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February 25, 2009

P.O. Box 10
State University, AR 72467-0010

Phone:
870-933-7950

Dr. Leslie Wyatt
President
Arkansas State University

Fax:
870-933-7961

www.asusystem.edu

RE: Letter of Transmittal

jonesboro, Arkansas

I am pleased to present the annual financial report of the Arkansas State University System for the fiscal year ended June 30, 2008. This report is presented on a consolidated basis and reflects the consolidation of the assets, liabilities, net assets, and financial activities of the Jonesboro, Beebe, Mountain Home, and Newport campuses of the University. Combining exhibits are presented as supplementary information.

The financial statements are presented in accordance with generally accepted accounting principles. The University's accounts are maintained using the principles of accounting applicable to public colleges and universities as established by the Governmental Accounting Standards Board. The Arkansas Division of Legislative Audit has audited the financial statements, management's discussion and analysis, and accompanying footnotes and its unqualified opinion is included herein.

Inquiries and comments regarding this report and the information presented may be directed to the Controller's Office in the Office of the Vice Chancellor for Finance and Administration on the Jonesboro campus.

Respectfully submitted,

Jennus L. Burton
Vice President for System Operations

Sen. Randy Laverty
Senate Co-Chair
Rep. J R Rogers
House Co-Chair
Sen. Bobby L. Glover
Senate Co-Vice Chair
Rep. Johnny Hoyt
House Co-Vice Chair

Arkansas



Roger A. Norman, JD, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Arkansas State University System
Legislative Joint Auditing Committee

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of the Arkansas State University System (University), an institution of higher education of the State of Arkansas, as of and for the year ended June 30, 2008, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Arkansas State University Foundation, Inc., which represent 100% of the assets, net assets, and revenues of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Arkansas State University Foundation, Inc., is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Arkansas State University Foundation, Inc., were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the Arkansas State University System as of June 30, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 12 to the financial statements, the University adopted Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* on July 1, 2007. GASB Statement No. 45 requires the recognition of other postemployment benefit costs at the time the related services are rendered to the employer instead of recognition on a pay-as-you-go basis, and additional related disclosures.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2008 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and certain information pertaining to postemployment benefits other than pensions are not a required part of the basic financial statements, but are supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

DIVISION OF LEGISLATIVE AUDIT



Roger A. Norman, JD, CPA, CFE
Legislative Auditor

Little Rock, Arkansas
November 19, 2008
EDHE12508



**2007 - 2008
ANNUAL FINANCIAL
REPORT**

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 Mr. Howard L. Slinkard, Secretary Rogers, Arkansas
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 Mr. Steve Owens Vice President for University Advancement

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 Dr. Dan Howard Vice Chancellor for Academic Affairs and Research, Jonesboro
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Mr. Russ Hannah, CPA, CGFM Associate Vice Chancellor for Finance/Controller
 Ms. Myra Goodwin, CPA Director-Financial Analysis and Reporting



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ARKANSAS STATE
UNIVERSITY

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ARKANSAS STATE UNIVERSITY SYSTEM MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2008

Financial Statement Presentation

This section of the Arkansas State University (The University) annual financial report presents discussion and analysis of the University's financial performance during the fiscal year ended June 30, 2008. This discussion and analysis is prepared by the University's financial administrators and is intended to provide information on the financial activities of the University that is both relevant and easily understandable. Information is also provided on the University's financial position as of June 30, 2008 as further explanation of the results of the year's financial activities.

The statements have been prepared using the format specified in Governmental Accounting Standards Board (GASB) Statements Number 34 and 35. GASB Statement Number 34 does not require the presentation of comparative information from the previous fiscal year but does require a discussion of any significant changes in the University's financial position or the results of its operations. The University has chosen to present comparative information for the fiscal year ended June 30, 2007.

The University's financial statements for the year ended June 30, 2008 have been audited and the Arkansas Division of Legislative Audit has rendered the audit opinion contained herein. In accordance with Governmental Accounting Standards Board requirements this analysis includes a discussion of the significant changes between the two fiscal years ended June 30, 2008 and 2007 where appropriate.



Fiscal Year 2008 Highlights

The following events or activities of financial significance occurred during the fiscal year ended June 30, 2008.

- The University's total assets increased from \$382,315,235 at June 30, 2007 to \$408,070,252 at June 30, 2008, an increase of \$25,755,017 or 6.74%. The University's total liabilities increased from \$189,320,407 at June 30, 2007 to \$196,912,775 at June 30, 2008, an increase of \$7,592,368 or 4.01%.
- The University's construction projects in process but not yet completed totaled \$59,894,262 at June 30, 2008.
- The net assets of the University grew from \$192,994,828 at June 30, 2007 to \$211,157,477 at June 30, 2008, an increase of \$18,162,649 or 9.41%. University revenues and other additions from all sources during the year ended June 30, 2008 amounted to \$237,351,794 while expenditures and other deductions amounted to \$219,189,145. Comparatively, total revenues and other additions and total expenditures and other deductions for the year ended June 30, 2007 were \$209,205,245 and \$203,633,284, respectively.



**ARKANSAS STATE UNIVERSITY SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2008**

Statement Discussion

Statement of Net Assets

The Statement of Net Assets is intended to display the financial position of the University. Its purpose is to present to the reader of the financial statements a benchmark from which to analyze the financial stability of the University. It is a "snapshot" of the University's assets, liabilities, and net assets (assets minus liabilities) as of June 30, 2008, the last day of the fiscal year. Assets and liabilities are presented in two categories: current and noncurrent. Net assets are presented in three categories: capital assets net of related debt, restricted assets, and unrestricted assets. A more detailed explanation of these categories is found in the notes that accompany the financial statements.

Readers of the Statement of Net Assets can determine answers to the following key questions as of June 30, 2008:

- Did the University have sufficient assets available to meet its existing obligations and continue operation?
- How much did the University owe to external parties including vendors and lending institutions?
- What resources did the University have available to make future investments and expenditures?

Condensed Statement of Net Assets

| Assets: | 2008 | 2007 | Percent Change |
|----------------------------------|-----------------------|-----------------------|----------------|
| Current Assets | \$ 58,135,118 | \$ 44,075,908 | 31.90% |
| Capital Assets, Net | 277,580,081 | 260,196,837 | 6.68% |
| Other Noncurrent Assets | <u>72,355,053</u> | <u>78,042,490</u> | (7.29)% |
| Total Assets | <u>\$ 408,070,252</u> | <u>\$ 382,315,235</u> | 6.74% |
| | | | |
| Liabilities: | | | |
| Current Liabilities | \$ 23,422,130 | \$ 18,862,204 | 24.17% |
| Noncurrent Liabilities | <u>173,490,645</u> | <u>170,458,203</u> | 1.78% |
| Total Liabilities | <u>\$ 196,912,775</u> | <u>\$ 189,320,407</u> | 4.01% |
| | | | |
| Net Assets: | | | |
| Invested in Capital, Net of Debt | \$ 142,234,133 | \$ 140,318,054 | 1.37% |
| Restricted, Nonexpendable | 10,429,210 | 11,222,923 | (7.07)% |
| Restricted, Expendable | 14,917,284 | 9,647,464 | 54.62% |
| Unrestricted | <u>43,576,850</u> | <u>31,806,387</u> | 37.01% |
| Total Net Assets | <u>\$ 211,157,477</u> | <u>\$ 192,994,828</u> | 9.41% |
| | | | |
| Total Liabilities and Net Assets | <u>\$ 408,070,252</u> | <u>\$ 382,315,235</u> | 6.74% |



**ARKANSAS STATE UNIVERSITY SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2008**

The University's total assets increased from \$382,315,235 at June 30, 2007 to \$408,070,252 at June 30, 2008, an increase of \$25,755,017 or 6.74%. Capital Assets increased from \$260,196,837 at June 30, 2007 to \$277,580,081 at June 30, 2008, an increase of \$17,383,244 or 6.68%. Current Assets increased from \$44,075,908 at June 30, 2007 to \$58,135,118 at June 30, 2008, an increase of \$14,059,210 or 31.90%. The University's Other Noncurrent Assets declined from \$78,042,490 at June 30, 2007 to \$72,355,053 at June 30, 2008, a decrease of \$5,687,437 or 7.29%. These changes are reflective of the University's continued emphasis on asset preservation and modest growth.

The University's total liabilities grew from \$189,320,407 at June 30, 2007 to \$196,912,775 at June 30, 2008, an increase of \$7,592,368 or 4.01%. Current Liabilities increased from \$18,862,204 at June 30, 2007 to \$23,422,130 at June 30, 2008, an increase of \$4,559,926 or 24.17%. Noncurrent Liabilities grew from \$170,458,203 at June 30, 2007 to \$173,490,645 at June 30, 2008, a modest increase of \$3,032,442 or 1.78%.

The University's total net assets increased from \$192,994,828 at June 30, 2007 to \$211,157,477 at June 30, 2008, an increase of \$18,162,649 or 9.41%. Net Assets Invested in Capital Assets, Net of Related Debt increased by \$1,916,079 or 1.37% while Restricted Net Assets increased by \$4,476,107 or 21.45%. The University's Unrestricted Net Assets increased from \$31,806,387 at June 30, 2007 to \$43,576,850 at June 30, 2008, an increase of \$11,770,463 or 37.01%.



Statement of Revenues, Expenses and Changes in Net Assets

The total net assets as presented on the Statement of Net Assets are based in part on the financial activities that occurred during the fiscal year as presented in the Statement of Revenues, Expenses and Changes in Net Assets. This statement's purpose is to present the revenues generated and received by the University, both operating and nonoperating, the expenses incurred by the University, both operating and nonoperating, and all other financial gains or losses experienced by the University during the fiscal year ended June 30, 2008.



**ARKANSAS STATE UNIVERSITY SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2008**

Generally, revenues from operations are received in exchange for the University providing services or products to students and other constituencies. Operating expenses are those costs paid or incurred in producing those services or products or in carrying out the mission of the University. Nonoperating revenues are financial inflows to the University resulting from nonexchange transactions; that is, the University does not provide a specific service or product in exchange for them. For example, appropriations from the state are considered nonoperating revenue because the legislature does not receive a direct and commensurate benefit from the University in exchange for providing the appropriation.

Condensed Statement of Revenues, Expenses and Changes in Net Assets

| | 2008 | 2007 | Percent Change |
|--|------------------------|------------------------|----------------|
| Operating Revenues | \$ 102,607,336 | \$ 108,075,323 | (5.06)% |
| Operating Expenses | <u>210,552,053</u> | <u>193,511,912</u> | 8.81% |
| Operating Income (Loss) | <u>\$(107,944,717)</u> | <u>\$ (85,436,589)</u> | 26.34% |
| Nonoperating Revenues (Expenses) | \$ 108,678,182 | \$ 86,872,945 | 25.10% |
| Income (Loss) before Other Revenues, Expenses, Gains, or Losses | \$ 733,465 | \$ 1,436,356 | (48.94)% |
| Other Revenues, Expenses, Gains or Losses | \$ 17,429,184 | \$ 4,135,605 | 321.44% |
| Increase (Decrease) in Net Assets | <u>\$ 18,162,649</u> | <u>\$ 5,571,961</u> | 225.97% |
| Net Assets, Beginning of the Year | \$ 192,994,828 | \$ 187,422,867 | 2.97% |
| Net Assets, End of the Year | \$ 211,157,477 | \$ 192,994,828 | 9.41% |

Highlights from the information presented in the Statement of Revenues, Expenses, and Changes in Net Assets for the fiscal year ended June 30, 2008 include the following:

- Tuition and Fees, Net of Scholarship Allowance amounted to \$41,233,852 or 40.19% of Total Operating Revenues. Revenues from Grants and Contracts amounted to \$34,511,606 or 33.63% of Total Operating Revenues. Auxiliary Enterprises accounted for \$22,017,670 or 21.46% of Total Operating Revenues.
- Personal Services expenses totaled \$118,371,034 or 56.22% of Total Operating Expenses. Expenses for Supplies and Services totaled \$53,872,766 or 25.59% of Total Operating Expenses.
- Scholarships and Fellowships expenses totaled \$10,684,615 or 5.07% of Total Operating Expenses. Scholarships and Fellowships expenses amounted to 25.91% of Tuition and Fees revenue.
- The University's Loss from Operations amounted to \$107,944,717. State Appropriations, which are reported as Nonoperating Revenues, totaled \$92,164,251. Revenues and gains from all other sources amounted to \$42,580,207. Nonoperating Expenses, Other Expenses, and Other Losses amounted to \$8,637,092. These activities resulted in an increase in the University's Net Assets of \$18,162,649.



**ARKANSAS STATE UNIVERSITY SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2008**

Statement of Cash Flows

The third and final statement presented is the Statement of Cash Flows. This statement presents detailed information about the University's financial activities from the perspective of their effect on cash. The information is presented in five components. The first presents cash inflows and outflows resulting from the University's normal operating activities. The second component presents cash flows from noncapital financing activities, that is, cash received from or spent for activities that do not result from normal operations, capital financing activities, or investing. The third component presents cash inflows and outflows resulting from capital and related financing activities such as debt issuance, lease agreements, and capital appropriations, grants, or gifts. The fourth component presents cash flows resulting from investing activities such as purchases and liquidations of investments and interest, gains, and losses generated by these activities. The fifth component of the Statement of Cash Flows is a reconciliation of the net operating revenues (expenses) for the fiscal year as reported on the Statement of Revenues, Expenses and Changes in Net Assets to the net cash provided (used) by operating activities as presented in component one of the Statement of Cash Flows.

Condensed Statement of Cash Flows for the Year Ended June 30, 2008

| | |
|--|---------------------|
| Cash Provided (Used) by: | |
| Operating Activities | \$ (88,974,462) |
| Noncapital Financing Activities | 112,549,086 |
| Capital and Related Financing Activities | (23,709,599) |
| Investing Activities | (747,134) |
| Net Increase (Decrease) in Cash | <u>\$ (882,109)</u> |
| Cash – Beginning of the Year | \$ 25,586,198 |
| Cash – End of the Year | \$ 24,704,089 |

Capital Assets and Debt Administration

The University's capital assets, net of accumulated depreciation increased from \$260,196,837 at June 30, 2007 to \$277,580,081 at June 30, 2008, an increase of \$17,383,244, or 6.68%. This was achieved through the application of proceeds from previously issued debt, the allocation of other University resources to this effort, and the receipt of capital appropriations, grants and gifts and bond proceeds from Act 1282 of 2005.

During the fiscal year ended June 30, 2008, the University received capital appropriations, grants and gifts totaling \$9,201,368. Additionally, the University received bond proceeds from Act 1282 of 2005 totaling \$7,086,725. These bonds are general obligation bonds of the state of Arkansas and are not liabilities of the University. The University issued \$13,735,000 in general obligation bonds during the fiscal year ended June 30, 2008.

Additional information concerning the University's capital assets and debt administration activities may be found in Notes Number 4 and 5 in the notes that accompany the financial statements included herein.



ARKANSAS STATE UNIVERSITY SYSTEM MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.) FOR THE YEAR ENDED JUNE 30, 2008

Economic Outlook

The economic outlook for the University is sound, though guarded. The net assets of the University grew from \$192,994,828 at June 30, 2007 to \$211,157,477 at June 30, 2008, an increase of \$18,162,649 or 9.41%. This positive return is noteworthy given the current economic environment in the State of Arkansas and nationally and the University's continued emphasis on capital asset acquisition and the improvement of its infrastructure.

Economic conditions at the national level have deteriorated significantly since June 30, 2008. While state revenue collections are currently ahead of amounts forecasted for Fiscal Year 2009, concerns are mounting that downward national trends will negatively impact Arkansas in the coming months. The University does not currently anticipate significant new resources being directed towards higher education in the upcoming 2009 legislative session. The effect of the passage in November of 2008 of an initiated act to provide a state lottery in Arkansas that will fund collegiate scholarships is not yet known.

Significant negative developments in the national equity and capital markets have thus far been partially off-set through positive consumer trends in world-wide commodities markets. The University will continue to monitor these markets to ensure the preservation of its assets and to identify opportunities to maximize revenue and/or effectively manage or control costs.





ARKANSAS STATE UNIVERSITY SYSTEM
COMPARATIVE STATEMENT OF NET ASSETS
JUNE 30, 2008

| ASSETS | 2008 | 2007 |
|---|-----------------------|-----------------------|
| CURRENT ASSETS | | |
| CASH AND CASH EQUIVALENTS | \$ 22,854,989 | \$ 17,367,504 |
| SHORT-TERM INVESTMENTS | 12,010,037 | 9,070,814 |
| ACCOUNTS RECEIVABLE (LESS ALLOWANCES OF \$881,956 AND \$740,512) | 18,136,362 | 11,204,642 |
| NOTES AND DEPOSITS RECEIVABLE (LESS ALLOWANCES OF \$176,103 AND \$147,549) | 1,259,492 | 1,292,502 |
| ACCRUED INTEREST AND LATE CHARGES | 551,742 | 668,610 |
| INVENTORIES | 1,400,607 | 1,483,814 |
| DEPOSITS WITH TRUSTEES | 1,638,891 | 2,865,652 |
| PREPAID EXPENSES | 282,998 | 122,370 |
| TOTAL CURRENT ASSETS | \$ 58,135,118 | \$ 44,075,908 |
| NONCURRENT ASSETS | | |
| RESTRICTED CASH AND CASH EQUIVALENTS | \$ 1,849,100 | \$ 8,218,694 |
| ENDOWMENT INVESTMENTS | 11,566,229 | 12,645,262 |
| OTHER LONG-TERM INVESTMENTS | 11,034,532 | 11,624,900 |
| ACCRUED INTEREST | 2,435 | 0 |
| DEPOSITS WITH TRUSTEES | 41,865,971 | 39,349,489 |
| NOTES AND DEPOSITS RECEIVABLE (LESS ALLOWANCES OF \$745,741 AND \$619,522) | 5,557,083 | 5,650,451 |
| DUE FROM ARKANSAS STATE UNIVERSITY FOUNDATION, INC. | 479,703 | 553,694 |
| CAPITAL ASSETS (NET OF ACCUMULATED DEPRECIATION OF \$184,007,294 AND \$173,823,922) | 277,580,081 | 260,196,837 |
| TOTAL NONCURRENT ASSETS | \$ 349,935,134 | \$ 338,239,327 |
| TOTAL ASSETS | \$ 408,070,252 | \$ 382,315,235 |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| ACCOUNTS PAYABLE AND ACCRUED LIABILITIES | \$ 6,750,639 | \$ 4,328,739 |
| ACCRUED OTHER POSTEMPLOYMENT BENEFITS PAYABLE | 414,901 | 0 |
| BONDS, NOTES, AND LEASES PAYABLE | 6,884,539 | 6,671,857 |
| COMPENSATED ABSENCES | 5,262,800 | 4,823,981 |
| DEFERRED REVENUES | 1,083,196 | 787,666 |
| FUNDS HELD IN TRUST FOR OTHERS | 723,597 | 440,992 |
| DEPOSITS | 222,534 | 139,354 |
| INTEREST PAYABLE | 2,070,769 | 1,650,098 |
| OTHER LIABILITIES | 9,155 | 19,517 |
| TOTAL CURRENT LIABILITIES | \$ 23,422,130 | \$ 18,862,204 |
| NONCURRENT LIABILITIES | | |
| BONDS, NOTES AND LEASES PAYABLE | \$ 163,975,635 | \$ 161,252,087 |
| COMPENSATED ABSENCES | 1,251,538 | 1,063,685 |
| ACCRUED OTHER POSTEMPLOYMENT BENEFITS PAYABLE | 324,445 | 0 |
| DEPOSITS | 278,425 | 245,074 |
| ANNUITY PAYABLE | 479,703 | 553,694 |
| REFUNDABLE FEDERAL ADVANCES | 7,180,899 | 7,343,663 |
| TOTAL NONCURRENT LIABILITIES | \$ 173,490,645 | \$ 170,458,203 |
| TOTAL LIABILITIES | \$ 196,912,775 | \$ 189,320,407 |
| NET ASSETS | | |
| INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT | \$ 142,234,133 | \$ 140,318,054 |
| RESTRICTED FOR: | | |
| NONEXPENDABLE | | |
| SCHOLARSHIPS AND FELLOWSHIPS | 6,535,860 | 7,017,009 |
| LOANS | 851,862 | 906,116 |
| OTHER | 3,041,488 | 3,299,798 |
| EXPENDABLE | | |
| SCHOLARSHIPS AND FELLOWSHIPS | 632,983 | 662,595 |
| RESEARCH | 269,887 | 529,451 |
| LOANS | 10,000 | 10,000 |
| CAPITAL PROJECTS | 7,689,814 | 4,656,806 |
| DEBT SERVICE | 169,374 | 1,349,485 |
| RENEWAL AND REPLACEMENT | 50,000 | 50,000 |
| OTHER | 6,095,226 | 2,389,127 |
| UNRESTRICTED | 43,576,850 | 31,806,387 |
| TOTAL NET ASSETS | \$ 211,157,477 | \$ 192,994,828 |



