ASU Arizona State University

local solutions global impact

2009 financial report

"You have no excuses not to change the world."

- President Barack Obama
May 13, 2009

Addressing an audience of more than 70,000 at ASU's Sun Devil Stadium, President Barack Obama told ASU Spring 2009 graduates that opening the doors of higher education to students from every background is a core mission of ASU and of his presidency, and should serve as a model for universities across the country.

ARIZONA STATE UNIVERSITY

2009 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

I am pleased to present the 2009 Financial Report for Arizona State University. As our nation continues to recover from the near meltdown of global economic markets last fall, some colleges and universities are retrenching as if under siege. Meanwhile we are determined to seize the moment as an opportunity to test our conviction that it is possible to build a great university that is at once egalitarian in access yet competitive in terms of excellence with the leading institutions in the world. While ASU has sustained unprecedented reductions in state investment during FY 2009 and FY 2010, necessitating a dramatic resetting of our financial base, we have responded to this historic challenge with a strategy and set of measures to ensure our continued success. The stresses associated with the reductions in the state investment in the university are occurring at a time when ASU continues to experience solid enrollment growth in response to the demand for affordable quality higher education. As we look ahead, we anticipate ever-larger proportions of Arizona students turning to ASU in these difficult economic times.

ACCELERATING THE TRAJECTORY OF ACCOMPLISHMENT

Our observance last year of our fiftieth anniversary as a comprehensive university underscored the light speed trajectory of accomplishment that has positioned ASU as competitive in an arena dominated by some of the most well-established and influential institutions in the world. For the third year ASU has been ranked as one of the top 100 universities globally in the international assessment conducted by the Institute of Higher Education, Shanghai Jiao Tong University, placing 93rd in their 2008 "Academic Ranking of World Universities." The Shanghai report ranked ASU 52nd among U.S. institutions. *U.S. News & World Report* ranked ASU in the top tier of national universities in 2008, 2009, and 2010, and fourth among "Up and Coming Schools" in both the 2009 and 2010 editions of "America's Best Colleges." And finally, in its list of the 100 best colleges in America, *Forbes* placed ASU in the No. 28 spot.

RESEARCH REVENUES

Research related spending reflects the success of an institution in competing for funding from sponsors, including federal, state, and private sources, and is an important indicator of the overall contribution of an institution both to the knowledge base and the regional economy. During FY 2009 overall research-related spending, including sponsored projects and Technology and Research Initiative funding (TRIF), exceeded $300 million for the first time, up approximately 150 percent from $123 million in FY 2002. ASU is one of only a handful of institutions without both an agricultural and medical school to have surpassed the $200 million level in funding, with institutional peers in this category including Caltech, MIT, and Princeton. According to the National Science Foundation, ASU is now ranked among the top 20 leading research universities in the nation without a medical school. During FY 2009 ASU achieved $55 million in NSF awards, up approximately 80 percent from $30 million in FY 2002. Because world-class research has the potential to attract external funding and provide an economic return on investment to the community, ASU has been highly strategic in its investment in science and technology research projects. For every dollar of state funding provided to the Biodesign Institute through TRIF, for example, the institute generated $4.30 in non-state funds—a total of $51.1 million in FY 2009. Almost all of these funds came from competitively secured federal and industry awards.

ACADEMIC SUCCESS

The emerging stature of the university is further underscored by the growing number of recipients on the faculty roster of prestigious national and international honors. The announcement in October that ASU research professor Elinor Ostrom had been awarded the 2009 Nobel Prize in Economic Sciences brings to three the number of Nobel laureates on our faculty. She joins Edward C. Prescott, who won the 2004 Nobel Prize in Economic Sciences, and Leland "Lee" Hartwell, who won the 2001 Nobel Prize for Physiology or Medicine before joining the ASU faculty this fall. Since July 2002 ASU has recruited more members of the National Academies than the sum total of Academies members on the faculty in its half-century as a Ph.D.-granting institution. These scholars join record numbers of faculty members who have received the highest awards and forms of recognitions in their respective fields. Our growing excellence is a correlate of our increasing diversity: since FY 2003 minority tenured/tenure-track faculty as a percentage of the total for this category increased from 18.5 percent to 22.9 percent, a 23.7 percent increase.

Record numbers of our students continue to be honored with national scholarships and awards, and with each successive fall semester we continue to welcome the most academically qualified classes in university history. ASU awarded a record 15,610 degrees during AY 2008-2009, an increase of 38.4 percent since 2002. The university's five-year graduation rate has increased by approximately nine percent and now exceeds the average for all U.S. public universities by more than 12 percent. The fall 2009 freshman class numbered 9,344, following upon the record set by the preceding class, when more than 9,700 students enrolled. For fall 2009, 31 percent were within the top 10 percent of their high school classes, and 63 percent were within the top 25 percent. ASU is the second most prolific producer of student Fulbright grant recipients among public research universities in the nation. National Merit Scholars numbered 613 in fall 2009, placing ASU among the top 10 schools nationally. ASU ranked second in the Pac-10 Conference and in the top 10 in Division I Athletics for the highest number of Academic All-Americans since 2000.

AFFORDABILITY AND ACCESS

When President Obama addressed the academic community during our spring 2009 commencement exercises, including our graduating class numbering more than 9,000, he was especially excited about our newly established program to ensure that resident undergraduates from families with annual incomes below $60,000 admitted as incoming freshmen would be able to graduate with baccalaureate degrees debt free. For fall semester 2009, the President Barack Obama Scholars program has allowed 1,731 freshmen an opportunity to attain their educational objectives. The program epitomizes our pledge to Arizona that no qualified student will face a financial barrier to attend ASU and underscores the success of the longstanding efforts that have led to record levels of diversity in our student body. While the freshman class has increased in size by 42 percent since 2002, for example, enrollment of students of color has increased by 100 percent, and the number of students enrolled from families below the poverty line has risen by roughly 500 percent. Our success in offering access regardless of financial need is easily one of the most significant achievements in the history of the institution.

RESPONSE TO REDUCTIONS IN STATE INVESTMENT

As our economy emerges from the most significant recession since the Great Depression, Arizona, like the rest of the nation, faced serious financial challenges during FY 2009, a situation likely to continue during the next several years. Because its economy is insufficiently diversified, Arizona was severely impacted by the downturn. As a result of the state's budgetary constraints, ASU suffered a $66 million decline in state investment in the institution, with most of this reduction imposed at midyear. In order to maintain fiscal stability, the university embarked on a series of significant FY 2009 budgetary cuts, including layoffs and the first-ever institution-wide furloughs, imposed during spring semester. Other measures included the consolidation of a number of colleges, schools, academic departments, and programs. The distribution of fiscal stabilization (stimulus) funds from the federal government totaling $69.8 million, administered through the State of Arizona, prevented the situation from becoming even more dire. The receipt of stimulus funds permitted the institution to realize an increase in net assets for FY 2009 of $57.6 million, which is being carried forward into FY 2010. It is not known when additional stimulus funds will be received, and further state appropriation reductions for FY 2010 have already occurred. To partially ameliorate these fiscal challenges the Board of Regents approved economic recovery tuition surcharge assessments for all students for FY 2010, totaling $510 annually for full-time in-state students and $710 for out-of-state students.

ENDOWMENTS AND AFFILIATED ORGANIZATIONS

While the university itself recorded an increase in net assets of $57.6 million for FY 2009 as a consequence of the stimulus funds, ASU's financially related organizations (component units) registered a $129.7 million decrease in net assets. This decrease was primarily attributable to the decline during the year in the market value of the ASU Foundation endowments as well as a drop in new gift pledge activity as a result of the economic downturn. In total, between the university and the component units, a $72.1 million decrease in net assets was recorded. Even though the endowments of the university and its foundation incurred a negative 17 percent investments return for FY09, for the last three years investment returns have remained at a breakeven point. The 17 percent decline in endowment market value for FY09 compared favorably to benchmarks, including the 26 percent decline for the S&P 500 Index and the 18 percent decline for the Morningstar Moderate Allocation Index, consisting of both equity and fixed income securities.

The value of the endowments as of June 30 was $408 million. Even with their recent significant market value decline, the endowments are still up 65 percent since the 2004 value of $248 million. Six years ago the ASU Foundation retained the services of Cambridge Associates, a leading institutional investment consultancy, to assist the university and related entities in maximizing the investment return of the endowments. The ASU endowment investment program for the last several years has remained in the upper quartile among all universities. Our endowment investment program thus provides a solid foundation for the future.

In accordance with the financial reporting requirements of the Governmental Accounting Standards Board, the ASU audited financial report also discloses information about independent component organizations financially related to the university, including the ASU Foundation. Net assets for these related organizations totaled $463 million, comprised largely of donor-restricted endowment funds. In viewing the financial status of the university, it is essential to consider ASU in the context of its very important component organizations. Most of ASU's endowments and many of its capital facilities are held by these component units.

In order for ASU to realize its objectives, it is essential for the university to leverage all of its available assets. As part of the master planning process, certain ASU land holdings have been designated for investment purposes through commercial (non-university) development by private developers pursuant to either long-term ground leases or sale, under overall coordination of the Office of Real Estate Development. As shown in this report, the estimated current values of the investment land holdings on June 30, 2009, based on appraisals and other independent third-party valuations, totaled $250 million. As long-term ground leases and sales occur, the investment land holdings will become important future revenues streams for ASU.

ADVANCING A CULTURE OF ACADEMIC ENTERPRISE

In its efforts to redefine the public research university as an egalitarian institution committed to excellence, access, and societal impact, ASU is succeeding in negotiating the complexities associated with advancing robust institutional innovation in real time and at scale. As the ASU research enterprise continues to mature, and as ambitious funding initiatives are reinstated upon completion of the current deep recession, the long-term trend of increasing revenues and net assets for the university and related organizations is expected to continue. ASU's evolving financial position reflects both the growing success of the new culture of "academic enterprise" and the investment of individuals, foundations, corporations, and governments that recognize the importance of a competitive world-class research university both to the success of the region and the needs of global society.

Michael M. Crow
President
Arizona State University

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, 2009, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based solely on the reports of the other auditors.

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

As described in Note A, the University's financial statements are intended to present the financial position, and the changes in financial position and, where applicable, cash flows of only those portions of the business-type activities, major fund, and aggregate discretely presented component units of the State of Arizona that are attributable to the University. They do not purport to, and do not, present fairly the financial position of the State of Arizona as of June 30, 2009, and the changes in financial position and, where applicable, cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and aggregate discretely presented component units of Arizona State University as of June 30, 2009, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

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

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

Debbie Davenport
Auditor General

November 25, 2009

ARIZONA STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview

The Management's Discussion and Analysis (MD&A) of Arizona State University's (ASU, University) financial statements provides an overview of the financial position and activities of the University for the year ended June 30, 2009. This discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying notes.

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

While audited financial statements for the prior fiscal year are not presented in the financial statements or notes of this financial report, condensed data from the prior fiscal year is presented in the MD&A in order to identify certain increases and decreases between years. Certain fiscal 2008 amounts have been adjusted in order to provide comparability to fiscal 2009, including the elimination of certain intrauniversity revenues and expenses.

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

ASU is a public state supported university with a Fall 2008 enrollment of over 67,000 students. Goals of ASU include increasing access to its educational resources, promoting excellence in its research, and among its students and faculty, and working with the community (both locally and globally) to positively impact social and economic development. Available resources are primarily used by the University to achieve these goals, rather than to generate a financial profit in its financial statements.

ASU - Statement of Net Assets

The statement of net assets (SNA) presents the financial position of the University at the end of the fiscal year using a format that shows current and noncurrent assets and liabilities, and reports net assets in four separate categories. The SNA helps the reader understand the assets available to support operations, how much ASU owes to vendors and bondholders, and gives a picture at June 30, 2009 of net assets and their availability for future expenses. Fiscal 2008 noncurrent capital assets and other liabilities have been restated; please refer to Note C - Capital Assets, for more information.

Assets are what the University owns and are generally measured in current value, except for capital assets (property and equipment), which are recorded at historical cost less accumulated depreciation. Current assets are generally considered to be convertible to cash within one year. Liabilities are what the University owes to others or what it has collected from others before it has provided the related services. Liabilities are typically recorded at current values. Current liabilities are amounts becoming due and payable during the ensuing fiscal year. The statement of net assets provides a picture of the net assets (assets less liabilities) of the University and their availability for expenditure by the University. The change in net assets for the year is generally one indicator of whether the overall financial condition of the University has improved during the year, when considered with non-financial facts such as enrollment levels and the condition of the University's facilities. A summarized comparison of the University's assets, liabilities and net assets (dollars in millions) at June 30, 2009 and June 30, 2008 follows.

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

	2009	2008 (as restated)
ASSETS		
Current assets	$ 284.2	$ 175.6
Noncurrent assets (excluding capital assets)	236.7	211.3
Noncurrent capital assets, net	1,561.1	1,517.9
Total Assets	**$ 2,082.0**	**$ 1,904.8**
LIABILITIES		
Long term debt liabilities	$ 949.1	$ 840.2
Other liabilities	180.9	170.2
Total Liabilities	**$ 1,130.0**	**$ 1,010.4**
NET ASSETS		
Invested in capital assets, net	$ 665.9	$ 725.5
Restricted:		
Nonexpendable	44.8	42.3
Expendable	75.4	99.2
Unrestricted	165.9	27.4
Total Net Assets	**$ 952.0**	**$ 894.4**

Overall for fiscal 2009, the University's financial position showed a $57.6 million increase in net assets. Current assets increased by $108.6 million between years, and noncurrent assets, excluding capital assets, increased by $25.4 million. At June 30, 2009, current assets included $115.1 million in receivables from the State of Arizona for federal fiscal stabilization funds ($69.8 million) and the May and June 2009 State of Arizona general fund appropriations ($45.3 million), both of which were fiscal 2009 revenues. The stabilization funds were received in early August 2009 and the general fund appropriations were received in late September 2009. Also included in current assets are cash and cash equivalent investments, receivables, short term investments, inventory, and deferred expenses.

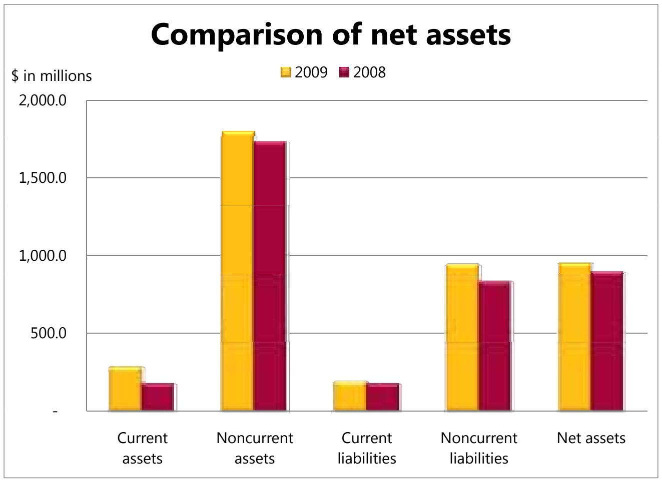
Noncurrent assets, excluding capital assets, consisted of restricted cash and cash equivalent investments, endowment investments, other investments, and net student loans receivable. There was a $44.8 million increase in restricted cash and cash equivalent investments and other investments between years primarily due to cash received from two debt financings during fiscal 2009. Endowment investments decreased by $18.7 million between years due to the financial decline of the investment markets throughout much of fiscal 2009.

