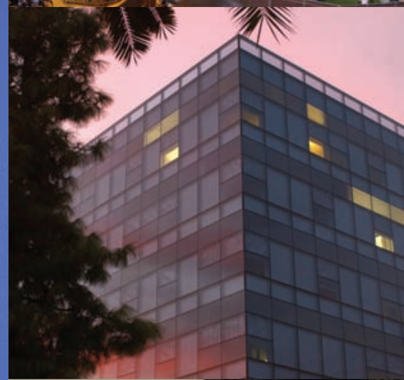
ASU Arizona State University



2006 Financial Report

A NEW AMERICAN UNIVERSITY

The New American University is **Arizona State University's** vision for a university that is responsible for the economic, social, and cultural vitality of our region.

As a New American University, we seek to:

- Provide quality education that is accessible to a broad population
- Create a highly educated workforce
- Generate economic growth
- Conduct transdisciplinary research for the public good
- Maintain a global perspective in our endeavors

Embodying this vision for the University on the front cover are:

Featured: **THE BIODESIGN INSTITUTE AT ASU** was awarded 2006 Laboratory of the Year honors by *R & D Magazine*. The goal of the Biodesign Institute is to improve human health and quality of life through use-inspired biosystems research and effective partnerships. The Biodesign Institute merges formerly distinct fields of research including biology, chemistry, physics, agriculture, environmental science, electronics, materials science, engineering, and computing. Research is focused on preventing and curing disease, overcoming the pain and limitations of injury, renewing and sustaining our environment, and securing a safer world. Summer 2006 was the inaugural year for the Biodesign Institute High School Internship Program which provided selected high school students hands on experience in biotechnology research. The 8 week paid internship program involved students in lab research on projects with a Biodesign Institute researcher working as the student's mentor.

Top to Bottom:

IRA A. FULTON SCHOOL OF ENGINEERING provides undergraduate and graduate programs for engineering, computer science and construction students, giving them the knowledge and skills they need for success in a technically oriented career. The School was ranked 41st in the nation for undergraduate programs and 47th for graduate programs – with five graduate majors in the top 30 – as determined by *U.S. News & World Report*. The Brickyard on Mill Avenue (pictured) is located in downtown Tempe and houses the engineering dean's office, faculty offices, classrooms, and research and instructional laboratories.

HURRICANE KATRINA RELIEF funds of over $1.3 million were raised by ASU in conjunction with Louisiana State University during a September 10, 2005 football game held at ASU's Sun Devil Stadium. The game originally was scheduled to be held in Baton Rouge, but circumstances resulting from Hurricane Katrina necessitated the game's relocation. Net proceeds from the game were paid to the Bush-Clinton Katrina Fund, Hurricane Katrina Student Relief Funds, and other charitable organizations for their efforts on behalf of the victims of Hurricane Katrina and the flooding in New Orleans. In related efforts to assist displaced students, ASU enrolled approximately 100 students from various universities in the impacted areas. ASU's College of Design helped to relocate an entire class of architecture students and their professors from Tulane University for the fall 2005 semester. The architecture students worked on a variety of projects to help rebuild New Orleans.

The Coor Building on the Tempe campus is the University's newest academic instruction building and helps to serve the instructional needs of the 51,612 students enrolled at the Tempe campus in Fall 2005. **ASU Tempe had the largest single campus enrollment in the nation for Fall 2005.** Total Fall 2005 enrollment for all ASU campuses was 61,033 and total Student Credit Hours totaled 724,922. ASU's Fall 2005 freshmen class included 8,467 first-time freshmen whose average GPA was 3.31 and who on average ranked in the top 28% of their high school graduating class. This class also included 155 National Merit Scholars.

ASU in the Community (www.asu.edu/community) is an online resource of Arizona State University's community outreach programs. ASU offers more than 1,020 outreach opportunities in programs that provide needed educational, cultural, and health care services throughout Arizona. Examples of community service projects range from ASU chapters of national organizations such as America Reads, Big Brothers Big Sisters, Habitat for Humanity and the Komen Race for the Cure to programs developed specifically by ASU students, faculty, and staff.

ARIZONA STATE UNIVERSITY

2006 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 2006 Financial Report for Arizona State University. The New American University emerging at ASU reflects the ongoing effort by our academic community to redefine public higher education by creating an innovative and solution-focused institution dedicated to addressing Arizona's unique issues, leveraging our region's competitive advantages through strategic global engagement, and tackling society's most pressing challenges. 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—those who understand the significance of its mission and are committed to the success of both the university and the region.

As we embark on a new year of advancing ASU into the top tier of American research universities, we take pride in noting a number of milestones and accomplishments. The emerging stature of our university is underscored by the growing number of recipients on the faculty roster of prestigious national and international honors. Since July 2002 ASU has recruited more members of the National Academies than the sum total of Academy members on the faculty in its more than forty-five years as a Ph.D.-granting institution. Record numbers of our students continue to be honored with national scholarships and awards, and, once again, ASU welcomed more freshmen National Merit Scholars than almost any public university in the nation.

ASU surpassed a significant benchmark in the fiscal year that ended June 30. This marks the first time Sponsored Projects and Technology and Research Initiative Funding (TRIF) surpassed the $200 million level at ASU. In the last six years, ASU has doubled its research expenditures. ASU is one of only a handful of major research universities without both an agricultural and medical school to have attained this distinction. Peer institutions in this category include Caltech, MIT, and Princeton.

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. Consistent with the school-centric model, we have conceptualized and launched as many as eleven new schools and interdisciplinary research institutes, including the Global Institute of Sustainability; School of Global Studies; School of Earth and Space Exploration; and School of Human Evolution and Social Change. Undertaken in tandem with our overall organizational reconceptualization, our Comprehensive Development Plan is being implemented over the course of the next decade. The master plan will redefine the relationships between the four ASU campuses, the clusters of colleges and schools that comprise each campus, the university community and its academic programs, and the university and surrounding metropolitan region. The intent of the master plan is to create campuses whose buildings and grounds reflect the scope and stature of a world-class institution and provide for our students sustainable environments conducive to both academic and personal success.

On March 14 residents of the City of Phoenix approved a bond issue that provides $223 million for facilities and other investments in conjunction with the establishment of our Downtown Phoenix campus, which opened for classes in August. The outcome of the election allows us to move forward with the realization of the mixed-use academic/artistic/commercial/residential living and learning environment that has been envisioned during our multi-year master planning process. The City of Phoenix has assumed responsibility for the acquisition and renovation of the buildings to be used for the campus. These facilities will be transferred to the university when all debt related to the March 2006 bond election has been defeased. During the summer both the College of Public Programs and the College of Nursing and Healthcare Innovation moved from the Tempe campus to the Downtown Phoenix campus. The recently established University College is headquartered on the downtown campus. Almost 3,000 students are taking at least one class at the newest ASU campus. And because the colleges and schools on this campus will have in common a focus on the public mission of ASU, our capacity to serve the many diverse communities of the metropolitan region will be enhanced. ASU and the University of Arizona are helping transform downtown Phoenix and improve healthcare for Arizona citizens by working together to create a twenty-first century model for biomedical teaching and research. Just east of the new downtown campus, the joint biomedical campus is home to the University of Arizona College of Medicine's Phoenix program in collaboration with ASU, which is scheduled to welcome its first cohort of first-year medical students next summer. The Translational Genomics Research Institute (TGen), a strategic partner, is already fully operational on the site, and the ASU Department of Biomedical Informatics in collaboration with the University of Arizona will also locate on the campus. And, of course, we continue to advance our ongoing clinical partnerships with institutions such as Mayo Clinic.

The opening of a number of new facilities signals the continuing expansion of the university's research infrastructure, including the second building of the Biodesign Institute, and three interdisciplinary science and technology buildings (two on our Tempe campus and another at the Polytechnic campus). In recognition of its innovative design, *R&D Magazine* named the Biodesign Institute the 2006 Laboratory of the Year. The annual competition includes industrial, government, and academic laboratories nationally and abroad. Also accorded "high honors" was ISTB II, a recipient of the Leadership in Energy and Environmental Design (LEED) silver ranking from the U.S. Green Building Council (USGBC). This unprecedented investment was made possible by the 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. These new facilities have helped ASU secure major projects, including the $43.6 million Army grant that led to the formation of the Flexible Display Center, a $14 million Gates Foundation grant for Roy Curtiss of the Biodesign Institute to develop a new vaccine to combat bacterial pneumonia in newborns, and the recently announced $18 million grant for the incoming dean of the Ira A. Fulton School of Engineering, Deirdre Meldrum, for the Microscale Life Sciences Center.

ASU continues to pursue strategies to increase revenue source diversification, and 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 run. Among measures taken to boost other revenue sources during FY 2006, was an increase in tuition and fees. Despite these tuition increases, enrollment during the 2006 academic year increased by almost 3,000 students, marking seven years of consecutive enrollment increases. While increasing by $50 million since 2002, state appropriations as a percentage of total ASU revenues have decreased from 39 to 31 percent. During this same period tuition and fees have increased by $161 million, and as a percentage of total ASU revenues from 23 to 30 percent. While grant and contract revenues, primarily for research, have significantly increased—by $87 million during the same period—as a percentage of total ASU revenues, these sources have only marginally increased, from 15 to 18 percent. With completion of several 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 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 14 percent increase in research grants and contracts revenues during 2006.

In accordance with the financial reporting requirements of the Governmental Accounting Standards Board, the ASU audited financial report also includes information about independent component organizations financially related to the university, including the ASU Foundation. Net assets (fund balances) for these related organizations totaled $453 million, comprised largely of donor-restricted endowment funds. In viewing the financial status of ASU, it is essential to consider ASU in the context of its very important component organizations. Most of ASU's endowments and many of its capital facilities are held by these component units. Total university revenues for 2006 were $1.17 billion, a 12 percent increase in one year. Revenues for the component units were $228 million, an impressive 65 percent increase in one year. On a combined ASU and component organization basis, 2006 revenues totaled $1.4 billion. With regard to increases in net assets (fund balances), ASU and its component units had an impressive $131 million increase, representing 9 percent of total revenues. Although fluctuations in net assets may be anticipated during the next several years as new research facilities come on line, ASU and its related organizations anticipate a continuing long-run trend of annual increases in net assets, especially insofar as the university and the ASU Foundation receive important private gifts.

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. ASU is on track to build a great university here in metropolitan Phoenix.

Michael Crow

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, 2006, 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 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, 2006, 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, 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note A, the University implemented the provisions of Governmental Accounting Standards Board Statement No. 46, *Net Assets Restricted by Enabling Legislation*, for the year ended June 30, 2006, which represents a change in accounting principle.

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

Debbie Davenport
Auditor General

October 13, 2006

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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, 2006. This discussion has been prepared by management and should be read in conjunction with the financial statements and the accompanying notes.

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

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

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, 2006 and 2005 are summarized below (Dollars in millions).