ARKANSAS STATE UNIVERSITY FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2008

ASSETS

| | | |
|-------------------------------------|----|------------|
| CASH | \$ | 1,572,532 |
| CERTIFICATE OF DEPOSIT | | 646,760 |
| REPURCHASE AGREEMENTS | | 5,123,966 |
| ACCRUED INTEREST RECEIVABLE | | 176 |
| PREPAID EXPENSES | | 19,512 |
| UNCONDITIONAL PROMISES TO GIVE, NET | | 3,003,356 |
| MORTGAGE RECEIVABLE | | 16,308 |
| LEASE PURCHASE RECEIVABLE | | 20,375 |
| SHORT-TERM INVESTMENTS | | 220,765 |
| LONG-TERM INVESTMENTS | | 30,322,665 |
| CASH SURRENDER OF LIFE INSURANCE | | 4,471 |
| PROPERTY AND EQUIPMENT, NET | | 1,296,972 |
| OTHER ASSETS | | 299,870 |

TOTAL ASSETS

\$ 42,547,728

LIABILITIES

| | | |
|---------------------------------------|----|---------|
| ACCOUNTS PAYABLE | \$ | 361,103 |
| NOTES PAYABLE | | 15,702 |
| ANNUITIES PAYABLE | | 352,598 |
| DUE TO ARKANSAS STATE UNIVERSITY, NET | | 479,703 |

TOTAL LIABILITIES

\$ 1,209,106

NET ASSETS

| | | |
|------------------------|----|------------|
| UNRESTRICTED | \$ | 2,163,446 |
| TEMPORARILY RESTRICTED | | 6,832,478 |
| PERMANENTLY RESTRICTED | | 32,342,698 |

TOTAL NET ASSETS

\$ 41,338,622

TOTAL LIABILITIES AND NET ASSETS

\$ 42,547,728



**ARKANSAS STATE UNIVERSITY SYSTEM
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2008**

| | 2008 | 2007 |
|--|-------------------------|------------------------|
| OPERATING REVENUES | | |
| TUITION AND FEES (NET OF SCHOLARSHIP ALLOWANCES OF \$26,971,899 AND \$24,522,062) | \$ 41,233,852 | \$ 37,712,037 |
| GRANTS AND CONTRACTS | 34,511,606 | 45,210,978 |
| SALES AND SERVICES OF EDUCATIONAL DEPARTMENTS | 822,233 | 762,381 |
| AUXILIARY ENTERPRISES (NET OF SCHOLARSHIP ALLOWANCES OF \$4,173,107 AND \$3,882,664) | 22,017,670 | 20,614,549 |
| SELF INSURANCE | 2,718,232 | 2,264,238 |
| OTHER OPERATING REVENUES | 1,303,743 | 1,511,140 |
| TOTAL OPERATING REVENUES | \$ 102,607,336 | \$ 108,075,323 |
| OPERATING EXPENSES | | |
| PERSONAL SERVICES | \$ 118,371,034 | \$ 110,428,777 |
| SCHOLARSHIPS AND FELLOWSHIPS | 10,684,615 | 9,520,839 |
| SUPPLIES AND SERVICES | 53,872,766 | 50,312,948 |
| SELF INSURANCE | 11,925,924 | 11,113,482 |
| DEPRECIATION | 15,551,238 | 12,054,714 |
| OTHER OPERATING EXPENSES | 146,476 | 81,152 |
| TOTAL OPERATING EXPENSES | \$ 210,552,053 | \$ 193,511,912 |
| OPERATING INCOME (LOSS) | \$ (107,944,717) | \$ (85,436,589) |
| NONOPERATING REVENUES (EXPENSES) | | |
| STATE APPROPRIATIONS | \$ 92,164,251 | \$ 83,983,692 |
| FEDERAL APPROPRIATIONS | 35,399 | 183,101 |
| GRANTS AND CONTRACTS | 15,665,730 | 0 |
| SALES AND USE TAXES | 2,697,782 | 2,259,112 |
| PROPERTY TAXES | 1,074,144 | 1,021,436 |
| GIFTS | 2,811,013 | 1,045,309 |
| INVESTMENT INCOME (NET OF INVESTMENT EXPENSE OF \$95 AND \$26) | 1,998,031 | 4,617,945 |
| INTEREST ON CAPITAL ASSET RELATED DEBT | (7,562,415) | (6,011,327) |
| OTHER NONOPERATING REVENUES (EXPENSES) | (205,753) | (226,323) |
| NET NONOPERATING REVENUES (EXPENSES) | \$ 108,678,182 | \$ 86,872,945 |
| INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES | \$ 733,465 | \$ 1,436,356 |
| CAPITALIZATION OF INTEREST | 1,635,953 | 2,757,209 |
| CAPITAL APPROPRIATIONS | 3,002,314 | 1,728,787 |
| CAPITAL GRANTS AND GIFTS | 6,199,054 | 895,893 |
| BOND PROCEEDS FROM ACT 1282 OF 2005 | 7,086,725 | 0 |
| ADDITIONS TO ENDOWMENTS | 300 | 1,020 |
| ADJUSTMENTS TO PRIOR YEAR CAPITAL ASSETS | 133,910 | (2,806,274) |
| REFUNDS TO GRANTORS | (68,288) | (233,212) |
| GAIN OR LOSS ON DISPOSAL OF CAPITAL ASSETS | (389,780) | 1,321,904 |
| CAPITALIZATION OF LIBRARY HOLDINGS AT RATE PER VOLUME | 218,820 | 229,250 |
| LIVESTOCK ADDITIONS | 9,755 | 0 |
| ACCRUED INTEREST ON BOND ISSUE | 11,277 | 121,465 |
| PREMIUM ON BOND ISSUE | 0 | 963,799 |
| BOND ISSUANCE COSTS | (400,121) | (656,479) |
| EXCESS FUNDS REMITTED TO ESCROW AGENT ABOVE AMOUNT OF BONDS RETIRED | (10,735) | (187,757) |
| INCREASE (DECREASE) IN NET ASSETS | \$ 18,162,649 | \$ 5,571,961 |
| NET ASSETS-BEGINNING OF YEAR | \$ 192,994,828 | \$ 187,422,867 |
| NET ASSETS-END OF YEAR | \$ 211,157,477 | \$ 192,994,828 |



ARKANSAS STATE UNIVERSITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

| | UNRESTRICTED | TEMPORARILY RESTRICTED | PERMANENTLY RESTRICTED | TOTAL |
|---|---------------------|-----------------------------------|-----------------------------------|----------------------|
| SUPPORT | | | | |
| SUPPORT AND RECLASSIFICATIONS | | | | |
| CONTRIBUTIONS | \$ 43,478 | \$ 5,673,153 | \$ 2,207,038 | \$ 7,923,669 |
| USE OF CONTRIBUTED FACILITIES | 750 | 0 | 0 | 750 |
| CONTRIBUTED SERVICES | 538,653 | 0 | 0 | 538,653 |
| CONTRIBUTED PROPERTY | 265,000 | 0 | 0 | 265,000 |
| INVESTMENT RETURN | 269,176 | 18,546 | (2,310,870) | (2,023,148) |
| OTHER INCOME | 238,352 | 708,599 | 3,183 | 950,134 |
| NET ASSETS RELEASED FROM RESTRICTIONS | 8,171,660 | (7,515,605) | (656,055) | 0 |
| TOTAL SUPPORT | \$ 9,527,069 | \$ (1,115,307) | \$ (756,704) | \$ 7,655,058 |
| EXPENSES AND LOSSES | | | | |
| PROGRAM SERVICES | | | | |
| ACADEMIC ACTIVITIES | \$ 614,620 | \$ 0 | \$ 0 | \$ 614,620 |
| ADMINISTRATIVE | 133,099 | 0 | 0 | 133,099 |
| STUDENT ACTIVITIES | 42,771 | 0 | 0 | 42,771 |
| SUPPORTING SERVICES | | | | |
| MANAGEMENT AND GENERAL | 470,248 | 0 | 0 | 470,248 |
| FUNDRAISING | 351,331 | 0 | 0 | 351,331 |
| CHANGE IN VALUE OF SPLIT INTEREST AGREEMENTS | 0 | 0 | 63,970 | 63,970 |
| TRANSFERS TO ARKANSAS STATE UNIVERSITY | 4,977,689 | 0 | 0 | 4,977,689 |
| TRANSFERS TO THE ALUMNI ASSOCIATION | 950,837 | 0 | 0 | 950,837 |
| TOTAL EXPENSES AND LOSSES | \$ 7,540,595 | \$ 0 | \$ 63,970 | \$ 7,604,565 |
| INCREASE (DECREASE) IN NET ASSETS | \$ 1,986,474 | \$ (1,115,307) | \$ (820,674) | \$ 50,493 |
| NET ASSETS AT BEGINNING OF YEAR AS PREVIOUSLY REPORTED | 178,157 | 7,896,739 | 33,213,233 | 41,288,129 |
| RECLASSIFICATION AND INTERNAL TRANSFERS | (1,185) | 51,046 | (49,861) | 0 |
| TOTAL AFTER RECLASSIFICATION AND INTERNAL TRANSFERS | 176,972 | 7,947,785 | 33,163,372 | 41,288,129 |
| NET ASSETS AT END OF YEAR | \$ 2,163,446 | \$ 6,832,478 | \$ 32,342,698 | \$ 41,338,622 |



**ARKANSAS STATE UNIVERSITY SYSTEM
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2008**

| | 2008 | 2007 |
|---|------------------------------------|------------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| TUITION AND FEES | \$ 39,442,883 | \$ 37,644,950 |
| GRANTS AND CONTRACTS | 34,747,533 | 43,899,856 |
| AUXILIARY ENTERPRISES REVENUES | 22,059,019 | 20,524,969 |
| SALES AND SERVICES OF EDUCATIONAL DEPARTMENTS | 792,086 | 732,820 |
| SELF INSURANCE | 2,560,901 | 2,300,939 |
| COLLECTION OF PRINCIPAL AND INTEREST RELATED TO STUDENT LOANS | 1,163,296 | 1,443,174 |
| OTHER RECEIPTS | 1,400,760 | 1,895,151 |
| PAYMENTS TO EMPLOYEES | (98,660,937) | (93,033,423) |
| PAYMENTS FOR EMPLOYEE BENEFITS | (17,664,679) | (16,754,280) |
| PAYMENTS TO SUPPLIERS | (51,695,081) | (51,039,589) |
| SCHOLARSHIPS AND FELLOWSHIPS | (10,824,921) | (9,495,506) |
| SELF INSURANCE | (11,020,425) | (11,183,748) |
| LOANS ISSUED TO STUDENTS | (1,274,897) | (1,162,532) |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | <u>\$ (88,974,462)</u> | <u>\$ (74,227,219)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| FEDERAL APPROPRIATIONS | \$ 35,399 | \$ 183,101 |
| STATE APPROPRIATIONS | 90,343,969 | 83,654,581 |
| GRANTS AND CONTRACTS | 15,650,830 | 0 |
| PRIVATE GIFTS AND GRANTS | 3,113,148 | 1,263,562 |
| SALES AND USE TAXES | 2,420,929 | 2,253,806 |
| PROPERTY TAXES | 1,074,144 | 1,021,436 |
| AGENCY TRANSACTIONS (NET) | 285,735 | (1,430,922) |
| REFUNDS TO GRANTORS | (63,087) | (209,194) |
| OTHER | (311,981) | (154,478) |
| NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES | <u>\$ 112,549,086</u> | <u>\$ 86,581,892</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| PROCEEDS FROM CAPITAL DEBT | \$ 2,082,974 | \$ 0 |
| CAPITAL APPROPRIATIONS | 3,002,314 | 1,728,787 |
| CAPITAL GRANTS AND GIFTS | 4,309,388 | 11,000 |
| PROCEEDS FROM SALE OF CAPITAL ASSETS | 13,192 | 1,497,212 |
| RECEIVED FROM BOND TRUSTEES | 5,239,484 | 7,648,008 |
| PAYMENTS TO BOND TRUSTEES | (7,979,553) | (7,177,006) |
| PURCHASES OF CAPITAL ASSETS | (31,554,088) | (34,343,711) |
| BOND PROCEEDS FROM ACT 1282 OF 2005 | 5,518,827 | 0 |
| PRINCIPAL PAID ON CAPITAL DEBT AND LEASES | (2,779,069) | (2,845,551) |
| INTEREST PAID ON CAPITAL DEBT AND LEASES | (1,563,068) | (1,628,927) |
| OTHER | 0 | (1,250) |
| NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES | <u>\$ (23,709,599)</u> | <u>\$ (35,111,438)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| PROCEEDS FROM THE SALE AND MATURITY OF INVESTMENTS | \$ 22,428,322 | \$ 57,893,542 |
| INTEREST ON INVESTMENTS (NET OF FEES) | 1,643,835 | 2,645,329 |
| PURCHASES OF INVESTMENTS | (24,819,291) | (34,731,114) |
| NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES | <u>\$ (747,134)</u> | <u>\$ 25,807,757</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | <u>\$ (882,109)</u> | <u>\$ 3,050,992</u> |
| CASH AND CASH EQUIVALENTS, JULY 1 | <u>\$ 25,586,198</u> | <u>\$ 22,535,206</u> |
| CASH AND CASH EQUIVALENTS, JUNE 30 | <u><u>\$ 24,704,089</u></u> | <u><u>\$ 25,586,198</u></u> |



**ARKANSAS STATE UNIVERSITY SYSTEM
COMPARATIVE STATEMENT OF CASH FLOWS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2008**

| | 2008 | 2007 |
|--|-------------------------------|-------------------------------|
| RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | | |
| OPERATING INCOME (LOSS) | \$ (107,944,717) | \$ (85,436,589) |
| ADJUSTMENTS TO RECONCILE NET INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES: | | |
| DEPRECIATION EXPENSE | 15,551,238 | 12,054,714 |
| CHANGE IN ASSETS AND LIABILITIES | | |
| RECEIVABLES, NET | (1,812,980) | (1,156,425) |
| INVENTORIES | 83,206 | (60,770) |
| DEPOSITS WITH TRUSTEE | 143,477 | 18,111 |
| PREPAID EXPENSES | (160,626) | 46,462 |
| ACCOUNTS AND SALARIES PAYABLE | 3,679,060 | (1,029,874) |
| OTHER POSTEMPLOYMENT BENEFITS PAYABLE | 739,346 | 0 |
| DEFERRED REVENUE | 177,458 | 73,029 |
| DEPOSITS | 116,531 | 18,158 |
| REFUNDABLE FEDERAL ADVANCES | (162,764) | 64,758 |
| COMPENSATED ABSENCES | 626,672 | 1,197,603 |
| OTHER LIABILITIES | (10,363) | (16,396) |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | <u>\$ (88,974,462)</u> | <u>\$ (74,227,219)</u> |

NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES - 2008

ASU-MOUNTAIN HOME

The University issued bonds for construction. Payment of \$5,013,414 (gross bond proceeds of \$5,180,000 plus accrued interest of \$8,050, less bond issuance costs of \$174,636) was remitted to the bond trustee directly from the bond proceeds.

ASU-NEWPORT

The University issued bonds for construction. Payment of \$2,003,227 (gross bond proceeds of \$2,075,000 plus accrued interest of \$3,227, less bond issuance costs of \$75,000) was remitted to the bond trustee directly from the bond proceeds.

NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES - 2007

ASU-JONESBORO

The University acquired capital assets of \$944,189 through significant capital leases and notes payable.

The University issued refunding and construction bonds. Payments of \$39,981,027 and \$7,812,757 were remitted to the bond trustees and bond escrow account, respectively, directly from the bond proceeds and related premium.

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ARKANSAS STATE UNIVERSITY SYSTEM
STATEMENT OF NET ASSETS BY CAMPUS
JUNE 30, 2008

| ASSETS | Jonesboro | Beebe |
|---|-----------------------|----------------------|
| CURRENT ASSETS | | |
| CASH AND CASH EQUIVALENTS | \$ 14,167,973 | \$ 2,656,264 |
| SHORT-TERM INVESTMENTS | 2,423,334 | 6,842,477 |
| ACCOUNTS RECEIVABLE | 15,071,284 | 1,182,206 |
| NOTES AND DEPOSITS RECEIVABLE | 1,259,492 | |
| ACCRUED INTEREST AND LATE CHARGES | 503,772 | 44,400 |
| INVENTORIES | 897,321 | 365,973 |
| DEPOSITS WITH TRUSTEES | 1,507,532 | 127,677 |
| PREPAID EXPENSES | 255,046 | 15,421 |
| TOTAL CURRENT ASSETS | \$ 36,085,754 | \$ 11,234,418 |
| NONCURRENT ASSETS | | |
| RESTRICTED CASH AND CASH EQUIVALENTS | \$ 1,613,800 | \$ 300 |
| ENDOWMENT INVESTMENTS | 11,431,229 | 135,000 |
| OTHER LONG-TERM INVESTMENTS | 11,034,532 | |
| ACCRUED INTEREST | | |
| DEPOSITS WITH TRUSTEES | 34,712,916 | |
| NOTES AND DEPOSITS RECEIVABLE | 5,557,083 | |
| DUE FROM ARKANSAS STATE UNIVERSITY FOUNDATION, INC. | | |
| CAPITAL ASSETS | 197,155,796 | 52,159,084 |
| TOTAL NONCURRENT ASSETS | \$ 261,505,356 | \$ 52,294,384 |
| TOTAL ASSETS | \$ 297,591,110 | \$ 63,528,802 |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| ACCOUNTS PAYABLE AND ACCRUED LIABILITIES | \$ 4,503,158 | \$ 467,866 |
| ACCRUED OTHER POSTEMPLOYMENT BENEFITS PAYABLE | | |
| BONDS, NOTES, AND LEASES PAYABLE | 5,164,954 | 932,019 |
| COMPENSATED ABSENCES | 3,995,245 | 890,714 |
| DEFERRED REVENUES | 835,207 | 95,639 |
| FUNDS HELD IN TRUST FOR OTHERS | 646,832 | 54,090 |
| DEPOSITS | 210,204 | 12,330 |
| INTEREST PAYABLE | 1,755,820 | 236,810 |
| OTHER LIABILITIES | 9,155 | |
| TOTAL CURRENT LIABILITIES | \$ 17,120,575 | \$ 2,689,468 |
| NONCURRENT LIABILITIES | | |
| BONDS, NOTES AND LEASES PAYABLE | \$ 118,382,959 | \$ 29,829,557 |
| COMPENSATED ABSENCES | 527,450 | 366,609 |
| ACCRUED OTHER POSTEMPLOYMENT BENEFITS PAYABLE | | |
| DEPOSITS | 278,425 | |
| ANNUITY PAYABLE | | |
| REFUNDABLE FEDERAL ADVANCES | 7,180,899 | |
| TOTAL NONCURRENT LIABILITIES | \$ 126,369,733 | \$ 30,196,166 |
| TOTAL LIABILITIES | \$ 143,490,308 | \$ 32,885,634 |
| NET ASSETS | | |
| INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT | \$ 107,129,643 | \$ 21,397,508 |
| RESTRICTED FOR: | | |
| NONEXPENDABLE | | |
| SCHOLARSHIPS AND FELLOWSHIPS | 6,431,237 | 104,623 |
| LOANS | 851,862 | |
| OTHER | 3,041,488 | |
| EXPENDABLE | | |
| SCHOLARSHIPS AND FELLOWSHIPS | 422,917 | 182,699 |
| RESEARCH | 269,887 | |
| LOANS | | 10,000 |
| CAPITAL PROJECTS | 2,159,540 | |
| DEBT SERVICE | | |
| RENEWAL AND REPLACEMENT | 50,000 | |
| OTHER | 5,510,103 | |
| UNRESTRICTED | 28,234,125 | 8,948,338 |
| TOTAL NET ASSETS | \$ 154,100,802 | \$ 30,643,168 |



