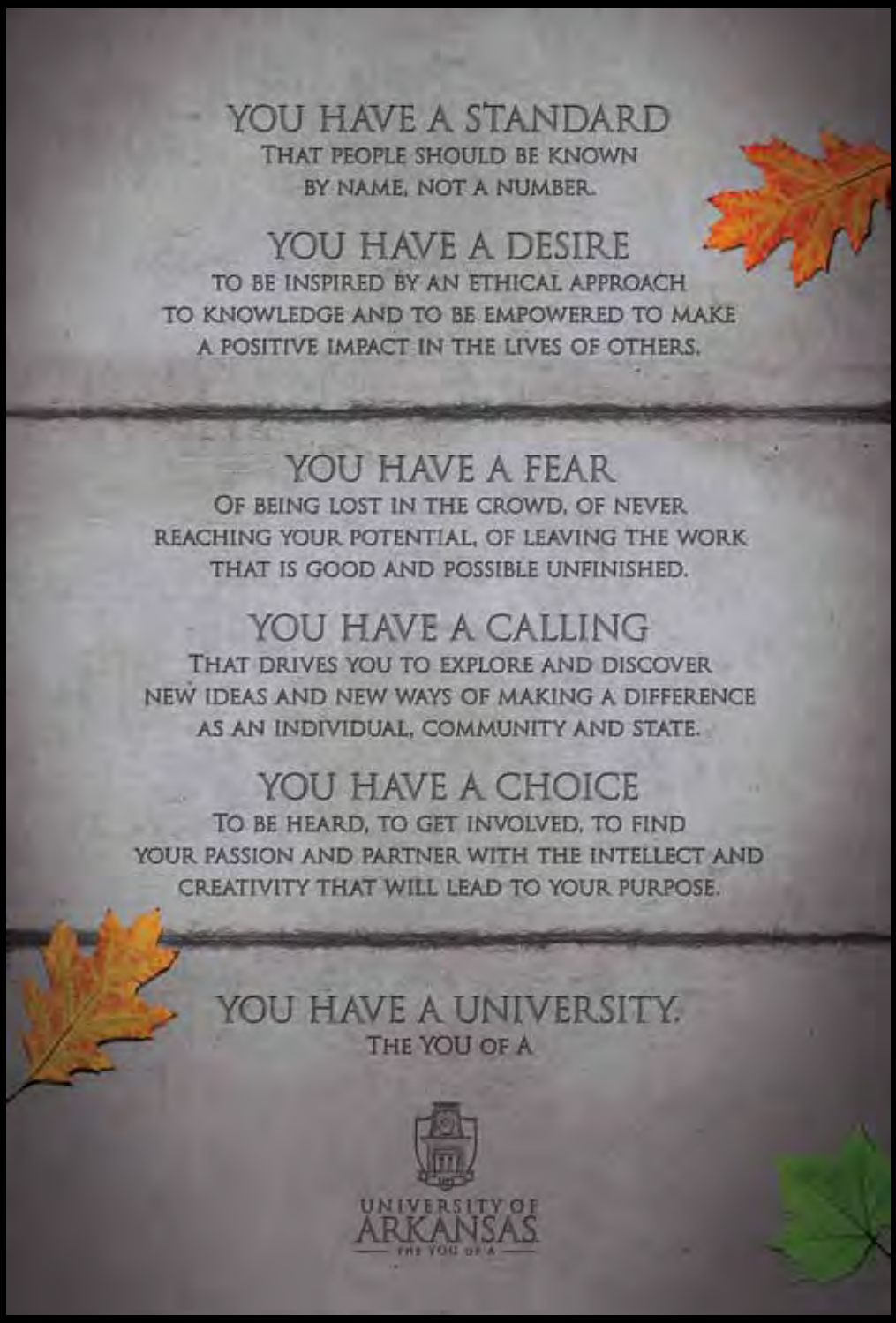


University of Arkansas

Annual Financial Report

2009-2010

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On the cover:THE YOU OF A

UNIVERSITY OF ARKANSAS

Vice Chancellor for Finance and Administration

November 15, 2010

Dr. G. David Gearhart
Chancellor
University of Arkansas
Fayetteville, AR 72701

Dear Chancellor Gearhart:

It is my pleasure to present the annual Financial Report of the University of Arkansas, for the year ended June 30, 2010.

This report has been prepared in conformity with generally accepted accounting principles established by the American Institute of Certified Public Accountants. The Division of Legislative Audit of the Legislative Joint Auditing Committee of the State of Arkansas has examined this report and their opinion is included.

Sincerely,

D. O. Pederson

D. O. Pederson
Vice Chancellor for Finance and Administration

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The University of Arkansas is an equal opportunity/affirmative action institution.

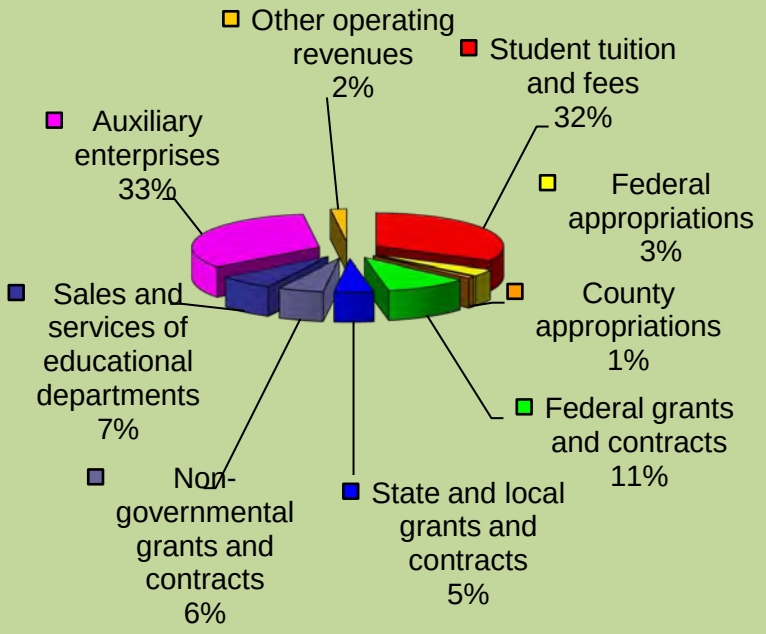
FISCAL YEAR 2010 OPERATING REVENUES

Student tuition and fees	104,940,650
Federal appropriations	10,962,787
County appropriations	2,920,742
Federal grants and contracts	33,763,850
State and local grants and contracts	16,308,318
Non-governmental grants and contracts	18,731,077
Sales and services of educational departments	22,799,767
Auxiliary enterprises	107,745,823
Other operating revenues	6,677,248
Total operating revenues	324,850,262

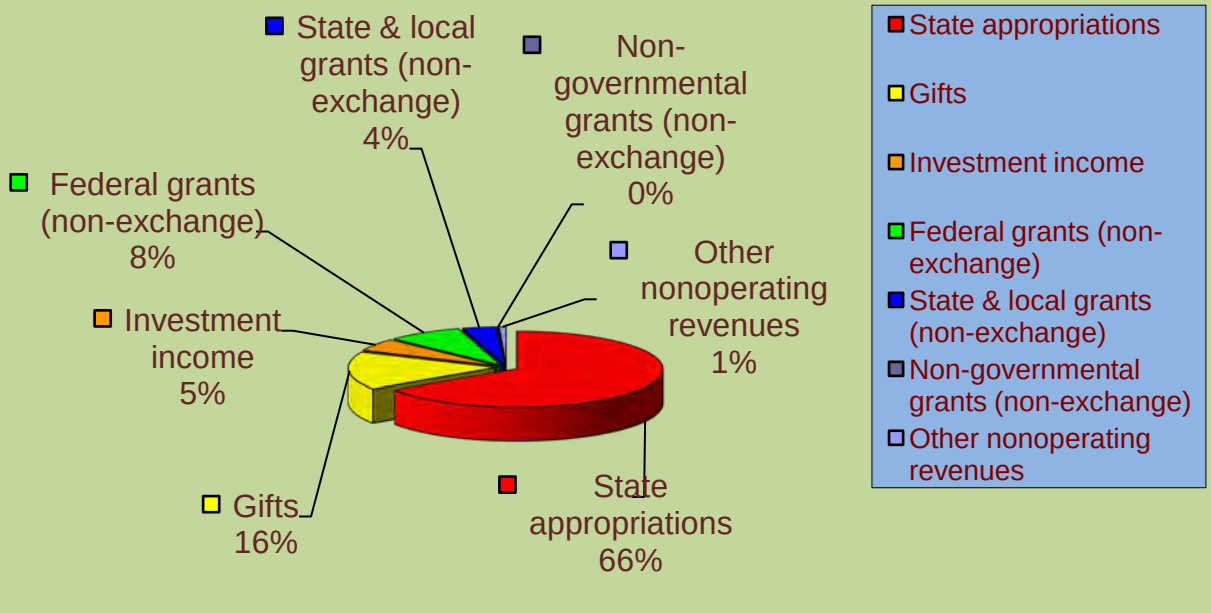
FISCAL YEAR 2010 NONOPERATING REVENUES

State appropriations	198,554,670
Gifts	48,714,610
Investment Income	16,143,684
Federal grants (non-exchange)	25,318,612
State & local grants (non-exchange)	11,047,508
Non-governmental grants (non-exchange)	571,587
Other nonoperating revenues	2,266,357
Total nonoperating revenues	302,617,028

Fiscal Year 2010 Operating Revenues



Fiscal Year 2010 Nonoperating Revenues



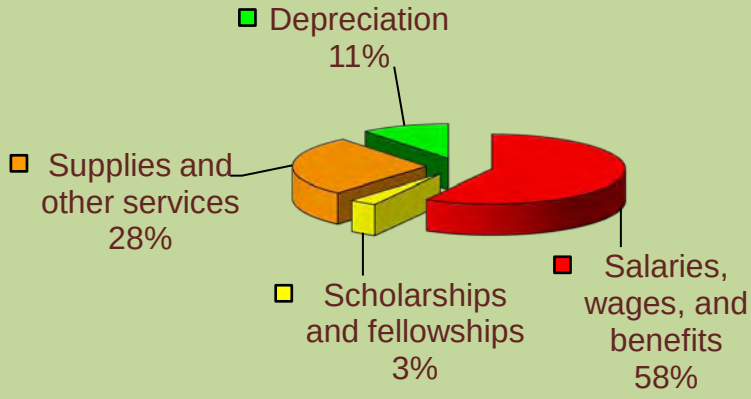
FISCAL YEAR 2010 OPERATING EXPENSES BY NATURAL CLASSIFICATION

Salaries, wages, and benefits	359,070,547
Scholarships and fellowships	20,488,633
Supplies and other services	172,019,026
Depreciation	66,109,077
Total operating expenses	617,687,283

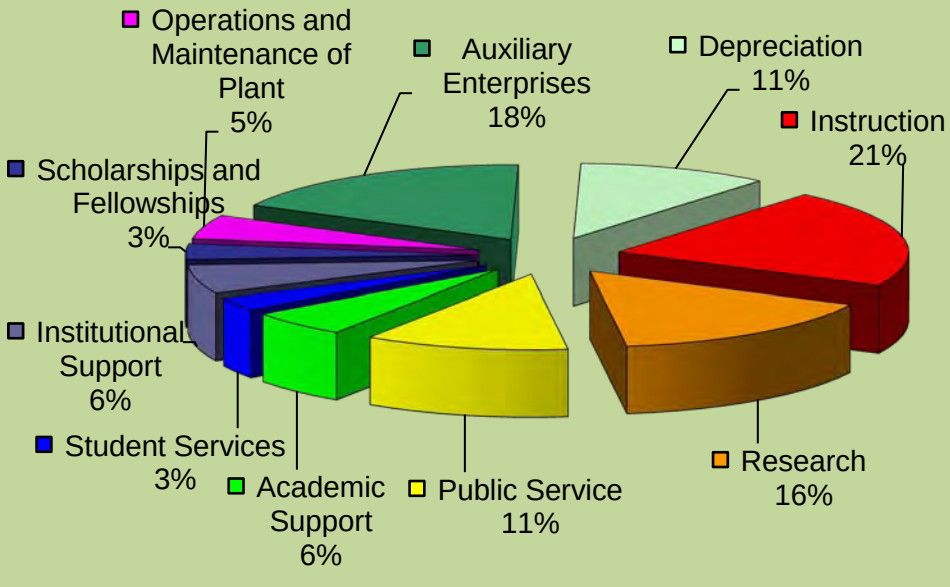
FISCAL YEAR 2010 OPERATING EXPENSES BY FUNCTION

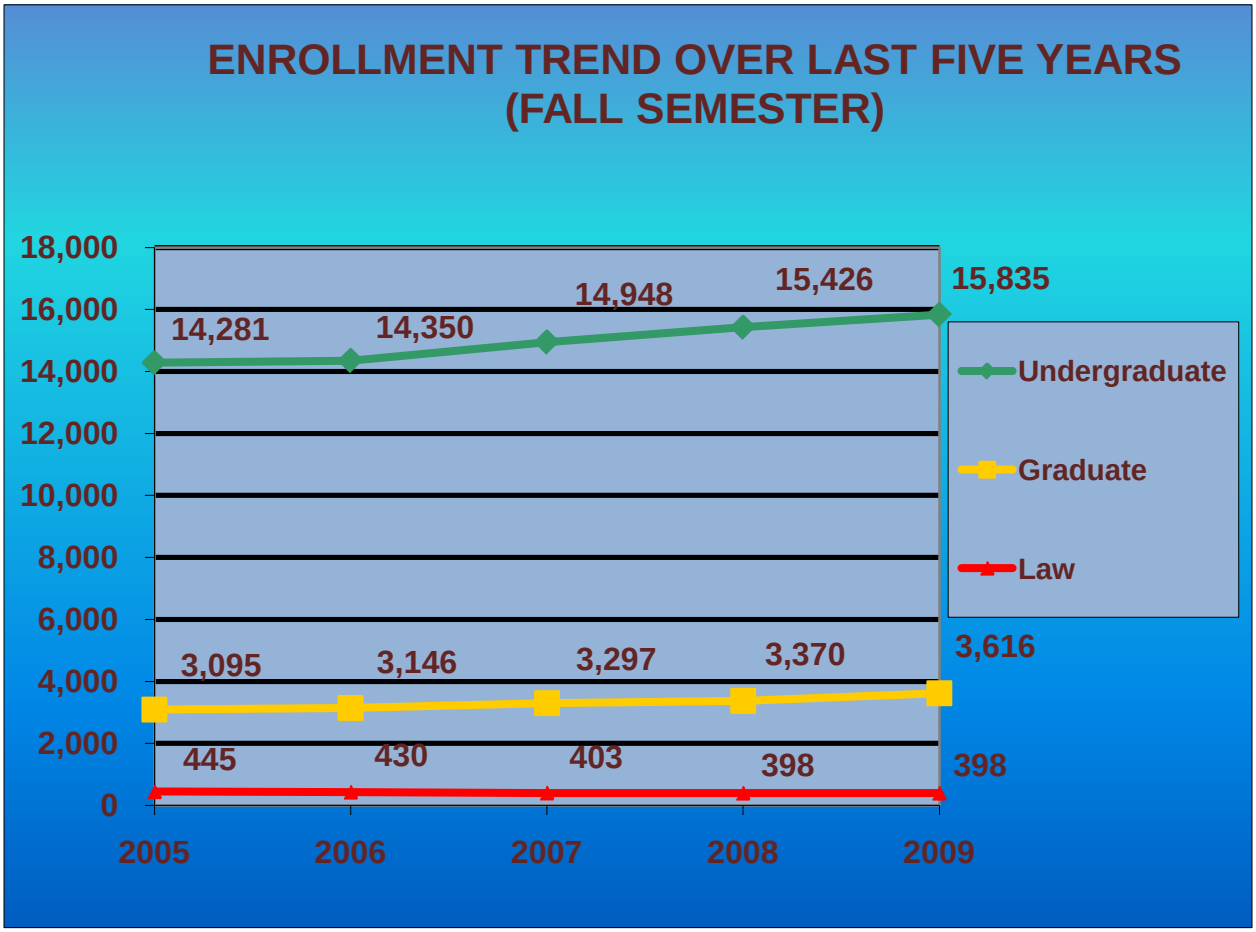
Instruction	131,024,137
Research	96,681,263
Public Service	70,306,277
Academic Support	34,589,392
Student Services	18,136,637
Institutional Support	37,852,287
Scholarships and Fellowships	20,889,729
Operations and Maintenance of Plant	32,208,411
Auxiliary Enterprises	109,890,073
Depreciation	66,109,077
Total	617,687,283

