2012 Financial Report

A New American University

Arizona State University

ARIZONA STATE UNIVERSITY

2012 FINANCIAL REPORT

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

Cover: ASU's largest research facility to-date, Interdisciplinary Science and Technology Building IV (ISTB 4), opened in spring 2012 on the Tempe campus.

MESSAGE FROM THE PRESIDENT

ASU
ARIZONA STATE UNIVERSITY

ASU has reached the ten-year milestone of its ongoing transformation to a *New American University*, where excellence is promoted among its students, faculty and staff, and access to its programs is guaranteed for all Arizona residents who will benefit from a higher education. As we move into the eleventh year of this transformation, it seems fitting to look at just a few of ASU's accomplishments this past year that showcase the global impact of our programs and the support they have received through external investments.

As the largest U.S. university governed by a single administration, ASU is home to over 73,000 students across four campuses. ASU welcomed 16,450 new freshman and transfer students for fall 2012, and a record setting number of international students from more than 120 countries. The freshman class includes growing numbers of academically gifted students, with a mean high school grade point average of 3.5 and an SAT composite of 1129. The class is also a culturally diverse group, with 39 percent of the incoming class from varied ethnic and racial backgrounds. ASU students are some of the best, brightest and most engaged students found anywhere.

This past year at ASU was one of amazing and exciting accomplishments by ASU students and faculty. ASU students have unbelievable talent, and when given the opportunity, will have an impact far beyond the university and the State of Arizona. From cutting-edge research to service and community engagement, ASU students are leaders in global awareness and social embeddedness, and are at the forefront of change. The founders of ASU student startup *G3Box* were named "College Entrepreneurs of the Year" by *Entrepreneur Magazine* for addressing the problem of inadequate medical facilities in rural areas by converting steel freight containers to durable semi-mobile medical clinics, and remarkably, ASU teams represented three of the top five award Entrepreneur finalists. Additionally, four ASU students took first place in the U.S. Finals of the *Microsoft Imagine Cup* for their venture, *FlashFood*, a mobile-phone application to help local communities prevent food waste and deliver fresh food to people in need by coordinating food recovery and distribution.

ASU continues to receive national and international recognition for the excellence of its undergraduate and graduate academic programs. Two significant external investments in ASU programs announced this past year will broaden the impact of the transformation underway at ASU.

- The **Rob and Melani Walton Fund** of the Walton Family Foundation announced a $27.5 million investment in the ASU Global Institute of Sustainability to develop and deploy promising solutions to sustainability challenges in energy, water, environment, climate, urbanization, social transformations and decision-making in local, national and global contexts and to educate future leaders in sustainability. Rob Walton's goal for the investment is "…to educate future leaders and empower current scholars so they will effectively apply knowledge to action, creating a better world for us all."

- The establishment of the **McCain Institute for International Leadership** was announced this past spring. The institute will be supported initially by a $9 million gift from a charitable trust funded by Arizona Senator John McCain. ASU will build the nonpartisan institute and nonprofit education and research center in Washington DC, with an additional physical presence in Tempe. Through policy research, events, fellows programs and other activities, the McCain Institute aims to inform, convene and assist policymakers, and to train future leaders from the United States and abroad. The institute will promote character-driven leadership, foster research in the areas of humanitarian work, human rights and national security, and provide internship and research fellowship opportunities to ASU students.

I encourage you to visit the ASU website at asu.edu to learn more about the ongoing accomplishments and achievements of ASU's students, faculty, and staff, and to stay informed on the continuing transformation of ASU as a *New American University*.

Michael Crow

Michael M. Crow
President

Arizona State University

Arizona State University offers instruction in over 250 majors across its four campuses. The University-wide fall 2012 preliminary enrollment numbers indicate ASU will continue its trend of increasing student enrollment, with over 73,370 undergraduate and graduate students.

The University made investments this past year in student success initiatives yielding measurable results in improved graduation and retention rates. These initiatives include using technology as a platform to leverage in-person advising and to track student progress toward graduation, and expansion of innovative high-tech learning studios. Investments in facilities include ground-breaking on a new W. P. Carey School of Business facility to house its highly rated MBA and graduate programs, and the fall 2012 opening of new residential life and dining facilities on the Polytechnic and West campuses to provide integrated learning-living communities at all ASU campuses. The $14.3-million Casa de Oro complex on the West campus and the $13.4-million Century Hall on the Polytechnic campus were built through innovative public/private partnerships, which eased demand on the University's capital. The new facilities will provide state-of-the-art housing for more than 300 freshmen on each campus.

Understanding that paying for college education can be a major investment, the University is proud of its consistent inclusion on the Forbes Top 100 Best Buy Colleges. Given the investment being made by ASU students and their families, it is important that we provide an academic experience of the highest quality. For the sixth consecutive year, ASU is ranked by *U.S. News and World Report* in the top tier of national universities, placing in the top 10 percent of the more than 1,500 four-year colleges and universities evaluated for this ranking. Of special note in ASU's ranking profile is that over 82 percent of its offerings had a class size fewer than 50 students, and almost 40 percent had a class size of fewer than 20 students. ASU's programs in business, engineering and education are consistently ranked among the best in the nation.

ASU, a *New American University*, remains focused on providing high-quality, innovative, cost-effective education to Arizona high school graduates, while channeling new and growing enterprises directly into the community and advancing Arizona economic development. To expand the reach of higher education in Arizona and in partnership with Lake Havasu City, which provided facilities for the new program, the University opened the ASU Colleges at Lake Havasu City in fall 2012. The ASU Colleges program focuses on high-demand undergraduate degrees with a lower price point than is available at traditional research universities.

Research at ASU continues to grow in volume, and is being translated into technologies, products and services that will help drive Arizona's economy and improve lives within Arizona and globally. During fiscal year 2012, external funding received for research and other projects increased seven percent from fiscal year 2011, with fiscal year 2012 awards totaling $316 million. The U.S. Department of Energy recently selected ASU to lead a $15 million private-public partnership for advancements in sustainable algal production to help meet the nation's energy challenges. ASU continued its commitment to expand the University's research infrastructure with completion in spring 2012 of its largest research building to-date. The 293,000 square foot Interdisciplinary Science and Technology Building IV (ISTB 4) will enable cutting-edge research in the key areas of earth and space exploration, security and defense systems, and renewable energy. The design of ISTB 4 embodies the transdisciplinary spirit of ASU, continuously encouraging interaction and collaboration among research programs across engineering and the sciences.

ASU's commitment to sustainability leadership was recognized in June by Second Nature and the American College and University Presidents' Climate Commitment. ASU received a 2012 Climate Leadership Award in recognition of its innovation and commitment to integrating sustainable practices into its campuses and society as a whole. With more than 55 solar photovoltaic installations generating 15.3 megawatts across four campuses, approximately 30 percent of the University's current peak daytime power needs are being met.

ASU continues to maintain a solid financial foundation despite major changes in the financial landscape. Net assets increased $121 million in fiscal year 2012 to $1.25 billion as tuition revenues grew by 18 percent to $757 million. Total assets increased by more than 10 percent to a historical high of $2.7 billion, with capital assets increasing from $1.6 billion to $1.7 billion over the fiscal year. The University's ability to grow research and other revenue streams while containing expenses has allowed ASU to continue on its path of academic achievement for its programs, students and faculty, and to conduct research that finds solutions to the most complex challenges facing our world today. Arizona State University continues to create opportunities to maximize the global impact of its academic programs, research and resources.

I encourage you to review this financial report highlighting ASU's financial performance, and I thank you for your interest in Arizona State University.

Morgan R. Olsen

Morgan R. Olsen
Executive Vice President, Treasurer and Chief Financial Officer

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
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, 2012, 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, 2012, 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, 2012, 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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Our audit was conducted for the purpose of forming opinions on the University's financial statements. The Message from the President, Report from the Chief Financial Officer, Management's Discussion and Analysis, Enrollment, and Combined Sources and Uses sections are presented for purposes of additional analysis and are not required parts of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

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 12, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

The following Management's Discussion and Analysis provides an overview of Arizona State University's financial position and activities for the year ended June 30, 2012, with comparative totals for the year ended June 30, 2011. This discussion has been prepared by management and should be read in conjunction with the financial statements and related notes to financial statements, which follow this section.

Arizona State University (ASU, University) is a comprehensive public institution which has developed a model for a *New American University*, creating an institution that is committed to excellence, access and impact. With a fall 2011 enrollment of over 72,000 students, ASU encompasses four campuses across the Phoenix metropolitan area providing nationally ranked academic programs in traditional classroom settings as well as through ASU Online. ASU consistently ranks among the top national universities by various measures of academic excellence, both for its programs and faculty.

USING THE FINANCIAL STATEMENTS

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

The University's financial statements include 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. These financial statements are prepared in accordance with Governmental Accounting Standards Board principles, which establish standards for external financial reporting for public colleges and universities.

Information on the University's 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 indicators such as enrollment trends, quality of students applying for admission, reputation of academic programs, student retention, graduation rates, faculty awards and recognition, and community enrichment in order to assess the University overall.

FINANCIAL HIGHLIGHTS FOR FISCAL 2012

ASU recorded an increase in net assets of $121 million in fiscal 2012, an 11 percent increase over fiscal 2011. ASU's fiscal 2012 revenues totaled $1.74 billion, while expenses were $1.62 billion. The fiscal 2012 increase in net assets of $121 million represented approximately 7 percent of fiscal 2012 total revenues and will be reinvested to improve educational excellence, upgrade facilities, fund strategic initiatives, and provide for contingencies. Primary revenue sources in fiscal 2012 were student tuition, state appropriations and externally funded grants and contracts activity, including $232 million in federally funded grants and contracts. The most significant fiscal 2012 expense categories were those directly related to instruction and academic programs ($705 million), research and public service ($259 million) and student programs including financial aid ($174 million).

ASU Design Aspiration 1: **Leverage Our Place.** Arizona State University has four campuses in the metropolitan Phoenix area.

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. The change in net assets between years is one indicator of whether the overall financial condition of the University has improved or worsened during the fiscal year. A summarized comparison of the University's assets, liabilities and net assets as of June 30, 2012 and June 30, 2011 follows.