ARKANSAS STATE UNIVERSITY SYSTEM
STATEMENT OF NET ASSETS BY CAMPUS (CONT.)
JUNE 30, 2008

| Mt. Home | Newport | System Entries | Total |
|----------------------|----------------------|-----------------------|-----------------------|
| \$ 4,847,302 | \$ 1,183,450 | \$ | \$ 22,854,989 |
| 800,000 | 1,944,226 | | 12,010,037 |
| 450,542 | 1,432,330 | | 18,136,362 |
| | | | 1,259,492 |
| 810 | 2,760 | | 551,742 |
| | 137,313 | | 1,400,607 |
| | 3,682 | | 1,638,891 |
| 10,745 | 1,786 | | 282,998 |
| \$ 6,109,399 | \$ 4,705,547 | \$ | \$ 58,135,118 |
| | \$ 235,000 | \$ | \$ 1,849,100 |
| | | | 11,566,229 |
| | 2,435 | | 11,034,532 |
| 5,044,191 | 2,108,864 | | 2,435 |
| | | | 41,865,971 |
| | | 479,703 | 5,557,083 |
| 17,964,759 | 10,300,442 | | 479,703 |
| \$ 23,008,950 | \$ 12,646,741 | \$ 479,703 | \$ 277,580,081 |
| \$ 29,118,349 | \$ 17,352,288 | \$ 479,703 | \$ 349,935,134 |
| \$ 734,399 | \$ 124,220 | \$ 920,996 | \$ 6,750,639 |
| | | 414,901 | 414,901 |
| 567,566 | 220,000 | | 6,884,539 |
| 35,974 | 340,867 | | 5,262,800 |
| 98,019 | 54,331 | | 1,083,196 |
| 11,193 | 11,482 | | 723,597 |
| | | | 222,534 |
| 42,821 | 35,318 | | 2,070,769 |
| | | | 9,155 |
| \$ 1,489,972 | \$ 786,218 | \$ 1,335,897 | \$ 23,422,130 |
| 9,508,119 | \$ 6,255,000 | \$ | \$ 163,975,635 |
| 323,767 | 33,712 | | 1,251,538 |
| | | 324,445 | 324,445 |
| | | 479,703 | 278,425 |
| | | | 479,703 |
| | | | 7,180,899 |
| \$ 9,831,886 | \$ 6,288,712 | \$ 804,148 | \$ 173,490,645 |
| \$ 11,321,858 | \$ 7,074,930 | \$ 2,140,045 | \$ 196,912,775 |
| 7,889,074 | \$ 5,817,908 | \$ | \$ 142,234,133 |
| | | | 6,535,860 |
| | | | 851,862 |
| | | | 3,041,488 |
| | 27,367 | | 632,983 |
| | | | 269,887 |
| | | | 10,000 |
| 5,343,577 | 186,697 | | 7,689,814 |
| 2,236 | 167,138 | | 169,374 |
| | | | 50,000 |
| 379,663 | 205,460 | | 6,095,226 |
| 4,181,941 | 3,872,788 | (1,660,342) | 43,576,850 |
| \$ 17,796,491 | \$ 10,277,358 | \$ (1,660,342) | \$ 211,157,477 |



ARKANSAS STATE UNIVERSITY SYSTEM
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
NET ASSETS BY CAMPUS
FOR THE YEAR ENDED JUNE 30, 2008

| | Jonesboro | Beebe |
|---|------------------------|------------------------|
| OPERATING REVENUES | | |
| TUITION AND FEES | \$ 32,321,717 | \$ 5,520,459 |
| GRANTS AND CONTRACTS | 24,105,976 | 7,847,096 |
| SALES AND SERVICES OF EDUCATIONAL DEPARTMENTS | 788,866 | 33,367 |
| AUXILIARY ENTERPRISES | 19,323,838 | 2,267,384 |
| SELF INSURANCE | 2,718,232 | |
| OTHER OPERATING REVENUES | 882,817 | 261,884 |
| TOTAL OPERATING REVENUES | \$ 80,141,446 | \$ 15,930,190 |
| OPERATING EXPENSES | | |
| PERSONAL SERVICES | \$ 88,535,761 | \$ 17,983,961 |
| SCHOLARSHIPS AND FELLOWSHIPS | 6,895,840 | 2,073,849 |
| SUPPLIES AND SERVICES | 41,474,958 | 7,464,151 |
| SELF INSURANCE | 11,004,928 | |
| DEPRECIATION | 11,967,415 | 1,592,203 |
| OTHER OPERATING EXPENSES | 146,476 | |
| TOTAL OPERATING EXPENSES | \$ 160,025,378 | \$ 29,114,164 |
| OPERATING INCOME (LOSS) | \$ (79,883,932) | \$ (13,183,974) |
| NONOPERATING REVENUES (EXPENSES) | | |
| STATE APPROPRIATIONS | \$ 69,114,807 | \$ 13,889,307 |
| FEDERAL APPROPRIATIONS | 35,399 | |
| GRANTS AND CONTRACTS | 12,968,991 | |
| SALES AND USE TAXES | | 1,817,140 |
| PROPERTY TAXES | | |
| GIFTS | 1,203,963 | |
| INVESTMENT INCOME | 1,369,383 | 408,778 |
| INTEREST ON CAPITAL ASSET RELATED DEBT | (5,696,040) | (1,332,830) |
| OTHER NONOPERATING REVENUES (EXPENSES) | (11,360) | (287,470) |
| NET NONOPERATING REVENUES (EXPENSES) | \$ 78,985,143 | \$ 14,494,925 |
| INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES | \$ (898,789) | \$ 1,310,951 |
| CAPITALIZATION OF INTEREST | 176,855 | 1,459,098 |
| CAPITAL APPROPRIATIONS | 685,000 | 287,866 |
| CAPITAL GRANTS AND GIFTS | 5,785,875 | 241,887 |
| BOND PROCEEDS FROM ACT 1282 OF 2005 | 3,085,628 | 1,115,000 |
| ADDITIONS TO ENDOWMENTS | | 300 |
| ADJUSTMENTS TO PRIOR YEAR CAPITAL ASSETS | 133,910 | |
| REFUNDS TO GRANTORS | (63,087) | (5,201) |
| GAIN OR LOSS ON DISPOSAL OF CAPITAL ASSETS | (370,284) | |
| CAPITALIZATION OF LIBRARY HOLDINGS AT RATE PER VOLUME | 218,820 | |
| LIVESTOCK ADDITIONS | 9,755 | |
| ACCRUED INTEREST ON BOND ISSUE | | |
| BOND ISSUANCE COSTS | | (72,270) |
| EXCESS FUNDS REMITTED TO ESCROW | | |
| AGENT ABOVE AMOUNT OF BONDS RETIRED | | |
| INCREASE (DECREASE) IN NET ASSETS | \$ 8,763,683 | \$ 4,337,631 |
| NET ASSETS-BEGINNING OF YEAR | \$ 145,337,119 | \$ 26,305,537 |
| NET ASSETS-END OF YEAR | \$ 154,100,802 | \$ 30,643,168 |



**ARKANSAS STATE UNIVERSITY SYSTEM
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
NET ASSETS BY CAMPUS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2008**

| Mt. Home | Newport | System Entries | Total |
|-----------------------|-----------------------|-----------------------|-------------------------|
| \$ 1,409,342 | \$ 1,982,334 | \$ | \$ 41,233,852 |
| 3,066,804 | 1,141,754 | (1,650,024) | 34,511,606 |
| | | | 822,233 |
| 143,036 | 283,412 | | 22,017,670 |
| | | | 2,718,232 |
| 136,048 | 22,994 | | 1,303,743 |
| \$ 4,755,230 | \$ 3,430,494 | \$ (1,650,024) | \$ 102,607,336 |
| | | | |
| \$ 5,598,058 | \$ 5,513,908 | \$ 739,346 | \$ 118,371,034 |
| 1,153,146 | 561,780 | | 10,684,615 |
| 2,244,825 | 2,688,832 | | 53,872,766 |
| | | 920,996 | 11,925,924 |
| 1,198,883 | 792,737 | | 15,551,238 |
| | | | 146,476 |
| \$ 10,194,912 | \$ 9,557,257 | \$ 1,660,342 | \$ 210,552,053 |
| | | | |
| \$ (5,439,682) | \$ (6,126,763) | \$ (3,310,366) | \$ (107,944,717) |
| | | | |
| \$ 4,916,111 | \$ 4,244,026 | \$ | \$ 92,164,251 |
| | | | 35,399 |
| | 1,046,715 | 1,650,024 | 15,665,730 |
| | 880,642 | | 2,697,782 |
| 1,074,144 | | | 1,074,144 |
| 1,398,719 | 208,331 | | 2,811,013 |
| 75,943 | 143,927 | | 1,998,031 |
| (303,570) | (229,975) | | (7,562,415) |
| 87,242 | 5,835 | | (205,753) |
| \$ 7,248,589 | \$ 6,299,501 | \$ 1,650,024 | \$ 108,678,182 |
| | | | |
| \$ 1,808,907 | \$ 172,738 | \$ (1,660,342) | \$ 733,465 |
| | | | |
| 1,772,989 | 256,459 | | 1,635,953 |
| | 171,292 | | 3,002,314 |
| 2,200,000 | 686,097 | | 6,199,054 |
| | | | 7,086,725 |
| | | | 300 |
| | | | 133,910 |
| | | | (68,288) |
| | (19,496) | | (389,780) |
| | | | 218,820 |
| | | | 9,755 |
| 8,050 | 3,227 | | 11,277 |
| (174,636) | (153,215) | | (400,121) |
| | (10,735) | | (10,735) |
| \$ 5,615,310 | \$ 1,106,367 | \$ (1,660,342) | \$ 18,162,649 |
| | | | |
| \$ 12,181,181 | \$ 9,170,991 | \$ 0 | \$ 192,994,828 |
| | | | |
| \$ 17,796,491 | \$ 10,277,358 | \$ (1,660,342) | \$ 211,157,477 |



**ARKANSAS STATE UNIVERSITY SYSTEM
STATEMENT OF CASH FLOWS BY CAMPUS
FOR THE YEAR ENDED JUNE 30, 2008**

| | Jonesboro | Beebe |
|---|------------------------------------|-----------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| TUITION AND FEES | \$ 30,937,500 | \$ 5,175,694 |
| GRANTS AND CONTRACTS | 24,269,796 | 7,879,853 |
| AUXILIARY ENTERPRISES REVENUES | 19,369,796 | 2,267,681 |
| SALES AND SERVICES OF EDUCATIONAL DEPARTMENTS | 792,086 | |
| SELF INSURANCE | 2,560,901 | |
| COLLECTION OF PRINCIPAL AND INTEREST RELATED TO STUDENT LOANS | 1,163,296 | |
| OTHER RECEIPTS | 934,937 | 295,251 |
| PAYMENTS TO EMPLOYEES | (76,017,828) | (14,025,876) |
| PAYMENTS FOR EMPLOYEE BENEFITS | (11,463,878) | (3,926,144) |
| PAYMENTS TO SUPPLIERS | (39,950,703) | (7,402,905) |
| SCHOLARSHIPS AND FELLOWSHIPS | (6,895,840) | (2,073,849) |
| SELF INSURANCE | (11,020,425) | |
| LOANS ISSUED TO STUDENTS | (1,274,897) | |
| PAYMENTS TO OTHER CAMPUS FOR FINANCIAL AID DISTRIBUTION | (141,735) | |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | <u>\$ (66,736,994)</u> | <u>\$ (11,810,295)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| FEDERAL APPROPRIATIONS | \$ 35,399 | \$ |
| STATE APPROPRIATIONS | 67,796,416 | 13,889,307 |
| GRANTS AND CONTRACTS | 15,650,830 | |
| PRIVATE GIFTS AND GRANTS | 1,506,098 | |
| PAYMENTS TO OTHER CAMPUS FOR FINANCIAL AID DISTRIBUTION | (2,681,839) | |
| SALES AND USE TAXES | | 1,548,130 |
| PROPERTY TAXES | | |
| PAYMENT FROM OTHER CAMPUS FOR FINANCIAL AID DISTRIBUTION | | |
| AGENCY TRANSACTIONS (NET) | 298,729 | 2,025 |
| REFUNDS TO GRANTORS | (63,087) | |
| OTHER | | (364,641) |
| NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES | <u>\$ 82,542,546</u> | <u>\$ 15,074,821</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| PROCEEDS FROM CAPITAL DEBT | \$ | \$ 2,080,000 |
| CAPITAL APPROPRIATIONS | 685,000 | 287,866 |
| CAPITAL GRANTS AND GIFTS | 4,025,243 | 112,853 |
| PROCEEDS FROM SALE OF CAPITAL ASSETS | 13,192 | |
| RECEIVED FROM BOND TRUSTEES | 5,239,484 | |
| PAYMENTS TO BOND TRUSTEES | (7,059,363) | |
| PURCHASES OF CAPITAL ASSETS | (13,434,156) | (12,425,552) |
| BOND PROCEEDS FROM ACT 1282 OF 2005 | 1,517,730 | 1,115,000 |
| PRINCIPAL PAID ON CAPITAL DEBT AND LEASES | (1,851,933) | (848,724) |
| INTEREST PAID ON CAPITAL DEBT AND LEASES | (216,394) | (1,291,069) |
| NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES | <u>\$ (11,081,197)</u> | <u>\$ (10,969,626)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| PROCEEDS FROM THE SALE AND MATURITY OF INVESTMENTS | \$ 8,808,847 | \$ 8,415,044 |
| INTEREST ON INVESTMENTS (NET OF FEES) | 1,048,142 | 432,952 |
| PURCHASES OF INVESTMENTS | (9,104,609) | (10,328,795) |
| NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES | <u>\$ 752,380</u> | <u>\$ (1,480,799)</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | <u>\$ 5,476,735</u> | <u>\$ (9,185,899)</u> |
| CASH AND CASH EQUIVALENTS, JULY 1 | <u>\$ 10,305,038</u> | <u>\$ 11,842,463</u> |
| CASH AND CASH EQUIVALENTS, JUNE 30 | <u><u>\$ 15,781,773</u></u> | <u><u>\$ 2,656,564</u></u> |



ARKANSAS STATE UNIVERSITY SYSTEM
STATEMENT OF CASH FLOWS BY CAMPUS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2008

| Mt. Home | Newport | System Entries | Total |
|-----------------------|-----------------------|-----------------------|------------------------|
| \$ 1,441,127 | \$ 1,888,562 | \$ | \$ 39,442,883 |
| 3,034,363 | 1,213,545 | (1,650,024) | 34,747,533 |
| 139,799 | 281,743 | | 22,059,019 |
| | | | 792,086 |
| | | | 2,560,901 |
| | | | 1,163,296 |
| 136,048 | 34,524 | | 1,400,760 |
| (4,371,674) | (4,245,559) | | (98,660,937) |
| (1,102,667) | (1,171,990) | | (17,664,679) |
| (1,664,853) | (2,676,620) | | (51,695,081) |
| (1,153,146) | (560,351) | (141,735) | (10,824,921) |
| | | | (11,020,425) |
| | | | (1,274,897) |
| | | 141,735 | 0 |
| \$ (3,541,003) | \$ (5,236,146) | \$ (1,650,024) | \$ (88,974,462) |
| \$ 4,916,111 | 3,742,135 | \$ | \$ 35,399 |
| 1,398,719 | 208,331 | | 90,343,969 |
| | 872,799 | 2,681,839 | 15,650,830 |
| 1,074,144 | 1,031,815 | (1,031,815) | 3,113,148 |
| (18,563) | 3,544 | | 0 |
| 87,241 | (33,030) | (1,551) | 2,420,929 |
| | | | 1,074,144 |
| | | | 0 |
| | | | 285,735 |
| | | | (63,087) |
| | | | (311,981) |
| \$ 7,457,652 | \$ 5,825,594 | \$ 1,648,473 | \$ 112,549,086 |
| \$ 1,772,989 | \$ 2,974 | \$ | \$ 2,082,974 |
| | 256,459 | | 3,002,314 |
| | 171,292 | | 4,309,388 |
| | | | 13,192 |
| (552,764) | (367,426) | | 5,239,484 |
| (4,743,966) | (950,414) | | (7,979,553) |
| 2,200,000 | 686,097 | | (31,554,088) |
| (78,412) | | | 5,518,827 |
| (55,605) | | | (2,779,069) |
| | | | (1,563,068) |
| \$ (1,457,758) | \$ (201,018) | \$ | \$ (23,709,599) |
| \$ 1,600,000 | \$ 3,604,431 | \$ | \$ 22,428,322 |
| 47,317 | 115,424 | | 1,643,835 |
| (1,600,000) | (3,785,887) | | (24,819,291) |
| \$ 47,317 | \$ (66,032) | \$ | \$ (747,134) |
| \$ 2,506,208 | \$ 322,398 | \$ (1,551) | \$ (882,109) |
| \$ 2,342,645 | \$ 1,096,052 | \$ 0 | \$ 25,586,198 |
| \$ 4,848,853 | \$ 1,418,450 | \$ (1,551) | \$ 24,704,089 |



**ARKANSAS STATE UNIVERSITY SYSTEM
STATEMENT OF CASH FLOWS BY CAMPUS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2008**

| | Jonesboro | Beebe |
|--|-------------------------------|-------------------------------|
| RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | | |
| OPERATING INCOME (LOSS) | \$ (79,883,932) | \$ (13,183,974) |
| ADJUSTMENTS TO RECONCILE NET INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES: | | |
| DEPRECIATION EXPENSE | 11,967,415 | 1,592,203 |
| CHANGE IN ASSETS AND LIABILITIES | | |
| RECEIVABLES, NET | (1,420,035) | (300,110) |
| INVENTORIES | 141,850 | (25,550) |
| DEPOSITS WITH TRUSTEE | 143,477 | |
| PREPAID EXPENSES | (185,530) | 2,312 |
| ACCOUNTS AND SALARIES PAYABLE | 2,024,017 | 61,640 |
| OTHER POSTEMPLOYMENT BENEFITS PAYABLE | | |
| DEFERRED REVENUE | 92,912 | (11,911) |
| DEPOSITS | 116,221 | 310 |
| REFUNDABLE FEDERAL ADVANCES | (162,764) | |
| COMPENSATED ABSENCES | 439,738 | 54,785 |
| OTHER LIABILITIES | (10,363) | |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | <u>\$ (66,736,994)</u> | <u>\$ (11,810,295)</u> |



**ARKANSAS STATE UNIVERSITY SYSTEM
STATEMENT OF CASH FLOWS BY CAMPUS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2008**

| Mt. Home | Newport | System Entries | Total |
|-----------------------|-----------------------|-----------------------|------------------------|
| \$ (5,439,682) | \$ (6,126,763) | \$ (3,310,366) | \$ (107,944,717) |
| 1,198,883 | 792,737 | | 15,551,238 |
| (52,662) | (40,173) | | (1,812,980) |
| | (33,094) | | 83,206 |
| | | | 143,477 |
| 22,325 | 267 | | (160,626) |
| 621,673 | 50,734 | 920,996 | 3,679,060 |
| | | 739,346 | 739,346 |
| 71,195 | 25,262 | | 177,458 |
| | | | 116,531 |
| | | | (162,764) |
| 37,265 | 94,884 | | 626,672 |
| | | | (10,363) |
| <u>\$ (3,541,003)</u> | <u>\$ (5,236,146)</u> | <u>\$ (1,650,024)</u> | <u>\$ (88,974,462)</u> |



ARKANSAS STATE UNIVERSITY SYSTEM NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

NOTE 1--Summary of Significant Accounting Policies

Reporting Entity

Arkansas State University (“the University”), an Institution of Higher Education of the State of Arkansas, developed from one of four (4) State agricultural schools established in 1909 by an act of the Arkansas General Assembly.

