

2006 FINANCIAL REPORT



**Prepared by the Controller's Office
Office of Finance and Administration
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**Cover photos:
Jonesboro—Student Union
Beebe—Student Center
Mountain Home—First National Hall
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Jonesboro, Arkansas

January 30, 2007

**Dr. Leslie Wyatt
President
Arkansas State University**

RE: Letter of Transmittal

I am pleased to present the annual financial report of the Arkansas State University System for the fiscal year ended June 30, 2006. This report is presented on a consolidated basis and reflects the consolidation of the assets, liabilities, net assets, and financial activities of the Jonesboro, Beebe, Mountain Home, and Newport campuses of the University.

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

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

Respectfully submitted,

**Jennus L. Burton
Vice President for Finance
and Administration**

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Arkansas



Charles L. Robinson, 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 basic financial statements of the Arkansas State University System (Institution), an Institution of Higher Education of the State of Arkansas, as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the Institution's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Arkansas State University Foundation, Inc., which represent 100% of the assets, net assets, and revenues of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Arkansas State University Foundation, Inc., is based on the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Arkansas State University System and of its discretely presented component unit as of June 30, 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2006 on our consideration of the Institution's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in blue ink, appearing to read "Charles L. Robinson".

Charles L. Robinson, CPA, CFE
Legislative Auditor

Little Rock, Arkansas
November 10, 2006
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**2005 - 2006
ANNUAL FINANCIAL
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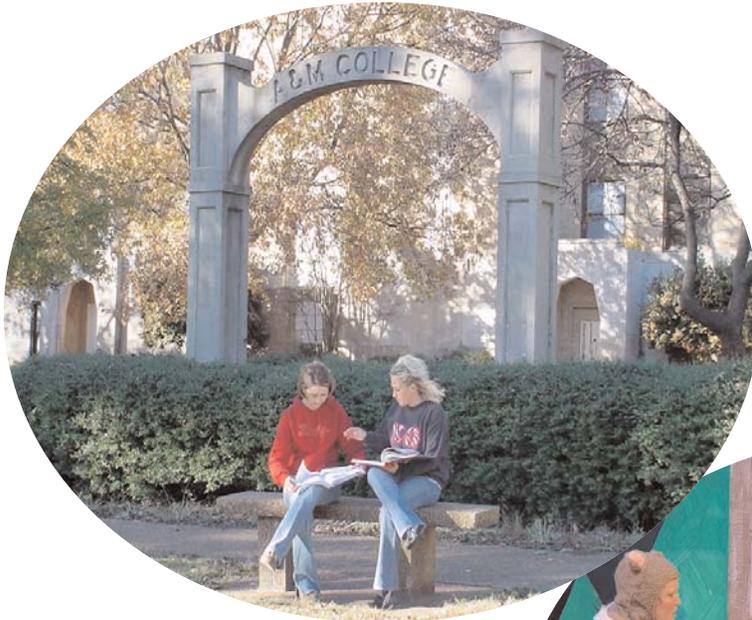
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ASU's Mission. . .

Arkansas State University *educates* leaders, *enhances* intellectual growth and *enriches* lives.



Board of Trustees

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ASU-Jonesboro

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ARKANSAS STATE
UNIVERSITY

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ARKANSAS STATE UNIVERSITY SYSTEM MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2006

Financial Statement Presentation

This section of the Arkansas State University System (The University) annual financial report presents discussion and analysis of the University's financial performance during the fiscal year ended June 30, 2006. 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, 2006 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, 2005.

The University's financial statements for the year ended June 30, 2006 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, 2006 and 2005 where appropriate.



Fiscal Year 2006 Highlights

The following events or activities of financial significance occurred during the fiscal year ended June 30, 2006.

- The University engaged in significant capital asset acquisition, construction, and financing activities. Capital Assets, net of accumulated depreciation, grew from \$214,689,564 at June 30, 2005 to \$235,094,241 at June 30, 2006, an increase of \$20,404,677 or 9.50%. Current and Noncurrent Obligations for Bonds, Notes and Leases Payable increased from \$111,415,906 at June 30, 2005 to \$133,390,301 at June 30, 2006, an increase of \$21,974,395 or 19.72%.
- The University completed construction projects totaling \$11,395,090. Projects in process but not yet completed totaled \$74,285,766 at June 30, 2006.
- The net assets of the University grew from \$176,434,471 at June 30, 2005 to \$187,422,867 at June 30, 2006, an increase of \$10,988,396 or 6.23%. University revenues and other additions from all sources during the year ended June 30, 2006 amounted to \$202,315,613 while expenses and other deductions amounted to \$191,327,217.



**ARKANSAS STATE UNIVERSITY SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2006**

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, 2006, 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, 2006:

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

Condensed Statement of Net Assets

Assets:	2006	2005	Percent Change
Current Assets	\$ 35,630,816	\$ 40,331,876	(11.66)%
Capital Assets, Net	235,094,241	214,689,564	9.50%
Other Noncurrent Assets	<u>71,167,951</u>	<u>53,737,257</u>	32.44%
Total Assets	<u>\$ 341,893,008</u>	<u>\$ 308,758,697</u>	10.73%
Liabilities:			
Current Liabilities	\$ 19,465,753	\$ 18,700,388	4.09%
Noncurrent Liabilities	<u>135,004,388</u>	<u>113,623,838</u>	18.82%
Total Liabilities	<u>\$ 154,470,141</u>	<u>\$ 132,324,226</u>	16.74%
Net Assets:			
Invested in Capital, Net of Debt	\$ 109,319,863	\$ 129,359,062	(15.49)%
Restricted, Nonexpendable	9,957,681	9,528,813	4.50%
Restricted, Expendable	38,126,940	9,972,495	282.32%
Unrestricted	<u>30,018,383</u>	<u>27,574,101</u>	8.86%
Total Net Assets	<u>\$ 187,422,867</u>	<u>\$ 176,434,471</u>	6.23%
Total Liabilities and Net Assets	<u>\$ 341,893,008</u>	<u>\$ 308,758,697</u>	10.73%



**ARKANSAS STATE UNIVERSITY SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2006**

The University's total assets increased from \$308,758,697 at June 30, 2005 to \$341,893,008 at June 30, 2006, an increase of \$33,134,311 or 10.73%. Capital Assets increased from \$214,689,564 at June 30, 2005 to \$235,094,241 at June 30, 2006, an increase of \$20,404,677 or 9.50%. Current Assets declined from \$40,331,876 at June 30, 2005 to \$35,630,816 at June 30, 2006, a decrease of \$4,701,060 or 11.66%. The University's Other Noncurrent Assets grew from \$53,737,257 at June 30, 2005 to \$71,167,951 at June 30, 2006, an increase of \$17,430,694 or 32.44%. These changes are reflective of the University's continued emphasis on the acquisition and construction of capital assets.

The University's total liabilities grew from \$132,324,226 at June 30, 2005 to \$154,470,141 at June 30, 2006, an increase of \$22,145,915 or 16.74%. Current Liabilities increased modestly from \$18,700,388 at June 30, 2005 to \$19,465,753 at June 30, 2006, an increase of \$765,365 or 4.09%. Noncurrent Liabilities grew from \$113,623,838 at June 30, 2005 to \$135,004,388 at June 30, 2006, an increase of \$21,380,550 or 18.82%. This is attributable to an increase of \$21,457,258 or 20.27% in Noncurrent Bonds, Notes and Leases Payable, from \$105,879,630 to \$127,336,888 at June 30, 2005 and 2006, respectively. These changes resulted from the University's use of long term debt to finance the acquisition and construction of capital assets.

The University's total net assets increased from \$176,434,471 at June 30, 2005 to \$187,422,867 at June 30, 2006, an increase of \$10,988,396 or 6.23%. Net Assets Invested in Capital Assets, Net of Related Debt declined by \$20,039,199 or 15.49% while Restricted Net Assets increased by \$28,583,313 or 146.57%. The increase in Restricted Net Assets resulted primarily from the reservation of funds received through the issuance of debt for future construction activity. The decrease in Net Assets Invested in Capital Assets, Net of Related Debt is reflective of the recognition of the liability assumed by the issuance of debt. The University's Unrestricted Net Assets increased from \$27,574,101 at June 30, 2005 to \$30,018,383 at June 30, 2006, an increase of \$2,444,282 or 8.86%.



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, 2006.