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

	2012	2011
Assets		
Current assets	$ 384.2	$ 442.2
Noncurrent assets	577.1	370.7
Noncurrent capital assets, net	1,729.5	1,623.9
Total assets	**$ 2,690.8**	**$ 2,436.8**
Liabilities		
Long-term debt liabilities	$ 1,275.4	$ 1,150.4
Other liabilities	163.8	156.0
Total liabilities	**$ 1,439.2**	**$ 1,306.4**
Net Assets		
Invested in capital assets, net	$ 643.0	$ 634.3
Restricted:		
Nonexpendable	52.9	49.5
Expendable	92.7	87.2
Unrestricted	463.0	359.4
Total net assets	**$ 1,251.6**	**$ 1,130.4**

The University continues to have a solid financial foundation resulting in part from the prudent utilization of financial resources to improve or maintain the University's capital assets. At June 30, 2012, ASU held total assets of $2.7 billion, reflecting a $254 million, or 10 percent, increase from June 30, 2011. Current assets include those that may be used to support current operations such as cash and cash equivalents, short-term investments and accounts receivables. Current assets decreased by $58 million between years primarily due to a decrease in cash and cash equivalent balances. The $140 million decrease in cash and cash equivalents was offset by a $69 million increase in short-term investments and an increase in noncurrent other investments due to the lengthening of investment maturities to improve investment yields.

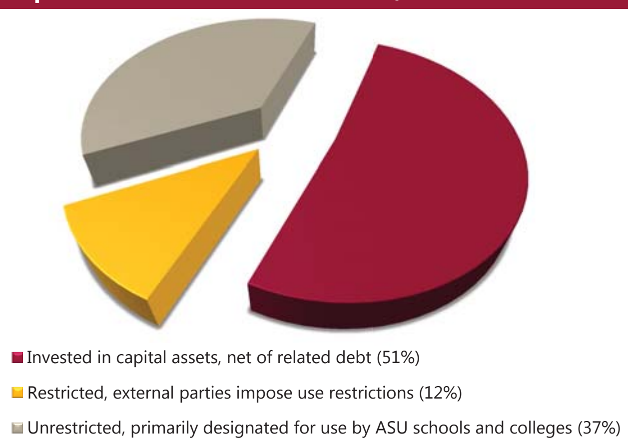
Noncurrent assets increased by $206 million with significant increases occurring in restricted cash and cash equivalents and other investments. Restricted cash and cash equivalents increased $58 million as a result of bond financings for McCord Hall, a new building under construction within the W.P. Carey School of Business complex on the Tempe campus, new dining facilities and student fitness complexes at the West and Polytechnic campuses, and university-wide infrastructure and renewal projects. Cash from bond financings is held with the bank trustee until construction costs are incurred. Other investments increased $133 million due to the lengthening of investment maturities mentioned above, with a portion of the University's operating cash transferred from cash equivalents into investments with an average maturity of fourteen months. There was also a $106 million increase in capital assets, net of accumulated depreciation, primarily related to completion of the Interdisciplinary Science and Technology Building IV (ISTB 4), a research building housing programs in earth and space exploration and engineering, as well as construction in progress for McCord Hall.

Liabilities increased to $1.4 billion at June 30, 2012, a $133 million increase. The change was primarily in the long-term debt category due to the issuance of revenue bonds during fiscal 2012 to fund construction of McCord Hall, new dining facilities and student fitness complexes at the West and Polytechnic campuses, classroom and laboratory renovations, and infrastructure projects.

Net assets, the difference between total assets and total liabilities, increased $121 million in fiscal 2012. 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 expenditure 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 and/or other external parties.
- Unrestricted net assets are all other funds available to ASU for purposes related to its mission. Unrestricted net assets are typically designated for specific colleges or initiatives.

Composition of Net Assets at June 30, 2012



Total net assets at June 30, 2012 were $1.25 billion, an 11 percent increase 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 2012 increase in net assets primarily occurred in the unrestricted net assets category. The University's unrestricted net assets are primarily under management of the academic colleges and schools.

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, governmental grants and contracts, and auxiliary activities. ASU, and other public universities, depend on state appropriations, gifts, financial aid grants 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 integral in determining the overall increase or decrease in net assets.

A summarized schedule of the University's activities for fiscal years 2012 and 2011 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)*

	2012	2011
Operating revenues		
Tuition and fees, net	$ 757.2	$ 639.3
Governmental grants and contracts	229.8	217.0
Auxiliary enterprises, net	105.5	136.6
Other operating revenues	62.8	52.6
Total operating revenues	$ 1,155.3	$ 1,045.5
Operating expenses	1,558.4	1,556.9
Operating loss	**$ (403.1)**	**$ (511.4)**
Net nonoperating revenues (expenses)		
State operating appropriations	$ 307.8	$ 380.9
Other nonoperating revenues	248.0	254.3
Nonoperating expenses	(56.5)	(54.5)
Income before other revenues, expenses, gains, or losses	$ 96.2	$ 69.3
Capital appropriations and other revenues	25.0	24.3
Increase in net assets	**$ 121.2**	**$ 93.6**
Net assets at beginning of year	1,130.4	1,036.8
Net assets at end of year	**$ 1,251.6**	**$ 1,130.4**

Revenues

ASU's total revenues increased $31 million, or 2 percent, to $1.74 billion in fiscal 2012. Tuition and fees increased $118 million and grants and contracts increased $13 million, while state appropriations decreased $73 million and auxiliary enterprises decreased $31 million between fiscal 2012 and fiscal 2011. Tuition and fee increases were due to increased enrollment as well as rate increases. The decrease in state appropriations between years reflected the funding reductions incurred by the University as the result of the economic pressures in the State of Arizona during the last few years. Included in fiscal 2012 state appropriations were ongoing capital appropriations of $15 million and a one-time technical funding adjustment of $21 million. Auxiliary enterprises revenues declined due to the outsourcing of the University's bookstore operations, which accounted for approximately $36 million of the University's auxiliary enterprises revenues in fiscal 2011. The decrease in other nonoperating revenues was primarily the result of a $19 million decrease in net investment income between years due to weaker financial market performance.

Expenses

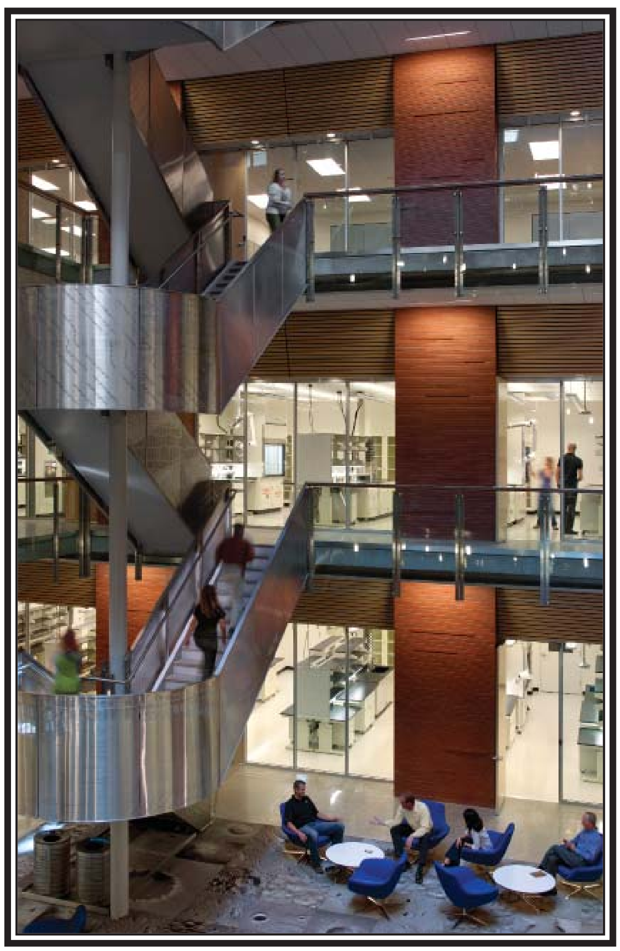
Expenses are also categorized as operating or nonoperating per GASB. The University reports operating expenses by functional category (instruction, research, etc.) on the face of the statement of revenues, expenses and changes in net assets and displays expenses by their natural classification (personal services and benefits, supplies and services, etc.) in Note I in the notes to the financial statements.

Overall total expenses increased $4 million in fiscal 2012, however, when fiscal 2011 expenses are adjusted for bookstore activity the increase between years is $42 million. ASU's core mission related program expenditures for instruction/academic support and research/public service increased $22 million and $9 million between years, respectively. Auxiliary enterprises had a $27 million decrease between years related to the outsourcing of the bookstore.

Instruction/academic support expenses increased in multiple programs across all campuses, including ASU Online, which had significant growth in fiscal 2012. ASU Online allows students to access the educational opportunities of the University while being physically located virtually anywhere. Tuition and state appropriation revenues are the primary funding sources for instruction and academic support expenses.

Increases in research expenses were spread across several departments including chemistry, earth and space sciences, and the LightWorks research center. LightWorks consolidates light-inspired research at ASU under one strategic framework in a multidisciplinary effort focused on renewable energy fields including artificial photosynthesis, biofuels, and next generation photovoltaics.

Combined Sources and Uses *(Dollars in millions)*					
	2012		**2011**		**Percentage Change**
SOURCES					
Tuition and fees, net	$ 757.2	44%	$ 639.3	38%	18%
State appropriations (includes capital appropriations)	322.2	19%	395.4	23%	(19%)
Grants and contracts	280.7	16%	268.5	16%	5%
Financial aid grants	110.2	6%	104.5	6%	5%
Auxiliary enterprises	105.5	6%	136.6	8%	(23%)
Private and capital gifts	62.6	4%	54.2	3%	15%
Sales and services	53.9	3%	43.5	3%	24%
Share of state sales tax (TRIF)	23.8	1%	21.8	1%	9%
Other sources	20.0	1%	41.2	2%	(51%)
Total sources	**$ 1,736.1**	**100%**	**$ 1,705.0**	**100%**	**2%**
USES					
Instruction and academic support	$ 705.0	44%	$ 683.2	42%	3%
Research and public service	258.5	16%	249.5	16%	4%
Scholarships and fellowships and student services	173.9	11%	175.7	11%	(1%)
Institutional support and operation of plant	207.2	13%	208.8	13%	(1%)
Auxiliary enterprises	115.8	7%	142.5	9%	(19%)
Depreciation	98.0	6%	97.2	6%	1%
Interest on debt and other expenses	56.5	3%	54.5	3%	4%
Total uses	**$ 1,614.9**	**100%**	**$ 1,611.4**	**100%**	**-**



ASU Design Aspiration 2: **Transform Society**. ISTB 4 is home to many science and engineering programs as well as the Security and Defense Systems Initiative (SDSI). SDSI projects include those with socio-cultural and economic focus to examine root causes of emerging security and defense challenges.

