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Arizona State University

2011 Financial Report

ARIZONA STATE UNIVERSITY

2011 FINANCIAL REPORT

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

A MESSAGE FROM THE PRESIDENT

ARIZONA STATE UNIVERSITY

I am pleased to present the 2011 Financial Report for Arizona State University. As we approach the tenth anniversary of the initial reconceptualization of Arizona State University as the foundational model for the New American University, we are set to embark on an ambitious second phase in a journey of transformation that has already compressed into a single decade a process of institutional evolution that might otherwise have taken longer than a quarter-century. As the nation's youngest major research institution and largest university governed by a single administration, ASU has cultivated a unique institutional profile and succeeded in our determination to prove that an institution can compete with the world's leading universities academically, yet remain broadly inclusive while advancing a visionary research enterprise dedicated to the public interest. The commitment of our academic community has enabled the university to join the ranks of globally competitive knowledge enterprises possessing the capacity to advance on any challenge that confronts our nation through discovery, creativity, and innovation. We are delivering on our promise to provide an education of unmatched quality without financial barriers to all qualified Arizona students and seek to transform the quality of life and economic competitiveness of our state and nation even as we search for solutions to the grand challenges that confront humanity.

International recognition of academic excellence

For the fifth 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 78th in their 2011 *Academic Ranking of World Universities*, which corresponds to ranking 22nd among all public universities in the United States. *The Economist* called ARWU "the most widely used annual ranking of the world's research universities," and the *Chronicle of Higher Education* termed it "the most influential international ranking." For the fifth consecutive year, ASU has been ranked by *U.S. News & World Report* in the top tier of national universities, advancing to 132, up 11 positions over last year. For the fourth year the university is also named one of the top "2012 Up-and-Coming National Universities." Inasmuch as the *USN&WR* rankings methodology favors elite schools that accept only a small percentage of applicants, our success has permitted us to demonstrate that it is possible to combine the highest levels of academic excellence, inclusiveness to a broad demographic, and maximum societal impact.

Increasing research revenues reflect a culture of innovation

The alignment of a broad range of strategic research with critical national goals has been an overarching objective of our research enterprise, reflected in our success in advancing research in such areas as earth and space exploration, sustainability and renewable energy, advanced materials, flexible electronics, healthcare, national security, urban systems design, and education in the STEM fields (science, technology, engineering, and mathematics). 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. Because world-class research has the potential both 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.

Among U.S. universities with research portfolios exceeding $100 million in expenditures, over the five-year period from FY 2005 to FY 2009, ASU was the fastest growing research university in the nation, according to the most recent available data from the National Science Foundation (NSF). FY 2011 research-related expenditures reached a record $343.6 million, a near tripling from $123 million in FY 2002. During FY 2011 ASU sought more than $1.3 billion in proposals and received more than $294 million in awards, including $46.7 million in NSF awards, an increase of 59 percent from the $29.4 million NSF funding level of FY 2002. According to NSF, in terms of competitive research funding, ASU now ranks among the top 20 research universities in the nation without a medical school. ASU is one of only a handful of institutions without either an agricultural or medical school to have surpassed the $200 million level in research expenditures, with institutional peers in this category including Caltech, MIT, and Princeton.

A profile of academic success

The emerging academic stature of the university is further underscored by the growing number of faculty recipients of prestigious national and international honors. These currently include three Nobel laureates and twenty-three members of the National Academies, representing more Academy members than have served on the faculty during the previous five decades. Similarly, ASU has made remarkable progress in the academic profile of its student body. 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 ten producers of Fulbright Scholars in the nation, and in fall semester 2011 boasted 504 National Merit Scholars, placing ASU among the top ten of public universities nationally. The number of National Merit Scholars has increased 33 percent since 2002.

Increasing affordability and access to excellence for a broad demographic
ASU reached a record enrollment of 72,254 undergraduate, graduate, and professional students in fall semester 2011. This tops last fall's enrollment of 70,440 by more than 1,800 students. The fall 2011 freshman class numbered 9,254, with 28 percent coming from the top ten percent of their high school class and 58 percent from the top 25 percent. During academic year 2011, ASU awarded a record 17,090 baccalaureate, master's, and doctoral degrees—up 51 percent from academic year 2002 and an increase of 31 percent during the past five years. The six-year graduation rate for the fall 2004 cohort was 58.7 percent, which continues to exceed the national average for all public universities, and the freshman persistence rate reached 81.2 percent, up from 80 percent the previous year.

During FY 2011, ASU awarded more than $894 million in financial aid, a significant increase over the $792 million awarded during the prior fiscal year. The university awarded $189 million in institutional grants and scholarships. The keystone initiative in this context is the President Barack Obama Scholars Program, which ensures that in-state freshmen from families with moderate annual incomes are able to earn baccalaureate degrees with little or no debt. During fall semester 2011, Obama Scholars numbered 1,923, with 437 first-time freshmen joining 1,486 students continuing from the first two years of the program. The Obama Scholars Program affirms 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 the student body. While the freshman class has increased in size by 36 percent since 2002, for example, enrollment of students of color has increased by more than 124 percent, and from FY 2003 through FY 2011, the percentage increase of first-time, full-time low-income Arizona freshmen was 647 percent. Our success in offering access regardless of financial need is easily one of the most significant achievements in the history of the institution.

Response to reductions in state investment
The cumulative impact of reductions in state investment has been significant. During the recent recession, ASU acknowledged and responded to the State of Arizona's challenging financial situation, continuing to move forward in implementing its strategic goals. ASU restructured and cut costs, which in combination with accelerated growth in tuition and research revenue, provided a base for continued research expansion and enrollment growth.

During FY 2012, state investment will be further reduced by $95 million, about a third of which will be addressed by increased tuition rates and the remainder through budget reductions. The actions taken to address the current budget cuts were tailored to protect the academic core and quality of education. The economic stresses occur within the context of continuing record enrollments, with ASU absorbing 85 percent of enrollment growth in the Arizona University System in the fall of 2011. As we look ahead, we anticipate ever-larger proportions of Arizona students turning to ASU for a quality higher education.

A culture of academic enterprise
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 continued progress during a period of historic disinvestment in public higher education is a consequence of a 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 annually 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.

The evolving financial position of the university reflects both the institutional culture of "academic enterprise" and the investment of individuals, foundations, corporations, and local, state, and federal government agencies 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 thank our faculty and staff for their continued dedication and express the appreciation of the entire academic community to those who have contributed to the advancement of the university.

Michael M. Crow
President, Arizona State University

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, 2011, 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, except for those of the University Public Schools, Inc., 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, 2011, 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, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

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The information included in A Message from the President, Management's Discussion and Analysis, Enrollment, and 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 14, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

Arizona State University is a nationally and internationally ranked public university with fall 2010 enrollment of over 70,400 students. ASU encompasses four campuses across the Phoenix metropolitan area and many of ASU's academic programs are ranked among the best in the nation, providing ASU students a wide diversity of high quality programs.

The following Management's Discussion and Analysis of ASU's financial statements presents an overview of the University's financial activities for the year ended June 30, 2011, with comparative totals 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 related notes to financial statements.

The financial statements presented in this report encompass the University and its discretely presented component units. This discussion and analysis focuses on the University, unless otherwise stated.

The University's financial statements consist of the Statement of Net Assets, which presents assets, liabilities and the net assets of the University at the end of the fiscal year; the Statement of Revenues, Expenses and Changes in Net Assets, which reflects the revenue and expense activity for the fiscal year; and the Statement of Cash Flows, which provides information on cash inflows and outflows during the fiscal year. Information on the component units can be found on a consolidated basis in the component units' Statement of Financial Position and Statement of Activities, as well as Note N Component Units (Financially Related Organizations).

The information presented in this financial report is designed to show the reader how the University's resources were used to meet its mission and goals, including enhancing student development and learning, expanding access to University programs, and pursuing research and discovery that benefits the public good. Financial information is one indicator of the University's overall performance and should be reviewed in conjunction with relevant nonfinancial indictors such as enrollment trends, quality of students applying for admission, student retention, graduation rates, faculty awards and recognition, and community enrichment in order to assess the University overall.

FINANCIAL HIGHLIGHTS

STATEMENT OF NET ASSETS

The statement of net assets presents the financial condition of the University at the end of the fiscal year and reports all assets and liabilities of the University. A summarized comparison of the University's assets, liabilities and net assets as of June 30, 2011 and 2010 follows.

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

	2011	2010
ASSETS		
Current assets	$ 442.2	$ 325.0
Noncurrent assets	370.7	405.0
Noncurrent capital assets, net	1,623.9	1,576.9
Total assets	**$ 2,436.8**	**$ 2,306.9**
LIABILITIES		
Long-term debt liabilities	$ 1,150.4	$ 1,106.0
Other liabilities	156.0	164.1
Total liabilities	**$ 1,306.4**	**$ 1,270.1**
NET ASSETS		
Invested in capital assets, net	$ 634.3	$ 661.7
Restricted:		
Nonexpendable	49.5	46.9
Expendable	87.2	92.9
Unrestricted	359.4	235.3
Total net assets	**$ 1,130.4**	**$ 1,036.8**

The University's financial position remained on an upward trend at June 30, 2011, with assets of $2.4 billion, reflecting a $129.9 million, or 6%, increase from June 30, 2010. Current assets include those that may be used to support current operations such as cash and cash equivalents, accounts and other receivables and inventories. Current assets increased by $117.2 million between years due to increased cash and cash equivalent balances and short-term investments. At June 30, 2011 the majority of the University's available operating cash was held in cash equivalents and short-term investments. Due to low investment rates, the University limited its funds held in longer term (noncurrent) investments. There was also a $5.6 million decrease in inventories as the University outsourced its bookstore operations at the end of fiscal year 2011.

Noncurrent capital assets, net of accumulated depreciation, increased by $47.0 million primarily related to construction costs of the Interdisciplinary Science and Technology Building IV (ISTB IV). When completed in late spring 2012, ISTB IV will house areas which have been identified as playing critical roles in the continuing development of ASU as a major research university. Other noncurrent assets include endowment and other restricted or long-term investments, and student loan receivables. There was a $34.3 million decrease in other noncurrent assets between years, primarily due to a $28.6 million decrease in restricted cash and a $18.9 million decrease in other noncurrent investments. Restricted cash is primarily financing proceeds held in trust at the bank until related construction costs have been incurred. As construction progressed on ISTB IV and other debt financed projects, the University drew down the related proceeds, decreasing its available restricted cash balance. Partially offsetting these decreases was a $14.0 million, or 17%, increase in endowment investments as a result of recovery in the financial markets which helped to restore the value of investments which had declined during the recent economic downturn.