Fiscal Year 2010 Operating Expenses by Natural Classification

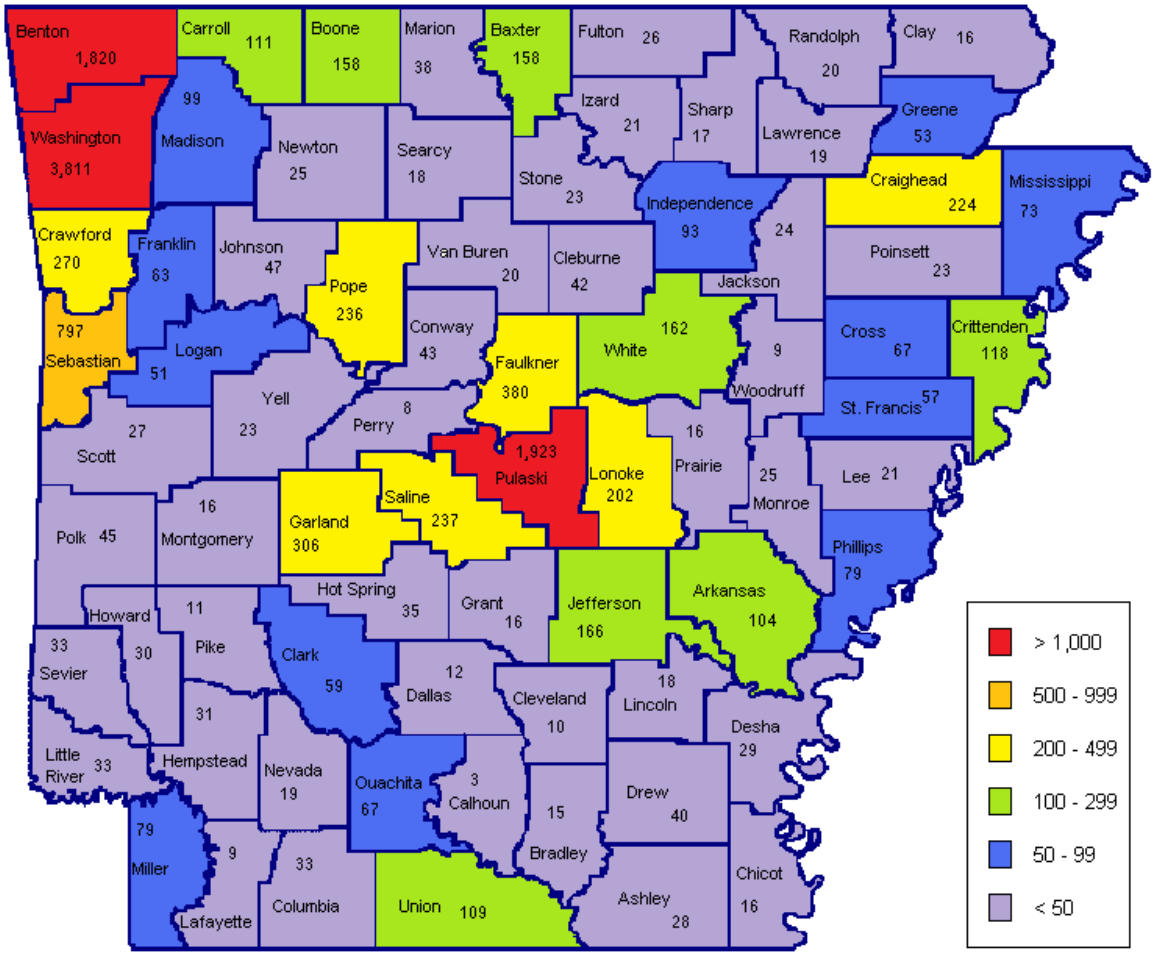


Fiscal Year 2010 Operating Expenses by Function

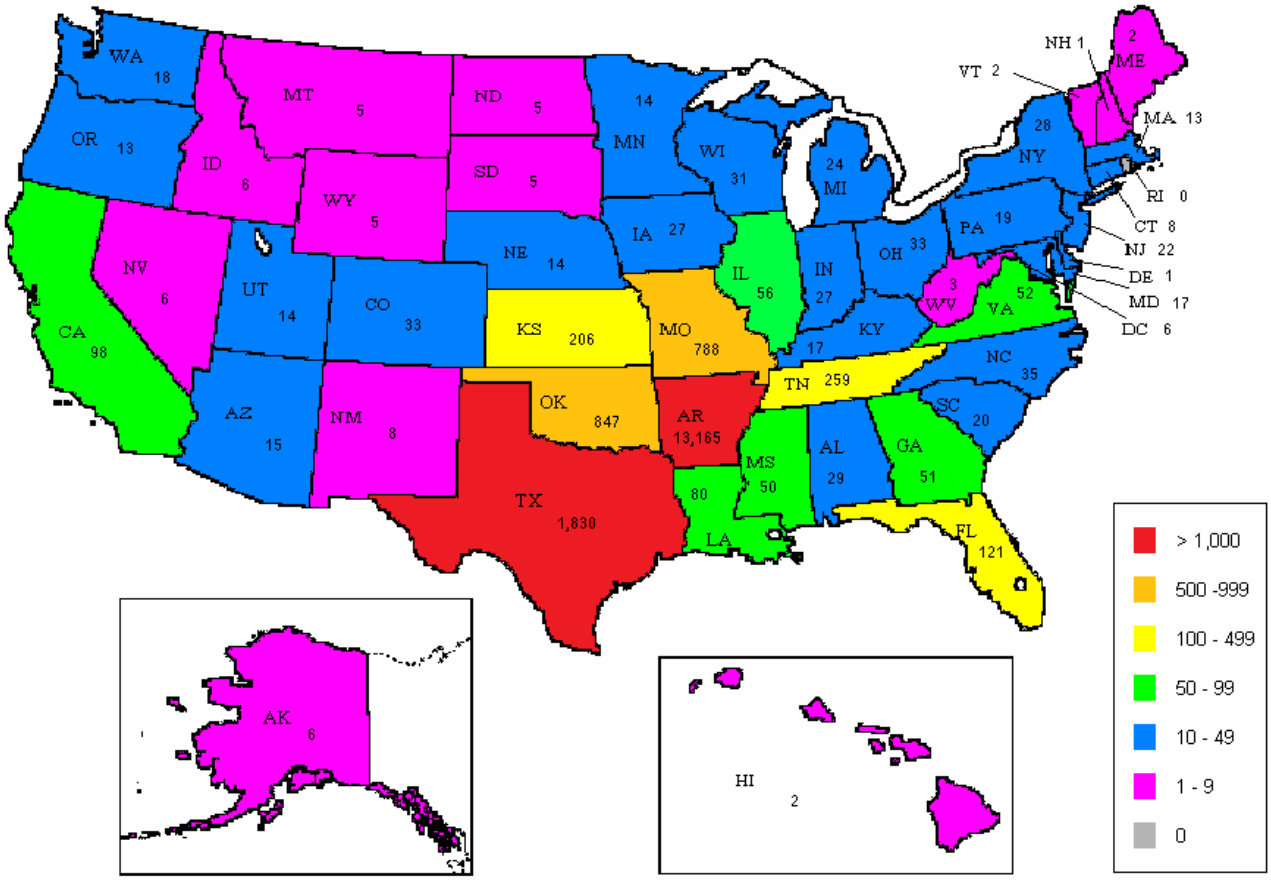



ENROLLMENT TREND OVER LAST FIVE YEARS
(FALL SEMESTER)
18,000
16,000
14,000
12,000
10,000
8,000
6,000
4,000
2,000
0
14,281
14,350
14,948
15,426
15,835
3,095
3,146
3,297
3,370
3,616
445
430
403
398
398
2005
2006
2007
2008
2009
Undergraduate
Graduate
Law

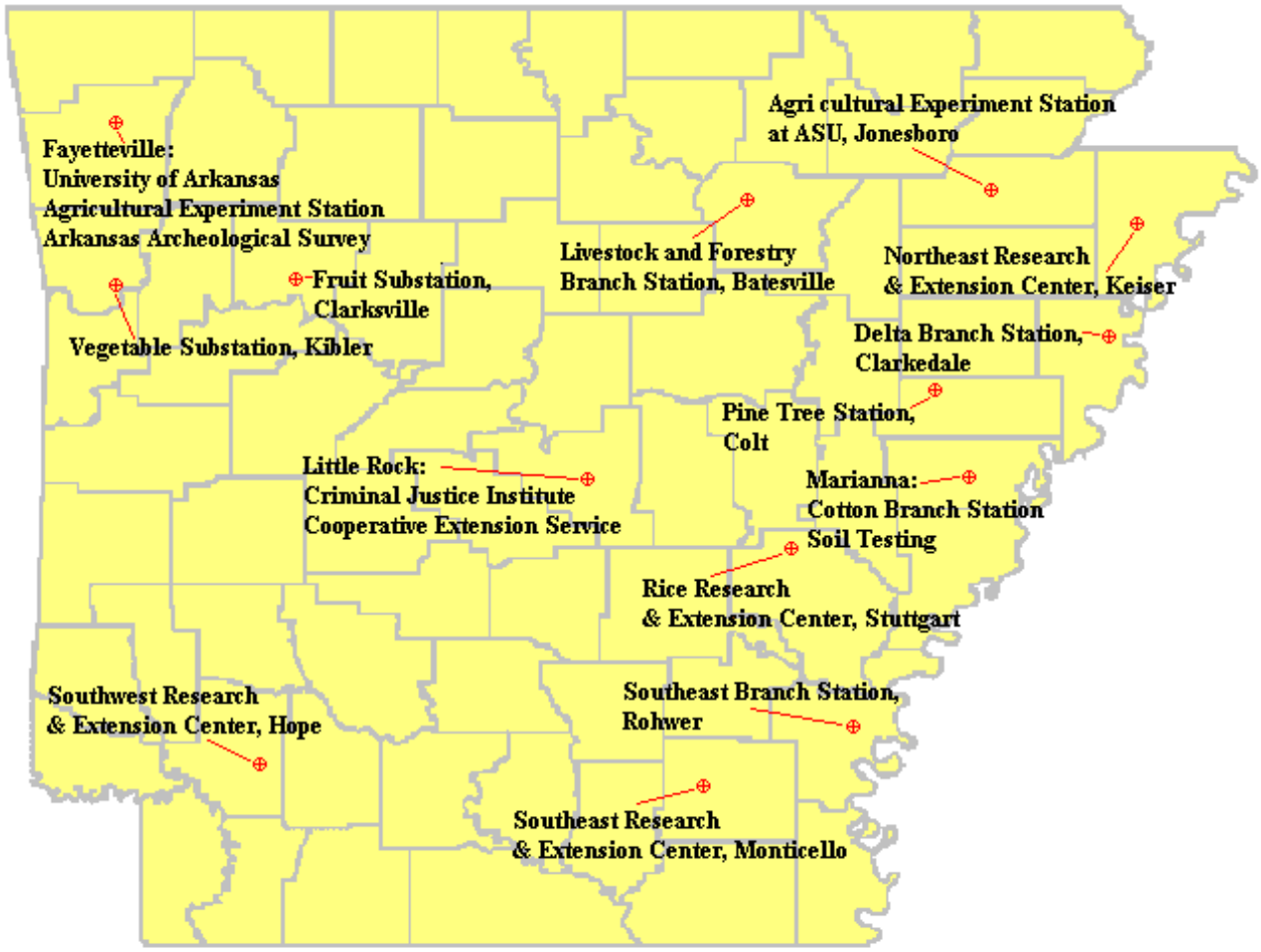
IN-STATE ENROLLMENT
BY COUNTY OF ORIGIN



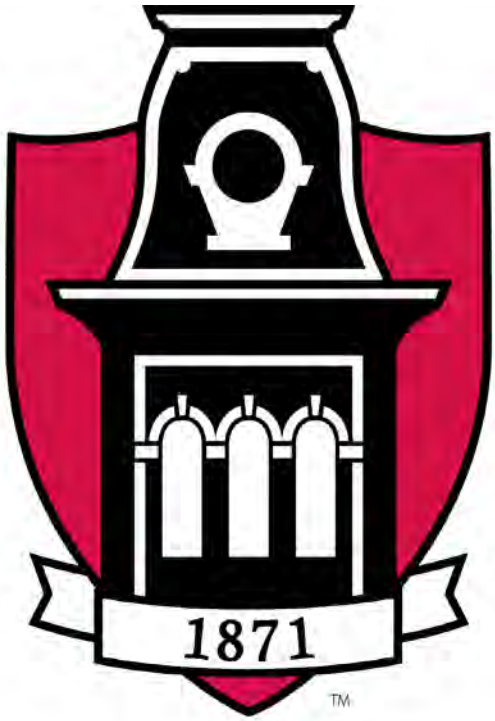
ENROLLMENT BY STATE



UNIVERSITY OF ARKANSAS, FAYETTEVILLE LOCATION AND LOCATIONS OF OTHER DIVISION SITES



In addition, there are Cooperative Extension Service offices in each of the 75 counties in the State of Arkansas. There are also various Archeological Survey sites throughout the State.



UNIVERSITY OF
ARKANSAS

Sen. Bobby L. Glover
Senate Co-Chair
Rep. Johnny Hoyt
House Co-Chair
Sen. Bill Pritchard
Senate Co-Vice Chair
Rep. Beverly Pyle
House Co-Vice Chair

Arkansas

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

LEGISLATIVE JOINT AUDITING COMMITTEE
DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

University of Arkansas, Fayetteville
Legislative Joint Auditing Committee

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the University of Arkansas, Fayetteville (University), an institution of higher education of the State of Arkansas, as of and for the year ended June 30, 2010, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the University's 2009 financial statements and, in our report of the University of Arkansas System dated November 10, 2009, we expressed unqualified opinions on the respective financial statements of the business-type activities and the applicable aggregate discretely presented component units. We did not audit the financial statements, including the prior year partial comparative information, of the University of Arkansas Fayetteville Campus Foundation, Inc., the Razorback Foundation, Inc., and the Arkansas 4-H Foundation, Inc., which represent 100% of the assets, net assets, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the University of Arkansas Fayetteville Campus Foundation, Inc., the Razorback Foundation, Inc., and the Arkansas 4-H Foundation, Inc., is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the University of Arkansas Fayetteville Campus Foundation, Inc., the Razorback Foundation, Inc., and the Arkansas 4-H Foundation, Inc., were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the University of Arkansas, Fayetteville as of June 30, 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

DIVISION OF LEGISLATIVE AUDIT

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

Little Rock, Arkansas
November 15, 2010
EDHE13510

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis provides an overview of the financial position of the University of Arkansas, Fayetteville (the University) for the year ended June 30, 2010, with fiscal year ended June 30, 2009 data presented for comparative purposes. The emphasis of the discussion concerning the financial statements will be for the current year. Management has prepared this discussion, along with the financial statements and related note disclosures, and it should be read in conjunction with financial statements and notes to the financial statements. The financial statements, notes and discussion are the responsibility of management. All references to "2010", "2009" or another year refer to the fiscal year ended June 30, unless otherwise noted.

The University is the largest and oldest state institution of higher education and the primary state and land-grant university in Arkansas. Established in 1871 under the provisions of the Morrill Act, it is the flagship institution of the University of Arkansas System and the state. Recognized as a *Carnegie Research University*, it is the state's only comprehensive research university and is classified as an institution with high research activity. Through its teaching, research and outreach the University is positioned to be an economic and cultural engine for the state and beyond.

All programs and activities of the University are governed by the University of Arkansas Board of Trustees, which has delegated to the System President the administrative authority for all aspects of operations. The System President has further delegated administrative authority to the Chancellor and Vice President for Agriculture, who have responsibility for the programs and activities of the colleges, schools and divisions presented in this financial report.

Overview of the Financial Report and Financial Analysis

The University's financial report includes three primary financial statements: the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Cash Flows. The financial statements of three component units are presented discretely from the University. The notes to the financial statements provide additional information that is essential to understanding the primary financial statements. Other required supplementary information provides additional information related to other post employment benefits.

Financial statements are presented in accordance with Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities*. The statement establishes standards for financial reporting of public colleges and universities and requires that financial statements be presented on an entity-wide basis to focus on the University as a whole. Statements are prepared using the accrual basis of accounting, which is consistent with the accounting method used by private-sector entities. All of the current year's revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid.

The University has identified three foundations as component units subject to inclusion in the financial report: the University of Arkansas Fayetteville Campus Foundation, Inc., the Razorback

Foundation, Inc., and the Arkansas 4-H Foundation, Inc. As component units, their financial information is included in our financial report in accordance with GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units.* This statement provides criteria for determining which related organizations should be reported as component units based on the nature and significance of their relationship to the primary government, which is the University. Additional information regarding this reporting requirement is provided at Notes to the Financial Statements (Note) No. 1 "Summary of Significant Accounting Policies", under the "Component Units" heading.

Note 17, "Other Entity" refers to the University of Arkansas Foundation, Inc., (the Foundation). The University is the beneficiary of only 49.4% of the nets assets of the Foundation; therefore the Foundation does not meet the requirements of a component unit.

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities and net assets (assets minus liabilities) of the University. The purpose of the statement is to provide a fiscal snapshot of the University as of the end of the fiscal year. Assets and liabilities are presented in the order of their relative liquidity, and are identified as current or noncurrent. Current assets are those assets that can be realized, with relative ease, such as cash, in the coming year. Current liabilities are expected to be paid within the next year. Noncurrent assets and liabilities are not expected to be realized as cash or paid in the subsequent year.

Net Assets are presented in four categories. The first category, Invested in capital assets, net of related debt, provides the University's equity in property, plant and equipment net of depreciation. The next category is Restricted net assets – non-expendable. The corpus of non-expendable and restricted resources (endowments) is only available for investment purposes. The third category, Restricted net assets - expendable, are available for expenditure by the University, but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the resources. The final category, Unrestricted net assets, is the net assets available to the University for any lawful purpose of the University.

The following summarizes the University's assets, liabilities, and net assets as of June 30, 2010, and June 30, 2009:

	As of June 30, 2010	As of June 30, 2009
Assets		
Current Assets	$ 207,639,943	$ 183,827,423
Capital Assets, net of depreciation	853,630,611	827,771,988
Other Noncurrent Assets	131,836,219	116,139,107
Total Assets	$ 1,193,106,773	$ 1,127,738,518
Liabilities		
Current Liabilities	$ 91,290,532	$ 86,891,491
Noncurrent Liabilities	466,583,242	419,408,527
Total Liabilities	$ 557,873,774	$ 506,300,018
Net Assets		
Invested in Capital Assets, net of related debt	$ 449,457,190	$ 453,132,923
Restricted – Nonexpendable	21,835,408	22,449,562
Restricted – Expendable	54,368,748	50,940,264
Unrestricted	109,571,653	94,915,751
Total Net Assets	$ 635,232,999	$ 621,438,500

Overall, the University's total assets increased $65.4 million. A review of the statement of net assets reveals that there are several offsetting variances, but the increase was primarily due to an increase in cash and cash equivalents of $28.2 million, an increase in deposits with trustees of $16.3 million and an increase in capital assets of $25.8 million offset by a decrease in investments of $4.7 million.