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)*

	2012	2011
Cash provided by/(used for):		
Operating activities	$ (346.5)	$ (420.2)
Noncapital financing activities	558.5	614.4
Capital and related financing activities	(93.9)	(127.2)
Investing activities	(199.3)	(8.1)
Net increase/(decrease) in cash and cash equivalents	**$ (81.2)**	**$ 58.9**
Cash and cash equivalents at beginning of year	440.8	381.9
Cash and cash equivalents at end of year	**$ 359.6**	**$ 440.8**

Overall, cash and cash equivalent balances decreased $81 million between years primarily due to lengthening of investment maturities. During fiscal 2012 more of the University's operating cash was invested in short-term and noncurrent investments to yield slightly higher rates of return.

Cash flows from operating activities present the net cash generated or 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, grants and contracts, and auxiliary enterprises revenues. Operating expenses include employee salaries and benefits and vendor payments for supplies.

Net cash flows from noncapital financing activities is a major funding source for operating expenses and includes cash from state operating appropriations, financial aid 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 2012 included completion of the Interdisciplinary Science and Technology Building IV (ISTB 4), construction in progress of McCord Hall, dining facilities and student fitness complexes at the West and Polytechnic campuses, and building renewal and infrastructure projects to address critical needs. Completed in spring 2012, ISTB 4 is the largest research building at ASU, with over 293,000 square feet of high-technology research laboratories and collaboration spaces specifically designed to promote transdisciplinary team interactions. The programs housed in ISTB 4, including the School of Earth and Space Exploration and several Ira A. Fulton Schools of Engineering research laboratories and centers, were identified as strategic 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. ISTB 4 is also the headquarters of ASU's Security and Defense Systems Initiative, which addresses national security and defense problems.

When completed in fall 2013, McCord Hall will house W.P. Carey School of Business MBA and graduate programs. McCord Hall will feature state-of-the art classrooms, lecture halls and break-out rooms, technologically advanced team-study rooms and research centers, as well as conference rooms suited for public conferences and executive education. Continuing ASU's commitment towards sustainability, McCord Hall features a sustainable and ecologically sensitive design including reduced water and energy usage and the recycling or repurposing of construction site debris.

At June 30, 2012 the University had issued a combination of fixed and variable rate bonds, fixed rate certificates of participation and other lease obligations. In April 2012 the University issued $213 million in system revenue bonds to fund construction of McCord Hall, new dining facilities and student fitness complexes at West and Polytechnic campuses, information technology infrastructure projects, and to refund various outstanding bonds. In November 2011 ASU issued $31 million in Stimulus Plan for Economic and Educational Development (SPEED) bonds for renovations of classrooms, student instructional and research laboratories, and infrastructure projects. The SPEED bonds are primarily funded through Arizona Lottery revenues, with the balance being the responsibility of the University.

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

ASU Design Aspiration 3: **Value Entrepreneurship**. The ASU SkySong Innovation Center helps grow the economy by launching new companies and performing use-inspired research. The ASU Edson Student Entrepreneur Initiative provides funding, mentorship, and office space at SkySong to teams of students within all university disciplines.

ASU'S COMPONENT UNITS (FINANCIALLY RELATED ORGANIZATIONS)

Included in this financial report are the financial statements of the University's component units presented on an aggregated basis and on separate pages from the financial statements of the University. ASU component units included in these statements are the ASU Foundation, Arizona Capital Facilities Finance Corporation (ACFFC), 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	
	2012	**2011**
Assets		
Cash and investments	$ 693.8	$ 722.0
Capital assets, net	336.5	375.0
Receivables, net	123.7	99.5
Other assets	101.8	102.5
Total assets	**$ 1,255.8**	**$ 1,299.0**
Liabilities		
Long-term debt	$ 546.5	$ 586.8
Other liabilities	174.3	174.2
Total liabilities	**$ 720.8**	**$ 761.0**
Net assets		
Unrestricted	$ (62.9)	$ (34.1)
Temporarily restricted	232.3	214.1
Permanently restricted	365.6	358.0
Total net assets	**$ 535.0**	**$ 538.0**

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

	June 30	
	2012	**2011**
Revenues		
Contributions	$ 106.4	$ 66.3
Other revenues	91.3	182.1
Total revenues	**$ 197.7**	**$ 248.4**
Expenses		
Payments to the benefit of ASU	$ 75.3	$ 65.4
Other expenses	127.2	117.5
Total expenses	**$ 202.5**	**$ 182.9**
Transfers and losses	1.8	
Increase/(Decrease) in net assets	$ (3.0)	$ 65.5
Net assets at beginning of the year	538.0	472.5
Net assets at end of year	**$ 535.0**	**$ 538.0**

COMBINED ASU AND COMPONENT UNITS

ASU and its component units combined for an increase in net assets of $118 million in fiscal 2012, compared to a $159 million increase in fiscal 2011. University net assets increased $121 million in fiscal 2012 and $94 million in fiscal 2011, while component unit net assets decreased $3 million in fiscal 2012 and increased $66 million in fiscal 2011. The ASU Foundation had a fiscal 2012 increase in net assets of $12 million, down from a $73 million increase in fiscal 2011 due to lower net investment returns on operating and endowment funds, consistent with overall financial market performance, while ACFFC and the other component units had a combined decrease of $15 million in fiscal 2012. Overall, restricted net assets of the component units increased by $26 million between years, while component unit unrestricted net assets decreased by $29 million. Restricted 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)*

	2012			2011		
	ASU	**ASU Component Units**	**Combined**	**ASU**	**ASU Component Units**	**Combined**
Invested in capital assets	$ 643.0		$ 643.0	$ 634.3		$ 634.3
Unrestricted net assets	463.0	$ (62.9)	400.1	359.4	$ (34.1)	325.3
Restricted net assets:						
Nonexpendable/Permanently	52.9	365.6	418.5	49.5	358.0	407.5
Expendable/Temporarily	92.7	232.3	325.0	87.2	214.1	301.3
Net assets at end of year	**$ 1,251.6**	**$ 535.0**	**$ 1,786.6**	**$ 1,130.4**	**$ 538.0**	**$ 1,668.4**

MANAGEMENT'S DISCUSSION AND ANALYSIS

ECONOMIC OUTLOOK

The Arizona economy continues to strengthen, University revenue growth is steady, and student demand remains robust. ASU has made great strides forward a decade after beginning its transformation to a *New American University*, with academic and research programs that are recognized nationally and internationally. Although the share of revenues provided by State appropriations fell from 23 percent in fiscal 2011 to 19 percent in fiscal 2012, the State of Arizona economy is improving and budget pressures have eased. State tax revenues are increasing and the State ran a budget surplus in fiscal 2012. The University's fiscal 2013 State appropriation is almost 4 percent higher than in fiscal 2012, after adjusting for the fiscal 2012 one-time technical adjustment.

All major revenue streams of the University reflected growth in fiscal 2012, compared to fiscal 2011, with the exception of state appropriations and auxiliary enterprises, and are expected to grow again in fiscal 2013. Tuition and fee revenue will increase due to rate and enrollment increases, albeit at a slower level than in fiscal 2012. State appropriations will expand modestly and research revenues are expected to continue to grow.

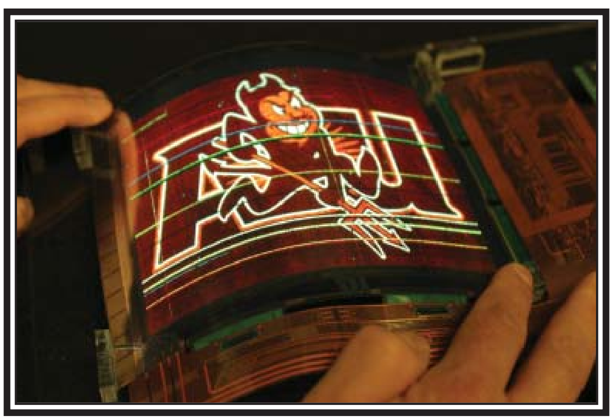
Preliminary enrollment estimates for fall 2012 indicate ASU has a record enrollment of 73,370 undergraduate and graduate students, a 1,120 student increase over fall 2011 and a 2,930 increase over fall 2010. Included in the fall 2012 numbers are 16,450 students new to ASU as first-time freshmen or transfer students. International student enrollment at ASU also hit record levels, with more than 5,160 international students enrolled in fall 2012, a 34 percent increase from fall 2010.

ASU also continues to focus on Arizona students outside the metropolitan Phoenix area. In fall 2012 the ASU Colleges at Lake Havasu City (Arizona) became the University's newest location as part of an innovative effort to expand access to higher education. 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.

Student academic success is key to attracting and retaining the "best and brightest" students. Over the past five years the number of degrees granted annually increased 25 percent, evidence of ASU's success in this critical student demand component.

Academic Year	Degrees Granted
2011/2012	18,045
2010/2011	17,090
2009/2010	16,380
2008/2009	15,610
2007/2008	14,444

Overall, the financial position of the University is favorable, and management continues to make strategic decisions allowing the University to position itself as a leading academic and research university, while providing its students an exceptional educational experience.



ASU Design Aspiration 4: **Conduct Use-Inspired Research**. Researchers at the Flexible Display Center at ASU have manufactured the world's largest flexible color organic light emitting display prototype using advanced mixed oxide thin film transistors.

ASU Design Aspiration 5: **Enable Student Success.** The W.P. Carey School of Business McCord Hall is scheduled to open Fall 2013. Left is an artist rendering and above is the building under construction.

AUDITED FINANCIAL STATEMENTS

AND

NOTES TO FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS

June 30, 2012 *(Dollars in thousands)*

ASSETS	
Current Assets:	
Cash and cash equivalents	$ 125,473
Short-term investments	103,282
Receivables:	
Accounts receivable, net	60,831
State appropriations	90,575
Student loans receivable, net	1,995
Other assets	2,020
Total Current Assets	$ 384,176
Noncurrent Assets:	
Restricted cash and cash equivalents	$ 234,108
Endowment investments	90,133
Other investments	212,058
Deferred expenses	7,018
Deferred outflow - interest rate swap (Note F)	22,880
Student loans receivable, net	10,916
Capital assets, net (Note C)	1,729,475
Total Noncurrent Assets	$ 2,306,588
Total Assets	**$ 2,690,764**
LIABILITIES	
Current Liabilities:	
Accounts payable	$ 64,703
Compensated absences (Note H)	2,778
Deferred revenues	30,455
Funds held for others	10,940
Current portion of long-term debt (Note E) - Funded by:	
University operating revenues	35,414
State appropriations and other State monies	10,593
Total Current Liabilities	$ 154,883
Noncurrent Liabilities:	
Compensated absences (Note H)	$ 21,434
Other liabilities	10,603
Derivative instrument - interest rate swap (Note F)	22,880
Long-term debt (Note E) - Funded by:	
University operating revenues	863,255
State appropriations and other State monies	366,141
Total Noncurrent Liabilities	$ 1,284,313
Total Liabilities	**$ 1,439,196**
NET ASSETS	
Invested in capital assets, net of related debt	$ 643,008
Restricted (Total of $145,602):	
Nonexpendable:	
Student aid	48,693
Academic department uses	4,248
Expendable:	
Student aid	35,705
Academic department uses	56,540
Debt service	416
Unrestricted (Note G)	462,958
Total Net Assets	**$ 1,251,568**

See Notes to Financial Statements.

