow for the continued joint effort to achieve a mutually acceptable ASU at the downtown Phoenix campus. If the agreement is terminated the University will still be obligated to assist the City with the interim financing costs for three years.

Note L - 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 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, 2005, 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 Arizona State University (ASU) to the University of Arizona in the mid 1990s. 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 the Arizona Board of Regents (ABOR), Arizona State University, and faculty from ASU and the University of Arizona. The plaintiffs seek $10 million in compensatory damages and $15 million in punitive damages. In addition, in June 2004, the Havasupai Tribe filed an action against ABOR, ASU, the University of Arizona, and others, arising from the same set of allegations. The plaintiff seeks compensatory damages of $25 million and punitive damages of $25 million. 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. It is anticipated that judgments, if any, against ASU will be covered by State Risk Management insurance.

In August 2003, four University of Arizona students filed a lawsuit against the Arizona Board of Regents (ABOR) and the State of Arizona in Pima County (Arizona) Superior Court. The complaint alleged that the tuition increase approved by the ABOR for the 2003 04 academic year violates the State's Constitution. The complaint also asserted that the State has not provided funding to the three universities governed by the ABOR at the level required by the State Constitution. The complaint sought (i) a declaratory judgment that the actions of each of the defendants violate the State Constitution, (ii) preliminary and permanent injunctive relief to prevent the ABOR from imposing the tuition increase and to compel repayment of any amounts already collected, and (iii) preliminary and injunctive relief ordering the State to set in place a plan to provide increased funding for maintenance, operation and improvement of the State's universities.

In March 2004, the Superior Court granted the ABOR's and the State's motion to dismiss the case. In the related minutes entry, the Court held that in the exercise of its legislative and administrative function, which includes setting tuition levels for the State's three universities, the ABOR is absolutely immune from suit and that the conduct of the business of the State Legislature is absolutely immune from suit.

On March 15, 2004, the plaintiffs filed a notice of appeal with the Arizona Court of Appeals. On February 15, 2005, Oral Argument was pre sented before the Court of Appeals. To date, no ruling has been made by the Court in this case. The ABOR intends to vigorously defend the appeal. However, neither the ABOR nor the University is able to predict at the present time whether the lawsuit will proceed or what the ultimate outcome of the matter will be, or whether, or to what extent, it might impact the ABOR's ability to impose and collect tuition increases, or would otherwise affect the financial condition of the University.

On May 3, 2005, Dr. George Pettit filed a complaint against the ABOR and ASU and, on August 2, 2005, amended his complaint to add 14 individual defendants (officers and employees of ASU 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 ASU's decision not to renew Dr. Pettit's employment as the Director of the Cancer Research Institute (CRI) and as the holder of the Dalton Chair of Cancer Research and Medicinal Chemistry for the 2005 2006 academic year. ASU is a defendant in eight of the 14 counts. Outside counsel represents ASU in connection with two of the eight counts in which it is named. Count I seeks statutory review pursuant to A.R.S. § 12 901 of an administrative decision by the ASU to deny a whistleblow er complaint filed by Dr. Pettit. Count V alleges that the ASU breached a contract with Dr. Pettit when it did not renew his employment as Director of the CRI and holder of the Dalton Chair. For all other counts in the amended complaint, the Office of the Attorney General represents ASU. Discovery has not yet commenced. The University cannot predict the outcome of these matters at this time, but intends to vigorously defend itself in these matters. It is anticipated that some, but not all, judgments, if any, against ASU will be covered by State Risk Management insurance.

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

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

<u>Power Plant</u>. 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 the University's anticipated future energy needs. The contract with ACFFC is for 25 years, along with a related ground lease, and calls for minimum annual energy purchase obligations on the part of the University of approximately $7 million to cover the ACFFC's fixed management services and capital costs. Additional billing amounts will be based on a pass through to the University of the service provider's variable costs, primarily natural gas. Related to this agreement, ACFFC issued $51.6 million of variable rate demand revenue bonds in November 2004. In Decem ber 2004 ACFFC entered into a swap agreement that effectively fixed the interest rate on the revenue bonds at 3.124%.