Liabilities increased to $1.3 billion at June 30, 2011, a $36.3 million increase. The change was primarily in the long-term debt category due to the issuance of revenue bonds during fiscal year 2011 to finance the acquisition of a building in downtown Tempe which houses many departments supporting the University's research enterprises, the expansion of the student health complex on the Tempe campus, and building renewal or infrastructure projects across ASU's campuses.

Net assets are the difference between total assets and total liabilities. Net assets are reported as follows:

- Invested in capital assets, net of related debt, represents the University's investment in capital assets such as equipment, buildings, land and infrastructure, net of accumulated depreciation and outstanding debt obligations related to those capital assets.
- Restricted-nonexpendable net assets primarily represent the University's permanent endowment funds received from donors for the purposes of creating permanent funding streams for specific programs or activities. These funds are held in perpetuity and are not available for use by the University. The earnings on these funds support the programs and activities as determined by donors.
- Restricted-expendable net assets are resources which the University is legally or contractually obligated to spend in accordance with restrictions placed by donors.
- Unrestricted net assets are all other funds which are available to the University for use as internally designated.

Total net assets at June 30, 2011 were $1.1 billion, a $93.6 million, or a 9% increase in net assets over the prior year. The change in net assets is one measure as to whether the overall financial condition of the University has improved or deteriorated during the fiscal year. The fiscal year 2011 increase in net assets primarily occurred in the unrestricted net assets category. The majority of the University's unrestricted net assets are under management of the academic colleges and schools and are designated for academic purposes.

Left: Faculty and students of the ASU College of Nursing and Healthcare Innovation make the traditional march from the ASU Downtown Phoenix campus to their convocation at the Phoenix Convention Center.

Image Credit: Joe Franska

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 for the fiscal year, in accordance with the Governmental Accounting Standards Board (GASB). Operating revenues primarily include student tuition and fees, research grants and contracts and auxiliary activities. ASU, and other public universities, depend on state appropriations, gifts and financial aid and other grants, which are prescribed by GASB as nonoperating revenues, to support core operations. Due to the required classification of these key funding sources as nonoperating, operating expenses will typically exceed operating revenues for public universities, resulting in an operating loss. Net nonoperating revenues and expenses are an integral part in determining the overall increase or decrease in net assets.

A summarized schedule of the University's activities for fiscal years 2011 and 2010 follows. A combined sources and uses schedule is presented on the next page.

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

	2011	2010
Operating revenues		
Tuition and fees, net	$ 639.3	$ 566.3
Research grants and contracts	217.0	199.9
Auxiliary enterprises, net	136.6	134.9
Other operating revenues	52.6	47.9
Total operating revenues	$ 1,045.5	$ 949.0
Operating expenses	1,556.9	1,469.6
Operating loss	**$ (511.4)**	**$ (520.6)**
Net nonoperating revenues (expenses)		
State operating appropriations	$ 380.9	$ 380.9
Other nonoperating revenues	254.3	249.8
Nonoperating expenses	(54.5)	(52.8)
Income before other revenues, expenses, gains, or losses	$ 69.3	$ 57.3
Capital appropriations and other revenues	20.5	20.4
Insurance recovery, net of impairment loss	3.8	7.1
Increase in net assets	**$ 93.6**	**$ 84.8**
Net assets at beginning of year	1,036.8	952.0
Net assets at end of year	**$ 1,130.4**	**$ 1,036.8**

Revenues

ASU's total revenues increased $97.8 million, or 6%, to $1.7 billion in fiscal year 2011 from $1.6 billion in fiscal year 2010 with the increases occurring in all major revenue categories except state appropriations and federal fiscal stabilization funds. Tuition and fees and financial aid grant revenues had the largest increases, $73.0 million and $19.5 million, respectively, while state appropriations remained at the same funding level for fiscal years 2011 and 2010. Tuition and fee increases were due to increased enrollment as well as rate increases. Financial aid grant increases were due to increased federal Pell Grants, a need-based program which helps promote access to postsecondary education. The federal fiscal stabilization program, which provided educational funds to the University as allocated by the State of Arizona Governor's Office, expired during fiscal year 2011 resulting in a $31.7 million decline in funding between years. Capital appropriations and other revenues consist primarily of state appropriations mandated to pay a portion of the capital financing costs for the University's research infrastructure, and capital gifts and grants restricted by donors or granting agencies for capital uses.

Expenses

Expenses are also categorized as operating or nonoperating per GASB. The University reports operating expenses by their functional category (instruction, research, etc.) on the face of the statement of revenues, expenses and changes in net assets and displays expenses by their natural classification (salaries and benefits, supplies and services, etc.) in the notes to the financial statements. Total expenses increased by $89.0 million, or less than 6%, between years.

ASU's core mission related programs of instruction/academic support and research/public service had increases of $34.0 million and $18.7 million between years, respectively. The instruction/academic support increase occurred in several program across all campuses. For example, within the College of Liberal Arts and Sciences, high demand enrollment funding was distributed across various units during fiscal year 2011, in addition to increased funding for faculty hires in the earth and space sciences and english programs. Tuition and state appropriation revenues are the primary funding sources for instruction and academic support expenses.

Approximately $4 million of the research/public service expense increase between years was due to a U.S. Department of Education grant which forms a teacher education partnership including the ASU Mary Lou Fulton Teachers College, the ASU College of Liberal Arts and Sciences, the Arizona Department of Education, the Rodel Foundation of Arizona and fifteen Arizona high-need school districts representing 230 schools. The partnership will work to increase the subject-area and clinical competency of teachers, and work with partner districts to turn around historically struggling schools and create sites of exemplary teacher preparation. Research expenses are primarily funded by grants and contracts awarded on a project by project basis.

The category of scholarships and fellowships/student services had a $17.2 million increase between years. This increase was mainly the result of increased Pell Grants funding as well as increased University tuition allocated for scholarships. Nonoperating expenses include capital financing costs and other costs related to capital assets and showed only a slight increase between years.

Combined Sources and Uses *(Dollars in millions)*					
	2011		**2010**		**Percentage Change**
SOURCES					
Tuition and fees, net	$ 639.3	38%	$ 566.3	35%	13%
State appropriations (includes capital appropriations)	395.4	23%	395.4	25%	-
Federal fiscal stabilization funds	0.8	-	32.5	2%	(98%)
Grants and contracts - research related	268.5	16%	250.4	16%	7%
Auxiliary enterprises	136.6	8%	134.9	8%	1%
Financial aid grants	104.5	6%	85.0	5%	23%
Private and capital gifts	54.2	3%	49.6	3%	9%
Share of state sales tax (TRIF)	21.8	1%	21.3	1%	2%
Other sources	83.9	5%	71.8	5%	17%
Total sources	**$ 1,705.0**	**100%**	**$ 1,607.2**	**100%**	**6%**
USES					
Instruction and academic support	$ 683.2	42%	$ 649.2	43%	5%
Research and public service	249.5	16%	230.8	15%	8%
Scholarships and fellowships and student services	175.7	11%	158.5	10%	11%
Institutional support and operation of plant	208.8	13%	200.3	13%	4%
Auxiliary enterprises	142.5	9%	135.1	9%	5%
Depreciation	97.2	6%	95.7	6%	2%
Interest on debt and other expenses	54.5	3%	52.8	4%	3%
Total uses	**$ 1,611.4**	**100%**	**$ 1,522.4**	**100%**	**6%**

MANAGEMENT'S DISCUSSION AND ANALYSIS

STATEMENT OF CASH FLOWS

The statement of cash flows provides information about the University's cash receipts and disbursements during the year. This statement provides an assessment of the University's ability to generate net cash flows to meet its obligations as they become due. A condensed statement of cash flows follows.

Summarized Schedule of Changes in Cash and Cash Equivalents *(Dollars in millions)*

	2011	2010
Cash provided by/(used for):		
Operating activities	$ (420.2)	$ (441.5)
Noncapital financing activities	614.4	648.1
Capital and related financing activities	(127.2)	1.6
Investing activities	(8.1)	45.4
Net increase in cash and cash equivalents	**$ 58.9**	**$ 253.6**
Cash and cash equivalents at beginning of year	381.9	128.3
Cash and cash equivalents at end of year	**$ 440.8**	**$ 381.9**

Cash flows from operating activities show the net cash used by the operating activities of the University. Due to the categorization of operating and nonoperating revenues and expenses by GASB, cash flows from operating expenses are typically a net cash use. Major operating funding sources include student tuition and fees, research grants and contracts, and auxiliary enterprises revenues. Operating expenses include employee salaries and benefits, vendor payments for supplies and services, and student scholarships and fellowships. Net cash flows from noncapital financing activities is a major funding source for operating expenses and includes cash from state operating appropriations, financial aid and other nonresearch grants and private gifts. Cash flows from capital financing activities include all capital assets and related long-term debt activities, including proceeds from the issuance of debt, capital asset purchases, and principal and interest paid on long-term debt. Cash flows from investing activities show the net sources and uses of cash related to purchasing or selling investments and income earned on those investments.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Major capital expenses for fiscal year 2011 included continuing construction of the Interdisciplinary Science and Technology Building IV (ISTB IV) as well as building renewal and deferred maintenance projects to address critical needs. When completed in spring 2012, ISTB IV will provide flexible laboratories with adjoining workspace for science and engineering programs. The programs to be housed in ISTB IV have been identified as the most critical to the continuing development of ASU as a major research university and have the capacity to attract funding for large scale and complex interdisciplinary projects in the areas of climate science, energy sources and earth systems that require particular infrastructure not currently available on ASU's campuses. As mentioned previously, ASU purchased the $11.4 million Centerpoint Office Building, a four-story office building located in downtown Tempe, which houses several research related departments that directly support the research infrastructure of the University. With the purchase of Centerpoint, the University will be able to house many areas that currently occupy rental space in the vicinity of the Tempe campus, enabling the University to achieve both operational efficiencies and cost savings. Also in fiscal year 2011, the ASU Foundation, a component unit of the University, gifted to the University the Verde Dickey Dome valued at $2.0 million. The indoor facility provides the ASU Sun Devil football team a climate-controlled practice facility. The Dickey Dome is also used by the ASU Marching Band, ASU intramurals, and other athletic department events.

Beginning in fiscal year 2004, ASU, along with strategic business partners, began taking advantage of its geographic location to utilize solar energy. ASU recently exceeded 10 megawatts of solar-energy capacity, making it the only higher education institution in the United States to have a solar capacity of this size. Ten megawatts of power represents approximately 20% of ASU's peak load, and reduces its carbon footprint 5 to 10 percent. ASU's solar installations are mounted on the top floors of parking structures and buildings not only providing ASU with energy savings opportunities, but also providing shade from the Arizona sun.