		2006	2005
ASSETS			
	Current assets	$ 184.1	$ 180.2
	Noncurrent assets (excluding capital assets)	258.0	325.8
	Noncurrent capital assets, net	1,323.6	1,245.9
	Total Assets	$ 1,765.7	$ 1,751.9
LIABILITIES			
	Other liabilities	$ 115.5	$ 106.3
	Long term debt liabilities	807.1	808.2
	Total Liabilities	$ 922.6	$ 914.5
NET ASSETS			
	Invested in capital assets, net	$ 580.3	$ 572.5
	Restricted:		
	Nonexpendable	54.8	48.7
	Expendable	62.9	55.9
	Unrestricted	145.1	160.3
	Total Net Assets	$ 843.1	$ 837.4

Overall the University's financial position showed a $5.7 million increase in net assets between fiscal 2005 and 2006. Current assets increased by $3.9 million between years, and noncurrent assets, excluding capital assets, decreased by $67.8 million. At June 30, 2006 current assets primarily consisted of cash and cash equivalent investments and net accounts receivable. The decrease in noncurrent assets was primarily due to a $75.7 million decrease in noncurrent (restricted) cash and cash equivalents, the result of the completion of several debt funded research building construction projects during fiscal 2006. Fiscal 2006 total cash and investments was $361.8 million, a decrease of $51.4 million from the fiscal 2005 total of $413.2 million.

Capital assets, net of accumulated depreciation increased by 6%, or $77.7 million, in fiscal 2006. During fiscal 2006 the Biodesign Institute's second building, Biodesign B, and Interdisciplinary Science and Technology Building (ISTB) I, II, and III were completed and occupied. These facilities added over 415,000 square feet of research space at the Tempe campus, and 39,000 square feet at the Polytechnic campus.

Other liabilities including accounts payable, deferred revenues, compensated absences, and funds held for others increased by 9%, or $9.2 million, with small increases occurring across most liability categories. Included in the long term debt liabilities are the University's bonds payable, certificates of participation, and lease purchase obligations, and capitalized leases. In fiscal 2006 ASU issued $15.8 million in certificates of participation (COPS) to fund ASU's portion of the Arizona Biomedical Research Collaborative Building at a biomedical campus being developed in downtown Phoenix in cooperation with the University of Arizona; and to provide additional funding for the Biodesign Institute Building B on the Tempe Campus. This joint biomedical campus will be a collaboration of programs offered by ASU, the University of Arizona, and Translational Genomics Research Institute (TGen), a strategic research partner in the venture, as well as clinical partners including the Mayo Clinic and Barrow Neurological Institute.

Overall there was a $5.7 million increase in net assets between years, primarily the result of a major cash discretionary gift to the University that was received late in the fiscal year. The gift proceeds will be expensed in future years for University initiatives, as determined by the University's president.

ASU - Capital and Debt Activities

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

Major facilities completed on the Tempe campus during fiscal 2006 were the Biodesign Institute Building B, and ISTB I and II. ISTB III was also completed in fiscal 2006 and is located on the Polytechnic campus. The Biodesign Building B houses projects related to innovative medical solutions and novel approaches to the study of infectious diseases and vaccinology. ISTB I provides 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 in ISTB 1 will focus on metabolic biology and sociocomplexity, kinesiology and bioengineering. ISTB II is home to rapidly expanding programs in advanced pavement materials and transportation planning, geotechnical engineering, fluid dynamics and sustainable materials. ISTB III provides space for focused areas of excellence in health and wellness, applied cognitive sciences, and applied biological sciences.

The Biodesign Institute at ASU was named the 2006 Laboratory of the Year by *R&D Magazine*. The award recognizes innovative laboratory design that creates a superior working environment and supports research excellence. The annual competition includes industrial, government, and academic laboratories across the U.S. and abroad.

The ISTB II was also recognized by *R&D Magazine* by receiving a "High Honors" designation. Construction of both the Biodesign B Building and ISTB II, as well as ISTB I and ISTB III, were the results of the State of Arizona's investment in research facilities through the Research Infrastructure Bill, approved by the Arizona Legislation in 2003. ISTB II also recently received the Leadership in Energy and Environmental Design (LEED) silver rating from The U.S. Green Building Council (USGBC). The rating system is used by USGBC to promote environmentally sustainable buildings. Special attention was paid to air quality, energy-efficient lighting, use of recycled materials, and water consumption in the design of the building, allowing it to be built at a higher level of sustainability than normal industry standards require.

With the creation of research facilities that enhance intellectual fusion, ASU is able to attract world-class researchers, which will help to address some of the most pressing challenges to human health and society. Work being performed in ASU's research facilities include:

- sending three kinds of microbes into space on the space shuttle Atlantis in summer 2006 to study how space affects their genetic responses and their ability to cause disease;
- participating with various government agencies, academic institutions, and private industry during a disaster drill emergency response test in order to field test emergency response technologies including molecular-based diagnostic tests, in a real-time disaster scenario;
- working with international colleagues at a symposium held on campus in April 2006 to work on a roadmap for biology-based solutions to water purification issues; developing a technique to measure the electrical conductance of a single DNA molecule which will aid in the ongoing quest to understand and prevent disease; and
- developing practical and effective therapeutic interventions to improve the motor skills of children with cerebral palsy.

In March 2006 residents of the City of Phoenix approved a bond issue which included $223 million for the establishment of the ASU at the Downtown Phoenix campus (Note K – ASU at the Downtown Phoenix campus). Classes opened at the Downtown Phoenix campus in August 2006. The City of Phoenix has responsibility for the acquisition and renovation of the buildings to be used for the campus. These facilities will be transferred to the University when all debt related to the March 2006 bond election has been defeased. In addition to administrative and academic offices, classrooms, laboratories, and a temporary residential hall facility, the campus also includes an academic library, bookstore, student success center, and a student health center. ASU is responsible for the educational program costs, as well as operational and capital equipment costs for the development of the Downtown Phoenix campus. During the summer of 2006 both the College of Public Programs and the College of Nursing and Healthcare Innovations moved from the Tempe campus to the Downtown Phoenix campus. The recently established University College also resides at the Downtown Phoenix campus. For fall 2006 approximately 2,800 students were attending at least one class offered by the Downtown Phoenix campus.

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

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

The revenues, expenses, and changes in net assets for the years ended June 30, 2006 and 2005, are summarized as follows. (Dollars in millions):

	2006	2005
Operating revenues		
Tuition and fees, net	$ 349.4	$ 302.1
Federal grants and contracts, research and financial aid	174.4	161.3
Auxiliary enterprises, net	106.7	99.7
Other operating revenues	79.7	60.1
Total operating revenues	$ 710.2	$ 623.2
Operating expenses	1,115.8	1,013.5
Operating loss	$ (405.6)	$ (390.3)
Net nonoperating revenues (expenses)		
State appropriations	$ 368.6	$ 335.9
Other revenues	86.4	72.8
Other expenses	(42.8)	(35.1)
Gain/(loss) before other revenues, expenses, gains, or losses	6.6	(16.7)
Capital additions and other gains	6.9	12.3
Special item	(7.8)	-
Increase/(Decrease) in net assets	$ 5.7	$ (4.4)
Net assets, beginning of year	837.4	841.8
Net assets at end of year	$ 843.1	$ 837.4

Revenues to support ASU's basic activities, including both operating and nonoperating revenues and capital additions, increased by $127.9 million in fiscal 2006, a 12% increase from fiscal 2005. State of Arizona operating appropriations, along with student tuition and fees are the primary funding sources for the instructional mission of the University. Grants and contracts allow researchers and talented students across the University, and on all campuses, to make significant discoveries in a wide range of fields. Private gifts are another important revenue source and are used to provide financial aid to students, support faculty and university initiatives, and to fund capital projects. Sales and services revenues of auxiliary enterprises include athletic ticket sales, student housing, and bookstore operations.

Overall operating revenues increased by $87.0 million between years with the increases primarily occurring in net tuition and fees revenues, federal research grants and contracts, as well as departmental sales and services. The increase in tuition and fees revenues was due to increases in academic year tuition and fees/rates and a 5% increase in enrollment. The additional revenues generated from the tuition increases went to increased financial aid scholarship and fellowship commitments and to improve the quality of the academic experience for students.

The $13.1 million, 8%, increase in federal grants and contracts was across several areas of research with the largest increase occurring in the Center for Infectious Diseases and Vaccinology at the Biodesign Institute. Federally funded research currently underway includes projects for enhancing the instruction of mathematics and the sciences; educating and mentoring minority students pursuing graduate degrees in the sciences, technology, engineering, or mathematics; working to improve brain functions; developing a safer smallpox vaccine; looking for new anticancer drugs; and developing a forensic device to extract and analyze DNA samples; as well as many of the projects mentioned earlier as specifically occurring in ASU's new research facilities. The growth in research grant activity is highlighted in the three year comparison of sponsored projects grant activity shown on page 8.

Operating expenses increased by 10%, or $102.3 million between years. Increases occurred across most categories of operating expenses due to state wide July 2005 and March 2006 salary adjustments for State of Arizona employees. There were also increases in the State of Arizona retirement system employer paid contributions and employer funded health insurance premiums. These increases were funded from a combination of state appropriations and other university funds. The operating expense categories with the largest percentage increases included research, institutional support, and operation and maintenance of plant.

Research expenses increased by $19.1 million with increases occurring in most research areas across the campuses, with the largest increase occurring in the Biodesign Institute's Center for Infectious Diseases and Vaccinology (CIDV). The CIDV manages numerous grants from a large number of funding sources including eight grant projects funded by the Grand Challenges in Global Health Initiative which is primarily funded by the Bill and Melinda Gates Foundation. The Grand Challenges in Global Health Initiative is a major effort to achieve scientific breakthroughs against diseases that kill millions of people in the world's poorest countries. Other CIDV research funding sponsors include the National Institute of Health, Japan Health Sciences Foundation, U.S. Department of Defense, U.S. Department of Agriculture, and the Ellison Medical Foundation. The researchers in the CIDV are focused on basic bacterial and viral infectious disease processes as well as the design and use of vaccines and protein therapeutics to combat infectious diseases.

Increases in both institutional support and operation and maintenance of plant are partially related to increased research efforts. Institutional support expenses are primarily related to University wide expenses in support of ASU's primary programs of instruction, research, and public service. During fiscal 2006 increases in institutional support occurred in most areas. The most notable increases included over $2 million in University funded administrative expenses of the Biodesign Institute, as well as increases in ASU's property management area. The operation and maintenance of plant category had an approximately $5 million increase in utilities expenses as the result of the new research buildings becoming operational in fiscal 2006, as well as rate increases for electricity, water, and propane/diesel fuels.

Net nonoperating revenues increased by $38.6 million in fiscal 2006 with the increase largely due to increased state appropriations ($32.7 million) and private (noncapital) gifts ($8.4 million), somewhat offset by an increase between years in interest paid on capital debt. Included in the increased state appropriations was approximately $8 million from the Arizona Legislature to partially fund the cost of ASU's student enrollment growth. Also included were two legislatively approved general salary increases, funding for health insurance and State of Arizona retirement system increases, and $1.0 million in funding for the Phoenix Biomedical Campus. The increase in private gifts was primarily the result of a $5.0 million discretionary gift transferred to ASU from the ASU Foundation near the end of fiscal 2006. This gift will be used to fund various university initiatives, at the discretion of the University's president. Gifts to the University are used to support the University's mission based on restrictions, if any, placed on the gift by the donor. Uses of gifts include the funding of scholarships, establishing academic chairs and professorships, funding research activities, and helping with the expansion of ASU's academic and research facilities across the Phoenix metropolitan area.

Net Assets. ASU had an overall increase in net assets of $5.7 million at the end of the fiscal year. Net investment in capital assets increased by $7.8 million between years, while restricted (expended and nonexpendable) increased by $13.1 million. Unrestricted net assets had a $15.2 million decrease between years, primarily due to university funded construction expenses.