This new power plant is anticipated to be more efficient and produce energy at a lower cost than the presently existing power plant which will also continue to operate. After full completion of the new power plant, it is anticipated that over the long run, the new privatized/third party power plant will operate close to full capacity with possibly less utilization of the existing 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 present Tempe campus utility purchases of approximately $18 million annually, which is not presently under a minimum annual energy purchase commitment.

<u>McAllister Academic Village.</u> In July 2005, the University entered into a ground lease with ACFFC for the construction and operation of the McAllister Academic Village (MAV) residential facility. In August 2005 ACFFC issued $145.0 million in variable rate demand revenue bonds. The project, to be constructed in two phases, will include approximately 2,000 beds for freshmen residential students for initial occupancy starting in August 2006 for phase one and August 2007 for phase two.

The ACFFC will have overall responsibility for the residential portion, comprising about 90% of the facility, including budgetary approval, with the University leasing the non residential portion of the facility. The ACFFC will contract 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 Depart ment, and with custodial and facility maintenance potentially being with a non university contractor.

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 MAV debt, if such a situation should ever exist.

It is contemplated that the non residential portion of the facility will be a capital lease of the University based on the net present value of the lease payments to be made by the University.

<u>ASU at the West campus housing (Las Casas).</u> In June 2005, ACFFC refunded the bonds for this project by issuing $16.0 million of refunding bonds. In order for ACFFC to obtain the lowest and most efficient financing arrangement possible, the University entered into a contingent commitment to make up any debt service funding deficiencies to the bondholders of the Las Casas debt, if such a situation should occur.

Note M – Component Units (Financially Interrelated Organizations)

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

Prior Period Adjustment

The accompanying financial information for 2004 has been restated to correct an error in the financial statements for the ASU Research Park in the recording of advanced refunding costs made in 1996. The restated net assets for all component units is (Dollars in thousands):

Net Assets, June 30, 2004, as previously reported	$ 288,218
Prior period adjustments	(1,941)
Net Assets, July 1, 2004, as restated	$ 286,277

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. Restricted support, where restriction are met in the same period as the donation is made, is shown as an addition to unrestricted support.

Pledges Receivable

The ASU Foundation's pledges receivable (unconditional promises to give) are recorded at their net realizable value using a discount rate of 10.9% for pledges initially committed to by donors before July 1, 2002. A discount rate of 6% is used for pledges initially committed to by donors after July 1, 2002. An allowance for uncollectible pledges is estimated based on the ASU Foundation's collection history and is recorded as a reduction to contribution support and revenue and an increase in the allowance for uncollectible pledges.

The Sun Angel Foundation's pledges receivable are recorded at their net realizable value using a 6% discount rate.

Pledges receivable consist of the following balances (Dollars in thousands):

	ASU Foundation	Sun Angel Foundation	Total
Gross pledges receivable	$ 64,715	$ 1,274	$ 65,989
Present value discount	(14,224)	(119)	(14,343)
Allowance for uncollectible pledges	(4,273)		(4,273)
Net pledges receivable	$ 46,218	$ 1,155	$ 47,373

Promises to give are receivable as follows (Dollars in thousands):

	ASU Foundation	Sun Angel Foundation	Total
Receivable in one year	$ 16,598	$ 527	$ 17,125
Receivable in two to five years	32,346	547	32,893
Receivable after five years	15,771	200	15,971
Total gross pledges to be received	$ 64,715	$ 1,274	$ 65,989

The ASU Foundation has existing conditional promises to give totaling $50.0 million at June 30, 2005. Payments are contingent upon meeting certain progress metrics as agreed to by the ASU Foundation and the donors. Contribution revenue will be recorded when the conditions have been substantially met.

Foundation for Arizona Universities

In December 2003, the Foundation for Arizona Universities (FAU) was formed to support the ASU Foundation, the University of Arizona Foun dation, and the Northern Arizona University Foundation. At June 30, 2004, the ASU Foundation has recorded the fair value of its portion of the assets gifted (primarily real property) held by FAU on its behalf. During 2005, the real property was sold and the proceeds disbursed to the three foundations. The Foundation incurred a loss of approximately $86,000 from the sale transaction.

