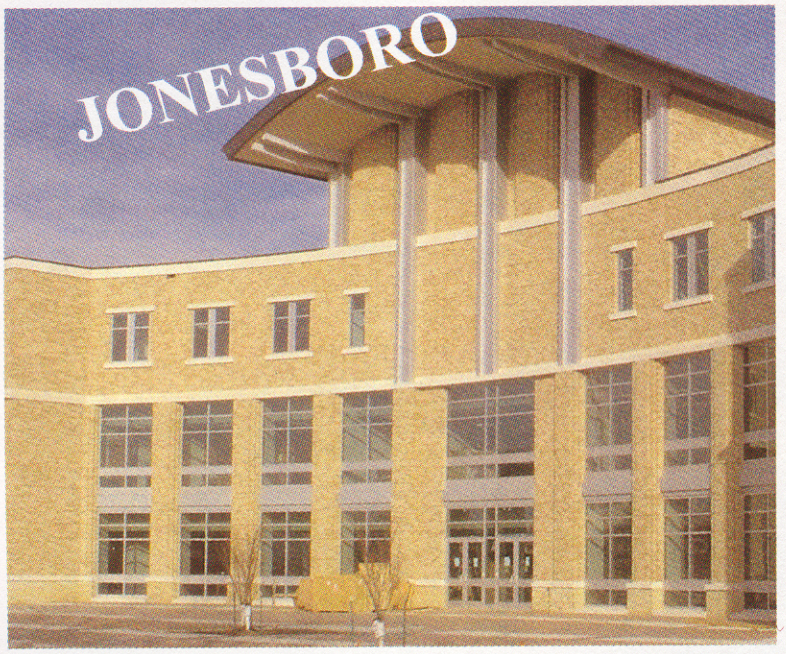
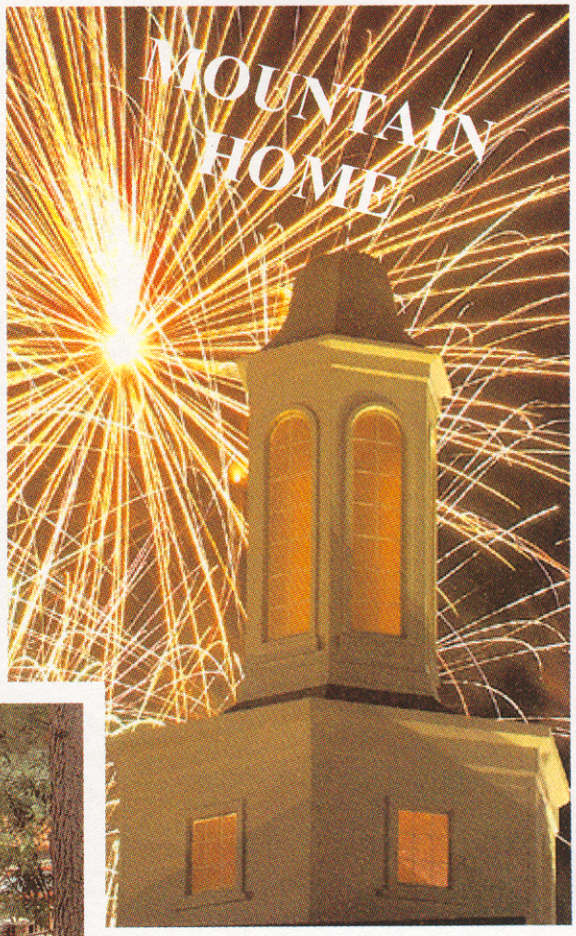
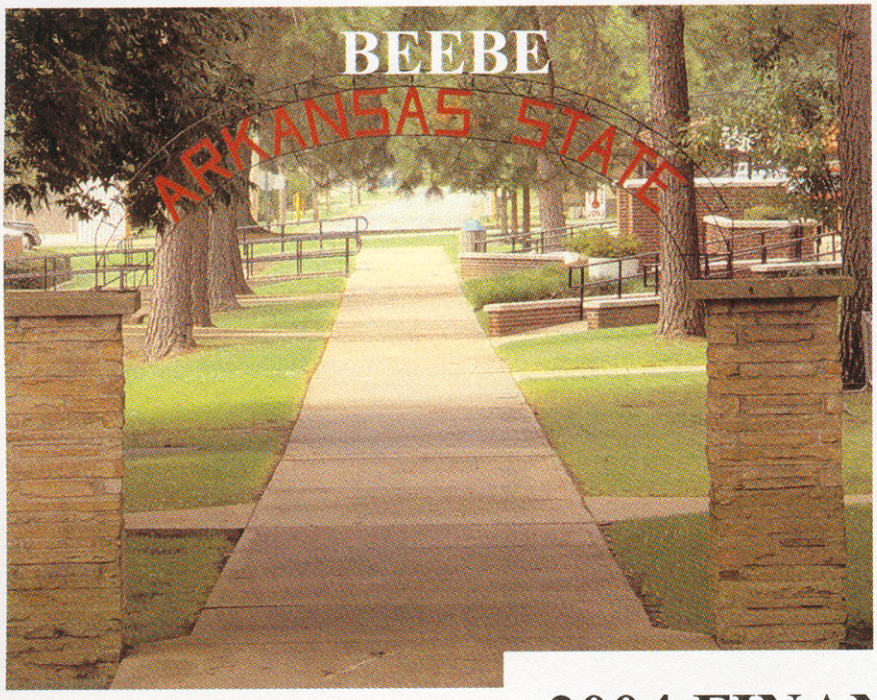


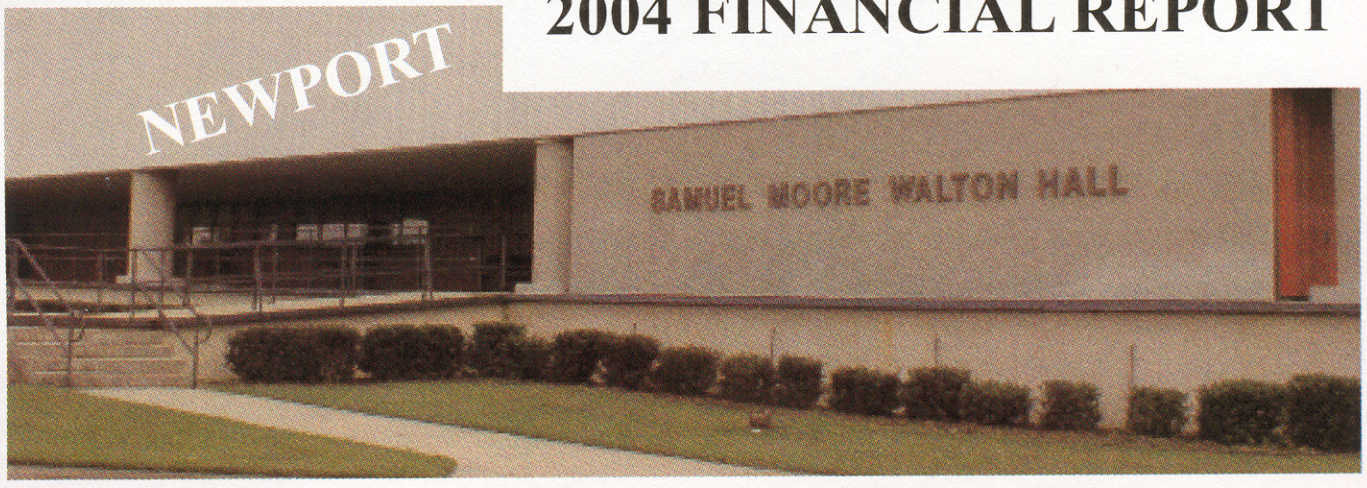




ASU

ARKANSAS STATE UNIVERSITY

2004 FINANCIAL REPORT



ARKANSAS STATE UNIVERSITY

Prepared by the Controller's Office
Office of Finance and Administration
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State University, AR 72467
(870) 972-2024
www.astate.edu

Cover photos:
Jonesboro—New Student Union
Beebe—South Lawn
Mountain Home—4th of July Celebration on Campus
Newport—Samuel Moore Walton Hall

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ARKANSAS STATE UNIVERSITY

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Jonesboro, Arkansas

November 15, 2004

Dr. Leslie Wyatt
President
Arkansas State University
State University, Arkansas 72467

RE: Letter of Transmittal

I am pleased to present the annual financial report of Arkansas State University for the fiscal year ended June 30, 2004. Consolidated financial statements, management's discussion and analysis, and accompanying footnotes are presented for the University as a whole. Separate financial statements, management's discussion and analysis, and accompanying footnotes for the Jonesboro, Beebe, Mountain Home, and Newport campuses are presented as well.

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 financial statements, management's discussion and analysis, and accompanying footnotes presented here are unaudited. The Arkansas Division of Legislative Audit conducts annual audits of the University and issues separate audit reports for each of the campuses.

Inquiries and comments regarding this report and the information presented herein 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

ARKANSAS STATE UNIVERSITY

2003 - 2004
ANNUAL REPORT

CONSOLIDATED

JONESBORO CAMPUS

BEEBE CAMPUS

MOUNTAIN HOME CAMPUS

NEWPORT CAMPUS

WELCOME
TO Fabulous
STATE
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Arkansas State University

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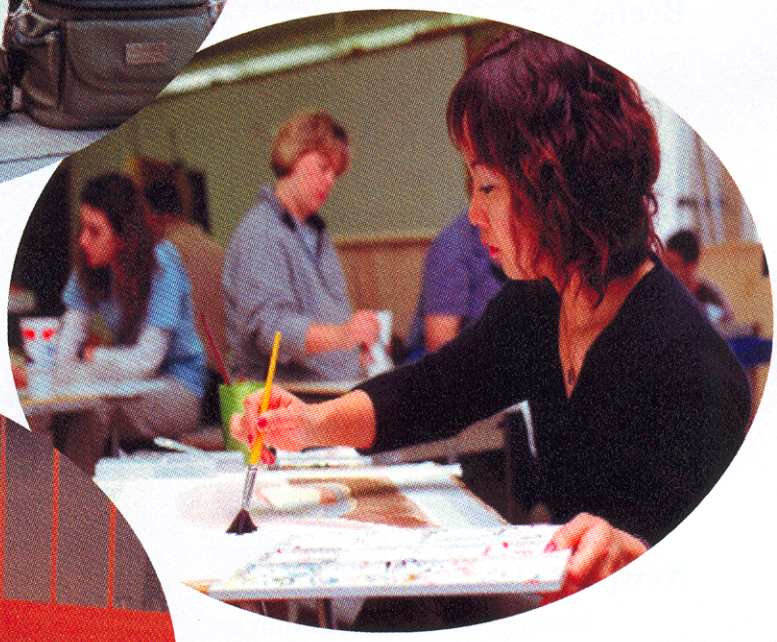
ASU's Mission. . .

We pursue and share knowledge within a caring community that prepares students in challenging and diverse ways to become more productive global citizens.



UNIVERSITY OVERVIEW

Arkansas State University developed from one of four state agricultural schools established in 1909 by an act of the Arkansas General Assembly. The institution opened as a vocational high school in 1910 and was reorganized as a junior college in 1918. The name of the institution was changed to State Agricultural and Mechanical College by an act of the General Assembly in 1925. Authority to extend the curriculum, offer senior college work, and grant degrees was given in 1925. Senior college work was begun in 1930 and the first baccalaureate degrees were granted in 1931. In 1933 the General Assembly changed the name of the school to Arkansas State College. In January of 1967 the school was granted University status and became Arkansas State University.

The Jonesboro campus offers fifteen undergraduate degrees with majors in ninety-one fields of study. Eighteen graduate degrees are offered in fifty-three specialties. The University's first doctoral program in Educational Leadership was inaugurated in 1993. A second doctoral program in Environmental Science was begun in 1998 and a third doctoral program in Heritage Studies was initiated in 2001.

The campus at Beebe was added in 1955 by an act of the Arkansas General Assembly. The Beebe campus offers associate degree programs on its campus and at facilities in Heber Springs and at the Little Rock Air Force Base in Jacksonville. The Mountain Home campus joined the Arkansas State University system in 1992. Various course selections and degree programs are offered at the Mountain Home campus. The Newport campus began operation as an affiliate of ASU-Beebe and became a separate campus in 2001.

In addition to its four campuses, Arkansas State University delivers undergraduate and graduate level instruction through programs at the ASU Technical Center in Marked Tree, ASU-Searcy, the ASU-EACC Center in Forrest City; the ASU-MCCC Center in Blytheville; the ASU-MSCC Center in West Memphis; and at facilities in Paragould and other locations throughout the state.

The University is governed by its board of trustees, which consists of five persons appointed by the Governor of Arkansas. Board members serve five-year terms. The administration of the University is under the control and responsibility of its president, Dr. Leslie Wyatt. Dr. Wyatt became the tenth president of Arkansas State University on July 1, 1995.

ASU-Jonesboro Dean B. Ellis Library Bell Tower

Board of Trustees

Mr. Mike Medlock, Chair ..... Jonesboro, Arkansas
Ms. Florine Tousant Milligan, Vice Chair ..... Forrest City, Arkansas
Mr. Richard E. Bell, Secretary ..... Stuttgart, Arkansas
Lt. Col. (Ret.) Dallas Wood, Member ..... Paragould, Arkansas
Mr. Mike Gibson, Member ..... Osceola, Arkansas

Executive Officers

Dr. J. Leslie Wyatt ..... President
Dr. Susan Allen ..... Vice Chancellor for Research and Academic Affairs
Mr. Jennus Burton ..... Vice President for Finance and Administration
Dr. Rick Stripling ..... Vice Chancellor for Student Affairs
Mr. Steve Owens ..... Vice President for University Advancement

Dr. Eugene McKay ..... Chancellor, Beebe
Dr. Charles Welch ..... Vice Chancellor for Academic Affairs, Beebe
Mr. Jerry Carlisle ..... Vice Chancellor for Fiscal Affairs, Beebe
Mr. Ben Pickard ..... Vice Chancellor for Student Affairs, Beebe

Dr. William E. Coulter ..... Chancellor, Mountain Home
Dr. Patricia Bailey ..... Vice Chancellor for Academic Affairs, Mountain Home
Mr. Lyndle McCurley ..... Vice Chancellor for Administrative Affairs, Mountain Home
Mr. Mick Spaulding ..... Vice Chancellor for Development, Mountain Home

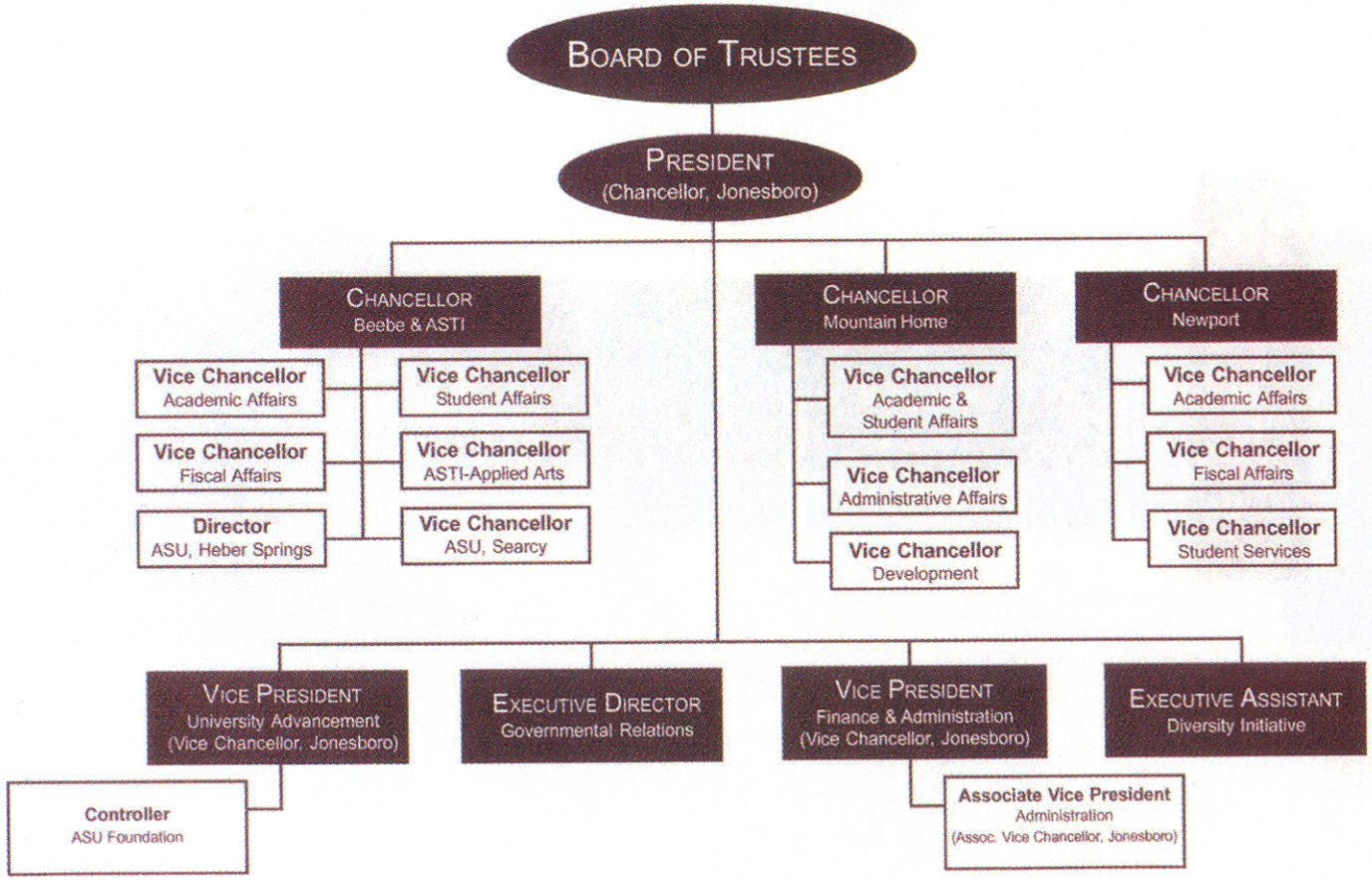
Dr. Larry Williams ..... Chancellor, Newport
Mr. Bob Stiger ..... Vice Chancellor for Fiscal Affairs, Newport
Dr. Larry Davis ..... Vice Chancellor for Academic Affairs, Newport
Dr.. Mary Robertson ..... Vice Chancellor for Student Affairs, Newport

Financial Officers

Mr. Ed Kremers ..... Associate Vice Chancellor for Finance and Facilities
Mr. Russ Hannah, CPA, CGFM ..... Assistant Vice Chancellor for Finance/Controller

ASU-Jonesboro

ARKANSAS STATE UNIVERSITY
2003-2004 ORGANIZATIONAL STRUCTURE



Data Source: Office of the President of Arkansas State University; August 2004
Information Source: The Office of Institutional Research & Planning: web address: irp.astate.edu; email address: asuirp@astate.edu

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ARKANSAS STATE UNIVERSITY

CONSOLIDATED

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Financial Statement Presentation

This section of the Arkansas State University - Consolidated (The University) annual financial report presents discussion and analysis of the University's financial performance during the fiscal year ended June 30, 2004. 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, 2003 as further explanation of the results of the year's financial activities.

ASU-Mountain Home Students

The statements have been prepared using the format specified in Governmental Accounting Standards Board (GASB) Statements Number 34 and 35. GASB Statement Number 34 requires the presentation of comparative information from the previous fiscal year and a discussion of any significant changes in the University's financial position or the results of its operations. Accordingly, the University's annual financial report for the year ended June 30, 2004 includes comparative information for the fiscal year ended June 30, 2004 and a discussion of the significant changes between the two fiscal years.

Fiscal Year 2004 Highlights

The following events or activities of financial significance occurred during the fiscal year ended June 30, 2004.

- The University completed the merger of Foothills Technical Institute in Searcy, Arkansas into the Arkansas State University system. The campus is officially designated as Arkansas State University - Searcy and is affiliated administratively with Arkansas State University - Beebe. The merger increased the net assets of the University by $2,857,350.
- The University acquired two hundred and forty nine (249) acres of land near Heber Springs, Arkansas to be developed as the new campus of Arkansas State University - Heber Springs.
- The University completed construction projects totaling $7,730,459. Projects in process but not yet completed totaled $53,664,908 at June 30, 2004.
- The University dedicated and occupied a new student union on the Jonesboro campus in March of 2004. The related renovation of the Reng Center as a student services facility is ongoing and scheduled for completion in late Fall of 2005. Construction costs for this project through June 30, 2004 amounted to $28,371,030.
- The net assets of the Arkansas State University system grew from $168,622,494 at June 30, 2003 to $175,448,046 at June 30, 2004, an increase of $6,825,552 or 4.05%. University revenues and other additions from all sources during the year ended June 30, 2004 amounted to $182,974,226 while expenditures and other deductions amounted to $176,148,674.

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, 2004, 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.

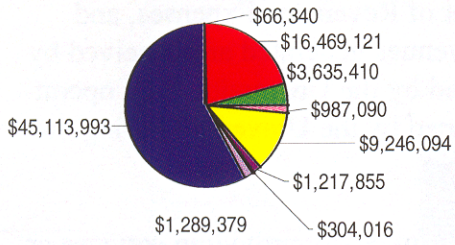
Readers of the Statement of Net Assets can determine answers to the following key questions as of June 30, 2004:

- 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

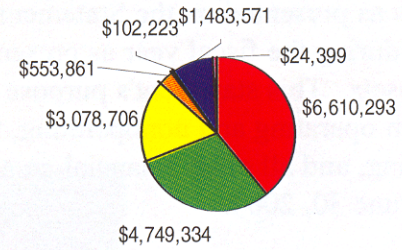
	2004	2003	Percent Change
Assets:			
Current Assets	$ 78,329,298	$ 69,422,834	12.83%
Capital Assets, Net	190,300,867	157,999,427	20.44
Other Noncurrent Assets	36,576,580	28,521,742	22.02
Total Assets	$ 305,206,745	$ 255,944,003	19.25%
Liabilities:			
Current Liabilities	$ 16,602,387	$ 14,716,849	12.81%
Noncurrent Liabilities	113,156,312	72,604,660	55.85
Total Liabilities	$ 129,758,699	$ 87,321,509	48.60%
Net Assets:			
Invested in Capital, Net of Debt	$ 80,219,320	$ 116,034,924	(30.87)%
Restricted, Nonexpendable	9,462,551	8,362,776	13.15
Restricted, Expendable	54,863,862	23,009,761	138.44
Unrestricted	30,902,313	21,215,033	45.66
Total Net Assets	$ 175,448,046	$ 168,622,494	4.05%
Total Liabilities and Net Assets	$ 305,206,745	$ 255,944,003	19.25%

Current Assets



- Cash and Cash Equivalents
- Short-Term Investments
- Endowment Investments
- Accounts Receivable, (Less Allowance of $582,714)
- Loans Receivable, Current Portion, (Less Allowance of $110,187)
- Loan Interest Receivable
- Inventories
- Deposits with Trustees
- Prepaid Expenses

Current Liabilities



- Accounts Payable and Accrued Liabilities
- Bonds, Notes and Leases Payable, Current Portion
- Compensated Absences, Current Portion
- Deferred Revenue
- Deposits on Hand
- Funds Held in Trust for Others
- Other Liabilities

The University's total assets increased from $255,944,003 at June 30, 2003 to $305,206,745 at June 30, 2004, an increase of $49,262,742 or 19.25%. This increase is largely attributable to the acquisition and construction of capital assets and the related investment of bond and other financing proceeds on the individual campuses. Capital Assets increased from $157,999,427 at June 30, 2003 to $190,300,867 at June 30, 2004, an increase of $32,301,440 or 20.44% and Deposits with Trustees increased during the year ended June 30, 2004 from $28,320,876 to $45,113,993, an increase of $16,793,117 or 59.30%.

The University's total liabilities increased from $87,321,509 at June 30, 2003 to $129,758,699 at June 30, 2004, an increase of $42,437,190 or 48.60%. This substantial increase in the University's liabilities is due primarily to increases of $1,254,812 and $40,919,243, respectively, in the current and noncurrent amounts for bonds, notes, and leases payable.

The University's total net assets increased from $168,622,494 at June 30, 2003 to $175,448,046 at June 30, 2004, an increase of $6,825,552 or 4.05%. This increase is largely attributable to the net positive effect of construction and related financing activities on the individual campuses and the recognition of net assets related to the merger with Foothills Technical Institute.

