big ideas. bold action.

2010 Financial Report

ASU Arizona State University

ARIZONA STATE UNIVERSITY

2010 FINANCIAL REPORT

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* Component units are financially interrelated organizations whose goals are to support Arizona State University.

A MESSAGE FROM THE PRESIDENT OF ARIZONA STATE UNIVERSITY

ASU
ARIZONA STATE UNIVERSITY

I am pleased to present the 2010 Financial Report for Arizona State University. As Arizona negotiates its recovery from the worst national recession since the Second World War, ASU remains committed to advancing teaching and research that improves the quality of life, health and well-being, standard of living, and economic competitiveness of Arizona even as our academic community searches for solutions to the grand challenges confronting humanity. During the past several years, ASU has crossed a threshold to join the ranks of competitive global knowledge enterprises possessing the capacity to advance on any challenge that confronts our nation through discovery, innovation, and creativity. The comprehensive institutional reconceptualization we have undertaken during a period of unprecedented reductions in state investment demonstrates both the adaptiveness and resilience of the New American University model, which integrates academic excellence with egalitarian access and maximum societal impact.

Our progress during a period of historic disinvestment in public higher education is a consequence of a series of strategic course corrections and set of measures calibrated to introduce economy, efficiency, productivity, and performance that surpasses the efforts of our institutional peers even as we deliver on our promise to provide all qualified Arizona students with unrivalled educations without financial barriers. Through strategic organizational streamlining designed to cut costs while preserving the quality of the academic core, ASU has become one of the nation's most efficient producers of both college graduates and cutting-edge research, which contributes hundreds of millions of dollars to the Arizona economy. Whether the indicator is total spending per degree produced or the meteoric trajectory of its research enterprise, the university excels not only when measured against a peer group of other nationally ranked institutions, but also when measured against all other public research universities.

International recognition of academic excellence

ASU is the nation's youngest major research institution, and as such competes in an arena dominated by some of the most well-established and influential universities in the world. For the fourth consecutive 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 81st in their 2010 "Academic Ranking of World Universities," which corresponds to the 49th position in the Americas. This assessment compares 1,200 institutions worldwide and is considered one of the most definitive international rankings. *U.S. News & World Report* has ranked ASU in the top tier of national universities since 2008, and in their most recent edition of "America's Best Colleges," ASU tied for second place among "Up-and-Coming National Universities," an assessment denoting innovative change in academics, faculty, and student life. *Forbes* placed ASU 28th in its list of the 100 best colleges in America, and *Princeton Review* designated ASU one of the nation's 50 "Best Value" public colleges and universities, terming it a "leading research institution and a dynamic public university," and commending its "outstanding honors college" and leadership in entrepreneurial education.

Increasing research revenues reflect a culture of innovation

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 2010 research-related expenditures reached a record $331.7 million. ASU sought more than $1.8 billion in proposals, a 38 percent increase over the previous year. The university received more than $347 million in awards, a 33 percent increase over FY 2009. 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 has significantly outperformed peer institutions, with annual sponsored research expenditures growing almost 71 percent from FY 2004 to FY 2008, or more than double that of peer institutions during the same period.

ASU is one of only a handful of institutions without both an agricultural and medical school to have surpassed the $200 million level in research expenditures, with institutional peers in this category including Caltech, MIT, and Princeton. In terms of competitive funding, ASU now ranks among the top 20 leading research universities in the nation without a medical school, according to the National Science Foundation. During FY 2010, ASU achieved $64.5 million in NSF awards, up 19.9 percent from the prior fiscal year level and an increase of 119 percent from the $29.4 million funding level of 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. Almost all of these funds came from competitively secured federal and industry awards.

According to the most recent data (FY 2008) compiled by the Association of University Technology Managers (AUTM), ASU ranks first among its peer institutions with respect to invention disclosures per $10 million in research. In fact, ASU is in the top tier nationally in the number of such invention disclosures generated by universities with research expenditures greater than $200 million: in this group, ASU ranked second among universities without an affiliated medical school and seventh overall, outpacing institutions such as Columbia, Harvard, and MIT. The continued productivity of our research enterprise is attested by the announcement that Arizona Technology Enterprises (AzTE) received a record number of invention disclosures (187) from ASU researchers in FY 2010.

A profile of 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 2009 that Elinor Ostrom, founding director of ASU's Center for the Study of Institutional Diversity, 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 forms of recognition 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 24 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 is one of the top 10 producers of Fulbright Scholars in the nation. National Merit Scholars numbered 613 in fall 2010, placing ASU among the top 10 schools nationally, and with 362 National Hispanic Scholars, ASU attracts more of these top students than any other school. 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. Finally, ASU ranked 18th in the nation among all colleges and universities chosen by international students, according to a report from the Institute of International Education.

Increasing affordability and access to excellence for a broad demographic

With a fall 2009 enrollment of 68,064 undergraduate, graduate, and professional students distributed across four campuses, ASU is the largest university in the United States governed by a single administration and educates more than half of all students attending public universities in Arizona. ASU degree production has increased by 28 percent during the past five years, with 16,400 baccalaureate, master's, and doctoral degrees awarded during the 2010 academic year. The six-year graduation rate for the fall 2003 cohort was 56 percent, which continues to exceed the national average for all public universities. The freshman persistence rate reached 81.2 percent, up from 80 percent the previous year. The fall 2009 freshman class numbered 9,344, with 31 percent from the top 10 percent of their high school class and 57 percent from the top 25 percent.

During FY 2010, ASU awarded more than $792 million in financial aid, a significant increase over the $635 million awarded during the prior fiscal year. The university awarded $191 million in grants and scholarships, up 38 percent from the prior fiscal year. An important component of our overall strategy is the President Barack Obama Scholars program, which ensures that resident undergraduates from families with annual incomes below $60,000 who are admitted as incoming freshmen are able to graduate with baccalaureate degrees debt free. For fall semester 2009, the Obama Scholars program 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 more than 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.

A MESSAGE FROM THE PRESIDENT OF ARIZONA STATE UNIVERSITY

Response to reductions in state investment

The cumulative impact of historic reductions in state funding has been significant. Reductions in funding in FY 2010 and the previous two years brought the total reduction in base funding for Arizona State University to $101 million. This further represents an actual reduction in state funding support per student FTE of 29 percent. While peer institutions are typically funded by state appropriations and tuition at levels exceeding $20,000 per FTE student, state support per FTE student at ASU has declined from $7,976 in FY 2008 to $5,692 in FY 2011. In recent years ASU has proposed an investment level of $17,000 per FTE student to support instructional requirements more effectively, with a co-investment shared equally between the state and the student.

While federal stimulus funding administered through the State of Arizona helped to mitigate the cumulative impact of reductions in state funding enacted by the legislature, 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 American Recovery and Reinvestment Act provided $102 million in State Fiscal Stabilization funds during FY 2009 and 2010, which were used to directly support student instruction, bolstering our efforts to maintain the academic core of the institution intact while preserving the quality of undergraduate instruction. ASU was also the recipient of more than $60 million in Recovery Act grant funding to support research projects. To partially ameliorate these fiscal challenges the Arizona 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.

The state investment in ASU remained relatively stable during FY 2010, and we further anticipate appropriation levels remaining stable during the upcoming fiscal year. The fiscal stresses enumerated occur 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 for a quality higher education.

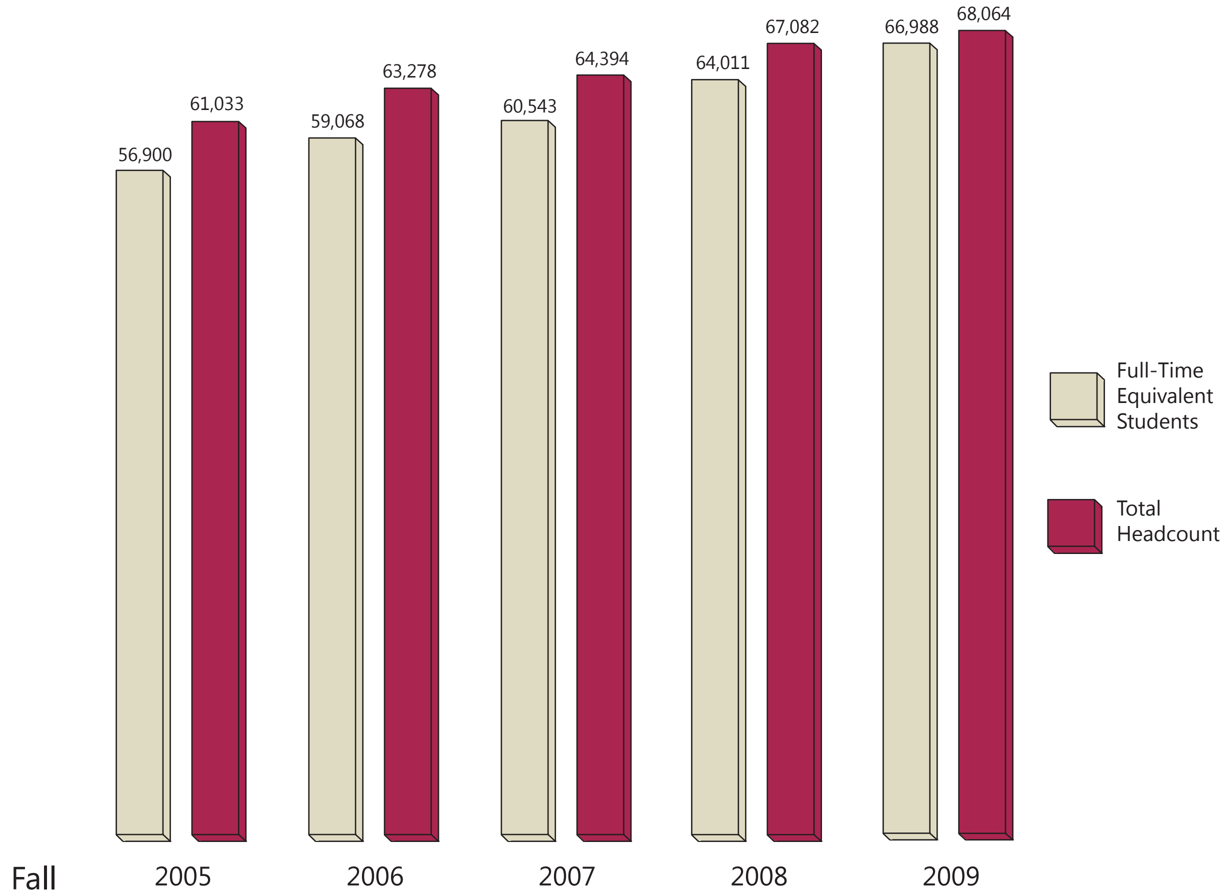
Access to excellence for a broad demographic

In an era when learning has become the single most critical adaptive function and college tuition costs are increasing across the nation, ASU provides broad access to an innovative, world-class university education to all segments of Arizona society. In its efforts to redefine the public research university as an egalitarian institution focused on both improved educational outcomes and contributing to the needs of the Arizona workforce, ASU is succeeding in negotiating the complexities associated with advancing institutional innovation in real time and at scale. With robust growth in research expenditures, increased tuition revenues, and strong year-over-year growth in enrollment demand, ASU looks forward to a long-term trend of increasing revenues and net assets for the university and related organizations. The evolving financial position of the university reflects both the institutional 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.

