

**Arkansas State University System**

**State University, Arkansas**

**Basic Financial Statements  
and Other Reports**

**June 30, 2008**

LEGISLATIVE JOINT AUDITING COMMITTEE

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ARKANSAS STATE UNIVERSITY SYSTEM  
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JUNE 30, 2008

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REQUIRED SUPPLEMENTARY INFORMATION

Postemployment Benefits Other Than Pensions

Sen. Randy Laverly  
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

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

Little Rock, Arkansas  
November 19, 2008  
EDHE12508

Sen. Randy Lavery  
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

### 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, 2008, which collectively comprise the University's basic financial statements and have issued our report thereon dated November 19, 2008. 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.

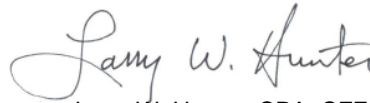
Compliance and Other Matters

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 19, 2008.

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 19, 2008

Sen. Randy Laverly  
Senate Co-Chair  
Rep. J R Rogers  
House 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

### MANAGEMENT LETTER

Arkansas State University System  
Legislative Joint Auditing Committee

As a management service, we would like to communicate the following items 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. These matters were discussed previously with University officials during the course of our audit fieldwork and at the exit conference.

1. On February 29, 2008, the University executed an initial contract of \$11,838,063 for the construction of the Center for Health Sciences building, substantially funded from private funds. Ark. Code Ann. §§ 19-4-1413, 19-4-1415 stipulate certain requirements for such projects. The University did not comply with the following key provisions:
  - A. The University did not adopt the required resolution and procedures setting forth the method of selecting the applicable professionals to construct the building.
  - B. There was no public notice and solicitation granting the opportunity for qualified, licensed professionals to submit proposals on the project.
2. The University disbursed funds for supplies and promotional materials (\$135,316), catering services (\$2,862), and equipment repair (\$1,925) to three businesses in which employees had financial interests which they had not properly reported to the Director of the Department of Finance and Administration as ethics provisions in Ark. Code Ann. §§ 19-11-701 to -717 require. In addition, the University did not have a procedure in place to provide the Procurement Office with a copy of disclosure forms on which employees reported financial interest in businesses or contracts.
3. The University Internal Audit Department (IA) reported, and this audit verified, instances of misappropriation of assets totaling \$27,720, involving University-issued procurement cards (P-card) in two departments.

#### Center for Learning Technologies

IA reported unaccounted for assets of \$26,553 purchased during the period January 1, 2006 through December 31, 2007 as follows:

- Belinda Wayman, Secretary I/Secretary II, was custodian of two P-cards on which unaccounted for purchases totaled \$25,289. Ms. Wayman was terminated from employment in September 2007 and the University notified the Prosecuting Attorney of the Second Judicial District about the misuse of P-cards and, as of report date, the Jonesboro Police Department has an ongoing investigation.
- Dr. William Allen, Director, was custodian of a P-card on which unaccounted for purchases totaled \$1,264. Dr. Allen, who resigned his position in October 2007 to return to a faculty position, agreed to reimburse the University through payroll deductions and \$550 has been reimbursed as of report date.

#### Education Renewal Zone Program

Barbie Caldwell, former Administrative Assistant, was custodian of a P-card on which unaccounted for purchases totaled \$1,167 during the period of January 1, 2007 through March 31, 2008. Ms. Caldwell returned assets valued at \$194 and reimbursed the remaining \$973.

**INFORMATION SYSTEM FINDING**

We performed audit procedures on the Oracle Database security and controls for the period June 30, 2008 through November 12, 2008. The following information systems control weakness was noted:

Weak password control parameters were present. This condition increases the likelihood that an unauthorized person could gain access to the database.

We recommend implementing strengthened password parameters to decrease the likelihood of unauthorized access to the database.

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, 2008, as reported to the State Department of Higher Education, to provide reasonable assurance that the data was properly reported. The enrollment data reported was as follows:

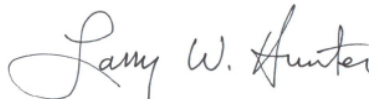
	<u>Summer II Term</u> <u>2007</u>	<u>Fall Term</u> <u>2007</u>	<u>Spring Term</u> <u>2008</u>	<u>Summer I Term</u> <u>2008</u>
Student Headcount	4,183	18,412	18,325	5,853
Student Semester Credit Hours	17,508	200,388	190,471	27,084

During our review, we noted the following item:

One student in our test was enrolled on the eleventh day of the spring semester at a satellite campus; however, was reported as being withdrawn. The error resulted from reporting students as withdrawn, because the satellite campus did not timely submit its enrollment data to the Jonesboro campus.