Capital assets, net of accumulated depreciation increased by $43.2 million. The increases primarily occurred in the buildings and land categories. During fiscal 2006, ASU transferred title for the land and building associated with the Sundome Center for the Performing Arts to Maricopa County, the Arizona county in which both ASU and the Sundome reside. Terms of the transfer agreement included a stipulation that the Sundome Center continue to be utilized as a performing arts center. During fiscal 2009, Maricopa County transferred title for the Sundome Center back to ASU because it was unable to meet the facility use conditions of the original transfer agreement. Since prior to its transfer of the Sundome to Maricopa County, ASU was not able to operate the Sundome in a revenue neutral position, the Sundome Center has not been reopened, but the Center and accompanying land has been made available for sale.

Other liabilities, excluding capital debt liabilities, increased $10.7 million between years. Accounts payable at June 30 actually decreased between fiscal 2008 and fiscal 2009, largely due to reduced operational expenses by the University during fiscal 2009. However, many other current liability categories showed increases including deferred revenues and the current portion of the University's long term debt obligations.

There was a $108.9 million increase in long term debt liabilities for fiscal 2009 primarily due to the issuance of $104.1 million of system revenue bonds in November 2008. The bonds were used to fund construction costs of the Polytechnic Academic Complex (PAC). Construction of the PAC was essentially completed by the end of fiscal 2008. The University funded construction costs of the complex on a temporary basis until these bonds were issued. This resulted in the temporary decrease in the University's unrestricted net assets at the end of fiscal 2008. In April 2009, the University issued $36.3 million in system revenue bonds to primarily fund an indoor basketball practice facility (Weatherup Center), costs related to the Memorial Union renovation project (not covered by insurance proceeds), and several building renewal and maintenance projects.

Net assets increased in fiscal 2009 by $57.6 million, primarily due to the receipt of the Federal Fiscal Stabilization Funds. Without the receipt of these funds in fiscal 2009, the University would have ended the year with a decrease in net assets of approximately $12 million. Invested in capital assets, net of related debt decreased by $59.6 million during fiscal 2009 due to the issuance of the Polytechnic Academic Complex system revenue bonds. Also in fiscal 2009, there was a $23.8 million decrease in restricted expendable net assets due to the decline in the investment market value for endowment investments. Unrestricted net assets had a $138.5 million increase between years, as a result of the PAC revenue bonds that replenished the University's unrestricted net assets that had been temporarily used for construction costs of the Polytechnic project, as well as the receipt of the stabilization funds which allowed the University to limit its use of unrestricted net assets for routine operating expenses.



ASU - Capital and Debt Activities

The Polytechnic Academic Complex was occupied during fiscal 2009 in time for Fall 2008 classes. This complex is primarily comprised of three new academic buildings which added general university classrooms, classroom laboratories, and other specialized instruction spaces to the campus, as well as faculty and departmental offices. The facilities also contain space for enrollment growth and program expansion to serve a planned campus enrollment of 10,000 students. System revenue bonds to reimburse the University for the construction costs of this complex were issued in November 2008.

During fiscal 2009, ASU issued $104.1 million in system revenue bonds for the Polytechnic Academic Complex, and $36.3 million in system revenue bonds primarily for the Weatherup Center and several building renewal and maintenance projects.

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 the technology and research initiative fund (TRIF), and other revenues for which the University does not give equal or significant value directly to the resource provider in exchange for the resources received. Fiscal 2008 revenues and expenses (sources and uses) have been restated due to the elimination of additional internal sales activity. A summarized comparison of the University's revenues, expenses, and changes in net assets (dollars in millions) for fiscal 2009 and 2008 follows.

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

	2009	2008 (as restated)
Operating revenues		
Tuition and fees, net	$ 499.5	$ 436.7
Research grants and contracts	168.5	162.2
Auxiliary enterprises, net	131.0	128.6
Other operating revenues	49.4	55.2
Total operating revenues	$ 848.4	$ 782.7
Operating expenses	1,420.0	1,382.1
Operating loss	**$ (571.6)**	**$ (599.4)**
Net nonoperating revenues (expenses)		
State operating appropriations	$ 402.5	$ 468.4
Federal fiscal stabilization funds	69.8	
Grants and contracts	100.9	77.1
Other revenues	70.8	90.8
Other expenses	(45.6)	(53.4)
Income/(Loss) before other revenues, expenses, gains, or losses	$ 26.8	$ (16.5)
Capital appropriations and other revenues	20.9	25.0
Intergovernmental transfer of Sundome Center for the Performing Arts	7.2	
Asset impairment of previously donated historical treasures		(20.1)
Insurance recovery, net of impairment loss	2.7	15.5
Increase in net assets	**$ 57.6**	**$ 3.9**
Net assets at beginning of year	894.4	890.5
Net assets at end of year	**$ 952.0**	**$ 894.4**

Revenues to support ASU's basic activities, including both operating and nonoperating revenues and capital related activities, increased by $63.7 million in fiscal 2009 to $1.5 billion, a 4.4% increase from fiscal 2008.

Student tuition and fees, net of scholarship allowances, increased by $62.8 million between years, an increase of 14%. The increase was due to both an increase in enrollment as well as an increase in ASU's tuition and fees rates. Tuition and fees comprised 33% of ASU's total funding sources in fiscal 2009, compared to 30% in fiscal 2008. In fiscal 2009, tuition and fees became the largest single funding source of the University. As the number of ASU students continues to grow so does the quality of their scholastic achievements: 168 National Merit Scholars matriculating at ASU; 11 Flinn Scholars and 110 National Hispanic and National Achievement Scholars were included in the University's freshman class. On the global front, a record 20 ASU students won Fulbright awards to study abroad. An ASU senior was chosen as one of the top 20 students in the country by *USA Today*. ASU had students named to both the first and second team of *USA Today's* "All-USA College Academic Team" for exceptional intellectual achievement and leadership.

Prior to fiscal 2009, state appropriations had historically been the University's largest source of funds. However, in fiscal 2009 state appropriations totaled $416.9 million, compared to $482.9 million in fiscal 2008. In late fiscal 2009, just prior to the close of the fiscal year, the University was awarded $69.8 million of Federal Fiscal Stabilization Funds (FFSF) from the State of Arizona Governor's Office. These funds were used to help offset the drastic reduction in its state general fund budget the University experienced in fiscal 2009. Federal fiscal stabilization funds were used to support the University's core academic mission. The University had taken steps throughout the fiscal year to manage the decrease of state appropriations through several reduction initiatives, including a university wide furlough program, a hiring freeze, and a reduction in non-critical operating and capital expenses. The increase in unrestricted net assets will be used over the next several years as the University continues to function under tight budgetary conditions, especially as it relates to the State's investment in ASU.

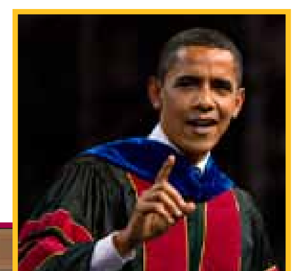
Grants and contracts revenues (both operating and nonoperating) increased by 12% in fiscal 2009 and comprised 18% of ASU's total funding sources. In January 2009, the U.S. Army renewed a 5-year contract for $50 million for ASU's Flexible Display Center. ASU continues to position itself as a leader in research by being at once the nation's youngest and largest major research institution. ASU is one of only a handful of institutions without an agricultural and medical school to have surpassed the $200 million mark in research funding. Institutional peers in this category include the California Institute of Technology, the Massachusetts Institute of Technology, and Princeton University. ASU is now ranked among the top 20 leading research institutions in the nation without a medical school. Each year the three Arizona universities contribute almost $1 billion into the Arizona economy from their research, most of which is funded by the U.S. government and entities from outside the state. Research money brought in by the universities is restricted for use to the research activity it supports.

3 Year Comparison of Sponsored Projects Grants Awarded, but Not Spent at Fiscal Year End			
(Dollars in millions)	**2009**	**2008**	**2007**
	$204.1	$186.2	$163.6

Also in fiscal 2009, the University saw a $22.3 million decrease in its net investment return from the fiscal 2008 level, primarily related to the loss in market value of its endowment investment portfolio. ASU's fiscal 2009 net investment loss was $10.9 million. Even though ASU's endowments had a negative investment return for fiscal 2009, the University's investment return over the last several years has been in the upper quartile among all universities.

Operating expenses increased by less than 3%, or $37.9 million, between years. The largest increase was in the student services and scholarship and fellowships expenses category which increased by $18.5 million between years due to increases in financial aid. Salaries, wages, and benefits paid to ASU employees increased by slightly more than 1%, or $11.9 million, between years. The increase was primarily in the research area where payroll related expenses increased to $124.9 million in fiscal 2009, from $111.1 million in fiscal 2008. Much of the research is transdisciplinary, providing opportunities for students across all academic disciplines. ASU has a significant sponsored impact beyond research including public service and instruction. Even with the dramatic budgetary situation it functioned under during fiscal 2009, the University continued to have faculty excel and receive national recognition. Six ASU faculty members earned Faculty Early Career Development Awards for 2009 from the National Science Foundation. An associate professor in the School of Geographical Sciences was the recipient of the Presidential Early Career Award for Scientists and Engineers as awarded by the national Science and Technology Council. Eight ASU faculty members are newly elected fellows of the American Association for the Advancement of Science, the world's largest general scientific society. The Carnegie Foundation for Advancement of Teaching and the Council for Advancement and Support of Higher Education both named an ASU engineering professor as one of their Professors of the Year, in recognition of his influence on teaching and commitment to undergraduates.

As noted above, the University functioned during the last half of the fiscal year under a hiring freeze and with a university-wide furlough program in place. This resulted in the personal services related expenses, other than the research area, to be essentially the same in fiscal 2009 as fiscal 2008. Overall the total expenses for the instruction and academic support category remained unchanged between years. There were slight decreases in the institutional support, operation and maintenance of plant, and auxiliary enterprises categories. The university saw an overall $5.0 million decrease in its supplies and services expenses for fiscal 2009 when compared to fiscal 2008, again due to the budget situation. There was a $10.4 million increase in depreciation expense between years with the majority of the increase occurring in equipment and buildings. Other uses decreased $27.9 million between years due to the $20.1 million asset impairment charge which was recorded in fiscal 2008, as well as a decrease in noncapital expenses for construction projects. The assets impairment charge is related to several printing presses which were donated to the university several years ago, but whose book value was determined to be more than the anticipated sales value. The decision to sell the printing presses was due to a change in the strategic direction of the Herberger Institute for Design and the Arts.



On May 13, 2009 during its Spring commencement ceremony, ASU honored President Barack Obama with the announcement of the President Barack Obama Scholars Program. Above President Obama is seen congratulating some of the first recipients of this program and giving the commencement address to ASU's graduating class and guests.

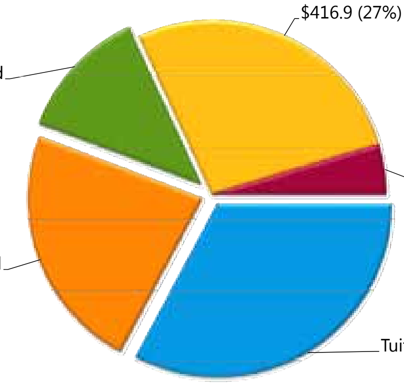
Net Assets. ASU had an overall increase in net assets of $57.6 million at the end of the fiscal year. As noted earlier, net investment in capital assets decreased $59.6 million between years, while restricted net assets (nonexpendable and expendable) decreased by $21.3 million. Unrestricted net assets had a $138.5 million increase between years, primarily due the Polytechnic Academic Complex bond issue which replenished the University's unrestricted net assets which had been used to temporarily fund the project construction. The receipt of the Federal Fiscal Stabilization Funds at the end of fiscal 2009 also helped the University limit its use of unrestricted net assets.

Combined Sources and Uses *(Dollars in millions)*

	2009		2008 (as restated)		Percentage Change
SOURCES					
State appropriations (includes capital appropriations)	$ 416.9	27%	$ 482.9	33%	(14%)
Federal fiscal stabilization funds	69.8	5%			
Tuition and fees, net	499.5	33%	436.7	30%	14%
Grants and contracts	270.9	18%	241.6	17%	12%
Private and capital gifts	54.2	4%	50.9	3%	6%
Share of state sales tax (TRIF)	23.7	1%	28.1	2%	(16%)
Auxiliary enterprises	131.0	9%	128.6	9%	2%
Other sources	57.2	3%	90.7	6%	(37%)
Total sources	**$ 1,523.2**	**100%**	**$ 1,459.5**	**100%**	**4%**
USES (by program)					
Instruction and academic support	$ 626.5	43%	$ 623.2	43%	1%
Research and public service	224.0	15%	206.9	14%	8%
Student services and scholarships and fellowships	139.8	10%	121.3	8%	15%
Institutional support	126.9	9%	128.4	9%	(1%)
Operation and maintenance of plant	87.5	6%	94.2	6%	(7%)
Auxiliary enterprises	121.5	8%	124.7	9%	(3%)
Depreciation	93.8	6%	83.4	6%	12%
Other uses	45.6	3%	73.5	5%	(38%)
Total uses	**$ 1,465.6**	**100%**	**$ 1,455.6**	**100%**	**1%**

Fiscal 2009 sources

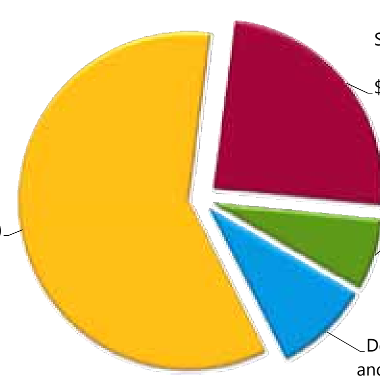
$ in millions



Total sources = $1,523.2 million

Fiscal 2009 uses by natural classification

$ in millions



Total uses = $1,465.6 million

ASU - Statement of Cash Flows

The statement of cash flows presents information about the changes in the University's cash position using the direct method of reporting sources and uses of cash. The direct method reports all major cash inflows and outflows at gross amounts, differentiating these activities into cash flows arising from operating activities; noncapital financing activities, including state appropriations; capital and related financing activities and investing activities.

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

The University's primary sources of cash during fiscal 2009 were tuition and fees revenues, state appropriations, grants and contracts revenues, proceeds from capital debt, and auxiliary enterprises revenues, such as athletic revenues, student housing, and bookstore. The federal fiscal stabilization funds were actually received by the University after June 30th, so they are not reflected as a cash flow source for fiscal 2009. The primary uses of cash were salaries and benefits for faculty, staff, and student employees, payments to suppliers of goods and services to the University, and purchases of capital assets, which include facility construction and major renovation costs, as well as purchases of capital equipment.

ASU's Component Units (Financially Interrelated Organizations)

In the financial report are the University's component units' financial statements, presented on an aggregated basis and on separate pages from the financial statements of the University. ASU's component units included in these statements are the ASU Foundation, Arizona Capital Facilities Finance Corporation (ACFFC), ASU Alumni Association, ASU Research Park, Inc., Collegiate Golf Foundation, Downtown Phoenix Student Housing, LLC, Mesa Student Housing, LLC, Sun Angel Endowment, Sun Angel Foundation, and University Public Schools, Inc. These component units are non-profit corporations controlled by separate Boards of Directors whose goals are to support Arizona State University. Even though these organizations support the University, they are not subsidiaries of the University, nor are they directly controlled by the University. For more information on these component units, please refer to Note N in the financial statements.