The University opened as a vocational high school in 1910 and was reorganized as a junior college in 1918. The name was changed to State Agricultural and Mechanical College by an act of the Legislature in 1925. Authority to extend the curriculum, offer senior college work, and grant degrees was granted in 1931. In 1933, the Legislature changed the name of the College to Arkansas State College. In January 1967, the Legislature passed an act authorizing a change in the name of Arkansas State College to Arkansas State University, effective July 1, 1967.

A branch campus at Beebe, Arkansas was added to Arkansas State College by an act of the General Assembly of the State of Arkansas in 1955. The branch campus was designated as Arkansas State College - Beebe Branch. Under the provisions of Ark. Code Ann. 6-53-405, White River Technical College was consolidated with Arkansas State University - Beebe campus effective July 1, 1992 and named Arkansas State University - Newport. Act 90 of 2001 eliminated the word “branch” from the references to campuses of Arkansas State University. Subsequently, the Newport campus separated itself from Beebe to become a stand-alone campus. ASU - Heber Springs, a Center of ASU - Beebe, was officially established by Act 426 of 1999 in response to the community’s desire to have a two-year college presence in Cleburne County. Effective July 1, 2003, Foothills Technical Institute in Searcy merged with ASU - Beebe to become ASU - Searcy, a Technical Campus of ASU - Beebe.



Effective July 1, 1992, Arkansas State University began administrative operations at a Mountain Home campus.

On October 19, 1993, the voters of Baxter County authorized the levy of a two (2) mill tax to support operations at the Arkansas State University - Mountain Home campus.

Effective July 1, 2001, Delta Technical Institute was merged to the University to become the Arkansas State University Technical Center

The governing body of the University is the Board of Trustees comprised of five (5) members.

The Arkansas State University Foundation, Inc. (“the Foundation”) is a legally separate, tax-exempt component unit of Arkansas State University (“the University”). The Foundation acts primarily as a fund-raising and asset management organization to develop and supplement the resources that are available to the University in support of its mission and programs. The 33 member board of the Foundation is self-perpetuating and consists of graduates and friends of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests, is restricted to the activities of the



ARKANSAS STATE UNIVERSITY SYSTEM NOTES TO THE FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2008

University by donors. Because these restricted resources held by the Foundation may only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University under the guidelines established by Governmental Accounting Standards Board (GASB) Statement Number 39, *Determining Whether Certain Organizations are Component Units*. Accordingly, the financial statements of the Foundation are discretely presented in the University's financial statements in accordance with the provisions of GASB Statement Number 39.

During the year ended June 30, 2008, the Foundation transferred property, equipment and funds of \$4,977,689 to the University for proper accountability and academic support. Complete financial statements for the Foundation may be obtained from the Foundation at P. O. Box 1990, State University, AR 72467-1990.

The Foundation reports under Financial Accounting Standards Board (FASB) standards, including FASB Statement Number 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the University's financial statements.

Financial Statement Presentation

In June 1999, the Governmental Accounting Standards Board issued Statement Number 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. GASB Statement Number 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, followed this in November 1999. The financial statement presentation required by GASB Number 34 and Number 35 provides a comprehensive, entity-wide perspective of the University's assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows.



Basis of Accounting

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when a obligation is incurred.

The consolidated University financial statements were prepared from the separate statements of the four campuses. Other than the receipt and disbursement of student financial aid and self insurance program payments between the campuses, financial transactions among the campuses were not considered material in amount or consequence and, accordingly, were not eliminated from the consolidated statements.



ARKANSAS STATE UNIVERSITY SYSTEM NOTES TO THE FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2008

The University may choose whether to apply pronouncements of the FASB issued after November 30, 1989 unless those pronouncements conflict with pronouncements of the GASB. The University has elected to not apply pronouncements of the FASB issued after November 30, 1989.

Capital Assets and Depreciation

Land, buildings, improvements and infrastructure, equipment, audiovisual holdings and construction in progress are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. Livestock held for educational purposes is recorded at cost or estimated fair value. Library holdings are recorded at cost or a stated rate per volume. Library holdings that are capitalized do not include periodicals, microfilm, microfiche and government documents. The University's capitalization policy



for equipment is to record, as assets, any items with a unit cost of more than \$2,500 and an estimated useful life greater than one year. Improvements to buildings, infrastructure, and land that significantly increase the value or extend the useful life of the asset are capitalized. Routine repairs and maintenance are charged to operating expense when incurred.

Depreciation is calculated using the straight-line method over the estimated lives of the assets, generally 15 to 30 years for buildings, 15 years for improvements and infrastructure, 10 years for library and audiovisual holdings, and 3 to 20 years for equipment. Capital assets are presented net of accumulated depreciation where applicable.

Operating and Nonoperating Revenues

Revenues of the University are classified as either operating or nonoperating according to the following criteria:

Operating Revenues - Operating revenues result from activities that have characteristics of exchange transactions; that is the University receives payment in exchange for providing services or products to students or other constituencies. Student tuition and fees, net of scholarship discounts and allowances, sales and services of auxiliary operations, net of scholarship discounts and allowances, and most federal, state, local and private grants are the main categories of operating revenues for the University.

Nonoperating Revenues - Nonoperating revenues are those revenues that result from nonexchange transactions or from activities specifically defined as nonoperating by the GASB. Examples of nonoperating revenues include state appropriations, sales and use taxes, property taxes and investment income. State appropriations from the state are considered nonoperating under the definitions set forth by the GASB because the University does not provide a direct and commensurate benefit to the legislature in exchange for them.



**ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2008**

Cash Equivalents

For purposes of the statement of cash flows, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable consists of assets the University is legally entitled to, but for which payment has not been received as of the close of the fiscal year at June 30, 2008. The various sources of the University's receivables are detailed in a subsequent note. Receivables are presented net of any estimated uncollectible amounts in accordance with generally accepted accounting principles.

Investments

The University accounts for its investments, except for nonparticipating contracts, at fair value in accordance with GASB Statement Number 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the Statement of Revenues, Expenses and Changes in Net Assets. Nonparticipating contracts are reported at cost.

It is the University's policy to report all endowment funds, administered by other parties for investment purposes, as investments in the financial statements.

Inventories

Inventories are valued at cost with cost being generally determined on a first-in, first-out or average basis.

Noncurrent Cash and Investments

Cash and investments that are externally restricted for endowment scholarships and other purposes or to purchase or construct capital assets are classified as noncurrent assets in the Statement of Net Assets. Additionally, this classification includes other long-term investments with original maturity dates greater than one year.

Restricted and Unrestricted Resources

The University has no formal policy addressing which resources to use when both restricted and unrestricted net assets are available for the same purpose. University personnel decide which resources to use at the time expenses are incurred.

Deferred Revenues

Deferred revenues consist primarily of amounts received prior to the end of the fiscal year for tuition and fees and certain auxiliary activities that relate to a subsequent accounting period. For example, payments for tuition and fees for the second summer term or season football tickets for the upcoming fall season received prior to June 30, 2008 are treated as deferred revenues. They are considered liabilities of the University until earned.

Compensated Absences Payable

Employee annual and sick leave earned, but not paid, and related matching costs are recorded as a liability and expense on the University's financial statements as required by generally accepted accounting principles. An estimate is made to allocate this liability between current and noncurrent components.



ARKANSAS STATE UNIVERSITY SYSTEM NOTES TO THE FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2008

Deposits with Trustees

Deposits with trustees are externally restricted and held by various banks for the University. They are maintained in order to make debt service payments, to maintain sinking or reserve funds as required by bond covenants, or to purchase or construct capital assets.

Noncurrent Liabilities

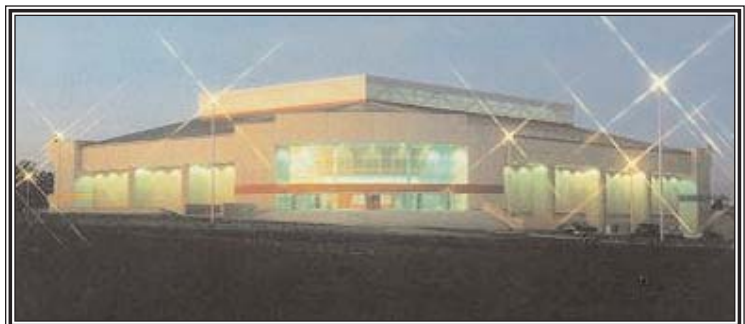
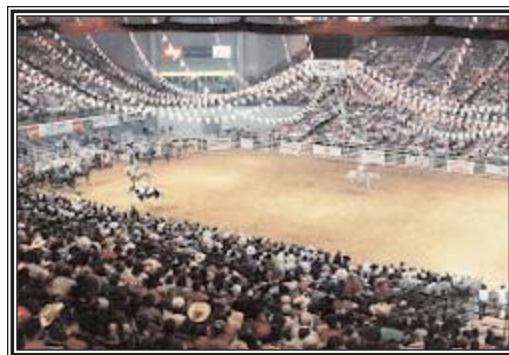
Noncurrent liabilities include (1) principal amounts of bonds payable, notes payable and capital lease obligations with contractual maturities greater than one year; (2) estimated amounts for accrued compensated absences and related matching costs and other liabilities that will not be paid within the next fiscal year; and (3) estimated amounts for deposits held that will not be paid within the next fiscal year; (4) other postemployment benefits payable (Note 12); (5) annuity payable (Note 13); and (6) the refundable federal portion of the Perkins Loan Program.

Property Taxes

Property taxes are levied in November based on property assessment made between January 1 and May 31 and are an enforceable lien on January 1 for real property and June 1 for personal property. The tax records are opened on the first business day of March of the year following the levy date and are considered delinquent after October 10 of the same calendar year.

Sales and Use Taxes

Effective January 2003, the electors of Jackson County, by a majority vote, approved the levy of a one-half of one percent (1/2%) sales and use tax for the ASU - Newport campus. This tax will be utilized for capital improvements and operation and maintenance. Additionally, the electors of Cleburne County approved the levy of a one-half of one percent (1/2%) sales and use tax for the Heber Springs campus. The tax will also be utilized for capital improvements and operation and maintenance.





**ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2008**



Funds Held in Trust for Others

The University holds deposits as custodian or fiscal agent for students, student organizations, and certain other organized activities related to the University.

Net Assets

The University's net assets are classified as follows:

Invested in Capital Assets, Net of Related Debt - This classification represents the University's total investment in capital assets, net of outstanding debt obligations related to those assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included in this category.

Restricted Net Assets - Within this classification there are two (2) categories of net assets:

Restricted, expendable - Restricted expendable net assets include resources for which the University is legally or contractually obligated to spend only in accordance with restrictions imposed by external parties.

Restricted, nonexpendable - Nonexpendable restricted net assets consist of endowment and similar type funds for which donors or other external parties have stipulated that the principal or corpus is to be maintained inviolate and in perpetuity and invested only for the purpose of producing income which may either be expended in accordance with the donors' or external parties' stipulations or added to the principal.

Unrestricted Net Assets - Unrestricted net assets represent resources of the University that are unrelated to capital items and not externally restricted. These resources may be expended at the discretion of the University's governing board in the educational and general operations of the University and in furtherance of its mission.



Scholarship Discounts and Allowances

Student tuition and fees, and certain other revenues received from students are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses and Changes in Net Assets. Scholarship discounts and allowances are the difference between the University's stated rates and charges and the amount actually paid by students and/or third parties making payments on behalf of the



**ARKANSAS STATE UNIVERSITY SYSTEM
 NOTES TO THE FINANCIAL STATEMENTS (CONT.)
 FOR THE YEAR ENDED JUNE 30, 2008**

students. Under this approach, scholarships awarded by the University are considered as reductions in tuition and fee revenues rather than as expenses. Additionally, certain governmental grants, such as Pell grants, and payments from other federal, state or nongovernmental programs, are required to be recorded as either operating or nonoperating revenues in the University’s financial statements. To the extent that revenues from such programs are applied to tuition, fees and other student charges, the University has reported a corresponding scholarship discount or allowance.

NOTE 2--Public Fund Deposits and Investments

Cash deposits are carried at cost. The University’s cash deposits at year end are shown below:

| | Carrying Amount | Bank Balance |
|---|----------------------|----------------------|
| Insured (FDIC) | \$ 2,277,592 | \$ 2,341,083 |
| Collateralized: | | |
| Collateral held by the pledging bank or pledging bank’s trust department in the University’s name | 29,641,383 | 31,906,632 |
| Uninsured, uncollateralized | 65,161 | 65,161 |
| Total Deposits | <u>\$ 31,984,136</u> | <u>\$ 34,312,876</u> |

The above deposits do not include cash on deposit in the state treasury, cash on hand maintained by the University and cash equivalents in the amounts of \$1,655,737, \$97,672 and \$6,313,622 at June 30, 2008, respectively. Cash equivalents primarily consisted of the Short-Term Common Fund account. The above total deposits include certificates of deposit of \$15,302,081 reported as investments and deposits with trustees and classified as nonparticipating contracts. Additionally, the deposits include money market checking accounts of \$44,997 reported as deposits with trustees.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the University’s deposits may not be returned to it. It is the University’s policy to require full collateralization above the Federal Deposit Insurance Corporation (FDIC) insurance limits. As of June 30, 2008, \$65,161 of the University’s bank balance of \$34,312,876 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized \$65,161





**ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2008**

Short-Term Common Fund Account

The University had \$6,313,622 invested in the Short-Term Common Fund account at June 30, 2008. The Short-Term Common Fund account is subject to regulation by the Comptroller of the Currency.

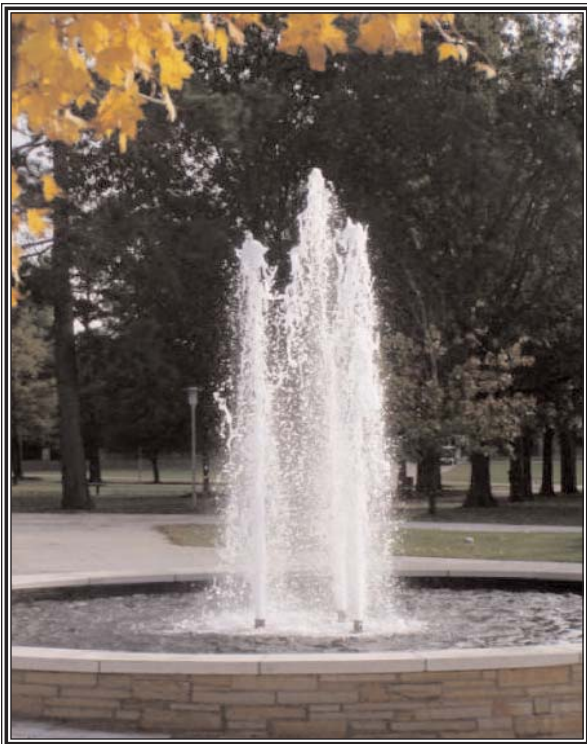
Credit risk - The Short-Term Common Fund is restricted to investments in U.S. Treasury and government agency securities, high quality corporate securities, mortgage-backed and asset-backed securities and commercial and bank paper. The average credit quality rating of the investment portfolio of this fund is AAA.

Interest rate risk - The portfolio of the Short-Term Common Fund had an effective duration of 3.1 months.

Deposits with Trustees

At June 30, 2008, the University's deposits with trustees, excluding nonnegotiable certificates of deposit of \$2,067,549 and money market checking accounts of \$44,997, of \$41,392,316 were primarily invested in the Federated Treasury Obligations Fund, a money market treasury. The money market fund was rated AAAM by Standard and Poor's and Aaa by Moody's Investors Service and consisted of short-term repurchase agreements and U.S. Treasuries. The effective average maturity was approximately 17.97 days.

The deposits with trustees consisted of funds either obligated as debt reserves for the University's bond issues or earmarked for specific capital projects.





**ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2008**

University Investments (Excluding Endowment Funds)

At June 30, 2008, the University's investments, excluding endowment funds, consisted of corporate bonds of \$4,942,984 and U.S. agencies of \$5,002,053. The corporate bonds will mature as follows:

Less than one year - \$732,319
1-5 years - \$2,732,870
6-10 years - \$1,477,795

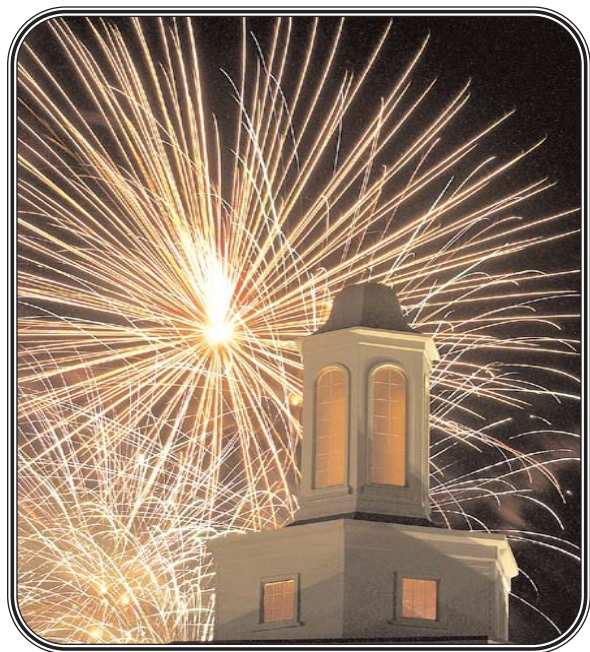
The U.S. agencies will mature as follows:

Less than one year - \$250,783
1-5 years - \$2,868,877
6-10 years - \$1,119,971
Greater than 10 years - \$762,422

Credit risk - The credit quality ratings of the corporate bonds ranged from B- to AAA by Standard and Poor's and Caa1 to Aaa by Moody's Investors Service. The credit quality ratings of the U.S. agencies were AAA by Standard and Poor's and Aaa to AAA by Moody's Investors Service.

Interest rate risk - The corporate bonds had an estimated weighted average maturity of 4.09 years at June 30, 2008. The U.S. agencies had an estimated weighted average maturity of 6.76 years. The University's investment policy does not specifically limit operating investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The investment policy states the portfolio shall be designed to attain an above market rate of return throughout budgetary and economic cycles, taking into account investment risk constraints and cash flow requirements.

Concentration of credit risk - The University does not limit the amount of operating funds invested in any one issuer. More than five percent of the University's investments were in the Federal Home Loan Mortgage Corporation (FHLMC). These investments were 14.32% of the University's total investments.





**ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2008**

Endowment Investments

Except for the endowment investments at the Beebe campus, which consisted of nonnegotiable certificates of deposit of \$135,000 and the investments of the R.E. Lee Wilson, Sr. Trust, all remaining endowment funds are included in an investment pool administered by the Arkansas State University Foundation, Inc. The University's portion of the investment pool was 19.52% or \$7,968,382 and consisted of the following types of investments:

- Mutual funds under the direction of the Common Fund and TIAA/CREF investment asset managers - \$7,628,408
- Real estate investments - \$83,252
- Endowment Energy Partners III, LP - \$14,815
- Cash equivalents - \$241,907



Credit risk - Applicable investments of the Common Fund portfolio had an average quality rating of B+ to AAA, while applicable investments of the TIAA/CREF portfolio had an average quality rating of B1 to AA1.

Interest rate risk - Applicable investments of the Common Fund portfolio had a weighted average maturity of .1 to 9.8 years and an effective duration of .9 to 7.9 years. Applicable investments of the TIAA/CREF portfolio had a weighted average maturity of 6.67 to 6.73 years and an effective duration of 4.16 to 4.46 years. The University's investment policy does limit endowment investment maturities to 30 years and requires interest on cash equivalents to be benchmarked to the 90 day Treasury bill index.





**ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2008**

R.E. Lee Wilson, Sr. Trust Investments

The R.E. Lee Wilson, Sr. Trust of \$3,462,847 consisted of the following types of investments held in trust by a third party:

Mutual funds - \$2,049,938
Corporate bonds - \$390,320
Cash equivalents - \$263,313
U.S. agencies - \$626,882
U.S. Treasury notes - \$132,394

The corporate bonds will mature as follows:

Less than one year - \$11,356
1-5 years - \$233,093
6-10 years - \$103,219
Greater than 10 years - \$42,652

The U.S. agencies and Treasury notes will mature as follows:

Less than one year - \$46,382
1-5 years - \$40,675
6-10 years - \$57,116
Greater than 10 years - \$615,103

Credit risk - The credit quality ratings of the corporate bonds ranged from BBB+ to AAA by Standard and Poor's and Baa2 to Aaa by Moody's Investor Services.

Interest rate risk - The trust portfolio consists of corporate bonds and U.S. agencies and Treasury notes that had an estimated weighted average maturity of 7.27 and 19.05 years, respectively, at June 30, 2008.

NOTE 3--Income Taxes

The University is tax exempt under Internal Revenue Service code. It is also exempt from state income taxes under Arkansas law. Accordingly, no provision for income taxes is made in the financial statements.





**ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2008**

NOTE 4--Capital Assets

Following are the changes in capital assets for the year ended June 30, 2008:

ARKANSAS STATE UNIVERSITY - JONESBORO

| | Balance July 1, 2007 | Additions | Transfers | Retirements | Balance June 30, 2008 |
|--|-------------------------|-----------------------|-----------------------|-----------------------|--------------------------|
| Nondepreciable capital assets: | | | | | |
| Land and improvements | \$ 6,474,423 | \$ 90,009 | \$ 0 | \$ (99,205) | \$ 6,465,227 |
| Livestock for educational purposes | 35,170 | 9,755 | 0 | 0 | 44,925 |
| Construction in progress | 9,166,673 | 10,327,877 | (1,818,872) | (10,230) | 17,665,448 |
| Total nondepreciable capital assets | <u>\$ 15,676,266</u> | <u>\$ 10,427,641</u> | <u>\$ (1,818,872)</u> | <u>\$ (109,435)</u> | <u>\$ 24,175,600</u> |
| Other capital assets: | | | | | |
| Improvements and infrastructure | \$ 29,310,505 | \$ 889,853 | \$ 99,905 | \$ (12,279) | \$ 30,287,984 |
| Buildings | 247,502,313 | 624,620 | 1,718,967 | (3,637,695) | 246,208,205 |
| Equipment | 32,457,276 | 2,347,635 | 0 | (1,240,376) | 33,564,535 |
| Library/audiovisual holdings | 11,766,582 | 218,820 | 0 | (369,332) | 11,616,070 |
| Total other capital assets | <u>\$ 321,036,676</u> | <u>\$ 4,080,928</u> | <u>\$ 1,818,872</u> | <u>\$ (5,259,682)</u> | <u>\$ 321,676,794</u> |
| Less accumulated depreciation: | | | | | |
| Improvements and infrastructure | \$ 8,260,668 | \$ 1,855,752 | \$ 0 | \$ (4,093) | \$ 10,112,327 |
| Buildings | 100,907,271 | 7,341,128 | 0 | (3,397,643) | 104,850,756 |
| Equipment | 21,729,858 | 2,621,004 | 0 | (1,201,543) | 23,149,319 |
| Library/audiovisual holdings | 10,803,997 | 149,531 | 0 | (369,332) | 10,584,196 |
| Total accumulated depreciation | <u>\$ 141,701,794</u> | <u>\$ 11,967,415</u> | <u>\$ 0</u> | <u>\$ (4,972,611)</u> | <u>\$ 148,696,598</u> |
| Other capital assets, net | <u>\$ 179,334,882</u> | <u>\$ (7,886,487)</u> | <u>\$ 1,818,872</u> | <u>\$ (287,071)</u> | <u>\$ 172,980,196</u> |
| Capital Asset Summary: | | | | | |
| Nondepreciable capital assets | \$ 15,676,266 | \$ 10,427,641 | \$ (1,818,872) | \$ (109,435) | \$ 24,175,600 |
| Other capital assets, at cost | 321,036,676 | 4,080,928 | 1,818,872 | (5,259,682) | 321,676,794 |
| Total cost of capital assets | <u>\$ 336,712,942</u> | <u>\$ 14,508,569</u> | <u>\$ 0</u> | <u>\$ (5,369,117)</u> | <u>\$ 345,852,394</u> |
| Less accumulated depreciation | <u>141,701,794</u> | <u>11,967,415</u> | <u>0</u> | <u>(4,972,611)</u> | <u>148,696,598</u> |
| Capital Assets, net | <u>\$ 195,011,148</u> | <u>\$ 2,541,154</u> | <u>\$ 0</u> | <u>\$ (396,506)</u> | <u>\$ 197,155,796</u> |





ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2008

ARKANSAS STATE UNIVERSITY - BEEBE

| | Balance July 1, 2007 | Additions | Transfers | Retirements | Balance June 30, 2008 |
|--|-------------------------|----------------------|---------------------|---------------------|--------------------------|
| Nondepreciable capital assets: | | | | | |
| Land and improvements | \$ 3,007,318 | \$ 0 | \$ 0 | \$ 0 | \$ 3,007,318 |
| Livestock for educational purposes | 52,511 | 17,039 | 0 | 0 | 69,550 |
| Construction in progress | 24,719,364 | 12,146,767 | (544,314) | 0 | 36,321,817 |
| Total nondepreciable capital assets | <u>\$ 27,779,193</u> | <u>\$ 12,163,806</u> | <u>\$ (544,314)</u> | <u>\$ 0</u> | <u>\$ 39,398,685</u> |
| Other capital assets: | | | | | |
| Improvements and infrastructure | \$ 2,890,916 | \$ 0 | \$ 544,314 | \$ 0 | \$ 3,435,230 |
| Buildings | 23,824,942 | 0 | 0 | 0 | 23,824,942 |
| Equipment | 4,056,401 | 830,138 | 0 | (215,748) | 4,670,791 |
| Library/audiovisual holdings | 1,718,583 | 86,523 | 0 | (48,911) | 1,756,195 |
| Total other capital assets | <u>\$ 32,490,842</u> | <u>\$ 916,661</u> | <u>\$ 544,314</u> | <u>\$ (264,659)</u> | <u>\$ 33,687,158</u> |
| Less accumulated depreciation: | | | | | |
| Improvements and infrastructure | \$ 1,075,603 | \$ 173,578 | \$ 0 | \$ 0 | 1,249,181 |
| Buildings | 14,126,715 | 1,079,642 | 0 | 0 | 15,206,357 |
| Equipment | 3,293,952 | 258,660 | 0 | (215,748) | 3,336,864 |
| Library/audiovisual holdings | 1,102,944 | 80,323 | 0 | (48,910) | 1,134,357 |
| Total accumulated depreciation | <u>\$ 19,599,214</u> | <u>\$ 1,592,203</u> | <u>\$ 0</u> | <u>\$ (264,658)</u> | <u>\$ 20,926,759</u> |
| Other capital assets, net | <u>\$ 12,891,628</u> | <u>\$ (675,542)</u> | <u>\$ 544,314</u> | <u>\$ (1)</u> | <u>\$ 12,760,399</u> |
| Capital Asset Summary: | | | | | |
| Nondepreciable capital assets | \$ 27,779,193 | \$ 12,163,806 | \$ (544,314) | \$ 0 | \$ 39,398,685 |
| Other capital assets, at cost | 32,490,842 | 916,661 | 544,314 | (264,659) | 33,687,158 |
| Total cost of capital assets | \$ 60,270,035 | \$ 13,080,467 | \$ 0 | \$ (264,659) | \$ 73,085,843 |
| Less accumulated depreciation | <u>19,599,214</u> | <u>1,592,203</u> | <u>0</u> | <u>(264,658)</u> | <u>20,926,759</u> |
| Capital Assets, net | <u>\$ 40,670,821</u> | <u>\$ 11,488,264</u> | <u>\$ 0</u> | <u>\$ (1)</u> | <u>\$ 52,159,084</u> |

ARKANSAS STATE UNIVERSITY - MOUNTAIN HOME

| | Balance July 1, 2007 | Additions | Retirements | Balance June 30, 2008 |
|--|-------------------------|---------------------|--------------------|--------------------------|
| Nondepreciable capital assets: | | | | |
| Land and improvements | \$ 2,934,808 | \$ 0 | \$ 0 | \$ 2,934,808 |
| Construction in progress | 752,651 | 4,312,556 | 0 | 5,065,207 |
| Total nondepreciable capital assets | <u>\$ 3,687,459</u> | <u>\$ 4,312,556</u> | <u>\$ 0</u> | <u>\$ 8,000,015</u> |
| Other capital assets: | | | | |
| Improvements and infrastructure | \$ 2,054,868 | \$ 218,623 | \$ 0 | \$ 2,273,491 |
| Buildings | 14,536,846 | 0 | 0 | 14,536,846 |
| Equipment | 791,013 | 208,469 | (55,476) | 944,006 |
| Library/audiovisual holdings | 820,689 | 4,318 | 0 | 825,007 |
| Total other capital assets | <u>\$ 18,203,416</u> | <u>\$ 431,410</u> | <u>\$ (55,476)</u> | <u>\$ 18,579,350</u> |
| Less accumulated depreciation: | | | | |
| Improvements and infrastructure | \$ 728,742 | \$ 136,991 | \$ 0 | 865,733 |
| Buildings | 5,521,769 | 969,123 | 0 | 6,490,892 |
| Equipment | 688,946 | 46,979 | (55,476) | 680,449 |
| Library/audiovisual holdings | 531,742 | 45,790 | 0 | 577,532 |
| Total accumulated depreciation | <u>\$ 7,471,199</u> | <u>\$ 1,198,883</u> | <u>\$ (55,476)</u> | <u>\$ 8,614,606</u> |
| Other capital assets, net | <u>\$ 10,732,217</u> | <u>\$ (767,473)</u> | <u>\$ 0</u> | <u>\$ 9,964,744</u> |



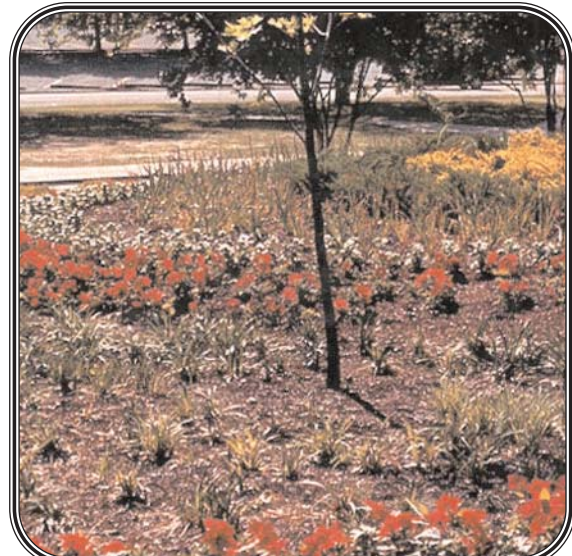
ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2008

Capital Asset Summary:

| | | | | |
|--------------------------------------|----------------------|---------------------|-----------------|----------------------|
| Nondepreciable capital assets | \$ 3,687,459 | \$ 4,312,556 | \$ 0 | \$ 8,000,015 |
| Other capital assets, at cost | 18,203,416 | 431,410 | (55,476) | 18,579,350 |
| Total cost of capital assets | \$ 21,890,875 | \$ 4,743,966 | \$ (55,476) | \$ 26,579,365 |
| Less accumulated depreciation | <u>7,471,199</u> | <u>1,198,883</u> | <u>(55,476)</u> | <u>8,614,606</u> |
| Capital Assets, net | <u>\$ 14,419,676</u> | <u>\$ 3,545,083</u> | <u>\$ 0</u> | <u>\$ 17,964,759</u> |

ARKANSAS STATE UNIVERSITY - NEWPORT

| | Balance July 1, 2007 | Additions | Transfers | Retirements | Balance June 30, 2008 |
|--|-------------------------|---------------------|---------------------|--------------------|--------------------------|
| Nondepreciable capital assets: | | | | | |
| Land and improvements | \$ 332,103 | \$ 0 | \$ 0 | \$ 0 | \$ 332,103 |
| Construction in progress | 126,106 | 831,750 | (116,066) | 0 | 841,790 |
| Total nondepreciable capital assets | <u>\$ 458,209</u> | <u>\$ 831,750</u> | <u>\$ (116,066)</u> | <u>\$ 0</u> | <u>\$ 1,173,893</u> |
| Other capital assets: | | | | | |
| Improvements and infrastructure | \$ 197,799 | \$ 0 | \$ 116,066 | \$ 0 | \$ 313,865 |
| Buildings | 13,393,244 | 0 | 0 | 0 | 13,393,244 |
| Equipment | 808,209 | 167,690 | 0 | (93,917) | 881,982 |
| Library/audiovisual holdings | 289,443 | 18,045 | 0 | (699) | 306,789 |
| Total other capital assets | <u>\$ 14,688,695</u> | <u>\$ 185,735</u> | <u>\$ 116,066</u> | <u>\$ (94,616)</u> | <u>\$ 14,895,880</u> |
| Less accumulated depreciation: | | | | | |
| Improvements and infrastructure | \$ 128,024 | \$ 13,187 | \$ 0 | \$ 0 | 141,211 |
| Buildings | 4,074,648 | 692,802 | 0 | 0 | 4,767,450 |
| Equipment | 618,938 | 57,874 | 0 | (74,441) | 602,371 |
| Library/audiovisual holdings | 230,103 | 28,874 | 0 | (678) | 258,299 |
| Total accumulated depreciation | <u>\$ 5,051,713</u> | <u>\$ 792,737</u> | <u>\$ 0</u> | <u>\$ (75,119)</u> | <u>\$ 5,769,331</u> |
| Other capital assets, net | <u>\$ 9,636,982</u> | <u>\$ (607,002)</u> | <u>\$ 116,066</u> | <u>\$ (19,497)</u> | <u>\$ 9,126,549</u> |
| Capital Asset Summary: | | | | | |
| Nondepreciable capital assets | \$ 458,209 | \$ 831,750 | \$ (116,066) | \$ 0 | \$ 1,173,893 |
| Other capital assets, at cost | 14,688,695 | 185,735 | 116,066 | (94,616) | 14,895,880 |
| Total cost of capital assets | \$ 15,146,904 | \$ 1,017,485 | \$ 0 | \$ (94,616) | \$ 16,069,773 |
| Less accumulated depreciation | <u>5,051,713</u> | <u>792,737</u> | <u>0</u> | <u>(75,119)</u> | <u>5,769,331</u> |
| Capital Assets, net | <u>\$ 10,095,191</u> | <u>\$ 224,748</u> | <u>\$ 0</u> | <u>\$ (19,497)</u> | <u>\$ 10,300,442</u> |





**ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2008**

NOTE 5--Long-Term Liabilities

A summary of long-term debt is as follows:

ARKANSAS STATE UNIVERSITY - JONESBORO

| Date of Issue | Date of Final Maturity | Rate of Interest | Amount Authorized and Issued | Debt Outstanding June 30, 2008 | Maturities to June 30, 2008 |
|----------------------|-------------------------------|-------------------------|-------------------------------------|---------------------------------------|------------------------------------|
| 10-1-1969 | 10-1-2009 | 4.5% | \$ 2,250,000 | \$ 245,000 | \$ 2,005,000 |
| 3-1-2001 | 3-1-2031 | 3.6 - 5.25% | 7,000,000 | 6,055,000 | 945,000 |
| 3-1-2001 | 3-1-2031 | 3.6 - 5.25% | 3,000,000 | 2,590,000 | 410,000 |
| 11-15-2002 | 12-1-2027 | 1.6 - 5% | 6,105,000 | 4,685,000 | 1,420,000 |
| 8-11-2003 | 9-1-2008 | 7% | 507,000 | 19,937 | 487,063 |
| 3-1-2004 | 3-1-2034 | 3 - 5% | 34,000,000 | 32,480,000 | 1,520,000 |
| 3-1-2004 | 3-1-2034 | 2 - 4.6% | 11,555,000 | 9,850,000 | 1,705,000 |
| 8-28-2004 | 2-28-2009 | 11.25% | 1,694,771 | 364,722 | 1,330,049 |
| 8-30-2004 | 4-1-2010 | 4.45% | 1,390,994 | 499,132 | 891,862 |
| 8-30-2004 | 7-1-2010 | 4.45% | 1,051,784 | 498,153 | 553,631 |
| 8-30-2004 | 4-1-2010 | 4.45% | 1,018,199 | 426,968 | 591,231 |
| 9-30-2004 | 3-1-2010 | 4.45% | 187,841 | 67,040 | 120,801 |
| 9-30-2004 | 3-1-2010 | 4.45% | 375,683 | 141,077 | 234,606 |
| 10-1-2004 | 10-1-2024 | 6% | 465,046 | 414,395 | 50,651 |
| 10-28-2004 | 3-1-2010 | 4% | 113,538 | 40,524 | 73,014 |
| 10-28-2004 | 10-28-2008 | 5.99% | 148,975 | 6,547 | 142,428 |
| 3-23-2005 | 3-1-2010 | 4.70% | 187,841 | 77,188 | 110,653 |
| 3-23-2005 | 3-1-2010 | 4.70% | 187,841 | 73,854 | 113,987 |
| 9-15-2005 | 4-1-2025 | 3 - 5% | 19,230,000 | 17,685,000 | 1,545,000 |
| 9-30-2005 | 3-1-2010 | 4.85% | 187,841 | 82,050 | 105,791 |
| 11-1-2005 | 11-30-2008 | 10% | 261,506 | 69,538 | 191,968 |
| 1-31-2006 | 3-1-2010 | 5.29% | 187,841 | 87,077 | 100,764 |
| 3-31-2006 | 3-1-2010 | 5.55% | 187,841 | 92,519 | 95,322 |
| 6-15-2006 | 4-15-2009 | 14.98% | 148,252 | 39,315 | 108,937 |
| 7-31-2006 | 3-1-2010 | 5.55% | 187,841 | 98,014 | 89,827 |
| 8-25-2006 | 8-25-2010 | 7.99% | 44,573 | 28,768 | 15,805 |
| 9-30-2006 | 3-1-2010 | 5.55% | 187,841 | 105,334 | 82,507 |
| 1-15-2007 | 3-1-2010 | 5.55% | 187,841 | 113,347 | 74,494 |
| 6-1-2007 | 3-1-2037 | 3.65 - 5% | 17,065,000 | 16,590,000 | 475,000 |
| 6-1-2007 | 3-1-2037 | 3.65 - 5% | 30,300,000 | 29,900,000 | 400,000 |
| 6-28-2007 | 3-1-2010 | 5.88% | 187,841 | 122,414 | 65,427 |
| Totals | | | <u>\$ 139,603,731</u> | <u>\$ 123,547,913</u> | <u>\$ 16,055,818</u> |



**ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2008**

ARKANSAS STATE UNIVERSITY - BEEBE

| Date of Issue | Date of Final Maturity | Rate of Interest | Amount Authorized and Issued | Debt Outstanding June 30, 2008 | Maturities to June 30, 2008 |
|----------------------|-------------------------------|-------------------------|-------------------------------------|---------------------------------------|------------------------------------|
| 10-1-1992 | 10-1-2012 | 6.2 - 6.6% | \$ 400,000 | \$ 155,000 | \$ 245,000 |
| 4-1-1998 | 10-1-2008 | 4.3 - 5.5% | 1,410,000 | 165,000 | 1,245,000 |
| 12-6-2005 | 12-1-2035 | 4.78% | 15,170,000 | 14,640,000 | 530,000 |
| 3-1-2006 | 9-1-2035 | 4.72% | 11,000,000 | 10,610,000 | 390,000 |
| 9-15-2006 | 12-1-2023 | 3.83% | 3,330,000 | 2,915,000 | 415,000 |
| 7-1-2007 | 8-1-2011 | 8.29% | 260,299 | 196,576 | 63,723 |
| 1-15-2008 | 12-1-2032 | 3 - 4.375% | 2,080,000 | 2,080,000 | 0 |
| Totals | | | <u>\$ 33,650,299</u> | <u>\$ 30,761,576</u> | <u>\$ 2,888,723</u> |

