ARIZONA STATE UNIVERSITY

2002 Financial Report

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Arizona State University ("ASU") has emerged as a leading national and international research and teaching institution. It is located in the dominant population center of Arizona, in the metropolitan Phoenix area. This rapidly growing public research institution offers programs for over 52,000 full-time and part-time students. Arizona State University is a modern university that applies its research capabilities to the rapidly evolving needs of the State of Arizona.

The goal of Arizona State University is to become one of the very best universities in the nation. Its mission is to provide outstanding programs in instruction, research, and creative activity, to promote and support economic development, and to provide service appropriate for the nation, the State of Arizona, and the State's major metropolitan area. To fulfill its mission, ASU places special emphasis on the core disciplines and offers a full range of degree programs - baccalaureate through doctorate. To become one of the very best universities, ASU recognizes that it must offer quality programs at all degree levels in a broad range of fundamental fields of inquiry. ASU will continue to dedicate itself to superior instruction; to excellent student performance; to original research, creative endeavor, and scholarly achievement; and to outstanding public service and economic development activities.

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ARIZONA STATE UNIVERSITY

2002 Financial Report

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The following discussion and analysis provides an overview of the financial position and activities of Arizona State University ("ASU", "the University") for the year ended June 30, 2002. This discussion has been prepared by management and should be read in conjunction with the accompanying financial statements and notes. The June 30, 2001 amounts shown are for comparison purposes only, and have not been subject to audit.

Using the financial statements

The University's 2002 Financial Report includes three financial statements: the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. These statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles. As required by GASB, the University adopted GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, as amended by GASB Statement No. 37. The University also adopted GASB Statement No. 38, which requires new and revised notes disclosures. These statements establish standards for external reporting for public colleges and universities and require that financial statements be presented on a consolidated basis to focus on the University as a whole, with resources classified for accounting and reporting purposes into three net asset categories. Previously, financial statements for public colleges and universities focused on accountability of individual fund groups, rather than the University as a whole.

Other significant changes to the financial statements are:

- Revenues and expenses are now categorized as either operating or nonoperating. Certain significant recurring University revenue sources, including state appropriations, gifts, and investment income are considered nonoperating, as defined by GASB Statement No. 35.
- Depreciation expense is recorded on capital assets. Capital assets are no longer considered an expense in the year they are purchased, but are depreciated over the estimated useful lives of the assets. Depreciation is a separate line item and is not allocated by program, such as instruction, research, public service, etc.
- Scholarships, fellowships, and waivers, which are applied to student accounts, are now shown as a reduction of student tuition and fees, while stipends and other payments made directly to students continue to be recorded as scholarship and fellowship expenses.

FINANCIAL HIGHLIGHTS

Statement of Net Assets

The statement of net assets presents the financial position of the University at the end of the fiscal year and includes all assets and liabilities of the University. The difference between total assets and total liabilities - net assets - is one indicator of the financial condition of the University, while the change in net assets during the year is an indicator of whether the overall condition has improved or worsened during the year. Assets and liabilities are generally recorded at current values. Capital assets, however, are recorded at historical costs less an allowance for depreciation.

A summarized comparison of the University's assets, liabilities, and net assets at June 30, 2002, and an unaudited restatement at June 30, 2001, follows (Dollars in Millions):

		2002	2001
ASSETS			
	Current assets	$ 152.7	$ 157.0
	Noncurrent assets (excluding capital assets)	305.0	137.7
	Noncurrent capital assets, net	932.0	870.5
	Total Assets	$ 1,389.7	$ 1,165.2
LIABILITIES			
	Current liabilities	$ 85.8	$ 86.5
	Noncurrent liabilities	435.1	253.4
	Total Liabilities	$ 520.9	$ 339.9
NET ASSETS			
	Invested in capital assets, net	$ 643.4	$ 618.7
	Restricted:		
	Nonexpendable (endowments)	28.1	28.8
	Expendable	94.2	60.9
	Unrestricted	103.1	116.9
	Total Net Assets	$ 868.8	$ 825.3

The University's financial position remained strong at June 30, 2002, with assets of $1,389.7 million and liabilities of $520.9 million. Net assets, which includes the assets available to continue the operations of the University, increased 5% in fiscal 2002, from $825.3 million at June 30, 2001, to $868.8 million at June 30, 2002.

The increase in assets is primarily due to a $166.1 million increase in cash and investments, as a result of two debt financings which closed in the last half of the fiscal year. There was a corresponding increase in bonds payable and other long-term commitments. Proceeds from these financings are being used to address critical classroom and research space shortages at the University.

The overall increase in net assets of 5%, or $43.5 million, is primarily due to increased restricted expendable net assets. Expendable restricted net assets increased $33.3 million, with the increase primarily occurring in academic departments (e.g., instruction and research), capital projects, and debt service categories. Unrestricted net assets, which are primarily derived from University generated revenues such as tuition and fees, auxiliary enterprises, and investment income, decreased 12% at June 30, 2002. Substantially all unrestricted net assets were committed and/or designated at June 30, 2002, for academic and research programs and initiatives, or capital projects.

Endowments

The 2% decrease in nonexpendable restricted net assets (endowments) was due to decreased endowment investment balances as a result of an overall decline in stock market values during the fiscal year. The University invests its endowment funds with various managers to maximize total return over the long term, with an appropriate level of risk. The success of this long-term investment strategy is evidenced by reasonable rates of return over sustained periods of time. Programs supported by endowments include scholarships, fellowships, professorships, and research efforts, as well as other important programs and activities.

Capital and Debt Activities

One of the critical factors in continuing the quality of the University's academic and research programs, and residential life, is the development and renewal of its capital assets. The University continues to renovate its older teaching and research facilities, in conjunction with new construction.

Capital additions, net of retirements and depreciation, totaled $61.5 million in fiscal 2002. Capital additions primarily consist of renovation and new construction of academic, research, and residential life facilities, as well as significant investments in infrastructure and equipment, including computers and research equipment. The University takes seriously its role of financial stewardship and works to manage its financial resources effectively, including the prudent use of debt to finance capital projects.

Bonds payable and other long-term commitments (primarily categorized as noncurrent liabilities) totaled $444.5 million and $261.5 million at June 30, 2002, and June 30, 2001, respectively. During fiscal 2002, the University issued $85.0 million in system revenue bonds, $141.4 million in system revenue refunding bonds, and $103.8 million in certificates of participation. The system revenue refunding bonds were issued at an average interest rate of 4.16%, and were used to retire bonds, which had an average interest rate of 5.72%. The issuance of the refunding bonds at an interest rate lower than the rate of the refunded debt resulted in a $13.0 million reduction in future debt service payments, with an economic gain of $12.2 million based on present value savings.

