ARIZONA STATE UNIVERSITY

FINANCIAL REPORT
1999

The backdrop for the cover is the Paul V. Galvin Playhouse, a part of the Nelson Fine Arts Center at ASU Main in Tempe, Arizona. Featured in the picture is the African aloe plant, *Aloe sponaria.* This picture is from a series of limited edition prints sponsored by the Arboretum at Arizona State University.

The Arboretum at ASU is one of the largest urban arboretums in the Southwest and functions as a virtual outdoor classroom with over 300 species from diverse geographic regions as well as the Sonoran Desert. The Arboretum is used for research (including a cancer research project on spider lily bulbs), instruction, recreation and public service. It contains one of the best collections of palms and conifers in the desert Southwest and a collection of native Southwestern plants. It is under the operational direction of the ASU Facilities Management Department.

Goals of the Arboretum are the acquisition, development, maintenance, and display of plants that illustrate complex ecological systems, plant diversity and their botanical relationships. Proper water management and conservation are emphasized in the operation of the Arboretum.

Photographer: H. Val Peterson.

Financial Report
1999

Contents

FINANCIAL HIGHLIGHTS

Funding Sources and Uses

	Fiscal Year 1999	Fiscal Year 1998	Percentage Change
Funding Sources (Resources acquired during the year)	(Dollars in Millions)		
State Appropriations	$ 323.8	$ 287.2	13 %
Tuition and Fees	183.4	177.2	3
Gifts, Grants, and Contracts	167.4	137.0	22
Auxiliary Enterprises Operations	76.8	75.0	2
Other Sources	38.5	42.6	(10)
Total Funding Sources	$ 789.9	$ 719.0	10 %
Funding Uses (Resources consumed during the year)			
Instruction and Academic Support	$ 318.1	$ 297.3	7 %
Research and Public Service	100.8	85.4	18
Student Services and Institutional Support	83.3	79.9	4
Operation and Maintenance of Plant	39.0	37.4	4
Auxiliary Enterprises Operations	66.9	62.7	7
Scholarships and Fellowships	68.6	63.0	9
Facility Additions, Debt Service, and Other Uses	84.7	65.3	30
Total Funding Uses	$ 761.4	$ 691.0	10 %

The above table is an overview of total University financial operations; current operating and non-operating funds are included.

Total funding sources increased 10%, primarily due to increases in the state appropriations and the gifts, grants and contracts categories. The largest percentage increase was the 22% increase in the gifts, grants and contracts category primarily due to increased private gifts and federal grants.

The gifts, grants and contracts category increased $30.4 million primarily due to increased private gifts of $14.5 million and increased federal grants of $14.0 million. Included in the increase in private gifts was a $10.3 million increase in gifts in kind including over $5.3 million in equipment gifts, $2.2 million in art and music gifts and $1.7 million in software related gifts. Increased private cash gifts have helped fund part of the Cancer Research Institute addition and the Old Main building restoration at ASU Main. The increase in federal grants was primarily due to over $8.6 million in increased funding by the Jet Propulsion Laboratory/NASA for the Mars Observer and Global Surveyor Thermal Emission Spectrometer projects. There was also a $1.7 million increase in federally funded Pell grants.

The state appropriations category increased 13% due to a $26.2 million increase in the general fund appropriation and a $10.4 million increase in capital outlay appropriations including building renewal funding. Most of the general fund appropriation increase was for employee salary equity and merit increases. Projects funded with the increased capital outlay appropriation/building renewal funding included the Old Main building restoration, Noble Science and Engineering Library renovation, the College of Liberal Arts and Sciences technology center renovation, the annual classroom renovation program, and the ASU East Technology Center renovation.

The tuition and fees category increased 3% and the auxiliary enterprises category increased 2%. For the other sources category, there was an anticipated 10% decrease. In fiscal 1998, ASU adopted Governmental Accounting Standards Board (GASB) Statement No. 31, which requires that investments be reported at fair value which is typically the quoted market price rather than at cost. ASU recorded in fiscal 1998 a one-time $5.5 million net increase in fair value in the endowment fund related to prior years. The decrease in other sources relating to endowments was slightly offset by increases in sales and services in the designated and internal services funds.

Total funding uses increased 10% between years with increases in all categories. The facility additions, debt service and other uses category had the largest increase, 30%, due to increased property gifts between years and increased expenditures for plant facilities. Plant projects with significant expenditure increases in fiscal 1999 were the Cancer Research Institute addition, the Old Main building restoration and various projects at ASU East including the renovation of the Technology Center, upgrades to the telecommunications infrastructure and improvements to roadways, lighting and landscaping.

The research and public services category and the scholarships and fellowships category increased 18% and 9%, respectively. Research and public services expenditures increased $15.4 million primarily due to a $14.3 million increase in research expenditures with the largest increase being in the Geology Department's Mars related research projects.

The scholarships and fellowships category increased $5.6 million primarily due to a $1.7 million increase in federally funded Pell grant expenditures and a $1.6 million increase in expenditures for the university funded program which awards scholarships to Arizona high school graduates attending ASU who graduated in the top 15% of their high school class.

The instruction and academic support category and the auxiliary enterprises category both increased 7%. The $20.8 million increase in the instruction and academic support category was primarily due to an $18.4 increase in instruction expenditures funded by the increase in general fund state appropriations. Areas with increases in instruction expenditures during fiscal 1999 included biology, chemical/biochemical and mechanical engineering, physics and astronomy, geology, mathematics, and chemistry and biochemistry. The increase in the auxiliary enterprises fund was largely attributable to increased expenditures of the Intercollegiate Athletic department (ICA).

The student services and institutional support category and the operation and maintenance of plant category both increased by 4%, or $3.4 million and $1.6 million, respectively. Both student services and institutional support had increased expenditures of $1.7 million in fiscal 1999.

The University's objective is for sources to slightly exceed uses over a three to five year period on the basis that (1) current operating funding sources should over the long run be equal to or slightly exceed uses and (2) endowment funding sources should exceed uses in accordance with the University's objective of increasing, over a period of time, externally provided endowments. For any given year, total University funding sources will either exceed or be less than uses. For the five years ended June 30, 1999, total University funding sources exceeded uses by slightly less than 3%, with a significant portion of this increase occurring in the restricted endowment funds.

Financial Position

	Fiscal Year 1999	Fiscal Year 1998	Percentage Change
	(Dollars in Millions)		
Assets			
(Resources available to provide future services or to pay obligations)			
Property, Buildings, and Equipment	$ 1,268.8	$ 1,215.5	4 %
Other Assets (cash, investments, receivables, and deferred expenses)	291.6	259.1	13
Total Assets	$ 1,560.4	$ 1,474.6	6 %
Liabilities			
(Obligations requiring cash or other resources in the future)			
Bonds Payable and Other Long-term Obligations	$ 262.5	$ 275.5	(5) %
Other Liabilities (accounts payable, deferred revenue, and deposits)	58.9	55.2	7
Total Liabilities	$ 321.4	$ 330.7	(3) %
Fund Balances			
(Resources available after obligations for providing of future services)			
Available for Current Operations:			
Restricted (must be spent as specified by external parties)	$ 4.5	$ 4.5	— %
Designated (may be spent as determined by University Administration)	87.2	72.8	20
Restricted or Specified for Non-operating Purposes (bond reserves, student loans, endowments, and construction projects)	128.1	114.0	12
Total Fund Balances before Net Investment in Plant	$ 219.8	$ 191.3	15 %
Invested in Property, Buildings, and Equipment (property costs net of bonds payable and other long-term obligations)	1,019.2	952.6	7
Total Fund Balances	$ 1,239.0	$ 1,143.9	8 %

The 6% increase in total University assets resulted from a $53.3 million net increase in property, buildings, and equipment, in conjunction with a $32.5 million increase in other assets.

