

ARKANSAS TECH  
UNIVERSITY

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Financial Report  
2011-12

# 2011-2012 Financial Report

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Management's  
Discussion  
and  
Analysis

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the year ended June 30, 2012



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### **Overview of Financial Statements and Financial Analysis**

Arkansas Tech University is proud to present its consolidated financial statements for fiscal year 2011-12. Comparative data for fiscal years 2011-12 and 2010-11 are presented in the statements. The following discussion and analysis of Arkansas Tech University's consolidated financial statements provides an overview of the University's financial activities for the fiscal year ended June 30, 2012. Management has prepared the financial statements, the related footnote disclosures, and Management's Discussion and Analysis as required by Governmental Accounting Standards Board (GASB) Statements 34 and 35.

Arkansas Tech University has completed another fiscal year with positive results. We have continued our enrollment growth which translates into record occupancy and utilization of our various auxiliary services, such as residence halls, apartments, food services and the bookstore.

We have been challenged during FY 11-12 as state funding has remained flat and our investment income has decreased as interest rates have declined to very low levels. Major emphasis has been placed on the management of our expenses, such as utilities, scholarships, travel, vehicle maintenance and personnel cost to assure that our operations remain within established budgetary limits.

The student population growth continues and we are encouraged by other positive trends during FY 11-12. We were able to do the following:

- Increased enrollment by 6.61%
- Transfer \$881,654 to Infrastructure Reserves.
- Transfer \$348,881 to Funded Depreciation.
- Campus construction and renovations of \$13,723,301.
- Purchase \$843,815 in capital equipment.
- Fund \$3,972,153 for critical maintenance repairs.

There are three financial statements presented: Statement of Net Assets; Statement of Revenues, Expenses and Changes in Net Assets; and Statement of Cash Flows.

### **Condensed Statement of Net Assets**

The Statement of Net Assets presents the assets, liabilities, and net assets of the University at the end of the fiscal year. The purpose of this statement is to show the financial position on a certain date in time and to present to readers a fiscal snapshot of Arkansas Tech University at year-end. The Statement of Net Assets presents year-end data concerning assets (current and noncurrent), liabilities (current and noncurrent), and net assets (assets minus liabilities).

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the year ended June 30, 2012



**Condensed Statement of Net Assets (continued)**

The difference between current and noncurrent assets is discussed in the footnotes to the financial statements. From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the institution. They are also able to determine how much the institution owes vendors, investors and lending institutions. Finally, the Statement of Net Assets provides a picture of the net assets (assets minus liabilities) and of their availability for expenditure by the institution.

Net Assets are divided into three major categories. The first category—invested in capital assets, net of debt—provides information on the institution’s equity in property, plant and equipment. The next asset category—restricted assets—is divided into two categories: nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes.

Expendable restricted net assets are available for expenditure by the institution but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on them. The final category—unrestricted net assets—is available to the institution for any lawful purpose of the institution.

Condensed Statement of Net Assets

	June 30, 2012	June 30, 2011
<b>Assets:</b>		
Current assets	\$ 44,480,267	\$ 42,403,268
Noncurrent assets	29,400,527	16,816,319
Capital assets, net	110,421,763	103,169,727
<b>Total Assets</b>	<b>\$ 184,302,557</b>	<b>\$ 162,389,314</b>
 <b>Liabilities:</b>		
Current liabilities	\$ 7,694,978	\$ 7,884,013
Noncurrent liabilities	74,749,315	62,421,558
<b>Total Liabilities</b>	<b>\$ 82,444,293</b>	<b>\$ 70,305,571</b>
 <b>Net Assets:</b>		
Invested in capital assets, net of debt	\$ 37,557,989	\$ 52,058,181
Restricted - expendable	13,921,674	5,948,226
Restricted - nonexpendable	322,545	331,539
Unrestricted	50,056,056	33,745,797
<b>Total Net Assets</b>	<b>\$ 101,858,264</b>	<b>\$ 92,083,743</b>

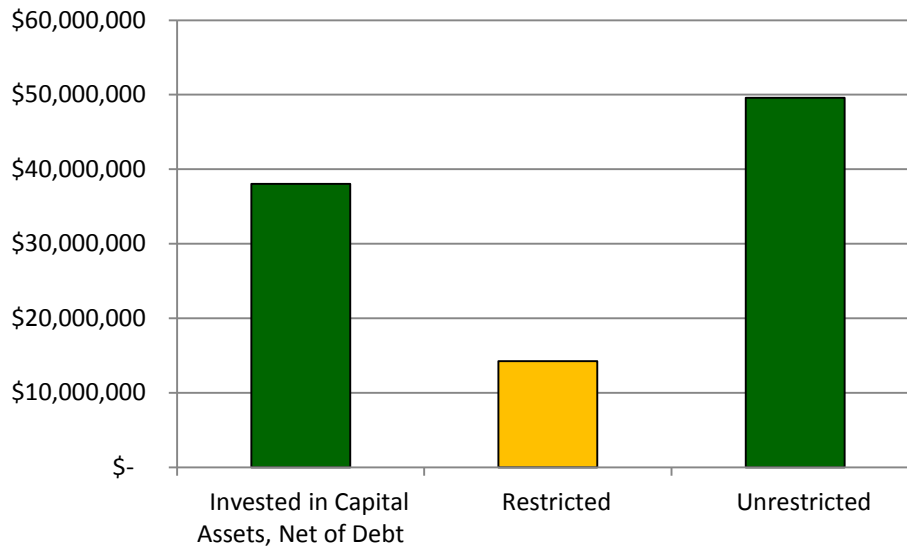
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the year ended June 30, 2012



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**Condensed Statement of Net Assets (continued)**

**NET ASSETS**



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

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses and Changes in Net Assets. The purpose of the statement is to present the revenues received by the institution, both operating and nonoperating, and the expenses paid by the institution, both operating and nonoperating, and any other revenues, expenses, gains and losses received or expended by the institution.

Generally speaking, operating revenues are received for providing goods and services to the various customers 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.)



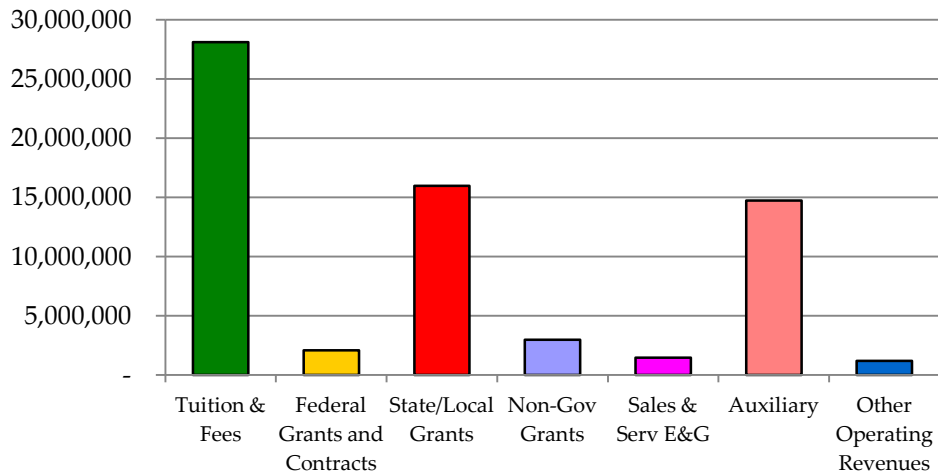
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the year ended June 30, 2012



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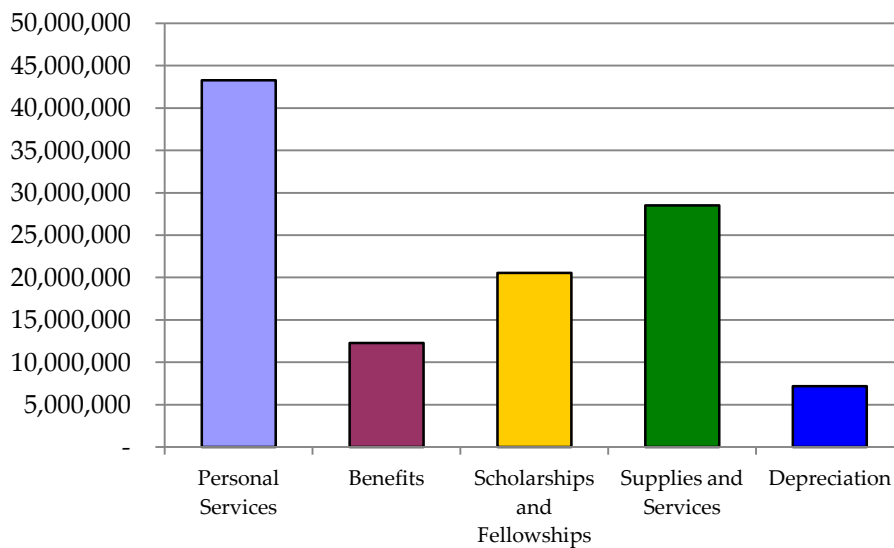
<u>Condensed Statement of Revenues, Expenses and Changes in Net Assets</u>		
	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Operating revenues	\$ 66,521,807	\$ 59,694,389
Operating expenses	<u>(111,430,165)</u>	<u>(104,155,653)</u>
Operating loss	(44,908,358)	(44,461,264)
Nonoperating revenues and expenses	<u>52,902,167</u>	<u>54,683,562</u>
Income (loss) before other revenues, expenses, gains, or losses	7,993,809	10,222,298
Other revenues, expenses, gains or losses	<u>1,780,712</u>	<u>1,218,831</u>
Increase (Decrease) in Net Assets	<u>9,774,521</u>	<u>11,441,129</u>
Net Assets at beginning of year - restated	<u>92,083,743</u>	<u>80,642,614</u>
Net Assets at end of year	<u>\$ 101,858,264</u>	<u>\$ 92,083,743</u>

# Arkansas Tech University Operating Revenues



*Note: Per GASB Statement No. 34, State General Revenues of \$35,226,215 received by Arkansas Tech University are classified as Non-operating Revenue.*

# Arkansas Tech University Operating Expenses



MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the year ended June 30, 2012



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### Condensed Statement of Cash Flows

The final statement presented by Arkansas Tech University is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the institution during the year. The statement is divided into five sections. The first section shows the net cash used by the operating activities of the institution. The second section reflects cash flows from non-capital financing activities and specifically reflects the cash received and spent for nonoperating, non-investing and non-capital financing purposes. The third section deals with the cash flows from capital and related financing activities. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds and interest received from investing activities. The fifth section 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

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Cash provided (used) by:		
Operating activities	\$ (36,390,764)	\$ (38,290,297)
Noncapital financing activities	54,854,603	57,123,356
Capital and related financing activities	(4,719,625)	(14,382,166)
Investing activities	<u>4,626,826</u>	<u>3,043,904</u>
Net Change in Cash	\$ 18,371,040	\$ 7,494,797
Cash, beginning of year	<u>27,550,127</u>	<u>20,055,330</u>
Cash, end of year	<u>\$ 45,921,167</u>	<u>\$ 27,550,127</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the year ended June 30, 2012



**Capital Asset and Debt Administration**

Capital Assets

At June 30, 2012, the University had \$190,809,084 invested in capital assets, less accumulated depreciation of \$80,387,321. Depreciation charges total \$7,181,594 for the current fiscal year. Details of these assets are shown below.

<u>Capital Assets (Net)</u>	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Land, improvements and infrastructure	\$ 11,459,524	\$ 9,741,331
Buildings	86,402,933	75,835,919
Construction in progress	7,767,570	12,421,266
Furniture, fixtures and equipment	2,436,659	2,436,608
Intangible Asset	411,178	614,952
Capital lease	555,359	742,421
Library holdings	1,198,543	1,230,125
Livestock for educational purposes	<u>189,997</u>	<u>147,105</u>
 Total	 <u>\$ 110,421,763</u>	 <u>\$ 103,169,727</u>

Major capital additions completed this year, and the source of the funding used for their acquisition, include:

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
McEver—Bond issue, ARRA, capital appropriations	\$ 5,646,746	
Baswell Student Union—University Funds	2,949,783	
Brown Hall Reroof—University Funds	110,236	
ATU Bell Tower—University Funds	185,096	
Chambers Reroof—University Funds	353,328	
Student Support Services—University Funds	171,725	
Tucker Coliseum—University Funds	148,327	
Tucker Hall—Bond issue	1,070,317	
Roush Hall--University Funds		\$ 39,440
Dean Hall--University Funds		33,827
ATU Energy Center--University Funds		64,534
Lakepoint--University Funds		<u>48,614</u>
Total	<u>\$ 10,635,558</u>	<u>\$ 186,415</u>

More detailed information about the University's capital assets is presented in Note 8 and Note 13 to the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the year ended June 30, 2012



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## Capital Asset and Debt Administration (continued)

### Debt

At June 30, 2012, the University had \$70,762,217 in debt outstanding versus \$59,445,978 the previous year. Principal payments made on debt during the year were \$1,634,769. The table below summarizes these amounts by type of debt instrument.

<u>Outstanding Debt</u>	<u>June 30, 2012</u>	<u>June 30, 2011*</u>
Educational and general revenue bonds	\$ 27,115,000	\$ 25,570,000
Auxiliary facility revenue bonds	43,085,000	32,555,000
Capital lease obligations	592,499	771,664
Installment contract	299,891	390,966
Unamortized bond premium	154,847	84,028
Deferral on debt refunding	(485,020)	
Total	<u>\$ 70,762,217</u>	<u>\$ 59,371,658</u>

\*Fiscal Year ended June 30, 2011, was restated to correct an error concerning the bond discount. Further information can be found in Note 23 to the financial statements.

More detailed information about the University's long-term liabilities is presented in Notes 10, 11 and 12 to the financial statements.

### Economic Outlook

The University's overall financial position is strong. Consistent student enrollment growth along with innovative academic programs and proactive budget management policies make us optimistic for the University's operations during FY 12-13. We will manage our resources and make adjustments as necessary to assure the continued financial integrity of the University.