Direct Financing Lease Agreement – ACFFC

Pursuant to a Sublease Agreement, Nanotechnology Research, LLC, a wholly owned subsidiary of ACFFC, leases its interest in the ASU Research Park to the University, which will pay rent at times and in amounts sufficient to pay all principal and interest (after utilization of amounts held in the Capitalized Interest Accounts) on the Series 2004 Bonds, as well as all fees and expenses related to the Series 2004 Bonds. The Sublease Agreement is a net lease, and Nanotechnology is entitled to receive the rents and all other sums payable pursuant to the Sublease Agreement free from all taxes, charges, fees, and expenses, all of which will be paid by the University.

The Sublease Agreement commenced April 7, 2004, and continued until June 30, 2004, 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 improve ments on the leased premises, transfers to the University without further consideration. Therefore, the lease is classified as a direct financing capital lease.

Lease payments are based on a variable interest rate currently determined on a weekly basis. The average interest rate approximates 2.81% at June 30, 2005. Lease payments commence once the Capitalized Interest Accounts are fully utilized, which at present interest rates is expected to be in 2007. ACFFC's net investment in this direct financing lease is $35.0 million.

Investments in Securities

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

The ASU Foundation investment policy is approved by the ASU Foundation's Board of Directors. The approved investment policy defines the amount made available for award from the permanently restricted endowment pool. At June 30, 2005, ASU Foundation made approxi mately $5.8 million available for award according to the following approved rate:

- If the current market value of an endowment is greater than its historic gift value, the approved rate is 4.0%.
- If the current market value of an endowment is less than its historic gift value, the approved rate is:
  - 2%, if an endowment agreement is signed by the donor and ASU Foundation.
  - 0%, if an endowment agreement is not signed by the donor and ASU Foundation.

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. 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 select ed 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	$ 13,951	$ 6,331	$ 34,702	$ 9,644	$ 64,628
Equities:					
Domestic	73,491	14,977		7,688	96,156
International	49,313	13,409			62,722
Total equities	122,804	28,386		7,688	158,878
Fixed Income	76,794	9,553		8,058	94,405
Mutual funds:					
Absolute return fund	10,144	2,993		2,853	15,990
Long/short fund of funds	10,332	3,005			13,337
Inflation hedge	10,507	3,426			13,933
Emerging markets	9,791	2,792			12,583
Total mutual funds	40,774	12,216		2,853	55,843
Other securities	855	285	1,831	4,217	7,188
Other investments	106,532		922		107,454
Total investments	$ 361,710	$ 56,771	$ 37,455	$ 32,460	$ 488,396

Included in investments at June 30, 2005 for the ASU Foundation is $1.25 million that is required by the Brickyard bond financing to be held in liquid funds. The amount required to be held in liquid funds will increase to $2.0 million on July 1, 2006, to $7.0 million on July 1, 2009, to $12.0 million on July 1, 2014, and to $17.0 million on July 1, 2019 unless a qualifying ASU sublease has been executed.

Property and Equipment

Property and equipment consists of (Dollars in thousands):

	ASU Foundation	ACFFC	Other Component Units	Total
Cost or donated value:				
Construction in progress		$ 46,720	$ 1,872	$ 48,592
Buildings and improvements	$ 15,233	28,914	15,839	59,986
Furniture, fixtures, and equipment	1,913	36,176	2,738	40,827
Land leasehold improvements			13,424	13,424
Other property and equipment		509	2,924	3,433
Total cost or donated value	$ 17,146	$112,319	$ 36,797	$ 166,262
Accumulated depreciation	(455)	(5,779)	(10,849)	(17,083)
Net property and equipment	$ 16,691	$106,540	$ 25,948	$ 149,179

The ASU Foundation completed construction of a new headquarters office building and related facilities 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 ground lease.