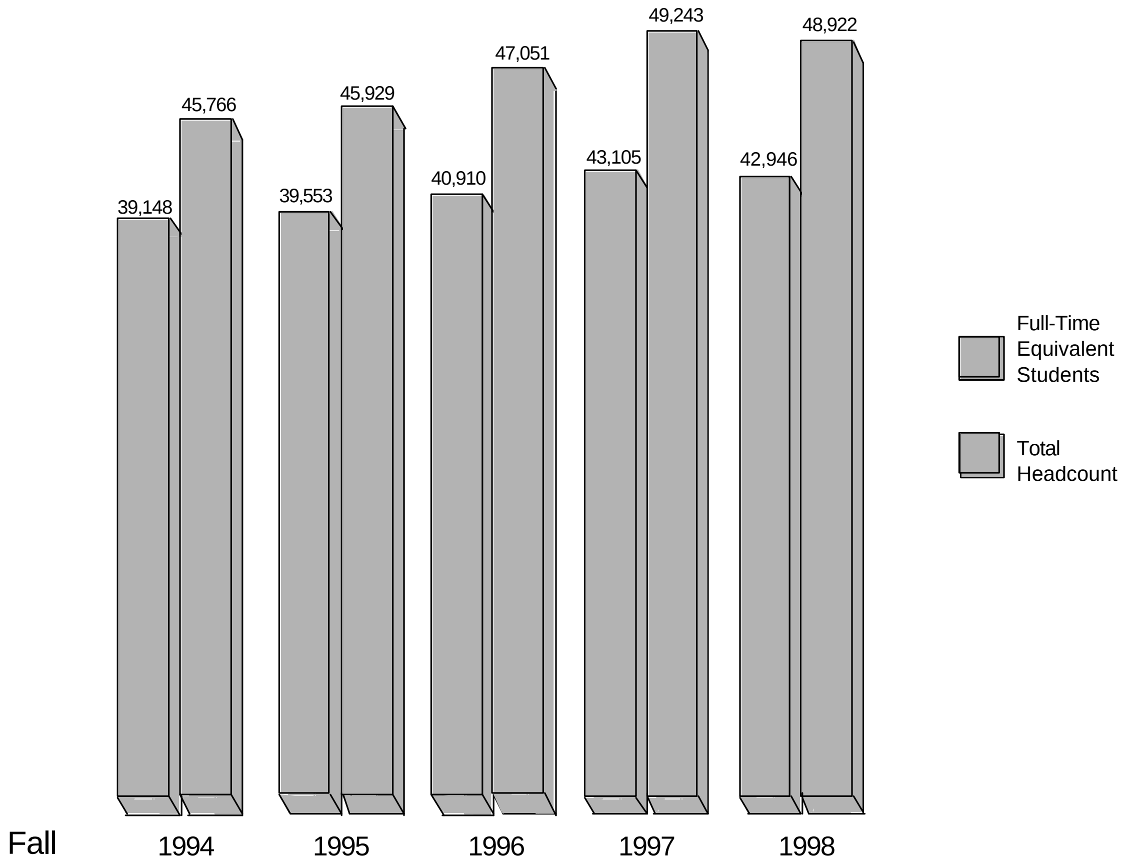
The $53.3 million net increase in property, buildings, and equipment was primarily due to a $28.3 million increase in buildings due to several expansion and renovation projects either completed or underway in fiscal 1999 including the Cancer Research Institute addition, the Old Main building restoration and the ASU East Technology Center renovation. There was a $15.7 million increase in equipment during fiscal 1999 including over $5.1 million in equipment donations from companies including Ipec Planar, Intel and IBM. Also included in the property, buildings and equipment increase was over $2.2 million in donated music and artwork from individuals and private foundations.

The $32.5 million increase in other assets was primarily due to a $38.3 million increase in cash and investments offset by a $2.9 million decrease in due from other funds and a $2.5 million decrease in accounts receivable. The designated, endowment and plant funds showed the largest increases in cash and investments. The cash and investments increases for these funds were $14.9 million, $7.6 million and $7.2 million, respectively.

The 3% decrease in total liabilities was due to a $13.0 million decrease in bonds payable and other long-term obligations. The decrease in bonds payable and other long-term obligations was primarily due to principal being retired in fiscal 1999.

Total fund balances increased 8%, primarily due to the University's additional $66.6 million net investment in property, buildings, and equipment during fiscal 1999. This increase included $32.9 million of equipment and library acquisitions funded by current operating funds. All fund groups except the student loan had fund balance increases during fiscal 1999. Current operating funds increased $14.5 million, primarily due to increases in the designated and auxiliary funds.

ENROLLMENT



Degrees Conferred for Academic Year 1998-99

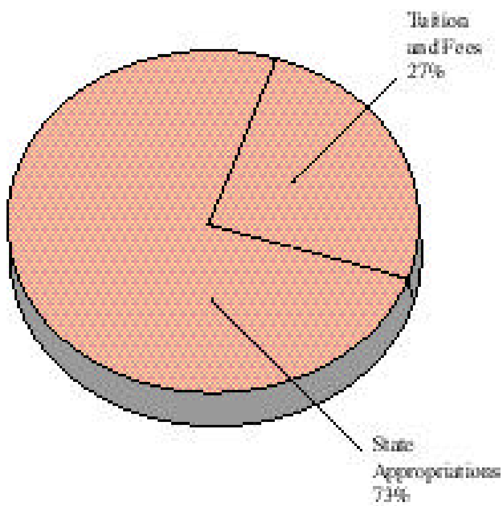
Bachelor's	7,468
Master's	2,498
Doctor's	427
	10,393

Fall, 1998 Enrollment

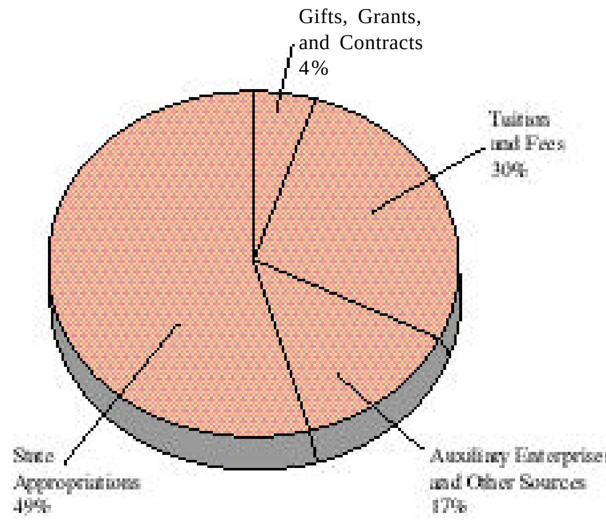
Undergraduate	37,043
Graduate	11,879
In-State	36,428
Out-of-State	12,494