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



Larry W. Hunter, CPA, CFE  
Deputy Legislative Auditor

Little Rock, Arkansas  
November 19, 2008



## 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, 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.

## 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

	2008	2007	Percent Change
Assets:			
Current Assets	\$ 58,135,118	\$ 44,075,908	31.90%
Capital Assets, net	277,580,081	260,196,837	6.68%
Other Noncurrent Assets	72,355,053	78,042,490	-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	173,490,645	170,458,203	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	43,576,850	31,806,387	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%

## Statement Discussion (Continued)

### Statement of Net Assets (Continued)

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.

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.

Statement of Revenues, Expenses and Changes in Net Assets (Continued)

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	<u>2008</u>	<u>2007</u>	<u>Percent Change</u>
Operating Revenues	\$ 102,607,336	\$ 108,075,323	-5.06%
Operating Expenses	210,552,053	193,511,912	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.

## Statement of Revenues, Expenses and Changes in Net Assets (Continued)

- 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.

## 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, 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.

## 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

Exhibit A

	2008	2007
<b>ASSETS</b>		
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 trustee	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	
Deposits with trustee	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
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable and accrued liabilities	6,750,639	4,328,739
Accrued other postemployment benefits payable	414,901	
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 postemployments benefits payable	324,445	
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

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

Exhibit A

	2008	2007
<b>NET ASSETS</b>		
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

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



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

Exhibit A-1

**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
		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

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

Exhibit B

	2008	2007
<b>OPERATING REVENUES</b>		
Student 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
<b>TOTAL OPERATING REVENUES</b>	<b>102,607,336</b>	<b>108,075,323</b>
<b>OPERATING EXPENSES</b>		
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	146,476	81,152
<b>TOTAL OPERATING EXPENSES</b>	<b>210,552,053</b>	<b>193,511,912</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(107,944,717)</b>	<b>(85,436,589)</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
State appropriations	92,164,251	83,983,692
Federal appropriations	35,399	183,101
Grants and contracts	15,665,730	
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 revenue/(expense)	(205,753)	(226,323)
<b>NET NON-OPERATING REVENUES (EXPENSES)</b>	<b>108,678,182</b>	<b>86,872,945</b>
<b>INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES</b>	<b>733,465</b>	<b>1,436,356</b>
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	
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	
Accrued Interest on bond issue	11,277	121,465
Premium on bond issue		963,799
Bond issue costs	(400,121)	(656,479)
Excess funds remitted to escrow agent above amount of bonds retired	(10,735)	(187,757)
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>18,162,649</b>	<b>5,571,961</b>
<b>NET ASSETS - BEGINNING OF YEAR</b>	<b>192,994,828</b>	<b>187,422,867</b>
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 211,157,477</b>	<b>\$ 192,994,828</b>

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, 2008

Exhibit B-1

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Support</b>				
Support and Reclassifications				
Contributions	\$ 43,478	\$ 5,673,153	\$ 2,207,038	\$ 7,923,669
Use of contributed facilities	750			750
Contributed services	538,653			538,653
Contributed property	265,000			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)	
<b>Total Support</b>	<b>9,527,069</b>	<b>(1,115,307)</b>	<b>(756,704)</b>	<b>7,655,058</b>
<b>Expenses and Losses</b>				
Program services:				
Academic activities	614,620			614,620
Administrative	133,099			133,099
Student activities	42,771			42,771
Supporting services:				
Management and general	470,248			470,248
Fundraising	351,331			351,331
Change in value of split interest agreements			63,970	63,970
Transfers to Arkansas State University	4,977,689			4,977,689
Transfers to the Alumni Association	950,837			950,837
<b>Total Expenses and Losses</b>	<b>7,540,595</b>		<b>63,970</b>	<b>7,604,565</b>
<b>Increase (Decrease) in net assets</b>	<b>1,986,474</b>	<b>(1,115,307)</b>	<b>(820,674)</b>	<b>50,493</b>
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)	
	176,972	7,947,785	33,163,372	41,288,129
<b>Net assets at end of year</b>	<b>\$ 2,163,446</b>	<b>\$ 6,832,478</b>	<b>\$ 32,342,698</b>	<b>\$ 41,338,622</b>