At June 30, 2011 the University had issued a combination of fixed and variable bonds, fixed rate certificates of participation and other lease obligations. In August 2010 ASU issued $33.8 million in Stimulus Plan for Economic and Educational Development (SPEED) bonds for capital improvements and deferred maintenance projects on its campuses. The SPEED bonds are primarily funded through State of Arizona lottery proceeds, with the balance being the responsibility of the University. In February 2011 the University issued $51.9 million in system revenue bonds to fund the acquisition of the Centerpoint Office Building, the student health center expansion on the Tempe campus, and various building and campus improvement projects across its campuses.

Additional information about the University's long-term debt is presented in the notes to financial statements.

A banner at Fulton Center proclaiming "it's time" to be a Sun Devil.

ASU'S COMPONENT UNITS (FINANCIALLY RELATED 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, ASU Alumni Association, Arizona State University 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. Even though the component units support the University, they are not subsidiaries, nor are they directly controlled by the University. For more information on these component units, please refer to Note N in the notes to financial statements.

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

	June 30	
	2011	**2010**
Assets		
Cash and investments	$ 722.0	$ 620.9
Capital assets, net	375.0	390.6
Receivables, net	99.5	118.2
Other assets	102.5	104.2
Total assets	**$ 1,299.0**	**$ 1,233.9**
Liabilities		
Long-term debt	$ 586.8	$ 596.1
Other liabilities	174.2	165.3
Total liabilities	**$ 761.0**	**$ 761.4**
Net assets		
Unrestricted	$ (34.1)	$ (57.6)
Temporarily restricted	214.1	182.8
Permanently restricted	358.0	347.3
Total net assets	**$ 538.0**	**$ 472.5**

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

	June 30	
	2011	**2010 (as reclassified)**
Revenues		
Contributions	$ 66.3	$ 50.4
Other revenues	182.1	130.4
Total revenues	**$ 248.4**	**$ 180.8**
Expenses		
Payments to the benefit of ASU	$ 65.4	$ 55.6
Other expenses	117.5	115.6
Total expenses	**$ 182.9**	**$ 171.2**
Increase in net assets	$ 65.5	$ 9.6
Net assets at beginning of the year	472.5	462.9
Net assets at end of the year	**$ 538.0**	**$ 472.5**

COMBINED ASU AND COMPONENT UNITS

ASU and its component units combined for an increase in net assets of $159.1 million in fiscal year 2011, compared to a $94.4 million increase in fiscal year 2010. The majority of the improvement between years was due to an increase of $48.4 million in net investment return for the component units, primarily the ASU Foundation. The component unit increase in net assets primarily occurred in temporarily restricted net assets. These net assets must be spent in compliance with donor directions, and are typically restricted for use by a specific academic department or program.

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

	2011			2010		
	ASU	**ASU Component Units**	**Combined**	**ASU**	**ASU Component Units**	**Combined**
Invested in capital assets	$ 634.3		$ 634.3	$ 661.7		$ 661.7
Unrestricted net assets	359.4	$ (34.1)	325.3	235.3	$ (57.6)	177.7
Restricted net assets:						
Nonexpendable/Permanently	49.5	358.0	407.5	46.9	347.3	394.2
Expendable/Temporarily	87.2	214.1	301.3	92.9	182.8	275.7
Net assets at end of year	**$ 1,130.4**	**$ 538.0**	**$ 1,668.4**	**$ 1,036.8**	**$ 472.5**	**$ 1,509.3**

MANAGEMENT'S DISCUSSION AND ANALYSIS

ECONOMIC OUTLOOK

The condition of the State of Arizona's economy is a key factor impacting the University's financial position, but ASU continues to move forward with its strategic goals. State appropriations remained stable between fiscal year 2011 and fiscal year 2010, but are budgeted to decline $95 million in fiscal year 2012. State funding has not kept pace with the growth of the University, therefore ASU must rely on other revenue streams to provide high quality academic programs to its students. All revenue streams of the University reflected growth in fiscal year 2011, compared to fiscal year 2010 – except state appropriations and federal fiscal stabilization funds. Continued growth in these other revenue streams is expected in fiscal year 2012, offsetting appropriation declines.

Preliminary enrollment estimates for fall 2011 indicate ASU has a record enrollment of 72,250 undergraduate and graduate students, a 1,800 student increase over fall 2010 and a 4,200 increase over fall 2009. Included in the fall 2011 numbers are 16,000 students new to ASU as first-time freshmen or transfer students. ASU continues to build a strong partnership with the community college system throughout the State of Arizona, helping to provide a seamless transition for students transferring to ASU. Although tuition rates have increased over the past several years, the University's tuition still remains moderate when compared to its peers, and the University continues to attract top students and to house nationally recognized programs.

Uncertainty still exists regarding the national economic recovery, and more specifically the State of Arizona's economic recovery. ASU's leadership, however, has positioned the University on a path of unprecedented academic excellence and research accomplishment through sound fiscal management. Overall, the financial position of the University is favorable, and management continues to monitor economic conditions and other relevant factors as part of its critical decision-making process. ASU continues to stay focused on providing students an exceptional educational experience inspired by vision, scholarship, and creativity, while continuing to be accessible to the students of Arizona.

AUDITED FINANCIAL STATEMENTS

AND

NOTES TO FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS

June 30, 2011 *(Dollars in thousands)*

ASSETS

Current Assets:	
Cash and cash equivalent investments	$ 265,139
Short-term investments	34,186
Receivables:	
Accounts receivable, net	48,143
State of Arizona general fund appropriation	90,575
Student loans receivable	1,316
Inventories	1,613
Deferred expenses	1,209
Total Current Assets	$ 442,181
Noncurrent Assets:	
Restricted cash and cash equivalent investments	$ 175,659
Endowment investments	94,261
Other investments	79,309
Deferred outflow - Interest rate swap	10,028
Student loans receivable	11,487
Capital assets, net (Note C)	1,623,944
Total Noncurrent Assets	$ 1,994,688
Total Assets	**$ 2,436,869**

LIABILITIES

Current Liabilities:	
Accounts payable	$ 39,444
Accrued payroll and benefits	42,505
Compensated absences (Note H)	2,720
Deferred revenues	29,150
Funds held for others	10,066
Current portion of long-term debt (Note E) - Funded by:	
University operating revenues	32,515
State of Arizona appropriations and other State monies	10,206
Total Current Liabilities	$ 166,606
Noncurrent Liabilities:	
Compensated absences (Note H)	$ 23,118
Other liabilities	8,975
Derivative instrument - Interest rate swap	10,028
Long-term debt (Note E) - Funded by:	
University operating revenues	746,197
State of Arizona appropriations and other State monies	351,505
Total Noncurrent Liabilities	$ 1,139,823
Total Liabilities	**$ 1,306,429**

NET ASSETS

Invested in capital assets, net of related debt	$ 634,253
Restricted (Total of $136,757):	
Nonexpendable:	
Student aid	45,949
Academic department uses	3,564
Expendable:	
Student aid	37,042
Academic department uses	49,380
Debt service	822
Unrestricted (Note G)	359,430
Total Net Assets	**$ 1,130,440**

See Notes to Financial Statements.

STATEMENT OF FINANCIAL POSITION

June 30, 2011 *(Dollars in thousands)*

ASSETS	
Cash and cash equivalent investments	$ 22,067
Pledges receivables, net	83,789
Other receivables, net	15,694
Investments in securities	653,985
Other investments	45,940
Net direct financing leases	72,111
Property and equipment, net	375,035
Other assets	30,385
Total Assets	**$ 1,299,006**
LIABILITIES	
Accounts payable and accrued liabilities	$ 31,958
Deferred revenue	17,829
ASU endowment trust liability	94,261
Other liabilities	30,136
Long-term debt	586,851
Total Liabilities	**$ 761,035**
NET ASSETS	
Unrestricted	$ (34,119)
Temporarily restricted	214,130
Permanently restricted	357,960
Total Net Assets	**$ 537,971**

See Notes to Financial Statements.

Fall arrives on the Tempe campus.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Year ended June 30, 2011 *(Dollars in thousands)*

OPERATING REVENUES	
Student tuition and fees, net of scholarship allowances of $172,131	$ 639,324
Research grants and contracts, including $186,033 in federal grants	217,012
Sales and services -	
Auxiliary enterprises, net of scholarship allowances of $8,515	136,540
Educational departments	43,514
Other revenues	9,093
Total Operating Revenues	$ 1,045,483
OPERATING EXPENSES (Note I)	
Educational and general -	
Instruction	$ 495,815
Research	201,255
Public service	48,208
Academic support	187,435
Student services	55,244
Institutional support	124,893
Operation and maintenance of plant	83,939
Scholarships and fellowships	120,428
Auxiliary enterprises	142,492
Depreciation	97,202
Total Operating Expenses	$ 1,556,911
Operating Loss	$ (511,428)
NONOPERATING REVENUES (EXPENSES)	
State operating appropriations	$ 380,914
Federal fiscal stabilization funds	867
Share of state sales tax - technology and research initiatives fund	21,770
Financial aid grants, including $104,057 in federal grants	104,498
Grants and contracts, including $32,672 in federal grants	50,133
Private gifts	50,584
Financial aid trust funds, including $5,322 in state trust fund appropriations	9,279
Net investment return	17,130
Interest on debt	(47,505)
Other expenses	(6,980)
Net Nonoperating Revenues	$ 580,690
Income Before Other Revenues, Expenses, Gains, or Losses	$ 69,262
Capital appropriations - Research Infrastructure Capital Financing	14,472
Capital commitment - State Lottery revenues (Note E)	990
Capital grants, including $1,142 in federal grants	1,371
Capital private gifts	3,567
Additions to permanent endowments	99
Extraordinary item - Insurance recovery, net of impairment loss	3,884
Increase in Net Assets	93,645
Net Assets at Beginning of Year	1,036,795
Net Assets at End of Year	**$ 1,130,440**

See Notes to Financial Statements.

STATEMENT OF ACTIVITIES

Year ended June 30, 2011 *(Dollars in thousands)*

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
REVENUES				
Contributions	$ 11,846	$ 46,279	$ 8,180	$ 66,305
Rental revenues	38,915			38,915
Sales and services	39,381	233		39,614
Net investment return	35,998	46,270	2,015	84,283
Net assets released from restrictions	61,073	(61,532)	459	
Grants and aid	5,160			5,160
Other revenues	14,127	2		14,129
Total Revenues	$ 206,500	$ 31,252	$ 10,654	$ 248,406
EXPENSES				
Payments to the benefit of ASU -				
Cash donation transfers to ASU	$ 52,740			$ 52,740
Scholarship funds transfers to ASU	5,305			5,305
Vendor payments	4,969			4,969
Rent payments to ASU	2,458			2,458
Management and general	62,780			62,780
Interest expense	25,997			25,997
Depreciation/amortization	20,889			20,889
Other expenses	7,845			7,845
Total Expenses	$ 182,983			$ 182,983
Increase in Net Assets	23,517	31,252	10,654	65,423
Net Assets at Beginning of Year	(57,636)	182,878	347,306	472,548
Net Assets at End of Year	$ (34,119)	$ 214,130	$ 357,960	$ 537,971

See Notes to Financial Statements.