PERCENTAGE COMPOSITIONS

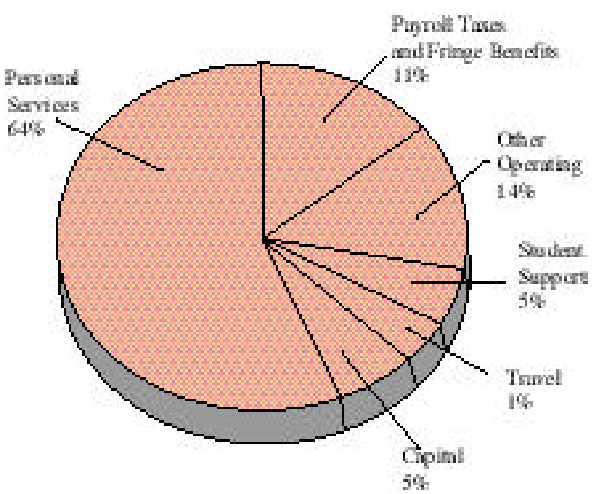
General Operating Fund
Revenue Sources



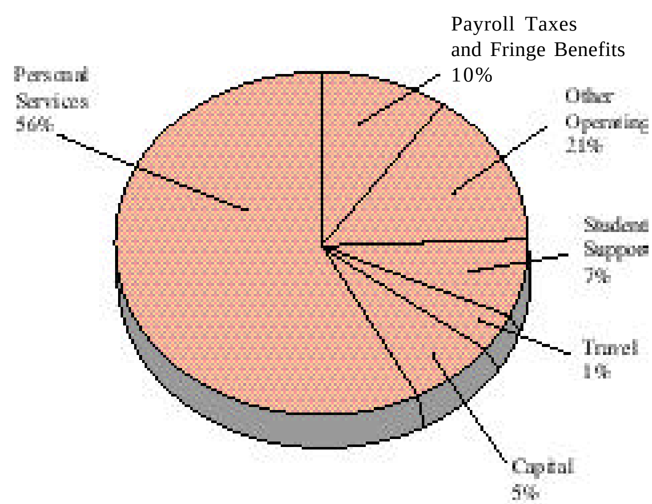
Unrestricted Current Operating Funds
Revenue Sources



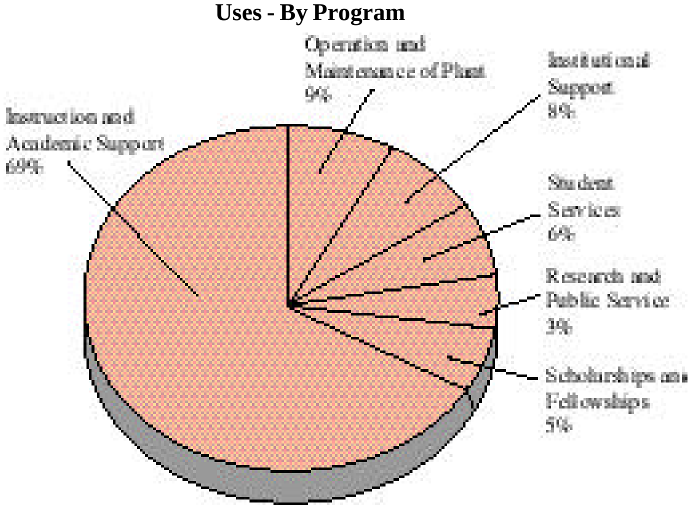
Uses - By Expenditure Category



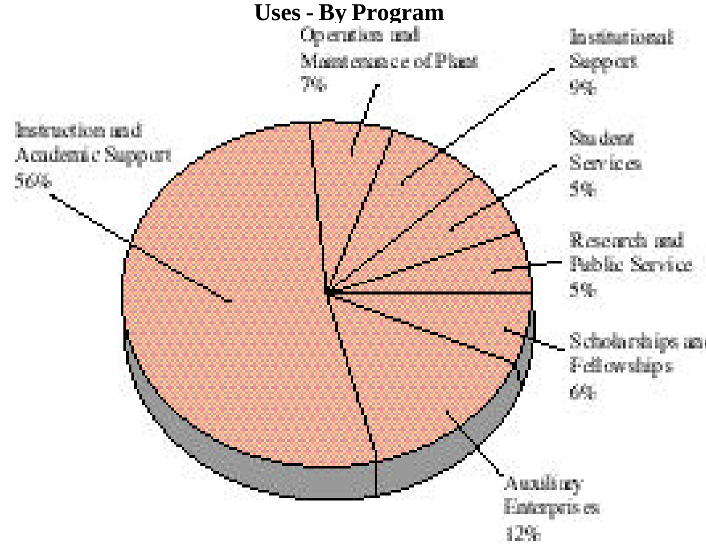
Uses - By Expenditure Category



Uses - By Program



Uses - By Program



COMBINED SOURCES AND USES OF FUNDS

Sources

For the year ended June 30, 1999
(Dollars in Millions)

Source	Percent	Amount	Description
State Appropriations	41%	**$323.8**	Represents State of Arizona legislative appropriations for current operations of the University and capital outlay (including building renewal funding) of $18.5 million.
Tuition and Fees	23%	**183.4**	Includes $11.6 million for summer sessions and $29.3 million of waivers, consisting of $27.2 million for scholarships and fellowships and $2.1 million for faculty and staff benefits.
Gifts, Grants, and Contracts	21%	**167.4**	Consists of research and educational service agreements, scholarships, endowments, and plant facility additions. Includes $106.6 million of Federal grants and contracts, $8.3 million of state grants and contracts, and $2.4 million of local government grants and contracts.
Auxiliary Enterprises	10%	**76.8**	Represents operations of essentially self-supporting activities such as bookstore, intercollegiate athletics, residence halls, and parking.
Investment and Endowment Income	2%	**15.3**	Consists of earnings from short-term investments on collections in advance of expenditures, long-term investments of endowment and bond retirement funds, and changes in fair value of endowment investments. Fair value typically is the quoted market price for investments.
Other Sources	3%	**23.2**	Consists primarily of departmental sales and services.
		$789.9	

Note:

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

This statement provides an overview of total University financial operations including the ASU Main, ASU West, and ASU East Campuses. Restricted and unrestricted current operating and non-operating funds are included. Restricted funds have specific purposes stipulated by outside donors and agencies.

Non-operating funds consist of the student loan, endowment, unexpended plant, and debt service funds. The investment in plant fund is not included, except for property gifts, since plant acquisitions are typically shown as a use of funds in either the current operating funds or unexpended plant fund at the time of acquisition. The non-operating funds generally are not available for use at the discretion of the University. Sources and uses are allocated and controlled by budgets.

