



## **FINANCIAL REPORT 1998**

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Pictured on the cover is the Student Services Building located on the ASU Main Campus in Tempe. The Student Services Building houses many of the non-academic offices which assist students on a daily basis. Among the offices located there are the offices of student financial assistance, registrar, student employment, tuition payment, cashiering services, undergraduate admissions, residency classification, career services, and counseling and consultation.

ASU's student body represents all 50 states as well as more than 115 different nations. ASU students include Truman Scholars, Woodrow Wilson Scholars, Marshall Scholars, Goldwater Scholars, a Rhodes Scholar, Fulbright Fellows, National Merit Scholars, Arizona Regents Academic Scholars, Flinn Scholars, Medallion of Merit Scholars and Leadership Scholars - as well as numerous other scholarship, fellowship and grant recipients.

Special thanks to the ASU Office of Undergraduate Admissions for the use of the photograph featured on the cover.

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Governor of Arizona

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UNIVERSITY  
ADMINISTRATION**

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Provost and Vice President for ASU West

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Provost for ASU East

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Vice President

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Comptroller and Treasurer

# FINANCIAL REPORT 1998

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# FINANCIAL HIGHLIGHTS

## Funding Sources and Uses

Funding Sources (Resources acquired during the year)	Fiscal Year		Percentage Change
	1998	1997	
	(Dollars in Millions)		
State Appropriations	\$ 287.2	\$ 260.0	10 %
Tuition and Fees	177.2	162.9	9
Gifts, Grants, and Contracts	137.0	124.6	10
Auxiliary Enterprises Operations	75.0	71.0	6
Other Sources	42.6	35.6	20
Total Funding Sources	<u>\$ 719.0</u>	<u>\$ 654.1</u>	<u>10 %</u>
<b>Funding Uses (Resources consumed during the year)</b>			
Instruction and Academic Support	\$ 297.3	\$ 275.8	8 %
Research and Public Service	85.4	78.1	9
Student Services and Institutional Support	79.9	71.6	12
Operation and Maintenance of Plant	37.4	35.9	4
Auxiliary Enterprises Operations	62.7	59.4	6
Scholarships and Fellowships	63.0	54.7	15
Facility Additions, Debt Service, and Other Uses	65.3	64.3	2
Total Funding Uses	<u>\$ 691.0</u>	<u>\$ 639.8</u>	<u>8 %</u>

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

Total funding sources increased 10% due to increases in all funding source categories. The largest percentage increase was the 20% increase in other sources primarily due to a one-time \$5.5 million net increase in fair value in the endowment fund related to prior years. This was the result of ASU adopting for fiscal 1998 Governmental Accounting Standards Board (GASB) Statement No. 31, which became effective for fiscal 1998. GASB Statement 31 requires that investments be reported at fair value which is typically the quoted market price rather than at cost. The endowment fund also recorded \$6.6 million of net increase in fair value relating to fiscal 1998 activity, a \$1.2 million increase over fiscal 1997.

The state appropriations category increased 10% due to a \$23.1 million increase in the general operating fund appropriations and a \$4.1 million increase in capital outlay appropriations. The increase in the general fund appropriations was primarily to support instruction related expenditures in the colleges related to enrollment growth and various strategic initiatives.

The gifts, grants and contracts category increased 10% due to increased federal and state grants as well as a small increase in private gifts. Federal grants increased \$8.7 million due to a \$2.0 million funding increase by the National Science Foundation affecting various projects as well as a \$1.1 million funding increase by the Jet Propulsion Laboratory/NASA for the Mars Observer and Global Surveyor Thermal Emission Spectrometer Project. There were numerous other federal grants which received funding increases of less than \$1.0 million. Federal Pell financial aid grants increased by \$1.3 million. There was a \$2.2 million increase in state grants primarily due to increased funding for tobacco education and prevention programs revenues.

Tuition and fees increased 9% due to increases in enrollment growth for both in-state and out-state students, as well as increases in the rate charged for tuition and fees. The increase in tuition was used to address institutional needs not covered by the general operating fund appropriations as well as to increase funding for university scholarships and grants. The auxiliary enterprises operations category increased 6%, or \$4.0 million, primarily due to revenue increases for Public Events, Bookstore, Memorial Union and Parking. Public Events' revenues increased \$1.3 million as the result of a highly successful season for Valley Broadway Series events at ASU's Gammage Auditorium. Shows staged at Gammage Auditorium during fiscal 1998 included *Showboat*, *Rent*, *Lord of the Dance*, and *Chicago*.

Total funding uses increased 8% between years with increases in all categories. The scholarships and fellowships category had the largest increase, 15%, primarily due to increases in tuition waivers and in scholarships and financial aid grants awarded, including an increase of almost \$1.0 million in a university funded scholarship program for undergraduates enrolled at ASU who graduated in the top 15% of their high school senior class. Pell financial aid grant expenditures increased by \$1.3 million.

The student services and institutional support category increased 12%. Student services expenditures increased by 15% due to increases in several areas including student advising, student counseling and consultation, student information systems, undergraduate admissions, student health, student development, and co-curricular programs. Institutional support expenditures primarily increased in the areas of administrative information management/technology and institutional advancement. The research and public service category increased 9% due to increased expenditures relating to federal and state funded grants and contracts.

The instruction and academic support category increased 8%, or \$21.5 million, with the majority of the increase resulting from a \$16.2 million increase in instruction expenditures. Areas with significant increases in instruction expenditures included interdisciplinary instruction, mathematics, english, biology, engineering, chemistry and biochemistry, and business. The \$5.3 million increase in academic support included expenditures for activities designed to provide support services for instruction programs. These support services include library related expenditures, academic information technology support and academic administrative support. The auxiliary enterprises category increased 6%, due to increased expenditures by several auxiliary enterprises. The operation and maintenance of plant, and the other facility additions, debt service and other uses categories increased 4% and 2%, respectively.

