

**Arkansas State University System**

**State University, Arkansas**

**Basic Financial Statements  
and Other Reports**

**June 30, 2010**

LEGISLATIVE JOINT AUDITING COMMITTEE

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ARKANSAS STATE UNIVERSITY SYSTEM  
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**Rep. Beverly Pyle**  
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, 2010, 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. The prior year partial comparative information has been derived from the University's 2009 financial statements and, in our report dated November 17, 2009, we expressed unqualified opinions on the respective financial statements of the business-type activities and the discretely presented component unit. 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, 2010, 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.

The financial statements include partial prior year comparative information. Such information does not include all of the information required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 2009, from which such partial information was derived.

As discussed in Note 19 to the financial statements, the prior year financial statements were restated to properly account for property taxes applicable to the Mountain Home campus.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2010 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 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 (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

A handwritten signature in black ink that reads "Roger A. Norman". The signature is written in a cursive, flowing style.

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

Little Rock, Arkansas  
November 29, 2010  
EDHE12510

Sen. Bobby L. Glover  
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# Arkansas



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

## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

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

Arkansas State University System  
Legislative Joint Auditing Committee

We have audited the financial statements of the business-type activities and the discretely presented component unit of the Arkansas State University System (University), an institution of higher education of the State of Arkansas, as of and for the year ended June 30, 2010, which collectively comprise the University's basic financial statements and have issued our report thereon dated November 29, 2010. Our report includes 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 *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the University's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

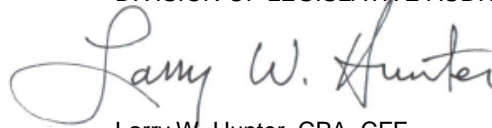
#### Compliance and Other Matters

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 29, 2010.

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 Ark. Code Ann. § 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 29, 2010

**Sen. Bobby L. Glover**  
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# Arkansas



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

## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

### MANAGEMENT LETTER

Arkansas State University System  
 Legislative Joint Auditing Committee

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 paid accumulated unused sick leave, totaling \$84,034, to non-classified employees upon their retirement from the University during the period July 1, 2009 through September 7, 2010. Arkansas Code Annotated does not specifically permit such payments and Op. Att'y Gen. no. 2005-211 states that such payments are not authorized for non-classified employees of institutions of higher education.
- In February 2010, the University entered into a contract with a company (Company) to provide on-line educational services to the University. An employee, then serving as President of the University, signed this contract on the University's behalf. This employee resigned as President on June 30, 2010 and began employment as a tenured professor of the University on July 1, 2010. This employee also began providing consulting services to the Company on July 1, 2010. The University should review this matter for compliance with Ark. Code Ann. §§ 19-11-701 – 717 and request the employee to obtain an advisory opinion or waiver under Ark. Code Ann. § 19-11-715.

**STUDENT ENROLLMENT DATA** - In accordance with Ark. Code Ann. § 6-60-209, we performed tests of the student enrollment data for the year ended June 30, 2010, 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> 2009	<u>Fall Term</u> 2009	<u>Spring Term</u> 2010	<u>Summer I Term</u> 2010
Student Headcount	5,217	22,282	22,849	7,980
Student Semester Credit Hours	20,907	227,186	221,625	34,390

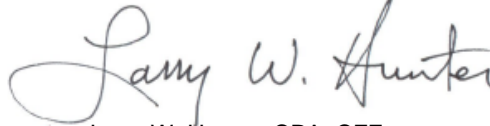
During our review, we noted the following item:

Arkansas State University-Newport

One student was not enrolled as indicated in the reported enrollment as of the eleventh class day for the spring semester.

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 Ark. Code Ann. § 10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT

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

Larry W. Hunter, CPA, CFE  
Deputy Legislative Auditor

Little Rock, Arkansas  
November 29, 2010



## 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, 2010. 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, 2010 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, 2009.

The University's financial statements for the year ended June 30, 2010 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, 2010 and 2009 where appropriate.

### Fiscal Year 2010 Highlights

The following events or activities of financial significance occurred during the fiscal year ended June 30, 2010.

- The University's total assets increased from \$448,212,607 at June 30, 2009 to \$475,420,409 at June 30, 2010, an increase of \$27,207,802 or 6.07%. The University's total liabilities increased from \$206,119,947 at June 30, 2009 to \$210,829,951 at June 30, 2010, an increase of \$4,710,004 or 2.29%.
- The University's construction projects in process but not yet completed totaled \$36,599,820 at June 30, 2010.
- The net assets of the University grew from \$242,092,660 at June 30, 2009 to \$264,590,458 at June 30, 2010, an increase of \$22,497,798 or 9.29%. University revenues and other additions from all sources during the year ended June 30, 2010 amounted to \$271,767,009 while expenses and other deductions amounted to \$249,269,211. Comparatively, total revenues and other additions and total expenses and other deductions for the year ended June 30, 2009 were \$263,788,179 and \$233,482,344, 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, 2010, 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, 2010:

- 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

	2010	2009	Percent Change
<b>Assets:</b>			
Current Assets	\$ 64,911,200	\$ 63,745,163	1.83%
Capital Assets, net	360,508,967	332,033,309	8.58%
Other Noncurrent Assets	50,000,242	52,434,135	-4.64%
Total Assets	<u>\$ 475,420,409</u>	<u>\$ 448,212,607</u>	6.07%
<b>Liabilities:</b>			
Current Liabilities	\$ 27,319,893	\$ 28,548,768	-4.30%
Noncurrent Liabilities	183,510,058	177,571,179	3.34%
Total Liabilities	<u>\$ 210,829,951</u>	<u>\$ 206,119,947</u>	2.29%
<b>Net Assets:</b>			
Invested in Capital, Net of Debt	\$ 186,931,513	\$ 180,153,062	3.76%
Restricted, Nonexpendable	11,025,202	10,182,498	8.28%
Restricted, Expendable	21,749,103	16,640,890	30.70%
Unrestricted	44,884,640	35,116,210	27.82%
Total Net Assets	<u>\$ 264,590,458</u>	<u>\$ 242,092,660</u>	9.29%
Total Liabilities and Net Assets	<u>\$ 475,420,409</u>	<u>\$ 448,212,607</u>	6.07%

The University's total assets increased from \$448,212,607 at June 30, 2009 to \$475,420,409 at June 30, 2010, an increase of \$27,207,802 or 6.07%. Capital Assets increased from \$332,033,309 at June 30, 2009 to \$360,508,967 at June 30, 2010, an increase of \$28,475,658 or 8.58%. Current Assets increased from \$63,745,163 at June 30, 2009 to \$64,911,200 at June 30, 2010, an increase of \$1,166,037 or 1.83%. The University's Other Noncurrent Assets declined from \$52,434,135 at June 30, 2009 to \$50,000,242 at June 30, 2010, a decrease of \$2,433,893 or 4.64%. These changes are reflective of the University's continued emphasis on capital assets and the completion of construction projects financed through bond proceeds.

The University's total liabilities grew from \$206,119,947 at June 30, 2009 to \$210,829,951 at June 30, 2010, an increase of \$4,710,004 or 2.29%. Current Liabilities decreased from \$28,548,768 at June 30, 2009 to \$27,319,893 at June 30, 2010, a decrease of \$1,228,875 or 4.3%. Noncurrent Liabilities grew from \$177,571,179 at June 30, 2009 to \$183,510,058 at June 30, 2010, a modest increase of \$5,938,379 or 3.34%.

The University's total net assets increased from \$242,092,660 at June 30, 2009 to \$264,590,458 at June 30, 2010, an increase of \$22,497,798 or 9.29%. Net Assets Invested in Capital Assets, Net of Related Debt increased by \$6,778,451 or 3.76% while Restricted Net Assets increased by \$5,950,917 or 22.19%. The University's Unrestricted Net Assets increased from \$35,116,210 at June 30, 2009 to \$44,884,640 at June 30, 2010, an increase of \$9,768,430 or 27.82%.

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, 2010.

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

	2010	2009	Percent Change
Operating Revenues	\$ 113,326,466	\$ 103,486,435	9.51%
Operating Expenses	238,909,216	222,359,732	7.44%
Operating Income (Loss)	<u>\$ (125,582,750)</u>	<u>\$ (118,873,297)</u>	5.64%
Nonoperating Revenues (Expenses)	\$ 138,413,254	\$ 116,793,218	18.51%
Income (Loss) before Other Revenues, Expenses, Gains or Losses	\$ 12,830,504	\$ (2,080,079)	-716.83%
Other Revenues, Expenses, Gains or Losses	\$ 9,667,294	\$ 32,385,914	-70.15%
Increase (Decrease) in Net Assets	<u>\$ 22,497,798</u>	<u>\$ 30,305,835</u>	-25.76%
Net Assets, Beginning of the Year	\$ 242,092,660	\$ 211,786,825	14.31%
Net Assets, End of the Year	\$ 264,590,458	\$ 242,092,660	9.29%

Highlights from the information presented in the Statement of Revenues, Expenses, and Changes in Net Assets for the fiscal year ended June 30, 2010 include the following:

- Tuition and Fees, Net of Scholarship Allowance amounted to \$49,599,394 or 43.77% of Total Operating Revenues. Revenues from Operating Grants and Contracts amounted to \$32,927,442 or 29.06% of Total Operating Revenues. Auxiliary Enterprises accounted for \$23,313,170 or 20.57% of Total Operating Revenues.
- Personal Services expenses totaled \$131,923,161 or 55.22% of Total Operating Expenses. Expenses for Supplies and Services totaled \$59,735,964 or 25.01% of Total Operating Expenses.
- Scholarships and Fellowships expenses totaled \$18,413,213 or 7.71% of Total Operating Expenses. Scholarships and Fellowships expenses amounted to 37.13% of Tuition and Fees revenue.
- The University's Loss from Operations amounted to \$125,582,750. State Appropriations, which are reported as Nonoperating Revenues, totaled \$91,402,392. Revenues and gains from all other sources amounted to \$67,038,151. Nonoperating Expenses, Other Expenses, and Other Losses amounted to \$10,359,995. These activities resulted in an increase in the University's Net Assets of \$22,497,798.

## 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, 2010

Cash Provided (Used) by:	
Operating Activities	\$ (110,432,884)
Noncapital Financing Activities	136,868,741
Capital and Related Financing Activities	(19,098,022)
Investing Activities	(3,678,801)
Net Increase (Decrease) in Cash	<u>\$ 3,659,034</u>
Cash - Beginning of the Year	\$ 39,623,369
Cash - End of the Year	\$ 43,282,403

### Capital Assets and Debt Administration

The University's capital assets, net of accumulated depreciation increased from \$332,033,309 at June 30, 2009 to \$360,508,967 at June 30, 2010, an increase of \$28,475,658, or 8.58%. 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, 2010, the University received capital appropriations, grants and gifts and American Recovery and Reinvestment Act (ARRA) funds totaling \$7,705,111. The University issued \$9,010,281 in revenue bonds during the fiscal year ended June 30, 2010.

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

### Economic Outlook

The economic outlook of the University is sound.

The net assets of the University grew from \$242,092,660 at June 30, 2009 to \$264,590,458 at June 30, 2010, an increase of \$22,497,798 or 9.29%. Net assets invested in capital assets, net of related debt increased by \$6,778,451 or 3.76% while other net asset categories increased by a combined total of \$15,719,347 or 25.38%.

Economic conditions at the national and state level improved marginally during the fiscal year ended June 30, 2010. Interest rates continued at historically low levels thereby significantly lowering the University's ability to earn appreciable returns on its operating investments. Conversely, this positively affected the University's ability to strategically manage its long-term debt through restructuring and lowered borrowing costs. The value of the University's and its related Foundation's endowments recovered significantly from 2009 levels, however, the ability to generate appreciable returns likewise remained low.

At the state level, revenue collections remained at approximately the same levels as 2009 and within the forecast of the Arkansas Department of Finance and Administration. While this indicates the economic downturn in Arkansas is abating and has been relatively-mild, growth in state revenues is forecasted to continue to be slow through 2010 and 2011.

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 their mission of teaching, research, and service.