I would like to express my appreciation to the Arizona citizens who approved by a two-to-one margin a temporary state sales tax increase that designates two-thirds of revenues for public education. Finally, I would like to thank each member of our academic community for their continued dedication. Their efforts have contributed significantly to the advancement of our university.

Michael M. Crow
President, Arizona State University

ARIZONA STATE UNIVERSITY
ENROLLMENT



Degrees Granted in Academic Year 2009-2010

Undergraduate	11,810
Graduate	4,570
	16,380

Fall 2009 Enrollment

Undergraduate	54,277
Graduate	13,787
Resident (Arizona)	50,374
Non-Resident	17,690

INDEPENDENT AUDITORS' REPORT

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

MELANIE M. CHESNEY
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, 2010, 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, 2010, 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, 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

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As described in Note A, the University implemented the provisions of the Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* for the year ended June 30, 2010, which represents a change in accounting principle.

The information included in A Message from the President of Arizona State University, Arizona State University Enrollment, Arizona State University Management's Discussion and Analysis, and Arizona State University Combined Sources and Uses 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

October 20, 2010

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, 2010. 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. Beginning in fiscal 2010 faculty and staff tuition waiver benefits were allocated across all functional categories. This resulted in a restatement of the fiscal 2009 uses shown on page 11. Prior to fiscal 2010 faculty waiver benefits were reported as instruction expenses and staff waiver benefits were reported as institutional support 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 2009 enrollment of over 68,000 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, 2010 of net assets and their availability for future expenses.

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, 2010 and June 30, 2009 follows.

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

	2010	2009
ASSETS		
Current assets	$ 325.0	$ 284.2
Noncurrent assets (excluding capital assets)	405.0	236.7
Noncurrent capital assets, net	1,576.9	1,561.1
Total assets	**$ 2,306.9**	**$ 2,082.0**
LIABILITIES		
Long-term debt liabilities	$ 1,106.0	$ 949.1
Other liabilities	164.1	180.9
Total liabilities	**$ 1,270.1**	**$ 1,130.0**
NET ASSETS		
Invested in capital assets, net	$ 661.7	$ 665.9
Restricted:		
Nonexpendable	46.9	44.8
Expendable	92.9	75.4
Unrestricted	235.3	165.9
Total net assets	**$ 1,036.8**	**$ 952.0**

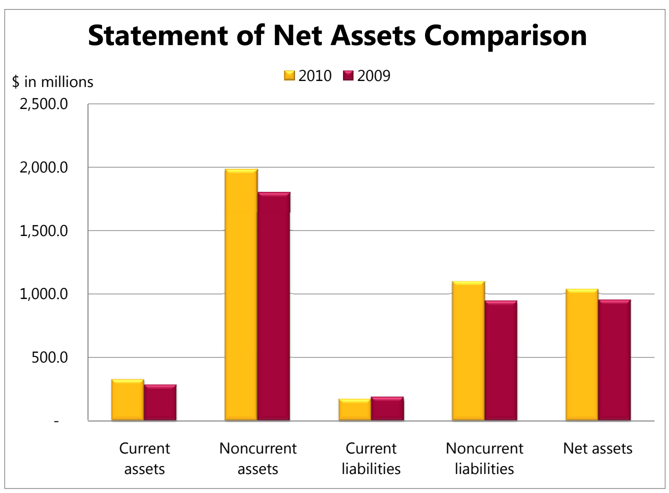
Overall for fiscal 2010, the University's financial position showed an $84.8 million increase in net assets. Current assets increased by $40.8 million between years, and noncurrent assets, excluding capital assets, increased by $168.3 million. At June 30, 2010, current assets included $90.6 million in receivables from the State of Arizona for April, May and June 2010 State of Arizona general fund appropriations, which were recorded as fiscal 2010 revenues in the statement of revenues, expenses, and changes in net assets. These fiscal 2010 general fund appropriations were received in October 2010. 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, deferred outflow-interest rate swap, and net student loans receivable. There was a $152.4 million increase in restricted cash and cash equivalent investments and other investments between years primarily due to cash received from a bond issuance in April 2010 but unspent at fiscal year end. In accordance with GASB (Governmental Accounting Standards Board) Statement No. 53 – *Accounting and Financial Reporting for Derivative Instruments*, the University has recorded an $11.1 million interest rate swap deferred outflow, representing the cost to the University on June 30, 2010 to terminate the swap agreement. For more information on the swap agreement refer to Note D – Long-Term Debt and Lease Obligations.

Capital assets, net of accumulated depreciation, increased by $15.8 million, primarily related to construction in progress for the Interdisciplinary Science and Technology Building IV (ISTB IV), a 293,000 square foot research facility being constructed on the Tempe campus.

Total liabilities increased by $140.1 million to $1,270.1 million in fiscal 2010. Other liabilities, excluding long-term debt liabilities, decreased $16.8 million between years. Small decreases occurred in most categories between years, including accounts payable, compensated absences, deferred revenues and funds held for others. Long-term debt liabilities increased by $156.9 million in fiscal 2010. The increase was primarily due to the issuance of $178.4 million of system revenue bonds in April 2010 for the construction of ISTB IV.

Net assets of the University increased in fiscal 2010 by $84.8 million to $1,036.8 million. For the first time in its history ASU's net assets exceeded $1 billion. The increase in net assets was primarily due to the receipt of the Federal Fiscal Stabilization Funds and efforts to reduce expenses through the consolidation of academic and support units. The largest increases in net assets occurred in unrestricted, $69.4 million, and in restricted for capital projects and debt service (expendable), $15.6 million. The unrestricted net assets increase was primarily due to the receipt of stabilization funds and reduced University's expenses. The receipt of the stabilization funds allowed the University to limit its use of unrestricted net assets for routine operating expenses. The restricted net assets increase was due to capitalized interest for debt service funds held by the trustee.



ASU - Capital and Debt Activities

During fiscal 2010, ASU issued $178.4 million in system revenue bonds for the ISTB IV, a research building which will advance key areas of research such as renewable energy and earth and space exploration.

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. A summarized comparison of the University's revenues, expenses, and changes in net assets (dollars in millions) for fiscal 2010 and 2009 follows.

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

	2010	2009
Operating revenues		
Tuition and fees, net	$ 566.3	$ 499.5
Research grants and contracts	199.9	168.5
Auxiliary enterprises, net	134.9	131.0
Other operating revenues	47.9	49.4
Total operating revenues	$ 949.0	$ 848.4
Operating expenses	1,469.6	1,420.0
Operating loss	**$ (520.6)**	**$ (571.6)**
Net nonoperating revenues (expenses)		
State operating appropriations	$ 380.9	$ 402.5
Federal fiscal stabilization funds	32.5	69.8
Grants and contracts	133.4	100.9
Other revenues	83.9	70.8
Other expenses	(52.8)	(45.6)
Income before other revenues, expenses, gains, or losses	$ 57.3	$ 26.8
Capital appropriations and other revenues	20.4	20.9
Intergovernmental transfer of Sundome Center for the Performing Arts		7.2
Insurance recovery, net of impairment loss	7.1	2.7
Increase in net assets	**$ 84.8**	**$ 57.6**
Net assets at beginning of year	952.0	894.4
Net assets at end of year	**$ 1,036.8**	**$ 952.0**

Revenues to support ASU's basic activities, including both operating and nonoperating revenues and capital related activities, increased by $84.0 million in fiscal 2010 to $1,607.2 million, a 6% increase from fiscal 2009.

Net tuition and fees comprised 35% of ASU's total funding sources in fiscal 2010, compared to 33% in fiscal 2009. Student tuition and fees, net of scholarship allowances, increased by $66.8 million between years, a 13% increase. The increase was due to both an increase in enrollment as well as an increase in ASU's tuition and fees rates. ASU continues to experience enrollment growth and to attract a record number of students, while at the same time enrolling students of the highest academic caliber. Fall 2009 enrollment at ASU was 68,064, an increase of almost 1,000 students from Fall 2008. ASU saw enrollment increases in full time students as well as ethnic minority students. Over 30% of the Fall 2009 freshman class graduated in the top 10% of their high school class. ASU was recently named one of the leading universities in the country for awarding degrees to Hispanic and Native American students, according to the National Center for Education Statistics. Funding was allocated from increased tuition revenues to assure accessibility was maintained for students with financial need.

The State of Arizona's investment in ASU through its general fund appropriation decreased by $21.6 million between fiscal 2009 and fiscal 2010. The decrease was anticipated by the University and built into the fiscal 2010 budget planning process. The University's April, May and June 2010 appropriations were deferred by the State of Arizona due to the State's budget dilemma. However, the appropriations for these months were recorded as fiscal 2010 revenue. The University received this deferred funding in October 2010. State investment continues to be a critical source of funding to the University, supplying resources to provide the quality teaching and learning environments Arizona students deserve.

Research and related grants and contracts revenues (both operating and nonoperating) increased by 13% in fiscal 2010 and comprised 16% of ASU's total funding sources. ASU has received over $60 million in American Recovery and Reinvestment Act awards to date. Most of the awards were received in fiscal 2010. The largest award funded to date is the 5 year, $14 million Energy Frontier Research Center for Bio-Inspired Solar Fuel Production grant. The research goal of this grant is to design and build a system to convert water into hydrogen and oxygen safely and affordably. This will allow the formation of a new environmentally friendly economy that is not dependent on foreign oil, creating new industries for Arizona and the rest of the country.

Financial aid grants, primarily federally funded Pell Grants, increased by $35.0 million between years. Increased enrollment and the uncertain economy resulted in more students qualifying for Pell Grants. Other factors in the increase were a change in the program allowing students to receive more than one Pell Grant in the award year and an increase in the annual award amount.