Uses

Use	Percent	Amount	Description
Instruction and Academic Support	42%	**$318.1**	Consists of (1) instruction expenditures totaling $236.5 million, which include credit and non-credit courses for academic, occupational, and vocational instruction for regular academic year and summer sessions, and continuing education, and (2) academic support expenditures totaling $81.6 million, which include libraries, academic information technology support, and academic administration.
Research and Public Service	13%	**100.8**	Represents (1) activities specifically organized to produce research outcomes, whether funded by external agencies or separately budgeted by organizational units within the University, and (2) public service expenditures of $28.8 million for non-instructional services beneficial to individuals and groups external to the University, such as public broadcasting and public events.
Student Services and Institutional Support	11%	**83.3**	Consists of (1) student services expenditures totaling $30.4 million, which include admissions, registrar, student activities, counseling, career guidance, student aid administration, and student health services, and (2) institutional support expenditures totaling $52.9 million, which include executive management, financial operations, human resources, public safety, community relations, administrative information technology support, and alumni relations.
Operation and Maintenance of Plant	5%	**39.0**	Represents expenditures for the operation and maintenance of plant, exclusive of amounts charged to auxiliary enterprises, including services related to facilities and grounds, and utility costs.
Auxiliary Enterprises	9%	**66.9**	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.
Scholarships and Fellowships	9%	**68.6**	Includes grants paid from the restricted fund, and tuition and fee waivers awarded to students enrolled in formal course work, with the students not being required to perform personal services or repay the awards.
Facility Additions and Debt Servicing	9%	**65.2**	Represents (1) additions to physical facilities of $25.4 million funded from the unexpended plant fund and $11.3 million of property gifts (excludes $32.9 million of property additions charged to current funds, since such uses have already been reflected in the above programs), and (2) debt servicing payments, totaling $28.5 million, consisting of $14.9 million of interest payments and $13.6 million of principal retired.
Other Uses	2%	**19.5**	Consists primarily of indirect cost recovered of $14.5 million.
		$761.4	
Net Increase in Fund Balances		**28.5**	
		$789.9	

BALANCE SHEET

(Dollars in Thousands)
June 30,1999
(with comparative totals for 1998)

	CURRENT OPERATING FUNDS				
	Unrestricted Funds				
	General Operating Fund	Designated Fund	Auxiliary Enterprises Fund	Restricted Fund	Total Current Operatin Funds
Assets					
Cash and investments - Note A	$ 12,429	$ 70,458	$ 13,594	$ 324	$ 96,805
Accounts receivable, less allowance of $1,493 in 1999 and $1,950 in 1998	129	2,717	5,363	11,090	19,299
Loans receivable, less allowance of $1,965 in 1999 and $2,095 in 1998 - Note B					
Inventories			5,089		5,089
Deferred expenses and deposits		3,075	244	42	3,361
Due from other funds		1,801			1,801
Donated land					
Property, buildings, and equipment - Note C					
	$ 12,558	$ 78,051	$ 24,290	$ 11,456	$ 126,355
Liabilities and Fund Balances					
Liabilities -					
Accounts payable and accrued expenses	$ 2,850	$ 1,074	$ 1,777	$ 1,108	$ 6,809
Deferred revenue	2,922	12,639	6,112	4,030	25,703
Employee retirement and insurance deposits					
Other deposits		38	212		250
Due to other funds				1,801	1,801
Bonds payable - Note D					
Lease-purchases and other long-term obligations - Note E					
	$ 5,772	$ 13,751	$ 8,101	$ 6,939	$ 34,563
Fund Balances	6,786	64,300	16,189	4,517	91,792
	$ 12,558	$ 78,051	$ 24,290	$ 11,456	$ 126,355
Fund Balances Consist of -					
Restricted -					
U.S. Government grants refundable					
Endowments					
General				$ 4,517	$ 4,517
Designated -					
Outstanding purchase orders and other commitments	$ 6,742				6,742
Summer sessions		$ 3,130			3,130
Quasi-endowments					
General	44	61,170	$ 16,189		77,403
Net investment in plant					
	$ 6,786	$ 64,300	$ 16,189	$ 4,517	$ 91,792

See Summary of Significant Accounting Policies and Notes to Financial Statements.

NON-OPERATING FUNDS				TOTAL ALL FUNDS Memorandum Only	
Student Loan Fund	Endowment Fund	Combined Plant Funds	Agency Fund	1999	1998
$ 797	$ 59,562	$ 76,175	$ 12,687	$ 246,026	$ 207,694
31	248	190	1,831	21,599	24,125
12,232				12,232	12,327
				5,089	5,576
			439	3,800	3,566
				1,801	4,654
	1,119			1,119	1,119
		1,268,773		1,268,773	1,215,509
$ 13,060	$ 60,929	$ 1,345,138	$ 14,957	$ 1,560,439	$ 1,474,570
$ 25	$ 58	$ 9,264	$ 1,103	$ 17,259	$ 18,242
				25,703	23,619
			6,349	6,349	5,309
			7,505	7,755	3,415
				1,801	4,654
		213,413		213,413	223,078
		49,115		49,115	52,334
$ 25	$ 58	$ 271,792	$ 14,957	$ 321,395	$ 330,651
13,035	60,871	1,073,346		1,239,044	1,143,919
$ 13,060	$ 60,929	$ 1,345,138	$ 14,957	$ 1,560,439	$ 1,474,570
$ 10,281				$ 10,281	$ 10,410
	$ 55,826			55,826	48,958
2,754		$ 21,174		28,445	20,602
				6,742	5,560
				3,130	3,048
	5,045			5,045	4,269
		32,952		110,355	98,480
		1,019,220		1,019,220	952,592
$ 13,035	$ 60,871	$ 1,073,346		$ 1,239,044	$ 1,143,919

STATEMENT OF CHANGES IN FUND BALANCES

(Dollars in Thousands) For the year ended June 30, 1999 (with comparative totals for 1998)	CURRENT OPERATING FUNDS Unrestricted Funds General Operating Fund	Designated Fund	Auxiliary Enterprises Fund	Restricted Fund	Total Current Operating Funds
Revenues and Other Additions					
Unrestricted current revenues	$ 420,613	$ 111,183	$ 85,027		$ 616,823
Restricted -					
Governmental grants and contracts				$ 101,599	101,599
Private gifts, grants, and contracts				25,281	25,281
State appropriations					
Financial aid trust fund				960	960
Investment and endowment income				1,413	1,413
Interest on student loans					
Expended for plant facilities including $32,864 charged to current funds expenditures in 1999 and $31,887 in 1998					
Retirement of indebtedness including $209 charged to current funds expenditures in 1999 and $1,060 in 1998					
Other additions					
Total revenues and other additions	$ 420,613	$ 111,183	$ 85,027	$ 129,253	$ 746,076
Expenditures and Other Deductions					
Educational and general expenditures	$ 414,474	$ 79,175		$ 116,191	$ 609,840
Auxiliary enterprises expenditures			$ 66,896		66,896
Indirect costs recovered				14,471	14,471
Cancellation of loans and provision for bad debts					
Administrative and collection costs					
Expended for plant facilities					
Interest on indebtedness					
Retirement of plant facilities					
Retirement of indebtedness					
Other deductions				179	179
Total expenditures and other deductions	$ 414,474	$ 79,175	$ 66,896	$ 130,841	$ 691,386
Transfers Among Funds - Additions (Deductions)					
Mandatory -					
Bond indenture requirements		$ (15,707)	$ (6,661)		$ (22,368)
Other mandatory transfers	$ (4,923)	(2,927)	(325)	$ 2,437	(5,738)
Voluntary, net		(2,144)	(9,115)	(788)	(12,047)
Total transfers	$ (4,923)	$ (20,778)	$ (16,101)	$ 1,649	$ (40,153)
Net Increase (Decrease) for the Year	$ 1,216	$ 11,230	$ 2,030	$ 61	$ 14,537
Fund Balances, Beginning of Year	5,570	53,070	14,159	4,456	77,255
Fund Balances, End of Year	$ 6,786	$ 64,300	$ 16,189	$ 4,517	$ 91,792

See Summary of Significant Accounting Policies and Notes to Financial Statements.