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, 2010

Exhibit A

	June 30,	
	2010	2009
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 25,192,593	\$ 28,506,928
Short-term investments	10,245,758	10,004,630
Accounts receivable (less allowances of \$1,271,874 and \$980,603)	25,237,793	18,781,724
Notes and deposits receivable (less allowances of \$188,493 and \$192,962)	1,028,263	1,160,442
Accrued interest and late charges	401,015	391,785
Inventories	1,494,008	1,535,139
Deposits with trustee	1,213,297	3,177,499
Bond issuance costs	18,547	10,582
Prepaid expenses	79,926	176,434
Total Current Assets	64,911,200	63,745,163
Noncurrent Assets:		
Restricted cash and cash equivalents	18,089,810	11,116,441
Endowment investments	9,780,113	8,884,555
Other long-term investments	11,519,363	6,745,863
Accrued interest	887	5,078
Deposits with trustee	3,933,722	19,376,477
Accounts receivable	733,009	
Notes and deposits receivable (less allowances of \$991,748 and \$903,573)	5,417,142	5,652,320
Bond issuance costs	526,196	285,763
Due from Arkansas State University Foundation, Inc.		367,638
Capital assets (net of accumulated depreciation of \$208,872,060 and \$198,643,383)	360,508,967	332,033,309
Total Noncurrent Assets	410,509,209	384,467,444
TOTAL ASSETS	<b>475,420,409</b>	<b>448,212,607</b>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable and accrued liabilities	8,559,263	10,583,518
Bonds, notes and leases payable	5,663,444	6,614,785
Compensated absences	5,674,175	5,407,279
Deferred revenue	4,027,365	2,834,830
Funds held in trust for others	653,706	589,252
Deposits	532,350	340,683
Interest payable	2,187,514	2,156,345
Other liabilities	22,076	22,076
Total Current Liabilities	27,319,893	28,548,768
Noncurrent Liabilities:		
Bonds, notes and leases payable	171,586,164	166,425,236
Compensated absences	1,414,683	1,528,616
Accrued other postemployment benefits payable	3,005,580	1,819,642
Deposits	304,072	278,574
Annuity payable		367,638
Refundable federal advances	7,199,559	7,151,473
Total Noncurrent Liabilities	183,510,058	177,571,179
TOTAL LIABILITIES	210,829,951	206,119,947

ARKANSAS STATE UNIVERSITY SYSTEM  
 COMPARATIVE STATEMENT OF NET ASSETS  
 JUNE 30, 2010

Exhibit A

	June 30,	
	2010	2009
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	\$ 186,931,513	\$ 180,153,062
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	5,625,162	5,146,775
Loans	858,082	842,053
Other	4,541,958	4,193,670
Expendable:		
Scholarships and fellowships	948,735	655,235
Research	1,675,826	455,244
Loans	20,000	10,000
Capital projects	13,260,817	7,588,151
Debt service	1,350,393	1,393,325
Renewal and replacement		50,000
Other	4,493,332	6,488,935
Unrestricted	44,884,640	35,116,210
 TOTAL NET ASSETS	 \$ 264,590,458	 \$ 242,092,660

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

ARKANSAS STATE UNIVERSITY FOUNDATION, INC.  
STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2010

Exhibit A-1

**ASSETS**

Cash	\$	73,427
Repurchase agreement		4,703,738
Certificate of deposit		1,733,870
Prepaid expenses		12,861
Unconditional promises to give, net		2,011,917
Mortgage receivable		9,467
Long-term investments		27,768,846
Cash surrender of life insurance		4,705
Property and equipment, net		1,270,630
Other assests		139,055
		<u>139,055</u>
Total Assets	\$	<u><u>37,728,516</u></u>

**LIABILITIES**

Accounts payable	\$	273,243
Notes payable		20,358
Annuities payable		305,974
Other		280
		<u>280</u>
Total Liabilities		<u><u>599,855</u></u>

**NET ASSETS**

Unrestricted		2,140,269
Temporarily restricted		5,957,670
Permanently restricted		29,030,722
		<u>29,030,722</u>
Total Net Assets		<u><u>37,128,661</u></u>
		<u>37,128,661</u>
Total Liabilities and Net Assets	\$	<u><u>37,728,516</u></u>



ARKANSAS STATE UNIVERSITY SYSTEM  
 COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
 FOR THE YEAR ENDED JUNE 30, 2010

Exhibit B

	Year Ended June 30,	
	2010	2009
<b>OPERATING REVENUES</b>		
Student tuition and fees (net of scholarship allowances of \$35,691,366 and \$31,069,492)	\$ 49,599,394	\$ 46,395,525
Grants and contracts	32,927,442	28,873,222
Sales and services of educational departments	886,927	765,520
Auxiliary enterprises (net of scholarship allowances of \$6,685,245 and \$4,840,526)	23,313,170	23,161,155
Self-insurance	3,074,210	2,816,292
Other operating revenues	3,525,323	1,474,721
<b>TOTAL OPERATING REVENUES</b>	<b>113,326,466</b>	<b>103,486,435</b>
<b>OPERATING EXPENSES</b>		
Personal services	131,923,161	125,112,683
Scholarships and fellowships	18,413,213	12,440,439
Supplies and services	59,735,964	56,501,323
Self-insurance	11,270,220	12,414,970
Depreciation	17,488,556	15,785,543
Other	78,102	104,774
<b>TOTAL OPERATING EXPENSES</b>	<b>238,909,216</b>	<b>222,359,732</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(125,582,750)</b>	<b>(118,873,297)</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Federal appropriations	3,544,193	776,366
State appropriations	91,402,392	90,818,135
Stimulus funds (ARRA)	1,695,457	
Grants and contracts	40,410,638	29,297,438
Sales and use taxes	2,595,140	2,760,722
Property taxes	1,180,217	1,170,898
Gifts	2,866,816	1,145,463
Investment income (net of investment expense of \$0 and \$123)	2,588,860	(1,014,048)
Interest on capital asset - related debt	(7,937,153)	(7,773,782)
Other nonoperating revenues (expenses)	66,694	(387,974)
<b>NET NON-OPERATING REVENUES (EXPENSES)</b>	<b>138,413,254</b>	<b>116,793,218</b>
<b>INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES</b>	<b>12,830,504</b>	<b>(2,080,079)</b>
Capitalization of interest	3,708,717	145,857
Capital appropriations	2,923,156	8,428,625
Capital grants and gifts	3,761,598	17,636,054
Stimulus funds (ARRA) for capital projects	1,020,357	
Bond proceeds from Act 1282 of 2005		7,213,274
Additions to endowments	745	675
Adjustments to prior year capital assets	412,965	(1,430,577)
Refunds to grantors	(275,252)	(74,323)
Gain/loss on disposal on capital assets	(350,187)	(441,908)
Capitalization of library holdings at rate per volume	247,905	190,680
Livestock additions		1,450
Accrued interest on bond issue	14,693	
Premium/Discount on bond issue	(3,671)	
Bond issuance costs	(11,684)	
Transfer of Arkansas Services Center (Note 14)	(1,782,048)	
Other		716,107
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>22,497,798</b>	<b>30,305,835</b>
<b>NET ASSETS - BEGINNING OF YEAR</b>	<b>242,092,660</b>	<b>211,786,825</b>
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 264,590,458</b>	<b>\$ 242,092,660</b>

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, 2010

Exhibit B-1

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Support</b>				
Support and Reclassifications				
Contributions	\$ 135,819	\$ 4,497,337	\$ 461,217	\$ 5,094,373
Contributed services	377,978			377,978
Investment return, net	142,034	566,987	3,387,054	4,096,075
Other income	517,250	326,923	53,399	897,572
Net assets released from restrictions	6,984,942	(6,984,942)		
Total Support	8,158,023	(1,593,695)	3,901,670	10,465,998
<b>Expenses and Losses</b>				
Program services				
Academic activities	366,760			366,760
Administrative	181,242			181,242
Student activities	49,244			49,244
Supporting services				
Management and general	513,931			513,931
Fundraising	144,570			144,570
Transfers to Arkansas State University	6,751,433			6,751,433
Total Expenses and Losses	8,007,180			8,007,180
Increase (Decrease) in net assets	150,843	(1,593,695)	3,901,670	2,458,818
Net assets at beginning of year as previously reported	2,121,963	7,471,478	25,076,402	34,669,843
Reclassification and internal transfers	(132,537)	79,887	52,650	
Total after reclassification and internal transfers	1,989,426	7,551,365	25,129,052	34,669,843
Net assets at end of year	\$ 2,140,269	\$ 5,957,670	\$ 29,030,722	\$ 37,128,661

ARKANSAS STATE UNIVERSITY SYSTEM  
COMPARATIVE STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2010

Exhibit C

	Year Ended June 30,	
	2010	2009
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Student tuition and fees	\$ 53,343,570	\$ 47,632,731
Grants and contracts	32,797,044	27,491,192
Auxiliary enterprises revenues	20,374,354	23,158,584
Sales and services of educational departments	885,532	681,927
Self-insurance	3,284,610	2,995,970
Collection of principal and interest related to student loans	889,024	1,011,139
Other receipts	2,981,179	1,397,099
Payments to employees	(110,139,733)	(104,514,690)
Payments for employee benefits	(21,019,280)	(18,856,736)
Payments to suppliers	(62,937,079)	(53,464,661)
Scholarships and fellowships	(18,413,213)	(12,443,264)
Self-insurance	(11,553,196)	(11,964,597)
Loans issued to students	(925,696)	(1,115,833)
Net cash provided (used) by operating activities	<u>(110,432,884)</u>	<u>(97,991,139)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Federal appropriations	3,544,193	776,366
State appropriations	87,610,016	91,669,706
Stimulus (ARRA) funds	1,585,067	
Grants and contracts	40,215,379	29,055,405
Private gifts and grants	3,039,605	1,291,615
Sales and use taxes	2,597,378	2,744,403
Property taxes	1,160,895	1,117,495
Transfer of Arkansas Services Center (Note 14)	(792,357)	
Other agency funds - net	(1,907,885)	(169,154)
Refunds to grantors	(271,445)	(73,209)
Other	87,895	608,861
Net cash provided (used) by noncapital financing activities	<u>136,868,741</u>	<u>127,021,488</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from capital debt	10,886,273	
Capital appropriations	2,923,156	8,442,875
Capital gift and grants	5,491,943	14,858,940
Stimulus (ARRA) funds for capital projects	612,035	
Proceeds from sale of capital assets	284,172	6,399
Received from bond trustees	16,577,869	27,732,008
Payment to bond trustees	(10,436,920)	(8,929,382)
Purchases of capital assets	(41,332,300)	(67,782,652)
Bond proceeds from Act 1282 of 2005		8,781,173
Principal paid on capital debt and leases	(2,723,562)	(3,290,884)
Interest paid on capital debt and leases	(1,380,688)	(1,534,267)
Net cash provided (used) by capital and related financing activities	<u>(19,098,022)</u>	<u>(21,715,790)</u>

ARKANSAS STATE UNIVERSITY SYSTEM  
COMPARATIVE STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2010

Exhibit C

	Year Ended June 30,	
	2010	2009
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	\$ 10,520,806	\$ 27,155,455
Interest on investments (net of fees)	1,141,412	1,511,035
Reclassification of commonfund to investments		(6,313,622)
Purchases of investments	(15,341,019)	(14,748,147)
Net cash provided (used) by investing activities	(3,678,801)	7,604,721
Net increase (decrease) in cash and cash equivalents	3,659,034	14,919,280
Cash and cash equivalents - beginning of year	39,623,369	24,704,089
Cash and cash equivalents - end of year	\$ 43,282,403	\$ 39,623,369
<b>Reconciliation of net operating revenues (expenses) to net cash provided (used) by operating activities:</b>		
Operating income (loss)	\$ (125,582,750)	\$ (118,873,297)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	17,488,556	15,785,543
Change in assets and liabilities:		
Receivables, net	(2,526,291)	(2,131,138)
Inventories	41,130	(139,119)
Prepaid expenses	96,509	106,564
Accounts and salaries payable	(4,085,960)	3,786,958
Other postemployment benefits payable	1,185,938	1,080,296
Deferred revenue	2,531,015	1,869,705
Deposits	217,920	118,297
Refundable federal advances	48,086	(29,426)
Compensated absences	152,963	421,557
Other liabilities		12,921
Net cash provided (used) by operating activities	\$ (110,432,884)	\$ (97,991,139)

**NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES - 2010**  
**ASUB**

The University issued bonds for construction. Payment of \$363,123, including accrued interest of \$14,693, was remitted to the bond trustee directly from the bond proceeds and related discount.