STATEMENT OF CASH FLOWS

Year ended June 30, 2011 *(Dollars in thousands)*

CASH FLOWS FROM OPERATING ACTIVITIES	
Student tuition and fees	$ 613,410
Grants and contracts (primarily federal)	219,814
Sales and services of auxiliary enterprises	136,658
Sales and services of educational activities	43,840
Payments to employees for salaries and benefits	(914,121)
Payments to vendors for supplies and services	(392,479)
Payments for scholarships and fellowships	(127,018)
Student loans issued	(1,577)
Student loans collected	1,147
Other receipts	166
Net cash used for operating activities	$ (420,160)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State operating appropriations	$ 380,916
Share of state sales tax - technology and research initiatives fund	21,731
Grants and contracts (primarily financial aid)	153,795
Private gifts for other than capital purposes	51,952
Financial aid trust funds	9,273
Direct lending program receipts	419,473
Direct lending program disbursements	(420,661)
Funds held for others received	112,655
Funds held for others disbursed	(112,029)
Other disbursements	(2,761)
Net cash provided by noncapital financing activities	$ 614,344
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital appropriations - Research Infrastructure Capital Financing	$ 14,472
Build America Bonds - federal subsidy	2,720
Capital gifts and grants	1,532
Proceeds from issuance of capital debt	89,048
Purchases of capital assets	(146,919)
Principal paid on capital debt and leases	(42,394)
Interest paid on capital debt and leases	(45,697)
Net cash used for capital and related financing activities	$ (127,238)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	$ 897
Purchases of investments	(13,617)
Interest received on investments	4,656
Net cash used for investing activities	$ (8,064)
Net increase in cash and cash equivalent investments	58,882
Cash and cash equivalent investments at beginning of year	381,916
Cash and cash equivalent investments at end of year	$ 440,798
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	$ (511,428)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	97,202
Changes in assets and liabilities:	
Increases in -	
Receivables, net	(4,335)
Deferred expenses	(59)
Compensated absences	357
Decreases in -	
Inventories	5,614
Accounts payable and accrued liabilities	(6,068)
Deferred revenues	(1,443)
Net cash used for operating activities	$ (420,160)
SIGNIFICANT NONCASH TRANSACTIONS	
State appropriations rollover	$ 90,575
Change in fair value of investments	14,238

See Notes to Financial Statements.

June 30, 2011

Note A - Organization and Summary of Significant Accounting Policies

The accounting policies of Arizona State University (ASU, 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 the largest public research university in the United States under a single administration. Located on four campuses across metropolitan Phoenix, ASU had fall 2010 enrollment of 70,440 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.

Arizona State University's discretely presented component units are 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, Arizona State University 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 84%, 73%, 98% and 71% 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 (Boards) 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 (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 four 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 separate legal 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 year 2011 was the transfer of a $4.3 million restricted gift to the Mary Lou Fulton Teachers College to support teacher preparation. Also in fiscal year 2011, the University made $14.9 million in payments for service agreements to the ASU Foundation for development activities management and support 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, 2011. 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 University's 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 fiscal 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 fiscal 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, 2011, the University implemented the provisions of GASB Statement No. 59, *Financial Instruments Omnibus*. GASB Statement No. 59 clarifies existing standards regarding financial reporting and disclosure requirements for certain financial instruments and external investment pools. The implementation of these standards had no effect on the amounts reported as revenues, expenses, or net assets on the University's financial statements.

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

Summary of Significant Accounting Policies

Cash and cash equivalent investments. In accordance with GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, 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 year 2011, the expendable rate utilized the constant growth spending methodology which increases spending distributions by the long term inflation rate each year, as long as distributions do not exceed 4.25% or fall below 3.25% of the 12 quarter average market value of each endowment fund. 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, 2011. Fair value typically is the quoted market price for investments. Investment returns include realized and unrealized gains and losses on investments.

Receivables. Total current receivables at June 30, 2011 totaled \$140.0 million, including \$90.6 million in fiscal year 2011 State of Arizona general fund appropriations. Other significant amounts included in the accounts receivable balance are \$22.9 million related to student tuition and fee payments due from students and others making payments on behalf of students; and \$2.1 million in sales tax revenues from the State of Arizona to support the Technology and Research Initiative Fund (TRIF). Additionally, there are \$2.7 million in receivables from Federal grant sponsors and \$2.0 million in nongovernmental grant sponsors, primarily for the reimbursement of allowable expenses made pursuant to the University's grants and contracts.

The State of Arizona deferred payment of \$90.6 million in fiscal year 2011 general fund rollover appropriations until fiscal year 2012. The University received the rollover appropriations in total on September 30, 2011. The revenue associated with these deferred appropriations was recorded as fiscal year 2011 state appropriations in accordance with the authorized fiscal year 2011 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.

Student loans receivable. Loans receivable from students bear interest primarily at 5% and are generally repayable in installments to the University over a ten-year period commencing nine months from date of separation from the University. Student loans receivable are recorded net of an allowance for estimated uncollectible amounts and related collection costs.

Deferred outflow/Derivative instrument - Interest rate swap. 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.

Capital assets. Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. The University's capitalization policy includes all equipment and works of art and historical treasures with a unit cost of \$5,000 or more. In addition, 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 year 2005, research buildings were depreciated using the same method still utilized for non-research buildings, which is to use the straight-line method over estimated useful lives of typically 40 years.

Compensated absences. Compensated absences are employee vacation leave balances and compensatory time earned but not used at fiscal year end. 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.

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

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

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

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

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

Revenues/Expenses. Revenues and expenses are classified as operating or nonoperating. Operating expenses are those incurred in conducting the primary programs and services of the University. 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, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities—an amendment of GASB Statement No. 34*, 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 $15.0 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 $648.6 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 $175.7 million, which are held in trust and invested by various trustee banks. In addition, endowment funds totaling $94.3 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 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 from Standard and Poor's Rating Service or Baa or better rating from Moody's Investors Service; and that commercial paper be rated by at least two nationally recognized statistical rating organizations (NRSROs) and 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. For endowment funds, the investment committee that directs the investments held in the Pool manages the credit risk associated with the Pool by following the credit quality and guideline restrictions stated in the investment policy.

Credit Quality Rating for Debt Securities at June 30, 2011 *(Dollars in thousands)*

			Standard and Poor's						
Investment Description	**Fair Value**	**Not Rated**	**AAAm**	**AAAf**	**AAA**	**AA+**	**AA-**	**A+**	**A**
Money market mutual funds	$ 363,720	$ 70,416	$ 293,304						
State of Arizona LGIP (Pool 5)	462			$ 462					
Federal agency securities	145,498				$ 145,498				
Corporate note securities	7,613				1,003	$ 2,093	$ 995	$ 2,015	$ 1,507
Total	**$ 517,293**	**$70,416**	**$ 293,304**	**$ 462**	**$146,501**	**$ 2,093**	**$ 995**	**$ 2,015**	**$ 1,507**

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 5% 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, 2011, 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 $42.1 million, $48.0 million, and $46.2 million or 6%, 7%, and 7% 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, 2011 - utilizing the weighted average maturity methods *(Dollars in thousands)*

Investment Description	**Fair Value**	**Weighted Average Maturity (Years)**
Money market mutual funds	$ 363,720	0.1
State of Arizona LGIP (Pool 5)	462	0.1
Federal agency securities	145,498	1.2
Corporate note securities	7,613	2.8
Subtotal, before U.S. Treasury securities	$ 517,293	
U.S. Treasury securities	40,441	0.9
Total	**$ 557,734**	

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.

NOTES TO FINANCIAL STATEMENTS

Note C - Capital Assets

Capital asset activity for the year ended June 30, 2011 follows:

Capital asset activity for the year ended June 30, 2011 *(Dollars in thousands)*	Balance 07/01/2010	Additions/ Increases	Retirements/ Decreases	Balance 06/30/2011
Capital assets				
Land -				
University operations	$ 70,384	$ 275	$ (1,674)	$ 68,985
Investment property	26,489	1,674		28,163
Infrastructure	114,973	1,340	(3)	116,310
Buildings	1,733,099	52,547	(2,442)	1,783,204
Construction in progress	28,481	63,545		92,026
Equipment	364,939	18,522	(11,372)	372,089
Works of art and historical treasures	17,749	908		18,657
Library books	237,776	11,106	(866)	248,016
Total	$ 2,593,890	$ 149,917	$ (16,357)	$ 2,727,450
Less accumulated depreciation:				
Infrastructure	$ 37,828	$ 2,908	$ (2)	$ 40,734
Buildings	591,094	50,291	(1,035)	640,350
Equipment	207,291	33,034	(8,835)	231,490
Library books	180,829	10,969	(866)	190,932
Total	$ 1,017,042	$ 97,202	$ (10,738)	$ 1,103,506
Capital assets, net	**$ 1,576,848**	**$ 52,715**	**$ (5,619)**	**$ 1,623,944**

Construction in progress additions reflected above represent expenses for new projects net of capital assets placed in service. It is estimated $74.0 million in additional expenses will be required to complete projects under construction at June 30, 2011. Construction in progress encumbrances committed through purchase orders at June 30, 2011, totaled $48.2 million.

Note D - Land Investment Property

As a part of the campus master planning process, certain land holdings of the University have been designated for investment purposes through commercial (nonuniversity) development by private developers pursuant to either long-term ground leases or sale, under overall coordination by the ASU Real Estate Development Office. The University expects to realize revenue from these properties that exceeds the historical book value reflected in Note C.

The University's investment property includes the following:

Rio Salado Land. The Rio Salado land consists of 24.7 acres, not needed for University facilities, which are on the Rio Salado River along the Tempe Town Lake. The property is divided 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, not University use.

During fiscal year 2007 ASU entered into an agreement to lease the 15.2 acres of the Rio Salado land west of Rural Road. The lease option agreement for the 15.2 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. There are other possible financial payments due to the University after construction of buildings on the properties. To date no construction projects have commenced.