*Mr. David C. Moseley*

Vice President for Administration and Finance

ARKANSAS TECH  
UNIVERSITY

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Statement  
of  
Net Assets

COMPARATIVE STATEMENT OF NET ASSETS  
June 30, 2012

Exhibit A



	June 30,	
	2012	2011
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 27,052,098	\$ 20,918,001
Short-term investments	10,421,920	14,715,733
Accounts receivable (less allowances of \$323,733 and \$300,880, respectively)	4,759,540	5,027,079
Notes receivable (less allowances of \$59,029 and \$61,934, respectively)	109,542	94,819
Inventories	839,222	792,371
Prepaid expenses	1,252,503	811,989
Deferred charges - bond issuance cost	45,442	43,276
Total Current Assets	<u>44,480,267</u>	<u>42,403,268</u>
Noncurrent Assets:		
Restricted cash and cash equivalents	18,869,069	6,632,126
Deposits with trustee	4,556,497	4,420,293
Endowment investments	2,195,544	2,470,367
Restricted Investments	1,355,176	1,060,494
Restricted accounts receivable		100
Notes receivable (less allowances of \$635,238 and \$626,226 for 2011)	1,010,734	951,813
Prepaid expenses	205,085	299,890
Deferred charges - bond issuance cost	1,208,422	981,236
Capital assets (net of accumulated depreciation of \$80,387,321 and \$74,563,743, respectively)	110,421,763	103,169,727
Total Noncurrent Assets	<u>139,822,290</u>	<u>119,986,046</u>
<b>TOTAL ASSETS</b>	<u><b>\$ 184,302,557</b></u>	<u><b>\$ 162,389,314</b></u>

COMPARATIVE STATEMENT OF NET ASSETS  
June 30, 2012

Exhibit A



<b>Current Liabilities:</b>		
Accounts payable and accrued liabilities	\$ 2,907,106	\$ 3,107,613
Bonds, notes, installment contracts and leases payable	1,837,732	1,693,741
Compensated absences	471,776	1,319,153
Deferred revenue	1,630,307	953,205
Funds held in trust for others	831,739	798,261
Other liabilities	16,318	12,040
<b>Total Current Liabilities</b>	<b>7,694,978</b>	<b>7,884,013</b>
<b>Noncurrent Liabilities:</b>		
Accounts payable and accrued liabilities	362,098	592,518
Bonds, notes, installment contracts and leases payable	68,924,485	57,677,917
Compensated absences	1,275,542	501,137
Net other postemployment benefit liability	3,187,273	2,591,933
Refundable Federal Advances	999,917	1,058,053
<b>Total Noncurrent Liabilities</b>	<b>74,749,315</b>	<b>62,421,558</b>
<b>TOTAL LIABILITIES</b>	<b>82,444,293</b>	<b>70,305,571</b>
 <b>NET ASSETS</b>		
Invested in capital assets, net of related debt	37,557,989	52,058,181
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	155,929	155,929
Loans	166,616	175,610
Expendable:		
Scholarships and fellowships	437,167	434,737
Loans		
Capital projects	6,628,245	
Debt service	4,616,785	3,311,915
Education and General Departments	2,239,477	2,201,574
Other		
Unrestricted	50,056,056	33,745,797
<b>TOTAL NET ASSETS</b>	<b>101,858,264</b>	<b>92,083,743</b>
<b>TOTAL LIABILITIES and NET ASSETS</b>	<b>\$ 184,302,557</b>	<b>\$ 162,389,314</b>

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





Statement of  
Net Assets-  
Component Units

COMPARATIVE STATEMENT OF NET ASSETS – COMPONENT UNIT  
 ARKANSAS TECH UNIVERSITY FOUNDATION, INC.  
 June 30, 2012

Exhibit A-1



	June 30,	
	2012	2011
<b>ASSETS</b>		
Cash and cash equivalents	\$ 450,027	\$ 712,883
Promises to give	280,085	152,146
Accounts receivable	2,425	21,338
Investments		
Marketable investments	15,825,796	16,018,141
Annuities	406,437	424,629
<b>TOTAL ASSETS</b>	<b>16,964,770</b>	<b>17,329,137</b>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable and accrued liabilities	106,132	77,025
Note Payable		
University funds under management	2,195,544	2,238,607
Reserve for annuities payable	119,017	125,705
Deferred compensation	250,000	200,000
<b>TOTAL LIABILITIES</b>	<b>2,670,693</b>	<b>2,641,337</b>
<b>NET ASSETS</b>		
Unrestricted	1,774,339	2,003,758
Temporarily restricted	3,171,662	3,826,256
Permanently restricted	9,348,076	8,857,786
<b>Total Net Assets</b>	<b>14,294,077</b>	<b>14,687,800</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 16,964,770</b>	<b>\$ 17,329,137</b>

COMPARATIVE STATEMENT OF NET ASSETS – COMPONENT UNIT  
 ARKANSAS TECH UNIVERSITY FACILITIES DEVELOPMENT FOUNDATION, INC.  
 June 30, 2012

Exhibit A-2



	June 30,	
	2012	2011
<b>ASSETS</b>		
Current Assets:		
Due from Arkansas Tech University	\$ 206,387	\$ 338,774
Rent receivable (net of allowance for doubtful accounts of \$4,668 and \$6,354, respectively)	42,016	47,961
Unrestricted cash	573	573
Total Current Assets	248,976	387,308
Restricted cash and cash equivalents	3,706,726	3,103,328
Property and equipment at cost:		
Property and equipment	7,719,755	7,719,755
Less accumulated depreciation	2,895,231	2,671,707
Net property and equipment	4,824,524	5,048,048
Other Assets:		
Unamortized Debt issuance cost	181,334	192,842
Unamortized Debt discount	193,012	205,052
Total Other Assets	374,346	397,894
TOTAL ASSETS	\$ 9,154,572	\$ 8,936,578
<b>LIABILITIES AND UNRESTRICTED</b>		
Current Liabilities:		
Current maturities of long-term debt	\$ 285,000	\$ 265,000
Accounts payable		60
Security deposits	66,775	69,750
Accrued interest	24,076	35,127
Total Current Liabilities	375,851	369,937
Long-term debt	6,590,000	6,875,000
Unrestricted net assets	2,188,721	1,691,641
TOTAL LIABILITIES AND NET ASSETS	\$ 9,154,572	\$ 8,936,578



Statement of  
Revenues, Expenses and  
Changes in Net Assets

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
For the year ended June 30, 2012

Exhibit B



	For the year ended June 30,	
	2012	2011
<b>OPERATING REVENUES</b>		
Student tuition and fees (net of scholarship allowances of \$21,464,330 and \$20,654,868, respectively)	\$ 28,117,154	\$ 24,071,341
Federal grants and contracts	2,072,120	2,486,445
State and local grants and contracts	15,961,816	15,157,914
Non-governmental grants and contracts	2,980,521	2,621,831
Sales and services of educational departments	1,458,435	527,000
Auxiliary enterprises:		
Athletics (net of scholarship allowances of \$708,915 and \$631,035 respectively)	3,467,677	3,313,187
Residence life (net of scholarship allowances of \$3,216,684 and \$3,064,159 respectively)	4,213,689	3,570,994
Bookstore	3,826,475	3,644,285
Food service (net of scholarship allowances of \$2,408,158 and \$2,244,258 respectively)	2,989,281	2,773,119
Health Services	243,886	254,744
Other operating revenues	1,190,753	1,273,529
<b>TOTAL OPERATING REVENUES</b>	<b>66,521,807</b>	<b>59,694,389</b>
<b>OPERATING EXPENSES</b>		
Personal services	43,252,012	39,946,702
Benefits	12,284,200	11,459,599
Scholarships and fellowships	20,561,819	21,789,798
Supplies and services	28,150,540	24,773,248
Depreciation	7,181,594	6,186,306
<b>TOTAL OPERATING EXPENSES</b>	<b>111,430,165</b>	<b>104,155,653</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(44,908,358)</b>	<b>(44,461,264)</b>

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
For the year ended June 30, 2012

Exhibit B



	For the year ended June 30,	
	2012	2011
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
State appropriations	\$ 35,226,215	\$ 33,986,471
Governmental grants	20,297,949	22,951,269
Investment income (net of investment expense of \$5,868 and \$3,583 respectively)	277,898	672,125
Interest on capital asset related debt	(2,716,988)	(2,713,956)
Paying agents fees capital asset related debt	(42,811)	(42,899)
Gain or (loss) on disposal of capital assets	(36,321)	(26,040)
Sale of livestock for educational purposes	(82,900)	(91,495)
Other revenues (expenses)	(20,875)	(51,913)
<b>NET NON-OPERATING REVENUES (EXPENSES)</b>	<b>52,902,167</b>	<b>54,683,562</b>
<b>INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES</b>	<b>7,993,809</b>	<b>10,222,298</b>
Capital appropriations	222,793	50,000
Capital grants and gifts	1,380,564	1,117,242
Bond discount and issue costs	(267,581)	(65,124)
Additions to endowments	409	50,612
Increase in valuation of livestock	104,078	
Adjustments to prior year revenues and expenses	266,945	65,440
Other	73,504	661
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>9,774,521</b>	<b>11,441,129</b>
<b>NET ASSETS - BEGINNING OF YEAR</b>	<b>92,083,743</b>	<b>80,642,614</b>
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 101,858,264</b>	<b>\$ 92,083,743</b>

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



Statement of  
Revenues, Expenses and  
Changes in Net Assets-  
Component Units

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS – COMPONENT UNIT  
 ARKANSAS TECH UNIVERSITY FOUNDATION, INC. Exhibit B-1  
 For the year ended June 30, 2012



	Year Ended June 30,	
	2012	2011
Public support revenues and reclassifications:		
Contributions	\$ 2,294,015	\$ 2,193,312
Investment income	(91,009)	1,648,990
Net assets released from restrictions:		
Total public support, revenues and reclassifications	2,203,006	3,842,302
 Expenses		
Scholarships	410,027	410,751
Capital outlay	1,140,159	353,238
Supplies	184,649	141,792
Professional fees and services	288,700	134,053
Travel and travel items	160,117	144,160
Printing	36,798	40,902
Salaries and benefits	155,093	128,317
Investment fees	29,405	37,392
Annuity benefis	22,711	22,387
Other	169,070	238,985
Total expenses	2,596,729	1,651,977
 Changes in net assets	(393,723)	2,190,325
 Net assets at beginning of year	14,687,800	12,497,475
Net assets at end of year	\$ 14,294,077	\$ 14,687,800



COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS – COMPONENT UNIT  
 ARKANSAS TECH UNIVERSITY FACILITIES DEVELOPMENT FOUNDATION, INC. Exhibit B-2  
 June 30, 2012



	Year Ended June 30,	
	2012	2011
Income:		
Rental	\$ 1,493,391	\$ 1,485,926
Investment	13,820	3,479
Other	8,347	8,845
Total Income	1,515,558	1,498,250
Expenses:		
Maintenance and repairs	187,125	417,871
Utilities	176,119	171,360
Insurance	56,434	54,672
Depreciation and amortization	247,073	273,530
Interest expense	292,777	387,638
Bad debts	1,348	7,639
Administrative cost-Arkansas Tech University	42,034	41,896
Trustee fees	5,688	2,785
Audit fees	7,750	5,200
Other	2,130	5,238
Total Expenses	1,018,478	1,367,829
Increase in unrestricted net assets	497,080	130,421
Unrestricted net assets at beginning of year	1,691,641	1,561,220
Unrestricted net assets at end of year	\$ 2,188,721	\$ 1,691,641



# Statement of Cash Flows

COMPARATIVE STATEMENT OF CASH FLOWS  
June 30, 2012

Exhibit C



	June 30, 2012	June 30, 2011
<b>Cash Flows From Operating Activities:</b>		
Tuition and fees	\$ 29,591,043	\$ 23,711,448
Grants and contracts	21,117,332	20,202,333
Payments to suppliers	(28,844,683)	(24,924,505)
Payments for personal services	(43,324,984)	(39,911,833)
Payments for benefits	(11,688,858)	(10,838,444)
Payments for scholarships and fellowships	(20,561,819)	(21,789,798)
<b>Auxiliary Enterprises:</b>		
Residential life	4,213,689	3,570,994
Food service	2,989,281	2,773,119
Bookstore	3,826,475	3,644,285
Athletics	3,467,677	3,313,187
Health services	243,886	254,744
Sales and service of educational department	1,458,435	527,000
Other receipts (payments)	1,121,762	1,177,173
Net Cash Provided (Used) by Operating Activities	(36,390,764)	(38,290,297)
<b>Cash Flows From Noncapital Financing Activities:</b>		
State appropriations	35,226,215	33,986,471
Direct lending receipts	38,514,947	32,820,132
Direct lending payments	(39,064,657)	(33,155,318)
Non-capital grants and gifts received	20,297,949	23,286,455
Principal paid on non-capital debt	(91,075)	(81,421)
Interest paid on non-capital debt	(13,987)	(16,013)
Additions to endowment funds	409	50,612
Student organization/agency transactions (net)	(40)	228,318
Prior period adjustments	(15,158)	4,120
Net Cash Provided (Used) by Noncapital Financing Activities	54,854,603	57,123,356
<b>Cash Flows From Capital and Related Financing Activities:</b>		
Capital appropriations	222,793	50,000
Capital grants and gifts received	1,089,371	1,076,623
Proceeds from sale of capital assets	7,323	7,373
Purchases of capital assets	(7,207,931)	(3,133,247)
Construction in progress expenditures	(7,298,491)	(9,817,919)
Distributions from trustee of current year bond proceeds and interest earnings	10,511,151	1,240,209
Distributions from trustee of prior year bond proceeds and interest earnings	2,508,846	943,637
Payments to trustees for bond principal	(1,634,769)	(1,886,550)
Payments to trustees for interest and fees	(2,711,177)	(2,672,428)
Principal paid on capital leases	(179,165)	(158,344)
Interest paid on capital leases	(27,576)	(31,520)
Net Cash Provided (Used) by Financing Activities	(4,719,625)	(14,382,166)

COMPARATIVE STATEMENT OF CASH FLOWS  
June 30, 2012

Exhibit C



	June 30,	
	2012	2011
Cash Flows From Investing Activities:		
Proceeds from sales and maturities of investments	\$ 16,056,098	\$ 19,479,277
Purchase of investments	(11,918,347)	(16,928,807)
Investment income	489,075	493,434
Net Cash Provided (Used) by Investing Activities	4,626,826	3,043,904
Net increase in cash	18,371,040	7,494,797
Cash-beginning of the year	27,550,127	20,055,330
Cash-end of the year	\$ 45,921,167	\$ 27,550,127
Reconciliation of net operating revenues (expenses) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (44,908,358)	\$ (44,461,264)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	7,181,594	6,186,306
Bad debt expense		(37,299)
Changes in assets and liabilities:		
Receivables	727,135	(371,179)
Credit memos	(52,420)	44,140
Inventories	(46,852)	(77,638)
Prepaid expenses	(345,709)	(465,102)
Payables	(252,777)	356,568
Unapplied student aid	662	(44,847)
Unclaimed property	3,616	(9,225)
Deferred revenue	779,977	(63,856)
Compensated absences	(72,972)	34,868
Other postemployment benefits	595,340	621,155
Other adjustments		(2,924)
Net cash provided (used) by operating activities	\$ (36,390,764)	\$ (38,290,297)
Noncash transactions:		
Donated capital assets	\$ 127,727	\$ 40,619
Increase/(Decrease) in market valuation of capital assets	(36,321)	23,740
Increase/(Decrease) in market valuation of investments	(116,759)	170,527
Proceeds from refunding bond issue deposited with trustee	12,835,455	
Issue costs on refunding bonds	229,545	
Premium on refunding bonds	63,845	
Accrued interest on refunding bonds	8,284	
Proceeds from bond issue deposited with trustee	13,097,530	4,000,931
Issue costs on bond proceeds	237,470	129,069
Premium on bond issues	10,475	
Long-term debt principal paid directly from deposit with trustee account		978,450
Interest and fees on long-term debt paid directly from deposit with trustee		7,759
Accrued interest on bond issue deposited with trustee	11,773	2,623

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



# Notes to the Financial Statements



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**NOTE 1: Summary of Significant Accounting Policies**

Nature of Operations: Arkansas Tech University is a multi-purpose, state-supported institution of higher education dedicated to providing an opportunity for higher education to the people of Arkansas and to serving the intellectual and cultural needs of the region in which it is located.