Another useful presentation of revenues and expenses is by combined sources and uses. Combined sources and uses for the years ended June 30, 2006 and 2005 follows (Dollars in millions):

	2006		2005		Percentage Change
SOURCES					
State appropriations	$ 368.6	31%	$ 335.9	32%	10%
Tuition and fees, net	349.4	30%	302.1	29%	16%
Grants and contracts	211.4	18%	189.4	18%	12%
Private cash and capital gifts	45.6	4%	42.2	5%	8%
Share of state sales tax (TRIF)	22.1	2%	22.6	2%	(2%)
Auxiliary enterprises	106.7	9%	99.7	9%	7%
Other sources	68.3	6%	52.3	5%	31%
Total Sources	$1,172.1	100%	$1,044.2	100%	12%
USES					
Instruction and academic support	$ 519.2	45%	$ 480.0	46%	8%
Research and public service	167.3	14%	144.4	14%	16%
Student services and institutional support	144.6	12%	125.1	11%	16%
Operation and maintenance of plant	64.7	6%	53.8	5%	20%
Scholarships and fellowships, net	56.7	5%	47.4	5%	20%
Auxiliary enterprises	97.1	8%	91.3	9%	6%
Depreciation	66.1	6%	71.5	7%	(8%)
Other uses	50.7	4%	35.1	3%	44%
Total Uses	$1,166.4	100%	$1,048.6	100%	11%

ASU - Statement of Cash Flows

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

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

The University's primary sources of cash during fiscal 2006 were state appropriations, tuition and fees revenues, grants and contracts revenues, and auxiliary enterprises revenues, such as athletic revenues, student housing, and bookstore. The primary uses of cash were salaries and benefits for faculty, staff, and student employees, payments to suppliers of goods and services to the University, and purchases of capital assets, which include facility construction and major renovation costs, as well as purchases of capital equipment.

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

(Dollars in millions)

2006	$ 153.8
2005	142.1
2004	124.7

ASU's Component Units (Financially Interrelated Organizations)

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

An aggregated statement of financial position for the University's component units at June 30, 2006 and 2005 follows (Dollars in millions):

Assets	2006	2005
Cash and investments	$ 582.5	$ 495.5
Capital assets, net	237.8	149.2
Receivables, net	74.5	55.2
Other assets	92.0	63.2
Total assets	$ 986.8	$ 763.1
Liabilities		
Bonds payable	$ 417.3	$ 279.2
Other liabilities	116.2	155.4
Total liabilities	$ 533.5	$ 434.6
Net assets		
Permanently restricted	$ 300.0	$ 207.0
Temporarily restricted	115.2	94.3
Unrestricted	38.1	27.2
Total net assets	$ 453.3	$ 328.5

Included in fiscal 2006 investments on the component units' statement of financial position is $64.1 million in endowment investments held by the ASU Foundation in trust for the University under terms of an endowment trust agreement. There is a corresponding liability of $64.1 million recorded in other liabilities. The $64.1 million in endowment investments held by the ASU Foundation in trust for the University are included in endowment investments on the University's statement of net assets. The largest portion of the net assets for the component units is permanently restricted endowment funds, primarily at the ASU Foundation, which represents approximately 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, 2006 and 2005 follows (Dollars in millions):

Revenues	2006	2005
Contributions	$ 134.5	$ 69.8
Other revenues	93.7	67.8
Total revenues	$ 228.2	$ 137.6
Expenses		
Payments to ASU	$ 39.6	$ 36.8
Other expenses	63.8	55.8
Total expenses	$ 103.4	$ 92.6
Extraordinary items	$ -	$ (2.8)
Increase in net assets	$ 124.8	$ 42.2
Net assets at beginning of the year	328.5	286.3
Net assets at end of the year	$ 453.3	$ 328.5

During fiscal 2006, the ASU Foundation recognized approximately $72 million of contribution revenue from a member of the Foundation Board of Directors. At June 30, 2006 approximately $39 million from this Board member was included in pledges receivable. Included in fiscal 2006 payments to ASU is $32.2 million from ASU Foundation, which includes $27.9 in cash donation transfers, and $7.4 million from Sun Angel Foundation, which is entirely cash donation transfers. These 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 2006 and 2005 financial activity of ASU and its component units on a combined basis follows (Dollars in millions):

	2006			2005		
	ASU	ASU Component Units	Combined	ASU	ASU Component Units	Combined
Net assets at beginning of the year	$ 837.4	$ 328.5	$ 1,165.9	$ 841.8	$ 286.3	$ 1,128.1
Increase/(decrease) in net assets	5.7	124.8	130.5	(4.4)	42.2	37.8
Net assets at end of year	$ 843.1	$ 453.3	$ 1,296.4	$ 837.4	$ 328.5	$ 1,165.9

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

The University had a slight increase of $5.7 million in net assets for fiscal 2006. The ASU component units (principally the ASU Foundation) had a $124.8 million increase in net assets, principally the result of successful fundraising. On a combined basis for ASU and its component units, there was a $130.5 million increase in net assets, equating to approximately 9% of total ASU and component unit revenues.

End of the year net assets for the years ended June 30, 2006 and 2005 consisted of the following (Dollars in millions):

	2006			2005		
	ASU	ASU Component Units	Combined	ASU	ASU Component Units	Combined
Invested in capital assets	$ 580.3		$ 580.3	$ 572.5		$ 572.5
Restricted net assets:						
Nonexpendable/Permanently	54.8	$ 300.0	354.8	48.7	$ 207.0	255.7
Expendable/Temporarily	62.9	115.2	178.1	55.9	94.3	150.2
Unrestricted net assets	145.1	38.1	183.2	160.3	27.2	187.5
Net assets at end of year	$ 843.1	$ 453.3	$ 1,296.4	$ 837.4	$ 328.5	$ 1,165.9

Economic Outlook

The overall economic outlook for Arizona State University continues to be positive as it receives increased financial support from the Arizona Legislature, research sponsors, and donors, as well as increased student enrollment of both resident and nonresident students. Another essential part of the University's ongoing growth is its partnerships. These partnerships range from the federal government funding research in smallpox vaccines to a retiree supporting a program they watch on the University's public television station. All three components – funding, student enrollment, and partnerships - assist the University in achieving its educational, research, and community service aspirations.

The University experienced strong growth in fiscal 2006 from increased state appropriations, tuition and fees, and research grants and contracts funding. This growth pattern is expected to continue through fiscal 2007. Anticipated state general fund operating appropriations for fiscal 2007 are $423.1 million, a 15% increase over fiscal 2006. This support by the Arizona Legislature shows a willingness to continue to work with the University in its mission to provide a high level educational experience to the students on each of the University's four campuses. The increased fiscal 2007 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, as well as key academic programs. For the first time in several years the University, in fiscal 2007, received building renewal funding from the Arizona Legislature. Projects to be funded from the $6.4 million allocation include fire alarm system replacements, roof replacements, and classroom upgrades and renovations.

ASU continues to see increases in student enrollment, with fall 2006 enrollment exceeding 63,000 students. This continues the annual trend of increasing enrollment at ASU. Since fall 2002 the University's enrollment has increased by more than 10,000 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 2007, ASU anticipates increases in its instruction related expenses, as well as increases in research funded expenses.

Research expenses are primarily funded by federal, state, and private grants, as well as Technology and Research Initiative Funding (TRIF) which is provided by Arizona voter approved sales tax allocations. Fiscal 2006 showed a 10% increase in federal research grants received by ASU, as well as a 13% increase in nongovernmental grants. With the completion and occupancy of the four new research buildings in fiscal 2006, this increased research funding trend should continue as ASU positions itself to provide the necessary resources to compete for and receive significant governmental and privately funded research grants and contracts.

In September 2006 Deirdre Meldrum, the incoming dean of ASU's Ira A. Fulton School of Engineering, was awarded a five-year $18 million grant from the National Human Genome Research Institute, a part of the National Institutes of Health. The award was made to the Microscale Life Sciences Center (MLSC) and will allow the MLSC to continue as one of the National Centers for Excellence in Genomic Science. The focus of the MLSC is on the use of microscale technology innovation to solve mysteries about cell growth and death. These answers will reveal crucial knowledge about cancer, heart disease and strokes, the leading fatal diseases in the United States. Meldrum will bring the MLSC with her when she steps into the dean's role at ASU in January 2007. The program will continue its collaboration with researchers at the University of Washington, Brandeis University in Massachusetts, and the Fred Hutchinson Cancer Research Center in Seattle. This program represents the cross discipline collaborations found in many of ASU's most important research programs. It will take advantage of the Biodesign Institute's state-of-the-art facilities, and will strengthen the ties among the Ira A. Fulton School of Engineering, the Biodesign Institute, the School of Life Sciences and the new School of Computing and Informatics.

Collaborations both within ASU and with external parties will continue to be key as ASU goes forward in further establishing itself as an important research institution. ASU is currently collaborating with all levels of governmental agencies, private and public academic institutions, and nonprofit and for-profit organizations including those in the health care, technology, and electronic industries. These partnerships allow for the expansion of the instructional mission of the University and for the furthering of research to help solve some of the most important health and environmental concerns of the world. Some of the University's partners include the City of Phoenix, Boeing, DowAgroSciences, DuPont, Eastman Kodak, Intel, Phillips Research, Sony Labs, Pusan National University (South Australia), Stanford University, University of Florence (Italy), Tufts Genomics Research Institute (Korea), Washington University (St. Louis), and the Whitaker Foundation.

By partnering with the City of Phoenix, ASU was able to open a campus in the heart of downtown Phoenix in time for fall 2006 classes. By moving the (ASU) College of Nursing and Healthcare Innovations to the Downtown Phoenix campus, ASU has positioned the College to become an active participant in the development of the Arizona Biomedical Campus. Partly funded by the Arizona Legislature, the Arizona Biomedical Campus will be a collaboration of programs offered by ASU, the University of Arizona, and Translational Genomics Research Institute (TGen), and clinical partners including the Mayo Clinic, Banner Health, Carl T. Hayden Veterans Administration Medical Center, Sun Health Research Institute, and the Barrow Neurological Institute.

With the enrollment of almost 3,000 students for the initial semester, ASU has taken a large step forward in helping the City of Phoenix establish a vibrant community in its core. Without the support of the residents of Phoenix who approved the March 2006 bond election, ASU's presence in central Phoenix would have continued to be more limited. ASU is fully committed to working with the City of Phoenix and other partners in ensuring that plans for the future development of the ASU at the Downtown Phoenix campus continue. It is anticipated that during summer 2008 the ASU Walter Cronkite School of Journalism and Mass Communication and KAET-8, the University's public television station will move into new downtown Phoenix facilities. KAET-8 serves more than 80% of the Arizona residents making it among the most-viewed public television stations per capita in the country. KAET-8's funding is primarily provided by government grants, and the local community through individual membership support and program underwriting by corporate sponsors. KAET-8 also receives funding from the Corporation for Public Broadcasting. More than one million Arizona school children are exposed to KAET-8's programming in their classrooms. KAET-8 also offers programs to help adults receive their high school diplomas and to build basic skills for lifelong learning.

In June 2006 the University entered into an operating agreement to lease space in SkySong, the ASU Scottsdale Innovation Center which is currently under development in Scottsdale, Arizona, just north of ASU's Tempe campus. SkySong will be a mixed use project consisting of office, research and retail space and a hotel/conference center at full build out. SkySong is being developed by the ASU Foundation in special collaboration with ASU and the City of Scottsdale. ASU was recently awarded a planning grant to create learning communities for Scottsdale teachers and to address the health care needs of the community, in collaboration with the Scottsdale Unified School District. A community-based needs assessment will be conducted, and a plan to link SkySong businesses, ASU departments, and Scottsdale schools will be developed. Likely areas of collaboration between ASU and the Scottsdale Unified School District would include global studies, arts and technology integration, parent empowerment training, student internships and innovative applied student projects, such as engineering competitions. ASU is expected to occupy approximately 80,000 feet of the first phase of SkySong, which is scheduled for completion in summer 2007. Citing the opportunity to enter into strategic partnerships with the University and other companies leasing space at SkySong, Arizona's largest communications provider announced in September 2006 that it will lease space in SkySong.

