

Arkansas State University System

State University, Arkansas

**Basic Financial Statements
and Other Reports**

June 30, 2009

LEGISLATIVE JOINT AUDITING COMMITTEE



ARKANSAS STATE UNIVERSITY SYSTEM
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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

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, 2009, 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, 2009, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2009 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 Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The Schedule of Selected Information for the Last Five Years (Schedule 1), the Statement of Net Assets by Campus (Schedule 2), the Statement of Revenues, Expenses and Changes in Net Assets by Campus (Schedule 3), and the Statement of Cash Flows by Campus (Schedule 4) are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Selected Information for the Last Five Years (Schedule 1) has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it. The Statement of Net Assets by Campus (Schedule 2), the Statement of Revenues, Expenses and Changes in Net Assets by Campus (Schedule 3), and the Statement of Cash Flows by Campus (Schedule 4) have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

DIVISION OF LEGISLATIVE AUDIT

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

Little Rock, Arkansas
November 17, 2009
EDHE12509

Sen. Bobby L. Glover
Senate Co-Chair
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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, 2009, which collectively comprise the University's basic financial statements and have issued our report thereon dated November 17, 2009. 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 opinions 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.

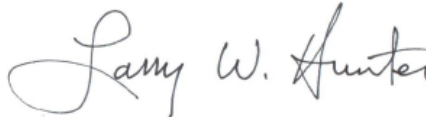
Compliance and Other Matters

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 17, 2009.

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 black ink that reads "Larry W. Hunter". The signature is written in a cursive, flowing style.

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
November 17, 2009

Sen. Bobby L. Glover
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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

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 to improve internal control. These matters were discussed previously with University officials during the course of our audit fieldwork and at the exit conference.

Arkansas State University-Jonesboro

The University Internal Audit Department (IAD) reported instances of misappropriation of assets in the Childhood Services Department. According to IAD, Arkansas State Police arrested an employee, who was terminated, on suspicion of theft of property in July 2009. As of report date, law enforcement agencies, in conjunction with IAD, have an ongoing investigation of this matter. We will issue a report upon completion of the investigation.

INFORMATION SYSTEM MANAGEMENT LETTER FINDING

Arkansas State University-Jonesboro

NETWORK SECURITY

Network security should be utilized and kept current to prevent unauthorized personnel from gaining access to network/network resources.

Review of External Internet Protocol port scans and firewall configuration revealed potential vulnerabilities that, if exploited, could lead to unauthorized access of network resources.

The potential exists for unauthorized usage of computing assets through the use of exploited device ports or weak firewall configuration rules.

We recommend all security parameters be reviewed and configured in a manner conducive to preventing unauthorized use of network/network resources.

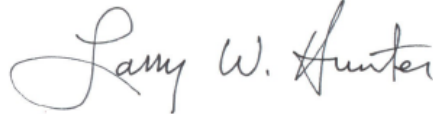
STUDENT ENROLLMENT DATA - In accordance with Arkansas Code Annotated § 6-60-209, we performed tests of the student enrollment data for the year ended June 30, 2009, as reported to the State Department of Higher Education, to provide reasonable assurance that the data was properly reported. The enrollment data reported was as follows:

	<u>Summer II Term</u> 2008	<u>Fall Term</u> 2008	<u>Spring Term</u> 2009	<u>Summer I Term</u> 2009
Student Headcount	4,653	20,017	19,807	6,429
Student Semester Credit Hours	19,324	210,327	199,949	28,619

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

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

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in cursive script that reads "Larry W. Hunter". The signature is written in black ink and is positioned above the printed name and title.

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
November 17, 2009

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, 2009. 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, 2009 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, 2008.

The University's financial statements for the year ended June 30, 2009 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, 2009 and 2008 where appropriate.

Fiscal Year 2009 Highlights

The following events or activities of financial significance occurred during the fiscal year ended June 30, 2009.

- The University's total assets increased from \$408,070,252 at June 30, 2008 to \$447,529,856 at June 30, 2009, an increase of \$39,459,604 or 9.67%. The University's total liabilities increased from \$196,912,775 at June 30, 2008 to \$206,119,947 at June 30, 2009, an increase of \$9,207,172 or 4.68%.
- The University's construction projects in process but not yet completed totaled \$72,702,073 at June 30, 2009.
- The net assets of the University grew from \$211,157,477 at June 30, 2008 to \$241,409,909 at June 30, 2009, an increase of \$30,252,432 or 14.33%. University revenues and other additions from all sources during the year ended June 30, 2009 amounted to \$263,734,776 while expenditures and other deductions amounted to \$233,482,344. Comparatively, total revenues and other additions and total expenditures and other deductions for the year ended June 30, 2008 were \$237,651,794 and \$219,189,145, 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, 2009, 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, 2009:

- Did the University have sufficient assets available to meet its existing obligations and continue operations?
- 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

	2009	2008	Percent Change
Assets:			
Current Assets	\$ 63,062,412	\$ 58,135,118	8.48%
Capital Assets, net	332,033,309	277,580,081	19.62%
Other Noncurrent Assets	52,434,135	72,355,053	-27.53%
Total Assets	<u>\$ 447,529,856</u>	<u>\$ 408,070,252</u>	9.67%
Liabilities:			
Current Liabilities	\$ 28,548,768	\$ 23,422,130	21.89%
Noncurrent Liabilities	177,571,179	173,490,645	2.35%
Total Liabilities	<u>\$ 206,119,947</u>	<u>\$ 196,912,775</u>	4.68%
Net Assets:			
Invested in Capital, Net of Debt	\$ 180,153,062	\$ 142,234,133	26.66%
Restricted, Nonexpendable	10,182,498	10,429,210	-2.37%
Restricted, Expendable	16,640,890	14,917,284	11.55%
Unrestricted	34,433,459	43,576,850	-20.98%
Total Net Assets	<u>\$ 241,409,909</u>	<u>\$ 211,157,477</u>	14.33%
Total Liabilities and Net Assets	<u>\$ 447,529,856</u>	<u>\$ 408,070,252</u>	9.67%

The University's total assets increased from \$408,070,252 at June 30, 2008 to \$447,529,856 at June 30, 2009, an increase of \$39,459,604 or 9.67%. Capital Assets increased from \$277,580,081 at June 30, 2008 to \$332,033,309 at June 30, 2009, an increase of \$54,453,228 or 19.62%. Current Assets increased from \$58,135,118 at June 30, 2008 to \$63,062,412 at June 30, 2009, an increase of \$4,927,294 or 8.48%. The University's Other Noncurrent Assets declined from \$72,355,053 at June 30, 2008 to \$52,434,135 at June 30, 2008, a decrease of \$19,920,918 or 27.53%. These changes are reflective of the University's continued emphasis on capital assets, a strategic decision to reallocate assets from investments to cash, and the effect on endowments of the decline in capital markets.

The University's total liabilities grew from \$196,912,775 at June 30, 2008 to \$206,119,947 at June 30, 2009, an increase of \$9,207,172 or 4.68%. Current Liabilities increased from \$23,422,130 at June 30, 2008 to \$28,548,768 at June 30, 2009, an increase of \$5,126,638 or 21.89%. Noncurrent Liabilities grew from \$173,490,645 at June 30, 2008 to \$177,571,179 at June 30, 2009, a modest increase of \$4,080,534 or 2.35%.

The University's total net assets increased from \$211,157,477 at June 30, 2008 to \$241,409,909 at June 30, 2009, an increase of \$30,252,432 or 14.33%. Net Assets Invested in Capital Assets, Net of Related Debt increased by \$37,918,929 or 26.66% while Restricted Net Assets increased by \$1,476,894 or 5.83%. The University's Unrestricted Net Assets decreased from \$43,576,850 at June 30, 2008 to \$34,433,459 at June 30, 2009, a decrease of \$9,143,391 or 20.98%.

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, 2009.

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

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	2009	2008	Percent Change
Operating Revenues	\$ 103,486,435	\$ 102,607,336	0.86%
Operating Expenses	<u>222,359,732</u>	<u>210,552,053</u>	5.61%
Operating Income (Loss)	<u>\$ (118,873,297)</u>	<u>\$ (107,944,717)</u>	10.12%
Nonoperating Revenues (Expenses)	\$ 116,739,815	\$ 108,678,182	7.42%
Income (Loss) before Other Revenues, Expenses, Gains or Losses	\$ (2,133,482)	\$ 733,465	-390.88%
Other Revenues, Expenses, Gains or Losses	\$ 32,385,914	\$ 17,429,184	85.81%
Increase (Decrease) in Net Assets	<u>\$ 30,252,432</u>	<u>\$ 18,162,649</u>	66.56%
Net Assets, Beginning of the Year	\$ 211,157,477	\$ 192,994,828	9.41%
Net Assets, End of the Year	\$ 241,409,909	\$ 211,157,477	14.33%

Highlights from the information presented in the Statement of Revenues, Expenses and Changes in Net Assets for the fiscal year ended June 30, 2009 include the following:

- Tuition and Fees, Net of Scholarship Allowance amounted to \$46,395,525 or 44.83% of Total Operating Revenues. Revenues from Grants and Contracts amounted to \$28,873,222 or 27.90% of Total Operating Revenues. Auxiliary Enterprises accounted for \$23,161,155 or 22.38% of Total Operating Revenues.
- Personal Services expenses totaled \$125,112,683 or 56.27% of Total Operating Expenses. Expenses for Supplies and Services totaled \$56,501,323 or 25.41% of Total Operating Expenses.
- Scholarships and Fellowships expenses totaled \$12,440,439 or 5.60% of Total Operating Expenses. Scholarships and Fellowships expenses amounted to 26.82% of Tuition and Fees revenue.

- The University's Loss from Operations amounted to \$118,873,297. State Appropriations, which are reported as Nonoperating Revenues, totaled \$90,818,135. Revenues and gains from all other sources amounted to \$69,430,206. Nonoperating Expenses, Other Expenses, and Other Losses amounted to \$11,122,612. These activities resulted in an increase in the University's Net Assets of \$30,252,432.

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, 2009

Cash Provided (Used) by:	
Operating Activities	\$ (97,991,139)
Noncapital Financing Activities	127,021,488
Capital and Related Financing Activities	(21,715,790)
Investing Activities	7,604,721
Net Increase (Decrease) in Cash	<u>\$ 14,919,280</u>
Cash - Beginning of the Year	\$ 24,704,089
Cash - End of the Year	\$ 39,623,369

Capital Assets and Debt Administration

The University's capital assets, net of accumulated depreciation increased from \$277,580,081 at June 30, 2008 to \$332,033,309 at June 30, 2009, an increase of \$54,453,228, or 19.62%. 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.

During the fiscal year ended June 30, 2009, the University received capital appropriations, grants and gifts totaling \$26,064,679. Additionally, the University received bond proceeds from Act 1282 of 2005 totaling \$7,213,274. These bonds are general obligation bonds of the state of Arkansas and are not liabilities of the University. The University issued \$9,290,000 in revenue bonds during the fiscal year ended June 30, 2009.

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 of the University, while sound, offers significant challenges and opportunities.

The net assets of the University grew from \$211,157,477 at June 30, 2008 to \$241,409,909 at June 30, 2009, an increase of \$30,252,432 or 14.33%. Net assets invested in capital assets, net of related debt increased by \$37,918,929 or 26.66% while other net asset categories declined by a combined total of \$7,666,497 or 11.12%. This reflects the University's ongoing emphasis on capital asset acquisition and infrastructure improvement as well as a decline in those net assets required to maintain operations and sustain facilities and infrastructure.

Economic conditions at the national and international level deteriorated significantly during the fiscal year ended June 30, 2009. While state revenue collections in Arkansas remained strong through June of 2009 they have declined significantly in the months since and the state has reduced its revenue forecast for fiscal year 2010 and, correspondingly, its appropriation to the University. Economic conditions have begun to improve nationally, however, Arkansas may well face several more months of declining or diminished revenue collections. State agencies, including public universities, will be required to manage this revenue shortfall and to carefully consider strategies for alternative revenue generation, cost containment, and retrenchment.