Reporting Entity: The financial reporting entity, as defined by Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*, consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete.

Arkansas Tech University is governed by a Board of Trustees. The State of Arkansas allocates and allots funds to each agency separately and requires that the funds be maintained accordingly. Because of this requirement, separate accounts are maintained for each agency.

Arkansas Tech University was created in 1909 by Act 100 of the Arkansas General Assembly. Under the provisions of this Act, the State was divided into four agricultural school districts. The General Assembly in 1925 changed the name from the Second District Agriculture College to Arkansas Polytechnic College with power to grant degrees. In 1948, the Board of Trustees converted the college from a junior college to a degree-granting institution. In accordance with Act 343 of the Arkansas General Assembly of 1975, the name was changed to Arkansas Tech University effective July 9, 1976. The institution's programs are now divided into the College of Education, Professional Studies and Community Outreach, Business, Arts and Humanities, Natural and Health Sciences, Applied Sciences and Graduate Studies.

Arkansas Valley Vocational Technical Institute (AVTI) merged with Arkansas Tech University effective July 1, 2003. Act 260 of 2007 changed the name of Arkansas Valley Technical Institute of Arkansas Tech University to Arkansas Tech University – Ozark Campus. The Ozark Campus of ATU is located 50 miles west of Russellville. Enrollment is approximately 2,033 students and the Ozark Campus offers eight associate degree programs, as well as 17 technical and vocational programs.

Arkansas Tech University – Ozark Campus acquired the Arkansas Tech University Career Center effective July 1, 2011. It is located in Russellville, Arkansas, and offers programs in ten career and technical areas. The enrollment is approximately 500 students from eleven area high schools.

The University is an institution of higher education of the State of Arkansas and is included in the financial statements of the State of Arkansas.



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**NOTE 1: Summary of Significant Accounting Policies (continued)**

The Arkansas Tech University Foundation, Inc. (the Foundation) is a legally separate, tax-exempt component unit of Arkansas Tech University (the University). The Foundation acts primarily as a fund-raising and asset management organization to develop and supplement the resources that are available to the University in support of its mission and programs. The 33 member board of the Foundation is self-perpetuating and consists of graduates and friends of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources or income thereon that the Foundation holds and invests is restricted to the activities of the University by donors. Because these restricted resources held by the Foundation may only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University under the guidelines established by Governmental Accounting Standards Board (GASB) Statement Number 39, *Determining Whether Certain Organizations are Component Units*. Accordingly, the financial statements of the Foundation are discretely presented in the University's financial statements in accordance with the provisions of GASB Statement Number 39.

During the year ended June 30, 2012, the Foundation transferred equipment and funds of \$250,126 to the University for proper accountability and academic support. Complete financial statements for the Foundation may be obtained from the Foundation at P. O. Box 8820, Russellville, AR 72801.

The Foundation reports under Financial Accounting Standards Board (FASB) standards. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the University's financial statements.

The Arkansas Tech University Facilities Development Foundation Inc. (the Facilities Development Foundation) is a legally separate, tax-exempt component unit of Arkansas Tech University (the University). The Facilities Development 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 five member board of the Facilities Development 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 Facilities Development Foundation, all resources, or income thereon, which the Facilities Development Foundation holds and invests are restricted to the activities of the University by donors. Because these restricted resources held by the Facilities Development Foundation may only be used by, or for the benefit of the University, the Facilities Development Foundation is considered a component unit of the University under the guidelines established by Governmental Accounting Standards Board (GASB) Statement Number 39, *Determining Whether Certain Organizations are Component Units*. Accordingly, the financial statements of the Facilities Development Foundation are discretely presented in the University's financial statements in accordance with the provisions of GASB Statement Number 39.

Complete financial statements for the Foundation may be obtained from the Facilities Development Foundation at 105 West O Street, Bryan Hall, Room 208, Russellville, AR 72801.



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**NOTE 1: Summary of Significant Accounting Policies (continued)**

The Facilities Development Foundation reports under Financial Accounting Standards Board (FASB) standards. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Development Foundation's financial information in the University's financial statements.

Financial Statement Presentation: In June 1999, the 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*. As an institution of higher education of the State of Arkansas, the University was required to adopt GASB Statements No. 34 and No. 35. The financial statement presentation required by GASB Statements No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the University's assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows. This replaces the fund-group perspective previously required.

Basis of Accounting: For financial reporting purposes, the University is considered a special-purpose government, engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resource management focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

The University has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The University has elected not to apply FASB pronouncements issued after the applicable date.

Cash Equivalents: For purposes of the statement of cash flows, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Investments: The University accounts for its investments at fair market 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 separately in the Statement of Revenues, Expenses and Changes in Net Assets. Nonparticipating contracts are reported at cost.

The University has implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3*. This accounting standard establishes more comprehensive disclosure requirements related to investment and deposit risks, but does not affect reported amounts of investments, net assets, or changes in net assets.





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**NOTE 1: Summary of Significant Accounting Policies (continued)**

Accounts Receivables: Accounts receivables consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. Accounts receivables also include amounts due from the Federal Government, state and local governments or private sources in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivables are recorded net of estimated uncollectible amounts.

Inventories: Inventories are carried at cost with cost being determined on a first-in, first-out ("FIFO") basis.

Capital Assets: Capital assets are recorded at cost on the date of acquisition or, in the case of gifts, fair market value on the date of donation. Livestock for educational purposes is recorded at estimated fair market value. The University's capitalization policy changed effective January 1, 2012, to include all items with a unit cost of \$5,000 or more and an estimated useful life of greater than one year, including renovations to buildings, infrastructure and land improvements that significantly increase the value and efficiency or extend the life of the structure. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 30 years for buildings, 15 years for infrastructure and land improvements, 10 years for library books and 4 to 7 years for equipment and intangible assets.

The University has implemented GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. The provisions of this Statement generally are required to be applied retroactively.

Deferred Revenues: Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

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



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**NOTE 1: Summary of Significant Accounting Policies (continued)**

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

Net Assets: The University's net assets are classified as follows:

*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. Amounts to the extent debt has been incurred but not yet expended for capital assets are not included as a component of invested in capital assets, net of related debt.

*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.

*Restricted net assets – nonexpendable:* Nonexpendable net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal be maintained inviolate and in perpetuity and be invested for the purpose of producing present and future income that may either be expended or added to principal.

*Unrestricted net assets:* Unrestricted net assets represents 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 operation of the University and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises that are substantially self-supporting activities providing services for students, faculty and staff.

Income Taxes: The University, as a political subdivision of the State of Arkansas, is excluded from Federal income taxes under Section 115(1) of the Internal Revenue Code, as amended. The Foundations are exempt from income taxes under Section 501(C)(3) of the Internal Revenue Code.

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 (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most Federal, state, and local grants and contracts and Federal appropriations and (4) interest on institutional student loans.



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**NOTE 1: Summary of Significant Accounting Policies (continued)**

*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 Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement 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 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.

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

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

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.

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

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012



**NOTE 2: Cash and Cash Equivalents**

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

	Carrying Value	Bank Balance
Insured (FDIC)	\$ 2,289,868	\$ 2,290,140
Collateralized:		
Collateral held by the pledging bank or pledging bank's trust department in the University's name.	56,838,682	55,290,728
Uncollateralized	47,721	47,721
 Total Deposits	 \$ 59,176,271	 \$ 57,628,589

The above deposits do not include cash held on deposit in the State Treasury and cash on hand maintained by the University in the amounts of \$13 and \$24,375, respectively. The above total deposits include non-negotiable certificates of deposits of \$13,279,492 reported as investments and classified as nonparticipating contracts. Additionally, the deposits include certificates of deposit reported as deposits with trustee in the amount of \$1,502,396.

Custodial credit risk for deposits is the risk that the University's deposits may not be returned in the event of a bank or depository failure. The State Treasurer requires that all state funds be either insured by Federal Deposit Insurance or collateralized by securities held by the cognizant Federal Reserve Bank. The University's deposits with the State Treasurer are pooled with funds of other State Agencies and then, in accordance with statutory limitations, placed in financial institutions or invested, as the Treasurer may determine, in the State's name. It is the University's policy to require collateralization of 105 percent of the total bank deposits. At June 30, 2012, \$47,721 of the University's bank balance of \$57,628,589 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	<u>\$47,721</u>
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**NOTE 3: Investments**

The University has implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment of GASB Statement No. 3. The new accounting standard establishes more comprehensive disclosure requirements related to investment risks, but does not affect reported amounts of investments, net assets, or changes in net assets.

Credit risk for investments is the risk that an issuer or counterparty to the investment will not fulfill its obligations. Interest rate risk is the risk that interest rate fluctuations will adversely affect the fair value of an investment. The risks for the University's investments including the external investment pool and deposits with trustee are shown separately below:

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012



**NOTE 3: Investments (continued)**

External Investment Pool: The University has investments with the Arkansas Tech University Foundation, Inc. (ATUF) that are pooled with other ATUF funds. The pool was originally established in 1999 and the funds were invested in the Common Fund. In 2003, the funds were moved under the management of Monroe Vos Consulting Group. The total amount of the pool is \$14,519,139 and Arkansas Tech University owns approximately 15 percent of that amount. The funds are invested based on the ATUF Board’s approved policy of no more than five percent of the portfolio can be invested in one company. This policy reduces the concentration of credit risk.

The following table contains information on the risk disclosure for the external investment pool:

Type of Investment	Market Value	AAA	AA	A	≤BBB	NR
Corporate Bonds*	\$ 909,833	\$627,785	\$100,082	\$72,786	\$81,885	\$ 27,295
US Stocks	805,106					805,106
Non-US Stocks	153,030					153,030
Other	327,575					327,575
<b>Total investments</b>	<b>\$ 2,195,544</b>	<b>\$627,785</b>	<b>\$100,082</b>	<b>\$72,786</b>	<b>\$81,885</b>	<b>\$1,313,006</b>

*\*Note: Average Effective Maturity and Average Effective Duration were 6.51 and 5.20, respectively.*

Interest Rate Risk

Interest rate risk is the risk that changes in the interest rates will adversely affect the fair value of an investment. Governments with investments in external investment pools are required to disclose the interest rate risk of such investments. Interest rate risk exposure for the corporate bonds and stocks would be minimal due to the Arkansas Tech University Foundation Board’s policy that no more than five percent of the portfolio can be invested in one company. The institution does not have a policy designed to manage interest rate risk.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Governments are required to disclose the credit quality ratings of debt securities and external investment pools.

Deposits with Trustee: At June 30, 2012, the University’s deposits with trustee in the amount of \$4,556,497 were invested in certificates of deposit, Federated Treasury Obligations and a money market treasury. The money market fund was rated AAAM by Standard & Poor’s and Aaa by Moody’s Investors Service and consisted of short term repurchase agreements and agencies in U.S. Treasuries. The effective average maturity was 44 days.

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012



**NOTE 4: Donor Restricted Endowment**

The University has a donor restricted endowment, entitled “Lillian Massie Permanent Endowment Fund”, that is to be used by the Department of Liberal and Fine Arts for support and scholarship. The original contribution was \$155,929 and the balance was \$157,824 as of June 30, 2012, for a net appreciation of \$1,895. The University may not spend any of the principal. 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. The original principal of \$155,929 was reported as nonexpendable restricted net assets and the \$1,895 net appreciation was reported as expendable restricted net assets. The University does not utilize a spending rate for the net appreciation.

**NOTE 5: Disaggregation of Accounts and Other Receivables**

Accounts receivable consisted of the following at June 30, 2012 and June 30, 2011, respectively:

	June 30, 2012	June 30, 2011
Student tuition and fees	\$ 1,195,432	\$ 1,203,945
Auxiliary enterprises and other operating activities	1,835,360	1,835,524
Scholarship	1,122	2,850
Federal, state and private grants and contracts	1,658,570	1,851,276
Accrued interest	5,582	6,154
Credit memos	225,266	172,846
Other	161,941	255,464
	<u>\$ 5,083,273</u>	<u>\$ 5,328,059</u>
Less allowance for doubtful accounts	<u>(323,733)</u>	<u>(300,880)</u>
Net accounts receivable	<u>\$ 4,759,540</u>	<u>\$ 5,027,179</u>

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012



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**NOTE 6: Inventories**

Inventories consisted of the following at June 30, 2012, and June 30, 2011, respectively:

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Museum	\$ 8,970	\$ 8,294
Bookstore	788,077	739,627
Post Office	15,052	14,632
Lake Point Conference Center	25,101	24,795
Hospitality	2,021	5,023
	<u>\$ 839,221</u>	<u>\$ 792,371</u>

**NOTE 7: Notes Receivable**

Student loans made through the Federal Perkins Loan Program (the Program) comprise substantially all of the notes receivable at June 30, 2012. The Program provides for cancellation of a loan at rates 10 percent to 30 percent per year up to a maximum of 100 percent if the participant complies with certain provisions. The Federal government reimburses the University for amounts cancelled under these provisions.