The system revenue bonds and certificates of participation ("COPs") issued in fiscal 2002 will be used to address critical academic space and campus-wide infrastructure issues. The Mediated Classroom and Social Sciences Building will be built with $58.7 of the 2002 system revenue bonds proceeds. Once completed, it will add 276,000 gross square feet of advanced state-of-the-art instructional and research facilities to the ASU Main Campus. Among other projects, at ASU West the 2002 COPs issue will be used to add large and medium sized classrooms and to expand the central plant. ASU East 2002 COPs projects will include additional classrooms and instruction laboratories, and the addition of a new campus union building, along with some vital infrastructure improvements. ASU Main projects funded by the 2002 COPs issue include renovation of the Memorial (Student) Union and the addition of 67,000 square feet to the athletic building, which includes many expanded features (weight room, football locker room, and academic services area).

Statement of Revenues, Expenses, and Changes in Net Assets

The statement of revenues, expenses, and changes in net assets presents the University's results of operations. A summarized comparison of the University's revenues (sources) and expenses (uses) for the year ended June 30, 2002, and an unaudited restatement for the year ended June 30, 2001 follows (Dollars in Millions):

	2002	2001
Operating revenues	$ 420.0	$ 395.7
Operating expenses	773.8	731.0
Net nonoperating revenues	360.6	336.3
Income before capital and endowment additions	$ 6.8	$ 1.0
Capital and endowment additions	$ 36.7	$ 10.3
Increase in net assets	43.5	11.3
Net assets, end of the year	$ 868.8	$ 825.3

Operating revenues include student tuition and fees which are net of scholarship allowances, governmental grants and contracts, auxiliary enterprises, and sales and services of educational departments. There was a 6% increase between years in operating revenues, with the increase primarily occurring in student tuition and fees and auxiliary enterprises revenues. Net tuition and fees increased $19.3 million, or 11%, due to both increased enrollment and increased tuition rates. Auxiliary enterprises revenues increased $7.3 million in fiscal 2002, with increases in several units, including Intercollegiate Athletics (an additional home football game was played), Bookstore (increased student enrollment), and Residential Life (the opening of two new residential halls).

Operating expenses are those expenses paid out to carry out the mission of the University and include educational and general program expenses, as well as auxiliary enterprises and depreciation. There was a 6%, or $42.8 million, increase in operating expenses between years with the largest increase, $18.8 million, occurring in instruction and academic services expenses. This increase was the result of the University allocating resources in such a way as to allow for increased expenses in these core educational areas, in consideration of the expanding University enrollment. Research and public service expenses increased $10.0 million, largely due to increased Federal grants and contracts expenses in the areas of chemistry and biochemistry, biology, bioengineering, and information technology. Scholarships and fellowships, net of allowances, increased $6.8 million, with the increase primarily occurring in increased Pell financial aid grants, and increased University funded need based and academic merit based scholarships, as a result of increased enrollment and increased need due to higher tuition costs and a University initiative to increase scholarship funding from University sources, respectively.

Nonoperating revenues include significant recurring University revenue sources including state appropriations, technology and research initiative funding (TRIF), and private gifts. The University's major nonoperating expense is interest on indebtedness. TRIF revenue accounted for $17.7 million of the net $24.3 million increase in this category. Fiscal 2002 was the first year the University received TRIF revenue, which is generated from part of a 0.6% voter approved sales tax increase and which was used to fund initiatives in four critical research areas: materials, biomedicine and biotechnology, information sciences and technology, and manufacturing.

Fiscal 2002 capital and additions to endowments includes capital state appropriations, capital gifts and grants, and additions (private gifts) to permanent endowments. Capital gifts increased $22.5 million between years. Fiscal 2002 capital gifts included a collection of rare and historic printing presses, valued at more than $20 million, donated to the Herberger College of Fine Arts. These printing presses will establish ASU's School of Art as unrivaled in the areas of fine print research. ASU's public television station (KAET) received $1.5 million in capital state appropriations in fiscal 2002 to assist with its digital conversion.

Another useful presentation of revenues and expenses is by combined sources and uses. Combined sources and uses for the year ended June 30, 2002, and an unaudited restatement for the year ended June 30, 2001 follows (Dollars in Millions):

		2002	2001	Percentage Change
SOURCES				
	State appropriations	$ 320.7	$ 327.5	(2%)
	Student tuition and fees, net of allowances	188.0	168.7	11%
	Gifts and governmental grants and contracts	201.9	167.2	21%
	Technology and research initiatives funding	17.7	-	-
	Auxiliary enterprises	86.3	79.0	9%
	Other sources	25.7	34.4	(25%)
	Total Sources	$ 840.3	$ 776.8	8%
USES				
	Instruction and academic support	$ 362.4	$ 343.6	6%
	Research and public service	103.0	93.0	11%
	Student services and institutional support	92.4	89.7	3%
	Operation and maintenance of plant	42.3	41.4	2%
	Scholarships and fellowships, net	43.1	36.3	19%
	Auxiliary enterprises	77.0	70.5	9%
	Depreciation	53.7	56.5	(5%)
	Other uses	22.9	34.5	(34%)
	Total Uses	$ 796.8	$ 765.5	4%

