

Arkansas State University System

State University, Arkansas

**Basic Financial Statements
and Other Reports**

June 30, 2007

LEGISLATIVE JOINT AUDITING COMMITTEE



ARKANSAS STATE UNIVERSITY SYSTEM
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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, 2007, 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.

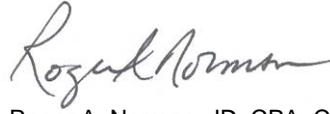
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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 above 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, 2007, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2007 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 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of 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

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

Little Rock, Arkansas
November 14, 2007
EDHE12507

Sen. Randy Laverty
Senate Co-Chair
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Senate Co-Vice Chair
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House Co-Vice Chair

Arkansas



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

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Arkansas State University System
Legislative Joint Auditing Committee

We have audited the 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, 2007, which collectively comprise the University's basic financial statements and have issued our report thereon dated November 14, 2007. Our report was modified to include a reference to 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. Other auditors audited the financial statements of the Arkansas State University Foundation Inc., as described in our report on the University's financial statements. The financial statements of the Arkansas State University Foundation, Inc., were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the University's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the University's financial statements that is more than inconsequential will not be prevented or detected by the University's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the University's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

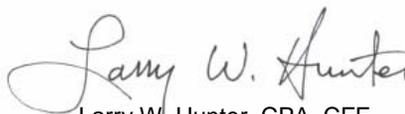
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of the state constitution, state laws and regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the University in a separate letter dated November 14, 2007.

This report is intended solely for the information and use of the Legislative Joint Auditing Committee, the governing board, University management, state executive and oversight management, and other parties as required by Arkansas Code, and is not intended to be and should not be used by anyone other than these specified parties. However, pursuant to Arkansas Code Annotated §10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in cursive script that reads "Larry W. Hunter".

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
November 14, 2007

Sen. Randy Laverty
Senate Co-Chair
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Arkansas



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

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

MANAGEMENT LETTER

Arkansas State University System
Legislative Joint Auditing Committee

As a management service, we would like to communicate the following item that came to our attention during this audit. The purpose of such comments is to provide constructive feedback and guidance, in an effort to assist management to maintain a satisfactory level of compliance with the state constitution, laws and regulations and achieve adequate internal controls. This matter was discussed previously with University officials during the course of our audit fieldwork and at the exit conference.

Arkansas State University - Jonesboro

Capital assets represent a significant component of the University's total assets. It is management's responsibility to ensure the accuracy of capital asset records. Errors in the capitalization and depreciation procedures were detected as follows:

Certain buildings and equipment, acquired prior to July 1, 1991, were not being depreciated causing an overstatement of the University's net assets.

Total detected errors resulted in an adjustment of \$3,469,862 to the financial statements.

We recommend the University evaluate its procedures and controls relating to capital asset accounting.

STUDENT ENROLLMENT DATA - In accordance with Ark. Code Ann. 6-60-209, we performed tests of the student enrollment data for the year ended June 30, 2007, as reported to the State Department of Higher Education, to provide reasonable assurance that the data was properly reported. The enrollment data reported for the fall and spring terms was as follows:

	<u>Fall Term</u> 2006	<u>Spring Term</u> 2007
Student Headcount	17,847	17,010
Student Semester Credit Hours	195,157	181,441

During our review, nothing came to our attention that would cause us to believe that the student enrollment data was not substantially correct.

This letter is intended solely for the information and use of the Legislative Joint Auditing Committee, the governing board, University management, state executive and oversight management, and other parties as required by Arkansas Code, and is not intended to be and should not be used by anyone other than these specified parties. However, pursuant to Arkansas Code Annotated §10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT

Handwritten signature of Larry W. Hunter in cursive.

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
November 14, 2007

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Arkansas State University

Management's Discussion and Analysis

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, 2007. 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, 2007 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, 2006.

The University's financial statements for the year ended June 30, 2007 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, 2007 and 2006 where appropriate.

Fiscal Year 2007 Highlights

The following events or activities of financial significance occurred during the fiscal year ended June 30, 2007.

- The University engaged in significant capital asset acquisition, construction, and financing activities. Capital Assets, net of accumulated depreciation, grew from \$235,094,241 at June 30, 2006 to \$260,196,837 at June 30, 2007, an increase of \$25,102,596 or 10.68%. Current and Noncurrent Obligations for Bonds, Notes, and Leases Payable increased from \$133,390,301 at June 30, 2006 to \$167,923,944 at June 30, 2007, an increase of \$34,533,643 or 25.89%.

- The University completed construction projects totaling \$69,938,399. Projects in process but not yet completed totaled \$34,764,794 at June 30, 2007.
- The net assets of the University grew from \$187,422,867 at June 30, 2006 to \$192,994,828 at June 30, 2007, an increase of \$5,571,961 or 2.97%. University revenues and other additions from all sources during the year ended June 30, 2007 amounted to \$209,205,245 while expenditures and other deductions amounted to \$203,633,284.

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, 2007, 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, 2007:

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

	2007	2006	Percent Change
Assets:			
Current Assets	\$ 44,075,908	\$ 35,630,816	23.70%
Capital Assets, net	260,196,837	235,094,241	10.68%
Other Noncurrent Assets	78,042,490	71,167,951	9.66%
Total Assets	<u>\$ 382,315,235</u>	<u>\$ 341,893,008</u>	11.82%
Liabilities:			
Current Liabilities	\$ 18,862,204	\$ 19,465,753	-3.10%
Noncurrent Liabilities	170,458,203	135,004,388	26.26%
Total Liabilities	<u>\$ 189,320,407</u>	<u>\$ 154,470,141</u>	22.56%
Net Assets:			
Invested in Capital, Net of Debt	\$ 140,318,054	\$ 109,319,863	28.36%
Restricted, Nonexpendable	11,222,923	9,957,681	12.71%
Restricted, Expendable	9,647,464	38,126,940	-74.70%
Unrestricted	31,806,387	30,018,383	5.96%
Total Net Assets	<u>\$ 192,994,828</u>	<u>\$ 187,422,867</u>	2.97%
Total Liabilities and Net Assets	<u>\$ 382,315,235</u>	<u>\$ 341,893,008</u>	11.82%

The University's total assets increased from \$341,893,008 at June 30, 2006 to \$382,315,235 at June 30, 2007, an increase of \$40,422,227 or 11.82%. Capital Assets increased from \$235,094,241 at June 30, 2006 to \$260,196,837 at June 30, 2007, an increase of \$25,102,596 or 10.68%. Current Assets increased from \$35,630,816 at June 30, 2006 to \$44,075,908 at June 30, 2007, an increase of \$8,445,092 or 23.70%. The University's Other Noncurrent Assets grew from \$71,167,951 at June 30, 2006 to \$78,042,490 at June 30, 2007 an increase of \$6,874,539 or 9.66%. These changes are reflective of the University's continued emphasis on the acquisition and construction of Capital Assets.