Bonds Payable

Bonds payable are as follows (Dollars in thousands):

	Final Maturity	ASU Foundation	ACFFC	Other Component Units	Total
Series 2005 Tax Exempt Refunding Bonds	2035		$ 16,005		$ 16,005
Series 2004 Variable Rate Demand Revenue Bonds	2030		51,605		51,605
Series 2004A Variable Rate Revenue Bonds	2034	$ 22,420			22,420
Series 2004B Variable Rate Revenue Bonds	2022	12,075			12,075
Series 2004A Variable Rate Demand Lease Revenue Bonds	2034		20,175		20,175
Series 2004B Variable Rate Demand Lease Revenue Bonds	2034		14,825		14,825
Series 2003 Lease Revenue Term Bonds	2023	20,400			20,400
Series 2003 Lease Revenue Term Bonds	2028	10,575			10,575
Series 2003 Lease Revenue Term Bonds	2034	16,625			16,625
Series 2003 Serial and Term Bonds	2035		13,395		13,395
Series 2002 Bonds	2018		31,065		31,065
Series 2001A Term Bonds (Mesa Student Housing, LLC)	2032			$ 20,050	20,050
Series 2001B Term Bonds (Mesa Student Housing, LLC)	2006			505	505
Series 2000 Serial and Term Bonds	2032		10,775		10,775
Series 1995 Development Refunding Bonds (ASU Research Park)	2021			17,615	17,615
Unamortized bond premium (discount)			1,501	(399)	1,102
		$ 82,095	$ 159,346	$ 37,771	$ 279,212

The following schedule reflects future debt service payment commitments to investors (Dollars in thousands):

Year Ending June 30,	ASU Foundation	ACFFC	Other Component Units	Total
2006	$ 385	$ 1,420	$ 1,115	$ 2,920
2007	995	1,830	1,160	3,985
2008	1,035	1,945	1,225	4,205
2009	1,090	2,845	1,285	5,220
2010	1,135	4,540	960	6,635
Thereafter	77,455	146,766	32,026	256,247
	$ 82,095	$ 159,346	$ 37,771	$ 279,212

In July 2004, the ASU Foundation issued, through the Industrial Development Authority (IDA) of the City of Tempe, Arizona, $22.4 million of Tax Exempt Series 2004A Variable Rate Revenue Bonds and $12.1 million of Taxable Series 2004B Variable Rate Revenue Bonds. The bonds were issued to finance the cost of acquiring, improving and equipping the Brickyard, a retail and office building located in Tempe. The proceeds of the 2004A Bonds were used to finance the portion of the Brickyard to be used by the University for University purposes. The proceeds of the 2004B were used to finance the portion of the Brickyard consisting of non University office and retail space. The Series A and B Bonds are collateralized by the Brickyard Facility building and parking structure, and by an ASUF Brickyard, LLC 15 year master lease with the University.

In November 2004, Sun Devil Energy Center, LLC, a wholly owned subsidiary of ACFFC, issued $51.6 million of Series 2004 Variable Rate Demand Revenue Bonds. The principal is payable annually beginning July 1, 2009 through July 1, 2030. The bonds are secured by property, leases and revenues.

In May 2005, West Campus Housing, LLC, also a wholly owned subsidiary of ACFFC, refunded bonds for the Las Casas project, a West Cam pus housing facility. ACFFC issued $16.0 million in Series 2005 Tax Exempt Refunding Bonds payable annually through July 2035.

As of June 30, 2005, the ASU Research Park had $17.6 million of revenue bonds outstanding at an average interest rate of 5.0%. The debt service on the bonds is secured by a subordinated lien on the ASU at Tempe campus revenues. Park revenues are not pledged in order to provide development flexibility to the Park.

Annual debt service on the Park bonds was $1.2 million in fiscal year 2005 and varies from a low of $1.2 million in fiscal 2005 to a high of $1.7 million in fiscal 2006. The University is obligated to pay the annual debt service, if not paid by the Park, under a debt service assurance agreement.

Beginning in fiscal 1990, the University provided operating cash advances to the Park repayable with interest to the University (1) upon the Park's total gross receipts for a fiscal year exceeding its total disbursements for that fiscal year and (2) before any Park surpluses are transferred to the ASU Foundation, for the benefit of ASU. The last year for cash transfers to the Park was fiscal 1998. Total cash advances repayable to the University at June 30, 2005, including accrued interest, totaled $3.4 million. During fiscal year 2005, the Park repaid $1.0 million to the University.