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, 1998, 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		Percentage
	1998	1997	Change
	(Dollars in Millions)		
<b>Assets</b>			
(Resources available to provide future services or to pay obligations)			
Property, Buildings, and Equipment	\$ 1,215.5	\$ 1,196.2	2 %
Other Assets (cash, investments, receivables, and deferred expenses)	259.1	224.5	15
Total Assets	\$ 1,474.6	\$ 1,420.7	4 %
<b>Liabilities</b>			
(Obligations requiring cash or other resources in the future)			
Bonds Payable and Other Long-term Obligations	\$ 275.5	\$ 288.6	(5) %
Other Liabilities (accounts payable, deferred revenue, and deposits)	55.2	49.4	12
Total Liabilities	\$ 330.7	\$ 338.0	(2) %
<b>Fund Balances</b>			
(Resources available after obligations for providing of future services)			
Available for Current Operations:			
Restricted (must be spent as specified by external parties)	\$ 4.5	\$ 4.1	10 %
Designated (may be spent as determined by University Administration)	72.8	64.7	13
Restricted or Specified for Non-operating Purposes (bond reserves, student loans, endowments, and construction projects)	114.0	94.5	21
Total Fund Balances before Net Investment in Plant	\$ 191.3	\$ 163.3	17 %
Invested in Property, Buildings, and Equipment (property costs net of bonds payable and other long-term obligations)	952.6	919.4	4
Total Fund Balances	\$ 1,143.9	\$ 1,082.7	6 %

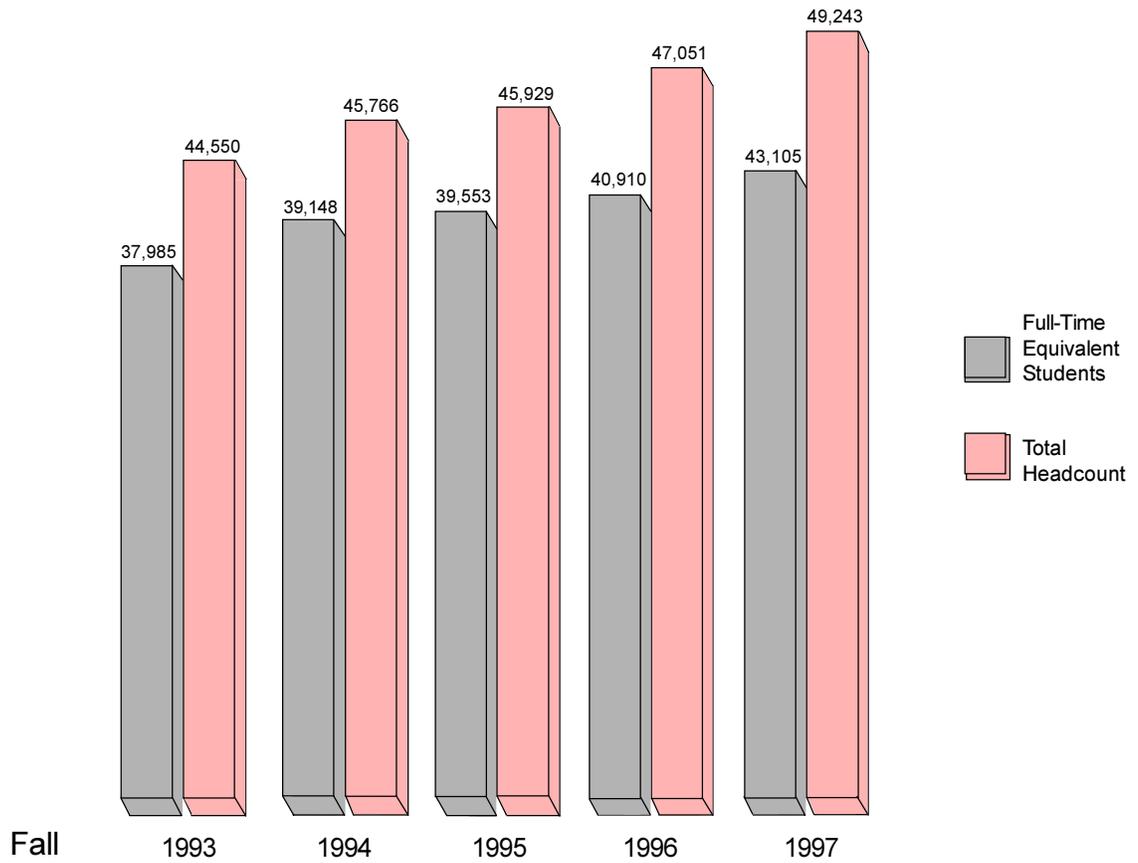
The 4% increase in total University assets resulted from a \$19.3 million net increase in property, buildings, and equipment in conjunction with a \$34.6 million increase in other assets.

The \$19.3 million net increase in property, buildings, and equipment was primarily due to a \$16.8 million increase in buildings due to several renovation projects either completed or underway in fiscal 1998. The \$34.6 million increase in other assets was primarily due to a \$29.1 million increase in cash and investments. Endowment fund cash and investments increased \$15.0 million primarily due to \$12.1 million of net increase in fair value realized when endowment investments were converted from cost to fair value basis during fiscal 1998 in accordance with GASB Statement No. 31. Fair value typically is the quoted market price for investments. Included in the \$12.1 million of net increase in fair value is \$6.6 million relating to current year activity and \$5.5 million relating to prior years. There was also a \$7.5 million increase in cash and investments in the current operating funds. All other assets categories with the exception of donated land showed increases during fiscal 1998.

The 2% decrease in total liabilities was due to a \$13.1 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 1998.