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

Exhibit C

	2008	2007
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Student 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	(88,974,462)	(74,227,219)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Federal appropriations	35,399	183,101
State appropriations	90,343,969	83,654,581
Grants and contracts	15,650,830	
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
Other agency funds - 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	112,549,086	86,581,892
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from capital debt	2,082,974	
Capital appropriations	3,002,314	1,728,787
Capital gift and grants	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	
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		(1,250)
Net cash provided (used) by capital and related financing activities	(23,709,599)	(35,111,438)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	22,428,322	57,893,542
Interest on investments	1,643,835	2,645,329
Purchases of investments	(24,819,291)	(34,731,114)
Net cash provided (used) by investing activities	(747,134)	25,807,757
Net increase (decrease) in cash and cash equivalents	(882,109)	3,050,992
Cash and cash equivalents - beginning of year	25,586,198	22,535,206
Cash and cash equivalents - end of year	\$ 24,704,089	\$ 25,586,198

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

Exhibit C

	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	
Deferred revenues	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	\$ (88,974,462)	\$ (74,227,219)

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.

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, 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 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 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 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 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 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, 2008

NOTE 1: Summary of Significant Accounting Policies (Continued)

Financial Statement Presentation

In June 1999, the Governmental Accounting Standards Board 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 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 an 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.

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.

ARKANSAS STATE UNIVERSITY SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

NOTE 1: Summary of Significant Accounting Policies (Continued)

Operating and Nonoperating Revenues (Continued)

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 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 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.

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.

ARKANSAS STATE UNIVERSITY SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

NOTE 1: Summary of Significant Accounting Policies (Continued)

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 vacation 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 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; (3) estimated amounts for deposits held that will not be paid within the next fiscal year; (4) other post employment 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 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 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.

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.

ARKANSAS STATE UNIVERSITY SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

NOTE 1: Summary of Significant Accounting Policies (Continued)

Net Assets (Continued)

Restricted Net Assets: Within this classification there are two 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)	\$ 2,277,592	\$ 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	\$ 31,984,136	\$ 34,312,876

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.

ARKANSAS STATE UNIVERSITY SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

NOTE 2: Public Fund Deposits and Investments (Continued)

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	<u>\$65,161</u>
--------------------------------	-----------------

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 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, 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.

ARKANSAS STATE UNIVERSITY SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

NOTE 2: Public Fund Deposits and Investments (Continued)

University Investments (Excluding Endowment Funds) (Continued)

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). The investment was 14.32% of the University's total investments.

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.

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

ARKANSAS STATE UNIVERSITY SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

NOTE 2: Public Fund Deposits and Investments (Continued)

R.E. Lee Wilson, Sr. Trust Investments (Continued)

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 Standards 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.

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		\$ (99,205)	\$ 6,465,227
Livestock for educational purposes	35,170	9,755			44,925
Construction-in-progress	9,166,673	10,327,877	\$ (1,818,872)	(10,230)	17,665,448
<b>Total nondepreciable capital assets</b>	<b>\$ 15,676,266</b>	<b>\$ 10,427,641</b>	<b>\$ (1,818,872)</b>	<b>\$ (109,435)</b>	<b>\$ 24,175,600</b>
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		(1,240,376)	33,564,535
Library/audiovisual holdings	11,766,582	218,820		(369,332)	11,616,070
<b>Total other capital assets</b>	<b>321,036,676</b>	<b>4,080,928</b>	<b>1,818,872</b>	<b>(5,259,682)</b>	<b>321,676,794</b>



ARKANSAS STATE UNIVERSITY SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

NOTE 4: Capital Assets (Continued)

Arkansas State University - Jonesboro (Continued)

	Balance July 1, 2007	Additions	Transfers	Retirements	Balance June 30, 2008
Other capital assets: (Continued)					
Less accumulated depreciation for:					
Improvements and infrastructure	\$ 8,260,668	\$ 1,855,752		\$ (4,093)	\$ 10,112,327
Buildings	100,907,271	7,341,128		(3,397,643)	104,850,756
Equipment	21,729,858	2,621,004		(1,201,543)	23,149,319
Library/audiovisual holdings	10,803,997	149,531		(369,332)	10,584,196
Total accumulated depreciation	<u>141,701,794</u>	<u>11,967,415</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>(5,369,117)</u>	<u>345,852,394</u>
Less accumulated depreciation	<u>141,701,794</u>	<u>11,967,415</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 - Beebe