**ASUN**

Equipment - capital gift of \$95,884  
Construction-in-progress - capital purchases of \$660,167 made directly by the trustee

**ASUJ**

Construction-in-progress - capital gift of \$95,010  
Equipment - capital gift of \$257,879

**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.

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

ARKANSAS STATE UNIVERSITY SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

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, 2010, the Foundation transferred property, equipment and funds of \$6,751,433 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 the requirements of the Not-for-Profit Organizations Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification. 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, 2010

NOTE 1: Summary of Significant Accounting Policies (Continued)

Financial Statement Presentation

In June 1999, the Governmental Accounting Standards Board issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, followed this in November 1999. The financial statement presentation required by GASB No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the University's assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows.

Basis of Accounting

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

The consolidated University financial statements were prepared from the separate statements of the four campuses. Other than the receipt and disbursement of student financial aid 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.

Easements are considered intangible assets and are capitalized at either the cost at the date of acquisition or fair market value at the date of donation in the case of gifts.

Software costing \$1,000,000 or more has been capitalized as an intangible asset and is amortized over the life of the software.

ARKANSAS STATE UNIVERSITY SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

NOTE 1: Summary of Significant Accounting Policies (Continued)

Operating and Nonoperating Revenues

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

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

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

Cash Equivalents

For purposes of the Statement of Cash Flows, the 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, 2010. The various sources of the University's receivables are detailed in a subsequent note. Receivables are presented net of any estimated uncollectible amounts in accordance with generally accepted accounting principles.

Investments

The University accounts for its investments, except for nonparticipating contracts, at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the Statement of Revenues, Expenses and Changes in Net Assets. Nonparticipating contracts are reported at cost.

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

Inventories

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

Noncurrent Cash and Investments

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

ARKANSAS STATE UNIVERSITY SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

NOTE 1: Summary of Significant Accounting Policies (Continued)

Restricted/Unrestricted Resources

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

Deferred Revenues

Deferred revenues consist primarily of amounts received prior to the end of the fiscal year for tuition and fees and certain auxiliary activities that relate to a subsequent accounting period. For example, payments for tuition and fees for the second summer term or season football tickets for the upcoming fall season received prior to June 30, 2010 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); and (5) 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, 2010

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)	\$ 5,800,803	\$ 6,193,224
Collateralized:		
Collateral held by the pledging bank or pledging bank's trust department in the University's name	52,974,042	53,821,169
Total Deposits	\$ 58,774,845	\$ 60,014,393

ARKANSAS STATE UNIVERSITY SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

NOTE 2: Public Fund Deposits and Investments (Continued)

The above deposits do not include cash on deposit in the state treasury and cash on hand maintained by the University in the amounts of \$2,400,104 and \$98,355 at June 30, 2010, respectively. The above total deposits include certificates of deposits of \$17,986,820 reported as investments and deposits with trustees and classified as nonparticipating contracts. Additionally, the deposits include money market checking accounts of \$4,081 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, 2010, none of the University's bank balance of \$60,014,393 was exposed to custodial credit risk.

Deposits with Trustees

At June 30, 2010, the University's deposits with trustees, excluding nonnegotiable certificates of deposit of \$167,138 and money market checking accounts of \$4,081, of \$4,975,800 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 29 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, 2010, the University's investments, excluding endowment funds, consisted of corporate bonds of \$2,417,279 and U.S. agencies and treasury notes of \$1,665,757. The corporate bonds will mature as follows:

Less than one year - \$653,943  
1-5 years - \$1,346,037  
6-10 years - \$417,299

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

1-5 years - \$904,879  
6-10 years - \$659,286  
Greater than 10 years - \$101,592

Credit risk - The credit quality ratings of the corporate bonds ranged from BB+ to AA+ by Standard and Poor's and B1 to Aa2 by Moody's Investors Service. The credit quality ratings of the U.S. agencies and treasury notes were AAA by Standard and Poor's and Aaa by Moody's Investors Service.

Interest rate risk - The corporate bonds had an estimated weighted average maturity of 2.62 years at June 30, 2010. The U.S. agencies and treasury notes had an estimated weighted average maturity of 7.08 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.

ARKANSAS STATE UNIVERSITY SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

NOTE 2: Public Fund Deposits and Investments (Continued)

Endowment Investments

Except for the endowment investments at the Beebe campus, which consisted of nonnegotiable certificates of deposit of \$137,597 and the investments of the R.E. Lee Wilson, Sr. Trust, all remaining endowment funds are included in an investment pool administered by the Arkansas State University Foundation, Inc. The University's portion of the investment pool was 19.07% or \$6,758,873 and consisted of the following types of investments:

- Domestic Equities mutual funds - \$773,327
- Domestic Equities securities - \$776,480
- Alternative assets - \$117,907
- Cash equivalents - \$121,150
- Bonds/Fixed Income - \$4,021,415
- International securities - \$948,594

The Foundation provides for investments in various investment securities, which generally are exposed to various risks, such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment activities will occur.

R.E. Lee Wilson, Sr. Trust Investments

The R.E. Lee Wilson, Sr. Trust of \$2,883,643 consisted of the following types of investments held in trust by a third party:

- Mutual funds - \$2,036,781
- Corporate bonds - \$365,105
- Cash equivalents - \$41,947
- U.S. agencies and treasury notes - \$439,810

The corporate bonds will mature as follows:

- Less than one year - \$8,250
- 1-5 years - \$152,670
- 6-10 years - \$167,880
- Greater than 10 years - \$36,305

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

- Less than one year - \$8,031
- 1-5 years - \$82,308
- 6-10 years - \$60,015
- Greater than 10 years - \$289,456

Credit risk – The credit quality ratings of the corporate bonds were rated Baa3 to Aa1 by Moody's Investor Services.

Interest rate risk – The trust portfolio consists of corporate bonds and U.S. agencies and treasury notes that had an estimated weighted average maturity of 7.67 and 14.96 years, respectively, at June 30, 2010.

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, 2010

NOTE 4: Capital Assets

Following are the changes in capital assets for the year ended June 30, 2010:

Arkansas State University-Jonesboro					
	Balance July 1, 2009	Additions	Transfers	Retirements	Balance June 30, 2010
Nondepreciable capital assets:					
Land and improvements	\$ 6,363,030	\$ 99,206	\$ (54,747)		\$ 6,407,489
Livestock for educational purposes	46,375			\$ (8,315)	38,060
Construction-in-progress	51,283,795	29,573,836	(61,520,982)	(2,781)	19,333,868
Intangibles-Easements	2,560,000	67,000			2,627,000
Total nondepreciable capital assets	<u>\$ 60,253,200</u>	<u>\$ 29,740,042</u>	<u>\$ (61,575,729)</u>	<u>\$ (11,096)</u>	<u>\$ 28,406,417</u>
Other capital assets:					
Improvements and infrastructure	\$ 35,384,132		\$ (3,719,740)		\$ 31,664,392
Buildings	248,977,234		53,010,304	\$ (309,260)	301,678,278
Equipment	35,320,987	\$ 3,742,341	(49,242)	(1,057,315)	37,956,771
Library/audiovisual holdings	11,806,750	247,905		(160,801)	11,893,854
Intangibles-Software			5,828,610		5,828,610
Total other capital assets	<u>331,489,103</u>	<u>3,990,246</u>	<u>55,069,932</u>	<u>(1,527,376)</u>	<u>389,021,905</u>
Less accumulated depreciation/amortization for:					
Improvements and infrastructure	11,710,908	2,029,731	(1,491,840)		12,248,799
Buildings	110,307,655	7,674,169	(5,235,039)	(51,543)	112,695,242
Equipment	24,726,447	2,941,370	(42,146)	(866,993)	26,758,678
Library/audiovisual holdings	10,752,795	187,530		(160,801)	10,779,524
Intangibles-Software			1,252,920		1,252,920
Total accumulated depreciation	<u>157,497,805</u>	<u>12,832,800</u>	<u>(5,516,105)</u>	<u>(1,079,337)</u>	<u>163,735,163</u>
Other capital assets, net	<u>\$ 173,991,298</u>	<u>\$ (8,842,554)</u>	<u>\$ 60,586,037</u>	<u>\$ (448,039)</u>	<u>\$ 225,286,742</u>
Capital Asset Summary:					
Nondepreciable capital assets	\$ 60,253,200	\$ 29,740,042	\$ (61,575,729)	\$ (11,096)	\$ 28,406,417
Other capital assets, at cost	331,489,103	3,990,246	55,069,932	(1,527,376)	389,021,905
Total cost of capital assets	<u>391,742,303</u>	<u>33,730,288</u>	<u>(6,505,797)</u>	<u>(1,538,472)</u>	<u>417,428,322</u>
Less accumulated depreciation	<u>157,497,805</u>	<u>12,832,800</u>	<u>(5,516,105)</u>	<u>(1,079,337)</u>	<u>163,735,163</u>
Capital Assets, net	<u>\$ 234,244,498</u>	<u>\$ 20,897,488</u>	<u>\$ (989,692) *</u>	<u>\$ (459,135)</u>	<u>\$ 253,693,159</u>

\* Net transfers equal the amount of net capital assets transferred to various state agencies in accordance with the agreement dated October 8, 1968. (See Note 14)

ARKANSAS STATE UNIVERSITY SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

NOTE 4: Capital Assets (Continued)

Arkansas State University-Beebe					
	Balance July 1, 2009	Additions	Transfers	Retirements	Balance June 30, 2010
Nondepreciable capital assets:					
Land and improvements	\$ 3,060,963				\$ 3,060,963
Livestock for educational purposes	70,425			\$ (11,725)	58,700
Construction-in-progress	7,853,631	\$ 2,329,591	\$ (8,212,571)		1,970,651
	<u>\$ 10,985,019</u>	<u>\$ 2,329,591</u>	<u>\$ (8,212,571)</u>	<u>\$ (11,725)</u>	<u>\$ 5,090,314</u>
Other capital assets:					
Improvements and infrastructure	\$ 3,793,745		\$ 6,938,401		\$ 10,732,146
Buildings	57,055,240		1,274,170	\$ (66,757)	58,262,653
Equipment	4,947,867	\$ 414,176		(184,337)	5,177,706
Library/audiovisual holdings	1,862,195	143,102		(8,367)	1,996,930
Total other capital assets	<u>67,659,047</u>	<u>557,278</u>	<u>8,212,571</u>	<u>(259,461)</u>	<u>76,169,435</u>
Less accumulated depreciation for:					
Improvements and infrastructure	1,422,759	197,251			\$ 1,620,010
Buildings	16,279,689	1,435,851		(36,130)	17,679,410
Equipment	3,375,177	384,049		(184,336)	3,574,890
Library/audiovisual holdings	1,217,978	116,844		(8,367)	1,326,455
Total accumulated depreciation	<u>22,295,603</u>	<u>2,133,995</u>	<u>-</u>	<u>(228,833)</u>	<u>24,200,765</u>
Other capital assets, net	<u>\$ 45,363,444</u>	<u>\$ (1,576,717)</u>	<u>\$ 8,212,571</u>	<u>\$ (30,628)</u>	<u>\$ 51,968,670</u>
Capital Asset Summary:					
Nondepreciable capital assets	\$ 10,985,019	\$ 2,329,591	\$ (8,212,571)	\$ (11,725)	\$ 5,090,314
Other capital assets, at cost	67,659,047	557,278	8,212,571	(259,461)	76,169,435
Total cost of capital assets	<u>78,644,066</u>	<u>2,886,869</u>	<u>-</u>	<u>(271,186)</u>	<u>81,259,749</u>
Less accumulated depreciation	<u>22,295,603</u>	<u>2,133,995</u>	<u>-</u>	<u>(228,833)</u>	<u>24,200,765</u>
Capital Assets, net	<u>\$ 56,348,463</u>	<u>\$ 752,874</u>	<u>\$ -</u>	<u>\$ (42,353)</u>	<u>\$ 57,058,984</u>