**ARKANSAS STATE UNIVERSITY SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2006**

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

	2006	2005	Percent Change
Operating Revenues	\$ 107,855,825	\$ 97,254,523	10.90%
Operating Expenses	<u>184,739,792</u>	<u>175,584,788</u>	5.21%
Operating Income (Loss)	<u>\$ (76,883,967)</u>	<u>\$ (78,330,265)</u>	1.85%
Nonoperating Revenues (Expenses)	\$ 82,504,372	\$ 75,369,692	9.47%
Income (Loss) before Other Revenues, Expenses, Gains, or Losses	\$ 5,620,405	\$ (2,960,573)	289.84%
Other Revenues, Expenses, Gains or Losses	\$ 5,367,991	\$ 4,434,215	21.06%
Increase (Decrease) in Net Assets	<u>\$ 10,988,396</u>	<u>\$ 1,473,642</u>	645.66%
Net Assets, Beginning of the Year	\$ 176,434,471	\$ 174,960,829	0.84%
Net Assets, End of the Year	\$ 187,422,867	\$ 176,434,471	6.23%

Highlights from the information presented in the Statement of Revenues, Expenses, and Changes in Net Assets for the fiscal year ended June 30, 2006 include the following:

- Tuition and Fees, Net of Scholarship Allowance amounted to \$34,385,605 or 31.88% of Total Operating Revenues. Revenues from Grants and Contracts amounted to \$42,238,822 or 39.16% of Total Operating Revenues.
- Personal Services expenses totaled \$112,242,519 or 60.76% of Total Operating Expenses. Expenses for Supplies and Services totaled \$44,506,401 or 24.09% of Total Operating Expenses.
- Scholarships and Fellowships expenses totaled \$7,737,131 or 4.19% of Total Operating Expenses. Scholarships and Fellowships expenses amounted to 22.50% of Tuition and Fees revenue.
- The University's Loss from Operations amounted to \$76,883,967. State Appropriations, which are reported as Nonoperating Revenues, totaled \$79,543,450. Federal Appropriations totaled \$504,267. Revenues and gains from all other sources amounted to \$14,411,571. Nonoperating Expenses, Other Expenses, and Other Losses amounted to \$6,587,425. These activities resulted in an increase in the University's Net Assets of \$10,988,396.



**ARKANSAS STATE UNIVERSITY SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2006**

Statement of Cash Flows

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

Condensed Statement of Cash Flows for the Year Ended June 30, 2006

Cash Provided (Used) by:	
Operating Activities	\$ (68,767,483)
Noncapital Financing Activities	85,124,131
Capital and Related Financing Activities	11,919,296
Investing Activities	(22,705,662)
Net Increase (Decrease) in Cash	\$ 5,570,282
Cash – Beginning of the Year	\$ 16,964,924
Cash – End of the Year	\$ 22,535,206

Capital Assets and Debt Administration

The University continued its emphasis on the acquisition and construction of capital assets during the fiscal year ended June 30, 2006. As a result, the University's capital assets, net of accumulated depreciation increased from \$214,689,564 at June 30, 2005 to \$235,094,241 at June 30, 2006, an increase of \$20,404,677, or 9.50%. This was achieved primarily through the application of proceeds from previously issued debt, the allocation of other University resources to this effort, and the issuance of new capital debt.

During the fiscal year ended June 30, 2006, the University issued new tax exempt bonds totaling \$48,730,000. Of this amount, \$22,560,000 was issued to advance refund existing debt. The University realized a net economic gain from this refunding of \$1,278,180. The remaining \$26,170,000 in new bond debt was issued to finance construction activities on the University's Beebe campus.

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



ARKANSAS STATE UNIVERSITY SYSTEM MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.) FOR THE YEAR ENDED JUNE 30, 2006

Economic Outlook

The economic outlook for the University is strong. The net assets of the University grew from \$176,434,471 at June 30, 2005 to \$187,422,867 at June 30, 2006, an increase of \$10,988,396 or 6.23%. Comparatively, the net assets of the University grew by only \$1,473,644 or 0.84% during the previous fiscal year ended June 30, 2005.

Enrollment across the Arkansas State University System increased from a confirmed total of 16,698 students during the Fall 2005 semester to a preliminary total of 17,400 during the Fall 2006 semester, an increase of 702 students or 4.20%. Enrollment growth is projected to continue at a modest pace during the next several years.

Economic conditions at the state and national level continue to be favorable with the state government of Arkansas experiencing significant growth in revenue collection. Continued strong performance by the equity and capital markets should provide additional resources to the University through improved returns on its investments and endowments. Recent moderations in the energy markets, particularly in natural gas prices, should assist the University with controlling utility costs.

On November 7, 2006, voters in Arkansas approved the issuance by the Arkansas Development Finance Authority of \$250,000,000 in higher education general obligation bonds for the purposes of financing technology and facility improvement projects for the state's institutions of higher education and financing the refunding of bonds issued under the Arkansas College Savings Bond Act of 1989. The Arkansas State University System anticipates receiving \$15,800,000 from this bond issue to finance technology and facility improvement projects on its campuses.





ARKANSAS STATE UNIVERSITY SYSTEM
COMPARATIVE STATEMENT OF NET ASSETS
JUNE 30, 2006

ASSETS	2006	2005
CURRENT ASSETS		
CASH AND CASH EQUIVALENTS	\$ 12,646,397	\$ 15,568,377
SHORT-TERM INVESTMENTS	8,122,191	8,619,352
ACCOUNTS RECEIVABLE, (LESS ALLOWANCES OF \$711,561 AND \$617,952)	9,538,837	8,072,085
NOTES AND DEPOSITS RECEIVABLE, (LESS ALLOWANCES OF \$130,444 AND \$114,908)	1,310,540	1,249,638
ACCRUED INTEREST AND LATE CHARGES	520,464	430,192
INVENTORIES	1,423,044	1,259,819
DEPOSITS WITH TRUSTEES	1,900,510	5,042,440
PREPAID EXPENSES	168,833	89,973
TOTAL CURRENT ASSETS	\$ 35,630,816	\$ 40,331,876
NONCURRENT ASSETS		
RESTRICTED CASH AND CASH EQUIVALENTS	\$ 9,888,809	\$ 1,396,547
RESTRICTED INVESTMENTS	23,976,813	0
ENDOWMENT INVESTMENTS	10,320,128	9,640,136
OTHER LONG-TERM INVESTMENTS	12,514,178	11,908,979
ACCRUED INTEREST	228,642	313
DEPOSITS WITH TRUSTEES	8,382,817	24,805,234
NOTES AND DEPOSITS RECEIVABLE, (LESS ALLOWANCES OF \$569,240 AND \$537,730)	5,856,564	5,986,048
CAPITAL ASSETS, (NET OF ACCUMULATED DEPRECIATION OF \$164,529,508 AND \$154,799,115)	235,094,241	214,689,564
TOTAL NONCURRENT ASSETS	\$ 306,262,192	\$ 268,426,821
TOTAL ASSETS	\$ 341,893,008	\$ 308,758,697
LIABILITIES		
CURRENT LIABILITIES		
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	\$ 4,899,648	\$ 5,775,144
BONDS, NOTES, AND LEASES PAYABLE	6,053,413	5,536,276
COMPENSATED ABSENCES	4,494,000	3,495,218
DEFERRED REVENUES	714,637	596,374
FUNDS HELD IN TRUST FOR OTHERS	1,817,300	1,809,788
DEPOSITS	173,738	133,574
INTEREST PAYABLE	1,275,181	1,342,509
OTHER LIABILITIES	37,836	11,505
TOTAL CURRENT LIABILITIES	\$ 19,465,753	\$ 18,700,388
NONCURRENT LIABILITIES		
BONDS, NOTES AND LEASES PAYABLE	\$ 127,336,888	\$ 105,879,630
COMPENSATED ABSENCES	196,063	300,367
DEPOSITS	\$ 192,532	133,183
REFUNDABLE FEDERAL ADVANCES	7,278,905	7,310,658
TOTAL NONCURRENT LIABILITIES	\$ 135,004,388	\$ 113,623,838
TOTAL LIABILITIES	\$ 154,470,141	\$ 132,324,226
NET ASSETS		
INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT	\$ 109,319,863	\$ 129,359,062
RESTRICTED FOR:		
NONEXPENDABLE		
SCHOLARSHIPS AND FELLOWSHIPS	6,200,814	5,758,856
LOANS	884,530	888,896
OTHER	2,872,337	2,881,061
EXPENDABLE		
SCHOLARSHIPS AND FELLOWSHIPS	413,356	390,435
RESEARCH	1,254,221	191,434
LOANS	10,000	10,000
CAPITAL PROJECTS	34,396,122	4,364,601
DEBT SERVICE	(385,539)	1,862,568
RENEWAL AND REPLACEMENT	50,000	50,279
QUASI-ENDOWMENTS	363,333	122,597
OTHER	2,025,447	2,980,581
UNRESTRICTED	30,018,383	27,574,101
TOTAL NET ASSETS	\$ 187,422,867	\$ 176,434,471