Total fund balances increased 6% primarily due to the University's additional \$33.2 million net investment in property, buildings, and equipment during fiscal 1998. This increase consisted of \$31.9 million of equipment and library acquisitions funded by current operating funds. All fund groups had fund balance increases during fiscal 1998. Most notable was the \$14.4 million increase in the endowment fund primarily due to the \$12.1 million net increase in fair value mentioned above. Current operating funds increased \$8.5 million primarily due to increases in the designated and auxiliary enterprises funds.

# ENROLLMENT



## Degrees Conferred for Academic Year 1997-98

Bachelor's	7,261
Master's	2,359
Doctor's	418
	<u>10,038</u>

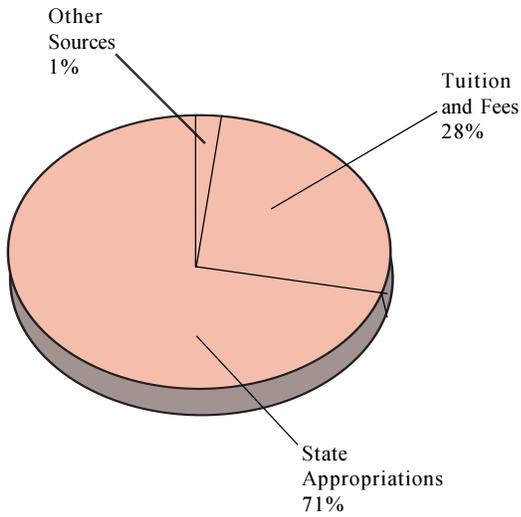
## Fall, 1997 Enrollment

Undergraduate	37,132
Graduate	12,111
	<hr/>
In-State	36,427
Out-of-State	12,816

# PERCENTAGE COMPOSITIONS

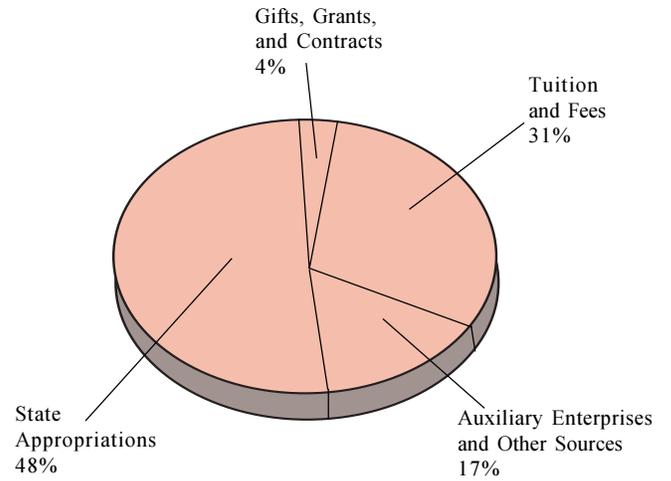
## General Operating Fund

### Revenue Sources

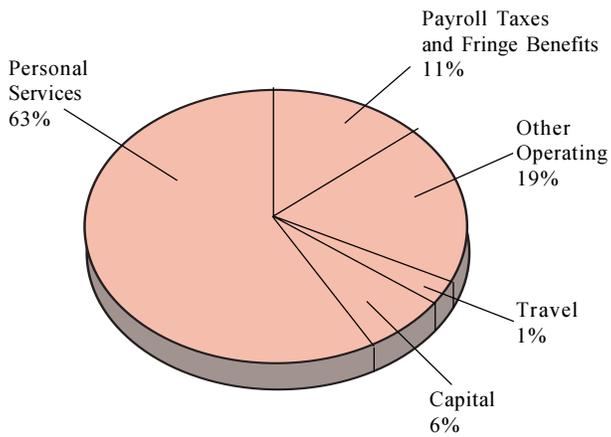


## Unrestricted Current Operating Funds

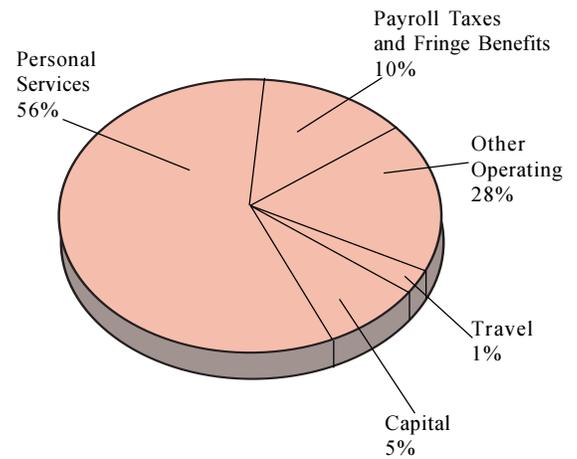
### Revenue Sources



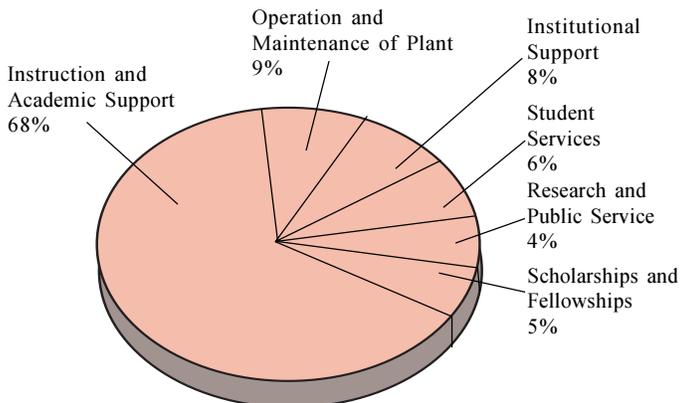
### Uses - By Expenditure Category



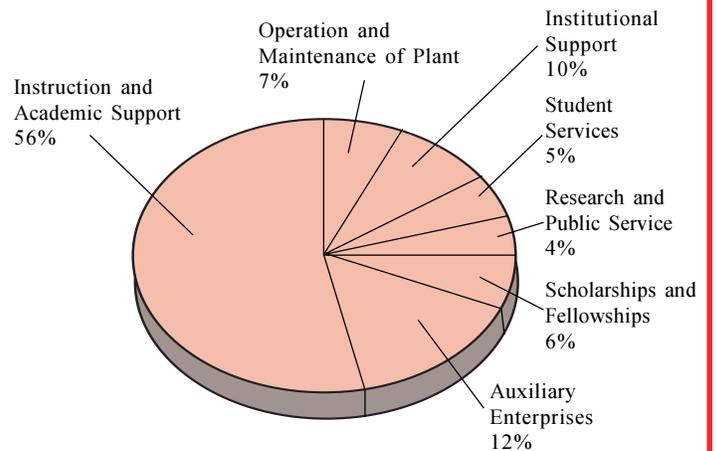
### Uses - By Expenditure Category



### Uses - By Program



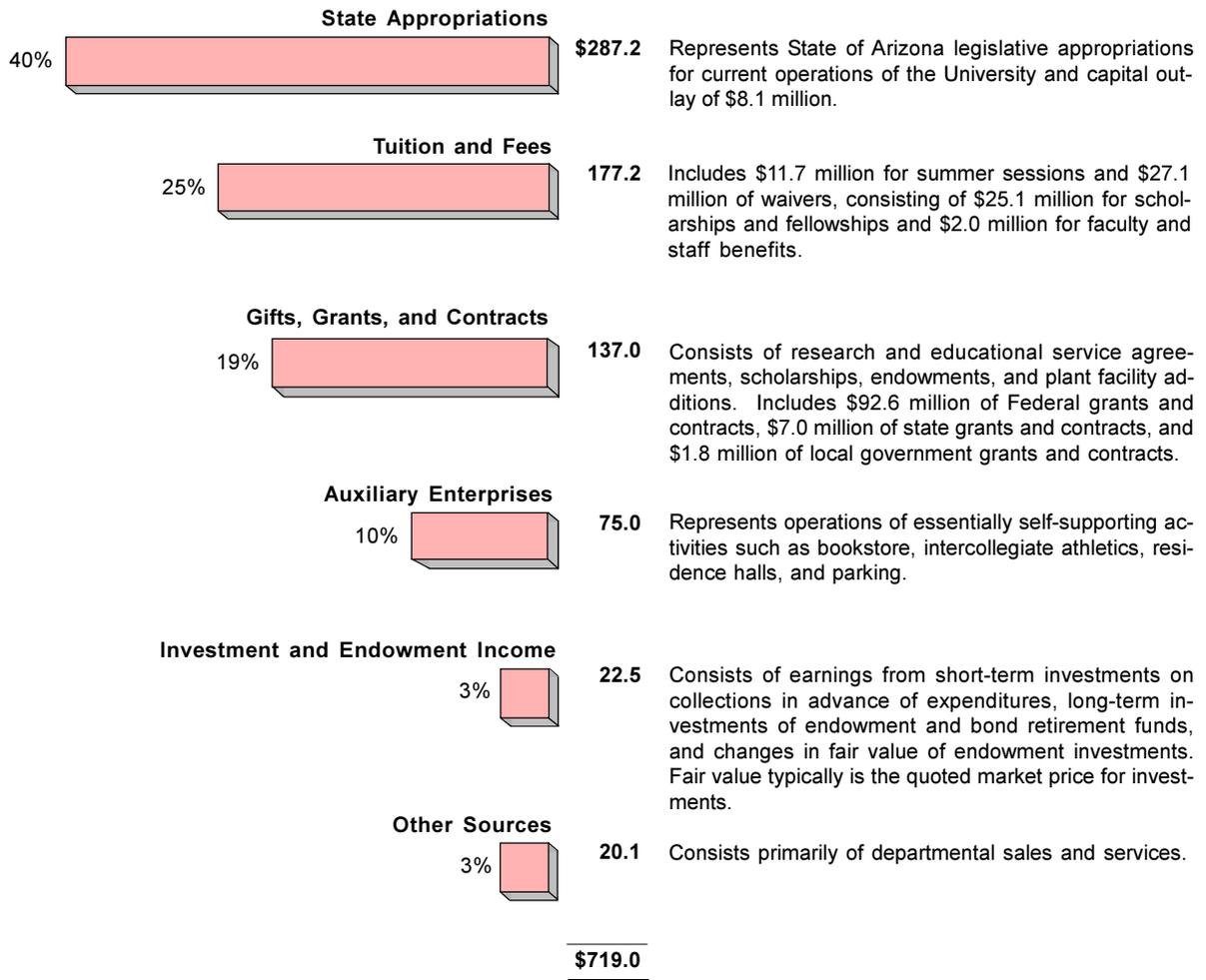
### Uses - By Program



# COMBINED SOURCES AND USES OF FUNDS

## Sources

For the year ended June 30, 1998  
(Dollars in Millions)