Cash and cash equivalents increased because the financial markets provided little incentive to invest in traditional liquidity investments as rates for these investment types continued to be at record lows. The decrease in investments is a combination of several variables with the most significant being a rebound in values because of unrealized gains of $16 million offset by final distributions from the Commonfund and certificates of deposit that were converted to cash or equivalents totaling $13.9 million and a $7 million redemption of a matured security for a debt service balloon payment.

Deposits with bond trustees represent unspent bond proceeds and bond reserve funds. The increase in 2010 reflects the addition of new bonded debt offset by the University's use of bond proceeds.

The increase in Capital Assets, net of depreciation, is primarily a reflection of the University acquiring capital assets at a rate greater than these assets are disposed of or depreciated. The section "Significant Changes in Capital Assets and Long Term Debt Activity" below and Note 13 "Property, Plant and Equipment" provide additional information about capital assets.

Overall, liabilities increased $51.6 million. Similar to asset balances, a review of the statement indicates there were several offsetting variances, but most significant was the $10.7 million increase in accounts payable and $38.1 million increase in bonds, notes, capital leases and installment contracts (long-term debt). Accounts payable grew in 2010 because of increases in payables related to construction projects and accumulated contract retainage.

The issuance of $52.4 million Various Facilities Revenue Bonds, Series 2009A and the assumption of $11.2 million in additional installment contracts offset by scheduled retirements of $25.9 million were the most significant factors for the net increase in long-term debt. The bond proceeds were used to finance in part the construction of the nanoscale science and engineering building as well as renovations to classrooms, teaching labs and administrative office space at several campus locations. Proceeds also provided financing for renovation and improvements to student housing, expansion of utility tunnel infrastructure as well as the acquisition of various property and equipment. Equipment installation and other required repairs and replacements necessary to fulfill two separate energy savings performance contracts were financed with installment contracts. Additional information about University debt is provided in the "Significant Changes in Capital Assets and Long Term Debt Activity" discussion below and at Note 9 "Compensated Absences, Bonds, Notes, Capital Leases Payable, and Installment Contracts".

The increase in assets of $65.4 million netted with the increase in liabilities of $51.6 million resulted in an increase of $13.8 million in net assets.

The following summarizes the composition of unrestricted net assets owned by the units of the University of Arkansas Fund:

	As of June 30, 2010	As of June 30, 2009
Fayetteville Campus	$ 58,244,431	$ 48,085,279
Agricultural Experiment Station	29,930,179	27,054,837
Cooperative Extension Service	12,762,059	11,249,985
Arkansas Archeological Survey	554,398	396,902
Criminal Justice Institute	2,379,561	2,080,386
Clinton School of Public Service	1,703,631	1,375,650
AREON	3,997,394	4,672,712
Total Unrestricted Net Assets	$ 109,571,653	$ 94,915,751

The Unrestricted Net Assets for the Fayetteville Campus are allocated as follows:

	As of June 30, 2010	As of June 30, 2009
Working Capital	$ 750,000	$ 750,000
E & G Department Uses	34,326,877	13,693,053
Service Operations	(359,212)	(686,140)
Auxiliaries	11,085,543	9,764,398
Plant Funds	2,737,983	15,222,514
Quasi-Endowment Funds	9,703,240	9,341,454
Total Fayetteville Campus Unrestricted Net Assets	$ 58,244,431	$ 48,085,279

Plant Funds Unrestricted Net Assets includes amounts allocated to an unrestricted reserve fund. Resembling an internal bank, the reserve may be used for interim internal financing for capital projects until permanent financing is finalized. Generally, the permanent financing arrangement is funded by future gifts or bond issues. The reserve may also be used as a funding source for payment of principal amounts due on bonds.

Statement of Revenues, Expenses, and Changes in Net Assets

Changes in total net assets are the result of activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The statement presents the revenues earned by the University, both operating and non-operating, and the expenses incurred by the University, both operating and non-operating, and any other revenues, expenses, gains and losses and changes in net assets. GASB requires that state appropriations, gifts, investment income and certain grants and contracts be classified as non-operating revenues. As a result, the operating loss of $292.8 million is of little significance, but does highlight the University's dependency on non-operating revenues to meet the costs of operations and provide funds for the acquisition of capital assets.

The following summarizes the University's revenues, expenses and changes in net assets:

	Fiscal 2010 Total	Fiscal 2009 Total
Operating Revenues	$ 324,850,262	$ 310,922,323
Operating Expenses	617,687,283	597,559,978
Operating (loss)	(292,837,021)	(286, 637,655)
Net nonoperating revenues	285,727,841	247,801,203
Loss before other revenues and changes in net assets	(7,109,180)	(38,836,452)
Other revenues and changes in net assets	20,903,679	26,148,576
Increase (decrease) in Net Assets	$ 13,794,499	$ (12,687,876)

Representing 61.1% of the $13.9 million increase in operating revenue, auxiliary enterprises revenue attributable to Athletics increased $8.5 million due to the addition of a neutral site football game, bowl game participation and conference distributions for media revenue.

American Recovery and Reinvestment Act (ARRA) research awards of over $1 million combined with a $2 million increase in Agricultural Experiment Station research awards contributed to the $5.3 million increase in grant and contract operating revenue. The modest increase in net student tuition and fees revenue of $2.7 million was attributable to enrollment growth. Federal appropriations decreased $3.5 million dollars in 2010 primarily due to a shift in funding sources for county extension agents to local sources.

Operating expenses increased $20.1 million or 3.4% over 2009. Compensation and benefits costs grew $4.4 million reflecting necessary increases in faculty to support enrollment growth, along with accruing an additional $1.2 million for retiree healthcare expenses. Supplies and other services increased $12.2 million primarily due to expenses related to fulfilling energy savings performance contracts requirements. Additional information about energy savings performance contracts is provided in the "Significant Changes in Capital Assets and Long Term Debt Activity" discussion below and at Note 9 "Compensated Absences, Bonds, Notes, Capital Leases Payable, and Installment Contracts".

Net nonoperating revenues increased $37.9 million, primarily due to the rebound in investment income. Net investment income for 2010 was $16.1 million, compared to a loss of $12.4 million in 2009, resulting in a net increase of $28.6 million or 75% of the total increase in net nonoperating revenue. Grants experienced a $9.6 million increase due in part to a $5 million increase in federal PELL grants for student financial aid and the receipt of $2 million in federal stimulus funds (ARRA) to support University operating expenses.

Gifts reported on the Statement of Revenues, Expenses and Changes in Net Assets only reflect a portion of the gifts available to the University. Most gifts for the benefit of the University are made to the University of Arkansas Foundation, Inc. whose financial information is presented in summary form at Note 17 "Other Entity".

The overall decrease in Other Revenues and Changes in Net Assets was $5.2 million. The recognition of library holdings in 2009 resulted in a $5.5 million adjustment that was included in other changes. No similar entry was made in 2010. Decreases in capital appropriations and capital grants and gifts highlight state funds and gifts received in 2009 for specific projects. These decreases were essentially offset by increases in other State funds earmarked for capital uses.

Statement of Cash Flows

The Statement of Cash Flows provides information about the cash receipts and disbursements of the University for the year. The statement aids in the assessment of the University's ability to meet obligations as they become due, the need for external financing, and the ability to generate future cash flow. It is prepared using the "direct method" as required by the GASB. The direct method reports all major gross cash inflows and outflows, differentiating these activities into operating activities, noncapital financing, such as state appropriations and nonexchange grants; capital and related financing, including bond proceeds from debt issued to construct or purchase capital assets; and investing activities.

The following summarizes the University's cash flows:

	Fiscal Year 2010	Fiscal Year 2009
Net cash used by operating activities	$ (220,547,742)	$ (219,798,287)
Net cash provided by noncapital financing activities	286,636,570	274,598,672
Net cash provided by operating and noncapital financing activities	66,088,828	54,800,385
Net cash used by capital financing activities	(59,250,493)	(43,041,281)
Net cash provided (used) by investing activities	21,384,345	(4,039,095)
Net increase in cash	$ 28,222,680	$ 7,720,009

The University used $220.5 million of cash for operating activities in 2010 offset by cash provided by noncapital financing activities of $286.6 million. Similar to the operating loss on the Statement of Revenues, Expenses and Changes in Net Assets, net cash provided by operating activities is of little significance to the University. The net cash provided by the combination of operating activities and noncapital financing activities is a much more meaningful number for the University. The positive amount of $66.1 for 2010 indicates that these activities contributed to cash and liquidity for the year.

Cash used by capital financing activities reflects the University's continued use of bonded debt to finance the acquisition of capital assets. Net cash provided by investing activities of $21.4 million is a result of matured investments moved to more liquid cash equivalents and the planned redemption of a $7 million security to service a debt balloon maturity.

Significant Changes in Capital Assets and Long-Term Debt Activity

The University continued progress on several major construction projects during 2010, including the Nanoscale Science and Engineering Building, Garland Avenue Parking Garage and Retail Shops (the Garland Center), Rice Research Facility, Peabody Hall renovation and the Arkansas Research and Education Optical Network.

The scope of the Nanoscale Science and Engineering Building project has evolved as additional funding has become available. The project was originally planned as a phased construction, with phase one financed in part by $16 million from Arkansas Department of Higher Education bonds and $5.5 million from state general improvement funds. With the sale of Various Facility Revenue bonds in 2010, (discussed below) additional funding was obtained that made it possible to complete the project, leaving a shelled out third floor and clean room for future expansion. Total estimated cost for the project is $44 million.

The Garland Center is expected to be completed in early 2011 and will provide much needed parking for the north end of campus. The retail shopping space is anchored by the Campus

Bookstore and is expected to include several other specialty shops to serve the needs of the campus and community. The project was financed with Various Facility Revenue Bonds issued in 2009.

Construction of a new facility at the Rice Research and Extension Center of the Division of Agriculture is also well underway. The complex includes an auditorium, offices, laboratories and sample processing areas. Total cost is estimated at $10 million, funded in part by $6 million from Arkansas Department of Higher Education bonds and a $2 million gift from the Rice Research Promotion Board.

Renovations to Peabody Hall include upgrades to classroom and laboratory facilities designed to modernize and expand teaching and research space, as well as other deferred maintenance work. The project was financed with Various Facility Revenue Bonds issued in 2009, with work expected to be complete in 2011.

Construction continues on the Arkansas Research and Education Optical Network (AREON), a high-speed, fiber-based optical communication network established and operated by a consortium of public four-year universities in Arkansas, with cooperation of the Arkansas Department of Higher Education. The multi-year project launched in 2006 will, when completed, provide a network that will serve as a catalyst to develop and apply advanced communications technologies to support and enhance education, research, public service and economic development in Arkansas. Phase 1 and 2 construction, which includes the Fayetteville campus, is substantially complete with phase 3 began in 2010. Funding for the project comes from Arkansas Department of Higher Education bonds, state general improvement funds, mineral lease rights and consortium members.

During 2010, the University issued $52,430,000 of Various Facilities Revenue Bonds, Series 2009A to finance the construction of the nanoscale science and engineering building; renovation of classrooms, teaching labs and administrative office space; renovation and improvements to student housing; and expansion of utility tunnel infrastructure as well as the acquisition of various property and equipment. Construction on these projects is beginning and is expected to be completed by 2012.

The University issued $23,965,000 in Athletic Facilities Revenue Refunding Bonds, Series 2010 (Taxable) to refund Athletic Facilities Revenue Bonds, Series 1999 and 2001 in the amounts of $19.1 and $4 million, respectively. Historic low rates for taxable bonds provided an opportunity to achieve an economic gain of $355,490 over the life of the bonds.

The University entered into a second energy savings performance contract with Energy Systems Group, LLC in 2010, The first long term debt obligation was negotiated in 2009 to finance the improvements and equipment necessary to fulfill the obligations of the contract. The 2010 contract provides for additional improvements and equipment that were not economically feasible when the first contract was negotiated. Work continues on both contracts. Under the terms of the financing agreements, the University has available up to $33.5 million to finance its obligations under the energy savings performance contracts. The debt will be serviced with

realized energy costs savings. The University has drawn down a total of $12.7 million, with project completion expected in 2011.

A summary of long-term debt (including the current portion) activity is as follows:

	Bonds	Notes	Installment Contracts and Leases
Balance as of July 1, 2009	$ 380,024,928	$ 17,286,962	$ 10,490,332
Additions	75,353,475		11,797,464
Payments of principal	(21,850,000)	(3,594,832)	(780,645)
Refunded	(23,145,000)		
Amortization of deferred loss	288,625		
Amortization of net bond premium	(616)		
Balance as of June 30, 2010	$ 410,671,412	$ 13,692,130	$ 21,507,151

Note 9, "Compensated Absences, Bonds, Notes, Capital Leases Payable, and Installment Contracts" provides additional information related to the University's long-term debt.

A summary of the change in Net Assets invested in capital assets, net of depreciation and net of related debt is as follows:

Net Assets Invested in capital assets, net of related debt and depreciation as of June 30, 2009	$ 453,132,923
Land Additions and Disposals (net)	819,955
Buildings Additions and Disposals, net of depreciation	3,233,249
Improvements/Infrastructure Additions, net of depreciation	(2,169,515)
Equipment Additions and Disposals, net of depreciation	(20,040,548)
Construction In Progress Additions net of transfers to buildings and improvements/infrastructure	28,038,617
Livestock Additions/deductions	14,243
Library Holdings Additions and Disposals, net of depreciation	(1,708,398)
Intangible Assets, net of amortization	8,903,808
Bond debt moved to Net Assets invested in capital assets	(57,460,304)
Bond Principal Paid in 2010	21,850,000
Bond debt refinanced	23,145,000
Deferred loss on refinanced bond issues, amortized	531,373
Net unamortized bond issue premium	222,141
Capital Leases and Installment Contracts assumed in 2010	(13,430,059)
Note, Capital Lease and Installment Contract Principal Paid in 2010	4,374,705
Net Assets Invested in capital assets, net of related debt and depreciation as of June 30, 2010	$ 449,457,190

Conditions and other factors having a significant effect

Financial and political support from state government remains a critical element to the continued financial health of the University. Arkansas appears to have successfully weathered the effects of the national economic crisis, as general revenue forecasts are positive and the budget remains balanced. Fluctuations in general revenue distributions did occur during 2010, but conservative budgeting and an emphasis on cost containment allowed the University to continue to operate without eliminating programs or instituting lay-offs. Originally forecast at $197.4 million, cuts totaling a net $5.9 million resulted in a total general revenue distribution from the State, including distributions from the Educational Excellence Trust Fund, of $191.5 million for 2010. The cuts were the result of downward revisions to the State revenue forecast throughout the year. The estimated total general revenue distribution from the State for 2011 is $195.3 million, essentially restoring state funding back to 2009 levels. Management will continue to institute both internal and external efforts to minimize the effect of fluctuations in state funding.

The University has received $20.5 million in federal stimulus (ARRA) funds in 2009 and 2010, and expects to receive additional federal stimulus funds during 2011. These funds provide support for operating expenses, capital projects and research. The AREON project will receive a $41.2 million grant in 2011 to continue construction of the state-wide optical network.

Management continues to be challenged to manage the cost of attendance in such a way to balance affordability while achieving necessary revenue to fund operations. For the first time in 20 years, the University did not increase tuition rates for the 2010 academic year. An increase will be necessary in 2011 in order to maintain the facilities, faculty and other support necessary to fulfill our mission.

Private support is also fundamental in meeting budgetary needs. The University has enjoyed historically positive trends in giving, with 2010 being no different. The University recorded $86.7 million of private gift support, a 17% increase over 2009. Record highs in both the number of gifts and new pledges as well as number of benefactors illustrate the enduring commitment to education by our donors. The number of new benefactors has shown phenomenal growth, with a 75% increase since 2008. These outstanding results, sustained through a difficult economic period, underscore the confidence among our alumni, foundations, and other supporters in the quality of the University's programs and the importance of its mission.

The University continues to experience record increases in enrollment, which in turn contribute to increased tuition and fee revenue. The ability to recruit and retain high quality students is a key element to growth. Preliminary numbers for Fall 2010 indicate that enrollment is 21,405 representing an increase of 1,557 students, or 7.8%, over Fall 2009. The numerical increase was the largest in 64 years with the percentage increase the largest since 1975. Total undergraduate enrollment is up 8.9% to 17,247 students, and total graduate enrollment is up 4.3% to 3,770 students. Enrollment at the School of Law remains virtually unchanged at 388 students. While it is encouraging to see record enrollment, further increases in undergraduate enrollment must occur to ensure continued increases in the revenue generated by tuition and to ensure continued

support from state government. The State instituted a lottery in September 2009 to support scholarships to higher education institutions in Arkansas. The Arkansas Challenge Scholarships, funded by the Arkansas State Lottery, were awarded for the first time for Fall 2010. The impact of the lottery to the University appears to be significant with more than 4,000 students receiving Challenge scholarships. Of that number over 1,800 recipients were incoming freshmen, 1,300 were students who were enrolled in the University last year and 300 were non-traditional students.

The condition of the University's capital assets is another important measure of the University's overall financial health. Providing and maintaining facilities that create an attractive environment in which to learn and live is vital to attracting new students, as well as recruiting excellent faculty and staff. Management continues to implement a long-range plan (Facility Renewal & Stewardship Plan) to modernize and expand teaching, research and student facilities with small, targeted amounts of new construction, coupled with a primary focus on renewal and renovation of existing facilities.

Facilities Management prepared an initial estimate in 2003 of the condition of capital assets in order to accumulate the necessary data to develop an optimized facility renewal plan. The University's goal is to update twenty percent of the square footage contained in the index annually on a rolling basis, addressing all facilities on a five year cycle. A Facilities Condition Index (FCI) between zero, indicating no deficiencies in building systems such as interiors and services, and 1.0, indicating the cost of a building's deficiencies equals its plant replacement value, has been assigned to each building. A building with deficiencies estimated at more than the plant replacement value will have an FCI greater than 1.0.