During fiscal 2006 Google Inc. leased temporary office space on ASU's Tempe campus. Reasons for the decision to lease space on the ASU campus included a decision by Google to make a positive contribution to the University's educational mission. The quality of students ASU graduates in engineering, business, and other disciplines was a key factor for establishing a presence in the Phoenix area. The University anticipates that as this relationship develops, it will result in positive contributions to its education, research, and economic development missions, as well as technology innovations and collaboration opportunities.

The excellence of Arizona State University's programs, both academic and research related, as well as its position in the community as an active participant in community service activities, is helping it attract some of the most respected faculty and researchers, and most engaged students. Traditional support from state appropriations and tuition and fees is being leveraged, along with state, federal, and private research funding, to the discovery of new knowledge, by both ASU students and researchers. Arizona State University experienced strong growth in fiscal 2006 in both its funding sources and its academic achievements. This growth is expected to be sustained in fiscal 2007 and beyond. The University recognizes that for it to maintain a strong financial position it must diversify its revenue to support its instruction, research and community service missions. Another key factor in the University's continued financial success is the continuance of academic, governmental, and industrial partnership which can be used to maximize available resources and knowledge. These steps should enable the University to achieve its long term educational, research, and other strategic goals.

New graduates of the ASU College of Nursing and Healthcare Innovation prepare to move their tassels from left to right signifying their graduation in May 2006 commencement ceremonies. Approximately 6,000 ASU students were honored in Spring 2006 commencement exercises.

ARIZONA STATE UNIVERSITY
STATEMENT OF NET ASSETS

June 30, 2006
(Dollars in thousands)

ASSETS	
Current Assets:	
Cash and cash equivalent investments	$ 101,190
Short-term investments	13,773
Accounts receivable, net of allowance of $11,809	56,903
Student loans receivable	1,739
Inventories	8,934
Deferred expenses	1,557
Total Current Assets	$ 184,096
Noncurrent Assets:	
Restricted cash and cash equivalent investments	$ 92,142
Endowment investments	86,841
Other Investments	67,885
Student loans receivable, net of allowance of $1,311	10,000
Deferred expenses	1,195
Capital assets (Total of $ 1,323,573)	
Nondepreciable Assets -	
Land, Designated for -	
University operations	70,982
Investment property	6,225
Construction in progress and other	38,039
Depreciable assets, net of accumulated depreciation -	
Buildings	983,481
Equipment and other	224,846
Total Noncurrent Assets	$ 1,581,636
Total Assets	$ 1,765,732
LIABILITIES	
Current Liabilities:	
Accounts payable and accrued liabilities	$ 44,252
Compensated absences	2,344
Employee retirement and benefits deposits	2,296
Deferred revenues	21,193
Funds held for others	17,923
Bonds payable/certificates of participation/lease purchases - Funded by:	
University operating revenues	17,890
State of Arizona appropriations/share of state sales tax	7,180
Total Current Liabilities	$ 113,078
Noncurrent Liabilities:	
Compensated absences	$ 21,237
Employee retirement and benefits deposits	5,767
Other liabilities	529
Bonds payable/certificates of participation/lease purchases - Funded by:	
University operating revenues	435,147
State of Arizona appropriations/share of state sales tax	282,497
Capital leases	64,395
Total Noncurrent Liabilities	$ 809,572
Total Liabilities	$ 922,650
NET ASSETS	
Invested in capital assets, net of related debt	$ 580,333
Restricted (Total of $117,621):	
Nonexpendable:	
Scholarships and fellowships	35,996
Academic department uses	7,428
Student loans	11,343
Expendable:	
Scholarships and fellowships	20,745
Academic department uses	39,676
Student loans	1,290
Capital projects	168
Debt service	975
Unrestricted (Note G)	145,128
Total Net Assets	**$ 843,082**

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

ARIZONA STATE UNIVERSITY
COMPONENT UNITS'
STATEMENT OF FINANCIAL POSITION

June 30, 2006
(Dollars in thousands)

ASSETS	
Cash and cash equivalent investments	$ 10,743
Receivables-	
Pledges receivables	67,052
Other receivables	7,446
Total Receivables	74,498
Investments-	
Investments in securities	451,410
Investments held in trust for ASU	64,135
Other investments	56,240
Total Investments	571,785
Net direct financing leases	59,599
Property and equipment, net of accumulated depreciation	237,774
Other assets	32,359
Total Assets	$ 986,758
LIABILITIES	
Liability under ASU endowment trust agreement	$ 64,135
Bonds payable	417,311
Unearned revenue	16,926
Other liabilities	35,089
Total Liabilities	$ 533,461
NET ASSETS	
Permanently restricted	$ 299,959
Temporarily restricted	115,184
Unrestricted	38,154
Total Net Assets	$ 453,297

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, 2006
(Dollars in thousands)

OPERATING REVENUES	
Student tuition and fees, net of $73,208 in scholarship allowances	$ 349,414
Federal grants and contracts -	
Research grants and contracts	138,278
Financial aid grants	36,101
State and local grants and contracts	8,689
Nongovernmental grants and contracts	26,841
Sales and services -	
Auxiliary enterprises, net of $2,711 in scholarship allowances	106,707
Educational departments	37,098
Other revenues	7,033
Total Operating Revenues	$ 710,161
OPERATING EXPENSES (Note I)	
Educational and general -	
Instruction	$ 383,553
Research	127,343
Public service	40,038
Academic support	135,635
Student services	45,333
Institutional support	99,286
Operation and maintenance of plant	64,665
Scholarships and fellowships	56,726
Auxiliary enterprises	97,068
Depreciation -	
Buildings	39,679
Equipment and other	26,442
Total Operating Expenses	$ 1,115,768
Operating Loss	$ (405,607)
NONOPERATING REVENUES (EXPENSES)	
State appropriations	$ 368,568
Share of state sales tax - technology and research initiative funding	22,113
Private gifts	40,155
Financial aid trust funds	3,754
Net investment income	20,383
Interest on indebtedness	(28,805)
Other expenses	(13,983)
Net Nonoperating Revenues	$ 412,185
Income Before Other Revenues, Expenses, Gains, or Losses	$ 6,578
Capital grants	1,548
Capital private gifts	4,447
Additions to permanent endowments	975
Special item:	
Intergovernmental transfer of Sundome Center for the Performing Arts (Note C)	(7,874)
Increase in Net Assets	5,674
Net Assets at Beginning of Year	837,408
Net Assets at End of Year	**$ 843,082**

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

ARIZONA STATE UNIVERSITY
COMPONENT UNITS'
STATEMENT OF ACTIVITIES

Year ended June 30, 2006
(Dollars in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
REVENUES				
Contributions	$ 11,277	$ 64,298	$ 58,881	$ 134,456
Rental revenue	14,937			14,937
Sales and services	26,165	120		26,285
Net investment income	10,131	11,766	16,984	38,881
Net assets released from restrictions	43,963	(61,018)	17,055	
Other revenues	7,852	5,743	50	13,645
Total Revenues	$ 114,325	$ 20,909	$ 92,970	$ 228,204
EXPENSES				
Payments to ASU-				
Cash donation transfers	$ 35,288			$ 35,288
Cost reimbursements	760			760
Property donation transfers	466			466
Scholarship funds	3,124			3,124
Program services	11,824			11,824
Personal services, operations, and administrative expenses	33,211			33,211
Fundraising expenses	1,067			1,067
Interest	8,135			8,135
Other expenses	9,546			9,546
Total Expenses	$ 103,421			$ 103,421
Increase in Net Assets	10,904	20,909	92,970	124,783
Net Assets at Beginning of Year	27,250	94,275	206,989	328,514
Net Assets at End of Year	$ 38,154	$ 115,184	$ 299,959	$ 453,297

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

ARIZONA STATE UNIVERSITY
STATEMENT OF CASH FLOWS

Year ended June 30, 2006
(Dollars in thousands)

CASH FLOWS FROM OPERATING ACTIVITIES	
Student tuition and fees	$ 345,296
Grants and contracts (federal, state, local, and nongovernmental)	203,356
Sales and services of auxiliary enterprises	108,920
Sales and services of educational activities	41,462
Payments to employees for salaries and benefits	(706,826)
Payments to suppliers for goods and services	(252,908)
Payments for scholarships and fellowships	(79,909)
Student loans issued	(2,939)
Student loans collected	2,966
Other receipts	3,270
Net cash used for operating activities	$ (337,312)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State appropriations	$ 368,568
Share of state sales tax - technology and research initiative funding	26,293
Private gifts for other than capital purposes	41,866
Financial aid trust funds	3,789
Direct lending program receipts	168,761
Direct lending program disbursements	(168,710)
Funds held for others received	189,141
Funds held for others disbursed	(171,913)
Other disbursements	(11,905)
Net cash provided by noncapital financing activities	$ 445,890
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital gifts and grants	$ 1,851
Proceeds from issuance of capital debt	19,548
Purchases of capital assets	(151,389)
Principal paid on capital debt and leases	(19,710)
Interest paid on capital debt and leases	(30,804)
Net cash used for capital and related financing activities	$ (180,504)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	$ 79,920
Purchases of investments	(84,548)
Interest received on investments	12,777
Net cash provided by investing activities	$ 8,149
Net decrease in cash and cash equivalent investments	(63,777)
Cash and cash equivalent investments at beginning of year	257,109
Cash and cash equivalent investments at end of year	$ 193,332
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	$ (405,607)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	66,121
Changes in assets and liabilities:	
Increases in -	
Accounts receivable, net	(1,888)
Compensated absences	3,212
Deferred expenses	(700)
Employee retirement and benefits deposits	161
Accounts payable and accrued liabilities	1,779
Decreases in -	
Inventories	550
Student loans receivable, net	7
Deferred revenue	(947)
Net cash used for operating activities	$ (337,312)
SIGNIFICANT NONCASH TRANSACTIONS	
Intergovernmental transfer of Sundome Center for the Performing Arts	$ (7,874)

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

ARIZONA STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note A - Organization and Summary of Significant Accounting Policies

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

During the year ended June 30, 2006, the University implemented the provisions of the GASB No. 46, *Net Assets Restricted by Enabling Legislation*. GASB Statement No. 46 requires that net assets at the end of the reporting period that are restricted by enabling legislation be disclosed in the notes to the financial statements, and had no effect on reported amounts for net assets.

Reporting Entity

Arizona State University is a major research university located in metropolitan Phoenix with a total Fall 2005 enrollment of 61,033 students. The accompanying statements of the University include the activity of the Tempe campus, West campus (located in northwest Phoenix adjacent to Glendale), Polytechnic campus (located in Mesa), and the Downtown Phoenix campus, as well as its discretely presented component units. For financial reporting purposes, the University's portion of the statements includes those funds directly controlled by the University. Control by the University is determined on the basis of financial accountability. The University is classified as a state instrumentality per Internal Revenue Code Section 115. Since fiscal responsibility for the University remains with the State of Arizona, the University is considered a part of the reporting entity for the State's financial reporting purposes.