**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

<p><b>Instruction and Academic Support</b></p> <p>43%</p> 	<p><b>\$297.3</b> Consists of (1) instruction expenditures totaling \$217.8 million, which include credit and non-credit courses for academic, occupational, and vocational instruction for regular academic year and summer sessions, and continuing education, and (2) academic support expenditures totaling \$79.5 million, which include libraries, academic information technology support and academic administration.</p>
<p><b>Research and Public Service</b></p> <p>12%</p> 	<p><b>85.4</b> 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 \$27.8 million for non-instructional services beneficial to individuals and groups external to the University, such as public broadcasting and public events.</p>
<p><b>Student Services and Institutional Support</b></p> <p>12%</p> 	<p><b>79.9</b> Consists of (1) student services expenditures totaling \$28.7 million, which include admissions, registrar, student activities, counseling, career guidance, student aid administration, and student health services, and (2) institutional support expenditures totaling \$51.2 million, which include executive management, financial operations, human resources, public safety, community relations, administrative information technology support, and alumni relations.</p>
<p><b>Operation and Maintenance of Plant</b></p> <p>5%</p> 	<p><b>37.4</b> 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.</p>
<p><b>Scholarships and Fellowships</b></p> <p>9%</p> 	<p><b>63.0</b> 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.</p>
<p><b>Auxiliary Enterprises</b></p> <p>9%</p> 	<p><b>62.7</b> 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.</p>
<p><b>Facility Additions and Debt Servicing</b></p> <p>7%</p> 	<p><b>46.9</b> Represents (1) additions to physical facilities of \$17.3 million funded from the unexpended plant fund and \$1.0 million of property gifts (excludes \$31.9 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 \$28.6 million, consisting of \$15.4 million of interest payments and \$13.2 million of principal retired.</p>
<p><b>Other Uses</b></p> <p>3%</p> 	<p><b>18.4</b> Consists primarily of indirect cost recovered of \$14.7 million.</p>

<b>Net Increase in Fund Balances</b>	<u><b>\$691.0</b></u>
	<u><b>28.0</b></u>
	<u><b>\$719.0</b></u>

# BALANCE SHEET

(Dollars in Thousands)  
June 30, 1998  
(with comparative totals for 1997)

	CURRENT OPERATING FUNDS				Total Current Operating Funds
	Unrestricted Funds			Restricted Fund	
	General Operating Fund	Designated Fund	Auxiliary Enterprises Fund		
<b>Assets</b>					
Cash and investments - Note A	\$ 11,144	\$ 55,573	\$ 11,618	\$ 269	\$ 78,604
Accounts receivable, less allowance of \$1,950 in 1998 and \$1,573 in 1997	164	3,301	6,002	12,678	22,145
Loans receivable, less allowance of \$2,095 in 1998 and \$1,999 in 1997 - Note B					
Inventories			5,576		5,576
Deferred expenses and deposits		3,280	274		3,554
Due from other funds		4,654			4,654
Donated land					
Property, buildings, and equipment - Note C					
	<u>\$ 11,308</u>	<u>\$ 66,808</u>	<u>\$ 23,470</u>	<u>\$ 12,947</u>	<u>\$ 114,533</u>
<b>Liabilities and Fund Balances</b>					
Liabilities -					
Accounts payable and accrued expenses	\$ 3,199	\$ 1,293	\$ 2,763	\$ 880	\$ 8,135
Deferred revenue	2,539	12,390	5,678	2,957	23,564
Employee retirement and insurance deposits					
Other deposits		55	870		925
Due to other funds				4,654	4,654
Bonds payable - Note D					
Lease-purchases and other long-term obligations - Note E					
	<u>\$ 5,738</u>	<u>\$ 13,738</u>	<u>\$ 9,311</u>	<u>\$ 8,491</u>	<u>\$ 37,278</u>
Fund Balances	5,570	53,070	14,159	4,456	77,255
	<u>\$ 11,308</u>	<u>\$ 66,808</u>	<u>\$ 23,470</u>	<u>\$ 12,947</u>	<u>\$ 114,533</u>
<b>Fund Balances Consist of -</b>					
Restricted -					
U.S. Government grants refundable					
Endowments					
General				\$ 4,456	\$ 4,456
Designated -					
Outstanding purchase orders and other commitments	\$ 5,560				5,560
Summer sessions		\$ 3,048			3,048
Quasi-endowments					
General	10	50,022	\$ 14,159		64,191
Net investment in plant					
	<u>\$ 5,570</u>	<u>\$ 53,070</u>	<u>\$ 14,159</u>	<u>\$ 4,456</u>	<u>\$ 77,255</u>

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

NON-OPERATING FUNDS				TOTAL ALL FUNDS	
Student Loan Fund	Endowment Fund	Combined Plant Fund	Agency Fund	Memorandum Only	
				1998	1997
\$ 818	\$ 51,922	\$ 68,989	\$ 7,361	\$ 207,694	\$ 178,592
15	238	257	1,470	24,125	20,622
12,327				12,327	12,289
				5,576	5,471
			12	3,566	3,282
				4,654	3,227
	1,119			1,119	1,119
		1,215,509		1,215,509	1,196,155
<u>\$ 13,160</u>	<u>\$ 53,279</u>	<u>\$ 1,284,755</u>	<u>\$ 8,843</u>	<u>\$ 1,474,570</u>	<u>\$ 1,420,757</u>
\$ 16	\$ 52	\$ 9,050	\$ 989	\$ 18,242	\$ 17,241
			55	23,619	21,220
			5,309	5,309	4,553
			2,490	3,415	3,203
				4,654	3,227
		223,078		223,078	232,344
		52,334		52,334	56,238
<u>\$ 16</u>	<u>\$ 52</u>	<u>\$ 284,462</u>	<u>\$ 8,843</u>	<u>\$ 330,651</u>	<u>\$ 338,026</u>
13,144	53,227	1,000,293		1,143,919	1,082,731
<u>\$ 13,160</u>	<u>\$ 53,279</u>	<u>\$ 1,284,755</u>	<u>\$ 8,843</u>	<u>\$ 1,474,570</u>	<u>\$ 1,420,757</u>
\$ 10,410	\$ 48,958	\$ 13,526		\$ 10,410	\$ 10,453
2,620				48,958	37,896
				20,602	19,497
				5,560	3,928
				3,048	3,203
	4,269			4,269	929
114		34,175		98,480	87,382
		952,592		952,592	919,443
<u>\$ 13,144</u>	<u>\$ 53,227</u>	<u>\$ 1,000,293</u>		<u>\$ 1,143,919</u>	<u>\$ 1,082,731</u>