ARKANSAS STATE UNIVERSITY FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2006

ASSETS

CASH	\$	1,861,687
CERTIFICATE OF DEPOSIT		1,550,000
REPURCHASE AGREEMENTS		2,500,000
ACCRUED INTEREST RECEIVABLE		75,924
PREPAID EXPENSES		11,652
UNCONDITIONAL PROMISES TO GIVE, NET		2,005,035
MORTGAGE RECEIVABLE		20,370
LEASE PURCHASE RECEIVABLE		241,555
SHORT-TERM INVESTMENTS		13,088
LONG-TERM INVESTMENTS		27,000,590
CONSTRUCTION IN PROGRESS		3,244,220
PROPERTY AND EQUIPMENT, NET		152,216
OTHER ASSETS		19,064

TOTAL ASSETS

\$ 38,695,401

LIABILITIES

ACCOUNTS PAYABLE	\$	358,719
NOTES PAYABLE		20,260
ANNUITIES PAYABLE		46,766

TOTAL LIABILITIES

\$ 425,745

NET ASSETS

UNRESTRICTED	\$	580,593
TEMPORARILY RESTRICTED		9,263,042
PERMANENTLY RESTRICTED		28,426,021

TOTAL NET ASSETS

\$ 38,269,656

TOTAL LIABILITIES AND NET ASSETS

\$ 38,695,401



**ARKANSAS STATE UNIVERSITY SYSTEM
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2006**

	2006	2005
REVENUES		
OPERATING REVENUES		
TUITION AND FEES (NET OF SCHOLARSHIP ALLOWANCES OF \$22,697,788 AND \$21,832,166)	\$ 34,385,605	\$ 30,468,657
GRANTS AND CONTRACTS	42,238,822	35,393,907
SALES AND SERVICES OF EDUCATIONAL DEPARTMENTS	716,885	395,710
AUXILIARY ENTERPRISES (NET OF SCHOLARSHIP ALLOWANCES OF \$3,365,846 AND \$3,404,603)	19,049,122	19,032,736
SELF INSURANCE	9,736,456	9,243,663
OTHER OPERATING REVENUES	1,728,935	2,719,850
TOTAL OPERATING REVENUES	\$ 107,855,825	\$ 97,254,523
EXPENSES		
OPERATING EXPENSES		
PERSONAL SERVICES	\$ 112,242,519	\$ 108,217,482
SCHOLARSHIPS AND FELLOWSHIPS	7,737,131	7,441,160
SUPPLIES AND SERVICES	44,506,401	39,700,753
SELF INSURANCE	9,710,449	8,850,553
DEPRECIATION	10,471,072	11,191,206
OTHER OPERATING EXPENSES	72,220	113,634
TOTAL OPERATING EXPENSES	\$ 184,739,792	\$ 175,584,788
OPERATING INCOME (LOSS)	\$ (76,883,967)	\$ (78,330,265)
NONOPERATING REVENUES (EXPENSES)		
STATE APPROPRIATIONS	\$ 79,543,950	\$ 73,637,882
FEDERAL APPROPRIATIONS	504,267	14,195
SALES AND USE TAXES	2,149,978	2,018,258
PROPERTY TAXES	956,465	910,623
GIFTS	1,152,048	1,622,464
INVESTMENT INCOME, (NET OF INVESTMENT EXPENSE OF \$70 AND \$12,687)	3,266,446	2,496,693
INTEREST ON CAPITAL ASSET RELATED DEBT	(5,052,786)	(5,037,584)
OTHER NONOPERATING REVENUES (EXPENSES)	(15,996)	(292,839)
NET NONOPERATING REVENUES (EXPENSES)	\$ 82,504,372	\$ 75,369,692
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	\$ 5,620,405	\$ (2,960,573)
CAPITALIZATION OF INTEREST	423,547	0
CAPITAL APPROPRIATIONS	3,224,043	2,021,802
CAPITAL GRANTS AND GIFTS	352,013	2,624,948
ADDITIONS TO ENDOWMENTS	2,560	4,685
ADJUSTMENTS TO PRIOR YEAR CAPITAL ASSETS	1,093,659	426,746
REFUNDS TO GRANTORS	(29,597)	(622,366)
GAIN/(LOSS) FROM DISPOSAL OF CAPITAL ASSETS	51,190	(127,969)
CAPITALIZATION OF LIBRARY HOLDINGS AT RATE PER VOLUME	181,825	109,375
LIVESTOCK ADDITIONS	3,815	0
ACCRUED INTEREST ON BOND ISSUE	34,936	0
PREMIUM ON BOND ISSUE	1,519,046	0
BOND ISSUANCE COSTS	(382,184)	0
EXCESS FUNDS REMITTED TO ESCROW AGENT ABOVE AMOUNT OF BONDS ADVANCE REFUNDED	(1,106,862)	0
ADJUSTMENTS TO PRIOR YEAR REVENUES AND EXPENSES	0	2,924
OTHER	0	(5,930)
INCREASE (DECREASE) IN NET ASSETS	\$ 10,988,396	\$ 1,473,642
NET ASSETS-BEGINNING OF YEAR	\$ 176,434,471	\$ 174,960,829
NET ASSETS-END OF YEAR	\$ 187,422,867	\$ 176,434,471



ARKANSAS STATE UNIVERSITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
SUPPORT				
SUPPORT AND RECLASSIFICATIONS				
CONTRIBUTIONS	\$ 23,690	\$ 3,337,579	\$ 802,897	\$ 4,164,166
USE OF CONTRIBUTED FACILITIES	3,400	0	0	3,400
CONTRIBUTED SERVICES	182,637	0	0	182,637
CONTRIBUTED SUPPLIES	7,447	0	0	7,447
INVESTMENT RETURN	241,826	73,841	2,329,918	2,645,585
OTHER INCOME	165,838	249,340	0	415,178
GAIN ON SALE OF FIXED ASSET	120,939	0	0	120,939
NET ASSETS RELEASED FROM RESTRICTIONS	2,515,236	(1,933,807)	(581,429)	0
TOTAL SUPPORT	<u>\$ 3,261,013</u>	<u>\$ 1,726,953</u>	<u>\$ 2,551,386</u>	<u>\$ 7,539,352</u>
EXPENSES AND LOSSES				
PROGRAM SERVICES				
ACADEMIC ACTIVITIES	\$ 412,679	\$ 0	\$ 0	\$ 412,679
ADMINISTRATIVE	267,641	0	0	267,641
STUDENT ACTIVITIES	155,731	0	0	155,731
SUPPORTING SERVICES				
MANAGEMENT AND GENERAL	293,785	0	0	293,785
FUNDRAISING	191,012	0	0	191,012
TRANSFERS TO ARKANSAS STATE UNIVERSITY	1,539,939	0	0	1,539,939
TOTAL EXPENSES AND LOSSES	<u>\$ 2,860,787</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,860,787</u>
INCREASE (DECREASE) IN NET ASSETS	<u>\$ 400,226</u>	<u>\$ 1,726,953</u>	<u>\$ 2,551,386</u>	<u>\$ 4,678,565</u>
NET ASSETS AT BEGINNING OF YEAR AS PREVIOUSLY REPORTED	410,467	6,371,590	26,471,348	33,253,405
PRIOR PERIOD ADJUSTMENTS	0	337,686	0	337,686
BALANCE AT BEGINNING OF YEAR, AS RESTATED	410,467	6,709,276	26,471,348	33,591,091
RECLASSIFICATION AND INTERNAL TRANSFERS	(230,100)	826,813	(596,713)	0
TOTAL AFTER RECLASSIFICATION AND INTERNAL TRANSFERS	180,367	7,536,089	25,874,635	33,591,091
NET ASSETS AT END OF YEAR	<u>\$ 580,593</u>	<u>\$ 9,263,042</u>	<u>\$ 28,426,021</u>	<u>\$ 38,269,656</u>