The University's total liabilities grew from \$154,470,141 at June 30, 2006 to \$189,320,407 at June 30, 2007, an increase of \$34,850,266 or 22.56%. Current Liabilities decreased modestly from \$19,465,753 at June 30, 2006 to \$18,862,204 at June 30, 2007, a decrease of \$603,549 or 3.10%. Noncurrent Liabilities grew from \$135,004,388 at June 30, 2006 to \$170,458,203 at June 30, 2007, an increase of \$35,453,815 or 26.26%. This is attributable to an increase of \$33,915,199 or 26.63% in Noncurrent Bonds, Notes, and Leases Payable, from \$127,336,888 to \$161,252,087 at June 30, 2006 and 2007, respectively. These changes resulted from the University's use of long term debt to finance the acquisition and construction of capital assets.

The University's total net assets increased from \$187,422,867 at June 30, 2006 to \$192,994,828 at June 30, 2007 an increase of \$5,571,961 or 2.97%. Net Assets Invested in Capital Assets, Net of Related Debt increased by \$30,998,191 or 28.36% while Restricted Net Assets decreased by \$27,214,234 or 56.60%. The University's Unrestricted Net Assets increased from \$30,018,383 at June 30, 2006 to \$31,806,387 at June 30, 2007, an increase of \$1,788,004 or 5.96%.

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, 2007.

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

	2007	2006	Percent Change
Operating Revenues	\$ 108,075,323	\$ 107,855,825	0.20%
Operating Expenses	<u>193,511,912</u>	<u>184,739,792</u>	4.75%
Operating Income (Loss)	<u>\$ (85,436,589)</u>	<u>\$ (76,883,967)</u>	11.12%
 Nonoperating Revenues (Expenses)	 \$ 86,872,945	 \$ 82,504,372	 5.29%
 Income (Loss) before Other Revenues, Expenses, Gains or Losses	 \$ 1,436,356	 \$ 5,620,405	 -74.44%
 Other Revenues, Expenses, Gains or Losses	 \$ 4,135,605	 \$ 5,367,991	 -22.96%
 Increase (Decrease) in Net Assets	 <u>\$ 5,571,961</u>	 <u>\$ 10,988,396</u>	 -49.29%
 Net Assets, Beginning of the Year	 \$ 187,422,867	 \$ 176,434,471	 6.23%
 Net Assets, End of the Year	 \$ 192,994,828	 \$ 187,422,867	 2.97%

Highlights from the information presented in the Statement of Revenues, Expenses and Changes in Net Assets for the fiscal year ended June 30, 2007 include the following:

- **Tuition and Fees, Net of Scholarship Allowance** amounted to \$37,712,037 or 34.89% of Total Operating Revenues. Revenues from Grants and Contracts amounted to \$45,210,978 or 41.83% of Total Operating Revenues.
- **Personal Services expenses** totaled \$110,428,777 or 57.07% of Total Operating Expenses. Expenses for Supplies and Services totaled \$50,312,948 or 26% of Total Operating Expenses.
- **Scholarships and Fellowships expenses** totaled \$9,520,839 or 4.92% of Total Operating Expenses. Scholarships and Fellowship expenses amounted to 25.25% of Tuition and Fees revenue.
- **The University's Loss from Operations** amounted to \$85,436,589. State Appropriations, which are reported as Nonoperating Revenues totaled \$83,983,692. Revenues and gains from all other sources amounted to \$17,146,230. Nonoperating Expenses, Other Expenses, and Other Losses amounted to \$10,121,372. These activities resulted in an increase in the University's Net Assets of \$5,571,961.

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.

Cash Flows for the Year Ended June 30, 2007

Cash Provided (Used) by:	
Operating Activities	\$ (74,227,219)
Noncapital Financing Activities	86,581,892
Capital and Related Financing Activities	(35,111,438)
Investing Activities	25,807,757
Net Increase (Decrease) in Cash	<u>\$ 3,050,992</u>
Cash - Beginning of the Year	\$ 22,535,206
Cash - End of the Year	\$ 25,586,198

Capital Assets and Debt Administration

The University continued its emphasis on the acquisition and construction of capital assets during the fiscal year ended June 30, 2007. As a result, the University's capital assets, net of accumulated depreciation increased from \$235,094,241 at June 30, 2006 to \$260,196,837 at June 30, 2007, an increase of \$25,102,596 or 10.68%. This was achieved through the application of proceeds from previously issued debt, the allocation of other university resources to this effort, and the issuance of new capital debt.

During the fiscal year ended June 30, 2007 the University issued new tax exempt bonds totaling \$47,365,000. Of this amount, \$7,625,000 was issued to advance refund existing debt. The University realized a net economic gain from this refunding of \$194,821. The remaining \$39,740,000 in new bond debt was issued to finance construction activities on the University's Jonesboro campus.

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

Economic Outlook

The economic outlook of the University is sound. The net assets of the University grew from \$187,422,867 at June 30, 2006 to \$192,994,828 at June 30, 2007, an increase of \$5,571,961 or 2.97%. This positive return, while marginal, 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 .

Enrollment across the Arkansas State University System essentially remained constant from the Fall of 2006 until the Fall of 2007, declining from a confirmed total of 17,274 students during the Fall 2006 semester to a preliminary total of 17,264. Enrollment is projected to grow at a modest pace for the next several years.

Economic conditions at the state and national level continue to be favorable. State revenue collections are currently ahead of amounts forecasted for Fiscal Year 2008. Nationally, developments in the equity, capital, and commodities markets are mixed. The University will continue to monitor these markets to insure the preservation of its assets and to identify opportunities to maximize revenue and/or effectively manage or control costs.