ASU-Beebe Students

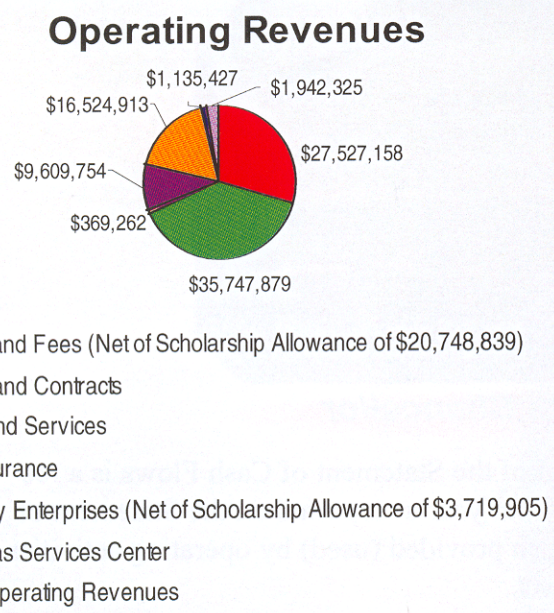
Statement of Revenues, Expenses and Changes in Net Assets

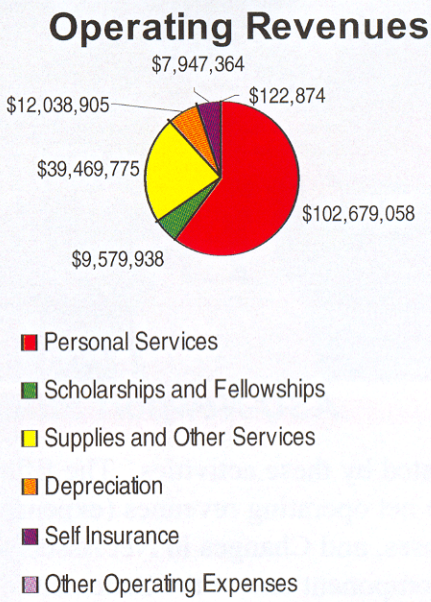
The total net assets as presented on the Statement of Net Assets are based in part on the financial activities that occurred during the fiscal year as presented in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement's purpose is to present the revenues generated and received 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, 2004.

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

	2004	2003	Percent Change
Operating Revenues	$ 92,856,718	$ 86,491,782	7.36%
Operating Expenses	171,837,914	154,675,649	11.10
Operating Income (Loss)	$ (78,981,196)	$ (68,183,867)	15.84%
Nonoperating Revenues (Expenses)	$ 77,928,027	$ 65,744,739	18.53%
Income (Loss) before Other Revenues, Expenses, Gains, or Losses	$ (1,053,169)	$ (2,439,128)	(56.82)%
Other Revenues, Expenses Gains or Losses	$ 7,878,721	$ 4,056,213	94.24%
Increase (Decrease) in Net Assets	$ 6,825,552	$ 1,617,085	322.09%
Net Assets, Beginning of the Year, As Originally Reported	$ 168,622,494	$ 174,243,022	
Cumulative Effect of Change in Accounting Principle ----Reclassification of Loan Fund Balance	$ 0	$ (7,237,613)	
Net Assets, Beginning of Year – As Restated	$ 168,622,494	$ 167,005,409	
Net Assets, End of Year	$ 175,448,046	$ 168,622,494	





The Statement of Revenues, Expenses, and Changes in Net Assets for the fiscal year ended June 30, 2004 reflects an increase in the net assets of the University of $6,825,552 compared with an increase $1,617,085 for the year ended June 30, 2003. The differential increase of $5,208,467 is primarily attributable to the recognition of capitalized interest related to construction activities of $2,093,938 and the recognition of $2,857,350 in net assets related to the merger with Foothills Technical Institute.

Highlights from the information presented in the Statement of Revenues, Expenses, and Changes in Net Assets for the fiscal year ended June 30, 2004 include the following:

- Tuition and Fees, Net of Scholarship Allowance amounted to $27,527,158 or 29.65% of Total Operating Revenues.
- Personal Services expenses totaled $102,679,058 or 59.76% of Total Operating Expenses. Supplies and Other Services expenses amounted to $39,469,775 or 22.97% of Total Operating Expenses.
- Scholarships and Fellowships expenses totaled $9,579,938 or 5.58% of Total Operating Expenses. Scholarships and Fellowship expenses amounted to 34.81% of Tuition and Fees revenue.
- The University's Loss from Operations amounted to $78,981,196. State and Local Appropriations, which are reported as Nonoperating Revenues totaled $76,441,057. Revenues and gains from all other sources amounted to $9,365,691.

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,

ASU-Newport Students with Chancellor

and losses generated by these activities. The fifth component of the Statement of Cash Flows is a rec onciliation 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, 2004

Cash Provided (Used) by:	
Operating Activities	$ (65,452,711)
Noncapital Financing Activities	70,707,570
Capital and Related Financing Activities	(17,520,839)
Investing Activities	(977,312)
Net Increase (Decrease) in Cash	$ (13,243,292)
Cash – Beginning of the Year	$ 21,423,105
Cash – End of the Year	$ 8,179,813

Capital Assets and Debt Administration

The individual campuses of the Arkansas State University system engaged in significant capital asset acquisition and debt financing activities during the fiscal year ended June 30, 2004. As a result, the University's net capital assets increased from $157,999,427 at June 30, 2003 to $190,300,867 or 20.44%. These activities are addressed in detail in the management discussion and analysis, financial statements, and accompanying notes presented by each campus and readers of this statement are encouraged to review these reports in detail to ensure a complete understanding of these activities.

Economic Outlook

The University increased its net assets during the fiscal year ended June 30, 2004 by $6,825,552 or 4.05% compared with an increase during the fiscal year ended June 30, 2003 of $1,618,085 or 0.97%. This increase is almost entirely attributable to construction and related capital financing activities and the net financial effect of the merger with Foothills Technical Institute. Capital related revenues in the form of Capital Appropriations, Grants, and Gifts and the recognition of Capitalized Interest amounted to $4,796,503; the net gain from the merger with Foothills Technical Institute was $2,857,350. Without these revenue sources the University's Net Assets during the year ended June 30, 2004 would have declined by $828,301 or 0.50%. If construction and related financing activities and the extraordinary effect of an institutional merger are not considered, the University fully expended the financial resources provided to it during the fiscal year ended June 30, 2004 through its operations and other activities.

While economic conditions at the state and national level continue to improve the likelihood that significant new resources will be appropriated to the University by the state legislature is remote. Additionally, the ability of the University to raise significant new amounts of revenue through tuition and fee assessment is increasingly constrained by regional and state demographics and competition between Arkansas' institutions of higher education. The current full utilization of the University's existing financial resources coupled with the likelihood of no significant new revenues will require the University to consider budget reductions, resource reallocation, and cost containment measures as necessary means of providing resources for new initiatives, maintaining its financial position, and continuing its mission.

ASU-Jonesboro Students

ARKANSAS STATE UNIVERSITY - CONSOLIDATED STATEMENT OF NET ASSETS
JUNE 30, 2004
(With Comparative Figures as of June 30, 2003)

ASSETS	2004	2003
CURRENT ASSETS		
CASH AND CASH EQUIVALENTS	$ 16,469,121	$ 21,388,294
SHORT-TERM INVESTMENTS	3,635,410	6,096,533
ENDOWMENT INVESTMENTS	987,090	0
ACCOUNTS RECEIVABLE, (LESS ALLOWANCE, $582,714-2004; $447,234-2003)	9,246,094	9,910,374
LOANS RECEIVABLE, (LESS ALLOWANCE, $110,187-2004; $92,474-2003)	1,217,855	1,058,373
LOAN INTEREST RECEIVABLE	304,016	278,041
OTHER RECEIVABLES	0	832,476
INVENTORIES	1,289,379	1,361,899
DEPOSITS WITH TRUSTEES	45,113,993	28,320,876
PREPAID EXPENSES	66,340	156,615
OTHER ASSETS	0	19,353
TOTAL CURRENT ASSETS	**$ 78,329,298**	**$ 69,422,834**
NONCURRENT ASSETS		
RESTRICTED CASH AND CASH EQUIVALENTS	$ 37,566	$ 34,811
DEPOSITS WITH TRUSTEES	1,976,749	0
INTERMEDIATE AND LONG-TERM INVESTMENTS	20,140,948	14,400,758
ENDOWMENT INVESTMENTS	8,209,012	8,324,851
LOANS RECEIVABLE, (LESS ALLOWANCE, $556,878-2004; $509,583-2003)	6,079,305	5,753,322
DEPOSITS RECEIVABLE	133,000	8,000
CAPITAL ASSETS, (NET OF ACCUMULATED DEPRECIATION, $145,568,727-2004; $133,424,539-2003)	190,300,867	157,999,427
TOTAL NONCURRENT ASSETS	**$ 226,877,447**	**$ 186,521,169**
TOTAL ASSETS	**$ 305,206,745**	**$ 255,944,003**
LIABILITIES		
CURRENT LIABILITIES		
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	$ 6,610,293	$ 6,683,915
BONDS, NOTES, AND LEASES PAYABLE, CURRENT PORTION	4,749,334	3,494,522
COMPENSATED ABSENCES, CURRENT PORTION	3,078,706	2,267,486
DEFERRED REVENUE	553,861	725,191
DEPOSITS ON HAND	102,223	111,770
FUNDS HELD IN TRUST FOR OTHERS	1,483,571	1,364,589
OTHER LIABILITIES	24,399	69,376
TOTAL CURRENT LIABILITIES	**$ 16,602,387**	**$ 14,716,849**
NONCURRENT LIABILITIES		
DEPOSITS ON HAND	$ 122,718	$ 148,926
BONDS, NOTES, AND LEASES PAYABLE	105,332,213	64,412,970
COMPENSATED ABSENCES	511,637	978,366
REFUNDABLE FEDERAL ADVANCES	7,189,744	7,064,398
TOTAL NONCURRENT LIABILITIES	**$ 113,156,312**	**$ 72,604,660**
TOTAL LIABILITIES	**$ 129,758,699**	**$ 87,321,509**
NET ASSETS		
INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT	$ 80,219,320	$ 116,034,924
RESTRICTED FOR:		
NONEXPENDABLE		
SCHOLARSHIPS AND FELLOWSHIPS	5,947,400	7,570,561
LOANS	843,136	792,215
OTHER	2,672,015	0
EXPENDABLE		
SCHOLARSHIPS AND FELLOWSHIPS	459,667	523,737
RESEARCH	341,957	151,505
LOANS	35,000	44,139
CAPITAL PROJECTS	47,638,604	17,322,545
RENEWAL AND REPLACEMENT	50,594	154,839
DEBT SERVICE	3,848,272	2,275,861
QUASI-ENDOWMENTS	115,956	0
OTHER	2,373,812	2,537,135
UNRESTRICTED	30,902,313	21,215,033
TOTAL NET ASSETS	**$ 175,448,046**	**$ 168,622,494**

The accompanying notes are an integral part of these statements.

ARKANSAS STATE UNIVERSITY - CONSOLIDATED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2004

(With Comparative Figures for the year ended June 30, 2003)

	2004	2003
REVENUES		
OPERATING REVENUES		
TUITION AND FEES (NET OF SCHOLARSHIP ALLOWANCES, $20,748,839-2004; $19,606,152-2003)	$ 27,527,158	$ 25,689,671
GRANTS AND CONTRACTS	35,747,879	33,039,235
SALES AND SERVICES	369,262	281,839
SELF INSURANCE	9,609,754	8,454,750
AUXILIARY ENTERPRISES (NET OF SCHOLARSHIP ALLOWANCES, $3,719,905-2004; $3,263,859-2003)	16,524,913	15,714,589
ARKANSAS SERVICES CENTER	1,135,427	1,175,214
OTHER OPERATING REVENUES	1,942,325	2,136,484
TOTAL OPERATING REVENUES	**$ 92,856,718**	**$ 86,491,782**
EXPENSES		
OPERATING EXPENSES		
PERSONAL SERVICES	$ 102,679,058	$ 93,221,800
SCHOLARSHIPS AND FELLOWSHIPS	9,579,938	10,412,331
SUPPLIES AND OTHER SERVICES	39,469,775	34,255,150
DEPRECIATION	12,038,905	8,725,191
SELF INSURANCE	7,947,364	7,672,198
OTHER OPERATING EXPENSES	122,874	388,979
TOTAL OPERATING EXPENSES	**$ 171,837,914**	**$ 154,675,649**
OPERATING INCOME (LOSS)	**$ (78,981,196)**	**$ (68,183,867)**
NONOPERATING REVENUES (EXPENSES)		
STATE APPROPRIATIONS	$ 73,397,713	$ 67,030,378
SALES TAXES	2,166,482	0
PROPERTY TAXES	876,862	791,258
GIFTS	2,309,636	753,371
TRANSFER OF ATHLETIC ENDOWMENTS TO ASU INDIAN CLUB	0	(836,619)
INVESTMENT INCOME	2,124,434	2,341,150
INTEREST ON CAPITAL-ASSET RELATED DEBT	(3,122,682)	(3,796,450)
ACCRUED INTEREST ON BOND ISSUES	130,579	0
PREMIUM/DISCOUNT ON BOND ISSUES	818,756	0
OTHER NONOPERATING REVENUES (EXPENSES)	(773,753)	(538,349)
NET NONOPERATING REVENUES (EXPENSES)	**$ 77,928,027**	**$ 65,744,739**
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	**$ (1,053,169)**	**$ (2,439,128)**
DELETION OF CAPITAL ASSETS	(231,879)	(319,794)
CAPITALIZATION OF INTEREST	2,093,938	0
GAIN/(LOSS) FROM SALE OF CAPITAL ASSETS	25,385	45,932
MERGER WITH FOOTHILLS TECHNICAL INSTITUTE	2,857,350	0
CAPITAL APPROPRIATIONS	2,296,304	2,268,065
CAPITAL GRANTS AND GIFTS	406,261	1,812,761
CAPITALIZATION OF LIBRARY HOLDINGS AT RATE PER VOLUME	103,950	242,795
ADDITIONS TO PERMANENT ENDOWMENTS	3,371	7,241
ADJUSTMENTS TO PRIOR YEAR REVENUES AND EXPENSES	506,487	57,358
REFUNDS TO GRANTORS	(182,446)	(63,385)
OTHER CHANGES	0	5,240
TOTAL OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	**$ 7,878,721**	**$ 4,056,213**
INCREASE (DECREASE) IN NET ASSETS	**$ 6,825,552**	**$ 1,617,085**
NET ASSETS		
NET ASSETS-BEGINNING OF YEAR (AS ORIGINALLY REPORTED)	$ 168,622,494	$ 174,243,022
CUMULATIVE EFFECTS OF CHANGE IN ACCOUNTING PRINCIPLE RECLASSIFICATION OF LOAN FUND BALANCE TO NONCURRENT LIABILITY	0	(7,237,613)
NET ASSETS-BEGINNING OF YEAR (RESTATED)	**$ 168,622,494**	**$ 167,005,409**
NET ASSETS-END OF YEAR	**$ 175,448,046**	**$ 168,622,494**

The accompanying notes are an integral part of these statements.

ARKANSAS STATE UNIVERSITY - CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2004

(With Comparative Figures for the year ended June 30, 2003)

CASH FLOWS FROM OPERATING ACTIVITIES	2004	2003
TUITION AND FEES (NET OF SCHOLARSHIP ALLOWANCE, $20,748,839-2004; $19,606,152-2003)	$ 27,914,758	$ 24,548,298
GRANTS AND CONTRACTS	35,635,506	40,312,721
SALES AND SERVICES	345,560	258,931
PAYMENTS TO SUPPLIERS	(37,404,497)	(35,301,181)
PAYMENTS TO EMPLOYEES	(79,947,342)	(73,378,620)
PAYMENTS FOR BENEFITS	(23,089,043)	(19,342,169)
SCHOLARSHIPS AND FELLOWSHIPS	(9,579,938)	(14,351,378)
TRAVEL LOANS ISSUED TO EMPLOYEES	(342,428)	(549,992)
COLLECTION OF TRAVEL LOANS	341,766	570,891
LOANS ISSUED TO STUDENTS	(1,790,401)	(1,790,151)
COLLECTION OF STUDENT LOANS	1,362,593	1,181,553
AUXILIARY REVENUES (NET OF SCHOLARSHIP ALLOWANCE, $3,719,905-2004; $3,263,859-2003)	17,170,222	15,398,610
ARKANSAS SERVICES CENTER	1,041,374	1,234,732
SELF INSURANCE PROGRAM	9,343,244	8,454,071
SELF INSURANCE PROGRAM	(7,947,364)	(7,672,198)
OTHER RECEIPTS (PAYMENTS)	1,493,279	1,310,958
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	**$ (65,452,711)**	**$ (59,114,924)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
STATE APPROPRIATIONS	$ 73,740,441	$ 66,087,045
SALES TAXES	1,768,959	0
PROPERTY TAXES	876,862	791,258
PRIVATE GIFTS FOR ENDOWMENT PURPOSES	2,153,690	910,643
AGENCY TRANSACTIONS (NET)	3,460	461,623
REFUNDS TO GRANTORS	(182,446)	(63,385)
NET CASH FLOWS PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	**$ 78,360,966**	**$ 68,187,184**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
MERGER WITH FOOTHILLS TECHNICAL INSTITUTE	$ 673,478	0
PROCEEDS FROM CAPITAL DEBT	2,499,000	5,970,000
CAPITAL APPROPRIATIONS	2,462,455	2,101,915
CAPITAL GRANTS AND GIFTS	362,761	104,220
PROCEEDS FROM SALE OF CAPITAL ASSETS	27,400	47,500
PURCHASES OF CAPITAL ASSETS	(40,038,432)	(33,908,676)
PRINCIPAL PAID ON CAPITAL DEBT AND LEASES	(3,938,815)	(8,642,192)
INTEREST PAID ON CAPITAL DEBT AND LEASES	(3,075,295)	(3,028,433)
DEPOSITS WITH TRUSTEE	23,537,730	21,728,724
OTHER RECEIPTS (PAYMENTS)	642,357	39,209
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	**$ (16,847,361)**	**$ (15,587,733)**
CASH FLOWS FROM INVESTING ACTIVITIES		
PROCEEDS FROM THE SALE AND MATURITY OF INVESTMENTS	$ 16,949,121	$ 16,240,017
INTEREST ON INVESTMENTS	1,034,632	950,478
PURCHASE OF INVESTMENTS	(18,961,065)	(24,680,987)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	**$ (977,312)**	**$ (7,490,492)**
NET INCREASE (DECREASE) IN CASH	**$ (4,916,418)**	**$ (14,005,965)**
CASH AND CASH EQUIVALENTS, JULY 1	**$ 21,423,105**	**$ 35,429,070**
CASH AND CASH EQUIVALENTS, JUNE 30	**$ 16,506,687**	**$ 21,423,105**

The accompanying notes are an integral part of these statements.

ARKANSAS STATE UNIVERSITY - CONSOLIDATED STATEMENT OF CASH FLOWS (CONT.) FOR THE YEAR ENDED JUNE 30, 2004

(With Comparative Figures for the year ended June 30, 2003)

RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
OPERATING INCOME (LOSS)	**$ (78,981,196)**	**$ (68,183,867)**
ADJUSTMENTS TO RECONCILE NET INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
DEPRECIATION EXPENSE	12,038,905	8,725,191
CHANGE IN ASSETS AND LIABILITIES		
(INCREASE)/DECREASE IN RECEIVABLES, NET	366,429	(36,547)
(INCREASE)/DECREASE IN INVENTORIES	108,271	(109,687)
(INCREASE)/DECREASE IN DEPOSITS WITH TRUSTEES	756,954	172,479
(INCREASE)/DECREASE IN PREPAID EXPENSES	93,541	(23,353)
(INCREASE)/DECREASE IN OTHER ASSETS	0	(185)
INCREASE/(DECREASE) IN ACCOUNTS PAYABLE	(33,530)	340,746
INCREASE/(DECREASE) IN DEFERRED REVENUE	(195,174)	131,795
INCREASE/(DECREASE) IN COMPENSATED ABSENCES	344,492	92,289
INCREASE/(DECREASE) IN DEPOSITS ON HAND	(32,458)	(18,623)
INCREASE/(DECREASE) IN REFUNDABLE FEDERAL ADVANCES	125,346	(177,614)
INCREASE/(DECREASE) IN OTHER LIABILITIES	(44,291)	(27,548)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	**$ (65,452,711)**	**$ (59,114,924)**

The accompanying notes are an integral part of these statements.

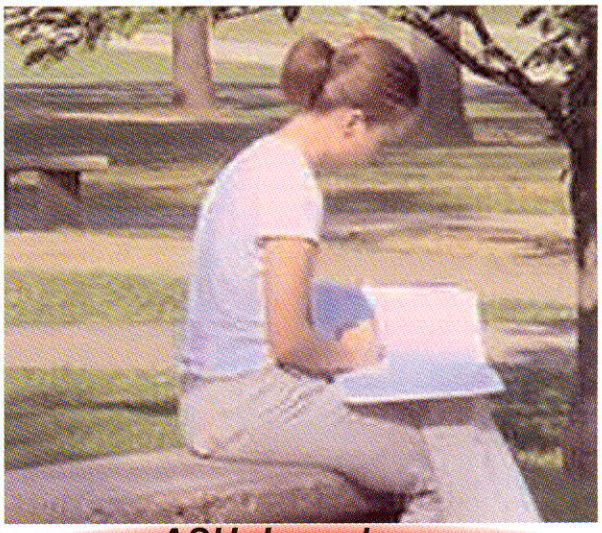
NOTE 1--Summary of Significant Accounting Policies

Financial Statement Presentation

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments.* This was followed in November 1999 by GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities.* The State of Arkansas was required to implement Statement No. 34 as of and for the year ended June 30, 2002. As a component unit of the State, Arkansas State University was required to adopt Statements No. 34 and 35 concurrently. The financial statement presentation required by GASB Statements No. 34 and 35 provides a comprehensive, entity-wide perspective of the University's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows. Additionally, the presentation provides data from the previous fiscal year for comparative purposes.

Measurement Focus and 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 statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, expenses are recorded when an obligation has been incurred, and depreciation is recognized for capital assets, where applicable.


ASU-Jonesboro

The University may choose whether to apply pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989 unless those pronouncements conflict with pronouncements of the Governmental Accounting Standard Board. The University has elected to not apply pronouncements of the FASB issued after November 30, 1989.

Assets and Liabilities

- Cash Equivalents: The University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents for financial statement purposes.

- Investments: The University accounts for its investments 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.

- Accounts Receivable: Accounts Receivable are assets that the University is legally entitled to but for which payment has not been received as of the close of the fiscal year at June 30th. 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.

- 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 or other noncurrent assets.

- Capital Assets: Capital assets 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 estimated fair value. 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 useful life of the asset. Capital assets are presented net of accumulated depreciation where applicable.

ASU-Beebe

- Compensated Absences: Employee vacation pay earned but not paid is 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.

- 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 semester or season football tickets for the upcoming fall season received prior to June 30th are treated as deferred revenues. They are considered liabilities of the University until earned.

- 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 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 donor's or external parties stipulations or added to the principal.

Dryer Hall at ASU-Mountain Home

- 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.

Classification of 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 Governmental

  Accounting Standards Board. 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.

Operating and nonoperating expenses are matched with operating and nonoperating revenues in accordance with generally accepted accounting principles.

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 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.

ASU-Newport Students

NOTE 2--Basis for Presentation

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 administration does not believe the inclusion of these inter-University transactions in the consolidated financial statements will have a material effect.

Detailed explanatory footnotes accompany the financial statements of each of the separate campuses and are considered an integral part of them. Accordingly, footnotes have not been prepared in support of the consolidated financial statements. Readers of the consolidated statements should refer to the notes of the individual campuses.

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ARKANSAS STATE UNIVERSITY

JONESBORO

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Financial Statement Presentation

This section of the Arkansas State University - Jonesboro (The University) annual financial report presents discussion and analysis of the University's financial performance during the fiscal year ended June 30, 2004. 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, 2004 as further explanation of the results of the year's financial activities.

Dean B. Ellis Library

The statements have been prepared using the format specified in Governmental Accounting Standards Board (GASB) Statements Number 34 and 35. GASB Statement Number 34 requires the presentation of comparative information from the previous fiscal year and a discussion of any significant changes in the University's financial position or the results of its operations. Accordingly, the University's annual financial report for the year ended June 30, 2004 includes comparative information for the fiscal year ended June 30, 2003.

Fiscal Year 2004 Highlights

The following events or activities of financial significance occurred during the fiscal year ended June 30, 2004.

