

**REPORT HIGHLIGHTS**  
 FINANCIAL STATEMENT AUDIT

**Subject**

Arizona State University issues financial statements annually. The University is responsible for preparing financial statements, maintaining strong internal controls, and demonstrating accountability for its use of public monies. As the auditors, our job is to determine whether the University has met its responsibilities.

**Our Conclusion**

The information in the University's financial statements is fairly stated in all material respects and the financial statements can be relied upon. This information is also incorporated in the State of Arizona's *Comprehensive Annual Financial Report*.



**2004**

Year Ended June 30, 2004

**University Implements New Financial Reporting Standard**

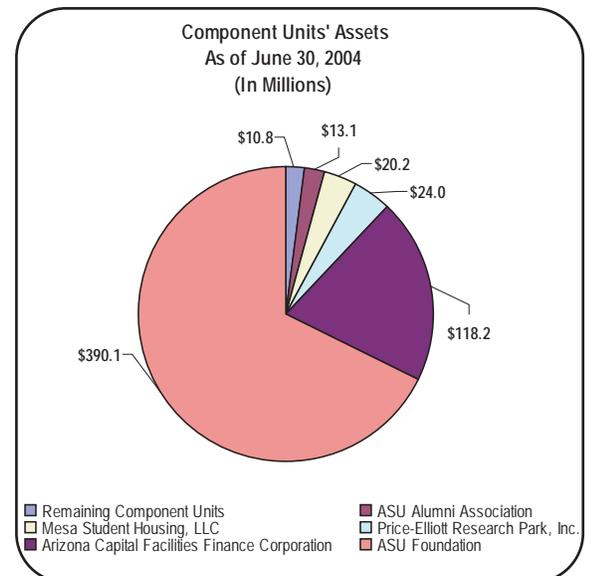
During fiscal year 2004, the University implemented Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This Statement requires reporting as component units in the University's financial statements those legally separate tax-exempt organizations that raise and hold economic resources for the direct benefit of the University. Organizations that meet all of the following criteria are reported as discretely presented component units in the University's financial statements:

- The assets received or held by the organization are entirely or almost entirely for the direct benefit of the University or its students.
- The University is entitled to or has the ability to otherwise access a majority of the assets received or held by the organization.
- The assets received or held by an individual organization that the University is entitled to or has the ability to otherwise access are significant to the University.

Further, other organizations should be evaluated as potential component units if they are closely related to, or are financially integrated with the University, and it would be misleading to exclude the organization.

As a result of implementing this statement, the University's financial statements now include its major component unit, the ASU Foundation,

and seven smaller component units consisting of the ASU Alumni Association, Sun Angel Foundation, Sun Angel Endowment, Price-Elliott Research Park, Inc., Collegiate Golf Foundation, Arizona Capital Facilities Finance Corporation, and Mesa Student Housing, LLC. The ASU Foundation, ASU Alumni Association, Sun Angel Foundation, and Sun Angel Endowment are fund-raising organizations that donate monies to the University or support programs that directly benefit the University. Price-Elliott Research Park, Inc. promotes and supports research activities in conjunction with the University. The Collegiate Golf Foundation operates the University-owned golf course. Arizona Capital Facilities Finance Corporation and Mesa Student Housing, LLC construct and operate facilities for the University's benefit. The chart below shows the assets that the component units hold.



# The University's Revenues and Expenses Have Increased Over the Last 3 Years

The University's financial information is presented in three financial statements: Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; and Statement of Cash Flows.

## Statement of Net Assets

The Statement of Net Assets reports all assets and liabilities of the University using the accrual basis of accounting, which is similar to the accounting that most private-sector institutions use. Net assets, which is the difference between assets and liabilities, include three major categories. The first category, invested in capital assets, net of related debt, shows the University's equity in property, plant, and equipment. The next category, restricted net assets, shows the amount of net resources available for certain University expenditures. These net assets must be used for purposes determined by donors and external entities that have placed purpose restrictions on their use. The third category, unrestricted net assets, shows the net resources available to the University to fund other general operations. The summary below presents a condensed Statement of Net Assets as of June 30, 2004.