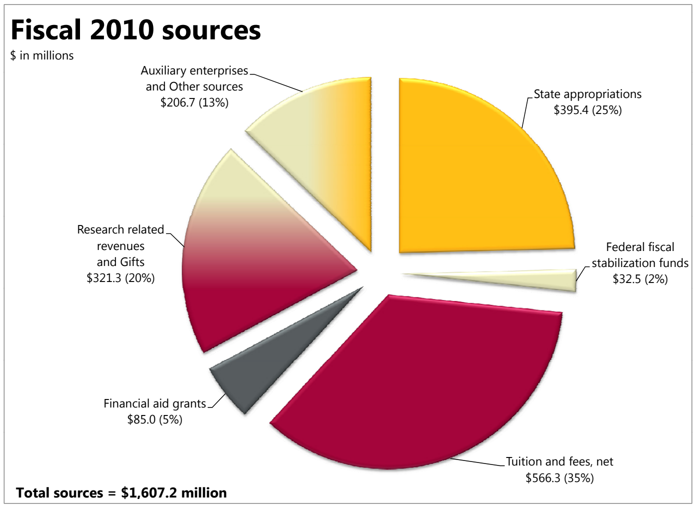
Also in fiscal 2010, the University saw an $18.4 million increase in net investment return from the fiscal 2009 level. ASU's endowments, those held by ASU and those at the ASU Foundation, had an investment return of 10% for fiscal 2010, helping to restore the endowment balances that declined during the recent economic crisis. Income produced by endowments must be spent in accordance with donor directions, and is typically restricted to use in specific programs.

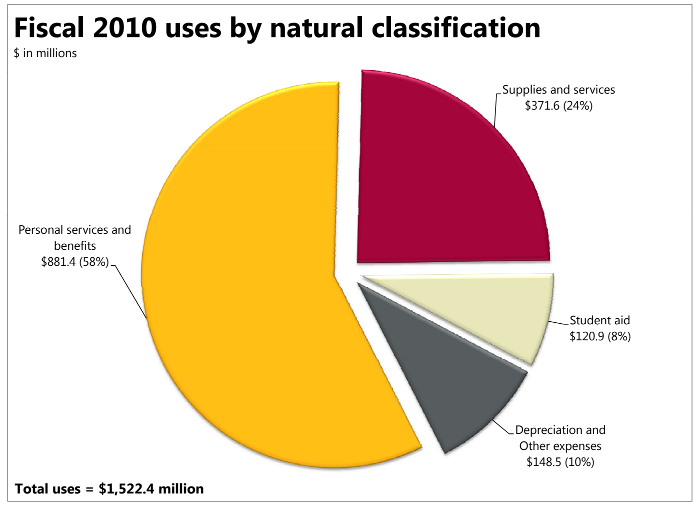
Operating expenses increased by less than 4%, or $49.7 million, between years. The largest increases were in the scholarships and fellowships and instruction categories with increases of $20.3 million and $16.2 million, respectively. Increases in Pell Grants and University funding helped to assure accessibility was maintained for students with financial need. Instruction expenses increased as the University continued to encourage transdisciplinary collaboration. Overall, salaries, wages, and benefits paid to ASU employees increased by slightly less than 1%, or $8.2 million, between years. Increases in salaries, wages and benefits of 4% did occur in the instruction and research categories due to the increased emphasis on quality classroom instruction and increased research grant funding. New faculty members joined ASU as the University accommodated enrollment growth in popular majors. Areas where ASU saw substantial enrollment growth included criminology, education, business, technology and liberal arts and sciences. In October 2009, ASU Research Professor Elinor Ostrom was awarded the Nobel Memorial Prize in Economic Sciences. Dr. Ostrom is the third ASU faculty member to have a Nobel Prize received. Dr. Ostrom is the founding director of ASU's Center for the Study of Institutional Diversity.

As noted above, total expenses increased by less than 4% in fiscal 2010, with the most significant increases occurring in direct educational expenses and student aid. During this time of budget uncertainty, emphasis was placed on maintaining quality classroom instruction and course availability. In response to the recent decreases in state appropriations, ASU restructured and consolidated several academic and support units, with a focus on ensuring available funding continued to be centered on providing a high quality educational experience. Increased tuition and fees rates, as well as federal Pell Grants funding, were used to provide additional student aid helping to make ASU's programs available to all eligible students no matter their financial resources. The largest decrease in expenses occurred in facilities operations and maintenance (operation and maintenance of plant). During fiscal 2010 ASU took several steps to decrease its utilities cost through energy savings programs such as updated metering of buildings and new lighting control systems.

Combined Sources and Uses *(Dollars in millions)*

	2010		2009 (as restated)		Percentage Change
SOURCES					
State appropriations (includes capital appropriations)	$ 395.4	25%	$ 416.9	27%	(5%)
Federal fiscal stabilization funds	32.5	2%	69.8	5%	(53%)
Tuition and fees, net	566.3	35%	499.5	33%	13%
Grants and contracts	250.4	16%	220.9	15%	13%
Financial aid grants	85.0	5%	50.0	3%	70%
Private and capital gifts	49.6	3%	54.2	4%	(8%)
Share of state sales tax (TRIF)	21.3	1%	23.7	1%	(10%)
Auxiliary enterprises	134.9	8%	131.0	9%	3%
Other sources	71.8	5%	57.2	3%	26%
Total sources	**$ 1,607.2**	**100%**	**$ 1,523.2**	**100%**	**6%**
USES					
Instruction and academic support	$ 649.2	43%	$ 630.8	43%	3%
Research and public service	230.8	15%	225.6	16%	2%
Student services and scholarships and fellowships	158.5	10%	141.0	10%	12%
Institutional support and operation of plant	200.3	13%	206.3	14%	(3%)
Auxiliary enterprises	135.1	9%	122.5	8%	10%
Depreciation	95.7	6%	93.8	6%	2%
Interest on debt and other expenses	52.8	4%	45.6	3%	16%
Total uses	**$ 1,522.4**	**100%**	**$ 1,465.6**	**100%**	**4%**





Net Assets. As shown in the charts above, ASU had an overall increase in net assets of $84.8 million at the end of the fiscal year, with net assets exceeding $1 billion for the first time in the University's history. As noted earlier, the increases were primarily in restricted expendable net assets and unrestricted net assets. ASU's net assets at June 30, 2010 of $1,036.8 million included invested in capital assets, net of accumulated depreciation and related outstanding debt, of $661.7 million and unrestricted net assets of $235.3 million. Any net assets which are not subject to externally imposed restrictions governing their use are classified as unrestricted. Although the University's unrestricted net assets are not subject to externally imposed restrictions, substantially all of these net assets have been designated internally for academic or research related programs or initiatives.

In Fall 2009 ASU welcomed 68,064 students.

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 appropriations, 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 2010 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 primary uses of cash were salaries and benefits for faculty, staff, and student employees, payments to suppliers of goods and services to the University, scholarships and fellowships, 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)

Included in this 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 notes to the financial statements.

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

	June 30	
	2010	**2009**
Assets		
Cash and investments	$ 620.9	$ 573.6
Capital assets, net	390.6	386.8
Receivables, net	118.2	128.3
Other assets	104.2	107.2
Total assets	**$ 1,233.9**	**$ 1,195.9**
Liabilities		
Bonds payable	$ 596.1	$ 603.8
Other liabilities	165.3	129.2
Total liabilities	**$ 761.4**	**$ 733.0**
Net assets		
Unrestricted	$ (57.6)	$ (57.4)
Temporarily restricted	182.8	174.5
Permanently restricted	347.3	345.8
Total net assets	**$ 472.5**	**$ 462.9**

Included in the fiscal 2010 investments on the component units' statement of financial position is $80.3 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 $80.3 million recorded in the liabilities section of the statement of financial position under the caption "Liability under ASU endowment trust agreement". The $80.3 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. Over 73% of the net assets of the component units are permanently restricted endowment funds, primarily at the ASU Foundation. The annual income from permanently restricted endowments is used primarily to support the University, directly through transfers from the ASU Foundation to University academic departments.

Included in fiscal 2010 payments to ASU of $50.5 million is $42.0 million from the ASU Foundation, which includes $37.8 million in cash donation transfers and reimbursements. 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	
	2010	**2009**
Revenues		
Contributions	$ 50.4	$ 33.5
Other revenues	130.4	2.1
Total revenues	**$ 180.8**	**$ 35.6**
Expenses		
Payments to ASU	$ 50.5	$ 56.5
Other expenses	120.7	106.7
Total expenses	**$ 171.2**	**$ 163.2**
Gain on lease revaluation due to bond refunding		1.4
Loss on early debt extinguishment		(3.5)
Increase/(Decrease) in net assets	$ 9.6	$ (129.7)
Net assets at beginning of the year	462.9	592.6
Net assets at end of the year	**$ 472.5**	**$ 462.9**

Combined ASU and Component Units

Fiscal 2010 was financially a much better year for the University's component units than fiscal 2009. The component units saw an overall increase in net assets in fiscal 2010 of $9.6 million compared to a $129.7 decrease in fiscal 2009. The increase was primarily due to improved financial markets in fiscal 2010 resulting in an overall increase of $113.9 million in net investment income for the component units and a $17.0 million increase in contributions. The overall result was a $145.2 million increase in component unit revenues, while expenses increased by only $8.0 million between years. On a combined basis for ASU and its component units, there was a fiscal 2010 increase in net assets of $94.4 million, compared to a fiscal 2009 decrease in net assets of $72.1 million.

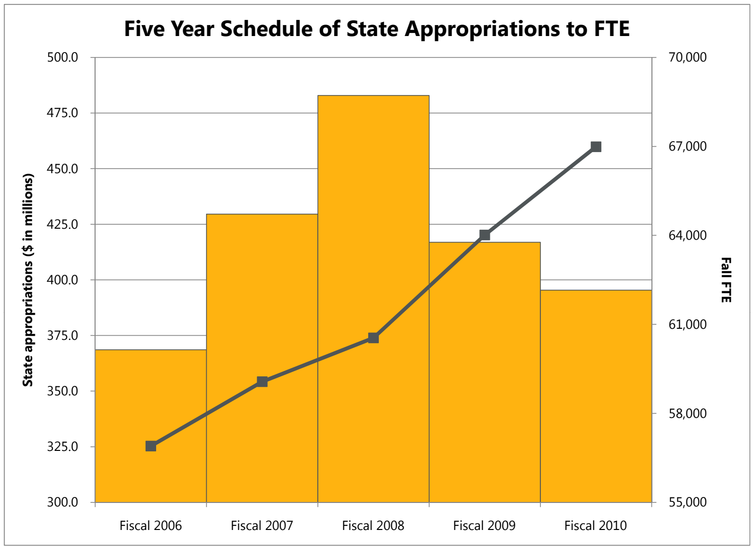
End of the Year Net Assets of ASU and its Component Units on a Combined Basis *(Dollars in millions)*

	2010			2009		
	ASU	**ASU Component Units**	**Combined**	**ASU**	**ASU Component Units**	**Combined**
Invested in capital assets	$ 661.7		$ 661.7	$ 665.9		$ 665.9
Unrestricted net assets	235.3	$ (57.6)	177.7	165.9	$ (57.4)	108.5
Restricted net assets:						
Nonexpendable/Permanently	46.9	347.3	394.2	44.8	345.8	390.6
Expendable/Temporarily	92.9	182.8	275.7	75.4	174.5	249.9
Net assets at end of year	**$ 1,036.8**	**$ 472.5**	**$ 1,509.3**	**$ 952.0**	**$ 462.9**	**$ 1,414.9**

Economic Outlook

Arizona State University is fortunate to be in a state whose citizens understand the value of education and the impact our University has on the state's economic growth and vitality. Similar to other states across the country, Arizona has been faced with budget challenges, which have resulted in a significant reduction in ASU's state appropriations over the last few years. In an important show of support for all levels of education, in May 2010 Arizona voters approved by a 2 to 1 margin a temporary increase in state sales tax, with two-thirds of the revenues designated for public education.