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ARKANSAS STATE UNIVERSITY SYSTEM
COMPARATIVE STATEMENT OF NET ASSETS
JUNE 30, 2007

Exhibit A

	June 30,	
	2007	2006
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 17,367,504	\$ 12,646,397
Short-term investments	9,070,814	8,122,191
Accounts receivable (less allowances of \$740,512 and \$711,561)	11,204,642	9,538,837
Notes and deposits receivable (less allowances of \$147,549 and \$130,444)	1,292,502	1,310,540
Accrued interest and late charges	668,610	520,464
Inventories	1,483,814	1,423,044
Deposits with trustee	2,865,652	1,900,510
Prepaid expenses	122,370	168,833
Total Current Assets	44,075,908	35,630,816
Noncurrent Assets:		
Restricted cash and cash equivalents	8,218,694	9,888,809
Restricted investments		23,976,813
Endowment investments	12,645,262	10,320,128
Other long-term investments	11,624,900	12,514,178
Accrued interest and late charges		228,642
Deposits with trustee	39,349,489	8,382,817
Notes and deposits receivable (less allowances of \$619,522 and \$569,240)	5,650,451	5,856,564
Due from Arkansas State University Foundation, Inc.	553,694	
Capital assets (net of accumulated depreciation of \$173,823,922 and \$164,529,508)	260,196,837	235,094,241
Total Noncurrent Assets	338,239,327	306,262,192
TOTAL ASSETS	382,315,235	341,893,008
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued liabilities	4,328,739	4,899,648
Bonds, notes and leases payable	6,671,857	6,053,413
Compensated absences	4,823,981	4,494,000
Deferred revenue	787,666	714,637
Funds held in trust for others	440,992	1,817,300
Deposits	139,354	173,738
Interest payable	1,650,098	1,275,181
Other liabilities	19,517	37,836
Total Current Liabilities	18,862,204	19,465,753
Noncurrent Liabilities:		
Bonds, notes and leases payable	161,252,087	127,336,888
Compensated absences	1,063,685	196,063
Deposits	245,074	192,532
Annuity payable	553,694	
Refundable federal advances	7,343,663	7,278,905
Total Noncurrent Liabilities	170,458,203	135,004,388
TOTAL LIABILITIES	189,320,407	154,470,141

ARKANSAS STATE UNIVERSITY SYSTEM
 COMPARATIVE STATEMENT OF NET ASSETS
 JUNE 30, 2007

Exhibit A

	June 30,	
	2007	2006
NET ASSETS		
Invested in capital assets, net of related debt	\$ 140,318,054	\$ 109,319,863
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	7,017,009	6,200,814
Loans	906,116	884,530
Other	3,299,798	2,872,337
Expendable:		
Scholarships and fellowships	662,595	413,356
Research	529,451	1,254,221
Loans	10,000	10,000
Capital projects	4,656,806	34,396,122
Debt service	1,349,485	(385,539)
Renewal and replacement	50,000	50,000
Quasi-endowments		363,333
Other	2,389,127	2,025,447
Unrestricted	31,806,387	30,018,383
TOTAL NET ASSETS	\$ 192,994,828	\$ 187,422,867

The accompanying notes are an integral part of these financial statements.

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ARKANSAS STATE UNIVERSITY FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2007

Exhibit A-1

ASSETS

Cash	\$	2,703,263
Certificate of deposit		618,663
Repurchase agreements		3,500,000
Accrued interest receivable		5,796
Prepaid expenses		17,289
Unconditional promises to give, net		2,149,456
Mortgage receivable		18,608
Lease purchase receivable		134,612
Short-term investments		13,719
Long-term investments		31,454,116
Cash surrender value of life insurance		5,654
Construction in progress		114,917
Property and equipment, net		1,350,655
Other assests		40,790
		40,790
 Total Assets	 \$	 42,127,538
		42,127,538

LIABILITIES

Accounts payable	\$	182,669
Notes payable		9,389
Annuities payable		68,657
Deferred revenue		25,000
Due to Arkansas State University, Net		553,694
Total Liabilities		839,409
		839,409

NET ASSETS

Unrestricted		178,157
Temporarily restricted		7,896,739
Permanently restricted		33,213,233
		33,213,233
 Total Net Assets		 41,288,129
		41,288,129
 Total Liabilities and Net Assets	 \$	 42,127,538
		42,127,538

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ARKANSAS STATE UNIVERSITY SYSTEM
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2007

Exhibit B

	Year Ended June 30,	
	2007	2006
OPERATING REVENUES		
Student tuition and fees (net of scholarship allowances of \$24,555,062 and \$22,697,788)	\$ 37,712,037	\$ 34,385,605
Grants and contracts	45,210,978	42,238,822
Sales and services of educational departments	762,381	716,885
Auxiliary enterprises (net of scholarship allowances of \$3,882,664 and \$3,365,846)	20,614,549	19,049,122
Self-insurance	2,264,238	9,736,456
Other operating revenues	1,511,140	1,728,935
TOTAL OPERATING REVENUES	<u>108,075,323</u>	<u>107,855,825</u>
OPERATING EXPENSES		
Personal services	110,428,777	112,242,519
Scholarships and fellowships	9,520,839	7,737,131
Supplies and services	50,312,948	44,506,401
Self-insurance	11,113,482	9,710,449
Depreciation	12,054,714	10,471,072
Other	81,152	72,220
TOTAL OPERATING EXPENSES	<u>193,511,912</u>	<u>184,739,792</u>
OPERATING INCOME (LOSS)	<u>(85,436,589)</u>	<u>(76,883,967)</u>
NON-OPERATING REVENUES (EXPENSES)		
State appropriations	83,983,692	79,543,950
Federal appropriations	183,101	504,267
Sales and use taxes	2,259,112	2,149,978
Property taxes	1,021,436	956,465
Gifts	1,045,309	1,152,048
Investment income (net of investment expense of \$26 and \$70)	4,617,945	3,266,446
Interest on capital asset - related debt	(6,011,327)	(5,052,786)
Other revenue/(expense)	(226,323)	(15,996)
NET NON-OPERATING REVENUES (EXPENSES)	<u>86,872,945</u>	<u>82,504,372</u>
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	<u>1,436,356</u>	<u>5,620,405</u>
Capitalization of interest	2,757,209	423,547
Capital appropriations	1,728,787	3,224,043
Capital grants and gifts	895,893	352,013
Additions to endowments	1,020	2,560
Adjustments to prior year capital assets	(2,806,274)	1,093,659
Refunds to grantors	(233,212)	(29,597)
Gain/loss on disposal on capital assets	1,321,904	51,190
Capitalization of library holdings at rate per volume	229,250	181,825
Livestock additions		3,815
Accrued interest on bond issue	121,465	34,936
Premium on bond issue	963,799	1,519,046
Bond issuance costs	(656,479)	(382,184)
Excess funds remitted to escrow agent above amount of bonds advance refunded	(187,757)	(1,106,862)
INCREASE (DECREASE) IN NET ASSETS	<u>5,571,961</u>	<u>10,988,396</u>
NET ASSETS - BEGINNING OF YEAR	<u>187,422,867</u>	<u>176,434,471</u>
NET ASSETS - END OF YEAR	<u>\$ 192,994,828</u>	<u>\$ 187,422,867</u>

The accompanying notes are an integral part of these financial statements.