- On November 25, 2003, the University executed a $2,000,000 draw against its established line of credit with the Bank of America, N.A.. This draw provided funding for the equipping and furnishing of the University's new student union.
- The University dedicated and occupied its new student union on March 24, 2004. The related renovation of the Reng Center into a new student services facility is ongoing and scheduled for completion in late Fall of 2005. Construction costs for this project through June 30, 2004 amounted to $28,371,030.
- On March 25, 2004, the University issued student fee revenue refunding and construction bonds and housing system revenue bonds totaling $45,555,000. The proceeds from these bonds will finance the construction of a new residence facility and additional married student housing facilities, the acquisition of land and buildings adjacent to the campus, the construction of a chilled water infrastructure and cooling system, the renovation of existing educational and general facilities, and the refunding of previously issued academic bonds.
- On May 19, 2004, the University acquired for $5,182,889 from the Arkansas State College Foundation for the Advancement of Higher Education land and residential property contiguous to the campus.

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, 2004, 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.

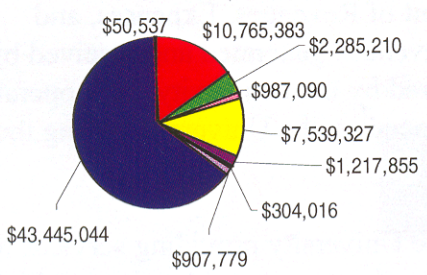
Readers of the Statement of Net Assets can determine answers to the following key questions as of June 30, 2004:

- 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

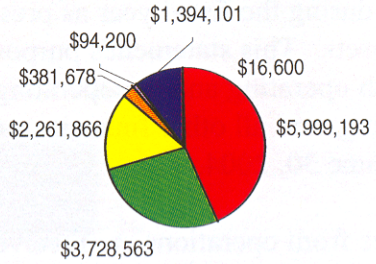
	2004	2003	Percent Change
Assets:			
Current Assets	$ 67,502,241	$ 55,011,493	22.71%
Capital Assets, Net	148,811,004	117,710,870	26.42
Other Noncurrent Assets	29,253,935	25,890,944	12.99
Total Assets	$ 245,567,180	$ 198,613,307	23.64%
Liabilities:			
Current Liabilities	$ 13,876,201	$ 12,917,655	7.42%
Noncurrent Liabilities	97,874,547	56,427,258	73.45
Total Liabilities	$ 111,750,748	$ 69,344,913	61.15%
Net Assets:			
Invested in Capital, Net of Debt	$ 54,900,839	$ 92,213,301	(40.46)%
Restricted, Nonexpendable	9,462,551	8,251,258	14.68
Restricted, Expendable	45,683,936	13,837,247	230.15
Unrestricted	23,769,106	14,966,588	58.81
Total Net Assets	$ 133,816,432	$ 129,268,394	3.52%
Total Liabilities and Net Assets	$ 245,567,180	$ 198,613,307	23.64%

Current Assets



- Cash and Cash Equivalents
- Short-Term Investments
- Endowment Investments
- Accounts Receivable, (Less Allowance of $307,384)
- Loans Receivable, Current Portion, (Less Allowance of $110,187)
- Loan Interest Receivable
- Inventories
- Deposits with Trustees
- Prepaid Expenses

Current Liabilities



- Accounts Payable and Accrued Liabilities
- Bonds, Notes and Leases Payable, Current Portion
- Compensated Absences, Current Portion
- Deferred Revenue
- Deposits on Hand
- Funds Held in Trust for Others
- Other Liabilities

The University's current assets increased by $12,490,748 or 22.71% during the fiscal year ended June 30, 2004 while its net capital assets increased by $31,100,134 or 26.42%. These changes are attributable to construction activities and the investment of bond and other financing proceeds in capital projects. Overall, the University's total assets increased from $198,613,307 at June 30, 2003 to $245,567,180 at June 30, 2004, an increase of 23.64%.

The University's total liabilities increased from $69,344,913 at June 30, 2003 to $111,750,748 at June 30, 2004 an increase of $42,405,835 or 61.15% while its total net assets increased from $129,268,394 to $133,816,432 during the period, an increase of $4,548,038 or 3.52%. The substantial increase in the University's liabilities is due in large measure to a net increase in bonds, notes, and leases payable of $42,469,607. The increase in the University's net assets is largely attributable to the net positive effect of these construction and related financing activities.

Convocation Center and Lake

Statement of Revenues, Expenses and Changes in Net Assets

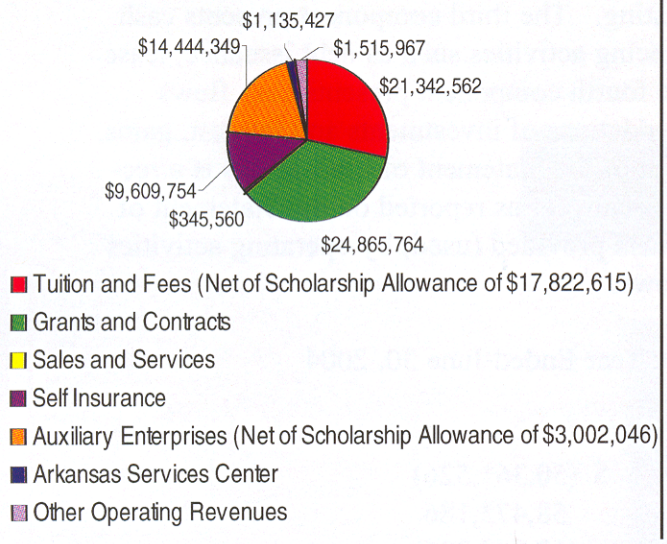
The total net assets as presented on the Statement of Net Assets are based in part on the financial activities that occurred during the fiscal year as presented in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement's purpose is to present the revenues generated and received 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, 2004.

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.

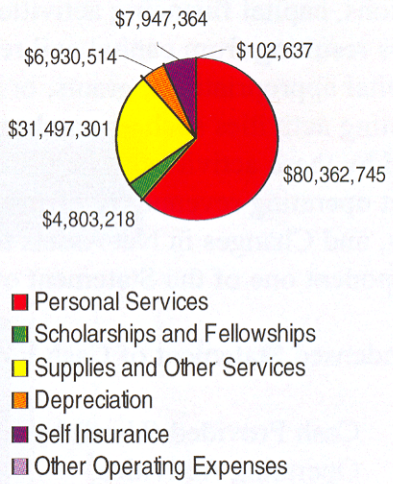
Condensed Statement of Revenues, Expenses, and Changes in Net Assets

	2004	2003	Percent Change
Operating Revenues	$ 73,259,383	$ 69,463,861	5.46%
Operating Expenses	131,643,779	123,335,455	6.74
Operating Income (Loss)	$ (58,384,396)	$ (53,871,594)	8.38%
Nonoperating Revenues (Expenses)	$ 58,184,955	$ 51,923,618	12.06%
Income (Loss) before Other Revenues, Expenses, Gains, or Losses	$ (199,441)	$ (1,947,976)	(89.76)%
Other Revenues, Expenses Gains or Losses	$ 4,747,479	$ 2,499,779	89.92%
Increase (Decrease) in Net Assets	$ 4,548,038	$ 551,803	724.21%
Net Assets, Beginning of the Year, As Originally Reported	$ 129,268,394	$ 135,954,204	
Cumulative Effect of Change in Accounting Principle ----Reclassification of Loan Fund Balance	$ 0	$ (7,237,613)	
Net Assets, Beginning of Year – As Restated	$ 129,268,394	$ 128,716,591	
Net Assets, End of Year	$ 133,816,432	$ 129,268,394	

Operating Revenues



Operating Expenses



The Statement of Revenues, Expenses, and Changes in Net Assets for the fiscal year ended June 30, 2004 reflects an increase in the net assets of the University of $4,548,038 compared with an increase of $551,803 for the year ended June 30, 2003. Highlights from the information presented in the Statement of Revenues, Expenses, and Changes in Net Assets for the fiscal year ended June 30, 2004 include the following:

- Tuition and Fees, Net of Scholarship Allowance amounted to $21,342,562 or 29.14% of Total Operating Revenues.
- Personal Services expenses totaled $80,362,745 or 61.05% of Total Operating Expenses.
- Scholarships and Fellowships expenses totaled $4,803,218 or 3.65% of Total Operating Expenses. Scholarships and Fellowships expenses amounted to 22.51% of Tuition and Fees revenue.
- The University's Self Insurance Program generated revenues of $9,609,754 and expenses of $7,947,364.
- The University's Loss from Operations amounted to $58,384,396. State Appropriations, which are reported as Nonoperating Revenues, amounted to $56,316,272. Other Nonoperating Revenues amounted to $1,868,683.
- Total Other Revenues amounted to $4,747,479. Of this amount, $2,425,167 was derived from Capital Appropriations, Grants, and Gifts and $2,093,938 resulted from the recognition of Capitalized Interest related to construction activities.

Wilson Hall

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.

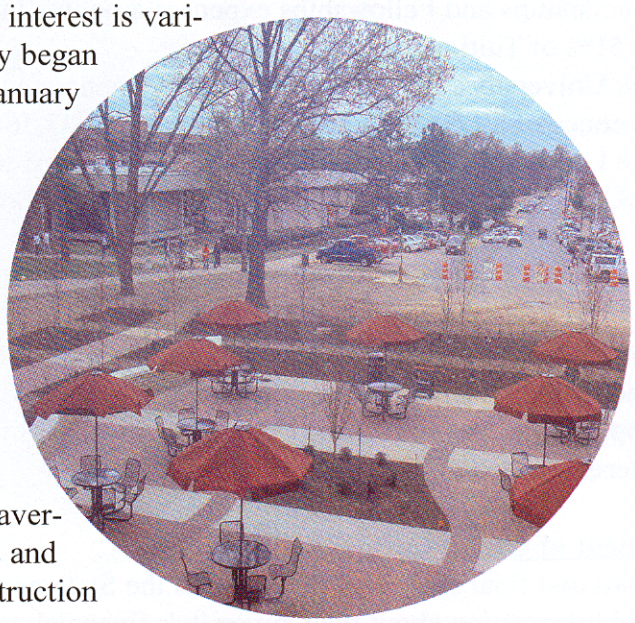
Condensed Statement of Cash Flows for the Year Ended June 30, 2004

Cash Provided (Used) by:	
Operating Activities	$ (50,361,526)
Noncapital Financing Activities	58,473,186
Capital and Related Financing Activities	(12,864,296)
Investing Activities	(1,670,927)
Net Increase (Decrease) in Cash	$ (6,423,563)
Cash – Beginning of the Year	$ 17,188,946
Cash – End of the Year	$ 10,765,383

Capital Assets and Debt Administration

In November of 2003, the University executed a $2,000,000 tax-exempt note through its existing $6,000,000 credit agreement with the Bank of America, N.A. to provide financing for the equipping and furnishing of the new student union. The note matures on July 1, 2007 with payment of the principal due in full on that date. Under the terms of the note, interest is variable and payable quarterly until maturity. The University began making quarterly payments of principal and interest in January of 2004.

In March of 2004, the University issued $45,555,000 in tax-exempt bonds and used $34,000,000 of the proceeds to finance new residential construction on campus, $5,200,000 to acquire land and buildings adjacent to the campus, $2,355,000 to retire outstanding academic bonds, $2,000,000 to finance a chilled water infrastructure and cooling system, and $2,000,000 to finance the renovation of existing educational and general facilities. The Series 2004 will mature in thirty years and have an average coupon rate of 4.73% on the Housing System Bonds and 4.27% on the Student Fee Revenue Refunding and Construction Bonds.



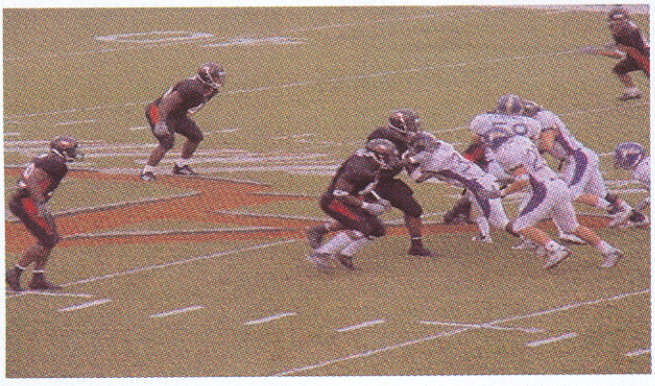
New Student Union Courtyard

Economic Outlook

The University increased its Net Assets during the fiscal year ended June 30, 2004 by $4,548,038 or 3.52% compared with an increase during the fiscal year ended June 30, 2003 of $551,803 or .43%. This increase is almost entirely attributable to construction and related capital financing activities. Capital related revenues in the form of Capital Appropriations, Grants, and Gifts and the Recognition of Capitalized Interest amounted to $4,519,105. Without these revenue sources, the increase in the University's Net Assets during the fiscal year ended June 30, 2004 would have amounted to $28,933 or .03%. If construction and related financing activities are not considered, the University fully expended the financial resources provided to it during the fiscal year ended June 30, 2004 through its operations and other activities.

While economic conditions at the state and national level continue to improve the likelihood that significant new resources will be appropriated to the University by the state legislature is remote. Additionally, the ability of the University to raise significant new amounts of revenue through tuition and fee assessment is increasingly constrained by regional and state demographics and competition between Arkansas's institutions of higher education. The current full utilization of the University's existing financial resources coupled with the likelihood of no significant new revenues will require the University to consider budget reductions, resource reallocation, and cost containment measures as necessary means of providing resources for new initiatives, maintaining its financial position and continuing its mission.

ASU Athletes



ARKANSAS STATE UNIVERSITY - JONESBORO
STATEMENT OF NET ASSETS
JUNE 30, 2004
(With Comparative Figures as of June 30, 2003)

ASSETS	2004	2003
CURRENT ASSETS		
CASH AND CASH EQUIVALENTS	$ 10,765,383	$ 17,188,946
SHORT-TERM INVESTMENTS	2,285,210	3,049,437
ENDOWMENT INVESTMENTS	987,090	0
ACCOUNTS RECEIVABLE, (LESS ALLOWANCE, $307,384-2004; $295,282-2003)	7,539,327	9,153,649
LOANS RECEIVABLE, (LESS ALLOWANCE, $110,187-2004; $92,474-2003)	1,217,855	1,058,373
LOAN INTEREST RECEIVABLE	304,016	278,041
INVENTORIES	907,779	1,056,972
DEPOSITS WITH TRUSTEES	43,445,044	23,083,072
PREPAID EXPENSES	50,537	143,003
TOTAL CURRENT ASSETS	**$ 67,502,241**	**$ 55,011,493**
NONCURRENT ASSETS		
INTERMEDIATE AND LONG-TERM INVESTMENTS	14,945,329	11,914,679
ENDOWMENT INVESTMENTS	8,096,301	8,214,943
LOANS RECEIVABLE, (LESS ALLOWANCE, $556,878-2004; $509,583-2003)	6,079,305	5,753,322
DEPOSITS RECEIVABLE	133,000	8,000
CAPITAL ASSETS, (NET OF ACCUMULATED DEPRECIATION, $123,340,225-2004; $118,166,981-2003)	148,811,004	117,710,870
TOTAL NONCURRENT ASSETS	**$ 178,064,939**	**$ 143,601,814**
TOTAL ASSETS	**$ 245,567,180**	**$ 198,613,307**
LIABILITIES		
CURRENT LIABILITIES		
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	$ 5,999,193	$ 6,066,489
BONDS, NOTES, AND LEASES PAYABLE, CURRENT PORTION	3,728,563	2,745,725
COMPENSATED ABSENCES, CURRENT PORTION	2,261,866	2,042,538
DEFERRED REVENUE	381,678	550,255
DEPOSITS ON HAND	94,200	102,486
FUNDS HELD IN TRUST FOR OTHERS	1,394,101	1,347,564
OTHER LIABILITIES	16,600	62,598
TOTAL CURRENT LIABILITIES	**$ 13,876,201**	**$ 12,917,655**
NONCURRENT LIABILITIES		
DEPOSITS ON HAND	$ 122,718	$ 148,926
BONDS, NOTES, AND LEASES PAYABLE	90,181,602	48,694,834
COMPENSATED ABSENCES	380,483	519,100
REFUNDABLE FEDERAL ADVANCES	7,189,744	7,064,398
TOTAL NONCURRENT LIABILITIES	**$ 97,874,547**	**$ 56,427,258**
TOTAL LIABILITIES	**$ 111,750,748**	**$ 69,344,913**
NET ASSETS		
INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT	$ 54,900,839	$ 92,213,301
RESTRICTED FOR:		
NONEXPENDABLE		
SCHOLARSHIPS AND FELLOWSHIPS	5,947,400	7,459,043
LOANS	843,136	792,215
OTHER	2,672,015	0
EXPENDABLE		
SCHOLARSHIPS AND FELLOWSHIPS	424,001	460,062
RESEARCH	341,957	151,505
LOANS	25,000	34,139
CAPITAL PROJECTS	39,392,281	8,912,947
RENEWAL AND REPLACEMENT	50,594	154,839
DEBT SERVICE	3,272,402	1,670,687
OTHER	2,177,701	2,453,068
UNRESTRICTED	23,769,106	14,966,588
TOTAL NET ASSETS	**$ 133,816,432**	**$ 129,268,394**

The accompanying notes are an integral part of these statements.

ARKANSAS STATE UNIVERSITY FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2004

ASSETS		
CASH	$	568,626
REPURCHASE AGREEMENT		4,800,000
UNCONDITIONAL PROMISES TO GIVE, NET		991,622
LEASE PURCHASE RECEIVABLE		501,996
ACCOUNTS RECEIVABLE, NET		23,572
PREPAID EXPENSES		5,798
SHORT-TERM INVESTMENTS		253,951
LONG-TERM INVESTMENTS		21,727,440
PROPERTY AND EQUIPMENT, NET		123,088
COLLECTIONS		1,055,474
OTHER ASSETS		13,832
TOTAL ASSETS	**$**	**30,065,399**
LIABILITIES		
ACCOUNTS PAYABLE	$	132,406
NOTES PAYABLE		35,518
ANNUITIES PAYABLE		97,027
TOTAL LIABILITIES	**$**	**264,951**
NET ASSETS		
UNRESTRICTED	$	396,605
TEMPORARILY RESTRICTED		6,377,281
PERMANENTLY RESTRICTED		23,026,562
TOTAL NET ASSETS	**$**	**29,800,448**
TOTAL LIABILITIES AND NET ASSETS	**$**	**30,065,399**

ARKANSAS STATE UNIVERSITY

ARKANSAS STATE UNIVERSITY - JONESBORO
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004
(With Comparative Figures for the year ended June 30, 2003)

	2004	2003
REVENUES		
OPERATING REVENUES		
TUITION AND FEES (NET OF SCHOLARSHIP ALLOWANCES, $17,822,615-2004; $17,250,736-2003)	$ 21,342,562	$ 19,917,034
GRANTS AND CONTRACTS	24,865,764	24,839,677
SALES AND SERVICES	345,560	258,931
SELF INSURANCE	9,609,754	8,454,750
AUXILIARY ENTERPRISES (NET OF SCHOLARSHIP ALLOWANCES, $3,002,046-2004; $2,769,341-2003)	14,444,349	13,791,138
ARKANSAS SERVICES CENTER	1,135,427	1,175,214
OTHER OPERATING REVENUES	1,515,967	1,027,117
TOTAL OPERATING REVENUES	**$ 73,259,383**	**$ 69,463,861**
EXPENSES		
OPERATING EXPENSES		
PERSONAL SERVICES	$ 80,362,745	$ 75,090,861
SCHOLARSHIPS AND FELLOWSHIPS	4,803,218	5,014,730
SUPPLIES AND OTHER SERVICES	31,497,301	28,831,165
DEPRECIATION	6,930,514	6,613,932
SELF INSURANCE	7,947,364	7,672,198
OTHER OPERATING EXPENSES	102,637	112,569
TOTAL OPERATING EXPENSES	**$ 131,643,779**	**$ 123,335,455**
OPERATING INCOME (LOSS)	**$ (58,384,396)**	**$ (53,871,594)**
NONOPERATING REVENUES (EXPENSES)		
STATE APPROPRIATIONS	$ 56,316,272	$ 53,502,106
GIFTS	1,906,481	439,822
TRANSFER OF ATHLETIC ENDOWMENTS TO ASU INDIAN CLUB	0	(836,619)
INVESTMENT INCOME	1,840,965	2,135,565
INTEREST ON CAPITAL-ASSET RELATED DEBT	(2,638,099)	(3,230,786)
ACCRUED INTEREST ON BOND ISSUES	130,579	0
PREMIUM/DISCOUNT ON BOND ISSUES	818,756	0
OTHER NONOPERATING REVENUES (EXPENSES)	(189,999)	(86,470)
NET NONOPERATING REVENUES (EXPENSES)	**$ 58,184,955**	**$ 51,923,618**
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	**$ (199,441)**	**$ (1,947,976)**
DELETION OF CAPITAL ASSETS	(225,002)	(319,629)
CAPITALIZATION OF INTEREST	2,093,938	0
GAIN/(LOSS) FROM SALE OF CAPITAL ASSETS	25,385	45,932
CAPITAL APPROPRIATIONS	2,061,906	2,198,950
CAPITAL GRANTS AND GIFTS	363,261	303,361
CAPITALIZATION OF LIBRARY HOLDINGS AT RATE PER VOLUME	103,950	242,795
ADJUSTMENTS TO PRIOR YEAR REVENUES AND EXPENSES	506,487	91,755
REFUNDS TO GRANTORS	(182,446)	(63,385)
TOTAL OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	**$ 4,747,479**	**$ 2,499,779**
INCREASE (DECREASE) IN NET ASSETS	**$ 4,548,038**	**$ 551,803**
NET ASSETS		
NET ASSETS-BEGINNING OF YEAR (AS ORIGINALLY REPORTED)	$ 129,268,394	$ 135,954,204
CUMULATIVE EFFECTS OF CHANGE IN ACCOUNTING PRINCIPLE RECLASSIFICATION OF LOAN FUND BALANCE TO NONCURRENT LIABILITY	0	(7,237,613)
NET ASSETS-BEGINNING OF YEAR (RESTATED)	**$ 129,268,394**	**$ 128,716,591**
NET ASSETS-END OF YEAR	**$ 133,816,432**	**$ 129,268,394**

The accompanying notes are an integral part of these statements.