Although ASU sustained unprecedented reductions in state funding during the past few years, it has continued to manage its resources in order to provide short term financial increases as measured by an increase in net assets, while at the same time structuring its academic areas for long term success. In response to the stresses associated with the scale of the state appropriation reductions, the University increased tuition and fee rates in order to preserve the quality of classroom instruction and the overall educational experience of ASU students. Even with these increased rates, ASU continues to see record numbers of students enrolling in its programs, and continuing their education. A five year comparison of state appropriations to full-time equivalent students (FTE) is below.



Competitively awarded grants comprise the majority of the University's research related grants and contracts funding. To date the University has been awarded approximately $60 million of research related funding as part of the American Recovery and Reinvestment Act (ARRA). This funding, as well as other sponsored programs funding, is restricted for use to specific research projects, but adds significant funding to the University and to the state economy while enriching the lives of Arizona citizens through research, discovery and innovation. As research programs at ASU continue to grow, grants and contracts are expected to become a growing revenue source of the University. In order to continue to be competitive in the research area, the University recently began construction on a 293,000 square foot research building which will house the School of Earth and Space Exploration, Ira A Fulton School of Engineering research programs including Environmental Engineering and Energy Research Initiatives, as well as research units from the College of Liberal Arts and Sciences. These areas are recognized as some of the most critical to the continuing development of ASU as a major research university and have the capacity to attract funding for large scale complex interdisciplinary projects in the areas of climate science, energy sources and earth systems. In an effort to demonstrate the University's continued commitment to responsible, sustainable design, ISTB IV is intended to receive at least a Silver certification by the Leadership in Energy & Environmental Design (LEED). LEED is an internationally recognized green building certification system that verifies buildings are designed and built using strategies intended to improve performance, including energy savings and indoor environmental quality.

ASU continues to be optimistic about its future as student demand for its educational environment remains strong and externally funded research is growing at a robust pace. Fall 2010 enrollment exceeded 70,000 for the first time at ASU with ASU continuing to attract students of the highest academic caliber. Through the President Barack Obama Scholars Program, the University has pledged to Arizona students that no academically qualified student will face a financial barrier to attend ASU. Driven by strong enrollment demand and research opportunities, both tuition and grant revenues continue to increase year over year, comprising larger shares of the University's diversified revenue base. State investment continues to be a critical funding source in helping the University meet the needs of its students by providing the highest quality education. ASU anticipates its state appropriations level will remain stable during fiscal 2011. The University's endowment investments rebounded in fiscal 2010 after significant declines in fiscal 2009, with over a 10% investment return in fiscal 2010. Growth in this area is expected to occur as the financial markets continue to improve.

ASU is recognized for excellence in many of its academic programs, both at the undergraduate and graduate levels, and was recently named as one of the "Up and Coming Schools" in the nation by *US News and World Report*. ASU is also seen as one of the nation's most efficient universities in producing college graduates and cutting-edge research. ASU continues to stay focused on advancing the mission of excellence, access and impact and the goal of transforming higher education. ASU is well positioned to achieve its vision of the New American University.

Left: Brian Williams was the 26th recipient of the annual Walter Cronkite Award for Excellence in Journalism from Arizona State University's Walter Cronkite School of Journalism and Mass Communication.

Right: Elinor Ostrom a research professor and founding director of the Center for the Study of Institutional Diversity in ASU's College of Liberal Arts and Sciences was a recipient of the 2009 Nobel Memorial Prize in Economic Sciences.

ARIZONA STATE UNIVERSITY
STATEMENT OF NET ASSETS

June 30, 2010
(Dollars in thousands)

ASSETS	
Current Assets:	
Cash and cash equivalent investments	$ 177,628
Short-term investments	4,019
Accounts receivable, net of allowance of $31,010	43,062
Receivable from State of Arizona -	
General fund appropriations	90,578
Student loans receivable	1,297
Inventories	7,227
Deferred expenses	1,183
Total Current Assets	$ 324,994
Noncurrent Assets:	
Restricted cash and cash equivalent investments	$ 204,288
Endowment investments	80,344
Other investments	98,195
Deferred outflow - Interest rate swap	11,126
Student loans receivable, net of allowance of $1,570	11,088
Capital assets (Total of $1,576,848)	
Nondepreciable assets	143,103
Depreciable assets, net of accumulated depreciation	1,433,745
Total Noncurrent Assets	$ 1,981,889
Total Assets	$ 2,306,883
LIABILITIES	
Current Liabilities:	
Accounts payable and accrued liabilities	$ 78,714
Compensated absences	2,638
Employee retirement and benefits deposits	5,975
Deferred revenues	34,016
Funds held for others	7,712
Current portion of bonds payable/certificates of participation/lease purchases - Funded by:	
University operating revenues	31,212
State of Arizona appropriations/share of state sales tax	9,838
Current portion of capital leases	1,456
Total Current Liabilities	$ 171,561
Noncurrent Liabilities:	
Compensated absences	$ 22,843
Employee retirement and benefits deposits	10,436
Other liabilities	1,746
Derivative instrument - Interest rate swap	11,126
Bonds payable/certificates of participation/lease purchases - Funded by:	
University operating revenues	635,287
State of Arizona appropriations/share of state sales tax	334,978
Capital leases	82,111
Total Noncurrent Liabilities	$ 1,098,527
Total Liabilities	$ 1,270,088
NET ASSETS	
Invested in capital assets, net of related debt	$ 661,691
Restricted (Total of $139,814):	
Nonexpendable:	
Student aid	43,320
Academic department uses	3,563
Expendable:	
Student aid	30,963
Academic department uses	45,281
Capital projects and debt service	16,687
Unrestricted (Note F)	235,290
Total Net Assets	**$ 1,036,795**

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

ARIZONA STATE UNIVERSITY
COMPONENT UNITS'
STATEMENT OF FINANCIAL POSITION

June 30, 2010
(Dollars in thousands)

ASSETS	
Cash and cash equivalent investments	$ 17,829
Receivables -	
Pledges receivables	101,116
Other receivables	17,113
Total Receivables	$ 118,229
Investments -	
Investments in securities	560,615
Other investments	42,489
Total Investments	$ 603,104
Net direct financing leases	73,567
Property and equipment, net of accumulated depreciation	390,589
Other assets	30,642
Total Assets	$ 1,233,960
LIABILITIES	
Liability under ASU endowment trust agreement	$ 80,344
Bonds and obligations under capital lease	596,104
Unearned revenue	18,334
Other liabilities	66,630
Total Liabilities	$ 761,412
NET ASSETS	
Unrestricted	$ (57,636)
Temporarily restricted	182,878
Permanently restricted	347,306
Total Net Assets	$ 472,548

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, 2010
(Dollars in thousands)

OPERATING REVENUES	
Student tuition and fees, net of $144,819 in scholarship allowances	$ 566,319
Research grants and contracts, including $160,646 in federal grants	199,901
Sales and services -	
Auxiliary enterprises, net of $10,342 in scholarship allowances	134,899
Educational departments	37,625
Other revenues	10,295
Total Operating Revenues	$ 949,039
OPERATING EXPENSES (Note I)	
Educational and general -	
Instruction	$ 472,979
Research	189,599
Public service	41,196
Academic support	176,213
Student services	49,078
Institutional support	122,706
Operation and maintenance of plant	77,598
Scholarships and fellowships	109,404
Auxiliary enterprises	135,141
Depreciation	95,745
Total Operating Expenses	$ 1,469,659
Operating Loss	$ (520,620)
NONOPERATING REVENUES (EXPENSES)	
State operating appropriations	$ 380,914
Federal fiscal stabilization funds	32,502
Share of state sales tax - technology and research initiative fund	21,303
Financial aid grants, including $84,574 in federal grants	84,998
Grants and contracts, including $29,263 in federal grants	48,390
Private gifts	45,847
Financial aid trust funds, including $5,569 in state trust fund appropriations	9,249
Net investment return	7,510
Interest on debt	(42,740)
Other expenses	(10,002)
Net Nonoperating Revenues	$ 577,971
Gain Before Other Revenues, Expenses, Gains, or Losses	$ 57,351
State capital appropriations - research infrastructure debt service (through fiscal 2031)	14,472
Capital grants, including $2,031 in federal grants	2,086
Capital private gifts	3,351
Additions to permanent endowments	443
Extraordinary item - Insurance recovery, net of impairment loss	7,080
Increase in Net Assets	84,783
Net Assets at Beginning of Year	952,012
Net Assets at End of Year	**$ 1,036,795**

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

ARIZONA STATE UNIVERSITY
COMPONENT UNITS'
STATEMENT OF ACTIVITIES

Year ended June 30, 2010
(Dollars in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
REVENUES				
Contributions	$ 8,342	$ 46,280	$ (4,207)	$ 50,415
Rental revenues	36,171			36,171
Sales and services	38,445	85		38,530
Net investment return	13,828	20,775	1,236	35,839
Net assets released from restrictions	54,396	(58,888)	4,492	
Grants and aid	5,959	10		5,969
Other revenues	13,844	30		13,874
Total Revenues	$ 170,985	$ 8,292	$ 1,521	$ 180,798
EXPENSES				
Payments to ASU (Total of $50,514)-				
Cash donation transfers	$ 43,000			$ 43,000
Scholarship funds	4,137			4,137
Rent	3,377			3,377
Personal services, operations, and administrative expenses	60,475			60,475
Interest	25,383			25,383
Depreciation/amortization	19,848			19,848
Program services	5,770			5,770
Other expenses	9,184			9,184
Total Expenses	$ 171,174			$ 171,174
Increase/(Decrease) in Net Assets	(189)	8,292	1,521	9,624
Net Assets at Beginning of Year	(57,447)	174,586	345,785	462,924
Net Assets at End of Year	$ (57,636)	$ 182,878	$ 347,306	$ 472,548