The University has launched initiatives to expand its offerings in online graduate education and international education and to expand its research and sponsored program activities. These efforts afford the University opportunities to expand its offerings to students, to enhance its reputation in academics and research, and to generate significant new sources of revenue. The individual campuses of the University will continue to work closely with their constituents and surrounding communities to fulfill its mission of teaching, research and service.

The University is scheduled to receive one-time stimulus funding through the American Recovery and Reinvestment Act of 2009 that will help to mitigate the short-term effects of the economic downturn. Additionally, the Arkansas Scholarship Lottery will provide scholarships and grants to Arkansas residents who enroll in public and private colleges and universities within the state. This initiative represents a potentially significant new source of funding for institutions that effectively recruit and retain Arkansas students.

The University will continue to strategically manage the challenges posed by the current economic situation and will continue to develop and expand new and innovative funding opportunities in furtherance of its mission.

ARKANSAS STATE UNIVERSITY SYSTEM
COMPARATIVE STATEMENT OF NET ASSETS
JUNE 30, 2009

Exhibit A

	June 30,	
	2009	2008
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 28,506,928	\$ 22,854,989
Short-term investments	10,004,630	12,010,037
Accounts receivable (less allowances of \$980,603 and \$881,956)	18,098,973	18,136,362
Notes and deposits receivable (less allowances of \$192,962 and \$176,103)	1,160,442	1,259,492
Accrued interest and late charges	391,785	551,742
Inventories	1,535,139	1,400,607
Deposits with trustee	3,177,499	1,638,891
Bond issuance costs	10,582	
Prepaid expenses	176,434	282,998
Total Current Assets	63,062,412	58,135,118
Noncurrent Assets:		
Restricted cash and cash equivalents	11,116,441	1,849,100
Endowment investments	8,884,555	11,566,229
Other long-term investments	6,745,863	11,034,532
Accrued interest	5,078	2,435
Deposits with trustee	19,376,477	41,865,971
Notes and deposits receivable (less allowances of \$903,573 and \$745,741)	5,652,320	5,557,083
Bond issuance costs	285,763	
Due from Arkansas State University Foundation, Inc.	367,638	479,703
Capital assets (net of accumulated depreciation of \$198,643,383 and \$184,007,294)	332,033,309	277,580,081
Total Noncurrent Assets	384,467,444	349,935,134
TOTAL ASSETS	447,529,856	408,070,252
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued liabilities	10,583,518	6,750,639
Accrued other postemployment benefits payable		414,901
Bonds, notes and leases payable	6,614,785	6,884,539
Compensated absences	5,407,279	5,262,800
Deferred revenue	2,834,830	1,083,196
Funds held in trust for others	589,252	723,597
Deposits	340,683	222,534
Interest payable	2,156,345	2,070,769
Other liabilities	22,076	9,155
Total Current Liabilities	28,548,768	23,422,130
Noncurrent Liabilities:		
Bonds, notes and leases payable	166,425,236	163,975,635
Compensated absences	1,528,616	1,251,538
Accrued other postemployment benefits payable	1,819,642	324,445
Deposits	278,574	278,425
Annuity payable	367,638	479,703
Refundable federal advances	7,151,473	7,180,899
Total Noncurrent Liabilities	177,571,179	173,490,645
TOTAL LIABILITIES	206,119,947	196,912,775

ARKANSAS STATE UNIVERSITY SYSTEM
 COMPARATIVE STATEMENT OF NET ASSETS
 JUNE 30, 2009

Exhibit A

		June 30,	
		2009	2008
NET ASSETS			
Invested in capital assets, net of related debt		\$ 180,153,062	\$ 142,234,133
Restricted for:			
Nonexpendable:			
	Scholarships and fellowships	5,146,775	6,535,860
	Loans	842,053	851,862
	Other	4,193,670	3,041,488
Expendable:			
	Scholarships and fellowships	655,235	632,983
	Research	455,244	269,887
	Loans	10,000	10,000
	Capital projects	7,588,151	7,689,814
	Debt service	1,393,325	169,374
	Renewal and replacement	50,000	50,000
	Other	6,488,935	6,095,226
Unrestricted		34,433,459	43,576,850
TOTAL NET ASSETS		\$ 241,409,909	\$ 211,157,477

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

ARKANSAS STATE UNIVERSITY FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2009

Exhibit A-1

ASSETS

Cash	\$	4,937,031
Repurchase agreement		2,470,445
Due from investment broker		785,701
Certificate of deposit		1,000,010
Prepaid expenses		19,633
Due from agency		22,713
Unconditional promises to give, net		3,062,801
Mortgage receivable		13,115
Short-term investments		24,421
Long-term investments		21,358,930
Cash surrender of life insurance		4,537
Property and equipment, net		1,230,993
Other assets		<u>2,600</u>
 Total Assets	 \$	 <u><u>34,932,930</u></u>

LIABILITIES

Accounts payable	\$	26,803
Notes payable		4,016
Annuities payable		345,901
Due to Arkansas State University, net		<u>367,638</u>
Total Liabilities		<u><u>744,358</u></u>

NET ASSETS

Unrestricted		2,121,963
Temporarily restricted		6,990,207
Permanently restricted		<u>25,076,402</u>
Total Net Assets		<u><u>34,188,572</u></u>
 Total Liabilities and Net Assets	 \$	 <u><u>34,932,930</u></u>

ARKANSAS STATE UNIVERSITY SYSTEM
 COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2009

Exhibit B

	Year Ended June 30,	
	2009	2008
OPERATING REVENUES		
Student tuition and fees (net of scholarship allowances of \$31,069,492 and \$26,971,899)	\$ 46,395,525	\$ 41,233,852
Grants and contracts	28,873,222	34,511,606
Sales and services of educational departments	765,520	822,233
Auxiliary enterprises (net of scholarship allowances of \$4,840,526 and \$4,173,107)	23,161,155	22,017,670
Self-insurance	2,816,292	2,718,232
Other operating revenues	1,474,721	1,303,743
TOTAL OPERATING REVENUES	103,486,435	102,607,336
OPERATING EXPENSES		
Personal services	125,112,683	118,371,034
Scholarships and fellowships	12,440,439	10,684,615
Supplies and services	56,501,323	53,872,766
Self-insurance	12,414,970	11,925,924
Depreciation	15,785,543	15,551,238
Other	104,774	146,476
TOTAL OPERATING EXPENSES	222,359,732	210,552,053
OPERATING INCOME (LOSS)	(118,873,297)	(107,944,717)
NON-OPERATING REVENUES (EXPENSES)		
State appropriations	90,818,135	92,164,251
Federal appropriations	776,366	35,399
Grants and contracts	29,297,438	15,665,730
Sales and use taxes	2,760,722	2,697,782
Property taxes	1,117,495	1,074,144
Gifts	1,145,463	2,811,013
Investment income (net of investment expense of \$123 and \$95)	(1,014,048)	1,998,031
Interest on capital asset - related debt	(7,773,782)	(7,562,415)
Other nonoperating revenues (expenses)	(387,974)	(205,753)
NET NON-OPERATING REVENUES (EXPENSES)	116,739,815	108,678,182
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	(2,133,482)	733,465
Capitalization of interest	145,857	1,635,953
Capital appropriations	8,428,625	3,002,314
Capital grants and gifts	17,636,054	6,199,054
Bond proceeds from Act 1282 of 2005	7,213,274	7,086,725
Additions to endowments	675	300
Adjustments to prior year capital assets	(1,430,577)	133,910
Refunds to grantors	(74,323)	(68,288)
Gain/loss on disposal on capital assets	(441,908)	(389,780)
Capitalization of library holdings at rate per volume	190,680	218,820
Livestock additions	1,450	9,755
Accrued interest on bond issue		11,277
Bond issuance costs		(400,121)
Excess funds remitted to escrow agent above amount of bonds advance refunded		(10,735)
Other	716,107	
INCREASE (DECREASE) IN NET ASSETS	30,252,432	18,162,649
NET ASSETS - BEGINNING OF YEAR	211,157,477	192,994,828
NET ASSETS - END OF YEAR	\$ 241,409,909	\$ 211,157,477

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

ARKANSAS STATE UNIVERSITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

Exhibit B-1

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support				
Support and Reclassifications				
Contributions	\$ 314,675	\$ 12,263,699	\$ 514,499	\$ 13,092,873
Contributed services	472,475			472,475
Investment return	(59,712)	721,166	(7,671,004)	(7,009,550)
Other income	169,041	1,059,388	3,900	1,232,329
Net assets released from restrictions	13,960,819	(13,960,819)		
 Total Support	 14,857,298	 83,434	 (7,152,605)	 7,788,127
 Expenses and Losses				
Program services				
Academic activities	269,994			269,994
Administrative	155,668			155,668
Student activities	52,967			52,967
Supporting services				
Management and general	628,948			628,948
Fundraising	133,631			133,631
Change in value of split interest agreements			52,726	52,726
Transfers to Arkansas State University	12,060,516			12,060,516
Transfers to the Alumni Association	1,583,727			1,583,727
 Total Expenses and Losses	 14,885,451		 52,726	 14,938,177
 Increase (Decrease) in net assets	 (28,153)	 83,434	 (7,205,331)	 (7,150,050)
 Net assets at beginning of year as previously reported	 2,163,446	 6,832,478	 32,342,698	 41,338,622
 Reclassification and internal transfers	 (13,330)	 74,295	 (60,965)	
 Total after reclassification and internal transfers	 2,150,116	 6,906,773	 32,281,733	 41,338,622
 Net assets at end of year	 \$ 2,121,963	 \$ 6,990,207	 \$ 25,076,402	 \$ 34,188,572

ARKANSAS STATE UNIVERSITY SYSTEM
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2009

Exhibit C

	Year Ended	
	2009	2008
CASH FLOW FROM OPERATING ACTIVITIES		
Student tuition and fees	\$ 47,632,731	\$ 39,442,883
Grants and contracts	27,491,192	34,747,533
Auxiliary enterprises revenues	23,158,584	22,059,019
Sales and services of educational departments	681,927	792,086
Self-insurance	2,995,970	2,560,901
Collection of principal and interest related to student loans	1,011,139	1,163,296
Other receipts	1,397,099	1,400,760
Payments to employees	(104,514,690)	(98,660,937)
Payments for employee benefits	(18,856,736)	(17,664,679)
Payments to suppliers	(53,464,661)	(51,695,081)
Scholarships and fellowships	(12,443,264)	(10,824,921)
Self-insurance	(11,964,597)	(11,020,425)
Loans issued to students	(1,115,833)	(1,274,897)
Net cash provided (used) by operating activities	<u>(97,991,139)</u>	<u>(88,974,462)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Federal appropriations	776,366	35,399
State appropriations	91,669,706	90,343,969
Grants and contracts	29,055,405	15,650,830
Private gifts and grants	1,291,615	3,113,148
Sales and use taxes	2,744,403	2,420,929
Property taxes	1,117,495	1,074,144
Other agency funds - net	(169,154)	285,735
Refunds to grantors	(73,209)	(63,087)
Other	608,861	(311,981)
Net cash provided (used) by noncapital financing activities	<u>127,021,488</u>	<u>112,549,086</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt		2,082,974
Capital appropriations	8,442,875	3,002,314
Capital gift and grants	14,858,940	4,309,388
Proceeds from sale of capital assets	6,399	13,192
Received from bond trustees	27,732,008	5,239,484
Payment to bond trustees	(8,929,382)	(7,979,553)
Purchases of capital assets	(67,782,652)	(31,554,088)
Bond proceeds from Act 1282 of 2005	8,781,173	5,518,827
Principal paid on capital debt and leases	(3,290,884)	(2,779,069)
Interest paid on capital debt and leases	(1,534,267)	(1,563,068)
Net cash provided (used) by capital and related financing activities	<u>(21,715,790)</u>	<u>(23,709,599)</u>

ARKANSAS STATE UNIVERSITY SYSTEM
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2009

Exhibit C

	Year Ended	
	2009	2008
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	\$ 27,155,455	\$ 22,428,322
Interest on investments (net of fees)	1,511,035	1,643,835
Reclassification of common fund to investments	(6,313,622)	
Purchases of investments	(14,748,147)	(24,819,291)
Net cash provided (used) by investing activities	7,604,721	(747,134)
Net increase (decrease) in cash and cash equivalents	14,919,280	(882,109)
Cash and cash equivalents - beginning of year	24,704,089	25,586,198
Cash and cash equivalents - end of year	\$ 39,623,369	\$ 24,704,089
Reconciliation of net operating revenues (expenses) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (118,873,297)	\$ (107,944,717)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	15,785,543	15,551,238
Change in assets and liabilities:		
Receivables, net	(2,131,138)	(1,812,980)
Inventories	(139,119)	83,206
Deposit with trustee		143,477
Prepaid expenses	106,564	(160,626)
Accounts and salaries payable	3,786,958	3,679,060
Other postemployment benefits payable	1,080,296	739,346
Deferred revenue	1,869,705	177,458
Deposits	118,297	116,531
Refundable federal advances	(29,426)	(162,764)
Compensated absences	421,557	626,672
Other liabilities	12,921	(10,363)
Net cash provided (used) by operating activities	\$ (97,991,139)	\$ (88,974,462)

NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES - 2009

ASUJ

The University issued bonds for construction. Payment of \$8,907,355 was remitted to the bond trustee directly from the bond proceeds and related discount.

NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES - 2008

ASUMH

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.

ASUN

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.

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

ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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

During the year ended June 30, 2009, the Foundation transferred property, equipment and funds of \$12,060,516 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, 2009

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 (4) campuses. Other than the receipt and disbursement of student financial aid 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, 2009

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, 2009. 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, 2009

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, 2009 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 postemployment benefits payable (Note 12); (5) annuity payable (Note 13) and (6) the refundable federal portion of the Perkins Loan Program.

Property Taxes

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

Sales and Use Taxes

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

Funds Held in Trust for Others

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

ARKANSAS STATE UNIVERSITY SYSTEM
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2009

NOTE 1: Summary of Significant Accounting Policies (Continued)

Net Assets

The University's net assets are classified as follows:

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

Restricted Net Assets: Within this classification there are two 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)	\$ 4,115,633	\$ 4,323,848
Collateralized:		
Collateral held by the pledging bank or pledging bank's trust department in the University's name	41,023,304	42,012,838
Total Deposits	\$ 45,138,937	\$ 46,336,686

ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 2: Public Fund Deposits and Investments (Continued)

The above deposits do not include cash on deposit in the state treasury, cash on hand maintained by the University and cash equivalents in the amounts of \$7,047,006, \$99,292 and \$58 for the year ended June 30, 2009, respectively. The above total deposits include certificates of deposits of \$12,501,736 reported as investments and deposits with trustees and classified as nonparticipating contracts. Additionally, the deposits include money market checking accounts of \$160,188 reported as deposits with trustees.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. It is the University's policy to require full collateralization above the Federal Deposit Insurance Corporation (FDIC) insurance limits. As of June 30, 2009, none of the University's bank balance of \$46,336,686 was exposed to custodial credit risk.

Short-Term Common Fund Account

The Common Fund Short Term Fund (the Fund) is a bank common trust fund and as such is regulated by the United States Treasury Department Office of the Comptroller of the Currency. The University used the Fund as a vehicle to invest daily operating funds. On September 29, 2008, as a participant in the Fund, the University received notice from Wachovia Bank, in its capacity as Trustee of the Fund, of its decision to initiate the termination of the Fund, to stop accepting deposits, to establish procedures for an orderly liquidation and distribution of the Fund's assets and to resign as Trustee of the Fund. The Trustee took this action upon recognizing that market conditions had become increasingly disrupted, and to ensure fair and equitable treatment of all investors in the Fund. Accordingly, Fund assets which the Trustee considered less liquid in the current market environment and representing approximately 90% of the Fund's portfolio as of September 26, 2008, were placed in a separate account within the Fund identified as the "Intermediate/Longer-Term Tranche". The assets held in the Intermediate/Longer-Term Tranche were effectively frozen, and were not available for drawdown by investors. A separate pool, identified as the "Immediate Tranche", was also established and held the Fund assets that were readily converted to cash on a same or next-day basis, and available for drawdown.

In December 2008, Law Debenture Trust Company of New York (Law Debenture) was named successor Trustee to the Fund, and assumed all participant account record keeping responsibilities as well as serving as paying agent for the Fund.

Assets of the Fund have been liquidated as they mature or as market conditions permit. As of June 30, 2009, the University had \$1,029,690 remaining in the Fund awaiting liquidation. Approximately 84% of the funds held on September 26, 2008 have been disbursed as of June 30, 2009.

Interest rate risk – The Fund invested in securities with maturities from one day to five and one-half years, but the portfolio was structured so that it would approximate the volatility of 3-month U.S. Treasury securities and not exceed the volatility of one-year U.S. Treasury securities. As the Fund has entered liquidation, the portfolio structure has changed significantly with securities maturing beyond five and one-half years. However, since the stated intentions of the Fund and the Fund Trustee are to return invested balances fully to participants as soon as is practical in light of market conditions, we do not believe the interest rate risk to be significantly changed.

Credit risk – The Fund was restricted to investments in U.S. Treasury and government agency securities, high quality corporate securities, mortgage- and asset- backed securities, and commercial and bank paper. However, the Fund is not rated by an external rating agency.

ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 2: Public Fund Deposits and Investments (Continued)

Deposits with Trustees

At June 30, 2009, the University's deposits with trustees, excluding nonnegotiable certificates of deposit of \$667,138 and money market checking accounts of \$160,188, of \$21,726,650 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 44 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, 2009, the University's investments, excluding endowment funds, consisted of corporate bonds of \$3,118,235 and U.S. agencies of \$907,152. The corporate bonds will mature as follows:

Less than one year - \$233,199
1-5 years - \$2,257,821
6-10 years - \$627,215

The U.S. agencies will mature as follows:

1-5 years - \$204,062
6-10 years - \$303,919
Greater than 10 years - \$399,171

Credit risk - The credit quality ratings of the corporate bonds ranged from BB+ to AA+ by Standard and Poor's and Baa2 to Aa2 by Moody's Investors Service. The credit quality ratings of the U.S. agencies were AAA by Standard and Poor's and Aaa to AAA by Moody's Investors Service.

Interest rate risk - The corporate bonds had an estimated weighted average maturity of 3.54 years at June 30, 2009. The U.S. agencies had an estimated weighted average maturity of 11.19 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.

Endowment Investments

Except for the endowment investments at the Beebe campus, which consisted of nonnegotiable certificates of deposit of \$139,182 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 20.34% or \$5,962,793 and consisted of the following types of investments:

Mutual funds under the direction of the Common Fund and TIAA/CREF investment asset managers - \$3,217,552
Real estate investments - \$265,291
Alternative assets - \$720,463
Cash equivalents - \$526,646
Bonds/Fixed Income - \$1,232,841

ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 2: Public Fund Deposits and Investments (Continued)

Credit risk – Applicable investments of the Common Fund portfolio had an average quality rating of B+ to AA+.

Interest rate risk – Applicable investments of the Common Fund portfolio had a weighted average maturity of 1.6 to 11.3 years and an effective duration of .5 to 7.3 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 \$2,782,580 consisted of the following types of investments held in trust by a third party:

Mutual funds - \$1,437,493
Corporate bonds - \$482,368
Cash equivalents - \$165,651
U.S. agencies - \$697,068

The corporate bonds will mature as follows:

1-5 years – \$266,378
6-10 years - \$175,261
Greater than 10 years - \$40,729

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

Less than one year - \$68,177
6-10 years - \$96,663
Greater than 10 years - \$532,228

Credit risk – The credit quality ratings of the corporate bonds ranged from BBB+ to AA+ 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 6.74 and 18.05 years, respectively, at June 30, 2009.

NOTE 3: Income Taxes

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

ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 4: Capital Assets

Following are the changes in capital assets for the year ended June 30, 2009:

Arkansas State University-Jonesboro					
	Balance July 1, 2008	Additions	Transfers	Retirements	Balance June 30, 2009
Nondepreciable capital assets:					
Land and improvements	\$ 6,465,227	\$ 60,513	\$ (152,960)	\$ (9,750)	\$ 6,363,030
Livestock for educational purposes	44,925	1,450			46,375
Construction-in-progress	17,665,448	45,314,075	(9,753,446)	(1,942,282)	51,283,795
Easements		2,560,000			2,560,000
	<u>\$ 24,175,600</u>	<u>\$ 47,936,038</u>	<u>\$ (9,906,406)</u>	<u>\$ (1,952,032)</u>	<u>\$ 60,253,200</u>
Other capital assets:					
Improvements and infrastructure	\$ 30,287,984	\$ 483,103	\$ 4,754,651	\$ (141,606)	\$ 35,384,132
Buildings	246,208,205	1,114,383	2,152,343	(497,697)	248,977,234
Equipment	33,564,535	3,114,147	(727,874)	(629,821)	35,320,987
Library/audiovisual holdings	11,616,070	190,680			11,806,750
Total other capital assets	<u>321,676,794</u>	<u>4,902,313</u>	<u>6,179,120</u>	<u>(1,269,124)</u>	<u>331,489,103</u>
Less accumulated depreciation for:					
Improvements and infrastructure	10,112,327	1,672,313	(33,879)	(39,853)	11,710,908
Buildings	104,850,756	7,410,043	(1,787,208)	(165,936)	110,307,655
Equipment	23,149,319	2,714,401	(529,897)	(607,376)	24,726,447
Library/audiovisual holdings	10,584,196	168,599			10,752,795
Total accumulated depreciation	<u>148,696,598</u>	<u>11,965,356</u>	<u>(2,350,984)</u>	<u>(813,165)</u>	<u>157,497,805</u>
Other capital assets, net	<u>\$ 172,980,196</u>	<u>\$ (7,063,043)</u>	<u>\$ 3,828,136</u>	<u>\$ (455,959)</u>	<u>\$ 169,289,330</u>
Capital Asset Summary:					
Nondepreciable capital assets	\$ 24,175,600	\$ 47,936,038	\$ (9,906,406)	\$ (1,952,032)	\$ 60,253,200
Other capital assets, at cost	<u>321,676,794</u>	<u>4,902,313</u>	<u>6,179,120</u>	<u>(1,269,124)</u>	<u>331,489,103</u>
Total cost of capital assets	345,852,394	52,838,351	(3,727,286)	(3,221,156)	391,742,303
Less accumulated depreciation	<u>148,696,598</u>	<u>11,965,356</u>	<u>(2,350,984)</u>	<u>(813,165)</u>	<u>157,497,805</u>
Capital Assets, net	<u>\$ 197,155,796</u>	<u>\$ 40,872,995</u>	<u>\$ (1,376,302) *</u>	<u>\$ (2,407,991)</u>	<u>\$ 234,244,498</u>

*Net transfers equal the amount of net capital assets transferred to ASU-Newport during the merger of the ASU Technical Center to ASU-Newport from ASU-Jonesboro.

ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 4: Capital Assets (Continued)

Arkansas State University-Beebe					
	Balance July 1, 2008	Additions	Transfers	Retirements	Balance June 30, 2009
Nondepreciable capital assets:					
Land and improvements	\$ 3,007,318		\$ 53,645		\$ 3,060,963
Livestock for educational purposes	69,550	\$ 875			70,425
Construction-in-progress	36,321,817	5,416,244	(33,884,430)		7,853,631
	<u>\$ 39,398,685</u>	<u>\$ 5,417,119</u>	<u>\$ (33,830,785)</u>	<u>\$ -</u>	<u>\$ 10,985,019</u>
Other capital assets:					
Improvements and infrastructure	\$ 3,435,230		\$ 358,515		\$ 3,793,745
Buildings	23,824,942		33,237,780	\$ (7,482)	57,055,240
Equipment	4,670,791	\$ 350,761	234,490	(308,175)	4,947,867
Library/audiovisual holdings	1,756,195	139,179		(33,179)	1,862,195
Total other capital assets	<u>33,687,158</u>	<u>489,940</u>	<u>33,830,785</u>	<u>(348,836)</u>	<u>67,659,047</u>
Less accumulated depreciation for:					
Improvements and infrastructure	1,249,181	173,578			1,422,759
Buildings	15,206,357	1,079,143		(5,811)	16,279,689
Equipment	3,336,864	321,612		(283,299)	3,375,177
Library/audiovisual holdings	1,134,357	116,800		(33,179)	1,217,978
Total accumulated depreciation	<u>20,926,759</u>	<u>1,691,133</u>		<u>(322,289)</u>	<u>22,295,603</u>
Other capital assets, net	<u>\$ 12,760,399</u>	<u>\$ (1,201,193)</u>	<u>\$ 33,830,785</u>	<u>\$ (26,547)</u>	<u>\$ 45,363,444</u>
Capital Asset Summary:					
Nondepreciable capital assets	\$ 39,398,685	\$ 5,417,119	\$ (33,830,785)		\$ 10,985,019
Other capital assets, at cost	33,687,158	489,940	33,830,785	\$ (348,836)	67,659,047
Total cost of capital assets	<u>73,085,843</u>	<u>5,907,059</u>		<u>(348,836)</u>	<u>78,644,066</u>
Less accumulated depreciation	<u>20,926,759</u>	<u>1,691,133</u>		<u>(322,289)</u>	<u>22,295,603</u>
Capital Assets, net	<u>\$ 52,159,084</u>	<u>\$ 4,215,926</u>	<u>\$ -</u>	<u>\$ (26,547)</u>	<u>\$ 56,348,463</u>

ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 4: Capital Assets (Continued)

Arkansas State University-Mountain Home

	Balance July 1, 2008	Additions	Transfers	Retirements	Balance June 30, 2009
Nondepreciable capital assets:					
Land and improvements	\$ 2,934,808				\$ 2,934,808
Construction-in-progress	5,065,207	\$ 7,776,962	\$ (5,184,796)		7,657,373
Total nondepreciable capital assets	<u>\$ 8,000,015</u>	<u>\$ 7,776,962</u>	<u>\$ (5,184,796)</u>	<u>\$ -</u>	<u>\$ 10,592,181</u>
Other capital assets:					
Improvements and infrastructure	\$ 2,273,491				\$ 2,273,491
Buildings	14,536,846		\$ 5,184,796		19,721,642
Equipment	944,006	\$ 88,019		\$ (3,000)	1,029,025
Library/audiovisual holdings	825,007	28,867			853,874
Total other capital assets	<u>18,579,350</u>	<u>116,886</u>	<u>5,184,796</u>	<u>(3,000)</u>	<u>23,878,032</u>
Less accumulated depreciation for:					
Improvements and infrastructure	865,733	136,991			1,002,724
Buildings	6,490,892	969,123			7,460,015
Equipment	680,449	22,600		(3,000)	700,049
Library/audiovisual holdings	577,532	80,481			658,013
Total accumulated depreciation	<u>8,614,606</u>	<u>1,209,195</u>		<u>(3,000)</u>	<u>9,820,801</u>
Other capital assets, net	<u>\$ 9,964,744</u>	<u>\$ (1,092,309)</u>	<u>\$ 5,184,796</u>	<u>\$ -</u>	<u>\$ 14,057,231</u>
Capital Asset Summary:					
Nondepreciable capital assets	\$ 8,000,015	\$ 7,776,962	\$ (5,184,796)		\$ 10,592,181
Other capital assets, at cost	18,579,350	116,886	5,184,796	\$ (3,000)	23,878,032
Total cost of capital assets	26,579,365	7,893,848		(3,000)	34,470,213
Less accumulated depreciation	8,614,606	1,209,195		(3,000)	9,820,801
Capital Assets, net	<u>\$ 17,964,759</u>	<u>\$ 6,684,653</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,649,412</u>

ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 4: Capital Assets (Continued)

Arkansas State University-Newport

	Balance July 1, 2008	Additions	Transfers	Retirements	Balance June 30, 2009
Nondepreciable capital assets:					
Land and improvements	\$ 332,103		\$ 152,960		\$ 485,063
Construction-in-progress	841,790	\$ 5,081,211	(5,686)	\$ (10,041)	5,907,274
Total nondepreciable capital assets	<u>\$ 1,173,893</u>	<u>\$ 5,081,211</u>	<u>\$ 147,274</u>	<u>\$ (10,041)</u>	<u>\$ 6,392,337</u>
Other capital assets:					
Improvements and infrastructure	\$ 313,865				\$ 313,865
Buildings	13,393,244	\$ 388,649	\$ 2,888,453		16,670,346
Equipment	881,982	554,636	691,559	\$ (10,435)	2,117,742
Library/audiovisual holdings	306,789	19,596		(565)	325,820
Total other capital assets	<u>14,895,880</u>	<u>962,881</u>	<u>3,580,012</u>	<u>(11,000)</u>	<u>19,427,773</u>
Less accumulated depreciation for:					
Improvements and infrastructure	141,211	20,924			162,135
Buildings	4,767,450	758,881	1,821,087		7,347,418
Equipment	602,371	111,236	529,897	(10,435)	1,233,069
Library/audiovisual holdings	258,299	28,818		(565)	286,552
Total accumulated depreciation	<u>5,769,331</u>	<u>919,859</u>	<u>2,350,984</u>	<u>(11,000)</u>	<u>9,029,174</u>
Other capital assets, net	<u>\$ 9,126,549</u>	<u>\$ 43,022</u>	<u>\$ 5,930,996</u>	<u>\$ -</u>	<u>\$ 15,100,567</u>
Capital Asset Summary:					
Nondepreciable capital assets	\$ 1,173,893	\$ 5,081,211	\$ 147,274	\$ (10,041)	\$ 6,392,337
Other capital assets, at cost	14,895,880	962,881	3,580,012	(11,000)	19,427,773
Total cost of capital assets	16,069,773	6,044,092	3,727,286	(21,041)	25,820,110
Less accumulated depreciation	5,769,331	919,859	2,350,984	(11,000)	9,029,174
Capital Assets, net	<u>\$ 10,300,442</u>	<u>\$ 5,124,233</u>	<u>\$ 1,376,302</u>	<u>\$ (10,041)</u>	<u>\$ 16,790,936</u>

*Net transfers equal the amount of net capital assets transferred to ASU-Newport during the merger of the ASU Technical Center to ASU-Newport from ASU-Jonesboro.

ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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, 2009	Maturities To June 30, 2009
10/1/69	10/1/09	4.5%	\$ 2,250,000	\$ 130,000	\$ 2,120,000
3/1/01	3/1/31	3.6 - 5.25%	7,000,000	5,900,000	1,100,000
3/1/01	3/1/31	3.6 - 5.25%	3,000,000	2,520,000	480,000
11/15/02	12/1/27	1.6 - 5%	6,105,000	4,250,000	1,855,000
3/1/04	3/1/34	3 - 5%	34,000,000	31,765,000	2,235,000
3/1/04	3/1/34	2 - 4.6%	11,555,000	9,400,000	2,155,000
8/30/04	4/1/10	4.45%	1,390,994	243,555	1,147,439
8/30/04	7/1/10	4.45%	1,051,784	274,251	777,533
8/30/04	4/1/10	4.45%	1,018,199	217,674	800,525
9/30/04	3/1/10	4.45%	187,841	29,370	158,471
9/30/04	3/1/10	4.45%	375,683	61,807	313,876
10/1/04	10/1/24	6%	465,046	398,855	66,191
10/28/04	3/1/10	4.45%	113,538	17,756	95,782
3/23/05	3/1/10	4.70%	187,841	32,356	155,485
3/23/05	3/1/10	4.70%	187,841	36,017	151,824
9/15/05	4/1/25	3 - 5%	19,230,000	16,925,000	2,305,000
9/30/05	3/1/10	4.85%	187,841	33,858	153,983
1/31/06	3/1/10	5.29%	187,841	38,306	149,535
3/31/06	3/1/10	5.55%	187,841	40,751	147,090
7/31/06	3/1/10	5.55%	187,841	43,172	144,669
8/25/06	8/25/10	7.99%	44,573	19,905	24,668
9/30/06	3/1/10	5.55%	187,841	46,396	141,445
1/15/07	3/1/10	5.55%	187,841	49,925	137,916
6/1/07	3/1/37	3.65 - 5%	17,065,000	16,290,000	775,000
6/1/07	3/1/37	3.65 - 5%	30,300,000	29,565,000	735,000
6/28/07	3/1/10	5.88%	187,841	54,005	133,836
3/19/09	3/1/39	3 - 5.1%	9,290,000	9,290,000	
Unamortized discount			(86,057)	(86,057)	
Totals			<u>\$ 146,047,170</u>	<u>\$ 127,586,902</u>	<u>\$ 18,460,268</u>

ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 5: Long-Term Liabilities (Continued)

Arkansas State University-Beebe					
Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized and Issued	Debt Outstanding June 30, 2009	Maturities To June 30, 2009
10/1/1992	10/1/2012	6.2 - 6.6%	\$ 400,000	\$ 130,000	\$ 270,000
9/15/2005	12/1/2023	3.83%	3,330,000	2,775,000	555,000
12/6/2005	12/1/2035	4.78%	15,170,000	14,360,000	810,000
3/1/2006	9/1/2035	4.72%	11,000,000	10,405,000	595,000
1/15/2008	12/1/2032	3 - 4.375%	2,080,000	2,020,000	60,000
Totals			<u>\$ 31,980,000</u>	<u>\$ 29,690,000</u>	<u>\$ 2,290,000</u>

Arkansas State University-Mountain Home					
Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized and Issued	Debt Outstanding June 30, 2009	Maturities To June 30, 2009
4/21/1999	2/10/2016	5.85%	\$ 567,296	\$ 301,552	\$ 265,744
8/1/1999	4/10/2019	4.80%	1,032,704	636,567	396,137
12/1/2002	12/1/2017	1.6 - 4.4%	5,405,000	3,545,000	1,860,000
1/29/2008	12/1/2032	4.2 - 4.5%	5,180,000	5,025,000	155,000
Totals			<u>\$ 12,185,000</u>	<u>\$ 9,508,119</u>	<u>\$ 2,676,881</u>

Arkansas State University-Newport					
Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized and Issued	Debt Outstanding June 30, 2009	Maturities To June 30, 2009
1/29/2008	12/1/2032	3 - 4.375%	\$ 2,075,000	\$ 2,015,000	\$ 60,000
4/30/2008	5/1/2028	2.75 - 4.5%	4,400,000	4,240,000	160,000
Totals			<u>\$ 6,475,000</u>	<u>\$ 6,255,000</u>	<u>\$ 220,000</u>

ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 5: Long-Term Liabilities (Continued)

The changes in long-term liabilities are as follows:

Arkansas State University-Jonesboro					
	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009	Amounts Due Within One Year
Bonds payable	\$ 120,080,000	\$ 9,203,943	\$ 3,335,000	\$ 125,948,943	\$ 3,882,131
Notes payable	2,939,087		1,321,033	1,618,054	1,211,141
Capital leases payable	528,826		508,921	19,905	9,570
Compensated absences	4,522,695	3,707,050	3,545,348	4,684,397	4,039,528
Totals	\$ 128,070,608	\$ 12,910,993	\$ 8,710,302	\$ 132,271,299	\$ 9,142,370

Arkansas State University-Beebe					
	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009	Amounts Due Within One Year
Bonds payable	\$ 30,565,000		\$ 875,000	\$ 29,690,000	\$ 730,000
Capital leases payable	196,576		196,576		
Compensated absences	1,257,323	\$ 883,084	805,136	1,335,271	871,015
Totals	\$ 32,018,899	\$ 883,084	\$ 1,876,712	\$ 31,025,271	\$ 1,601,015

Arkansas State University-Mountain Home					
	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009	Amounts Due Within One Year
Bonds payable	\$ 9,055,000		\$ 485,000	\$ 8,570,000	\$ 475,000
Notes payable	1,020,685		82,566	938,119	86,943
Compensated absences	359,741	\$ 229,492	225,374	363,859	32,747
Totals	\$ 10,435,426	\$ 229,492	\$ 792,940	\$ 9,871,978	\$ 594,690

ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 5: Long-Term Liabilities (Continued)

Arkansas State University-Newport					
	Balance			Balance	Amounts
	July 1, 2008	Additions	Reductions	June 30, 2009	Due Within
					One Year
Bonds payable	\$ 6,475,000		\$ 220,000	\$ 6,255,000	\$ 220,000
Compensated absences	374,579	\$ 422,459	244,670	552,368	463,989
	<u>6,849,579</u>	<u>\$ 422,459</u>	<u>\$ 464,670</u>	<u>\$ 6,807,368</u>	<u>\$ 683,989</u>
Totals	<u>\$ 6,849,579</u>	<u>\$ 422,459</u>	<u>\$ 464,670</u>	<u>\$ 6,807,368</u>	<u>\$ 683,989</u>

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

Arkansas State University-Jonesboro			
Year ended			
June 30,	Principal	Interest	Total
2010	\$ 5,102,842 *	\$ 5,894,365 **	\$ 10,997,207
2011	4,109,541	5,707,052	9,816,593
2012	4,240,728	5,551,101	9,791,829
2013	4,411,875	5,383,501	9,795,376
2014	4,258,092	5,212,097	9,470,189
2015-2019	22,491,524	23,305,941	45,797,465
2020-2024	27,095,433	17,681,407	44,776,840
2025-2029	21,700,555	11,584,534	33,285,089
2030-2034	24,650,657	5,973,510	30,624,167
2035-2039	9,525,655	1,078,613	10,604,268
	<u>\$ 127,586,902</u> ***	<u>\$ 87,372,121</u>	<u>\$ 214,959,023</u>
Totals	<u>\$ 127,586,902</u>	<u>\$ 87,372,121</u>	<u>\$ 214,959,023</u>

*Includes discount amortization of \$2,869.