ARKANSAS STATE UNIVERSITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
SUPPORT				
SUPPORT AND RECLASSIFICATIONS				
CONTRIBUTIONS	$ 36,505	$ 1,768,798	$ 1,260,184	$ 3,065,487
USE OF CONTRIBUTED FACILITIES	3,400	0	0	3,400
CONTRIBUTED SERVICES	140,995	0	0	140,995
CONTRIBUTED SUPPLIES	5,315	0	0	5,315
INVESTMENT RETURN	335,342	82,091	2,975,403	3,392,836
OTHER INCOME	118,885	224,215	51	343,151
NET ASSETS RELEASED FROM RESTRICTIONS	2,773,517	(2,394,974)	(378,543)	0
TOTAL SUPPORT	**$ 3,413,959**	**$ (319,870)**	**$ 3,857,095**	**$ 6,951,184**
EXPENSES AND LOSSES				
PROGRAM SERVICES:				
ACADEMIC ACTIVITIES	$ 811,502	$ 0	$ 0	$ 811,502
ADMINISTRATIVE	297,141	0	0	297,141
STUDENT ACTIVITIES	17,841	0	0	17,841
SUPPORTING SERVICES:				
MANAGEMENT AND GENERAL	209,329	0	0	209,329
TRANSFERS TO ARKANSAS STATE UNIVERSITY	2,000,466	0	0	2,000,466
TOTAL EXPENSES	**$ 3,336,279**	**$ 0**	**$ 0**	**$ 3,336,279**
INCREASE (DECREASE) IN NET ASSETS	**$ 77,680**	**$ (319,870)**	**$ 3,857,095**	**$ 3,614,905**
NET ASSETS AT BEGINNING OF YEAR AS PREVIOUSLY REPORTED	315,851	6,699,251	19,289,212	26,304,314
PRIOR PERIOD ADJUSTMENTS	3,074	(2,100)	(119,745)	(118,771)
BALANCE AT BEGINNING OF YEAR, AS RESTATED	**318,925**	**6,697,151**	**19,169,467**	**26,185,543**
NET ASSETS AT END OF YEAR	**$ 396,605**	**$ 6,377,281**	**$ 23,026,562**	**$ 29,800,448**

ARKANSAS STATE UNIVERSITY - JONESBORO
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004
(With Comparative Figures for the year ended June 30, 2003)

CASH FLOWS FROM OPERATING ACTIVITIES	2004	2003
TUITION AND FEES (NET OF SCHOLARSHIP ALLOWANCE, $17,822,615-2004; $17,250,736-2003)	$ 21,320,742	$ 19,099,097
GRANTS AND CONTRACTS	27,722,376	32,170,769
SALES AND SERVICES	345,560	258,931
PAYMENTS TO SUPPLIERS	(29,625,979)	(28,726,694)
PAYMENTS TO EMPLOYEES	(62,587,605)	(59,131,484)
PAYMENTS FOR BENEFITS	(18,487,941)	(15,525,962)
SCHOLARSHIPS AND FELLOWSHIPS	(4,803,218)	(5,014,729)
TRAVEL LOANS ISSUED TO EMPLOYEES	(342,428)	(549,992)
COLLECTION OF TRAVEL LOANS	341,766	570,891
LOANS ISSUED TO STUDENTS	(1,790,401)	(1,790,151)
COLLECTION OF STUDENT LOANS	1,362,593	1,181,553
AUXILIARY REVENUES (NET OF SCHOLARSHIP ALLOWANCE, $3,002,046-2004; $2,769,341-2003)	15,041,660	13,540,351
ARKANSAS SERVICES CENTER	1,041,374	1,234,732
SELF INSURANCE PROGRAM	9,343,244	8,454,071
SELF INSURANCE PROGRAM	(7,947,364)	(7,672,198)
PAYMENTS TO CAMPUSES FOR FINANCIAL AID DISTRIBUTION	(2,986,696)	(4,843,629)
OTHER RECEIPTS (PAYMENTS)	1,690,791	590,420
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	**$ (50,361,526)**	**$ (46,154,024)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
STATE APPROPRIATIONS	$ 56,910,202	$ 52,228,290
PRIVATE GIFTS FOR ENDOWMENT PURPOSES	1,765,951	567,893
AGENCY TRANSACTIONS (NET)	(20,521)	437,269
REFUNDS TO GRANTORS	(182,446)	(63,385)
NET CASH FLOWS PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	**$ 58,473,186**	**$ 53,170,067**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
PROCEEDS FROM CAPITAL DEBT	$ 1,999,000	$ 565,000
CAPITAL APPROPRIATIONS	2,228,058	2,032,799
CAPITAL GRANTS AND GIFTS	362,761	104,220
PROCEEDS FROM SALE OF CAPITAL ASSETS	27,400	47,500
PURCHASES OF CAPITAL ASSETS	(35,545,787)	(31,439,728)
PRINCIPAL PAID ON CAPITAL DEBT AND LEASES	(3,093,264)	(2,701,598)
INTEREST PAID ON CAPITAL DEBT AND LEASES	(2,380,194)	(2,457,381)
DEPOSITS WITH TRUSTEE	23,537,730	21,728,724
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	**$ (12,864,296)**	**$ (12,120,464)**
CASH FLOWS FROM INVESTING ACTIVITIES		
PROCEEDS FROM THE SALE AND MATURITY OF INVESTMENTS	$ 10,636,696	$ 10,604,305
INTEREST ON INVESTMENTS	777,721	738,842
PURCHASE OF INVESTMENTS	(13,085,344)	(13,613,753)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	**$ (1,670,927)**	**$ (2,270,606)**
NET INCREASE (DECREASE) IN CASH	**$ (6,423,563)**	**$ (7,375,027)**
CASH AND CASH EQUIVALENTS, JULY 1	**$ 17,188,946**	**$ 24,563,973**
CASH AND CASH EQUIVALENTS, JUNE 30	**$ 10,765,383**	**$ 17,188,946**

The accompanying notes are an integral part of these statements.

ARKANSAS STATE UNIVERSITY - JONESBORO
STATEMENT OF CASH FLOWS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2004
(With Comparative Figures for the year ended June 30, 2003)

RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
OPERATING INCOME (LOSS)	**$ (58,384,396)**	**$ (53,871,594)**
ADJUSTMENTS TO RECONCILE NET INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
DEPRECIATION EXPENSE	6,930,514	6,613,932
CHANGE IN ASSETS AND LIABILITIES		
(INCREASE)/DECREASE IN RECEIVABLES, NET	228,526	565,006
(INCREASE)/DECREASE IN INVENTORIES	149,192	(64,441)
(INCREASE)/DECREASE IN DEPOSITS WITH TRUSTEES	756,954	172,479
(INCREASE)/DECREASE IN PREPAID EXPENSES	92,466	(46,032)
INCREASE/(DECREASE) IN ACCOUNTS PAYABLE	(91,773)	489,636
INCREASE/(DECREASE) IN DEFERRED REVENUE	(168,576)	128,939
INCREASE/(DECREASE) IN COMPENSATED ABSENCES	80,711	55,491
INCREASE/(DECREASE) IN DEPOSITS ON HAND	(34,492)	(9,255)
INCREASE/(DECREASE) IN REFUNDABLE FEDERAL ADVANCES	125,346	(177,614)
INCREASE/(DECREASE) IN OTHER LIABILITIES	(45,998)	(10,571)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	**$ (50,361,526)**	**$ (46,154,024)**

ARKANSAS STATE UNIVERSITY

The accompanying notes are an integral part of these statements.

NOTE 1--Summary of Significant Accounting Policies

Financial Statement Presentation

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments.* This was followed in November 1999 by GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities.* The State of Arkansas was required to implement Statement No. 34 as of and for the year ended June 30, 2002. As a component unit of the State, Arkansas State University was required to adopt Statements No. 34 and 35 concurrently. The financial statement presentation required by GASB Statements No. 34 and 35 provides a comprehensive, entity-wide perspective of the University's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows. Additionally, the presentation provides data from the previous fiscal year for comparative purposes.

Measurement Focus and 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 statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, expenses are recorded when an obligation has been incurred, and depreciation is recognized for capital assets, where applicable.

The University may choose whether to apply pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989 unless those pronouncements conflict with pronouncements of the Governmental Accounting Standard Board. The University has elected to not apply pronouncements of the FASB issued after November 30, 1989.

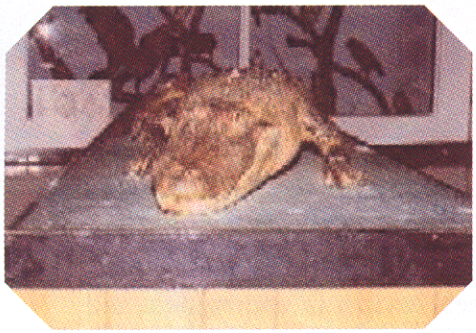
New Family Housing Apartments

Assets and Liabilities

- Cash Equivalents: The University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents for financial statement purposes.

- Investments: The University accounts for its investments 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.

- Accounts Receivable: Accounts Receivable are assets that the University is legally entitled to but for which payment has not been received as of the close of the fiscal year at June 30th. 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.



ASU Museum Exhibits

- 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 or other noncurrent assets.

- Capital Assets: Capital assets 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 estimated fair value. 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 useful life of the asset. Capital assets are presented net of accumulated depreciation where applicable.

- Compensated Absences: Employee vacation pay earned but not paid is 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.

- 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 semester or season football tickets for the upcoming fall season received prior to June 30th are treated as deferred revenues. They are considered liabilities of the University until earned.

- 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 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 donor's 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.

ASU Marching Indians

Classification of Revenues

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

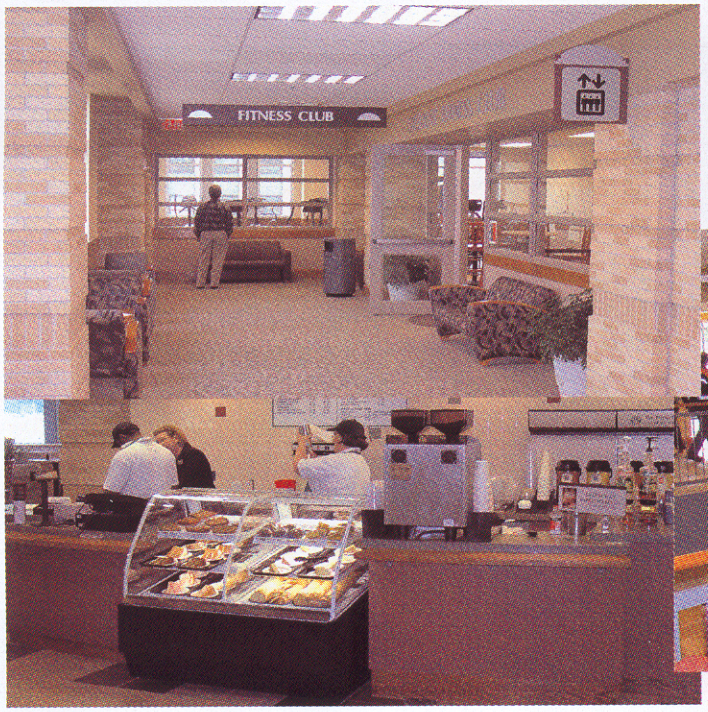
- Operating Revenues: Operating revenues result from activities that have characteristics of exchange transactions; that is, the University receives payment in exchange for providing services or products to students or other constituencies. Student tuition and fees, net of scholarship discounts and allowances, 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 Governmental Accounting Standards Board. 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.

Operating and nonoperating expenses are matched with operating and nonoperating revenues in accordance with generally accepted accounting principles.

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 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.



Inside the New Student Union

NOTE 2--Investments

Investments, except for nonparticipating contracts, are reported at fair value. Fair value for reporting purposes is market value if a market price or quote is readily available. Investments that so not have readily available market prices or quotes are reported at estimated fair value. The University's investments at year end are shown below by category to give an indication of the level of risk assumed. Category 1 includes investments that are insured or registered or for which the securities are held by Arkansas State University or its agent in the University's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the University's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the University's name.

Type of Investment	Category 1	Category 2	Category 3	Carrying Amount	Market Value
Certificates of Deposit	$ 2,715,073	$ 0	$ 0	$ 2,715,073	$ 2,715,073
U. S. Government Obligations	2,500,000	0	7,457,474	9,957,474	9,957,474
Common Stock	0	0	67,500	67,500	67,500
Bonds	0	0	4,954,199	4,954,199	4,954,199
Mutual Funds	0	0	3,289,361	3,289,361	3,289,361
Common Fund - Intermediate	0	0	3,782,409	3,782,409	3,782,409
Energy Partners - LLP	0	0	12,193	12,193	12,193
Real Estate	0	0	451,579	451,579	451,579
Other	0	0	1,084,142	1,084,142	1,084,142
TOTAL	$ 5,215,073	$ 0	$ 21,098,857	$ 26,313,930	$ 26,313,930

The above investments include $5,650,850 of University endowment funds pooled with funds maintained by the Arkansas State University Foundation, Inc. The cash equivalent portion of this amount is shown as endowment investments on the financial statements rather than cash and cash equivalents.

Summer Children's Theatre

NOTE 3--Inventories

Inventories are stated at the lower of cost or market using the first-in first-out or average cost basis. Inventories at June 30, 2004 consisted of:

Physical Plant	$	782,961
Central Stores		9,613
Museum		33,570
Continuing Education Textbooks		1,647
Convocation Center		10,147
Housing		462
Print Shop		25,469
Pharmacy		9,032
Farm		26,088
ASU Technical Center Bookstore		8,790
Total	$	907,779

ASU Family Day

NOTE 4--Accounts and Loans Receivable

A summary of accounts and loans receivable at June 30, 2004 is as follows:

Accounts Receivable		
Student Accounts Receivable	$	2,977,850
Allowance for Doubt		(307,384)
State Treasury Accounts Receivable		2,550,693
Auxiliary Enterprises Receivable		274,609
Grants and Contracts Receivable		1,543,578
Other		499,981
Total	$	7,539,327
Loans Receivable		
Student Loans	$	7,949,251
Allowance for Doubt		(667,065)
Travel Advances		14,974
Total	$	7,297,160

NOTE 5--Accounts Payable and Accrued Liabilities

A summary of accounts payable at June 30, 2004, is as follows:

To Vendors	$ 4,526,802
Sales Tax Payable	33,227
Withholdings Payable	709,396
Accrued Interest Payable	729,768
Total	$ 5,999,193

NOTE 6--Capital Assets

Capital assets for the year ended June 30, 2004 is summarized as follows:

	Balance July 1, 2003	Additions	Retirements	Balance June 30, 2004
Land	$ 2,720,552	$ 3,423,097	$ 0	$ 6,143,649
Construction In Progress	31,010,759	28,808,225	7,275,812	52,543,172
Library Holdings	10,324,020	103,950	0	10,427,970
Audio Visual	740,720	0	2	740,718
Buildings	153,566,035	8,650,344	323,829	161,892,550
Equipment	25,616,551	2,191,518	1,319,939	26,488,130
Livestock	33,510	4,945	500	37,955
Improvements	11,865,704	2,360,676	349,296	13,877,084
TOTAL	$ 235,877,851	$ 45,542,755	$ 9,269,378	$ 272,151,228

Less Accumulated Depreciation:

	Balance July 1, 2003	Additions	Retirements	Balance June 30, 2004
Library Holdings	$ 8,975,443	$ 316,218	$ 0	$ 9,291,661
Audio Visual	632,850	52,068	2	684,916
Buildings	89,352,179	3,267,469	224,279	92,395,369
Equipment	14,623,080	2,556,934	1,183,694	15,996,320
Improvements	4,583,429	737,825	349,296	4,971,958
TOTAL	$ 118,166,981	$ 6,930,514	$ 1,757,271	$ 123,340,224

NET ASSETS $ 148,811,004

The following estimated useful lives are used to compute depreciation:

Buildings	15-30 years
Library Holdings	10 years
Equipment	3-20 years
Improvements and Infrastructure	15 years

NOTE 7--Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2004 was as follows:

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Current Portion
Notes Payable	$ 1,007,989	$ 2,000,000	$ 838,921	$ 2,169,068	$ 1,168,755
Bonds Payable	49,950,000	45,555,000	4,255,000	91,250,000	2,410,000
Leases Payable	482,569	182,871	174,343	491,097	149,808
Compensated Absences	2,561,638	2,573,965	2,493,254	2,642,349	2,261,866
TOTAL	$ 54,002,196	$ 50,311,836	$ 7,761,518	$ 96,552,514	$ 5,990,429

Additional information regarding Bonds, Notes and Leases Payable is included in Note 9.

Equine Center

NOTE 8--Commitments

The University was contractually obligated for the following construction contracts at June 30, 2004:

Project	Estimated Completion Date	Contract Balance
Student Union	December 2005	$ 6,838,694
College of Business	To be determined	99,727
Biosciences Institute	September 2004	1,944,079
Caraway Road Project	To be determined	407,991
Family Housing Phase I	December 2004	725,815
Family Housing Phase II	August 2005	6,089,209
Liberal Arts Building	To be determined	172,951
Lakeport	June 2006	170,739
New Residence Hall	To be determined	611,162
Kays Field Parking Lot	September 2004	101,089
Tenant Farmers Museum	August 2004	87,241
Hard Wired Cafe	October 2004	59,149
Lab Science/Kays/Nursing	August 2004	44,809

The University has entered into a number of various operating leases. The scheduled payments are shown below.

	2005	2006	2007	2008	Total
Real Estate	$ 334,191	$ 170,324	$ 52,162	$ 22,134	$ 578,811
Heavy Equipment	85,622	25,622	7,182	4,083	122,509
Printer Equipment	5,882	4,655	3,879	0	14,416
Copiers	120,818	101,024	84,247	247	306,336
TOTAL	$ 546,513	$ 301,625	$ 147,470	$ 26,464	$ 1,022,072

NOTE 9--Bonds, Notes and Leases Payable

Bonds, notes and leases payable at June 30, 2004 amounted to $93,910,165. Of this amount, $655,000 applies to the Arkansas Services Center, an organization whose relationship with the University is explained in Note 11. The required reserves for each of the outstanding bond issues are on deposit with trustees and are reflected as Deposits with Trustees on the Statement of Net Assets.

As of July 1, 2001 the University entered into a five year agreement to lease printing press equipment from the Arkansas State University Foundation, Inc.. The University agreed to make monthly payments in the amount of $11,743.66 to the Foundation. On August 11, 2003, the University entered into a five year agreement to refinance the existing printing press lease with the Arkansas State University Foundation and also lease additional printing press equipment. The University agreed to make monthly payments in the amount of $10,039.24 to the Foundation. At the end of the lease agreement, the University may purchase the equipment from the Foundation for $1.

The scheduled principal and interest payments due on Bonds, Notes and Capital Leases are as follows:

BONDS

	Principal	Interest	Total
2005	$ 2,410,000	$ 4,127,551	$ 6,537,551
2006	2,655,000	4,036,151	6,691,151
2007	2,790,000	3,948,925	6,738,925
2008	2,880,000	3,861,430	6,741,430
2009	2,975,000	3,761,925	6,736,925
2010-2014	15,910,000	15,598,229	31,508,229
2015-2019	16,400,000	13,771,609	30,171,609
2020-2024	19,645,000	9,327,971	28,972,971
2025-2029	12,560,000	5,031,237	17,591,237
2030-2034	13,025,000	1,906,835	14,931,835
TOTAL	$ 91,250,000	$ 65,371,863	$ 156,621,863

NOTES

	Principal	Interest	Total
2005	$ 1,168,755	$ 31,062	$ 1,199,817
2006	666,980	14,452	681,432
2007	333,333	2,409	335,742
TOTAL	$ 2,169,068	$ 47,923	$ 2,216,991

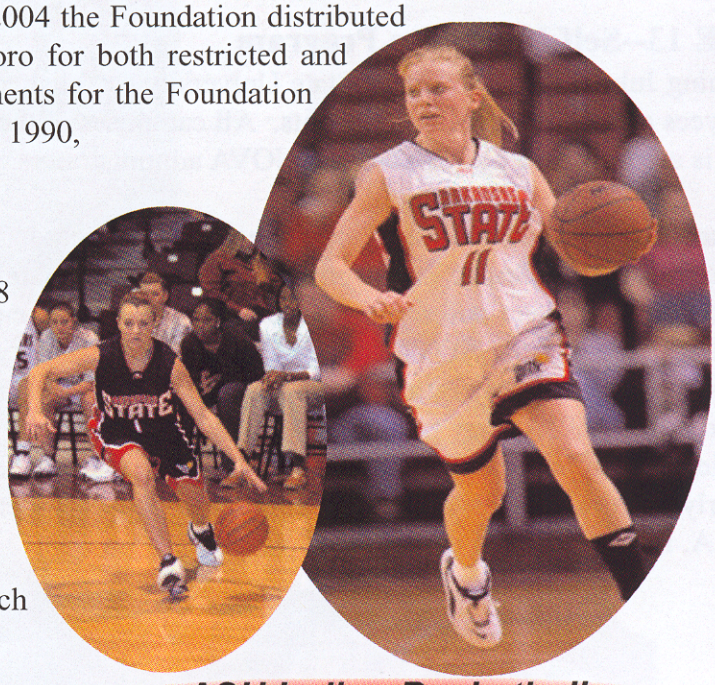
CAPITAL LEASES

	Principal	Interest	Total
2005	149,808	30,946	$ 180,754
2006	99,733	20,737	120,470
2007	106,944	13,527	120,471
2008	114,675	5,796	120,471
2009	19,937	176	20,113
TOTAL	$ 491,097	$ 71,182	$ 562,279

NOTE 10--Component Unit

The Arkansas State University Foundation (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 thirty-three-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 Statement Number Thirty Nine, 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 #39.

While the activities and resources of the Foundation benefit all of the campuses of Arkansas State University the University has elected to discretely present the financial statements of the Foundation within the financial statements of Arkansas State University - Jonesboro for the fiscal year ended June 30, 2004. During the year ended June 30, 2004 the Foundation distributed $851,088 to Arkansas State University - Jonesboro for both restricted and unrestricted purposes. Complete financial statements for the Foundation may be obtained from the Foundation at P.O. Box 1990, State University, AR 72467-1990.



ASU Indian Basketball

NOTE 11--Arkansas Services Center

The Arkansas Services Center was created in 1968 through an agreement between Arkansas State University, Arkansas State Hospital, Arkansas Department of Public Welfare, Arkansas State Board of Vocational Education, Craighead County and Jonesboro, Arkansas to raise money for the construction of the Arkansas Services Center. Arkansas State University participated in the agreement through the issuance of bonds, which are to be retired from income generated by the Arkansas Services Center.
Arkansas State University maintains the financial records for the Arkansas Services Center. Operating revenues are derived solely from agency rentals and vending income.

NOTE 12--Retirement Plans

Arkansas State University employees participate in several retirement plans. Certain employees may participate in "Teachers Insurance and Annuity Association" and "College Retirement Equities Fund" (TIAA/CREF). Under TIAA/CREF, employees select the percentage of salary to contribute and the University contributes ten percent. Total University contributions to TIAA/CREF for the fiscal year amounted to $4,332,557.

VALIC (Variable Annuity Life Insurance Company) is another retirement plan available to certain employees. Under VALIC, employees select the percentage of salary to contribute and the University contributes ten percent. Total University contributions to VALIC for the fiscal year amounted to $319,537.

Arkansas Teacher Retirement System is also available to certain employees. No contribution is required of the employee, but the University contributes thirteen percent of the participating employee's salary. Total University contributions to the Arkansas Teacher Retirement System for the fiscal year amounted to $269,088.

Arkansas Public Employees Retirement System is another program available to certain employees of the University. Under this program, no contribution is required of the employee, but the University contributes ten percent of the participating employee's salary. Total University contributions to the Arkansas Public Employees Retirement System for the fiscal year amounted to $583,968.

Total salaries for the University for fiscal year 2004 amounted to $62,084,017. Of this amount, $54,429,710 was paid to participants in retirement plans. Total contributions to retirement plans for the fiscal year amounted to $5,505,151.

NOTE 13--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: USAble Classic I, USAble Point of Service and NOVA Classic I. At June 30, 2004, approximately 3,584 active employees, their dependents, former employees and retirees were participating in the program. For those participating in the USAble Classic and the NOVA Classic I 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. For those participating in the USAble Point of Service plan, the University pays 80% 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.

ASU Students

The University estimates its unpaid health claims liability beyond the experience period to be $773,929 with USAble. This is equal to approximately 16.11% of the previous twelve months claims paid.

The University purchases specific and aggregate reinsurance to reduce its exposure to large claims. Reliance National Co. of Philadelphia, Pennsylvania was chosen as the reinsurance carrier. Under the specific arrangement, the reinsurance carrier pays for claims for covered employees which exceed $125,000.

NOTE 14--Early Retirement Incentive Program

The University pays health and life insurance premiums (individual or family coverage) for all employees who retire between the ages of 60 and 65 with at least 10 years of service. These premiums are paid until the retiree is 65 years of age. The University also pays the health and life insurance premiums for one year for those employees who are determined to be eligible for disability. At June 30, 2004, the number of retirees who were eligible for these benefits totaled 97. 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, 2004, the number of retirees eligible for these benefits totaled 8. All premiums for these benefits described above were paid monthly and financed on a pay-as-you-go basis. These premiums totaled $463,494 for the year ended June 30, 2004.

Demolition of Delta Hall

NOTE 15--Natural Classifications with Functional Classifications

The University's operating expenses by functional classification for the fiscal year ended June 30, 2004 are as follows:

	Personal Services	Scholarships	Supplies	Depreciation	Other	Self Insurance	Total
Instruction	$ 35,196,881	$ 46,738	$ 3,702,302	$ 0	$ 0	$ 0	$ 38,945,921
Research	3,913,735	86,465	1,741,878	0	0	0	5,742,078
Public Service	5,567,550	120,562	3,855,368	0	0	0	9,543,480
Academic Support	8,106,211	84,381	3,732,133	0	0	0	11,922,725
Student Services	4,227,741	145,689	1,396,349	0	0	0	5,769,779
Institutional Support	12,164,688	0	4,199,523	0	0	0	16,364,211
Operation of Plant	5,123,028	0	4,834,759	0	0	0	9,957,787
Scholarships	0	2,149,217	11,498	0	0	0	2,160,715
Auxiliary Enterprises	6,062,911	2,170,166	8,023,491	0	0	0	16,256,568
Depreciation	0	0	0	6,930,514	0	0	6,930,514
Self Insurance	0	0	0	0	0	7,947,364	7,947,364
Other	0	0	0	0	102,637	0	102,637
TOTAL	$ 80,362,745	$ 4,803,218	$ 31,497,301	$ 6,930,514	$ 102,637	$ 7,947,364	$ 131,643,779

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, common stock, mutual funds, Common Fund - Intermediate, Energy Partners - LLP and real estate. The endowment assets at June 30, 2004 were $9,083,391. Of this amount, $8,674,639 was nonexpendable and the remaining $408,752 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--Early Retirement of Debt

On March 1, 2004, the University issued bonds of $45,555,000 with interest rates of 2 to 5 percent. Net bond proceeds of $2,324,565 were used to retire the outstanding principal on bonds dated April 1, 1992. These bonds were called on May 1, 2004.