ARKANSAS STATE UNIVERSITY SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

NOTE 4: Capital Assets (Continued)

Arkansas State University-Mountain Home

	Balance July 1, 2009	Additions	Transfers	Retirements	Balance June 30, 2010
Nondepreciable capital assets:					
Land and improvements	\$ 2,934,808				\$ 2,934,808
Construction-in-progress	7,657,373	\$ 6,950,321			14,607,694
<b>Total nondepreciable capital assets</b>	<b>\$ 10,592,181</b>	<b>\$ 6,950,321</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 17,542,502</b>
Other capital assets:					
Improvements and infrastructure	\$ 2,273,491	\$ 6,798			\$ 2,280,289
Buildings	19,721,642				19,721,642
Equipment	1,029,025	197,296		\$ (72,906)	1,153,415
Library/audiovisual holdings	853,874	24,688			878,562
<b>Total other capital assets</b>	<b>23,878,032</b>	<b>228,782</b>	<b>-</b>	<b>(72,906)</b>	<b>24,033,908</b>
Less accumulated depreciation for:					
Improvements and infrastructure	1,002,724	151,566			1,154,290
Buildings	7,460,015	1,314,776			8,774,791
Equipment	700,049	86,364		(72,906)	713,507
Library/audiovisual holdings	658,013	47,208			705,221
<b>Total accumulated depreciation</b>	<b>9,820,801</b>	<b>1,599,914</b>	<b>-</b>	<b>(72,906)</b>	<b>11,347,809</b>
<b>Other capital assets, net</b>	<b>\$ 14,057,231</b>	<b>\$ (1,371,132)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 12,686,099</b>
Capital Asset Summary:					
Nondepreciable capital assets	\$ 10,592,181	\$ 6,950,321			\$ 17,542,502
Other capital assets, at cost	23,878,032	228,782		\$ (72,906)	24,033,908
<b>Total cost of capital assets</b>	<b>34,470,213</b>	<b>7,179,103</b>		<b>(72,906)</b>	<b>41,576,410</b>
Less accumulated depreciation	9,820,801	1,599,914		(72,906)	11,347,809
<b>Capital Assets, net</b>	<b>\$ 24,649,412</b>	<b>\$ 5,579,189</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 30,228,601</b>

ARKANSAS STATE UNIVERSITY SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

NOTE 4: Capital Assets (Continued)

Arkansas State University-Newport

	Balance July 1, 2009	Additions	Transfers	Retirements	Balance June 30, 2010
Nondepreciable capital assets:					
Land and improvements	\$ 485,063			\$ (10,640)	\$ 474,423
Construction-in-progress	5,907,274	\$ 3,215,074	\$ (8,434,741)		687,607
Total nondepreciable capital assets	<u>\$ 6,392,337</u>	<u>\$ 3,215,074</u>	<u>\$ (8,434,741)</u>	<u>\$ (10,640)</u>	<u>\$ 1,162,030</u>
Other capital assets:					
Improvements and infrastructure	\$ 313,865		\$ 1,705,024		\$ 2,018,889
Buildings	16,670,346		6,729,717	\$ (253,977)	23,146,086
Equipment	2,117,742	\$ 571,814		(241,048)	2,448,508
Library/audiovisual holdings	325,820	16,215		(1,002)	341,033
Total other capital assets	<u>19,427,773</u>	<u>588,029</u>	<u>8,434,741</u>	<u>(496,027)</u>	<u>27,954,516</u>
Less accumulated depreciation for:					
Improvements and infrastructure	162,135	20,924			183,059
Buildings	7,347,418	694,325		(126,989)	7,914,754
Equipment	1,233,069	174,116		(234,707)	1,172,478
Library/audiovisual holdings	286,552	32,482		(1,002)	318,032
Total accumulated depreciation	<u>9,029,174</u>	<u>921,847</u>	<u>-</u>	<u>(362,698)</u>	<u>9,588,323</u>
Other capital assets, net	<u>\$ 10,398,599</u>	<u>\$ (333,818)</u>	<u>\$ 8,434,741</u>	<u>\$ (133,329)</u>	<u>\$ 18,366,193</u>
Capital Asset Summary:					
Nondepreciable capital assets	\$ 6,392,337	\$ 3,215,074	\$ (8,434,741)	\$ (10,640)	\$ 1,162,030
Other capital assets, at cost	19,427,773	588,029	8,434,741	(496,027)	27,954,516
Total cost of capital assets	<u>25,820,110</u>	<u>3,803,103</u>	<u>-</u>	<u>(506,667)</u>	<u>29,116,546</u>
Less accumulated depreciation	<u>9,029,174</u>	<u>921,847</u>	<u>-</u>	<u>(362,698)</u>	<u>9,588,323</u>
Capital Assets, net	<u>\$ 16,790,936</u>	<u>\$ 2,881,256</u>	<u>\$ -</u>	<u>\$ (143,969)</u>	<u>\$ 19,528,223</u>

ARKANSAS STATE UNIVERSITY SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

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, 2010	Maturities To June 30, 2010
3/1/2001	3/1/2031	3.6 - 5.25%	\$ 7,000,000	\$ 5,735,000	\$ 1,265,000
3/1/2001	3/1/2031	3.6 - 5.25%	3,000,000	2,450,000	550,000
11/15/2002	12/1/2027	1.6 - 5%	6,105,000	3,800,000	2,305,000
3/1/2004	3/1/2034	3 - 5%	34,000,000	31,020,000	2,980,000
3/1/2004	3/1/2034	2 - 4.6%	11,555,000	8,930,000	2,625,000
9/15/2005	4/1/2025	3 - 5%	19,230,000	16,140,000	3,090,000
8/25/2006	8/25/2010	7.99%	44,573	10,335	34,238
6/1/2007	3/1/2037	3.65 - 5%	17,065,000	15,980,000	1,085,000
6/1/2007	3/1/2037	3.65 - 5%	30,300,000	28,805,000	1,495,000
3/19/2009	3/1/2039	3 - 5.1%	9,290,000	9,290,000	-
Unamortized discount			<u>(86,057)</u>	<u>(83,189)</u>	<u>(2,868)</u>
Totals			<u>\$ 137,503,516</u>	<u>\$ 122,077,146</u>	<u>\$ 15,426,370</u>

Arkansas State University-Beebe					
Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized and Issued	Debt Outstanding June 30, 2010	Maturities To June 30, 2010
10/1/1992	10/1/2012	6.2 - 6.6%	\$ 400,000	\$ 100,000	\$ 300,000
9/15/2005	12/1/2023	3.83%	3,330,000	2,630,000	700,000
12/6/2005	12/1/2035	4.78%	15,170,000	14,070,000	1,100,000
3/1/2006	9/1/2035	4.72%	11,000,000	10,195,000	805,000
1/15/2008	12/1/2032	3 - 4.375%	2,080,000	1,965,000	115,000
4/15/2010	4/1/2040	4.58%	9,125,000	9,125,000	-
Unamortized discount			<u>(115,521)</u>	<u>(114,719)</u>	<u>(802)</u>
Totals			<u>\$ 40,989,479</u>	<u>\$ 37,970,281</u>	<u>\$ 3,019,198</u>



ARKANSAS STATE UNIVERSITY SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

NOTE 5: Long-Term Liabilities (Continued)

Arkansas State University-Mountain Home

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized and Issued	Debt Outstanding June 30, 2010	Maturities To June 30, 2010
8/1/1999	4/10/2019	4.80%	\$ 1,032,704	\$ 585,620	\$ 447,084
12/1/2002	12/1/2017	1.6 - 4.4%	5,405,000	3,205,000	2,200,000
1/29/2008	12/1/2032	4.2 - 4.5%	5,180,000	4,890,000	290,000
10/23/2009	10/23/2019	5.50%	2,500,000	2,486,561	13,439
Totals			<u>\$ 14,117,704</u>	<u>\$ 11,167,181</u>	<u>\$ 2,950,523</u>

Arkansas State University-Newport

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized and Issued	Debt Outstanding June 30, 2010	Maturities To June 30, 2010
1/29/2008	12/1/2032	3 - 4.375%	\$ 2,075,000	\$ 1,960,000	\$ 115,000
4/30/2008	5/1/2028	2.75 - 4.5%	4,400,000	4,075,000	325,000
Totals			<u>\$ 6,475,000</u>	<u>\$ 6,035,000</u>	<u>\$ 440,000</u>

The changes in long-term liabilities are as follows:

Arkansas State University-Jonesboro

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Amounts Due Within One Year
Bonds payable	\$ 125,948,943		\$ 3,882,132	\$ 122,066,811	\$ 4,057,131
Notes payable	1,618,054		1,618,054	-	
Capital leases payable	19,905		9,570	10,335	10,335
Compensated absences	4,684,397	\$ 3,727,289	3,640,917	4,770,769	4,296,703
Totals	<u>\$ 132,271,299</u>	<u>\$ 3,727,289</u>	<u>\$ 9,150,673</u>	<u>\$ 126,847,915</u>	<u>\$ 8,364,169</u>

ARKANSAS STATE UNIVERSITY SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

NOTE 5: Long-Term Liabilities (Continued)

Arkansas State University-Beebe

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Amounts Due Within One Year
Bonds payable	\$ 29,690,000	\$ 9,010,281	\$ 730,000	\$ 37,970,281	\$ 756,149
Compensated absences	1,335,271	928,813	936,118	1,327,966	822,144
<b>Totals</b>	<b>\$ 31,025,271</b>	<b>\$ 9,939,094</b>	<b>\$ 1,666,118</b>	<b>\$ 39,298,247</b>	<b>\$ 1,578,293</b>

Arkansas State University-Mountain Home

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Amounts Due Within One Year
Bonds payable	\$ 8,570,000		\$ 475,000	\$ 8,095,000	\$ 490,000
Notes payable	938,119	\$ 2,500,000	365,938	3,072,181	124,829
Compensated absences	363,859	224,724	204,314	384,269	22,176
<b>Totals</b>	<b>\$ 9,871,978</b>	<b>\$ 2,724,724</b>	<b>\$ 1,045,252</b>	<b>\$ 11,551,450</b>	<b>\$ 637,005</b>

Arkansas State University-Newport

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Amounts Due Within One Year
Bonds payable	\$ 6,255,000		\$ 220,000	\$ 6,035,000	\$ 225,000
Compensated absences	552,368	\$ 634,486	581,000	605,854	533,152
<b>Totals</b>	<b>\$ 6,807,368</b>	<b>\$ 634,486</b>	<b>\$ 801,000</b>	<b>\$ 6,640,854</b>	<b>\$ 758,152</b>

ARKANSAS STATE UNIVERSITY SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

NOTE 5: Long-Term Liabilities (Continued)

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

Arkansas State University-Jonesboro

Year ended June 30,	Principal	Interest	Total
2011	\$ 4,067,466 *	\$ 5,681,016 **	\$ 9,748,482
2012	4,222,131	5,529,716	9,751,847
2013	4,392,131	5,363,264	9,755,395
2014	4,237,131	5,193,078	9,430,209
2015	4,152,131	5,020,430	9,172,561
2016-2020	23,105,657	22,235,091	45,340,748
2021-2025	26,370,657	16,352,825	42,723,482
2026-2030	22,145,658	10,537,329	32,682,987
2031-2035	22,535,658	4,757,615	27,293,273
2036-2039	6,848,526	616,450	7,464,976
Totals	<u>\$ 122,077,146 ***</u>	<u>\$ 81,286,814</u>	<u>\$ 203,363,960</u>

\*Includes discount amortization of \$2,869

\*\*Includes interest payable of \$1,798,353 recorded as a current liability at June 30, 2010