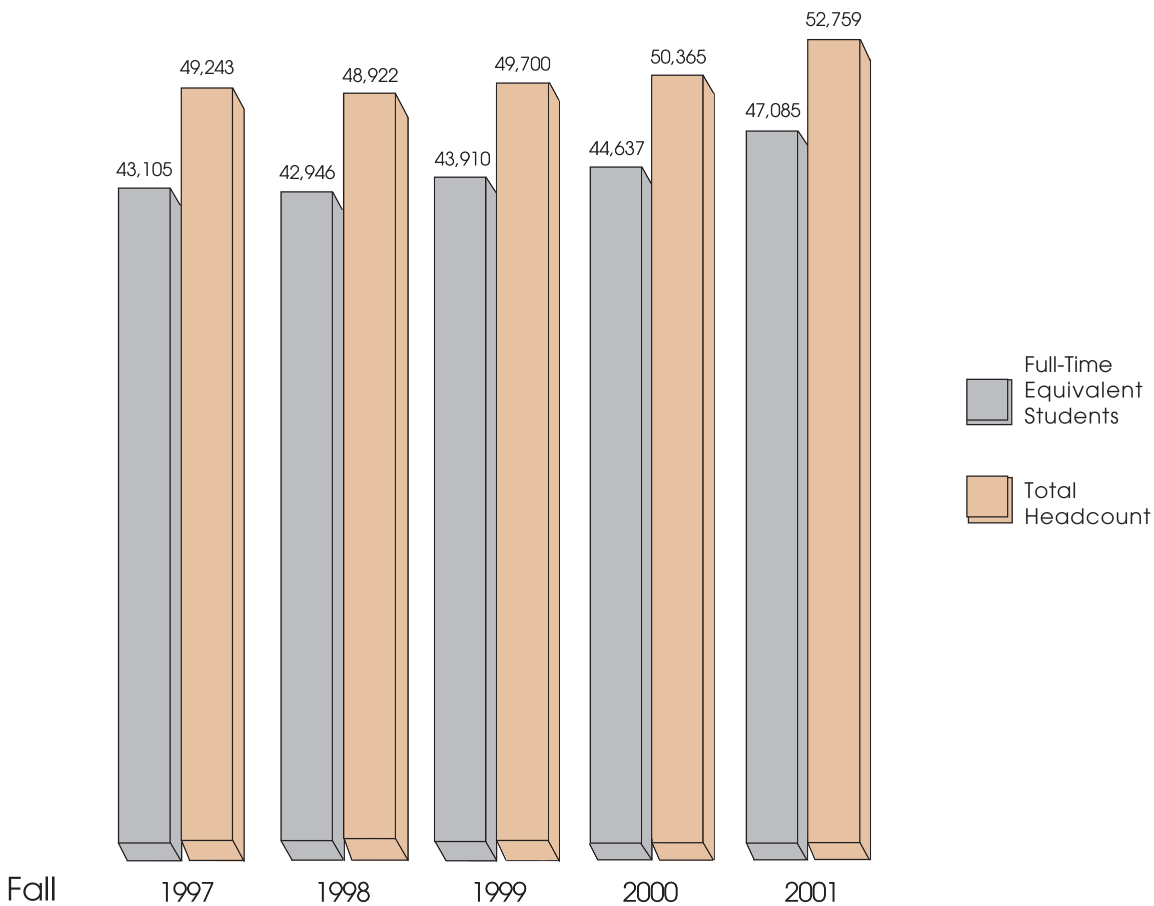
Statement of Cash Flows

The statement of cash flows provides additional information about the sources and uses of cash during the year ended June 30, 2002. This statement aids in the assessment of the University's ability to generate future net cash flows and to meet obligations and commitments as they come due. The University's primary sources of operating and noncapital related cash in fiscal 2002 were state appropriations, grants, contracts, and tuition and fees. Uses of these cash sources included salaries and benefits for faculty, staff, and student employees, payments to suppliers of goods and services to the University, and scholarship and fellowship payments to ASU students.

Economic Factors

Management believes that the University is well positioned for the future and to reach its objective of maintaining excellence in all academic programs while allowing for enrollment growth. State appropriations continue to be the University's primary revenue source and economic pressures affecting the State of Arizona also potentially affect the State's future support of the University. Growth in private gifts and governmental grants and contracts provides essential support to state appropriations and student tuition and fees, and provides funding for growth in academic units. Long-term plans of the University include the development of new research facilities, thereby providing additional revenue streams for the University.

ENROLLMENT



Degrees Granted in Academic Year 2001-2002

Undergraduate	8,190
Graduate	3,088
	11,278

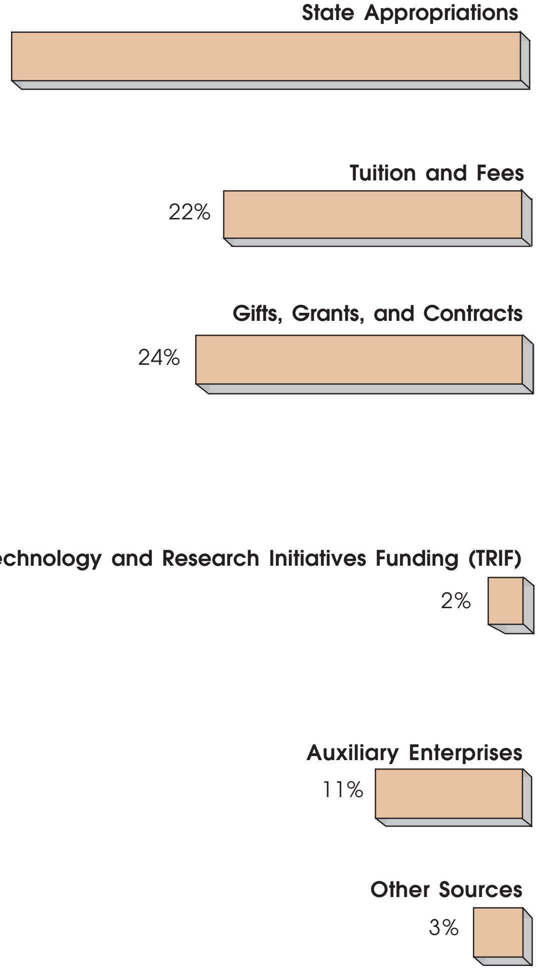
Fall 2001 Enrollment

Undergraduate	40,281
Graduate	12,478
In-State	39,248
Out-of-State	13,511

COMBINED SOURCES AND USES

Sources

For the year ended June 30, 2002
(Dollars in Millions)



State Appropriations	38%	**$320.7**	Represents State of Arizona legislative appropriations for operations of the University and capital state appropriations (capital outlay) of $1.5 million.
Tuition and Fees	22%	**188.0**	Includes $197.4 million in collected tuition and fees and $36.7 million in tuition waivers, net of $46.1 million in scholarship allowances.
Gifts, Grants, and Contracts	24%	**201.9**	At a time when state support has become uncertain, the University is looking to diversify its types of revenue. Voluntary private support from individuals, foundations, and corporations, coupled with governmental and other grants and contracts, increased to 24% of total sources in fiscal 2002, compared to 22% in fiscal 2001.
Technology and Research Initiatives Funding (TRIF)	2%	**17.7**	TRIF is generated from part of a 0.6% education sales tax approved by Arizona voters in November 2000. A detailed set of performance measurements are used to determine the overall effectiveness of each TRIF funded initiative.
Auxiliary Enterprises	11%	**86.3**	Represents operations of essentially self-supporting activities such as bookstore, intercollegiate athletics, residential halls, and parking.
Other Sources	3%	**25.7**	Consists primarily of sales and services, including ASU hosted national and international conferences and programs, of educational departments.
Total Sources		**$840.3**	

Note:

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

This statement provides an overview of total University financial operations including the ASU Main, ASU West, and ASU East Campuses. 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	45%	**$362.4**	Consists of (1) instruction expenses totaling $275.5 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 $86.9 million, which include libraries, academic information technology support, and academic administration.
Research and Public Service	13%	**103.0**	Represents (1) activities specifically organized to produce research outcomes, whether funded by external agencies or separately budgeted by organizational units within the University, and (2) public service expenses of $26.5 million for non-instructional services beneficial to individuals and groups external to the University, such as public broadcasting and public events.
Student Services and Institutional Support	12%	**92.4**	Consists of (1) student services expenses totaling $31.4 million, which include admissions, registrar, student activities, counseling, career guidance, student financial aid administration, and student health services, and (2) institutional support expenses of $61.0 million, which include executive management, financial operations, human resources, public safety, community relations, administrative information technology support, and alumni relations.
Operation and Maintenance of Plant	5%	**42.3**	Represents expenses for the operation and maintenance of plant, exclusive of amounts charged to auxiliary enterprises, including services related to facilities and grounds, and utility costs.
Scholarships and Fellowships	5%	**43.1**	Includes restricted grants and institutionally awarded scholarships, with the students not being required to perform personal services or repay the awards.
Auxiliary Enterprises	10%	**77.0**	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	7%	**53.7**	Depreciation is computed using the straight-line method over the estimated useful life of each asset.
Other Uses	3%	**22.9**	Consists primarily of interest payments on debt service and non-capital expenses on plant project accounts.
Total Uses		**$796.8**	
Net Increase in Net Assets		**43.5**	
		$840.3	

INDEPENDENT AUDITORS' REPORT

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

Members of the Arizona State Legislature

The Arizona Board of Regents

We have audited the accompanying financial statements of Arizona State University as of and for the year ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note A, the University's financial statements are intended to present the financial position and changes in financial position, including cash flows, of only that portion of the business-type activities of the State of Arizona that is attributable to the transactions of the University. They do not purport to, and do not, present fairly the financial position and changes in financial position, including cash flows, of the State in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arizona State University as of June 30, 2002, and the changes in financial position, including cash flows, of the University for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note A, the University adopted the provisions of GASB Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, for the year ended June 30, 2002, to implement a new financial reporting model.

The information included in the 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.

Debbie Davenport
Auditor General

October 25, 2002

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ARIZONA STATE UNIVERSITY
STATEMENT OF NET ASSETS

June 30, 2002
(Dollars in Thousands)

ASSETS	
Current Assets:	
Cash and cash equivalent investments	$ 116,766
Short-term investments	887
Accounts receivable, net of allowance of $1,931	22,737
Student loans receivable	1,544
Inventories	7,129
Deferred expenses	3,669
Total Current Assets	$ 152,732
Noncurrent Assets:	
Restricted cash and cash equivalent investments	$ 37,358
Restricted investments with bond trustee	174,182
Endowment investments	55,630
Other investments	25,301
Student loans receivable, net of allowance of $1,258	10,098
Deferred expenses	341
Donated land	2,105
Capital assets, net of accumulated depreciation	931,976
Total Noncurrent Assets	$ 1,236,991
Total Assets	$ 1,389,723
LIABILITIES	
Current Liabilities:	
Accounts payable and accrued liabilities	$ 20,194
Compensated absences	16,240
Employee retirement and benefits deposits	3,621
Deferred revenues	21,296
Funds held for others	9,557
Bonds payable	10,050
Lease purchases and other long-term obligations	4,797
Total Current Liabilities	$ 85,755
Noncurrent Liabilities:	
Employee retirement and benefits deposits	$ 4,911
Other liabilities	571
Bonds payable	277,001
Lease purchases and other long-term obligations	152,655
Total Noncurrent Liabilities	$ 435,138
Total Liabilities	$ 520,893
NET ASSETS	
Invested in capital assets, net of related debt	$ 643,381
Restricted for:	
Nonexpendable (Endowments):	
Scholarships and fellowships	27,055
Academic department uses	1,085
Expendable:	
Scholarships and fellowships	9,376
Academic department uses	36,244
Student loans	12,768
Capital projects	19,982
Debt service	15,878
Unrestricted (Note F)	103,061
Total Net Assets	**$ 868,830**

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

ARIZONA STATE UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Year ended June 30, 2002
(Dollars in Thousands)

OPERATING REVENUES	
Student tuition and fees, net of scholarship allowances of $46,104	$ 187,967
Federal grants and contracts, primarily research grants	113,276
State and local grants and contracts	9,640
Sales and services -	
Auxiliary enterprises, net of $1,116 in scholarship allowances	86,253
Educational departments	18,447
Other revenues	4,473
Total operating revenues	**$ 420,056**
OPERATING EXPENSES (Note G)	
Educational and general -	
Instruction	$ 275,523
Research	76,420
Public service	26,543
Academic support	86,912
Student services	31,365
Institutional support	61,000
Operation and maintenance of plant	42,270
Scholarships and fellowships	43,096
Auxiliary enterprises	77,004
Depreciation	53,695
Total operating expenses	**$ 773,828**
Operating loss	$(353,772)
NONOPERATING REVENUES (EXPENSES)	
State appropriations	$ 319,175
Technology and research initiatives funding (TRIF)	17,717
Private gifts	43,786
Financial aid trust funds	2,338
Net investment income, including $255 in state land endowment earnings	447
Interest on indebtedness	(13,204)
Other expenses	(9,682)
Net nonoperating revenues	**$ 360,577**
Income before other revenues, expenses, gains, or losses	**$ 6,805**
CAPITAL AND ENDOWMENT ADDITIONS	
Capital state appropriations	$ 1,500
Capital gifts and grants	34,496
Additions to permanent endowments	741
Total capital and endowment additions	**$ 36,737**
Increase in net assets	43,542
Net Assets, beginning of the year (as restated-Note K)	825,288
NET ASSETS, END OF YEAR	**$ 868,830**

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

ARIZONA STATE UNIVERSITY

STATEMENT OF CASH FLOWS

Year ended June 30, 2002
(Dollars in Thousands)