NOTE 18--Subsequent Events

Four events of financial significance have occurred subsequent to June 30, 2004 of which readers of the ASU-Jonesboro financial statements should be aware.

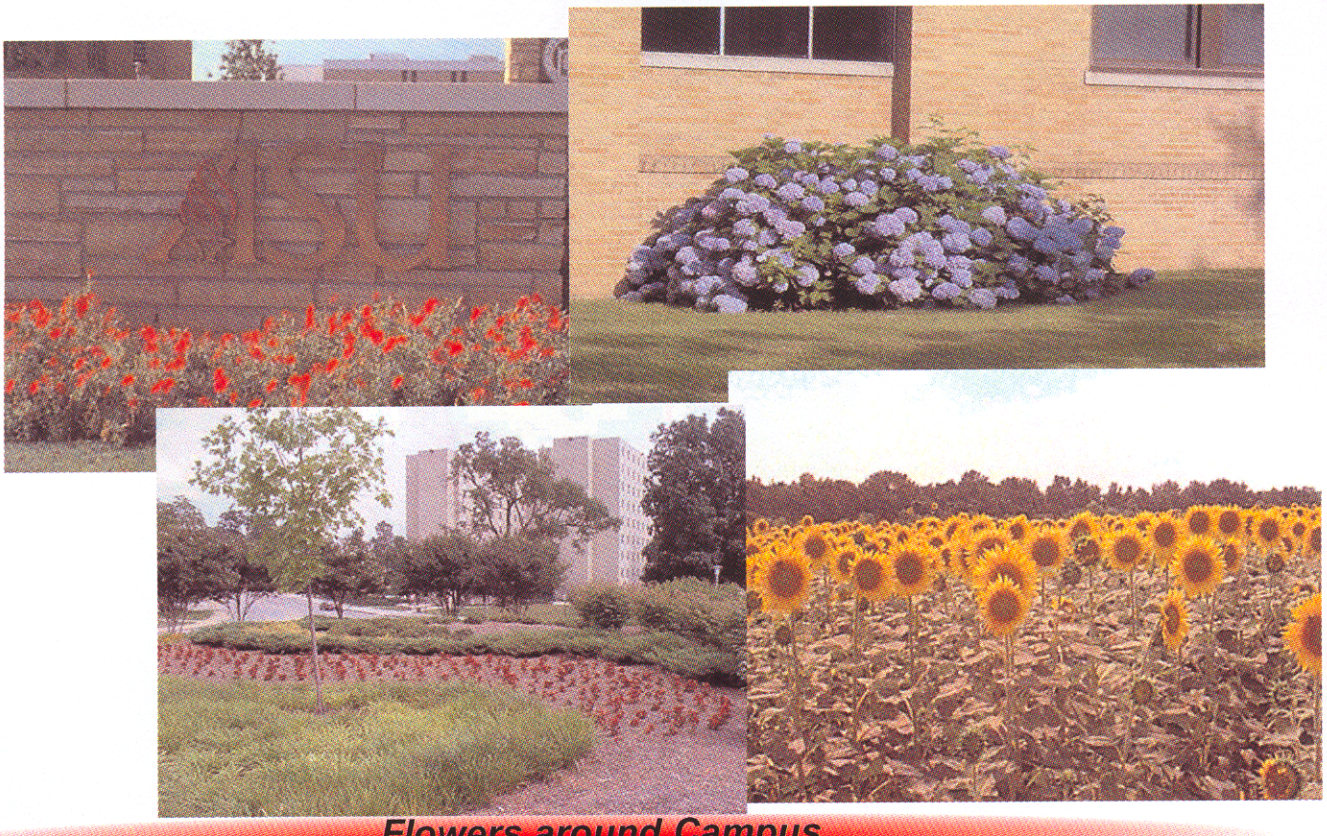
On August 28, 2004, the University executed a capital lease with Key Government Finance, Inc. for the procurement of telecommunication networking equipment. The principal amount of the lease is one million five hundred sixty five thousand seven hundred and eighty two dollars ($1,565,782). Payments of one hundred seventy three thousand two hundred and fifty seven dollars and seventy nine cents

($173,257.59) representing principal and interest are due semi-annually commencing on August 28, 2004 and concluding on February 28, 2009.

On August 30, 2004, the University executed contractual agreements with Sungard SCT, Inc. and Oracle Corporation to begin implementation of a new campus-wide enterprise computing solution. Migration to the new hardware and software platforms began in October of 2004 and is scheduled for completion in August of 2007. The current estimated cost of this project is from eight million six hundred thousand dollars ($8,600,000) to ten million dollars ($10,000,000).

On October 5, 2004, the University executed a twenty-year promissory note payable to the Arkansas State University Foundation for the principal sum of four hundred and sixty five thousand dollars ($465,000). Interest on the note accrues at a rate of six percent (6%) annually. Payments of principal and interest of three thousand three hundred thirty one dollars and seventy-three cents ($3,331.73) are due monthly with final payment to be made on or before October 1, 2024. The proceeds from the note were used to fund the University's portion of the construction costs of the new campus health center.

On October 19, 2004 and October 21, 2004, respectively, the University executed two capital leases with UniversityLease, a division of California First National Bank for the procurement of computer hardware and software to be used in support of campus parking operations. The principal amount of the first lease is forty nine thousand six hundred and fifty five dollars ($49,655). Monthly payments of one thousand five hundred and twenty one dollars and forty-two cents ($1,521.42) are required over the thirty-six month (36) term of the lease. The second lease has a principal amount of one hundred thirty eight thousand one hundred and seventy-eight dollars ($138,178) with required monthly payments over its forty-eight (48) month term of three thousand three hundred and five dollars and twenty-one cents ($3,305.21).



Flowers around Campus

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ARKANSAS STATE UNIVERSITY

BEEBE

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Financial Statement Presentation

This section of Arkansas State University-Beebe's (ASU-Beebe) annual financial report presents discussion and analysis of the University's financial performance during the fiscal year that ended June 30, 2004. The management's discussion and analysis is provided as an easy to read analysis of the institution's financial activities. Information supporting the financial position of the University is included to help give an overview of the financial activities for the year.

Entrance to Little Rock Air Force Base

The statements have been prepared using the format specified in Governmental Accounting Standards Board (GASB) Statements Number 34 and 35. GASB Statement Number 34 requires the presentation of comparative information from the previous fiscal year and a discussion of any significant changes in the University's financial position or the results of its operations. Accordingly, the University's annual financial report for the year ended June 30, 2004 includes comparative information for the fiscal year ended June 30, 2003 and a discussion of the significant changes between the two fiscal years.

Fiscal Year 2004 Financial Highlights

The following events or activities of financial significance occurred during the fiscal year ended June 30, 2004.

- The University successfully completed the merger with Foothills Technical Institute (FTI) in Searcy, Arkansas. The campus was renamed Arkansas State University-Searcy, a Technical Campus of ASU-Beebe. ASU-Searcy offers a number of technical certificate programs in technical and vocational areas and offers a wide range of non-credit instruction in workforce and industrial training. The merger became effective July 1, 2003.
- Enrollment grew by 12.7% for the year. The majority of the new growth occurred at the Heber Springs campus and because of the merger of the technical institute. The increase in tuition and fee revenues was $790,673 or 17.6%. Again, much of the growth is the result of the merger.
- Arkansas state general revenue equaled the forecast for the fiscal year which prevented budget cuts experienced in the previous two fiscal years. New allocations of funding were, however, small; forcing the University to rely on tuition increases to facilitate operating cost increases.
- The University acquired 249 acres of land in Heber Springs, Arkansas for the development of a new campus for Arkansas State University-Heber Springs program.

Statement Discussion

Statement of Net Assets

The Statement of Net Assets is designed to display the financial position of the University. The purpose of the Statement of Net Assets is to present to the readers of the financial statements a benchmark in which to analyze the financial stability of Arkansas State University-Beebe. Assets, liabilities, and net assets are presented in the statement. Assets and liabilities are presented in two categories, current and noncurrent. Net assets are presented as capital assets net of related debt, restricted assets and unre-

stricted assets. Restricted assets are further categorized as expendable or nonexpendable. Readers of the Statement of Net Assets can determine the following information from the statement:

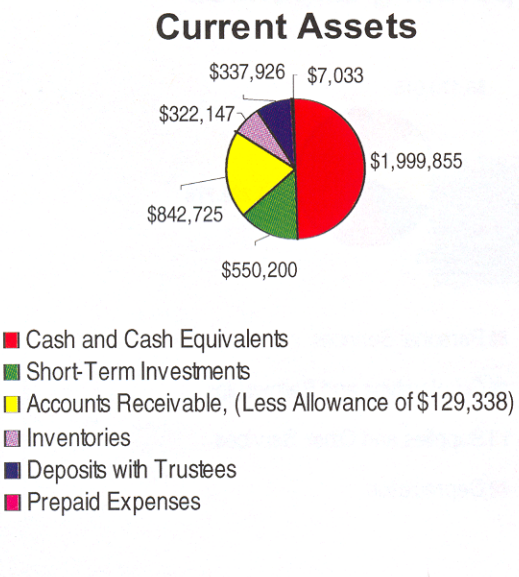
- The University has assets available to continue the operation of the University
- The amount owed vendors and lending institutions
- The statement provides both short-term and long-term information
- The University is fiscally sound and has been a good steward of the monies provided to make educational programs available to students in the state

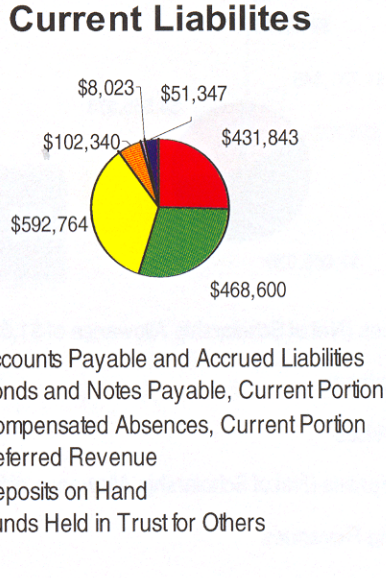
Condensed Statement of Net Assets

Assets:	2004	2003
Current Assets	$ 4,059,886	$ 5,759,161
Capital Assets, Net	19,003,370	17,224,354
Other Noncurrent Assets	3,998,471	1,111,518
Total Assets	$ 27,061,727	$ 24,095,033
Liabilities:		
Current Liabilities	$ 1,654,917	$ 869,407
Noncurrent Liabilities	4,460,402	4,815,229
Total Liabilities	$ 6,115,319	$ 5,684,636
Net Assets:		
Invested in Capital, Net of debt	$ 14,180,124	$ 12,539,353
Restricted-Expendable	3,515,273	2,802,510
Unrestricted	3,251,011	3,068,534
Total Net Assets	$ 20,946,408	$ 18,410,397
Total Liabilities and Net Assets	$ 27,061,727	$ 24,095,033

Comparison figures for the statement reflect a sizable change in current assets and noncurrent assets. Current assets decreased primarily because of investment activities in deposits. A larger portion of investments fell in the noncurrent assets category due to the length of the term. Total liabilities are relatively unchanged except for a reduction of bonded indebtedness. Also, there is a shift of noncurrent compensated absences to current due to a change in the allocation formula. Overall, total assets of the institution increased by $2,966,694 total liabilities increased by $430,683, and net assets increased by $2,536,011. The majority of the net asset growth is related to the merger with FTI.

Front Entrance to ASU-Searcy





Statement of Revenues, Expenses, and Changes in Net Assets

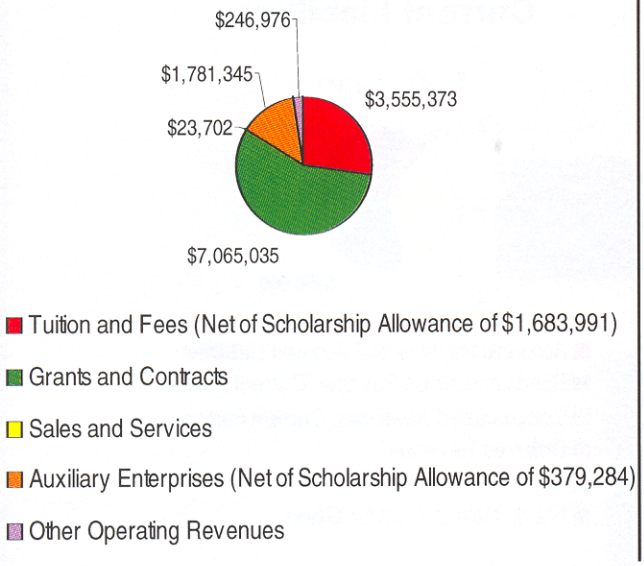
The purpose of this statement is to present the revenues received by the institution, both operating and nonoperating, and the expenses paid by the institution, operating and nonoperating, and any other revenues, expenses, gains and losses received or spent by the institution.

Operating revenues are received for providing services to the institution's customers. Operating expenses are the costs incurred to provide educational programs to the customers. Nonoperating revenues are received nonexchange transactions where the University did not provide a service or product in exchange. State appropriations are an example of nonoperating revenue because they are provided by the legislature without the legislature directly receiving commensurate goods and services for those revenues.

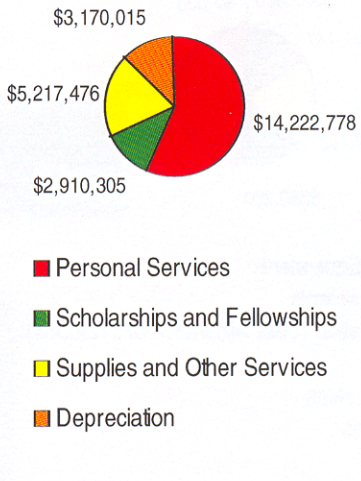
Condensed Statement of Revenues, Expenses and Changes in Net Assets

	2004	2003
Operating Revenues	$ 12,672,431	$ 9,762,525
Operating Expenses	25,520,574	17,653,046
Operating Income (Loss)	(12,848,143)	$ (7,890,521)
Nonoperating Revenues (Expenses)	$ 12,374,922	$ 8,275,677
Income (Loss) before Other Revenues, Expenses, Gains or Losses	$ (473,221)	$ 385,156
Other Revenues, Expenses, Gains or Losses	$ 3,009,232	$ 1,535,959
Increase (Decrease) in Net Assets	$ 2,536,011	$ 1,921,115
Net Assets,Beginning of Year	$ 18,410,397	$ 16,489,282
Net Assets, End of Year	$ 20,946,408	$ 18,410,397

Operating Revenues



Operating Expenses



Highlights of the Statement of Revenues, Expenses and Changes in Net Assets are:

- Depreciation was shown as an operating expense in the amount of $3,170,015.
- Operating revenues include tuition and fees of $3,555,373 net of scholarship allowances in the amount of $1,683,991.
- The University acquired new debt in the form of a note in the amount of $500,000. There were no major changes in bond debt service for the year. Principal paid against outstanding bonds was $265,000.
- Personal services expenses totaled $14,222,778 or 56% of Operating Expenses.

Statement of Cash Flows

Cash activity for the fiscal year is presented in the Statement of Cash Flows. The various sections of the statement present to the viewer the flows of cash in and out related to operating activities, noncapital financing activities, capital and related financing activities, and investing activities. The final section of the report reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

Principal changes in the cash inflows and outflows to operating activities are related to the merger of the Searcy campus. Cash provided from the merger amounted to $673,478. Growth at the Heber Springs campus also contributed to the change.

Cash inflows for nonoperating activities are almost totally from state appropriations and local revenue dedicated for the support of the Heber Springs campus.

Cash inflows for capital activities were from the financing for land acquisition for the new site of the Heber Springs campus in the amount of $500,000. State appropriations for capital purposes were received from the state in the amount $107,853. Purchases of capital assets totaled $3,094,922 and total debt service equaled $599,401.

Condensed Statement of Cash Flows

	2004	2003
Cash Provided (Used) by:		
Operating Activities	$ (9,357,676)	$ (7,610,175)
Noncapital Financing Activities	12,279,936	8,626,332
Capital and Related Financing Activities	(1,770,636)	(1,964,920)
Investing Activities	(874,398)	(3,727,783)
Net Increase (Decrease) in Cash	$ 277,226	$ (4,676,546)
Cash - Beginning of the Year	$ 1,725,000	$ 6,401,546
Cash - End of the Year	$ 2,002,226	$ 1,725,000

Economic Outlook

The University has endured three years in which support from the state has been poor, at best, due to the series of events that affected the state economy after 9/11. ASU-Beebe has, however, managed to maintain a strong financial position. The University believes the state has seen the worst of the revenue shortfalls because fiscal year 2005 revenue projections are looking much improved. The state, through a special legislative session in the latter part of 2003, has dealt with a public school funding case that resulted in a mandate from the State Supreme Court to provide "adequate" funding to each school district in Arkansas. New tax revenue was earmarked to public schools to solve the operating fund needs. In the legislative session scheduled for the spring of 2005, the state must address funding needs for public school facilities. Legislators are pledging to hold higher education harmless because of the facility issue. The University has addressed funding needs for the next fiscal year by controlling costs and raising tuition and fee rates.

ASU-Beebe Shurley Greenhouse

ARKANSAS STATE UNIVERSITY - BEEBE
STATEMENT OF NET ASSETS
JUNE 30, 2004
(With Comparative Figures as of June 30, 2003)

ASSETS	2004	2003
CURRENT ASSETS		
CASH AND CASH EQUIVALENTS	$ 1,999,855	$ 1,723,390
SHORT-TERM INVESTMENTS	550,200	2,572,096
ACCOUNTS RECEIVABLE, (LESS ALLOWANCE, $129,338-2004; $68,807-2003)	842,725	852,221
INVENTORIES	322,147	263,350
DEPOSITS WITH TRUSTEES	337,926	338,866
PREPAID EXPENSES	7,033	9,238
TOTAL CURRENT ASSETS	**$ 4,059,886**	**$ 5,759,161**
NONCURRENT ASSETS		
RESTRICTED CASH AND CASH EQUIVALENTS	$ 2,371	$ 1,610
INTERMEDIATE AND LONG-TERM INVESTMENTS	3,883,389	1,000,000
ENDOWMENT INVESTMENTS	112,711	109,908
CAPITAL ASSETS, (NET OF ACCUMULATED DEPRECIATION, $15,042,698-2004; $9,855,240-2003)	19,003,370	17,224,354
TOTAL NONCURRENT ASSETS	**$ 23,001,841**	**$ 18,335,872**
TOTAL ASSETS	**$ 27,061,727**	**$ 24,095,033**
LIABILITIES		
CURRENT LIABILITIES		
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	$ 431,843	$ 451,480
BONDS AND NOTES PAYABLE, CURRENT PORTION	468,600	265,000
COMPENSATED ABSENCES, CURRENT PORTION	592,764	34,919
DEFERRED REVENUE	102,340	96,101
DEPOSITS ON HAND	8,023	9,284
FUNDS HELD IN TRUST FOR OTHERS	51,347	5,845
OTHER LIABILITIES	0	6,778
TOTAL CURRENT LIABILITIES	**$ 1,654,917**	**$ 869,407**
NONCURRENT LIABILITIES		
BONDS AND NOTES PAYABLE	4,354,646	4,420,000
COMPENSATED ABSENCES	105,756	395,229
TOTAL NONCURRENT LIABILITIES	**$ 4,460,402**	**$ 4,815,229**
TOTAL LIABILITIES	**$ 6,115,319**	**$ 5,684,636**
NET ASSETS		
INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT	$ 14,180,124	$ 12,539,353
RESTRICTED FOR:		
EXPENDABLE		
SCHOLARSHIPS AND FELLOWSHIPS	0	24,136
LOANS	10,000	10,000
CAPITAL PROJECTS	2,805,259	2,154,375
DEBT SERVICE	439,043	460,752
QUASI-ENDOWMENTS	115,956	111,518
OTHER	145,015	41,729
UNRESTRICTED	3,251,011	3,068,534
TOTAL NET ASSETS	**$ 20,946,408**	**$ 18,410,397**

The accompanying notes are an integral part of these statements.

ARKANSAS STATE UNIVERSITY - BEEBE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004
(With Comparative Figures for the year ended June 30, 2003)

	2004	2003
REVENUES		
OPERATING REVENUES		
TUITION AND FEES (NET OF SCHOLARSHIP ALLOWANCES, $1,683,991-2004; $1,270,887-2003)	$ 3,555,373	$ 3,221,462
GRANTS AND CONTRACTS	7,065,035	4,407,138
SALES AND SERVICES	23,702	22,908
AUXILIARY ENTERPRISES (NET OF SCHOLARSHIP ALLOWANCES, $379,284-2004; $260,361-2003)	1,781,345	1,586,959
OTHER OPERATING REVENUES	246,976	524,058
TOTAL OPERATING REVENUES	**$ 12,672,431**	**$ 9,762,525**
EXPENSES		
OPERATING EXPENSES		
PERSONAL SERVICES	$ 14,222,778	$ 10,305,237
SCHOLARSHIPS AND FELLOWSHIPS	2,910,305	3,585,499
SUPPLIES AND OTHER SERVICES	5,217,476	2,829,514
DEPRECIATION	3,170,015	686,323
OTHER OPERATING EXPENSES	0	246,473
TOTAL OPERATING EXPENSES	**$ 25,520,574**	**$ 17,653,046**
OPERATING INCOME (LOSS)	**$ (12,848,143)**	**$ (7,890,521)**
NONOPERATING REVENUES (EXPENSES)		
STATE APPROPRIATIONS	$ 11,374,782	$ 8,458,380
SALES TAXES	1,543,663	0
GIFTS	0	140,747
INVESTMENT INCOME	107,768	117,660
INTEREST ON CAPITAL-ASSET RELATED DEBT	(221,979)	(232,301)
OTHER NONOPERATING REVENUES (EXPENSES)	(429,312)	(208,809)
NET NONOPERATING REVENUES (EXPENSES)	**$ 12,374,922**	**$ 8,275,677**
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	**$ (473,221)**	**$ 385,156**
DELETION OF CAPITAL ASSETS	(2,342)	0
MERGER WITH FOOTHILLS TECHNICAL INSTITUTE	2,857,350	0
CAPITAL APPROPRIATIONS	107,853	28,718
CAPITAL GRANTS AND GIFTS	43,000	1,500,000
ADDITIONS TO PERMANENT ENDOWMENTS	3,371	7,241
TOTAL OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	**$ 3,009,232**	**$ 1,535,959**
INCREASE (DECREASE) IN NET ASSETS	**$ 2,536,011**	**$ 1,921,115**
NET ASSETS		
NET ASSETS-BEGINNING OF YEAR	**$ 18,410,397**	**$ 16,489,282**
NET ASSETS-END OF YEAR	**$ 20,946,408**	**$ 18,410,397**

The accompanying notes are an integral part of these statements.

ARKANSAS STATE UNIVERSITY - BEEBE
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004
(With Comparative Figures for the year ended June 30, 2003)

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
TUITION AND FEES (NET OF SCHOLARSHIP ALLOWANCE, $1,683,991-2004; $1,270,887-2003)	$ 3,571,339	$ 3,299,544
GRANTS AND CONTRACTS	7,072,536	4,347,747
PAYMENTS TO SUPPLIERS	(4,947,041)	(3,978,807)
PAYMENTS TO EMPLOYEES	(11,074,591)	(8,117,217)
PAYMENTS FOR BENEFITS	(2,862,745)	(2,178,926)
SCHOLARSHIPS AND FELLOWSHIPS	(2,910,305)	(2,680,918)
AUXILIARY REVENUES (NET OF SCHOLARSHIP ALLOWANCE, $379,284-2004; $260,361-2003)	1,820,903	1,539,222
OTHER RECEIPTS (PAYMENTS)	(27,772)	159,180
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	**$ (9,357,676)**	**$ (7,610,175)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
STATE APPROPRIATIONS	$ 11,123,580	$ 8,458,380
SALES TAXES	1,146,140	0
PRIVATE GIFTS FOR ENDOWMENT PURPOSES	6,103	147,988
AGENCY TRANSACTIONS (NET)	4,113	19,964
NET CASH FLOWS PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	**$ 12,279,936**	**$ 8,626,332**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
MERGER WITH FOOTHILLS TECHNICAL INSTITUTE	673,478	0
PROCEEDS FROM CAPITAL DEBT	500,000	0
CAPITAL APPROPRIATIONS	107,853	28,719
PURCHASES OF CAPITAL ASSETS	(3,094,923)	(1,539,760)
PRINCIPAL PAID ON CAPITAL DEBT	(361,754)	(255,000)
INTEREST PAID ON CAPITAL DEBT	(237,647)	(238,088)
OTHER RECEIPTS (PAYMENTS)	642,357	39,209
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	**$ (1,770,636)**	**$ (1,964,920)**
CASH FLOWS FROM INVESTING ACTIVITIES		
PROCEEDS FROM THE SALE AND MATURITY OF INVESTMENTS	$ 3,644,450	$ 4,885,712
INTEREST ON INVESTMENTS	81,873	117,660
PURCHASE OF INVESTMENTS	(4,600,721)	(8,731,155)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	**$ (874,398)**	**$ (3,727,783)**
NET INCREASE (DECREASE) IN CASH	**$ 277,226**	**$ (4,676,546)**
CASH AND CASH EQUIVALENTS, JULY 1	**$ 1,725,000**	**$ 6,401,546**
CASH AND CASH EQUIVALENTS, JUNE 30	**$ 2,002,226**	**$ 1,725,000**

The accompanying notes are an integral part of these statements.