ASU has a remote contingent liability for three major capital project improvements (drainage, access and utility roadwork and relocating power lines) to these sites. The cost of these projects would not be material to the University's overall financial position. If ASU became liable for any of these improvements, the intent of ASU would be to have a new developer reimburse ASU for these capital costs.

ASU at the West campus. The West campus investment property consists of approximately 64 acres on the northeast perimeter of West campus at the corner of two major streets. The highest and best use of the investment land is mixed-use, including commercial office and retail, and non-university affiliated multi-family residential. This land is presently vacant and will not be needed for University facilities for the contemplated full build out of West campus. West campus, exclusive of the approximately 64 acres for investment purposes, consists of 236 acres.

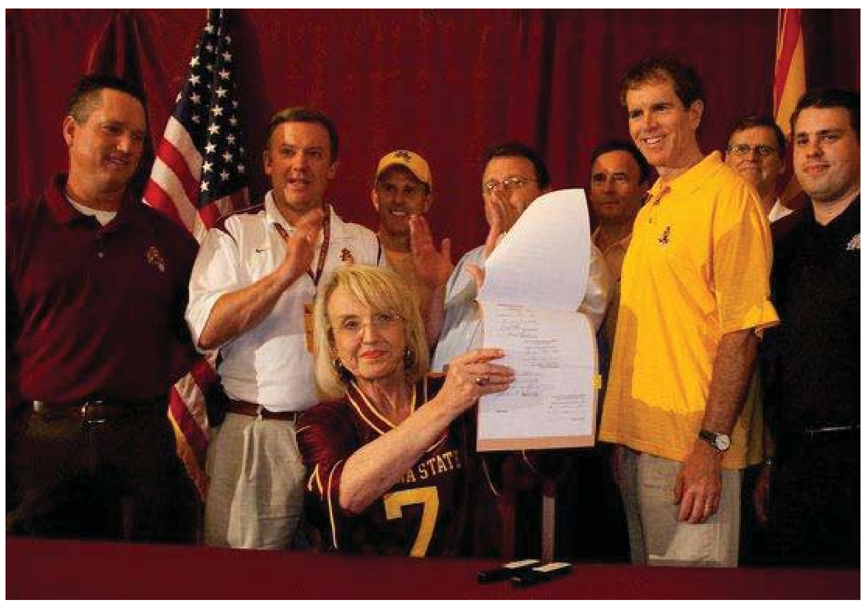
ASU at the Polytechnic campus. Per the Consent to Transfer Agreement dated December 6, 2007 between the federal government and the University, 384.6 acres located at the Polytechnic campus are effectively available for investment purposes (commercial development). The land is on the perimeter of the campus directly accessible from major streets. Exclusive of the 384.6 acres intended for future investment purposes, the Polytechnic campus consists of approximately 228.4 acres.

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, the Park land is either occupied by or presently available for occupancy by 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 $1.9 million, after all costs, annually being generated for ASU.

Other Investment Property. Consists of:

- 9.0 acres at the intersection of Loop 101/202 freeways and the Rio Salado Parkway, several miles from the Tempe campus.
- 22.5 acres in Tempe, known as the Community Services Building site, located about two miles from the Tempe campus. Limited university operations are temporarily housed in the Community Services Building, with the best use of the site being commercial development.
- 6.6 acres in Tempe, known as Gateway, is primarily vacant commercial land located adjacent to the Tempe campus.
- 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 is located. This Center is not financially viable as a performing arts center and has been made available for sale.

Governor Jan Brewer signed into law legislation which allows the Arizona Board of Regents to set up a University Athletic Facilities District (UAFD). The UAFD will collect revenues from commercial lease assessments which will be used for new or existing athletic facilities at public universities.



Note E - Long-Term Debt and Lease Obligations

At June 30, 2011, the University had issued a combination of fixed and variable rate bonds, fixed rate certificates of participation (COPs) and other lease obligations. The University's long-term obligations include various issues of revenue bonds and COPs that are generally callable at a prescribed date with interest payable semi-annually. Certain 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 defeased bonds and COPs outstanding at June 30, 2011 was $36.1 million and $65.4 million, respectively.

NOTES TO FINANCIAL STATEMENTS

Bonds Payable, Certificates of Participation and Other Lease Obligations at June 30, 2011 *(Dollars in thousands)*	**Average Interest Rate**	**Final Maturity**	**Balance 07/01/2010**	**Additions**	**Reductions**	**Balance 06/30/2011**	**Current Portion**
Bonds:							
2000 System Revenue Bonds	5.87%	07/01/11	$ 970		$ (470)	$ 500	$ 500
2002 System Revenue Bonds	4.95%	07/01/27	35,690		(2,535)	33,155	2,635
2002 System Revenue Refunding Bonds	4.21%	07/01/19	92,025		(11,855)	80,170	12,535
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	31,430		(2,735)	28,695	2,875
2005 System Revenue Refunding Bonds	4.38%	07/01/27	48,465		(225)	48,240	230
2007 A/B System Revenue Bonds	4.46%	07/01/36	72,460		(2,735)	69,725	2,850
2008 A/B Variable Rate Demand System Revenue Refunding Bonds	0.05%	07/01/34	103,680		(2,175)	101,505	2,295
2008C System Revenue Bonds	5.89%	07/01/28	104,100		(1,810)	102,290	1,880
2009A System Revenue Bonds	3.76%	07/01/29	36,250		(2,435)	33,815	2,795
2010 A/B System Revenue Bonds	5.99% [1]	07/01/39	178,350			178,350	
2010 A/B SPEED Revenue Bonds	5.48% [2]	08/01/30		$ 33,820		33,820	
2010C System Revenue Bonds	4.51%	07/01/31		51,890		51,890	
Subtotal: Par Amount of Bonds			$ 710,550	$ 85,710	$ (26,975)	$ 769,285	$ 28,595
Certificates of Participation:							
1991 Towers Project (through the ASU Foundation)	6.89%	07/01/10	$ 415		$ (415)		
1999A Downtown Center	5.78%	07/01/24	4,265		(4,265)		
1999B Downtown Center	8.02%	07/01/24	4,170		(4,170)		
2002 Certificates of Participation	4.76%	07/01/26	18,185		(4,055)	14,130	4,210
2004 Certificates of Participation	4.89%	09/01/30	74,350		(2,100)	72,250	2,175
2005A Certificates of Participation	4.36%	09/01/30	101,550		(3,050)	98,500	3,150
2006 Certificates of Participation	4.52%	06/01/31	14,450		(455)	13,995	475
2006 Refunding Certificates of Participation	4.15%	07/01/26	64,580			64,580	
2011A Mercado Refunding Certificates of Participation	4.27%	07/01/24		$ 8,465		8,465	
Subtotal: Par Amount of COPs			$ 281,965	$ 8,465	$ (18,510)	$ 271,920	$ 10,010
Capital Leases/Lease Purchases:							
Fulton Center	4.84%	06/15/34	$ 26,975		$ (650)	$ 26,325	$ 670
Flexible Display Center	5.27%	02/15/34	34,200		(748)	33,452	788
Hassayampa Academic Village	5.36%	06/10/39	12,392		(58)	12,334	72
Nursing and Health Innovation	4.84%	01/01/36	10,000	$ 70		10,070	
Other Lease Purchases	2.64% - 6%	07/01/19	13,043	1,153	(3,685)	10,511	2,586
Subtotal: Capital Leases/Other Lease Purchases			$ 96,610	$ 1,223	$ (5,141)	$ 92,692	$ 4,116
Total Par Amount of Bonds, COPs, Capital Leases and Other Lease Purchases			$ 1,089,125	$ 95,398	$ (50,626)	$ 1,133,897	$ 42,721
Premium/(Discount) on Sale of Bonds and COPs			13,637	3,135	(2,729)	14,043	
Deferred Amount on Refundings			(7,880)	(338)	701	(7,517)	
Total Bonds Payable/COPs/ Capital Leases/ Other Lease Purchases			**$1,094,882**	**$ 98,195**	**$ (52,654)**	**$ 1,140,423**	**$ 42,721**

[1] The average interest rate net of the Build America bonds federal direct payment subsidy is 3.94%.
[2] The average interest rate net of the Build America bonds federal direct payment subsidy is 3.74%.

System Revenue Bonds

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, 2011. 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, 2011, pledged revenues totaled $876.8 million of which 6.9 percent ($60.9 million, net of federal direct payments and Arizona state lottery revenue) 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 and the Series 2010 A/B SPEED revenue bonds. Research Park bonds outstanding at June 30, 2011 were $9.4 million with annual debt service payments of approximately $1.2 million through July 1, 2021. SPEED revenue bonds outstanding at June 30, 2011 were $33.8 million with annual debt service payments of approximately $1.2 million through June 30, 2016 and $3.0 million through August 1, 2030, net of the federal direct payments.

In February 2011, the University issued $51.9 million in system revenue bonds having an average maturity of 10.1 years and an average interest rate of 4.51 percent. The bonds were issued to fund the acquisition of the Centerpoint office building, Tempe Student Heath Center expansion, and various building and campus improvement projects.

SPEED Revenue Bonds

In June 2008, the State of Arizona Legislature approved the Stimulus Plan for Economic and Educational Development (SPEED) which provides Arizona universities with capital improvement funds for critical construction and deferral maintenance projects. SPEED projects are debt financed with revenue bonds, repaid primarily through State of Arizona lottery revenues. Specifically, up to 80 percent of SPEED debt service is paid from State of Arizona lottery revenues, with the balance being the responsibility of the University as evidenced by the subordinated pledge of University revenues. In August 2010, the University issued $33.8 million in SPEED subordinate lien revenue bonds, 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 15.3 years and an average interest rate of 3.87 percent, 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 2.9 percent.

Variable Rate Bonds

The University has outstanding two series of variable rate demand system revenue refunding bonds, Series 2008A and B, totaling $101.5 million with final maturities of July 1, 2034. The interest rate in effect on June 30, 2011 was 0.05 percent for the Series 2008A and B bonds. 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 under which the University has agreed to pay Lloyds TSB Bank PLC, an annual commitment fee for the letter of credit of 1.55 percent per annum on the stated amount which consists of the outstanding principal amount of the bonds, plus interest for 51 days, at an assumed rate of 12 percent per annum. The LOC expires on June 15, 2012 and the University is in the process of entering into a new LOC agreement. Assuming all of the $50.7 million Series 2008A and $50.8 million Series 2008B bonds are not resold within 90 days, the University would be responsible to make quarterly installment principal payments of $5.1 million over a five-year period, plus interest to be calculated as established in the letter of credit.