COMPONENT UNITS

STATEMENT OF FINANCIAL POSITION

June 30, 2012 *(Dollars in thousands)*

ASSETS	
Cash and cash equivalents	$ 16,988
Pledges receivables, net	107,975
Other receivables, net	15,765
Investments in securities	631,813
Other investments	44,976
Net direct financing leases	70,580
Property and equipment, net	336,560
Other assets	31,175
Total Assets	**$ 1,255,832**
LIABILITIES	
Accounts payable and accrued liabilities	$ 30,237
Deferred revenue	18,022
ASU endowment trust liability	90,133
Other liabilities	35,907
Long-term debt	546,488
Total Liabilities	**$ 720,787**
NET ASSETS	
Unrestricted	$ (62,932)
Temporarily restricted	232,312
Permanently restricted	365,665
Total Net Assets	**$ 535,045**

See Notes to Financial Statements.

ASU Design Aspiration 6: **Fuse Intellectual Disciplines**. ASU's LightWorks research center is a multidisciplinary effort focusing on renewable energy initiatives.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Year ended June 30, 2012 *(Dollars in thousands)*

OPERATING REVENUES	
Student tuition and fees, net of scholarship allowances of $195,346	$ 757,217
Governmental grants and contracts, including $192,926 in federal funding	229,801
Sales and services -	
Auxiliary enterprises, net of scholarship allowances of $8,155	105,510
Educational departments	53,866
Other revenues	8,947
Total Operating Revenues	$ 1,155,341
OPERATING EXPENSES (Note I)	
Educational and general -	
Instruction	$ 519,117
Research	211,569
Public service	46,938
Academic support	185,890
Student services	60,737
Institutional support	120,491
Operation and maintenance of plant	86,750
Scholarships and fellowships	113,171
Auxiliary enterprises	115,799
Depreciation	98,005
Total Operating Expenses	$ 1,558,467
Operating Loss	$ (403,126)
NONOPERATING REVENUES (EXPENSES)	
State appropriations	$ 307,765
Share of state sales tax - technology and research initiatives fund	23,799
Financial aid grants, including $109,779 in federal grants	110,222
Grants and contracts, including $37,820 in federal funding	49,237
Private gifts	55,329
Financial aid trust funds, including $5,242 in state trust fund appropriations	11,027
Net investment loss	(1,629)
Interest on debt	(48,101)
Other expenses	(8,358)
Net Nonoperating Revenues	$ 499,291
Income Before Other Revenues, Expenses, Gains, or Losses	$ 96,165
Capital appropriations - Research Infrastructure Capital Financing	14,472
Capital commitment - Arizona Lottery revenues (Note E)	1,646
Capital grants, including $1,517 in federal grants	1,636
Capital private gifts	7,206
Additions to permanent endowments	3
Increase in Net Assets	121,128
Net Assets at Beginning of Year	1,130,440
Net Assets at End of Year	**$ 1,251,568**

See Notes to Financial Statements.

COMPONENT UNITS

STATEMENT OF ACTIVITIES

Year ended June 30, 2012 *(Dollars in thousands)*

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
REVENUES				
Contributions	$ 13,413	$ 87,095	$ 5,906	$ 106,414
Rental revenues	37,896			37,896
Sales and services	36,671	131		36,802
Net investment return/(loss)	(9,893)	541	2,745	(6,607)
Net assets released from restrictions	70,532	(69,586)	(946)	
Grants and aid	7,205			7,205
Other revenues	15,948	1		15,949
Total Revenues	$ 171,772	$ 18,182	$ 7,705	$ 197,659
EXPENSES				
Payments to the benefit of ASU -				
Cash donation transfers to ASU	$ 58,818			$ 58,818
Scholarship funds transfers to ASU	5,324			5,324
Vendor payments	5,828			5,828
Rent payments to ASU	5,333			5,333
Management and general	66,938			66,938
Interest expense	25,210			25,210
Depreciation/amortization	21,582			21,582
Other expenses	13,442			13,442
Total Expenses	$ 202,475			$ 202,475
Increase/(Decrease) in Net Assets, before Transfers and Losses	(30,703)	18,182	7,705	(4,816)
Net assets and equity transfers	2,909			2,909
Loss on lease revaluation due to bond refunding	(502)			(502)
Loss on early debt extinguishment	(411)			(411)
Other losses	(106)			(106)
Increase/(Decrease) in Net Assets, after Transfers and Losses	(28,813)	18,182	7,705	(2,926)
Net Assets at Beginning of Year	(34,119)	214,130	357,960	537,971
Net Assets at End of Year	$ (62,932)	$ 232,312	$ 365,665	$ 535,045

See Notes to Financial Statements.

STATEMENT OF CASH FLOWS

Year ended June 30, 2012 *(Dollars in thousands)*

CASH FLOWS FROM OPERATING ACTIVITIES	
Student tuition and fees	$ 727,402
Grants and contracts (primarily federal)	221,318
Sales and services of auxiliary enterprises	116,251
Sales and services of educational activities	52,760
Payments for employees' salaries and benefits	(926,297)
Payments to vendors for supplies and services	(412,360)
Payments for scholarships and fellowships	(118,823)
Student loans issued	(1,528)
Student loans collected	1,524
Other disbursements	(6,700)
Net cash used for operating activities	$ (346,453)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State appropriations	$ 307,764
Share of state sales tax - technology and research initiatives fund	24,033
Grants and contracts (primarily financial aid)	159,848
Private gifts for other than capital purposes	55,331
Financial aid trust funds	11,055
Direct lending program receipts	475,697
Direct lending program disbursements	(474,925)
Funds held for others received	129,049
Funds held for others disbursed	(129,391)
Net cash provided by noncapital financing activities	$ 558,461
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital appropriations - Research Infrastructure Capital Financing	$ 14,472
Build America Bonds - federal subsidy	3,977
Capital commitment - Arizona Lottery revenue	990
Capital gifts and grants	3,815
Proceeds from issuance of capital debt	162,741
Purchases of capital assets	(188,253)
Principal paid on capital debt and leases	(42,730)
Interest paid on capital debt and leases	(48,957)
Net cash used for capital and related financing activities	$ (93,945)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of investments, net	$ (205,251)
Interest received on investments	5,971
Net cash used for investing activities	$ (199,280)
Net decrease in cash and cash equivalents	(81,217)
Cash and cash equivalents at beginning of year	440,798
Cash and cash equivalents at end of year	$ 359,581
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	$ (403,126)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	98,005
Other disbursements	(7,410)
Changes in assets and liabilities:	
Increases in -	
Receivables, net	(13,697)
Deferred expenses	(97)
Deferred revenues	2,397
Decreases in -	
Inventories	974
Accounts payable and accrued liabilities	(21,873)
Compensated absences	(1,626)
Net cash used for operating activities	$ (346,453)
SIGNIFICANT NONCASH TRANSACTIONS	
State appropriations receivable	$ 90,575
Refinancing of long-term debt	82,130
Assets acquired through debt	18,274
Change in fair value of investments	(7,609)
Loss on disposal of capital assets, net	(6,069)

See Notes to Financial Statements.

June 30, 2012

Note A - Organization and Summary of Significant Accounting Policies

The accounting policies of Arizona State University (ASU, 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 2011 enrollment of 72,254 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 85 percent, 74 percent, 100 percent and 75 percent of the total component units' assets, liabilities, net assets, and revenues exclusive of net investment activity and transfers and losses, respectively.

These component units are nonprofit corporations controlled and governed by separate Boards of Directors (Boards) whose goals are to support Arizona State University. Even though these organizations support the University, they are not subsidiaries of the University, nor are they directly 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. In accordance with GASB Statement Nos. 14 and 39, factors used to determine if organizations are component units, include:

- ♦ 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. On April 26, 2012 Mesa Student Housing, LLC entered into an agreement with the Arizona Board of Regents acting on behalf of the University, which resulted in the defeasance of Mesa Student Housing, LLC outstanding bonds and a transfer of their rights and interest in the housing project to the University. The ground lease between Mesa Student Housing, LLC and ASU was terminated and all assets were transferred to 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 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. In fiscal year 2012, the University made $12.2 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, 2012. 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 equivalents 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, 2012, the University implemented the provisions of GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions, an amendment of GASB Statement No. 53*. GASB Statement No. 64 clarifies existing standards regarding swap agreements that are reported as hedging instruments. The implementation of this standard 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 equivalents. 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 equivalents. 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 equivalents, including funds held by a bond trustee, are shown as noncurrent cash and cash equivalents.

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 2012, the spending rate utilized the constant growth spending methodology which increases spending distributions by the trailing one-year inflation rate (as measured by CPI-U) each year, as long as distributions do not exceed 4.25 percent or fall below 3.25 percent of the trailing 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, 2012. 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, 2012 were $153.4 million, including $90.6 million in fiscal 2012 State of Arizona general fund appropriations. Other significant amounts included in the accounts receivable balance are $32.5 million related to student tuition and fee payments due from students and others making payments on behalf of students; and $2.9 million in sales tax revenues from the State of Arizona to support the Technology and Research Initiative Fund (TRIF). Additionally, there are $5.7 million in receivables from Federal grant sponsors and $2.6 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 2012 general fund rollover appropriations until fiscal 2013. The University received the rollover appropriations in total on October 1, 2012. The revenue associated with these deferred appropriations was recorded as fiscal 2012 state appropriations in accordance with the authorized fiscal 2012 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 percent 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 is 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. Intangible assets with a unit price of $5,000,000 or more are capitalized. 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, 7 years for intangible assets, and 5 to 12 years for equipment. The University does not depreciate works of art and historical treasures that are considered inexhaustible and are held for exhibition, education, research, and public service.

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

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, 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 this type of activity, i.e. financial assistance is provided to acquire property or activity for the government's direct benefit. 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 organized 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 $16.7 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 $765.1 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—an amendment to GASB Statement No. 3*.