As the University determines that loans are uncollectible and not eligible for reimbursement by the Federal government, the loans are written off and assigned to the U.S. Department of Education. The University has provided an allowance for uncollectible notes that, in management's opinion, is sufficient to absorb loans that will ultimately be written off. At June 30, 2012, the notes receivable was \$1,120,276, net of the allowance for uncollectible loans of \$694,267.

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012



**NOTE 8: Capital Assets**

Following are the changes in capital assets for the year ended June 30, 2012:

	Balance June 30, 2011	Additions	Retirements	Balance June 30, 2012
<b>Capital assets not depreciated</b>				
Land	\$ 2,493,309	\$ 11,750		\$ 2,505,059
Landscaping	235,557			235,557
Livestock for educational purposes	147,105	130,578	(87,685)	189,998
Construction in progress	12,421,266	7,298,491	(11,952,187)	7,767,570
Total capital assets not being depreciated	<u>\$ 15,297,237</u>	<u>\$ 7,440,818</u>	<u>\$ (12,039,872)</u>	<u>\$ 10,698,183</u>
<b>Other capital assets</b>				
Intangible Asset - Software License	\$ 1,419,153			\$ 1,419,153
Capital Leases	935,310			935,310
Non-major infrastructure networks	5,066,477	358,221		5,424,698
Land improvements	7,399,397	2,252,345		9,651,742
Buildings	127,165,119	15,174,625		142,339,744
Furniture, fixtures and equipment	12,071,742	1,036,502	(1,371,190)	11,737,054
Library holdings	8,379,035	252,787	(28,622)	8,603,200
Total other capital assets	<u>\$ 162,436,233</u>	<u>\$ 19,074,480</u>	<u>\$ (1,399,812)</u>	<u>\$ 180,110,901</u>
<b>Less accumulated depreciation:</b>				
Intangible Asset - Software License	\$ (804,201)	\$ (203,774)		\$ (1,007,975)
Capital Leases	(192,889)	(187,062)		(379,951)
Non-major infrastructure networks	(2,104,721)	(356,797)		(2,461,518)
Land improvements	(3,348,688)	(547,327)		(3,896,015)
Buildings	(51,329,200)	(4,607,611)		(55,936,811)
Furniture, fixtures, and equipment	(9,635,134)	(994,655)	1,329,394	(9,300,395)
Library materials	(7,148,910)	(284,368)	28,622	(7,404,656)
Total accumulated depreciation	<u>\$ (74,563,743)</u>	<u>\$ (7,181,594)</u>	<u>\$ 1,358,016</u>	<u>\$ (80,387,321)</u>
Other capital assets, net	<u>\$ 87,872,490</u>	<u>\$ 11,892,886</u>	<u>\$ (41,796)</u>	<u>\$ 99,723,580</u>
<b>Capital Asset Summary:</b>				
Capital assets not being depreciated	\$ 15,297,237	\$ 7,440,818	\$ (12,039,872)	\$ 10,698,183
Other capital assets, at cost	162,436,233	19,074,480	(1,399,812)	180,110,901
Total cost of capital assets	<u>177,733,470</u>	<u>26,515,298</u>	<u>(13,439,684)</u>	<u>190,809,084</u>
Less accumulated depreciation	<u>(74,563,743)</u>	<u>(7,181,594)</u>	<u>1,358,016</u>	<u>(80,387,321)</u>
Capital assets, net	<u>\$ 103,169,727</u>	<u>\$ 19,333,704</u>	<u>\$ (12,081,668)</u>	<u>\$ 110,421,763</u>



NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012



**NOTE 9: Deferred Revenue**

Deferred revenue consists of the following at June 30, 2012 and June 30, 2011, respectively:

	June 30, 2012	June 30, 2011
Prepaid tuition and fees	\$ 401,967	\$ 18,243
Grants and contracts	970,193	715,421
Scholarships	153,352	120,489
Other	104,795	99,052
<b>Total</b>	<b>\$ 1,630,307</b>	<b>\$ 953,205</b>

**NOTE 10: Long Term Liabilities**

Long-term liability activity for the year ended June 30, 2012 was as follows:

Long Term Liabilities	June 30, 2011	Additions	Deletions	June 30, 2012	Current Portion	Noncurrent Portion
Revenue bonds	\$58,125,000	\$ 26,400,000	\$14,325,000	\$ 70,200,000	\$ 1,575,000	\$ 68,625,000
Plus bond premium	84,028	74,320	3,501	154,847	6,972	147,875
Less deferred amount on refundings		(485,020)		(485,020)	(25,527)	(459,493)
<b>Total bonds payable</b>	<b>58,209,028</b>	<b>25,989,300</b>	<b>14,328,501</b>	<b>69,869,827</b>	<b>1,556,445</b>	<b>68,313,382</b>
Capital leases	771,664		179,165	592,499	186,482	406,017
Installment contract	390,966		91,075	299,891	94,805	205,086
Compensated absences	1,820,290	578,952	651,924	1,747,318	471,776	1,275,542
<b>Total</b>	<b>\$61,191,948</b>	<b>\$ 26,568,252</b>	<b>\$15,250,665</b>	<b>\$ 72,509,535</b>	<b>\$ 2,309,508</b>	<b>\$ 70,200,027</b>

*Additional information regarding revenue bonds payable is included in Note 11.*

*Additional information regarding capital leases and installment contracts is included in Note 12.*

*Deletions column include debt refundings of \$12,690,231. Additional information is included in Note 24.*

*Bonds Payable beginning balance restated to correct prior year bond discount error. Additional information is included in Note 23.*

**NOTE 11: Bonds Payable**

Debt Service payments on the existing bonds amounted to \$1,634,769 for the fiscal year ended June 30, 2012. The retirement of some bond issues is secured by a specific pledge of certain gross revenues, surplus revenues and specific fees. Debt service accounts are funded at various times during the year by transfers from the applicable funds.

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012



<b>NOTE 11:</b>	<b>Bonds Payable (continued)</b>		
<b>Pledged Revenues</b>	<b>Amount Authorized and Issued</b>	<b>Debt Outstanding June 30, 2012</b>	<b>Maturities to June 30, 2012</b>
<b>Revenue Bonds Series 2001</b>			
<b>Nutt Hall</b>			
3.6% - 5.25 %			
Issuance Date: June 1, 2001			
Final Maturity Date: December 1, 2031			
Housing revenues will be maintained at level equal to at least 100% of the combined annual debt service.			
	10,000,000	8,035,000	1,965,000
<b>Revenue Bonds Series 2006</b>			
<b>Baswell Hall</b>			
3.55% - 5.00%			
Issuance Date: May 1, 2006			
Final Maturity Date: May 1, 2036			
Housing revenues will be maintained at a level to produce annual pledged revenues equal to at least 100% of the combined maximum annual debt service.			
	10,000,000	9,005,000	995,000
<b>Revenue Bonds Series 2007</b>			
<b>Women's Sports Complex</b>			
3.85% - 4.60%			
Issuance Date: March 1, 2007			
Final Maturity Date: March 1, 2037			
Athletic revenues will be maintained at a level to produce annual pledged revenues equal to at least 100% of the combined maximum annual debt service.			
	2,720,000	\$ 2,465,000	\$ 255,000
<b>Revenue Bonds Series 2008</b>			
<b>Eastgate and Campus Courts</b>			
3.00% - 4.80%			
Issuance Date: February 1, 2008			
Final Maturity Date: February 1, 2038			
Housing revenues will be maintained at level equal to at least 120% of the combined annual debt service.			
	1,505,000	1,390,000	115,000

*(Continued on next page)*

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012



<b>NOTE 11:</b>	<b>Bonds Payable (continued)</b>		
<b>Pledged Revenues</b>	<b>Amount Authorized and Issued</b>	<b>Debt Outstanding June 30, 2012</b>	<b>Maturities to June 30, 2012</b>
<b>Revenue Bonds Series 2008</b>			
<b>Physical Plant Facility</b>			
2.75% - 4.70%			
Issuance Date: April 1, 2008			
Final Maturity Date: April 1, 2038			
Student fees will be maintained at a level to produce annual pledged revenues equal to at least 120% of the combined maximum debt service.			
	3,300,000	3,050,000	250,000
<b>Revenue Bonds Series 2008</b>			
<b>Academic Advising Classroom (Rothwell Hall)</b>			
3.00% - 5.75%			
Issuance Date: December 1, 2008			
Final Maturity Date: December 1, 2038			
Student fees will be maintained at a level to produce annual pledged revenues equal to at least 120% of the combined maximum debt service.			
	3,090,000	\$ 2,955,000	135,000
<b>Revenue Bonds Series 2008</b>			
<b>Ozark Student Services Building</b>			
3.00% - 5.75%			
Issuance Date: December 1, 2008			
Final Maturity Date: December 1, 2038			
Student fees will be maintained at a level to produce annual pledged revenues equal to at least 120% of the combined maximum debt service.			
	2,105,000	1,970,000	135,000
<b>Revenue Bonds Series 2009</b>			
<b>Critz Hall and Hughes Hall</b>			
2.50% - 5.375%			
Issuance Date: April 1, 2009			
Final Maturity Date: April 1, 2039			
Housing revenues will be maintained at level equal to at least 120% of the combined annual debt service.			
	2,150,000	2,030,000	120,000

(Continued on next page)

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012



**NOTE 11: Bonds Payable (continued)**

Pledged Revenues	Amount Authorized and Issued	Debt Outstanding June 30, 2012	Maturities to June 30, 2012
<b>Revenue Bond Series 2009</b>			
<b>Rothwell Hall, Corley, McEver &amp; Lake Point</b>			
2.35% - 5.3%			
Issuance Date: September 1, 2009			
Final Maturity Date: September 1, 2040			
Student Fees will be maintained at a level to produce annual pledged revenues equal to at least 120% of the combined maximum debt service.			
	9,200,000	8,850,000	350,000
<b>Revenue Bond Series 2010</b>			
1.50%-4.50%			
Ozark Student Union - Auxiliary			
Issuance Date: September 1, 2010			
Final Maturity Date: September 1, 2040			
Auxiliary revenues will be maintained at a level to produce annual pledged revenues equal to at least 120% of the combined maximum debt service.			
	1,155,000	1,130,000	25,000
<b>Revenue Bond Series 2010</b>			
2.75%-4.50%			
Ozark Student Union - Student Fee			
Issuance Date: September 1, 2010			
Final Maturity Date: September 1, 2040			
Net tuition & fee revenue will be maintained at a level to produce annual pledged revenues equal to at least 125% of combined maximum debt service.			
	575,000	565,000	10,000
<b>Revenue Bonds Series 2011</b>			
<b>Tucker Hall</b>			
1.4%-5.2%			
Issuance Date: May 1, 2011			
Final Maturity Date: May 1, 2041			
Housing revenues will be maintained at level equal to at least 120% of the combined annual debt service.			
	2,400,000	2,355,000	45,000

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012



**NOTE 11: Bonds Payable (continued)**

Pledged Revenues	Amount Authorized and Issued	Debt Outstanding June 30, 2012	Maturities to June 30, 2012
<b>Revenue Bonds Series 2011</b>			
<b>"M" Street Dorm</b>			
1.3%-5.0%			
December 1, 2011			
Final Maturity Date: December 1, 2041			
Housing revenues will be maintained at level equal to at least 100% of the combined annual debt service.			
	7,600,000	7,600,000	-
<b>Revenue Bonds Series 2012</b>			
<b>"M" Street Dorm</b>			
2.0%-4.5%			
April 1, 2012			
Final Maturity Date: March 1, 2041			
Housing revenues will be maintained at level equal to at least 100% of the combined annual debt service.			
	4,905,000	4,905,000	-
<b>Revenue Bonds Series 2012</b>			
<b>2004 Paine Hall Refunding Bond</b>			
1.0%-4.1%			
April 1, 2012			
Final Maturity Date: March 1, 2030			
Housing revenues will be maintained at level equal to at least 100% of the combined annual debt service.			
	3,100,000	3,100,000	-
<b>Revenue Bonds Series 2012</b>			
<b>2007 Baswell Hall Refunding Bond</b>			
2.0%-4.4%			
April 1, 2012			
Final Maturity Date: March 1, 2037			
Housing revenues will be maintained at level equal to at least 100% of the combined annual debt service.			
	1,070,000	1,070,000	-

*(continued on next page)*

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012



**NOTE 11: Bonds Payable (continued)**

Pledged Revenues	Amount Authorized and Issued	Debt Outstanding June 30, 2012	Maturities to June 30, 2012
<b>Student Fee Revenue Bond 2012</b>			
<b>Old Art Building</b>			
2.0%-4.4%			
May 1, 2012			
Final Maturity Date: June 1, 2041			
Student Fees will be maintained at level equal to at least 120% of the combined maximum annual debt service.			
	830,000	830,000	-
<b>Student Fee Revenue Bond 2012</b>			
<b>2003 Art Building Refunding Bond</b>			
2.0%-4.0%			
May 1, 2012			
Final Maturity Date: June 1, 2033			
Student Fees will be maintained at level equal to at least 120% of the combined maximum annual debt service.			
	3,355,000	3,355,000	-
<b>Student Fee Revenue Bond 2012</b>			
<b>2004 Hull Building Refunding Bond</b>			
2.0%-3.7%			
May 1, 2012			
Final Maturity Date: December 1, 2029			
Student Fees will be maintained at level equal to at least 120% of the combined maximum annual debt service.			
	4,680,000	4,680,000	-
<b>Student Fee Revenue Bond 2012</b>			
<b>2005 Art Building Refunding Bond</b>			
2.0%-4.1%			
May 1, 2012			
Final Maturity Date: June 1, 2034			
Student Fees will be maintained at level equal to at least 120% of the combined maximum annual debt service.			
	860,000	860,000	-
Bond Premium	158,348	154,847	3,501
Deferral on Debt Refunding	(485,020)	(485,020)	
Totals	<u>\$ 74,273,328</u>	<u>\$ 69,869,827</u>	<u>\$ 4,403,501</u>

Principal and interest on these revenue bonds are collateralized by a pledge of revenues produced by the facilities constructed with the bond proceeds and/or student activity fees and facility fees. Certain of these bonds payable are callable at the option of the Board of Trustees.