## STATEMENT OF CHANGES IN FUND BALANCES

(Dollars in Thousands) For the year ended June 30, 1998 (with comparative totals for 1997)	CURRENT OPERATING FUNDS				Total Current Operating Funds
	Unrestricted Funds			Restricted Fund	
	General Operating Fund	Designated Fund	Auxiliary Enterprises Fund		
<b>Revenues and Other Additions</b>					
Unrestricted current revenues	\$ 392,880	\$ 103,712	\$ 81,097		\$ 577,689
Restricted -					
Governmental grants and contracts				\$ 87,791	87,791
Private gifts, grants, and contracts				25,405	25,405
State appropriations					
Financial aid trust fund				916	916
Conveyance of property - Note C					
Investment and endowment income				1,156	1,156
Interest on student loans					
Expended for plant facilities including \$31,887 charged to current funds expenditures in 1998 and \$35,618 in 1997					
Retirement of indebtedness including \$1,060 charged to current funds expenditures in 1998 and \$725 in 1997					
Other additions					
Total revenues and other additions	\$ 392,880	\$ 103,712	\$ 81,097	\$ 115,268	\$ 692,957
<b>Expenditures and Other Deductions</b>					
Educational and general expenditures	\$ 386,330	\$ 75,062		\$ 101,661	\$ 563,053
Auxiliary enterprises expenditures			\$ 62,693		62,693
Indirect costs recovered				14,736	14,736
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				242	242
Total expenditures and other deductions	\$ 386,330	\$ 75,062	\$ 62,693	\$ 116,639	\$ 640,724
<b>Transfers Among Funds - Additions (Deductions)</b>					
Mandatory -					
Bond indenture requirements		\$ (15,705)	\$ (6,657)		\$ (22,362)
Other mandatory transfers	\$ (4,915)	(2,154)	(103)	\$ 1,539	(5,633)
Voluntary, net		(6,537)	(9,414)	225	(15,726)
Total transfers	\$ (4,915)	\$ (24,396)	\$ (16,174)	\$ 1,764	\$ (43,721)
<b>Net Increase for the Year</b>	\$ 1,635	\$ 4,254	\$ 2,230	\$ 393	\$ 8,512
<b>Fund Balances, Beginning of Year</b>	3,935	48,816	11,929	4,063	68,743
<b>Fund Balances, End of Year</b>	\$ 5,570	\$ 53,070	\$ 14,159	\$ 4,456	\$ 77,255

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

NON-OPERATING FUNDS						TOTAL ALL FUNDS	
Student Loan Fund	Endowment Fund	Plant Funds				Memorandum Only	
		Unexpended Plant Fund	Debt Service Fund	Investment in Plant Fund	Combined Plant Funds	1998	1997
						\$ 577,689	\$ 533,615
\$ 24	\$ 403	\$ 61		\$ 973	\$ 61	87,876	78,651
	916	749			1,722	27,530	27,434
		8,087			8,087	8,087	3,964
						1,832	1,646
46	13,083		\$ 961		961	15,246	56,360
342						342	8,164
							383
				49,167	49,167	49,167	51,360
				14,259	14,259	14,259	14,302
69		309	58	2,007	2,374	2,443	219
\$ 481	\$ 14,402	\$ 9,206	\$ 1,019	\$ 66,406	\$ 76,631	\$ 784,471	\$ 776,098
						\$ 563,053	\$ 516,125
						62,693	59,352
						14,736	13,799
\$ 354						354	376
118						118	209
		\$ 17,280			\$ 17,280	17,280	15,742
			\$ 15,444		15,444	15,444	16,100
				\$ 31,250	31,250	31,250	22,407
			13,199		13,199	13,199	13,577
10		2,838	59	2,007	4,904	5,156	3,289
\$ 482		\$ 20,118	\$ 28,702	\$ 33,257	\$ 82,077	\$ 723,283	\$ 660,976
\$ 8		\$ 85	\$ 22,362		\$ 22,362		
		15,048	5,540		5,625		
\$ 8		\$ 15,133	678		15,726		
			\$ 28,580		\$ 43,713		
\$ 7	\$ 14,402	\$ 4,221	\$ 897	\$ 33,149	\$ 38,267	\$ 61,188	\$ 115,122
13,137	38,825	29,301	13,282	919,443	962,026	1,082,731	967,609
\$ 13,144	\$ 53,227	\$ 33,522	\$ 14,179	\$ 952,592	\$ 1,000,293	\$ 1,143,919	\$ 1,082,731

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

(Dollars in Thousands)

For the year ended June 30, 1998  
(with comparative totals for 1997)