Certificates of Participation (COPs)

In April 2011, the University issued $8.5 million of refunding COPs to call all outstanding 1999A/B Downtown Campus Mercado COPs. The refunded debt is considered defeased and related liabilities are not included in the University's financial statements. The issuance of refunding COPs, with an average maturity of 7.7 years and an average interest rate of 4.27 percent, resulted in a $1.4 million reduction in future debt service payments, with an economic gain of $1.2 million based upon the present value savings.

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, to lease 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, 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 34 year lease with McAllister Academic Village, LLC, an Arizona limited liability company, whose sole member is ACFFC, to lease the nonresidential portion of the McAllister Academic Village (MAV), which operates under the name of Hassayampa Academic Village. ACFFC has overall responsibility for the residential portion, comprising approximately 92 percent of the facility, 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 ASU's Downtown Phoenix campus. In June 2011, the City of Phoenix issued subordinated excise tax revenue bonds, a portion of which was used to fund the project. The University's lease payments are based on the City's actual borrowing of the bonds.

Buildings under capital lease are shown below.

Capital lease book value as of June 30, 2011 *(Dollars in thousands)*			
	Book Value	**Accumulated Depreciation**	**Net Book Value**
Fulton Center	$ 29,493	$ (5,599)	$ 23,894
Flexible Display Center	36,421	(6,393)	30,028
Hassayampa Academic Village	12,451	(1,525)	10,926
Nursing and Health Innovation	11,643	(342)	11,301

Future Payments

Securities and cash restricted for bonds and COPs debt service held by the trustee at June 30, 2011 totaled $49.4 million and $6.3 million, respectively. Payment commitments to investors, including interest, for bonds, COPs and other lease obligations, using the interest rate in effect at June 30, 2011 for variable rate issues, are shown below:

Bonds Payable, Certificates of Participation and Other Lease Obligations at June 30, 2011 *(Dollars in thousands)*

	System Revenue Bonds			**Certificates of Participation**		**Capital Leases**		**Other Lease Purchases**	
Fiscal Year	**Principal**	**Interest**	**Net Payments on Swap Agreement**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
2012	$ 28,595	$ 35,051	$ 3,791	$ 10,010	$ 12,634	$ 1,530	$ 4,130	$ 2,586	$ 508
2013	31,215	32,567	3,699	10,930	12,184	1,610	4,028	2,196	404
2014	37,915	30,954	3,602	11,440	11,640	1,700	3,948	1,685	307
2015	39,670	29,243	3,501	11,970	11,085	2,077	3,867	1,319	227
2016	37,830	27,516	3,395	12,535	10,512	2,193	3,767	720	159
2017-2021	163,035	116,376	15,187	72,040	42,817	12,963	17,035	2,005	238
2022-2026	176,800	78,430	11,620	74,825	24,338	16,956	13,406		
2027-2031	135,545	38,341	7,070	68,170	6,997	21,884	8,861		
2032-2036	77,520	19,197	1,552			18,454	3,001		
2037-2040	41,160	3,850				2,814	287		
Total	**$ 769,285**	**$ 411,525**	**$ 53,417**	**$ 271,920**	**$ 132,207**	**$ 82,181**	**$ 62,330**	**$ 10,511**	**$ 1,843**

Funding responsibility for the June 30, 2011 outstanding debt *(Dollars in thousands)*			
	Current Portion	**Noncurrent Portion**	**Total**
From Arizona State University operating revenues	$ 32,515	$ 746,197	$ 778,712
From State of Arizona appropriations and other State monies	10,206	351,505	361,711
	$ 42,721	**$ 1,097,702**	**$ 1,140,423**

The University presently plans to issue up to $136 million in senior lien system revenue bonds and $32 million in subordinate lien SPEED bonds during fiscal year 2012.

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. The majority 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. In June 2006, the University entered in a 15 year lease, for approximately 80,000 square feet of office space within a development known as SkySong. SkySong is being developed by the ASU Foundation and its partners 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, research and student activity space.

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

Fiscal Year	Operating Lease Payments			
	Brickyard	SkySong	Other	Total
2012	$ 3,125	$ 2,166	$ 2,071	$ 7,362
2013	3,115	2,212	1,592	6,919
2014	3,114	2,260	1,540	6,914
2015	3,107	2,309	1,137	6,553
2016	3,110	2,360	642	6,112
2017-2021	9,281	12,620	1,330	23,231
2022-2026		3,151		3,151
Total	**$ 24,852**	**$ 27,078**	**$ 8,312**	**$ 60,242**

Subsequent Event

In September 2011, ABOR approved a lease agreement between the University and the Lake Havasu Unified School District (School District) for the School District to provide facilities to support a Colleges@ASU Lake Havasu campus. The Colleges@ASU at Lake Havasu campus will provide select high-demand ASU undergraduate degree programs in a classroom setting to students outside of the Phoenix metropolitan area. The School District will lease available facilities to the University rent-free for five years, with renewals of five years available at the University's option with rental charges tied to ASU enrollment at the Lake Havasu campus and the School District's need for additional space.

Note F - Interest Rate Swap Agreement

Effective January 1, 2007, the University entered into a $103.0 million notional amount swap agreement (hedging derivative instrument) expiring on July 1, 2034, in conjunction with 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 convert the variable rate interest on the 2008 Bonds to a synthetic fixed rate. 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, 2011 was 0.09 percent. At June 30, 2011, 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	(0.09)
Net interest rate swap payments		3.82
Variable rate bond coupon payments	Spread to SIFMA	0.05
Synthetic fixed interest rate on bonds		3.87

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 paying 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.

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. 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.

As of June 30, 2011, 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, 2011. 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.

As of June 30, 2011, the swap had a fair value of $(10.0) million, which represents the cost to the University to terminate the swap. The June 30, 2010 fair value was $(11.1) million. 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. In accordance with GASB 53, *Accounting and Financial Reporting for Derivative Instruments*, the fair value of the University's hedging derivative instrument is reported on the statement of net assets as an asset (deferred outflows) and a liability (derivative instrument).

NOTES TO FINANCIAL STATEMENTS

Note G - Unrestricted Net Assets

As discussed in the Summary of Significant Accounting Policies, the University follows accounting standards for external reporting purposes that 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, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities—an amendment of GASB Statement No. 34*, 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, 2011, substantially all of the University's unrestricted net assets were from University generated revenues and were internally designated for academic and research programs and initiatives, and capital projects.

Note H - 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, 2011 consisted of the following (Dollars in thousands):

Balance 07/01/2010	$ 25,481
Additions	41,752
Reductions	(41,395)
Balance 06/30/2011	$ 25,838
Current Portion	$ 2,720

Note I - Operating Expenses by Classification

Operating expenses by functional and natural classification for the year ended June 30, 2011, are summarized as follows (Dollars in thousands):

	Year ended June 30, 2011				
	Personal Services and Benefits	Supplies and Services	Student Aid	Depreciation	Total
Instruction	$ 440,619	$ 50,459	$ 4,737		$ 495,815
Research	133,494	65,002	2,759		201,255
Public service	28,418	18,890	900		48,208
Academic support	130,251	56,989	195		187,435
Student services	40,128	14,978	138		55,244
Institutional support	68,668	55,409	816		124,893
Operation and maintenance of plant	28,806	55,133			83,939
Scholarships and fellowships	1,409	319	118,700		120,428
Auxiliary enterprises	46,853	90,647	4,992		142,492
Depreciation				$ 97,202	97,202
Total Operating Expenses	**$ 918,646**	**$ 407,826**	**$ 133,237**	**$ 97,202**	**$ 1,556,911**

Note J - Retirement Plans

At June 30, 2011 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 retirement plans with $1.0 million in total University and employee contributions for the year ended June 30, 2011.

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. The 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 ASRS 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, 2011, active plan members were required by statute to contribute at the actuarially determined rate of 9.85% (9.60% for retirement and 0.25 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 9.85% (9.01% for retirement, 0.59 percent for health insurance premium, and 0.25 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
2011	$ 23,825	$ 1,560	$ 664	$ 26,049
2010	21,578	1,708	1,039	24,325
2009	20,429	2,455	1,278	24,162

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, 2011, 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 upon termination of employment, death, or retirement. The distribution of contributions and associated investment earnings are made in accordance with the employee's contract with the applicable insurance and annuity company.

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, 2011, 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, 2011, were as follows (Dollars in thousands):

	Contribution Rates (Each)	University Contributions	Employee Contributions	Total Contributions
TIAA/CREF	7.00%	$ 13,498	$ 13,498	$ 26,996
VALIC	7.00%	1,591	1,591	3,182
Fidelity	7.00%	6,123	6,123	12,246

NOTES TO FINANCIAL STATEMENTS

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 July 1, 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.

On April 16, 2011, ASU and the Pat Tillman Foundation hosted 28,000 participants in the 7th annual Pat's Run to honor the legacy of ASU alumnus, Pat Tillman, who died serving his country in Afghanistan. While playing for ASU, Tillman wore jersey 42 which is themed throughout the 4.2 mile run that finishes on the 42 yard line in Sun Devil Stadium. The Pat Tillman Foundation supports veterans and their families through the Tillman Military Scholars scholarship program.

Note L - Insurance Program and Legal Matters

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

In the opinion of University management, any losses from the resolution of any other pending claims or litigation not covered by the Risk Management Section should not have a material effect on the University's financial statements. Also, in accordance with the disclosure requirements of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, all estimated losses for unsettled claims and actions of the State are determined on an actuarial basis and are included in the State of Arizona Comprehensive Financial Report.

Legal Matters. In 2005, Dr. George Pettit sued the Arizona Board of Regents (Board), the University, and various other defendants based on the University's nonrenewal of his appointment as the Director of the Cancer Research Institute (CRI) and his removal as the holder of the Dalton Chair of Cancer Research and Medicinal Chemistry. Over the last six years all of Dr. Pettit's numerous claims have been dismissed voluntarily or involuntarily as to all defendants with the exception of one count alleging a denial of due process pending against the current provost in her official capacity. Monetary damages are not available as to this claim. That claim was tried to the federal district court in March 2011. Following post-trial briefing, the court ruled on September 27, 2011, that Dr. Pettit had no claim related to the CRI directorship and that he is not entitled to reinstatement to the Dalton Chair. The court did hold that Dr. Pettit is entitled to a hearing regarding his removal as the Dalton Chair. Appeals to the 9th Circuit Court of Appeals are expected.

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 for further proceedings consistent with its decision. The Supreme Court of Arizona did not accept a petition for review. The matter is now awaiting further proceedings on the determination of navigability. The University cannot predict the outcome at this time, but intends to continue to vigorously defend the position of nonnavigability of the Salt River. If these 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.

Ross - Blakley Law Library at sunset.