NON-OPERATING FUNDS						TOTAL ALL FUNDS	
		Plant Funds				Memorandum Only	
Student Loan Fund	Endowment Fund	Unexpended Plant Fund	Debt Service Fund	Investment in Plant Fund	Combined Plant Funds	1999	1998
						$ 616,823	$ 577,689
$ 68		$ 1,781			$ 1,781	103,448	87,876
3	$ 1,503	2,516		$ 11,294	13,810	40,597	27,530
		18,501			18,501	18,501	8,087
	960					1,920	1,832
128	5,164		$ 770		770	7,475	15,246
282						282	342
				58,275	58,275	58,275	49,167
				13,867	13,867	13,867	14,259
96		428	395		823	919	2,443
$ 577	$ 7,627	$ 23,226	$ 1,165	$ 83,436	$ 107,827	$ 862,107	$ 784,471
						$ 609,840	$ 563,053
						66,896	62,693
						14,471	14,736
$ 533						533	354
80						80	118
		$ 25,411			$ 25,411	25,411	17,280
			$ 14,866		14,866	14,866	15,444
				$ 16,808	16,808	16,808	31,250
			13,658		13,658	13,658	13,199
		4,191	49		4,240	4,419	5,156
$ 613		$ 29,602	$ 28,573	$ 16,808	$ 74,983	$ 766,982	$ 723,283
			$ 22,368		$ 22,368		
$ 22		$ 85	5,631		5,716		
(95)	$ 17	12,089	36		12,125		
$ (73)	$ 17	$ 12,174	$ 28,035		$ 40,209		
$ (109)	$ 7,644	$ 5,798	$ 627	$ 66,628	$ 73,053	$ 95,125	$ 61,188
13,144	53,227	33,522	14,179	952,592	1,000,293	1,143,919	1,082,731
$ 13,035	$ 60,871	$ 39,320	$ 14,806	$ 1,019,220	$ 1,073,346	$ 1,239,044	$ 1,143,919

STATEMENT OF CURRENT OPERATING FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES

(Dollars in Thousands)
For the year ended June 30,1999
(with comparative totals for 1998)

	Unrestricted Funds				Total Current Operating Funds Memorandum Only	
	General Operating Fund	Designated Fund	Auxiliary Enterprises Fund	Restricted Fund	1999	1998
Revenues						
State appropriations	$ 305,349				$ 305,349	$ 279,145
Tuition and fees -						
Collected	93,339	$ 58,652	$ 2,036		154,027	150,112
Value of waivers	20,690	8,645			29,335	27,078
Governmental grants and contracts		13,901		$ 88,691	102,592	89,146
Private gifts, grants, and contracts		6,034	3,395	25,097	34,526	32,188
Financial aid trust fund				1,143	1,143	869
Investment and endowment income		7,838	10	1,260	9,108	8,327
Sales and services of auxiliary enterprises			76,762		76,762	75,022
Internal services, less related expenditures of $33,211 in 1999 and $32,487 in 1998			2,824		2,824	1,497
Other sources	1,235	16,113			17,348	15,966
Total revenues	$ 420,613	$111,183	$ 85,027	$ 116,191	$733,014	$ 679,350
Expenditures and Mandatory Transfers						
Educational and general -						
Instruction	$ 218,347	$ 15,006		$ 3,168	$ 236,521	$ 217,822
Research	12,098	7,801		52,062	71,961	57,614
Public service	2,560	2,034		24,256	28,850	27,800
Academic support	65,481	15,529		573	81,583	79,500
Student services	22,640	4,731		3,034	30,405	28,698
Institutional support	35,319	17,237		336	52,892	51,174
Operation and maintenance of plant	38,655	346		14	39,015	37,419
Scholarships and fellowships	19,374	16,491		32,748	68,613	63,026
Educational and general expenditures	$ 414,474	$ 79,175		$ 116,191	$ 609,840	$ 563,053
Mandatory transfers	4,923	18,634		(2,437)	21,120	21,235
Total educational and general	$ 419,397	$ 97,809		$ 113,754	$ 630,960	$ 584,288
Auxiliary enterprises -						
Expenditures			$ 66,896		$ 66,896	$ 62,693
Mandatory transfers			6,986		6,986	6,760
Total auxiliary enterprises			$ 73,882		$ 73,882	$ 69,453
Total expenditures and mandatory transfers	$ 419,397	$ 97,809	$ 73,882	$ 113,754	$ 704,842	$ 653,741
Other Transfers and Deductions						
Restricted receipts under transfers to revenues				$ (1,409)	$ (1,409)	$ (1,129)
Voluntary transfers, net		$ (2,144)	$ (9,115)	(788)	(12,047)	(15,726)
Other				(179)	(179)	(242)
Net Increase in Fund Balances	$ 1,216	$ 11,230	$ 2,030	$ 61	$ 14,537	$ 8,512

See Summary of Significant Accounting Policies and Notes to Financial Statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

June 30, 1999

Basis of Accounting

For financial reporting purposes, the University includes those funds that are directly controlled by the University. Control by the University is determined on the basis of financial accountability. Fiscal responsibility for the University remains with the State of Arizona; therefore the University is considered a part of the reporting entity for the State's financial reporting purposes. The financial statements do not include the financially interrelated organizations described in Note F.

The financial statements have been prepared on the accrual basis of accounting in conformity with generally accepted accounting principles applicable to governmental colleges and universities as set forth in the AICPA College Guide model as defined in Governmental Accounting Standards Board Statement No. 15. The Statement of Current Operating Funds Revenues, Expenditures, and Other Changes is a statement of financial activities of operating funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of revenues and expenses.

Investments in securities are stated at fair value at June 30, 1999. Fair value typically is the quoted market price for investments.

Various methods are used by Auxiliary Enterprises units to value their inventory. The ASU Bookstore inventory comprises approximately 74% of the total inventory reported on the balance sheet and is valued using the retail method.

Property, buildings, and equipment are stated at cost at the date of acquisition or fair market value if donated. The University does not depreciate buildings and equipment.

To the extent that current operating funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of normal acquisition and/or replacement of movable equipment and library books; (2) mandatory transfers, in the case of required provisions for debt amortization and interest, and equipment renewal and replacement; and (3) voluntary transfers in all other cases.

Summer sessions revenues and expenditures are reported within the fiscal year in which the total summer sessions program is predominantly conducted. Accordingly, only the revenues and expenditures of the 1998 summer sessions are included in the Statement of Current Operating Funds Revenues, Expenditures, and Other Changes. Revenues and expenditures as of June 30, 1999 for the 1999 summer sessions are reported as deferred revenues and expenses on the Balance Sheet.