ARKANSAS STATE UNIVERSITY - BEEBE
STATEMENT OF CASH FLOWS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2004
(With Comparative Figures for the year ended June 30, 2003)

RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
OPERATING INCOME (LOSS)	**$ (12,848,143)**	**$ (7,890,521)**
ADJUSTMENTS TO RECONCILE NET INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
DEPRECIATION EXPENSE	3,170,015	686,323
CHANGE IN ASSETS AND LIABILITIES		
(INCREASE)/DECREASE IN RECEIVABLES, NET	27,123	(198,443)
(INCREASE)/DECREASE IN INVENTORIES	(58,797)	(50,787)
(INCREASE)/DECREASE IN PREPAID EXPENSES	2,205	541
INCREASE/(DECREASE) IN ACCOUNTS PAYABLE	62,215	(120,288)
INCREASE/(DECREASE) IN DEFERRED REVENUE	6,238	(12,681)
INCREASE/(DECREASE) IN COMPENSATED ABSENCES	268,372	11,430
INCREASE/(DECREASE) IN DEPOSITS ON HAND	(3,385)	(6,557)
INCREASE/(DECREASE) IN OTHER LIABILITIES	16,481	(29,192)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	**$ (9,357,676)**	**$ (7,610,175)**

The accompanying notes are an integral part of these statements.

NOTE 1--Summary of Significant Accounting Policies

Financial Statement Presentation

Arkansas State University-Beebe's statements are presented using the accrual basis of accounting including depreciation of capital assets. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has been incurred. All intra-agency transactions have been eliminated.

Cash and Cash Equivalents

All cash over which the University maintains discretionary investment control, except those required for retirement of outstanding bonds, construction and payroll, are consolidated into one operating bank account. This consolidation enhances the efficient utilization of cash by maintaining a minimum required balance on the books of the bank and a maximum amount invested. The difference between the time the checks are issued and the time they are presented for payment may often show a negative cash balance on the books of the University. A separate bank account is maintained for the loan fund.

ASU-Beebe Entrance

For the statement of cash flows, the University considers all highly liquid investments with an original maturity date of three months or less as cash equivalents. Funds held by the state treasury are also considered cash equivalents.

Capital Assets

Capital assets are recorded at cost on date of acquisition or fair market value at date of receipt of gift. Livestock for educational purposes are carried at fair market value. The University capitalizes any equipment with a unit cost of $2,500 or more and an estimated useful life of 1 or more years. Renovations to buildings, infrastructure or land that significantly increases the value or useful life of the structure are capitalized.

Depreciation is computed using the straight-line method over the estimated useful life of the asset based on the Arkansas Department of Higher Education recommendations of 3-7 years for furniture and equipment and 15 years for buildings, infrastructure and improvements.

Deferred Revenue

Deferred revenue includes amounts received for tuition and fees prior to the end of a fiscal year that are related to subsequent fiscal periods.

Compensated Absences

Employee vacation pay is accrued and recorded as a liability in the statements of net assets and as a component of employee benefits in the statement of revenue, expenses and changes in net assets.

Other post employment benefits, as reflected in Note 3, are for medical and life insurance for retirees as of June 30, 2004.

Noncurrent Liabilities

Noncurrent liabilities include: Principal amounts of revenue bonds payable with maturity dates of greater than one year and compensated absences that will not be paid within the next fiscal year.

Net Assets

- Invested in capital assets, net of related debt: This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets.
- Restricted net assets – expendable: Restricted expendable net assets include resources in which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties. Expendable restricted net assets consist of quasi endowment funds. Quasi endowments are invested and scholarships are awarded based on interest earnings. The scholarship committee is informed of the dollars available and the committee makes the award according to the rules governing the individual endowments. The following are quasi endowments as of June 30, 2004:

Linda Jo Welch Memorial Fund	$	7,106
Denver Nettles Memorial Fund		34,304
W.H. Owen Scholarship		25,316
R.V. Powell Agri Scholarship		34,225
England Challenge Scholarship		14,131
Total Quasi-Endowments	$	115,082

- Unrestricted net assets: Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the University, and may be used at the discretion of the governing board to meet current expenses for any purpose.

Classification of Revenues

The University has classified its revenues as either operating or nonoperating revenues according to the following criteria:

- Operating Revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as student tuition and fees, net of scholarship discounts and allowances; sales and services of auxiliary enterprises, net of scholarship discounts and allowances; most federal, state and local grants and contracts.
- Nonoperating Revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB No. 9, Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting, and GASB No. 34, such as state appropriations and investment income.

ASU-Beebe Student Center

Scholarship Discounts and Allowances

Student tuition and fee revenues and certain other revenues 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 stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on behalf of the student.

NOTE 2--Deposits Refundable

Deposits refundable as of June 30, 2004 are as follows:

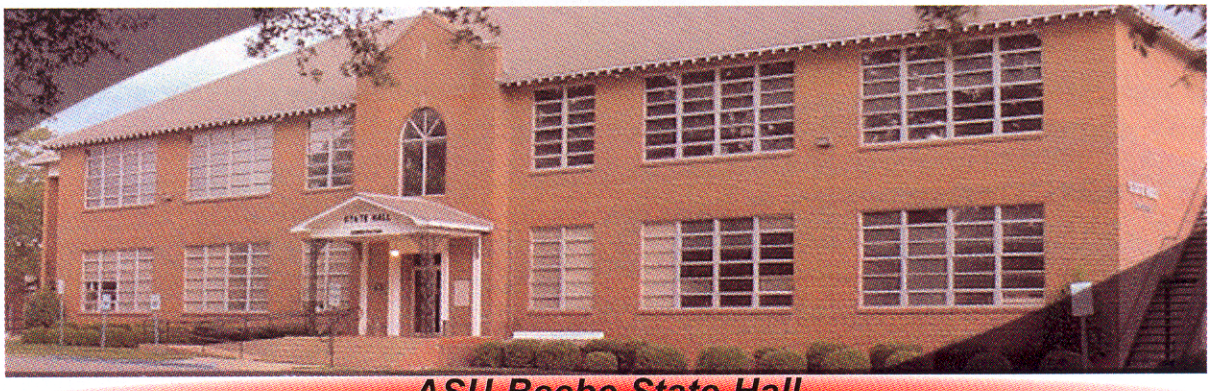
Room Deposits	$ 7,020
Vue Testing	783
AETN Capitation Fee	20
Staff Housing Deposits	200
TOTAL	$ 8,023

NOTE 3--Compensated Absences

The liability account for employee annual leave time earned but not used as of June 30, 2004:

	Current	Noncurrent
ASU-Beebe	$ 352,015	$ 62,803
ASU-Searcy	225,619	40,253
ASU-Heber Springs	15,130	2,700
TOTAL	$ 592,764	$ 105,756

Compensated absences increased by $265,872 due in part to the July 1, 2003 merger with Foothills Technical Institute. Additional post employment benefits are for medical and life insurance for retirees as of June 30, 2004. The amount estimated to be paid in fiscal year 2004-05 is $31,401.


ASU-Beebe State Hall

NOTE 4--Deferred Revenues

Deferred revenues consist of funds received during the 2003-04 fiscal year that are applicable to the 2004-05 fiscal year as follows:

Quality Improvement Fee	$	4,833
ASU-Heber Springs Quality Improvement Fee		922
Fall Tuition		11,244
2nd Summer Tuition		47,559
Out of State Tuition		2,574
Lab Fees		1,160
Auto Registration Fees		230
Student Center Building Fee		2,814
ASU-Heber Springs Tuition		11,359
ASU-Heber Springs Lab Fee		100
Internet Lab Fee		1,570
ASU-Heber Springs In-county Tuition		15,414
ASU-Heber Springs Internet Lab Fee		2,000
Off Campus Tuition		561
TOTAL	$	102,340

NOTE 5--Accounts Receivable

A summary of accounts receivable at June 30, 2004 is as follows:

Current Unrestricted Funds Accounts Receivable ASU-Beebe	$	794,200
Current Unrestricted Funds Accounts Receivable ASU-Heber Springs		10,905
Current Restricted Funds Accounts Receivable ASU-Beebe		162,956
ASU-Beebe Plant Funds Interest Receivable		3,192
ASU-Heber Springs Plant Funds Interest Receivable		811
Allowance for Doubtful Accounts ASU-Beebe		(121,703)
Allowance for Doubtful Accounts ASU-Heber Springs		(7,636)
TOTAL	$	842,725

ASU-Beebe Remembering Soldiers

ASU-Beebe Fall Graduation

ASU-Heber Springs

NOTE 6--Accounts Payable and Accrued Liabilities

A summary of accounts payable and accrued liabilities at June 30, 2004 is as follows:

Payables due Vendors	$	308,302
Payables due Employees		13,876
Withholdings Payable		78,978
Accrued Interest Payable		25,940
Other		4,747
TOTAL	$	431,843

NOTE 7--Retirement of Indebtedness

A total of $361,754 in outstanding principal was retired during this year. As of June 30, 2004 total outstanding debt consisted of four bond issues and one note:

Quapaw Hall 86 (d)	$	15,000
Student Center/Physical Plant Issue 1999		3,410,000
1998 Refund Bond		750,000
1992 Applied Arts Building		245,000
ASU-Heber Springs Land Purchase--Note		403,246
TOTAL	$	4,823,246

NOTE 8--Inventories

Inventories are stated at cost, using the first-in first-out method of valuation. Inventories at June 30, 2004 consisted of:

Central Stores	$	74,766
Bookstores ASU-Beebe		188,552
Bookstores ASU-Searcy		58,829
TOTAL	$	322,147

NOTE 9--Capital Assets

Capital assets for the year ended June 30, 2004 is summarized as follows:

	Balance July 1, 2003	Additions	Retirements	Balance June 30, 2004
Land	$ 946,066	$ 1,578,941	$ 52,391	$ 2,472,616
Construction in Progress	388,542	21,529	332,656	77,415
Improvements	1,353,280	1,361,830	0	2,715,110
Buildings	20,887,780	2,620,106	76,915	23,430,971
Equipment	2,180,390	2,337,166	594,572	3,922,984
Livestock	56,950	9,900	0	66,850
Library Holdings	1,266,586	93,536	0	1,360,122
TOTAL	$ 27,079,594	$ 8,023,008	$ 1,056,534	$ 34,046,068

Additions include property and equipment totaling $4,854,454 acquired by the merger of ASU-Beebe with Foothills Technical Institute.

Less Accumulated Depreciation:

	Balance July 1, 2003	Additions	Retirements	Balance June 30, 2004
Improvements	$ 180,976	$ 329,105	$ 0	$ 510,081
Buildings	7,377,487	3,295,395	74,574	10,598,308
Equipment	1,567,799	2,111,240	555,917	3,123,122
Library Holdings	728,978	82,209	0	811,187
TOTAL	$ 9,855,240	$ 5,817,949	$ 630,491	$ 15,042,698

NET ASSETS	$ 19,003,370

Depreciation expense for fiscal year 2004 was $3,170,015. The remaining addition to depreciation is due to the merger with Foothills Technical Institute on July 1, 2003 and to the recalculation of depreciation for Foothills Technical Institute's assets in accordance with guidelines for GASB 34 and 35.

Location of the Future ASU-Heber Springs Campus

NOTE 10--Bonds and Notes Payable

Bonds and notes payable at June 30, 2004 amounted to $4,823,246. The scheduled principal and interest payments are as follows:

BONDS

	Principal	Interest	Total
2005	$ 276,000	$ 205,436	$ 481,436
2006	279,000	193,008	472,008
2007	300,000	179,764	479,764
2008	305,000	166,174	471,174
2009	320,000	151,996	471,996
2010-2014	860,000	621,555	1,481,555
2015-2019	915,000	409,875	1,324,875
2020-2024	1,165,000	151,375	1,316,375
TOTAL	$ 4,420,000	$ 2,079,183	$ 6,499,183

NOTES

	Principal	Interest	Total
2005	$ 192,600	$ 7,400	$ 200,000
2006	195,000	5,000	200,000
2007	15,646	0	15,646
TOTAL	$ 403,246	$ 12,400	$ 415,646

NOTE 10--Component Unit

The Arkansas State University Foundation (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 thirty-three-member board of the Foundation is

Proposed ASU-Heber Springs Campus

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 Statement Number Thirty Nine, 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 #39.

While the activities and resources of the Foundation benefit all of the campuses of Arkansas State University the University has elected to discretely present the financial statements of the Foundation within the financial statements of Arkansas State University - Jonesboro for the fiscal year ended June 30, 2004. During the year ended June 30, 2004 the Foundation distributed $34,610 to Arkansas State University - Beebe for both restricted and unrestricted purposes. Complete financial statements for the Foundation may be obtained from the Foundation at P.O. Box 1990, State University, AR 72467-1990.

NOTE 12--Natural Classification with Functional Classifications

The University operating expenses by functional classifications were as follows:

	Personal Services	Scholarships	Supplies	Depreciation	Total
Instruction	$ 7,607,799	$ 0	$ 1,292,094	$ 0	$ 8,899,893
Academic Support	1,274,561	2,910,305	217,502	0	4,402,368
Student Services	1,403,602	0	463,946	0	1,867,548
Institutional Support	2,493,437	0	791,880	0	3,285,317
Operation of Plant	1,163,897	0	758,098	0	1,921,995
Depreciation	0	0	0	3,170,015	3,170,015
Auxiliary Enterprises	279,482	0	1,693,956	0	1,973,438
TOTAL	$ 14,222,778	$ 2,910,305	$ 5,217,476	$ 3,170,015	$ 25,520,574

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ARKANSAS STATE UNIVERSITY

MOUNTAIN HOME

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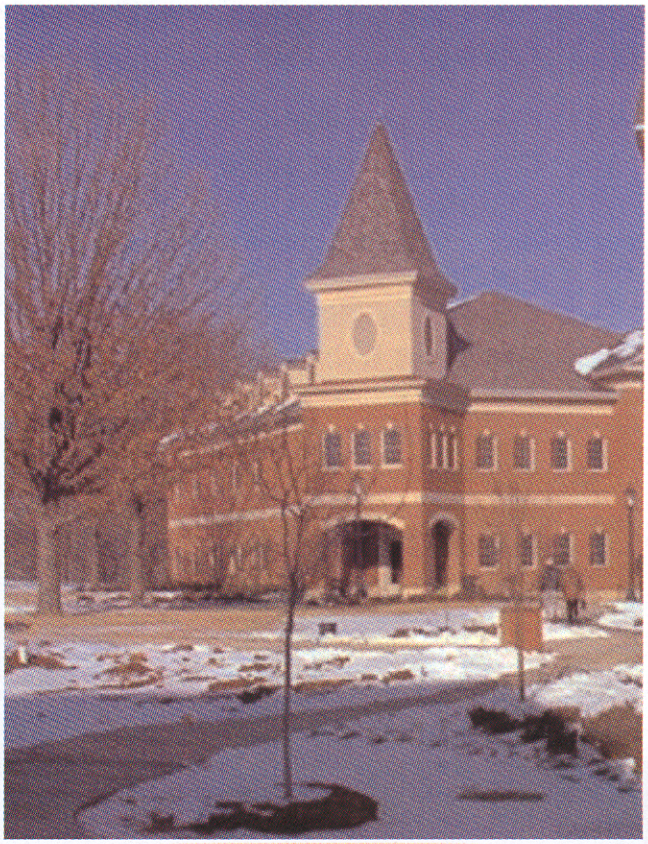
Financial Statement Presentation

The following discussion and analysis provides an overview of the financial position and activities of Arkansas State University Mountain Home (ASUMH) for the year ended June 30, 2004. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto. Comparative analysis is presented.



First National Hall

Fiscal Year 2004 Highlights

- ASUMH received a five year accreditation by the Higher Learning Commission of the North Central Association for Colleges and Schools on October 20, 2003.
- Private funding was secured and planning began for the construction of an additional campus parking lot to be completed by November of 2004.
- Local millage income increased 10.8% over actual income for 2002-2003.
- Enrollment growth in student semester credit hours increased by 7.5% with the total student semester credit hours of 27,541 compared to 25,621 in 2002-2003.
- Excessive revenues over budgeted expenditures for the last three fiscal years has allowed $580,000 to be reserved for future campus needs.

Statement Discussion

Statement of Net Assets

The Statement of Net Assets presents the financial position of the University at the end of the fiscal year and includes all assets and liabilities of the University. The difference between total assets and total liabilities--net assets--is one indicator of the current financial condition of the University, while the change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation.

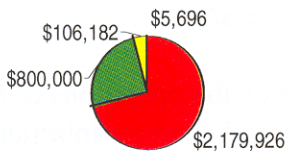
The Statement of Net Assets indicates if there are assets available to continue the operations of the institution as well as to determine how much the institution owes vendors and lending intuitions. The Statement of Net Assets also provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the institution.

Condensed Statement of Net Assets

Assets:	2004	2003
Current Assets	$ 3,091,804	$ 2,666,890
Capital Assets, Net	15,947,159	17,005,988
Other Noncurrent Assets	14	11
Total Assets	$ 19,038,977	$ 19,672,889
Liabilities:		
Current Liabilities	$ 606,956	$ 579,577
Noncurrent Liabilities	6,059,289	6,426,460
Total Liabilities	$ 6,666,245	$ 7,006,037
Net Assets:		
Invested in Capital, Net of debt	$ 9,520,699	$ 10,225,731
Restricted-Expendable	523,196	439,502
Unrestricted	2,328,837	2,001,619
Total Net Assets	$ 12,372,732	$ 12,666,852
Total Liabilities and Net Assets	$ 19,038,977	$ 19,672,889

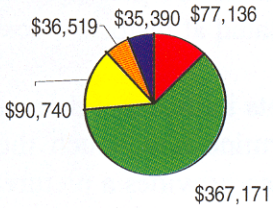
Pathway to First National Hall

Current Assets



- Cash and Cash Equivalents
- Short-Term Investments
- Accounts Receivable, (Less Allowance of $15,000)
- Prepaid Expenses

Current Liabilities



- Accounts Payable and Accrued Liabilities
- Bonds and Notes Payable, Current Portion
- Compensated Absences, Current Portion
- Deferred Revenue
- Funds Held in Trust for Others

The total assets of the institution decreased by $633,912. Current year depreciation for capital assets was $1,204,865. Liabilities were reduced by $339,792. The reduction was primarily due to change in long-term debt. The combination of the decrease in total assets and the decrease in total liabilities yields a decrease in total net assets of $294,120.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets presents the University's results of operations. These changes in the total net asset represent the revenues received by the institution, both operating and nonoperating, and the expenses paid by the institution, operating and nonoperating, and any other revenues, expenses, gains and losses received or spent by the institution.

The operating revenues are received for providing goods and services to various customers (students) and constituencies of the institution. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institution. Nonoperating revenues are revenues received for which goods and services are not provided. For example, state appropriations are nonoperating because they are provided by the Legislature to the institution without the Legislature directly receiving commensurate goods and services for those revenues.

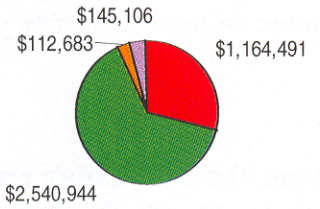
Condensed Statement Of Revenues, Expenses, And Changes In Net Assets

	2004	2003
Operating Revenues	$ 3,963,224	$ 3,851,376
Operating Expenses	8,208,903	8,130,674
Operating Income (Loss)	(4,245,679)	$ (4,279,298)
Nonoperating Revenues (Expenses)	$ 3,942,071	$ 3,369,472
Income (Loss) before Other Revenues, Expenses, Gains or Losses	$ (303,608)	$ (909,826)
Other Revenues, Expenses, Gains or Losses	$ 9,488	$ 8,373
Increase (Decrease) in Net Assets	$ (294,120)	$ (901,453)
Net Assets,Beginning of Year	$ 12,666,852	$ 13,568,305
Net Assets, End of Year	$ 12,372,732	$ 12,666,852

The Statement of Revenues, Expenses and Changes in Net Assets reflects a negative year with a decrease in the net assets at the end of the year. Some highlights of the information presented:

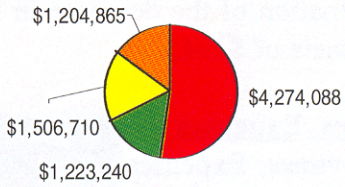
- Operating expenses include depreciation in the amount of $1,204,865.
- Operating revenues include student tuition and fees (net of scholarship allowance) $1,164,491.

Operating Revenues



- Tuition and Fees (Net of Scholarship Allowance of $725,279)
- Grants and Contracts
- Auxiliary Enterprises (Net of Scholarship Allowance of $267,651)
- Other Operating Revenues

Operating Expenses



- Personal Services
- Scholarships and Fellowships
- Supplies and Other Services
- Depreciation

McClain Hall

Statement of Cash Flows

The Statement of Cash Flows provides additional information about the University's financial results, by reporting the major sources and uses of cash. The statement is divided into the following categories: operating, noncapital financing, capital and related financing, investing, and the reconciliation of net cash used to the operating income (loss) as reflected on the Statement of Revenues, Expenses and Changes in Net Assets. The University had a net increase in cash and cash equivalents of $95,506. Cash and cash equivalents at June 30, 2004 were $2,179,940 and $2,084,434 on June 30, 2003. Also reflected in the Statement of Cash Flows is the increase made during the year of $325,000 in investments.

Cash flows for the year ended June 30, 2004 and June 30, 2003 were:

	2004	2003
Cash Provided (Used) By:		
Operating Activities	$ (3,064,194)	$ (3,083,364)
Noncapital Financing Activities	4,228,165	3,983,394
Capital and Related Financing Activities	(776,389)	(689,883)
Investing Activities	(292,076)	(64,429)
Net Change in Cash	$ 95,506	$ 145,718
Cash - Beginning of the Year	$ 2,084,434	$ 1,938,716
Cash - End of the Year	$ 2,179,940	$ 2,084,434

Chancellor with ASU Mountain Home Students

Economic Outlook

At the submission of this document, the Arkansas Higher Education Coordinating Board is recommending a substantial increase in state funding as a result of equity funding within the two year college system.

The University is projecting a steady growth of student semester credit hours ranging from three to five percent for this academic year. One new academic program has been added to the curriculum to enhance that growth. Local millage income has shown a growth of 10.82% from fiscal year 2002-2003 to 2003-2004. With the expectation that the economy will improve, local millage and growth of the student semester credit hours will exceed the current projections.

With the increase in actual and projected income, ASUMH will be able to continue to grow academically and fiscally for the coming year.

ARKANSAS STATE UNIVERSITY - MOUNTAIN HOME
STATEMENT OF NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004
(With Comparative Figures as of June 30, 2003)

	2004	2003
ASSETS		
CURRENT ASSETS		
CASH AND CASH EQUIVALENTS	$ 2,179,926	$ 2,084,423
SHORT-TERM INVESTMENTS	800,000	475,000
ACCOUNTS RECEIVABLE, (LESS ALLOWANCE, $15,000-2004; $15,000-2003)	106,182	104,534
PREPAID EXPENSES	5,696	2,933
TOTAL CURRENT ASSETS	**$ 3,091,804**	**$ 2,666,890**
NONCURRENT ASSETS		
RESTRICTED CASH AND CASH EQUIVALENTS	14	11
CAPITAL ASSETS, (NET OF ACCUMULATED DEPRECIATION, $3,911,225-2004; $2,719,851-2003)	15,947,159	17,005,988
TOTAL NONCURRENT ASSETS	**$ 15,947,173**	**$ 17,005,999**
TOTAL ASSETS	**$ 19,038,977**	**$ 19,672,889**
LIABILITIES		
CURRENT LIABILITIES		
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	$ 77,136	$ 65,409
BONDS AND NOTES PAYABLE, CURRENT PORTION	367,171	353,797
COMPENSATED ABSENCES, CURRENT PORTION	90,740	93,974
DEFERRED REVENUE	36,519	57,433
FUNDS HELD IN TRUST FOR OTHERS	35,390	8,964
TOTAL CURRENT LIABILITIES	**$ 606,956**	**$ 579,577**
NONCURRENT LIABILITIES		
BONDS AND NOTES PAYABLE	6,059,289	6,426,460
TOTAL NONCURRENT LIABILITIES	**$ 6,059,289**	**$ 6,426,460**
TOTAL LIABILITIES	**$ 6,666,245**	**$ 7,006,037**
NET ASSETS		
INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT	$ 9,520,699	$ 10,225,731
RESTRICTED FOR:		
EXPENDABLE		
CAPITAL PROJECTS	472,100	389,006
DEBT SERVICE	0	8,158
OTHER	51,096	42,338
UNRESTRICTED	2,328,837	2,001,619
TOTAL NET ASSETS	**$ 12,372,732**	**$ 12,666,852**

The accompanying notes are an integral part of these statements.