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

	June 30	
	2009	**2008**
Assets		
Cash and investments	$ 573.6	$ 689.2
Capital assets, net	386.8	350.2
Receivables, net	128.3	163.3
Other assets	107.2	109.5
Total assets	**$ 1,195.9**	**$ 1,312.2**
Liabilities		
Bonds payable	$ 603.8	$ 540.1
Other liabilities	129.2	179.5
Total liabilities	**$ 733.0**	**$ 719.6**
Net assets		
Unrestricted	$ (57.4)	$ 6.5
Temporarily restricted	174.5	233.7
Permanently restricted	345.8	352.4
Total net assets	**$ 462.9**	**$ 592.6**

Included in fiscal 2009 investments on the component units' statement of financial position is $53.1 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 $53.1 million recorded in liabilities under the caption "Liability under ASU endowment trust agreement." The $53.1 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 75% of total net assets. Annual income from permanently restricted endowments is used primarily to support the University, directly through transfer payments by the component units to the University. Included in the component units temporarily restricted net assets is $19 million that is for discretionary use by ASU, which when transferred to ASU would be unrestricted net assets for ASU.

Included in fiscal 2009 payments to ASU of $56.5 million is $42.4 million from ASU Foundation, which includes $38.5 million in cash donation transfers. These donations to ASU are recorded as private gifts or capital private gifts on the University's statement of revenues, expenses, and changes in net assets, depending upon donor intent.

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

	June 30	
	2009	**2008**
Revenues		
Contributions	$ 33.5	$ 118.0
Other revenues	2.1	73.8
Total revenues	**$ 35.6**	**$ 191.8**
Expenses		
Payments to ASU	$ 56.5	$ 51.0
Other expenses	106.7	107.4
Total expenses	**$ 163.2**	**$ 158.4**
Gain on lease revaluation due to bond refunding	1.4	
Loss on early debt extinguishment	(3.5)	
Increase / (Decrease) in net assets	$ (129.7)	$ 33.4
Net assets at beginning of the year	592.6	559.2
Net assets at end of the year	**$ 462.9**	**$ 592.6**

Combined ASU and Component Units

Fiscal 2009 was a financially challenging year for the University and its component units, especially the ASU Foundation. The University had an increase of $57.6 million in net assets for fiscal 2009, largely due to the receipt of the Federal Fiscal Stabilization Funds. The ASU component units (principally the ASU Foundation) had a $129.7 million decrease in net assets. On a combined basis for ASU and its component units, there was a $72.1 million decrease in net assets. The largest single factor leading to the decrease for the component units was the net investment loss of $75.6 million for the ASU Foundation for fiscal 2009, compared to a net investment loss of $1.4 million in fiscal 2008. This increased net investment loss was due to the significant decline in the market value of endowment investments during the course of the fiscal year.

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

	2009			2008		
	ASU	**ASU Component Units'**	**Combined**	**ASU**	**ASU Component Units'**	**Combined**
Invested in capital assets	$ 665.9		$ 665.9	$ 725.5		$ 725.5
Unrestricted net assets	165.9	$ (57.4)	108.5	27.4	$ 6.5	33.9
Restricted net assets:						
Nonexpendable/Permanently	44.8	345.8	390.6	42.3	352.4	394.7
Expendable/Temporarily	75.4	174.5	249.9	99.2	233.7	332.9
Net assets at end of year	**$ 952.0**	**$ 462.9**	**$ 1,414.9**	**$ 894.4**	**$ 592.6**	**$ 1,487.0**

Economic Outlook

Although ASU sustained unprecedented reductions in state funding during the past fiscal year, necessitating a dramatic resetting of its financial base, it has responded to this historic challenge with measures to ensure continued success. The University has weathered the loss of a significant portion of its state investment through additional investments from students, as well as the use of the federal stimulus dollars allocated to the University in fiscal 2009 by Governor Brewer. The stresses associated with the scale of the budget reductions are exacerbated by the fact that the University continues to experience solid enrollment growth in response to the demand for affordable, quality higher education. ASU anticipates ever-larger numbers of Arizona students turning to it in these difficult economic times. ASU is in the planning phase of a program to offer baccalaureate degrees in selected fields at lower costs by establishing new four-year regional institutions, to be known as the Colleges@ASU, in partnership with the cities that would provide the campus facilities. The regional colleges would offer students more affordable alternatives while allowing the State to better accommodate projected enrollment demands.

Through the end of September 2009, ASU researchers have been awarded $38 million in stimulus package research grants. Projects funded include work to unlock the secrets of photosynthesis for new sources of energy; research into a computational understanding of the skills required in surgical training; a program to immerse future teachers in school settings to maximize their readiness; development of a new method for screening and diagnosing tuberculosis in children; and development of a new type of robotic hand. The research funds are part of the American Recovery and Reinvestment Act (ARRA), and are restricted for use to specific research projects, but they do add significant funding to the University, and to the state economy.

The $69.8 million in federal fiscal stabilization funds (FFSF) received in fiscal 2009, were also part of the ARRA funds, but these funds were used for core instructional expenses of the University. The receipt of additional FFSF funds by the University in fiscal 2010 is a possibility, but the University has not yet received any notification that it will receive these funds in fiscal 2010. The FFSF funds are allocated to the University by the Governor of Arizona.

As mentioned above, although from a financial viewpoint fiscal 2009 was a challenging year for the University, it did not prohibit ASU's faculty and staff from receiving the highest level of regional, national, and international attention. As shown below, Fall 2009 headcount numbers shows growth in ASU's student enrollment for fiscal 2010. The Arizona Board of Regents approved fiscal 2010 tuition and fees increases as well as the creation of an Economic Recovery Surcharge also assessed to students. The Surcharge will be used to fund programs which are directly related to ASU students' success, but which would have been negatively impacted by the University's budget reductions.

Enrollment

	Fall		
	2009	2008	% increase
Total headcount (non-duplicated)	68,064	67,082	1.5%
Total full time equivalents	66,988	64,011	4.7%

As noted above, ASU's researchers have already received more than $38 million in stimulus package research grants, with the expectation that several million dollars in additional projects will be funded this fiscal year. ASU was named one of the best "Up-and-Coming Schools" in the 2009 edition of "America's Best Colleges" by *U.S. News & World Report*. This new ranking highlights colleges and universities that have recently made the most promising and innovative changes in academics, faculty, students, campus life, diversity and facilities based on the peer assessment of college presidents, provosts and admission deans.

Overall, the financial position of ASU is solid, with growth expected in some individual revenue streams in fiscal 2010. Although growth in funding in the sponsored research area is not available to support the overall core operations of the University, this funding does contribute to the overall economy of the State of Arizona. ASU's administration will continue to monitor the state and national economic conditions, and react as appropriate to ensure the continued success of ASU, and its students, faculty, and staff.

Above: In June 2009 NASA's Lunar Reconnaissance Orbiter was launched with the imaging system created by the ASU School of Earth and Space Exploration. *Image Credit: Pat Corkey, United Launch Alliance*

Left: In January 2009 ASU's Flexible Display Center (FDC) was awarded a five year $50 million award renewal by the U.S. Army. FDC is a collaboration among government, industry and academia designed to advance the development of full-color flexible display technology.

ARIZONA STATE UNIVERSITY
STATEMENT OF NET ASSETS

June 30, 2009
(Dollars in thousands)

ASSETS	
Current Assets:	
Cash and cash equivalent investments	$ 53,907
Short-term investments	68,562
Accounts receivable, net of allowance of $26,426	32,625
Receivable from State of Arizona -	
Federal fiscal stabilization funds	69,822
General fund appropriations rollover	45,298
Student loans receivable	2,319
Inventories	10,290
Deferred expenses	1,338
Total Current Assets	$ 284,161
Noncurrent Assets:	
Restricted cash and cash equivalent investments	$ 74,377
Endowment investments	76,716
Other investments	75,709
Student loans receivable, net of allowance of $1,515	9,878
Capital assets (Total of $ 1,561,127)	
Nondepreciable Assets -	
Land, Designated for -	
University operations	69,548
Investment property	26,873
Construction in progress and other	32,483
Depreciable assets, net of accumulated depreciation -	
Buildings	1,141,094
Equipment and other	291,129
Total Noncurrent Assets	$ 1,797,807
Total Assets	$ 2,081,968
LIABILITIES	
Current Liabilities:	
Accounts payable and accrued liabilities	$ 83,020
Compensated absences	2,824
Employee retirement and benefits deposits	5,522
Deferred revenues	39,640
Funds held for others	12,952
Current portion of bonds payable/certificates of participation/lease purchases - Funded by:	
University operating revenues	27,600
State of Arizona appropriations/share of state sales tax	13,295
Current portion of capital leases with component units	1,396
Total Current Liabilities	$ 186,249
Noncurrent Liabilities:	
Compensated absences	$ 25,234
Employee retirement and benefits deposits	11,246
Other liabilities	455
Bonds payable/certificates of participation/lease purchases - Funded by:	
University operating revenues	487,775
State of Arizona appropriations/share of state sales tax	345,430
Capital leases with component units	73,567
Total Noncurrent Liabilities	$ 943,707
Total Liabilities	$ 1,129,956
NET ASSETS	
Invested in capital assets, net of related debt	$ 665,895
Restricted (Total of $120,203):	
Nonexpendable:	
Scholarships and fellowships	30,211
Academic department uses	3,816
Student loans	10,792
Expendable:	
Scholarships and fellowships	27,416
Academic department uses	44,494
Student loans	2,418
Capital projects and debt service	1,056
Unrestricted (Note F)	165,914
Total Net Assets	**$ 952,012**

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

ARIZONA STATE UNIVERSITY
COMPONENT UNITS'
STATEMENT OF FINANCIAL POSITION

June 30, 2009
(Dollars in thousands)

ASSETS	
Cash and cash equivalent investments	$ 12,808
Receivables -	
Pledges receivables	115,879
Other receivables	12,420
Total Receivables	$ 128,299
Investments -	
Investments in securities	464,744
Investments held in trust for ASU	53,065
Other investments	42,992
Total Investments	$ 560,801
Net direct financing leases	74,963
Property and equipment, net of accumulated depreciation	386,799
Other assets	32,252
Total Assets	$ 1,195,922
LIABILITIES	
Liability under ASU endowment trust agreement	$ 53,065
Bonds and obligations under capital lease	603,843
Unearned revenue	19,104
Other liabilities	56,986
Total Liabilities	$ 732,998
NET ASSETS	
Unrestricted	$ (57,447)
Temporarily restricted	174,586
Permanently restricted	345,785
Total Net Assets	$ 462,924

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, 2009
(Dollars in thousands)

OPERATING REVENUES	
Student tuition and fees, net of $108,980 in scholarship allowances	$ 499,467
Research grants and contracts, including $125,124 in federal grants	168,557
Sales and services -	
Auxiliary enterprises, net of $4,894 in scholarship allowances	131,010
Educational departments	37,094
Other revenues	12,226
Total Operating Revenues	$ 848,354
OPERATING EXPENSES (Note I)	
Educational and general -	
Instruction	$ 454,929
Research	180,901
Public service	43,121
Academic support	171,546
Student services	51,412
Institutional support	126,920
Operation and maintenance of plant	87,530
Scholarships and fellowships	88,335
Auxiliary enterprises	121,467
Depreciation	93,768
Total Operating Expenses	$ 1,419,929
Operating Loss	$ (571,575)
NONOPERATING REVENUES (EXPENSES)	
State operating appropriations	$ 402,452
Federal fiscal stabilization funds	69,822
Share of state sales tax - technology and research initiative fund	23,735
Financial aid grants, including $49,588 in federal grants	49,969
Grants and contracts, including $25,560 in federal grants	50,892
Private gifts	49,211
Financial aid trust funds, including $5,412 in state trust fund appropriations	8,812
Net investment loss	(10,930)
Interest on indebtedness	(39,451)
Other expenses	(6,186)
Net Nonoperating Revenues	$ 598,326
Gain Before Other Revenues, Expenses, Gains, or Losses	$ 26,751
State capital appropriations - research infrastructure debt service (through fiscal 2031)	14,472
Capital grants, including $1,067 in federal grants	1,432
Capital private gifts	4,961
Additions to permanent endowments	48
Special Item - Intergovernmental transfer of Sundome Center for the Performing Arts (Note C)	7,240
Extraordinary Item - Insurance recovery, net of impairment loss	2,720
Increase in Net Assets	57,624
Net Assets at Beginning of Year	894,388
Net Assets at End of Year	**$ 952,012**

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

ARIZONA STATE UNIVERSITY
COMPONENT UNITS'
STATEMENT OF ACTIVITIES

Year ended June 30, 2009
(Dollars in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
REVENUES				
Contributions	$ 10,416	$ 16,713	$ 6,327	$ 33,456
Rental revenues	33,610			33,610
Sales and services	34,292	89		34,381
Net investment loss	(42,536)	(33,499)	(2,027)	(78,062)
Net assets released from restrictions	53,383	(45,585)	(7,798)	
Other revenues	12,143	66		12,209
Total Revenues	$ 101,308	$ (62,216)	$ (3,498)	$ 35,594
EXPENSES				
Payments to ASU (Total of $56,568)-				
Cash donation transfers	$ 48,265			$ 48,265
Cost reimbursements	155			155
Scholarship funds	3,715			3,715
Rent	4,433			4,433
Program services	5,493			5,493
Personal services, operations, and administrative expenses	51,670			51,670
Fundraising expenses	1,034			1,034
Interest	22,834			22,834
Depreciation/amortization	16,803			16,803
Other expenses	8,817			8,817
Total Expenses	$ 163,219			$ 163,219
Decrease in Net Assets, before Extraordinary Items	(61,911)	(62,216)	(3,498)	(127,625)
Gain on lease revaluation due to bond refunding	1,394			1,394
Loss on early debt extinguishment	(3,442)			(3,442)
Reclassification of net assets for change in law		3,134	(3,134)	
Decrease in Net Assets, after Extraordinary Items	(63,959)	(59,082)	(6,632)	(129,673)
Net Assets at Beginning of Year	6,512	233,668	352,417	592,597
Net Assets at End of Year	$ (57,447)	$ 174,586	$ 345,785	$ 462,924

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

ARIZONA STATE UNIVERSITY
STATEMENT OF CASH FLOWS

Year ended June 30, 2009
(Dollars in thousands)

CASH FLOWS FROM OPERATING ACTIVITIES	
Student tuition and fees	$ 481,277
Grants and contracts (federal, state, local, and nongovernmental)	184,770
Sales and services of auxiliary enterprises	125,805
Sales and services of educational activities	43,509
Payments to employees for salaries and benefits	(884,648)
Payments to suppliers for goods and services	(340,251)
Payments for scholarships and fellowships	(93,713)
Student loans issued	(1,408)
Student loans collected	1,447
Other receipts	12,359
Net cash used for operating activities	$ (470,853)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State operating appropriations	$ 357,154
Share of state sales tax - technology and research initiative fund	26,142
Grants and contracts (primarily financial aid)	103,440
Private gifts for other than capital purposes	50,790
Financial aid trust funds	8,806
Direct lending program receipts	293,514
Direct lending program disbursements	(293,302)
Funds held for others received	215,693
Funds held for others disbursed	(187,322)
Other disbursements	17,409
Net cash provided by noncapital financing activities	$ 592,324
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State appropriations - research infrastructure debt service financing (through fiscal 2031)	$ 14,472
Capital gifts and grants	3,547
Proceeds from issuance of capital debt	146,033
Purchases of capital assets	(138,861)
Principal paid on capital debt and leases	(39,427)
Interest paid on capital debt and leases	(37,797)
Net cash used for capital and related financing activities	$ (52,033)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	$ 19,850
Purchases of investments	(107,495)
Interest received on investments	11,077
Net cash used for investing activities	$ (76,568)
Net decrease in cash and cash equivalent investments	(7,130)
Cash and cash equivalent investments at beginning of year	135,414
Cash and cash equivalent investments at end of year	$ 128,284
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	$ (571,575)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	93,768
Changes in assets and liabilities:	
Increases in -	
Deferred revenues	5,209
Employee retirement and benefits deposits	2,201
Compensated absences	3,932
Decreases in -	
Receivables, net	11,517
Inventories	117
Deferred expenses	1,674
Accounts payable and accrued liabilities	(17,696)
Net cash used for operating activities	$ (470,853)
SIGNIFICANT NONCASH TRANSACTIONS	
Federal fiscal stabilization funds (receivable)	$ 69,822
General fund appropriations rollover	45,298
Property transfer to ASU of Sundome Center	7,240
Unrealized loss on endowments	(20,350)

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

June 30, 2009

Note A - Organization and Summary of Significant Accounting Policies

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

Reporting Entity

Arizona State University is a major research university located in metropolitan Phoenix with a total Fall 2008 enrollment of 67,082 students. The accompanying statements of the University include the activity of the Tempe campus, West campus (located in northwest Phoenix adjacent to Glendale), Polytechnic campus (located in Mesa), and the Downtown Phoenix campus, as well as its discretely presented component units. For financial reporting purposes, the University's portion of the statements includes those funds directly controlled by the University. Control by the University is determined on the basis of financial accountability. The University is classified as a state instrumentality per Internal Revenue Code Section 115. Since fiscal responsibility for the University remains with the State of Arizona, the University is considered a part of the reporting entity for the State's financial reporting purposes.