CASH FLOWS FROM OPERATING ACTIVITIES	
Student tuition and fees	$ 185,733
Federal, state, and local grants and contracts	122,355
Payments to suppliers	(175,644)
Payments to employees for salaries and benefits	(502,241)
Payments for scholarships and fellowships	(45,669)
Student loans issued	(2,347)
Student loans collected	2,290
Sales and services of auxiliary enterprises	91,304
Sales and services of educational departments	18,459
Other receipts	4,236
Net cash used for operating activities	**$ (301,524)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State appropriations	$ 319,175
Technology and research initiatives funding (TRIF)	17,717
Gifts and grants for other than capital purposes	44,527
Financial aid trust funds	2,338
Federal Family Education Loans received	123,322
Federal Family Education Loans disbursed	(123,426)
Funds held for others received	31,145
Funds held for others disbursed	(21,588)
Other payments	(9,993)
Net cash provided by noncapital financing activities	**$ 383,217**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital state appropriations	$ 1,500
Capital gifts and grants	4,687
Proceeds from capital debt	201,692
Purchases of capital assets	(81,370)
Principal paid on capital debt and leases	(13,952)
Interest paid on capital debt and leases	(13,204)
Net cash provided by capital financing activities	**$ 99,353**
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of investments	$ (247,149)
Proceeds from sales and maturities of investments	72,668
Interest received on investments	7,382
Net cash used for investing activities	**$ (167,099)**
Net increase in cash and cash equivalent investments	13,947
Cash and cash equivalent investments, beginning of year	140,177
Cash and cash equivalent investments, end of year	**$ 154,124**

Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	$ (353,772)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	53,695
Changes in assets & liabilities:	
Accounts receivable, net	6,326
Student loans receivable, net	(73)
Inventories	(1,303)
Deferred expenses	(335)
Accounts payable and accrued liabilities	(6,877)
Deferred revenue	(2,523)
Employeee retirement and benefits and compensated absences	3,338
Net cash used for operating activities	$ (301,524)
SIGNIFICANT NONCASH TRANSACTIONS	
Refinancing of long-term debt	$ 144,910
Gifts of capital assets	29,809
Unrealized change in fair value of investments	(6,935)

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

NOTES TO FINANCIAL STATEMENTS

Note A - Organization and Summary of Significant Accounting Policies

Organization and Basis of Presentation

Arizona State University ("the University") is a major research university located in metropolitan Phoenix with a total Fall 2001 enrollment of 52,759 students. The accompanying statements include the activity of ASU Main (located in Tempe), ASU West (located in northwest Phoenix adjacent to Glendale), ASU East (located in Mesa), and the ASU Downtown Center (located in downtown Phoenix and housing the ASU Extended Campus). For financial reporting purposes, the University 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. The University's financial statements do not include the financially interrelated organizations described in Note H.

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

The financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). GASB requires the University to adopt GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities,* as amended by GASB Statement No. 37, which became effective for the University for fiscal 2002. The University also adopted GASB Statement No. 38, *Certain Financial Note Disclosures* for fiscal 2002. The financial statement presentation required by GASB Statement No. 35 provides a comprehensive, entity-wide perspective of the University's assets, liabilities, and net assets as well as revenues, expenses, changes in net assets, and cash flows, and replaces the fund group perspective that was previously required. 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.

For financial reporting purposes under GASB, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented under the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus emphasizes the long-term effects of operations on overall net resources, i.e., total assets and total liabilities. The statement of revenues, expenses, and changes in net assets prepared using the economic resources measurement focus includes only transactions and events that increase or decrease net assets during the year. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has been incurred, or benefit has been received. All significant intra-university transactions have been eliminated. The University has not restated its 2001 audited financial statements to conform to the new financial statements presentation.

Summary of Significant Accounting Policies

Cash and cash equivalent investments. In accordance with GASB Statement No. 9, all highly liquid investments with an original maturity of three months or less, are considered to be cash and cash equivalent investments. University funds invested through the State of Arizona's Local Government Investment Pool are considered cash and cash equivalent investments, since such investments are available for withdrawal by the University at any time.

Investments. Short-term, endowment, and other investments are stated at fair value at June 30, 2002. Fair value typically is the quoted market price for investments. Investment income includes realized and unrealized gains and losses on investments.

Accounts receivable. Accounts receivable includes \$5.9 million due from the Federal government and \$5.4 million due from the State government, primarily for the reimbursement of allowable expenses made pursuant to the University's grants and contracts, and \$4.4 million for services provided to students, faculty, and staff.

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

Inventories. Auxiliary enterprises use various methods to value their inventory. The ASU Bookstore comprises approximately 84% of the total inventory reported on the statement of net assets and is valued at cost using the retail method.

Capital assets. Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. For equipment, the University's capitalization policy includes all items with a unit cost of \$2,000 or more. 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 \$5,000 are capitalized. 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 buildings and infrastructure, 10 years for library books, and 5 to 12 years for equipment. The University does not depreciate works of art or historical treasures that are considered inexhaustible and are held for exhibition, education, research, and public service.

Compensated absences. Compensated absences are employee vacation leave balances, which have been earned, but not used. Vacation leave benefits are accrued as a current 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 residential housing payments related to the ensuing year. Also included are amounts received from grant and contract sponsors which have not yet been earned under the terms of the agreements.

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

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

Included in scholarship allowances is $34.0 million of tuition waivers. Not included in scholarship allowances is $2.7 million in faculty and staff tuition waivers that are recorded as either instruction or institutional support program expenses on the statement of revenues, expenses, and changes in net assets – and as personal services and benefits expenses, in Note G.

Technology and research initiatives funding (TRIF). As passed by Arizona voters in November 2000, TRIF is generated from a part of a 0.6% education sales tax. Collection of the tax began on June 1, 2001. As the governing board of the three state universities, the Arizona Board of Regents ("the Board") administers the portion of the collected education sales tax which funds the universities' TRIF initiatives. The Board receives funding requests from each university and determines the amount and duration of awards. The Board is required to submit an annual report to the governor and other Arizona state officials which uses a detailed set of performance measures to determine the overall effectiveness of each TRIF funded initiative.

Note B - Cash and Investments

Under Arizona State law and Board of Regents' policies, the University may invest its operating funds only in the State of Arizona Local Government Investment Pool, collateralized time certificates of deposit or repurchase agreements, U.S. Treasury securities, or other Federal agency securities. Gift and endowment funds may be invested under the direction of an investment committee in such a manner as to obtain the most favorable rate of return and income stability commensurate with safety of principal. Bond trustee funds are invested by the bond trustee in accordance with the financing indenture. A summary of the components of cash and investments at June 30, 2002 follows (Dollars in Thousands):

	Fair Value
Cash and Cash Equivalent Investments	
Operating funds:	
State of Arizona Local Government Investment Pool, net of outstanding checks	$ 116,766
Short-term Investments	
Operating funds:	
U.S. Treasury and Other Federal Agency Securities	887
Noncurrent Investments	
Endowment funds:	
The Vanguard Group	38,631
The Common Fund	4,518
Arizona Universities' Financial Aid Trust	12,481
Operating funds:	
U.S. Treasury and Other Federal Agency Securities	25,301
Bond trustee funds:	
Cash and Cash Equivalent Investments	37,358
U.S. Treasury and Other Federal Agency Securities	168,289
Guaranteed Investment Contract	5,893
	$ 410,124

Bond trustee funds. The bond trustee funds are managed by Bank of New York, Bank One, and U.S. Bank, and generally consist of U.S. Government securities (Treasury securities or other Federal agency securities), cash, certificates of deposit, and Federal money market accounts. Each bank's trust department purchases U.S. Government securities for the University. U.S. Government securities are held by either the Federal Reserve Bank or the Depository Trust Company (DTC) in custodial accounts for Bank of New York, Bank One, and U.S. Bank, in computerized book-entry systems in which changes of financial institutions' interests are recorded. In turn, changes in the University's ownership interests are recorded in Bank of New York's, Bank One's, and U.S. Bank's records.