The gross square footage weighted average for all Educational and General Facilities was 0.23 for 2003, 0.22 for 2007 and dropped dramatically to 0.17 in 2008. The relatively large improvement from 2007 to 2008 resulted from an across the board updating of plant replacement values, all of which increased. The weighted average FCI continues to decline to 0.15 for 2010. An effective method of assessing the management of capital assets is to track the average facility score over time. Factors contributing to the downward trend include renovations to campus educational and general buildings as directed by the Facilities Renewal and Stewardship Plan, ongoing work as a part of Energy Savings Performance Contracts, the demolition of certain old structures and the addition of new structures.

The full impact of renovations and upgrades to 32 classrooms, academic support areas and 12 teaching labs completed in 2010 are not wholly reflected in the weighted average FCI because the actual space is only a fraction of the total campus gross square footage. These upgrades provide tangible proof of the University's commitment to learning and teaching, and it is expected that the impact of these improvements will be realized with the recruitment of exceptional students.

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UNIVERSITY OF ARKANSAS
Statement of Net Assets
June 30, 2010
With Comparative Figures at June 30, 2009

	June 30, 2010	June 30, 2009
ASSETS		
Current Assets		
Cash and cash equivalents	$ 95,438,452	$ 67,215,772
Short-term investments	66,953,564	70,069,578
Accounts receivable, net	31,382,232	30,919,635
Accrued interest receivable	726,076	1,097,715
Inventories	4,812,878	4,773,598
Deposits with bond trustees	777,428	2,429,318
Notes receivable, net	3,723,383	3,159,480
Other assets	3,825,930	4,162,327
Total current assets	207,639,943	183,827,423
Noncurrent Assets		
Endowment investments	53,061,841	48,568,508
Notes receivable, net	11,563,589	12,602,367
Deposits with bond trustees	53,302,121	35,341,717
Other long-term investments	12,149,173	18,213,703
Other assets	1,759,495	1,412,812
Capital assets, net	853,630,611	827,771,988
Total noncurrent assets	985,466,830	943,911,095
Total assets	$ 1,193,106,773	$ 1,127,738,518
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	$ 26,196,357	$ 15,514,810
Accrued payroll liabilities	14,778,738	15,169,453
Accrued interest expense	3,397,385	3,407,212
Student overpayments	90,588	44,683
Funds held in trust for others	1,280,061	1,294,205
Deferred revenue	26,716,232	24,982,177
Compensated absences payable - current portion	1,019,419	1,019,349
Bonds, notes and capital leases and installment contracts payable - current portion	17,811,752	25,459,602
Total current liabilities	91,290,532	86,891,491

UNIVERSITY OF ARKANSAS
Statement of Net Assets
June 30, 2010
With Comparative Figures at June 30, 2009

	June 30, 2010	June 30, 2009
Noncurrent Liabilities		
Refundable federal advance - Perkins loans	13,913,162	13,861,257
Compensated absences payable	16,378,204	16,142,212
Liability for other post employment benefits	8,225,317	7,057,738
Bonds, notes capital leases and installment contracts payable	428,058,941	382,342,620
Other noncurrent liabilities	7,618	4,700
Total noncurrent liabilities	466,583,242	419,408,527
Total liabilities	$ 557,873,774	$ 506,300,018
NET ASSETS		
Invested in capital assets, net of related debt	$ 449,457,190	$ 453,132,923
Restricted for		
Nonexpendable		
Scholarships and fellowships	7,908,428	7,751,573
Research	5,739,659	5,739,659
Instructional department uses	7,547,635	7,188,224
Loans	639,686	1,770,106
Expendable		
Scholarships and fellowships	7,148,082	6,335,562
Research	21,040,728	18,827,138
Public service	8,948,645	8,136,924
Instructional department uses	7,999,387	6,282,169
Loans	2,516,756	1,398,513
Capital projects	1,865,174	2,745,222
Debt service	1,922,368	4,240,014
Other	2,927,608	2,974,722
Unrestricted	109,571,653	94,915,751
Total net assets	$ 635,232,999	$ 621,438,500

UNIVERSITY OF ARKANSAS
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2010
With Comparative Figures for 2009

	Fiscal 2010 Total	Fiscal 2009 Total
REVENUES		
Operating Revenues		
Student tuition and fees (net of scholarship allowances of $36,354,740 in fiscal year 2010, and $32,485,525 in fiscal year 2009)	$ 104,940,650	$ 102,198,541
Federal appropriations	10,962,787	14,509,161
County appropriations	2,920,742	2,919,089
Federal grants and contracts	33,763,850	31,163,852
State and local grants and contracts	16,308,318	14,626,342
Nongovernmental grants and contracts	18,731,077	17,689,475
Sales and services of educational departments	22,799,767	22,229,892
Auxiliary enterprises		
Residence Life (net of scholarship allowances of $5,585,367 in fiscal year 2010, and $5,106,328 in fiscal year 2009)	21,827,471	21,494,945
Athletics	61,060,107	52,545,992
Bookstore (net of scholarship allowances of $89,306 in fiscal year 2010, and $77,504 in fiscal year 2009)	14,043,074	14,069,703
Arkansas Union	1,245,782	1,158,713
Student Health Services	1,026,452	1,093,942
Transit and Parking	6,143,209	5,850,087
Student Organizations/Activities	237,093	319,975
Other Auxiliary Enterprises	2,162,635	2,351,093
Other operating revenues	6,677,248	6,701,521
Total operating revenues	324,850,262	310,922,323
EXPENSES		
Operating Expenses		
Salaries, wages, and benefits	359,070,547	354,718,229
Scholarships and fellowships	20,488,633	18,350,081
Supplies and other services	172,019,026	159,854,952
Depreciation	66,109,077	64,636,716
Total operating expenses	617,687,283	597,559,978
Operating loss	(292,837,021)	(286,637,655)

UNIVERSITY OF ARKANSAS
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2010
With Comparative Figures for 2009

	Fiscal 2010 Total	Fiscal 2009 Total
NONOPERATING REVENUES (EXPENSES)		
State appropriations	198,554,670	199,726,630
Gifts	48,714,610	46,311,577
Investment income (net of investment expense of $809,491 in fiscal year 2010, and $785,354 in fiscal year 2009)	16,143,684	(12,438,732)
Interest on capital asset - related debt	(16,423,413)	(16,078,544)
Federal grants (nonexchange)	25,318,612	16,954,863
State and local grants (nonexchange)	11,047,508	9,532,946
Nongovernmental grants (nonexchange)	571,587	855,901
Loss on disposal of assets	(465,774)	(333,048)
Other nonoperating revenues	2,266,357	3,269,610
Net nonoperating revenues	285,727,841	247,801,203
Loss before other revenues and changes in net assets	(7,109,180)	(38,836,452)
OTHER REVENUES AND CHANGES IN NET ASSETS		
Capital appropriations	416,237	2,300,000
Capital grants and gifts	3,229,224	8,176,944
Bond Proceeds from Act 1282 of 2005	16,679,969	9,708,724
Other changes	578,249	5,962,908
Total other revenues and changes in net assets	20,903,679	26,148,576
Increase (Decrease) in net assets	13,794,499	(12,687,876)
NET ASSETS		
Net assets - beginning of year	621,438,500	635,368,163
Restatement of Prior Year Balance		(1,241,787)
Net assets - beginning of year as restated	621,438,500	634,126,376
Net assets - end of year	$ 635,232,999	$ 621,438,500

UNIVERSITY OF ARKANSAS
Statement of Cash Flows - Direct Method
For the Year Ended June 30, 2010
With Comparative Figures for 2009

	Fiscal 2010 Total	Fiscal 2009 Total
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	$ 104,029,411	$ 101,134,664
Federal appropriations	11,628,918	13,703,461
County appropriations	2,920,742	2,919,089
Grants and contracts	66,632,633	63,183,157
Payments to suppliers	(166,918,015)	(159,752,059)
Payments to employees	(283,347,569)	(281,234,248)
Payments for benefits	(74,715,585)	(69,449,970)
Payments for scholarships and fellowships	(20,488,633)	(18,350,081)
Loans issued to students and employees	(1,445,119)	(1,035,982)
Collections of loans to students	1,814,870	1,415,345
Collections of interest on loans to students	(94,108)	(9,515)
Auxiliary enterprise charges		
Residence Life	22,003,656	21,262,903
Athletics	62,780,352	52,951,752
Bookstore	14,177,775	14,078,613
Arkansas Union	1,255,896	1,144,561
Student Health Services	1,001,310	1,074,515
Transit and Parking	6,117,158	5,729,051
Student Organizations/Activities	237,913	323,486
Other Auxiliary Enterprises	2,267,541	2,430,489
Sales and services of educational departments	22,921,431	22,096,993
Other receipts	6,671,681	6,585,489
Net cash used by operating activities	(220,547,742)	(219,798,287)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	198,554,670	199,726,630
Gifts and grants for other than capital purposes	48,655,815	44,363,456
Federal grants (nonexchange)	25,128,327	16,618,713
State and local grants (nonexchange)	11,229,832	9,396,784
Nongovernmental grants (nonexchange)	562,898	873,351
Other non-operating revenue	2,315,227	3,792,019
Net agency fund transactions	189,801	(172,281)
Net cash provided by noncapital financing activities	286,636,570	274,598,672
Net cash provided by operating activities and noncapital financing activities	66,088,828	54,800,385
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Realized proceeds related to capital debt transactions	45,080,973	40,701,959
Capital appropriations	416,237	2,300,000
Capital grants and gifts received	2,383,125	3,050,101
Bond proceeds from Act 1282 of 2005	16,679,969	4,424,474
Purchases of capital assets	(81,193,714)	(62,631,794)
Principal paid on capital debt and leases	(24,821,542)	(14,607,134)
Interest paid on capital debt and leases	(17,795,541)	(16,278,887)
Net cash used by capital financing activities	(59,250,493)	(43,041,281)

UNIVERSITY OF ARKANSAS
Statement of Cash Flows - Direct Method
For the Year Ended June 30, 2010
With Comparative Figures for 2009

	Fiscal 2009 Total	Fiscal 2009 Total
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	$ 21,011,098	$ 56,998,488
Investment income	920,228	1,600,486
Purchase of investments	(546,981)	(62,638,069)
Net cash provided (used) by investing activities	21,384,345	(4,039,095)
NET INCREASE IN CASH	28,222,680	7,720,009
Cash - beginning of year	67,215,772	59,495,763
Cash - end of year	$ 95,438,452	$ 67,215,772
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	$ (292,837,021)	$ (286,637,655)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense	66,109,077	64,636,716
Changes in assets and liabilities		
Receivables (net)	(2,044,494)	(2,351,688)
Inventories	(39,279)	563,825
Prepaid expenses	249,265	(255,137)
Other assets	(59,492)	
Accounts payable and accrued liabilities	4,913,433	(311,344)
Accrued payroll liabilities (Employees)	(578,054)	664,409
Accrued payroll liabilities (Benefits)	181,804	664,654
Student overpayments	45,905	(226,644)
Deferred revenue	1,734,054	370,460
Refundable federal advance	51,905	120,162
Deposits	2,918	700
Compensated absences	236,060	738,169
Retiree benefits	1,167,579	1,966,779
Loans to students and employees	318,598	258,307
Net cash used by operating activities	$ (220,547,742)	$ (219,798,287)
NONCASH TRANSACTIONS		
Donations of land, buildings, improvements, and infrastructure	$ 329,961	$ 4,613,492
Equipment donations	506,225	561,006
Payments to bond escrow directly from bond proceeds	23,689,487	
Payment of bond proceeds directly into deposits with trustees	52,430,000	
Payment of premium and accrued interest on bonds directly into deposits with trustees	572,002	
Bond issuance costs and underwriter's discounts paid directly from bond proceeds	743,461	468,406
Interest on long-term debt paid directly from deposits with trustees	2,351,451	2,170,005
Payment of long-term debt directly from University of Arkansas Foundation, Inc. accounts	1,403,936	1,432,879
Capital outlay paid directly from bond proceeds from Act 1282 of 2005		5,284,250
Capital outlay paid directly from proceeds of University of Arkansas long-term debt instruments	580,820	3,020,626
Loss on disposal of assets	69,703	158,835

UNIVERSITY OF ARKANSAS FAYETTEVILLE CAMPUS FOUNDATION, INC.
Statements of Financial Position
June 30, 2010 and 2009

	2010	2009
Assets		
Investments	$ 389,875,967	$ 356,635,626
Liabilities and Net Assets		
Accounts payable	$ 96,394	
Net Assets:		
Temporarily restricted	$ 21,400,707	$ 17,999,284
Permanently restricted	368,378,866	338,636,342
Total net assets	389,779,573	356,635,626
Total liabilities and net assets	$ 389,875,967	$ 356,635,626

UNIVERSITY OF ARKANSAS FAYETTEVILLE CAMPUS FOUNDATION, INC.

Statement of Activities

For the Years Ended June 30, 2010 and 2009

	2009				2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, gains and other support:								
Interest and dividends		$ 3,189,698	$ 220,921	$ 3,410,619		$ 2,867,284	$ 243,159	$ 3,110,443
Net unrealized and realized gains on investments		14,734,998	29,521,603	44,256,601		15,555,906	(133,925,360)	(118,369,454)
Net assets released from restrictions	$ 14,523,273	(14,523,273)			$ 14,958,796	(14,958,796)		
Total revenue, gains and other support	14,523,273	3,401,423	29,742,524	47,667,220	14,958,796	3,464,394	(133,682,201)	(115,259,011)
Expenses and Losses:								
Program Services-								
Research	1,225,284			1,225,284	1,000,233			1,000,233
Faculty/staff support	2,046,577			2,046,577	1,600,010			1,600,010
Scholarships and awards	9,631,908			9,631,908	10,105,493			10,105,493
Equipment and technology	1,298,848			1,298,848	1,553,454			1,553,454
Other	320,656			320,656	699,606			699,606
Total program services	14,523,273			14,523,273	14,958,796			14,958,796
Change in net assets		3,401,423	29,742,524	33,143,947		3,464,394	(133,682,201)	(130,217,807)
Net assets, beginning of year		17,999,284	338,636,342	356,635,626		14,534,890	472,318,543	486,853,433
Net assets, end of year	$	$ 21,400,707	$ 368,378,866	$ 389,779,573	$	$ 17,999,284	$ 338,636,342	$ 356,635,626

THE RAZORBACK FOUNDATION, INC.
Statement of Financial Position
June 30, 2010

	Total All Funds	Operating Fund	Deferred Compensation Fund	Land, Building and Equipment Fund	Endowment Fund
ASSETS					
ASSETS					
Cash in bank	$ 1,980,550	$ 1,980,550			
Pledges receivable-unrestricted, less allowance for uncollectible pledges	3,571,845	3,571,845			
Investments	9,624,743	7,060,733	$ 844,009		$ 1,720,001
Land, building and equipment, at cost, less accumulated depreciation	45,224			$ 45,224	
Prepaid rent	1,479,553	1,479,553			
Intrafund receivable	86,480	86,480			
Other assets	10,100	10,100			
TOTAL ASSETS	$ 16,798,495	$ 14,189,261	$ 844,009	$ 45,224	$ 1,720,001
LIABILITIES AND NET ASSETS					
LIABILITIES					
Accounts payable	$ 2,026,480	$ 2,026,480			
Intrafund payable	86,480				$ 86,480
Deferred compensation payable	3,740,511	2,896,502	$ 844,009		
TOTAL LIABILITIES	5,853,471	4,922,982	844,009		86,480
NET ASSETS					
Unrestricted	9,266,279	9,266,279			
Board designated-unrestricted	45,224			45,224	
Permanently restricted	1,633,521				1,633,521
TOTAL NET ASSETS	10,945,024	9,266,279		45,224	1,633,521
TOTAL LIABILITIES AND NET ASSETS	$ 16,798,495	$ 14,189,261	$ 844,009	$ 45,224	$ 1,720,001

THE RAZORBACK FOUNDATION, INC.
Statement of Financial Position
June 30, 2009

	Total All Funds	Operating Fund	Deferred Compensation Fund	Land, Building and Equipment Fund	Endowment Fund
Assets:					
Cash in bank	$ 2,077,314	$ 2,077,314			
Pledges receivable-unrestricted, less allowance for uncollectible pledges	4,293,273	4,293,273			
Investments	6,407,618	4,520,046	$ 822,164		$ 1,065,408
Land, building and equipment, at cost, less accumulated depreciation	316,747			$ 316,747	
Prepaid rent	1,494,966	1,494,966			
Intrafund receivable	85,803	85,803			
Other assets	11,100	11,100			
Total assets	$ 14,686,821	$ 12,482,502	$ 822,164	$ 316,747	$ 1,065,408
Liabilities:					
Accounts payable	$ 840,034	$ 840,034			
Intrafund payable	85,803				$ 85,803
Deferred compensation payable	3,292,356	2,470,192	$ 822,164		
Total liabilities	$ 4,218,193	$ 3,310,226	$ 822,164	$	$ 85,803
Net Assets:					
Unrestricted	$ 9,172,276	$ 9,172,276			
Board designated-unrestricted	316,747			$ 316,747	
Permanently restricted	979,605				$ 979,605
Total net assets	10,468,628	9,172,276		316,747	979,605
Total liabilities and net assets	$ 14,686,821	$ 12,482,502	$ 822,164	$ 316,747	$ 1,065,408

THE RAZORBACK FOUNDATION, INC.