Financial Statement Information

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

Component Units
Statement of Financial Position
June 30, 2005

	ASU Foundation	ACFFC	Other Component Units	Total
Assets				
Investments	$ 418,481	$ 37,455	$ 32,460	$ 488,396
Property and equipment, net	16,691	106,540	25,948	149,179
Other assets	70,913	38,509	16,140	125,562
Total assets	$ 506,085	$ 182,504	$ 74,548	$ 763,137
Liabilities				
Bonds payable	$ 82,095	$ 159,346	$ 37,771	$ 279,212
Other liabilities	100,968	29,539	24,904	155,411
Total liabilities	$ 183,063	$ 188,885	$ 62,675	$ 434,623
Net Assets				
Permanently restricted	$ 205,222		$ 1,767	$ 206,989
Temporarily restricted	91,959		2,316	94,275
Unrestricted	25,841	$ (6,381)	7,790	27,250
Total net assets (deficit)	$ 323,022	$ (6,381)	$ 11,873	$ 328,514

Component Units
Statement of Activities
Year ended June 30, 2005

	ASU Foundation	ACFFC	Other Component Units	Total
Revenues				
Contributions	$ 59,981		$ 9,813	$ 69,794
Rental revenue		$ 3,586	9,482	13,068
Net investment income	17,317	529	1,575	19,421
Other revenues	23,557	3,019	8,819	35,395
Total revenues	$ 100,855	$ 7,134	$ 29,689	$ 137,678
Expenses				
Program services				
Payments to ASU	$ 30,355		$ 6,488	$ 36,843
Other program services	15,673			15,673
Personal services, operations, and administrative expenses	4,351	$ 1,860	10,898	17,109
Other expenses	10,465	6,837	5,749	23,051
Total expenses	$ 60,844	$ 8,697	$ 23,135	$ 92,676
Extraordinary items		$ (2,752)	$ (13)	$ (2,765)
Increase in net assets	40,011	(4,315)	6,541	42,237
Net assets at beginning of year, as restated	283,011	(2,066)	5,332	286,277
Net assets (deficit) at end of year	$ 323,022	$ (6,381)	$ 11,873	$ 328,514

Subsequent Events

McAllister Academic Village LLC (McAllister) a wholly owned subsidiary of ACFFC, was organized in May 2005 to provide assistance to the University by acquiring, constructing, developing and operating capital facilities to provide student housing, academic, tutorial, retail and food service at the Tempe campus of the University. The final plans and specifications for the project have been completed and approved by McAllister and the University. Revenue bonds of $145.0 million were issued by ACFFC in August 2005.

Leases. On July 1, 2005, McAllister entered into a ground lease with the University to develop, construct and operate its project. The ground lease expires on the earlier of July 1, 2045 or the first date on which all monetary liens and encumbrances on the leasehold estate have been paid. Upon termination of the ground lease, the premises will become the sole property of the University.

Also on July 1, 2005, McAllister entered into a lease with the University. Under this lease, the University will lease from McAllister, the academ ic portions of the project together with the food service and retail areas, and the related support areas. Any right, title or interest of McAl lister in and to the academic portions of the project will pass to the University without further cost upon the payment in full of the bonds by McAllister or the University and termination of the ground lease.

Development and Management Agreements. The McAllister project is being developed by the University pursuant to a Development Agreement, dated July 1, 2005. Pursuant to the Development Agreement, the University coordinates and administers construction of the project. McAllister will pay the University certain fees from proceeds of the Series 2005 Bonds for providing such services.

As construction of the McAllister project is completed, the University will manage the residential portion of the project on behalf of McAl lister pursuant to a year to year Management Agreement, dated July 1, 2005. McAllister will pay the University a fee of $50,000 per year for providing such services.