	Balance July 1, 2007	Additions	Transfers	Retirements	Balance June 30, 2008
Nondepreciable capital assets:					
Land and improvements	\$ 3,007,318				\$ 3,007,318
Livestock for educational purposes	52,511	\$ 17,039			69,550
Construction-in-progress	24,719,364	12,146,767	\$ (544,314)		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		\$ 544,314		\$ 3,435,230
Buildings	23,824,942				23,824,942
Equipment	4,056,401	\$ 830,138		\$ (215,748)	4,670,791
Library/audiovisual holdings	1,718,583	86,523		(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>

ARKANSAS STATE UNIVERSITY SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

NOTE 4: Capital Assets (Continued)

Arkansas State University - Beebe (Continued)

	Balance July 1, 2007	Additions	Transfers	Retirements	Balance June 30, 2008
Other capital assets: (Continued)					
Less accumulated depreciation for:					
Improvements and infrastructure	\$ 1,075,603	\$ 173,578			\$ 1,249,181
Buildings	14,126,715	1,079,642			15,206,357
Equipment	3,293,952	258,660		\$ (215,748)	3,336,864
Library/audiovisual holdings	1,102,944	80,323		(48,910)	1,134,357
Total accumulated depreciation	<u>19,599,214</u>	<u>1,592,203</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)		\$ 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	<u>60,270,035</u>	<u>13,080,467</u>	<u>0</u>	<u>(264,659)</u>	<u>73,085,843</u>
Less accumulated depreciation	<u>19,599,214</u>	<u>1,592,203</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			\$ 2,934,808
Construction-in-progress	752,651	\$ 4,312,556		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		\$ 2,273,491
Buildings	14,536,846			14,536,846
Equipment	791,013	208,469	\$ (55,476)	944,006
Library/audiovisual holdings	820,689	4,318		825,007
Total other capital assets	<u>18,203,416</u>	<u>431,410</u>	<u>(55,476)</u>	<u>18,579,350</u>

ARKANSAS STATE UNIVERSITY SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

NOTE 4: Capital Assets (Continued)

Arkansas State University - Mountain Home (Continued)

	Balance July 1, 2007	Additions	Retirements	Balance June 30, 2008
Other capital assets: (Continued)				
Less accumulated depreciation for:				
Improvements and infrastructure	\$ 728,742	\$ 136,991		\$ 865,733
Buildings	5,521,769	969,123		6,490,892
Equipment	688,946	46,979	\$ (55,476)	680,449
Library/audiovisual holdings	531,742	45,790		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>
Capital Asset Summary:				
Nondepreciable capital assets	\$ 3,687,459	\$ 4,312,556		\$ 8,000,015
Other capital assets, at cost	18,203,416	431,410	\$ (55,476)	18,579,350
Total cost of capital assets	<u>21,890,875</u>	<u>4,743,966</u>	<u>(55,476)</u>	<u>26,579,365</u>
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				\$ 332,103
Construction-in-progress	126,106	\$ 831,750	\$ (116,066)		<u>841,790</u>
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		\$ 116,066		\$ 313,865
Buildings	13,393,244				13,393,244
Equipment	808,209	\$ 167,690		\$ (93,917)	881,982
Library/audiovisual holdings	289,443	18,045		(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>

ARKANSAS STATE UNIVERSITY SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

NOTE 4: Capital Assets (Continued)

Arkansas State University - Newport (Continued)

	Balance July 1, 2007	Additions	Transfers	Retirements	Balance June 30, 2008
Other capital assets: (Continued)					
Less accumulated depreciation for:					
Improvements and infrastructure	\$ 128,024	\$ 13,187			\$ 141,211
Buildings	4,074,648	692,802			4,767,450
Equipment	618,938	57,874		\$ (74,441)	602,371
Library/audiovisual holdings	230,103	28,874		(678)	258,299
Total accumulated depreciation	<u>5,051,713</u>	<u>792,737</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)		\$ 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	<u>15,146,904</u>	<u>1,017,485</u>	<u>0</u>	<u>(94,616)</u>	<u>16,069,773</u>
Less accumulated depreciation	<u>5,051,713</u>	<u>792,737</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>