\*\*\*Total principal of \$122,077,146 Includes discount amortization of \$83,189

Arkansas State University-Beebe

Year ended June 30,	Principal	Interest	Total
2011	\$ 756,149 *	\$ 1,669,598 **	\$ 2,425,747
2012	971,149	1,639,679	2,610,828
2013	1,001,150	1,604,262	2,605,412
2014	1,001,150	1,568,679	2,569,829
2015	1,036,149	1,532,496	2,568,645
2016-2020	5,800,746	7,029,551	12,830,297
2021-2025	6,840,746	5,728,210	12,568,956
2026-2030	7,415,747	4,079,430	11,495,177
2031-2035	9,125,746	2,158,182	11,283,928
2036-2040	4,021,549	393,705	4,415,254
Totals	<u>\$ 37,970,281 ***</u>	<u>\$ 27,403,792</u>	<u>\$ 65,374,073</u>

\*Includes discount amortization of \$3,851

\*\*Includes interest payable of \$320,813 recorded as a current liability at June 30, 2010

\*\*\*Total principal of \$37,970,291 Includes discount amortization of \$114,719

ARKANSAS STATE UNIVERSITY SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

NOTE 5: Long-Term Liabilities (Continued)

Arkansas State University-Mountain Home

Year ended June 30,	Principal	Interest	Total
2011	\$ 614,829	\$ 480,816 *	\$ 1,095,645
2012	636,091	457,110	1,093,201
2013	658,408	431,305	1,089,713
2014	685,755	404,245	1,090,000
2015	713,495	375,340	1,088,835
2016-2020	4,568,603	1,366,674	5,935,277
2021-2025	1,060,000	600,494	1,660,494
2026-2030	1,305,000	349,032	1,654,032
2031-2033	925,000	61,797	986,797
Totals	<u>\$ 11,167,181</u>	<u>\$ 4,526,813</u>	<u>\$ 15,693,994</u>

\*Includes interest payable of \$34,881 recorded as a current liability at June 30, 2010

Arkansas State University-Newport

Year ended June 30,	Principal	Interest	Total
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	255,000	209,275	464,275
2016-2020	1,405,000	903,340	2,308,340
2021-2025	1,725,000	599,038	2,324,038
2026-2030	1,335,000	210,821	1,545,821
2031-2033	375,000	25,047	400,047
Totals	<u>\$ 6,035,000</u>	<u>\$ 2,862,528</u>	<u>\$ 8,897,528</u>

\*Includes interest payable of \$33,467 recorded as a current liability at June 30, 2010

ARKANSAS STATE UNIVERSITY SYSTEM  
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NOTE 6: Capital Leases

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

Type of Asset	Asset Amount
Farm equipment	\$ 44,573

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, 2010:

Fiscal Year Ending June 30,	Amount
2011	\$ 11,161
Less: Amount Representing Interest	826
Total Present Value of Net Minimum Lease Payments	\$ 10,335

NOTE 7: Commitments

The University was contractually obligated for the following at June 30, 2010:

A. Construction Contracts

Jonesboro

Living Learning Community	September 2010	\$ 1,322,560
Caraway Road Overpass Phase I	January 2011	3,051,318
Caraway Road Overpass Phase II	February 2012	6,368,007

Beebe

England Center Renovation	August 2010	167,879
Residence Hall Construction	August 2011	6,228,096

Mountain Home

Community Development	September 2010	783,079
Carpet Replacement	September 2010	88,233

Newport

ASUTC-North Parking Lot	November 2010	12,259
Collision Repair Center-Marked Tree	December 2010	368,448

ARKANSAS STATE UNIVERSITY SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

NOTE 7: Commitments (Continued)

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, 2010: \$1,427,226

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

2011	\$	718,596
2012		366,117
2013		208,806
2014		95,400
2015		38,307

Rental payments for the above operating leases, for the year ended June 30, 2010, were approximately \$932,221.

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, 2010 were \$6,986,124 and \$5,852,621, 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 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%. Vesting occurs for all participants after 5 years of service. The University's contributions to ATRS for the years ended June 30, 2010, 2009 and 2008 were \$1,459,262, \$1,223,432 and \$1,152,945, respectively, equal to the required contributions for each year.

ARKANSAS STATE UNIVERSITY SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

NOTE 8: Retirement Plans (Continued)

Arkansas Public Employees Retirement System

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

Funding Policy. Employees are required by law to contribute 5% of their salaries. Each participating employer is required by law to contribute at a rate established by the Board of Trustees, based on the annual actuarial valuation. The current employer rate for higher education entities is 11% 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, 2010, 2009 and 2008 were \$866,636, \$854,121, and \$966,815, 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, 2010 were \$646,680 and \$769,929, respectively.

ARKANSAS STATE UNIVERSITY SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

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	\$ 56,579,321	\$ 920,133	\$ 7,130,514				\$ 64,629,968
Research	7,544,472	185,171	3,843,960				11,573,603
Public service	10,638,902	647,826	7,326,319				18,613,047
Academic support	11,794,997	2,870	7,032,944				18,830,811
Student services	10,241,434	125,775	3,780,350				14,147,559
Institutional support	17,391,975	1,000	6,445,044				23,838,019
Scholarships and fellowships		13,317,574					13,317,574
Operations and maintenance of plant	9,949,064		10,708,007				20,657,071
Auxiliary enterprises	7,782,996	3,212,864	13,468,826				24,464,686
Self-insurance				\$ 11,270,220			11,270,220
Depreciation					\$ 17,488,556		17,488,556
Other						\$ 78,102	78,102
<b>Totals</b>	<b>\$ 131,923,161</b>	<b>\$ 18,413,213</b>	<b>\$ 59,735,964</b>	<b>\$ 11,270,220</b>	<b>\$ 17,488,556</b>	<b>\$ 78,102</b>	<b>\$ 238,909,216</b>



ARKANSAS STATE UNIVERSITY SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

NOTE 10: Disaggregation of Receivable and Payable Balances

Accounts receivable from students was \$9,821,846 at June 30, 2010. This amount was reduced by an allowance for doubtful accounts of \$1,271,874.

Notes receivable pertains to loans awarded to students through the Federal Perkins Loan Program. Notes receivable was \$7,618,683 at June 30, 2010. This amount was reduced by an allowance for doubtful loans of \$1,180,241. Deposits receivable was \$6,963 at June 30, 2010.

Other receivables of \$17,420,830 at June 30, 2010 primarily consisted of reimbursements of \$5,032,264 from various agencies for grants and contracts, \$566,670 for construction projects, \$5,804,919 due from various state treasury accounts, \$474,141 for sales and use taxes, \$702,072 for property taxes and auxiliary enterprises receivables of \$811,046. Other receivables also consisted of \$835,555 due from the U. S. Department of Education for cancellations pertaining to the Federal Perkins Loan Program and miscellaneous items of \$3,194,163.

The accounts payable and accrued liabilities of \$8,559,263 consisted of \$6,316,217 due to vendors, \$4,683 due to students, \$37,472 due for sales and use taxes, \$978,807 for salaries and other payroll related items, \$1,088,624 for health claims and miscellaneous items of \$133,460.

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.

ARKANSAS STATE UNIVERSITY SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

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 45% of the postretirement healthcare premiums, which totaled \$469,078 for the fiscal year ended June 30, 2010. The retirees are responsible for funding approximately 55% of the healthcare premiums. The postretirement healthcare premiums for the fiscal year ended June 30, 2009, which totaled \$367,076, was funded approximately 53% by the University and 47% by the retirees.

In accordance with GASB Statement No. 45, the University accrued an additional \$1,185,938 in retiree healthcare expense during fiscal year 2010. This compares to \$1,080,296 accrued during fiscal year 2009.

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 Ending			
	June 30, 2010		June 30, 2009	
	Amount	Percent of Payroll <sup>1</sup>	Amount	Percent of Payroll <sup>2</sup>
1. Beginning of year unfunded actuarial accrued liability	\$ 9,523,361	8.64%	\$ 8,841,741	8.95%
<u>Annual Required Contribution (ARC)</u>				
2. Normal cost	\$ 949,228		\$ 802,444	
3. Amortization of the unfunded actuarial accrued liability over 30 years using open amortization	485,875		488,820	
4. Annual Required Contribution (ARC) (2. + 3.)	<u>\$ 1,435,103</u>	1.30%	<u>\$ 1,291,264</u>	1.31%
<u>Annual OPEB Cost (Expense)</u>				
5. Normal cost	\$ 949,228		\$ 802,444	
6. Amortization of the unfunded actuarial accrued liability over 30 years using open amortization	485,875		488,820	
7. Amortization of beginning of year accrual	(92,837)		(37,721)	
8. Interest on beginning of year accrual	54,589		22,180	
9. Annual OPEB expense (5. + 6. + 7. + 8.)	<u>\$ 1,396,855</u>	1.27%	<u>\$ 1,275,723</u>	1.29%

ARKANSAS STATE UNIVERSITY SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

NOTE 12: Other Postemployment Benefits (Continued)

End of Year Accrual (Net OPEB Obligation)

10. Beginning of year accrual	\$ 1,819,642		\$ 739,346	
11. Annual OPEB cost	1,396,855		1,275,723	
12. Employer contribution (benefit payments)	<u>210,917</u>		<u>195,427</u>	
13. End of year accrual (10. + 11. – 12.) <sup>3</sup>	<u>\$ 3,005,580</u>	2.73%	<u>\$ 1,819,642</u>	1.84%

<sup>1</sup> Annual payroll for the 2,148 plan participants as of July 1, 2009 is \$110,244,776.

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

<sup>3</sup> Actual contributions and administrative fees paid in fiscal year 2010 of \$469,078 less participant contributions of \$258,161; \$367,076 and \$171,649, respectively, in fiscal year 2009. Employer contributed 15.1% of annual OPEB cost during fiscal year 2010, compared to 15.3% during fiscal year 2009.

**Schedule of Employer Contributions**

Fiscal Year Ended	Annual OPEB Cost	Actual Contributions <sup>4</sup>	Percentage Contributed
June 30, 2010	\$ 1,396,855	\$ 210,917	15.1%
June 30, 2009	\$ 1,275,723	\$ 195,427	15.3%
June 30, 2008	\$ 1,154,247	\$ 414,901	35.9%

<sup>4</sup> Since there is no funding, these are actual benefit payments less retiree contributions. For 2010, these amounts are \$469,078 and \$258,161, respectively. 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 <sup>5</sup> (c)	UAAL as a Percentage Of Covered Payroll <sup>5</sup> [(b)-(a)]/(c)
June 30, 2010	\$ 0	\$ 9,523,361	\$ 9,523,361	0%	\$ 110,244,776	8.64%
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%

<sup>5</sup> Payroll as of July 1, 2009, July 1, 2008, and July 1, 2007 includes only plan participants.

Note: The annual required contribution (ARC) of \$1,435,103 for fiscal year 2010 and accrual of \$3,005,580 as of June 30, 2010, are based on a current decision not to fund in a segregated GASB qualified trust; \$1,291,264 and 1,819,642, respectively, as of June 30, 2009; and \$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, 2010	\$ 1,396,855	15.1%	\$ 3,005,580
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, 2010

NOTE 12: Other Postemployment Benefits (Continued)

**Summary of Key Actuarial Methods and Assumptions**

<b>Valuation year</b>	July 1, 2009 – June 30, 2010
<b>Actuarial cost method</b>	Projected Unit Credit, level dollar
<b>Amortization method</b>	30 years, level dollar open amortization <sup>6</sup>
<b>Asset valuation method</b>	N/A

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

**Actuarial assumptions:**

Discount rate	3.0%
Projected payroll growth rate	N/A
Health care cost trend rate for medical and prescription drugs	Trend rates are 9% initially, decreasing to 8% in year 2, and then by ½ of 1% each year until an ultimate trend rate of 4.5% is reached.

**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 2010. 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.

<b>Valuation Year</b>	July 1, 2009 – June 30, 2010
<b>Date of Census Data</b>	May 1, 2010
<b>Actuarial Cost Method</b>	Projected Unit Credit actuarial cost method; Unfunded Actuarial Liability (UAL) amortized on a level dollar basis over 30 years.