Statement of Activities

Year Ended June 30, 2010

	Total All Funds	Operating Fund	Deferred Compensation Fund	Land, Building and Equipment Fund	Endowment Fund
Changes in unrestricted net assets:					
Revenues:					
Public support - contributions	$ 12,812,250	$ 12,812,250	$	$	$
Investment income (loss) and other	202,877	202,877			
Total unrestricted revenues	13,015,127	13,015,127			
Expenses:					
Program services:					
Directly allocated to:					
Football	1,148,764	1,148,764			
Basketball	186,179	186,179			
Baseball	126,812	126,812			
Track and field	29,445	29,445			
Other sports	18,638	18,638			
Women's sports	128,123	128,123			
Athletic department operations	8,267,121	8,267,121			
Fundraising	1,266,654	1,266,654			
Administrative	978,746	978,746			
Deferred compensation expense	492,287	492,287			
Provision for uncollectible pledges	70,255	70,255			
Total expenses	12,713,024	12,713,024			

THE RAZORBACK FOUNDATION, INC.
Statement of Activities
Year Ended June 30, 2010

	Total All Funds	Operating Fund	Deferred Compensation Fund	Land, Building and Equipment Fund	Endowment Fund
Other changes:					
Intrafund transfers	(189,956)	(201,463)		11,507	
Unrealized loss on investments	(6,637)	(6,637)			
Depreciation	(283,030)			(283,030)	
Total other changes	(479,623)	(208,100)		(271,523)	
Total increase (decrease) in unrestricted net assets	(177,520)	94,003		(271,523)	
Changes in temporarily restricted net assets:					
Deferred compensation investment income (loss)	21,844		21,844		
Program services:					
Deferred compensation expense	(21,844)		(21,844)		
Total increase (decrease) in temporarily restricted net assets					
Changes in permanently restricted net assets:					
Endowment fund public support	408,916				408,916
Endowment fund investment loss	55,044				55,044
Intrafund transfers	189,956				189,956
Total increase (decrease) in permanently restricted net assets	653,916				653,916
Increase (decrease) in net assets	476,396	94,003		(271,523)	653,916
Net assets at beginning of year	10,468,628	9,172,276		316,747	979,605
Net assets at end of year	$ 10,945,024	$ 9,266,279	$	$ 45,224	$ 1,633,521

THE RAZORBACK FOUNDATION, INC.

Statement of Activities

Year Ended June 30, 2009

	Total All Funds	Operating Fund	Deferred Compensation Fund	Land, Building and Equipment Fund	Endowment Fund
Changes in unrestricted net assets:					
Revenues and gains:					
Public support - contributions	$ 13,972,915	$ 13,972,915			
Investment income (loss) and other	(117,076)	(117,076)			
Realized gain on investments	21,611	21,611			
Total unrestricted revenues and gains	13,877,450	13,877,450			
Expenses:					
Program services directly allocated to::					
Football	1,404,308	1,404,308			
Basketball	637,664	637,664			
Baseball	164,075	164,075			
Track and field	783,015	783,015			
Other sports	1,108,421	1,108,421			
Athletic department operations	5,760,090	5,760,090			
Fundraising	1,506,597	1,506,597			
Administrative	840,537	840,537			
Deferred compensation expense	680,708	680,708			
Provision for uncollectible pledges	6,171	6,171			
Total expenses	12,891,586	12,891,586			

THE RAZORBACK FOUNDATION, INC.

Statement of Activities

Year Ended June 30, 2009

	Total All Funds	Operating Fund	Deferred Compensation Fund	Land, Building and Equipment Fund	Endowment Fund
Other changes:					
Transfers for current operations		5,738,967		$ (2,128,955)	$ (3,610,012)
Unrealized loss on investments	(73,095)	(73,095)			
Depreciation	(282,784)			(282,784)	
Total other changes	(355,879)	5,665,872		(2,411,739)	(3,610,012)
Total increase (decrease) in unrestricted net assets	629,985	6,651,736		(2,411,739)	(3,610,012)
Changes in temporarily restricted net assets:					
Deferred compensation investment income (loss)	(161,690)		$ (161,690)		
Deferred compensation expense	161,690		161,690		
Total increase (decrease) in temporarily restricted net assets					
Changes in permanently restricted net assets:					
Endowment fund public support	85,043				85,043
Endowment fund investment loss	(75,803)				(75,803)
Total increase (decrease) in permanently restricted net assets	9,240				9,240
Increase (decrease) in net assets	639,225	6,651,736		(2,411,739)	(3,600,772)
Net assets at beginning of year	9,829,403	2,520,540		2,728,486	4,580,377
Net assets at end of year	$ 10,468,628	$ 9,172,276	$	$ 316,747	$ 979,605

ARKANSAS 4-H FOUNDATION, INC.
Statements of Financial Position
June 30, 2010 and 2009

	2010	2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,331,551	$ 992,129
Investments, at fair value	1,551,933	1,662,236
Accounts receivable, net of allowance for doubtful accounts of $23,076 and $5,102	36,760	59,600
Contributions receivable, net of allowance of $15,938 and $15,938	30,000	
Inventories	12,231	17,828
Other assets	8,339	17,080
Total current assets	2,970,814	2,748,873
OTHER ASSETS:		
Restricted cash	536,661	12,142
Investments, at fair value, restricted	1,508,247	1,006,850
Total other assets	2,044,908	1,018,992
PROPERTY AND EQUIPMENT, NET	5,875,440	6,140,244
TOTAL ASSETS	$ 10,891,162	$ 9,908,109
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 93,441	$ 92,308
Participant fees collected in advance of events	76,115	120,755
Due to affiliate	71,623	135,665
Accrued expenses	22,390	19,358
Customer deposits	16,613	11,609
Current maturity of note payable	40,582	39,982
Total current liabilities	320,764	419,677
LONG-TERM LIABILITY:		
Note payable, less current maturity	125,436	166,018
NET ASSETS:		
Unrestricted	6,978,861	7,103,542
Temporarily restricted	2,610,847	1,396,522
Permanently restricted	855,254	822,350
Total net assets	10,444,962	9,322,414
TOTAL LIABILITIES AND NET ASSETS	$ 10,891,162	$ 9,908,109

ARKANSAS 4-H FOUNDATION, INC.

Statement of Activities

For the Years Ended June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUES:				
Program service revenue	$ 1,721,598	$ 11,283		$ 1,732,881
Grants and contributions	338,685	1,046,975	$ 20,100	1,405,760
Interest and dividends	22,173	76,299	5,337	103,809
Net unrealized and realized appreciation (depreciation) on investments	34,393	118,346	7,467	160,206
Other revenues	20,013			20,013
Net assets released from restrictions	123,310	(123,310)		
Total support and revenues	2,260,172	1,129,593	32,904	3,422,669
EXPENSES:				
Program	2,177,528			2,177,528
Management and general	60,449			60,449
Fundraising	62,144			62,144
Total expenses	2,300,121			2,300,121
INCREASE (DECREASE) IN NET ASSETS	(39,949)	1,129,593	32,904	1,122,548
NET ASSETS, BEGINNING OF YEAR	7,103,542	1,396,522	822,350	9,322,414
RECLASSIFICATION OF NET ASSETS	(84,732)	84,732		
NET ASSETS, END OF YEAR	$ 6,978,861	$ 2,610,847	$ 855,254	$ 10,444,962

ARKANSAS 4-H FOUNDATION, INC.

Statement of Activities

For the Years Ended June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUES:				
Program service revenue	$ 1,640,153	$ 7,418		$ 1,647,571
Grants and contributions	243,775	63,318	$ 1,600	308,693
Interest and dividends	31,582	82,711	8,723	123,016
Net unrealized and realized appreciation (depreciation) on investments	12,156	(84,353)	3,305	(68,892)
Other revenues	86,014			86,014
Net assets released from restrictions	135,575	(135,575)		
Total support and revenues	2,149,255	(66,481)	13,628	2,096,402
EXPENSES:				
Program	2,160,876			2,160,876
Management and general	70,843			70,843
Fundraising	5,385			5,385
Total expenses	2,237,104			2,237,104
INCREASE (DECREASE) IN NET ASSETS	(87,849)	(66,481)	13,628	(140,702)
NET ASSETS, BEGINNING OF YEAR	6,981,058	1,444,253	1,037,805	9,463,116
RECLASSIFICATION OF NET ASSETS	210,333	18,750	(229,083)	
NET ASSETS, BEGINNING OF YEAR, AS RESTATED	7,191,391	1,463,003	808,722	9,463,116
NET ASSETS, END OF YEAR	$ 7,103,542	$ 1,396,522	$ 822,350	$ 9,322,414

(1). Summary of Significant Accounting Policies

The financial statements for the University of Arkansas, Fayetteville ("the University") for the fiscal year ended June 30, 2010, have been prepared in accordance with generally accepted accounting principles accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB).

Basis of Presentation and Measurement Focus

For financial reporting purposes, the University is considered a special-purpose government engaged in business-type activities. Accordingly, the financial statements of the University have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable. Expenses are recognized in the period in which they are incurred, if measurable, including depreciation.

Net Assets

The University's net assets are classified as follows:

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

- Restricted:

  Nonexpendable – Net assets subject to externally-imposed stipulations that they be maintained permanently by the University. Such assets include the University's permanent endowment funds.

  Expendable – Net assets whose use by the University is subject to externally-imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time. There is no formal policy requiring restricted net assets to be used either before or after unrestricted net assets are used for the same purpose. Responsible officials determine at the time funds are expended to use any unrestricted net assets that may be available.

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

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 to not apply FASB pronouncements issued after the applicable date.

Component Units

In May 2002, GASB issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, which amends GASB Statement No. 14 to provide additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with a primary government. Under the statement, which became effective with the fiscal year ending June 30, 2004, the financial activities of qualifying foundations are to be included in the financial statements of the primary government, through discrete presentations. There were three qualifying foundations for the University of Arkansas, Fayetteville: the University of Arkansas Fayetteville Campus Foundation, Inc., the Razorback Foundation, Inc., and the Arkansas 4-H Foundation, Inc.

The University of Arkansas Fayetteville Campus Foundation, Inc. ("the Foundation") is a charitable organization described in Section 501 (c) (3) of the Internal Revenue Code of 1986, as amended, and was established by the Walton Family Charitable Support Foundation, Inc., for the exclusive benefit of the University of Arkansas, Fayetteville campus. The Foundation was established on March 11, 2003, and exists primarily to support the Honors College, the Graduate School and the University's library. The Board of Trustees of the Foundation is made up of seven (7) members, including three (3) members who are also employees of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources or income thereon that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements.

The Foundation distributed $15,472,412 and $16,038,409 to the University during the fiscal years ended June 30, 2010, and June 30, 2009, respectively, for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the administrative office at 700 Research Center Boulevard, Fayetteville, AR 72701.

The Razorback Foundation, Inc. ("the Razorback Foundation") was incorporated on October 17, 1980. It is a non-for-profit organization whose sole purpose is to support intercollegiate athletics at the University. Although the University does not control the timing or amount of receipts from the Razorback Foundation, the majority of resources, or income thereon that the Razorback Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Razorback Foundation can only be used by, or for the benefit of, the University, the Razorback Foundation is considered a component unit of the University and is discretely presented in the University's financial statements.

The Razorback Foundation distributed $6,103,776 to the University, and provided equipment, facilities, improvements and supplies in the amount of $885,897 during the fiscal year ended June 30, 2010. During the fiscal year ended June 30, 2009, the Razorback Foundation distributed $5,485,811 to the University, and provided equipment, facilities, improvements and supplies in the amount of $2,559,948. Complete financial statements for the Razorback

Foundation can be obtained from the administrative office at 91 North Razorback Road, Fayetteville, AR 72701.

The Arkansas 4-H Foundation, Inc. ("the 4-H Foundation") was incorporated under the laws of the State of Arkansas in 1951. The purposes and objectives of the 4-H Foundation are exclusively educational. The 4-H Foundation was formed to encourage and support such educational purposes, as in the judgment of the 4-H Foundation, will best meet the needs and advance the interests of 4-H youth programs throughout the State of Arkansas. The 4-H Foundation is organized into approximately 160 distinct funds that are used to account for various educational or administrative activities.

The 4-H Foundation made no distributions directly to the University during the fiscal years ended June 30, 2010, or June 30, 2009, other than to reimburse the University for expenses incurred on their behalf. Complete financial statements for the 4-H Foundation can be obtained from the administrative office at 2301 S. University Avenue, P.O. Box 391, Little Rock, AR 72203.

New Accounting Pronouncements

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which became effective with the fiscal year ending June 30, 2010. The Statement provides guidance for the recognition of intangible assets, requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets and makes existing authoritative guidance related to the accounting and financial reporting for capital assets applicable to intangible assets.

In accordance with GASB Statement No. 51, the University has adopted a policy statement to address the capitalization of intangible assets. As of June 30, 2010, the University has identified intangible assets totaling $79,709,146 that meet capitalization requirements. Of this amount, $70,805,338 has been amortized resulting in net intangible assets of $8,903,808.

In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, which became effective with the fiscal year ending June 30, 2009. The Statement established consistent standards for the reporting of land and real estate held as investments by essentially similar entities. Management has determined that no land or other real estate is held by any endowment fund as an investment, and the requirements of this statement are not applicable.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which became effective with the fiscal year ending June 30, 2010. The Statement addresses the recognition, measurement and disclosure of information regarding derivative instruments entered into by governments. Management has determined that no derivative instruments are held by the University, and the requirements of this statement are not applicable.

In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*, which becomes effective with the fiscal year ending June 30, 2011. The objective of the Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools.

The University has not determined the effects of the implementation of this statement on the University's financial statements.

Cash and Cash Equivalents

The University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds held in the custody of the Treasurer of the State of Arkansas and other state agencies are considered cash equivalents.

Inventories

Inventories are valued at cost with costs being determined using several generally accepted inventory valuation methods depending on the best practices of the University department to which the inventory belongs.

The following summarized the cost of inventories with the method of valuation:

Inventories	Valuation Method	June 30, 2010	June 30, 2009
Athletics Inventory	Retail	$ 591,280	$ 539,989
Bookstore	Retail	2,318,468	2,329,060
CES Warehouse	Weighted Average	75,494	93,237
Garvan Woodland Gardens Shop	Weighted Average	93,281	85,890
Facilities Management	FIFO	491,084	473,495
Printing Services	Weighted Average	170,054	179,083
Research Services	Weighted Average	56,947	56,795
Residence Life	LIFO	398,329	402,600
Student Health Pharmacy	FIFO	25,324	22,991
University Press	LCM	592,617	590,458
Total Inventories		$ 4,812,878	$ 4,773,598

Accounts Receivable

Accounts receivable are stated at estimated net realizable values; that is, the gross amount of the receivable is reduced by allowances for estimated uncollectible accounts. Accounts receivable represent charges due the University from various student fees, room and board, student fines, and other charges. Accounts receivable also consist of unreimbursed expenses relating to research contracts with federal, state, and private agencies. Accounts receivable totaling $222,127 and $554,815 were written off during the fiscal years ended June 30, 2010, and June 30, 2009, respectively.

Accounts receivable at June 30, 2010, totaled $38,459,568. The allowance for doubtful accounts was computed to be $7,077,336, resulting in net accounts receivable totaling $31,382,232.

Accounts receivable at June 30, 2009, totaled $37,968,822. The allowance for doubtful accounts was computed to be $7,049,187, resulting in net accounts receivable totaling $30,919,635.

A summary of accounts receivable balances at June 30, 2010, are as follows:

	Gross	Allowance	Net
Student Accounts Receivable	$ 9,490,425	$ (5,205,754)	$ 4,284,671
Non-student Invoiced Accounts Receivable	18,940,054	(1,871,582)	17,068,472
Unreimbursed Research Contract Expenses	10,029,089		10,029,089
Totals	$ 38,459,568	$ (7,077,336)	$ 31,382,232

A summary of accounts receivable balances at June 30, 2009, are as follows:

	Gross	Allowance	Net
Student Accounts Receivable	$ 8,589,329	$ (4,952,302)	$ 3,637,027
Non-student Invoiced Accounts Receivable	18,071,683	(1,607,695)	16,463,988
Unreimbursed Research Contract Expenses	11,307,810	(489,190)	10,818,620
Totals	$ 37,968,822	$ (7,049,187)	$ 30,919,635

Annual Appropriated Budgets

In November, 2008, the citizens of the State of Arkansas voted to amend the Arkansas State Constitution to allow for annual legislative sessions. As a result, annual appropriated budgets are adopted for the state general fund. The annual period commences on July 1 of each year following the adjournment of the regular sessions of the General Assembly, and ends on June 30 the year after. An appropriation is construed to be available for the one year period following the legislative session in which it was approved. All appropriations lapse at the end of the year unless otherwise provided.

Capital Assets

Capital assets consisting of land, buildings, furniture, fixtures, equipment, improvements, infrastructure, construction in progress and intangible assets are stated at cost or fair market value at date of gift.

Buildings, improvements, and infrastructure additions are capitalized when the cost is $50,000 or more. Renovations to buildings, infrastructure and land improvements are also capitalized when they significantly increase the value or extend the useful life of the structure and the cost exceeds $50,000.

In accordance with the University's capitalization policy, equipment includes all furniture, fixtures and equipment with a unit cost of $2,500 or more and an estimated useful life of two years or more.

Intangible assets are capitalized when the cost is $500,000 or more for purchased software, $1,000,000 or more for internally developed software, or $250,000 or more for easements, land use rights, trademarks and copyrights, and patents.

Library holdings are generally defined as collections of books and reference materials, and are valued using average prices for library acquisitions. A library book is a literary composition bound into a separate volume and identifiable as a separate copyrighted unit. Library reference materials are information sources other than books which include journals, periodicals, microforms, audio/visual media, computer-based information, manuscripts, maps, documents, and similar items.