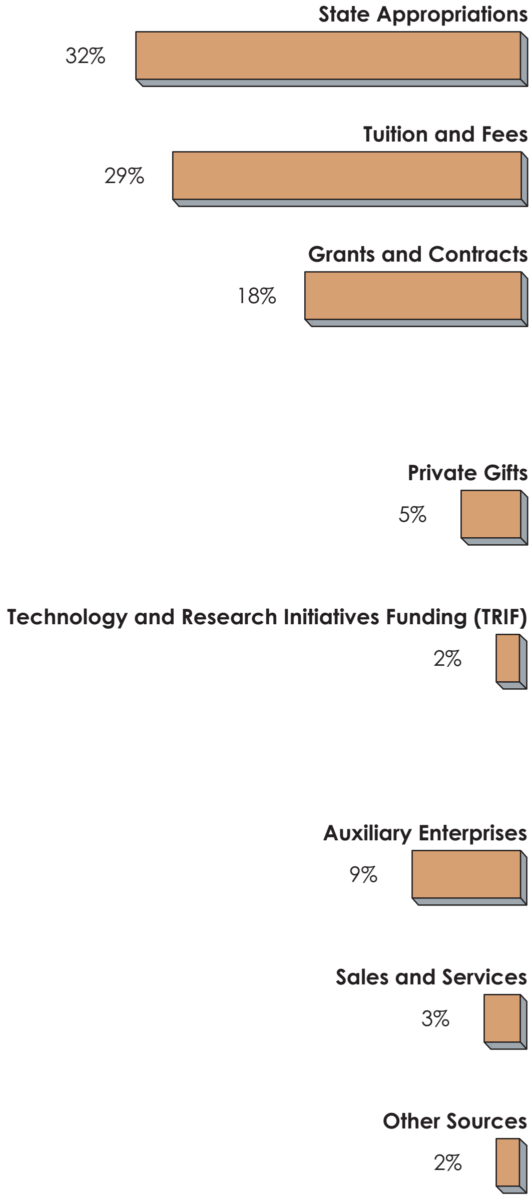
Revenue Bonds. On August 3, 2005 McAllister issued Variable Rate Demand Revenue Series 2005A and Series 2005B Bonds for $96.7 million and $48.3 million, respectively.

Both the Series 2005A bonds and Series 2005B bonds are due at various intervals through July 1, 2045 and bear interest at weekly rates unless and until converted to the fixed rate mode. Interest is payable monthly commencing on September 1, 2005.

ARIZONA STATE UNIVERSITY
COMBINED SOURCES AND USES

Sources

For the year ended June 30, 2005
(Dollars in millions)



State Appropriations	**$ 335.9**	Represents State of Arizona legislative appropriations for operations of the University.
Tuition and Fees	**302.1**	Includes $371.0 million in tuition and fees, net of $68.9 million in scholarship allowances.
Grants and Contracts	**189.4**	Represents governmental and nongovernmental grants and contracts for both research activities ($153.4 million) and financial aid programs ($36.0 million). Federally funded grants and contracts used for research activities totaled $126.5 million, including capital grants.
Private Gifts	**42.2**	Voluntary private support from individuals, foundations, and corporations, including $10.0 million in capital gifts.
Technology and Research Initiatives Funding (TRIF)	**22.6**	TRIF is generated from part of a 0.6% education sales tax approved by Arizona voters in November 2000 as part of an economic development strategy for the state. TRIF revenue is primarily used to support the research efforts of the ASU Biodesign Institute.
Auxiliary Enterprises	**99.7**	Represents operations of essentially self supporting activities such as bookstore, intercollegiate athletics, residential halls, and parking.
Sales and Services	**28.2**	Sales and services of educational departments, including ASU hosted national and international conferences and programs.
Other Sources	**24.1**	Includes $14.9 million in net investment income.
Total Sources	**$ 1,044.2**	