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012



**NOTE 11: Bonds Payable (continued)**

As of June 30, 2012, debt service reserves aggregating \$1,994,582 were maintained. The University's reserve balances exceeded the reserve requirements at June 30, 2012.

The changes in bonds payable are as follows:

Balance July 1, 2011	Issued	Retired	Balance June 30, 2012
\$ 58,125,000	\$ 26,400,000	\$ 14,325,000	\$ 70,200,000

The principal and interest payments are as follows:

Year Ending June 30	Principal	Interest	Total
2013	1,575,000	2,970,764	4,545,764
2014	1,925,000	2,927,218	4,852,218
2015	1,975,000	2,873,281	4,848,281
2016	2,040,000	2,815,378	4,855,378
2017	2,095,000	2,753,041	4,848,041
2018-2022	11,560,000	12,648,325	24,208,325
2023-2027	13,955,000	10,215,358	24,170,358
2028-2032	15,645,000	6,902,961	22,547,961
2033-2037	12,765,000	3,449,110	16,214,110
2038-2042	6,665,000	676,416	7,341,416
Total	\$ 70,200,000	\$ 48,231,852	\$ 118,431,852

Bond principal due within one year is reported as short-term bonds, while all principal due over one year is reported as long-term bonds. Short-term and long-term bonds payable at June 30, 2012, were \$1,575,000 and \$68,625,000, respectively.

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012



**NOTE 12: Capital Leases and Installment Contracts Payable**

**Capital Lease Payable:**

The University entered into an agreement with Crockett Business Machines in November, 2008, to lease an Electronic Mailing System. The lease term is five years with payments made from Current Funds Unrestricted and the present value of net minimum lease payments at June 30, 2012 was \$5,724.

Total capital lease principal and interest payments on this lease are as follows:

Year Ending June 30,	Principal	Interest	Total
2013	3,995	210	4,205
2014	1,729	23	1,752
Totals	<u>\$ 5,724</u>	<u>\$ 233</u>	<u>\$ 5,957</u>

Additional information on the University's capital lease is below.

Class of Property	Asset Balance June 30, 2012
Equipment – Electronic Mailing System	\$ 18,401
<hr/>	
Total Minimum Lease Payments	5,957
Less: Amount Representing Interest	233
<hr/>	
Total Present Value of Net Minimum Lease Payments	<u>\$ 5,754</u>



NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012



**NOTE 12: Capital Leases and Installment Contracts Payable (continued)**

**Capital Lease Payable:**

The University entered into an agreement with IBM Credit LLC, in August, 2010, to lease redundant servers. The lease term is five years with payments made from Current Funds Unrestricted and the present value of net minimum lease payments at June 30, 2012 was \$586,775.

Total capital lease principal and interest payments on this lease are as follows:

Year Ending June 30,	Principal	Interest	Total
2013	182,488	20,048	202,536
2014	189,884	12,652	202,536
2015	197,581	4,955	202,536
2016	16,822	56	16,878
Totals	<u>\$ 586,775</u>	<u>\$ 37,711</u>	<u>\$ 624,486</u>

Additional information on the University's capital leases is below.

Class of Property	Asset Balance June 30, 2012
Equipment – Redundant Server	\$ 916,909
Total Minimum Lease Payments	624,486
Less: Amount Representing Interest	37,711
Total Present Value of Net Minimum Lease Payments	<u>\$ 586,775</u>

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012



**NOTE 12: Capital Lease and Installment Contracts Payable (continued)**

**Installment Contract Payable:**

The University entered into an agreement with Crockett Business Machines in November, 2008 for meter rental and maintenance on the Electronic Mailing System. The installment contract term is five years with payments made from unrestricted current funds.

Total installment contract principal and interest payments are as follows:

Year Ending June 30,	Principal	Interest	Total
2013	2,776	146	2,922
2014	1,203	14	1,217
Totals	<u>\$ 3,979</u>	<u>\$ 160</u>	<u>\$ 4,139</u>

The University also entered into an agreement with IBM Credit, LLC, in August, 2010, for maintenance on the IBM redundant server. The installment contract term is five years with payments made from unrestricted current funds.

Total installment contract principal and interest payments are as follows:

Year Ending June 30,	Principal	Interest	Total
2013	92,029	10,111	102,140
2014	95,759	6,381	102,140
2015	99,641	2,499	102,140
2016	8,483	28	8,511
Totals	<u>\$ 295,912</u>	<u>\$ 19,019</u>	<u>\$ 314,931</u>

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012



**NOTE 13: Commitments**

The Institution was contractually obligated for the following at June 30, 2012:

Project Name	Construction in Progress	Balance Remaining on Contract	Completion Date
Art Building Renovation	\$792,721	\$600,263	11/30/2012
ATU Energy Center	326,210	124,997	8/15/2012
Band Practice Field	214,169	516,672	10/31/2012
Baseball Field Complex	127,681	1,249,941	1/10/2013
Brown Hall	100,185	126,755	8/15/2012
Buerkle Field Renovation	343,383	34,000	10/31/2012
Caraway Hall Exterior Painting	71,246	62,428	8/15/2012
Wilson Hall Exterior Painting	15,936	13,964	8/15/2012
Caraway Reroof	9,549	1,007	8/15/2012
Doc Bryan	55,619		6/30/2014
Morton Hall Reroof	2,006		12/31/2012
New Academic Facility	109,248		6/30/2014
M Street Dorm	5,573,435	5,451,745	7/31/2013
Public Safety Building Addition	1,833		12/31/2012
Tucker Hall Reroof	24,350	3,450	12/31/2012
Total	\$ 7,767,571	\$ 8,185,222	



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**NOTE 14: Employee Retirement Benefits**

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

Plan Description: Arkansas Tech University participates in TIAA/CREF, a defined contribution plan. The plan is a 403(b) program as defined by Internal Revenue Service Code of 1986 as amended and is administered by TIAA/CREF. TIAA is an insurance company offering participants a traditional annuity with guaranteed principal and a specific interest rate plus the opportunity for additional growth through dividends. CREF is an investment company that offers a number of equity investment options. Arkansas Code Annotated § 24-7-804 authorizes participation in the plan. The University's contributions to TIAA/CREF for the years ended June 30, 2012, 2011 and 2010 were \$2,717,715, \$2,551,585, and \$2,536,460, respectively. Participants' contributions were \$2,026,996 for the year ended June 30, 2012.

Funding Policy: TIAA/CREF has contributory plans. Contributory members contribute a minimum of six percent of earnings to the plan. The University matches 10 percent for contributory members.

On September 1, 2004, the University also began offering the 457(b) plan. The plan is on a voluntary basis. Employees must reach their maximum contribution to the 403(b) plan before participating in the 457(b) plan and they are eligible to contribute up to the maximum amount established by the IRS. Employees have the same investment options under this plan as they do under the current 403(b) plan.

**Arkansas Teacher Retirement System:**

Plan Description: The University contributes to the Arkansas Teacher Retirement System (ATRS), a cost sharing, multiple employer defined benefit pension plan for employees who do not elect a qualified alternative retirement plan. ATRS, administered by a Board of Trustees, provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Teacher Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for ATRS. That report may be obtained by writing to Arkansas Teacher Retirement System, 1400 West Third Street, Little Rock, Arkansas 72201 or by calling 1-800-666-2877.

Funding Policy: ATRS has contributory and noncontributory plans. Contributory members are required by State law to contribute six percent of their salaries. Each participating employer is required by State law to contribute at a rate determined by the Board of Trustees, based on the annual actuarial valuation. The current employer rate is 14 percent of covered salaries, the maximum allowed by State law. The University contributions to ATRS for the years ended June 30, 2012, 2011 and 2010 were \$640,998, \$624,226, and \$560,838, respectively, equal to the required contributions for each year.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012



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**Arkansas Public Employees Retirement System**

Plan Description: The University contributes to the Arkansas Public Employees Retirement System (APERS), a cost sharing and multiple-employer defined benefit pension plan. Employees may elect coverage under APERS as a qualified retirement system. APERS, administered by a Board of Trustees, provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefit provisions are established by State Law and can be amended only by the Arkansas General Assembly. The Arkansas Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for APERS. That report may be obtained by writing to Arkansas Public Employees Retirement System, 124 West Capitol, Suite 400, Little Rock, Arkansas 72201 or by calling 1-800-682-7377.

Funding Policy: APERS has contributory and noncontributory plans. Contributory members are required by State law to contribute five percent of their salaries. Each participating employer is required by State law to contribute at a rate determined by the Board of Trustees, based on the annual actuarial valuation. The current employer rate for higher education entities is 12.46 percent of covered salaries. The University's contributions to APERS for the years ended June 30, 2012, 2011, and 2010, were \$772,791, \$583,873 and \$496,492, respectively, equal to the required contributions for each year.

**Alternate Retirement Plans: VALIC and Delta Life**

Arkansas Tech University Ozark Campus offers two different Alternate Retirement Plans. The Alternate Retirement Plans are defined contribution plans. The plans are 403(b) programs as defined by IRS Code of 1986 as amended, and is administered by the Arkansas State Board of Workforce Education and Career Opportunities and the respective plan providers. The administrator provides insurance policies and annuity contracts and when they are issued they become property of the participant. Act 480 of 1983 provides alternative retirement plans, as approved by the Arkansas State Board of Workforce Education and Career Opportunities, for the staff members of Arkansas Tech University - Ozark Campus.

Funding Policy: The participants' contributions are tax-sheltered and amount to a minimum of six percent of compensation. Arkansas Tech University's contribution rate is 12 percent. Participants become vested after one year. Arkansas Tech University's contributions to VALIC for Arkansas Tech University - Ozark Campus staff that were employed prior to July 1, 2003 for the years ended June 30, 2012, 2011 and 2010 were \$84,624, \$77,432 and \$78,030, respectively. The participants' contributions for VALIC for the year ended June 30, 2012, 2011 and 2010 were \$51,848, \$49,100 and \$51,272, respectively.

Arkansas Tech University's contributions to Delta Life for Arkansas Tech University - Ozark Campus staff that were employed prior to July 1, 2003 for the year ended June 30, 2012, 2011 and 2010 were \$7,578, \$6,558 and \$6,550, respectively. The participants' contributions for Delta Life for the year ended June 30, 2012, 2011 and 2010 were \$3,339, \$3,274 and \$3,275, respectively.



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**NOTE 15: Postemployment Healthcare and Life Insurance Benefits**

Arkansas Tech University implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, during fiscal year 2007-08. This statement calls for the measurement and recognition of the cost of other postemployment benefits (“OPEB”) during the period that employees render their services. This statement also requires disclosure of information regarding the actuarially calculated liability and funding level of the benefits associated with past services. The authority under which the plan’s benefit provisions are established or amended is the University Board of Trustees. Any amendments to the plan are approved by the Board of Trustees.

**Medical Plan Description**

The University presently offers a single-employer, defined benefit plan where an employee is eligible to elect medical coverage upon retiring. Eligibility for medical coverage is based on reaching age 60 and the completion of 10 years of service. The University pays the premium for health insurance coverage until the retiree reaches Medicare eligibility. Coverage is also provided to spouses of retirees who are currently receiving benefits. If the retiree predeceases the spouse, coverage for the surviving spouse ceases.

For participants retiring before July 1, 1998, eligibility is based on attainment of age 55 and completion of 20 years of service or completion of 30 years of service at any age. The University pays the premium for health insurance coverage for the lifetime of the retiree.

Additionally, the University has eleven employees that participate in the Arkansas State Employee Health Insurance Plan (administered by the Arkansas Department of Finance and Administration Employee Benefits Division), a single-employer defined benefit healthcare plan. As a partial participant in the plan, the University’s OPEB liability of \$42,317 represents a pro-rata share of the statewide liability which was actuarially determined in accordance with GASB Statement No. 45. Required information and actuarial data of the statewide liability are disclosed in the Arkansas Comprehensive Annual Financial Report for the fiscal year ended June 30, 2012.



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**NOTE 15: Postemployment Healthcare and Life Insurance Benefits (continued)**

**Base Plan Summary – Medical/Rx/Dental**

- |   |   |
|---|---|
| <b>1. Deductible</b>                    | \$750 individual coverage<br>\$1500 maximum per family per covered year   |
| <b>2. Co-Insurance</b>                  | 80/20% in-network<br>60/40% out-of-network  |
| <b>3. Stop-loss</b>                     | \$10,000 individual, \$20,000 family in-network<br>No out-of-network stop-loss  |
| <b>4. Maximum Out-of-Pocket Expense</b> | \$2,750 (\$750 deductible + 20% of first \$10,000 in charges) per individual.   |
| <b>5. Lifetime Maximum</b>              | \$2,000,000   |
| <b>6. Office Visit Co-Pay</b>           | \$30 for each office visit<br>In-network General Practitioner, Pediatrician or Family Practitioner<br>(Specialists are subject to deductible)   |
| <b>7. Drug Co-payment</b>               | \$10/\$40/\$60 - \$10 for generic drugs, \$40 for brand name, and \$60 for non-preferred brand name.  |
| <b>8. Mail Order</b>                    | \$10/\$40/\$60 for maintenance drugs<br>A 90 day supply is available for one co-pay through mail order only.  |
| <b>9. Dental Care</b>                   | Diagnostic & Preventative: No deductible and 100% coverage<br>For routine exams, X-rays and fluoride treatment<br>Basic Services: 80% coverage, after \$50 deductible, for basic restorative, endodontics, simple extractions and oral surgery.<br>Major Services: 50% coverage after deductible for crowns, fixed prosthetics and removable prosthetics<br>Orthodontic Services: 50% coverage after deductible for diagnostic, active, retention treatment.<br>Maximums: \$1,000 per calendar year per member<br>\$1,000 orthodontic lifetime max per member |



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**NOTE 15: Postemployment Healthcare and Life Insurance Benefits (continued)**

**Life Insurance Plan Description**

The University also offers a life insurance plan to retirees. Maximum coverage is the lower of either \$50,000 or two times the employee's annual salary. Coverage reduces by 33 1/3% at age 65 and at age 70. Upon retirement, benefits reduce to a maximum of \$20,000.