Livestock is under the control of the Department of Animal Sciences and is maintained primarily for research purposes with any other benefits derived from the operations considered as incidental to the primary mission of the Department. The inventory value placed on the animals is determined by department heads utilizing current market prices and breeding and research intangibles.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 30 years for buildings, 15 to 20 years for infrastructure and land improvements, 3 to 10 years for equipment and 10 years for library holdings. Amortization of intangible assets, except for those determined to have indefinite useful lives, is computed using the straight-line method over the estimated useful lives of the assets, generally 5 years for purchased software; 10 years for internally developed software; 15 years for easements, land use rights, trademarks, and copyrights; and 20 years for patents.

Capitalization of Interest

The University capitalizes interest involving qualifying assets, if material. The amount of interest cost to be capitalized is interest cost on borrowings netted against any interest earned on temporary investments of the proceeds of those borrowings from the date of borrowing until the specified qualifying assets acquired with those borrowings are ready for their intended use.

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, and (3) most federal, state and local grants and contracts.

- Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB 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
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 and 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.

(2). Reporting Entity

The University of Arkansas, Fayetteville ("the University") was established at Fayetteville in 1871 under the provisions of the Morrill Act as both a state university and the land-grant college of Arkansas. The University of Arkansas, Fayetteville includes the Agricultural Experiment Station, the Cooperative Extension Service, Arkansas Archeological Survey, the Criminal Justice Institute, and the Clinton School of Public Service, as well as the academic units. The academic units in Fayetteville include ten colleges, schools and divisions: the Dale Bumpers College of Agricultural, Food, and Life Sciences, the Fay Jones School of Architecture, the J. William Fulbright College of Arts and Sciences, the Sam M. Walton College of Business, the College of Education and Health Professions, the College of Engineering, the School of Law, the Honors College, the Graduate School, and the School of Continuing Education and Academic Outreach. The University is one of eleven campuses of the University of Arkansas System. The governing body is the Board of Trustees which is comprised of ten members.

GASB No. 14 addresses the issue of the financial reporting entity. According to GASB No. 14, the financial reporting entity consists of (a) the primary government; (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Under the provisions of this statement, the University is a component unit of the State of Arkansas (primary government). GASB No. 14 defines a component unit as a legally separate organization for which the elected officials of the primary government are financially accountable. Although this statement is written from the perspective of the primary government, its requirements apply to the separately issued financial statements of a component unit, and therefore, the component unit should apply the provisions of GASB No. 14 as if it was a primary government.

(3). Compensated Absences

In June 2005, GASB issued Statement No. 47, *Accounting for Termination Benefits*, which became effective with the fiscal year ending June 30, 2006. The Statement established guidance for accounting and reporting of the costs and liabilities associated with termination benefits, such as those associated with early retirement incentives. The University has not extended a large-scale or age-related early retirement offering during the fiscal year ended June 30, 2010. The University has, from time to time, negotiated early retirement agreements with faculty which may include the provision of healthcare or other benefits for future periods. The number of early

retirement agreements is small and the obligation for future benefits is considered immaterial. Arkansas Code Annotated 21-4-501 authorized the compensation for accumulated unused sick leave for certain employees upon retirement. The University has accrued a liability for these amounts in *Compensated Absences Payable*.

Employees accrue and accumulate annual and sick leave in accordance with policies established by the Board of Trustees. Full time, non-classified, University employees accrue annual leave at the rate of fifteen hours per month, classified employees at a variable rate (from 8 to 15 hours per month) dependent upon number of years of employment in state government. Under the University's policy, an employee may carry accrued leave forward from one calendar year to another, up to a maximum of 240 hours (30 working days). Employees who terminate their employment are entitled to payment for all accumulated annual leave, up to the maximum allowed.

Classified employees who meet the conditions to be considered retirees at the time of termination of employment are entitled to a partial payment of accumulated, unused sick leave in accordance with the provisions of Arkansas Code Annotated 21-4-501.

The University recognizes a liability for compensated absences. The liability is based on the value of unused employee vacation and compensatory time as of year-end, including the associated benefits: contributions to Retirement, Social Security, Medicare, Workers' Compensation, and Unemployment Insurance. The liability also includes amounts paid to eligible classified employees for unused sick leave. A classified employee who has accumulated at least fifty (50) days, but less than sixty (60) days of sick leave upon retirement shall receive an amount equal to fifty percent (50%) of the number of accrued sick leave days (rounded to the nearest day) times fifty percent (50%) of the employee's daily salary. A classified employee who has accumulated at least sixty (60) days, but less than seventy (70) days of sick leave upon retirement shall receive an amount equal to sixty percent (60%) of the number of accrued sick leave days (rounded to the nearest day) times 60 percent (60%) of the employee's daily salary. A classified employee who has accumulated at least seventy (70) days, but less than eighty (80) days of sick leave upon retirement shall receive an amount equal to seventy percent (70%) of the number of accrued sick leave days (rounded to the nearest day) times seventy percent (70%) of the employee's daily salary. A classified employee that has accumulated at least eighty (80) or more days of sick leave upon retirement shall receive an amount equal to eighty percent (80%) of the number of accrued sick leave days (rounded to the nearest day) times eighty percent (80%) of the employee's daily salary. In no event shall an employee receive a sick leave incentive amount that exceeds $7,500.

The University recognizes the estimated amount of the liability that will be incurred within the next year as a current liability and the balance as noncurrent.

(4). Cash, Cash Equivalents, and Investments

Cash and cash equivalents – The University uses commercial banks for its cash deposits. Board of Trustees policy requires that all cash deposits be either insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized by securities held at a third party financial

institution (preferably the cognizant Federal Reserve Bank) in the University's name. Cash deposits are carried at cost. Cash balances in excess of current requirements are pooled and invested in highly liquid, short-term investments with the funds available on a daily basis. The following summarizes the University's cash position:

	June 30, 2010	June 30, 2009
	Bank Balance	Bank Balance
Insured (FDIC)	$ 9,576,891	$ 7,709,426
Uninsured, Collateralized	83,569,454	56,457,880
Uninsured, Uncollateralized		
Total Deposits	$ 93,146,345	$ 64,167,306

Deposits are exposed to custodial risk if they are not covered by depository insurance (FDIC) and are uncollateralized, collateralized with securities held by the pledging institution or collateralized with securities held by the pledging institution's agent but not in the University's name. At June 30, 2010, none of the University's bank balance of $93,146,345 was exposed to custodial credit risk.

The University of Arkansas System Administration (System Administration) does not maintain separate bank accounts. System Administration deposits are commingled in University of Arkansas, Fayetteville bank accounts. The carrying value of the System Administration funds was $1,836,879 at June 30, 2010, and $2,154,493 at June 30, 2009. The above deposit schedule does not include cash on hand in various imprest funds maintained by the University of $81,821 or short-term investments (cash equivalents) of $5,062,765 at June 30, 2010. At June 30, 2009, these amounts were $85,071 and $5,016,447, respectively.

Adjustments necessary to convert from Bank Balance to Total Cash and Cash Equivalents are:

	June 30, 2010		June 30, 2009	
Bank Balance	$ 93,146,345		$ 64,167,306	
Less: Items in Transit	(3,148,977)		(4,144,104)	
Less: Nonnegotiable Certificates of Deposit	(2,548,800)		(4,983,663)	
Cash on Books		$ 87,448,568		$ 55,039,539
State Treasury Cash	$ 4,763,998		$ 9,314,279	
Cash Equivalents	5,062,765		5,016,447	
Less: System Cash	(1,836,879)		(2,154,493)	
Cash and Equivalents		7,989,884		12,176,233
Total Cash and Equivalents		$ 95,438,452		$ 67,215,772

Investments

Investments are recorded at fair value. Fair value for reporting purposes is market value if a market price or quote is readily available. Investments that do not have readily available market

prices or quotes are reported at cost or amortized cost. All investments were reported at fair value. The following is a summary of the University's investments held at June 30, 2010:

Investment Type	Fair Value at June 30, 2010
Mutual Treasury Funds	$ 61,692,920
Mutual Bond Funds	163,671
Corporate Bonds	3,735,784
External Investment Pool-University of Arkansas System	116,566,242
Other	1,536,710
Total Investments	$ 183,695,327

The Mutual Treasury Funds of $61,692,920 includes $54,079,549 reported as deposits with bond trustees on the Statement of Net Assets. The above schedule does not include nonnegotiable certificates of deposit of $2,548,800 which are considered deposits for GASB Statement No. 40 deposit and investment disclosures.

Effective June 30, 2005, the University is required under GASB Statement No. 40 to provide investment risk disclosures for all invested funds. Disclosures related to the CommonFund Short Term Fund and the External Investment Pool are shown separately. No disclosures were made for Other Investments. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University does not have a formal investment policy addressing interest rate risk. The University of Arkansas' investments subject to GASB Statement No. 40 interest rate risk disclosure are summarized below:

Interest Rate Risk					
Investment Maturities (in years)					
Investment Type	Fair Value	Less than 1	1 to 5	6 to 10	More than 10
Corporate Bonds	$ 3,735,784	$ 613,849	$ 1,850,605	$ 1,021,617	$ 249,713

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University of Arkansas' investments subject to GASB Statement No. 40 credit risk disclosure are summarized below:

Credit Risk						
Investment Type	Fair Value	Aaa-Aa3	A1-A3	Baa1-Baa3	Below Baa3	Not Rated
Mutual Treasury Funds	$ 61,692,920	$ 61,692,920				
Mutual Bond Funds	163,671					$ 163,671
Corporate Bonds	3,735,784	308,327	$ 2,334,412	$ 838,721	$ 229,100	25,224
Totals	$ 65,592,375	$ 62,001,247	$ 2,334,412	$ 838,721	$ 229,100	$ 188,895

The ratings are assigned by the Moody's investment ratings service.

CommonFund Short Term Fund

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

In December 2008, Law Debenture Trust Company of New York (Law Debenture) was named successor Trustee to the Fund and assumed all participant account record keeping responsibilities as well as serving as paying agent for the Fund. Assets of the Fund have been liquidated as they mature or as market conditions permit. Approximately 89% of the funds held on September 26, 2008 were disbursed as of June 30, 2009. On September 23, 2009, Law Debenture distributed additional funds, bringing the level of cash distributed to the University to approximately 92%. The remaining assets were sold and distributed to participants in February 2010, and the Fund was dissolved. The aggregate value of cash distributed to investors equaled $1.0058 for every $1.00 of investor balances as of September 26, 2008, representing an internal rate of return (IRR) of just over two percent.

Concentration of Credit Risk

The University places no limit on the amount that may be invested with any one issuer. There were no investments with any one issuer that represented 5% or more of the total funds invested on June 30, 2010.

External Investment Pool-University of Arkansas System

Effective June 30, 1997, the University of Arkansas adopted Governmental Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Pools.* GASB No. 31 requires that investments be carried at fair value and all changes in fair value be reported in revenue as a component of investment income. In 1997, the University of Arkansas and the University of Arkansas Foundation established an external investment pool. This arrangement commingles (pools) the moneys of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio. During 1998, the Walton Arts Foundation joined the pool and during 2003, the Fayetteville Campus Foundation joined the pool. During 2007, the University of Arkansas Community College at Hope Foundation joined the pool.

The governmental external investment pool is exempt from registration with the SEC. The University of Arkansas Board of Trustees and the University of Arkansas Foundation Board of Trustees are the sponsors of this investment pool and are responsible for operation and oversight for the pool. All participation in this investment pool is voluntary.

In January 2010, the University of Arkansas Investment Committee approved an agreement which delegated authority to the UA Foundation to manage University funds held in the Pool. The agreement included delegation of all responsibility for all investment guidelines and performance objectives for accounts within the Pool. The agreement also delegated to the UA Foundation authority for further delegation of portfolio implementation decisions to one or more investment managers. In January 2010, the UA Foundation entered into such an agreement with Cambridge Associates, LLC.

The following tables contain information on the risk disclosure of the Pool, which includes the Total Return Pool and the Intermediate Pool. The University of Arkansas, Fayetteville owns 9.79% of the Pool's net assets.

UNIVERSITY OF ARKANSAS EXTERNAL INVESTMENT POOL
Statement of Invested Assets
June 30, 2010

Investment Type		Fair Value*
Equity	**$**	**284,860,793**
Common Stock		284,830,640
Preferred Stock		30,153
Fixed Income		**444,552,630**
Government Bonds		102,379,024
Corporate Bonds		85,856
Government Mortgage Back Securities		174
Non-Government Backed C.M.O.s		117
Other Fixed Income		342,087,459
Venture Capital and Partnerships		**390,369,829**
Partnerships		390,369,829
Hedge Fund		**59,316,672**
Hedge Equity		59,316,672
All Other		**62,582**
Recoverable Taxes		62,582
Cash/Cash Equivalents		**11,607,165**
Short Term Investment Funds		15,030,946
Cash		(3,957,670)
Invested Cash		533,889
TOTAL	**$**	**1,190,769,671**

*Includes accrued income

UNIVERSITY OF ARKANSAS EXTERNAL INVESTMENT POOL

Credit Risk - S&P Quality Ratings

June 30, 2010

Investment Type and Fair Value*	TOTAL	AAA	AA	A	BBB	NR	US GOVN. GUAR
Corporate Bonds	$ 85,856					$ 85,856	
Government Bonds	101,154,542	$ 29,452,039	$ 7,147,700	$ 11,568,965	$ 42,441	4,833,034	$ 48,110,363
Govn Mortgage Backed Securities	173						173
Non-Govn Backed C.M.O.s	117			117			
Other Fixed Income	339,597,567					339,597,567	
Short Term Investment Funds	15,029,572					15,029,572	
Total	$ 455,867,827	$ 29,452,039	$ 7,147,700	$ 11,569,082	$ 42,441	$ 359,546,029	$ 48,110,536

*Does not include accrued income

UNIVERSITY OF ARKANSAS EXTERNAL INVESTMENT POOL

Years to Maturity

June 30, 2010

		Investment Maturities (in years)			
Investment Type(1)	**Fair Value***	**Less than 1**	**1 to 5**	**6 to 10**	**More than 10**
Corporate Bonds	$ 85,856		$ 85,856		
Government Bonds	101,154,542	$ 50,128	25,524,636	$ 61,975,052	$ 13,604,726
Govn Mortgage Backed Securities	173				173
Non-Govn Backed C.M.O.s	117	117			
Other Fixed Income	339,597,567				
Short Term Investment Funds	15,029,572				
Total	$ 455,867,827	$ 50,245	$ 25,610,492	$ 61,975,052	$ 13,604,898

*Does not include accrued income

(1)Pooled and Mutual Fund/Commingled Fund values displayed for Fair Value Totals only

UNIVERSITY OF ARKANSAS EXTERNAL INVESTMENT POOL
Interest Rate Sensitivity - Effective Duration
June 30, 2010

Investment Type(1)	Fair Value*	Effective Duration
Corporate Bonds	$ 85,856	2.68
Government Bonds	101,154,542	7.42
Govn Mortgage Backed Securities	173	3.26
Non-Govn Backed C.M.O.s	117	0.13
Other Fixed Income	339,597,567	
Short Term Investment Funds	15,029,572	
Total	$ 455,867,827	

*Does not include accrued income
(1)Pooled and Mutual Fund/Commingled Fund values displayed for Fair Value Totals only

UNIVERSITY OF ARKANSAS EXTERNAL INVESTMENT POOL
Foreign Currency Risk By Investment Type
June 30, 2010

Currency By Investment and Fair Value*	Cash	Equity	Fixed Income	Other Assets
AUSTRALIAN DOLLAR				$ 2,184
SWISS FRANC	$ (1)		$ 561,969	24,800
DANISH KRONE			911,214	3,592
EURO	3	$ 11,524	43,105,348	27,468
BRITISH POUND STERLING	770	3,513	7,707,685	
HONG KONG DOLLAR		5,530		
JAPANESE YEN	6,361			
NORWEGIAN KRONE			237,340	
POLISH ZLOTY			840,440	4,538
SWEDISH KRONA		21,501	656,020	
	$ 7,133	$ 42,068	$ 54,020,016	$ 62,582

*Includes accrued income

The activities during fiscal year 2010 affecting the University's investments in the external pool are summarized below:

	Total Return Pool	Intermediate Pool	Intermediate Pool CES	Total
June 30, 2009, Balances	$ 47,689,968	$ 48,817,929	$ 8,665,797	$ 105,173,694
Income	905,570	2,410,237	827,535	4,143,342
Realized Gains/(Losses)	(2,809,104)	2,284,955	236,301	(287,848)
Unrealized Gains/(Losses)	9,710,942	1,297,817		11,008,759
Expenses Paid from Pool	(369,898)	(86,459)	(15,348)	(471,705)
Transfers In/(Out) of Pool	(3,000,000)			(3,000,000)
June 30, 2010, Balances	$ 52,127,478	$ 54,724,479	$ 9,714,285	$ 116,566,242

The activities during fiscal year 2009 affecting the University's investments in the external pool are summarized below:

	Total Return Pool	Intermediate Pool	Intermediate Pool CES	Total
June 30, 2008, Balances	$ 63,613,227	$ 48,824,152	$ 8,295,858	$ 120,733,237
Income	684,101	2,372,626	416,981	3,473,708
Realized Gains/(Losses)				
Unrealized Gains/(Losses)	(16,182,562)	(305,810)	(34,189)	(16,522,561)
Expenses Paid from Pool	(424,798)	(73,039)	(12,853)	(510,690)
Transfers In/(Out) of Pool		(2,000,000)		(2,000,000)
June 30, 2009, Balances	$ 47,689,968	$ 48,817,929	$ 8,665,797	$ 105,173,694

Endowment Funds – Assets of endowed funds, except where donor restrictions prohibit commingling of investments, are pooled on a fair value basis, with each fund subscribing or disposing of units on the basis of the unit fair value. The unit fair value is recalculated each month. The following summarizes the relationship between the pooled assets and their earnings:

	2010	2009
Fair Value @ June 30	$ 51,436,424	$ 47,365,752
Number of Units in Pool @ June 30	1,698,011	1,829,903
Fair Value per Unit @ June 30	$ 30.292	$ 25.884
Gains/(Losses) for the Year	$ 6,901,838	$ (16,182,562)
Net Income Earned for the Year	$ 535,672	$ 259,303
Gain/(Loss) per Unit	$ 4.06	$ (8.84)
Income Earned per Unit	0.32	0.14
Total per Unit	$ 4.38	$ (8.70)

Donor-restricted Endowments

The computation of net appreciation on investments of donor-restricted endowments that are available for authorization for expenditure is as follows:

	2010	2009
Total Endowment at June 30	$ 52,815,631	$ 48,244,300
Less: Funds treated as Endowment	(9,703,240)	(9,341,454)
Non-expendable portion of Endowment	(21,578,313)	(21,062,048)
Available for Expenditure	$ 21,534,078	$ 17,840,798

Note: The amounts shown as available for expenditure and the funds treated as endowments are reported as expendable net assets on the Statement of Net Assets.