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

ARKANSAS STATE UNIVERSITY SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

NOTE 5: Long-Term Liabilities (Continued)

Arkansas State University - Jonesboro (Continued)

<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, 2008</u>	<u>Maturities To June 30, 2008</u>
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
			<u>\$ 139,603,731</u>	<u>\$ 123,547,913</u>	<u>\$ 16,055,818</u>

ARKANSAS STATE UNIVERSITY SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

NOTE 5: Long-Term Liabilities (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, 2008</u>	<u>Maturities To June 30, 2008</u>
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	
Totals			<u>\$ 33,650,299</u>	<u>\$ 30,761,576</u>	<u>\$ 2,888,723</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, 2008</u>	<u>Maturities To June 30, 2008</u>
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	
Totals			<u>\$ 12,185,000</u>	<u>\$ 10,075,685</u>	<u>\$ 2,109,315</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, 2008</u>	<u>Maturities To June 30, 2008</u>
1/29/2008	12/1/2032	3 - 4.375%	\$ 2,075,000	\$ 2,075,000	
4/30/2008	5/1/2028	2.75 - 4.5%	4,400,000	4,400,000	
Totals			<u>\$ 6,475,000</u>	<u>\$ 6,475,000</u>	<u>\$ 0</u>

ARKANSAS STATE UNIVERSITY SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

NOTE 5: Long-Term Liabilities (Continued)

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

Arkansas State University - Jonesboro

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

Arkansas State University - Beebe

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

Arkansas State University - Mountain Home

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

ARKANSAS STATE UNIVERSITY SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

NOTE 5: Long-Term Liabilities (Continued)

Arkansas State University - Newport

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Amounts Due 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

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	<u>\$ 123,547,913</u>	<u>\$ 84,616,471</u>	<u>\$ 208,164,384</u>

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



ARKANSAS STATE UNIVERSITY SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

NOTE 5: Long-Term Liabilities (Continued)

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	<u>\$ 30,761,576</u>	<u>\$ 22,597,570</u>	<u>\$ 53,359,146</u>

\*Includes interest payable of \$236,810 recorded as a current liability at 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 SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

NOTE 5: Long-Term Liabilities (Continued)

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.

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>\$ 3,289,167</u>

ARKANSAS STATE UNIVERSITY SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

NOTE 6: Capital Leases (Continued)

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	771,438
Less: Amount Representing Interest	46,036
Total Present Value of Net Minimum Lease Payments	\$ 725,402

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
<u>Jonesboro</u>		
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
 <u>Beebe</u>		
ASU Searcy Phase II	June 2009	3,338,760
 <u>Mountain Home</u>		
Health Science Building	November 2008	894,635
Community Development	December 2010	4,183,008
 <u>Newport</u>		
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 FINANCIAL STATEMENTS  
 JUNE 30, 2008

NOTE 7: Commitments (Continued)

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 succeeding fiscal years:

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 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. 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 elect 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 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 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 STATE UNIVERSITY SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

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, 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. That 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 noncontributory 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.

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

ARKANSAS STATE UNIVERSITY SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

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 Postemployment 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).

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.

ARKANSAS STATE UNIVERSITY SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

NOTE 12: Other Postemployment Benefits (Continued)

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.

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 healthcare 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**

<b>Cost Element</b>	<b>Fiscal Year Ended June 30, 2008</b>	
	Amount	Percent of Payroll <sup>2</sup>
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 <sup>1</sup>	\$ 0	
7. Amortization of beginning of year CAFR accrual <sup>1</sup>	\$ 0	
8. Fiscal 2008 OPEB cost (5 + 6 - 7)	\$ 1,154,247	1.32%

ARKANSAS STATE UNIVERSITY SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

NOTE 12: Other Postemployment Benefits (Continued)

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

Cost Element	Fiscal Year Ended June 30, 2008	
	Amount	Percent of Payroll <sup>2</sup>
End of Year CAFR Accrual (Net OPEB Obligation) <sup>3</sup>		
9. Beginning of year CAFR accrual <sup>1</sup>	\$ 0	
10. Annual OPEB cost	\$ 1,154,247	
11. Employer contribution (benefit payments) <sup>3</sup>	\$ 414,901	
12. End of year CAFR accrual (9 + 10 – 11) <sup>3</sup>	\$ 739,346	0.84%