<b>Assets</b>	
Current	\$ 170
Noncurrent, other than capital	268
Capital assets, net	<u>1,115</u>
Total assets	<u>1,553</u>
<b>Liabilities</b>	
Current	89
Noncurrent	<u>609</u>
Total liabilities	<u>698</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	598
Restricted	107
Unrestricted	<u>150</u>
Total net assets	<u>\$ 855</u>

## Statement of Revenues, Expenses, and Changes in Net Assets

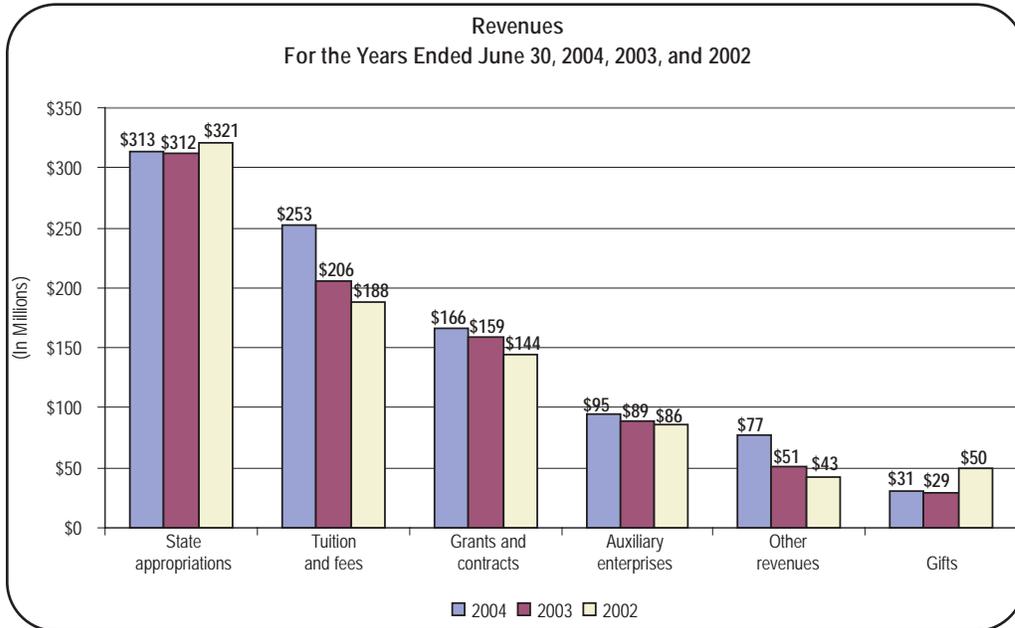
The Statement of Revenues, Expenses, and Changes in Net Assets presents the University's operating and nonoperating revenues and expenses, and the resulting change in net assets. Revenues and expenses are classified as operating if they relate to the University's primary activities, such as instruction, research, and public service. All other revenues and expenses, such as state appropriations and interest on indebtedness, are considered nonoperating. The change in net assets indicates whether the University's financial health has improved or deteriorated as a result of current-year operations. For the current-year, the University's net assets increased by \$1.5 million. The summary below presents the University's revenues and expenses for the year ended June 30, 2004.

<b>Operating Revenues</b>	
Tuition and fees	\$253
Grants and contracts	166
Sales and services	117
Other	<u>7</u>
Total operating revenues	<u>543</u>
<b>Nonoperating Revenues</b>	
State appropriations	313
Other	<u>79</u>
Total nonoperating revenues	<u>392</u>
Total revenues	<u>\$935</u>
<b>Operating Expenses</b>	
Educational and general	\$743
Auxiliary enterprises	86
Depreciation	<u>52</u>
Total operating expenses	<u>881</u>
<b>Nonoperating Expenses</b>	
Interest on indebtedness	20
Other	<u>33</u>
Total nonoperating expenses	<u>53</u>
Total expenses	<u>\$934</u>