ARKANSAS STATE UNIVERSITY - MOUNTAIN HOME

| Date of Issue | Date of Final Maturity | Rate of Interest | Amount Authorized and Issued | Debt Outstanding June 30, 2008 | Maturities to June 30, 2008 |
|----------------------|-------------------------------|-------------------------|-------------------------------------|---------------------------------------|------------------------------------|
| 4-21-1999 | 2-10-2016 | 5.85% | \$ 567,296 | \$ 335,531 | \$ 231,765 |
| 8-1-1999 | 4-10-2019 | 4.80% | 1,032,704 | 685,154 | 347,550 |
| 12-1-2002 | 12-1-2017 | 1.6 - 4.4% | 5,405,000 | 3,875,000 | 1,530,000 |
| 1-29-2008 | 12-1-2032 | 4.2 - 4.5% | 5,180,000 | 5,180,000 | 0 |
| Totals | | | <u>\$ 12,185,000</u> | <u>\$ 10,075,685</u> | <u>\$ 2,109,315</u> |

ARKANSAS STATE UNIVERSITY - NEWPORT

| Date of Issue | Date of Final Maturity | Rate of Interest | Amount Authorized and Issued | Debt Outstanding June 30, 2008 | Maturities to June 30, 2008 |
|----------------------|-------------------------------|-------------------------|-------------------------------------|---------------------------------------|------------------------------------|
| 1-29-2008 | 12-1-2032 | 3 - 4.375% | \$ 2,075,000 | \$ 2,075,000 | \$ 0 |
| 4-30-2008 | 5-1-2028 | 2.75 - 4.5% | 4,400,000 | 4,400,000 | 0 |
| | | | <u>\$ 6,475,000</u> | <u>\$ 6,475,000</u> | <u>\$ 0</u> |





**ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2008**

The allocation of the liability for other postemployment benefits between current and noncurrent is discussed in Note 12. The changes in long-term liabilities, other than other postemployment benefits, are as follows:

ARKANSAS STATE UNIVERSITY - JONESBORO

| | Balance | | | Balance | | Amounts Due |
|------------------------|-----------------------|---------------------|---------------------|-----------------------|---------------|---------------------|
| | July 1, 2007 | Additions | Reductions | June 30, 2008 | Within | One Year |
| Bonds Payable | \$ 123,580,000 | \$ 0 | \$ 3,500,000 | \$ 120,080,000 | \$ | 3,335,000 |
| Notes Payable | 4,169,495 | 0 | 1,230,408 | 2,939,087 | | 1,321,033 |
| Capital Leases Payable | 1,150,352 | 0 | 621,526 | 528,826 | | 508,921 |
| Compensated Absences | 4,082,957 | 3,657,797 | 3,218,059 | 4,522,695 | | 3,995,245 |
| Totals | <u>\$ 132,982,804</u> | <u>\$ 3,657,797</u> | <u>\$ 8,569,993</u> | <u>\$ 128,070,608</u> | | <u>\$ 9,160,199</u> |

ARKANSAS STATE UNIVERSITY - BEEBE

| | Balance | | | Balance | | Amounts Due |
|------------------------|----------------------|---------------------|---------------------|----------------------|---------------|---------------------|
| | July 1, 2007 | Additions | Reductions | June 30, 2008 | Within | One Year |
| Bonds Payable | \$ 29,270,000 | \$ 2,080,000 | \$ 785,000 | \$ 30,565,000 | \$ | 875,000 |
| Capital Leases Payable | 0 | 260,299 | 63,723 | 196,576 | | 57,019 |
| Compensated Absences | 1,202,538 | 1,014,828 | 960,043 | 1,257,323 | | 890,714 |
| Totals | <u>\$ 30,472,538</u> | <u>\$ 3,355,127</u> | <u>\$ 1,808,766</u> | <u>\$ 32,018,899</u> | | <u>\$ 1,822,733</u> |

ARKANSAS STATE UNIVERSITY - MOUNTAIN HOME

| | Balance | | | Balance | | Amounts Due |
|----------------------|---------------------|---------------------|-------------------|----------------------|---------------|--------------------|
| | July 1, 2007 | Additions | Reductions | June 30, 2008 | Within | One Year |
| Bonds Payable | \$ 4,195,000 | \$ 5,180,000 | \$ 320,000 | \$ 9,055,000 | \$ | 485,000 |
| Notes Payable | 1,099,097 | 0 | 78,412 | 1,020,685 | | 82,566 |
| Compensated Absences | 322,476 | 47,335 | 10,070 | 359,741 | | 35,974 |
| Totals | <u>\$ 5,616,573</u> | <u>\$ 5,227,335</u> | <u>\$ 408,482</u> | <u>\$ 10,435,426</u> | | <u>\$ 603,540</u> |

ARKANSAS STATE UNIVERSITY - NEWPORT

| | Balance | | | Balance | | Amounts Due |
|----------------------|---------------------|---------------------|---------------------|----------------------|---------------|--------------------|
| | July 1, 2007 | Additions | Reductions | June 30, 2008 | Within | One Year |
| Bonds Payable | \$ 4,460,000 | \$ 6,475,000 | \$ 4,460,000* | \$ 6,475,000 | \$ | 220,000 |
| Compensated Absences | 279,695 | 315,513 | 220,629 | 374,579 | | 340,867 |
| Totals | <u>\$ 4,739,695</u> | <u>\$ 6,790,513</u> | <u>\$ 4,680,629</u> | <u>\$ 6,849,579</u> | | <u>\$ 560,867</u> |

*Includes advance refunding of \$4,320,000.



**ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2008**

Total long-term debt principal and interest payments are as follows:

ARKANSAS STATE UNIVERSITY - JONESBORO

| Year ended June 30, | Principal | Interest | Total |
|--------------------------------|-----------------------|----------------------|-----------------------|
| 2009 | \$ 5,164,954 | \$ 5,662,592* | \$ 10,827,546 |
| 2010 | 5,105,710 | 5,477,030 | 10,582,740 |
| 2011 | 3,932,408 | 5,289,718 | 9,222,126 |
| 2012 | 4,058,596 | 5,139,167 | 9,197,763 |
| 2013 | 4,224,743 | 4,977,118 | 9,201,861 |
| 2014-2018 | 21,033,555 | 22,316,049 | 43,349,604 |
| 2019-2023 | 24,629,913 | 17,185,329 | 41,815,242 |
| 2024-2028 | 21,558,034 | 11,239,543 | 32,797,577 |
| 2029-2033 | 22,130,000 | 6,097,357 | 28,227,357 |
| 2034-2037 | 11,710,000 | 1,232,568 | 12,942,568 |
| Totals | \$ 123,547,913 | \$ 84,616,471 | \$ 208,164,384 |

*Includes interest payable of \$1,755,820 recorded as a current liability at June 30, 2008.

ARKANSAS STATE UNIVERSITY - BEEBE

| Year ended June 30, | Principal | Interest | Total |
|--------------------------------|----------------------|----------------------|----------------------|
| 2009 | \$ 932,019 | \$ 1,358,542* | \$ 2,290,561 |
| 2010 | 789,502 | 1,325,767 | 2,115,269 |
| 2011 | 799,175 | 1,295,270 | 2,094,445 |
| 2012 | 830,880 | 1,263,644 | 2,094,524 |
| 2013 | 815,000 | 1,230,146 | 2,045,146 |
| 2014-2018 | 4,395,000 | 5,653,191 | 10,048,191 |
| 2019-2023 | 5,355,000 | 4,667,850 | 10,022,850 |
| 2024-2028 | 5,565,000 | 3,463,347 | 9,028,347 |
| 2029-2033 | 6,780,000 | 1,994,813 | 8,774,813 |
| 2034-2036 | 4,500,000 | 345,000 | 4,845,000 |
| Totals | \$ 30,761,576 | \$ 22,597,570 | \$ 53,359,146 |

*Includes interest payable of \$236,810 recorded as a current liability at June 30, 2008.





**ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2008**

ARKANSAS STATE UNIVERSITY - MOUNTAIN HOME

Year ended

| June 30, | Principal | Interest | Total |
|-----------------|----------------------|---------------------|----------------------|
| 2009 | \$ 567,566 | \$ 400,730* | \$ 968,296 |
| 2010 | 561,943 | 381,461 | 943,404 |
| 2011 | 581,555 | 360,814 | 942,369 |
| 2012 | 601,413 | 338,511 | 939,924 |
| 2013 | 621,532 | 314,904 | 936,436 |
| 2014-2018 | 3,408,599 | 1,166,790 | 4,575,389 |
| 2019-2023 | 1,053,077 | 686,302 | 1,739,379 |
| 2024-2028 | 1,200,000 | 457,050 | 1,657,050 |
| 2029-2033 | 1,480,000 | 167,344 | 1,647,344 |
| Totals | <u>\$ 10,075,685</u> | <u>\$ 4,273,906</u> | <u>\$ 14,349,591</u> |

*Includes interest payable of \$42,821 recorded as a current liability at June 30, 2008.

ARKANSAS STATE UNIVERSITY - NEWPORT

Year ended

| June 30, | Principal | Interest | Total |
|-----------------|---------------------|---------------------|---------------------|
| 2009 | \$ 220,000 | \$ 252,971* | \$ 472,971 |
| 2010 | 220,000 | 246,345 | 466,345 |
| 2011 | 225,000 | 239,676 | 464,676 |
| 2012 | 230,000 | 232,646 | 462,646 |
| 2013 | 240,000 | 225,235 | 465,235 |
| 2014-2018 | 1,310,000 | 1,054,611 | 2,364,611 |
| 2019-2023 | 1,585,000 | 708,464 | 2,293,464 |
| 2024-2028 | 1,845,000 | 334,083 | 2,179,083 |
| 2029-2033 | 600,000 | 67,813 | 667,813 |
| Totals | <u>\$ 6,475,000</u> | <u>\$ 3,361,844</u> | <u>\$ 9,836,844</u> |

*Includes interest payable of \$35,318 recorded as a current liability at June 30, 2008.

Advance Refunding of Debt

On April 30, 2008, the University issued \$4,400,000 in refunding bonds for the Newport campus with interest rates of 2.75 to 4.5 percent to advance refund \$4,320,000 of outstanding bonds dated May 1, 2003. Net bond proceeds of \$4,321,785, after payment of \$78,215 net bond issuance costs, and University contribution of \$8,950 were remitted to an escrow agent to provide for all future payments of the defeased bonds. The May 1, 2003 bonds were called on June 1, 2008. The University advance refunded the bonds to reduce its total debt service payments by \$239,381 over the next 20 years.



**ARKANSAS STATE UNIVERSITY SYSTEM
 NOTES TO THE FINANCIAL STATEMENTS (CONT.)
 FOR THE YEAR ENDED JUNE 30, 2008**

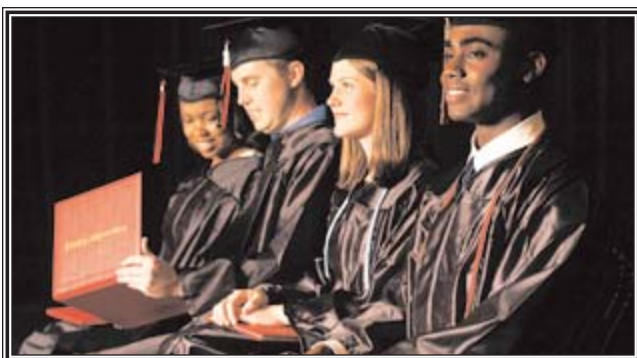
NOTE 6--Capital Leases

The University has acquired certain capital assets under various capital leases.

| Type of Asset | Asset Amount |
|--------------------------------------|----------------------------|
| Telecommunications Equipment | \$ 1,955,070 |
| Print Shop Equipment | 730,791 |
| Public Safety Equipment and Software | 148,975 |
| Farm Equipment | 44,573 |
| Research Equipment | 409,758 |
| Total | <u><u>\$ 3,289,167</u></u> |

The following is a schedule of future minimum lease payments under capital leases, together with the present value of the net minimum lease payments, as of June 30, 2008:

| Fiscal Year Ending June 30, | Amount |
|--|--------------------------|
| 2009 | \$ 598,217 |
| 2010 | 76,739 |
| 2011 | 53,822 |
| 2012 | 42,660 |
| Total Minimum Lease Payments | <u>\$ 771,438</u> |
| Less: Amount Representing Interest | 46,036 |
| Total Present Value of Net Minimum Lease Payments | <u><u>\$ 725,402</u></u> |





**ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2008**

NOTE 7--Commitments

The University was contractually obligated for the following at June 30, 2008:

A. Construction Contracts

| Project Name | Estimated Completion Date | Contract Balance |
|----------------------------------|----------------------------------|-------------------------|
| Jonesboro | | |
| Apartment Complex | September 2009 | \$8,659,976 |
| Honors Hall | July 2009 | 6,321,317 |
| Nursing Building* | July 2009 | 10,302,929 |
| Delta Center | August 2009 | 5,572,665 |
| Chickasaw Renovations | August 2008 | 637,108 |
| Beebe | | |
| ASU Searcy Phase II | June 2009 | 3,338,760 |
| Mountain Home | | |
| Health Science Building | November 2008 | 894,635 |
| Community Development | December 2010 | 4,183,008 |
| Newport | | |
| Transportation Technology Center | December 2008 | 1,819,989 |
| ASU Technical Center Renovations | November 2008 | 1,485,766 |

*This project is funded by an agreement with the Arkansas State University Foundation, Inc. for the benefit of Arkansas State University-Jonesboro and the Donald W. Reynolds Foundation.





**ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2008**

B. Operating Leases (Noncapital leases with initial or remaining noncancellable lease terms in excess of one year)

Various leases for office space, residences, copiers, computers and other office equipment with terms ranging from 24 to 60 months

- a. Future minimum rental payments (aggregate) at June 30, 2008: \$1,491,669
- b. Future minimum rental payments for the five (5) succeeding fiscal years:

| Year Ended June 30, | Amount |
|----------------------------|---------------|
| 2009 | \$ 678,567 |
| 2010 | 490,777 |
| 2011 | 290,549 |
| 2012 | 23,102 |
| 2013 | 8,674 |

Rental payments for the above operating leases, for the year ended June 30, 2008, were approximately \$673,506.

NOTE 8--Retirement Plans

Teachers Insurance and Annuity Association/College Retirement Equities Fund (TIAA/CREF)

Plan Description - The University participates in TIAA/CREF, a defined contribution plan. The plan is a 403(b) program as defined by Internal Revenue Service Code of 1986 as amended, and is administered by TIAA/CREF. TIAA is an insurance company offering participants a traditional annuity with guaranteed principal and a specific interest rate plus the opportunity for additional growth through dividends. CREF is an investment company which offers a variable annuity. Arkansas law authorizes participation in the plan.



Funding Policy - Employees select the percentage of their gross salaries to contribute based on current regulations. The minimum contribution is 6%. The University contributes 10% of earnings for all applicable employees. Vesting occurs for all participants immediately. The University's and participants' contributions for the year ended June 30, 2008 were \$6,261,572 and \$5,501,482, respectively.

Arkansas Teacher Retirement System

Plan Description - The University contributes to the Arkansas Teacher Retirement System (ATRS), a cost-sharing multiple-employer defined benefit pension plan for employees who do not select a qualified alternative retirement plan. ATRS, administered by a Board of Trustees, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and can be amended only by the Arkansas



**ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2008**

General Assembly. The Arkansas Teacher Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for ATRS. The report may be obtained by writing to Arkansas Teacher Retirement System, 1400 West Third Street, Little Rock, Arkansas 72201 or by calling 1-800-666-2877.

Funding Policy - ATRS has contributory and non-contributory plans. Contributory members are required by State law to contribute 6% of their salaries. Each participating employer is required by State law to contribute at a rate determined by the Board of Trustees, based on the annual actuarial valuation. The current employer rate is 14% of covered salaries, the maximum allowed by State law. Vesting occurs for all participants after 5 years of service. The University's contributions to ATRS for the years ended June 30, 2008, 2007 and 2006 were \$1,152,945, \$872,444 and \$809,224, respectively, equal to the required contributions for each year.

Arkansas Public Employees Retirement System

Plan Description - The University contributes to the Arkansas Public Employees Retirement System (APERS), a cost-sharing multiple-employer defined benefit pension plan. Employees may elect coverage under APERS as a qualified retirement system. APERS, administered by a Board of Trustees, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for APERS. The report may be obtained by writing to Arkansas Public Employees Retirement System, 124 West Capitol, Suite 400, Little Rock, Arkansas 72201 or by calling 1-800-682-7377.

Funding Policy - APERS has contributory and non-contributory plans. Contributory members are required by State law to contribute 5% of their salaries. Each participating employer is required by State law to contribute at a rate determined by the Board of Trustees, based on the annual actuarial valuation. The current employer rate for higher education entities is 12.54% of covered salaries. Vesting occurs for all participants after 5 years of service. The University's contributions to APERS for the years ended June 30, 2008, 2007 and 2006 were \$966,815, \$939,617 and \$926,668, respectively, equal to the required contributions for each year.

Variable Annuity Life Insurance Company (VALIC)

Plan Description - The University contributes to VALIC, a defined contribution plan. The plan is a 403(b) program as defined by Internal Revenue Service Code of 1986 as amended, and is administered by VALIC. VALIC provides insurance policies that become the property of the participant when issued.

Funding Policy - Employees select the percentage of their gross salaries to contribute based on current regulations. The minimum percentage is 6%. The University's contributory rate is 10% for all applicable employees. Vesting occurs for all participants immediately. The participants' and the University's contributions for the year ended June 30, 2008 were \$655,232 and \$835,994 respectively.



**ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2008**

NOTE 9--Natural Classifications by Function

The University's operating expenses by function for the year ended June 30, 2008 were as follows:

| | Personal Services | Scholarships and Fellowships | Supplies and Services | Self Insurance | Depreciation | Other | Total |
|--|-----------------------|---------------------------------|--------------------------|----------------------|----------------------|-------------------|-----------------------|
| Instruction | \$ 51,510,549 | \$ 801,236 | \$ 7,322,598 | \$ 0 | \$ 0 | \$ 0 | \$ 59,634,383 |
| Research | 5,995,640 | 161,890 | 2,912,232 | 0 | 0 | 0 | 9,069,762 |
| Public Service | 9,312,306 | 303,017 | 4,904,484 | 0 | 0 | 0 | 14,519,807 |
| Academic Support | 10,534,116 | 8,335 | 6,241,972 | 0 | 0 | 0 | 16,784,423 |
| Student Services | 9,067,462 | 119,631 | 2,917,344 | 0 | 0 | 0 | 12,104,437 |
| Institutional Support | 15,311,555 | 0 | 6,490,585 | 0 | 0 | 0 | 21,802,140 |
| Scholarships and Fellowships | 0 | 6,356,277 | 667 | 0 | 0 | 0 | 6,356,944 |
| Operations and Maintenance of Plant | 9,283,490 | 0 | 10,288,918 | 0 | 0 | 0 | 19,572,408 |
| Auxiliary Enterprises | 7,355,916 | 2,934,229 | 12,793,966 | 0 | 0 | 0 | 23,084,111 |
| Self Insurance | 0 | 0 | 0 | 11,925,924 | 0 | 0 | 11,925,924 |
| Depreciation | 0 | 0 | 0 | 0 | 15,551,238 | 0 | 15,551,238 |
| Other | 0 | 0 | 0 | 0 | 0 | 146,476 | 146,476 |
| Totals | <u>\$ 118,371,034</u> | <u>\$ 10,684,615</u> | <u>\$ 53,872,766</u> | <u>\$ 11,925,924</u> | <u>\$ 15,551,238</u> | <u>\$ 146,476</u> | <u>\$ 210,552,053</u> |

NOTE 10--Disaggregation of Receivable and Payable Balances

Accounts receivable from students was \$6,900,615 at June 30, 2008. This amount was reduced by an allowance for doubtful accounts of \$881,956.

Notes receivable pertains to loans awarded to students through the Federal Perkins Loan Program. Notes receivable was \$7,514,886 at June 30, 2008. This amount was reduced by an allowance for doubtful loans of \$921,844. Deposits receivable was \$223,533 at June 30, 2008.