Tuition and fees revenues (net of refunds) include $27.2 million of waivers charged to Scholarships and Fellowships and $2.1 million of waivers for faculty and staff benefits.

The financial information shown for fiscal 1998 in the accompanying financial statements is included as a basis for providing comparison with fiscal 1999 and presents summarized totals only.

Fund Accounting

The accounts are maintained in accordance with the principles of "fund accounting". These principles require that resources be classified for accounting and reporting purposes into funds in accordance with the activities or objectives specified for the resources. Accounts are separately maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups.

Description of Funds

Current operating funds are used primarily to account for transactions which are expended in performing the primary and support missions of the University: instruction, research, public service, academic support, student services, institutional support, operation and maintenance of plant, scholarships and fellowships, and auxiliary enterprises.

Current Operating Funds consist of the following:

1. *The General Operating Fund* which is used to account for transactions related to the University's State-appropriated budgets as approved by the Arizona State Legislature and Arizona Board of Regents.
2. *The Designated Fund* which is used primarily to account for transactions related to academic year tuition and fees retained by the University, the summer sessions program, the recovery of indirect costs of sponsored research programs, the recovery of administrative costs of student aid, departmental sales and services, and the use of unrestricted gifts. The resources in this fund have been designated for specific purposes by the University.
3. *The Auxiliary Enterprises Fund* which is used to account for transactions of substantially self-supporting activities that primarily provide services for students, faculty, and staff. Auxiliary enterprises include, but are not limited to, residence halls, food services, bookstore, and intercollegiate athletics.
4. *The Restricted Fund* which is used to account for current funds expended for operating purposes but restricted by donors or other outside agencies as to the specific purpose for which they may be expended. Revenues of the Restricted Fund are reported in the Statement of Current Operating Funds Revenues, Expenditures, and Other Changes only to the extent expended for current operating purposes. Amounts received in excess of expenditures are included as additions to fund balances during the year.

Non-Operating Funds consist of the following:

1. *The Student Loan Fund,* financed primarily by the Federal government, which is used to account for loans to students. Interest is recorded on the accrual basis. Provisions of the Federal loan program stipulate that:
   - The University match one-third of Federal contributions; and
   - A portion of the loan principal and interest (ranging from 15% to 30% per year) can be cancelled and absorbed by the Federal government, if the recipient completes certain employment requirements.
2. *The Endowment Fund* which is used to account for permanent endowments, term endowments, and quasi-endowments. Permanent endowment funds are subject to the restrictions of donor gift instruments requiring that the principal be invested in perpetuity and that only the income be used. Term endowment funds provide that, upon the passage of a stated period of time or the occurrence of a particular event, all or part of the principal may be expended. Quasi-endowment funds have been established by the University for the same purposes as endowment funds; any portion of such funds may be expended. Restricted quasi-endowment funds must be expended according to donor specified purposes; unrestricted quasi-endowment funds, however, may be expended as determined by the University.
3. *The Plant Funds* which are used to account for the transactions relating to investment in University properties. They include the (1) Unexpended Plant Fund, (2) Debt Service Fund, and (3) Investment in Plant Fund. The Unexpended Plant Fund represents amounts which have been appropriated or designated for purchases of land, improvements, buildings, and equipment. The Debt Service Fund represents funds set aside to provide for payments of indebtedness primarily pursuant to terms of bond and trust indentures. The Investment in Plant Fund represents the total of property, buildings, equipment, and related liabilities.
4. *The Agency Fund* which is used to account for assets held by the University as custodian or fiscal agent for others; therefore, the transactions of this fund do not affect the Statement of Changes in Fund Balances.

June 30, 1999

Note A - Cash and Investments

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

A summary of the components of cash and investments at June 30, 1999 by management area follows (Dollars in Thousands):

	Fair Value
Bond trustee funds:	
Money market portfolios and cash	$ 24,333
Guaranteed Investment Contracts	5,893
U.S. Treasury and other Federal agency securities	268
Endowment funds:	
The Vanguard Group	32,595
Metropolitan Life Insurance Corporation	7,263
The Common Fund	7,511
Arizona Universities' financial aid trust fund endowment	11,338
Sun Angel Foundation	707
Pooled cash and short-term investments:	
State of Arizona Local Government Investment Pool, net of bank balance	149,852
U.S. Treasury and other Federal agency securities	6,266
	$ 246,026

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

Generally, funds not directly invested in U.S. Government securities are invested in pooled Federal money market accounts in which securities are purchased and held by the trustee. Occasionally, small cash balances are maintained, or certificates of deposit are purchased by the bank's trust department. For cash and certificates of deposit, book-entry pledges of Federal government securities are obtained as collateral and held by the trust department on a pooled basis. In conjunction with the ASU West lease-purchase financing, there is a $5,447,000 reserve fund maintained in a guaranteed investment contract (GIC). This GIC is from a major insurance firm and if the bond rating of this firm should fall to A- or below, the firm must provide U.S. Treasury securities as collateral for the GIC to the University's bond trustee.

Endowment funds. The Vanguard Group investments are in four index equity funds: Institutional (Standard and Poor's 500) Index Fund, Extended Market Index Fund, Small Capitalization Index Fund, and Total International Stock Index Fund. The Vanguard Group is a mutual fund company offering a broad range of investment funds. The Metropolitan Life investments are in the MetLife South Station Fund which invests in publicly traded fixed income securities. The Common Fund endowment investments are in that organization's Multi-Strategy Bond Fund. The Common Fund is a unique, nonprofit membership organization which provides investment management services exclusively for educational institutions and has approximately 900 member colleges, universities, and independent schools participating in various pooled equity and debt funds. The financial aid trust fund is funded from student fees and by the Arizona State Legislature. The fund is managed in a pool by the University of Arizona along with the financial aid trust funds for the other two state universities. The Sun Angel Foundation manages a portion of ASU's endowment funds in equity and bond securities pursuant to a trust agreement.

Pooled cash and short-term investments. Pooled cash and short-term investments at June 30, 1999 were principally with the State of Arizona Local Government Investment Pool. The University's investment in the pool represents shares in that pool's portfolio. The shares are not identified with specific investments and are not subject to custodial credit risk. The University sometimes also has investments in collateralized repurchase agreements, U.S. Treasury securities, and Federal agency securities. Repurchase agreements are with various major financial institutions under master agreements with the University. For repurchase agreements with a duration of over two weeks, the University has underlying securities transferred to Bank of America's Treasury Management Department. U.S. Treasury and Federal agency securities are held in the bank's custodial account with the Federal Reserve Bank or DTC and in the University's name in the bank's records. These securities are either purchased from a broker/dealer or a financial institution.

The University's bank and collected (portion of bank balance available for investment) balances at the bank at June 30, 1999 were $1,808,000 and $401,000 respectively, and the carrying value of deposits on the University's accounting system was a deficit $7,897,000. The carrying value of deposits balance has been netted against the State of Arizona Local Government Investment Pool in the above table. The cash deficit balance on the accounting system occurs because cash is not transferred from investments to the bank account until outstanding checks are expected to be presented to the bank for payment. The University's deposits are fully collateralized with governmental securities (U.S. or investment grade municipals) held by either the bank's agent or the bank's agent's custodial account with either the Federal Reserve or the DTC in the University's name.