**ARKANSAS STATE UNIVERSITY SYSTEM
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2006**

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
TUITION AND FEES	\$ 33,764,129	\$ 29,312,878
GRANTS AND CONTRACTS	41,031,428	35,239,266
AUXILIARY ENTERPRISE REVENUES	19,021,370	19,094,175
SALES AND SERVICES OF EDUCATIONAL DEPARTMENTS	679,709	355,201
SELF INSURANCE	9,730,318	9,239,624
COLLECTION OF PRINCIPAL AND INTEREST RELATED TO STUDENT LOANS	1,391,033	1,430,317
COLLECTION OF EMPLOYEE TRAVEL LOANS	256,411	388,389
OTHER RECEIPTS	1,755,924	3,042,707
PAYMENTS TO EMPLOYEES	(87,939,925)	(84,867,059)
PAYMENTS FOR EMPLOYEE BENEFITS	(23,611,632)	(22,303,567)
PAYMENTS TO SUPPLIERS	(45,851,426)	(40,687,865)
SCHOLARSHIPS AND FELLOWSHIPS	(7,737,131)	(7,441,160)
SELF INSURANCE	(9,710,059)	(8,894,212)
LOANS ISSUED TO STUDENTS	(1,311,163)	(1,183,476)
TRAVEL LOANS ISSUED TO EMPLOYEES	(236,469)	(393,356)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ (68,767,483)	\$ (67,668,138)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
FEDERAL APPROPRIATIONS	\$ 504,267	\$ 14,195
STATE APPROPRIATIONS	80,221,579	75,639,094
PRIVATE GIFTS AND GRANTS	1,334,274	1,627,149
SALES AND USE TAXES	2,146,864	2,015,543
PROPERTY TAXES	956,465	910,623
AGENCY TRANSACTIONS (NET)	61,192	273,820
REFUNDS TO GRANTORS	(29,597)	(136,371)
OTHER	(70,913)	(158,808)
NET CASH FLOWS PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	\$ 85,124,131	\$ 80,185,245
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
PROCEEDS FROM CAPITAL DEBT	\$ 29,500,000	\$ 0
CAPITAL APPROPRIATIONS	3,224,043	2,021,802
CAPITAL GRANTS AND GIFTS	190,122	2,338,461
PROCEEDS FROM SALE OF CAPITAL ASSETS RECEIVED FROM BOND TRUSTEES	13,721	4,255
PAYMENTS TO BOND TRUSTEES	16,945,537	13,666,412
PURCHASES OF CAPITAL ASSETS	(3,791,040)	(5,318,081)
PRINCIPAL PAID ON CAPITAL DEBT AND LEASES	(26,772,663)	(25,032,537)
INTEREST PAID ON CAPITAL DEBT AND LEASES	(6,252,682)	(2,810,309)
OTHER	(1,136,492)	(694,997)
	(1,250)	(1,250)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	\$ 11,919,296	\$ (15,826,244)
CASH FLOWS FROM INVESTING ACTIVITIES		
PROCEEDS FROM THE SALE AND MATURITY OF INVESTMENTS	\$ 14,646,304	\$ 12,479,184
INTEREST ON INVESTMENTS	1,539,543	924,294
PURCHASES OF INVESTMENTS	(38,891,509)	(8,821,618)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	\$ (22,705,662)	\$ 4,581,860
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 5,570,282	\$ 1,272,723
CASH AND CASH EQUIVALENTS, JULY 1	\$ 16,964,924	\$ 15,692,201
CASH AND CASH EQUIVALENTS, JUNE 30	\$ 22,535,206	\$ 16,964,924



**ARKANSAS STATE UNIVERSITY SYSTEM
COMPARATIVE STATEMENT OF CASH FLOWS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2006**

	2006	2005
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
OPERATING INCOME (LOSS)	\$ (76,883,967)	\$ (78,330,265)
ADJUSTMENTS TO RECONCILE NET INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
DEPRECIATION EXPENSE	10,471,072	11,191,206
CHANGE IN ASSETS AND LIABILITIES		
RECEIVABLES, NET	(2,031,788)	(585,683)
INVENTORIES	(163,225)	29,561
DEPOSITS WITH TRUSTEES	267,960	142,608
ACCRUED INTEREST RECEIVABLE	0	(38,702)
PREPAID EXPENSES	(78,860)	(23,632)
OTHER ASSETS	7,694	0
ACCOUNTS AND SALARIES PAYABLE	(1,477,285)	(628,098)
DEFERRED REVENUE	118,264	42,512
DEPOSITS	108,581	40,769
REFUNDABLE FEDERAL ADVANCES	(31,753)	120,914
COMPENSATED ABSENCES	894,479	205,242
OTHER LIABILITIES	31,345	165,430
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (68,767,483)</u>	<u>\$ (67,668,138)</u>

NONCASH CAPITAL FINANCING ACTIVITIES

The University acquired capital assets of \$1,012,870 through significant capital leases and notes payable at the Jonesboro campus.

The University issued refunding bonds at the Jonesboro campus and the payments to the bond escrow directly from the bond proceeds and the premium totaled \$20,366,862.



**ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

NOTE 1--Summary of Significant Accounting Policies

Reporting Entity

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

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

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



**ASU-Jonesboro
Arkansas Biosciences Institute**

Effective July 1, 1992, Arkansas State University began administrative operations at a Mountain Home campus. On October 19, 1993, the voters of Baxter County authorized the levy of a two (2) mill tax to support operations at the Arkansas State University - Mountain Home campus.

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

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

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



ARKANSAS STATE UNIVERSITY SYSTEM NOTES TO THE FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2006

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 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, 2006, the Foundation transferred property, equipment and funds of \$1,539,939 to the the University for proper accountability and academic support. Complete financial statements for the Foundation may be obtained from the Foundation at P. O. Box 1990, State University, AR 72467-1990.

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

Financial Statement Presentation

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



Basis of Accounting

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

The consolidated University financial statements were prepared from the separate statements of the four (4) campuses. Other than the receipt and disbursement of student financial aid between the campuses, financial transactions among the campuses were not considered material in amount or consequence and, accordingly, were not eliminated from the consolidated statements.



ARKANSAS STATE UNIVERSITY SYSTEM NOTES TO THE FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2006

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 not to 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 assets are capitalized. Routine repairs and maintenance are charged to operating expense when incurred.



Dryer Hall at ASU-Mountain Home

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

Operating and Nonoperating Revenues

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

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

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



ARKANSAS STATE UNIVERSITY SYSTEM NOTES TO THE FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2006

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, 2006. The various sources of the University's receivables are detailed in a subsequent note. Receivables are presented net of any estimated uncollectible amounts in accordance with generally accepted accounting principles.

Investments

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



ASU-Newport

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

Inventories

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

Noncurrent Cash and Investments

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

Restricted and Unrestricted Resources

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

Deferred Revenues

Deferred revenues consist primarily of amounts received prior to the end of the fiscal year for tuition and fees and certain auxiliary activities that relate to a subsequent accounting period. For example, payments for tuition and fees for the second summer term or season football tickets for the upcoming fall season received prior to June 30, 2006 are treated as deferred revenues. They are considered liabilities of the University until earned.



ARKANSAS STATE UNIVERSITY SYSTEM NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

Compensated Absences Payable

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

Deposits with Trustees

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

Noncurrent Liabilities

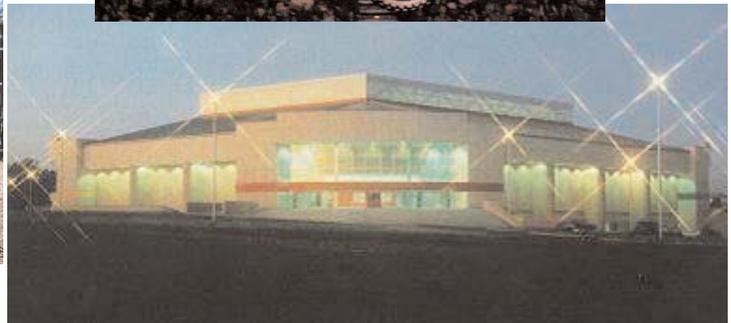
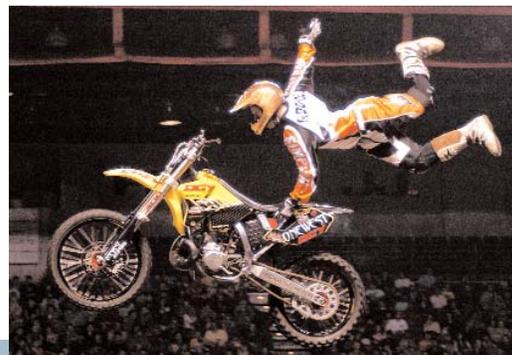
Noncurrent liabilities include (1) principal amounts of bonds payable, notes payable and capital lease obligations with contractual maturities greater than one year; (2) estimated amounts for accrued compensated absences and related matching costs and other liabilities that will not be paid within the next fiscal year; and (3) 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.