Included in the University's deposits and investments are capital projects and bond debt service funds totaling $234.1 million, which are held in trust and invested by various trustee banks. In addition, endowment funds totaling $90.1 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 does not have a formal policy that specifically addresses credit risk over endowment funds. 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, 2012 *(Dollars in thousands)*

			Standard and Poor's							
Investment Description	**Fair Value**	**Not Rated**	**AAAm / AAAf**	**AA+**	**AA**	**AA-**	**A+**	**A**	**A-1+**	**A-1**
Money market mutual funds	$ 223,302	$ 10,356	$ 212,946							
Federal agency securities	324,655			$ 296,917					$ 27,738	
Corporate note securities	22,652			3,505	$ 2,506	$ 5,603	$ 4,065	$ 6,973		
Commercial paper	24,980								9,993	$ 14,987
Negotiable certificates of deposit	14,986					5,008			9,978	
Municipal bonds	1,874				1,874					
State of Arizona LGIP (Pool 5)	485		485							
Total	**$ 612,934**	**$ 10,356**	**$ 213,431**	**$ 300,422**	**$ 4,380**	**$ 10,611**	**$ 4,065**	**$ 6,973**	**$47,709**	**$ 14,987**

Concentration of Credit Risk. ABOR and University policies for operating funds state that no more than 5 percent of the total investment portfolio, or 5 percent of the issues outstanding, whichever is less, shall be invested directly in securities issued by a single corporation and its subsidiaries/affiliates, however, securities issued by the federal government or its agencies, sponsored agencies, corporations, sponsored corporations or instrumentalities are exempted from this provision. Capital projects and bond debt service financing indentures do not limit investments with a single issuer due to the conservative nature of permitted investments. At June 30, 2012, 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 Mortgage Corporation, and Federal Home Loan Bank with a fair value of $90.4 million, $103.8 million, and $105.8 million or 12 percent, 14 percent, and 14 percent 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 percent 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.

NOTES TO FINANCIAL STATEMENTS

Interest Rate Risk for the University's Debt Investments at June 30, 2012 - utilizing the weighted average maturity methods *(Dollars in thousands)*		
Investment Description	**Fair Value**	**Weighted Average Maturity (Years)**
Money market mutual funds	$ 223,302	0.1
Federal agency securities	324,655	1.2
Corporate note securities	22,652	2.5
Commercial paper	24,980	0.2
Negotiable certificates of deposit	14,986	0.5
Municipal bonds	1,874	2.8
State of Arizona LGIP (Pool 5)	485	0.1
Subtotal, before U.S. Treasury securities	$ 612,934	
U.S. Treasury securities	35,171	1.0
Total	**$ 648,105**	

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

Note C - Capital Assets

Capital asset activity for the year ended June 30, 2012 follows:

Capital asset activity for the year ended June 30, 2012 *(Dollars in thousands)*	**Balance 07/01/2011 (as reclassified)**	**Additions/ Increases**	**Retirements/ Decreases**	**Balance 06/30/2012**
Non-depreciated capital assets				
Land -				
University operations	$ 68,985	$ 2,365	$ (584)	$ 70,766
Investment property	28,163		(66)	28,097
Construction in progress -				
Buildings	92,026	44,816	(92,026)	44,816
Intangible assets - capitalized software		3,949		3,949
Works of art and historical treasures	18,657	540	(24)	19,173
Total	$ 207,831	$ 51,670	$ (92,700)	$ 166,801
Depreciated capital assets				
Infrastructure	$ 116,310	$ 1,271		$ 117,581
Buildings	1,783,204	206,147	$ (3,986)	1,985,365
Equipment	352,761	31,494	(17,173)	367,082
Capitalized software	19,328			19,328
Library books	248,016	11,052	(2,683)	256,385
Less accumulated depreciation				
Infrastructure	(40,734)	(2,910)		(43,644)
Buildings	(640,350)	(52,055)	1,665	(690,740)
Equipment	(221,246)	(30,172)	14,096	(237,322)
Capitalized software	(10,244)	(1,705)		(11,949)
Library books	(190,932)	(11,163)	2,683	(199,412)
Total	$ 1,416,113	$ 151,959	$ (5,398)	$ 1,562,674
Capital assets, net	**$ 1,623,944**	**$ 203,629**	**$ (98,098)**	**$ 1,729,475**

Construction in progress additions reflected above represent expenses for new projects net of capital assets placed in service. It is estimated $147.0 million in additional expenses will be required to complete projects under construction at June 30, 2012. Construction in progress encumbrances committed through purchase orders at June 30, 2012, totaled $93.2 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 (non-university) 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 development.

During fiscal 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 ground 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 would be to have a new developer reimburse ASU for these capital costs.

ASU at the West campus. This 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. The 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, 382.2 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 382.2 acres intended for future investment purposes, the Polytechnic campus consists of approximately 210.2 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 percent of the leasable Park acres, the Park land is either occupied by or presently available for occupancy by commercial firms, with approximately 80 percent of the Park's leasable acres under contract. 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, a few 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 the Gateway site, of primarily vacant commercial land located adjacent to the Tempe campus at University Drive and Mill Avenue.
- 0.6 acres in Tempe, known as the Art Annex.
- 16.6 acres in Sun City West, Arizona where the former Sundome Center for Performing Arts is located.

Note E - Long-Term Debt and Lease Obligations

As of June 30, 2012 the University had issued a combination of fixed and variable rate bonds, fixed rate certificates of participation (COPs) and other lease obligations of which, $1.25 billion is outstanding. The University's long-term obligations generally are structured with level debt service, semi-annual interest, and call options at a prescribed date. Certain revenue bonds and COPs of the University have been defeased through advance refundings by depositing sufficient U.S. Government securities in an irrevocable trust to pay all future debt service. Accordingly, the liabilities for these defeased bonds and COPs are not included in the University's financial statements. The principal amount of defeased bonds and COPs outstanding at June 30, 2012 totaled $118.2 million and $65.4 million, respectively.

NOTES TO FINANCIAL STATEMENTS

Bonds Payable, Certificates of Participation and Other Lease Obligations at June 30, 2012 *(Dollars in thousands)*

	Average Interest Rate	Final Maturity	Balance 07/01/2011	Additions	Reductions	Balance 06/30/2012	Current Portion
Bonds:							
2000 System Revenue Bonds	5.87%	07/01/11	$ 500		$ (500)		
2002 System Revenue Bonds	4.95%	07/01/12	33,155		(30,410)	$ 2,745	2,745
2002 System Revenue Refunding Bonds	4.21%	07/01/12	80,170		(66,890)	13,280	13,280
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	28,695		(2,875)	25,820	2,985
2005 System Revenue Refunding Bonds	4.38%	07/01/27	48,240		(230)	48,010	765
2007 A/B System Revenue Bonds	4.46%	07/01/36	69,725		(2,850)	66,875	2,960
2008 A/B Variable Rate Demand System Revenue Refunding Bonds	0.16%	07/01/34	101,505		(2,295)	99,210	2,405
2008C System Revenue Bonds	5.89%	07/01/28	102,290		(1,880)	100,410	1,955
2009A System Revenue Bonds	3.76%	07/01/29	33,815		(2,795)	31,020	2,885
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	1,235
2011 SPEED Revenue Bonds	3.93%	08/01/31		$ 30,915		30,915	
2012 A/B System Revenue and Refunding Bonds	3.64%	07/01/42		213,370		213,370	
Subtotal: Par Amount of Bonds			$ 769,285	$ 244,285	$ (110,725)	$ 902,845	$ 31,215
Certificates of Participation:							
2002 Certificates of Participation	4.76%	07/01/18	$ 14,130		$ (4,210)	$ 9,920	$ 4,375
2004 Certificates of Participation	4.89%	09/01/30	72,250		(2,175)	70,075	2,260
2005A Certificates of Participation	4.36%	09/01/30	98,500		(3,150)	95,350	3,265
2006 Certificates of Participation	4.53%	06/01/31	13,995		(475)	13,520	485
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	545
Subtotal: Par Amount of COPs			$ 271,920		$ (10,010)	$ 261,910	$ 10,930
Capital Leases/Lease Purchases:							
Fulton Center	4.84%	06/15/34	$ 26,325		$ (670)	$ 25,655	$ 695
Flexible Display Center	5.27%	02/15/34	33,452		(788)	32,664	828
Hassayampa Academic Village	5.36%	06/10/39	12,334		(72)	12,262	87
Nursing and Health Innovation	4.84%	01/01/36	10,070			10,070	
Other Lease Purchases	2.64% - 6%	02/07/22	10,511	$ 492	(2,606)	8,397	2,252
Subtotal: Capital Leases/Other Lease Purchases			$ 92,692	$ 492	$ (4,136)	$ 89,048	$ 3,862
Total Par Amount of Bonds, COPs, Capital Leases and Other Lease Purchases			$ 1,133,897	$ 244,777	$ (124,871)	$ 1,253,803	$ 46,007
Premium/(Discount) on Sale of Bonds and COPs			14,043	24,756	(4,818)	33,981	
Deferred Amount on Refundings			(7,517)	(6,231)	1,367	(12,381)	
Total Bonds Payable/COPs/ Capital Leases/ Other Lease Purchases			**$1,140,423**	**$ 263,302**	**$(128,322)**	**$ 1,275,403**	**$ 46,007**

[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 gross revenues as defined in the bond indentures towards the payment of debt related to various senior lien system revenue bonds outstanding at June 30, 2012. These related revenue bonds are primarily for new academic and research facilities, academic and laboratory renovations, and infrastructure improvements. The 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, 2012, pledged revenues totaled $977.8 million of which 6.5 percent ($63.8 million, net of federal direct payments) was required to cover current year debt service.

In April 2012, the University issued $213.4 million in system revenue and refunding bonds, Tax-Exempt Series 2012A and Taxable Series 2012B, with an average maturity of 13.2 years and an average interest rate of 3.64 percent. The bonds were issued to fund the construction of a third business school facility at the Tempe campus, new dining facilities and student fitness complexes at the West and Polytechnic campuses, various information technology infrastructure projects, and to refund outstanding bonds of the University and two of its component units, ACFFC (Adelphi Commons I Student Housing) and Mesa Student Housing. The refunded debt is considered defeased and related liabilities are not included in the University's financial statement. The issuance of the refunding bonds, with an average maturity of 6.6 years and an average interest rate of 2.63 percent, resulted in a $9.0 million reduction in future debt service payments, with an economic gain of $8.7 million based upon the present value savings.

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 deferred maintenance projects. SPEED projects are debt financed with revenue bonds, repaid primarily with Arizona Lottery revenues. Specifically, up to 80 percent of SPEED debt service is paid from Arizona Lottery revenues, with the balance being the responsibility of the University as evidenced by the subordinated pledge of University revenues.

In November 2011, the University issued $30.9 million in SPEED subordinate lien revenue bonds, Tax-Exempt Series 2011, with an average maturity of 13.1 years and an average interest rate of 3.93 percent. The bonds were issued to fund classroom and laboratory renovations and infrastructure and campus site improvements.

