

REPORT HIGHLIGHTS FINANCIAL STATEMENT AUDIT

Subject

Arizona State University issues financial statements annually. The University is responsible for preparing financial statements, maintaining strong internal controls, and demonstrating accountability for its use of public monies. As the auditors, our job is to determine whether the University has met its responsibilities.

Our Conclusion

The information in the University's financial statements is fairly stated in all material respects, and the financial statements can be relied upon. This information is also incorporated in the State of Arizona's *Comprehensive Annual Financial Report*.



2007

Year Ended June 30, 2007

The University's Condensed Financial Information

The University's financial information is presented in three financial statements: Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; and Statement of Cash Flows. The University's discretely presented component units are not included in the condensed financial information that follows.

Statement of Net Assets

The Statement of Net Assets reports all of the University's assets and liabilities using the accrual basis of accounting, which is similar to the accounting that most private-sector institutions use. Net assets, which is the difference between assets

and liabilities, include three major categories. The first category, invested in capital assets, net of related debt, shows the University's equity in property, plant, and equipment. The next category, restricted net assets, shows the amount of net resources available for certain university expenditures. These net assets must be used for purposes determined by donors and external entities that have placed purpose restrictions on their use. The third category, unrestricted net assets, shows the net resources available to the University to fund other general operations. The summary below presents a condensed Statement of Net Assets as of June 30, 2007.

Statement of Net Assets As of June 30, 2007 (In Millions)

Assets	
Current	\$ 198
Noncurrent, other than capital	281
Capital assets, net	<u>1,409</u>
Total assets	<u>1,888</u>
Liabilities	
Current	130
Noncurrent	<u>867</u>
Total liabilities	<u>997</u>
Net Assets	
Invested in capital assets, net of related debt	596
Restricted	139
Unrestricted	<u>156</u>
Total net assets	<u>\$ 891</u>

Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets presents the University's operating and nonoperating revenues and expenses, and the resulting change in net assets. Revenues and expenses are classified as operating if they relate to the University's primary activities, such as instruction, research, and public service. All other revenues and expenses, such as state appropriations and interest on indebtedness, are considered nonoperating. The change in net assets indicates whether the University's financial health has improved or deteriorated as a result of current-year operations. For the current year, the University's net assets showed an increase of \$47 million. The summary to the right presents the University's revenues and expenses for the year ended June 30, 2007.

Revenues

Between fiscal years 2005 and 2007, the University's total revenues have increased by \$314 million, or 30 percent. As shown in the chart below, the change primarily resulted from increases in state appropriations, tuition and fees, grants and contracts, and other revenues. State appropriation revenues increased \$94 million, tuition and fees revenues increased \$98 million, grants and contracts revenues increased by \$30 million, and other revenues increased by \$67 million during the two-year period. These changes primarily resulted from operating

Revenues and Expenses For the Year Ended June 30, 2007 (In Millions)

Operating Revenues

Tuition and fees	\$ 400
Grants and contracts	217
Sales and services	164
Other	<u>7</u>
Total operating revenues	<u>788</u>

Nonoperating Revenues

State appropriations	430
Other	<u>140</u>
Total nonoperating revenues	<u>570</u>
Total revenues	<u>\$1,358</u>

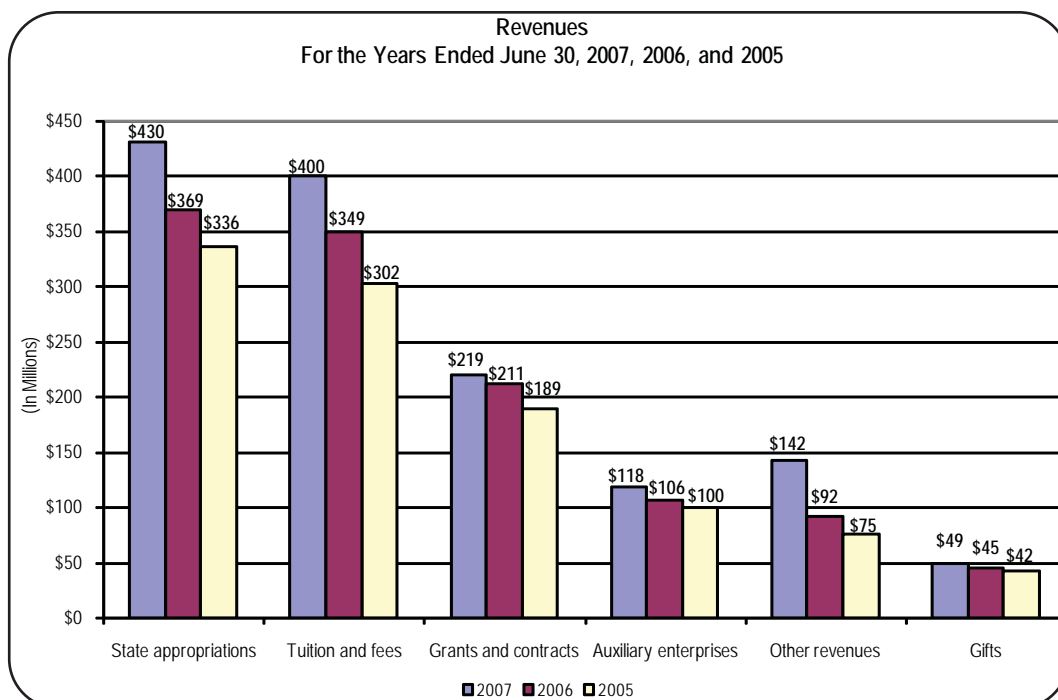
Operating Expenses

Educational and general	\$1,073
Auxiliary enterprises	113
Depreciation	<u>78</u>
Total operating expenses	<u>1,264</u>