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

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

Four of these 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 Foundation, including without limitation, distributions made to the University.
- Arizona Capital Facilities Finance Corporation (ACFFC) - provides facilities for either use by students of the University or the University itself.
- ASU Alumni Association - receives funds primarily through donations, dues, and affinity partners, and contributes funds to the University for support of various programs.
- Collegiate Golf Foundation - operates a University-owned golf course. The Collegiate Golf Foundation is included as a discretely presented component unit because it is a legally separate organization that the University believes would be misleading to exclude due to its financial relationship to the University, and for consistency in the reporting of all component units.
- Mesa Student Housing, LLC - provides facilities for either use by students of the University or the University itself.
- Arizona State University Research Park, Inc. (Park) - manages a research park to promote and support research activities, in coordination with the University. In developing the research park, the Park has issued bonds guaranteed by the University.
- Sun Angel Foundation - receives funds primarily through donations and dues, and contributes funds to the University for support of various programs.
- Sun Angel Endowment - receives funds primarily through donations intended for long-term investment as endowments, with the annual endowment earnings being used for support 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. The single most significant cash transaction between the University and its component units during fiscal 2006 was the transfer of a $5 million discretionary gift to ASU from the ASU Foundation. Also in fiscal 2006 the University made $8.2 million in payments for service agreements to the ASU Foundation regarding development activities management and support services and technology transfer and intellectual property management services.

Financial statements of these component unit organizations are audited by independent auditors. All of the above units have a fiscal year end of June 30, 2006. Because the University's component units use a nongovernmental generally accepted accounting principles

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

ASU's Basis of Presentation and Accounting

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

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

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

Summary of Significant Accounting Policies

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

Investments. Short-term, endowment, and other investments are stated at fair value at June 30, 2006. 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 $11.9 million related to student tuition and fee payments due from students and agencies making payments on behalf of students. Also outstanding at June 30, 2006 was $10.2 million from Federal grant sponsors and $4.7 million from nongovernmental grant sponsors, primarily for the reimbursement of allowable expenses made pursuant to the University's grants and contracts. At June 30, 2006, the University had recorded a $8.7 million receivable from Arizona Capital Facilities Finance Corporation (ACFFC), a component unit of the University. The receivable related to Hassayampa Academic Village construction costs incurred on behalf of ACFFC by ASU, as developer and project manager, before receipt of reimbursement from the bond trustee on behalf of ACFFC. The first phase of residential housing at the Hassayampa Academic Village opened in August 2006 for the fall semester.

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 76% of the total inventory reported on the statement of net assets and its inventory is valued at cost using the retail method.

Capital assets. Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. The University's capitalization policy includes all equipment and works of art and historical treasures with a unit cost of $5,000 or more. In addition, effective for fiscal 2006, all equipment under a unit cost of $5,000 purchased in bulk for a newly constructed, acquired, or leased facility to become initially operational is also capitalized on a vintage concept basis and depreciated over 5 years. Equipment capitalized under the vintage concept is accounted for on the University's property system on a composite basis rather than an individual asset basis. New construction, as well as renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of structures and have a project cost of at least $100,000 are capitalized. Non-capital equipment and facility costs, routine repairs, and maintenance are charged to operating expenses in the year in which the expense was incurred.

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

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

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

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

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

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

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

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

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

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

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

Not included in scholarship allowances is $7.1 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.

Net Assets Restricted by Enabling Legislation. At June 30, 2006 the University reported restricted net assets of $117.7 million, of which approximately $38.2 million is restricted by enabling legislation. The primary portion of the $38.2 million balance represents an unexpendable endowment whose earnings are used to provide financial aid to those students with documented need. Priority is given to undergraduate Arizona residents, to students from underrepresented populations, and to students with unique financial circumstances.

Note B - Cash and Investments

General

At year end, the University's deposits and investments totaled $361.8 million. This balance is considered below in our analysis of deposit and investment risk, as required by Statement No. 40 of the Governmental Accounting Standards Board.

Included in the University's deposits and investments are capital projects and bond debt service funds totaling $92.1 million, which are held in trust by various commercial banks. In addition, endowment funds totaling $86.8 million make up a portion of the deposits and investments. These funds are primarily invested in the ASU Pooled Endowment Fund, managed under contract by the ASU Foundation. The University also participates in the Arizona Student Financial Aid Trust (ASFAT), which was established by the Arizona Board of Regents and is funded by the Arizona State Legislature and student fees. ASFAT is managed by the University of Arizona on behalf of all three state universities.

Statutory and Board of Regents' Policies

Arizona Revised Statutes require that deposits of the University not covered by federal deposit insurance be secured by government securities or by a safekeeping receipt of the institution accepting the deposit. Further policy regarding deposits is provided by the Arizona Board of Regents. 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 certificates of deposit and repurchase agreements with commercial banks, United States Treasury securities and other Federal agency securities, or in the local government investment pools (LGIP) administered by the State Treasurer's Office.

With regard to endowments, 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 requires that the University invest those funds separately as directed by the donor, and the individual endowments bear all changes in value.

Neither the Statutes nor 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 approximates the value of that participant's pool shares and the participant's shares are not identified with specific investments.

Deposit and Investment Risk

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

Credit Risk. With regard to credit risk, University policy mirrors that of the Board in that it restricts investment of the operating funds to collateralized certificates of deposit and repurchase agreements, United States Treasury securities and other Federal agency securities, or to the State Treasurer's investment pool. Capital projects and bond debt service funds are invested by the bond trustee in accordance with the applicable financing indenture, generally limited to United States Treasury securities and other Federal agency securities, certificates of deposit (minimum rating of P-1/A-1), commercial paper (minimum rating of P-1/A-1+), and money market funds rated AAAm or better invested in short-term debt securities. For its endowments, the University has entered into a contract for management of the Pooled Endowment Fund by the ASU Foundation, subject to the ASU Foundation's investment policy. The Standard and Poor's credit quality ratings for debt securities at June 30, 2006, are disclosed in the following table (Dollars in thousands):

	Fair		Standard and Poor's			
Investment Description	Value	Not Rated	AAAm	AAA	AA-	A-1+
Money Market Mutual Funds	$ 61,531	$ 5,087	$ 56,444			
State of Arizona LGIP (Pool 5)	107,129	107,129				
Federal Agency Securities	111,132	83		$ 88,182	$ 199	$ 22,668
Bond Mutual Funds	8,453	8,453				
Arizona Student Financial Aid Trust, debt securities	5,858	5,858				
	$ 294,103	$ 126,610	$ 56,444	$ 88,182	$ 199	$ 22,668

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

Concentration of Credit Risk. Neither University policy for the operating funds, nor the capital projects and bond debt service financing indentures, limit investments with a single issuer due to the conservative nature of permitted investments. At June 30, 2006, 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 $51.5 million, $34.8 million, and $23.2 million and comprised, respectively, 14%, 10%, and 6% 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 coincide with capital spending needs and debt service requirements, which are typically less than three years, with the additional limitation that certificates of deposit and commercial paper have maximum maturities of 360 days and 270 days, respectively. The following chart presents the interest rate risk for the University's debt investments at June 30, 2006, utilizing the weighted average maturity method (Dollars in thousands):

Investment Description	Fair Value	Weighted Average Maturity (Years)
Money Market Mutual Funds	$ 61,531	0.1
State of Arizona LGIP (Pool 5)	107,129	0.1
Federal Agency Securities	111,132	1.4
U.S. Treasury Securities	5,910	6.1
Bond Mutual Funds	8,453	2.7
Arizona Student Financial Aid Trust, debt securities	5,858	7.2
	$ 300,013	

Foreign Currency Risk. Non-endowment funds may not be invested in international securities. The ASU Pooled Endowment Fund is managed under contract by the ASU Foundation and the University of Arizona through the Arizona Student Financial Aid Trust. Foreign investments consist of mutual funds and pooled investments. At June 30, 2006, the University's endowment investments of $86.8 million included international investments totaling $27.1 million, with 84% in foreign equity investments, 4% in foreign fixed income investments, and 12% in other foreign marketable and non-marketable investments.

Note C - Capital Assets

Capital asset activity for the year ended June 30, 2006 consisted of the following (Dollars in thousands):

	Beginning Balances	Additions/ Increases	Retirements/ Decreases	Ending Balances
Capital Assets:				
Land -				
University Operations	$ 74,188	$ 248	$ (3,454)	$ 70,982
Investment Property	5,173	1,106	(54)	6,225
Infrastructure	90,016	10,042	(218)	99,840
Buildings	1,201,834	204,768	(7,785)	1,398,817
Construction in Progress	112,591	3,310	(112,021)	3,880
Equipment	222,469	33,919	(10,250)	246,138
Works of Art and Historical Treasures	33,130	1,107	(78)	34,159
Library Books	182,436	11,742	(692)	193,486
Total	$ 1,921,837	$ 266,242	$(134,552)	$ 2,053,527
Less Accumulated Depreciation:				
Infrastructure	$ 24,599	$ 2,285	$ (18)	$ 26,866
Buildings	378,576	39,679	(2,919)	415,336
Equipment	139,529	14,660	(8,435)	145,754
Library Books	133,194	9,497	(693)	141,998
Total	$ 675,898	$ 66,121	$ (12,065)	$ 729,954
Capital Assets, Net	$ 1,245,939	$ 200,121	$(122,487)	$ 1,323,573

Construction in progress additions represent expenses for new projects. It is estimated $8.9 million in additional expenses will be required to complete projects under construction at June 30, 2006.

During fiscal 2006 the University transferred to Maricopa County the Sundome Center for Performing Arts and adjacent parking lot, located in Sun City West, Arizona. During discussions regarding this transfer, Maricopa County indicated a commitment to continue operating the facility as a performing arts center in a manner consistent with the current and changing demographics of the area. This transfer allows the University to redirect financial resources previously used to subsidize operations of the Sundome.

Land Investment Property

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

The current book value, i.e. historical cost at time of original acquisition, and estimated current value, based primarily on fiscal 2005 appraisals and other independent third party valuations, of the University's investment property at June 30, 2006, are as follows (Dollars in thousands):

Book Value	$ 6,225
Current Value	$ 153,022

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 potential for this land is in process. In addition, an auction process to sell a portion of this land is in the development stage.

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

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

Other Investment Property. Consists of:

- 2.8 acres in downtown Tempe, known as Block 12. The downtown Tempe land is mostly vacant and has no university operations located on it. The highest and best use has been determined to be mixed-use retail, entertainment, and high density, multi-family residential, with no university 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 its sale to a commercial developer and not University use.

Other Land Holdings

In addition to the above land investment property, there is other land located at the Polytechnic campus that is not currently available for investment purposes (commercial development) due to present deed restrictions, but has been designated by ASU for investment purposes upon lifting of the deed restrictions. This land is presently subject to a deed restriction from the U.S. Government 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. Agreement negotiation for earlier lifting of the deed restrictions is in process.

This landholding consists of the following:

ASU at the Polytechnic campus. The property consists of approximately 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 approximately 250 acres.