**Funding Policy**

Expenses for postemployment health care benefits are currently recognized on a pay-as-you-go basis. Although funds have been set aside for the purpose of funding the before-mentioned expenses, these financial statements still assume pay-as-you-go funding, due to the GASB 45 requirement that assets can only be considered funded if they are (1) held in an irrevocable trust, (2) dedicated solely to provide benefits under the plan to retirees and their beneficiaries, and (3) are protected from creditors. The University paid the employer portion of premiums for the medical and life insurance plans in the amount of \$4,669,519 for the year ended June 30, 2012. Of this amount, the retiree premiums for the benefits described above were paid monthly by the University and totaled \$265,056 for the year ended June 30, 2012.

As part of adopting GASB 45, the University accrued \$595,340 in additional retiree healthcare expense during the fiscal year 2011-12. The calculation of this amount is shown below.

The plan does not issue a stand-alone financial report. For inquiries relating to the plan, please contact Mr. David Moseley, Vice President for Finance and Administration, 1509 North Boulder Avenue, Administration Building Room 207, Russellville, AR 72801.



NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012



**NOTE 15: Postemployment Healthcare and Life Insurance Benefits (continued)**

**Determination of Annual Required Contribution and End of Year Net OPEB Obligation**

	Year ended June 30, 2011	Year ended June 30, 2012
<b>Unfunded actuarial accrued liability at July 1</b>	\$ 9,092,569	\$ 8,271,985
<b>Normal Costs</b>		
Current Year Normal Cost as of July 1	\$ 557,568	\$ 557,690
Assumed Interest to the End of the Year	<u>22,303</u>	<u>22,308</u>
<b>Current Year Normal Cost as of June 30</b>	\$ <b>579,871</b>	\$ <b>579,998</b>
<b>Determination of Current Year Amortization Payment</b>		
Amortization Amount as of July 1 <sup>1</sup>	\$ 505,601	\$ 459,971
Assumed Interest to the End of the Year	<u>20,224</u>	<u>18,399</u>
<b>Amortization Amount as of June 30</b>	\$ <b>525,825</b>	\$ <b>478,370</b>
<b>Determination of Annual Required Contribution</b>		
Normal Cost at year end	\$ 579,871	\$ 579,998
Amortization of UAL	<u>525,825</u>	<u>478,370</u>
<b>Annual Required Contribution (ARC)</b>	\$ <b>1,105,696</b>	\$ <b>1,058,368</b>
<b>Determination of Net OPEB Obligation</b>		
Annual Required Contribution	\$ 1,105,696	\$ 1,058,368
Interest on prior year Net OPEB Obligation	78,831	103,677
Adjustment to ARC	<u>(109,587)</u>	<u>(149,892)</u>
Annual OPEB Cost	1,074,940	1,012,153
Contributions made <sup>2</sup>	<u>453,785</u>	<u>416,813</u>
<b>Increase in Net OPEB Obligation</b>	\$ <b>621,155</b>	\$ <b>595,340</b>
<b>Net OPEB Obligation – beginning of year</b>	\$ <b>1,970,778</b>	\$ <b>2,591,933</b>
<b>Net OPEB Obligation – end of year</b>	\$ <b>2,591,933</b>	\$ <b>3,187,273</b>

<sup>1</sup> The Amortization of UAL was calculated with a level dollar amortization factor of 17.9837 and the maximum permissible amortization period of 30 years.

<sup>2</sup> Actual contributions for postemployment premiums in fiscal year 11-12 were \$265,056 plus retiree premium subsidy of \$151,757.

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012



**NOTE 15: Postemployment Healthcare and Life Insurance Benefits (continued)**

**Schedule of Employer Contributions**

Fiscal Year Ended	Discount Rate	Annual OPEB Cost	Contributions Made <sup>4</sup>	Percentage of OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	4.00%	\$1,084,788	\$453,785	41.8%	\$1,970,778
June 30, 2011	4.00%	\$1,074,940	\$453,785	42.2%	\$2,591,933
June 30, 2012	4.00%	\$1,012,153	\$416,813	41.2%	\$3,187,273

<sup>4</sup>Since there is no funding, these are actual payments of \$265,056 plus expected retiree subsidy payments of \$151,757.

**Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value Of Assets	Actuarial Liabilities (AL) <sup>1</sup>	Unfunded Actuarial Liabilities (UAL) <sup>2</sup>	Funded Ratio	Covered Payroll	UAL as a Percentage of Covered Payroll
July 1, 2007	\$0	\$9,053,874	\$9,053,874	0.0%	\$30,325,904	29.9%
July 1, 2009	\$0	\$9,092,569	\$9,092,569	0.0%	\$38,867,855	23.4%
July 1, 2011	\$0	\$8,271,985	\$8,271,985	0.0%	\$43,697,419	18.9%

<sup>1</sup> Actuarial liability determined under the entry age normal cost method for July 1, 2007 and the projected unit credit cost method for July 1, 2009 and 2011.

<sup>2</sup> Actuarial accrued liability less actuarial value of assets.

**General Overview of the Valuation Methodology**

The actuarial cost method determines, in a systematic way, the incidence of plan sponsor contributions required to provide plan benefits. It also determines how actuarial gains and losses are recognized in OPEB costs. These gains and losses result from the difference between the actual experience under the plan and what was anticipated by the actuarial assumptions.



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**NOTE 15: Postemployment Healthcare and Life Insurance Benefits (continued)**

**Actuarial Cost Method and Assumptions**

The cost of the plan is derived by making certain specific assumptions as to rates of interest, mortality, turnover, etc. that are assumed to hold for many years into the future. Since actual experience may differ somewhat from the long term assumptions, the costs determined by the valuation must be regarded as estimates of the true costs of the plan.

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial liabilities and comparative costs shown in this report were computed using the **Unit Credit Actuarial Cost Method**, which consists of the following cost components:

1. **The Normal Cost** is the Actuarial Present Value of benefits allocated to the valuation year.
2. **The Actuarial Accrued Liability** is the Actuarial Present Value of benefits accrued as of the valuation date.
3. **Valuation Assets** are equal to the market value of assets as of the valuation date, if any.
4. **Unfunded Actuarial Accrued Liability** is the difference between the Actuarial Accrued Liability and the Valuation Assets. It is amortized over the maximum permissible period under GASB 45 of 30 years.

In addition to the actuarial method used, actuarial cost estimates depend to an important degree on the assumptions made relative to various occurrences, such as rate of expected investment earnings by the fund, rates of mortality among active and retired employees, rates of termination from employment, and retirement rates. In the current valuation, the actuarial assumptions used for the calculations of costs and liabilities are as follows:

**Measurement Date:** Benefit liabilities are valued as of July 1, 2011.

**Discount Rate:** 4.0% per annum, compounded annually (without prefunding)

**Mortality Rates:** Sex Distinct RP 2000 Combined Healthy Mortality Table projected to 2011 using Scale AA. (Pre-retirement and Post-retirement)

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012



**NOTE 15: Postemployment Healthcare and Life Insurance Benefits (continued)**

Withdrawal Rates: Sample rates of employee withdrawal are illustrated below.

Sample Ages	Years of Service	Death		Disability		Other	
		Male Rates	Female Rates	Male Rates	Female Rates	Male Rates	Female Rates
	0					32.00%	25.00%
	1					15.00%	12.00%
	2					11.00%	9.00%
	3					7.50%	9.00%
	4					5.00%	7.00%
20	5 & Up	0.02%	0.01%	0.10%	0.09%	4.60%	4.60%
25		0.02%	0.01%	0.10%	0.09%	4.60%	4.84%
30		0.03%	0.02%	0.08%	0.07%	3.94%	4.40%
35		0.04%	0.02%	0.08%	0.07%	3.20%	3.10%
40		0.06%	0.03%	0.14%	0.13%	2.70%	2.20%
45		0.11%	0.05%	0.24%	0.22%	2.08%	2.00%
50		0.20%	0.08%	0.53%	0.47%	1.62%	1.70%
55		0.31%	0.13%	0.88%	0.79%	1.50%	1.50%
60		0.46%	0.21%	1.00%	0.90%	1.50%	1.50%
65		0.78%	0.35%	1.00%	0.90%	1.50%	1.50%

Retirement Rates: Sample rates of retirement are illustrated below.

Ages	Male	Female
60	14%	17%
61	14%	15%
62	28%	25%
63	17%	17%
64	17%	17%
65	27%	38%
66 – 74	30%	30%
75 and over	100%	100%

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012



**NOTE 15: Postemployment Healthcare and Life Insurance Benefits (continued)**

**Participation:** All eligible members are assumed to elect coverage at retirement.

**Marriage:** For actives, it is assumed that husbands are three years older than their wives. 25% of active participants making it to retirement are assumed to be married and elect spouse coverage.

**Health Care Trend:** Claim costs in future years equal the starting claim costs adjusted for the assumed ongoing cost trends. Such trends are based on the health care cost trend rate adjusted for the impact of plan design, cost containment features and Medicare coordination.

The trend assumptions for medical and pharmacy costs and retiree premiums are summarized below:

Medical		
Year	Pre-65 Trend	Post-65 Trend
<b>Year</b>	7.80%	7.80%
2011-2012	7.30	7.30
2013	6.30	6.30
2014	6.00	6.00
2015-2019	5.90	5.90
2020-2025	5.80	5.80
2026-2033	5.80	5.70
2034	6.20	5.60
2035	6.10	5.50
2036	6.00	5.50
2037	5.90	5.50
2038	5.90	5.40
2039-2040	5.80	5.40
2041	5.80	5.30
2042	5.80	5.50
2042	5.70	5.70
2044	5.70	5.60
2045-2046	5.60	5.60
2047-2049	5.60	5.50
2050-2051	5.90	5.50

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012



**NOTE 15: Postemployment Healthcare and Life Insurance Benefits (continued)**

Dental	
Year	Trend
2011	5.70%
2012	5.56
2013	5.42
2014	5.28
2015	5.15
2016	5.01
2017	4.87
2018	4.73
2019	4.59
2020	4.45
2021	4.32
2022	4.18
2023	4.04
2024+	3.90

**Claim Costs at Sample Ages:**

***Retirees***

Age	Medical Retirees		Medical Spouses	
	Male	Female	Male	Female
60	\$8,774	\$8,148	\$7,014	\$6,975
64	\$10,840	\$9,721	\$8,641	\$8,284
65	\$3,152	\$3,047	\$8,641	\$3,047
70	\$3,840	\$3,638	\$3,152	\$3,638
75	\$4,646	\$4,313	\$3,840	\$4,313
80	\$5,434	\$4,988	\$4,646	\$4,988
85	\$6,225	\$5,714	\$6,225	\$5,714

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012



**NOTE 15: Postemployment Healthcare and Life Insurance Benefits (continued)**

***Spouses***

Age	Dental Retirees		Dental Spouses	
	Male	Female	Male	Female
60	\$167	\$176	\$167	\$176
64	171	176	171	176
65	171	175	171	175
70	173	170	173	170
75	173	170	173	170
80	173	170	173	170
85	173	170	173	170

**Administrative Costs:** Included in claims.

**Life Insurance:** Life insurance premiums are \$.31 per \$1,000 of coverage. Upon retirement, benefits reduce to a maximum amount of \$20,000.

**Retiree Premiums:** Retirees pay the full cost of life insurance premiums (i.e. \$.31 per \$1,000 of coverage).

Age	Medical + Rx		Dental	
	Retirees	Spouses	Retirees	Spouses
Pre – 65	\$4,519.20	\$4,269.60	\$265.20	\$270.00
Post – 65	\$3,624.00	\$3,628.80	\$265.20	\$270.00

**Children:** Children are not included in our valuation results.

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012



**Note 16: Risk Management**

Due to the diverse risk exposure, the insurance maintained by the University contains a comprehensive variety of coverage. These coverages are outlined as follows:

Items Insured	Coverage	Contributions	Administrator
Buildings	Replacement value or agreed amount (\$25,000 deductible for each incident)	N/A	State of Arkansas Multi-Agency Property Program
Contents	Replacement value (\$25,000 deductible for each incident.)	N/A	State of Arkansas Multi-Agency Property Program
General liability	N/A	N/A	Arkansas Claims Commission
Automobile fleet	Comprehensive or liability	N/A	State of Arkansas Automobile Insurance Policy
Life insurance program	N/A	50% Employee 50% University	USABLE
Health care program	N/A	No employee contribution for individual coverage; entire premium amount for covered dependents.	Arkansas Blue Cross Blue Shield
Workers' compensation	Reimbursement of medical expenses and loss of salary due to job-related injury or illness.	The administrator is reimbursed quarterly for claims paid and administrative expenses	Arkansas Public Employees Claims Division





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**Note 16: Risk Management (continued)**

The University participates in the Arkansas Fidelity Bond Trust Fund administered by the Governmental Bonding Board. Coverage is provided for actual losses incurred as a result of fraudulent or dishonest acts by State employees or officials. There is a limit of \$250,000 and a \$1,000 deductible for each loss. The Department of Finance and Administration withholds the amounts for the premiums from the University's State Treasury funds.

The University participates in the Property Insurance Trust Fund Program administered by the Risk Management Division of the Arkansas Insurance Department. The program's general objectives are to formulate, develop and administer on behalf of members, a program of insurance to obtain lower costs for property coverage and to develop a comprehensive loss control program. The fund uses a reinsurance policy to reduce exposure to large losses on insured events. The University pays an annual premium for this coverage.

The University participates in the Vehicle Insurance Trust Fund Program administered by the Risk Management Division of the Arkansas Insurance Department. The general objective of the program is to allow members a means of insuring vehicles. The fund uses a reinsurance policy to reduce exposure to large losses on insured events. The University pays an annual premium for this coverage.

The University maintains workers' compensation coverage through the State of Arkansas program, Arkansas Code Annotated § 11-9-305. Annual premiums are based on a formula calculated by the Arkansas Department of Finance and Administration.

Settled claims have not exceeded this commercial insurance coverage in any of the past three fiscal years. There were no significant reductions in insurance coverage from the prior year in the major categories of risk.