Also included are Arizona State University's discretely presented component units, comprised of its two major component units, the ASU Foundation and the Arizona Capital Facilities Finance Corporation (ACFFC), and several smaller component units consisting of the ASU Alumni Association, ASU Research Park, Inc., Collegiate Golf Foundation, Downtown Phoenix Student Housing, LLC, Mesa Student Housing, LLC, Sun Angel Endowment, Sun Angel Foundation, and University Public Schools, Inc. The University has determined that the ASU Foundation and ACFFC are the two major component units based on an evaluation of both (1) the component unit's significance relative to the total component units and (2) the nature and significance of the component unit's relationship to the University. The two major component units constitute 82%, 73%, 96% and 67% of the total component units' assets, liabilities, net assets, and revenues exclusive of net investment activity, respectively.

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

Four of these organizations, the ASU Foundation, ASU Alumni Association, Sun Angel Endowment, and Sun Angel Foundation, 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 and University Public Schools, Inc, are included as discretely presented component units in accordance with GASB Statement Nos. 14 and 39, since they are all legally separate tax-exempt organizations in which:

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

ASU component units consist of:

- ASU Foundation - disburses resources at the discretion of the ASU Foundation's independent board of directors, in accordance with donor directions and ASU Foundation policy. The majority of assets held by the ASU Foundation are endowments restricted for donor specified programs and purposes, the principal of which may not be spent. The directors of the ASU Foundation are entitled to make all decisions regarding the business affairs of the ASU Foundation, including distributions made to the University.
- Arizona Capital Facilities Finance Corporation (ACFFC) - provides facilities for either use by students of the University or the University itself.
- ASU Alumni Association - receives funds primarily through donations, dues, and affinity partners, and contributes funds to the University for support of various programs.
- Arizona State University Research Park, Inc. (Park) - manages a research park to promote and support research activities, in coordination with the University. In developing the research park, the Park has issued bonds guaranteed by the University.
- Collegiate Golf Foundation - operates a University-owned golf course. The Collegiate Golf Foundation is included as a discretely presented component unit because it is a legally separate organization that the University believes would be misleading to exclude due to its financial relationship to the University, and for consistency in the reporting of all component units.
- Downtown Phoenix Student Housing, LLC - provides facilities for use by students of the University.
- Mesa Student Housing, LLC - provides facilities for use by students of the University.
- Sun Angel Endowment - receives funds primarily through donations, with the annual earnings being used for various programs in support of intercollegiate athletics.
- Sun Angel Foundation - receives funds primarily through donations and contributes funds to the University for support of various athletic programs.
- University Public Schools, Inc. (UPSI) - operates a public school designed to be on the forefront of education innovation and improvement, with the goal of developing educational models that can be scaled across the state and nation to improve the academic achievement of children. UPSI is included as a discretely presented component unit

because it is a legal separate tax-exempt organization that the university believes would be misleading to exclude due to its close affiliation with the university and the participation of university faculty and staff with UPSI in implementing various educational innovations in the form of teaching methods, teacher preparation, curriculum and educational research, and for reporting consistency purposes with the other component units of the university.

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 2009 was the transfer of a $4 million discretionary gift to ASU. Also in fiscal 2009, the University made $11.9 million in payments for service agreements to the ASU Foundation for development activities management and support services, and technology transfer and intellectual property management services.

Financial statements of these component unit organizations are audited by independent auditors. All of the above units have a fiscal year end of June 30, 2009. 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 the year ended June 30, 2009, the University implemented the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. GASB Statement No. 49 addresses accounting and financial reporting for obligations to address current or potential detrimental effects of existing pollution. GASB Statement No. 52 establishes consistent standards for reporting land and other real estate held as investments. It requires permanent and term, but not quasi endowments to report their land and other real estate investments at fair value. Previously, all endowments were required to hold these investments at historical costs. The implementation of these standards has no effect on the amounts recorded as revenues, expenses, or net assets on the University's financial statements and required no note disclosures.

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 intrauniversity transactions have been eliminated.

Summary of Significant Accounting Policies

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

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

Investments. Short-term, endowment, and other investments are stated at fair value at June 30, 2009. Fair value typically is the quoted market price for investments. Investment returns include realized and unrealized gains and losses on investments.

Receivables. Total receivables at June 30, 2009 totaled $147.7 million, including $69.8 million in federal fiscal stabilization funds and $45.3 million in fiscal 2009 State of Arizona general fund appropriations. Also included in the accounts receivable balance is $16.4 million related to student tuition and fee payments due from students and others making payments on behalf of students; $4.1 million in vendor credits; and $2.1 million in sales tax revenues from the State of Arizona to support the Technology and Research Initiative Fund (TRIF).

ASU applied to the Governor of Arizona for federal fiscal stabilization funds during fiscal 2009. These funds were used to support instructional units. The federal fiscal stabilization funds were received in August 2009. The funding source for the stabilization funds is the American Recovery and Reinvestment Act.

Due to cash flow constraints of the State of Arizona, ASU did not receive general fund appropriations in May or June 2009. In accordance with state law, these appropriations are to be received before October 1, 2009. The University received the rollover appropriations on September 30, 2009. The revenue associated with these rollover appropriations was recorded as fiscal 2009 state appropriations in accordance with the authorized fiscal 2009 ASU expenditure authority funded by general fund appropriations, a portion of the University's tuition collections, and a portion of the University's TRIF allocation.

<u>Student loans receivable.</u> 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.

<u>Inventories.</u> Auxiliary enterprises use various methods to value their inventory. The ASU Bookstore comprises approximately 81% of the total inventory reported on the statement of net assets and its inventory is valued at cost using the retail method.

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

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

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

<u>Compensated absences.</u> Compensated absences are employee vacation leave balances and compensatory time earned but not used. Vacation leave benefits and compensatory time balances 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.

<u>Deferred revenues.</u> 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.

<u>Lease purchases.</u> 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.

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

<u>Net assets.</u> 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.

<u>Revenues/Expenses.</u> Revenues and expenses are classified as operating or nonoperating. Operating expenses are those incurred in conducting the primary programs and services of the University. Operating revenues generally result from exchange

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

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

Not included in scholarship allowances is $12.1 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 initiative fund (TRIF). As passed by Arizona voters in November 2000, TRIF is generated from a part of a 0.6% education sales tax. Collection of the tax began on June 1, 2001. As the governing board of the three state universities, the Arizona Board of Regents (ABOR) administers the portion of the collected education sales tax which funds the universities' TRIF initiatives. The ABOR receives funding requests from each university and determines the amount and duration of awards. The ABOR is required to submit an annual report to the governor and other Arizona state officials which uses a detailed set of performance measures to determine the overall effectiveness of each TRIF funded initiative. The research efforts of the Biodesign Institute at ASU is the University's primary use of its TRIF allocations.

Note B - Cash and Investments

General

At year end, the University's deposits and investments totaled $349.3 million. This balance is considered below in our analysis of deposit and investment risk, as required by GASB Statement No. 40, *Deposit and Investment Risk Disclosures*.

Included in the University's deposits and investments are capital projects and bond debt service funds totaling $73.8 million, which are held in trust and invested by various trustee banks. In addition, endowment funds totaling $76.7 million, including $53.1 million managed by the ASU Foundation, make up a portion of the deposits and investments. These funds are primarily invested in the ASU Pooled Endowment Fund, managed under contract by the ASU Foundation. The University also participates in the Arizona Student Financial Aid Trust (ASFAT), which was established by the Arizona Board of Regents and is funded by the Arizona State Legislature and student fees. ASFAT has been managed by the University of Arizona on behalf of all three state universities.

Statutory and Board of Regents' Policies

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

The Statutes do not specifically address investment policy of the universities, rather ABOR policy governs in this area. ABOR policy requires that each university arrange for the safekeeping of securities by a bank or other financial institutions approved by ABOR. The ABOR and University investment policies applicable to University investments are consistent with the scope of the Arizona State Treasurer's authorizing statutes and investment policy. Investment of capital project funds are also governed by the financing indenture agreements.

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

ABOR policy addresses requirements for concentration of credit risk and interest rate risk, but neither ABOR policy nor the Statutes include any specific requirements for foreign currency risk for investments of the universities.

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

Deposit and Investment Risk

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

Credit Risk. With regard to credit risk, ABOR policy requires that negotiable certificates of deposit, corporate bonds, debentures and notes, bankers acceptances and State of Arizona bonds carry a minimum BBB or better rating of Standard and Poor's Rating Services or Baa or better rating of Moody's Investors Services; and that commercial paper be rated by at least two nationally recognized statistical rating organizations (NRSROs) and must be of the two highest rating categories for short-term obligations of at least two of the NRSROs. Capital projects and bond debt service funds are invested by the bond trustee in accordance with the applicable financing indenture, generally limited to United States Treasury securities and other Federal agency securities, certificates of deposit (minimum rating of P-1/A-1), commercial paper (minimum rating of P-1/A-1+), and money market funds rated AAAm or better invested in short-term debt securities. For its endowments, the University has entered into a contract for management of the Pooled Endowment Fund by the ASU Foundation, subject to the ASU Foundation's investment policy.

Credit Quality Rating for Debt Securities at June 30, 2009 *(Dollars in thousands)*

Investment Description	Fair Value	Not Rated	Standard and Poor's			
			AAAm	AAAf	AAA	A-1+
Money market mutual funds	$ 120,753	$ 47,579	$ 73,174			
State of Arizona LGIP (Pool 5)	51,966			$ 51,966		
Federal agency securities	94,281	106			$ 89,805	$ 4,370
Bond mutual funds	8,109	8,109				
Arizona Student Financial Aid Trust, debt securities	4,496	4,496				
Total	**$ 279,605**	**$ 60,290**	**$ 73,174**	**$ 51,966**	**$ 89,805**	**$ 4,370**

AAAm, AAAf, 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.

Concentration of Credit Risk. ABOR and University policies for operating funds state that no more than five percent of the total investment portfolio, or five percent of the issues outstanding, whichever is less, shall be invested directly in securities issued by a single corporation and its subsidiaries/affiliates, however, securities issued by the federal government or its agencies, sponsored agencies, corporations, sponsored corporations, or instrumentalities are exempted from this provision. Capital projects and bond debt service financing indentures do not limit investments with a single issuer due to the conservative nature of permitted investments. At June 30, 2009, 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, the University had investments in Federal National Mortgage Association, Federal Home Loan Bank, and Federal Home Loan Mortgage Corporation with a fair value of $18.7 million, $25.5 million, and $27.0 million or 6%, 8%, and 8% of the University's total investments, respectively. Except for those issuers allowed by policy, the University does not have direct investments in any single issuer that exceeds 5% of the overall portfolio.

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

Interest Rate Risk for the University's Debt Investments at June 30, 2009 - utilizing the weighted average maturity methods *(Dollars in thousands)*

Investment Description	Fair Value	Weighted Average Maturity (Years)
Money market mutual funds	$ 120,753	0.2
State of Arizona LGIP (Pool 5)	51,966	0.1
Federal agency securities	94,281	2.0
Bond mutual funds	8,109	9.3
Arizona Student Financial Aid Trust, debt securities	4,496	5.6
Subtotal, before U.S. Treasury securities	$ 279,605	
U.S. Treasury securities	10,056	4.1
Total	**$ 289,661**	

At June 30, 2009, the University held $3.2 million of investments in U.S. Treasury zero coupon securities maturing between 2014 and 2018, which may be considered highly sensitive to interest rate fluctuations if the securities were sold before they fully mature. The remaining $6.8 million of U.S. Treasury securities were not considered highly sensitive to interest rate fluctuations.

Foreign Currency Risk. Non-endowment funds may not be invested in international securities. The ASU Pooled Endowment Fund has been 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, 2009, the University's endowment investments of $76.7 million included international investments totaling $22.1 million, with 68% in foreign equity investments, 12% in foreign fixed income investments, and 20% in other foreign marketable and non-marketable investments.

Note C - Capital Assets

The July 1, 2008 capital assets beginning balance has been restated to correct building assets related to a capital lease with one of the University's component units. The offset of this correction was in the funds held for others liability, therefore the restatement did not impact the University's net assets. Construction in progress additions reflected below represent expenses for new projects net of capital assets placed in service. It is estimated $186.4 million in additional expenses may be required to complete projects under construction or in design at June 30, 2009. Construction in progress encumbrances committed through purchase orders at June 30, 2009, totaled $0.5 million.

During fiscal 2009, Maricopa County transferred back to the University the Sundome Center for Performing Arts and the adjacent parking lot, located in Sun City West. This intergovernmental transfer resulted in an increase in the University's net assets in the amount of $7.2 million.

Capital Asset Activity for the year ended June 30, 2009 *(Dollars in thousands)*

	Balance 07/01/2008 (as restated)	Additions/ Increases	Retirements/ Decreases	Balance 06/30/2009
Capital Assets				
Land -				
University Operations	$ 58,796	$ 11,253	$ (501)	$ 69,548
Investment Property	24,527	4,210	(1,864)	26,873
Infrastructure	111,538	2,921	(53)	114,406
Buildings	1,622,550	62,931	(2,175)	1,683,306
Construction in Progress	7,690	14,601	(7,690)	14,601
Equipment	313,827	41,482	(13,193)	342,116
Works of Art and Historical Treasures	15,853	2,064	(35)	17,882
Library Books	216,420	11,242	(549)	227,113
Total	$ 2,371,201	$ 150,704	$ (26,060)	$ 2,495,845
Less Accumulated Depreciation:				
Infrastructure	$ 32,189	$ 2,823	$ (11)	$ 35,001
Buildings	494,177	48,656	(621)	542,212
Equipment	166,324	31,551	(11,162)	186,713
Library Books	160,603	10,738	(549)	170,792
Total	$ 853,293	$ 93,768	$ (12,343)	$ 934,718
Capital Assets, Net	**$ 1,517,908**	**$ 56,936**	**$ (13,717)**	**$ 1,561,127**

Land Investment Property

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

The current book value, i.e. historical cost at time of the original acquisition, and estimated current value, based primarily on appraisals and other independent third party valuations within the last two years, of the University's investment property at June 30, 2009, are as follows (Dollars in thousands):

Book Value	$ 26,873
Current Value	$ 249,954

The University's investment property consists of the following:

ASU at the Tempe campus. The Rio Salado land consists of 24.7 acres along the Tempe Town Lake, on the Rio Salado River, with 15.2 acres west of Rural Road and 9.5 acres east of Rural Road, directly accessible from major streets. The highest and best use of this land is mixed commercial office, apartments, condominiums, and retail, and not University use. Even though there is presently some University surface (non-parking structure) overflow parking on a portion of this land, the demand for this overflow parking has significantly lessened with the introduction of the metropolitan Phoenix area Light Rail System, located through the campus and increased emphasis on bus ridership and other forms of alternate transportation. If there is any further University parking needs, such parking will probably be accommodated through an additional parking structure on land designated for University operations. The 24.7 acres will not be needed for University facilities. The 15.2 acres west of Rural Road are presently under lease options and the 9.5 acres east of Rural Road are currently under contract for sale with a developer who is presently conducting due diligence and seeking zoning approval and entitlements from the City of Tempe.