Arkansas Code Annotated (ACA) 28-69-804 states "Subject to the intent of a donor expressed in the gift instrument, an institution may appropriate for expenditure or accumulate so much of an endowment fund as the institution determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established. Unless stated otherwise in the gift instrument, the assets in an endowment fund are donor-restricted assets until appropriated for expenditure by the institution."

The University uses a total return policy for investing endowed funds. The University's spending policy is to expend 5.814% of the balance of the endowment averaged over the previous twelve quarters.

(5). Notes Receivable

Notes receivable consist of resources made available for financial loans to students of the University and of financing agreements between the University and certain organizations for the purpose of facilities construction.

The resources for loans to students include federal funds, funds from other external sources, and University funds. New student loans totaling $1,420,859 and $992,523 were issued under the Student Loan Programs for the years ended June 30, 2010, and June 30, 2009, respectively. Of total campus-based loans processed, the majority were from Perkins funds provided by the federal government. The federal student loan default rate based on the U.S. Department of Education Cohort default rate was 16.73% for the year ended June 30, 2010, and 8.64% for the year ended June 30, 2009. Notes receivable totaling $49,641 and $50,103 were written off during the fiscal year ended June 30, 2010, and June 30, 2009, respectively.

The following summarizes the balance of notes receivable at June 30, 2010:

Type of Note	Gross Balance	Allowance	Net Balance	Current Portion
Student loans	$ 15,058,055	$ 887,798	$ 14,170,257	$ 3,613,933
Loans to Greek organizations	1,116,715		1,116,715	109,450
Totals	$ 16,174,770	$ 887,798	$ 15,286,972	$ 3,723,383

The following summarizes the balance of notes receivable at June 30, 2009:

Type of Note	Gross Balance	Allowance	Net Balance	Current Portion
Student loans	$ 15,272,873	$ 732,646	$ 14,540,227	$ 3,054,575
Loans to Greek organizations	1,221,620		1,221,620	104,905
Totals	$ 16,494,493	$ 732,646	$ 15,761,847	$ 3,159,480

(6). Pledges Receivable

The University did not have any material amounts pledged that were receivable at June 30, 2010 or 2009.

(7). Income Taxes

The University is tax exempt from federal income taxes except for tax on unrelated business income. The University had no significant unrelated business income for the year ended June 30, 2010. It is also exempt from state income taxes under Arkansas law. Accordingly, no provision for income taxes is made in the financial statements.

(8). Accounts Payable and Accrued Liabilities

Accounts payable balances are summarized as follows:

	June 30, 2010	June 30, 2009
Payable to Outside Vendors	$ 20,501,779	$ 13,253,160
Retainage on Construction Contracts	5,571,781	2,146,672
Property Taxes Payable	122,797	114,978
Total	$ 26,196,357	$ 15,514,810

Accrued payroll liabilities are summarized as follows:

	June 30, 2010	June 30, 2009
Net Salaries and Wages Payable	$ 3,090,950	$ 3,779,027
Employee Withholdings Payable	6,594,468	6,567,327
Employer Payroll Taxes and Benefits Matching Payable	5,093,320	4,823,099
Total	$ 14,778,738	$ 15,169,453

(9). Compensated Absences, Bonds, Notes, Capital Leases Payable, and Installment Contracts

Debt service payments on existing bonds amounted to $40,081,232 for the fiscal year ended June 30, 2010. The amount of $6,206,889 was expended for principal and interest on notes payable, installment contracts and capital leases for the same period.

On December 15, 2009, the University issued $52,430,000 in Various Facility Revenue Bonds, Series 2009A. The bonds were issued to provide funds to finance various construction and renovation projects on the University campus. Projects include construction of a new nanoscale science and engineering building; renovation of classrooms, teaching labs and administrative office space; renovation and improvements to student housing; and expansion of utility tunnel infrastructure as well as the acquisition of various property and equipment.

On June 30, 2010, the University issued $23,965,000 in Athletic Facilities Revenue Refunding Bonds, Series 2010 (Taxable) with interest rates of 1.00% to 4.82% to refund $19,145,000 of outstanding bonds dated May 1, 1999 with interest rates of 3.35% to 5.05%, and $4,000,000 of outstanding bonds dated November 1, 2001 with an interest rate of 4.20%. Bond proceeds of $19,460,189 were deposited into the current refunding fund to retire the 1999 bonds. Bond proceeds of $4,229,298 were deposited into the advance refunding fund to retire the 2001 bonds. The combined refunding resulted in a difference between the reaquisition price and the net carrying amount of the old debt of $544,487. This difference, reported in the accompanying financial statements as a deduction from bonds payable, will be amortized through the fiscal year 2021 using the straight-line method. The University completed the refunding to reduce its total debt service payments over the next eleven years by $1,319,864 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $355,490.

The escrow balance at June 30, 2010 was $23,689,487. The bonds dated May 1, 1999 were refunded on July 16, 2010. The bonds dated November 1, 2001 will be refunded on December 1, 2011.

On April 8, 2010, the University entered into a financing agreement with Banc of America Public Capital Corp. to finance the acquisition and installation of equipment, together with all additions, accessions, repairs and replacements necessary to fulfill the amended energy savings performance contract between the University and Energy Systems Group, LLC. Under the terms of the financing agreement, the University has available up to $9,694,713 to draw upon to pay its obligations to Energy Systems Group, LLC. The University is obligated to pay quarterly interest-only payments to the lender until the anticipated completion date of the project of April 8, 2011. At that time, the amortization of the loan agreement will commence with quarterly payments beginning on April 8, 2011. In the event the University does not draw down the entire amount available, Banc of America Public Capital Corp. will adjust the payment schedule to reflect the actual amount drawn and credit the University for any excess interest paid. The financing agreement bears an interest rate of 4.80%. As of June 30, 2010, the University has drawn down $1,642,515.

On August 1, 2008, the University issued $36,750,000 in Various Facility Revenue Bonds, Series 2008A and $15,210,000 in Various Facility Revenue Bonds, Series 2008B (Taxable). The bonds were issued to provide funds to finance various construction projects on the University campus including a new parking garage, a new campus radio station facility, a new bookstore building and other retail space. Also financed with the proceeds were the purchase of various parcels of land and smaller renovations.

On October 15, 2008, the University entered into a loan agreement with Bank of America, N.A., to obtain $5,000,000 to finance improvements to various athletic facilities on the University campus. The Athletic Facilities Revenue Promissory Note was issued with an interest rate of 5% and is to be repaid with quarterly payments commencing on March 13, 2009. The final maturity date is September 13, 2013.

On December 19, 2008, the University entered into a financing agreement with Banc of America Public Capital Corp. to finance the acquisition and installation of equipment, together with all additions, accessions, repairs and replacements necessary to fulfill the energy savings performance contract between the University and Energy Systems Group, LLC. Under the terms of the financing agreement, the University has available up to $23,842,000 to draw upon to pay its obligations to Energy Systems Group, LLC. The University is obligated to pay quarterly interest-only payments to the lender until the anticipated completion date of the project of October 19, 2010. At that time, the amortization of the loan agreement will commence with quarterly payments beginning on November 11, 2010. In the event the University does not draw down the entire amount available, Banc of America Public Capital Corp. will adjust the payment schedule to reflect the actual amount drawn and credit the University for any excess interest paid. The financing agreement bears an interest rate of 4.581%. As of June 30, 2010, the University has drawn down $11,095,497.

On March 1, 2005, the University issued $21,020,000 in Various Facility Revenue Bonds, Series 2005A, and $60,000,000 in Various Facility Revenue Refunding Bonds, Series 2005B. Series 2005A bonds were issued to provide funds to finance the construction of the Willard Walker Graduate School of Business building, the Center for Academic Excellence building, and the Chemistry building. Series 2005B bonds were issued with an average coupon rate of 4.408% in order to advance refund $44,195,000 of Series 2002 Various Facility Revenue Bonds and $12,135,000 of Series 2001 Various Facility Revenue Bonds. The refunded bonds have an average interest rate of 5.472%. Proceeds in the amount of $62,255,099, plus an additional $779,632, were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments of the refunded 2002 and 2001 Series bonds. Regularly scheduled interest and principal payments on the 2002 Series and 2001 Series issues were made on June 1, 2005, and will continue through December 1, 2012, for Series 2002 and through December 1, 2011, for Series 2001, from the escrow fund. All outstanding refunded Series 2002 bonds will be redeemed on December 1, 2012, at a price equal to 100% of the principal amount plus interest accrued thereon. All outstanding refunded Series 2001 bonds will be redeemed on December 1, 2011, at a price equal to 100% of the principal amount plus interest accrued thereon. As a result, those portions of the 2002 Series and 2001 Series bonds are considered defeased. The liability for those bonds has been removed from the Statement of Net Assets. The University advance refunded portions of the 2002 and 2001 Series bonds to reduce its total debt service payments over the next 18 years by $4,116,788 and to obtain economic gain (difference between the present value of the debt service payments on the old and new debt) of $2,263,717. The escrow balance at June 30, 2010, was $58,600,172.

Remaining balances of defeased bond issues as of June 30, 2010:

Title	Principal Balance at June 30, 2010
Athletic Facilities Revenue Bonds, Series 1999	$ 19,145,000
Athletic Facilities Revenue Bonds, Series 2001	4,000,000
Various Facilities Revenue Bonds, Series 2002	44,195,000
Various Facilities Revenue Bonds, Series 2001	12,135,000
Total	$ 79,475,000

On August 1, 2009, the University entered into an equipment lease purchase agreement with Fidelity Information Services. The purpose of the agreement is to provide the University with the financing to purchase a mainframe computer system. The total of the lease agreement is $580,820. The main portion of the lease bears interest at 4.21%, while two smaller components of the lease bear interest rates of 3.94% and 1.07%. The overall agreement has a final maturity date of September 1, 2012.

During the fiscal year ended June 30, 2009, the University entered into three capital lease purchase agreements to finance the purchases of equipment. On October 3, 2008, the University entered into a Capital Lease agreement with John Deere Credit in the amount of $31,991 for equipment. The lease bears interest at 5.25%, and has a final maturity date of October 3, 2012 which contains a bargain purchase option.

On October 21, 2008, the University entered into an equipment lease agreement with SunTrust Equipment Finance & Leasing Corp. The purpose of the agreement is to provide the University with the financing to purchase equipment for Walton Arena on the University campus. The total of the lease agreement is $2,337,685 and was issued with an interest rate of 5.55%. The final maturity date of the lease agreement is October 21, 2014.

On May 12, 2009, the University entered into a Capital Lease agreement with John Deere Credit in the amount of $38,037 for equipment. The lease bears interest at 5.75% and has a final maturity date of May 12, 2014, which contains a bargain purchase option.

During the fiscal year ended June 30, 2008, the University entered into two capital lease purchase agreements to finance the purchase of equipment. One lease was for the purchase of equipment for the University's student health center in the amount of $18,950. The lease was financed at an annual interest rate of 7.95%. Monthly payments commenced in November 2007 and were originally scheduled to continue through October 2012, however, management elected to exercise its right to pay off the lease on July 23, 2008.

On June 11, 2008, the University entered into a capital lease agreement with John Deere Credit in the amount of $45,588 for equipment. The lease bears interest at an annual rate of 5.25%. The initial payment was made at the inception of the agreement and annual payments continue until the final maturity date of June 11, 2012. The agreement includes a bargain purchase option.

A summary of long term debt at June 30, 2010, is as follows:

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized & Issued	Debt Outstanding at June 30, 2010	Maturities and Refinanced Amounts to June 30, 2010
11/01/1996	11/01/2009	3.85% to 5.25%	$ 12,105,000		$ 12,105,000
10/15/1997	11/01/2022	3.95% to 5.25%	21,445,000	$ 5,255,000	16,190,000
05/01/1999	09/15/2020	3.35% to 5.05%	30,000,000		30,000,000
11/01/2001	12/01/2021	2.90% to 5.50%	42,985,000	8,685,000	34,300,000
11/01/2001	12/01/2021	4.20%	11,555,000		11,555,000
12/01/2002	12/01/2032	1.80% to 5.50%	110,980,000	50,850,000	60,130,000
10/01/2004	11/01/2024	2.00% to 4.75%	30,550,000	25,745,000	4,805,000
03/01/2005	11/01/2025	3.00% to 4.50%	81,020,000	76,405,000	4,615,000
07/01/2005	09/15/2011	3.00% to 3.25%	9,645,000	3,165,000	6,480,000
06/01/2006	11/01/2036	4.00% to 5.00%	67,420,000	65,325,000	2,095,000
06/01/2006	09/15/2022	4.00% to 4.375%	8,205,000	7,045,000	1,160,000
10/01/2007	11/01/2037	4.00% to 5.00%	45,010,000	43,630,000	1,380,000
08/01/2008	11/01/2038	4.00% to 5.00%	36,750,000	36,750,000	
08/01/2008	11/01/2028	4.10% to 6.375%	15,210,000	15,210,000	
12/15/2009	11/01/2039	3.00% to 5.00%	52,430,000	52,430,000	
06/30/2010	09/15/2020	1.00% to 4.82%	23,965,000	23,965,000	
11/30/1991	05/01/2022	5.50%	3,000,000	1,786,367	1,213,633
11/29/1995	12/01/2019	4.00% to 5.00%	2,071,140	1,116,715	954,425
09/13/1995	12/01/2010	5.75% to 7.05%	535,000	55,000	480,000
12/20/1999	12/31/2019	Variable	1,161,952	897,856	264,096
10/31/2007	09/30/2011	Variable	7,767,000	1,532,491	6,234,509
05/11/2007	03/31/2013	Variable	6,000,000	4,753,356	1,246,644
07/31/2002	07/01/2012	2.05%	900,000		900,000
11/30/2007	07/01/2023	4.69%	6,950,000	6,662,099	287,901
10/15/2008	09/13/2013	5.00%	5,000,000	3,550,345	1,449,655
12/19/2008	08/19/2023	4.581%	11,095,497	11,095,497	
04/08/2010	01/08/2023	4.80%	1,642,515	1,642,515	
Various	Various	Various	3,068,869	2,107,040	961,829
Deferral on debt defeasance			(5,115,000)	(3,566,447)	(1,548,553)
Net unamortized premium			(221,525)	(222,141)	616
Totals			$ 643,130,448	$ 445,870,693	$ 197,259,755

A summary of long term debt at June 30, 2009, is as follows:

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized & Issued	Debt Outstanding at June 30, 2009	Maturities and Refinanced Amounts to June 30, 2009
11/01/1996	11/01/2009	3.85% to 5.25%	$ 12,105,000	$ 550,000	$ 11,555,000
10/15/1997	11/01/2022	3.95% to 5.25%	21,445,000	6,005,000	15,440,000
05/01/1999	09/15/2020	3.35% to 5.05%	30,000,000	20,440,000	9,560,000
11/01/2001	12/01/2021	2.90% to 5.50%	42,985,000	19,450,000	23,535,000
11/01/2001	12/01/2021	4.20%	11,555,000	4,000,000	7,555,000
12/01/2002	12/01/2032	1.80% to 5.50%	110,980,000	53,595,000	57,385,000
10/01/2004	11/01/2024	2.00% to 4.75%	30,550,000	26,750,000	3,800,000
03/01/2005	11/01/2025	3.00% to 4.50%	81,020,000	77,535,000	3,485,000
07/01/2005	09/15/2011	3.00% to 3.25%	9,645,000	4,860,000	4,785,000
06/01/2006	11/01/2036	4.00% to 5.00%	67,420,000	66,050,000	1,370,000
06/01/2006	09/15/2022	4.00% to 4.375%	8,205,000	7,450,000	755,000
10/01/2007	11/01/2037	4.00% to 5.00%	45,010,000	44,415,000	595,000
08/01/2008	11/01/2038	4.00% to 5.00%	36,750,000	36,750,000	
08/01/2008	11/01/2028	4.10% to 6.375%	15,210,000	15,210,000	
11/30/1991	05/01/2022	5.50%	3,000,000	1,889,177	1,110,823
11/29/1995	12/01/2019	4.00% to 5.00%	2,071,140	1,221,620	849,520
09/13/1995	12/01/2010	5.75% to 7.05%	535,000	105,000	430,000
12/20/1999	12/31/2019	Variable	1,161,952	982,362	179,590
10/31/2007	09/30/2011	Variable	7,767,000	2,832,491	4,934,509
05/11/2007	03/31/2013	Variable	6,000,000	5,435,934	564,066
07/31/2002	07/01/2012	2.05%	900,000	289,422	610,578
11/30/2007	07/01/2023	4.69%	6,950,000	6,923,392	26,608
10/15/2008	09/13/2013	5.00%	5,000,000	4,530,956	469,044
12/19/2008	08/19/2023	4.581%	1,521,368	1,521,368	
Various	Various	Various	2,488,049	2,045,572	442,477
Deferral on debt defeasance			(4,295,000)	(3,035,072)	(1,259,928)
Totals			$ 555,979,509	$ 407,802,222	$ 148,177,287

Equipment Leases

The University has acquired certain equipment under various lease-purchase contracts. The cost of equipment held under capital leases totaled $2,871,255 at June 30, 2010.