	Unrestricted Funds			Restricted Fund	Total Current Operating Funds Memorandum Only	
	General Operating Fund	Designated Fund	Auxiliary Enterprises Fund		1998	1997
<b>Revenues</b>						
State appropriations	\$ 279,145				\$ 279,145	\$ 256,071
Tuition and fees -						
Collected	92,260	\$ 55,771	\$ 2,081		150,112	138,382
Value of waivers	19,216	7,862			27,078	24,561
Governmental grants and contracts		13,576		\$ 75,570	89,146	79,586
Private gifts, grants, and contracts		5,491	2,493	24,204	32,188	30,480
Financial aid trust fund				869	869	697
Investment and endowment income		7,305	4	1,018	8,327	8,052
Sales and services of auxiliary enterprises			75,022		75,022	70,955
Internal services, less related expenditures of \$32,487 in 1998 and \$34,466 in 1997			1,497		1,497	1,571
Other sources	2,259	13,707			15,966	16,438
Total revenues	<u>\$ 392,880</u>	<u>\$ 103,712</u>	<u>\$ 81,097</u>	<u>\$ 101,661</u>	<u>\$ 679,350</u>	<u>\$ 626,793</u>
<b>Expenditures and Mandatory Transfers</b>						
Educational and general -						
Instruction	\$ 199,924	\$ 13,759		\$ 4,139	\$ 217,822	\$ 201,619
Research	11,093	7,324		39,197	57,614	50,673
Public service	2,367	2,090		23,343	27,800	27,416
Academic support	64,190	14,662		648	79,500	74,214
Student services	21,477	4,762		2,459	28,698	24,977
Institutional support	32,713	18,149		312	51,174	46,613
Operation and maintenance of plant	36,581	326		512	37,419	35,883
Scholarships and fellowships	17,985	13,990		31,051	63,026	54,730
Educational and general expenditures	<u>\$ 386,330</u>	<u>\$ 75,062</u>		<u>\$ 101,661</u>	<u>\$ 563,053</u>	<u>\$ 516,125</u>
Mandatory transfers	4,915	17,859		(1,539)	21,235	21,167
Total educational and general	<u>\$ 391,245</u>	<u>\$ 92,921</u>		<u>\$ 100,122</u>	<u>\$ 584,288</u>	<u>\$ 537,292</u>
Auxiliary enterprises -						
Expenditures			\$ 62,693		\$ 62,693	\$ 59,352
Mandatory transfers			6,760		6,760	6,610
Total auxiliary enterprises			<u>\$ 69,453</u>		<u>\$ 69,453</u>	<u>\$ 65,962</u>
Total expenditures and mandatory transfers	<u>\$ 391,245</u>	<u>\$ 92,921</u>	<u>\$ 69,453</u>	<u>\$ 100,122</u>	<u>\$ 653,741</u>	<u>\$ 603,254</u>
<b>Other Transfers and Additions (Deductions)</b>						
Restricted receipts under transfers to revenues				\$ (1,129)	\$ (1,129)	\$ (1,614)
Voluntary transfers, net		\$ (6,537)	\$ (9,414)	225	(15,726)	(12,158)
Other				(242)	(242)	(137)
<b>Net Increase in Fund Balances</b>	<u>\$ 1,635</u>	<u>\$ 4,254</u>	<u>\$ 2,230</u>	<u>\$ 393</u>	<u>\$ 8,512</u>	<u>\$ 9,630</u>

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

# SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

June 30, 1998

## 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, 1998. 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 69% 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 1997 summer sessions are included in the Statement of Current Operating Funds Revenues, Expenditures, and Other Changes. Revenues and expenditures as of June 30, 1998 for the 1998 summer sessions are reported as deferred revenues and expenses on the Balance Sheet.

Tuition and fees revenues (net of refunds) include \$25.1 million of waivers charged to Scholarships and Fellowships and \$2.0 million of waivers for faculty and staff benefits.

The financial information shown for fiscal 1997 in the accompanying financial statements is included as a basis for providing comparison with fiscal 1998 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.

# NOTES TO FINANCIAL STATEMENTS

June 30, 1998

## 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, 1998 by management area follows (Dollars in Thousands):

	Fair Value
<b>Bond trustee funds:</b>	
Money market portfolios and cash.....	\$ 21,346
Guaranteed Investment Contracts.....	5,893
U.S. Treasury and other Federal agency securities.....	2,572
<b>Endowment funds:</b>	
The Vanguard Group.....	28,700
Metropolitan Life Insurance Corporation.....	6,601
The Common Fund.....	6,311
Arizona Universities' financial aid trust fund endowment.....	9,687
Sun Angel Foundation.....	674
<b>Pooled cash and short-term investments:</b>	
State of Arizona Local Government Investment Pool, net of bank balance.....	124,887
U.S. Treasury and other Federal agency securities.....	1,023
	\$ 207,694

*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 Portfolio, Small Capitalization Stock Portfolio, and Total International Portfolio. The Vanguard Group is a mutual fund company offering over 90 portfolios. The Metropolitan Life investments are in the MetLife South Station Fund which invests in publicly traded fixed income securities. The Common Fund endowment investment 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, 1998 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, 1998 were \$5,264,000 and \$375,000 respectively, and the carrying value of deposits on the University's accounting system was a deficit \$1,933,000. 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.

Effective for the year ended June 30, 1998, the University adopted the provisions of the Governmental Accounting Standards Board Statement No. 31, which became effective for fiscal years beginning after June 15, 1997. This Statement requires that investments be reported at fair value rather than at cost. Fair value typically is the quoted market price for investments. Statement No. 31 also requires that changes during the year in fair value be part of the reported investment income. Therefore, included in the University's endowment fund investment income for the year ended June 30, 1998 is \$5.5 million of net increase in fair value related to prior years and \$6.6 million of net increase in fair value that occurred during the year. The University has not restated beginning of year fund balances for the effect of this accounting change because it does not have a significant effect on the accompanying financial statements taken as a whole.

## 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, 1998 consist of the following (Dollars in Thousands):

Land and Improvements.....	\$ 123,249
Buildings.....	720,062
Equipment.....	239,767
Library books, media, and works of art.....	132,431
	<u>\$ 1,215,509</u>

The Unexpended Plant Fund balance is committed for projects planned and under construction and for future building repairs and equipment replacements. Future commitments approximate \$33.5 million at June 30, 1998.

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 4, 1998, only the initial conveyance totaling \$56.4 million had occurred.

**Note D - Bonds Payable**

Bonds payable at June 30, 1998 consist 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	\$ 2,823
1989 System revenue bonds	7.09%	2004	11,365
1991 System revenue bonds	7.13%	2005	7,900
1992 System revenue refunding bonds	6.25%	2015	29,410
1992A System revenue refunding bonds	5.88%	2019	148,440
1993 System revenue refunding bonds	4.93%	2008	23,140
			<u>\$ 223,078</u>

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, 1998 was \$76,950,000.