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012



**Note 17: Natural Classifications with Functional Classifications**

The University's operating expenses by functional classification were as follows:

Functional Classification	Personal Services	Benefits	Scholarships & Fellowships	Supplies & Services	Depreciation & Amortization	Total
Instruction	\$ 24,448,874	\$ 6,041,273	\$ 125,164	\$ 5,556,835		\$ 36,172,146
Research	721,165	149,639	9,027	186,786		1,066,617
Public service	25,290	6		67,683		92,979
Academic support	3,852,785	1,081,360		1,570,208		6,504,353
Student services	3,163,962	1,018,619		1,289,259		5,471,840
Institutional support	6,183,798	2,343,210		3,677,843		12,204,851
Operation of plant	2,209,280	931,017		3,820,363		6,960,660
Scholarships			19,175,004			19,175,004
Depreciation					\$7,181,594	7,181,594
Auxiliary enterprises	\$ 2,646,858	\$ 719,076	1,252,624	\$ 11,981,563		16,600,121
<b>Total expenses</b>	<b>\$ 43,252,012</b>	<b>\$12,284,200</b>	<b>\$ 20,561,819</b>	<b>\$ 28,150,540</b>	<b>\$ 7,181,594</b>	<b>\$ 111,430,165</b>

**NOTE 18: Disaggregation of Payables**

The accounts payable and other liabilities of \$3,269,204 consisted of \$2,118,502 due to vendors, salaries and other payroll related items, \$362,098 of construction contract retainages held, \$190,694 due for construction contractor payments and \$597,910 due for bond interest.

**NOTE 19: Construction Bonds**

The University issued \$7,600,000 in construction bonds with interest rates from 1.25% to 5.00% on December 1, 2012, for the purpose of constructing and equipping a new five story student residence facility. The remaining amount of \$4,905,000 was issued on April 1, 2012. The interest rates on the second issue range from 2.00% to 4.50%.

The University also issued \$830,000 in construction bonds with interest rates from 2.00% to 4.38% on May 1, 2012, for the purpose of funding the renovation of the Old Art Building.

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012



**NOTE 20: Pledged Revenues**

At June 30, 2012, the University's pledged revenues were as follows:

BONDS	ISSUE DATE	MATURITY DATE	PURPOSE	PLEGDED	GROSS REVENUE COLLECTED
Housing Bonds-2001	6/1/2001	12/1/2031	Construct Nutt Hall	Housing Fees	7,430,373
Student Fee Revenue Bonds-2003	10/1/2003	5/1/2012	Construct Art Building	Student Tuition & Fees	49,581,484
Student Fee Refunding Bonds-2004	12/15/2004	5/1/2012	Construct Hull Building	Student Tuition & Fees	45,247,634
Student Fee Refunding Bonds-2004	12/15/2004	5/1/2012	Hull Building	Athletic Revenues	4,333,850
Housing Refunding Bonds-2004	12/15/2004	3/1/2012	Paine Hall	Housing Fees	7,430,373
Student Fee Revenue Bonds-2005	3/1/2005	5/1/2012	Construct Art Building	Student Tuition & Fees	49,581,484
Housing Revenue Bonds-2006	5/1/2006	5/1/2036	Construct Baswell Hall	Housing Fees	7,430,373
Athletic Revenue Bonds-2007	3/1/2007	3/1/2012	Construct athletic facilities & Baswell Hall	Athletic Revenues	4,333,850
Housing Revenue Bonds-2007	3/1/2007	3/1/2012	Construct Baswell Hall	Housing Fees	7,430,373
Housing Revenue Bonds-2008	2/1/2008	2/1/2038	Renovate Campus Courts and Eastgate Apartments	Housing Fees	7,430,373
Student Fee Revenue Bonds-2008	4/1/2008	4/1/2038	Construct new Physical Plant Facility	Student Tuition & Fees	49,581,484
Student Fee Revenue Bonds-2008	12/1/2008	12/1/2038	Construct Advising Center Building	Student Tuition & Fees	49,581,484

*(continued on next page)*

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012



**NOTE 20: Pledged Revenues (continued)**

<b>BONDS</b>	<b>ISSUE DATE</b>	<b>MATURITY DATE</b>	<b>PURPOSE</b>	<b>PLEGGED</b>	<b>GROSS REVENUE COLLECTED</b>
Student Fee Revenue Bonds-2008	12/1/2008	12/1/2038	Construct Ozark Student Services Building	Student Tuition & Fees	49,581,484
Housing Revenue Bonds-2009	4/1/2009	4/1/2039	Renovate Hughes and Critz Hall	Housing Fees	7,430,373
Student Fee Revenue Bonds-2009	9/1/2009	9/1/2040	Const Rothwell Hall, expand Corley & McEver & Lakepoint	Student Tuition & Fees	49,581,484
Student Fee Revenue Bonds-2010	9/1/2010	9/1/2041	Construct Ozark Student Union	Student Tuition & Fees	49,581,484
Auxiliary Revenue Bonds 2010	9/1/2010	9/1/2041	Construct Ozark Student Union	Food Service Fees	5,397,439
Housing Revenue Bonds 2011	5/1/2011	5/1/2041	Tucker Hall	Housing Fees	7,430,373
Housing Revenue Bonds 2011	12/1/2011	12/1/2041	Construct "M" Street Dorm	Housing Fees	7,430,373
Housing Revenue Bonds 2012A	3/1/2012	3/1/2042	Construct "M" Street Dorm	Housing Fees	7,430,373
Housing Refunding Bonds 2012B	3/1/2012	3/1/2030	Paine Hall	Housing Fees	7,430,373
Housing Refunding Bonds 2012C	3/1/2012	3/1/2037	Construct Baswell Hall	Housing Fees	7,430,373
Student Fee Revenue Bonds 2012A	5/1/2012	5/1/2042	Renovate Old Art Building	Student Tuition & Fees	49,581,484
Student Fee Refunding Bonds 2012B	5/1/2012	5/1/2033	Construct Art Building	Student Tuition & Fees	49,581,484
Student Fee Refunding Bonds 2012C	5/1/2012	5/1/2029	Construct Hull Building	Student Tuition & Fees	49,581,484
Student Fee Refunding Bonds 2012D	5/1/2012	5/1/2034	Construct Art Building	Student Tuition & Fees	49,581,484

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012



**NOTE 20: Pledged Revenues (continued)**

<b>BONDS</b>	<b>ISSUE</b>	<b>FY 2012 PRINCIPAL PAID</b>	<b>FY 2012 INTEREST PAID</b>	<b>PRINCIPAL OUTSTANDING 6/30/2012</b>	<b>INTEREST OUTSTANDING 6/30/2012</b>
Housing Bonds-2001	10,000,000	235,000	416,993	8,035,000	4,866,204
Student Fee Revenue Bonds-2003	4,000,000	202,747	79,501		
Student Fee Refunding Bonds-2004	4,338,750	111,823	79,615		
Student Fee Refunding Bonds-2004	1,446,250	37,274	26,538		
Housing Refunding Bonds-2004	3,960,000	192,284	147,450		
Student Fee Revenue Bonds-2005	1,000,000	42,405	39,534		
Housing Revenue Bonds-2006	10,000,000	215,000	425,550	9,005,000	6,327,620
Athletic Revenue Bonds-2007	2,720,000	55,000	111,210	2,465,000	1,684,715
Housing Revenue Bonds-2007	1,180,000	58,236	49,165		
Housing Revenue Bonds-2008	1,505,000	30,000	63,774	1,390,000	1,034,309
Student Fee Revenue Bonds-2008	3,300,000	65,000	135,988	3,050,000	2,210,243
Student Fee Revenue Bonds-2008	3,090,000	55,000	152,883	2,955,000	2,631,994
Student Fee Revenue Bonds-2008	2,105,000	40,000	104,023	1,970,000	1,785,431
Housing Revenue Bonds-2009	2,150,000	40,000	98,595	2,030,000	1,723,871
Student Fee Revenue Bonds-2009	9,200,000	175,000	410,191	8,850,000	7,432,125

(continued on next page)

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012



**NOTE 20: Pledged Revenues (continued)**

BONDS	ISSUE	FY 2012 PRINCIPAL PAID	FY 2012 INTEREST PAID	PRINCIPAL OUTSTANDING 6/30/2012	INTEREST OUTSTANDING 6/30/2012
Student Fee Revenue Bonds-2010	575,000	10,000	22,523	565,000	410,563
Housing Revenue Bonds-2010	1,155,000	25,000	43,680	1,130,000	810,901
Housing Revenue Bonds-2011	2,400,000	45,000	105,323	2,355,000	2,055,395
Housing Revenue Bonds 2011	7,600,000		155,833	7,600,000	6,170,150
Housing Revenue Bonds 2012A	4,905,000			4,905,000	3,588,376
Housing Refunding Bonds 2012B	3,100,000			3,100,000	1,058,946
Housing Refunding Bonds 2012C	1,070,000			1,070,000	620,765
Student Fee Revenue Bonds 2012A	830,000			830,000	610,566
Student Fee Refunding Bonds 2012B	3,355,000			3,355,000	1,406,475
Student Fee Refunding Bonds 2012C	4,680,000			4,680,000	1,403,695
Student Fee Refunding Bonds 2012D	860,000			860,000	399,509

*The approximate percentages of revenues pledged for the year ended June 30, 2012 were as follows:*

*Student tuition and fees – 3.48%*

*Food service fees – 1.27 %*

*Housing fees – 30.66%*

*Athletic revenues – 5.51%*



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**NOTE 21: Contingent Liabilities**

The U.S. Department of Education's Office of Civil Rights is currently investigating a multi-faceted complaint. The first issue addresses handicap accessibility on the Russellville campus of Arkansas Tech University. An on-campus visit is scheduled for October 10-11, 2012. In the event that the determination is made by the Office of Civil Rights that certain elements in the campus are not in compliance, obtaining compliance could potentially cost in excess of \$1,000,000. The likelihood of that outcome cannot be ascertained at this time. Another aspect of the complaint is whether or not adequate accommodations are being made for the individual bringing the complaint. The likelihood of an unfavorable outcome on this portion of the complaint is remote.

A terminated employee has filed a complaint with the Equal Employment Opportunity Commission (EEOC) against the University alleging discrimination in employment. The likelihood of an unfavorable outcome on the complaint is remote. In the event the complaint is dismissed, the employee could file an action alleging wrongful termination. The likelihood of an unfavorable outcome in the event of a lawsuit is remote. Also, three terminated employees filed a complaint alleging discrimination with the EEOC and each of those complaints were dismissed. The employees could file an action alleging wrongful termination, but the likelihood of an unfavorable outcome in the event that lawsuits are filed is remote.

There is a pending claim before the Arkansas Claims Commission where the claimant is alleging that an alleged slip and fall in front of the ATU Bookstore in January resulted in injury. An unknown amount of damages is being requested. Allegations include loss of job, home and filing bankruptcy. The likelihood of an unfavorable outcome is remote.

The University withheld approximately \$86,000 from final payment to a contractor due to untimely completion of the construction contract, which contained a liquidated damages clause of \$1,000 per day. The claimant sued and the Arkansas State Claims Commission awarded \$100,000. This matter has been appealed to the General Assembly. In the event that the appeal is unsuccessful, the loss would be \$100,000, with \$14,000 representing funds of Arkansas Tech University.

**NOTE 22: Subsequent Events**

On June 14, 2012, the Board of Trustees authorized the issuance of revenue bonds in the amount of \$1,500,000 Baseball Field Complex renovation on the Russellville campus. The bonds were issued on July 12, 2012. Completion of the renovation is set for June 2013.

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012



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**NOTE 23: Prior Year Restatement**

In the prior year, unamortized underwriter's discount fees in the amount of \$602,452 were recorded as bond discounts and reported as such on the Statement of Net Assets. This error has been corrected in the current year. For consistency purposes, the Current Assets and the Noncurrent Assets section-Deferred Charges, of the prior year column (2011) of the Statement of Net Assets was restated to amend certain items pertaining to the correction of the error that affected prior years. The Current Assets and Noncurrent Liabilities section- Bond Discount, was also restated to amend the error. These changes did not affect the total net assets or cash on hand at June 30, 2012.

**NOTE 24: Refunding of Bonds**

On April 1, 2012, the University issued two Housing Refunding Bonds in the amount of \$4,170,000 with interest rates of 1.00% to 4.40% to refund \$4,079,480 of outstanding bonds dated December 15, 2004 and March 1, 2007, respectively, with interest rates of 2.10% to 5.00%. Net proceeds of \$4,095,782, after payment of \$74,218 bond issuance costs, were deposited with the trustee. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$128,086. The bonds were called April 24, 2012. The University refunded the bonds to reduce its total debt service payments by \$674,671 over a period of 26 fiscal years and to obtain an economic gain of \$367,036. The University received accrued interest of \$8,284 from the bond issue to apply toward the debt payments of the new issue.

On May 1, 2012, the University issued three Student Fee Refunding Revenue Bonds in the amount \$8,895,000 in with interest rates of 2.00 to 4.10% to refund \$8,610,752 of outstanding bonds dated October 29, 2003, December 15, 2004 and March 30, 2005, respectively, with interest rates of 1.10% to 5.00%. Net proceeds of \$8,739,673, after payment of \$155,327 bond issuance costs, were deposited with the trustee. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$356,934. The bonds were called May 1, 2012. The University refunded the bonds to reduce its total debt service payments by \$1,760,023 over a period of 23 fiscal years and to obtain an economic gain of \$1,038,960.



ARKANSAS TECH  
A CENTURY FORWARD



## Required Supplementary Information

REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2012

ARKANSAS TECH  
A CENTURY FORWARD



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## Postemployment Healthcare and Life Insurance Benefits

Arkansas Tech University implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, during fiscal year 2007-08. This statement calls for the measurement and recognition of the cost of other postemployment benefits (“OPEB”) during the period that employees render their services. This statement also requires disclosure of information regarding the actuarially calculated liability and funding level of the benefits associated with past services. The authority under which the plan’s benefit provisions are established or amended is the University Board of Trustees. Any amendments to the plan are approved by the Board of Trustees.

### Medical Plan Description

The University presently offers a single-employer, defined benefit plan where an employee is eligible to elect medical coverage upon retiring. Eligibility for medical coverage is based on reaching age 60 and the completion of 10 years of service. The University pays the premium for health insurance coverage until the retiree reaches Medicare eligibility. Coverage is also provided to spouses of retirees who are currently receiving benefits. If the retiree predeceases the spouse, coverage for the surviving spouse ceases.

For participants retiring before July 1, 1998, eligibility is based on attainment of age 55 and completion of 20 years of service or completion of 30 years of service at any age. The University pays the premium for health insurance coverage for the lifetime of the retiree.