**ASU-Jonesboro Convocation Center
and Events**



ARKANSAS STATE UNIVERSITY SYSTEM NOTES TO THE FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2006

Funds Held in Trust for Others

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

Net Assets

The University's net assets are classified as follows:

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

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

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

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

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



Scholarship Discounts and Allowances

Student tuition and fees, and certain other revenues received from students are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses and Changes in Net Assets.

Scholarship discounts and allowances are the difference between the University's stated rates and charges and the amount actually paid by students and/or third parties making payments on behalf of the



**ARKANSAS STATE UNIVERSITY SYSTEM
 NOTES TO THE FINANCIAL STATEMENTS (CONT.)
 FOR THE YEAR ENDED JUNE 30, 2006**

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

NOTE 2--Public Fund Deposits and Investments

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

	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 2,254,830	\$ 2,254,830
Collateralized:		
Collateral held by the pledging bank or pledging bank's trust department in the University's name	45,526,208	48,445,442
Uninsured and uncollateralized	0	10,835
Total Deposits	<u>\$ 47,781,038</u>	<u>\$ 50,711,107</u>

The above deposits do not include cash on deposit in the state treasury, cash on hand maintained by the University and cash equivalents in the amounts of \$4,818,173, \$97,295 and \$4,313,564 for the year ended June 30, 2006, respectively. Cash equivalents primarily consisted of the short-term Common Fund account. The above total deposits include certificates of deposits of \$34,465,891 reported as investments and classified as nonparticipating contracts. Additionally, the deposits include money market checking accounts of \$8,973 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, 2006, \$10,835 of the University's bank balance of \$50,711,107 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized \$10,835



ASU Searcy



ARKANSAS STATE UNIVERSITY SYSTEM NOTES TO THE FINANCIAL STATEMENTS (CONT.) FOR THE YEAR ENDED JUNE 30, 2006

Short-Term Common Fund Account

The University had \$4,313,513 invested in the Short-Term Common Fund account at June 30, 2006. The Short-Term Common Fund account is subject to regulation by the Comptroller of the Currency.

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

Interest rate risk - The portfolio of the Short-Term Common Fund had an effective duration of 2.86 years.

Deposits with Trustees

At June 30, 2006, the University's deposits with trustees, excluding nonnegotiable certificates of deposit and money market checking accounts, of \$9,835,866 were 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 seventeen (17) days.

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





**ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2006**

University Investments (Excluding Endowment Funds)

At June 30, 2006, the University's investments, excluding endowment funds, consisted of corporate bonds of \$2,206,662 and U.S. agencies of \$8,503,887. The corporate bonds will mature as follows:

Less than one year - \$485,783
1-5 years - \$1,140,404
6-10 years - \$580,475

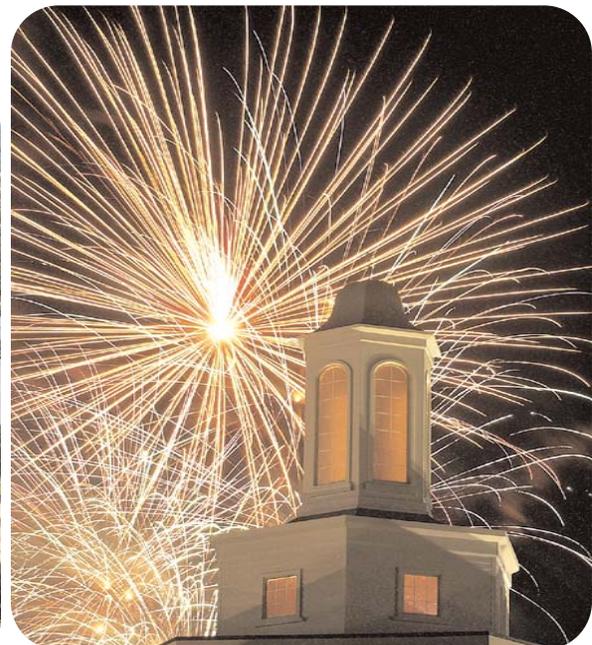
The U.S. agencies will mature as follows:

Less than one year - \$82,334
1-5 years - \$7,414,781
6-10 years - \$863,569
Greater than 10 years - \$143,203

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

Interest rate risk - The corporate bonds had an estimated weighted average maturity of 2.98 years at June 30, 2006. The U.S. agencies had an estimated weighted average maturity of 3.45 years. The University's investment policy does not specifically limit operating investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The investment policy states the portfolio shall be designed to attain an above market rate of return throughout budgetary and economic cycles, taking into account investment risk constraints and cash flow requirements.

Concentration of credit risk - The University does not limit the amount of operating funds invested in any one issuer. More than five percent of the University's investments were in the Federal Home Land Bank (FHLB), Federal National Mortgage Association (FNMA) and the Federal Farm Credit Banks (FFCB). These investments were 18.7%, 11.5% and 5% of the University's total investments, respectively.



ASU Mountain Home-Roller Hall



**ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2006**

Endowment Investments

Except for the endowment investments at the Beebe campus, which consisted of nonnegotiable certificates of deposit of \$124,770 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 18.23% or \$6,610,018 and consisted of the following types of investments:

Mutual funds under the direction of the Common Fund and TIAA/CREF investment asset managers - \$6,468,296
Real estate investments - \$80,726
Endowment Energy Partners III, LP - \$11,685
Cash equivalents - \$49,311

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

Interest rate risk - Applicable investments of the Common Fund portfolio had a weighted average maturity of 7.85 years and an effective duration of 4.41 years. Applicable investments of the TIAA/CREF portfolio had a weighted average maturity of 6.9 to 7.3 years and an effective duration of 4.5 to 4.7 years. The University's investment policy does limit endowment investment maturities to 30 years and requires interest on cash equivalents to be benchmarked to the 90 day Treasury bill index.



ASU-Jonesboro Fowler Center



**ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2006**

R. E. Lee Wilson, Sr. Trust Investments

The R. E. Lee Wilson, Sr. Trust of \$3,585,340 consisted of the following types of investments held in trust by a third party:

Mutual funds - \$2,257,999
Corporate bonds - \$1,023,809
Cash equivalents - \$203,927
U.S. Treasury bond - \$99,605

The corporate bonds will mature as follows:

Less than one year - \$99,699
1-5 years - \$924,110

Credit risk - The credit quality ratings of the corporate bonds ranged from A to AAA by Standard and Poor's and A2 to Aaa by Moody's Investor Services.

Interest rate risk - The trust portfolio consists of corporate bonds that had an estimated weighted average maturity of 2.9 years at June 30, 2006 and one U. S. Treasury bond that will mature on August 31, 2006.

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.