Generally, funds not directly invested in U.S. Government securities are invested in pooled Federal money market accounts in which securities are purchased and held by the trustee. Occasionally, small cash balances are maintained, or certificates of deposit are purchased by the bank's trust department. For cash and certificates of deposit, book-entry pledges of Federal government securities are obtained as collateral and held by the trust department on a pooled basis. In conjunction with the ASU West lease-purchase financing, there is a $5.4 million reserve fund maintained in a guaranteed investment contract (GIC). This GIC is from a major insurance firm and if the bond rating of this firm should fall to A- or below, the firm must provide U.S. Treasury securities as collateral for the GIC to the University's bond trustee.

Endowment funds. The Vanguard Group investments are in four index equity funds: Institutional (Standard and Poor's 500) Index Fund, Extended Market Index Fund, Total International Stock Index Fund, and Total Bond Market Index Fund. The Vanguard Group is a mutual fund company offering a broad range of investment funds. The Common Fund endowment investments are in that organization's Multi-Strategy Bond Fund. The Common Fund is a unique, non-profit membership organization which provides investment management services exclusively for educational and other non-profit institutions. The financial aid trust fund is funded from student fees and by the Arizona State Legislature. The fund is managed in a pool by the University of Arizona along with the financial aid trust funds for the other two state universities.

In accordance with generally accepted accounting principles, investments are stated at fair value. Fair value typically is the quoted market price for investments. At June 30, 2002, more than one-half of the University's endowment funds were invested in stock (equity) investments. Due to the overall decline in the market value of stocks for the year ended June 30, 2002, the University incurred negative endowment income. This loss in value of stocks is consistent with the overall stock (equity) market activity during this period.

Pooled cash and short-term investments. Pooled cash and short-term investments at June 30, 2002, were principally with the State of Arizona Local Government Investment Pool. The University's investment in the pool represents shares in that pool's portfolio. The shares are not identified with specific investments and are not subject to custodial credit risk. The University also has investments in U.S. Treasury securities and Federal agency securities. U.S. Treasury and Federal agency securities are held in the custodial account of Bank of New York or Bank of America with the Federal Reserve Bank or DTC and in the University's name in the bank's records. These securities are either purchased from a broker/dealer or a financial institution.

The University's bank and collected (portion of bank balance available for investment) balances at the bank at June 30, 2002, were $6.2 million and $0.7 million, respectively, and the carrying value of deposits on the University's accounting system was a deficit $4.7 million. The carrying value of deposits balance has been netted against the State of Arizona Local Government Investment Pool in the above table. The cash deficit balance on the accounting system occurs because cash is not transferred from investments to the bank account until outstanding checks are expected to be presented to the bank for payment. The University's deposits are fully collateralized with governmental securities (U.S. or investment grade municipals) held by either the bank's agent or the bank's agent's custodial account with either the Federal Reserve or the DTC in the University's name.

Note C - Capital Assets

Capital asset activity for the year ended June 30, 2002 consisted of the following (Dollars in Thousands):

	Beginning Balance (as restated)	Additions	Retirements	Ending Balance
Capital Assets:				
Land	$ 72,333			$ 72,333
Infrastructure	67,722	$ 12,408		80,130
Buildings	824,945	56,679		881,624
Construction in Progress	27,931	(9,754)		18,177
Equipment	237,530	47,305	$ (12,822)	272,013
Works of Art and Historical Treasures	11,251	1,049	(2)	12,298
Library Books	145,478	9,138	(913)	153,703
Total	$ 1,387,190	$ 116,825	$ (13,737)	$ 1,490,278
Less Accumulated Depreciation:				
Infrastructure	19,909	1,890		21,799
Buildings	250,327	21,514		271,841
Equipment	144,017	22,121	(11,220)	154,918
Library Books	102,487	8,170	(913)	109,744
Total	$ 516,740	$ 53,695	$ (12,133)	$ 558,302
Capital Assets, Net	$ 870,450	$ 63,130	$ (1,604)	$ 931,976

The beginning balances have been adjusted by $43.9 million to reflect a change in capitalization threshold from one thousand to two thousand dollars, effective for fiscal 2002. Construction in progress additions represent expenses for new projects net of capital assets placed in service. It is estimated $176.2 million in additional expenses will be required to complete projects under construction at June 30, 2002.

Note D - Bonds Payable

Bonds payable at June 30, 2002, consisted of the following (Dollars in Thousands):

	Average Interest Rate	Final Maturity	Balance 7/1/2001	Additions	Reductions	Balance 6/30/2002	Current Portion
Housing Revenue Bonds	3.00%-3.70%	2002-2006	$ 1,443		$ (450)	$ 993	$ 355
1989 System Revenue Bonds	7.09%	2004	9,325		(2,085)	7,240	2,240
1991 System Revenue Bonds	7.13%	2005	6,710		(1,165)	5,545	1,245
1992 System Revenue Refunding Bonds	6.25%	2002	26,520		(26,520)		
1992A System Revenue Refunding Bonds	5.88%	2002	127,225		(123,220)	4,005	4,005
1993 System Revenue Refunding Bonds	4.93%	2008	22,635		(1,465)	21,170	1,530
2000 System Revenue Bonds	5.86%	2025	15,000		(240)	14,760	295
2002 System Revenue Refunding Bonds	4.16%	2019		$ 141,380		141,380	380
2002 System Revenue Bonds	4.84%	2028		85,000		85,000	
Subtotal: Par Amount of Bonds			$ 208,858	$ 226,380	$ (155,145)	$ 280,093	$ 10,050
Premium on Sale of Bonds				11,674	(289)	11,385	
Deferred Amount on Refundings				(5,872)	1,445	(4,427)	
			$ 208,858	$ 232,182	$ (153,989)	$ 287,051	$ 10,050

In June 2002, the University issued $85.0 million of system revenue bonds for the financing of construction and utility infrastructure improvement projects at the ASU Main campus.