**Retiree Premiums**

<b>Health (monthly rate)</b>	<b>Employee Cost</b>	<b>Employer Cost</b>	<b>Total</b>
Single (retired prior to 2001)	\$ 0.00	\$ 360.36	\$ 360.36
Single (retired 1/1/2001 to 6/30/2001)	\$ 42.00	\$ 318.36	\$ 360.36
Single (retired after 6/30/2001)	\$ 180.18	\$ 180.18	\$ 360.36
Family (retired prior to 2001)	\$ 0.00	\$ 751.42	\$ 751.42
Family (retired 1/1/2001 to 6/30/2001)	\$ 200.00	\$ 551.42	\$ 751.42
Family (retired after 6/30/2001)	\$ 375.71	\$ 375.71	\$ 751.42

**Annual Health Care Trend Rate** Trend rates are 9% initially, decreasing to 8% in year 2, and then by ½ of 1% each year until an ultimate trend rate of 4.5% is reached.

**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, 2010

NOTE 12: Other Postemployment Benefits (Continued)

**Mortality** IRS 2008 Combined Static Mortality Table has been used.

**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. The total liability was discounted to net present value using a risk free interest rate at the date the liability occurred. The Foundation has been named trustee of the retirement plan. Dr. Wyatt retired June 2010. The remaining liability of \$232,638 is no longer due to the University and has been recognized in other income on the Foundation's financial statements.

ARKANSAS STATE UNIVERSITY SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

NOTE 14: Arkansas Services Center

On October 8, 1968, an agreement was signed by Arkansas State University-Jonesboro, 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-Jonesboro, 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.

During the bond term, Arkansas State University-Jonesboro maintained the financial records of the Arkansas Services Center. Operating revenues were derived solely from agency rentals and vending income. All financial activity was reflected in the University's financial statements as auxiliary enterprises.

On October 1, 2009, the University retired the debt associated with the Arkansas Services Center and transferred operational and administrative authority of the center to Arkansas Building Authority. Equipment costing \$49,242, with accumulated depreciation of \$42,146, was transferred to Arkansas Building Authority. Cash in the amount of the \$792,357 was also transferred to Arkansas Building Authority. This amount was the net assets balance as of the date the debt was retired.

On June 18, 2010, the University signed a deed transferring ownership of the land, buildings, building improvements, and grounds improvements to various state agencies as outlined below. The University maintains a 9.28% ownership in the Arkansas Services Center. The assets transferred had a total cost of \$6,456,555 and accumulated depreciation of \$5,473,960.

Arkansas Department of Human Services, Division of Behavioral Services	50.20%
Arkansas Department of Human Services	8.70%
Arkansas Department of Career Education, Arkansas Rehabilitation Services	31.82%

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, 2010, approximately 4,066 active employees, their dependents, former employees and retirees were participating in the program. For those participating in either plan, the University pays 88% of the total premium for full-time employees and early retirees, and 73% 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 \$1,088,624 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.

ARKANSAS STATE UNIVERSITY SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

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, 2010 were \$8,680,920. Of this amount, \$8,265,452 was nonexpendable and the remaining \$415,468 was expendable.

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

It is the University's policy for annual expenses from the endowment funds not to exceed 4.5% of the five 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, 2010 are as follows:

Arkansas State University-Jonesboro

- **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; *2010 Gross Revenue:* Tuition and Fees (see below ); *Amount Issued:* \$3,000,000; *2010 Principal Paid:* \$70,000; *2010 Interest Paid:* \$127,773; *Principal Outstanding:* \$2,450,000; *Interest Outstanding:* \$1,555,777; *Percent of revenue pledged in 2010:* 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; *2010 Gross Revenue:* \$1,287,475; *Amounts Issued:* \$7,000,000 and \$7,500,000; *2010 Principal Paid:* \$165,000 and \$164,338; *2010 Interest Paid:* \$299,400 and \$321,792; *Principal Outstanding:* \$5,735,000 and \$6,842,647; *Interest Outstanding:* \$3,704,803 and \$4,821,607; *Percent of revenue pledged in 2010:* 73.8%
- **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; *2010 Gross Revenue:* Tuition and Fees (see below)/\$1,159,502; *Amount Issued:* \$6,105,000; *2010 Principal Paid:* \$450,000; *2010 Interest Paid:* \$163,852; *Principal Outstanding:* \$3,800,000; *Interest Outstanding:* \$919,917; *Percent of revenue pledged in 2010:* 0.9%
- **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; *2010 Gross Revenue:* Tuition and Fees (see below); *Amount Issued:* \$11,555,000; *2010 Principal Paid:* \$470,000; *2010 Interest Paid:* \$387,145; *Principal Outstanding:* \$8,930,000; *Interest Outstanding:* \$5,288,018; *Percent of revenue pledged in 2010:* 1.3%
- **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; *2010 Gross Revenue:* \$3,165,757; *Amount Issued:* \$26,500,000; *2010 Principal Paid:* \$580,662; *2010 Interest Paid:* \$1,136,998; *Principal Outstanding:* \$24,177,353; *Interest Outstanding:* \$17,036,343; *Percent of revenue pledged in 2010:* 54.3%
- **Series 2005 Refunding**—*Issue Date:* 9-29-2005; *Maturity Date:* 4-1-2025; *Purpose:* Refinance Student Union; *Type of Revenue Pledged:* Student Union Fee; *2010 Gross Revenue:* \$2,360,584; *Amount Issued:* \$14,342,625; *2010 Principal Paid:* \$585,489; *2010 Interest Paid:* \$612,881; *Principal Outstanding:* \$12,037,960; *Interest Outstanding:* \$5,064,930; *Percent of revenue pledged in 2010:* 50.8%

ARKANSAS STATE UNIVERSITY SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

NOTE 17: Pledged Revenues (Continued)

- **Series 2005 Refunding**—*Issue Date:* 9-29-2005; *Maturity Date:* 4-1-2025; *Purpose:* Refinance Parking Garage; *Type of Revenue Pledged:* Parking Fees; *2010 Gross Revenue:* \$1,309,833; *Amount Issued:* \$4,887,375; *2010 Principal Paid:* \$199,511; *2010 Interest Paid:* \$208,844; *Principal Outstanding:* \$4,102,040; *Interest Outstanding:* \$1,725,920; *Percent of revenue pledged in 2010:* 31.2%
- **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; *2010 Gross Revenue:* \$1,408,767; *Amount Issued:* \$17,065,000; *2010 Principal Paid:* \$310,000; *2010 Interest Paid:* \$745,919; *Principal Outstanding:* \$15,980,000; *Interest Outstanding:* \$12,586,655; *Percent of revenue pledged in 2010:* 75%
- **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; *2010 Gross Revenue:* \$2,628,689; *Amount Issued:* \$30,300,000; *2010 Principal Paid:* \$760,000; *2010 Interest Paid:* \$1,385,010; *Principal Outstanding:* \$28,805,000; *Interest Outstanding:* \$20,581,110; *Percent of revenue pledged in 2010:* 81.6%
- **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; *2010 Gross Revenue:* \$0; *Amount Issued:* \$9,290,000; *2010 Principal Paid:* \$0; *2010 Interest Paid:* \$417,334; *Principal Outstanding:* \$9,290,000; *Interest Outstanding:* \$8,000,908; *Percent of revenue pledged in 2010:* 0%

Note: Issues with Tuition and Fees pledged, 2010 Gross Revenue--\$67,835,098

Arkansas State University-Beebe

- **1992 Student Fee AA**—*Issue Date:* 10-1-1992; *Maturity Date:* 10-1-2012; *Purpose:* Construction of Business and Agriculture Building; *Type of Revenue Pledged:* Tuition and Fees; *2010 Gross Revenue:* Tuition and Fees (see below); *Amount Issued:* \$400,000; *2010 Principal Paid:* \$30,000; *2010 Interest Paid:* \$7,575; *Principal Outstanding:* \$100,000; *Interest Outstanding:* \$10,230; *Percent of revenue pledged in 2010:* 0.4%
- **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; *2010 Gross Revenue:* Tuition and Fees (see below); *Amount Issued:* \$3,330,000; *2010 Principal Paid:* \$145,000; *2010 Interest Paid:* \$101,862; *Principal Outstanding:* \$2,630,000; *Interest Outstanding:* \$779,911; *Percent of revenue pledged in 2010:* 2.5%
- **2005 ASUHS Phase I**—*Issue Date:* 12-1-2005; *Maturity Date:* 12-1-2035; *Purpose:* Construction of academic buildings at the Heber Springs campus; *Type of Revenue Pledged:* Tuition and Fees; *2010 Gross Revenue:* Tuition and Fees (see below); *Amount Issued:* \$15,170,000; *2010 Principal Paid:* \$290,000; *2010 Interest Paid:* \$660,458; *Principal Outstanding:* \$14,070,000; *Interest Outstanding:* \$10,493,963; *Percent of revenue pledged in 2010:* 9.6%
- **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; *2010 Gross Revenue:* Tuition and Fees (see below); *Amount Issued:* \$11,000,000; *2010 Principal Paid:* \$210,000; *2010 Interest Paid:* \$469,288; *Principal Outstanding:* \$10,195,000; *Interest Outstanding:* \$7,434,288; *Percent of revenue pledged in 2010:* 6.9%
- **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; *2010 Gross Revenue:* Tuition and Fees (see below); *Amount Issued:* \$2,080,000; *2010 Principal Paid:* \$55,000; *2010 Interest Paid:* \$80,508; *Principal Outstanding:* \$1,965,000; *Interest Outstanding:* \$1,101,355; *Percent of revenue pledged in 2010:* 1.4%
- **2010 Residence Hall**—*Issue Date:* 4-15-2010; *Maturity Date:* 4-1-2040; *Purpose:* Construction of new residence halls ; *Type of Revenue Pledged:* Housing Fees; *2010 Gross Revenue:* \$216,176; *Amount Issued:* \$9,125,000; *2010 Principal Paid:* \$0; *2010 Interest Paid:* \$0; *Principal Outstanding:* \$9,125,000; *Interest Outstanding:* \$7,584,045; *Percent of revenue pledged in 2010:* 0%

Note: Issues with Tuition and Fees pledged, 2010 Gross Revenue--\$9,852,825



ARKANSAS STATE UNIVERSITY SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

NOTE 17: Pledged Revenues (Continued)

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; *2010 Gross Revenue:* \$4,860,743; *Amount Issued:* \$5,405,000; *2010 Principal Paid:* \$340,000; *2010 Interest Paid:* \$134,125; *Principal Outstanding:* \$3,205,000; *Interest Outstanding:* \$561,155; *Percent of revenue pledged in 2010:* 9.8%
- **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; *2010 Gross Revenue:* \$3,680,526; *Amount Issued:* \$5,180,000; *2010 Principal Paid:* \$135,000; *2010 Interest Paid:* \$200,263; *Principal Outstanding:* \$4,890,000; *Interest Outstanding:* \$2,734,941; *Percent of revenue pledged in 2010:* 9.1%

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; *2010 Gross Revenue:* Tuition and Fees (see below); *Amount Issued:* \$2,075,000; *2010 Principal Paid:* \$55,000; *2010 Interest Paid:* \$80,333; *Principal Outstanding:* \$1,960,000; *Interest Outstanding:* \$1,100,568; *Percent of revenue pledged in 2010:* 3.5%
- **2008 Refunding**—*Issue Date:* 4-30-2008; *Maturity Date:* 5-1-2028; *Purpose:* Refinancing Issue; *Type of Revenue Pledged:* Tuition and Fees; *2010 Gross Revenue:* Tuition and Fees (see below); *Amount Issued:* \$4,400,000; *2010 Principal Paid:* \$165,000; *2010 Interest Paid:* \$166,012; *Principal Outstanding:* \$4,075,000; *Interest Outstanding:* \$1,761,960; *Percent of revenue pledged in 2010:* 8.4%

Note: Issues with Tuition and Fees pledged, 2010 Gross Revenue--\$3,922,310

NOTE 18: Risk Management

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

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

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

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

ARKANSAS STATE UNIVERSITY SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

NOTE 18: Risk Management (Continued)

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: Prior Period Restatement

Arkansas State University-Mountain Home received a 2 mill property tax levy to be utilized for the operating expenses of the University. On the Statement of Net Assets, prior year statements have been restated to reflect the changes for an increase in receivables and unrestricted net assets in the amount of \$682,751. At the Statement of Revenues, Expenses, and Changes in Net Assets, the beginning net assets of the prior year have been restated to include the prior year adjustment of accounts receivable in the amount of \$629,348. Additionally, the Statement of Revenues, Expenses, and Changes in Net Assets was amended to reflect property taxes at \$1,170,898 for 2009, an increase of \$53,403.