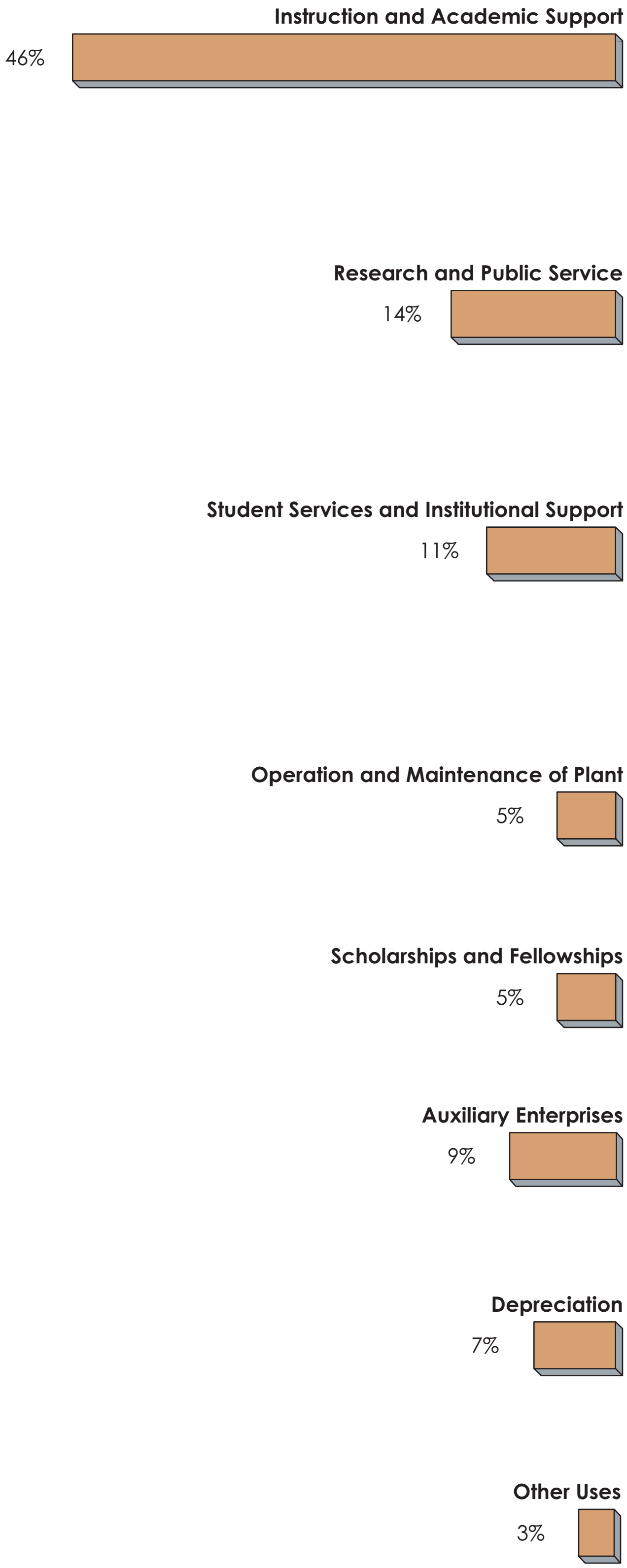
Note:

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 Arizona State University's including the Tempe campus, West campus, Polytechnic campus, and downtown Phoenix campus. 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



$ 480.0 Consists of (1) instruction expenses totaling $358.9 million, which include credit and non credit courses for academ ic, occupational, and vocational instruction for regular academic year and summer sessions, and continuing education, and (2) academic support expenses totaling $121.1 million, which include libraries, academic informa tion technology support, and academic administration.

144.4 Represents (1) research expenses of $108.2 million for activities specifically organized to produce research outcomes, and (2) public service expenses of $36.2 million for non instructional services beneficial to individuals and groups external to the University, such as public broad casting and community service programs.

125.1 Consists of (1) student services expenses totaling $40.2 million, which include admissions, registrar, student activi ties, counseling, career guidance, student financial aid administration, and student health services, and (2) insti tutional support expenses of $84.9 million, which include financial operations, human resources, public safety, development/fundraising, community relations, and ad ministrative information technology support.

53.8 Represents expenses for the operation and mainte nance of plant, including services related to facilities and grounds, and utility costs. Not included are amounts charged to auxiliary enterprises.

47.4 Includes restricted grants, including $32.0 million of feder ally funded Pell grants, and institutionally awarded merit and need based scholarships.