**Includes interest payable of \$1,850,664 recorded as a current liability at June 30, 2009.

***Total principal of \$127,586,902 includes discount amortization of \$86,057.

ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 5: Long-Term Liabilities (Continued)

Arkansas State University-Beebe

Year ended June 30,	Principal	Interest	Total
2010	\$ 730,000	\$ 1,319,690 *	\$ 2,049,690
2011	760,000	1,291,783	2,051,783
2012	790,000	1,261,864	2,051,864
2013	815,000	1,230,147	2,045,147
2014	810,000	1,198,364	2,008,364
2015-2019	4,565,000	5,475,322	10,040,322
2020-2024	5,585,000	4,438,059	10,023,059
2025-2029	5,585,000	3,202,488	8,787,488
2030-2034	6,975,000	1,654,344	8,629,344
2035-2036	3,075,000	155,625	3,230,625
Totals	<u>\$ 29,690,000</u>	<u>\$ 21,227,686</u>	<u>\$ 50,917,686</u>

*Includes interest payable of \$231,119 recorded as a current liability at June 30, 2009.

Arkansas State University-Mountain Home

Year ended June 30,	Principal	Interest	Total
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	646,925	289,799	936,724
2015-2019	3,019,751	1,031,647	4,051,398
2020-2024	1,015,000	643,265	1,658,265
2025-2029	1,250,000	404,274	1,654,274
2030-2033	1,210,000	108,500	1,318,500
Totals	<u>\$ 9,508,119</u>	<u>\$ 3,873,175</u>	<u>\$ 13,381,294</u>

*Includes interest payable of \$40,128 recorded as a current liability at June 30, 2009.

ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 5: Long-Term Liabilities (Continued)

Arkansas State University-Newport

Year ended June 30,	Principal	Interest	Total
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	245,000	217,450	462,450
2015-2019	1,355,000	953,139	2,308,139
2020-2024	1,655,000	668,154	2,323,154
2025-2029	1,595,000	282,259	1,877,259
2030-2033	490,000	43,968	533,968
Totals	<u>\$ 6,255,000</u>	<u>\$ 3,108,872</u>	<u>\$ 9,363,872</u>

*Includes interest payable of \$34,434 recorded as a current liability at June 30, 2009.

NOTE 6: Capital Leases

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

Type of Asset	Asset Amount
Farm equipment	<u>\$ 44,573</u>

The following is a schedule of future minimum lease payments under capital leases, together with the present value of the net minimum lease payments, as of June 30, 2009:

Fiscal Year Ending June 30,	Amount
2010	\$ 11,160
2011	11,161
Total Minimum Lease Payments	22,321
Less: Amount Representing Interest	<u>2,416</u>
Total Present Value of Net Minimum Lease Payments	<u>\$ 19,905</u>

ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 7: Commitments

The University was contractually obligated for the following at June 30, 2009:

A. Construction Contracts

Project Name	Estimated Completion Date	Contract Balance
<u>Jonesboro</u>		
Honors Hall	August 2009	\$ 987,432
Red Wolf Center	February 2010	6,106,524
Red Wolf Apartments	October 2009	1,732,475
Reynolds Building*	July 2009	597,108
Delta Center	October 2009	576,707
Central Plant/Liberal Arts	March 2010	3,413,471
Caraway Road Overpass Phase I/Phase II	October 2010/January 2011	4,454,936
 <u>Beebe</u>		
Paving Project	August 2009	221,902
 <u>Mountain Home</u>		
Community Development	September 2010	3,300,401
 <u>Newport</u>		
Renovations to Buildings A & D	September 2009	160,343
Building Addition/Renovation	January 2010	530,672
Building C Renovation	September 2009	111,608
South Parking Lot Renovation	November 2009	221,676

*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.

B. Operating Leases (Noncapital leases with initial or remaining noncancellable lease terms in excess of 1 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, 2009: \$1,666,439

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

2010	\$	766,730
2011		572,877
2012		183,426
2013		106,875
2014		36,531

ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 7: Commitments (Continued)

B. (Continued)

Rental payments for the above operating leases, for the year ended June 30, 2009, were approximately \$846,466.

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, 2009 were \$6,706,663 and \$6,313,218, 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 (prior to 7-1-1999). 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, 2009, 2008 and 2007 were \$1,223,432, \$1,152,945 and \$872,444, respectively, equal to the required contributions for each year.

Arkansas Public Employees Retirement System

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

ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 8: Retirement Plans (Continued)

Arkansas Public Employees Retirement System (Continued)

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 11.01% of annual covered payroll. Vesting occurs for all participants after 5 years of service. The University's contributions to APERS for the years ended June 30, 2009, 2008 and 2007 were \$854,121, \$966,815 and \$939,617, 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, 2009 were \$728,532 and \$805,922, 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	\$ 53,927,972	\$ 853,608	\$ 7,111,384				\$ 61,892,964
Research	6,793,241	271,034	4,039,666				11,103,941
Public service	9,552,431	617,353	5,814,964				15,984,748
Academic support	11,307,290	1,175	5,985,039				17,293,504
Student services	9,628,419	124,038	3,323,092				13,075,549
Institutional support	16,848,923	12,400	6,190,459				23,051,782
Scholarships and fellowships		7,490,243	212				7,490,455
Operations and maintenance of plant	9,628,662		10,954,597				20,583,259
Auxiliary enterprises	7,425,745	3,070,588	13,081,910				23,578,243
Self-insurance				\$ 12,414,970			12,414,970
Depreciation					\$ 15,785,543		15,785,543
Other						\$ 104,774	104,774
Totals	\$ 125,112,683	\$ 12,440,439	\$ 56,501,323	\$ 12,414,970	\$ 15,785,543	\$ 104,774	\$ 222,359,732

NOTE 10: Disaggregation of Receivable and Payable Balances

Accounts receivable from students was \$8,079,563 at June 30, 2009. This amount was reduced by an allowance for doubtful accounts of \$980,603.

Notes receivable pertains to loans awarded to students through the Federal Perkins Loan Program. Notes receivable was \$7,690,922 at June 30, 2009. This amount was reduced by an allowance for doubtful loans of \$1,096,535. Deposits receivable was \$218,375 at June 30, 2009.

ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 10: Disaggregation of Receivable and Payable Balances (Continued)

Other receivables of \$11,000,013 at June 30, 2009 primarily consisted of reimbursements of \$5,380,113 from various agencies for grants and contracts, \$1,319,651 for construction projects, \$2,026,868 due from various state treasury accounts, \$458,017 for sales and use taxes, and auxiliary enterprises receivables of \$719,586. Other receivables also consisted of \$607,669 due from the U. S. Department of Education for cancellations pertaining to the Federal Perkins Loan Program and miscellaneous items of \$488,109.

The accounts payable and accrued liabilities of \$10,583,518 consisted of \$7,532,728 due to vendors, \$54,620 due to students, \$54,871 due for sales and use taxes, \$1,508,894, for salaries and other payroll related items, \$1,371,996 for health claims and miscellaneous items of \$60,409.

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 fifty-five (55) and sixty (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 seventy (70). Employees sixty (60) years of age and older are eligible for retirement benefits in the calendar year in which they have at least ten (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 ASU pays and half of the employee premium).
2. Life insurance and accidental death and dismemberment benefits equal to the scheduled amount at the time of the retiree's retirement will continue at no cost to the retiree; and
3. Continuing eligibility of the retiree, their spouse and unmarried dependent children for tuition discounts in effect for current university employees.

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

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

At June 30, 2009, the number of retirees who were eligible for these benefits totaled 82. 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, 2009, the number of retirees eligible for these benefits totaled three. 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 \$456,127 for the year ended June 30, 2009. Of this amount, the University's contribution was \$246,658.

ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 12: Other Postemployment Benefits (Continued)

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(s) 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 postretirement health care benefits are recognized monthly and financed on a pay-as-you-go basis. The University funds approximately 53% of the postretirement healthcare premiums, which totaled \$367,076 for the fiscal year ended June 30, 2009. The retirees are responsible for funding approximately 47% of the healthcare premiums. The postretirement healthcare premiums for the fiscal year ended June 30, 2008, which totaled \$618,526, was funded approximately 67% by the University and 33% by the retirees.

As part of the transition provisions of GASB Statement No. 45, the University accrued an additional \$1,080,296 in retiree healthcare expense during fiscal year 2009. This compares to \$739,346 accrued during fiscal year 2008.

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 Supplemental 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 Accrual

Cost Element	Fiscal Year Ended			
	June 30, 2009		June 30, 2008	
	Amount	Percent of Payroll ²	Amount	Percent of Payroll ³
1. Beginning of year unfunded actuarial accrued liability	\$ 8,841,741	8.95%	\$ 8,080,750	9.26%
<u>Annual Required Contribution (ARC)</u>				
2. Normal cost	\$ 802,444		\$ 741,973	
3. Amortization of the unfunded actuarial accrued liability over 30 years using open amortization	451,099		412,274	
4. Amortization of beginning of year accrual ¹	37,721		0	
5. Annual Required Contribution (ARC) (2. + 3. + 4.)	\$ <u>1,291,264</u>	1.31%	\$ <u>1,154,247</u>	1.32%
<u>Annual OPEB Cost (Expense)</u>				
6. Normal cost	\$ 802,444		\$ 741,973	
7. Amortization of the unfunded actuarial accrued liability over 30 years using open amortization	451,099		412,274	
8. Interest on beginning of year accrual ¹	22,180		0	
9. Annual OPEB cost (6. + 7. + 8.)	\$ <u>1,275,723</u>	1.29%	\$ <u>1,154,247</u>	1.32%

ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 12: Other Postemployment Benefits (Continued)

End of Year Accrual (Net OPEB Obligation)

10. Beginning of year accrual ¹	\$ 739,346		\$ 0	
11. Annual OPEB cost	1,275,723		1,154,247	
12. Employer contribution (benefit payments) ⁴	<u>195,427</u>		<u>414,901</u>	
13. End of year accrual (10. + 11. – 12.)	<u>\$ 1,819,642</u>	1.84%	<u>\$ 739,346</u>	0.84%

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

² Annual payroll for the 1,988 plan participants as of July 1, 2008 is \$98,802,723.

³ Annual payroll for the 2,004 plan participants as of July 1, 2007 is \$87,212,900.