ARKANSAS STATE UNIVERSITY SYSTEM  
REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2010

**Other Postemployment Benefits**

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

Cost Element	Fiscal Year Ending			
	June 30, 2010		June 30, 2009	
	Amount	Percent of Payroll <sup>1</sup>	Amount	Percent of Payroll <sup>2</sup>
1. Beginning of year unfunded actuarial accrued liability	\$ 9,523,361	8.64%	\$ 8,841,741	8.95%
<u>Annual Required Contribution (ARC)</u>				
2. Normal cost	\$ 949,228		\$ 802,444	
3. Amortization of the unfunded actuarial accrued liability over 30 years using open amortization	485,875		488,820	
4. Annual Required Contribution (ARC) (2. + 3.)	\$ <u>1,435,103</u>	1.30%	\$ <u>1,291,264</u>	1.31%
<u>Annual OPEB Cost (Expense)</u>				
5. Normal cost	\$ 949,228		\$ 802,444	
6. Amortization of the unfunded actuarial accrued liability over 30 years using open amortization	485,875		488,820	
7. Amortization of beginning of year accrual	(92,837)		(37,721)	
8. Interest on beginning of year accrual	54,589		22,180	
9. Annual OPEB expense (5. + 6. + 7. + 8.)	\$ <u>1,396,855</u>	1.27%	\$ <u>1,275,723</u>	1.29%
<u>End of Year Accrual (Net OPEB Obligation)</u>				
10. Beginning of year accrual	\$ 1,819,642		\$ 739,346	
11. Annual OPEB cost	1,396,855		1,275,723	
12. Employer contribution (benefit payments)	210,917		195,427	
13. End of year accrual (10. + 11. - 12.) <sup>3</sup>	\$ <u>3,005,580</u>	2.73%	\$ <u>1,819,642</u>	1.84%

<sup>1</sup> Annual payroll for the 2,148 plan participants as of July 1, 2009 is \$110,244,776.

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

<sup>3</sup> Actual contributions and administrative fees paid in fiscal year 2010 of \$469,078 less participant contributions of \$258,161; \$367,076 and \$171,649, respectively, in fiscal year 2009. Employer contributed 15.1% of annual OPEB cost during fiscal year 2010, compared to 15.3% during fiscal year 2009.

**Schedule of Employer Contributions**

Fiscal Year Ended	Annual OPEB Cost	Actual Contributions <sup>4</sup>	Percentage Contributed
June 30, 2010	\$ 1,396,855	\$ 210,917	15.1%
June 30, 2009	\$ 1,275,723	\$ 195,427	15.3%
June 30, 2008	\$ 1,154,247	\$ 414,901	35.9%

<sup>4</sup> Since there is no funding, these are actual benefit payments less retiree contributions. For 2010, these amounts are \$469,078 and \$258,161, respectively. 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, 2010

**Schedule of Funding Progress**

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

Fiscal Year Ending	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded/ (Overfunded) AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll <sup>5</sup> (c)	UAAL as a Percentage Of Covered Payroll <sup>5</sup> [(b)-(a)]/(c)
June 30, 2010	\$ 0	\$ 9,523,361	\$ 9,523,361	0%	\$ 110,244,776	8.64%
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%

<sup>5</sup> Payroll as of July 1, 2009, July 1, 2008, and July 1, 2007 includes only plan participants.

Note: The annual required contribution (ARC) of \$1,435,103 for fiscal year 2010 and accrual of \$3,005,580 as of June 30, 2010, are based on a current decision not to fund in a segregated GASB qualified trust; \$1,291,264 and 1,819,642, respectively, as of June 30, 2009; and \$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, 2010	\$ 1,396,855	15.1%	\$ 3,005,580
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**

<b>Valuation year</b>	July 1, 2009 – June 30, 2010
<b>Actuarial cost method</b>	Projected Unit Credit, level dollar
<b>Amortization method</b>	30 years, level dollar open amortization <sup>6</sup>
<b>Asset valuation method</b>	N/A

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

**Actuarial assumptions:**

Discount rate	3.0%
Projected payroll growth rate	N/A
Health care cost trend rate for medical and prescription drugs	Trend rates are 9% initially, decreasing to 8% in year 2, and then by ½ of 1% each year until an ultimate trend rate of 4.5% is reached.

**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 2010.

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, 2010

**Valuation Year** July 1, 2009 – June 30, 2010  
**Date of Census Data** May 1, 2010  
**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	\$ 360.36	\$ 360.36
Single (retired 1/1/2001 to 6/30/2001)	\$ 42.00	\$ 318.36	\$ 360.36
Single (retired after 6/30/2001)	\$ 180.18	\$ 180.18	\$ 360.36
Family (retired prior to 2001)	\$ 0.00	\$ 751.42	\$ 751.42
Family (retired 1/1/2001 to 6/30/2001)	\$ 200.00	\$ 551.42	\$ 751.42
Family (retired after 6/30/2001)	\$ 375.71	\$ 375.71	\$ 751.42

**Annual Health Care Trend Rate** Trend rates are 9% initially, decreasing to 8% in year 2, and then by ½ of 1% each year until an ultimate trend rate of 4.5% is reached.

**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** IRS 2008 Combined Static Mortality Table has been used.

**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, 2010

**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, 2010  
(Unaudited)

Schedule 1

	Year Ended June 30,				
	2010	2009	2008	2007	2006
Total Assets	\$ 475,420,409	\$ 448,212,607	\$ 408,070,252	\$ 382,315,235	\$ 341,893,008
Total Liabilities	210,829,951	206,119,947	196,912,775	189,320,407	154,470,141
Total Net Assets	264,590,458	242,092,660	211,157,477	192,994,828	187,422,867
Total Operating Revenues	113,326,466	103,486,435	102,607,336	108,075,323	107,855,825
Total Operating Expenses	238,909,216	222,359,732	210,552,053	193,511,912	184,739,792
Total Net Non-Operating Revenues	138,413,254	116,739,815	108,678,182	86,872,945	82,504,372
Total Other Revenues, Expenses, Gains or Losses	9,667,294	32,385,914	17,429,184	4,135,605	5,367,991

ARKANSAS STATE UNIVERSITY SYSTEM  
STATEMENT OF NET ASSETS BY CAMPUS  
JUNE 30, 2010

Schedule 2

	Jonesboro	Beebe	Mountain Home	Newport	Consolidation Entries	Total
<b>ASSETS</b>						
Current Assets:						
Cash and cash equivalents	\$ 14,783,243	\$ 1,949,403	\$ 5,016,452	\$ 3,443,495		\$ 25,192,593
Short-term investments	950,000	5,330,581	500,000	3,465,177		10,245,758
Accounts receivable (less allowances of \$1,271,874)	20,939,910	1,262,064	1,310,808	1,725,011		25,237,793
Notes and deposits receivable (less allowances of \$188,493)	1,028,263					1,028,263
Accrued interest and late charges	387,363	10,933	230	2,489		401,015
Inventories	995,328	353,594		145,086		1,494,008
Deposits with trustee	791,771	417,445		4,081		1,213,297
Bond issuance costs	9,878	8,669				18,547
Prepaid expenses	40,316	26,712	7,106	5,792		79,926
Total Current Assets	<u>39,926,072</u>	<u>9,359,401</u>	<u>6,834,596</u>	<u>8,791,131</u>		<u>64,911,200</u>
Noncurrent Assets:						
Restricted cash and cash equivalents	13,955,907	4,133,903				18,089,810
Endowment investments	9,642,516	137,597				9,780,113
Other long-term investments	4,583,036	6,813,635		122,692		11,519,363
Accrued interest		887				887
Deposits with trustee	3,764,801		1,783	167,138		3,933,722
Accounts receivable	733,009					733,009
Notes and deposits receivable (less allowances of \$991,748)	5,417,142					5,417,142
Bond issuance costs	276,588	249,608				526,196
Capital assets (net of accumulated depreciation of \$208,872,060)	253,693,159	57,058,984	30,228,601	19,528,223		360,508,967
Total Noncurrent Assets	<u>292,066,158</u>	<u>68,394,614</u>	<u>30,230,384</u>	<u>19,818,053</u>		<u>410,509,209</u>
<b>TOTAL ASSETS</b>	<b><u>331,992,230</u></b>	<b><u>77,754,015</u></b>	<b><u>37,064,980</u></b>	<b><u>28,609,184</u></b>		<b><u>475,420,409</u></b>
<b>LIABILITIES</b>						
Current Liabilities:						
Accounts payable and accrued liabilities	6,086,478	759,028	214,389	410,744	\$ 1,088,624	8,559,263
Bonds, notes and leases payable	4,067,466	756,149	614,829	225,000		5,663,444
Compensated absences	4,296,703	822,144	22,176	533,152		5,674,175
Deferred revenue	3,668,501	116,084	183,782	58,998		4,027,365
Funds held in trust for others	509,578	80,094	15,748	48,286		653,706
Deposits	522,085	10,265				532,350
Interest payable	1,798,353	320,813	34,881	33,467		2,187,514
Other liabilities	22,076					22,076
Total Current Liabilities	<u>20,971,240</u>	<u>2,864,577</u>	<u>1,085,805</u>	<u>1,309,647</u>	<u>1,088,624</u>	<u>27,319,893</u>
Noncurrent Liabilities:						
Bonds, notes and leases payable	118,009,680	37,214,132	10,552,352	5,810,000		171,586,164
Compensated absences	474,066	505,822	362,093	72,702		1,414,683
Accrued other postemployment benefits payable					3,005,580	3,005,580
Deposits	304,072					304,072
Refundable federal advances	7,199,559					7,199,559
Total Noncurrent Liabilities	<u>125,987,377</u>	<u>37,719,954</u>	<u>10,914,445</u>	<u>5,882,702</u>	<u>3,005,580</u>	<u>183,510,058</u>
<b>TOTAL LIABILITIES</b>	<b><u>146,958,617</u></b>	<b><u>40,584,531</u></b>	<b><u>12,000,250</u></b>	<b><u>7,192,349</u></b>	<b><u>4,094,204</u></b>	<b><u>210,829,951</u></b>



ARKANSAS STATE UNIVERSITY SYSTEM  
 STATEMENT OF NET ASSETS BY CAMPUS  
 JUNE 30, 2010

Schedule 2

	Jonesboro	Beebe	Mountain Home	Newport	Consolidation Entries	Total
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	\$ 135,288,167	\$ 19,088,703	\$ 19,061,420	\$ 13,493,223		\$ 186,931,513
Restricted for:						
Nonexpendable:						
Scholarships and fellowships	5,516,691	108,471				5,625,162
Loans	858,082					858,082
Other	4,541,958					4,541,958
Expendable:						
Scholarships and fellowships	536,813	411,922				948,735
Research	1,675,826					1,675,826
Loans		20,000				20,000
Capital projects	891,460	12,357,405	11,952			13,260,817
Debt service	591,261	582,269	9,725	167,138		1,350,393
Other	3,789,099		368,385	335,848		4,493,332
Unrestricted	31,344,256	4,600,714	5,613,248	7,420,626	\$ (4,094,204)	44,884,640
<b>TOTAL NET ASSETS</b>	<u>\$ 185,033,613</u>	<u>\$ 37,169,484</u>	<u>\$ 25,064,730</u>	<u>\$ 21,416,835</u>	<u>\$ (4,094,204)</u>	<u>\$ 264,590,458</u>