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

ASU at the Polytechnic campus. The property consists of approximately 384.6 acres on the perimeter of this campus directly accessible from major streets. The majority of this land is presently vacant. This campus, exclusive of the 384.6 acres intended for future investment purposes, consists of approximately 228.4 acres.

A portion of the approximately 384.6 acres presently has outdated single housing units on it originally constructed by the Air Force when the land occupied by this campus was an Air Force base. Over the long run, these housing units will be replaced by apartment style student housing located on land designated for University use. Pursuant to the Campus Master Plan, the acres designated for University use is sufficient for the eventual full build out of this campus, including the eventual replacement of the outdated single housing units with apartment style student housing. The 384.6 acres located at the Polytechnic campus are now available for investment purposes (commercial development) due to a Consent to Transfer Agreement dated December 6, 2007 between the federal government and the University, which effectively lifted the previous deed restriction thereby allowing the University to use the 384.6 acres for commercial purposes.

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

Other Investment Property. Consists of:

- 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 five years ago, with the remaining 9.0 acres presently being retained by the University as an investment due to its location. The highest and best use of the 9.0 acres is its sale to a commercial developer and not University use.
- 22.5 acres in Tempe, known as the Community Services Building Site, is located about two miles from the Tempe campus. Even though there are presently some University operations in the Community Services Building, it is only temporary, with the best use being commercial investment land.
- 3.3 acres in Tempe, known as Gateway, is primarily vacant commercial land.
- 0.6 acres in Tempe, known as Art Annex, where the best use of the land is commercial development.
- 37.1 acres near Payson, Arizona, known as Camp Tontozona, which is presently being held for long-term sale.
- 16.6 acres in Sun City West, Arizona where the Sundome Center for Performing Arts is located. This Center was transferred in fiscal 2006 to Maricopa County with the stipulation that the County had to use the Center as a performing arts center. During fiscal 2009, the county transferred the center back to ASU because it was unable to meet the facility use conditions of the original transfer to the County. Since ASU had previously not been able to operate the center on a break even basis financially, the center has not been reopened by the University and the land has been made available for sale.

Left: Interdisciplinary Science and Technology Building (ISTB) I provides lab and office space for university departments, including: Chemistry & Biochemistry, School of Biological and Health Systems Engineering, Center for Metabolic Biology, and Department of Animal Care and Technology.

Above: ASU's recently renovated Memorial Union at the Tempe campus at night.

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

At June 30, 2009, the University has issued a combination of fixed and variable rate bonds and fixed rate certificates of participation (COPs). The University's fixed rate bonded and non-bonded debt consists of various issues of system revenue bonds and COPs that are generally callable at a prescribed date with interest payable semi-annually. Certain system revenue bonds and COPs of the University have been defeased through advance refundings by depositing sufficient U.S. Government securities to pay all future debt service in an irrevocable trust. Accordingly, the liabilities for these defeased bonds and COPs are not included in the University's financial statements. The principal amount of all such bonds and COPs outstanding at June 30, 2009 was $46.9 million and $65.4 million, respectively.

Bonds Payable, Certificates of Participation and Other Long-Term Lease Obligations at June 30, 2009 *(Dollars in thousands)*

	Average Interest Rate	Final Maturity	Balance 07/01/2008	Additions	Reductions	Balance 06/30/2009	Current Portion
Bonds:							
1993 System Revenue Refunding Bonds	4.93%	07/01/08	$ 1,855		$ (1,855)		
2000 System Revenue Bonds	5.86%	07/01/11	1,835		(420)	$ 1,415	$ 445
2002 System Revenue Bonds	4.84%	07/01/27	40,455		(2,330)	38,125	2,435
2002 System Revenue Refunding Bonds	4.16%	07/01/19	115,880		(10,635)	105,245	13,220
2003 System Revenue Refunding Bonds	4.35%	07/01/17	7,130			7,130	
2004 System Revenue and Refunding Bonds	4.93%	07/01/34	36,555		(2,525)	34,030	2,600
2005 System Revenue Refunding Bonds	4.24%	07/01/27	48,890		(210)	48,680	215
2007 A/B System Revenue Bonds	4.46%	07/01/36	76,260		(1,160)	75,100	2,640
2008 A/B Variable Rate Demand System Revenue Refunding Bonds	0.18%	07/01/34	103,680			103,680	
2008C System Revenue Bonds	5.89%	07/01/28		$ 104,100		104,100	
2009A System Revenue Bonds	3.76%	07/01/29		36,250		36,250	
Subtotal: Par Amount of Bonds			$ 432,540	$ 140,350	$ (19,135)	$ 553,755	$ 21,555
Certificates of Participation:							
1991 Towers Project (through the ASU Foundation)	6.89%	07/01/10	$ 1,160		$ (360)	$ 800	$ 385
1999A Downtown Center	5.75%	07/01/24	4,615		(170)	4,445	180
1999B Downtown Center	8.00%	07/01/24	4,450		(135)	4,315	145
2002 Certificates of Participation	4.75%	07/01/26	24,680		(3,185)	21,495	3,310
2004 ASU West Campus Refunding	2.36%	07/01/09	11,580		(5,725)	5,855	5,855
2004 Certificates of Participation	4.89%	09/01/30	78,360		(1,975)	76,385	2,035
2005A Certificates of Participation	4.36%	09/01/30	107,355		(2,855)	104,500	2,950
2006 Certificates of Participation	4.52%	06/01/31	15,310		(420)	14,890	440
2006 Refunding Certificates of Participation	4.15%	07/01/26	64,580			64,580	
Other Lease Purchases	3.16% - 6%	04/01/19	13,024	$ 7,935	(4,541)	16,418	4,040
Subtotal: Par Amount of COPS/Lease Purchases			$ 325,114	$ 7,935	$ (19,366)	$ 313,683	$ 19,340
Total Par Amount of Bonds, COPS, and Other Lease Purchases			$ 757,654	$ 148,285	$ (38,501)	$ 867,438	$ 40,895
Premium/(Discount) on Sale of Bonds and COPS			16,795	808	(2,524)	15,079	
Deferred Amount on Refundings			(9,177)		760	(8,417)	
Total Bonds Payable/COPS/Lease Purchases			**$ 765,272**	**$ 149,093**	**$ (40,265)**	**$ 874,100**	**$ 40,895**

In November 2008, the University issued $104.1 million in system revenue bonds having an average maturity of 14 years and an average interest rate of 5.89%. The bonds were issued to fund construction of the Polytechnic Campus Academic Complex. In April 2009, the University issued $36.3 million in system revenue bonds having an average maturity of 8 years and an average interest rate of 3.76%. The bonds were issued primarily to fund the new Weatherup Center, an indoor basketball practice facility, the Memorial Union fire renovation project and several building renewal and deferred maintenance projects.

The University has outstanding two series of variable rate demand system revenue refunding bonds, Series 2008A and B, totaling $103.7 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, 2009 was 0.20% for the Series 2008A and 0.16% for the Series 2008B bonds.

The variable rate bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest on seven days' notice to the remarketing agents. To provide credit and liquidity support for the bonds, the University entered into an Irrevocable Letter of Credit and Reimbursement Agreement (LOC) with Lloyds TSB Bank PLC upon execution of the refunding bonds. The LOC was extended on June 18, 2009 and expires on June 15, 2012. Assuming all of the $51.8 million Series 2008A and $51.8 million Series 2008B bonds are not resold within 90 days, the University would be responsible to make quarterly installment principal payments of $5.2 million over a five-year period, plus interest to be calculated as established in the letter of credit. The University has agreed to pay TSB Bank, PLC, an annual commitment fee for the letter of credit of 1.55% per annum on the stated amount which includes outstanding principal of the bonds, plus 51 days of interest, at an assumed rate of 12% per annum.

Effective January 1, 2007, the University entered into a swap agreement on $103.0 million, notional amount, relating to the Series 2008 A&B variable rate demand system revenue refunding bonds (2008 A&B Bonds). The $103.0 million in bond principal is not exchanged; it is only the basis on which the interest payments are calculated. The notional amount under the swap decreases as principal payments are made on the 2008 A&B Bonds. The intention of the swap is to effectively change the variable rate interest on the 2008 A&B Bonds to a synthetic fixed rate. The swap agreement expires on July 1, 2034. Under the terms of the swap agreement, the University pays the counterparty interest calculated at a fixed rate of 3.91% and receives payments from the counterparty based on the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index set weekly. The SIFMA rate at June 30, 2009 was 0.35%. At June 30, 2009, the synthetic fixed interest rate on the bonds was:

Interest Rate Swap:	**Terms**	**Rates (%)**
Fixed payment to counterparty	Fixed	3.91
Variable payment from the counterparty	SIFMA	(0.35)
Net interest rate swap payments		3.56
Variable rate bond coupon payments	Spread to SIFMA	0.18
Synthetic fixed interest rate on bonds		3.74

As of June 30, 2009, the swap had a fair value of $(5.7) million, which represents the cost to the University to terminate the swap. The fair value was developed by an independent third party, with no vested interest in the transaction, using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps.

As of June 30, 2009, the University was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the University would be exposed to credit risk equal to the amount of the derivative's fair value. The swap counterparty was rated A+ by Fitch, A by Standard & Poor's and A2 by Moody's Investor Services as of June 30, 2009. Based on the current ratings, the counterparty was not required to provide collateral. In the event a rating downgrade occurs, the counterparty may be required to provide collateral if the University's overall exposure exceeds predetermined levels. Collateral may be held by the University or a third party custodian.

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

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

In August 2008, ASU welcomed over 67,000 students to its campuses. The freshman class included: 168 National Merit Scholars, 110 National Hispanic and National Achievement Scholars, and 11 Flinn Scholars.

Securities and cash restricted for bonds and COPs debt service held by the trustee at June 30, 2009 totaled $36.9 million and $13.0 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, 2009 for variable rate issues, are shown below:

Bonds Payable, Certificates of Participation and Other Long-Term Lease Obligations at June 30, 2009 *(Dollars in thousands)*

	System Revenue Bonds			Certificates of Participation		Other Lease Purchases	
Fiscal Year	Principal	Interest	Net Payments (Receipts) on Swap Agreement	Principal	Interest	Principal	Interest
2010	$ 21,555	$ 21,896	$ 3,692	$ 15,300	$ 13,641	$ 4,040	$ 771
2011	26,975	20,463	3,615	10,420	13,243	3,799	629
2012	28,595	19,278	3,533	10,375	12,854	1,822	450
2013	29,980	17,965	3,447	10,775	12,389	1,526	362
2014	31,520	16,589	3,357	11,300	11,829	1,365	291
2015-2019	134,150	63,994	15,274	65,305	50,102	3,866	619
2020-2024	110,440	40,089	12,256	75,400	32,122		
2025-2029	117,580	13,958	8,409	70,975	13,609		
2030-2034	40,405	2,483	3,505	27,415	948		
2035-2037	12,555	254					
Total	**$ 553,755**	**$ 216,969**	**$ 57,088**	**$ 297,265**	**$ 160,737**	**$ 16,418**	**$ 3,122**

The University has pledged portions of its revenues towards the payment of debt related to various senior lien system revenue bonds outstanding at June 30, 2009. These related revenue bonds are primarily for new academic and research facilities, academic and laboratory renovations and infrastructure improvements. These pledged revenues include student tuition and fees, certain auxiliary enterprises' revenues, investment income, and indirect cost recovery revenue. Pledged revenues do not include state appropriations, gifts, endowment income, or other restricted revenues. For the year ended June 30, 2009 annual pledged revenues totaled $702.8 million of which 6.4% ($44.8 million) was required to cover current year debt service. Future pledged revenues required to pay all remaining debt service for system revenue bonds through final maturity of July 1, 2036 is $827.8 million. In addition, the University has pledged the same revenues on a subordinated basis to secure the Series 2006 Arizona State University Research Park, Inc. Development Refunding Bonds. Research Park bonds outstanding at June 30, 2009 were $10.9 million with annual debt service payments of approximately $1.2 million through July 1, 2021.

The University presently plans to issue up to $230 million in system revenue bonds in fiscal 2010.

Funding responsibility for the June 30, 2009 outstanding debt *(Dollars in thousands)*

	Current Portion	Noncurrent Portion	Total
From Arizona State University operating revenues	$ 27,600	$ 487,775	$ 515,375
From State of Arizona provided state appropriations and share of state sales tax (ASU in substance acting as conduit)	13,295	345,430	358,725
	$ 40,895	**$ 833,205**	**$ 874,100**

Note E - Capital Leases (All with Component Units)

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

In April 2004, the University entered into a 30 year sublease agreement with Nanotechnology Research, LLC (Nanotechnology), an Arizona limited liability company, whose sole member is ACFFC, to lease the Flexible Display Center located at the ASU Research Park. Lease payments through April 28, 2009 were based on the variable interest rate of the lease revenue bonds issued in April 2004 by Nanotechnology. In April 2009, the 2004 Bonds were refunded from variable rate to fixed rate bonds by the Series 2009A tax-exempt and Series 2009B taxable refunding bonds. The Series A tax-exempt bonds were issued at interest rates ranging from 4.0% to 5.0% with a final maturity of March 1, 2034 and the Series B taxable bonds were issued at interest rates ranging from 5.1% to 6.4% with a final maturity of March 1, 2022.

In July 2005, the University entered into a ground lease with McAllister Academic Village, LLC, an Arizona limited liability company, whose sole member is ACFFC, for the construction of the McAllister Academic Village (MAV) living, learning and retail facility now operated under the name of Hassayampa

Academic Village (HAV). The facility houses approximately 1,900 students and was completed in two phases with the first phase of approximately 900 beds completed in the fall of 2006 and the second phase of approximately 1,000 beds completed in May 2007. HAV also includes academic facilities, a learning resource center, and food and retail facilities. In July 2005, MAV issued $145 million in tax-exempt variable rate demand revenue bonds to fund construction of the facility. In September 2008, the 2005 Bonds were refunded from variable rate to fixed rate bonds by the Series 2008 Refunding Bonds at interest rates ranging from 3.5% to 5.8% with a final maturity of July 1, 2039. ACFFC has overall responsibility for the residential portion, comprising approximately 92% of the facility, including budgetary approval, with the University leasing the non-residential portion of the facility.