⁴ Actual contributions and administrative fees paid in fiscal year 2009 of \$367,076 less participant contributions of \$171,649; \$618,526 and \$203,625, respectively, in fiscal year 2008. Employer contributed 15.3% of annual OPEB cost during fiscal year 2009, compared to 35.9% during fiscal year 2008.

Schedule of Employer Contributions

Fiscal Year Ended	Annual OPEB Cost	Actual Contributions ⁵	Percentage Contributed
June 30, 2009	\$ 1,275,723	\$ 195,427	15.3%
June 30, 2008	\$ 1,154,247	\$ 414,901	35.9%

⁵ Since there is no funding, these are actual benefit payments less retiree contributions. For 2009, these amounts are \$367,076 and \$171,649, respectively. For 2008, these amounts are \$618,526 and \$203,625, respectively.

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 ⁶ (c)	UAAL as a Percentage Of Covered Payroll ⁶ [(b)-(a)]/(c)
June 30, 2009	\$ 0	\$ 8,841,741	\$ 8,841,741	0%	\$ 98,802,723	8.95%
June 30, 2008	\$ 0	\$ 8,080,750	\$ 8,080,750	0%	\$ 87,212,900	9.26%

⁶ Payroll as of July 1, 2008 and July 1, 2007 includes only plan participants.

Note: The annual OPEB cost of \$1,275,723 for fiscal year 2009 and accrual of \$1,819,642 as of June 30, 2009, are based on a current decision not to fund in a segregated GASB qualified trust; \$1,154,247 and \$739,346, respectively, as of June 30, 2008.

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, 2009	\$ 1,275,723	15.3%	\$ 1,819,642
June 30, 2008	\$ 1,154,247	35.9%	\$ 739,346

ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 12: Other Postemployment Benefits (Continued)

Summary of Key Actuarial Methods and Assumptions

Valuation year	July 1, 2008 – June 30, 2009
Actuarial cost method	Projected Unit Credit, level dollar
Amortization method	30 years, level dollar open amortization ⁷
Asset valuation method	N/A

⁷ 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	Trend rates are not used after 2008 because ASU 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. These premiums are used in this roll-forward of plan liabilities per GASB Statement No. 45.

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, 2008 – June 30, 2009
Date of Census Data	February 1, 2008
Actuarial Cost Method	Projected Unit Credit actuarial cost method; Unfunded Actuarial Liability (UAL) amortized on a level dollar basis over 30 years.

Retiree Premiums

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

Annual Health Care Trend Rate Trend rates are not used after 2008 because ASU has frozen employer contributions to the plan at fiscal 2008 levels.

Discount Rate 3.0% per annum

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

ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 12: Other Postemployment Benefits (Continued)

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

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.

ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 13: Annuity Payable (Continued)

Payments over the next three years are as follows:

2010	\$ 135,000
2011	135,000
2012	<u>135,000</u>
Total Payments Receivable from ASU Foundation	405,000
Less: Discount to Present Value	<u>37,362</u>
Net Receivable from ASU Foundation and Annuity Payable	<u><u>\$ 367,638</u></u>

This footnote and the corresponding asset and liability reflect the University's understanding of its obligation under this agreement as of June 30, 2009. The University is continuing to consult with legal counsel to insure full understanding of the agreement and the appropriate recording and disclosure of assets and liabilities arising from it.

NOTE 14: Arkansas Services Center

On October 8, 1968, an agreement was signed by Arkansas State University, Arkansas State Hospital, Arkansas Department of Public Welfare, Arkansas State Board of Vocational Education and Craighead County, Arkansas to raise money for the construction of the Arkansas Services Center. This project was financed from the proceeds of a bond issue by Arkansas State University, grants and legislative appropriations by the agencies. With the exception of Craighead County, Arkansas, the participants signed lease agreements for 40 years (the bond term) with rentals and revenues thereof, sufficient to maintain the facility and retire the bonds.

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

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, 2009, approximately 4,013 active employees, their dependents, former employees and retirees were participating in the program. For those participating in either plan, the University pays 86.5% of the total premium for full-time employees and early retirees, and 69.8% 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 \$1,371,996 with BlueAdvantage.

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 \$175,000.

NOTE 16: Endowment Funds

The University has donor-restricted endowment funds. Investment income on the amount endowed is restricted for scholarships and other purposes. All endowment funds are maintained as investments. Investments reported at fair value, include U. S. Government obligations, corporate bonds, mutual funds and other managed investments. The endowment net assets at June 30, 2009 were \$7,817,794. Of this amount, \$7,438,777 was restricted-nonexpendable and the remaining \$379,017 was restricted-expendable.

ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 16: Endowment Funds (Continued)

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, 2009 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; *2009 Gross Revenue:* \$1,140,271; *Amount Issued:* \$2,250,000; *2009 Principal Paid:* \$115,000; *2009 Interest Paid:* \$8,438; *Principal Outstanding:* \$130,000; *Interest Outstanding:* \$2,925; *Percent of revenue pledged in 2009:* 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; *2009 Gross Revenue:* Tuition and Fees (see below); *Amount Issued:* \$3,000,000; *2009 Principal Paid:* \$70,000; *2009 Interest Paid:* \$130,713; *Principal Outstanding:* \$2,520,000; *Interest Outstanding:* \$1,683,550; *Percent of revenue pledged in 2009:* 0.3%
- **Series 2001 Housing/Series 2004 Housing**—*Issue Dates:* 3-1-2001 and 3-1-2004; *Maturity Date:* 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; *2009 Gross Revenue:* \$1,284,698; *Amounts Issued:* \$7,000,000 and \$7,500,000; *2009 Principal Paid:* \$155,000 and \$157,721; *2009 Interest Paid:* \$305,910 and \$328,101; *Principal Outstanding:* \$5,900,000 and \$7,006,985; *Interest Outstanding:* \$4,004,203 and \$5,143,398; *Percent of revenue pledged in 2009:* 73.7%
- **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; *2009 Gross Revenue:* Tuition and Fees (see below)/\$1,166,803; *Amount Issued:* \$6,105,000; *2009 Principal Paid:* \$435,000; *2009 Interest Paid:* \$177,690; *Principal Outstanding:* \$4,250,000; *Interest Outstanding:* \$1,083,770; *Percent of revenue pledged in 2009:* 1.0%
- **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; *2009 Gross Revenue:* Tuition and Fees (see below); *Amount Issued:* \$11,555,000; *2009 Principal Paid:* \$450,000; *2009 Interest Paid:* \$398,395; *Principal Outstanding:* \$9,400,000; *Interest Outstanding:* \$5,675,163; *Percent of revenue pledged in 2009:* 1.4%
- **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; *2009 Gross Revenue:* \$2,924,401; *Amount Issued:* \$26,500,000; *2009 Principal Paid:* \$557,279; *2009 Interest Paid:* \$1,159,289; *Principal Outstanding:* \$24,758,015; *Interest Outstanding:* \$18,173,341; *Percent of revenue pledged in 2009:* 58.7%
- **Series 2005 Refunding**—*Issue Date:* 9-15-2005; *Maturity Date:* 4-1-2025; *Purpose:* Refinance Student Union; *Type of Revenue Pledged:* Student Union Fee; *2009 Gross Revenue:* \$2,320,100; *Amount Issued:* \$14,342,625; *2009 Principal Paid:* \$566,843; *2009 Interest Paid:* \$632,720; *Principal Outstanding:* \$12,623,449; *Interest Outstanding:* \$5,677,811; *Percent of revenue pledged in 2009:* 51.7%

ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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 Parking Garage; *Type of Revenue Pledged:* Parking Fees; *2009 Gross Revenue:* \$1,269,400; *Amount Issued:* \$4,887,375; *2009 Principal Paid:* \$193,157; *2009 Interest Paid:* \$215,605; *Principal Outstanding:* \$4,301,551; *Interest Outstanding:* \$1,934,764; *Percent of revenue pledged in 2009:* 32.2%
- **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; *2009 Gross Revenue:* \$1,160,299; *Amount Issued:* \$17,065,000; *2009 Principal Paid:* \$300,000; *2009 Interest Paid:* \$757,019; *Principal Outstanding:* \$16,290,000; *Interest Outstanding:* \$13,332,574; *Percent of revenue pledged in 2009:* 91.1%
- **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; *2009 Gross Revenue:* \$1,248,131; *Amount Issued:* \$30,300,000; *2009 Principal Paid:* \$335,000; *2009 Interest Paid:* \$1,397,405; *Principal Outstanding:* \$29,565,000; *Interest Outstanding:* \$21,966,120; *Percent of revenue pledged in 2009:* 100%
- **Series 2009 Housing**—*Issue Date:* 3-19-2009; *Maturity Date:* 3-1-2039; *Purpose:* Construction of two residence halls; *Type of Revenue Pledged:* Housing Fees; *2009 Gross Revenue:* \$0; *Amount Issued:* \$9,290,000; *2009 Principal Paid:* \$0; *2009 Interest Paid:* \$0; *Principal Outstanding:* \$9,290,000; *Interest Outstanding:* \$8,418,241; *Percent of revenue pledged in 2009:* 0%

*Note: Issues with Tuition and Fees pledged, 2009 Gross Revenue--\$61,750,980

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; *2009 Gross Revenue:* \$237,847; *Amount Issued:* \$400,000; *2009 Principal Paid:* \$25,000; *2009 Interest Paid:* \$9,363; *Principal Outstanding:* \$130,000; *Interest Outstanding:* \$17,805; *Percent of revenue pledged in 2009:* 14.4%
- **2005 Student Center Refunding**—*Issue Date:* 9-15-2005; *Maturity Date:* 12-1-2023; *Purpose:* Refinance Student Center; *Type of Revenue Pledged:* Tuition and Fees; *2009 Gross Revenue:* Tuition and Fees (see below); *Amount Issued:* \$3,330,000; *2009 Principal Paid:* \$140,000; *2009 Interest Paid:* \$106,352; *Principal Outstanding:* \$2,775,000; *Interest Outstanding:* \$881,774; *Percent of revenue pledged in 2009:* 2.7%
- **2005 ASUHS Phase I**—*Issue Date:* 12-1-2005; *Maturity Date:* 12-1-2035; *Purpose:* Construction of buildings at the Heber Springs campus; *Type of Revenue Pledged:* Tuition and Fees; *2009 Gross Revenue:* Tuition and Fees (see below); *Amount Issued:* \$15,170,000; *2009 Principal Paid:* \$280,000; *2009 Interest Paid:* \$671,858; *Principal Outstanding:* \$14,360,000; *Interest Outstanding:* \$11,154,419; *Percent of revenue pledged in 2009:* 10.4%
- **2006 Science Building**—*Issue Date:* 3-1-2006; *Maturity Date:* 9-1-2035; *Purpose:* Construction of Math and Science building; *Type of Revenue Pledged:* Tuition and Fees; *2009 Gross Revenue:* Tuition and Fees (see below); *Amount Issued:* \$11,000,000; *2009 Principal Paid:* \$205,000; *2009 Interest Paid:* \$476,395; *Principal Outstanding:* \$10,405,000; *Interest Outstanding:* \$7,991,825; *Percent of revenue pledged in 2009:* 7.4%

ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 17: Pledged Revenues (Continued)

Arkansas State University-Beebe (Continued)

- **2008 ASUS Construction**—*Issue Date:* 1-15-2008; *Maturity Date:* 12-1-2032; *Purpose:* Renovate the Main Building at the Searcy campus; ; *Type of Revenue Pledged:* Tuition and Fees; *2009 Gross Revenue:* Tuition and Fees (see below); *Amount Issued:* \$2,080,000; *2009 Principal Paid:* \$60,000; *2009 Interest Paid:* \$82,260; *Principal Outstanding:* \$2,020,000; *Interest Outstanding:* \$1,181,863; *Percent of revenue pledged in 2009:* 1.6%