Other receivables of \$12,117,703 at June 30, 2008 primarily consisted of reimbursements of \$3,662,965 from various agencies for grants and contracts, \$2,840,610 for construction projects, \$3,345,873 due from various state treasury accounts, \$409,988 for sales and use taxes, and auxiliary enterprises receivables of \$607,458. Other receivables also consisted of \$570,067 due from the U.S. Department of Education for cancellations pertaining to the Federal Perkins Loan Program and miscellaneous items of \$680,742.

The accounts payable and accrued liabilities of \$6,750,639 consisted of \$4,404,799 due to vendors, \$5,732 due to students, \$57,297 due for sales and use taxes, \$1,332,517 for salaries and other payroll related items, \$920,996 for health claims, and miscellaneous items of \$29,298.

NOTE 11--Museum Collection

The financial statements do not include the University's museum collection, which consists of numerous historical relics, artifacts, displays and memorabilia. The total value of this collection has not been established.

NOTE 12--Other Post Employment Benefits

The University offers postemployment health care benefits to all employees who officially retire from the University and meet certain age- and service-related requirements. Health care benefits are offered through Arkansas State University's Self Insured Retiree Medical Plan (the Plan).



**ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2008**

Employees between the ages of 55 and 60 shall become eligible for retirement benefits in the calendar year in which the sum of their age and the number of years of continuous full-time service to the University totals 70. Employees 60 years of age and older are eligible for retirement benefits in the calendar year in which they have at least 10 years of continuous full-time service to the University. Employees electing retirement will receive the following benefits:

1. Medical insurance (including spouse and unmarried dependents, if covered at the time the employee retires) will be provided at one-half of the total cost (one-half of what the University pays and one-half of the employee premium).
2. Life insurance and accidental death and dismemberment benefits equal to the scheduled amount at the time of the retiree's retirement will continue at no cost to the retiree; and
3. Continuing eligibility of the retiree, their spouse and unmarried dependent children for tuition discounts in effect for current University employees.

The benefits provided to retirees enumerated above will terminate at the earlier of the age at which the retiree becomes eligible for Medicare coverage or the date the retiree becomes eligible for similar benefits under any other arrangement for members in a group, whether insured or self-insured.

The benefits provided to the spouse of the retiree enumerated above shall terminate the earlier of either a) when such benefits terminate for the early retiree or b) the spouse becomes eligible for Medicare. Should the spouse of a retiree not have reached the age of Medicare eligibility at the time benefits to the retiree are terminated, the retiree may pay the total cost of continuing such coverage until such time as the spouse becomes eligible for Medicare.

At June 30, 2008, the number of retirees who were eligible for these benefits totaled 86. The University also pays life insurance premiums for certain retirees under a plan no longer utilized by the University. These premiums are paid until the retiree's death. At June 30, 2008, the number of retirees eligible for these benefits totaled 5. All premiums for these benefits described above were paid monthly and financed on a pay-as-you-go basis. These premiums, paid by the University and the retirees, totaled \$688,180 for the year ended June 30, 2008. Of this amount, the University's contribution was \$455,549.

The University adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* during fiscal year 2008. This statement requires governmental entities to recognize and match other postretirement benefit costs with related services received and also to provide information regarding the actuarially calculated liability and funding level of the benefits associated with past services. The Plan is considered a single-employer plan and consists of hospital benefits, major medical benefits, a prescription drug program and a preferred care program. The authority under which the Plan's benefit provisions are established or amended is the University Board of Trustees. Recommendations for modifications are brought to the Board by the University's President. Any amendments to the obligations of the plan members or employer to contribute to the plan are brought forward by the University's President and approved by the Board of Trustees.



**ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2008**

Participants included in the actuarial valuation include retirees and survivors, and active employees who may be eligible to participate in the Plan upon retirement. Expenditures for post-retirement health care benefits are recognized monthly and financed on a pay-as-you-go basis. The University funds approximately 67% of the postretirement healthcare premiums, which totaled \$618,526 for the fiscal year ended June 30, 2008. The retirees are responsible for funding approximately 33% of the health-care premiums.

As part of the transition provisions of GASB Statement No. 45, the University accrued an additional \$739,346 in retiree healthcare expense during fiscal year 2008. Of this liability amount, the current portion was \$414,901 and the noncurrent portion was \$324,445.

The Plan does not issue a stand-alone financial report. For inquiries relating to the Plan, please contact Arkansas State University Office of Employee Services, P.O. Box 1500, State University, Arkansas 72467.

The required schedule of funding progress contained in the Required Supplementary Information immediately following the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Determination of Annual Required Contribution (ARC) and End of Year CAFR Accrual

| Cost Element | Fiscal Year Ended June 30, 2008 | |
|---|--|---------------------------------------|
| | Amount | Percent of Payroll² |
| 1. Unfunded actuarial accrued liability at July 1, 2007 | \$ 8,080,750 | 9.26% |
| Annual Required Contribution (ARC) | | |
| 2. Normal cost | \$ 741,973 | |
| 3. Amortization of the unfunded actuarial accrued liability over 30 years using open amortization | \$ 412,274 | |
| 4. Annual Required Contribution (ARC = 2 + 3) | \$ 1,154,247 | 1.32% |
| Annual OPEB Cost (Expense) | | |
| 5. ARC | \$ 1,154,247 | |
| 6. Interest on beginning of year CAFR accrual ¹ | \$ 0 | |
| 7. Amortization of beginning of year CAFR accrual ¹ | \$ 0 | |
| 8. Fiscal 2008 OPEB cost (5 + 6 - 7) | \$ 1,154,247 | 1.32% |
| End of Year CAFR Accrual (Net OPEB Obligation) ³ | | |
| 9. Beginning of year CAFR accrual ¹ | \$ 0 | |
| 10. Annual OPEB cost | \$ 1,154,247 | |
| 11. Employer contribution (benefit payments) ³ | \$ 414,901 | |



**ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2008**

12. End of year CAFR accrual (9 + 10 - 11)³ \$ 739,346 0.84%

¹ No accrual is required at the adoption of the GASB Statement

² Annual payroll for the 2,004 plan participants as of July 1, 2007 is \$87,212,900.

³ Actual contributions and administrative fees paid in fiscal year 2008 of \$618,526 less participant contributions of \$203,625. Employer contributed 35.9% of annual OPEB cost during fiscal year 2008.

Schedule of Employer Contributions

| Fiscal Year Ended | Annual Required Contributions | Actual Contributions⁴ | Percentage Contributed |
|--------------------------|--------------------------------------|---|-------------------------------|
| June 30, 2008 | \$ 1,154,247 | \$ 414,901 | 35.9% |

⁴ Since there is no funding, these are actual benefit payments of \$618,526 less retiree contributions of \$203,625.

Schedule of Funding Progress

The schedule of funding progress presents multi-year trend information comparing the actuarial value of plan assets to the actuarial accrued liability.

| Fiscal Year Ending | Actuarial Value of Assets (a) | Liability (AAL) (b) | Actuarial Accrued AAL (UAAL) (b)-(a) | Unfunded/ (Overfunded) Funded Ratio (a)/(b) | Covered Payroll⁵ (c) | UAAL as a Percentage Of Covered Payroll⁵ [(b)-(a)/(c)] |
|---------------------------|--------------------------------------|----------------------------|---|--|--|--|
| June 30, 2008 | \$ - | \$ 8,080,750 | \$ 8,080,750 | - % | \$ 87,212,900 | 9.26% |

⁵ Payroll as of July 1, 2007 includes only plan participants.

Note: The annual required contribution (ARC) of \$1,154,247 for fiscal year 2008 and CAFR accrual of \$739,346 as of June 30, 2008, are based on a current decision not to fund in a segregated GASB qualified trust.

Three-Year Schedule of Percentage of OPEB Cost Contributed

| Fiscal Year Ended | Annual OPEB Cost | Percentage of OPEB Cost Contributed | Net OPEB Obligation |
|--------------------------|-------------------------|--|----------------------------|
| June 30, 2008 | \$ 1,154,247 | 35.9% | \$ 739,346 |

Summary of Key Actuarial Methods and Assumptions

| | |
|------------------------------|---|
| Valuation year | July 1, 2007 - June 30, 2008 |
| Actuarial cost method | Projected Unit Credit, level dollar |
| Amortization method | 30 years, level dollar open amortization ⁶ |



**ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2008**

Asset valuation method N/A

⁶Open amortization means a fresh-start each year for the cumulative unrecognized amount.

Actuarial assumptions:

| | |
|--|---|
| Discount rate | 3.0% |
| Projected payroll growth rate | N/A |
| Health care cost trend rate for medical and prescription drugs | 9% in fiscal year 2008, 8% in fiscal year 2009, and then decreasing by one-half percentage point per year to an ultimate of 4.5% in fiscal year 2016 and after. Note that trend rates are not used after 2008 because the University has frozen employer contributions to the plan at fiscal 2008 levels. |

General Overview of the Valuation Methodology

The estimation of the retiree healthcare benefit obligation is generally based on per participant contributions developed from recent periods for which claims experience is available. The University provided actual per-participant premiums for 2008.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the Plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

Actuarial calculations reflect a long-term perspective. Actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

Valuation Year July 1, 2007 - June 30, 2008

Date of Census Data February 1, 2008

Actuarial Cost Method Projected Unit Credit actuarial cost method; Unfunded Actuarial Liability (UAL) amortized on a level dollar basis over 30 years.

Retiree Premiums

| Health (monthly rate) | Employee Cost | Employer Cost | Total |
|--|----------------------|----------------------|--------------|
| Single (retired prior to 2001) | \$0.00 | \$288.36 | \$288.36 |
| Single (retired 1/1/2001 to 6/30/2001) | \$30.00 | \$258.36 | \$288.36 |
| Single (retired after 6/30/2001) | \$144.18 | \$144.18 | \$288.36 |
| Family (retired prior to 2001) | \$0.00 | \$636.74 | \$636.74 |
| Family (retired 1/1/2001 to 6/30/2001) | \$182.32 | \$454.42 | \$636.74 |
| Family (retired after 6/30/2001) | \$318.37 | \$318.37 | \$636.74 |



**ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2008**

Annual Health Care Trend Rate Medical and Fiscal Rx Combined

| Year | Rate |
|-------|------|
| 2008 | 9.0% |
| 2009 | 8.0 |
| 2010 | 7.5 |
| 2011 | 7.0 |
| 2012 | 6.5 |
| 2013 | 6.0 |
| 2014 | 5.5 |
| 2015 | 5.0 |
| 2016+ | 4.5 |

Discount Rate 3.00% per annum

Spouse Age Difference Husbands are assumed to be three years older than wives for current and future retirees who are married.

Mortality RP-2000 Combined Mortality Table (without projection, combined active and retiree, sex distinct tables)

Participation Rates Active employees are assumed to elect the same postretirement health insurance coverage upon retirement.

Retirement Rates

Employees are assumed to retire according to the following schedule:

| Age | Retirement Rate (less than 28 years of service) | Retirement Rate (28 or more years of service) |
|--------------|--|--|
| 48-49 | 0% | 50% |
| 50 | 2% | 13% |
| 51 | 2% | 10% |
| 52 | 3% | 9% |
| 53-54 | 4% | 9% |
| 55 | 6% | 9% |
| 56 | 9% | 12% |
| 57 | 9% | 10% |
| 58 | 9% | 11% |
| 59 | 9% | 14% |
| 60-61 | 100% | 14% |
| 62 | 100% | 28% |
| 63-64 | 100% | 17% |
| 65 | 100% | 27% |
| 66-74 | 100% | 30% |
| 75 and older | 100% | 100% |



**ARKANSAS STATE UNIVERSITY SYSTEM
 NOTES TO THE FINANCIAL STATEMENTS (CONT.)
 FOR THE YEAR ENDED JUNE 30, 2008**

Sample Withdrawal and Disability Rates

Employees are assumed to terminate or become disabled according to the following schedule (number per 1000 members):

| Age | Terminate Rate (Male) | Terminate Rate (Female) |
|-----|-----------------------|-------------------------|
| 25 | 46.0 | 47.0 |
| 30 | 43.4 | 46.6 |
| 35 | 36.4 | 38.8 |
| 40 | 30.0 | 27.4 |
| 45 | 24.5 | 21.2 |
| 50 | 19.0 | 18.8 |
| 55 | 15.7 | 16.2 |
| 60 | 15.0 | 15.0 |
| 65 | 15.0 | 15.0 |
| 70 | 15.0 | 15.0 |
| 75 | 0.0 | 0.0 |
| 80 | 0.0 | 0.0 |

NOTE 13--Annuity Payable

On June 25, 2007, the University entered into an agreement with the Arkansas State University Foundation, Inc., whereby the Foundation will pay the University \$135,000 over the next five years on behalf of the University’s President, Dr. Les Wyatt. These payments will be used to fund a retirement plan for Dr. Wyatt. Accordingly, the University has recorded both a receivable from the Foundation and a liability for this annuity equal to the discounted net present value of the obligation using a risk free interest rate as of the date of the agreement.

Payments over the next five four are as follows:

| | | |
|--|-----------|----------------|
| 2009 | \$ | 135,000 |
| 2010 | | 135,000 |
| 2011 | | 135,000 |
| 2012 | | 135,000 |
| Total Payments Receivable from ASU Foundation, Inc. | \$ | 540,000 |
| Less: Discount to Present Value | | 60,297 |
| Net Receivable from ASU Foundation, Inc., and Annuity Payable | \$ | 479,703 |

NOTE 14--Arkansas Services Center

On October 8, 1968, an agreement was signed by Arkansas State University, Arkansas State Hospital, Arkansas Department of Public Welfare, Arkansas State Board of Vocational Education and Craighead County, Arkansas to raise money for the construction of the Arkansas Services Center. This project was financed from the proceeds of a bond issue by Arkansas State University, grants and legislative appropriations by the agencies. With the exception of Craighead County, Arkansas, the participants



**ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2008**

signed lease agreements for 40 years (the bond term) with rentals and revenues thereof, sufficient to maintain the facility and retire the bonds.

Arkansas State University maintains the financial records of the Arkansas Services Center. Operating revenues are derived solely from agency rentals and vending income. All financial activity relating to the Arkansas Services Center is reflected in the accompanying financial statements as auxiliary enterprises.

NOTE 15--Self Insurance Program

Beginning July 1, 1994, Arkansas State University established a self-funded health benefit plan for employees and their eligible dependents. All campuses of the University participate in the program, which is administered by BlueAdvantage administrators.

At June 30, 2008, approximately 3,985 active employees, their dependents, former employees and retirees were participating in the program. For those participating in either plan, the University pays 88.8% of the total premium for full-time employees and early retirees, and 70% of the total premium for dependents, while former employees, through COBRA, may participate on a fully contributory basis.

The University estimates its unpaid health claims liability beyond the experience period to be \$920,996 with BlueAdvantage. This amount is included in the accounts payable and accrued liabilities category at June 30, 2008.

The University purchases specific reinsurance to reduce its exposure to large claims. HCC Life was chosen as the reinsurance carrier. Under the specific arrangement, the reinsurance carrier pays for claims for covered employees that exceed \$125,000.

NOTE 16--Endowment Funds

The University has donor-restricted endowment funds. Investment income on the amount endowed is restricted for scholarships and other purposes. All endowment funds are maintained as investments. Investments reported at fair value include: U.S. Government obligations, corporate bonds, mutual funds, and other managed investments. The endowment net assets at June 30, 2008 were \$10,057,170. Of this amount, \$9,577,348 was reported as restricted-nonexpendable and the remaining \$479,822 was reported as restricted-expendable.

State law allows a governing board to expend a portion of the net appreciation in the fair value of the assets over the historic dollar value of the fund unless the applicable gift document states otherwise. State law stipulates that such expenses are to be for the purpose for which the endowment funds were established.

It is the University's policy for annual expenses from the endowment funds not to exceed 4.5% of the five year average market value as determined on December 31. In periods with no market value appreciation, the University limits the spending to actual income generated by the endowment fund assets.



**ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2008**

NOTE 17--Pledged Revenues

The University's pledged revenues at June 30, 2008 are as follows:

Arkansas State University-Jonesboro

- **1969 Services Center**--*Issue Date:* 10-1-1969; *Maturity Date:* 10-1-2009; *Purpose:* Construction of Arkansas Services Center; *Type of Revenue Pledged:* Lessee Rent; *2008 Gross Revenue:* \$1,140,278; *Amount Issued:* \$2,250,000; *2008 Principal Paid:* \$110,000; *2008 Interest Paid:* \$13,500; *Principal Outstanding:* \$245,000; *Interest Outstanding:* \$11,363; *Percent of revenue pledged in 2008:* 10.8%
- **Series 2001 Student Fee**--*Issue Date:* 3-1-2001; *Maturity Date:* 3-1-2031; *Purpose:* Construction of Track Facility; *Type of Revenue Pledged:* Tuition and Fees; *2008 Gross Revenue:* Tuition and Fees (see below); *Amount Issued:* \$3,000,000; *2008 Principal Paid:* \$65,000; *2008 Interest Paid:* \$133,410; *Principal Outstanding:* \$2,590,000; *Interest Outstanding:* \$1,814,263; *Percent of revenue pledged in 2008:* .4%
- **Series 2001 Housing/Series 2004 Housing**--*Issue Dates:* 3-1-2001 and 3-1-2004; *Maturity Dates:* 3-1-2031 and 3-1-2034; *Purpose:* Construction of Family Housing Phase I/Construction of Family Housing Phase II; *Type of Revenue Pledged:* Housing Fees; *2008 Gross Revenue:* \$1,277,609; *Amounts Issued:* \$7,000,000 and \$7,500,000; *2008 Principal Paid:* \$150,000 and \$153,309; *2008 Interest Paid:* \$312,135 and \$332,700; *Principal Outstanding:* \$6,055,000 and \$7,164,706; *Interest Outstanding:* \$4,310,113 and \$5,471,499; *Percent of revenue pledged in 2008:* 74.2%
- **Series 2002 Refunding**--*Issue Date:* 11-15-2002; *Maturity Date:* 12-1-2027; *Purpose:* Property purchase, Fowler Center refinancing, refinance Kays Hall and Twin Towers; *Type of Revenue Pledged:* Tuition and Fees/Housing Fees; *2008 Gross Revenue:* Tuition and Fees (see below)/\$1,101,093; *Amount Issued:* \$6,105,000; *2008 Principal Paid:* \$425,000; *2008 Interest Paid:* \$189,953; *Principal Outstanding:* \$4,685,000; *Interest Outstanding:* \$1,261,460; *Percent of revenue pledged in 2008:* 1.1%
- **Series 2004 Student Fee**--*Issue Date:* 3-1-2004; *Maturity Date:* 3-1-2034; *Purpose:* Property purchase, refinance Library and Physical Plant, Demolition of Delta Hall, Chickasaw Building renovations, Utility infrastructure improvements; *Type of Revenue Pledged:* Tuition and Fees; *2008 Gross Revenue:* Tuition and Fees (see below); *Amount Issued:* \$11,555,000; *2008 Principal Paid:* \$445,000; *2008 Interest Paid:* \$407,295; *Principal Outstanding:* \$9,850,000; *Interest Outstanding:* \$6,073,558; *Percent of revenue pledged in 2008:* 1.6%
- **Series 2004 Housing**--*Issue Date:* 3-1-2004; *Maturity Date:* 3-1-2034; *Purpose:* Construction of Northpark Quads residence hall; *Type of Revenue Pledged:* Housing Fees; *2008 Gross Revenue:* \$2,347,709; *Amount Issued:* \$26,500,000; *2008 Principal Paid:* \$541,691; *2008 Interest Paid:* \$1,175,540; *Principal Outstanding:* \$25,315,294; *Interest Outstanding:* \$19,332,630; *Percent of revenue pledged in 2008:* 73.1%
- **Series 2005 Refunding**--*Issue Date:* 9-15-2005; *Maturity Date:* 4-1-2025; *Purpose:* Refinance Student Union; *Type of Revenue Pledged:* Student Union Fee; *2008 Gross Revenue:* \$2,251,052;



**ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2008**

Amount Issued: \$14,342,625; 2008 Principal Paid: \$548,197; 2008 Interest Paid: \$651,907; Principal Outstanding: \$13,190,292; Interest Outstanding: \$6,310,531; Percent of revenue pledged in 2008: 53.3%