NOTES TO FINANCIAL STATEMENTS

Note M - Privatized Student Housing

American Campus Communities. In December 2006, the University entered into 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 completion of the projects, ACC transferred title to the facilities 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, completed in 2008, consists of approximately 1,800 apartment-style beds, with amenities such as a pool, community center, parking garage, and retail space.
- Barrett Honors College provides housing and academic space for the Barrett Honors College including approximately 1,700 beds, classrooms, faculty offices, and dining.

As of October 2011, the University is finalizing three separate ground leases with ACC for residential housing projects on the Tempe and West campuses. During the term of the ground leases, 65 years with two 10-year options to renew, ACC is responsible for all costs and expenses of operating and maintaining the housing facilities. ACC will provide approximately $86 million for construction of the three housing projects. ASU has no obligation to support the facilities financially or to guarantee occupancy. A brief description of each project follows.

- Ocotillo Hall, as it previously existed, has been demolished. The Villas, an expansion of the Vista del Sol complex, will add approximately 400 beds intended for upper-classmen and will provide a mix of apartment-style housing and townhome units. Residents will have access to existing Vista del Sol amenities, such as the pool and community center.
- Manzanita Hall, constructed in 1967, is considered a community and campus landmark due to its unique architecture. The proposed renovation plan will replace existing building systems and reconfigure room layouts. The project with approximately 800 beds will serve as first-year student housing.
- The West campus housing project will provide 365 beds for first-year student housing. This is the initial phase of planned housing construction at the West campus.

Inland American Communities. In July 2011, ASU entered into a ground lease with Inland American Communities (IAC) for development of student housing on the Polytechnic campus that will serve approximately 300 students. During the term of the ground lease, 65 years with two 10-year options to renew, IAC is responsible for all costs and expenses of operating and maintaining the housing project. The University has no obligation to support the facility financially or to guarantee occupancy.

In June 2011 ASU's softball team won the NCAA Women's College World Series title. This is the second NCAA softball title for ASU in the last four years.

Image Credit: Corinne Calabro

Note N - Component Units (Financially Related 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, Arizona State University 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 according to generally accepted accounting principles (GAAP). Information regarding their financial position and activities is reported 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 ACFFC, qualify as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code 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 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 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, 2011.

Pledges receivable consist of *(Dollars in thousands)*

	ASU Foundation	Sun Angel Foundation	Other Component Units	Total
Gross pledges receivable	$ 130,948	$ 8,005	$ 448	$ 139,401
Present value discount	(12,270)	(471)	(8)	(12,749)
Allowance for uncollectible pledges	(42,038)	(732)	(93)	(42,863)
Net pledges receivable	**$ 76,640**	**$ 6,802**	**$ 347**	**$ 83,789**

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, 2011 and 2010, gross unconditional pledges receivable from these members included approximately $34.2 million and $34.6 million, respectively. The Foundation had conditional pledges receivable totaling $7.3 million at June 30, 2011; 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	$ 40,578	$ 4,141	$ 189	$ 44,908
Receivable in two to five years	62,642	2,786	259	65,687
Receivable after five years	27,728	1,078		28,806
Total gross pledges to be received	**$ 130,948**	**$ 8,005**	**$ 448**	**$ 139,401**

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, 2011 is $26.3 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 $33.5 million at June 30, 2011.

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 $12.3 million at June 30, 2011.

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 based on a constant growth formula, in which the amount available for spending is based on the prior year spending amount plus an inflation factor (currently 3%), collared by a cap and floor of 4.25% and 3.25%, respectively, of a 12-quarter moving average calculated mid-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 ASU 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 assets were transferred to the Foundation's Endowment 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	$ 40,857	$ 19,816	$ 22,039	$ 82,712
Equities:				
Domestic	120,997			120,997
International	108,681			108,681
Total equities	229,678			229,678
Fixed Income	120,415			120,415
Mutual funds:				
Equity mutual funds			4,131	4,131
Inflation hedge	153,052			153,052
Emerging markets	29,561			29,561
Total mutual funds	182,613		4,131	186,744
Other securities	16,678		17,758	34,436
Other investments	44,195	549	1,196	45,940
Total investments	**$ 634,436**	**$ 20,365**	**$ 45,124**	**$ 699,925**

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		$ 75		$ 75
Buildings and improvements	$ 17,397	203,011	$ 114,481	334,889
Furniture, fixtures, and equipment	7,649	81,630	15,217	104,496
Leasehold improvements			29,922	29,922
Other property and equipment		732		732
Total cost or donated value	25,046	285,448	159,620	470,114
Accumulated depreciation	(7,726)	(58,972)	(28,381)	(95,079)
Net property and equipment	**$ 17,320**	**$ 226,476**	**$ 131,239**	**$ 375,035**

Bonds and Obligations under Capital lease

Bonds payable consist of *(Dollars in thousands)*	**Final Maturity**	**ASU Foundation**	**ACFFC**	**Downtown Phoenix Student Housing, LLC**	**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		10,755			10,755
Series 2008 Revenue Bonds (ASU Energy Center)	2028		15,770			15,770
Series 2008 Revenue Refunding Bonds (Hassayampa Academic Village)	2039		144,655			144,655
Series 2008 Variable Rate Demand Revenue Refunding Bonds (Sun Devil Energy Center)	2030		49,410			49,410
Series 2007 A&C Revenue Bonds	2042			$ 119,040		119,040
Series 2007 B Revenue Bonds	2012			785		785
Series 2007 D Tax-Exempt Revenue Bonds	2042			22,700		22,700
Series 2006 Development Refunding Bonds (ASU Research Park)	2021				$ 9,445	9,445
Series 2005 Tax-Exempt Refunding Bonds (West Campus Housing)	2035		15,955			15,955
Series 2004A Variable Rate Revenue Bonds (Brickyard)	2034	$ 22,420				22,420
Series 2004B Variable Rate Revenue Bonds (Brickyard)	2022	9,315				9,315
Series 2003 Lease Revenue Bonds (Fulton)	2034	45,180				45,180
Series 2003 Revenue Bonds (Adelphi II, Tempe campus housing)	2035		12,985			12,985
Series 2002 Revenue Bonds (Energy Management Services)	2018		20,760			20,760
Series 2001A Revenue Bonds (Mesa Student Housing, LLC)	2032				18,440	18,440
Series 2000 Revenue Bonds (Adelphi I, Tempe campus housing)	2032		9,675			9,675
Capital Lease	2011	763				763
Unamortized bond premium (discount)			(3,941)	(1,182)	(274)	(5,397)
		$ 77,678	**$ 340,219**	**$ 141,343**	**$ 27,611**	**$ 586,851**

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**	**Downtown Phoenix Student Housing, LLC**	**Other Component Units**	**Total**
2012	$ 1,988	$ 8,455	$ 600	$ 1,210	$ 12,253
2013	1,755	8,995	655	1,265	12,670
2014	1,835	9,580	430	1,320	13,165
2015	1,940	10,225	610	1,385	14,160
2016	2,035	10,920	950	1,455	15,360
Thereafter	68,125	292,044	138,098	20,976	519,243
	$ 77,678	**$ 340,219**	**$ 141,343**	**$ 27,611**	**$ 586,851**

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:

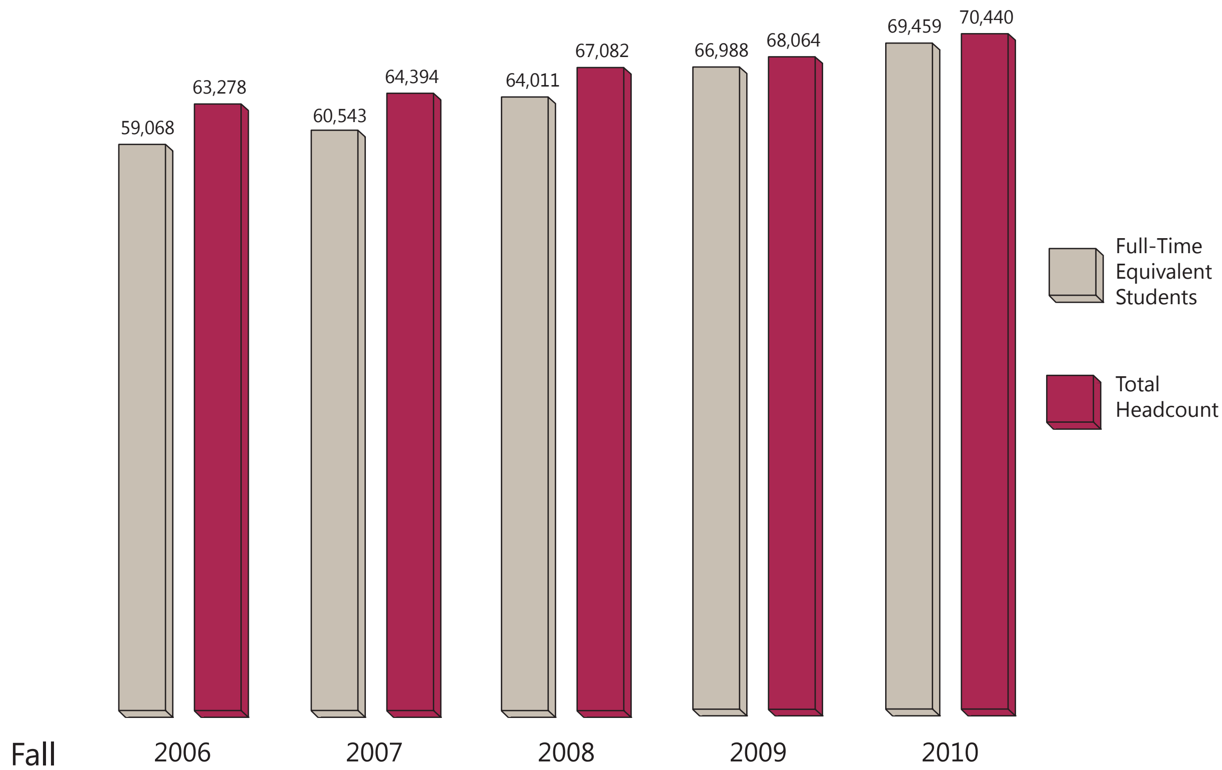
Component Units
Statement of Financial Position
June 30, 2011
(Dollars in thousands)