*Note: Issues with Tuition and Fees pledged, 2009 Gross Revenue--\$9,147,973

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; *2009 Gross Revenue:* \$4,129,193; *Amount Issued:* \$5,405,000; *2009 Principal Paid:* \$330,000; *2009 Interest Paid:* \$144,600; *Principal Outstanding:* \$3,545,000; *Interest Outstanding:* \$695,280; *Percent of revenue pledged in 2009:* 11.5%
- **2008 Construction**—*Issue Date:* 1-15-2008; *Maturity Date:* 12-1-2032; *Purpose:* Construction of Community Development Center; *Type of Revenue Pledged:* Student Fee Revenue; *2009 Gross Revenue:* \$1,117,495; *Amount Issued:* \$5,180,000; *2009 Principal Paid:* \$135,000; *2009 Interest Paid:* \$200,263; *Principal Outstanding:* \$5,025,000; *Interest Outstanding:* \$2,935,204; *Percent of revenue pledged in 2009:* 30.0%

Arkansas State University-Newport

- **2008 Building**—*Issue Date:* 1-29-2008; *Maturity Date:* 6-30-2033; *Purpose:* Construction of Transportation Center; *Type of Revenue Pledged:* Tuition and Fees; *2009 Gross Revenue:* Tuition and Fees (see below); *Amount Issued:* \$2,075,000; *2009 Principal Paid:* \$60,000; *2009 Interest Paid:* \$113,435; *Principal Outstanding:* \$2,015,000; *Interest Outstanding:* \$1,180,900; *Percent of revenue pledged in 2009:* 4.9%
- **2008 Refunding**—*Issue Date:* 4-30-2008; *Maturity Date:* 5-1-2028; *Purpose:* Refinancing Issue; *Type of Revenue Pledged:* Tuition and Fees; *2009 Gross Revenue:* Tuition and Fees (see below); *Amount Issued:* \$4,400,000; *2009 Principal Paid:* \$160,000; *2009 Interest Paid:* \$170,886; *Principal Outstanding:* \$4,240,000; *Interest Outstanding:* \$1,927,972; *Percent of revenue pledged in 2009:* 9.3%

*Note: Issues with Tuition and Fees pledged, 2009 Gross Revenue--\$3,554,364

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.

ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 18: Risk Management (Continued)

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

The University secures vehicle insurance coverage and some real property coverage through participation in the Arkansas Multi-Agency Insurance Trust Fund administered by the Risk Management Division of the Arkansas Insurance Department. The general objective of the program is to allow participating agencies an affordable means of insuring their vehicle fleets and real property. The University pays an annual premium for this coverage. The fund provides a coverage pool, but, employs a reinsurance policy to reduce its exposure to large losses. The University also participates in the Worker's Compensation Revolving Fund administered by the Arkansas Department of Finance and Administration. Premium assessments are determined annually by the Department of Finance and Administration and deducted on a quarterly basis from the University's state treasury funds.

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

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

NOTE 19: Subsequent Events

On October 1, 2004 the University executed a financing note with the Arkansas State University Foundation to obtain funding for a student health center on the Jonesboro campus. The terms of this \$465,046 note were for twenty years at a six percent (6%) annual rate of interest. On September 2, 2009 the University executed its option under the note agreement to retire this debt early. This action will result in savings of \$204,891 in interest costs over the remaining fifteen years of the note term.

On October 1, 2009 the University retired the debt associated with the Arkansas Services Center and transferred operational and administrative authority over the center to Arkansas Building Authority. The University will complete the transfer of the center's assets and liabilities during the fiscal year ending June 30, 2010 and will continue to occupy and lease space in the center as a condition of the transfer agreement. Additional information concerning the Arkansas Services Center may be found in Note 14.

ARKANSAS STATE UNIVERSITY SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2009

Other Postemployment Benefits

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

Cost Element	Fiscal Year Ended			
	June 30, 2009		June 30, 2008	
	Amount	Percent of Payroll ²	Amount	Percent of Payroll ³
1. Beginning of year unfunded actuarial accrued liability	\$ 8,841,741	8.95%	\$ 8,080,750	9.26%
<u>Annual Required Contribution (ARC)</u>				
2. Normal cost	\$ 802,444		\$ 741,973	
3. Amortization of the unfunded actuarial accrued liability over 30 years using open amortization	451,099		412,274	
4. Amortization of beginning of year accrual ¹	37,721		0	
5. Annual Required Contribution (ARC) (2. + 3. + 4.)	<u>\$ 1,291,264</u>	1.31%	<u>\$ 1,154,247</u>	1.32%
<u>Annual OPEB Cost (Expense)</u>				
6. Normal cost	\$ 802,444		\$ 741,973	
7. Amortization of the unfunded actuarial accrued liability over 30 years using open amortization	451,099		412,274	
8. Interest on beginning of year accrual ¹	22,180		0	
9. Annual OPEB cost (6. + 7. + 8.)	<u>\$ 1,275,723</u>	1.29%	<u>\$ 1,154,247</u>	1.32%
<u>End of Year Accrual (Net OPEB Obligation)</u>				
10. Beginning of year accrual ¹	\$ 739,346		\$ 0	
11. Annual OPEB cost	1,275,723		1,154,247	
12. Employer contribution (benefit payments) ⁴	195,427		414,901	
13. End of year accrual (10. + 11. - 12.)	<u>\$ 1,819,642</u>	1.84%	<u>\$ 739,346</u>	0.84%

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

² Annual payroll for the 1988 plan participants as of July 1, 2008 is \$98,802,723.

³ Annual payroll for the 2,004 plan participants as of July 1, 2007 is \$87,212,900.

⁴ Actual contributions and administrative fees paid in fiscal year 2009 of \$367,076 less participant contributions of \$171,649; \$618,526 and \$203,625, respectively, in fiscal year 2008. Employer contributed 15.3% of annual OPEB cost during fiscal year 2009, compared to 35.9% during fiscal year 2008.

Schedule of Employer Contributions

Fiscal Year Ended	Annual OPEB Cost	Actual Contributions ⁵	Percentage Contributed
June 30, 2009	\$ 1,275,723	\$ 195,427	15.3%
June 30, 2008	\$ 1,154,247	\$ 414,901	35.9%

⁵ Since there is no funding, these are actual benefit payments less retiree contributions. For 2009, these amounts are \$367,076 and \$171,649, respectively. For 2008, these amounts are \$618,526 and \$203,625, respectively.

ARKANSAS STATE UNIVERSITY SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2009

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 ⁶ (c)	UAAL as a Percentage Of Covered Payroll ⁶ [(b)-(a)]/(c)
June 30, 2009	\$ 0	\$ 8,841,741	\$ 8,841,741	0%	\$ 98,802,723	8.95%
June 30, 2008	\$ 0	\$ 8,080,750	\$ 8,080,750	0%	\$ 87,212,900	9.26%

⁶ Payroll as of July 1, 2008 and July 1, 2007 includes only plan participants.

Note: The annual OPEB cost of \$1,275,723 for fiscal year 2009 and accrual of \$1,819,642 as of June 30, 2009, are based on a current decision not to fund in a segregated GASB qualified trust; \$1,154,247 and \$739,346, respectively, as of June 30, 2008.

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, 2009	\$ 1,275,723	15.3%	\$ 1,819,642
June 30, 2008	\$ 1,154,247	35.9%	\$ 739,346

Summary of Key Actuarial Methods and Assumptions

Valuation year	July 1, 2008 – June 30, 2009
Actuarial cost method	Projected Unit Credit, level dollar
Amortization method	30 years, level dollar open amortization ⁷
Asset valuation method	N/A

⁷ 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	Trend rates are not used after 2008 because ASU 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. These premiums are used in this roll-forward of plan liabilities per GASB Statement No. 45.

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.

ARKANSAS STATE UNIVERSITY SYSTEM
 REQUIRED SUPPLEMENTARY INFORMATION
 JUNE 30, 2009

Valuation Year July 1, 2008 – June 30, 2009
Date of Census Data February 1, 2008
Actuarial Cost Method Projected Unit Credit actuarial cost method; Unfunded Actuarial Liability (UAL) amortized on a level dollar basis over 30 years.

Retiree Premiums

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

Annual Health Care Trend Rate Trend rates are not used after 2008 because ASU has frozen employer contributions to the plan at fiscal 2008 levels.

Discount Rate 3.0% 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
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2009

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
SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS
FOR THE YEAR ENDED JUNE 30, 2009
(Unaudited)

Schedule 1

	Year Ended June 30,				
	2009	2008	2007	2006	2005
Total Assets	\$ 447,529,856	\$ 408,070,252	\$ 382,315,235	\$ 341,893,008	\$ 308,758,697
Total Liabilities	206,119,947	196,912,775	189,320,407	154,470,141	132,324,226
Total Net Assets	241,409,909	211,157,477	192,994,828	187,422,867	176,434,471
Total Operating Revenues	103,486,435	102,607,336	108,075,323	107,855,825	97,254,523
Total Operating Expenses	222,359,732	210,552,053	193,511,912	184,739,792	175,584,788
Total Net Non-Operating Revenues	116,739,815	108,678,182	86,872,945	82,504,372	75,369,692
Total Other Revenues, Expenses, Gains or Losses	32,385,914	17,429,184	4,135,605	5,367,991	4,434,215

ARKANSAS STATE UNIVERSITY SYSTEM
STATEMENT OF NET ASSETS BY CAMPUS
JUNE 30, 2009

Schedule 2

	ARKANSAS STATE UNIVERSITY SYSTEM					Total
	Jonesboro	Beebe	Mountain Home	Newport	Consolidation Entries	
ASSETS						
Current Assets:						
Cash and cash equivalents	\$ 20,953,560	\$ 164,920	\$ 4,542,482	\$ 2,845,966		\$ 28,506,928
Short-term investments	950,000	4,657,075	800,000	3,597,555		10,004,630
Accounts receivable (less allowances of \$980,603)	14,258,980	1,094,491	457,173	2,288,329		18,098,973
Notes and deposits receivable (less allowances of \$192,962)	1,160,442					1,160,442
Accrued interest and late charges	371,860	15,164	460	4,301		391,785
Inventories	954,364	407,877		172,898		1,535,139
Deposits with trustee	3,121,346	39,689		16,464		3,177,499
Bond issuance costs	10,582					10,582
Prepaid expenses	156,207	12,437	5,491	2,299		176,434
Total Current Assets	41,937,341	6,391,653	5,805,606	8,927,812		63,062,412
Noncurrent Assets:						
Restricted cash and cash equivalents	7,889,915	3,226,526				11,116,441
Endowment investments	8,745,373	139,182				8,884,555
Other long-term investments	5,555,077	1,071,611		119,175		6,745,863
Accrued interest		5,078				5,078
Deposits with trustee	17,692,355		873,260	810,862		19,376,477
Notes and deposits receivable (less allowances of \$903,573)	5,652,320					5,652,320
Bond issuance costs	285,763					285,763
Due from Arkansas State University Foundation, Inc.					\$ 367,638	367,638
Capital assets (net of accumulated depreciation of \$198,643,383)	234,244,498	56,348,463	24,649,412	16,790,936		332,033,309
Total Noncurrent Assets	280,065,301	60,790,860	25,522,672	17,720,973	367,638	384,467,444
TOTAL ASSETS	322,002,642	67,182,513	31,328,278	26,648,785	367,638	447,529,856
LIABILITIES						
Current Liabilities:						
Accounts payable and accrued liabilities	6,826,787	473,960	1,585,836	324,939	1,371,996	10,583,518
Bonds, notes and leases payable	5,102,842	730,000	561,943	220,000		6,614,785
Compensated absences	4,039,528	871,015	32,747	463,989		5,407,279
Deferred revenue	2,556,775	141,900	84,344	51,811		2,834,830
Funds held in trust for others	456,216	56,642	12,681	63,713		589,252
Deposits	330,143	10,540				340,683
Interest payable	1,850,664	231,119	40,128	34,434		2,156,345
Other liabilities	22,076					22,076
Total Current Liabilities	21,185,031	2,515,176	2,317,679	1,158,886	1,371,996	28,548,768
Noncurrent Liabilities:						
Bonds, notes and leases payable	122,484,060	28,960,000	8,946,176	6,035,000		166,425,236
Compensated absences	644,869	464,256	331,112	88,379		1,528,616
Accrued other postemployment benefits payable					1,819,642	1,819,642
Deposits	278,574					278,574
Annuity Payable					367,638	367,638
Refundable federal advances	7,151,473					7,151,473
Total Noncurrent Liabilities	130,558,976	29,424,256	9,277,288	6,123,379	2,187,280	177,571,179
TOTAL LIABILITIES	151,744,007	31,939,432	11,594,967	7,282,265	3,559,276	206,119,947