- **Series 2005 Refunding**--*Issue Date: 9-15-2005; Maturity Date: 4-1-2025; Purpose: Refinance Parking Garage; Type of Revenue Pledged: Parking Fees; 2008 Gross Revenue: \$1,394,406; Amount Issued: \$4,887,375; 2008 Principal Paid: \$186,803; 2008 Interest Paid: \$222,143; Principal Outstanding: \$4,494,708; Interest Outstanding: \$2,150,369; Percent of revenue pledged in 2008: 29.3%*
- **Series 2007 Student Fee**--*Issue Date: 6-1-2007; Maturity Date: 3-1-2037; Purpose: Construction of Recreation Center; Type of Revenue Pledged: Recreation Center Fee; 2008 Gross Revenue: \$1,122,996; Amount Issued: \$17,065,000; 2008 Principal Paid: \$475,000; 2008 Interest Paid: \$580,767; Principal Outstanding: \$16,590,000; Interest Outstanding: \$14,089,593; Percent of revenue pledged in 2008: 94%*
- **Series 2007 Housing**--*Issue Date: 6-1-2007; Maturity Date: 3-1-2037; Purpose: Construction of Honors Hall, new apartments, refinance Collegiate Park; Type of Revenue Pledged: Housing Fees; 2008 Gross Revenue: \$1,091,081; Amount Issued: \$30,300,000; 2008 Principal Paid: \$400,000; 2008 Interest Paid: \$1,059,004; Principal Outstanding: \$29,900,000; Interest Outstanding: \$23,363,525; Percent of revenue pledged in 2008: 100%*

*Note: Issues with Tuition and Fees pledged, 2008 Gross Revenue - \$54,659,749

Arkansas State University-Beebe

- **1992 AA**--*Issue Date: 10-1-1992; Maturity Date: 10-1-2012; Purpose: Construction of Applied Arts Building; Type of Revenue Pledged: 2.6% of student fees; 2008 Gross Revenue: \$143,532; Amount Issued: \$400,000; 2008 Principal Paid: \$25,000; 2008 Interest Paid: \$8,231; Principal Outstanding: \$155,000; Interest Outstanding: \$182,168; Percent of revenue pledged in 2008: 23.2%*
- **1998 Refunding**--*Issue Date: 4-1-1998; Maturity Date: 10-1-2008; Purpose: Refinance ASTI and Math & Science Buildings; Type of Revenue Pledged: All revenues after prior bonds; 2008 Gross Revenue: Tuition and Fees (see below); Amount Issued: \$1,410,000; 2008 Principal Paid: \$155,000; 2008 Interest Paid: \$7,374; Principal Outstanding: \$165,000; Interest Outstanding: \$3,754; Percent of revenue pledged in 2008: 3%*
- **ASUHS Building**--*Issue Date: 12-6-2005; Maturity Date: 12-1-2035; Purpose: Construction of buildings at the Heber Springs campus; Type of Revenue Pledged: Tuition and Fees; 2008 Gross Revenue: Tuition and Fees (see below); Amount Issued: \$15,170,000; 2008 Principal Paid: \$270,000; 2008 Interest Paid: \$624,940; Principal Outstanding: \$14,640,000; Interest Outstanding: \$11,826,276; Percent of revenue pledged in 2008: 16.6%*
- **2006 Academic Building**--*Issue Date: 3-1-2006; Maturity Date: 9-1-2035; Purpose: Construction of Science building; Type of Revenue Pledged: Tuition and Fees after prior bonds;*



**ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2008**

2008 Gross Revenue: Tuition and Fees (see below); Amount Issued: \$11,000,000; 2008 Principal Paid: \$200,000; 2008 Interest Paid: \$321,037; Principal Outstanding: \$10,610,000; Interest Outstanding: \$8,076,965; Percent of revenue pledged in 2008: 9.7%

- **2006 Refunding**--*Issue Date: 9-15-2006; Maturity Date: 12-1-2023; Purpose: Refinance Student Center and Physical Plant; Type of Revenue Pledged: Tuition and Fees after prior bonds; 2008 Gross Revenue: Tuition and Fees (see below); Amount Issued: \$3,330,000; 2008 Principal Paid: \$135,000; 2008 Interest Paid: \$101,166; Principal Outstanding: \$2,915,000; Interest Outstanding: \$988,126; Percent of revenue pledged in 2008: 4.4%*
- **2008 ASU Phase II**--*Issue Date: 1-15-2008; Maturity Date: 12-1-2032; Purpose: Construct and renovate automotive buildings at the Searcy campus; Type of Revenue Pledged: Tuition and Fees after prior bonds; 2008 Gross Revenue: Tuition and Fees (see below); Amount Issued: \$2,080,000; 2008 Principal Paid: \$0; 2008 Interest Paid: \$20,137; Principal Outstanding: \$2,080,000; Interest Outstanding: \$1,318,123; Percent of revenue pledged in 2008: .4%*

*Note: Issues with Tuition and Fees pledged, 2008 Gross Revenue - \$5,376,927

Arkansas State University-Mountain Home

- **2002 Refunding**--*Issue Date: 12-1-2002; Maturity Date: 12-1-2017; Purpose: Refinance previous issue; Type of Revenue Pledged: Student Fee Revenue and Ad Valorem Tax; 2008 Gross Revenue: \$3,331,962; Amount Issued: \$5,405,000; 2008 Principal Paid: \$320,000; 2008 Interest Paid: \$153,870; Principal Outstanding: \$3,875,000; Interest Outstanding: \$839,880; Percent of revenue pledged in 2008: 14.2%*
- **2008 Construction**--*Issue Date: 1-29-2008; Maturity Date: 12-1-2032; Purpose: Construction of Community Development Center; Type of Revenue Pledged: Student Fee Revenue; 2008 Gross Revenue: \$2,257,818; Amount Issued: \$5,180,000; 2008 Principal Paid: \$0; 2008 Interest Paid: \$78,202; Principal Outstanding: \$5,180,000; Interest Outstanding: \$3,139,884; Percent of revenue pledged in 2008: 3.5%*

Arkansas State University-Newport

- **2008 Building**--*Issue Date: 1-29-2008; Maturity Date: 12-1-2032; Purpose: Construction of Transportation Center; Type of Revenue Pledged: Tuition and Fees; 2008 Gross Revenue: Tuition and Fees (see below); Amount Issued: \$2,075,000; 2008 Principal Paid: \$0; 2008 Interest Paid: \$31,350; Principal Outstanding: \$2,075,000; Interest Outstanding: \$1,262,985; Percent of revenue pledged in 2008: 1.1%*
- **2008 Refunding**--*Issue Date: 4-30-2008; Maturity Date: 5-1-2028; Purpose: Refinancing Issue; Type of Revenue Pledged: Tuition and Fees; 2008 Gross Revenue: Tuition and Fees (see below); Amount Issued: \$4,400,000; 2008 Principal Paid: \$0; 2008 Interest Paid: \$0; Principal Outstanding: \$4,400,000; Interest Outstanding: \$2,098,858; Percent of revenue pledged in 2008: 0%*

*Note: Issues with Tuition and Fees pledged, 2008 Gross Revenue - \$2,755,958



**ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2008**

NOTE 18--Risk Management

The University is exposed to various risks of loss including, but not necessarily limited to torts; theft of, damage to, and destruction of assets; errors and omissions; nonperformance of duty; injuries to employees; and natural disasters. In response to this diverse risk exposure, the University has established a comprehensive risk management approach including, where acceptable and prudent, retention of the associated risks to the extent that funds are available from general operations or reserves to cover losses. In those situations where risk retention has been deemed not acceptable or prudent, the University has practiced risk transfer through participation in the State of Arkansas' risk management programs or through the purchase of commercial insurance coverage.

The University participates in the Arkansas Fidelity Bond Trust Fund administered by the Government Bonding Board. The fund provides coverage of actual losses incurred as a result of fraudulent or dishonest acts committed by state officials or employees. Each loss is limited to \$250,000 with a \$1,000 deductible. Premiums for coverage are remitted by the Arkansas Department of Finance and Administration from funds deducted from the University's state treasury funds.

The University secures vehicle insurance coverage and some real property coverage through participation in the Arkansas Multi-Agency Insurance Trust Fund administered by the Risk Management Division of the Arkansas Insurance Department. The general objective of the program is to allow participating agencies an affordable means of insuring their vehicle fleets and real property. The University pays an annual premium for this coverage. The fund provides a coverage pool, but, employs a reinsurance policy to reduce its exposure to large losses.

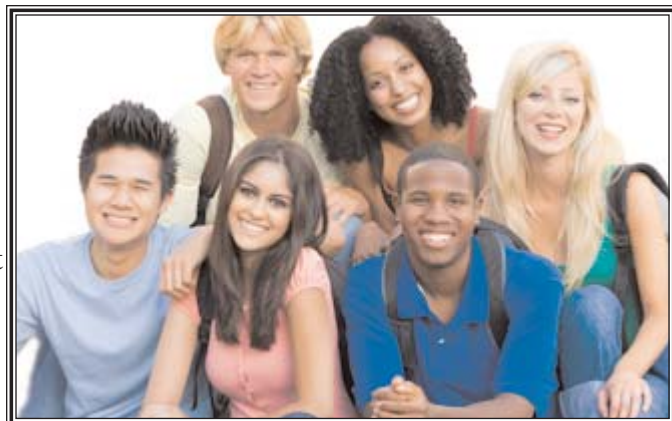
The University also participates in the Worker's Compensation Revolving Fund administered by the Arkansas Department of Finance and Administration. Premium assessments are determined annually by the Department of Finance and Administration and deducted on a quarterly basis from the University's state treasury funds.

Additional information relating to the state's insurance plans and funds is available in the State of Arkansas' Annual Comprehensive Financial Report.

The individual campuses of the University also purchase commercial insurance coverage to indemnify against unacceptable losses to buildings and other real property. Decisions concerning the appropriate levels and types of coverage and the selection of commercial providers are made by the campus administrators. During the past three fiscal years, no claims have exceeded the amount of coverage. There have been no significant reductions in insurance coverage from the prior year in the major categories of risk.

NOTE 19--Change in Accounting Procedure

In accordance with recent interpretations issued by the Governmental Accounting Standards Board, the University has reclassified Pell Grant revenues from operating to non-operating revenues on its 2008 Statement of Revenues, Expenses and Net Assets and from cash flows





**ARKANSAS STATE UNIVERSITY SYSTEM
 NOTES TO THE FINANCIAL STATEMENTS (CONT.)
 FOR THE YEAR ENDED JUNE 30, 2008**

from operating activities to cash flows from noncapital financing activities on its 2008 Statement of Cash Flows. This change is for reclassification purposes only and reflects the position that Pell Grants are nonexchange transactions which impose certain administrative responsibilities on the University, and accordingly, should be reported as non-operating revenues. The University has chosen not to restate its 2007 financial statements to reflect this change.

NOTE 20--Subsequent Events

Effective September 29, 2008, Wachovia Bank, N.A., as Trustee of the Common Fund for Short Term Investments (the "Short Term Fund") announced its decision to terminate and liquidate the Short Term Fund. No additional contributions to the Short Term fund will be accepted. Under the liquidation plan, investors in the Short Term Fund will be allowed to withdraw balances based on their proportional interest in the Short Term Fund as assets mature or are sold.

Arkansas State University's balances in the Short Term Fund as of June 30, 2008 and November 19, 2008 were as follows:

| Date | Balance |
|-------------------|-------------|
| June 30, 2008 | \$6,313,622 |
| November 19, 2008 | \$3,747,714 |

The value of the liquidation proceeds received by Arkansas State University is not expected to vary significantly from the fair value carried on Arkansas State University's books based on the current net assets value of the Short Term Fund. However, the realization of this value will depend upon market conditions including the liquidity of the Short Term Fund's assets during the liquidation period.



**ARKANSAS STATE UNIVERSITY SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2008**

Other Postemployment Benefits

Determination of Annual Required Contribution (ARC) and End of Year CAFR Accrual

| Cost Element | Fiscal Year Ended June 30, 2008 | |
|---|--|---------------------------------------|
| | Amount | Percent of Payroll² |
| 1. Unfunded actuarial accrued liability at July 1, 2007 | \$ 8,080,750 | 9.26% |
| Annual Required Contribution (ARC) | | |
| 2. Normal cost | \$ 741,973 | |
| 3. Amortization of the unfunded actuarial accrued liability over 30 years using open amortization | \$ 412,274 | |
| 4. Annual Required Contribution (ARC = 2 + 3) | \$ 1,154,247 | 1.32% |
| Annual OPEB Cost (Expense) | | |
| 5. ARC | \$ 1,154,247 | |
| 6. Interest on beginning of year CAFR accrual ¹ | \$ 0 | |
| 7. Amortization of beginning of year CAFR accrual ¹ | \$ 0 | |
| 8. Fiscal 2008 OPEB cost (5 + 6 - 7) | \$ 1,154,247 | 1.32% |
| End of Year CAFR Accrual (Net OPEB Obligation) ³ | | |
| 9. Beginning of year CAFR accrual ¹ | \$ 0 | |
| 10. Annual OPEB cost | \$ 1,154,247 | |
| 11. Employer contribution (benefit payments) ³ | \$ 414,901 | |
| 12. End of year CAFR accrual (9 + 10 - 11) ³ | \$ 739,346 | 0.84% |

¹ No accrual is required at the adoption of the GASB Statement

² Annual payroll for the 2,004 plan participants as of July 1, 2007 is \$87,212,900.

³ Actual contributions and administrative fees paid in fiscal year 2008 of \$618,526 less participant contributions of \$203,625. Employer contributed 35.9% of annual OPEB cost during fiscal year 2008.

Schedule of Employer Contributions

| Fiscal Year Ended | Annual Required Contributions | Actual Contributions⁴ | Percentage Contributed |
|--------------------------|--------------------------------------|---|-------------------------------|
| June 30, 2008 | \$ 1,154,247 | \$ 414,901 | 35.9% |

⁴ Since there is no funding, these are actual benefit payments of \$618,526 less retiree contributions of \$203,625.

Schedule of Funding Progress

The schedule of funding progress presents multi-year trend information comparing the actuarial value



**ARKANSAS STATE UNIVERSITY SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION (CONT.)
FOR THE YEAR ENDED JUNE 30, 2008**

of plan assets to the actuarial accrued liability.

| Fiscal Year Ending | Actuarial Value of Assets (a) | Liability (AAL) (b) | Actuarial Accrued AAL (UAAL) (b)-(a) | Unfunded/ (Overfunded) Funded Ratio (a)/(b) | Covered Payroll⁵ (c) | UAAL as a Percentage Of Covered Payroll⁵ [(b)-(a)/(c)] |
|---------------------------|--------------------------------------|----------------------------|---|--|--|--|
| June 30, 2008 | \$ - | \$ 8,080,750 | \$ 8,080,750 | - % | \$ 87,212,900 | 9.26% |

⁵ Payroll as of July 1, 2007 includes only plan participants.

Note: The annual required contribution (ARC) of \$1,154,247 for fiscal year 2008 and CAFR accrual of \$739,346 as of June 30, 2008, are based on a current decision not to fund in a segregated GASB qualified trust.

Three-Year Schedule of Percentage of OPEB Cost Contributed

| Fiscal Year Ended | Annual OPEB Cost | Percentage of OPEB Cost Contributed | Net OPEB Obligation |
|--------------------------|-------------------------|--|----------------------------|
| June 30, 2008 | \$ 1,154,247 | 35.9% | \$ 739,346 |

Summary of Key Actuarial Methods and Assumptions

| | |
|-------------------------------|---|
| Valuation year | July 1, 2007 - June 30, 2008 |
| Actuarial cost method | Projected Unit Credit, level dollar |
| Amortization method | 30 years, level dollar open amortization ⁶ |
| Asset valuation method | N/A |

⁶Open amortization means a fresh-start each year for the cumulative unrecognized amount.

Actuarial assumptions:

| | |
|--|---|
| Discount rate | 3.0% |
| Projected payroll growth rate | N/A |
| Health care cost trend rate for medical and prescription drugs | 9% in fiscal year 2008, 8% in fiscal year 2009, and then decreasing by one-half percentage point per year to an ultimate of 4.5% in fiscal year 2016 and after. Note that trend rates are not used after 2008 because the University has frozen employer contributions to the plan at fiscal 2008 levels. |

General Overview of the Valuation Methodology

The estimation of the retiree healthcare benefit obligation is generally based on per participant contributions developed from recent periods for which claims experience is available. The University provided actual per-participant premiums for 2008.



**ARKANSAS STATE UNIVERSITY SYSTEM
 REQUIRED SUPPLEMENTARY INFORMATION (CONT.)
 FOR THE YEAR ENDED JUNE 30, 2008**

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the Plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

Actuarial calculations reflect a long-term perspective. Actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

Valuation Year July 1, 2007 - June 30, 2008

Date of Census Data February 1, 2008

Actuarial Cost Method Projected Unit Credit actuarial cost method; Unfunded Actuarial Liability (UAL) amortized on a level dollar basis over 30 years.

Retiree Premiums

| Health (monthly rate) | Employee Cost | Employer Cost | Total |
|--|----------------------|----------------------|--------------|
| Single (retired prior to 2001) | \$0.00 | \$288.36 | \$288.36 |
| Single (retired 1/1/2001 to 6/30/2001) | \$30.00 | \$258.36 | \$288.36 |
| Single (retired after 6/30/2001) | \$144.18 | \$144.18 | \$288.36 |
| Family (retired prior to 2001) | \$0.00 | \$636.74 | \$636.74 |
| Family (retired 1/1/2001 to 6/30/2001) | \$182.32 | \$454.42 | \$636.74 |
| Family (retired after 6/30/2001) | \$318.37 | \$318.37 | \$636.74 |

Annual Health Care Trend Rate Medical and Fiscal Rx Combined

| Year | Rate |
|-------------|-------------|
| 2008 | 9.0% |
| 2009 | 8.0 |
| 2010 | 7.5 |
| 2011 | 7.0 |
| 2012 | 6.5 |
| 2013 | 6.0 |
| 2014 | 5.5 |
| 2015 | 5.0 |
| 2016+ | 4.5 |

Discount Rate 3.00% per annum

Spouse Age Difference Husbands are assumed to be three years older than wives for current and future retirees who are married.

Mortality RP-2000 Combined Mortality Table (without projection, combined active and retiree, sex distinct tables)



**ARKANSAS STATE UNIVERSITY SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION (CONT.)
FOR THE YEAR ENDED JUNE 30, 2008**

Participation Rates Active employees are assumed to elect the same postretirement health insurance coverage upon retirement.

Retirement Rates

Employees are assumed to retire according to the following schedule:

| Age | Retirement Rate (less than 28 years of service) | Retirement Rate (28 or more years of service) |
|--------------|--|--|
| 48-49 | 0% | 50% |
| 50 | 2% | 13% |
| 51 | 2% | 10% |
| 52 | 3% | 9% |
| 53-54 | 4% | 9% |
| 55 | 6% | 9% |
| 56 | 9% | 12% |
| 57 | 9% | 10% |
| 58 | 9% | 11% |
| 59 | 9% | 14% |
| 60-61 | 100% | 14% |
| 62 | 100% | 28% |
| 63-64 | 100% | 17% |
| 65 | 100% | 27% |
| 66-74 | 100% | 30% |
| 75 and older | 100% | 100% |



**ARKANSAS STATE UNIVERSITY SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION (CONT.)
FOR THE YEAR ENDED JUNE 30, 2008**

Sample Withdrawal and Disability Rates

Employees are assumed to terminate or become disabled according to the following schedule (number per 1000 members):

| Age | Terminate Rate (Male) | Terminate Rate (Female) |
|-----|-----------------------|-------------------------|
| 25 | 46.0 | 47.0 |
| 30 | 43.4 | 46.6 |
| 35 | 36.4 | 38.8 |
| 40 | 30.0 | 27.4 |
| 45 | 24.5 | 21.2 |
| 50 | 19.0 | 18.8 |
| 55 | 15.7 | 16.2 |
| 60 | 15.0 | 15.0 |
| 65 | 15.0 | 15.0 |
| 70 | 15.0 | 15.0 |
| 75 | 0.0 | 0.0 |
| 80 | 0.0 | 0.0 |

**This report is prepared by the Controller's Office
Office of Finance and Administration
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State University, AR 72467**

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