Note B - Loans Receivable

Loans receivable from students bear interest primarily at 3% to 5% and are generally repayable in installments to the University over a five-to-ten year period commencing six to nine months from date of separation from the University. The University provides an allowance for estimated uncollectible amounts and related collection costs.

Note C - Property, Buildings, and Equipment

Property, buildings, and equipment at June 30, 1999 consisted of the following (Dollars in Thousands):

Land and improvements	$ 123,477
Buildings	748,427
Equipment	255,449
Library books, media, and works of art	141,420
	$ 1,268,773

The Unexpended Plant Fund balance is committed for projects planned and under construction and for future building repairs and equipment replacements. Future commitments approximate $39.3 million at June 30, 1999.

In October 1996, the Federal Government conveyed to the University a portion of the former Williams Air Force Base which is used by the University as the ASU East Campus. The property transfer is conditional upon the use of the property being for educational purposes in accordance with the terms of the deed. The appraised fair value of the property conveyed was $56.4 million and consisted of 61 multi-purpose use buildings and 177 single family residences valued at $45.3 million, site improvements valued at $3.5 million, and 279.1 acres of land valued at $7.6 million.

The University recorded on its records this conveyed property at the time of title transfer at its appraised value. This was the initial conveyance in what the University anticipates to be a two-phase transfer of title to the property it occupies as the ASU East Campus. The appraised fair value of the property yet to be conveyed is $33.3 million, and includes 4 multi-purpose use buildings, 390 single family residences and 312.9 acres of land. The University will record these remaining assets at the time they are conveyed by the Federal Government. As of September 3, 1999, only the initial conveyance totaling $56.4 million had occurred.

Note D - Bonds Payable

Bonds payable at June 30, 1999 consisted of the following (Dollars in Thousands):

	Average Interest Rates	Final Maturities (Calendar Year)	Outstanding Principal
Housing revenue bonds	2.75% to 5.50%	2000-2006	$ 2,363
1989 System revenue bonds	7.09%	2004	11,315
1991 System revenue bonds	7.13%	2005	7,850
1992 System revenue refunding bonds	6.25%	2015	28,490
1992A System revenue refunding bonds	5.88%	2019	140,415
1993 System revenue refunding bonds	4.93%	2008	22,980
			$ 213,413

In prior years, certain system revenue bonds of the University were also in substance defeased through advance refundings by depositing sufficient U.S. Government securities to pay all future debt service in an irrevocable trust. Accordingly, the liabilities for these defeased bonds are not included in the University's financial statements. The principal amount of all refunded bonds outstanding at June 30, 1999 was $75,730,000.

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

Securities and cash restricted for bond retirement funds and maintenance and replacement reserves held by trustees at June 30, 1999 totaled $17,445,000. A schedule of future debt service funding commitments, including interest, for bonds outstanding follows (Dollars in Thousands):

Fiscal	Housing Revenue Bonds	System Revenue Bonds	Total
2000	$ 557	$ 20,761	$ 21,318
2001	490	20,733	21,223
2002	492	20,703	21,195
2003	383	20,794	21,177
2004	285	20,865	21,150
Thereafter	386	207,830	208,216
	$ 2,593	$ 311,686	$ 314,279

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

Lease-purchases and other long-term obligations at June 30, 1999 consisted of the following (Dollars in Thousands):

	Average Interest Rates	Final Maturities (Calendar Year)	Outstanding Principal
Lease-Purchase Certificates of Participation:			
1993 ASU West Refunding	5.18%	2009	$ 43,440
1991 Towers Project (through ASU Foundation)	6.89%	2010	3,520
Other Lease-Purchases and Installment Purchases	4.88% to 12.01%	2003	2,155
			$ 49,115

Securities and cash restricted for non-bond retirement funds and maintenance and replacement reserves held by trustees at June 30, 1999 totaled $13,049,000. A schedule of funding commitments for lease-purchases and other long-term obligations follows (Dollars in Thousands):

	Certificates of Participation			
Fiscal	ASU West Refunding	Towers Project	Other	Total
2000	$ 5,250	$ 441	$ 476	$ 6,167
2001	5,244	443	463	6,150
2002	5,243	442	441	6,126
2003	5,242	446	382	6,070
2004	5,239	443	9	5,691
Thereafter	26,211	2,660	653	29,524
	$ 52,429	$ 4,875	$ 2,424	$ 59,728

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

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

A fifth financially interrelated organization, Price-Elliott Research Park, Inc. (Park), is developing a research park to promote and support research activities, in coordination with the University. In developing the research park, the Park has issued bonds guaranteed by the University.

As of June 30, 1999, the Park had $18,245,000 of revenue bonds outstanding at an average interest rate of 5.26%. The debt service on the bonds is secured by a subordinated lien on ASU Main Campus revenues. Park revenues are not pledged in order to provide development flexibility to the Park.

Annual debt service on the Park bonds will be $993,000 in fiscal year 2000 and varies from a low of $898,000 in fiscal 2004 to a high of $1,698,000 in fiscal 2006. The University is obligated to pay the annual debt service, if not paid by the Park, under a debt service assurance agreement.

Beginning in fiscal 1990, the University provided operating cash advances to the Park repayable with interest to the University (1) upon the Park's total gross receipts for a fiscal year exceeding its total disbursements for that fiscal year and (2) before any Park surpluses are transferred to the Arizona State University Foundation. The last year for cash transfers to the Park was fiscal 1998. Since the Parks's repayment to the University was dependent upon successful future operations and the entering into of additional land leases, the transfers to the Park were recorded by the University as current year expenditures when made and not as an asset on the University's balance sheet. Total cash advances repayable to the University at June 30, 1999, including accrued interest, totaled $8,291,000. During fiscal year 1999, the Park repaid $662,000 to the University, with this amount being recorded as other source revenues with the timetable for future repayments dependent upon the Park entering into additional land leases.

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

Assets, net assets, and revenues for these organizations for the most recent fiscal years for which audits have been completed aggregated $202.5 million, $152.9 million, and $82.4 million, respectively, with substantially all of the net assets being donor restricted or endowment funds.

Note G - General Operating Fund
Beginning in fiscal 1995, the University has received a separate appropriation from the Arizona State Legislature for the ASU East Campus. This appropriation along with the separate appropriation for the ASU West Campus (since 1985) are combined with the ASU Main Campus appropriation to constitute the General Operating Fund. Separation of the General Operating Fund between campuses for fiscal 1999 is as follows (Dollars in Thousands):

	Main	West	East	Total
State appropriations	$ 257,284	$ 37,663	$ 10,402	$ 305,349
Tuition, fees and other revenues	105,817	7,020	2,427	115,264
Total Revenues	$ 363,101	$ 44,683	$ 12,829	$ 420,613
Expenditures	362,773	38,922	12,779	414,474
Mandatory transfers	—	4,923	—	4,923
Net Increase for the Year	$ 328	$ 838	$ 50	$ 1,216
Fund Balances, Beginning of Year	4,553	973	44	5,570
Fund Balances, End of Year	$ 4,881	$ 1,811	$ 94	$ 6,786
Fund Balances consist of:				
Outstanding purchase orders and other commitments	$ 4,841	$ 1,807	$ 94	$ 6,742
General	40	4	—	44
	$ 4,881	$ 1,811	$ 94	$ 6,786