Variable Rate Bonds

The University has outstanding two series of variable rate demand system revenue refunding bonds, Series 2008A and Series 2008B, totaling $99.2 million with final maturities of July 1, 2034. The interest rate in effect on June 30, 2012 was 0.15 percent for the Series 2008A bonds and 0.17 percent for the Series 2008B bonds. To provide credit and liquidity support for the bonds, on March 1, 2012, the University entered into an Irrevocable Transferable Direct-Pay Letter of Credit (LOC) with JPMorgan Chase Bank, N.A. (JPMorgan), under which the University has agreed to a commitment fee for the LOC of 0.38 percent per annum. Should the Series 2008A/B bond rating change, the commitment fee could increase according to the fee agreement. Assuming all of the $49.6 million Series 2008A and $49.6 million Series 2008B bonds are not resold within 365 days, the University would be responsible to make quarterly installment principal payments, with the last payment on the fourth anniversary of JPMorgan acquiring the bonds, plus interest to be calculated as established in the LOC.

Capital Leases

In October 2003, the University entered into a thirty-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 2004, the University entered into a thirty-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 2005, the University entered into a thirty-four-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 were used to fund the project. The University's lease payments are based on the City's actual borrowing cost of the bonds.

Buildings under capital lease are shown below.

Capital lease book value as of June 30, 2012 *(Dollars in thousands)*

	Book Value	Accumulated Depreciation	Net Book Value
Fulton Center	$ 29,493	$ (6,323)	$ 23,170
Flexible Display Center	37,278	(7,339)	29,939
Hassayampa Academic Village	12,451	(1,828)	10,623
Nursing and Health Innovation	11,648	(633)	11,015

NOTES TO FINANCIAL STATEMENTS

Future Payments

Future pledged revenues required to pay all remaining debt service for revenue bonds through final maturity of July 1, 2042 is $1.5 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 and 2011 SPEED revenue bonds. Research Park bonds outstanding at June 30, 2012 were $8.7 million with annual debt service payments of approximately $1.2 million through July 1, 2021. SPEED revenue bonds outstanding at June 30, 2012, were $64.7 million with annual debt service payments of approximately $2.6 million through June 30, 2016, $5.7 million through June 30, 2031, and $2.7 million through August 1, 2031, net of the Build America federal direct payments.

The Taxable Series 2010A System Revenue Bonds and the Taxable Series 2010A SPEED Revenue Bonds were issued as Build America Bonds under the provisions of the American Recovery and Reinvestment Act (ARRA). As such, the University is eligible to receive Federal Direct Payments from the U.S. Treasury equal to 35 percent of the interest owing on such bonds on each interest payment date. The amount paid to the University by the Federal government may be reduced or limited due to such issues as failure by the University to submit the required information, offsets to reflect any amounts owed by the University to the Federal government, or changes in the law that would reduce or eliminate such payments. For accounting purposes, any direct payments received from the U.S. Treasury are recorded as nonoperating revenue.

Securities and cash restricted for bonds and COPs debt service held by the trustee at June 30, 2012 totaled $44.6 million and $7 million, respectively. Payment commitments to investors, including interest, for bonds, COPs and other lease obligations, using the interest rate in effect at June 30, 2012 for variable rate issues, are shown below:

Bonds Payable, Certificates of Participation and Other Lease Obligations at June 30, 2012 *(Dollars in thousands)*

	System and SPEED Revenue Bonds				Certificates of Participation		Capital Leases		Other Lease Purchases	
Fiscal Year	**Principal**	**Interest**	**Net Payments on Swap Agreement**	**Federal Direct Payments**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
2013	$ 31,215	$ 39,560	$ 3,612	$ (3,977)	$ 10,930	$ 12,184	$ 1,610	$ 4,028	$ 2,252	$ 420
2014	33,965	38,194	3,518	(3,977)	11,440	11,640	1,700	3,948	1,743	320
2015	43,020	36,573	3,419	(3,977)	11,970	11,085	2,077	3,867	1,379	239
2016	47,060	34,931	3,315	(3,977)	12,535	10,512	2,193	3,767	782	169
2017	39,505	33,117	3,206	(3,914)	13,125	9,910	2,309	3,660	750	127
2018-2022	180,845	142,709	14,198	(18,240)	75,475	39,200	13,715	16,358	1,491	132
2023-2027	214,860	95,901	10,542	(14,765)	74,065	20,663	17,822	12,607		
2028-2032	149,585	51,481	5,878	(10,007)	52,370	4,379	23,065	7,765		
2033-2037	96,350	27,403	770	(5,290)			14,268	2,056		
2038-2042	59,625	6,746		(683)			1,892	144		
2043-2047	6,815									
Total	**$ 902,845**	**$ 506,615**	**$ 48,458**	**$ (68,807)**	**$ 261,910**	**$ 119,573**	**$ 80,651**	**$ 58,200**	**$ 8,397**	**$ 1,407**

Funding responsibility for the June 30, 2012 outstanding debt *(Dollars in thousands)*

	Current Portion	**Noncurrent Portion**	**Total**
From Arizona State University operating revenues	$ 35,414	$ 863,255	$ 898,669
From State of Arizona appropriations and other State monies	10,593	366,141	376,734
	$ 46,007	**$ 1,229,396**	**$ 1,275,403**

The University presently plans to issue up to $96 million in senior lien system revenue bonds during fiscal 2013.

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 fifteen-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 leased by the University to various firms for retail and restaurant operations.

SkySong. In June 2006, the University entered in a fifteen-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 and 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):

	Operating Lease Payments			
Fiscal Year	**Brickyard**	**SkySong**	**Other**	**Total**
2013	$ 3,115	$ 2,212	$ 2,854	$ 8,181
2014	3,114	2,260	2,799	8,173
2015	3,107	2,309	1,862	7,278
2016	3,110	2,360	1,137	6,607
2017	3,096	2,413	692	6,201
2018-2022	6,185	12,907	1,177	20,269
2023-2026		452		452
Total	**$ 21,727**	**$ 24,913**	**$ 10,521**	**$ 57,161**

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 notional amount is not exchanged; it is only the basis on which the interest payments are calculated and it decreases as principal payments are made on the 2008 Bonds. The intention of the swap is 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 percent and receives payments from the counterparty based on the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index set weekly. The SIFMA rate at June 30, 2012 was 0.18 percent. At June 30, 2012, 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	(0.18)
Net interest rate swap payments		3.73
Variable rate bond coupon payments	Spread to SIFMA	0.16
Synthetic fixed interest rate on bonds		3.89

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 the counterparty defaults or if the swap is terminated, the University will revert to paying a variable rate. A termination of the swap agreement may also result in the University making or receiving a termination payment.

The University is exposed to interest rate risk based on the SIFMA indexed variable payment received from the counterparty versus the variable rate paid to bondholders. 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.

As of June 30, 2012, 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 A3 by Moody's Investor Services as of June 30, 2012. Based on 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, 2012, the swap had a fair value of $(22.9) million, which represents the cost to the University to terminate the swap. The June 30, 2011 fair value was $(10.0) 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, 2012, 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, 2012 consisted of the following (Dollars in thousands):

Balance 07/01/2011	$ 25,838
Additions	31,337
Reductions	(32,963)
Balance 06/30/2012	$ 24,212
Current Portion	$ 2,778

Note I - Operating Expenses by Classification

Operating expenses by functional and natural classification for the year ended June 30, 2012, are summarized as follows (Dollars in thousands):

	Year ended June 30, 2012				
	Personal Services and Benefits	Supplies and Services	Student Aid	Depreciation	Total
Instruction	$ 442,274	$ 72,404	$ 4,439		$ 519,117
Research	140,011	69,148	2,410		211,569
Public service	24,822	21,036	1,080		46,938
Academic support	119,172	66,579	139		185,890
Student services	44,295	16,190	252		60,737
Institutional support	67,450	52,094	947		120,491
Operation and maintenance of plant	24,187	62,563			86,750
Scholarships and fellowships	1,510	648	111,013		113,171
Auxiliary enterprises	47,289	63,031	5,479		115,799
Depreciation				$ 98,005	98,005
Total Operating Expenses	**$ 911,010**	**$ 423,693**	**$ 125,759**	**$ 98,005**	**$ 1,558,467**

Note J - Retirement Plans

At June 30, 2012 the University is participating in one cost-sharing multiple-employer defined benefit pension, health, and long-term disability plan and two defined contribution pension plans. During fiscal 2012 ASU discontinued participation in the defined contribution pension plan of the Variable Annuity Life Insurance Company (VALIC). 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 plans described below, university employees participate in two additional retirement plans with $1.1 million in total University and employee contributions for the year ended June 30, 2012.

Defined Benefit Plan

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

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, 2012, active plan members were required by statute to contribute at the actuarially determined rate of 10.74 percent (10.50 percent for retirement and 0.24 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 10.74 percent (9.87 percent for retirement, 0.63 percent for health insurance premium, and 0.24 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
2012	$ 24,826	$ 1,671	$ 603	$ 27,100
2011	23,825	1,560	664	26,049
2010	21,578	1,708	1,039	24,325

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, 2012, plans offered by the Teachers Insurance Annuity Association/College Retirement Equities Fund (TIAA/CREF), Variable Annuity Life Insurance Company (VALIC) (plan contributions concluded on 09/09/11), 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, 2012, plan members and the University were each required by statute to contribute an amount equal to 7.00 percent of an employee's compensation. Contributions to these plans for the year ended June 30, 2012, were as follows (Dollars in thousands):

	Contribution Rates (Each)	University Contributions	Employee Contributions	Total Contributions
TIAA/CREF	7.00%	$ 13,166	$ 13,166	$ 26,332
VALIC	7.00%	232	232	464
Fidelity	7.00%	7,857	7,857	15,714

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, 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 boundaries of the ASU at the Downtown Phoenix campus. All property, except the residential life facility, will be owned by the City, until the property is conveyed to the University. ASU is responsible for all operating costs at the campus as well as maintaining a reserve and replacement fund. 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.

ASU Design Aspiration 7: **Be Socially Embedded**. An ASU student volunteer helps to place flags in the annual Healing Field event held at Tempe Beach Park that honors those lost in the attacks of September 11, 2001.