ARKANSAS STATE UNIVERSITY SYSTEM  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS BY CAMPUS  
FOR THE YEAR ENDED JUNE 30, 2010

Schedule 3

	Jonesboro	Beebe	Mountain Home	Newport	Consolidation Entries	Total
<b>OPERATING REVENUES</b>						
Student tuition and fees (net of scholarship allowances of \$35,691,366)	\$ 39,373,553	\$ 6,040,090	\$ 1,676,408	\$ 2,509,343		\$ 49,599,394
Grants and contracts	24,297,877	4,933,034	1,696,780	1,999,751		32,927,442
Sales and services of educational departments	806,904	80,023				886,927
Auxiliary enterprises (net of scholarship allowances of \$6,685,245)	20,490,158	2,196,708	199,711	426,593		23,313,170
Self-insurance	3,074,210					3,074,210
Other operating revenues	2,802,145	481,313	152,700	89,165		3,525,323
<b>TOTAL OPERATING REVENUES</b>	<b>90,844,847</b>	<b>13,731,168</b>	<b>3,725,599</b>	<b>5,024,852</b>		<b>113,326,466</b>
<b>OPERATING EXPENSES</b>						
Personal services	95,521,227	19,723,493	6,668,133	8,824,370	\$ 1,185,938	131,923,161
Scholarships and fellowships	10,492,293	3,661,765	2,287,723	1,971,432		18,413,213
Supplies and services	45,783,423	7,468,580	2,728,516	3,755,445		59,735,964
Self-insurance	11,553,592				(283,372)	11,270,220
Depreciation	12,832,800	2,133,995	1,599,914	921,847		17,488,556
Other	78,102					78,102
<b>TOTAL OPERATING EXPENSES</b>	<b>176,261,437</b>	<b>32,987,833</b>	<b>13,284,286</b>	<b>15,473,094</b>	<b>902,566</b>	<b>238,909,216</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(85,416,590)</b>	<b>(19,256,665)</b>	<b>(9,558,687)</b>	<b>(10,448,242)</b>	<b>(902,566)</b>	<b>(125,582,750)</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>						
Federal appropriations	3,544,193					3,544,193
State appropriations	65,066,768	13,835,555	5,133,522	7,366,547		91,402,392
Stimulus funds (ARRA)	1,417,206			278,251		1,695,457
Grants and contracts	26,713,178	6,017,557	4,309,669	3,370,234		40,410,638
Sales and use taxes		1,649,254		945,886		2,595,140
Property taxes			1,180,217			1,180,217
Gifts	1,249,132		1,608,484	9,200		2,866,816
Investment income (net of investment expense of \$0)	2,265,323	182,112	39,893	101,532		2,588,860
Interest on capital asset - related debt	(5,849,004)	(1,409,385)	(433,386)	(245,378)		(7,937,153)
Other nonoperating revenues (expenses)	(53,426)	89,270	39,800	(8,950)		66,694
<b>NET NON-OPERATING REVENUES (EXPENSES)</b>	<b>94,353,370</b>	<b>20,364,363</b>	<b>11,878,199</b>	<b>11,817,322</b>		<b>138,413,254</b>
<b>INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES</b>	<b>8,936,780</b>	<b>1,107,698</b>	<b>2,319,512</b>	<b>1,369,080</b>	<b>(902,566)</b>	<b>12,830,504</b>
Capitalization of interest	3,683,455			25,262		3,708,717
Capital appropriations	75,000	225,000	2,329,156	294,000		2,923,156
Capital grants and gifts	3,255,506	15,000		491,092		3,761,598
Stimulus funds (ARRA) for capital projects	408,322	612,035				1,020,357
Additions to endowments		745				745
Adjustment to prior year capital assets	412,965					412,965
Refund to grantors	(271,445)	(3,807)				(275,252)
Gain or loss on disposal of capital assets	(178,715)	(42,353)		(129,119)		(350,187)
Capitalization of library holdings at rate per volume	247,905					247,905
Accrued interest on bond issue		14,693				14,693
Premium/Discount on bond issue	(2,869)	(802)				(3,671)
Bond issuance costs	(9,878)	(1,806)				(11,684)
Transfer of Arkansas Services Center (note 14)	(1,782,048)					(1,782,048)
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>14,774,978</b>	<b>1,926,403</b>	<b>4,648,668</b>	<b>2,050,315</b>	<b>(902,566)</b>	<b>22,497,798</b>
<b>NET ASSETS - BEGINNING OF YEAR</b>	<b>170,258,635</b>	<b>35,243,081</b>	<b>20,416,062</b>	<b>19,366,520</b>	<b>(3,191,638)</b>	<b>242,092,660</b>
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 185,033,613</b>	<b>\$ 37,169,484</b>	<b>\$ 25,064,730</b>	<b>\$ 21,416,835</b>	<b>\$ (4,094,204)</b>	<b>\$ 264,590,458</b>

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

ARKANSAS STATE UNIVERSITY SYSTEM  
STATEMENT OF CASH FLOWS BY CAMPUS  
FOR THE YEAR ENDED JUNE 30, 2010

Schedule 4

	Jonesboro	Beebe	Mountain Home	Newport	Consolidation Entries	Total
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>						
Student tuition and fees	\$ 43,189,340	\$ 5,925,617	\$ 1,727,470	\$ 2,501,143		\$ 53,343,570
Grants and contracts	24,561,187	4,847,993	1,556,055	1,831,809		32,797,044
Auxiliary enterprises revenues	17,558,613	2,227,822	189,640	398,279		20,374,354
Sales and services of educational departments	805,509	80,023				885,532
Self-insurance	3,284,610					3,284,610
Collection of principal and interest related to student loans	889,024					889,024
Other receipts	2,250,441	484,127	152,700	93,911		2,981,179
Payments to employees	(82,720,071)	(15,460,673)	(5,229,814)	(6,729,175)		(110,139,733)
Payments for employee benefits	(13,178,587)	(4,313,418)	(1,459,448)	(2,067,827)		(21,019,280)
Payments to suppliers	(47,756,517)	(7,402,291)	(4,012,428)	(3,765,843)		(62,937,079)
Scholarships and fellowships	(10,492,293)	(3,661,765)	(2,287,723)	(1,971,432)		(18,413,213)
Self-insurance	(11,553,196)					(11,553,196)
Loans issued to students	(925,696)					(925,696)
Net cash provided (used) by operating activities	<u>(74,087,636)</u>	<u>(17,272,565)</u>	<u>(9,363,548)</u>	<u>(9,709,135)</u>		<u>(110,432,884)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>						
Federal appropriations	3,544,193					3,544,193
State appropriations	60,552,998	13,835,555	5,133,522	8,087,941		87,610,016
Stimulus (ARRA) funds	1,416,407			168,660		1,585,067
Grants and contracts	34,087,817	6,017,557	4,309,670	260,232	\$ (4,459,897)	40,215,379
Private gifts and grants	1,421,176	745	1,608,484	9,200		3,039,605
Payments to other campus for financial aid distribution	(7,624,386)				7,624,386	-
Sales and use taxes		1,649,844		947,534		2,597,378
Property taxes			1,160,895			1,160,895
Payment from ASUJ for financial aid distribution				3,164,489	(3,164,489)	-
Transfer of Arkansas Services Center (Note 14)	(792,357)					(792,357)
Other agency funds - net	(1,895,523)		3,065	(15,427)		(1,907,885)
Refunds to grantors	(271,445)					(271,445)
Other		57,045	39,800	(8,950)		87,895
Net cash provided (used) by noncapital financing activities	<u>90,438,880</u>	<u>21,560,746</u>	<u>12,255,436</u>	<u>12,613,679</u>	<u>0</u>	<u>136,868,741</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
Proceeds from capital debt		8,386,273	2,500,000			10,886,273
Capital appropriations	75,000	225,000	2,329,156	294,000		2,923,156
Capital gift and grants	4,976,304	15,000		500,639		5,491,943
Stimulus (ARRA) funds for capital projects		612,035				612,035
Proceeds from sale of capital assets	269,322			14,850		284,172
Received from bond trustees	15,706,878		870,991			16,577,869
Payments to bond trustees	(9,164,239)		(809,993)	(462,688)		(10,436,920)
Purchases of capital assets	(28,697,923)	(2,576,970)	(7,179,103)	(2,878,304)		(41,332,300)
Principal paid on capital debt and leases	(1,627,624)	(730,000)	(365,938)			(2,723,562)
Interest paid on capital debt and leases	(91,443)	(1,186,105)	(103,140)			(1,380,688)
Other						
Net cash provided (used) by capital and related financing activities	<u>(18,553,725)</u>	<u>4,745,233</u>	<u>(2,758,027)</u>	<u>(2,531,503)</u>		<u>(19,098,022)</u>

ARKANSAS STATE UNIVERSITY SYSTEM  
STATEMENT OF CASH FLOWS BY CAMPUS  
FOR THE YEAR ENDED JUNE 30, 2010

Schedule 4

	Jonesboro	Beebe	Mountain Home	Newport	Consolidation Entries	Total
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Proceeds from sales and maturities of investments	\$ 2,924,094	\$ 6,153,918	\$ 1,300,000	\$ 142,794		\$ 10,520,806
Interest on investments (net of fees)	824,067	186,342	40,109	90,894		1,141,412
Purchases of investments	<u>(1,650,005)</u>	<u>(12,681,814)</u>	<u>(1,000,000)</u>	<u>(9,200)</u>		<u>(15,341,019)</u>
Net cash provided (used) by investing activities	<u>2,098,156</u>	<u>(6,341,554)</u>	<u>340,109</u>	<u>224,488</u>		<u>(3,678,801)</u>
Net increase (decrease) in cash and cash equivalents	(104,325)	2,691,860	473,970	597,529		3,659,034
Cash and cash equivalents - beginning of year	<u>28,843,475</u>	<u>3,391,446</u>	<u>4,542,482</u>	<u>2,845,966</u>		<u>39,623,369</u>
Cash and cash equivalents - end of year	<u>\$ 28,739,150</u>	<u>\$ 6,083,306</u>	<u>\$ 5,016,452</u>	<u>\$ 3,443,495</u>	<u>\$ 0</u>	<u>\$ 43,282,403</u>
Reconciliation of net operating income (loss) to net cash provided (used) by operating activities:						
Operating income (loss)	\$ (85,416,590)	\$ (19,256,665)	\$ (9,558,687)	\$ (10,448,242)	\$ (902,566)	\$ (125,582,750)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:						
Depreciation expense	12,832,800	2,133,995	1,599,914	921,847		17,488,556
Change in assets and liabilities:						
Receivables, net	(1,996,542)	(168,164)	(151,562)	(210,023)		(2,526,291)
Inventories	(40,965)	54,283		27,812		41,130
Prepaid expenses	115,891	(14,275)	(1,614)	(3,493)		96,509
Accounts and salaries payable	(2,384,333)	10,901	(1,371,447)	(57,709)	(283,372)	(4,085,960)
Other postemployment benefits payable					1,185,938	1,185,938
Deferred revenue	2,450,205	(25,815)	99,438	7,187		2,531,015
Deposits	217,440	480				217,920
Refundable federal advances	48,086					48,086
Compensated absences	86,372	(7,305)	20,410	53,486		152,963
Net cash provided (used) by operating activities	<u>\$ (74,087,636)</u>	<u>\$ (17,272,565)</u>	<u>\$ (9,363,548)</u>	<u>\$ (9,709,135)</u>	<u>\$ 0</u>	<u>\$ (110,432,884)</u>

NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES - 2010

ASUB

The University issued bonds for construction. Payment of \$363,123, including accrued interest of \$14,693, was remitted to the bond trustee directly from the bond proceeds and related discount.  
Equipment - capital gift of \$15,000

ASUN

Equipment - capital gift of \$95,884  
Construction-in-progress - capital purchases of \$660,167 made directly by the trustee

ASUJ

Construction-in-progress - capital gift of \$95,010  
Equipment - capital gift of \$257,879