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, 1998 totaled \$17,207,000. 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
1999	\$ 550	\$ 21,884	\$ 22,434
2000	557	20,761	21,318
2001	490	20,733	21,223
2002	492	20,703	21,195
2003	383	20,795	21,178
Thereafter	671	228,695	229,366
	<u>\$ 3,143</u>	<u>\$ 333,571</u>	<u>\$ 336,714</u>

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

Lease-purchases and other long-term obligations at June 30, 1998 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	\$ 44,270
1989 ASU West Construction	7.64%	1998	2,270
1991 Towers Project (through ASU Foundation)	6.89%	2010	3,710
Other Lease-Purchases and Installment Purchases	4.88% to 12.01%	2003	2,084
			<u>\$ 52,334</u>

# NOTES TO FINANCIAL STATEMENTS

In prior years, certain certificates of participation of the University were 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 certificates of participation are not included in the University's financial statements. The principal amount of all refunded certificates of participation outstanding at June 30, 1998 was \$39,685,000.

Securities and cash restricted for non-bond retirement funds and maintenance and replacement reserves held by trustees at June 30, 1998 totaled \$12,589,000. A schedule of funding commitments for lease-purchases and other long-term obligations follows (Dollars in Thousands):

Fiscal	Certificates of Participation			Total
	ASU West Refunding	Towers Project	Other	
1999	\$ 5,278	\$ 444	\$ 409	\$ 6,131
2000	5,250	441	365	6,056
2001	5,244	443	350	6,037
2002	5,243	442	328	6,013
2003	5,242	446	263	5,951
Thereafter	31,450	3,102	706	35,258
	<u>\$ 57,707</u>	<u>\$ 5,318</u>	<u>\$ 2,421</u>	<u>\$ 65,446</u>

## 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, 1998, the Park had \$18,320,000 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.

During fiscal year 1998, the University sold a right of way to the Arizona Department of Transportation for the construction of a freeway, consisting of 9.3 of the 324.0 acres comprising the Park. Pursuant to the lease agreement between the Park and University, \$1,963,000 representing the value of the land was distributed to the University. The University, pursuant to legal authority previously granted to it by a debt service assurance agreement for payment security on the Park's refunding bonds, deposited the \$1,963,000 and accumulated interest of \$44,000 in an irrevocable trust with an escrow agent to fund selected future debt service payments on the bonds. The funds were invested in U.S. Government Securities and have defeased \$2,055,000 of outstanding bonds, with the liability for this amount of bonds removed from the Park's financial statements.

Annual debt service on the Park bonds will be \$997,000 in fiscal year 1999 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.

During fiscal 1998, the University provided the Park net cash transfers totaling \$543,000. The cash transfers constitute operating cash advances and are 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. Total cash advances repayable to the University at June 30, 1998, including the accrued interest, totaled \$8,473,000. Due to the Park's repayment to the University being dependent upon successful future operations, the amount owed by the Park is not recorded as an asset on the University's balance sheet.

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 \$147.6 million, \$107.4 million, and \$70.0 million, respectively, with substantially all of the net assets being donor restricted or endowment funds.

The Sun Devil Club, a financially interrelated organization reported in prior years, has discontinued operations. Effective July 1, 1997, the gift raising, membership support, and other related responsibilities previously performed by the Sun Devil Club have been assumed by the Sun Angel Foundation.

## 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 1998 is as follows (Dollars in Thousands):

	Main	West	East	Total
State appropriations.....	\$ 236,145	\$ 35,946	\$ 7,054	\$ 279,145
Tuition, fees and other revenues.....	105,268	6,521	1,946	113,735
Total Revenues.....	\$ 341,413	\$ 42,467	\$ 9,000	\$ 392,880
Expenditures.....	339,781	37,570	8,979	386,330
Mandatory transfers.....	—	4,915	—	4,915
Net Increase (Decrease) for the Year	\$ 1,632	\$ (18)	\$ 21	\$ 1,635
Fund Balances, Beginning of Year.....	2,921	991	23	3,935
Fund Balances, End of Year.....	<u>\$ 4,553</u>	<u>\$ 973</u>	<u>\$ 44</u>	<u>\$ 5,570</u>
Fund Balances consist of:				
Outstanding purchase orders and other commitments.....	\$ 4,545	\$ 972	\$ 43	\$ 5,560
General.....	8	1	1	10
	<u>\$ 4,553</u>	<u>\$ 973</u>	<u>\$ 44</u>	<u>\$ 5,570</u>

#### 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, 1998, active ASRS members and the University were each required by statute to contribute at the actuarially determined rate of 3.54% (3.05% 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, 1998, 1997 and 1996 as follows (Dollars in Thousands):

	<u>Contributions Rates (Each)</u>	<u>University Contributions</u>	<u>Employee Contributions</u>	<u>Total Contributions</u>
1998	3.54%	\$ 4,773	\$ 4,773	\$ 9,546
1997	3.69%	4,439	4,439	8,878
1996	3.85%	4,532	4,532	9,064

##### 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, 1998, 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, 1998, 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, 1998, were as follows (Dollars in Thousands):

	<u>Contributions Rates (Each)</u>	<u>University Contributions</u>	<u>Employee Contributions</u>	<u>Total Contributions</u>
TIAA/CREF	7%	\$ 7,531	\$ 7,531	\$ 15,062
VALIC	7%	1,215	1,215	2,430
Fidelity	7%	529	529	1,058
Aetna	7%	210	210	420

#### 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 \$7,431,000, \$970,000, \$1,075,000 and \$762,000, 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, 1998 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.

# INDEPENDENT AUDITORS' REPORT



## STATE OF ARIZONA OFFICE OF THE AUDITOR GENERAL

DOUGLAS R. NORTON, CPA  
AUDITOR GENERAL

DEBRA K. DAVENPORT, CPA  
DEPUTY 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, 1998, 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, 1998, 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.

Douglas R. Norton  
Auditor General

September 4, 1998