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

ARIZONA STATE UNIVERSITY
STATEMENT OF CASH FLOWS

Year ended June 30, 2010
(Dollars in thousands)

CASH FLOWS FROM OPERATING ACTIVITIES

Student tuition and fees	$ 539,503
Grants and contracts (primarily federal)	194,043
Sales and services of auxiliary enterprises	131,796
Sales and services of educational activities	33,572
Payments to employees for salaries and benefits	(871,441)
Payments to suppliers for goods and services	(359,443)
Payments for scholarships and fellowships	(114,877)
Student loans issued	(1,341)
Student loans collected	1,221
Other receipts	5,417
Net cash used for operating activities	$ (441,550)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State operating appropriations	$ 335,635
Share of state sales tax - technology and research initiative fund	21,356
Federal fiscal stabilization funds	102,324
Grants and contracts (primarily financial aid)	131,996
Private gifts for other than capital purposes	45,095
Financial aid trust funds	9,240
Direct lending program receipts	370,311
Direct lending program disbursements	(370,328)
Funds held for others received	236,289
Funds held for others disbursed	(235,417)
Other receipts	1,639
Net cash provided by noncapital financing activities	$ 648,140

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State capital appropriations - research infrastructure debt service financing	$ 14,472
Capital gifts and grants	2,102
Proceeds from issuance of capital debt	179,397
Purchases of capital assets	(107,562)
Principal paid on capital debt and leases	(43,067)
Interest paid on capital debt and leases	(43,725)
Net cash provided by capital and related financing activities	$ 1,617

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sales and maturities of investments	$ 66,664
Purchases of investments	(26,625)
Interest received on investments	5,386
Net cash provided by investing activities	$ 45,425
Net increase in cash and cash equivalent investments	253,632
Cash and cash equivalent investments at beginning of year	128,284
Cash and cash equivalent investments at end of year	$ 381,916

Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	$ (520,620)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	95,745
Changes in assets and liabilities:	
Increases in -	
Receivables, net	(8,428)
Decreases in -	
Inventories	3,062
Deferred expenses	161
Accounts payable and accrued liabilities	(2,090)
Deferred revenues	(6,443)
Employee retirement and benefits deposits	(360)
Compensated absences	(2,577)
Net cash used for operating activities	$ (441,550)

SIGNIFICANT NONCASH TRANSACTIONS	
State appropriations rollover	$ 90,578
Assets acquired through capital lease	10,000

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

ARIZONA STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

June 30, 2010

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 2009 enrollment of 68,064 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%, 97% and 69% 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 various athletic programs.
- 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 two public schools 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 2010 was the transfer of a $3 million restricted gift to the Mary Lou Fulton Teachers College to support teacher preparation. Also in fiscal 2010, the University made $14.9 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, 2010. 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, 2010, the University implemented the provisions of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* and GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB Statement No. 51 establishes accounting and financial reporting requirements for intangible assets. GASB Statement No. 53 addresses accounting and financial reporting for derivatives. It requires the calculation of potential risk the derivative has on the organization's cash flow and financial health. The implementation of these standards had no effect on the amounts recorded as revenues, expenses, or net assets on the University's financial statements. Related to GASB No. 53, disclosures are provided in Note D - Long-Term Debt and Lease Obligations.

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. Funds invested in money market funds or through the State Treasurer's Local Government Investment Pool are also considered cash equivalents. 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.

Endowment Spending Rate Policy. Arizona State law permits the University to expend the entire net appreciation of endowment fund investments. When determining the spending rate for endowment funds, the University administration considers long and short-term needs, total investment return and price level trends, and general economic conditions. For fiscal 2010, the expendable rate was established at 4% of the previous 12 months market value, calculated on a monthly basis. Donor restricted endowments that are available for expenditure are reported as restricted expendable on the statement of net assets.

Investments. Short-term, endowment, and other investments are stated at fair value at June 30, 2010. 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, 2010 totaled $133.6 million, including $90.6 million in fiscal 2010 State of Arizona general fund appropriations. Also, other significant amounts included in the accounts receivable balance are $23.8 million related to student tuition and fee payments due from students and others making payments on behalf of students; and $2.0 million in sales tax revenues from the State of Arizona to support the Technology and Research Initiative Fund (TRIF). Additionally, there are $3.2 million in receivables from Federal grant sponsors, primarily for the reimbursement of allowable expenses made pursuant to the University's grants and contracts.

Due to cash flow constraints of the State of Arizona, ASU did not receive general fund appropriations in April, May or June 2010. The University received the rollover appropriations in total on October 1, 2010. The revenue associated with these rollover appropriations was recorded as fiscal 2010 state appropriations in accordance with the authorized fiscal 2010 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 75% of the total inventory reported on the statement of net assets and its inventory is valued at cost using the retail method.

<u>Interest rate swap - Deferred outflows/Derivative instrument.</u> In accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, the University records the hedging derivative instrument on the statement of net assets by presenting an asset for the deferred outflow of resources, and a liability for the fair value of the derivative instrument at fiscal year end.

<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. Interest incurred during the construction phase of projects is capitalized, net of interest earned on the invested proceeds over the same period. 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.

<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.

Revenues/Expenses. Revenues and expenses are classified as operating or nonoperating. Operating expenses are those incurred in conducting the primary programs and services of the University. Operating revenues generally result from exchange transactions. Accordingly, revenues such as tuition, bookstore sales, and residential life 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, of 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 $14.1 million in faculty and staff tuition waivers that are recorded as 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 the governing board of the three state universities, the Arizona Board of Regents (ABOR) administers the portion of the Education 2000 (Proposition 301) sales tax which funds the universities' TRIF initiatives. ABOR receives funding requests from each university and determines the amount and duration of awards. The governor and the Legislature receive an annual report from ABOR which includes a detailed set of performance measures used to determine the overall effectiveness of each TRIF funded initiative. The research efforts of the Biodesign Institute comprise the University's primary use of its TRIF allocations.

Note B - Cash and Investments

General

At year end, the University's deposits and investments total $564.5 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 $204.3 million, which are held in trust and invested by various trustee banks. In addition, endowment funds totaling $80.3 million managed by the ASU Foundation, make up a portion of the deposits and investments. These funds are primarily held in a pooled endowment fund managed under a service contract with the ASU Foundation (Foundation, ASUF) and invested in the Foundation's Endowment Pool (Pool). The University's endowment assets are maintained separately on the financial system of the Foundation, and receive a proportional share of the Foundation Pool activity. As such, the Foundation owns the assets of the Pool; the University has an interest in the Pool, which is considered an external investment pool to the University. The Foundation Pool invests in a variety of asset classes, including common stocks, fixed-income, foreign investments, private equity and hedge funds. The Foundation's endowment pool is not registered with the Securities and Exchange Commission as an investment company. The Foundation's Board of Directors appointed Investment Committee is responsible for oversight of the Pool in accordance with Foundation policies. The fair value of the University's position in the Pool is based on the University's proportionate share of the Pool, which is marked-to-market monthly. The University also participates in the Arizona Student Financial Aid Trust, which was established by the Arizona Board of Regents and is funded by the Arizona State Legislature and student fees.

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 on foreign currency risk for investments of the universities.

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

Deposit and Investment Risk

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

Credit Risk. With regard to credit risk, 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 Service or Baa or better rating of Moody's Investors Service; 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. The University's endowment funds are invested in an unrated external investment pool managed by the Foundation, subject to the Foundation's investment policy.

Credit Quality Rating for Debt Securities at June 30, 2010 *(Dollars in thousands)*

			Standard and Poor's			
Investment Description	**Fair Value**	**Not Rated**	**AAAm**	**AAAf**	**AAA**	**A-1+**
Money market mutual funds	$ 231,617	$ 70,474	$ 161,143			
State of Arizona LGIP (Pool 5)	1,461			$ 1,461		
Federal agency securities	251,382				$ 177,280	$ 74,102
ASUF endowment pool, debt securities	18,375	18,375				
Total	**$ 502,835**	**$ 88,849**	**$ 161,143**	**$ 1,461**	**$177,280**	**$ 74,102**

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 5% 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, 2010, 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 $77.1 million, $67.6 million, and $88.3 million or 14%, 12%, and 16% 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. ABOR and University policies for the operating funds limit the final maturity of any fixed-rate security or of any variable-rate security to five years from the settlement date of the purchase. 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, 2010 - utilizing the weighted average maturity methods *(Dollars in thousands)*

Investment Description	**Fair Value**	**Weighted Average Maturity (Years)**
Money market mutual funds	$ 231,617	0.1
State of Arizona LGIP (Pool 5)	1,461	0.1
Federal agency securities	251,382	1.4
ASUF endowment pool, debt securities	18,375	5.2
Subtotal, before U.S. Treasury securities	$ 502,835	
U.S. Treasury securities	3,924	0.1
Total	**$ 506,759**	

Foreign Currency Risk. Non-endowment funds may not be invested in international securities and the University has no non-endowment investments exposed to foreign currency risk. The University's endowment funds are invested in an external investment pool managed by the Foundation.

Note C - Capital Assets

Construction in progress additions reflected below represent expenses for new projects net of capital assets placed in service.

It is estimated $135.1 million in additional expenses will be required to complete projects under construction at June 30, 2010. Construction in progress encumbrances committed through purchase orders at June 30, 2010, totaled $104.6 million.

Capital asset activity for the year ended June 30, 2010 *(Dollars in thousands)*

	Balance 07/01/2009	Additions/ Increases	Retirements/ Decreases	Balance 06/30/2010
Capital assets				
Land -				
University operations	$ 69,548	$ 836	$ -	$ 70,384
Investment property	26,873	-	(384)	26,489
Infrastructure	114,406	581	(14)	114,973
Buildings	1,683,306	52,137	(2,344)	1,733,099
Construction in progress	14,601	14,917	(1,037)	28,481
Equipment	342,116	35,931	(13,108)	364,939
Works of art and historical treasures	17,882	8	(141)	17,749
Library books	227,113	11,496	(833)	237,776
Total	$ 2,495,845	$ 115,906	$ (17,861)	$ 2,593,890
Less accumulated depreciation:				
Infrastructure	$ 35,001	$ 2,830	$ (3)	$ 37,828
Buildings	542,212	50,094	(1,212)	591,094
Equipment	186,713	31,951	(11,373)	207,291
Library books	170,792	10,870	(833)	180,829
Total	$ 934,718	$ 95,745	$ (13,421)	$ 1,017,042
Capital assets, net	**$ 1,561,127**	**$ 20,161**	**$ (4,440)**	**$ 1,576,848**

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, of the University's investment property at June 30, 2010, are as follows (Dollars in thousands):

Book value	$ 26,489
Current value	$ 239,689

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 are 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 is being held by the University for future sale or lease when market conditions are more favorable.