Capital lease commitments to lessors at June 30, 2009 based on present value of lease payments *(Dollars in thousands)*

	Average Interest Rate	Final Maturity	Balance 07/01/2008	Additions	Reductions	Balance 06/30/2009	Current Portion
Hassayampa Academic Village	5.36%	2039	$ 11,989	$ 462	$ (14)	$ 12,437	$ 45
Fulton Center	4.84%	2034	28,220		(615)	27,605	630
Flexible Display Center	5.27%	2034	34,747	933	(759)	34,921	721
Total: Capital Leases			**$ 74,956**	**$ 1,395**	**$ (1,388)**	**$ 74,963**	**$ 1,396**

Capital lease payment commitments including interest due to the lessor at June 30, 2009 and capital lease book values, which reflect the original book value less accumulated depreciation, are presented in the following tables:

Capital lease payment commitments *(Dollars in thousands)*

Fiscal Year	Capital Lease Payments
2010	$ 5,119
2011	5,120
2012	5,134
2013	5,144
2014	5,154
2015-2019	25,962
2020-2024	26,315
2025-2029	26,678
2030-2034	26,261
2035-2039	5,179
Total minimum lease payments	$ 136,066
Less amount representing interest	(61,103)
Present value of net minimum lease payments	**$ 74,963**

Capital leases book value as of June 30, 2009
(Dollars in thousands)

	Book Value	Accumulated Depreciation	Net Book Value
Hassayampa Academic Village	$ 12,451	$ (911)	$ 11,540
Fulton Center	29,395	(4,141)	25,254
Flexible Display Center	35,846	(4,571)	31,275

Subsequent to June 30, 2009, the University finalized a commitment for a capital lease with the City of Phoenix related to the Nursing and Health Innovation Phase 2 building at the University's Downtown Phoenix campus. The capital lease is anticipated to be around $10 million with an interest rate not expected to exceed 6% for 25 years and annual lease payments of approximately $0.8 million.

Note F - 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, 2009, 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 G - Compensated Absences

The University has recorded a liability for accruals of vacation leave and compensatory time earned, but not taken at fiscal year end. Changes in accrued compensated absences for the year ended June 30, 2009 consisted of the following (Dollars in thousands):

Balance 07/01/2008	$ 24,126
Additions	29,076
Reductions	(25,144)
Balance 06/30/2009	$ 28,058
Current Portion	$ 2,824

Note H - Operating Leases

Brickyard. In July 2004, the ASUF Brickyard, LLC, an Arizona limited liability company of the ASU Foundation, a component unit of the University, purchased the Brickyard office building and parking facility in downtown Tempe for $34.5 million, and is master leasing the entire facility to the University pursuant to a 15 year lease. This lease has no purchase options for the University. Approximately 74% of the facility is being used by the University for classrooms, offices, and research areas, with the remaining portion being rented by the University to various firms for retail and restaurant operations. The annual rent paid by the University to the ASU Foundation is approximately $2.8 million.

SkySong 1, LLC Operating Lease. In June 2006, the University entered into an operating lease with SkySong 1, LLC, an Arizona limited liability company of the ASU Foundation, for approximately 80,000 square feet of office space within a development known as the ASU/Scottsdale Center for Innovation and Technology. The Innovation Center is being developed as a home for activities and organizations that co-mingle and stimulate new forms of global commerce, research, technology, art, education and economic development. ASU's use of the leased space focuses on supporting entrepreneurial development activities, interdisciplinary research programs in engineering-related fields, and education technology.

University Center. In April 2007, the University entered into an operating lease with St. Paul Properties, Inc for office space within a complex known as University Center. The office space is being used to house University departments. The lease commenced in July 2007, with future minimum lease payments from fiscal 2009 until fiscal 2012.

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

	Operating Lease Payments			
Fiscal Year	Brickyard	SkySong	University Center	Total
2010	$ 2,982	$ 2,077	$ 1,037	$ 6,096
2011	3,120	2,121	525	5,766
2012	3,125	2,166	110	5,401
2013	3,115	2,212		5,327
2014	3,114	2,260		5,374
2015-2019	15,498	12,071		27,569
2020-2023		8,369		8,369
Total	**$ 30,954**	**$ 31,276**	**$ 1,672**	**$ 63,902**

Note I - Operating Expenses by Classification

Operating expenses by functional and natural classification for the year ended June 30, 2009, are summarized as follows (Dollars in thousands):

	Year ended June 30, 2009				
	Personal Services and Benefits	Supplies and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	$ 409,574	$ 39,939	$ 5,416		$ 454,929
Research	124,850	54,342	1,709		180,901
Public service	25,792	16,899	430		43,121
Academic support	122,226	48,985	335		171,546
Student services	39,923	11,432	57		51,412
Institutional support	78,295	48,055	570		126,920
Operation and maintenance of plant	30,372	57,158			87,530
Scholarships and fellowships	918		87,417		88,335
Auxiliary enterprises	41,209	75,757	4,501		121,467
Depreciation				$ 93,768	93,768
Total Operating Expenses	**$ 873,159**	**$ 352,567**	**$ 100,435**	**$ 93,768**	**$ 1,419,929**

Note J - Retirement Plans

At June 30, 2009 the University is participating in one cost-sharing multiple-employer defined benefit pension, health, and long-term disability plan and three defined contribution pension plans. The following disclosures are required by Governmental Accounting Standards Board (GASB) Statement No. 50, *Pension Disclosures (an amendment of GASB Statements No. 25 and No. 27)*. In addition to the below mentioned plans, there are two other retirement plans totaling $1.0 million in total University and employee contributions for the year ended June 30, 2009.

Defined Benefit Plan

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

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

Funding Policy. The Arizona State Legislature establishes and may amend active plan members' and the University's contribution rates. For the year ended June 30, 2009, active plan members were required by statute to contribute at the actuarially determined rate of 9.45% (8.95% for retirement and 0.5% for long-term disability) of the members' annual covered payroll and the University was required by statute to contribute at the actuarially determined rate of 9.45% (7.99% for retirement, 0.96% for health insurance premium, and 0.5% for long-term disability) of the members' annual covered payroll. The University's contributions for the current and two preceding years, all of which were equal to the required contributions, were as follows (Dollars in thousands):

Fiscal Year	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund	Total Contributions
2009	$ 20,429	$ 2,455	$ 1,278	$ 24,162
2008	21,278	2,775	1,322	25,375
2007	18,832	2,619	1,247	22,698

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, 2009, plans offered by the Teachers Insurance Annuity Association/College Retirement Equities Fund (TIAA/CREF), Variable Annuity Life Insurance Company (VALIC), and Fidelity Investments Tax-Exempt Services Company (Fidelity), were approved by the Arizona Board of Regents. Benefits under these plans depend solely on the contributed amounts and the returns earned on the investment of those contributions. Contributions made by employees vest immediately and University contributions vest no later than after five years of full-time employment. Employee and University contributions and associated returns earned on investments may be withdrawn starting upon termination of employment, death, or retirement. The distribution of employee contributions and associated investment earnings are made in accordance with the employee's contract with the applicable insurance and annuity company. University contributions and associated investment earnings must be distributed to the employee in the form of an annuity paid over the employee's life.

Funding Policy. The Arizona State Legislature establishes and may amend active plan members' and the University's contribution rates. For the year ended June 30, 2009, 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, 2009, were as follows (Dollars in thousands):

	Contribution Rates (Each)	University Contributions	Employee Contributions	Total Contributions
TIAA/CREF	7.00%	$ 12,911	$ 12,911	$ 25,822
VALIC	7.00%	1,692	1,692	3,384
Fidelity	7.00%	5,420	5,420	10,840

Note K - ASU at the Downtown Phoenix Campus

In June 2005, the University and the City of Phoenix (City) entered into an intergovernmental agreement related to the development of an ASU campus in downtown Phoenix. The ongoing development of the campus is seen as a partnership between the University, the City of Phoenix, and area neighborhoods and businesses to help with the revitalization of the historic urban core of Phoenix. Per the terms of the agreement the City has acquired land and existing buildings which have been identified by the University as being within the proposed boundaries of the ASU at the Downtown Phoenix campus. All property, except the residential life facility, will be owned by the City of Phoenix, until such a time as the property is conveyed to the University. The Downtown Phoenix campus is the University's fourth and newest campus and provides an academically-rigorous university experience which integrates academic, public, private, and residential development in a diverse and dynamic living/learning environment for students. During fiscal 2009, the Downtown Phoenix campus was the home to several colleges and schools, primarily the College of Public Programs, College of Nursing and Health Innovation, College of Letters and Sciences, and the Walter Cronkite School of Journalism and Mass Communication.

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 Health Innovation moved into existing buildings on the Downtown Phoenix campus from the University's Tempe campus, completing phase one of campus development. The new downtown Phoenix home of the Walter Cronkite School of Journalism and Mass Communication opened in time for the Fall 2008 semester. Funded through bonds issued by the City of Phoenix, the new Cronkite home is intended to be a public space through speaker series, movie nights and other special programming aimed at the general public. The building also houses the University's Public Broadcasting System station - KAET/Eight. Features of the six story building include 17 fully mediated classrooms, nearly 1,000 classroom seats, 280 digital workstations for students and a 144 seat theater. This building as well as Taylor Place, a new residential facility for Downtown Phoenix campus students, were opened in time for Fall 2008 classes, signaling the completion of phase two of the campus development. An additional College of Nursing and Health Innovation building, also constructed by the City of Phoenix from the 2006 bond proceeds, opened in fall 2009.

Development of Properties. The University is responsible for the master planning of the Downtown Phoenix campus, subject to reasonable review and approval by the City of Phoenix. The new on-campus student housing facility, Taylor Place, was developed and is managed by a third party on land leased to ASU from the City of Phoenix, and then subleased to the non-profit entity which owns the residential building and improvements. The lease between ASU and the City of Phoenix is of no cost to ASU. The 40 year sublease requires annual lease payments to be paid directly to the City of Phoenix by the non-profit entity. The lease guarantees the transfer of ownership of the land and improvements to ASU at no cost upon termination of the lease and any project indebtedness. Although managed by the third party, ASU provides residential life services to the students living in Taylor Place. To the extent that an occupancy rate of 99% is not achieved during the four year academic period from Fall 2008 to Spring 2012, the University has a direct leasing commitment of room space. The maximum exposure to ASU of this leasing commitment is $3.4 million, with the fiscal 2009 payment having been $0.8 million. Based on current occupancy rates for Fall 2009, the University anticipates it will be required to make a leasing payment for fiscal 2010, which is presently set at $1.2 million.

Campus parking is not the financial responsibility of the City. Demolition of acquired buildings not intended for use by the University or the City is the responsibility of the City. The City has the right to convey or lease to a third party all or part of the acquired properties not leased to the University. Beginning in July 2008, the University is making annual payments to a renewal and replacement fund at the rate of $2 per square foot of space occupied by the University, until the property is conveyed to the University. The City and the University will agree on the scope and function of any incidental and ancillary private development on the ASU at the Downtown Phoenix campus.

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

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

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

Note L - Rio Salado Parkway Land Sale and Lease

During fiscal 2007 ASU sold 10.62 acres and entered into an agreement to lease 15.15 acres of land located north of Rio Salado Parkway and west of Rural Road in Tempe to SunCor Development Company. This land is located along the south bank of Tempe Town Lake. SunCor plans to construct condominiums on the purchased land, and construct office and retail space and, potentially, a hotel on the leased land. The Lease Option Agreement for the 15.15 leased acres contains 5 ground lease phases which must be exercised by specified dates ranging from 2009 to 2021. The lease term for each lease is 99 years. Upon exercise of each lease option, there is an option payment in cash (prepaid rent for the full lease term) at the current appraised land value at the time the lease is exercised.

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

ASU has a remote contingent liability for a presently, not specifically determinable, amount that would not be material to ASU's overall financial position for three major capital project improvements to the SunCor sites. This would only occur (1) if another 9.5 acre parcel in the same area designated by ASU for sale or lease, never occurs, (2) SunCor fails to enter into one or more of the leases, (3) SunCor constructs an ASU owned academic building on a severed parcel, or (4) ASU defaults and fails to execute a lease on a particular parcel. The site capital improvements, which significantly increase the value of the property, consist of (1) drainage improvements, (2) a roadline along the property line between the sale and lease property for access and utilities, and (3) relocation of overhead power lines at an estimated cost of $5 million. If ASU was to become liable for any of these improvements, the intent of ASU for most scenarios would be to have a new developer reimburse ASU for these capital costs, the majority of which could be financed over 15 years through a City of Tempe improvement district.

Note M - Other Matters

Risk Management. Pursuant to A.R.S. § 41-621, the University participates in a self-insurance program administered by the State of Arizona, Department of Administration, Risk Management Section. The State's Risk Management Program covers the University, subject to certain deductibles, for risks of loss related to such situations as theft, damage and destruction of property, buildings, and equipment; errors and omissions; injuries to employees; natural disasters; and liability for acts or omissions of any nature while acting in authorized governmental or proprietary capacities and in the course and scope of employment or authorization, except as prescribed in A.R.S. § 41-621. Loss risks not covered by the Risk Management Section and where the University has no insurance coverage are losses arising from contractual breaches and losses that arise out of and are directly attributable to an act or omission determined by a court to be a felony. From time to time, various claims and lawsuits associated with the normal conduct of University business are pending or may arise against the University.

In the opinion of University management, any losses from the resolution of any other pending claims or litigation not covered by the Risk Management Section should not have a material effect on the University's financial statements. Also, in accordance with the disclosure requirements of GASB Statement No. 10, the University notes that judgments and claims not covered by the Risk Management Section during the three years ended June 30, 2009, have not been material to the University's financial statements.

Legal Matters. Individual members of the Havasupai Tribe and the Tribe itself filed two separate lawsuits in 2004 against the Board, the University, the University of Arizona ("UA") and faculty from the University and UA alleging damages arising from research conducted on Havasupai blood samples that were collected in the early 1990s. The individual plaintiffs seek $10 million in compensatory damages and $15 million in punitive damages. The Tribe seeks compensatory damages of $25 million and punitive damages of $25 million. State court rulings disposing of all of the claims for failure to comply with notice of claim requirements were reversed by the Arizona Court of Appeals and the Arizona Supreme Court denied petitions for review in April, 2009. The cases are currently consolidated in state court. A status conference was held on November 6, 2009 to establish deadlines for discovery and pre-trial motions. The State Attorney General's Office is providing legal representation to vigorously defend itself in these matters. Judgments, if any, against the University will be covered by State Risk Management insurance.

In May, 2005, Dr. George Pettit sued the Board and the University and, per an amended complaint filed on August 2, 2005, in United States District Court, various University officers and employees and their spouses along with Arizona Science and Technology Enterprises, LLC, seeking unspecified monetary damages. The case is currently pending. Dr. Pettit's claims arise primarily out of the University's decision not to renew Dr. Pettit's employment as the Director of the Cancer Research Institute and as the holder of the Dalton Chair of Cancer Research and Medicinal Chemistry for the 2005-2006 academic year. Dr. Pettit has voluntarily dismissed many of the defendants and dropped a number of his claims. Court rulings have further narrowed the case to one claim against one defendant, former ASU Provost, Dr. Milton Glick. The court's denial of Dr. Glick's motion for summary judgment is the subject of a pending appeal in the 9th Circuit Court of Appeals. Briefing is not yet complete. The University cannot predict the outcome of these matters at this time, but is pursuing a vigorous defense. It is anticipated that all or substantially all of the claims against the University will be covered by State Risk Management insurance should the plaintiff prevail.