Nonoperating Expenses

Interest on indebtedness	33
Other	<u>14</u>
Total nonoperating expenses	<u>47</u>
Total expenses	<u>\$1,311</u>

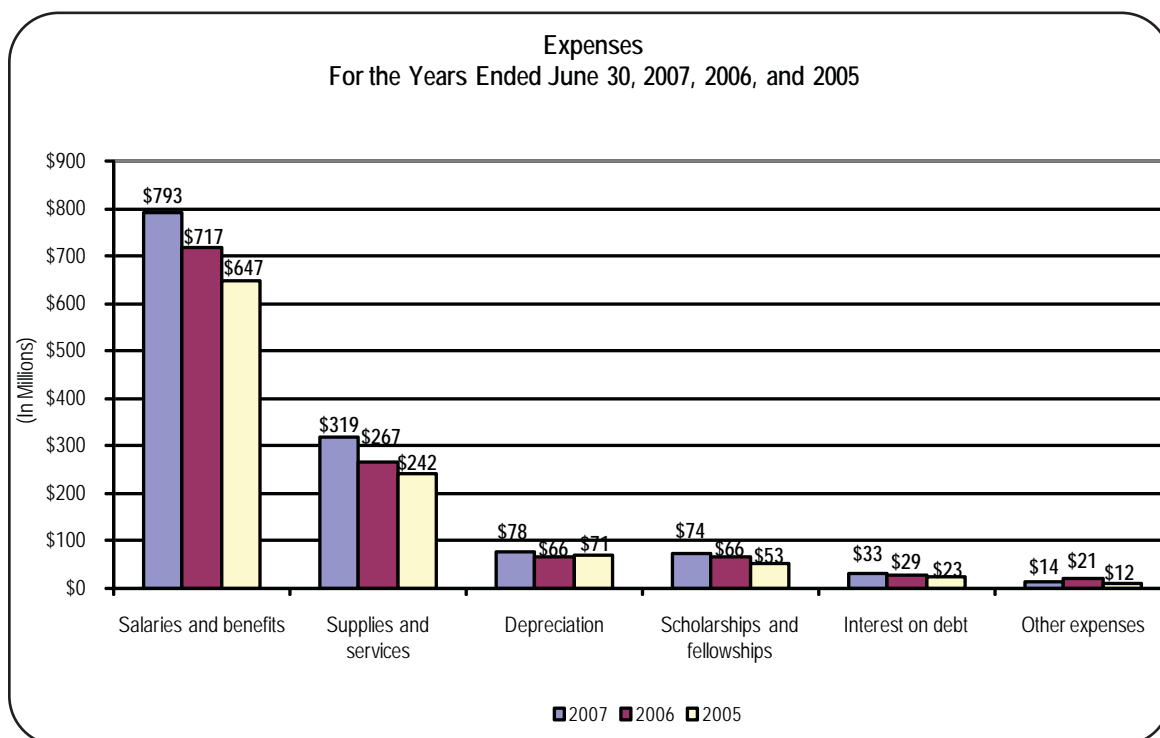
appropriation increases of \$87 million to partially offset the cost of student enrollment growth and a capital appropriation of \$7 million, increased charges for tuition and fees, and increases in grants awarded to the University. Changes in other revenues primarily resulted from increased sales and services by educational departments, higher investment income, and a \$19 million gain on the sale of land in fiscal year 2007.



Expenses

Between fiscal years 2005 and 2007, the University's total expenses have increased by \$263 million, or 25 percent. As shown in the chart below, the change primarily resulted from increases in salaries and benefits, and supplies and

services expenses. Salaries and benefits increased \$146 million, and supplies and services increased \$77 million during the period. These changes primarily resulted from rising salaries and related employee-benefit costs, operational increases primarily related to the research and instruction mission, and increases in services provided to students.



Statement of Cash Flows

The Statement of Cash Flows provides information about cash receipts and cash payments during the year. This statement helps users assess the University's ability to generate net cash flows to meet its obligations as they come due and the need for external financing. The table to the right shows the net cash flows from each of the University's major activities for the year ended June 30, 2007.

Cash Flows For the Year Ended June 30, 2007 (In Millions)

Cash flows from:	
Operating activities	\$(390)
Noncapital financing activities	501
Capital and related financing activities	(124)
Investing activities	<u>14</u>
Net increase in cash and cash equivalent investments	<u>\$ 1</u>

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**Arizona State
University**

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Year Ended June 30, 2007