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ARKANSAS STATE UNIVERSITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

Exhibit B-1

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support				
Support and Reclassifications				
Contributions	\$ 14,772	\$ 2,676,863	\$ 955,307	\$ 3,646,942
Use of contributed facilities	850			850
Contributed services	395,663			395,663
Contributed supplies	24,449			24,449
Investment return	260,399	57,630	4,448,083	4,766,112
Other income	194,999	222,402	17,843	435,244
Net assets released from restrictions	4,919,400	(4,279,769)	(639,631)	
Total Support	5,810,532	(1,322,874)	4,781,602	9,269,260
Expenses and Losses				
Program services				
Academic activities	378,409			378,409
Administrative	112,695			112,695
Student activities	20,132			20,132
Supporting services				
Management and general	442,971			442,971
Fundraising	234,255			234,255
Change in value of split interest agreements			49,819	49,819
Transfers to Arkansas State University	5,012,506			5,012,506
Total Expenses and Losses	6,200,968		49,819	6,250,787
Increase (Decrease) in net assets	(390,436)	(1,322,874)	4,731,783	3,018,473
Net assets at beginning of year as previously reported	580,593	9,263,042	28,426,021	38,269,656
Reclassification and internal transfers	(12,000)	(43,429)	55,429	
	568,593	9,219,613	28,481,450	38,269,656
Net assets at end of year	\$ 178,157	\$ 7,896,739	\$ 33,213,233	\$ 41,288,129

ARKANSAS STATE UNIVERSITY SYSTEM
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2007

Exhibit C

	Year Ended June 30,	
	2007	2006
CASH FLOW FROM OPERATING ACTIVITIES		
Student tuition and fees	\$ 37,644,950	\$ 33,764,129
Grants and contracts	43,899,856	41,031,428
Auxiliary enterprises revenues	20,524,969	19,021,370
Sales and services of educational departments	732,820	679,709
Self-insurance	2,300,939	9,730,318
Collection of principal and interest related to student loans	1,443,174	1,391,033
Collection of employee travel loans		256,411
Other receipts	1,895,151	1,755,924
Payments to employees	(93,033,423)	(87,939,925)
Payments for employee benefits	(16,754,280)	(23,611,632)
Payments to suppliers	(51,039,589)	(45,851,426)
Scholarships and fellowships	(9,495,506)	(7,737,131)
Self-insurance	(11,183,748)	(9,710,059)
Loans issued to students	(1,162,532)	(1,311,163)
Travel loans issued to employees		(236,469)
Net cash provided (used) by operating activities	<u>(74,227,219)</u>	<u>(68,767,483)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Federal appropriations	183,101	504,267
State appropriations	83,654,581	80,221,579
Private gifts and grants	1,263,562	1,334,274
Sales and use taxes	2,253,806	2,146,864
Property taxes	1,021,436	956,465
Other agency funds - net	(1,430,922)	61,192
Refunds to grantors	(209,194)	(29,597)
Other	(154,478)	(70,913)
Net cash provided (used) by noncapital financing activities	<u>86,581,892</u>	<u>85,124,131</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt		29,500,000
Capital appropriations	1,728,787	3,224,043
Capital gift and grants	11,000	190,122
Proceeds from sale of capital assets	1,497,212	13,721
Received from bond trustees	7,648,008	16,945,537
Payment to bond trustees	(7,177,006)	(3,791,040)
Purchases of capital assets	(34,343,711)	(26,772,663)
Principal paid on capital debt and leases	(2,845,551)	(6,252,682)
Interest paid on capital debt and leases	(1,628,927)	(1,136,492)
Other	(1,250)	(1,250)
Net cash provided (used) by capital and related financing activities	<u>(35,111,438)</u>	<u>11,919,296</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	57,893,542	14,646,304
Interest on investments (net of fees)	2,645,329	1,539,543
Purchases of investments	(34,731,114)	(38,891,509)
Net cash provided (used) by investing activities	<u>25,807,757</u>	<u>(22,705,662)</u>
Net increase (decrease) in cash and cash equivalents	3,050,992	5,570,282
Cash and cash equivalents - beginning of year	<u>22,535,206</u>	<u>16,964,924</u>
Cash and cash equivalents - end of year	<u>\$ 25,586,198</u>	<u>\$ 22,535,206</u>

ARKANSAS STATE UNIVERSITY SYSTEM
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2007

Exhibit C

Reconciliation of net operating revenues (expenses)		
to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (85,436,589)	\$ (76,883,967)
Adjustments to reconcile net income (loss) to net		
cash provided (used) by operating activities:		
Depreciation expense	12,054,714	10,471,072
Change in assets and liabilities:		
Receivables, net	(1,156,425)	(2,031,788)
Inventories	(60,770)	(163,225)
Deposit with trustee	18,111	267,960
Prepaid expenses	46,462	(78,860)
Other assets		7,694
Accounts and salaries payable	(1,029,874)	(1,477,285)
Deferred revenue	73,029	118,264
Deposits	18,158	108,581
Refundable federal advances	64,758	(31,753)
Compensated absences	1,197,603	894,479
Other liabilities	(16,396)	31,345
	<u>\$ (74,227,219)</u>	<u>\$ (68,767,483)</u>
Net cash provided (used) by operating activities	<u>\$ (74,227,219)</u>	<u>\$ (68,767,483)</u>

NONCASH TRANSACTIONS

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

The University issued refunding and construction bonds for the Jonesboro campus. 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.

The accompanying notes are an integral part of these financial statements.

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ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

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 were 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 are restricted to the activities of the 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, 2007, the Foundation transferred property, equipment and funds of \$5,012,506 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 No. 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.

ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1: Summary of Significant Accounting Policies (Continued)

Financial Statement Presentation

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. GASB Statement No. 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 No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the Institution's assets, liabilities, net assets, revenues, expenses, changes in net assets, cash flows, and replaces the fund-group perspective previously required.

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 an obligation is incurred.

The consolidated University financial statements were prepared from the separate statements of the four (4) campuses. Other than the receipt and disbursement of student financial aid and self-insurance 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.

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.

ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1: Summary of Significant Accounting Policies (Continued)

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.

Cash Equivalents

For purposes of the statement of cash flows, the Institution 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, 2007. 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 No. 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.

ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1: Summary of Significant Accounting Policies (Continued)

Restricted/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, 2007 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 its current and noncurrent components.

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 revenue bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year; (2) estimated amounts for accrued compensated absences and relating matching costs and other liabilities that will not be paid within the next fiscal year; and (3) the refundable 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.