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 are 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.
- 16.6 acres in Sun City West, Arizona where the Sundome Center for Performing Arts (Center) 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.

Subsequent Event

The University committed to the purchase of a four-story office building at a purchase price of $11.4 million and expects to complete the purchase in October 2010. The 79,290 square foot building is adjacent the Tempe campus and ASU is currently the primary tenant in the building. The purchase is expected to be financed by the issuance of System Revenue Bonds.

The Ottosen Family Foundation provided a gift to establish the Ottosen Air Traffic Control Simulation Laboratory in Arizona State University's College of Technology and Innovation at the Polytechnic campus. It has the capability to be linked to flight simulators used by professional flight programs.

Note D - Long-Term Debt and Lease Obligations

At June 30, 2010, the University had 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, 2010 was $36.1 million and $65.4 million, respectively.

Bonds Payable, Certificates of Participation and Other Long-Term Lease Obligations at June 30, 2010 *(Dollars in thousands)*

	Average Interest Rate	Final Maturity	Balance 07/01/2009	Additions	Reductions	Balance 06/30/2010	Current Portion
Bonds:							
2000 System Revenue Bonds	5.87%	07/01/11	$ 1,415		$ (445)	$ 970	$ 470
2002 System Revenue Bonds	4.95%	07/01/27	38,125		(2,435)	35,690	2,535
2002 System Revenue Refunding Bonds	4.21%	07/01/19	105,245		(13,220)	92,025	11,855
2003 System Revenue Refunding Bonds	3.88%	07/01/17	7,130			7,130	
2004 System Revenue and Refunding Bonds	4.45%	07/01/34	34,030		(2,600)	31,430	2,735
2005 System Revenue Refunding Bonds	4.38%	07/01/27	48,680		(215)	48,465	225
2007 A/B System Revenue Bonds	4.46%	07/01/36	75,100		(2,640)	72,460	2,735
2008 A/B Variable Rate Demand System Revenue Refunding Bonds	0.18%	07/01/34	103,680			103,680	2,175
2008C System Revenue Bonds	5.89%	07/01/28	104,100			104,100	1,810
2009A System Revenue Bonds	3.76%	07/01/29	36,250			36,250	2,435
2010 A/B System Revenue Bonds	5.99% [1]	07/01/39		$ 178,350		178,350	
Subtotal: Par Amount of Bonds			$ 553,755	$ 178,350	$ (21,555)	$ 710,550	$ 26,975
Certificates of Participation:							
1991 Towers Project (through the ASU Foundation)	6.89%	07/01/10	$ 800		$ (385)	$ 415	$ 415
1999A Downtown Center	5.78%	07/01/24	4,445		(180)	4,265	190
1999B Downtown Center	8.02%	07/01/24	4,315		(145)	4,170	155
2002 Certificates of Participation	4.76%	07/01/26	21,495		(3,310)	18,185	4,055
2004 ASU West Campus Refunding	2.36%	07/01/09	5,855		(5,855)		
2004 Certificates of Participation	4.89%	09/01/30	76,385		(2,035)	74,350	2,100
2005A Certificates of Participation	4.36%	09/01/30	104,500		(2,950)	101,550	3,050
2006 Certificates of Participation	4.52%	06/01/31	14,890		(440)	14,450	455
2006 Refunding Certificates of Participation	4.15%	07/01/26	64,580			64,580	
Subtotal: Par Amount of COPs			$ 297,265		$ (15,300)	$ 281,965	$ 10,420
Other Lease Purchases	3.19% - 6%	04/01/19	$ 16,418	$ 1,471	$ (4,846)	$ 13,043	$ 3,655
Total Par Amount of Bonds, COPs, and Other Lease Purchases			$ 867,438	$ 179,821	$ (41,701)	$ 1,005,558	$ 41,050
Premium/(Discount) on Sale of Bonds and COPs			15,079	1,047	(2,489)	13,637	
Deferred Amount on Refundings			(8,417)		537	(7,880)	
Total Bonds Payable/COPs/Lease Purchases			**$ 874,100**	**$ 180,868**	**$ (43,653)**	**$ 1,011,315**	**$ 41,050**

[1] The average interest rate net of the Build America bonds federal direct payment subsidy is 3.94%.

In April 2010, the University issued $178.4 million in system revenue bonds, Taxable Series 2010A and Tax-Exempt Series 2010B, to fund construction of the Interdisciplinary Science and Technology Building IV. The Taxable Series 2010A bonds were issued as Build America Bonds under the provisions of the American Recovery and Reinvestment Act (ARRA). As such, the University is eligible to receive Direct Payments from the United States Treasury equal to 35% of the interest owing on such Bonds on each interest payment date. In order to receive such Direct Payments, the University must file certain required information with the Federal government between 90 and 45 days prior to each interest payment date. The amount paid to the University by the Federal government may be reduced or limited due to such issues as failure by the University to submit the required information, offsets to reflect any amounts owed by the University to the Federal government, or changes in the law that would reduce or eliminate such payments. The University is currently not aware of any issues that may adversely impact the receipt of Direct Payments from the Federal government related to such designated Build America Bonds. For accounting purposes, the Direct Payments are recorded as nonoperating revenue and, as such, are not netted against interest expense. The 2010A Build America Bonds were issued for $166 million with an average maturity of 19.5 years and the 2010B Bonds were issued for $12.4 million with an average maturity of 4.2 years, and the combined average interest rate is 5.99% gross of Direct Payments and 3.94% net of Direct Payments.

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, 2010 was 0.18 percent for the Series 2008A and 0.17 percent for the Series 2008B bonds.

The variable rate bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest on seven days' notice to the remarketing agents. To provide credit and liquidity support for the Bonds, the University entered into an Irrevocable Letter of Credit and Reimbursement Agreement (LOC) with Lloyds TSB Bank PLC upon execution of the refunding bonds. The LOC expires on June 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 (hedging derivative instrument) on $103.0 million, notional amount, relating to the 2008 variable rate demand system revenue refunding bonds (2008 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 Bonds. The intention of the swap was to effectively change the variable rate interest on the 2008 Bonds to a synthetic fixed rate.

The swap agreement expires on July 1, 2034. Under the terms of the swap agreement, the University pays the counterparty interest calculated at a fixed rate of 3.91% and receives payments from the counterparty based on the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index set weekly. The University is exposed to interest rate risk based on the SIFMA indexed variable payment received from the counterparty and the variable rate paid to bondholders. The SIFMA rate at June 30, 2010 was 0.25 percent. At June 30, 2010, 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	(0.25)
Net interest rate swap payments		3.66
Variable rate bond coupon payments	Spread to SIFMA	0.18
Synthetic fixed interest rate on bonds		3.84

As of June 30, 2010, the swap had a fair value of $(11.1) million, which represents the cost to the University to terminate the swap. The June 30, 2009 fair value was $(5.7) million.

In accordance with GASB 53, *Accounting and Financial Reporting for Derivative Instruments*, the fair value of the University's hedging derivative instrument will be reported on the statement of net assets as an asset (deferred outflows) and a liability (derivative instrument). In addition, in the year of implementation, GASB 53 requires retroactive restatement of the financial statements for the effect of the hedging derivative instrument; however, as the hedging derivative has been effective, the University did not restate the financial statements retroactively.

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, 2010, the University was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the University would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated A+ by Fitch, A by Standard & Poor's and A2 by Moody's Investor Services as of June 30, 2010. 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.

Securities and cash restricted for bonds and COPs debt service held by the trustee at June 30, 2010 totaled $54.3 million and $7.3 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, 2010 for variable rate issues, are shown below:

Bonds Payable, Certificates of Participation and Other Long-Term Lease Obligations at June 30, 2010
(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
2011	$ 26,975	$ 33,003	$ 3,716	$ 10,420	$ 13,243	$ 3,655	$ 640
2012	28,595	29,607	3,632	10,375	12,854	2,271	488
2013	29,980	28,295	3,544	10,775	12,389	1,887	379
2014	35,510	26,799	3,452	11,300	11,829	1,365	291
2015	37,150	25,211	3,355	11,850	11,258	1,213	222
2016-2020	144,820	105,912	15,141	68,430	46,839	2,652	397
2021-2025	141,305	75,701	11,884	75,595	28,270		
2026-2030	133,535	41,520	7,732	69,190	10,266		
2031-2035	80,935	22,356	2,440	14,030	148		
2036-2040	51,745	6,420					
Total	**$ 710,550**	**$ 394,824**	**$ 54,896**	**$ 281,965**	**$ 147,096**	**$ 13,043**	**$ 2,417**

The University has pledged portions of its gross revenues towards the payment of debt related to various senior lien system revenue bonds outstanding at June 30, 2010. 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 revenue, 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, 2010, pledged revenues totaled $782.7 million of which approximately 7% ($54.6 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, 2039 is $1.2 billion. 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, 2010 were $10.2 million with annual debt service payments of approximately $1.2 million through July 1, 2021.

In August 2010, the University issued $33.8 million in Stimulus Plan for Economic and Educational Development (SPEED) bonds, which were also issued on a subordinate lien basis, Taxable Series 2010A and Tax-Exempt Series 2010B, to fund building renewal projects across the University's campuses. The Taxable Series 2010A bonds were issued as Build America Bonds for $26.4 million with an average maturity of 15.4 years and an average interest rate of 3.87%, net of the federal direct payments. The Tax-Exempt Series 2010B bonds were issued for $7.4 million with an average maturity of 7.5 years and an average interest rate of 2.90%. Up to 80% of the related debt service of these subordinate lien bonds will be paid from Arizona State Lottery Commission revenues, with the balance being the responsibility of the University.

The University presently plans to issue up to $55.0 million in senior lien system revenue bonds during fiscal 2011.

Funding responsibility for the June 30, 2010 outstanding debt *(Dollars in thousands)*

	Current Portion	Noncurrent Portion	Total
From Arizona State University operating revenues	$ 31,212	$ 635,287	$ 666,499
From State of Arizona provided state appropriations and share of state sales tax (ASU in substance acting as conduit)	9,838	334,978	344,816
	$ 41,050	**$ 970,265**	**$ 1,011,315**

Note E - Capital Leases

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 the 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 of 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.