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

The current book and estimated current value, based on fiscal 2005 appraisals and other independent third party valuations, 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, based on fiscal 2005 appraisals and other independent third party valuations, of the land investment property and the other land to be designated as land investment property upon lifting of the deed restrictions are as follows (Dollars in thousands):

Book Value	$ 16,015
Current Value	$ 188,396

Note D - Bonds Payable, Certificates of Participation, and Lease Purchases

Bonds payable, certificates of participation and other long-term lease obligations at June 30, 2006, consisted of the following (Dollars in thousands):

	Average Interest Rate	Final Maturity	Balance 7/1/2005	Additions	Reductions	Balance 6/30/2006	Current Portion
Bonds:							
1991 System Revenue Bonds	7.13%	07/01/05	$ 1,535		$ (1,535)		
1993 System Revenue Refunding Bonds	4.93%	07/01/08	11,550			$ 11,550	$ 4,695
2000 System Revenue Bonds	5.86%	07/01/11	2,965		(355)	2,610	375
2002 System Revenue Bonds	4.84%	07/01/27	46,945		(2,085)	44,860	2,155
2002 System Revenue Refunding Bonds	4.16%	07/01/19	136,280		(6,515)	129,765	7,065
2003 System Revenue Refunding Bonds	4.35%	07/01/17	7,130			7,130	
2003 A/B Variable Rate Demand System Revenue Bonds	3.95%	07/01/34	103,000			103,000	
2004 System Revenue and Refunding Bonds	4.93%	07/01/34	39,250		(105)	39,145	140
2005 System Revenue Refunding Bonds	4.24%	07/01/27	49,900		(610)	49,290	195
Subtotal: Par Amount of Bonds			$ 398,555		$ (11,205)	$ 387,350	$ 14,625
Certificates of Participation:							
1991 Towers Project (through the ASU Foundation)	6.89%	07/01/10	$ 2,110		$ (295)	$ 1,815	$ 315
1993 ASU West Campus Refunding	5.18%	07/15/05	4,070		(4,070)		
1999A Downtown Center	5.75%	07/01/24	5,085		(150)	4,935	155
1999B Downtown Center	8.00%	07/01/24	4,800		(110)	4,690	115
2002 Certificates of Participation	4.75%	07/01/26	97,705		(2,245)	95,460	2,315
2004 ASU West Campus Refunding	2.36%	07/01/09	22,495			22,495	5,365
2004 Certificates of Participation	4.89%	09/01/30	80,275			80,275	
2005A Certificates of Participation	4.36%	09/01/30	110,115			110,115	
2006 Certificates of Participation	4.52%	06/01/31		$ 15,810		15,810	
Other Lease Purchases	3.61% - 5.61%	02/01/18	7,276	4,764	(1,761)	10,279	2,180
Subtotal: Par Amount of COPS/Lease Purchases			$ 333,931	$ 20,574	$ (8,631)	$ 345,874	$ 10,445
Total Par Amount of Bonds, COPS, and Other Lease Purchases			$ 732,486	$ 20,574	$ (19,836)	$ 733,224	$ 25,070
Premium/(Discount) on Sale of Bonds and COPS			16,869	(83)	(2,216)	14,570	
Deferred Amount on Refundings			(5,550)		470	(5,080)	
Total Bonds Payable/COPS/Lease Purchases			$ 743,805	$ 20,491	$ (21,582)	$ 742,714	$ 25,070

At June 30, 2006, the University has issued 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, 2006 was $46.9 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 indenture. The interest rate in effect on June 30, 2006 was 3.95% for the Series 2003A and 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.

During fiscal 2006, the University issued $15.8 million in certificates of participation to fund the Arizona Biomedical Research Collaborative Building in cooperation with the University of Arizona, and to provide additional funding for Biodesign Institute Building B. The 2006 COPS were issued in June 2006 at an average interest rate of 4.52%. The annual debt service for the 2004, 2005A COPS and the 2006 COPS will be funded by state appropriations of $14.5 million annually beginning in fiscal 2008.

Securities and cash restricted for bonds and certificates of participation debt service held by the trustee at June 30, 2006 totaled $26.5 million and $21.8 million respectively. Payment commitments to investors, including interest, for bonds, lease purchases and other long-term lease obligations, using the interest rate in effect at June 30, 2006 for variable rate issues, consisted of the following (Dollars in thousands):

	System Revenue Bonds		Certificates of Participation		Other Lease Purchases	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	$ 14,625	$ 17,313	$ 8,265	$ 15,323	$ 2,180	$ 457
2008	17,125	16,512	14,435	14,932	1,881	374
2009	17,975	15,682	14,825	14,420	1,746	288
2010	18,915	14,739	15,300	13,798	1,392	208
2011	19,970	13,769	10,420	13,400	1,458	142
2012-16	113,215	52,645	56,745	59,777	1,496	180
2017-21	67,260	30,802	72,080	43,746	126	9
2022-26	51,040	18,965	75,275	24,586		
2027-31	39,415	8,251	68,250	7,014		
2032-35	27,810	1,748				
	$387,350	$ 190,426	$ 335,595	$ 206,996	$ 10,279	$ 1,658

The University has pledged portions of its gross revenues towards the payment of debt related to various system revenue bonds outstanding at June 30, 2006. 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 funding responsibility for the June 30, 2006 outstanding debt is as follows (Dollars in thousands):

	Current Portion	Noncurrent Portion	Total
From Arizona State University operating revenues	$ 17,890	$ 435,147	$ 453,037
From State of Arizona provided state appropriations and share of state sales tax (ASU in substance acting as a conduit)	7,180	282,497	289,677
	$ 25,070	$ 717,644	$ 742,714

Note E - Capital Leases

Capital lease commitments to lessors at June 30, 2006 consisted of the following based on the net present value of the lease payments (Dollars in thousands):

	Average Interest Rate	Final Maturity	Balance 7/1/2005	Additions	Reductions	Balance 6/30/2006	Current Portion
Flexible Display Center	4.66%	2034	$ 35,000			$ 35,000	
ASU Foundation Building	4.89%	2034	29,395			29,395	
Total: Capitalized Leases			$ 64,395	-	-	$ 64,395	-

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

The lease agreement related to the Flexible Display Center located in the ASU Price-Elliott Research Park continues to be based on the variable interest rate of the lease revenue bonds issued in April of 2004 by Nanotechnology Research, LLC an Arizona limited liability company, of which the sole member is ACFFC. Cash outflows for lease payments are not scheduled to begin until fiscal 2007, due to the availability of capitalized interest to fund lease payments in fiscal 2006.

Lease payment commitments, including interest reimbursement to the lessor at the rates in effect at June 30, 2006 for the variable rate lease, consisted of the following (Dollars in thousands):

	Capital Lease Payments
2007	$ 3,145
2008	3,531
2009	4,284
2010	4,280
2011	4,280
2012-16	21,321
2017-21	21,239
2022-26	21,144
2027-31	21,008
2032-34	12,521
Total minimum lease payments	$116,753
Less amount representing interest	(52,358)
Present value of net minimum lease payments	$ 64,395

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

ACFFC will have overall responsibility for the residential portion, comprising approximately 90% of the facility, including budgetary approval, with the University leasing the non-residential portion of the facility. The University will make annual lease payments of approximately $1 million annually for 40 years. The University anticipates recording a capital lease of $18.3 million in fiscal 2007. The lease agreement is based on the variable interest rate bonds issued by MAV, LLC. Cash outflow for lease payments are not scheduled to begin until fiscal 2008 due to the availability of capitalized interest funds to fund lease payments in fiscal years 2006 and 2007.

Note F - Compensated Absences

The University has recorded a liability for accruals of vacation leave earned, but not taken at fiscal year end. Changes in accrued compensated absences for the year ended June 30, 2006 consisted of the following (Dollars in thousands):

Balance 7/1/2005	Additions	Reductions	Balance 6/30/2006	Current Portion
$ 20,369	$ 23,691	$ (20,479)	$ 23,581	$ 2,344

Note G - Unrestricted Net Assets

As discussed in the Summary of Significant Accounting Policies, the University is following standards for external reporting purposes, which require net assets to be classified for accounting and reporting purposes into one of three net asset categories according to externally imposed restrictions. Unrestricted net assets, as defined by GASB Statement No. 35, are not subject to externally imposed stipulations; however, they are subject to internal designations. For example, unrestricted net assets may be designated for specific purposes by actions of management or may otherwise be limited by contractual purchase obligation agreements with outside parties. As of June 30, 2006, substantially all of the University's unrestricted net assets were from University generated revenues and were internally designated for academic and research programs and initiatives, and capital projects.

Note H - Operating Leases

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

	Operating Lease Payments
2007	$ 2,772
2008	2,782
2009	2,777
2010	2,783
2011	2,784
2012-16	13,984
2017-19	8,421
Total	$ 36,303

Note I - Operating Expenses by Classification

Operating expenses by functional and natural classification for the year ended June 30, 2006, are summarized as follows (Dollars in thousands):

	Year ended June 30, 2006				
	Personal Services and Benefits	Supplies and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	$ 341,685	$ 38,329	$ 3,539		$ 383,553
Research	88,765	36,432	2,146		127,343
Public service	22,888	16,772	378		40,038
Academic support	93,607	41,571	457		135,635
Student services	34,405	10,669	259		45,333
Institutional support	70,570	28,698	18		99,286
Operation and maintenance of plant	26,589	38,076			64,665
Scholarships and fellowships	701	263	55,762		56,726
Auxiliary enterprises	37,985	55,608	3,475		97,068
Depreciation				$ 66,121	66,121
Total Operating Expenses	$ 717,195	$ 266,418	$ 66,034	$ 66,121	$ 1,115,768

Note J - Retirement Plans

At June 30, 2006 the University is participating in one cost-sharing multiple-employer defined benefit pension plan and three defined contribution pension plans. ASU discontinued participation in two other defined contribution pension plans during fiscal 2006 - contributions concluded for Vanguard on 12/15/05 and Aetna on 12/31/05. 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 $0.6 million in total University and employee contributions for the year ended June 30, 2006.

Defined Benefit Plan

Plan Description. The *Arizona State Retirement System* (ASRS) administers a cost-sharing multiple-employer defined benefit pension plan that covers eligible employees of the University. Benefits are established by state statute and provide retirement, death, long-term disability, survivor, and health insurance premium benefits. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of Arizona Revised Statutes (A.R.S.) Title 38, Chapter 5, Article 2. The ASRS issues a publicly available annual financial report that includes its financial statements and required supplementary information. That report may be obtained by writing to the ASRS, 3300 North Central Avenue, P.O. Box 33910, Phoenix, Arizona 85012-0250 or by calling (602) 240-2000 or (800) 621-3778.

Funding Policy. For the year ended June 30, 2006, active ASRS members and the University were each required by statute to contribute at the actuarially determined rate of 7.40% (6.90% 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, 2006, 2005, and 2004 as follows (Dollars in thousands):

	Contribution Rates (Each)	University Contributions	Employee Contributions	Total Contributions
2006	7.40%	$ 16,855	$ 16,855	$ 33,710
2005	5.70%	11,880	11,880	23,760
2004	5.70%	10,769	10,769	21,538

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, 2006, 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) (plan contributions concluded on 12/31/05), and The Vanguard Group (plan contributions concluded on 12/15/05) were approved by the Arizona Board of Regents. Benefits under these plans depend solely on the contributed amounts and the returns earned on the investment of those contributions. Contributions made by employees vest immediately and University contributions vest no later than after five years of full-time employment. Employee and University contributions and associated returns earned on investments may be withdrawn starting upon termination of employment, death, or retirement. The distribution of employee contributions and associated investment earnings are made in accordance with the employee's contract with the applicable insurance and annuity company. University contributions and associated investment earnings must be distributed to the employee in the form of an annuity paid over the employee's life.

Funding Policy. The Arizona State Legislature establishes and may amend active plan members' and the University's contribution rates. For the year ended June 30, 2006, 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, 2006, were as follows (Dollars in thousands):

	Contribution Rates (Each)	University Contributions	Employee Contributions	Total Contributions
TIAA/CREF	7.00%	$ 11,710	$ 11,710	$ 23,420
VALIC	7.00%	1,782	1,782	3,564
Fidelity	7.00%	3,135	3,135	6,270
Aetna	7.00%	82	82	164
Vanguard	7.00%	437	437	874

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 Phoenix, until such a time as the property is conveyed to the University.