In March 2002, the University issued $141.4 million of system revenue refunding bonds, with an average interest rate of 4.16 percent, to refund the outstanding 1992 and 1992A system revenue refunding bonds totaling $144.9 million with an average interest rate of 5.72 percent. The net proceeds of $149.9 million, after the net addition of $8.5 million for bond premium, underwriting fees, and other issuance costs, were used to purchase U.S. Government securities which were deposited to an irrevocable trust in order to retire all remaining maturities of the 1992 and 1992A bonds on July 1, 2002. The refunded debt is considered defeased and related liabilities are not included in the University's financial statements. The issuance of the refunding bonds at a lower interest rate than the rate for the refunded debt resulted in a $13.0 million reduction in future debt service payments, with an economic gain of $12.2 million based upon the present value savings.

In prior years, certain system revenue bonds of the University were defeased through advance refundings by depositing sufficient U.S. Government securities to pay all future debt service in an irrevocable trust. Accordingly, the liabilities for these defeased bonds are not included in the University's financial statements. The principal amount of all such bonds outstanding at June 30, 2002 was $193.9 million.

The housing revenue bonds are payable from housing revenues as defined in the bond indentures. The 1992A, 1993, and 2002 System revenue refunding bonds, and the outstanding 1989, 1991, 2000, and 2002 System revenue bonds are payable from ASU Main tuition and fees, certain auxiliary enterprises revenues, and certain other revenues as defined in the bond indentures.

Securities and cash restricted for bond retirement funds and maintenance and replacement reserves held by trustees at June 30, 2002 totaled $16.4 million. Future debt service funding commitments, including interest, for bonds outstanding consisted of the following (Dollars in Thousands):

	System Revenue Bonds		Housing Bonds	
	Principal	Interest	Principal	Interest
2003	$ 9,695	$ 14,184	$ 355	$ 28
2004	7,190	13,416	267	18
2005	11,340	12,878	226	10
2006	15,180	12,184	145	4
2007	14,290	11,464		
2008-12	76,340	46,057		
2013-17	83,480	24,913		
2018-22	26,010	12,290		
2023-27	29,625	4,840		
2028-32	5,950			
	$ 279,100	$ 152,226	$ 993	$ 60

The University has pledged portions of its gross revenues towards the payment of debt related to various system revenue bonds outstanding at June 30, 2002. These pledged revenues include student tuition and fees, auxiliary enterprises revenue, investment income, and indirect cost recovery revenue. Pledged revenues do not include state appropriations, gifts, endowment income, or other restricted revenues.

Note E - Lease-Purchases and Other Long-Term Obligations

Lease-purchases and other long-term obligations at June 30, 2002, consisted of the following (Dollars in Thousands):

	Average Interest Rate	Final Maturity	Balance 7/1/2001	Additions	Reductions	Balance 6/30/2002	Current Portion
1991 Towers Project (through ASU Foundation)	6.89%	2010	$ 3,110		$ (225)	$ 2,885	$ 240
1993 ASU West Refunding	5.18%	2009	37,060		(3,385)	33,675	3,540
1999A Downtown Center	5.75%	2024	5,620		(125)	5,495	130
1999B Downtown Center	8.00%	2024	5,165		(80)	5,085	90
2002 Certificates of Participation	4.75%	2026		$ 103,800		103,800	
Other Installment Purchases	6.24%	2013	1,634	3,436	(1,238)	3,832	797
Subtotal: Par Amount of COPS/ Installment Purchases			$ 52,589	$ 107,236	$ (5,053)	$ 154,772	$ 4,797
Premium on Sale of COPs				2,682	(2)	2,680	
			$ 52,589	$ 109,918	$ (5,055)	$ 157,452	$ 4,797

In June 2002, the University issued $103.8 million of certificates of participation for the financing of construction and renovation projects at the ASU Main, ASU West, and ASU East campuses.

Securities and cash restricted for non-bond retirement funds and maintenance and replacement reserves held by trustees at June 30, 2002, totaled $18.6 million. Funding commitments, including interest, for lease-purchases and other long-term obligations consisted of the following (Dollars in Thousands):

	Certificates of Participation		Other Installment Purchases	
	Principal	Interest	Principal	Interest
2003	$ 4,000	$ 7,759	$ 797	$ 216
2004	8,110	7,021	458	168
2005	6,580	6,733	379	141
2006	6,870	6,427	382	119
2007	7,180	6,095	295	98
2008-12	35,170	24,932	1,315	265
2013-17	26,535	18,108	206	5
2018-22	34,590	9,632		
2023-27	21,905	2,267		
	$ 150,940	$ 88,974	$ 3,832	$ 1,012

Note F - Unrestricted Net Assets

As discussed in the Summary of Significant Accounting Policies, the University is following new standards for external reporting purposes, which require net assets to be classified for accounting and reporting purposes into one of three net asset categories according to externally imposed restrictions. Unrestricted net assets, as defined by GASB Statement No. 35, are not subject to externally imposed stipulations; however, they are subject to internal restrictions. 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, 2002, substantially all of the University's unrestricted assets were from University generated revenues and were internally designated for academic and research programs and initiatives, and capital projects.

Note G - Operating Expenses by Classification

Operating expenses by functional and natural classification for the year ended June 30, 2002, are summarized as follows (Dollars in Thousands):

	Year ended June 30, 2002				
	Personal Services & Benefits	Supplies & Services	Scholarships & Fellowships	Depreciation	Total
Instruction	$ 248,495	$ 26,133	$ 895		$ 275,523
Research	54,849	21,153	418		76,420
Public service	17,034	9,396	113		26,543
Academic support	65,060	21,640	212		86,912
Student services	25,005	6,353	7		31,365
Institutional support	43,776	17,224			61,000
Operation & maintenance of plant	19,625	22,645			42,270
Scholarships & fellowships	883	826	41,387		43,096
Auxiliary enterprises	27,708	46,659	2,637		77,004
Depreciation				$ 53,695	53,695
Total Operating Expenses	$ 502,435	$ 172,029	$ 45,669	$ 53,695	$ 773,828

Note H - Financially Interrelated Organizations

Not included in the financial statements of the University are six financially interrelated organizations that are non-profit corporations controlled by separate Boards of Directors whose goals are to support Arizona State University. Financial statements of these organizations are audited by independent auditors.

Four of these financially interrelated organizations — the Arizona State University Foundation, Arizona State University Alumni Association, Sun Angel Foundation, and Sun Angel Endowment — receive funds primarily through donations and dues, and contribute funds to the University for support of various programs.