In July of 2005, the University entered into a ground lease with McAllister Academic Village, LLC, an Arizona limited liability company, whose sole member is ACFFC, for the construction of the McAllister Academic Village (MAV) living, learning and retail facility now operated under the name of Hassayampa Academic Village (HAV). The facility houses approximately 1,900 students and also includes academic facilities, a learning resource center, and food and retail facilities. 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.

In November 2008, the University committed to a capital lease with the City of Phoenix related to construction of the fourth and fifth floors of the Nursing and Health Innovation building at the University's Downtown Phoenix campus. ASU commenced payments in January 2010 at a rate equal to the City's short-term cost of capital. The City anticipates issuing long-term debt in the next two years at which time the University's interest cost will be based on the City's actual borrowing rate.

Capital lease commitments to lessors at June 30, 2010 based on present value of lease payments *(Dollars in thousands)*

	Average Interest Rate	Final Maturity	Balance 07/01/2009	Additions	Reductions	Balance 06/30/2010	Current Portion
Hassayampa Academic Village	5.36%	2039	$ 12,437		$ (45)	$ 12,392	$ 58
Fulton Center	4.84%	2034	27,605		(630)	26,975	650
Flexible Display Center	5.27%	2034	34,921		(721)	34,200	748
College of Nursing	5.50%	2036		$ 10,000		10,000	
Total: Capital Leases			**$ 74,963**	**$ 10,000**	**$ (1,396)**	**$ 83,567**	**$ 1,456**

Capital lease payment commitments including interest due to the lessor at June 30, 2010 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
2011	$ 5,471
2012	5,878
2013	5,889
2014	5,899
2015	5,911
2016-2020	29,761
2021-2025	30,110
2026-2030	30,483
2031-2035	25,637
2036-2039	4,896
Total minimum lease payments	$ 149,935
Less amount representing interest	(66,368)
Present value of net minimum lease payments	**$ 83,567**

Capital leases book value as of June 30, 2010
(Dollars in thousands)

	Book Value	Accumulated Depreciation	Net Book Value
Hassayampa Academic Village	$ 12,451	$ (1,222)	$ 11,229
Fulton Center	29,484	(4,874)	24,610
Flexible Display Center	36,339	(5,493)	30,846
College of Nursing	10,000		10,000

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, 2010, 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, 2010 consisted of the following (Dollars in thousands):

Balance 07/01/2009	$ 28,058
Additions	27,762
Reductions	(30,339)
Balance 06/30/2010	$ 25,481
Current Portion	$ 2,638

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 Arizona State 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.

SkySong 1, LLC Operating Lease. In June 2006, the University entered in a 15 year 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 SkySong. SkySong 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. The University's use of the leased space focuses on supporting entrepreneurial activities, interdisciplinary research programs in engineering-related fields, and education technology.

Other. The University has entered into other operating leases with various entities for classroom, office and research space.

The future minimum lease payments are as follows (Dollars in thousands):

	Operating Lease Payments			
Fiscal Year	**Brickyard**	**SkySong**	**Other**	**Total**
2011	$ 3,120	$ 2,121	$ 2,347	$ 7,588
2012	3,125	2,166	1,782	7,073
2013	3,115	2,212	1,011	6,338
2014	3,114	2,260	656	6,030
2015	3,107	2,309	617	6,033
2016-2020	12,391	12,342	1,307	26,040
2021-2026		5,790	250	6,040
Total	**$ 27,972**	**$ 29,200**	**$ 7,970**	**$ 65,142**

Note I - Operating Expenses by Classification

Operating expenses by functional and natural classification for the year ended June 30, 2010, are summarized as follows (Dollars in thousands):

	Year ended June 30, 2010				
	Personal Services and Benefits	**Supplies and Services**	**Student Aid**	**Depreciation**	**Total**
Instruction	$ 426,705	$ 41,875	$ 4,399		$ 472,979
Research	130,908	56,505	2,186		189,599
Public service	23,609	17,052	535		41,196
Academic support	124,241	51,636	336		176,213
Student services	36,311	12,659	108		49,078
Institutional support	66,129	55,869	708		122,706
Operation and maintenance of plant	27,904	49,694			77,598
Scholarships and fellowships	1,084	442	107,878		109,404
Auxiliary enterprises	44,548	85,856	4,737		135,141
Depreciation				$ 95,745	95,745
Total Operating Expenses	**$ 881,439**	**$ 371,588**	**$ 120,887**	**$ 95,745**	**$ 1,469,659**

Note J - Retirement Plans

At June 30, 2010 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, 2010.

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, 2010, active plan members were required by statute to contribute at the actuarially determined rate of 9.40% (9.00% for retirement and 0.40 percent for long-term disability) of the members' annual covered payroll and the University was required by statute to contribute at the actuarially determined rate of 9.40% (8.34% for retirement, 0.66 percent for health insurance premium, and 0.40 percent for long-term disability) of the members' annual covered payroll. The University's contributions for the current and two preceding years, all of which were equal to the required contributions, were as follows (Dollars in thousands):

Fiscal Year	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund	Total University Contributions
2010	$ 21,578	$ 1,708	$ 1,039	$ 24,325
2009	20,429	2,455	1,278	24,162
2008	21,278	2,775	1,322	25,375

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, 2010, 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, 2010, 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, 2010, were as follows (Dollars in thousands):

	Contribution Rates (Each)	University Contributions	Employee Contributions	Total Contributions
TIAA/CREF	7.00%	$ 13,438	$ 13,438	$ 26,876
VALIC	7.00%	1,616	1,616	3,232
Fidelity	7.00%	5,686	5,686	11,372

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 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.

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.

Purchase Option. The University may, prior to the satisfaction of the permanent financing, purchase all or a portion of the Downtown Phoenix campus property from the City for the amount of the indebtedness applicable to the property subject to full defeasance of any outstanding debt. Upon satisfaction of the permanent financing indebtedness, the 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.

Music concert attended by ASU students and community residents held in the Civic Space Park located across from the ASU's Downtown Phoenix campus.

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, which was subsequently transferred to Sunbelt Holdings (Sunbelt). This land is located along the south bank of Tempe Town Lake. Sunbelt plans to construct condominiums on the purchased land, and construct office and retail space. The Lease Option Agreement for the 15.15 leased acres contains 5 ground lease phases which must be exercised by specified dates ranging from 2012 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 Sunbelt as determined by an appraisal process. In the event Sunbelt 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 percent (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. Sunbelt 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 Sunbelt 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) Sunbelt fails to enter into one or more of the leases, (3) Sunbelt 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, Arizona State University (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, 2010, have not been material to the University's financial statements.

Legal Matters. Individual members of the Havasupai Tribe (Tribe) and the Tribe itself filed two separate lawsuits in 2004 against the Arizona Board of Regents (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. As a part of the settlement, which became effective on April 21, 2010, the State of Arizona paid a total of $0.7 million to the 41 individual plaintiffs.

In May, 2005, Dr. George Pettit sued the Board and the University and, in an amended complaint filed on August 2, 2005, 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 in the United States District Court (Court). 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 later voluntarily dismissed many of the defendants and dropped a number of his claims as well. The Court has also granted various motions to dismiss claims and defendants, the most recent being a December 15, 2009, ruling dismissing defendant Michael Crow. The Court, however, denied, on January 9, 2009, defendant Milton Glick's motion for summary judgment. Dr. Glick is a former ASU Provost. He has filed an interlocutory appeal with the 9th Circuit Court of Appeals. Oral arguments were held on March 11, 2010 and the 9th Circuit Court of Appeals granted Dr. Glick's claim for qualified immunity. Currently, only Count IV of the lawsuit remains. The Court has ordered the University to name a new Defendant in place of Dr. Glick insofar as he is no longer with ASU, and the current Provost, Dr. Elizabeth Capaldi, has been substituted as the new Defendant. 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 (Commission). The Commission conducted a proceeding under Arizona law and determined that the lower Salt River is not navigable. The University owns land adjacent to the current channel of the lower Salt River. The Board/University is named as a defendant in the Attorney General's action because the

University was one of a number of parties that participated in and therefore became a party to the Commission proceedings. The University 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 the University 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 April 27, 2010, the Court of Appeals vacated the Superior Court's decision and remanded the case back to the Superior Court. A petition for review of the Court of Appeals' decision has been filed with the Supreme Court of Arizona. The University cannot predict the outcome at this time, but intends to vigorously defend the determination made by the Commission. If this matter and any subsequent proceedings to determine navigability were to be eventually determined to be adverse to the University, it potentially could adversely affect the University'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.

Tempe Privatized Student Housing. In December 2006, the University 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 the University 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 a pool and community center, parking garage, and retail space. This project was completed in summer 2008. The University receives a combination of fixed and variable rent, with variable rent being approximately 8.7% of gross revenues. There is no legal recourse to the University 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. Barrett Honors College is 100% equity (cash) financed by ACC. The University receives fixed annual rent of $250,000 for the first 10 years and variable rent of 2.35% of gross revenues thereafter.

Clockwise from the upper left: Hungry Bowls event, all proceeds raised helps fight hunger in the Valley during National Hunger and Homeless Awareness Week at ASU. High five to the fans from the ASU football team as they arrive to the stadium for the game for the Fall 2009 home opener against the Idaho State Bengals. During Spring Break 2010, ASU Sandra Day O'Conner College of Law students participate in the Wills for Heroes, a nationwide program that provides legal documents to first responders. Students at the West campus participate in "Take Back the Night" which is to assist others to break the silence that surrounds sexual violence.

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 2.80% to 10.90%. 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, 2010. 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	$ 155,337	$ 9,068	$ 152	$ 164,557
Present value discount	(15,073)	(608)	(5)	(15,686)
Allowance for uncollectible pledges	(47,684)		(71)	(47,755)
Net pledges receivable	**$ 92,580**	**$ 8,460**	**$ 76**	**$ 101,116**

Members of the ASU 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, 2010 and 2009, gross unconditional pledges receivable from these members included approximately $34.6 million and $35.7 million, respectively. During fiscal years 2010 and 2009, the Foundation recognized contribution revenue from these donors of approximately $42 thousand and $74 thousand, respectively. The Foundation had conditional pledges receivable totaling $8.5 million at June 30, 2010; none are included in pledges receivable. Conditional pledges receivable are recorded when the conditions are met.