On June 21, 2006, the Arizona Attorney General commenced a proceeding for review of administrative action on behalf of the State of Arizona Land Department. The litigation is primarily against the Arizona Navigable Stream Adjudication Commission. The Commission conducted a proceeding under Arizona law and determined that the lower Salt River is not navigable. ASU owns land adjacent to the current channel of the lower Salt River. ABOR/ASU is named as a defendant in the Attorney General's action because ASU was one of a number of parties that participated in and therefore became a party to the Commission proceedings. ASU submitted a brief to the Commission and appeared before the Commission during its proceedings. On August 3, 2007, the Superior Court ruled in favor of ASU and the other defendants and upheld on administrative appeal the Commission's determination that the lower Salt River was not navigable at Arizona statehood. The Arizona Attorney General and certain other parties that were plaintiffs in the Superior Court have appealed the decision. On September 9, 2008, the Arizona Court of Appeals heard oral arguments on issues related to the appeal. A ruling from the Court of Appeals is currently pending. ASU cannot predict the outcome at this time, but intends to vigorously defend the ruling and determination made to date. If this matter and any subsequent proceedings to determine navigability were to be eventually determined to be adverse to ASU, it potentially could adversely affect ASU's ownership of land adjacent to the Salt River.

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

Power Plant. In November 2004, the University entered into a privatized/third party agreement with Arizona Capital Facilities Finance Corporation (ACFFC), a component unit of the University, for the construction and operation by a third party energy management firm of a co-generation power plant on the University's Tempe campus with the power plant providing to the University a portion of its energy (electrical, chilled water and steam) needs. The contract with ACFFC is for 25 years, along with a related ground lease, and calls for minimum annual energy purchase obligations on the part of the University of approximately $7.5 million to cover ACFFC's fixed management services and capital costs. Additional billing amounts will be based on a pass through to the University of the service provider's variable costs, primarily natural gas. Related to this agreement, ACFFC issued $51.6 million of variable rate demand revenue bonds in November 2004, which were refinanced into fixed rate bonds of $52.6 million in July 2008. In December 2004, ACFFC entered into a swap agreement that effectively fixed the interest rate on the revenue bonds at 3.124%. In June 2007, ACFFC also entered into a constant maturity swap as an overlay to the 2004 swap, on the anticipation that in the future there will be a steeper yield curve than in existence at June 30, 2007, which historically was relatively flat as of this date. The yield curve returning to a historically steeper slope will result in financial benefits to ACFFC and the University.

This new power plant is at least as efficient and produces electric, chilled water and steam energy at the same or lower cost than the older cooling and heating plant which also continues to operate. The new power plant has allowed for less utilization of the older less efficient power plant. Even though the University has a minimum annual purchase obligation of approximately $7.5 million for the new power plant, this is less than the University's other Tempe campus utility purchases of over $20 million annually, which is not presently under a minimum annual energy purchase commitment.

Central Plant. In December 2008, the University entered into a privatized/third party agreement with ACFFC for the construction and operation by a third party energy management firm of a central plant on the University's Polytechnic campus to provide chilled water and emergency power for certain buildings on that campus. The contract with ACFFC is for 20 years, along with a related ground lease, and calls for minimum annual purchase obligations by the University of approximately $2 million to cover ACFFC's fixed capital and management services costs. Additional billing amounts will be based on a pass through to the University of the service provider's variable costs, primarily electricity. Related to this agreement, ACFFC issued $16.3 million of fixed rate revenue bonds in December 2008.

Hassayampa Academic Village (formerly McAllister Academic Village). In July 2005, the University entered into a ground lease with ACFFC for the construction and operation of the Hassayampa Academic Village (HAV) residential facility. In August 2005, ACFFC issued $145.0 million in variable rate demand revenue bonds, which were refinanced into fixed rate bonds of $145.2 million in September 2008. The project consisting of approximately 1,900 beds for freshmen residential students was constructed in two phases, with initial occupancy in August 2006 for phase one and August 2007 for phase two.

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

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

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

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

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

Vista del Sol consists of approximately 1,840 apartment-style beds with amenities such as pool and community center, parking garage, and retail space. This project was completed in summer 2008. ASU receives a combination of fixed and variable rent, with variable rent being approximately 8% of gross revenues for the first five years and 8.7% thereafter. ACC provided project costs of approximately $130 million which they may finance up to, but not to exceed, 75%. There is no legal recourse to ASU in the event of default on any financing.

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

In summer 2009, ASU opened the nation's first comprehensive four-year residential honors college at a public university. Barrett, the Honors College at ASU, is a seven-building campus featuring housing, classrooms, faculty offices, a fitness center, computer lounge and dining hall. About 1,700 students moved into the new nine-acre complex before school started in August 2009.

Note N - Component Units (Financially Interrelated Organizations)

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

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 for the other component units, excluding the ASU Foundation, as an addition to unrestricted support.

Pledges Receivable

The ASU Foundation's pledges receivable (unconditional promises to give) are recorded at their net realizable value, which is net of a discount and loss allowance. Pledges are discounted using the applicable risk free rate at the date the pledge was recognized. The discount rates range from 2.4% to 10.9%. An allowance for uncollectible pledges is estimated based on the ASU Foundation's collection history and is recorded as a reduction to contribution support and revenue and an increase in the allowance for uncollectible pledges.

The Sun Angel Foundation's pledges receivable are recorded at their net realizable value using a 5.14% discount rate for the year ended June 30, 2009. The pledges are considered by management to be collectible in full and accordingly an allowance for uncollectible pledges receivable has not been provided.

Pledges receivable consist of *(Dollars in thousands)*

	ASU Foundation	Sun Angel Foundation	Other Component Units	Total
Gross pledges receivable	$ 152,740	$ 9,998	$ 241	$ 162,979
Present value discount	(32,776)	(753)	(14)	(33,543)
Allowance for uncollectible pledges	(13,517)		(40)	(13,557)
Net pledges receivable	**$ 106,447**	**$ 9,245**	**$ 187**	**$ 115,879**

The ASU Foundation had conditional pledges receivable totaling $0.9 million at June 30, 2009, none are included in pledges receivable.

Members of the Foundation's Board of Directors and Board of Trustees have made contributions and pledges to the Foundation in the current and prior years. At June 30, 2009 and 2008, gross unconditional pledges receivable from these members included approximately $35.7 million and $78.8 million, respectively. During fiscal years 2009 and 2008, the Foundation recognized contribution revenue from these donors of approximately $74 thousand and $31.5 million, respectively.

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

	ASU Foundation	Sun Angel Foundation	Other Component Units	Total
Receivable in one year	$ 29,289	$ 3,460	$ 153	$ 32,902
Receivable in two to five years	66,992	5,681	88	72,761
Receivable after five years	56,459	857		57,316
Total gross pledges to be received	**$ 152,740**	**$ 9,998**	**$ 241**	**$ 162,979**

Direct Financing Lease Agreements

ASU Foundation. ASU Foundation leases a portion of the Fulton Center building (ASU Foundation's headquarters) to the University under a direct financing lease. At the end of the lease, ASU Foundation and Affiliates will gift their portion of the building to the University and the University will receive title to the building. ASU Foundation's net investment in this direct financing lease at June 30, 2009 is $27.6 million.

Arizona Capital Facilities Finance Corporation (ACFFC). Pursuant to a Sublease agreement, dated April 7, 2004, Nanotechnology Research, LLC, a wholly-owned subsidiary of ACFFC, leases its interest in the ASU Research Park to 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 outstanding debt. 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. ACFFC's net investment in the Nanotechnology facility direct financing lease is $34.9 million at June 30, 2009.

Through April 28, 2009, Nanotechnology lease payments consisted of principal and interest and all fees and expenses related to the Series 2004 Variable Rate Demand Lease Revenue Bonds. The average interest rate of the Series 2004 A&B bonds during fiscal 2009 was 2.68% and 1.68%, respectively, through April 28, 2009. Effective April 29, 2009, the Sublease Agreement was amended and the Series 2004 A&B bonds were refunded by the Series 2009 Refunding Bonds. The refunding bonds effectively converted the interest payments from variable rate to fixed rate. The Series A tax-exempt bonds were issued at interest rates ranging from 4.0% to 5.0% with a final maturity of March 1, 2034 and the Series B taxable bonds were issued at interest rates ranging from 5.1% to 6.4% with a final maturity of March 1, 2022. The Sublease agreement is a net lease, and Nanotechnology, LLC, is entitled to receive the rents and all other sums payable pursuant to the Sublease agreement free from all taxes, charges, fees, and expenses, all of which will be paid by the University. During fiscal 2009, the University remitted payments totaling $1.4 million which are recorded as rental revenue in the accompanying Component Unit's financial statements.

Pursuant to a University Lease agreement, dated July 1, 2005, McAllister Academic Village, LLC, a wholly-owned subsidiary of ACFFC, leases its interest in the non-residential portion of Hassayampa Academic Village (HAV) to the University which consists of the academic, tutorial, retail and food service facilities. The lease commenced on July 1, 2005 and continued until June 30, 2006 with annual renewals through June 30, 2045. Any right, title or interest of McAllister (HAV) in and to the academic portions of the project will pass to the University without further cost upon payment in full of the Bonds by McAllister (HAV) or the University. Therefore, the lease is considered a direct financing capital lease. ACFFC's net investment in the McAllister (HAV) direct financing lease is $12.4 million at June 30, 2009.

McAllister (HAV) lease payments through September 1, 2008, consisted of principal and interest and all fees and expenses related to the Series 2005 A&B Variable Rate Demand Revenue Bonds and all operating expenses related to the leased premises. The average interest rate of the Series 2005A and 2005B bonds during fiscal 2009 was 7% and 9%, respectively, through August 31, 2008. Effective September 1, 2008, the University Lease agreement was amended and the Series 2005 A and B bonds were refunded by the Series 2008 Refunding Bonds. The refunding bonds effectively converted the interest payments from variable rate to fixed rate. The refunding bonds were issued at interest rates ranging from 3.5% to 5.8% with a final maturity of July 1, 2039. During fiscal 2009, the University remitted payments totaling $0.8 million which is recorded as rental revenue in the accompanying financial statements of the Component Units.

The McAllister (HAV) and the Nanotechnology direct financing leases were revalued at the date of refunding to adjust the future payment schedule from variable interest rates to fixed interest rates. The revaluations resulted in gains for McAllister (HAV) and Nanotechnology of $0.5 million and $0.9 million respectively, which in accordance with APB 30 are recorded as extraordinary items in the accompanying financial statements of the Component Units.

Debt Extinguishment

As a result of financial market dislocations impacting variable rate debt, during 2009, Combined Heat & Power (CHP) and McAllister (HAV) issued Series 2008 Refunding bonds and Nanotechnology issued Series 2009 Refunding bonds for the purpose of refunding the Series 2004 bonds, the Series 2005A and Series 2005B bonds, and the Series 2004A bonds and Series 2004B bonds, respectively. In accordance with Accounting Principles Board Opinion (APB), APB 26, *Early Extinguishment of Debt*, the refunding is considered an early extinguishment of debt. Under APB 26, the refunded bonds were removed from the books at their net carrying value, which represents the amount due at maturity adjusted for accrued interest, costs of issuance and unamortized discount. The Series 2008 Refunding bonds and Series 2009 Refunding bonds were then recorded at their reacquisition prices, which represents the present values of the Series 2008 and 2009 Refunding bonds. The extinguishment resulted in accounting losses, consisting primarily of unamortized loan costs (costs of issuance), for CHP and McAllister (HAV) of $1.1 million and $2.3 million, respectively, which in accordance with APB 30, *Reporting Results of Operations – Reporting the Effects of Disposal of a Segment of Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*, are recorded as extraordinary items in the accompanying component units' financial statements.

Investments in Securities

The ASU Foundation reports investments in accordance with SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. The fair values of publicly traded securities are based on quoted market prices and exchange rates, if applicable. The fair values of nonmarketable securities are based on valuations provided by external investment managers. The ASU Foundation exercises due diligence in assessing the policies, procedures and controls implemented by external investment managers. Investment income is recorded on an accrual basis, and purchases and sales of investment securities are reflected on a trade-date basis. Realized gains and losses are calculated using the average cost for securities sold. Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility.

The ASU Foundation spending policy for the consolidated investment pools follow the objectives of the investment policy and establishes the amount made available for spending in the endowment pools.

- The current spending policy is 4% of the market value of the endowment for the previous year.
- In the event the current market value of the endowment is less than the historical gift value, spending will continue at 4% of the market value, unless the gift agreement does not permit spending in this circumstance.

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

Foundation Endowment and Net Asset Classification

Management of the ASU Foundation's endowment is governed by laws in the state of Arizona based on the Uniform Prudent Management of Institutional Funds Act. The ASU Foundation has interpreted the statute as requiring the preservation of the fair value of the original gifts as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the ASU Foundation classifies as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment; (b) the original value of subsequent gifts to the permanent endowment; and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets.

The ASU Foundation had previously operated under an enacted version of the Uniform Management of Institutional Funds Act. Consistent with FASB Staff Position No 117-1, *Endowments of Not-for-Profit Organizations: Net Assets Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act*, a recent change in law prompted a change in net asset classification of $3.1 million for some of the ASU Foundation's endowments from permanently restricted to temporarily restricted during fiscal 2009.

ASU is a leader in sustainability research. Some of the projects on campus include the establishment of the Solar Power Laboratory to advance solar energy research, education and technology; the creation of the "Edible Campus" at ASU, to produce food for use in the ASU community; and the Laboratory for Algae Research & Biotechnology at the Polytechnic campus which is testing algal feedstock for use in the production of biodiesel jet fuel.