<sup>1</sup> No accrual is required at the adoption of the GASB Statement

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

<sup>3</sup> 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 Contributions <sup>4</sup>	Percentage Contributed
June 30, 2008	\$ 1,154,247	\$ 414,901	35.9%

<sup>4</sup> 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)	Actuarial Accrued Liability (AAL) (b)	Unfunded/ (Overfunded) AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll <sup>5</sup> (c)	UAAL as a Percentage Of Covered Payroll <sup>5</sup> [(b)-(a)/(c)]
June 30, 2008	\$ -	\$ 8,080,750	\$ 8,080,750	- %	\$ 87,212,900	9.26%

<sup>5</sup> 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 <sup>6</sup>
Asset valuation method	N/A

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



ARKANSAS STATE UNIVERSITY SYSTEM  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2008

NOTE 12: Other Postemployment Benefits (Continued)

**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**

<b>Health (monthly rate)</b>	<b>Employee Cost</b>	<b>Employer Cost</b>	<b>Total</b>
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

ARKANSAS STATE UNIVERSITY SYSTEM  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2008

NOTE 12: Other Postemployment Benefits (Continued)

**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%

**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

ARKANSAS STATE UNIVERSITY SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

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 four years are as follows:

2009	\$ 135,000
2010	135,000
2011	135,000
2012	<u>135,000</u>
Total Payments Receivable from ASU Foundation	<u>540,000</u>
Less: Discount to Present Value	<u>60,297</u>
Net Receivable from ASU Foundation and Annuity Payable	<u><u>\$ 479,703</u></u>

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.

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, 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.

ARKANSAS STATE UNIVERSITY SYSTEM  
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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 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: 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%

ARKANSAS STATE UNIVERSITY SYSTEM  
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NOTE 17: Pledged Revenues (Continued)

Arkansas State University - Jonesboro (Continued)

•**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; *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; *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%

ARKANSAS STATE UNIVERSITY SYSTEM  
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NOTE 17: Pledged Revenues (Continued)

Arkansas State University - Beebe (Continued)

•**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

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.

ARKANSAS STATE UNIVERSITY SYSTEM  
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NOTE 18: Risk Management (Continued)

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 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  
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**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 Payroll <sup>2</sup>
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 <sup>1</sup>	\$ 0	
7. Amortization of beginning of year CAFR accrual <sup>1</sup>	\$ 0	
8. Fiscal 2008 OPEB cost (5 + 6 - 7)	\$ 1,154,247	1.32%
End of Year CAFR Accrual (Net OPEB Obligation) <sup>3</sup>		
9. Beginning of year CAFR accrual <sup>1</sup>	\$ 0	
10. Annual OPEB cost	\$ 1,154,247	
11. Employer contribution (benefit payments) <sup>3</sup>	\$ 414,901	
12. End of year CAFR accrual (9 + 10 - 11) <sup>3</sup>	\$ 739,346	0.84%

<sup>1</sup> No accrual is required at the adoption of the GASB Statement

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

<sup>3</sup> 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 Contributions <sup>4</sup>	Percentage Contributed
June 30, 2008	\$ 1,154,247	\$ 414,901	35.9%

<sup>4</sup> 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 multiyear trend information comparing the actuarial value of plan assets to the actuarial accrued liability.

Fiscal Year Ending	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded/ (Overfunded) AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll <sup>5</sup> (c)	UAAL as a Percentage Of Covered Payroll <sup>5</sup> [(b)-(a)/(c)]
June 30, 2008	\$ -	\$ 8,080,750	\$ 8,080,750	- %	\$ 87,212,900	9.26%

<sup>5</sup> Payroll as of July 1, 2007 includes only plan participants.



ARKANSAS STATE UNIVERSITY SYSTEM  
 REQUIRED SUPPLEMENTARY INFORMATION  
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**Other Postemployment Benefits (Continued)**

**Schedule of Funding Progress (Continued)**

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**

<b>Valuation year</b>	July 1, 2007 – June 30, 2008
<b>Actuarial cost method</b>	Projected Unit Credit, level dollar
<b>Amortization method</b>	30 years, level dollar open amortization <sup>6</sup>
<b>Asset valuation method</b>	N/A

<sup>6</sup>Open 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.

ARKANSAS STATE UNIVERSITY SYSTEM  
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**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)

**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  
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**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