ARKANSAS STATE UNIVERSITY - MOUNTAIN HOME
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004
(With Comparative Figures for the year ended June 30, 2003)

	2004	2003
REVENUES		
OPERATING REVENUES		
TUITION AND FEES (NET OF SCHOLARSHIP ALLOWANCES, $725,279-2004; $600,092-2003)	$ 1,164,491	$ 1,050,304
GRANTS AND CONTRACTS	2,540,944	2,527,962
AUXILIARY ENTERPRISES (NET OF SCHOLARSHIP ALLOWANCES, $267,651-2004; $200,543-2003)	112,683	146,789
OTHER OPERATING REVENUES	145,106	126,321
TOTAL OPERATING REVENUES	**$ 3,963,224**	**$ 3,851,376**
EXPENSES		
OPERATING EXPENSES		
PERSONAL SERVICES	$ 4,274,088	$ 4,061,522
SCHOLARSHIPS AND FELLOWSHIPS	1,223,240	1,254,704
SUPPLIES AND OTHER SERVICES	1,506,710	1,628,401
DEPRECIATION	1,204,865	1,186,047
TOTAL OPERATING EXPENSES	**$ 8,208,903**	**$ 8,130,674**
OPERATING INCOME (LOSS)	**$ (4,245,679)**	**$ (4,279,298)**
NONOPERATING REVENUES (EXPENSES)		
STATE APPROPRIATIONS	$ 3,114,856	$ 2,817,696
PROPERTY TAXES	876,862	791,258
GIFTS	214,922	20,450
INVESTMENT INCOME	20,898	35,032
INTEREST ON CAPITAL-ASSET RELATED DEBT	(262,604)	(333,363)
OTHER NONOPERATING REVENUES (EXPENSES)	(22,863)	38,399
NET NONOPERATING REVENUES (EXPENSES)	**$ 3,942,071**	**$ 3,369,472**
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	**$ (303,608)**	**$ (909,826)**
DELETION OF CAPITAL ASSETS	(3,372)	0
CAPITAL APPROPRIATIONS	12,860	8,373
TOTAL OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	**$ 9,488**	**$ 8,373**
INCREASE (DECREASE) IN NET ASSETS	**$ (294,120)**	**$ (901,453)**
NET ASSETS		
NET ASSETS-BEGINNING OF YEAR	**$ 12,666,852**	**$ 13,568,305**
NET ASSETS-END OF YEAR	**$ 12,372,732**	**$ 12,666,852**

The accompanying notes are an integral part of these statements.

ARKANSAS STATE UNIVERSITY - MOUNTAIN HOME
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004
(With Comparative Figures for the year ended June 30, 2003)

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
TUITION AND FEES (NET OF SCHOLARSHIP ALLOWANCE, $725,279-2004; $600,092-2003)	$ 1,143,009	$ 1,051,309
GRANTS AND CONTRACTS	2,540,944	2,527,962
PAYMENTS TO SUPPLIERS	(1,514,669)	(1,614,582)
PAYMENTS TO EMPLOYEES	(3,329,684)	(3,205,152)
PAYMENTS FOR BENEFITS	(942,126)	(855,004)
SCHOLARSHIPS AND FELLOWSHIPS	(1,223,240)	(1,254,704)
AUXILIARY REVENUES (NET OF SCHOLARSHIP ALLOWANCE, $267,651-2004; $200,543-2003)	116,466	140,486
OTHER RECEIPTS (PAYMENTS)	145,106	126,321
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	**$ (3,064,194)**	**$ (3,083,364)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
STATE APPROPRIATIONS	$ 3,114,856	$ 3,148,179
PROPERTY TAXES	876,862	791,258
PRIVATE GIFTS FOR ENDOWMENT PURPOSES	214,923	42,482
AGENCY TRANSACTIONS (NET)	21,524	1,475
NET CASH FLOWS PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	**$ 4,228,165**	**$ 3,983,394**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
PROCEEDS FROM CAPITAL DEBT	0	5,405,000
CAPITAL APPROPRIATIONS	12,860	8,373
PURCHASES OF CAPITAL ASSETS	(184,259)	(106,305)
PRINCIPAL PAID ON CAPITAL DEBT	(353,797)	(5,685,594)
INTEREST PAID ON CAPITAL DEBT	(251,193)	(311,357)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	**$ (776,389)**	**$ (689,883)**
CASH FLOWS FROM INVESTING ACTIVITIES		
PROCEEDS FROM THE SALE AND MATURITY OF INVESTMENTS	$ 961,987	$ 750,000
INTEREST ON INVESTMENTS	20,937	35,571
PURCHASE OF INVESTMENTS	(1,275,000)	(850,000)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	**$ (292,076)**	**$ (64,429)**
NET INCREASE (DECREASE) IN CASH	**$ 95,506**	**$ 145,718**
CASH AND CASH EQUIVALENTS, JULY 1	**$ 2,084,434**	**$ 1,938,716**
CASH AND CASH EQUIVALENTS, JUNE 30	**$ 2,179,940**	**$ 2,084,434**

The accompanying notes are an integral part of these statements.

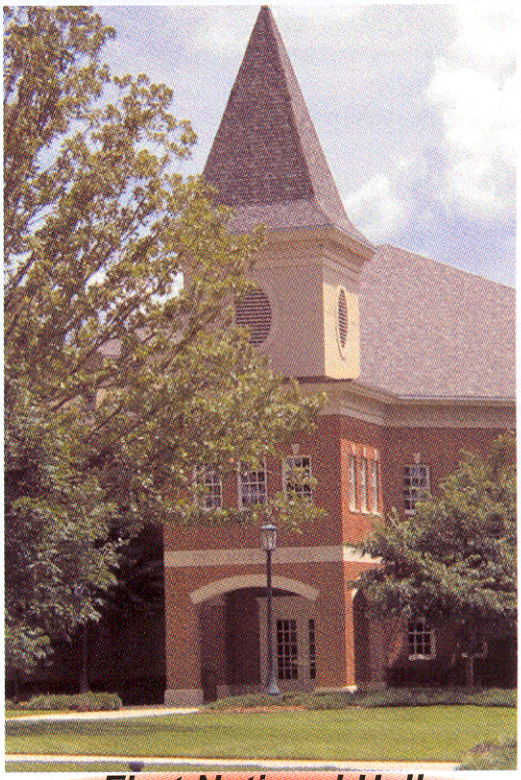
ARKANSAS STATE UNIVERSITY - MOUNTAIN HOME
STATEMENT OF CASH FLOWS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2004
(With Comparative Figures for the year ended June 30, 2003)

RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
OPERATING INCOME (LOSS)	**$ (4,245,679)**	**$ (4,279,298)**
ADJUSTMENTS TO RECONCILE NET INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
DEPRECIATION EXPENSE	1,204,865	1,186,047
CHANGE IN ASSETS AND LIABILITIES		
(INCREASE)/DECREASE IN RECEIVABLES, NET	(1,687)	(8,589)
(INCREASE)/DECREASE IN PREPAID EXPENSES	(2,763)	22,679
INCREASE/(DECREASE) IN ACCOUNTS PAYABLE	315	(11,098)
INCREASE/(DECREASE) IN DEFERRED REVENUE	(20,914)	6,103
INCREASE/(DECREASE) IN COMPENSATED ABSENCES	(3,233)	3,603
INCREASE/(DECREASE) IN DEPOSITS ON HAND	4,902	(2,811)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	**$ (3,064,194)**	**$ (3,083,364)**

The accompanying notes are an integral part of these statements.

NOTE 1--Summary of Significant Accounting Policies

The accounting policies of Arkansas State University Mountain Home (University) conform to generally accepted accounting principles accepted in the United States as applicable to colleges and universities.


First National Hall

During 2001, the University adopted Government Accounting Standards Board (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions,* Statement No. 34 *Basic Financial Statements and Management Discussion* and Analysis for State and Local Governments, and Statement No. 35 *Basic Financial Statements and Management's Discussion and Analysis for Public College and Universities* as amended by GASB Statements No. 37 and 38, and applied those standards on a retroactive basis.

A significant accounting change made in order to comply with the new requirements included the adoption of depreciation on capital assets.

The accompanying financial statements have been prepared on the accrual basis. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

The University reports as a Business Type Activity, as defined by GASB Statement No. 35. Business Type Activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

The University's policy for defining operating activities as reported on the statement of revenues, expenses, and changes in net assets are those that generally result from exchange transactions such as payments received for providing services and payments made for services or goods received. Nearly all of the University's expenses are from exchange transactions. Certain significant revenue streams relied upon for operations are recorded on nonoperating revenues, as defined by GASB Statement No 35, including state appropriations, gifts and investment income.

For purposes of the statement of cash flows, the University considers all highly liquid investments purchased with an original maturity of three months or less to be a cash equivalent.

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students. Accounts receivable also include amounts due from state government and private sources. Accounts receivable are recorded net of estimated uncollectible amounts.

Capital assets are stated at cost or fair value at the date of the gift. For equipment, the University's capitalization policy includes all items with a unit cost of $2,500 or more, and an estimated useful life of

greater than one year. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

Depreciation is computed on a straight–line basis over the estimated useful lives (three to thirty years) of the respective assets.

Deferred revenue represents revenues collected but not earned as of June 30. This is primarily composed of revenue for student tuition accrued in advance of the semester.

Employee vacation pay is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued vacation payable in the statement of net assets, and as a component of compensation and benefit expense in the statements of revenues, expenses, and changes in net assets.

Noncurrent liabilities include the principal amounts of bonds and notes payable with maturities greater than one year.

Net assets are classified into four categories:

- Invested in capital assets, net of related debt: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

- Unrestricted: Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Trustees or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets are designated for academic and research programs and initiatives, and capital programs.

- Restricted:
  - Nonexpendable – Net assets subject to externally-imposed stipulations that they be maintained permanently.
  - Expendable – Net assets whose use by University is subject to externally imposed stipulations that can be fulfilled by actions of University pursuant to those stipulations or that expire by the passage of time.

The University has classified its revenues as either operating or nonoperating revenues according to the following criteria:

- Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, and (3) most Federal, state and local grants and contracts and Federal appropriations.

- Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and*

Governmental Entities That Use Proprietary Fund Accounting, and GASB No. 34, such as state appropriations and investment income.

Student tuition is presented net of scholarship discounts and allowances in the statements of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

Auxiliary enterprise revenues primarily represent revenues generated by the bookstore and vending income.

ASU Mountain Home Students

NOTE 2--Cash, Cash Equivalents And Investments

The University currently uses commercial banks for its depositories. Deposits with commercial banks are covered by the Federal Deposit Insurance Corporations (FDIC) or by collateral held by a third party institution.

Investments are those with an original maturity date of more than three months. The University's investments are certificates of deposit. All investments are reported at fair market value. A summary of investments held by the University at June 30, 2004 is as follows:

	Book Value	Market Value
Bank certificates of deposit	$ 800,000	$ 800,000

NOTE 3--Accounts Receivable

The composition of accounts receivable at June 30, 2004 is summarized below:

Student Accounts Receivable	$ 84,440
Other	36,742
Less Provision for loss on Accounts Receivable	(15,000)
TOTAL	$ 106,182

NOTE 4--Accounts Payable and Accrued Liabilities

The composition of accounts payable and accrued liabilities at June 30, 2004 is summarized below:

Supplies and Services Payable	$ 29,361
Accrued Interest Payable	33,417
Employee Benefits Payable	4,856
Due to Other State Agencies	9,502
TOTAL	$ 77,136

NOTE 5--Capital Assets

Capital assets activity for the year ended June 30, 2004 is summarized as follows:

	Balance July 1, 2003	Additions	Retirements	Balance June 30, 2004
Land	$ 2,934,808	$ 0	$ 0	$ 2,934,808
Infrastructure	1,701,785	141,554	0	1,843,339
Buildings	13,657,940	0	0	13,657,940
Equipment	696,137	7,854	0	703,991
Library Holdings	735,169	0	16,863	718,306
TOTAL	$ 19,725,839	$ 149,408	$ 16,863	$ 19,858,384

Less Accumulated Depreciation:

	Balance July 1, 2003	Additions	Retirements	Balance June 30, 2004
Infrastructure	$ 225,462	$ 113,452	$ 0	$ 338,914
Buildings	1,821,058	910,529	0	2,731,587
Equipment	378,788	107,366	0	486,154
Library Holdings	294,543	73,517	13,490	354,570
TOTAL	$ 2,719,851	$ 1,204,864	$ 13,490	$ 3,911,225

NET ASSETS	$ 15,947,159

The following estimated useful lives are used to compute depreciation:

Buildings	15 years
Library Holdings	10 years
Infrastructure	15 years
Equipment	5-7 years
Computer Technology	3 years

NOTE 6--Bonds And Loans Payable

The summary of long-term debt at June 30, 2004 is as follows:

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized and Issued	Debt Outstanding June 30, 2004
12/1/02	12/1/17	3.81%	$ 5,405,000	$ 5,115,000
4/21/99	3/10/16	5.85%	567,296	453,446
8/1/99	4/10/19	4.80%	1,032,704	858,014
			$ 7,005,000	$ 6,426,460

The changes in long-term debt are as follows:

	Beginning Balance	Additions	Principal Repayment	Ending Balance
Bonds-Refunding	$ 5,405,000	$ 0	$ 290,000	$ 5,115,000
Loan-ADFA	478,915	0	25,468	453,447
Loan-ADFA	896,342	0	38,329	858,013
	$ 6,780,257	$ 0	$ 353,797	$ 6,426,460
Less current portion				367,171
				$ 6,059,289

Maturities and interest on bonds and loans payable for the next given years and in subsequent five-year periods are as follows:

	Principal	Interest	Total
2005	$ 367,171	$ 241,776	$ 608,947
2006	375,724	232,245	607,969
2007	389,468	221,518	610,986
2008	398,412	209,475	607,887
2009	412,566	196,050	608,616
2010-2014	2,303,369	729,192	3,032,561
2015-2019	2,179,750	208,779	2,388,529
	$ 6,426,460	$ 2,039,035	$ 8,465,495

Remembering 9-11

NOTE 7--Self Insurance Program

Effective July 1, 1994, the University established a self-funded health benefit plan for employees and their eligible dependents. A third party administers the plan. Contributions paid by the employees are retained by Arkansas State University. The plan administrator processes the insurance claims. Billings submitted to the University by the third party are based upon the University's claims/loss experience.

Arkansas State University Mountain Home Campus participates in the plan administered by Arkansas State University; however, their involvement is limited to remittance of health insurance premiums.

All financial activity of the self insurance program is reported in the Jonesboro financial statements .

NOTE 8--Retirement Plans

Arkansas State University Mountain Home employees participate in several retirement plans. Certain employees may participate in "Teachers Insurance and Annuity Association" and College Retirement Equities Fund" (TIAA/CREF). Under TIAA/CREF, employees select the percentage of salary to contribute and the University contributes ten percent. Total University and participants' contributions to TIAA/CREF for the fiscal year amounted to $458,640.

VALIC (Variable Annuity Life Insurance Company) is another retirement plan available to certain employees. Under VALIC, employees select the percentage of salary to contribute and the University contributes ten percent. Total University and participants' contributions to VALIC for the fiscal year amounted to $36,260.

Arkansas Teacher Retirement System is also available to certain employees. No contribution is required of the employee, but the University contributes thirteen percent of the participating employees salary. Total University and participants' contributions to Arkansas Teacher Retirement System for the fiscal year amounted to $58,804.

Arkansas Public Employees Retirement System is another program available to certain employees of the University. Under this program, no contribution is required of the employee, but the University contributes ten percent of the participating employee's salary. Total University and participants' contributions to Arkansas Employees Retirement System for the fiscal year amounted to $12,861.

Roller Hall

NOTE 9--Post Employment Benefits

For all employees who retire between the ages of fifty-five (55) and sixty-five (65) with at least ten (10) years of service, the University pays the life insurance premiums and 50% of the health (individual or family coverage) premiums. At June 30, 2004, the University had 1 retiree that was eligible for this benefit. The University also pays the health and life insurance premiums for one year for those employees who are determined to be eligible for disability.

NOTE 10--Component Unit

The Arkansas State University Foundation (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 thirty-three-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 Statement Number Thirty Nine, 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 #39.

While the activities and resources of the Foundation benefit all of the campuses of Arkansas State University the University has elected to discretely present the financial statements of the Foundation within the financial statements of Arkansas State University - Jonesboro for the fiscal year ended June 30, 2004. During the year ended June 30, 2004 the Foundation distributed $9,624 to Arkansas State University - Mountain Home for both restricted and unrestricted purposes. Complete financial statements for the Foundation may be obtained from the Foundation at P.O. Box 1990, State University, AR 72467-1990.

NOTE 10--Operating Expenses By Function

Operating expenses by functional classification for the year ended June 30, 2004 is summarized as follows:

	Personal Services	Scholarships	Supplies	Depreciation	Total
Instruction	$ 2,475,460	$ 0	$ 265,051	$ 0	$ 2,740,511
Academic Support	250,115	0	90,857	0	340,972
Student Services	375,762	0	89,154	0	464,916
Institutional Support	856,423	0	239,000	0	1,095,423
Operation of Plant	316,328	0	478,102	0	794,430
Scholarships	0	1,223,240	0	0	1,223,240
Depreciation	0	0	0	1,204,865	1,204,865
Auxiliary Enterprises	0	0	344,546	0	344,546
TOTAL	$ 4,274,088	$ 1,223,240	$ 1,506,710	$ 1,204,865	$ 8,208,903

ARKANSAS STATE UNIVERSITY

NEWPORT

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Financial Statement Presentation

The following discussion and analysis provides an overview of the financial position and operations of Arkansas State University-Newport (ASUN) for the fiscal year that ended June 30, 2004. The management's discussion and analysis is provided as an easy to read analysis of the institution's financial activities for the reporting period. Information supporting the financial position of the University is included and should be read in conjunction with the financial statements and related notes.

ASU-Newport Students

Because the University relies heavily on state support for its operations, the reporting of state revenues as nonoperating income will almost certainly result in reporting an operating loss. If excess of revenues, expense and transfers are not sufficient to cover the calculated depreciation expense for the year, or if new resources are not generated for capital projects in excess of the amount of depreciation expense, the recognition of depreciation expense which is not budgeted by the University will in all likelihood cause the change in net assets to be negative.

The statements presented are in the Governmental Accounting Standards Board (GASB 34 and 35) format, and provide prior year comparative data for the 2003 and 2004 fiscal years.

Fiscal Year 2004 Financial Highlights

- Student enrollment for the Fall 2003 semester reached a record high for the institution with a reported 1,101 students.
- Construction began on the new Student/Community Center that is adjacent to Samuel Moore Walton Hall. The completion of this 36,000 square foot facility is anticipated in early 2005.
- Total State Appropriations and Work Force 2000 Funding was $2,591,803 or approximately 49% of the total operating budget for FY04.
- Local funding from the Jackson County sales tax was $622,819 for the twelve month period.
- Approximately $75,000 in United States Department of Housing and Urban Development funds was approved for a new Commercial Driver Training classroom facility to be constructed in FY05. Other University funds will supplement the total cost of the $150,000 project.

Statement Discussion

Statement of Net Assets

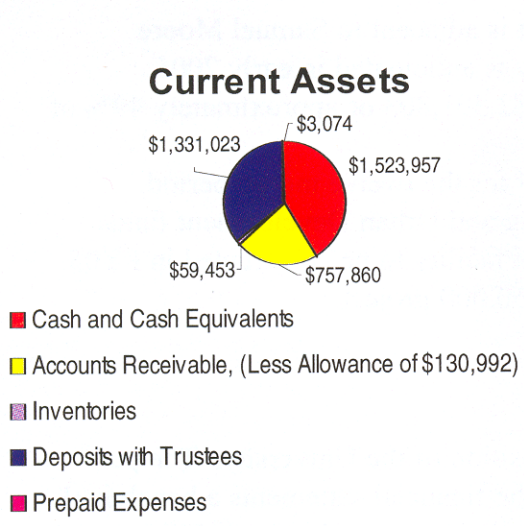
The Statement of Net Assets is designed to display the financial position of the University. The purpose of the Statement of Net Assets is to present to the readers of the financial statements a benchmark in which to analyze the financial stability of Arkansas State University-Newport. Assets, liabilities, and net assets are presented in the statement. Assets and liabilities are presented in two categories, current and noncurrent. Net assets are presented as capital assets net of related debt, restricted assets and unrestricted assets. Restricted assets are further categorized as expendable or nonexpendable.

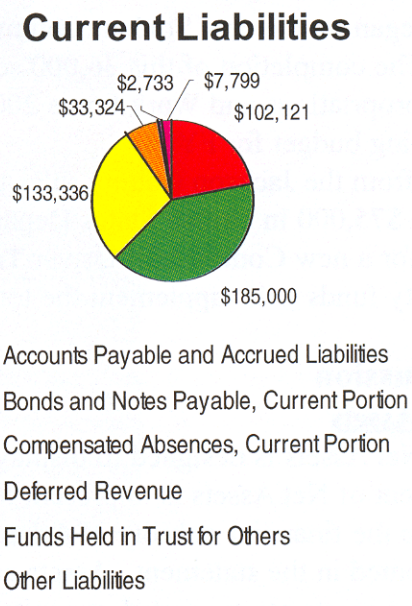
Readers of the Statement of Net Assets can determine the following information from the statement:

- The University has assets available to continue the operation of the University
- The amount owed vendors and lending institution
- The statement provides both short-term and long-term information
- The University is fiscally sound and has been a good steward of the monies provided to make educational programs available to students in the state

Condensed Statement of Net Assets

Assets:	2004	2003
Current Assets	$ 3,675,367	$ 5,985,290
Capital Assets, Net	6,539,334	6,058,215
Other Noncurrent Assets	3,324,160	1,519,269
Total Assets	$ 13,538,861	$ 13,562,774
Liabilities:		
Current Liabilities	$ 464,313	$ 350,210
Noncurrent Liabilities	4,762,074	4,935,713
Total Liabilities	$ 5,226,387	$ 5,285,923
Net Assets:		
Invested in Capital, Net of debt	$ 1,617,658	$ 1,056,539
Restricted-Expendable	5,141,457	6,042,020
Unrestricted	1,553,359	1,178,292
Total Net Assets	$ 8,312,474	$ 8,276,851
Total Liabilities and Net Assets	$ 13,538,861	$ 13,562,774





The total assets for 2004, $13,538,861, are slightly less than the previous reporting period; however, total net assets indicate an increase of $35,623 over the financial statement for 2003. Noncurrent liabilities are stated as $4,762,074 due primarily to the long-term debt undertaken with the addition of a revenue bond issue in 2003. The bond has a twenty-five year repayment schedule which is paid twice annually from student registration fees.

Statement of Revenues, Expenses, and Changes in Net Assets

The purpose of this statement is to present the revenues received by the institution, both operating and nonoperating, and the expenses paid by the institution, operating and nonoperating, and any other revenues, expenses, gains and losses received or spent by the institution.

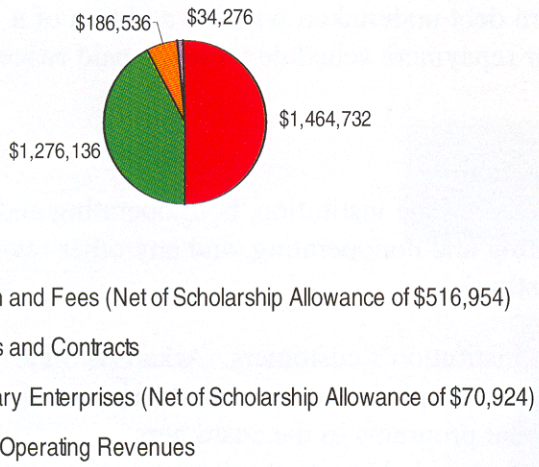
Operating revenues are received for providing services to the institution's customers. Arkansas State University-Newport customers are the students, communities and employers of northeast Arkansas. Operating expenses are the costs incurred to provide educational programs to the customers. Nonoperating revenues are received for goods and services not provided. State appropriations are an example of nonoperating revenue because they are provided by the legislature without the legislature directly receiving commensurate goods and services for those revenues.