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.

ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1: Summary of Significant Accounting Policies (Continued)

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 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)	\$ 2,308,517	\$ 2,308,517
Collateralized:		
Collateral held by the pledging bank or pledging bank's trust department in the University's name	28,234,645	30,324,875
Uninsured, Uncollateralized	180,070	184,031
Total Deposits	\$ 30,723,232	\$ 32,817,423

ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 2: Public Fund Deposits and Investments (Continued)

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 \$1,313,487, \$98,895 and \$4,596,244 at June 30, 2007, respectively. Cash equivalents primarily consisted of the Short-Term Common Fund account. The above total deposits include certificates of deposit of \$11,089,423 reported as investments and deposit with trustees and classified as nonparticipating contracts. Additionally, the deposits include money market checking accounts of \$56,237 reported as deposits with trustee.

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, 2007, \$184,031 of the University's bank balance of \$32,944,913 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	<u>\$184,031</u>
--------------------------------	------------------

Short-Term Common Fund Account

The University had \$4,596,194 invested in the Short-Term Common Fund account at June 30, 2007. 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 3.3 years.

Deposits with Trustee

At June 30, 2007, the University's deposits with trustee, excluding nonnegotiable certificates of deposit of \$171,355 and money market checking accounts of \$56,237 of \$41,987,549 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 eight (8) days.

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

University Investments (Excluding Endowment Funds)

At June 30, 2007, the University's investments, excluding endowment funds, consisted of corporate bonds of \$2,190,745, and U.S. agencies of \$7,717,018. The corporate bonds will mature as follows:

Less than one year - \$148,125
1-5 years - \$1,670,183
6-10 years - \$372,437

The U.S. agencies will mature as follows:

Less than one year - \$498,901
1-5 years – \$6,834,255
6-10 years - \$236,675
Greater than 10 years - \$147,187

ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 2: Public Fund Deposits and Investments (Continued)

University Investments (Excluding Endowment Funds) (Continued)

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 by Moody's Investors Service.

Interest rate risk - The corporate bonds had an estimated weighted average maturity of 3 years at June 30, 2007. The U.S. agencies had an estimated weighted average maturity of 2.54 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 Land Bank (FHLB), Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC). These investments were 13.7%, 6.5% and 5.4% of the University's total investments, respectively.

Endowment Investments

Except for the endowment investments at the Beebe campus, which consisted of nonnegotiable certificates of deposit of \$130,117 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 19.85% or \$8,645,918 and consisted of the following types of investments:

- Mutual funds under the direction of the Common Fund and TIAA/CREF investment asset managers - \$8,400,899
- Real estate investments - \$85,155
- Endowment Energy Partners III, LP - \$12,994
- Cash equivalents - \$146,870

Credit risk – Applicable investments of the Common Fund portfolio had an average quality rating of AA, 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 7.9 years and an effective duration of 4.4 years. Applicable investments of the TIAA/CREF portfolio had a weighted average maturity of 7 to 7.3 years and an effective duration of 4.4 to 4.6 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 FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 2: Public Fund Deposits and Investments (Continued)

R.E. Lee Wilson, Sr. Trust Investments

The R.E. Lee Wilson, Sr. Trust of \$3,869,227 consisted of the following types of investments held in trust by a third party:

Mutual funds - \$2,505,765
Corporate Bonds - \$1,135,859
Cash equivalents - \$27,791
U.S. Agencies - \$199,812

The corporate bonds will mature as follows:

1-5 years - \$642,936
6-10 years - \$492,923

The U.S. agencies will mature as follows:

1-5 years - \$199,812

Credit risk – The credit quality ratings of the corporate bonds ranged from A to AAA by Standard and Poor's and A1 to Aaa by Moody's Investor Services.

Interest rate risk – The trust portfolio consists of corporate bonds and a U.S. agency that had an estimated weighted average maturity of 2.21 and .16 years, respectively, at June 30, 2007.

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 FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 4: Capital Assets

Following are the changes in capital assets for the year ended June 30, 2007:

	Balance July 1, 2006	Additions	Transfers	Retirements	Balance June 30, 2007
Nondepreciable capital assets:					
Land and improvements	\$ 12,235,631	\$ 180,579	\$ 377,593	\$ (45,150)	\$ 12,748,653
Livestock for educational purposes	141,340			(53,659)	87,681
Construction-in-progress	74,285,766	31,530,358	(69,938,399)	(1,112,931)	34,764,794
Total nondepreciable capital assets	\$ 86,662,737	\$ 31,710,937	\$ (69,560,806)	\$ (1,211,740)	\$ 47,601,128
Other capital assets:					
Improvements and infrastructure	\$ 24,019,402	\$ 1,853,228	\$ 8,601,141	\$ (19,683)	\$ 34,454,088
Buildings	238,915,367	2,882,272	60,959,665	(3,499,958)	299,257,346
Equipment	35,659,727	3,564,497	15,950	(1,127,274)	38,112,900
Library holdings/audiovisual holdings	14,366,516	357,116		(128,335)	14,595,297
Total other capital assets	312,961,012	8,657,113	69,576,756	(4,775,250)	386,419,631
Less accumulated depreciation for:					
Improvements and infrastructure	8,671,111	1,536,605		(14,679)	10,193,037
Buildings	119,118,798	9,011,563		(3,499,958)	124,630,403
Equipment	24,443,460	2,874,754	15,950	(1,002,469)	26,331,695
Library holdings/audiovisual holdings	12,296,139	500,192		(127,544)	12,668,787
Total accumulated depreciation	164,529,508	13,923,114 *	15,950	(4,644,650)	173,823,922
Other capital assets, net	\$ 148,431,504	\$ (5,266,001)	\$ 69,560,806	\$ (130,600)	\$ 212,595,709
Capital Asset Summary:					
Nondepreciable capital assets	\$ 86,662,737	\$ 31,710,937	\$ (69,560,806)	\$ (1,211,740)	\$ 47,601,128
Other capital assets, at cost	312,961,012	8,657,113	69,576,756	(4,775,250)	386,419,631
Total cost of capital assets	399,623,749	40,368,050	15,950	(5,986,990)	434,020,759
Less accumulated depreciation	164,529,508	13,923,114	15,950	(4,644,650)	173,823,922
Capital Assets, net	\$ 235,094,241	\$ 26,444,936	\$ 0	\$ (1,342,340)	\$ 260,196,837

*Includes \$1,868,400 shown as adjustments to prior year capital assets.

ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

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, 2007	Maturities To June 30, 2007
10/1/69	10/1/09	4.5%	\$ 2,250,000	\$ 355,000	\$ 1,895,000
3/1/01	3/1/31	3.6-5.25%	7,000,000	6,205,000	795,000
3/1/01	3/1/31	3.6-5.25%	3,000,000	2,655,000	345,000
11/15/02	12/1/27	1.6-5%	6,105,000	5,110,000	995,000
8/11/03	9/1/08	7%	507,000	134,612	372,388
3/1/04	3/1/34	3-5%	34,000,000	33,175,000	825,000
3/1/04	3/1/34	2-4.6%	11,555,000	10,295,000	1,260,000
8/28/04	2/28/09	11.25%	1,694,771	716,079	978,692
8/30/04	4/1/10	4.45%	1,390,994	749,456	641,538
8/30/04	4/1/10	4.45%	187,841	103,074	84,767
8/30/04	4/1/10	4.45%	375,683	216,903	158,780
8/30/04	4/1/10	4.45%	113,538	62,304	51,234
8/30/04	4/1/10	4.45%	187,841	113,549	74,292
8/30/04	5/1/10	4.45%	1,018,200	627,169	391,031
8/30/04	8/1/10	4.45%	1,051,784	676,534	375,250
9/30/05	5/1/10	4.85%	187,840	125,908	61,932
11/1/05	4/1/10	4.7%	187,844	118,529	69,315
1/31/06	5/1/10	5.29%	187,840	133,342	54,498
3/31/06	5/1/10	5.55%	187,841	141,500	46,341
10/1/04	10/1/24	6%	465,046	429,032	36,014
10/28/04	10/28/07	4.72%	53,271	3,014	50,257
10/28/04	10/28/08	5.99%	148,975	47,345	101,630
9/15/05	4/1/25	3-5%	19,230,000	18,420,000	810,000
11/1/05	11/30/08	9.275%	261,506	139,076	122,430
7/16/06	4/15/09	14.98%	148,252	73,252	75,000
8/25/06	9/25/10	7.99%	44,573	36,974	7,599
11/16/06	3/1/10	5.55%	187,843	161,098	26,745
9/6/06	3/1/10	5.55%	187,841	149,903	37,938
2/19/07	3/1/10	5.55%	187,842	173,353	14,489
6/28/07	3/1/10	5.88%	187,841	187,841	
6/1/07	3/1/37	3.65-5%	17,065,000	17,065,000	
6/1/07	3/1/37	3.65-5%	30,300,000	30,300,000	
Totals			<u>\$ 139,657,007</u>	<u>\$ 128,899,847</u>	<u>\$ 10,757,160</u>

ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 5: Long-Term Liabilities (Continued)

A summary of long-term debt is as follows: (Continued)

ARKANSAS STATE UNIVERSITY - BEEBE					
<u>Date of Issue</u>	<u>Date of Final Maturity</u>	<u>Rate of Interest</u>	<u>Amount Authorized and Issued</u>	<u>Debt Outstanding June 30, 2007</u>	<u>Maturities To June 30, 2007</u>
10/1/92	10/1/12	6.2-6.6%	\$ 400,000	\$ 180,000	\$ 220,000
4/1/98	10/1/08	4.3-4.55%	1,410,000	320,000	1,090,000
9/15/05	12/1/23	3-4.15%	3,330,000	3,050,000	280,000
12/1/05	12/1/35	3.5-5%	15,170,000	14,910,000	260,000
3/1/06	9/1/35	3.25-5%	11,000,000	10,810,000	190,000
Totals			<u>\$ 31,310,000</u>	<u>\$ 29,270,000</u>	<u>\$ 2,040,000</u>

ARKANSAS STATE UNIVERSITY - MOUNTAIN HOME					
<u>Date of Issue</u>	<u>Date of Final Maturity</u>	<u>Rate of Interest</u>	<u>Amount Authorized and Issued</u>	<u>Debt Outstanding June 30, 2007</u>	<u>Maturities To June 30, 2007</u>
12/1/02	12/1/17	1.6-4.4%	\$ 5,405,000	\$ 4,195,000	\$ 1,210,000
4/21/99	2/10/16	5.85%	567,296	367,606	199,690
8/1/99	4/10/19	4.80%	1,032,704	731,491	301,213
Totals			<u>\$ 7,005,000</u>	<u>\$ 5,294,097</u>	<u>\$ 1,710,903</u>

ARKANSAS STATE UNIVERSITY - NEWPORT					
<u>Date of Issue</u>	<u>Date of Final Maturity</u>	<u>Rate of Interest</u>	<u>Amount Authorized and Issued</u>	<u>Debt Outstanding June 30, 2007</u>	<u>Maturities To June 30, 2007</u>
5/1/03	5/1/28	4.125-5%	<u>\$ 5,000,000</u>	<u>\$ 4,460,000</u>	<u>\$ 540,000</u>

ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 5: Long-Term Liabilities (Continued)

The changes in long-term liabilities are as follows:

ARKANSAS STATE UNIVERSITY - JONESBORO

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Amounts Due Within One Year
Bonds payable	\$ 86,690,000	\$ 47,365,000	\$ 10,475,000 *	\$ 123,580,000	\$ 3,500,000
Notes payable	4,834,039	751,364	1,415,908	4,169,495	1,230,407
Capital leases	1,547,697	192,825	590,170	1,150,352	618,038
Compensated absences	3,595,188	2,990,391	2,502,622	4,082,957	3,731,109
Totals	\$ 96,666,924	\$ 51,299,580	\$ 14,983,700	\$ 132,982,804	\$ 9,079,554

*Includes advance refunding of \$7,625,000.

ARKANSAS STATE UNIVERSITY - BEEBE

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Amounts Due Within One Year
Bonds payable	\$ 30,035,000		\$ 765,000	\$ 29,270,000	\$ 785,000
Compensated absences	767,038	\$ 1,384,293	948,793	1,202,538	688,939
Totals	\$ 30,802,038	\$ 1,384,293	\$ 1,713,793	\$ 30,472,538	\$ 1,473,939

ARKANSAS STATE UNIVERSITY - MOUNTAIN HOME

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Amounts Due Within One Year
Bonds payable	\$ 4,510,000		\$ 315,000	\$ 4,195,000	\$ 320,000
Notes payable	1,173,565		74,468	1,099,097	78,412
Compensated absences	129,944	\$ 322,476	129,944	322,476	132,629
Totals	\$ 5,813,509	\$ 322,476	\$ 519,412	\$ 5,616,573	\$ 531,041

ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 5: Long-Term Liabilities (Continued)

The changes in long-term liabilities are as follows: (Continued)