A fifth financially interrelated organization, Price-Elliott Research Park, Inc. (Park), is developing 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.

As of June 30, 2002, the Park had $18.0 million of revenue bonds outstanding at an average interest rate of 5.26%. The debt service on the bonds is secured by a subordinated lien on ASU Main revenues. Park revenues are not pledged in order to provide development flexibility to the Park.

Annual debt service on the Park bonds will be $1.0 million in fiscal year 2003 and varies from a low of $0.9 million in fiscal 2004 to a high of $1.7 million in fiscal 2006. The University is obligated to pay the annual debt service, if not paid by the Park, under a debt service assurance agreement.

Beginning in fiscal 1990, the University provided operating cash advances to the Park repayable with interest to the University (1) upon the Park's total gross receipts for a fiscal year exceeding its total disbursements for that fiscal year and (2) before any Park surpluses are transferred to the Arizona State University Foundation, for the benefit of Arizona State University. The last year for cash transfers to the Park was fiscal 1998. Since the Parks's repayment to the University was dependent upon successful future operations and the entering into of additional land leases, the transfers to the Park were recorded by the University as current year expenses when made and not as an asset on the University's balance sheet. Total cash advances repayable to the University at June 30, 2002, including accrued interest, totaled $6.5 million. During fiscal year 2002, the Park repaid $1.3 million to the University, with this amount being recorded as other revenues with the timetable for future repayments dependent upon the Park entering into additional land leases.

A sixth financially interrelated organization, the Collegiate Golf Foundation, operates a University owned golf course.

Assets, net assets, and revenues for these organizations for the most recent fiscal year for which audits have been completed, aggregated $293.5 million, $231.3 million, and $31.5 million, respectively, with substantially all of the net assets being donor restricted or endowment funds.

Note I - Retirement Plans

The University participates in one cost-sharing multiple-employer defined benefit pension plan and five defined contribution pension plans. The following disclosures are required by Governmental Accounting Standards Board (GASB) Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers.* In addition to the below mentioned plans, there are two other retirement plans totaling $0.5 million in total University and employee contributions for the year ended June 30, 2002.

Defined Benefit Plan

Plan Description. The *Arizona State Retirement System* (ASRS) administers a cost-sharing multiple-employer defined benefit pension plan that covers eligible employees of the University. Benefits are established by state statute and provide retirement, death, long-term disability, survivor, and health insurance premium benefits. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of Arizona Revised Statutes (A.R.S.) Title 38, Chapter 5, Article 2. The ASRS issues a publicly available annual financial report that includes its financial statements and required supplementary information. That report may be obtained by writing to the ASRS, 3300 North Central Avenue, P.O. Box 33910, Phoenix, Arizona 85067-3910 or by calling (602) 240-2000 or (800) 621-3778.

Funding Policy. For the year ended June 30, 2002, active ASRS members and the University were each required by statute to contribute at the actuarially determined rate of 2.49% (2.00% retirement and 0.49% long-term disability) of the employees' annual covered payroll. The Arizona State Legislature establishes and may amend active plan members' and the University's contribution rates. Both the University and the covered employees made the required contributions for the years ended June 30, 2002, 2001, and 2000 as follows (Dollars in Thousands):

	Contributions Rates (Each)	University Contributions	Employee Contributions	Total Contributions
2002	2.49%	$ 4,191	$ 4,191	$ 8,382
2001	2.66%	4,227	4,227	8,454
2000	2.66%	4,062	4,062	8,124

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, 2002, plans offered by the Teachers Insurance Annuity Association/College Retirement Equities Fund (TIAA/CREF), Variable Annuity Life Insurance Company (VALIC), Fidelity Investments Tax-Exempt Services Company (Fidelity), Aetna Life Insurance and Annuity Company (Aetna), and The Vanguard Group were approved by the Arizona Board of Regents. Benefits under these plans depend solely on the contributed amounts and the returns earned on the investment of those contributions. Contributions made by employees vest immediately and University contributions vest no later than after five years of full-time employment. Employee and University contributions and associated returns earned on investments may be withdrawn starting upon termination of employment, death, or retirement. The distribution of employee contributions and associated investment earnings are made in accordance with the employee's contract with the applicable insurance and annuity company. University contributions and associated investment earnings must be distributed to the employee in the form of an annuity paid over the employee's life.

Funding Policy. The Arizona State Legislature establishes and may amend active plan members' and the University's contribution rates. For the year ended June 30, 2002, 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, 2002, were as follows (Dollars in Thousands):

	Contributions Rates (Each)	University Contributions	Employee Contributions	Total Contributions
TIAA/CREF	7%	$ 9,170	$ 9,170	$ 18,340
VALIC	7%	1,592	1,592	3,184
Fidelity	7%	1,256	1,256	2,512
Aetna	7%	327	327	654
Vanguard	7%	230	230	460

Note J - Other Matters

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 pending claims or litigation not covered by the Risk Management Section should not have a material effect on the University financial statements taken as a whole. Also, in accordance with the disclosure requirements of GASB Statement No. 10, we note that judgments and claims not covered by the Risk Management Section during the three years ended June 30, 2002, have not been material to the University's financial statements taken as a whole.

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

The University has, or is in the process of entering into several privatized arrangements for on-campus student housing and campus energy management where an independent management company is responsible for providing services to the University and/or students served by the University. In conjunction with these privatized arrangements, the independent management companies, with the approval and assistance of the University, have, or are in the process of, obtaining tax-exempt financings in order to maximize the overall financial benefits to the University and its students. As of June 30, 2002, two tax-exempt financings had been completed by an independent management company through separately incorporated non-profit entities formed by the independent companies to do the tax-exempt financings. The University is not legally responsible for repayment of the tax-exempt debt, and there is no pledge or guarantee by the University for repayment of the debt. On June 20, 2002, there was $32.1 million of bonds outstanding for these two privatized arrangements with approximately $50.0 million of financings for two other privatized arrangements being in process with an estimated financing completion date of Fall 2002. Upon final principal repayment of the financings, title to the student housing and energy management equipment transfers to the University.

Note K - Beginning Net Assets, Restated

As a result of implementing GASB Statement No. 35, the University's aggregated fund balance reported as of June 30, 2001 has been restated as follows (Dollars in Thousands):

June 30, 2001 aggregated fund balance, as previously reported	$ 1,395,868
Summer sessions change in revenue recognition	3,168
Accumulated depreciation	(516,740)
Compensated absences liability	(13,150)
Change in equipment capitalization threshold	(43,858)
June 30, 2001 net assets, as restated	$ 825,288

ARIZONA STATE UNIVERSITY

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