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

	ASU Foundation	Sun Angel Foundation	Other Component Units	Total
Receivable in one year	$ 42,529	$ 3,664	$ 76	$ 46,269
Receivable in two to five years	73,502	4,109	76	77,687
Receivable after five years	39,306	1,295		40,601
Total gross pledges to be received	**$ 155,337**	**$ 9,068**	**$ 152**	**$ 164,557**

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, 2010 is $27.0 million.

Arizona Capital Facilities Finance Corporation (ACFFC). Pursuant to a sublease agreement, dated April 7, 2004 and amended on April 1, 2009 (the Sublease), Nanotechnology Research, LLC (Nano), a wholly-owned subsidiary of ACFFC, leases its interest in the ASU Research Park to the University. The University will make lease payments at times in amounts sufficient to pay all principal and interest on the Series 2009A and 2009B Bonds. The Sublease has successive annual renewals without action from either party through March 31, 2034. The Sublease is subject to early termination by Nano or the University upon the payment in full of the Series 2009A and 2009B Bonds. Upon termination or expiration of the Sublease, the ACFFC's interest in the premises, including all buildings and improvements on the leased premises, transfers to the University without further consideration. ACFFC's net investment in the Nanotechnology facility direct financing lease is $34.2 million at June 30, 2010.

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 (Hassayampa, HAV) to the University which consists of the academic, tutorial, retail and food service facilities. The lease was amended effective September 1, 2008 to change the annual renewal period through June 30, 2039 to correspond with the maturity of the Hassayampa 2008 Bonds. Any right, title or interest of Hassayampa in and to the academic portions of the Hassayampa Project will pass to the University without further cost upon the payment in full of the Hassayampa 2008 Bonds. Lease payments are based on the fixed interest rates determined by the Hassayampa 2008 Bonds maturity schedule. ACFFC's net investment in the McAllister (HAV) direct financing lease is $12.4 million at June 30, 2010.

Contingent Agreements

In order to ensure the success of the component unit student housing facilities, the University entered into various contingent agreements which allow the University to contribute funding to the extent a funding shortfall occurs during the fiscal year. The agreements for Hassayampa Academic Village (ACFFC) and West Campus Student Housing/Las Casas (ACFFC) allow the University to fund deficiencies for debt service and operating expense shortfalls while the agreement for South Campus Housing/ Adelphi II (ACFFC) allows the University to fund operating expense deficiencies only. The agreement for Downtown Phoenix Student Housing allows the University to contribute funding to the extent that an occupancy rate of 99% is not achieved during the four year academic period from Fall 2008 through Spring 2012, with a maximum exposure to the University of $3.4 million.

Power Plant Agreements

Sun Devil Energy Center. In November 2004, 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 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 the 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.

Polytechnic 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 the 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.

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 follows 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, 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. In April 2010, the ASU Trust Endowment Pool (Trust) assets were transferred to the Foundation's Endowment Pool (Pool) to form a single investment pool for the endowments.

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.

Investment Summary

Investments consist of *(Dollars in thousands)*

	ASU Foundation Investments	ACFFC	Other Component Units	Total
Money market funds and cash equivalents	$ 47,468	$ 25,423	$ 21,142	$ 94,033
Equities:				
Domestic	93,775			93,775
International	80,733			80,733
Total equities	174,508			174,508
Fixed Income	110,266			110,266
Mutual funds:				
Equity mutual funds			2,725	2,725
Inflation hedge	125,056			125,056
Emerging markets	22,980		642	23,622
Total mutual funds	148,036		3,367	151,403
Other securities	14,825		15,580	30,405
Other investments	39,146	620	2,723	42,489
Total investments	**$ 534,249**	**$ 26,043**	**$ 42,812**	**$ 603,104**

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		$ 23,263	$ 2,014	$ 25,277
Buildings and improvements	$ 17,397	202,983	114,339	334,719
Furniture, fixtures, and equipment	7,860	52,795	14,698	75,353
Leasehold improvements			29,901	29,901
Other property and equipment		729		729
Total cost or donated value	25,257	279,770	160,952	465,979
Accumulated depreciation	(6,501)	(46,629)	(22,260)	(75,390)
Net property and equipment	**$ 18,756**	**$ 233,141**	**$ 138,692**	**$ 390,589**

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		11,490		11,490
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		51,005		51,005
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			10,205	10,205
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	9,855			9,855
Series 2003 Lease Revenue Bonds (Fulton)	2034	45,810			45,810
Series 2003 Revenue Bonds (Adelphi II, Tempe campus housing)	2035		13,120		13,120
Series 2002 Revenue Bonds (Energy Management Services)	2018		22,760		22,760
Series 2001A Revenue Bonds (Mesa Student Housing, LLC)	2032			18,845	18,845
Series 2000 Revenue Bonds (Adelphi I, Tempe campus housing)	2032		9,885		9,885
Capital Lease	2011	1,469			1,469
Unamortized bond premium (discount)			(3,467)	(1,513)	(4,980)
		$ 79,554	**$ 346,488**	**$ 170,062**	**$ 596,104**

The following schedule reflects future principal payment commitments to investors:

Future principal commitments consist of *(Dollars in thousands)*				
Year Ending June 30,	**ASU Foundation**	**ACFFC**	**Other Component Units**	**Total**
2011	$ 1,875	$ 5,795	$ 1,165	$ 8,835
2012	1,988	8,455	1,810	12,253
2013	1,755	8,995	1,920	12,670
2014	1,835	9,580	1,750	13,165
2015	1,940	10,225	1,995	14,160
Thereafter	70,161	303,438	161,422	535,021
	$ 79,554	**$ 346,488**	**$ 170,062**	**$ 596,104**

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, 2010
(Dollars in thousands)

	ASU Foundation	ACFFC	Other Component Units	Total
Assets				
Investments	$ 534,249	$ 26,043	$ 42,812	$ 603,104
Property and equipment, net	18,756	233,141	138,692	390,589
Other assets	147,141	55,347	37,779	240,267
Total assets	$ 700,146	$ 314,531	$ 219,283	$ 1,233,960
Liabilities				
Bonds and obligations under capital lease	$ 79,554	$ 346,488	$ 170,062	$ 596,104
Other liabilities	117,894	14,658	32,756	165,308
Total liabilities	$ 197,448	$ 361,146	$ 202,818	$ 761,412
Net Assets				
Unrestricted	$ (12,930)	$ (46,615)	$ 1,909	$ (57,636)
Temporarily restricted	170,164		12,714	182,878
Permanently restricted	345,464		1,842	347,306
Total net assets (deficit)	**$ 502,698**	**$ (46,615)**	**$ 16,465**	**$ 472,548**

Component Units
Statement of Activities
Year ended June 30, 2010
(Dollars in thousands)

	ASU Foundation	ACFFC	Other Component Units	Total
Revenues				
Contributions	$ 42,034		$ 8,381	$ 50,415
Rental revenues	1,151	$ 16,349	18,671	36,171
Sales and services	22,856	8,465	7,209	38,530
Net investment income	34,231	166	1,442	35,839
Other revenues	4,119	4,771	10,953	19,843
Total revenues	$ 104,391	$ 29,751	$ 46,656	$ 180,798
Expenses				
Payments to ASU	$ 41,971	$ 511	$ 8,032	$ 50,514
Personal services, operations, and administrative expenses	25,393	10,413	24,669	60,475
Depreciation/amortization and interest	4,614	25,356	15,261	45,231
Other expenses	12,944	456	1,554	14,954
Total expenses	$ 84,922	$ 36,736	$ 49,516	$ 171,174
Increase/(Decrease) in net assets	19,469	(6,985)	(2,860)	9,624
Net assets (deficit), beginning of year	483,229	(39,630)	19,325	462,924
Net assets (deficit) at end of year	**$ 502,698**	**$ (46,615)**	**$ 16,465**	**$ 472,548**

ARIZONA STATE UNIVERSITY
COMBINED SOURCES AND USES

Sources

For the year ended June 30, 2010
(Dollars in millions)

State Appropriations	25%	**$ 395.4**	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	2%	**32.5**	Funding from American Recovery and Reinvestment Act. The funds were used for instructional expenses.
Tuition and Fees, net	35%	**566.3**	Includes $711.1 million in tuition and fees, net of $144.8 million in scholarship allowances.
Grants and Contracts	21%	**335.4**	Represents governmental and nongovernmental grants and contracts for both sponsored program activities ($250.4 million) and financial aid programs ($85.0 million). For fiscal 2010 federally funded grants and contracts totaled $276.5 million and nongovernmental grants and contracts totaled $46.9 million.
Private and Capital Gifts	3%	**49.6**	Voluntary private support from individuals, foundations, and corporations, including $3.4 million in capital gifts.
Technology and Research Initiative Fund (TRIF)	1%	**21.3**	TRIF is generated from sales tax revenue. TRIF revenue received by ASU is primarily used to support the research efforts of the ASU Biodesign Institute.
Auxiliary Enterprises, net	8%	**134.9**	Represents operations of essentially self-supporting activities such as bookstore, intercollegiate athletics, residential halls, and parking.
Sales and Services	3%	**37.6**	Sales and services of educational departments, including ASU-hosted national and international conferences and programs.
Other Sources	2%	**34.2**	Includes net investment returns, financial aid trust fees and insurance recovery proceeds.
Total Sources		**$ 1,607.2**	

Note:

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

This schedule 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%	**$ 649.2**	Consists of (1) instruction expenses totaling $473.0 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 $176.2 million, which include libraries, academic information technology support, and academic administration.
Research and Public Service	15%	**230.8**	Includes (1) direct research expenses of $189.6 million for activities specifically organized to produce research outcomes, and (2) public service expenses of $41.2 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%	**158.5**	Consists of (1) direct student services expenses totaling $49.1 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 $109.4 million, which includes federally funded Pell grants and institutionally awarded merit and need-based scholarships, net of scholarship allowances.
Institutional Support	8%	**122.7**	Includes financial operations, human resources, public safety, environmental health and safety, and administrative information technology support.
Operation and Maintenance of Plant	5%	**77.6**	Represents expenses for the operation and maintenance of plant, including services related to facilities and grounds, and utility costs. Not included are amounts charged to auxiliary enterprises.
Auxiliary Enterprises	9%	**135.1**	Consists of departments managed as essentially self-supporting activities that furnish services to students and staff for a fee directly related to, but not necessarily equal to, the cost of the service.
Depreciation	6%	**95.7**	Depreciation is computed using the straight-line method over the estimated useful life of each asset. Depreciation for buildings was $50.1 million and was primarily related to academic and research buildings.
Other Expenses	4%	**52.8**	Consists primarily of interest payments on outstanding debt and non-capital expenses on plant project accounts.
Total Uses		**$ 1,522.4**	

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