ARKANSAS STATE UNIVERSITY - NEWPORT					
	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Amounts Due Within One Year
Bonds payable	\$ 4,600,000		\$ 140,000	\$ 4,460,000	\$ 140,000
Compensated absences	197,893	\$ 289,163	207,361	279,695	271,304
Totals	<u>\$ 4,797,893</u>	<u>\$ 289,163</u>	<u>\$ 347,361</u>	<u>\$ 4,739,695</u>	<u>\$ 411,304</u>

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

ARKANSAS STATE UNIVERSITY - JONESBORO			
Year ended June 30,	Principal	Interest	Total
2008	\$ 5,348,445	\$ 5,294,362 *	\$ 10,642,807
2009	5,168,442	5,662,299	10,830,741
2010	5,105,710	5,476,945	10,582,655
2011	3,932,408	5,289,718	9,222,126
2012	4,058,596	5,139,167	9,197,763
2013-2017	20,736,667	23,196,279	43,932,946
2018-2022	23,745,623	18,323,339	42,068,962
2023-2027	22,853,956	12,346,926	35,200,882
2028-2032	21,715,000	7,168,993	28,883,993
2033-2037	16,235,000	2,012,428	18,247,428
Totals	<u>\$ 128,899,847</u>	<u>\$ 89,910,456</u>	<u>\$ 218,810,303</u>

*Includes interest payable of \$1,354,528 recorded as a current liability at June 30, 2007.

ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 5: Long-Term Liabilities (Continued)

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

ARKANSAS STATE UNIVERSITY - BEEBE			
Year ended June 30,	Principal	Interest	Total
2008	\$ 785,000	\$ 1,297,930 *	\$ 2,082,930
2009	815,000	1,267,722	2,082,722
2010	675,000	1,239,183	1,914,183
2011	705,000	1,212,995	1,917,995
2012	735,000	1,184,835	1,919,835
2013-2017	3,950,000	5,469,789	9,419,789
2018-2022	4,760,000	4,595,043	9,355,043
2023-2027	5,105,000	3,511,478	8,616,478
2028-2032	5,885,000	2,228,625	8,113,625
2033-2036	5,855,000	603,875	6,458,875
Totals	<u>\$ 29,270,000</u>	<u>\$ 22,611,475</u>	<u>\$ 51,881,475</u>

*Includes interest payable of \$235,181 recorded as a current liability at June 30, 2007.

ARKANSAS STATE UNIVERSITY - MOUNTAIN HOME			
Year ended June 30,	Principal	Interest	Total
2008	\$ 398,412	\$ 209,475 *	\$ 607,887
2009	412,566	196,050	608,616
2010	426,943	181,198	608,141
2011	441,555	164,849	606,404
2012	461,413	147,026	608,439
2013-2016	2,540,671	425,538	2,966,209
2017-2019	612,537	19,381	631,918
Totals	<u>\$ 5,294,097</u>	<u>\$ 1,343,517</u>	<u>\$ 6,637,614</u>

*Includes interest payable of \$27,620 recorded as a current liability at June 30, 2007.

ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 5: Long-Term Liabilities (Continued)

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

Year ended June 30,	Principal	Interest	Total
2008	\$ 140,000	\$ 196,076 *	\$ 336,076
2009	145,000	192,156	337,156
2010	150,000	187,661	337,661
2011	155,000	182,561	337,561
2012	160,000	176,981	336,981
2013-2017	895,000	787,766	1,682,766
2018-2022	1,100,000	580,569	1,680,569
2023-2027	1,395,000	294,544	1,689,544
2028	320,000	16,000	336,000
Totals	<u>\$ 4,460,000</u>	<u>\$ 2,614,314</u>	<u>\$ 7,074,314</u>

*Includes interest payable of \$32,769 recorded as a current liability at June 30, 2007.

Advance Refunding of Debt

On September 15, 2005, the University issued \$19,230,000 in refunding bonds for the Jonesboro campus with interest rates of 3 to 5 percent to advance refund \$14,365,000 of outstanding bonds dated May 1, 1999 and \$4,895,000 dated April 1, 2000 with interest rates of 3.5 to 6.125%. Net bond proceeds of \$18,847,816, after payment of \$382,184 bond issuance costs, and a premium of \$1,519,046 were remitted to an escrow agent to provide for all future payments of the defeased bonds. The May 1, 1999 bonds were called on April 1, 2007 and the April 1, 2000 bonds will be called on April 1, 2008. The University advance refunded the bonds to reduce its total debt service payments by \$1,135,795 over the next nineteen (19) years and to obtain an economic gain of \$1,106,220. The University received accrued interest of \$34,936 from the bond issue to apply toward the debt payments of the new issue.

At June 30, 2007, the outstanding principal of the April 1, 2000 bonds was \$4,610,000. U.S. Treasury obligations of \$4,744,739, purchased by the escrow agent, were pledged for the retirement of these bonds.

On June 1, 2007, the University issued \$30,300,000 in refunding and construction bonds, for the Jonesboro campus, with interest rates of 3.65 to 5 percent. A portion of the bond proceeds was utilized to advance refund outstanding bonds of \$7,625,000 dated March 1, 1999 with interest rates of 4.15 to 5.05%. Net bond proceeds of \$7,812,757 were remitted to an escrow agent to provide for all future payments of the defeased bonds. The March 1, 1999 bonds will be called on August 1, 2007. The University advance refunded the bonds to reduce its total debt service payments by \$240,091 over the next sixteen (16) years and to obtain an economic gain of \$194,821. The University received accrued interest of \$19,056 from the bond issue to apply toward the debt payments of the new issue.

At June 30, 2007, the outstanding principal of the March 1, 1999 bonds was \$7,625,000. U.S. Treasury obligations of \$7,812,757, purchased by the escrow agent, were pledged for the retirement of these bonds.

ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 6: Capital Leases

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

Type of Asset	Asset Amount
Telecommunications equipment	\$ 1,694,771
Print shop equipment	730,791
Public safety equipment and software	202,246
Farm equipment	44,573
Research equipment	409,758
 Total	 <u>\$ 3,082,139</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, 2007:

Fiscal Year Ending June 30,	Amount
2008	\$ 668,309
2009	536,172
2010	11,161
2011	11,161
Total Minimum Lease Payments	1,226,803
Less: Amount Representing Interest	76,451
Total Present Value of Net Minimum Lease Payments	<u>\$ 1,150,352</u>

NOTE 7: Commitments

The University was contractually obligated for the following at June 30, 2007:

A. Construction Contracts

Project Name	Estimated Completion Date	Contract Balance
Daycare Center - Jonesboro campus	August 2007	\$ 155,799
Academic building - Beebe campus	August 2007	1,381,930
Academic building - Beebe campus (Searcy campus)	July 2007	111,136
Academic building - Beebe campus (Heber Springs Center)	August 2007	4,328,699
Academic building - Mountain Home campus	July 2008	4,255,663

ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 7: Commitments (Continued)

B. Operating Leases (Noncapital leases with initial or remaining noncancellable lease terms in excess of 1 year)

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

(a) Future minimum rental payments (aggregate) at June 30, 2007: \$1,695,326

(b) Future minimum rental payments for the five (5) succeeding fiscal years:

Year Ended June 30,	Amount
2008	\$ 524,720
2009	472,179
2010	356,489
2011	289,569
2012	52,369

Rental payments for the above operating leases, for the year ended June 30, 2007, were approximately \$580,850.