Condensed Statement of Revenues, Expenses and Changes in Net Assets

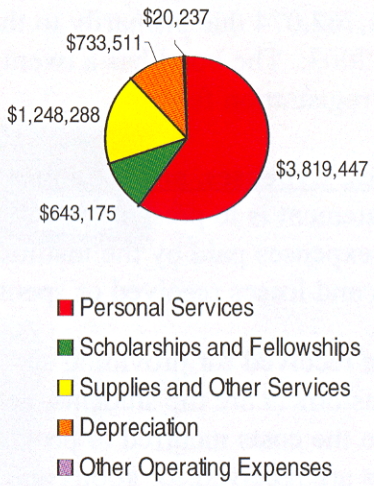
	2004	2003
Operating Revenues	$ 2,961,680	$ 3,414,020
Operating Expenses	6,464,658	5,556,474
Operating Income (Loss)	$ (3,502,978)	$ (2,142,454)
Nonoperating Revenues (Expenses)	$ 3,426,079	$ 2,175,972
Income (Loss) before Other Revenues, Expenses, Gains or Losses	$ (76,899)	$ 33,518
Other Revenues, Expenses, Gains or Losses	$ 112,522	$ 12,102
Increase (Decrease) in Net Assets	$ 35,623	$ 45,620
Net Assets, Beginning of Year	$ 8,276,851	$ 8,231,231
Net Assets, End of Year	$ 8,312,474	$ 8,276,851

Student/Community Center Construction

Operating Revenues



Operating Expenses



Highlights of the Statement of Revenues, Expenses and Changes in Net Assets are:

- Depreciation was shown as an operating expense in the amount of $733,511.
- Operating revenues include tuition and fees of $1,464,732 net of scholarship allowances in the amount of $516,954.
- Federal Grants and Contracts increased to the amount of $963,206.
- The University had net assets of $8,312,474.

Statement of Cash Flows

Cash activity for the University for the fiscal year is presented in the Statement of Cash Flows. The various sections of the statement present to the viewer the flows of cash in and out related to operating activities, noncapital financing activities, capital and related financing, and investing activities. The University experienced a net increase in cash of $1,134,413 for the year. Cash and cash equivalents for the year ending June 30, 2003 were $424,725 and cash and cash equivalents for June 30, 2004 were $1,559,138 as shown in the Statement of Cash Flows. The institution's operating loss was $3,502,978.

The final section of the report reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

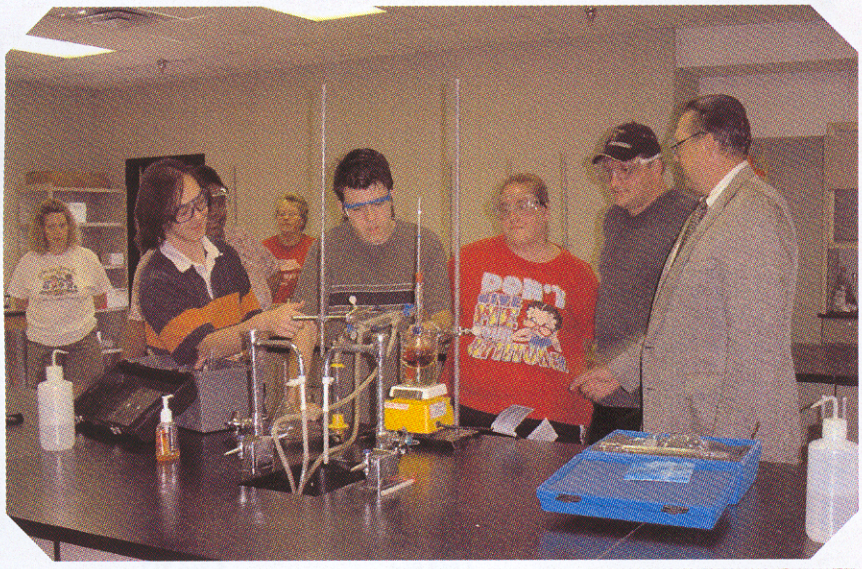
Condensed Statement of Cash Flows

	2004	2003
Cash Provided (Used) By:		
Operating Activities	$ (2,669,315)	$ (2,267,361)
Noncapital Financing Activities	3,379,679	2,407,391
Capital and Related Financing Activities	(1,436,040)	(812,466)
Investing Activities	1,860,089	(1,427,674)
Net Change in Cash	$ 1,134,413	$ (2,100,110)
Cash - Beginning of the Year	$ 424,725	$ 2,524,835
Cash - End of the Year	$ 1,559,138	$ 424,725

Economic Outlook

Arkansas State University-Newport continues to grow as a relatively young institution of higher learning. Programs, facilities, and student enrollment have improved steadily even though state economic projections have been less than encouraging in recent years. Like so many other institutions, more revenue must be generated in order to meet general obligations that directly impact the students served. Jackson County provides just over $600,000 annually through a one-half cent sales tax that provides a tremendous boost to the institution. Yet, as with other campuses, more state funding is needed in order to maintain the level and quality of educational services our students expect and deserve.

Even though the state has numerous funding challenges, more funding needs to flow to this institution preferably in the near future. Until that occurs, the University will continue to adjust cash revenues related to tuition and fees if necessary and will continue to control expenditures. Administrators are committed to maintaining high quality programs and services within the current budget constraints; however, funding issues must be addressed soon.



ASU-Newport Students

ARKANSAS STATE UNIVERSITY - NEWPORT
STATEMENT OF NET ASSETS
JUNE 30, 2004
(With Comparative Figures as of June 30, 2003)

ASSETS	2004	2003
CURRENT ASSETS		
CASH AND CASH EQUIVALENTS	$ 1,523,957	$ 391,535
ACCOUNTS RECEIVABLE, (LESS ALLOWANCE, $130,992-2004; $68,145-2003)	757,860	531,556
OTHER RECEIVABLES	0	100,890
INVENTORIES	59,453	41,577
DEPOSITS WITH TRUSTEES	1,331,023	4,898,938
PREPAID EXPENSES	3,074	1,441
OTHER ASSETS	0	19,353
TOTAL CURRENT ASSETS	**$ 3,675,367**	**$ 5,985,290**
NONCURRENT ASSETS		
RESTRICTED CASH AND CASH EQUIVALENTS	35,181	33,190
DEPOSITS WITH TRUSTEES	1,976,749	0
INTERMEDIATE AND LONG-TERM INVESTMENTS	1,312,230	1,486,079
CAPITAL ASSETS, (NET OF ACCUMULATED DEPRECIATION, $3,274,580-2004; $2,569,377-2003)	6,539,334	6,058,215
TOTAL NONCURRENT ASSETS	**$ 9,863,494**	**$ 7,577,484**
TOTAL ASSETS	**$ 13,538,861**	**$ 13,562,774**
LIABILITIES		
CURRENT LIABILITIES		
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	$ 102,121	$ 100,537
BONDS AND NOTES PAYABLE, CURRENT PORTION	185,000	130,000
COMPENSATED ABSENCES, CURRENT PORTION	133,336	96,055
DEFERRED REVENUE	33,324	21,402
FUNDS HELD IN TRUST FOR OTHERS	2,733	2,216
OTHER LIABILITIES	7,799	0
TOTAL CURRENT LIABILITIES	**$ 464,313**	**$ 350,210**
NONCURRENT LIABILITIES		
BONDS AND NOTES PAYABLE	4,736,676	4,871,676
COMPENSATED ABSENCES	25,398	64,037
TOTAL NONCURRENT LIABILITIES	**$ 4,762,074**	**$ 4,935,713**
TOTAL LIABILITIES	**$ 5,226,387**	**$ 5,285,923**
NET ASSETS		
INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT	$ 1,617,658	$ 1,056,539
RESTRICTED FOR:		
EXPENDABLE		
SCHOLARSHIPS AND FELLOWSHIPS	35,666	39,539
CAPITAL PROJECTS	4,968,964	5,866,217
DEBT SERVICE	136,827	136,264
UNRESTRICTED	1,553,359	1,178,292
TOTAL NET ASSETS	**$ 8,312,474**	**$ 8,276,851**

The accompanying notes are an integral part of these statements.

ARKANSAS STATE UNIVERSITY - NEWPORT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004
(With Comparative Figures for the year ended June 30, 2003)

	2004	2003
REVENUES		
OPERATING REVENUES		
TUITION AND FEES (NET OF SCHOLARSHIP ALLOWANCES, $516,964-2004; $484,437-2003)	$ 1,464,732	$ 1,500,871
GRANTS AND CONTRACTS	1,276,136	1,264,458
AUXILIARY ENTERPRISES (NET OF SCHOLARSHIP ALLOWANCES, $70,924-2004; $33,614-2003)	186,536	189,703
OTHER OPERATING REVENUES	34,276	458,988
TOTAL OPERATING REVENUES	**$ 2,961,680**	**$ 3,414,020**
EXPENSES		
OPERATING EXPENSES		
PERSONAL SERVICES	$ 3,819,447	$ 3,764,180
SCHOLARSHIPS AND FELLOWSHIPS	643,175	557,398
SUPPLIES AND OTHER SERVICES	1,248,288	966,070
DEPRECIATION	733,511	238,889
OTHER OPERATING EXPENSES	20,237	29,937
TOTAL OPERATING EXPENSES	**$ 6,464,658**	**$ 5,556,474**
OPERATING INCOME (LOSS)	**$ (3,502,978)**	**$ (2,142,454)**
NONOPERATING REVENUES (EXPENSES)		
STATE APPROPRIATIONS	$ 2,591,803	$ 2,252,196
SALES TAXES	622,819	0
GIFTS	188,233	152,352
INVESTMENT INCOME	154,803	52,893
OTHER NONOPERATING REVENUES (EXPENSES)	(131,579)	(281,469)
NET NONOPERATING REVENUES (EXPENSES)	**$ 3,426,079**	**$ 2,175,972**
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	**$ (76,899)**	**$ 33,518**
DELETION OF CAPITAL ASSETS	(1,163)	(165)
CAPITAL APPROPRIATIONS	113,685	32,024
CAPITAL GRANTS AND GIFTS	0	9,400
ADJUSTMENTS TO PRIOR YEAR REVENUES AND EXPENSES	0	(34,397)
OTHER CHANGES	0	5,240
TOTAL OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	**$ 112,522**	**$ 12,102**
INCREASE (DECREASE) IN NET ASSETS	**$ 35,623**	**$ 45,620**
NET ASSETS		
NET ASSETS-BEGINNING OF YEAR (RESTATED)	**$ 8,276,851**	**$ 8,231,231**
NET ASSETS-END OF YEAR	**$ 8,312,474**	**$ 8,276,851**

The accompanying notes are an integral part of these statements.

ARKANSAS STATE UNIVERSITY - NEWPORT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004
(With Comparative Figures for the year ended June 30, 2003)

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
TUITION AND FEES (NET OF SCHOLARSHIP ALLOWANCE, $516,964-2004; $484,437-2003)	$ 1,879,668	$ 1,098,348
GRANTS AND CONTRACTS	1,286,346	1,266,243
PAYMENTS TO SUPPLIERS	(1,316,808)	(981,098)
PAYMENTS TO EMPLOYEES	(2,955,462)	(2,924,767)
PAYMENTS FOR BENEFITS	(796,231)	(782,277)
SCHOLARSHIPS AND FELLOWSHIPS	(643,175)	(557,398)
AUXILIARY REVENUES (NET OF SCHOLARSHIP ALLOWANCE, $70,924-2004; $33,614-2003)	191,193	178,551
OTHER RECEIPTS (PAYMENTS)	(314,846)	435,037
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	**$ (2,669,315)**	**$ (2,267,361)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
STATE APPROPRIATIONS	$ 2,591,803	$ 2,252,196
SALES TAXES	622,819	0
PRIVATE GIFTS FOR ENDOWMENT PURPOSES	166,713	152,280
AGENCY TRANSACTIONS (NET)	(1,656)	2,915
NET CASH FLOWS PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	**$ 3,379,679**	**$ 2,407,391**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
CAPITAL APPROPRIATIONS	$ 113,684	$ 32,024
PURCHASES OF CAPITAL ASSETS	(1,213,463)	(822,883)
PRINCIPAL PAID ON CAPITAL DEBT	(130,000)	0
INTEREST PAID ON CAPITAL DEBT	(206,261)	(21,607)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	**$ (1,436,040)**	**$ (812,466)**
CASH FLOWS FROM INVESTING ACTIVITIES		
PROCEEDS FROM THE SALE AND MATURITY OF INVESTMENTS	$ 1,705,988	$ 0
INTEREST ON INVESTMENTS	154,101	58,405
PURCHASE OF INVESTMENTS	0	(1,486,079)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	**$ 1,860,089**	**$ (1,427,674)**
NET INCREASE (DECREASE) IN CASH	**$ 1,134,413**	**$ (2,100,110)**
CASH AND CASH EQUIVALENTS, JULY 1	**$ 424,725**	**$ 2,524,835**
CASH AND CASH EQUIVALENTS, JUNE 30	**$ 1,559,138**	**$ 424,725**

The accompanying notes are an integral part of these statements.

ARKANSAS STATE UNIVERSITY - NEWPORT
STATEMENT OF CASH FLOWS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2004
(With Comparative Figures for the year ended June 30, 2003)

RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
OPERATING INCOME (LOSS)	**$ (3,502,978)**	**$ (2,142,454)**
ADJUSTMENTS TO RECONCILE NET INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
DEPRECIATION EXPENSE	733,511	238,889
CHANGE IN ASSETS AND LIABILITIES		
(INCREASE)/DECREASE IN RECEIVABLES, NET	112,467	(394,521)
(INCREASE)/DECREASE IN INVENTORIES	17,876	5,541
(INCREASE)/DECREASE IN PREPAID EXPENSES	1,633	(726)
INCREASE/(DECREASE) IN ACCOUNTS PAYABLE	(4,287)	(17,504)
INCREASE/(DECREASE) IN DEFERRED REVENUE	(11,922)	9,434
INCREASE/(DECREASE) IN COMPENSATED ABSENCES	(1,358)	21,765
INCREASE/(DECREASE) IN DEPOSITS ON HAND	517	0
INCREASE/(DECREASE) IN OTHER LIABILITIES	(14,774)	12,215
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	**$ (2,669,315)**	**$ (2,267,361)**

ARKANSAS STATE UNIVERSITY

The accompanying notes are an integral part of these statements.

NOTE 1--Summary of Significant Accounting Policies

Financial Statement Presentation

Arkansas State University-Newport's statements are presented using the accrual basis of accounting including depreciation of capital assets. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has been incurred. All intra-agency transactions have been eliminated.

Cash and Cash Equivalents

All cash over which the University maintains discretionary investment control, except those required for retirement of outstanding bonds, construction and payroll, are consolidated into one operating bank account. This consolidation enhances the efficient utilization of cash by maintaining a minimum required balance on the books of the bank and a maximum amount invested. The difference between the time the checks are issued and the time they are presented for payment may often show a negative cash balance on the books of the University.

For the statement of cash flows, the University considers all highly liquid investments with an original maturity date of three months or less to be cash equivalents. Funds held by the state treasury are also considered cash equivalents.

Capital Assets

Capital assets are recorded at cost on date of acquisition or fair market value at date of receipt of gift. The University capitalizes any equipment with a unit cost of $2,500 or more and an estimated useful life of one or more years. Renovations to buildings, infrastructure or land that significantly increase the value or useful life of the structure are capitalized.

Depreciation is computed using the straight-line method over the estimated useful life of the asset based on the Arkansas Department of Higher Education recommendations of 3-7 years for furniture and equipment and 15 years for buildings, infrastructure and improvements.

Deferred Revenue

Deferred revenue includes amounts received for tuition and fees prior to the end of a fiscal year that are related to subsequent fiscal periods.

Compensated Absences

Employee vacation pay is accrued and recorded as a liability in the statements of net assets and as a component of employee benefits in the statement of revenue, expenses and changes in net assets.

Noncurrent Liabilities

Noncurrent liabilities include compensated absences that will not be paid within the next fiscal year.

Net Assets

- Invested in capital assets, net of related debt: This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets.
- Restricted net assets – expendable: Restricted expendable net assets include resources in which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.
- Unrestricted net assets: Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the University, and may be used at the discretion of the governing board to meet current expenses for any purpose.

Classification of Revenues

The University has classified its revenues as either operating or nonoperating revenues according to the following criteria:

- Operating Revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as student tuition and fees, net of scholarship discounts and allowances; sales and services of auxiliary enterprises, net of scholarship discounts and allowances; most federal, state and local grants and contracts.
- Nonoperating Revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB No. 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting, and GASB No. 34, such as state appropriations and investment income.

Scholarship Discounts and Allowances

Student tuition and fee revenues and certain other revenues 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 stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on behalf of the student.

NOTE 2--Compensated Absences

The liability account for employee annual leave time earned but not used as of June 30, 2004:

Current	Noncurrent
$ 133,336	$ 25,398

Students with Chancellor

NOTE 3--Deferred Revenues

Deferred revenues consist of funds received during 2003-04 fiscal year that are applicable to the 2004-05 fiscal year as follows:

Quality Improvement Fee	$	2,315
2nd Summer Tuition		22,965
Out of State Tuition		1,530
Lab Fees		340
Auto Registration Fees		170
Internet Lab Fee		1,720
Fall Tuition		4,284
TOTAL	$	33,324

NOTE 4--Accounts Receivable

A summary of accounts receivable at June 30, 2004 is as follows:

Current Unrestricted Funds Accounts Receivable	$	889,596
Current Restricted Funds Accounts Receivable		(744)
Allowance for Doubtful Accounts		(130,992)
TOTAL	$	757,860

NOTE 5--Accounts Payable and Accrued Liabilities

A summary of accounts payable and accrued liabilities at June 30, 2004 is as follows:

Payables due Vendors	$	55,495
Payables due Employees		46,626
TOTAL	$	102,121

NOTE 6--Inventories

Inventories are stated at cost, using the first-in-first-out method of valuation. Inventories at June 30, 2004 consisted of:

Bookstores	$	59,453

Main Building

NOTE 7--Capital Assets

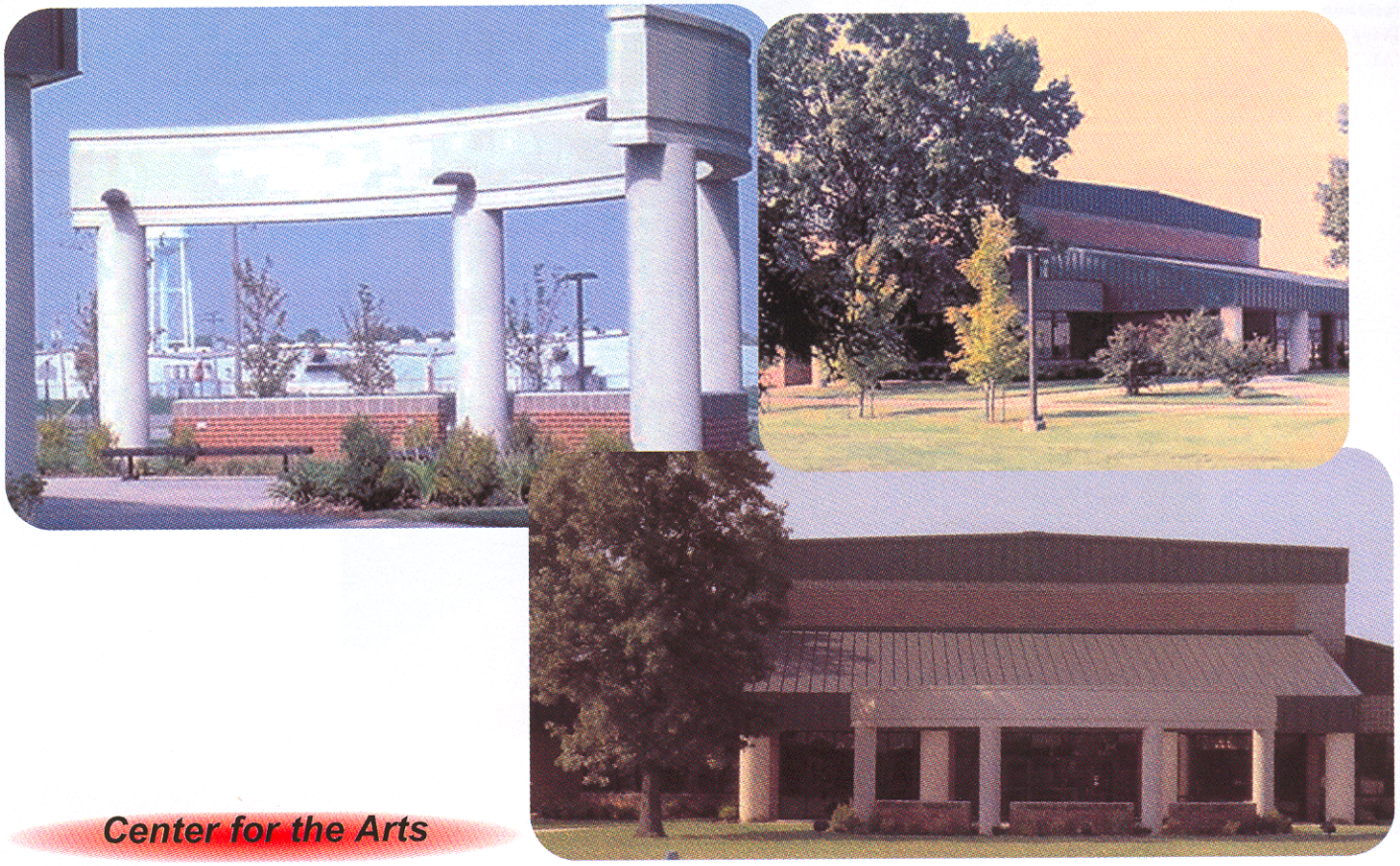
A summary of capital assets at June 30, 2004 is as follows:

	Balance July 1, 2003	Additions	Retirements	Balance June 30, 2004
Land	$ 89,700	$ 66,187	$ 0	$ 155,887
Construction in Progress	72,438	1,093,874	121,991	1,044,321
Improvements	172,648	25,151	0	197,799
Buildings	7,383,598	105,874	0	7,489,472
Equipment	660,749	37,859	28,810	669,798
Library Holdings	248,389	8,910	662	256,637
TOTAL	$ 8,627,522	$ 1,337,855	$ 151,463	$ 9,813,914

Less Accumulated Depreciation:

	Balance July 1, 2003	Additions	Retirements	Balance June 30, 2004
Improvements	$ 76,955	$ 11,509	$ 0	$ 88,464
Buildings	1,857,230	636,161	0	2,493,391
Equipment	500,123	61,067	27,976	533,214
Library Holdings	135,069	24,774	332	159,511
TOTAL	$ 2,569,377	$ 733,511	$ 28,308	$ 3,274,580

NET ASSETS $ 6,539,334



Center for the Arts

NOTE 8--Bonds and Contracts Payable

Bonds and contracts payable at June 30, 2004 amounted to $4,921,676. The scheduled principal and interest payments due are as follows:

	Principal	Interest	Total
2005	$ 185,000	$ 204,571	$ 389,571
2006	135,000	202,276	337,276
2007	140,000	199,576	339,576
2008	140,000	196,076	336,076
2009	145,000	192,156	337,156
2010-2014	800,000	882,973	1,682,973
2015-2019	970,000	713,433	1,683,433
2020-2024	1,210,000	476,925	1,686,925
2025-2029	1,196,676	152,750	1,349,426
TOTAL	$ 4,921,676	$ 3,220,736	$ 8,142,412

NOTE 9--Natural Classification with Functional Classifications

The University operating expenses by functional classifications were as follows:

	Personal Services	Scholarships	Supplies	Depreciation	Other	Total
Instruction	$ 1,939,055	$ 0	$ 443,725	$ 0	$ 0	$ 2,382,780
Academic Support	178,751	0	43,481	0	0	222,232
Student Services	321,945	34,228	81,034	0	0	437,207
Institutional Support	1,153,242	0	284,717	0	0	1,437,959
Operation of Plant	191,057	0	171,437	0	0	362,494
Scholarships	0	608,947	0	0	0	608,947
Other	0	0	0	0	20,237	20,237
Depreciation	0	0	0	733,511	0	733,511
Auxiliary Enterprises	35,397	0	223,894	0	0	259,291
TOTAL	$ 3,819,447	$ 643,175	$ 1,248,288	$ 733,511	$ 20,237	$ 6,464,658

Samuel Moore Walton Hall