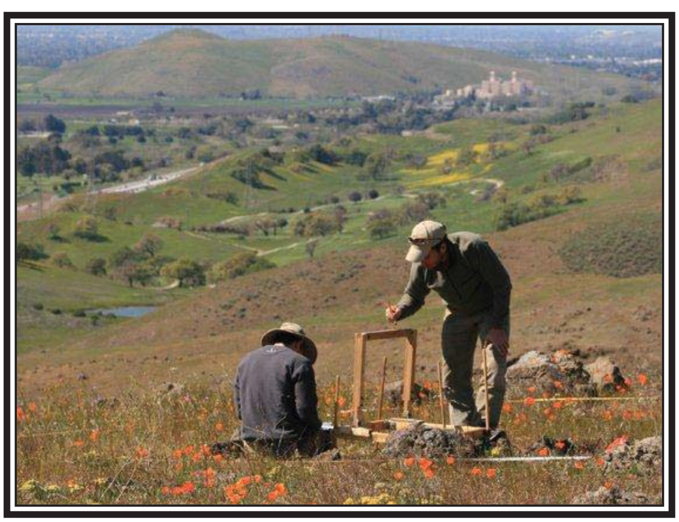
Note L - Insurance Program and Legal Matters

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 Annual 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 seven 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. Notices of appeal and briefs to the 9th Circuit Court of Appeals have been filed by both parties. The University reasonably believes that if there were an adverse determination, it would not have a material impact upon its financial condition.

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 with the Arizona Navigable Stream Adjudication Commission on the determination of navigability. Briefs were filed with the Commission in September 2012. 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. The University reasonably does not anticipate that an adverse decision would have a material financial impact on the University's financial condition.



ASU Design Aspiration 8: **Engage Globally**. In June 2012, an international delegation of ecologists, including two ASU researchers, called for renewed efforts to curb the loss of biological diversity. The researchers' findings are based on more than 1,000 ecological studies which have shown that the loss of the world's biological diversity reduces the productivity and sustainability of natural ecosystems and decreases their ability to provide society with food, wood, fertile soils and protection from pests and disease.

NOTES TO FINANCIAL STATEMENTS

Note M - Privatized Student Housing

American Campus Communities. The University has entered into ground lease agreements with American Campus Communities (ACC) for student housing projects located on land owned by the University that is ground leased to ACC. Upon completion of the projects, ACC transfers 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, opened August 2008 on the Tempe campus, consists of approximately 1,800 apartment-style beds, with amenities such as a pool, community center, parking garage, and retail space.
- Villas at Vista del Sol, an expansion of the Vista del Sol complex, opened in August 2012 and includes 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.
- Barrett Honors College, opened August 2009 on the Tempe campus, provides housing and academic space for the Barrett Honors College including approximately 1,700 beds, classrooms, faculty offices, and dining.
- Casa de Oro, the West campus housing project, was completed in August 2012 and includes 385 double occupancy suite-style beds for first-year students. This is the initial phase of planned housing construction at the West campus.

Additionally, ACC is currently renovating Manzanita Hall on the Tempe campus, with an August 2013 planned reopening. Constructed in 1967, Manzanita Hall is considered a community and campus landmark due to its unique architecture. The renovation includes replacing existing building systems and reconfiguring room layouts to create approximately 800 beds for first-year student housing.

Inland American Communities. ASU entered into a ground lease with Inland American Communities (IAC) for development of student housing on the Polytechnic campus. Century Hall opened in August 2012 and includes 321 double occupancy suite-style beds. During the term of the ground lease, 65 years with two ten-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.

Casa de Oro - artist rendering

Century Hall - artist rendering

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.

Net Assets and Equity Transfers

In April 2012 the University issued system revenue bonds with part of the proceeds used to defease Series 2000 ACFFC Student Housing bonds and Series 2001 Mesa Student Housing bonds. The related ground leases between the University and ACFFC and the University and Mesa Student Housing, LLC were terminated and all assets and liabilities related to these projects were transferred to the University.

Collegiate Golf Foundation

During 2012, Arizona State University and Collegiate Golf Foundation agreed to terminate the existing land lease. Upon termination on September 30, 2011, Collegiate Golf Foundation transferred all property and equipment to Arizona State University. Arizona State University and Collegiate Golf Foundation entered into a licensing agreement commencing October 1, 2011 and expiring on June 30, 2012, granting Collegiate Golf Foundation access to the premises and the improvements on such premises for the purpose of operating, managing, and maintaining the Karsten Golf Course at Arizona State University. Collegiate Golf Foundation transferred all remaining assets and liabilities to Arizona State University as of July 1, 2012.

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 2.40 percent to 10.90 percent. 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 percent discount rate for the year ended June 30, 2012.

Pledges receivable consist of *(Dollars in thousands)*

	ASU Foundation	Sun Angel Foundation	Other Component Units	Total
Gross pledges receivable	$ 155,134	$ 5,690	$ 362	$ 161,186
Present value discount	(11,198)	(348)	(4)	(11,550)
Allowance for uncollectible pledges	(40,949)	(589)	(123)	(41,661)
Net pledges receivable	**$ 102,987**	**$ 4,753**	**$ 235**	**$ 107,975**

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, 2012 and 2011, gross unconditional pledges receivable from these members included approximately $34.7 million and $34.2 million, respectively. The Foundation had conditional pledges receivable totaling $5.2 million at June 30, 2012; none are included in pledges receivable. Conditional pledges receivable are recorded when the conditions are substantially met.

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

	ASU Foundation	Sun Angel Foundation	Other Component Units	Total
Receivable in one year	$ 53,019	$ 2,854	$ 236	$ 56,109
Receivable in two to five years	79,183	2,018	126	81,327
Receivable after five years	22,932	818		23,750
Total gross pledges to be received	**$ 155,134**	**$ 5,690**	**$ 362**	**$ 161,186**

NOTES TO FINANCIAL STATEMENTS

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, 2012 is $25.7 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 $32.7 million at June 30, 2012.

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 $12.2 million at June 30, 2012.

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 percent 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.

On December 9, 2011 the Sun Angel Endowment executed an agreement with the Sun Angel Foundation and Arizona State University. The agreement provides for the merger of the Sun Angel Endowment into the Sun Angel Foundation if certain fundraising goals for scholarships are met by December 2015 or December 2021. The Sun Angel Endowment would cease to exist if the merger is completed.

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 (3 percent for both 2012 and 2011), collared by a cap and floor of 4.25 percent and 3.25 percent, 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.

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	$ 41,434	$ 16,800	$ 14,678	$ 72,912
Equities:				
Domestic	133,067			133,067
International	106,570			106,570
Total equities	239,637			239,637
Fixed Income	101,567			101,567
Mutual funds:				
Equity mutual funds			4,937	4,937
Inflation hedge	145,815			145,815
Emerging markets	31,055			31,055
Total mutual funds	176,870		4,937	181,807
Other securities	19,587		16,303	35,890
Other investments	43,568	474	934	44,976
Total investments	**$ 622,663**	**$ 17,274**	**$ 36,852**	**$ 676,789**

Property and Equipment

Property and equipment consist of *(Dollars in thousands)*	**ASU Foundation**	**ACFFC**	**Other Component Units**	**Total**
Cost or donated value:				
Buildings and improvements	$ 17,397	$ 194,326	$ 114,420	$ 326,143
Furniture, fixtures, and equipment	7,662	80,908	11,365	99,935
Leasehold improvements			13,729	13,729
Other property and equipment		483		483
Total cost or donated value	25,059	275,717	139,514	440,290
Accumulated depreciation	(9,389)	(68,466)	(25,875)	(103,730)
Net property and equipment	**$ 15,670**	**$ 207,251**	**$ 113,639**	**$ 336,560**

NOTES TO FINANCIAL STATEMENTS

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 2011 Tax-Exempt Revenue Refunding Bonds (Energy Management Services)	2018		$ 17,035			$ 17,035
Series 2009 Revenue Bonds (Energy Management Services)	2024		39,050			39,050
Series 2009A Lease Revenue Refunding Bonds (Nanotechnology Research)	2034		22,955			22,955
Series 2009B Lease Revenue Refunding Bonds (Nanotechnology Research)	2022		9,980			9,980
Series 2008 Revenue Bonds (ASU Energy Center)	2028		15,205			15,205
Series 2008 Revenue Refunding Bonds (Hassayampa Academic Village)	2039		143,975			143,975
Series 2008 Variable Rate Demand Revenue Refunding Bonds (Sun Devil Energy Center)	2030		47,750			47,750
Series 2007 A&C Revenue Bonds	2042			$ 119,040		119,040
Series 2007 B Revenue Bonds	2012			185		185
Series 2007 D Tax-Exempt Revenue Bonds	2042			22,700		22,700
Series 2006 Development Refunding Bonds (ASU Research Park)	2021				$ 8,660	8,660
Series 2005 Tax-Exempt Refunding Bonds (West Campus Housing)	2035		15,860			15,860
Series 2004A Variable Rate Revenue Bonds (Brickyard)	2034	$ 22,420				22,420
Series 2004B Variable Rate Revenue Bonds (Brickyard)	2022	8,740				8,740
Series 2003 Lease Revenue Bonds (Fulton)	2034	44,530				44,530
Series 2003 Tax-Exempt Revenue Bonds (Adelphi II, Tempe campus housing)	2035		12,825			12,825
Capital Lease	2015				20	20
Deferred Cost of Refunding			(449)			(449)
Unamortized bond premium (discount)			(2,852)	(1,141)		(3,993)
		$ 75,690	**$ 321,334**	**$ 140,784**	**$ 8,680**	**$ 546,488**

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
2013	$ 1,755	$ 7,780	$ 655	$ 823	$ 11,013
2014	1,835	9,270	430	853	12,388
2015	1,940	9,875	610	884	13,309
2016	2,035	10,540	810	920	14,305
2017	2,140	11,285	1,025	955	15,405
Thereafter	65,985	272,584	137,254	4,245	480,068
	$ 75,690	**$ 321,334**	**$ 140,784**	**$ 8,680**	**$ 546,488**

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:

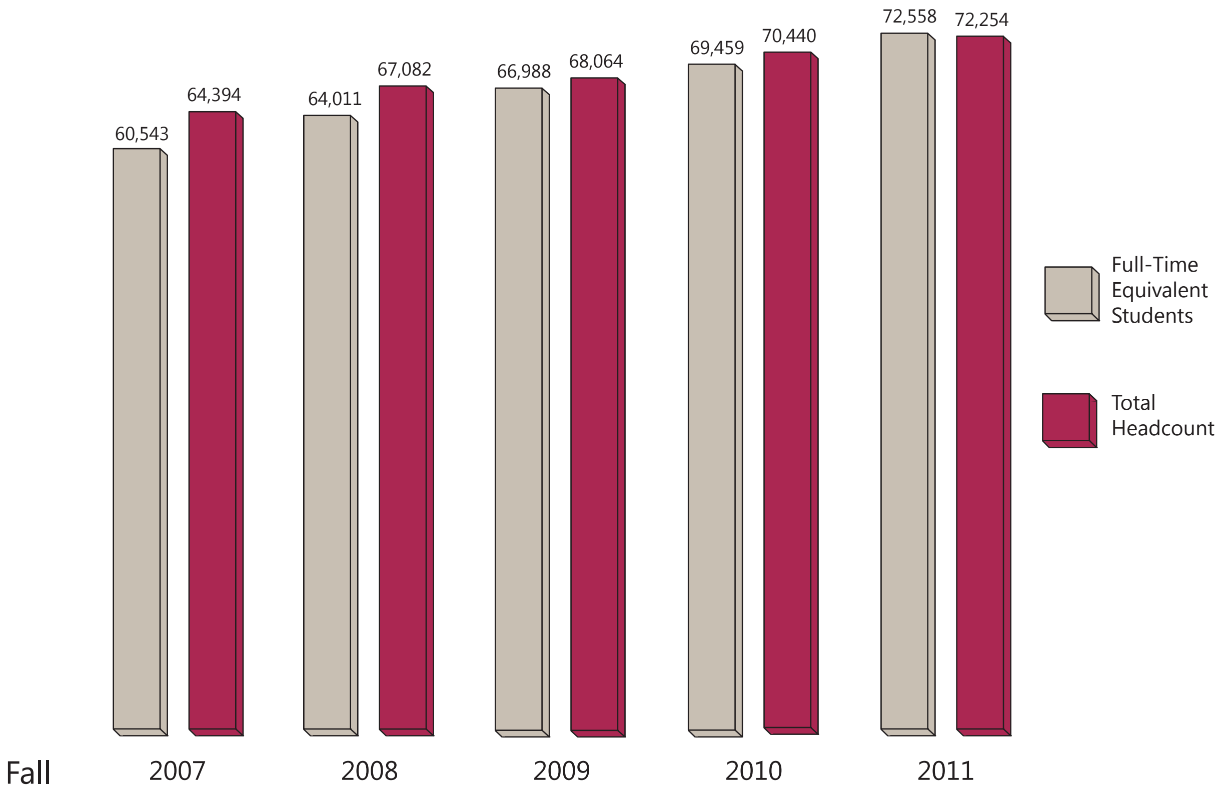
Component Units
Statement of Financial Position
June 30, 2012
(Dollars in thousands)

	ASU Foundation	ACFFC	Other Component Units	Total
Assets				
Investments	$ 622,663	$ 17,274	$ 36,852	$ 676,789
Property and equipment, net	15,670	207,251	113,639	336,560
Other assets	157,314	52,715	32,454	242,483
Total assets	$ 795,647	$ 277,240	$ 182,945	$ 1,255,832
Liabilities				
ASU endowment trust liability	$ 90,133			$ 90,133
Long-term debt	75,690	$ 321,334	$ 149,464	546,488
Other liabilities	41,601	8,021	34,544	84,166
Total liabilities	$ 207,424	$ 329,355	$ 184,008	$ 720,787
Net Assets				
Unrestricted	$ (975)	$ (52,115)	$ (9,842)	$ (62,932)
Temporarily restricted	225,375		6,937	232,312
Permanently restricted	363,823		1,842	365,665
Total net assets (deficit)	**$ 588,223**	**$ (52,115)**	**$ (1,063)**	**$ 535,045**

Component Units
Statement of Activities
Year ended June 30, 2012
(Dollars in thousands)

	ASU Foundation	ACFFC	Other Component Units	Total
Revenues				
Contributions	$ 92,735		$ 13,679	$ 106,414
Rental revenues	972	$ 17,737	19,187	37,896
Sales and services	20,705	8,992	7,105	36,802
Net investment return/(loss)	(6,361)	124	(370)	(6,607)
Other revenues	4,101	8,505	10,548	23,154
Total revenues	$ 112,152	$ 35,358	$ 50,149	$ 197,659
Expenses				
Payments to the benefit of ASU	$ 59,307	$ 273	$ 15,723	$ 75,303
Management and general	25,790	10,199	30,949	66,938
Depreciation/amortization and interest expense	3,935	28,234	14,623	46,792
Other expenses	10,779	562	2,101	13,442
Total expenses	$ 99,811	$ 39,268	$ 63,396	$ 202,475
Increase/(Decrease) in net assets, before transfers and losses	12,341	(3,910)	(13,247)	(4,816)
Transfers and losses		83	1,807	1,890
Increase/(Decrease) in net assets, after transfers and losses	12,341	(3,827)	(11,440)	(2,926)
Net assets (deficit), beginning of year	575,882	(48,288)	10,377	537,971
Net assets (deficit), end of year	**$ 588,223**	**$ (52,115)**	**$ (1,063)**	**$ 535,045**

SUPPLEMENTARY INFORMATION



Degrees Granted in Academic Year 2011-2012

Undergraduate	13,210
Graduate	4,835
	18,045

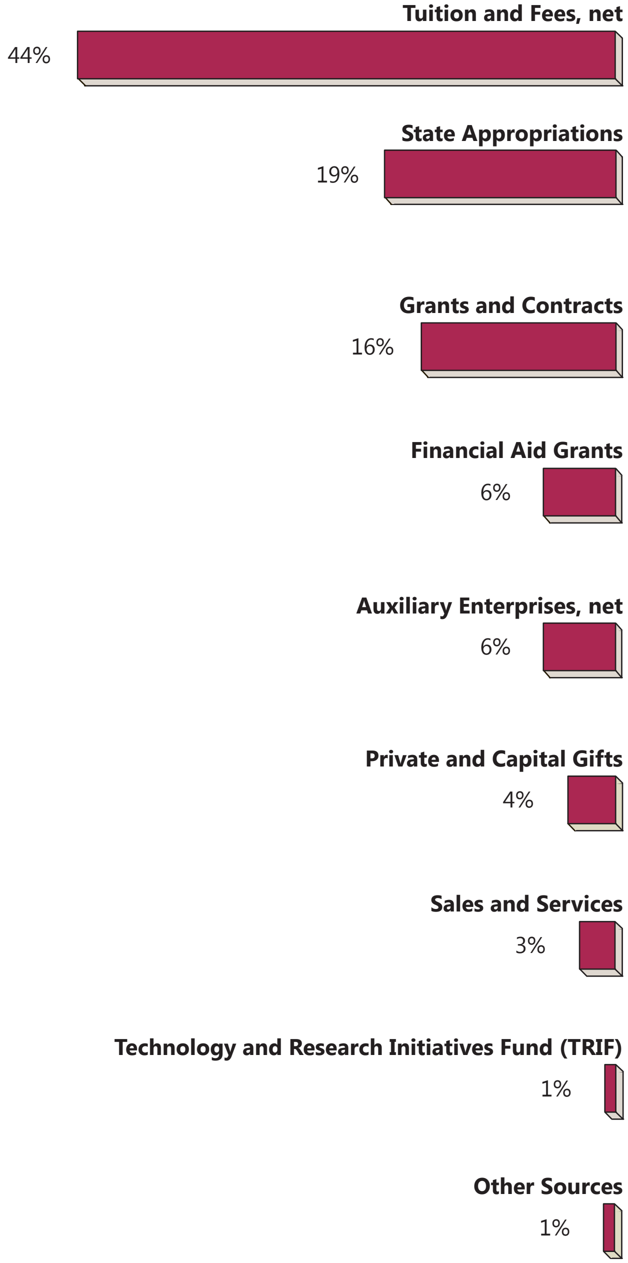
Fall 2011 Enrollment

Undergraduate	58,404
Graduate	13,850
Resident (Arizona)	51,235
Non-Resident	21,019

COMBINED SOURCES AND USES

Sources

For the year ended June 30, 2012 *(Dollars in millions)*



Tuition and Fees, net	44%	**$ 757.2**	Includes $952.5 million in tuition and fees, net of $195.3 million in scholarship allowances.
State Appropriations	19%	**322.2**	Represents State of Arizona legislative appropriations for operations of the University and $14.5 million in appropriations for research infrastructure capital financing and $20.6 million for one-time technical adjustment.
Grants and Contracts	16%	**280.7**	Primarily consists of federal grants and contracts for research activities ($232.3 million).
Financial Aid Grants	6%	**110.2**	Represents governmental and nongovernmental grants for financial aid programs. For fiscal 2012 federally funded grants totaled $109.8 million.
Auxiliary Enterprises, net	6%	**105.5**	Represents operations of essentially self-supporting activities such as residential halls and parking.
Private and Capital Gifts	4%	**62.6**	Private support from individuals, foundations, and corporations, including $7.2 million in capital gifts.
Sales and Services	3%	**53.9**	Sales and services of educational departments, including ASU-hosted national and international conferences and programs.
Technology and Research Initiatives Fund (TRIF)	1%	**23.8**	TRIF is generated from sales tax revenue. TRIF revenue received by ASU is primarily used to support the research efforts of the ASU Biodesign Institute.
Other Sources	1%	**20.0**	Includes net investment returns, financial aid trust fees and Arizona Lottery revenues.
Total Sources		**$ 1,736.1**	

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	44%	**$ 705.0**	Consists of (1) instruction expenses totaling $519.1 million, which include credit and non-credit courses for academic, occupational, and vocational instruction for regular academic year and summer sessions, continuing education, and online programs and (2) academic support expenses totaling $185.9 million, which include libraries, academic information technology support, and academic administration.
Research and Public Service	16%	**258.5**	Includes (1) direct research expenses of $211.6 million for activities specifically organized to produce research outcomes, and (2) public service expenses of $46.9 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%	**173.9**	Consists of (1) direct student services expenses totaling $60.7 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 $113.2 million, which includes federally funded Pell grants and institutionally awarded merit and need-based scholarships, net of scholarship allowances.
Institutional Support	8%	**120.5**	Includes financial operations, human resources, public safety, environmental health and safety, and administrative information technology support.
Operation and Maintenance of Plant	5%	**86.7**	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	7%	**115.8**	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%	**98.0**	Depreciation is computed using the straight-line method over the estimated useful life of each asset. Depreciation for buildings was $52.1 million and was primarily related to academic and research buildings.
Other Expenses	3%	**56.5**	Consists primarily of interest payments on outstanding debt.
Total Uses		**$ 1,614.9**	

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ASU is a New American University, promoting excellence in its research and among its students, faculty and staff, increasing access to its educational resources and working with communities to positively impact social and economic development.

Eight design aspirations guide ASU's transformation.

01. Leverage Our Place
ASU embraces its cultural, socioeconomic and physical setting.

02. Transform Society
ASU catalyzes social change by being connected to social needs.

03. Value Entrepreneurship
ASU uses its knowledge and encourages innovation.

04. Conduct Use-Inspired Research
ASU research has purpose and impact.

05. Enable Student Success
ASU is committed to the success of each unique student.

06. Fuse Intellectual Disciplines
ASU creates knowledge by transcending academic disciplines.

07. Be Socially Embedded
ASU connects with communities through mutually beneficial partnerships.

08. Engage Globally
ASU engages with people and issues locally, nationally and internationally.

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