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 principle 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. TIAA/CREF has contributory and non-contributory plans. Contributory members select the percentage of their gross salaries to contribute based on current regulations. The University contributes 10% to 12% of earnings for all applicable employees. The University's and participants' contributions for the year ended June 30, 2007 were \$5,889,896 and \$5,427,262, 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 elect a qualified alternative retirement plan. ATRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit and contribution provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Teacher Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for ATRS. That 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 law to contribute 6% of their salaries. Each participating employer is required by law to contribute at a rate established by the Arkansas General Assembly. The current employer rate is 14%. The University's contributions to ATRS for the years ended June 30, 2007, 2006 and 2005 were \$872,444, \$809,224 and \$694,198, respectively, equal to the required contributions for each year.

ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 8: Retirement Plans (Continued)

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 provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit and contribution 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. That report may be obtained by writing to Arkansas Public Employees Retirement System, One Union National Plaza, 124 W. Capitol, 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 law to contribute 5% of their salaries. Each participating employer is required by law to contribute at a rate established by the Arkansas General Assembly. The current statutory employer rate is 12.54% of annual covered payroll. The University's contributions to APERS for the years ended June 30, 2007, 2006 and 2005 were \$939,617, \$926,668 and \$851,549, 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. VALIC has contributory and non-contributory plans. Employees select the percentage of their gross salaries to contribute based on current regulations. 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, 2007 were \$677,832 and \$843,012, respectively.

ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 9: Natural Classifications by Function

The University's operating expenses by function were as follows:

	Personal Services	Scholarships and Fellowships	Supplies and Services	Self- Insurance	Depreciation	Other	Total
Instruction	\$ 49,844,484	\$ 773,178	\$ 6,513,306				\$ 57,130,968
Research	5,571,635	107,079	3,468,201				9,146,915
Public service	7,193,388	209,590	4,401,527				11,804,505
Academic support	10,272,502	109,089	6,160,124				16,541,715
Student services	8,395,586	174,632	2,594,927				11,165,145
Institutional support	13,456,965	9,888	5,081,555				18,548,408
Scholarships and fellowships		5,398,797	617				5,399,414
Operations and maintenance of plant	8,857,900		10,476,954				19,334,854
Auxiliary enterprises	6,836,317	2,738,586	11,615,737				21,190,640
Self-insurance				\$ 11,113,482			11,113,482
Depreciation					\$ 12,054,714		12,054,714
Other						\$ 81,152	81,152
Totals	\$ 110,428,777	\$ 9,520,839	\$ 50,312,948	\$ 11,113,482	\$ 12,054,714	\$ 81,152	\$ 193,511,912

NOTE 10: Disaggregation of Receivable and Payable Balances

Accounts receivable from students was \$5,586,791 at June 30, 2007. This amount was reduced by an allowance for doubtful accounts of \$740,512.

Notes receivable pertains to loans awarded to students through the Federal Perkins Loan Program. Notes receivable was \$7,486,491 at June 30, 2007. This amount was reduced by an allowance for doubtful loans of \$767,071. Deposits receivable was \$223,533 at June 30, 2007.

Other receivables of \$6,358,363 at June 30, 2007 primarily consisted of reimbursements of \$4,341,662 from various agencies for grants and contracts, \$133,136 due from sales and use tax, \$665,475 due from various state treasury accounts, and auxiliary enterprises receivables of \$458,201. Other receivables also consisted of \$510,748 due from the U. S. Department of Education for cancellations pertaining to the Federal Perkins Loan Program and miscellaneous items of \$249,141.

The accounts payable and accrued liabilities of \$4,328,739 consisted of \$3,632,626 due to vendors, \$25,333 due to students, salaries and other payroll related items of \$616,473 and miscellaneous items of \$54,307.

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.

ARKANSAS STATE UNIVERSITY SYSTEM
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2007

NOTE 12: Other Post Employment Benefits

The University contributes to health and life insurance premiums (individual or family coverage) for all employees who retire between the ages of 60 and 65 with at least 10 years of service. These contributions are paid until the retiree is 65 years of age. The University also contributes to health and life insurance premiums for one year for those employees who are determined to be eligible for disability. At June 30, 2007, the number of retirees who were eligible for these benefits totaled 74. 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, 2007, the number of retirees eligible for these benefits totaled 6. 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 \$487,612 for the year ended June 30, 2007. Of this amount, the University's contribution was \$278,742.

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 years are as follows:

2008	\$ 135,000
2009	135,000
2010	135,000
2011	135,000
2012	<u>135,000</u>
Total Payments Receivable from ASU Foundation, Inc.	675,000
Less: Discount to Present Value	<u>121,306</u>
 Net Receivable from ASU Foundation, Inc., and Annuity Payable	 <u><u>\$ 553,694</u></u>

This note disclosure and the corresponding asset and liability reflect the University's understanding of its obligation under this agreement as of June 30, 2007. The University is continuing to consult with legal counsel to ensure full understanding of the agreement and the appropriate recording and disclosure of assets and liabilities arising from it.

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 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.

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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.

There are two plans available to employees. These include: ASU Classic I and True Blue PPO. At June 30, 2007, approximately 3,941 active employees, their dependents, former employees and retirees were participating in the program. For those participating in either plan, the University pays 94% of the total premium for full-time employees and early retirees, and 72% 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 \$900,834 with BlueAdvantage.

The University purchases specific and aggregate 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, 2007 were \$10,802,939. Of this amount, \$10,316,807 was nonexpendable and the remaining \$486,132 was 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 (5) year average market value as determined at December 31. In periods with no market value appreciation, the University limits the spending to actual income generated by the endowment fund assets.

NOTE 17: Subsequent Event

In September, 2007, the University accepted a grant of \$14,508,342 from the Donald W. Reynolds Foundation that provides funds to build a facility for the College of Nursing and Health Professions at the Jonesboro campus.