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	$ 57,763	$ 2,182	$ 46,416	$ 14,990	$ 121,351
Equities:					
Domestic	69,257	10,166		4,260	83,683
International	55,541	9,247			64,788
Total equities	124,798	19,413		4,260	148,471
Fixed Income	95,828	13,895		4,426	114,149
Mutual funds:					
Inflation hedge	76,211	12,521			88,732
Emerging markets	15,112	2,480			17,592
Other				3,608	3,608
Total mutual funds	91,323	15,001		3,608	109,932
Other securities	8,814	2,574	1,831	10,687	23,906
Other investments	39,696		687	2,609	42,992
Total investments	**$ 418,222**	**$ 53,065**	**$ 48,934**	**$ 40,580**	**$ 560,801**

Property and Equipment

Property and Equipment consist of *(Dollars in thousands)*	ASU Foundation	ACFFC	Other Component Units	Total
Cost or donated value:				
Construction in progress		$ 7,748	$ 1,911	$ 9,659
Buildings and improvements	$ 17,397	202,834	116,049	336,280
Furniture, fixtures, and equipment	7,516	47,916	14,388	69,820
Leasehold improvements			29,380	29,380
Other property and equipment		729		729
Total cost or donated value	24,913	259,227	161,728	445,868
Accumulated depreciation	(4,763)	(35,637)	(18,669)	(59,069)
Net property and equipment	**$ 20,150**	**$ 223,590**	**$ 143,059**	**$ 386,799**

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

Bonds and Obligations under Capital lease

Bonds payable consist of *(Dollars in thousands)*	Final Maturity	ASU Foundation	ACFFC	Other Component Units	Total
Series 2009 Revenue Bonds (Energy Management Services)	2024		$ 41,240		$ 41,240
Series 2009A Lease Revenue Refunding Bonds (Nanotechnology Research)	2034		22,955		22,955
Series 2009B Lease Revenue Refunding Bonds (Nanotechnology Research)	2022		12,085		12,085
Series 2008 Revenue Bonds (ASU Energy Center)	2028		16,315		16,315
Series 2008 Revenue Refunding Bonds (Hassayampa Academic Village)	2039		145,180		145,180
Series 2008 Variable Rate Demand Revenue Refunding Bonds (Sun Devil Energy Center)	2030		52,620		52,620
Series 2007 A&C Revenue Bonds (Downtown Phoenix Student Housing)	2042			$ 119,040	119,040
Series 2007 B Revenue Bonds (Downtown Phoenix Student Housing)	2012			785	785
Series 2007 D Tax-Exempt Revenue Bonds (Downtown Phoenix Student Housing)	2042			22,700	22,700
Series 2006 Development Refunding Bonds (ASU Research Park)	2021			10,935	10,935
Series 2005 Tax-Exempt Refunding Bonds (West Campus Housing)	2035		16,005		16,005
Series 2004A Variable Rate Revenue Bonds (Brickyard)	2034	$ 22,420			22,420
Series 2004B Variable Rate Revenue Bonds (Brickyard)	2022	10,360			10,360
Series 2003 Lease Revenue Bonds (Fulton)	2034	46,425			46,425
Series 2003 Revenue Bonds (Adelphi II, Tempe campus housing)	2035		13,220		13,220
Series 2002 Revenue Bonds (Energy Management Services)	2018		24,655		24,655
Series 2001A Revenue Bonds (Mesa Student Housing, LLC)	2032			19,225	19,225
Series 2000 Revenue Bonds (Adelphi I, Tempe campus housing)	2032		10,080		10,080
Capital Lease	2011	2,147			2,147
Unamortized bond premium (discount)			(2,979)	(1,570)	(4,549)
		$ 81,352	**$ 351,376**	**$ 171,115**	**$ 603,843**

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

Future debt service commitments consist of *(Dollars in thousands)* Year Ending June 30,	ASU Foundation	ACFFC	Other Component Units	Total
2010	$ 1,799	$ 4,400	$ 1,110	$ 7,309
2011	1,875	5,795	1,360	9,030
2012	1,988	8,455	1,440	11,883
2013	1,755	8,995	2,455	13,205
2014	1,835	9,580	845	12,260
Thereafter	72,100	314,151	163,905	550,156
	$ 81,352	**$ 351,376**	**$ 171,115**	**$ 603,843**

Financial Statement Information

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

Component Units
Statement of Financial Position
June 30, 2009
(Dollars in thousands)

	ASU Foundation	ACFFC	Other Component Units	Total
Assets				
Investments	$ 471,287	$ 48,934	$ 40,580	$ 560,801
Property and equipment, net	20,150	223,590	143,059	386,799
Other assets	157,967	54,382	35,973	248,322
Total assets	$ 649,404	$ 326,906	$ 219,612	$ 1,195,922
Liabilities				
Bonds and obligations under capital lease	$ 81,352	$ 351,376	$ 171,115	$ 603,843
Other liabilities	84,823	15,160	29,172	129,155
Total liabilities	$ 166,175	$ 366,536	$ 200,287	$ 732,998
Net Assets				
Unrestricted	$ (22,832)	$ (39,630)	$ 5,015	$ (57,447)
Temporarily restricted	162,118		12,468	174,586
Permanently restricted	343,943		1,842	345,785
Total net assets (deficit)	**$ 483,229**	**$ (39,630)**	**$ 19,325**	**$ 462,924**

Component Units
Statement of Activities
Year ended June 30, 2009
(Dollars in thousands)

	ASU Foundation	ACFFC	Other Component Units	Total
Revenues				
Contributions	$ 22,594		$ 10,862	$ 33,456
Rental revenues	914	$ 16,695	16,001	33,610
Sales and services	18,464	8,507	7,410	34,381
Net investment loss	(75,587)	353	(2,828)	(78,062)
Other revenues	5,040	4,026	3,143	12,209
Total revenues	$ (28,575)	$ 29,581	$ 34,588	$ 35,594
Expenses				
Program services -				
Payments to ASU	$ 42,389	$ 2,547	$ 11,632	$ 56,568
Other program services	5,493			5,493
Personal services, operations, and administrative expenses	23,758	10,216	17,696	51,670
Depreciation/amortization and interest	4,606	24,083	10,948	39,637
Other expenses	7,024	1,075	1,752	9,851
Total expenses	$ 83,270	$ 37,921	$ 42,028	$ 163,219
Decrease in net assets, before extraordinary items	(111,845)	(8,340)	(7,440)	(127,625)
Extraordinary Items		(2,048)		(2,048)
Decrease in net assets, after extraordinary items	(111,845)	(10,388)	(7,440)	(129,673)
Net assets (deficit), beginning of year	595,074	(29,242)	26,765	592,597
Net assets (deficit) at end of year	**$ 483,229**	**$ (39,630)**	**$ 19,325**	**$ 462,924**

ARIZONA STATE UNIVERSITY
COMBINED SOURCES AND USES

Sources

For the year ended June 30, 2009
(Dollars in millions)

Source	%	Amount	Description
State Appropriations	27%	**$ 416.9**	Represents State of Arizona legislative appropriations for operations of the University and $14.5 million in appropriations for research infrastructure capital financing.
Federal Fiscal Stabilization Funds	5%	**69.8**	Funding from American Recovery and Reinvestment Act. The funds were used for instructional expenses.
Tuition and Fees, net	33%	**499.5**	Includes $608.5 million in tuition and fees, net of $109.0 million in scholarship allowances.
Grants and Contracts	18%	**270.9**	Represents governmental and nongovernmental grants and contracts for both sponsored program activities ($220.9 million) and financial aid programs ($50.0 million). For fiscal 2009 federally funded grants and contracts totaled $201.3 million and nongovernmental grants and contracts totaled $56.5 million.
Private and Capital Gifts	4%	**54.2**	Voluntary private support from individuals, foundations, and corporations, including $5.0 million in capital gifts.
Technology and Research Initiative Fund (TRIF)	1%	**23.7**	TRIF is generated from part of a 0.6% education sales tax approved by Arizona voters in November 2000 as part of an economic development strategy for the state. TRIF revenue received by ASU is primarily used to support the research efforts of the ASU Biodesign Institute.
Auxiliary Enterprises, net	9%	**131.0**	Represents operations of essentially self-supporting activities such as bookstore, intercollegiate athletics, residential halls, and parking.
Sales and Services	2%	**37.1**	Sales and services of educational departments, including ASU-hosted national and international conferences and programs.
Other Sources	1%	**20.1**	Includes net investment returns, financial aid trust fees, insurance recovery proceeds, and the Sundome Center property transfer.
Total Sources		**$ 1,523.2**	

Note:

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

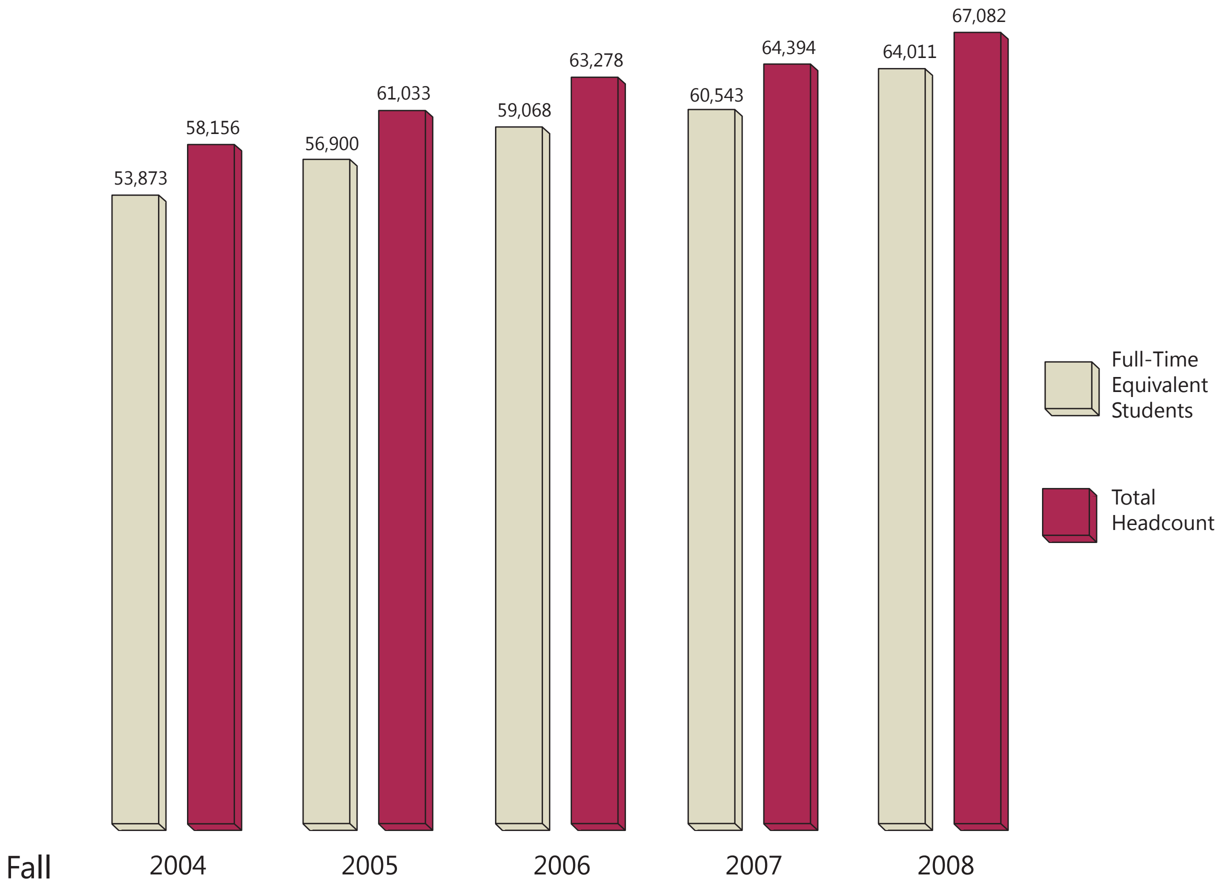
This statement provides an overview of total financial operations of all campuses of Arizona State University. Restricted and unrestricted operating and nonoperating funds are included. Restricted funds have specific purposes stipulated by outside donors and agencies.

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

Uses

Instruction and Academic Support	43%	**$ 626.5**	Consists of (1) instruction expenses totaling $454.9 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 $171.6 million, which include libraries, academic information technology support, and academic administration.
Research and Public Service	15%	**224.0**	Includes (1) direct research expenses of $180.9 million for activities specifically organized to produce research outcomes, and (2) public service expenses of $43.1 million for non-instructional services beneficial to individuals and groups external to the University, such as public broadcasting and community service programs.
Student Services and Scholarships and Fellowships	10%	**139.8**	Consists of (1) direct student services expenses totaling $51.5 million, which include admissions, registrar, student activities, counseling, career guidance, student financial aid administration, and student health services, and (2) scholarships and fellowships expenses of $88.3 million, which includes restricted grants, including $42.6 million of federally funded Pell grants, and institutionally awarded merit and need-based scholarships beyond tuition and residential life charges.
Institutional Support	9%	**126.9**	Includes development/fundraising, community relations, financial operations, human resources, public safety, and administrative information technology support.
Operation and Maintenance of Plant	6%	**87.5**	Represents expenses for the operation and maintenance of plant, including services related to facilities and grounds, and utility costs. Not included are amounts charged to auxiliary enterprises.
Auxiliary Enterprises	8%	**121.5**	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%	**93.8**	Depreciation is computed using the straight-line method over the estimated useful life of each asset. Depreciation for buildings was $48.7 million and was primarily related to academic and research buildings.
Other Uses	3%	**45.6**	Consists primarily of interest payments on outstanding debt and non-capital expenses on plant project accounts.
Total Uses		**$ 1,465.6**	

ARIZONA STATE UNIVERSITY ENROLLMENT

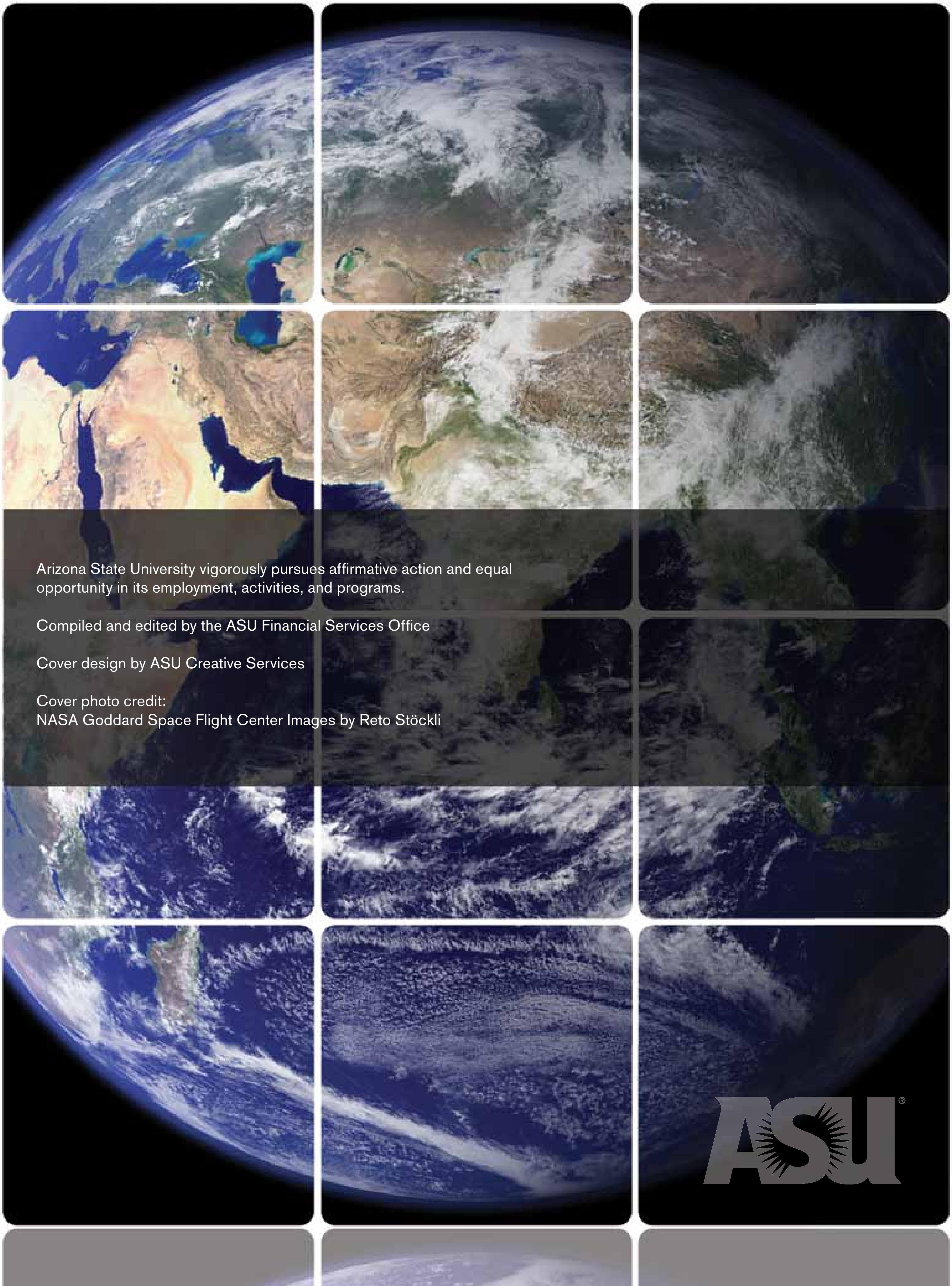


Degrees Granted in Academic Year 2008-2009

Undergraduate	11,229
Graduate	4,381
	15,610

Fall 2008 Enrollment

Undergraduate	53,298
Graduate	13,784
Resident (Arizona)	49,055
Non-Resident	18,027



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

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