ASU-Beebe



ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 4--Capital Assets

Following are the changes in capital assets for the year ended June 30, 2006:

	Balance July 1, 2005	Additions	Transfers	Retirements	Balance June 30, 2006
Nondepreciable capital assets:					
Land and improvements	\$ 11,935,844	\$ 160,201	\$ 139,586	\$ 0	\$ 12,235,631
Livestock for educational purposes	119,925	21,415	0	0	141,340
Construction in progress	60,436,117	25,244,739	(11,395,090)	0	74,285,766
Total nondepreciable capital assets	<u>\$ 72,491,886</u>	<u>\$ 25,426,355</u>	<u>\$ (11,255,504)</u>	<u>\$ 0</u>	<u>\$ 86,662,737</u>
Other capital assets:					
Improvements and infrastructure	\$ 22,737,598	\$ 771,652	\$ 514,499	\$ (4,347)	\$ 24,019,402
Buildings	226,671,993	1,377,762	10,868,934	(3,322)	238,915,367
Equipment	33,565,370	2,852,430	(127,929)	(630,144)	35,659,727
Library/audiovisual holdings	14,021,832	392,876	0	(48,192)	14,366,516
Total other capital assets	<u>\$ 296,996,793</u>	<u>\$ 5,394,720</u>	<u>\$ 11,255,504</u>	<u>\$ (686,005)</u>	<u>\$ 312,961,012</u>
Less accumulated depreciation:					
Improvements and infrastructure	\$ 7,018,373	\$ 1,604,184	\$ 51,172	\$ (2,618)	\$ 8,671,111
Buildings	113,722,337	5,396,461	0	0	119,118,798
Equipment	22,201,801	2,982,854	(127,929)	(613,266)	24,443,460
Library/audiovisual holdings	11,856,604	487,573	0	(48,038)	12,296,139
Total accumulated depreciation	<u>\$ 154,799,115</u>	<u>\$ 10,471,072</u>	<u>\$ (76,757)</u>	<u>\$ (663,922)</u>	<u>\$ 164,529,508</u>
Other capital assets, net	<u>\$ 142,197,678</u>	<u>\$ (5,076,352)</u>	<u>\$ 11,332,261</u>	<u>\$ (22,083)</u>	<u>\$ 148,431,504</u>
Capital Asset Summary:					
Nondepreciable capital assets	\$ 72,491,886	\$ 25,426,355	\$ (11,255,504)	\$ 0	\$ 86,662,737
Other capital assets, at cost	296,996,793	5,394,720	11,255,504	(686,005)	312,961,012
Total cost of capital assets	\$ 369,488,679	\$ 30,821,075	\$ 0	\$ (686,005)	\$ 399,623,749
Less accumulated depreciation	<u>154,799,115</u>	<u>10,471,072</u>	<u>(76,757)</u>	<u>(663,922)</u>	<u>164,529,508</u>
Capital Assets, net	<u>\$ 214,689,564</u>	<u>\$ 20,350,003</u>	<u>\$ 76,757</u>	<u>\$ (22,083)</u>	<u>\$ 235,094,241</u>





**ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2006**

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, 2006	Maturities to June 30, 2006
10-1-1969	10-1-2009	4.5%	\$ 2,250,000	\$ 460,000	\$ 1,790,000
3-1-1999	3-1-2024	3.4 - 5.05%	9,460,000	7,920,000	1,540,000
3-1-2001	3-1-2031	3.6 - 5.25%	7,000,000	6,350,000	650,000
3-1-2001	3-1-2031	3.6 - 5.25%	3,000,000	2,720,000	280,000
11-15-2002	12-1-2027	1.6 - 5%	6,105,000	5,520,000	585,000
8-11-2003	9-1-2008	7%	507,000	241,555	265,445
11-25-2003	1-1-2007	Variable	2,000,000	333,267	1,666,733
3-1-2004	3-1-2034	3 - 5%	34,000,000	33,855,000	145,000
3-1-2004	3-1-2034	2 - 4.6%	11,555,000	10,730,000	825,000
8-28-2004	2-28-2009	11.25%	1,694,771	1,054,561	640,210
8-30-2004	4-1-2010	4.45%	2,255,897	1,659,622	596,275
8-30-2004	5-1-2010	4.45%	1,018,200	818,120	200,080
8-30-2004	8-1-2010	4.45%	1,051,784	889,468	162,316
10-1-2004	10-1-2024	6%	465,046	442,818	22,228
10-28-2004	10-28-2007	4.72%	53,271	23,447	29,824
10-28-2004	10-28-2008	5.99%	148,975	89,058	59,917
9-15-2005	4-1-2025	3 - 5%	19,230,000	19,135,000	95,000
9-30-2005	5-1-2010	4.85%	187,841	167,695	20,146
11-1-2005	11-30-2008	9.275%	261,506	139,076	122,430
11-1-2005	4-1-2010	4.7%	187,841	157,981	29,860
1-31-2006	5-1-2010	5.29%	187,841	177,227	10,614
3-31-2006	5-1-2010	5.55%	187,841	187,841	0
Totals			<u>\$ 102,807,814</u>	<u>\$ 93,071,736</u>	<u>\$ 9,736,078</u>

The variable rates of interest are calculated at periodic intervals. Such calculations are primarily based on the lender's changes in the index determined by the Prime Rate or the LIBOR Rate.

ARKANSAS STATE UNIVERSITY - BEEBE

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized and Issued	Debt Outstanding June 30, 2006	Maturities to June 30, 2006
10-1-1992	10-1-2012	6.2 - 6.6%	\$ 1,410,000	\$ 475,000	\$ 935,000
4-1-1998	10-1-2008	4.3 - 4.55%	400,000	205,000	195,000
9-15-2005	12-1-2023	2.8 - 4.15%	3,330,000	3,185,000	145,000
12-1-2005	12-1-2035	3.5 - 5%	15,170,000	15,170,000	0
3-1-2006	9-1-2035	3.25 - 5%	11,000,000	11,000,000	0
Totals			<u>\$ 31,310,000</u>	<u>\$ 30,035,000</u>	<u>\$ 1,275,000</u>



**ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2006**

ARKANSAS STATE UNIVERSITY - MOUNTAIN HOME

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized and Issued	Debt Outstanding June 30, 2006	Maturities to June 30, 2006
4-21-1999	2-10-2016	5.85%	\$ 567,296	\$ 397,884	\$ 169,412
8-1-1999	4-10-2019	4.80%	1,032,704	775,681	257,023
12-1-2002	12-1-2017	1.6 - 4.4%	5,405,000	4,510,000	895,000
Totals			<u>\$ 7,005,000</u>	<u>\$ 5,683,565</u>	<u>\$ 1,321,435</u>

ARKANSAS STATE UNIVERSITY - NEWPORT

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized and Issued	Debt Outstanding June 30, 2006	Maturities to June 30, 2006
5-1-2003	5-1-2028	4.125 - 5%	\$ 5,000,000	\$ 4,600,000	\$ 400,000
Total			<u>\$ 5,000,000</u>	<u>\$ 4,600,000</u>	<u>\$ 400,000</u>

The changes in long-term liabilities are as follows:

ARKANSAS STATE UNIVERSITY - JONESBORO

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Amounts Due Within One Year
Bonds Payable	\$ 88,840,000	\$ 19,230,000	\$ 21,380,000*	\$ 86,690,000	\$ 2,850,000
Notes Payable	5,555,555	751,365	1,472,881	4,834,039	1,336,741
Capital Leases	1,888,798	261,506	602,607	1,547,697	572,204
Compensated Absences	2,802,878	3,443,154	2,650,844	3,595,188	3,486,574
Totals	<u>\$ 99,087,231</u>	<u>\$ 23,686,025</u>	<u>\$ 26,106,332</u>	<u>\$ 96,666,924</u>	<u>\$ 8,245,519</u>

*Includes advance refunding of \$19,260,000.

ARKANSAS STATE UNIVERSITY - BEEBE

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Amounts Due Within One Year
Bonds Payable	\$ 4,144,000	\$ 29,500,000	\$ 3,609,000*	\$ 30,035,000	\$ 765,000
Notes Payable	186,940	0	186,940	0	0
Capital Leases	6,324	0	6,324	0	0
Compensated Absences	714,988	887,882	835,832	767,038	705,358
Totals	<u>\$ 5,052,252</u>	<u>\$ 30,387,882</u>	<u>\$ 4,638,096</u>	<u>\$ 30,802,038</u>	<u>\$ 1,470,358</u>

*Includes advance refunding of \$3,300,000.



**ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2006**

ARKANSAS STATE UNIVERSITY - MOUNTAIN HOME

	Balance			Amounts Due	
	July 1, 2005	Additions	Reductions	Balance	Within
				June 30, 2006	One Year
Bonds Payable	\$ 4,815,000	\$ 0	\$ 305,000	\$ 4,510,000	\$ 315,000
Notes Payable	1,244,289	0	70,724	1,173,565	74,468
Compensated Absences	92,626	129,944	92,626	129,944	114,070
Totals	<u>\$ 6,151,915</u>	<u>\$ 129,944</u>	<u>\$ 468,350</u>	<u>\$ 5,813,509</u>	<u>\$ 503,538</u>

ARKANSAS STATE UNIVERSITY - NEWPORT

	Balance			Amounts Due	
	July 1, 2005	Additions	Reductions	Balance	Within
				June 30, 2006	One Year
Bonds Payable	\$ 4,735,000	\$ 0	\$ 135,000	\$ 4,600,000	\$ 140,000
Compensated Absences	185,093	187,878	175,078	197,893	187,998
Totals	<u>\$ 4,920,093</u>	<u>\$ 187,878</u>	<u>\$ 310,078</u>	<u>\$ 4,797,893</u>	<u>\$ 327,998</u>

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

ARKANSAS STATE UNIVERSITY - JONESBORO

Year ended	Principal	Interest	Total
June 30,			
2007	\$ 4,758,945	\$ 4,119,925*	\$ 8,878,870
2008	4,438,581	3,972,046	8,410,627
2009	4,559,653	3,838,089	8,397,742
2010	4,162,643	3,681,308	7,843,951
2011	3,152,073	3,526,826	6,678,899
2012-2016	16,180,180	15,675,748	31,855,928
2017-2021	17,731,873	11,937,348	29,669,221
2022-2026	17,572,788	7,364,101	24,936,889
2027-2031	12,990,000	3,813,228	16,803,228
2032-2034	7,525,000	752,160	8,277,160
Totals	<u>\$ 93,071,736</u>	<u>\$ 58,680,779</u>	<u>\$ 151,752,515</u>

*Includes interest payable of \$1,212,195 recorded as a current liability at June 30, 2006.



**ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2006**

ARKANSAS STATE UNIVERSITY - BEEBE

Year ended June 30,	Principal	Interest	Total
2007	\$ 765,000	\$ 1,326,229	\$ 2,091,229
2008	785,000	1,297,930	2,082,930
2009	815,000	1,267,722	2,082,722
2010	675,000	1,239,163	1,914,163
2011	705,000	1,212,995	1,917,995
2012-2016	3,835,000	5,624,194	9,459,194
2017-2021	4,580,000	4,787,350	9,367,350
2022-2026	5,120,000	3,737,226	8,857,226
2027-2031	5,605,000	2,515,875	8,120,875
2032-2036	7,150,000	929,000	8,079,000
Totals	<u>\$ 30,035,000</u>	<u>\$ 23,937,684</u>	<u>\$ 53,972,684</u>

ARKANSAS STATE UNIVERSITY - MOUNTAIN HOME

Year ended June 30,	Principal	Interest	Total
2007	\$ 389,468	\$ 221,518*	\$ 610,986
2008	398,412	209,475	607,887
2009	412,566	196,050	608,616
2010	426,943	181,198	608,141
2011	441,555	164,849	606,404
2012-2016	2,491,074	532,976	3,024,050
2017-2019	1,123,547	58,969	1,182,516
Totals	<u>\$ 5,683,565</u>	<u>\$ 1,565,035</u>	<u>\$ 7,248,600</u>

*Includes interest payable of \$29,632 recorded as a current liability at June 30, 2006.

ARKANSAS STATE UNIVERSITY - NEWPORT

Year ended June 30,	Principal	Interest	Total
2007	\$ 140,000	\$ 199,576*	\$ 339,576
2008	140,000	196,076	336,076
2009	145,000	192,156	337,156
2010	150,000	187,661	337,661
2011	155,000	182,561	337,561
2012-2016	860,000	821,539	1,681,539
2017-2021	1,055,000	627,884	1,682,884
2022-2026	1,330,000	359,188	1,689,188
2027-2028	625,000	47,250	672,250
Totals	<u>\$ 4,600,000</u>	<u>\$ 2,813,891</u>	<u>\$ 7,413,891</u>

*Includes interest payable of \$33,354 recorded as a current liability at June 30, 2006.



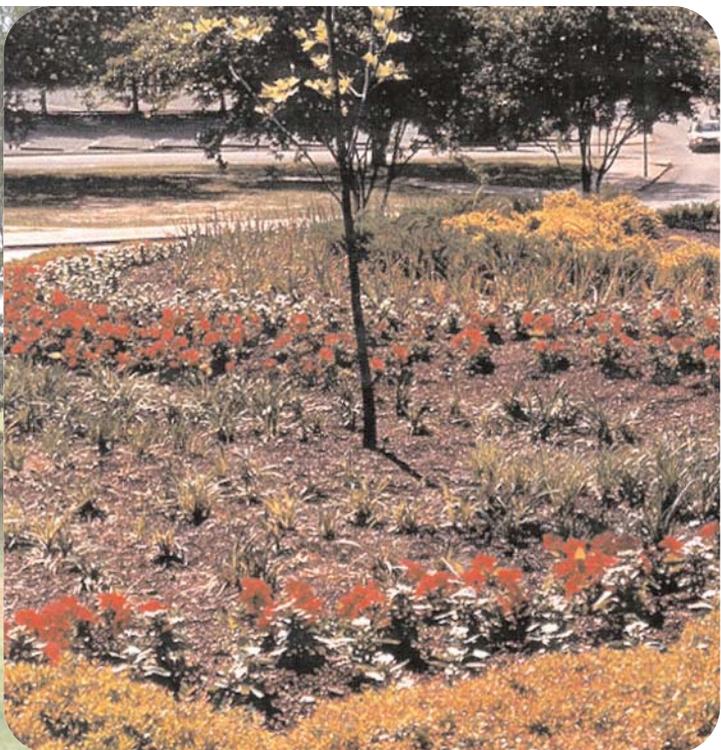
**ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2006**

Advance Refunding of Debt

On September 15, 2005, the University issued \$3,330,000 in refunding bonds for the Beebe campus with interest rates of 2.8 to 4.15 percent to advance refund \$3,300,000 of outstanding bonds dated December 1, 1998 with interest rates of 3.85 to 5%. Net bond proceeds of \$3,226,878, with a contribution from the University of \$136,000, were used to advance refund the 1998 bonds. As a result, the 1998 bonds are considered to be defeased and the liability for these bonds has been removed from the long-term debt. An additional \$4,693 was received by the University as a result of the refunding to be applied for debt service of the new issue. The 1998 bonds were called for redemption on October 15, 2005. The University advance refunded the bonds to reduce its total debt service payments over the next nineteen (19) years by \$432,696 and to obtain an economic gain of \$171,960.

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

At June 30, 2006, the outstanding principal of the May 1, 1999 and the April 1, 2000 bonds was \$13,875,000 and \$4,755,000, respectively. U.S. Treasury obligations of \$19,132,421, purchased by the escrow agent, were pledged for the retirement of these bonds.



ASU-Jonesboro



**ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2006**

NOTE 6--Capital Leases

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

Type of Asset	Asset Amount
Telecommunications Equipment	\$ 1,694,771
Print Shop Equipment	730,791
Public Safety Equipment and Software	202,246
Research Equipment	261,506
Total	<u>\$ 2,889,314</u>

The following is a schedule of future minimum lease payments under capital leases, together with the present value of the net minimum lease payments, as of June 30, 2006:

Fiscal Year Ending June 30,	Amount
2007	\$ 634,072
2008	542,596
2009	481,947
Total Minimum Lease Payments	\$ 1,658,615
Less: Amount Representing Interest	110,918
Total Present Value of Net Minimum Lease Payments	<u>\$ 1,547,697</u>

NOTE 7--Commitments

The University was contractually obligated for the following at June 30, 2006:

A. Construction Contracts

Project	Estimated Completion Date	Contract Balance
Residence Hall - Jonesboro Campus	November 2006	\$ 2,131,056
Student Union - Jonesboro Campus	January 2007	1,622,208
Family Housing Phase II - Jonesboro Campus	November 2006	388,049
Walton Hall Renovation/Addition - Newport Campus	September 2007	1,383
Lakeport Phases II and III (Lake Village) - Jonesboro Campus	May 2007	326,728
Southern Tenant Farmers Museum (Tyronza) - Jonesboro Campus	October 2006	198,847
Academic Building - Beebe Campus	August 2007	1,708,918
Academic Building - Beebe Campus (Heber Springs Center)	August 2007	5,025,285
Cooling System - Jonesboro Campus	December 2006	725,375



**ARKANSAS STATE UNIVERSITY SYSTEM
 NOTES TO THE FINANCIAL STATEMENTS (CONT.)
 FOR THE YEAR ENDED JUNE 30, 2006**

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

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

- a. Future minimum rental payments (aggregate) at June 30, 2006: \$471,175
- b. Future minimum rental payments for the five (5) succeeding fiscal years:

Year Ended June 30,	Amount
2007	\$ 235,953
2008	122,730
2009	66,394
2010	27,512
2011	18,586

Rental payments for operating leases with initial terms in excess of one year, for the year ended June 30, 2006, were approximately \$435,451.