	ASU Foundation	ACFFC	Other Component Units	Total
Assets				
Investments	$ 634,436	$ 20,365	$ 45,124	$ 699,925
Property and equipment, net	17,320	226,476	131,239	375,035
Other assets	133,406	54,387	36,253	224,046
Total assets	$ 785,162	$ 301,228	$ 212,616	$ 1,299,006
Liabilities				
ASU endowment trust liability	$ 94,261			$ 94,261
Long-term debt	77,678	$ 340,219	$ 168,954	586,851
Other liabilities	37,341	9,297	33,285	79,923
Total liabilities	$ 209,280	$ 349,516	$ 202,239	$ 761,035
Net Assets				
Unrestricted	$ 15,921	$ (48,288)	$ (1,752)	$ (34,119)
Temporarily restricted	203,843		10,287	214,130
Permanently restricted	356,118		1,842	357,960
Total net assets (deficit)	**$ 575,882**	**$ (48,288)**	**$ 10,377**	**$ 537,971**

Component Units
Statement of Activities
Year ended June 30, 2011
(Dollars in thousands)

	ASU Foundation	ACFFC	Other Component Units	Total
Revenues				
Contributions	$ 54,070		$ 12,235	$ 66,305
Rental revenues	1,416	$ 17,786	19,713	38,915
Sales and services	23,344	8,865	7,405	39,614
Net investment return	80,461	140	3,682	84,283
Other revenues	2,553	8,441	8,295	19,289
Total revenues	$ 161,844	$ 35,232	$ 51,330	$ 248,406
Expenses				
Payments to the benefit of ASU	$ 52,458	$ 345	$ 12,669	$ 65,472
Management and general	25,541	10,172	27,067	62,780
Depreciation/amortization and interest expense	4,050	27,375	15,461	46,886
Other expenses	6,611	(987)	2,221	7,845
Total expenses	$ 88,660	$ 36,905	$ 57,418	$ 182,983
Increase/(Decrease) in net assets	73,184	(1,673)	(6,088)	65,423
Net assets (deficit), beginning of year	502,698	(46,615)	16,465	472,548
Net assets (deficit), end of year	**$ 575,882**	**$ (48,288)**	**$ 10,377**	**$ 537,971**

SUPPLEMENTARY INFORMATION



Degrees Granted in Academic Year 2010-2011

Undergraduate	12,194
Graduate	4,896
	17,090

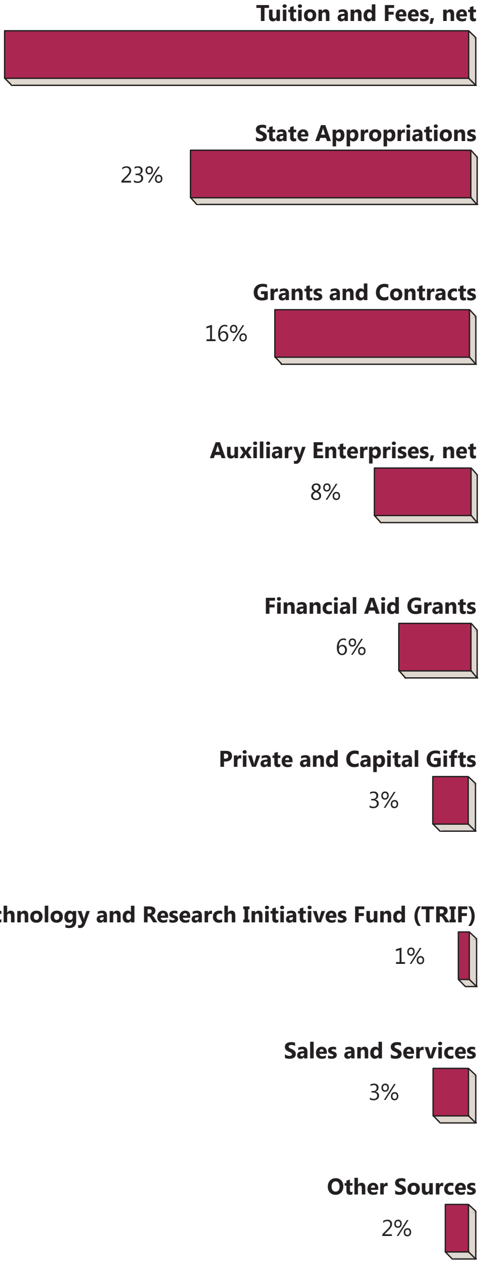
Fall 2010 Enrollment

Undergraduate	56,562
Graduate	13,878
Resident (Arizona)	51,128
Non-Resident	19,312

COMBINED SOURCES AND USES

Sources

For the year ended June 30, 2011 *(Dollars in millions)*



Tuition and Fees, net	38%	**$ 639.3**	Includes $811.4 million in tuition and fees, net of $172.1 million in scholarship allowances.
State Appropriations	23%	**395.4**	Represents State of Arizona legislative appropriations for operations of the University and $14.5 million in appropriations for research infrastructure capital financing.
Grants and Contracts	16%	**269.3**	Primarily consists of federal grants and contracts for research activities ($219.8 million). Also includes federal fiscal stabilization funds ($0.8 million).
Auxiliary Enterprises, net	8%	**136.6**	Represents operations of essentially self-supporting activities such as bookstore, intercollegiate athletics, residential halls, and parking.
Financial Aid Grants	6%	**104.5**	Represents governmental and nongovernmental grants for financial aid programs. For fiscal year 2011 federally funded grants totaled $104.1 million.
Private and Capital Gifts	3%	**54.2**	Voluntary private support from individuals, foundations, and corporations, including $3.6 million in capital gifts.
Technology and Research Initiatives Fund (TRIF)	1%	**21.8**	TRIF is generated from sales tax revenue. TRIF revenue received by ASU is primarily used to support the research efforts of the ASU Biodesign Institute.
Sales and Services	3%	**43.5**	Sales and services of educational departments, including ASU-hosted national and international conferences and programs.
Other Sources	2%	**40.4**	Includes net investment returns, financial aid trust fees, State lottery revenues and insurance recovery proceeds.
Total Sources		**$ 1,705.0**	

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	42%	**$ 683.2**	Consists of (1) instruction expenses totaling $495.8 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 $187.4 million, which include libraries, academic information technology support, and academic administration.
Research and Public Service	16%	**249.5**	Includes (1) direct research expenses of $201.3 million for activities specifically organized to produce research outcomes, and (2) public service expenses of $48.2 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	11%	**175.7**	Consists of (1) direct student services expenses totaling $55.2 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 $120.5 million, which includes federally funded Pell grants and institutionally awarded merit and need-based scholarships, net of scholarship allowances.
Institutional Support	8%	**124.9**	Includes financial operations, human resources, public safety, environmental health and safety, and administrative information technology support.
Operation and Maintenance of Plant	5%	**83.9**	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%	**142.5**	Consists of departments managed as essentially self-supporting activities that furnish services to students and staff for a fee directly related to, but not necessarily equal to, the cost of the service.
Depreciation	6%	**97.2**	Depreciation is computed using the straight-line method over the estimated useful life of each asset. Depreciation for buildings was $50.3 million and was primarily related to academic and research buildings.
Other Expenses	3%	**54.5**	Consists primarily of interest payments on outstanding debt.
Total Uses		**$ 1,611.4**	

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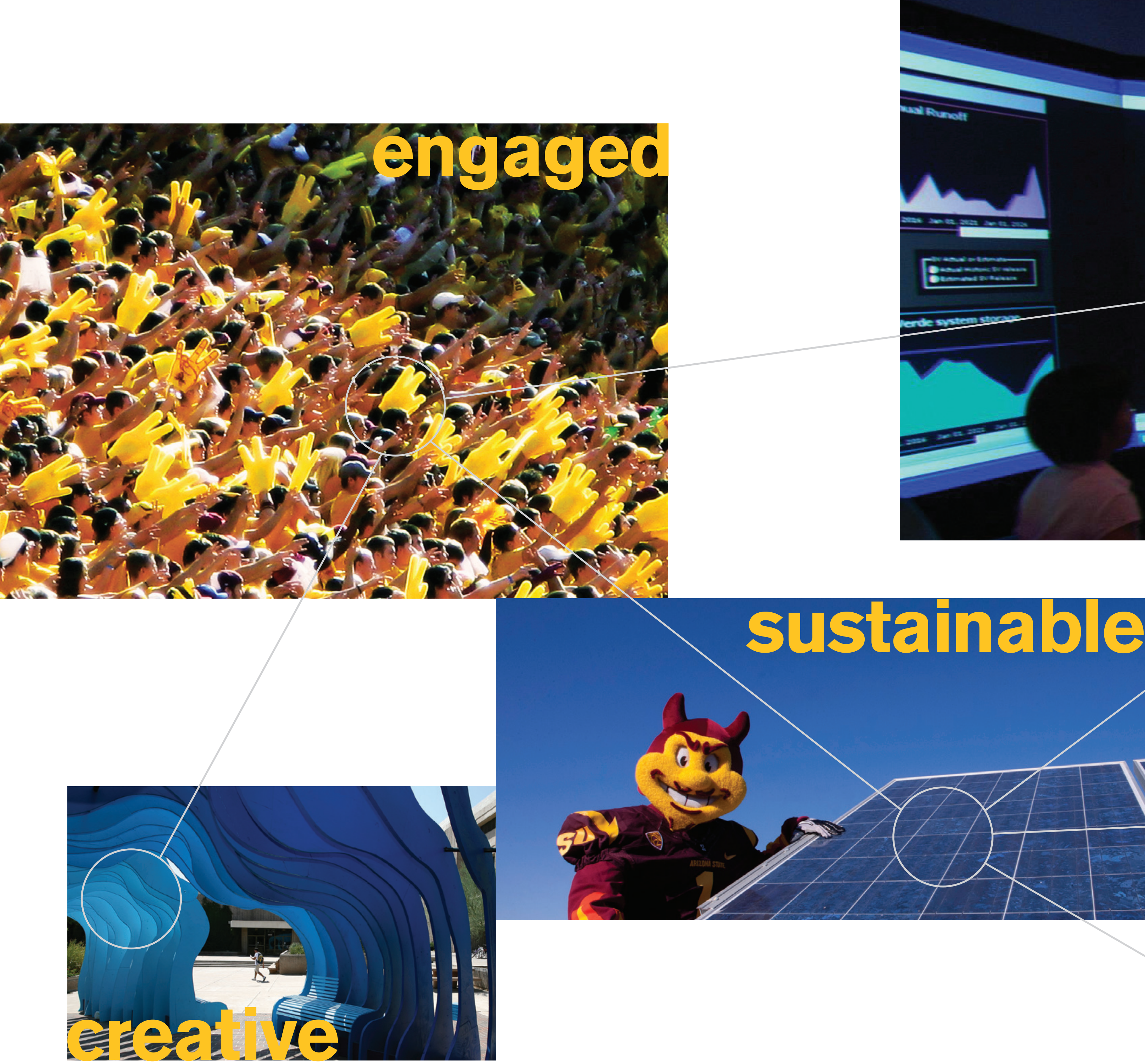

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