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

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

Academic Programs. In July and August 2006 ASU's College of Public Programs and College of Nursing and Healthcare Innovations moved to the downtown Phoenix campus from the University's Tempe campus. The newly established University college, which serves the University's entering students and interdisciplinary and exploratory majors is also located at the downtown Phoenix campus. On August 21, 2006, the beginning of the fall academic semester, classes were held at the downtown Phoenix campus. The beginning of the fall semester completed phase one of the campus development. At the end of phase one the campus included four buildings comprising approximately 300,000 square feet of academic instruction and academic support space, as well as other programs, student support services, and approximately 300 residential housing beds located in a former hotel.

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

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

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

Mercado Property. The University will transfer property it owns in downtown Phoenix, known as the Mercado property, to the City when final payment of outstanding debt on the property has been made, which is to occur on June 15, 2024. The City 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.

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's financial statements. Also, in accordance with the disclosure requirements of GASB Statement No. 10, we note that judgments and claims not covered by the Risk Management Section during the three years ended June 30, 2006, 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 (UA) 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 UA. The plaintiffs seek $10 million in compensatory damages and $15 million in punitive damages. In addition, on June 29, 2004, the Havasupai Tribe filed an action against ABOR, ASU, the UA, and others arising from the same set of circumstances. The plaintiff seeks compensatory damages of $25 million and punitive damages of $25 million. In May, 2005, the Federal Court dismissed the civil rights claim and has transferred both cases to State Court. The State of Arizona Attorney General's Office is providing legal representation in both of these matters. The University cannot predict the outcome of these matters at this time, but intends to vigorously defend itself in these matters. Judgments, if any, against 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) 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 presented 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 include 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 the plaintiff's employment as the Director of the Cancer Research Institute and as the holder of the Dalton Chair of Cancer Research and Medicinal Chemistry for the 2005-2006 academic year. On November 4, 2005, the defendants filed two motions to dismiss asking the court to dismiss the majority of the plaintiff's claims. The plaintiff filed his response in which he conceded to dismissal of certain claims and parties and opposed defendants' motion as to other claims and parties. On August 28, 2006, the Court issued its opinion, dismissing Defendant ASU and other defendants who are officers and employees of ASU, and their respective spouses from the case. The Court also dismissed the plaintiff's claims for injunctive relief (Count 2), "Violation of Arizona Whistleblower Law" (Count 3), breach of contract (Count 5), interference with contract (Count 6), defamation (Count 8), conspiracy (Count 9), wrongful discharge (Count 10), intentional infliction of emotional distress (Count 11), fraud (Count 12) and conversion (Count 13), and dismissed the claim for violation of 42 U.S.C. §1983 (Count 4) against the University's president, executive vice president and provost, and general counsel in their individual capacities as defendants. On September 12, 2006, the remaining defendants answered the remaining counts of the Complaint, denying its material allegations and raising numerous affirmative defenses. Discovery has not yet commenced. ASU cannot predict the outcome of these matters at this time, but is pursuing a vigorous defense. Some, but not all judgements, if any, against ASU will be covered by State Risk Management Insurance.

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

Power Plant. In November 2004, the University entered into a privatized/third party agreement with Arizona Capital Facilities Finance Corporation (ACFFC), a component unit of the University, for the construction and operation by a third party energy management firm of a co-generation power plant on the University's Tempe campus with the power plant providing to the University a portion of its energy (electrical, chilled water and steam) needs. The contract with ACFFC is for 25 years, along with a related ground lease, and calls for minimum annual energy purchase obligations on the part of the University of approximately $7 million to cover the ACFFC's fixed management services and capital costs. Additional billing amounts will be based on a pass through to the University of the service provider's variable costs, primarily natural gas. Related to this agreement, ACFFC issued $51.6 million of variable rate demand revenue bonds in November 2004. In December 2004 ACFFC entered into a swap agreement that effectively fixed the interest rate on the revenue bonds at 3.124%.

This new power plant is anticipated to be at least as efficient and produce electric, chilled water and steam energy at the same or lower cost than the presently existing cooling and heating 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.

Hassayampa Academic Village (formerly McAllister Academic Village). In July 2005, the University entered into a ground lease with ACFFC for the construction and operation of the Hassayampa Academic Village (HAV) residential facility. In August 2005 ACFFC issued $145.0 million in variable rate demand revenue bonds. The project, 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 has 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 has contracted out management of the residential portion, with the contract for the residential life program and room assignments, including rent collections, being with the University's Residential Life Department. Custodial services have been contracted out to a custodial services firm with facility maintenance being contracted out to the University's Facilities Management Department.

In order for ACFFC to obtain the lowest cost and most efficient financing arrangement possible for the residential portion of the facility, the University entered into a contingent commitment to make up any debt service funding deficiencies to the bondholders of the HAV debt, if such a situation should ever exist. 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.

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

SkySong 1, LLC Operating Lease. In June 2006, the University entered into a 15 year operating lease with SkySong 1, LLC for approximately 80,000 square feet of office space within a development to be known as the ASU/Scottsdale Center for Innovation and Technology. The Innovation Center is being developed as a home for activities and organizations that co-mingle and stimulate new forms of global commerce, research, technology, art, education and economic development. ASU's planned use of the leased space will focus on supporting entrepreneurial development activities, interdisciplinary research programs in engineering-related fields, and education technology. The lease is anticipated to begin in May 2008. Assuming commencement at this date, future minimum lease payments from fiscal 2008 until fiscal 2019 will be $35.0 million.

On the left is an artist rendition of the Hassayampa Academic Village. Phase I of this residential hall opened in Fall 2006 housing approximately 900 students. This is the first living-learning community built on the Tempe campus since 2001. This residential hall is geared toward President Crow's vision of having a 24/7 learning experience through living on campus and engaging with other students. This vision is achieved through students participating in the living and learning communities that have been created in this residential hall in combination with the First-Year Experience program on the Tempe campus.

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, Collegiate Golf Foundation, Mesa Student Housing, LLC, ASU Research Park, Inc., Sun Angel Foundation, and Sun Angel Endowment.

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 restrictions 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	$ 82,257	$ 2,539	$ 84,796
Present value discount	(12,600)	(294)	(12,894)
Allowance for uncollectible pledges	(4,750)	(100)	(4,850)
Net pledges receivable	$ 64,907	$ 2,145	$ 67,052

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

	ASU Foundation	Sun Angel Foundation	Total
Receivable in one year	$ 27,350	$ 669	$ 28,019
Receivable in two to five years	43,437	1,570	45,007
Receivable after five years	11,470	300	11,770
Total gross pledges to be received	$ 82,257	$ 2,539	$ 84,796

The ASU Foundation has existing conditional promises to give totaling $30.0 million at June 30, 2006. 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.

Direct Financing Lease Agreement

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

The entire amount of the minimum Fulton Center lease payments receivable balance of $54.2 million will be used by ASU Foundation and Affiliates to service the principal and interest payments required for the Series 2003 Bonds. Accordingly, unearned interest will be amortized to lease revenue by the interest method using interest rates which correspond to the stated interest rates of the Series 2003 Bonds. Unearned interest at June 30, 2006 was $29.6 million. ASU Foundation's net investment in this direct financing lease is $24.6 million and is presented net in the Component Unit's Statement of Financial Position.

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

The Sublease Agreement commenced April 7, 2004, and continued until June 30, 2005, with successive automatic annual renewals for the period July 1 through June 30 of each year without action on the part of Nanotechnology or the University, through the period ending March 31, 2034. The Sublease Agreement is subject to early termination by Nanotechnology or the University upon the payment in full of the Series 2004 Bonds.

Upon termination or expiration of the Sublease Agreement, Nanotechnology's interest in the premises, including all buildings and improvements on the leased premises, transfers to the University without further consideration. Therefore, the lease is classified as a direct financing capital lease.

Lease payments are based on a variable interest rate currently determined on a weekly basis. The average interest rate approximates 4.66% at June 30, 2006. 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 Organizations*. Under SFAS No. 124, the ASU Foundation is required to report investments in equity securities that have readily determinable fair values, and all investments in debt securities, at fair value. Equities, fixed income, and mutual funds, are stated at fair market value, based on quoted market prices. Investment securities, in general, are exposed to various risks, such as interest rate credit and overall market volatility.

The ASU Foundation investment policy is approved by the ASU Foundation's Board of Directors. The approved investment policy defines the amount made available for award from the permanently restricted endowment pool. At June 30, 2006, ASU Foundation made approximately $8.8 million available for award according to the following approved rate:

- If the current market value of an endowment is greater than the total of gifts to that endowment, the approved rate is 4.0%.
- If the current market value of an endowment is less than the total of gifts to that endowment, the approved rate is:
  - 2%, if an endowment agreement is signed by the donor and ASU Foundation.
  - 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 selected University endowments. In accordance with the trust agreement, the ASU Foundation receives a management fee for providing these services. Unrealized and realized gains and losses and interest and dividends, if any, are added to or subtracted from the recorded value of the invested trust assets managed by the ASU Foundation. The invested trust assets are separate from ASU Foundation investments, and a corresponding liability is also presented for the fair value of the invested trust assets managed for the University.

Investment Summary

Investments consist of (Dollars in thousands):

	ASU Foundation Investments	ASU Foundation Investments Held in Trust	ACFFC	Other Component Units	Total
Money market funds and cash equivalents	$ 21,693	$ 88	$ 75,038	$ 5,985	$ 102,804
Equities:					
Domestic	80,916	21,681		10,477	113,074
International	80,769	17,904			98,673
Total equities	161,685	39,585		10,477	211,747
Fixed Income	99,168	9,910		2,614	111,692
Mutual funds:					
Inflation hedge	30,182	7,140			37,322
Hedge fund strategies	30,125	6,615			36,740
Other				7,415	7,415
Total mutual funds	60,307	13,755		7,415	81,477
Other securities	2,371	797	1,831	2,826	7,825
Other investments	55,371		869		56,240
Total investments	$ 400,595	$ 64,135	$ 77,738	$ 29,317	$ 571,785

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		$ 91,384	$ 150	$ 91,534
Buildings and improvements	$ 17,183	73,664	20,437	111,284
Furniture, fixtures, and equipment	2,127	36,199	2,943	41,269
Land leasehold improvements			13,439	13,439
Other property and equipment		509	2,973	3,482
Total cost or donated value	$ 19,310	$201,756	$ 39,942	$ 261,008
Accumulated depreciation	(1,247)	(9,789)	(12,198)	(23,234)
Net property and equipment	$ 18,063	$191,967	$ 27,744	$ 237,774

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

Bonds Payable

Bonds payable are as follows (Dollars in thousands):

	Final Maturity	ASU Foundation	ACFFC	Other Component Units	Total
Series 2006 Development Refunding Bonds (ASU Research Park)	2021			$ 12,975	$ 12,975
Series 2005A Variable Rate Demand Revenue Bonds	2045		$ 96,700		96,700
Series 2005B Variable Rate Demand Revenue Bonds	2045		48,345		48,345
Series 2005 Tax-Exempt Bonds	2035		16,005		16,005
Series 2004 Variable Rate Demand Revenue Bonds	2030		51,605		51,605
Series 2004A Variable Rate Revenue Bonds	2034	$ 22,420			22,420
Series 2004B Variable Rate Revenue Bonds	2022	11,690			11,690
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		29,805		29,805
Series 2001A Term Bonds (Mesa Student Housing, LLC)	2032			19,995	19,995
Series 2001B Term Bonds (Mesa Student Housing, LLC)	2006			260	260
Series 2000 Serial and Term Bonds	2032		10,615		10,615
Unamortized bond premium (discount)			1,276	(375)	901
		$ 81,710	$ 302,746	$ 32,855	$ 417,311

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

Year Ending June 30,	ASU Foundation	ACFFC	Other Component Units	Total
2007	$ 415	$ 1,830	$ 970	$ 3,215
2008	1,020	1,945	1,030	3,995
2009	1,070	3,060	1,070	5,200
2010	1,120	5,410	730	7,260
2011	1,170	6,025	760	7,955
Thereafter	76,915	284,476	28,295	389,686
	$ 81,710	$ 302,746	$ 32,855	$ 417,311

In August 2005, McAllister Academic Village, LLC, a wholly-owned subsidiary of ACFFC issued Variable Rate Revenue Bonds, Series 2005A and 2005B in the aggregate original principal amount of $96.7 million, and $48.3 million respectively dated August 3, 2005, due at various intervals through July 2045. The interest is payable initially in monthly installments. The principal is payable in annual installments commencing July 1, 2008 and July 1, 2009 for the Series 2005A and 2005B Variable Bonds, respectively. Variable interest rate for the Series 2005A and 2005B bonds was 3.97%, and 3.95%, respectively at June 30, 2006. These bonds are secured by leasehold deeds of trust, assignment of leases and rents, security agreements and fixture filings.