C. Capital Improvement Revenue Bonds

Capital Improvement Revenue Bonds in the amount of \$2,827,229 were issued by the State Board of Vocational Education of the State of Arkansas, dated April 1, 1992 as Series A, with interest payable semiannually on April 1 and October 1 and principal payable annually on April 1. Arkansas State University - Searcy (formerly Foothills Technical Institute) is required to contribute thirteen percent (13%) of the principal and interest payments as follows. The final payment of \$8,418 was made on October 1, 2006.

NOTE 8--Retirement Plans

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

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

Funding Policy - TIAA/CREF has contributory and non-contributory plans. Contributory members select the percentage of their gross salaries to contribute based on current regulations. The University contributes 10% to 12% of earnings for all applicable employees. The University's and participants' contributions for the year ended June 30, 2006 were \$5,607,069 and \$5,049,014, respectively.

Arkansas Teacher Retirement System

Plan Description - The University contributes to the Arkansas Teacher Retirement System (ATRS), a cost-sharing multiple-employer defined benefit pension plan for employees who do not select a quali-



**ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2006**

fied alternative retirement plan. ATRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit and contribution provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Teacher Retirement System includes a publicly available financial report that includes financial statements and required supplementary information for ATRS. The report may be obtained by writing to Arkansas Teacher Retirement System, 1400 West Third Street, Little Rock, Arkansas 72201 or by calling 1-800-666-2877.

Funding Policy - ATRS has contributory and non-contributory plans. Contributory members are required by law to contribute 6% of their salaries. Each participating employer is required by law to contribute at a rate established by the Arkansas General Assembly. The current employer rate is 14%. The University's contributions to ATRS for the years ended June 30, 2006, 2005 and 2004 were \$809,224, \$694,198 and \$578,377, respectively, equal to the required contributions for each year.

Arkansas Public Employees Retirement System

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

Funding Policy - APERS has contributory and non-contributory plans. Contributory members are required by law to contribute 6% of their salaries. Each participating employer is required by law to contribute at a rate established by the Arkansas General Assembly. The current statutory employer rate is 12.54% of annual covered payroll. The University's contributions to APERS for the years ended June 30, 2006, 2005 and 2004 were \$926,668, \$851,549 and \$771,077, respectively, equal to the required contributions for each year.

Variable Annuity Life Insurance Company (VALIC)

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

Funding Policy - VALIC has contributory and non-contributory plans. Employees select the percentage of their gross salaries to contribute based on current regulations. The University's contributory rate is 10% or 12% for all applicable employees. Vesting occurs for all participants immediately. The participants' and the University's contributions for the year ended June 30, 2006 were \$697,303 and \$824,117, respectively.



**ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2006**

NOTE 9--Natural Classifications by Function

The University's operating expenses by function for the year ended June 30, 2006 were as follows:

	Personal Services	Scholarships and Fellowships	Supplies and Services	Self Insurance	Depreciation	Other	Total
Instruction	\$ 50,889,788	\$ 825,172	\$ 6,588,660	\$ 0	\$ 0	\$ 0	\$ 58,303,620
Research	5,136,310	135,514	2,435,114	0	0	0	7,706,938
Public Service	7,368,689	229,896	3,902,414	0	0	0	11,500,999
Academic Support	10,544,039	83,112	5,361,237	0	0	0	15,988,388
Student Services	8,122,229	114,038	2,601,835	0	0	0	10,838,102
Institutional Support	14,071,883	13,234	4,754,495	0	0	0	18,839,612
Scholarships and Fellowships	13,302	3,757,376	31,196	0	0	0	3,801,874
Operations and Maintenance of Plant	9,395,179	0	7,960,741	0	0	0	17,355,920
Auxiliary Enterprises	6,701,100	2,578,789	10,870,709	0	0	0	20,150,598
Self Insurance	0	0	0	9,710,449	0	0	9,710,449
Depreciation	0	0	0	0	10,471,072	0	10,471,072
Other	0	0	0	0	0	72,220	72,220
Totals	<u>\$ 112,242,519</u>	<u>\$ 7,737,131</u>	<u>\$ 44,506,401</u>	<u>\$ 9,710,449</u>	<u>\$ 10,471,072</u>	<u>\$ 72,220</u>	<u>\$ 184,739,792</u>



NOTE 10--Disaggregation of Receivable and Payable Balances

Accounts receivable from students was \$5,236,599 at June 30, 2006. This amount was reduced by an allowance for doubtful accounts of \$711,561.

Notes receivable pertains to loans awarded to students through the Federal Perkins Loan Program. Notes receivable was \$7,729,255 at June 30, 2006. This amount was reduced by an allowance for doubtful loans of \$699,684. Deposits receivable was \$137,533 at June 30, 2006.

Other receivables of \$5,013,799 at June 30, 2006 primarily consisted of reimbursements of \$3,311,381 from various agencies for grants and contracts, \$465,119 due from various state treasury accounts, and auxiliary enterprises receivables of \$407,652. Other receivables also consisted of \$127,830 due from sales and use tax, \$443,951 due from the U.S. Department of Education for cancellations pertaining to the Federal Perkins Loan Program and miscellaneous items of \$257,866.

The accounts payable and accrued liabilities of \$4,899,648 consisted of \$3,433,926 due to vendors, salaries and other payroll related items of \$1,171,142 and other items of \$294,580.

NOTE 11--Museum Collection

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



**ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2006**

NOTE 12--Other Post Employment Benefits

The University contributes to health and life insurance premiums (individual or family coverage) for all employees who retire between the ages of 55 and 65 with at least 10 years of service. These contributions are paid until the retiree is 65 years of age. The University also contributes to health and life insurance premiums for one year for those employees who are determined to be eligible for disability. At June 30, 2006, the number of retirees who were eligible for these benefits totaled 116. The University also pays life insurance premiums for certain retirees under a plan no longer utilized by the University. These premiums are paid until the retiree's death. At June 30, 2006, the number of retirees eligible for these benefits totaled 7. All premiums for these benefits described above were paid monthly and financed on a pay-as-you-go basis. These premiums, paid by the University and the retirees, totaled \$525,164 for the year ended June 30, 2006. Of this amount, the University's contribution was \$357,655.

NOTE 13--Arkansas Services Center

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

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

NOTE 14--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 USABLE and NOVA administrators.

There are three plans available to employees. These include: Classic I - Blue Advantage, True Blue PPO - Blue Advantage and Classic II - NovaSys. At June 30, 2006, approximately 3,848 active employees, their dependents, former employees and retirees were participating in the program. For all plans, the University pays 94% of the total premium for full-time employees and early retirees, and 72% of the total premium for dependents, while former employees, through COBRA, may participate on a fully contributory basis.

The University estimates its unpaid health claims liability beyond the experience period to be \$799,165 with Blue Advantage and \$24,297 with NovaSys.

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



**ARKANSAS STATE UNIVERSITY SYSTEM
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2006**

NOTE 15--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, common stock, mutual funds, and other managed investments. The endowment assets at June 30, 2006 were \$9,864,015. Of this amount, \$9,073,151 was nonexpendable and the remaining \$790,864 was expendable.

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

It is the University's policy for annual expenses from the endowment funds not to exceed 4.5% of the five (5) year average market value as determined on December 31. In periods with no market value appreciation, the University limits the spending to actual income generated by the endowment fund assets.



NOTE 16--Subsequent Events

(a) On July 6, 2006, the construction contract for a building at the Beebe campus was increased by \$8,303,104.

(b) On July 28, 2006, the construction contract for a building at the Beebe campus - Heber Springs center was increased by \$11,477,241.

(c) On August 21, 2006, the University accepted a bid of \$127,817 for the renovation of a warehouse storage facility at the Newport campus.

NOTE 17--Deficit Net Assets

The financial statements reflect deficit net assets, restricted - expendable for debt service of \$385,539. This deficit is a result of interest payable reflected as a current liability that will primarily be funded by subsequent transfers from the University to the bond trustee accounts.