Note H - Retirement Plans
The University participates in one cost-sharing multiple-employer defined benefit pension plan and four defined contribution pension plans. The following disclosures are required by GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers.*

Defined Benefit Plan

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

Funding Policy. For the year ended June 30, 1999, active ASRS members and the University were each required by statute to contribute at the actuarially determined rate of 3.34% (2.85% retirement and 0.49% long-term disability) of the employees' annual covered payroll. The Arizona State Legislature establishes and may amend active plan members' and the University's contribution rates. Both the University and the covered employees made the required contributions for the years ended June 30, 1999, 1998 and 1997 as follows (Dollars in Thousands):

	Contributions Rates (Each)	University Contributions	Employee Contributions	Total Contributions
1999	3.34%	$ 4,851	$ 4,851	$ 9,702
1998	3.54%	4,773	4,773	9,546
1997	3.69%	4,439	4,439	8,878

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, 1999, plans offered by the Teachers Insurance Annuity Association/College Retirement Equities Fund (TIAA/CREF), Variable Annuity Life Insurance Company (VALIC), Fidelity Investments Tax-Exempt Services Company (Fidelity), and Aetna Life Insurance and

Annuity Company (Aetna) were approved by the Arizona Board of Regents. Benefits under these plans depend solely on the contributed amounts and the returns earned on the investment of those contributions. Contributions made by employees vest immediately and University contributions vest no later than after five years of full-time employment. Employee and University contributions and associated returns earned on investments may be withdrawn starting upon termination of employment, death, or retirement. The distribution of employee contributions and associated investment earnings are made in accordance with the employee's contract with the applicable insurance and annuity company. University contributions and associated investment earnings must be distributed to the employee in the form of an annuity paid over the employee's life.

Funding Policy. The Arizona State Legislature establishes and may amend active plan members' and the University's contribution rates. For the year ended June 30, 1999, plan members and the University were each required by statute to contribute an amount equal to 7.00% of an employee's compensation. Contributions to these plans for year ended June 30, 1999, were as follows (Dollars in Thousands):

	Contributions Rates (Each)	University Contributions	Employee Contributions	Total Contributions
TIAA/CREF	7%	$ 8,012	$ 8,012	$ 16,024
VALIC	7%	1,444	1,444	2,888
Fidelity	7%	706	706	1,412
Aetna	7%	291	291	582

Note I - Accrued Vacation Pay

The University has not made accruals for vacation time earned, but not taken, as of fiscal year end. If the accruals for vacation pay were made, including the related employer's FICA taxes, the General Operating, Designated, Auxiliary Enterprises, and Restricted Funds' liabilities would be increased by approximately $8,008,000, $1,047,000, $1,204,000 and $832,000, respectively. University management believes that this omission does not have a significant effect on the accompanying financial statements taken as a whole. The General Operating Fund liability would be funded by the subsequent year's appropriations from the State Legislature.

Note J - Other Matters

Pursuant to A.R.S. 41-621, the University participates in a self-insurance program administered by the State of Arizona, Department of Administration, Risk Management Section. The State's Risk Management Program covers the University, subject to certain deductibles, for risks of loss related to such situations as theft, damage and destruction of property, buildings, and equipment; errors and omissions; injuries to employees; natural disasters; and liability for acts or omissions of any nature while acting in authorized governmental or proprietary capacities and in the course and scope of employment or authorization, except as prescribed in A.R.S. 41-621. Loss risks not covered by the Risk Management Section and where the University has no insurance coverage are losses arising from contractual breaches and losses that arise out of and are directly attributable to an act or omission determined by a court to be a felony. In accordance with the disclosure requirements of Governmental Accounting Standards Board Statement No. 10, we note that judgments and claims not covered by the Risk Management Section during the three years ended June 30, 1999 have not been material to the University's financial statements taken as a whole.

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

REQUIRED SUPPLEMENTAL INFORMATION: YEAR 2000 EFFORTS (Unaudited)

In accordance with the requirements of the Governmental Accounting Standards Board (GASB) Technical Bulletin Numbers 98-1 and 99-1, the following Year 2000 disclosures are made by the University. The Year 2000 issue is the result of shortcomings in many electronic data processing systems and other equipment that may adversely affect operations in the year 1999 and beyond. If not corrected, many programs and embedded chips would not be able to distinguish the year 2000 from the year 1900, causing data to process incorrectly or for the processing of data to completely stop. The University started in 1994 to identify the major electronic data processing and other systems that needed to be updated or replaced in order to make these systems Year 2000 compliant. As of June 30, 1999, the Year 2000 compliance status of the University's four major informational electronic data processing systems was as follows: Human Resources System: A Year 2000 compliant vendor system release had been installed and was fully operational; Student Information Systems: Needed changes for the systems to be Year 2000 compliant were completed with the University being near completion of the validation and testing stage in regards to the Year 2000 changes that had already been implemented; Financial System: A Year 2000 compliant new financial system had been installed as of June 30, 1999 and was fully operational as of September 3, 1999; and Telecommunication System: A Year 2000 compliant vendor system release for the main telephone switch had been installed and was fully operational.

In addition to the above noted electronic data processing systems, there is certain facility-related equipment that is dependent upon microchip technology and Year 2000 compliant software; e.g., central plant, security and fire alarms, elevators, and energy management systems. Prudent measures have been taken to avoid or at least substantially mitigate any major facility-related equipment problems when Year 2000 arises. A task force was formed in summer 1998 to assess the facility-related equipment that may be impacted by microchips that are not Year 2000 compliant. As of June 30, 1999, the University had substantially completed the assessment of its facilities-related equipment, identified non-compliant components, replaced non-compliant microchips and software, and completed testing for all major systems that could impact University-wide operations. Certain noncritical systems are also being updated with planned completion dates of December 1999 or earlier.

The nature of the Year 2000 situation is unprecedented and the University, like all other organizations, will not conclusively know the complete success of its Year 2000 remediation efforts until the Year 2000 arrives. The University believes that there will not be any major Year 2000 problems with its mission-critical systems and electronic equipment. The GASB Technical Bulletins, however, require that this disclosure indicate that the University's completion of its Year 2000 efforts do not constitute a guarantee to the University's constituency that such systems and equipment are, in fact, Year 2000 compliant. Such conclusions can not be unquestionably made until the Year 2000 arrives.

INDEPENDENT AUDITORS' REPORT

DEBRA K. DAVENPORT, CPA
ACTING AUDITOR GENERAL

**STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL**

Independent Auditors' Report

Members of the Arizona State Legislature

The Arizona Board of Regents

We have audited the accompanying balance sheet of Arizona State University as of June 30, 1999, and the related statements of changes in fund balances and current operating funds revenues, expenditures, and other changes for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arizona State University as of June 30, 1999, and the changes in its fund balances and its current operating funds revenues, expenditures, and other changes for the year then ended in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements of Arizona State University taken as a whole. Disclosure regarding the year 2000 issue on page 19 is not a required part of the University's financial statements, but it is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measuring and presenting the supplementary information; however, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that the University is or will become year 2000 compliant, that the University's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the University does business are or will become year 2000 compliant.

Debbie Davenport
Acting Auditor General

September 3, 1999