In May 2006, ASU Research Park issued $13.0 million in Development Refunding Bonds Series 2006. The Series 2006 Development Refunding Bonds were issued at an average interest rate of 4.1%, and contributed cash to advance refund the $17.6 million outstanding Development Refunding Bonds Series 1995, carrying an average interest rate of 5.02%, to take advantage of favorable interest rates. Accordingly, the Development Refunding bond Series 1995 liability and the associated bond issuance costs have been removed from the financial statements. The Development Refunding Bonds Series 2006 have varying principal amounts due annually, and interest due semiannually at an average interest rate of approximately 4.1% through July 2021. The payments of the principal and interest on the Development Refunding Bonds Series 2006 are guaranteed under a municipal bond insurance policy issued by Financial Security Assurance, Inc.

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):

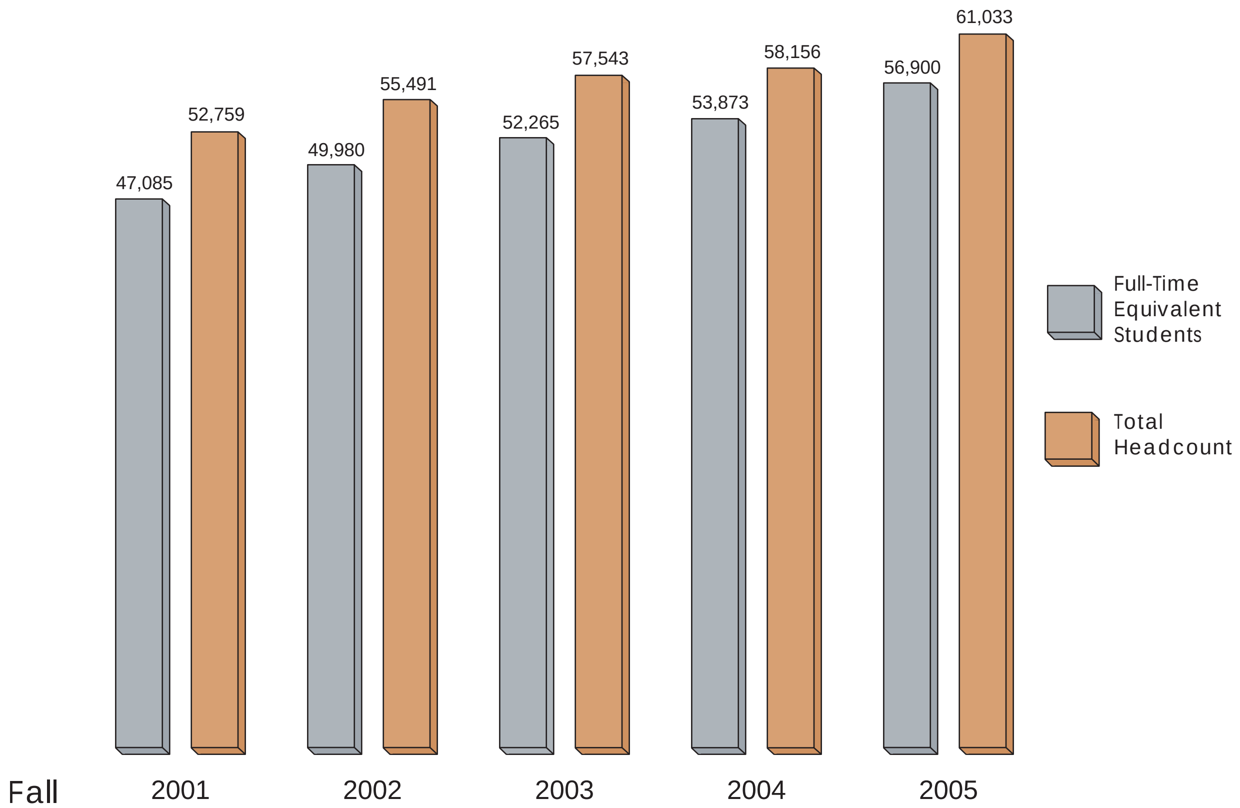
Component Units
Statement of Financial Position
June 30, 2006

	ASU Foundation	ACFFC	Other Component Units	Total
Assets				
Investments	$ 464,730	$ 77,738	$ 29,317	$ 571,785
Property and equipment, net	18,063	191,967	27,744	237,774
Other assets	118,509	43,183	15,507	177,199
Total assets	$ 601,302	$ 312,888	$ 72,568	$ 986,758
Liabilities				
Bonds payable	$ 81,710	$ 302,746	$ 32,855	$ 417,311
Other liabilities	75,807	18,770	21,573	116,150
Total liabilities	$ 157,517	$ 321,516	$ 54,428	$ 533,461
Net Assets				
Permanently restricted	$ 298,167		$ 1,792	$ 299,959
Temporarily restricted	112,721		2,463	115,184
Unrestricted	32,897	$ (8,628)	13,885	38,154
Total net assets (deficit)	$ 443,785	$ (8,628)	$ 18,140	$ 453,297

Component Units
Statement of Activities
Year ended June 30, 2006

	ASU Foundation	ACFFC	Other Component Units	Total
Revenues				
Contributions	$ 123,379		$ 11,077	$ 134,456
Rental revenue	768	$ 3,878	10,291	14,937
Net investment income	35,178	615	3,088	38,881
Other revenues	25,451	4,491	9,988	39,930
Total revenues	$ 184,776	$ 8,984	$ 34,444	$ 228,204
Expenses				
Program services-				
Payments to ASU	$ 32,223		$ 7,415	$ 39,638
Other program services	11,441		383	11,824
Personal services, operations, and administrative expenses	15,264	$ 3,165	15,849	34,278
Other expenses	5,085	8,066	4,530	17,681
Total expenses	$ 64,013	$ 11,231	$ 28,177	$ 103,421
Increase/(decrease) in net assets	120,763	(2,247)	6,267	124,783
Net assets (deficit) at beginning of year	323,022	(6,381)	11,873	328,514
Net assets (deficit) at end of year	$ 443,785	$ (8,628)	$ 18,140	$ 453,297

ARIZONA STATE UNIVERSITY ENROLLMENT



Degrees Granted in Academic Year 2005-2006

Undergraduate	9,855
Graduate	3,200
	13,055

Fall 2005 Enrollment

Undergraduate	48,955
Graduate	12,078
Resident (Arizona)	45,046
Non-Resident	15,987

ARIZONA STATE UNIVERSITY
COMBINED SOURCES AND USES

Sources

For the year ended June 30, 2006
(Dollars in millions)

State Appropriations	31%	**$ 368.6**	Represents State of Arizona legislative appropriations for operations of the University.
Tuition and Fees	30%	**349.4**	Includes $422.6 million in tuition and fees, net of $73.2 million in scholarship allowances.
Grants and Contracts	18%	**211.4**	Represents governmental and nongovernmental grants and contracts for both research activities ($175.3 million) and financial aid programs ($36.1 million). Federally funded grants and contracts used for research activities totaled $139.8 million, including capital grants.
Private Gifts	4%	**45.6**	Voluntary private support from individuals, foundations, and corporations, including $4.4 million in capital gifts.
Technology and Research Initiatives Funding (TRIF)	2%	**22.1**	TRIF is generated from part of a 0.6% education sales tax approved by Arizona voters in November 2000 as part of an economic development strategy for the state. TRIF revenue is primarily used to support the research efforts of the ASU Biodesign Institute.
Auxiliary Enterprises	9%	**106.7**	Represents operations of essentially self-supporting activities such as bookstore, intercollegiate athletics, residential halls, and parking.
Sales and Services	3%	**37.1**	Sales and services of educational departments, including ASU-hosted national and international conferences and programs.
Other Sources	3%	**31.2**	Includes $20.4 million in net investment income.
Total Sources		**$ 1,172.1**	

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, 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

Category	Percent	Amount	Description
Instruction and Academic Support	45%	**$ 519.2**	Consists of (1) instruction expenses totaling $383.6 million, which include credit and non-credit courses for academic, occupational, and vocational instruction for regular academic year and summer sessions, and continuing education, and (2) academic support expenses totaling $135.6 million, which include libraries, academic information technology support, and academic administration.
Research and Public Service	14%	**167.3**	Represents (1) research expenses of $127.3 million for activities specifically organized to produce research outcomes, and (2) public service expenses of $40.0 million for non-instructional services beneficial to individuals and groups external to the University, such as public broadcasting and community service programs.
Student Services and Institutional Support	12%	**144.6**	Consists of (1) student services expenses totaling $45.3 million, which include admissions, registrar, student activities, counseling, career guidance, student financial aid administration, and student health services, and (2) institutional support expenses of $99.3 million, which include financial operations, human resources, public safety, development/fundraising, community relations, and administrative information technology support.
Operation and Maintenance of Plant	6%	**64.7**	Represents expenses for the operation and maintenance of plant, including services related to facilities and grounds, and utility costs. Not included are amounts charged to auxiliary enterprises.
Scholarships and Fellowships	5%	**56.7**	Includes restricted grants, including $31.0 million of federally funded Pell grants, and institutionally awarded merit and need-based scholarships beyond tuition and residential life charges.
Auxiliary Enterprises	8%	**97.1**	Consists of departments managed as essentially self-supporting activities that furnish services to students and staff for a fee directly related to, but not necessarily equal to, the cost of the service.
Depreciation	6%	**66.1**	Depreciation is computed using the straight-line method over the estimated useful life of each asset. Depreciation for buildings was $39.7 million and was primarily related to academic and research buildings.
Other Uses	4%	**50.7**	Consists primarily of interest payments on debt service and non-capital expenses on plant project accounts.

Total Uses **$ 1,166.4**

Arizona Board of Regents

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Superintendent of Public Instruction

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Robert Bulla
Ernest Calderón
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Fred DuVal
Edward Hermes, Student Regent
Anne Mariucci
Christina Palacios
Gary Stuart
Mary Venezia, Student Regent

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President

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Vice President and Provost, ASU at the Downtown Phoenix campus

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Arizona State University

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

Compiled and edited by the ASU Financial Services Office