ARKANSAS STATE UNIVERSITY SYSTEM
STATEMENT OF NET ASSETS BY CAMPUS
JUNE 30, 2009

Schedule 2

	ARKANSAS STATE UNIVERSITY SYSTEM					Total
	Jonesboro	Beebe	Mountain Home	Newport	Consolidation Entries	
NET ASSETS						
Invested in capital assets, net of related debt	\$ 127,168,438	\$ 26,658,462	\$ 15,141,293	\$ 11,184,869		\$ 180,153,062
Restricted for:						
Nonexpendable:						
Scholarships and fellowships	5,039,921	106,854				5,146,775
Loans	842,053					842,053
Other	4,193,670					4,193,670
Expendable:						
Scholarships and fellowships	460,056	195,179				655,235
Research	455,244					455,244
Loans		10,000				10,000
Capital projects	1,613,540	4,302,008	1,672,603			7,588,151
Debt service	1,181,526	39,689	4,972	167,138		1,393,325
Renewal and replacement	50,000					50,000
Other	5,996,533		281,059	211,343		6,488,935
Unrestricted	23,257,654	3,930,889	2,633,384	7,803,170	\$ (3,191,638)	34,433,459
TOTAL NET ASSETS	<u>\$ 170,258,635</u>	<u>\$ 35,243,081</u>	<u>\$ 19,733,311</u>	<u>\$ 19,366,520</u>	<u>\$ (3,191,638)</u>	<u>\$ 241,409,909</u>

ARKANSAS STATE UNIVERSITY SYSTEM
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS BY CAMPUS
FOR THE YEAR ENDED JUNE 30, 2009

Schedule 3

	ARKANSAS STATE UNIVERSITY SYSTEM					Total
	Jonesboro	Beebe	Mountain Home	Newport	Consolidation Entries	
OPERATING REVENUES						
Student tuition and fees (net of scholarship allowances of \$31,069,492)	\$ 35,841,440	\$ 5,994,834	\$ 1,890,327	\$ 2,668,924		\$ 46,395,525
Grants and contracts	21,909,537	3,911,705	1,163,652	1,888,328		28,873,222
Sales and services of educational departments	681,102	84,418				765,520
Auxiliary enterprises (net of scholarship allowances of \$4,840,526)	20,152,969	2,365,623	174,302	468,261		23,161,155
Self-insurance	2,816,292					2,816,292
Other operating revenues	922,158	293,004	119,095	140,464		1,474,721
TOTAL OPERATING REVENUES	82,323,498	12,649,584	3,347,376	5,165,977		103,486,435
OPERATING EXPENSES						
Personal services	90,031,879	19,303,429	6,152,985	8,544,094	\$ 1,080,296	125,112,683
Scholarships and fellowships	7,915,960	2,136,941	1,368,686	1,018,852		12,440,439
Supplies and services	42,678,586	7,336,176	2,607,348	3,879,213		56,501,323
Self-insurance	11,963,970				451,000	12,414,970
Depreciation	11,965,356	1,691,133	1,209,195	919,859		15,785,543
Other	104,774					104,774
TOTAL OPERATING EXPENSES	164,660,525	30,467,679	11,338,214	14,362,018	1,531,296	222,359,732
OPERATING INCOME (LOSS)	(82,337,027)	(17,818,095)	(7,990,838)	(9,196,041)	(1,531,296)	(118,873,297)
NON-OPERATING REVENUES (EXPENSES)						
State appropriations	64,906,677	14,120,217	4,528,472	7,262,769		90,818,135
Federal appropriations	776,366					776,366
Grants and contracts	20,378,142	4,599,193	2,335,152	1,984,951		29,297,438
Sales and use taxes		1,811,116		949,606		2,760,722
Property taxes			1,117,495			1,117,495
Gifts	1,120,013		16,950	8,500		1,145,463
Investment income (net of investment expense of \$123)	(1,567,844)	237,492	67,396	248,908		(1,014,048)
Interest on capital asset - related debt	(5,764,940)	(1,356,927)	(399,828)	(252,087)		(7,773,782)
Other nonoperating revenues (expenses)	(248,987)	(220,428)	113,763	(32,322)		(387,974)
NET NON-OPERATING REVENUES (EXPENSES)	79,599,427	19,190,663	7,779,400	10,170,325		116,739,815
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	(2,737,600)	1,372,568	(211,438)	974,284	(1,531,296)	(2,133,482)
Capitalization of interest		101,211		44,646		145,857
Capital appropriations	5,672,367	500,000	2,148,258	108,000		8,428,625
Capital grants and gifts	17,126,438	32,000		477,616		17,636,054
Bond proceeds from Act 1282 of 2005	4,414,371	1,885,000		913,903		7,213,274
Additions to endowments		675				675
Adjustment to prior year capital assets	(1,806,506)			375,929		(1,430,577)
Refund to grantors	(73,209)	(1,114)				(74,323)
Gain or loss on disposal of capital assets	(435,374)	(6,534)				(441,908)
Capitalization of library holdings at rate per volume	190,680					190,680
Livestock additions	1,450					1,450
Merger of ASUTC with ASUN	(6,194,784)			6,194,784		
Other		716,107				716,107
INCREASE (DECREASE) IN NET ASSETS	16,157,833	4,599,913	1,936,820	9,089,162	(1,531,296)	30,252,432
NET ASSETS - BEGINNING OF YEAR	154,100,802	30,643,168	17,796,491	10,277,358	(1,660,342)	211,157,477
NET ASSETS - END OF YEAR	\$ 170,258,635	\$ 35,243,081	\$ 19,733,311	\$ 19,366,520	\$ (3,191,638)	\$ 241,409,909

ARKANSAS STATE UNIVERSITY SYSTEM
STATEMENT OF CASH FLOWS BY CAMPUS
FOR THE YEAR ENDED JUNE 30, 2009

Schedule 4

	ARKANSAS STATE UNIVERSITY SYSTEM					
	Jonesboro	Beebe	Mountain Home	Newport	Consolidation Entries	Total
CASH FLOW FROM OPERATING ACTIVITIES						
Student tuition and fees	\$ 36,917,939	\$ 6,249,647	\$ 1,898,780	\$ 2,566,365		\$ 47,632,731
Grants and contracts	20,613,263	3,853,646	1,187,068	1,837,215		27,491,192
Auxiliary enterprises revenues	20,202,756	2,332,274	169,747	453,807		23,158,584
Sales and services of educational departments	681,927					681,927
Self-insurance	2,995,970					2,995,970
Collection of principal and interest related to student loans	1,011,139					1,011,139
Other receipts	765,974	377,422	119,089	134,614		1,397,099
Payments to employees	(77,898,581)	(15,260,429)	(4,877,603)	(6,478,077)		(104,514,690)
Payments for employee benefits	(11,911,759)	(3,927,543)	(1,287,382)	(1,730,052)		(18,856,736)
Payments to suppliers	(40,355,504)	(7,443,588)	(1,782,152)	(3,883,417)		(53,464,661)
Scholarships and fellowships	(7,915,960)	(2,136,941)	(1,368,686)	(1,021,677)		(12,443,264)
Self-insurance	(11,964,597)					(11,964,597)
Loans issued to students	(1,115,833)					(1,115,833)
Net cash provided by operating activities	(67,973,266)	(15,955,512)	(5,941,139)	(8,121,222)		(97,991,139)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Federal appropriations	776,366					776,366
State appropriations	66,335,452	14,120,217	4,528,472	6,685,565		91,669,706
Grants and contracts	24,350,742	4,599,193	2,335,152	169,256	\$ (2,398,938)	29,055,405
Private gifts and grants	1,266,165		16,950	8,500		1,291,615
Payments to other campus for financial aid distribution	(4,197,822)				4,197,822	
Sales and use taxes		1,779,897		964,506		2,744,403
Property taxes			1,117,495			1,117,495
Payment from other campus for financial aid distribution				1,798,884	(1,798,884)	
Merger of ASUTC with ASUN	(2,657,497)			2,657,497		
Other agency funds - net	(213,542)	2,552	1,488	40,348		(169,154)
Refunds to grantors	(73,209)					(73,209)
Other		493,944	113,763	1,154		608,861
Net cash provided by noncapital financing activities	85,586,655	20,995,803	8,113,320	12,325,710	-	127,021,488
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Capital appropriations	5,686,617	500,000	2,148,258	108,000		8,442,875
Capital gift and grants	14,486,754			372,186		14,858,940
Proceeds from sale of capital assets	6,399					6,399
Received from bond trustees	23,525,989		4,206,019			27,732,008
Payments to bond trustees	(7,627,838)		(834,555)	(466,989)		(8,929,382)
Purchases of capital assets	(49,893,766)	(5,760,670)	(7,893,848)	(4,234,368)		(67,782,652)
Bond Proceeds from Act 1282 of 2005	5,982,270	1,885,000		913,903		8,781,173
Principal paid on capital debt and leases	(2,136,742)	(1,071,576)	(82,566)			(3,290,884)
Interest paid on capital debt and leases	(158,812)	(1,322,488)	(52,967)			(1,534,267)
Net cash provided by capital and related financing activities	(10,129,129)	(5,769,734)	(2,509,659)	(3,307,268)		(21,715,790)
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from sales and maturities of investments	19,821,076	1,984,633	1,600,000	3,749,746		27,155,455
Interest on investments (net of fees)	1,021,979	266,728	32,658	189,670		1,511,035
Reclassification of commonfund to investments	(6,313,622)					(6,313,622)
Purchases of investments	(8,951,991)	(787,036)	(1,600,000)	(3,409,120)		(14,748,147)
Net cash provided by investing activities	5,577,442	1,464,325	32,658	530,296		7,604,721
Net increase (decrease) in cash and cash equivalents	13,061,702	734,882	(304,820)	1,427,516		14,919,280
Cash and cash equivalents - beginning of year	15,781,773	2,656,564	4,847,302	1,418,450		24,704,089
Cash and cash equivalents - end of year	\$ 28,843,475	\$ 3,391,446	\$ 4,542,482	\$ 2,845,966	\$ -	\$ 39,623,369

ARKANSAS STATE UNIVERSITY SYSTEM
 STATEMENT OF CASH FLOWS BY CAMPUS
 FOR THE YEAR ENDED JUNE 30, 2009

Schedule 4

	ARKANSAS STATE UNIVERSITY SYSTEM					Total
	Jonesboro	Beebe	Mountain Home	Newport	Consolidation Entries	
Reconciliation of net operating revenues (expenses) to net cash provided (used) by operating activities:						
Operating income (loss)	\$ (82,337,027)	\$ (17,818,095)	\$ (7,990,838)	\$ (9,196,041)	\$ (1,531,296)	\$ (118,873,297)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:						
Depreciation expense	11,965,356	1,691,133	1,209,195	919,859		15,785,543
Change in assets and liabilities:						
Receivables, net	(2,071,987)	118,934	(6,630)	(171,455)		(2,131,138)
Inventories	(61,630)	(41,904)		(35,585)		(139,119)
Prepaid expenses	98,839	2,984	5,254	(513)		106,564
Accounts and salaries payable	2,328,258	(30,983)	851,437	187,246	451,000	3,786,958
Other postemployment benefits payable					1,080,296	1,080,296
Deferred revenue	1,839,640	46,261	(13,675)	(2,521)		1,869,705
Deposits	120,087	(1,790)				118,297
Refundable federal advances	(29,426)					(29,426)
Compensated absences	161,703	77,948	4,118	177,788		421,557
Other liabilities	12,921					12,921
Net cash provided (used) by operating activities	\$ (67,973,266)	\$ (15,955,512)	\$ (5,941,139)	\$ (8,121,222)	\$ -	\$ (97,991,139)

NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES - 2009

ASUJ

The University issued bonds for construction. Payment of \$8,907,355 was remitted to the bond trustee directly from the bond proceeds and related discount.