## Revenues

Between fiscal years 2002 and 2004, total revenues of the University have increased by \$103 million, or 12 percent, over the period. As shown in the chart below, the change primarily resulted from increases in tuition and fees, grants and contracts, and other revenues. Tuition

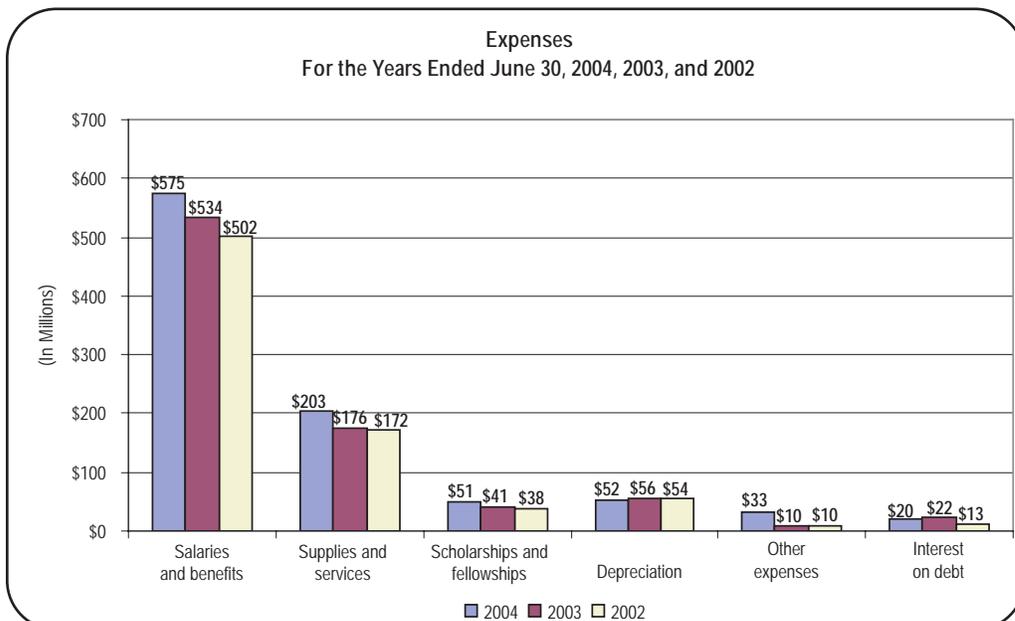
and fees revenues increased \$65 million, other revenues increased by \$34 million, and grants and contracts revenues increased by \$22 million during the period. These changes primarily resulted from increased charges for tuition and fees, increased revenues received relating to net investment income, and increases in grants awarded to the University.



## Expenses

Between fiscal years 2002 and 2004, total expenses of the University have increased \$145 million, or 18 percent, over the period. As shown in the chart below, the change primarily resulted from increases in salaries and benefits, and supplies and services expenses. Salaries and

benefits increased \$73 million and supplies and services increased \$31 million during the period. These changes primarily resulted from rising employee benefit costs, increased library operating hours, and new facility rentals. Further, additional costs arose in conjunction with increases in scholarships and fellowships and noncapital equipment purchases.



## Statement of Cash Flows

The Statement of Cash Flows provides information about cash receipts and cash payments during the year. This statement helps users assess the University's ability to generate net cash flows to meet its obligations as they come due and the need for external financing. The table to the right shows the net cash flows from each of the University's major activities for the year ended June 30, 2004.

Cash Flows For the Year Ended June 30, 2004 (In Millions)	
Cash Flows from:	
Operating activities	\$(294)
Noncapital financing activities	347
Capital and related financing activities	(35)
Investing activities	<u>(16)</u>
Net increase in cash and cash equivalent investments	<u>\$ 2</u>

### TO OBTAIN MORE INFORMATION

A copy of the full report  
can be obtained by calling  
**(602) 553-0333**



or by visiting  
our Web site at:  
[www.auditorgen.state.az.us](http://www.auditorgen.state.az.us)

Contact person for  
this report:  
Doug Haywood