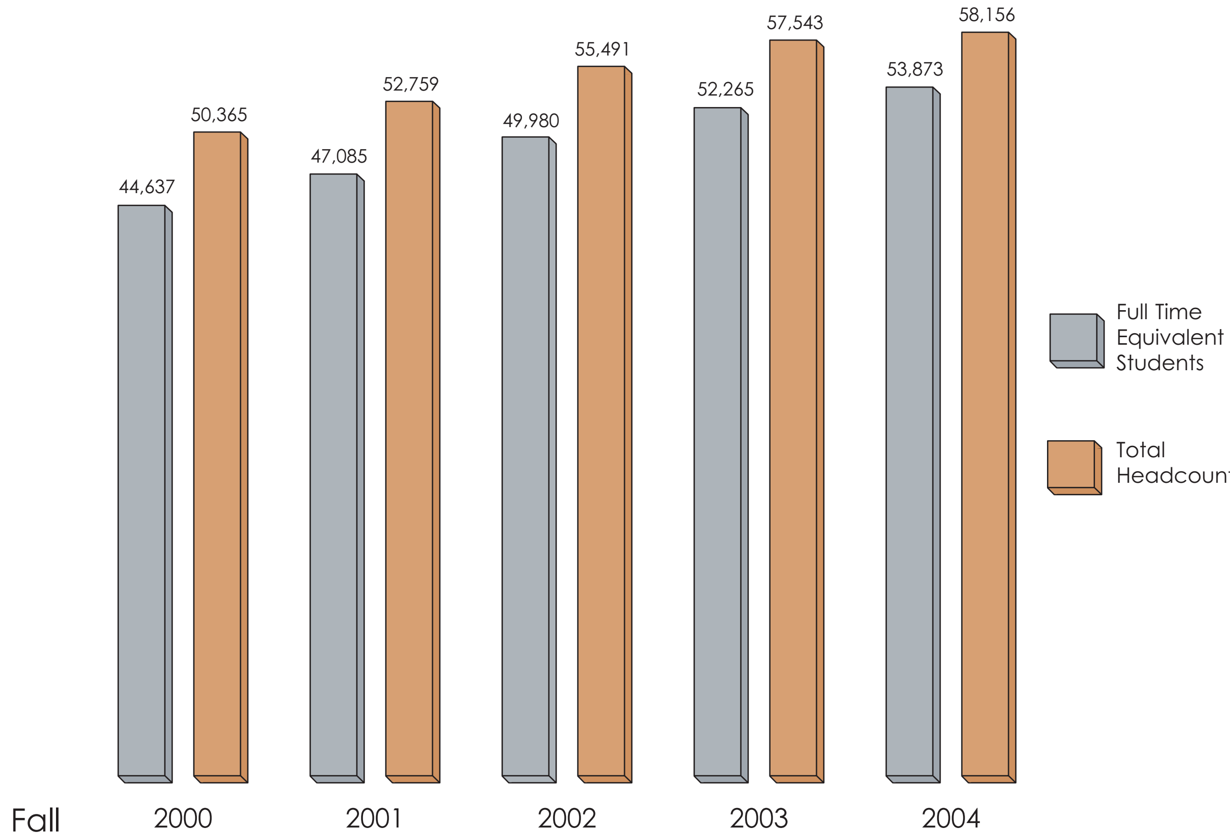
91.3 Consists of departments managed as essentially self sup porting activities that furnish services to students and staff for a fee directly related to, but not necessarily equal to, the cost of the service.

71.5 Depreciation is computed using the straight line method over the estimated useful life of each asset. Depreciation for buildings was $43.5 million and was primarily related to academic and research buildings.

35.1 Consists primarily of interest payments on debt service and non capital expenses on plant project accounts.

Total Uses **$ 1,048.6**

ARIZONA STATE UNIVERSITY ENROLLMENT



Degrees Granted in Academic Year 2004-2005

Undergraduate	9,729
Graduate	3,092
	12,821

Fall 2004 Enrollment

Undergraduate	46,670
Graduate	11,486
In-State	43,645
Out-of-State	14,511

Arizona Board of Regents

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Governor of Arizona

Tom Horne,
Superintendent of Public Instruction

APPOINTED

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Robert Bulla
Ernest Calderón
Lorraine Frank
Benjamin Graff
Edward Hermes
Chris Herstam
Jack Jewett
Christina Palacios
Gary Stuart

Arizona State University Administration

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President

Milton D. Glick,
Executive Vice President and Provost of the University

Carol N. Campbell,
Executive Vice President and Chief Financial Officer

Richard H. Stanley,
Senior Vice President and University Planner

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

Mernoy E. Harrison, Jr.,
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Gerald S. Jakubowski,
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ARIZONA STATE UNIVERSITY

Compiled and edited by the ASU Financial Services Office.