Additionally, the University has eleven employees that participate in the Arkansas State Employee Health Insurance Plan (administered by the Arkansas Department of Finance and Administration Employee Benefits Division), a single-employer defined benefit healthcare plan. As a partial participant in the plan, the University’s OPEB liability of \$57,092 represents a pro-rata share of the statewide liability which was actuarially determined in accordance with GASB Statement No. 45. Required information and actuarial data of the statewide liability are disclosed in the Arkansas Comprehensive Annual Financial Report for the fiscal year ended June 30, 2012.

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**Postemployment Healthcare and Life Insurance Benefits (continued)**

**Base Plan Summary – Medical/Rx/Dental**

- 1. Deductible**                    \$750 individual coverage  
   \$1500 maximum per family per covered year
  
- 2. Co-Insurance**                80/20% in-network  
   60/40% out-of-network
  
- 3. Stop-loss**                     \$10,000 individual, \$20,000 family in-network  
   No out-of-network stop-loss
  
- 4. Maximum  
Out-of-Pocket  
Expense**                         \$2,750 (\$750 deductible + 20% of first \$10,000 in charges) per individual.
  
- 5. Lifetime Maximum**        \$2,000,000
  
- 6. Office Visit  
Co-Pay**                         \$30 for each office visit  
   In-network General Practitioner, Pediatrician or Family Practitioner  
   (Specialists are subject to deductible)
  
- 7. Drug Co-payment**         \$10/\$40/\$60 - \$10 for generic drugs, \$40 for brand name, and \$60 for non-  
   preferred brand name.
  
- 8. Mail Order**                    \$10/\$40/\$60 for maintenance drugs  
   A 90 day supply is available for one co-pay through mail order only.
  
- 9. Dental Care**                 Diagnostic & Preventative: No deductible and 100% coverage  
   For routine exams, X-rays and fluoride treatment  
   Basic Services: 80% coverage, after \$50 deductible, for basic restorative,  
   endodontics, simple extractions and oral surgery.  
   Major Services: 50% coverage after deductible for crowns, fixed prosthetics  
   and removable prosthetics  
   Orthodontic Services: 50% coverage after deductible for diagnostic, active,  
   retention treatment.  
   Maximums:     \$1,000 per calendar year per member  
                       \$1,000 orthodontic lifetime max per member



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## **Postemployment Healthcare and Life Insurance Benefits (continued)**

### **Life Insurance Plan Description**

The University also offers a life insurance plan to retirees. Maximum coverage is the lower of either \$50,000 or two times the employee's annual salary. Coverage reduces by 33 1/3% at age 65 and at age 70. Upon retirement, benefits reduce to a maximum of \$20,000.

### **Funding Policy**

Expenses for postemployment health care benefits are currently recognized on a pay-as-you-go basis. Although funds have been set aside for the purpose of funding the before-mentioned expenses, these financial statements still assume pay-as-you-go funding, due to the GASB 45 requirement that assets can only be considered funded if they are (1) held in an irrevocable trust, (2) dedicated solely to provide benefits under the plan to retirees and their beneficiaries, and (3) are protected from creditors. The University paid the employer portion of premiums for the medical and life insurance plans in the amount of \$4,669,519 for the year ended June 30, 2012. Of this amount, the retiree premiums for the benefits described above were paid monthly by the University and totaled \$265,056 for the year ended June 30, 2012.

As part of adopting GASB 45, the University accrued \$595,340 in additional retiree healthcare expense during the fiscal year 2011-12. The calculation of this amount is shown below.

The plan does not issue a stand-alone financial report. For inquiries relating to the plan, please contact Mr. David Moseley, Vice President for Finance and Administration, 1509 North Boulder Avenue, Administration Building Room 207, Russellville, AR 72801.

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**Postemployment Healthcare and Life Insurance Benefits (continued)**

**Determination of Annual Required Contribution and End of Year Net OPEB Obligation**

	Year ended June 30, 2011	Year ended June 30, 2012
<b>Unfunded actuarial accrued liability at July 1</b>	\$ 9,092,569	\$ 8,271,985
<b>Normal Costs</b>		
Current Year Normal Cost as of July 1	\$ 557,568	\$ 557,690
Assumed Interest to the End of the Year	<u>22,303</u>	<u>22,308</u>
<b>Current Year Normal Cost as of June 30</b>	<b>\$ 579,871</b>	<b>\$ 579,998</b>
<b>Determination of Current Year Amortization Payment</b>		
Amortization Amount as of July 1 <sup>1</sup>	\$ 505,601	\$ 459,971
Assumed Interest to the End of the Year	<u>20,224</u>	<u>18,399</u>
<b>Amortization Amount as of June 30</b>	<b>\$ 525,825</b>	<b>\$ 478,370</b>
<b>Determination of Annual Required Contribution</b>		
Normal Cost at year end	\$ 579,871	\$ 579,998
Amortization of UAL	<u>525,825</u>	<u>478,370</u>
<b>Annual Required Contribution (ARC)</b>	<b>\$ 1,105,696</b>	<b>\$ 1,058,368</b>
<b>Determination of Net OPEB Obligation</b>		
Annual Required Contribution	\$ 1,105,696	\$ 1,058,368
Interest on prior year Net OPEB Obligation	78,831	103,677
Adjustment to ARC	<u>(109,587)</u>	<u>(149,892)</u>
Annual OPEB Cost	1,074,940	1,012,153
Contributions made <sup>2</sup>	<u>453,785</u>	<u>416,813</u>
<b>Increase in Net OPEB Obligation</b>	<b>\$ 621,155</b>	<b>\$ 595,340</b>
<b>Net OPEB Obligation – beginning of year</b>	<b>\$ 1,970,778</b>	<b>\$ 2,591,933</b>
<b>Net OPEB Obligation – end of year</b>	<b>\$ 2,591,933</b>	<b>\$ 3,187,273</b>

<sup>1</sup> The Amortization of UAL was calculated with a level dollar amortization factor of 17.9837 and the maximum permissible amortization period of 30 years.

<sup>2</sup> Actual contributions for postemployment premiums in fiscal year 11-12 were \$265,056 plus retiree premium subsidy of \$151,757.

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**Postemployment Healthcare and Life Insurance Benefits (continued)**

**Schedule of Employer Contributions**

Fiscal Year Ended	Discount Rate	Annual OPEB Cost	Contributions Made <sup>4</sup>	Percentage of OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	4.00%	\$1,084,788	\$453,785	41.8%	\$1,970,778
June 30, 2011	4.00%	\$1,074,940	\$453,785	42.2%	\$2,591,933
June 30, 2012	4.00%	\$1,012,153	\$416,813	41.2%	\$3,187,273

<sup>4</sup>Since there is no funding, these are actual payments of \$265,056 plus expected retiree subsidy payments of \$151,757.

**Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value Of Assets	Actuarial Liabilities (AL) <sup>1</sup>	Unfunded Actuarial Liabilities (UAL) <sup>2</sup>	Funded Ratio	Covered Payroll	UAL as a Percentage of Covered Payroll
July 1, 2007	\$0	\$9,053,874	\$9,053,874	0.0%	\$30,325,904	29.9%
July 1, 2009	\$0	\$9,092,569	\$9,092,569	0.0%	\$38,867,855	23.4%
July 1, 2011	\$0	\$8,271,985	\$8,271,985	0.0%	\$43,697,419	18.9%

<sup>1</sup> Actuarial liability determined under the entry age normal cost method for July 1, 2007 and the projected unit credit cost method for July 1, 2009 and 2011.

<sup>2</sup> Actuarial accrued liability less actuarial value of assets.

**General Overview of the Valuation Methodology**

The actuarial cost method determines, in a systematic way, the incidence of plan sponsor contributions required to provide plan benefits. It also determines how actuarial gains and losses are recognized in OPEB costs. These gains and losses result from the difference between the actual experience under the plan and what was anticipated by the actuarial assumptions.



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## Postemployment Healthcare and Life Insurance Benefits (continued)

### Actuarial Cost Method and Assumptions

The cost of the plan is derived by making certain specific assumptions as to rates of interest, mortality, turnover, etc. are assumed to hold for many years into the future. Since actual experience may differ somewhat from the long term assumptions, the costs determined by the valuation must be regarded as estimates of the true costs of the plan.

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial liabilities and comparative costs shown in this report were computed using the **Unit Credit Actuarial Cost Method**, which consists of the following cost components:

1. **The Normal Cost** is the Actuarial Present Value of benefits allocated to the valuation year.
2. **The Actuarial Accrued Liability** is the Actuarial Present Value of benefits accrued as of the valuation date.
3. **Valuation Assets** are equal to the market value of assets as of the valuation date, if any.
4. **Unfunded Actuarial Accrued Liability** is the difference between the Actuarial Accrued Liability and the Valuation Assets. It is amortized over the maximum permissible period under GASB 45 of 30 years.

In addition to the actuarial method used, actuarial cost estimates depend to an important degree on the assumptions made relative to various occurrences, such as rate of expected investment earnings by the fund, rates of mortality among active and retired employees, rates of termination from employment, and retirement rates. In the current valuation, the actuarial assumptions used for the calculations of costs and liabilities are as follows:

**Measurement Date:** Benefit liabilities are valued as of July 1, 2011.

**Discount Rate:** 4.0% per annum, compounded annually (without prefunding)

**Mortality Rates:** Sex Distinct RP 2000 Combined Healthy Mortality Table projected to 2011 using Scale AA. (Pre-retirement and Post-retirement)

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**Postemployment Healthcare and Life Insurance Benefits (continued)**

Withdrawal Rates: Sample rates of employee withdrawal are illustrated below.

Sample Ages	Years of Service	Death		Disability		Other	
		Male Rates	Female Rates	Male Rates	Female Rates	Male Rates	Female Rates
	0					32.00%	25.00%
	1					15.00%	12.00%
	2					11.00%	9.00%
	3					7.50%	9.00%
	4					5.00%	7.00%
20	5 & Up	0.02%	0.01%	0.10%	0.09%	4.60%	4.60%
25		0.02%	0.01%	0.10%	0.09%	4.60%	4.84%
30		0.03%	0.02%	0.08%	0.07%	3.94%	4.40%
35		0.04%	0.02%	0.08%	0.07%	3.20%	3.10%
40		0.06%	0.03%	0.14%	0.13%	2.70%	2.20%
45		0.11%	0.05%	0.24%	0.22%	2.08%	2.00%
50		0.20%	0.08%	0.53%	0.47%	1.62%	1.70%
55		0.31%	0.13%	0.88%	0.79%	1.50%	1.50%
60		0.46%	0.21%	1.00%	0.90%	1.50%	1.50%
65		0.78%	0.35%	1.00%	0.90%	1.50%	1.50%

Retirement Rates: Sample rates of retirement are illustrated below.

Ages	Male	Female
60	14%	17%
61	14%	15%
62	28%	25%
63	17%	17%
64	17%	17%
65	27%	38%
66 – 74	30%	30%
75 and over	100%	100%



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**Postemployment Healthcare and Life Insurance Benefits (continued)**

**Participation:** All eligible members are assumed to elect coverage at retirement.

**Marriage:** For actives, it is assumed that husbands are three years older than their wives. 25% of active participants making it to retirement are assumed to be married and elect spouse coverage.

**Health Care Trend:** Claim costs in future years equal the starting claim costs adjusted for the assumed ongoing cost trends. Such trends are based on the health care cost trend rate adjusted for the impact of plan design, cost containment features and Medicare coordination.

The trend assumptions for medical and pharmacy costs and retiree premiums are summarized below:

Medical		
Year	Pre-65 Trend	Post-65 Trend
2011-2012	7.80%	7.80%
2013	7.30	7.30
2014	6.30	6.30
2015-2019	6.00	6.00
2020-2025	5.90	5.90
2026-2033	5.80	5.80
2034	5.80	5.70
2035	6.20	5.60
2036	6.10	5.50
2037	6.00	5.50
2038	5.90	5.50
2039-2040	5.90	5.40
2041	5.80	5.40
2042	5.80	5.30
2042	5.80	5.50
2044	5.70	5.70
2045-2046	5.70	5.60
2047-2049	5.60	5.60
2050-2051	5.60	5.50
2052	5.90	5.50
2053	6.00	5.50
2094+	4.80	4.80

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**Postemployment Healthcare and Life Insurance Benefits (continued)**

<b>Dental</b>	
<b>Year</b>	<b>Trend</b>
2011	5.70%
2012	5.56
2013	5.42
2014	5.28
2015	5.15
2016	5.01
2017	4.87
2018	4.73
2019	4.59
2020	4.45
2021	4.32
2022	4.18
2023	4.04
2024+	3.90

**Claim Costs at Sample Ages:**

***Medical***

<b>Age</b>	<b>Medical Retirees</b>		<b>Medical Spouses</b>	
	<b>Male</b>	<b>Female</b>	<b>Male</b>	<b>Female</b>
60	\$8,774	\$8,148	\$7,014	\$6,975
64	\$10,840	\$9,721	\$8,641	\$8,284
65	\$3,152	\$3,047	\$8,641	\$3,047
70	\$3,840	\$3,638	\$3,152	\$3,638
75	\$4,646	\$4,313	\$3,840	\$4,313
80	\$5,434	\$4,988	\$4,646	\$4,988
85	\$6,225	\$5,714	\$6,225	\$5,714

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**Postemployment Healthcare and Life Insurance Benefits (continued)**

**Dental**

Age	Dental Retirees		Dental Spouses	
	Male	Female	Male	Female
60	\$167	\$176	\$167	\$176
64	171	176	171	176
65	171	175	171	175
70	173	170	173	170
75	173	170	173	170
80	173	170	173	170
85	173	170	173	170

**Administrative Costs:** Included in claims.

**Life Insurance:** Life insurance premiums are \$.31 per \$1,000 of coverage. Upon retirement, benefits reduce to a maximum amount of \$20,000.

**Retiree Premiums:** Retirees pay the full cost of life insurance premiums (i.e. \$.31 per \$1,000 of coverage).

Age	Medical + Rx		Dental	
	Retirees	Spouses	Retirees	Spouses
Pre – 65	\$4,519.20	\$4,269.60	\$265.20	\$270.00
Post – 65	\$3,624.00	\$3,628.80	\$265.20	\$270.00

**Children:** Children are not included in our valuation results.