Type of Equipment	Asset Balance June 30, 2010
Electronic Message Board	$ 2,337,685
Mainframe	397,091
Farm Equipment	136,479
Total	$ 2,871,255
Total Minimum Lease Payments	$ 2,432,920
Less: Amount Representing Interest	325,880
Total Present Value of Net Minimum Lease Payments	$ 2,107,040

Changes in long-term liabilities for the year ended June 30, 2010, are as follows:

Fiscal Year Ended June 30, 2010					
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds	$ 383,060,000	$ 76,395,000	$ 44,995,000	$ 414,460,000	$ 12,935,000
Deferral on debt defeasance	(3,035,072)	(820,000)	(288,625)	(3,566,447)	(368,952)
Net unamortized premium		(221,525)	616	(222,141)	(23,605)
Notes	17,286,962		3,594,832	13,692,130	3,283,552
Leases	2,045,572	580,820	519,352	2,107,040	445,978
Installment contracts	8,444,760	11,216,644	261,293	19,400,111	1,539,779
Compensated absences	17,161,561	457,314	221,252	17,397,623	1,019,419
Liability for retiree insurance benefits	7,057,738	1,167,579		8,225,317	
Totals	$ 432,021,521	$ 88,775,832	$ 49,303,720	$ 471,493,633	$ 18,831,171

Note: Amounts shown in “Ending Balance” include both current and long-term portions.

Changes in long-term liabilities for the year ended June 30, 2009, are as follows:

Fiscal Year Ended June 30, 2009					
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds	$ 343,575,000	$ 51,960,000	$ 12,475,000	$ 383,060,000	$ 21,850,000
Deferral on debt defeasance	(3,323,698)		(288,626)	(3,035,072)	(288,625)
Notes	12,071,414	7,991,914	2,776,366	17,286,962	3,321,038
Leases	244,797	2,407,713	606,938	2,045,572	315,896
Installment contracts	7,076,487	1,521,368	153,095	8,444,760	261,293
Compensated absences	16,423,393	800,966	62,798	17,161,561	1,019,349
Liability for retiree insurance benefits	5,090,958	1,966,780		7,057,738	
Totals	$ 381,158,351	$ 66,648,741	$ 15,785,571	$ 432,021,521	$ 26,478,951

Note: Amounts shown in "Ending Balance" include both current and long-term portions.

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

	PRINCIPAL	INTEREST*	TOTAL
2011	$ 17,811,752	$ 20,606,536	$ 38,418,288
2012	18,380,582	19,873,663	38,254,245
2013	18,398,091	19,119,458	37,517,549
2014	17,871,456	18,355,133	36,226,589
2015	18,314,851	17,607,661	35,922,512
2016-2020	99,654,460	75,188,818	174,843,278
2021-2025	88,015,383	51,086,538	139,101,921
2026-2030	62,604,925	33,516,946	96,121,871
2031-2035	63,219,925	17,582,800	80,802,725
2036-2040	41,599,268	3,800,820	45,400,088
Totals	$ 445,870,693	$ 276,738,373	$ 722,609,066

*Interest payments made on three notes payable are calculated using floating interest rates. The interest on the notes will be calculated using a floating rate equal to the amount earned on non-endowed investments known as the short-term intermediate pool each quarter from the fiscal years ended June 30, 2010, until maturity. The estimated future interest for these notes was calculated using the rate of 4.9%.

Pledged Revenues

For purposes of extinguishing the University's long-term debt issues, certain revenues have been pledged as security. The following is a summary of the gross revenues collected during the fiscal year ended June 30, 2010, and June 30, 2009, that are pledged:

BOND SERIES	REVENUE SOURCE	2010	2009
Series 1996 Refunding	Student Tuition and Fees	$ 141,295,390	$ 134,684,066
Series 1997 Various Facilities	Sales and Services	12,234,589	12,116,083
Series 2001 Various Facilities	Residential Life	27,412,838	26,601,273
Series 2002 Various Facilities	Arkansas Union	1,245,782	1,158,713
Series 2004 Various Facilities	Bookstore	14,132,380	14,147,207
Series 2005 Various Facilities	Student Health Services	1,026,452	1,093,942
Series 2006 Various Facilities	Transit and Parking	6,143,209	5,850,087
Series 2007 Various Facilities	Other Auxiliaries	2,399,728	2,671,068
Series 2008 Various Facilities			
Series 2009 Various Facilities	Total Various Fac. Pledge	$ 205,890,368	$ 198,322,439
Series 1999 Athletic Facilities	Men's Athletic Revenue	$ 53,796,867	$ 46,078,178
Series 2001 Athletic Subordinate	(less game guarantees)	(2,596,200)	(2,158,821)
Series 2005 Athletic Refunding			
Series 2006 Athletic Facilities			
Series 2010 Athletic Refunding	Total Athletics Pledge	$ 51,200,667	$ 43,919,357

The following is a comparison of pledged revenues earned to the amount of debt service per bond issue for the year ended June 30, 2010:

BOND SERIES	MATURITY DATE	PURPOSE OF DEBT	REMAINING PRINCIPAL & INTEREST	FY2010 PRINCIPAL & INTEREST	REVENUE SOURCE	FY2010 REVENUE	% OF PLEDGED REVENUES IN FY2010
VARIOUS FACILITIES BONDS:							
Series 1996 Various Facilities	11/01/2009	Refunding Bond Series 1988 and 1989 for HPER and Old Main	$	$ 564,438	Various Fac. Pledge	$ 205,890,368	0.27%
Series 1997 Various Facilities	11/01/2022	Construction of Parking Facility, Alumni Center, Union Renovation and other Capital Assets	7,702,954	1,033,068	Various Fac. Pledge	205,890,368	0.50%
Series 2001 Various Facilities	12/01/2021	Renovation of Science Engineering, University House, Construction of Chiller, Gymnastics Facility, Research Building and other Capital Assets	11,537,888	11,438,425	Various Fac. Pledge	205,890,368	5.56%
Series 2002 Various Facilities	12/01/2032	Construction of Student Housing, Health Center, Parking Structure, Walker Graduate School of Business, Chemistry Building Renovation, HPER Renovation, Utility Infrastructure and other Capital Asset	87,259,750	5,340,225	Various Fac. Pledge	205,890,368	2.59%
Series 2004 Various Facilities	11/01/2024	Law Library Addition, Chiller Rebuild, Old Main Renovation, Parking Structure, Band Building Addition, Land Purchases, Health Center, Vol Walker Renovation, and other Capital Assets. Refund portion of Series 1998 Var. Facilities Bonds	33,792,147	2,044,124	Various Fac. Pledge	205,890,368	0.99%
Series 2005 Various Facilities	11/01/2025	Construction of Center for Academic Excellence, Walker Graduate School of Business, Law School Addition, and Refund Portion of Series 2001 Var. Facilities Bonds and Series 2002 Var. Facilities Bonds.	102,382,869	4,444,803	Various Fac. Pledge	205,890,368	2.16%
Series 2006 Various Facilities	11/01/2036	Construction of Student Housing, Law School Addition, Steam Plant Performance Contract, and Poultry Science Energy Management	120,710,637	3,880,885	Various Fac. Pledge	205,890,368	1.88%
Series 2007 Various Facilities	11/01/2037	Construction of Student Housing	79,370,119	2,852,063	Various Fac. Pledge	205,890,368	1.39%
Series 2008 Various Facilities	11/01/2038	Construction of Parking Garage, Bookstore, KUAF Radio, and other facilities, also purchase of parcels of land.	98,441,410	2,675,388	Various Fac. Pledge	205,890,368	1.30%
Series 2009 Various Facilities	11/01/2039	Construction of Nano Scale Building, and Phi Delta Theta. Renovation of Davis Hall, Darby Hall, Wilson Sharp Hall, Old Health Center, and Peabody Hall. Classroom and Lab Improvements and Utility Renewal	96,016,364	851,127	Various Fac. Pledge	205,890,368	0.41%
		Total Percentage of Pledged Revenues					17.05%
ATHLETIC FACILITIES BONDS AND NOTE:							
Series 1999 Athletic Facilities	09/15/2020	Expansion of Football Stadium		2,260,919	Athletics Pledge	51,200,667	4.42%
Series 2001 Athletic Facilities	12/01/2021	Expansion of Football Stadium		168,000	Athletics Pledge	51,200,667	0.33%
Series 2005 Athletic Facilities	09/15/2011	Refund Series 1997 Athletic Facilities Bonds for Walton Arena	3,260,208	1,822,079	Athletics Pledge	51,200,667	3.56%
Series 2006 Athletic Facilities	09/15/2022	Construction of John McDonnell Outdoor Track Stadium	9,153,946	705,691	Athletics Pledge	51,200,667	1.38%
Series 2008 Athletic Facilities Revenue Prom. Note	09/13/2013	Improvements to various athletic facilities	3,873,612	1,191,881	Athletics Pledge	51,200,667	2.33%
Series 2010 Athletic Facilities	09/15/2020	Refunded Series 1999 and 2001 Athletic Facilities Bonds for Football Stadium	29,486,310		Athletics Pledge	51,200,667	
		Total Percentage of Pledged Revenues					12.02%

The following is a comparison of pledged revenues earned to the amount of debt service per bond issue for the year ended June 30, 2009:

BOND SERIES	MATURITY DATE	PURPOSE OF DEBT	REMAINING PRINCIPAL & INTEREST	FY2009 PRINCIPAL & INTEREST	REVENUE SOURCE	FY2009 REVENUE	% OF PLEDGED REVENUES IN FY2009
VARIOUS FACILITIES BONDS:							
Series 1996 Various Facilities	11/01/2009	Refunding Bond Series 1988 and 1989 for HPER and Old Main	$ 564,438	$ 567,394	Various Fac. Pledge	$ 198,322,439	0.29%
Series 1997 Various Facilities	11/01/2022	Construction of Parking Facility, Alumni Center, Union Renovation and other Capital Assets	8,736,021	1,033,603	Various Fac. Pledge	198,322,439	0.52%
Series 2001 Various Facilities	12/01/2021	Renovation of Science Engineering, University House, Construction of Chiller, Gymnastics Facility, Research Building and other Capital Assets	22,976,313	3,097,160	Various Fac. Pledge	198,322,439	1.56%
Series 2002 Various Facilities	12/01/2032	Construction of Student Housing, Health Center, Parking Structure, Walker Graduate School of Business, Chemistry Building Renovation, HPER Renovation, Utility Infrastructure and other Capital Asset	92,599,975	5,226,350	Various Fac. Pledge	198,322,439	2.64%
Series 2004 Various Facilities	11/01/2024	Law Library Addition, Chiller Rebuild, Old Main Renovation, Parking Structure, Band Building Addition, Land Purchases, Health Center, Vol Walker Renovation, and other Capital Assets. Refund portion of Series 1998 Var. Facilities Bonds	35,836,271	2,049,012	Various Fac. Pledge	198,322,439	1.03%
Series 2005 Various Facilities	11/01/2025	Construction of Center for Academic Excellence, Walker Graduate School of Business, Law School Addition, and Refund Portion of Series 2001 Var. Facilities Bonds and Series 2002 Var. Facilities Bonds.	106,827,671	4,444,590	Various Fac. Pledge	198,322,439	2.24%
Series 2006 Various Facilities	11/01/2036	Construction of Student Housing, Law School Addition, Steam Plant Performance Contract, and Poultry Science Energy Management	124,591,522	3,879,285	Various Fac. Pledge	198,322,439	1.96%
Series 2007 Various Facilities	11/01/2037	Construction of Student Housing	82,222,181	2,689,663	Various Fac. Pledge	198,322,439	1.36%
Series 2008 Various Facilities	11/01/2038	Construction of Parking Garage, Bookstore, KUAF Radio, and other facilities, also purchase of parcels of land.	101,116,827	2,006,541	Various Fac. Pledge	198,322,439	1.01%
		Total Percentage of Pledged Revenues					12.61%
ATHLETIC FACILITIES BONDS AND NOTE:							
Series 1999 Athletic Facilities	09/15/2020	Expansion of Football Stadium	27,135,093	2,260,435	Athletics Pledge	43,919,357	5.15%
Series 2001 Athletic Facilities	12/01/2021	Expansion of Football Stadium	6,100,000	168,000	Athletics Pledge	43,919,357	0.38%
Series 2005 Athletic Facilities	09/15/2011	Refund Series 1997 Athletic Facilities Bonds for Walton Arena	5,082,287	1,821,273	Athletics Pledge	43,919,357	4.15%
Series 2006 Athletic Facilities	09/15/2022	Construction of John McDonnell Outdoor Track Stadium	9,859,637	701,491	Athletics Pledge	43,919,357	1.60%
Series 2008 Athletic Facilities Revenue Prom. Note	09/13/2013	Improvements to various athletic facilities	5,065,493	595,940	Athletics Pledge	43,919,357	1.36%
		Total Percentage of Pledged Revenues					12.64%

(10). Commitments

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

A. Construction and Architect Contracts

Project Name	Completion Date	Beginning Year Contract Balance Plus Amendments	Amount Paid	Year-End Contract Balance
ARE-ON Fiber Optic	Substantially Complete	$ 2,052,467	$ 1,893,007	$ 159,460
Brough Commons Renovations	Substantially Complete	1,307,897	927,261	380,636
Campus Elevator Upgrades	December, 2010	720,000	99,556	620,444
Campus Roof Projects	December, 2010	545,000	49,693	495,307
Campus Wide ESPC	February, 2011	28,719,773	11,262,389	17,457,384
Davis Hall Renovation	December, 2010	3,015,666	686,518	2,329,148
Dickson Street Utility Tunnel	Substantially Complete	3,601,774	3,246,513	355,261
Garland Avenue Parking Garage	December, 2010	30,799,258	23,327,641	7,471,617
Nano Science & Technology Center	March, 2012	29,815,626	12,594,246	17,221,380
Peabody Hall Renovation	November, 2011	8,202,700	603,410	7,599,290
Pomfret Honors Quarters – Summer 2010	October, 2010	2,279,708	377,335	1,902,373
Rice Research Facility	March, 2011	5,413,240	4,517,987	895,253
Roofing – Engineering, Memorial, HOEC	December, 2010	909,700		909,700
Vol Walker Hall Renovation	July, 2013	131,384	121,075	10,309
Other	Various	5,624,018	4,370,488	1,253,530
Totals		$ 123,138,211	$ 64,077,119	$ 59,061,092

The beginning year contract balance/amendments column represents the balance remaining on contracts at the beginning of the fiscal year plus new contracts for the current fiscal year and any amendments made to existing contracts in the current fiscal year. The year-end contract balances listed above do not reflect the effects of accrued expenses as of June 30, 2010.

B. Operating Leases

The University has entered into various operating leases for buildings and equipment. It is expected that in the normal course of business such leases will continue to be required. The total expenditures for all rental lease payments and non-lease rental payments for the fiscal year ended June 30, 2010, were $5,460,024. Minimum annual rental payments for leases having an initial

term in excess of one year totaled $4,843,355. Below are the scheduled payments for the five succeeding fiscal years and thereafter.

Year ended June 30	Amount
2011	$ 1,411,425
2012	1,326,789
2013	845,601
2014	545,340
2015	194,400
2016-2020	387,200
2021-2025	132,600
Total	$ 4,843,355

(11). Employee Benefits

A. Retirement Benefits

The University offers employees the option of participating in either the Optional Retirement Program (ORP) which includes Teachers Insurance Annuity Association—College Retirement Equities Fund (TIAA-CREF) and Fidelity Investments or the Arkansas Public Employees Retirement System (APERS). The Arkansas Teacher Retirement System (ATRS) is available only to employees who come to work for the University that have a previous record with ATRS. APERS and ATRS are both defined benefit plans.

The ORP is a defined contribution plan. The plan is a 403(b) program as defined by the Internal Revenue Service Code of 1986, as amended, and is administered by the President of the University or his delegate. Employees who reach their tax-deferred 403(b) maximums can then participate in a 457(b) plan. Contributions to Fidelity Investments shall be applied either to individual annuities issued under a Metropolitan Life Guaranteed Account and/or one or more mutual fund custodian accounts managed by Fidelity Investments. Contributions to TIAA-CREF can be allocated among their various annuity accounts. Arkansas law authorizes participation in the plan.

Participants in the University's plan can choose to be contributory or non-contributory. The University automatically contributes 5% of an employee's regular salary to TIAA-CREF and/or Fidelity Investments retirement account, allocated between the two companies according to the employee's choice. For any contributions an employee makes in excess of 5% regular salary, the University makes an equal contribution, up to a maximum University contribution of 10% of regular salary. Employee contributions in excess of 10% are allowed by the plans in accordance with Internal Revenue Service regulations but the University does not match these additional contributions. All benefits attributable to plan contributions made by both the University and the participant are immediately vested in the participant for all faculty members and non-classified employees and all classified employees whose initial employment occurred prior to January 1, 1985, and who made any plan contributions prior to that date. For all other classified employees, vesting of benefits attributable to plan contributions made by the University shall occur on the

earlier of completion of three years of service, or attainment of age 65, or the participant's having made plan contributions of at least five percent of regular salary for six consecutive months. The University's and participants' TIAA-CREF contributions for the year ending June 30, 2010, were $14,326,190 and $14,478,791, respectively. The University's and participants' Fidelity Investments contributions for the year ending June 30, 2010, were $5,020,173 and $5,148,867, respectively. The University's and participants' TIAA-CREF contributions for the year ending June 30, 2009, were $14,704,640 and $14,972,675, respectively. The University's and participants' Fidelity Investments contributions for the year ending June 30, 2009, were $4,795,900 and $4,996,045, respectively.

APERS is a cost-sharing multiple employer defined benefit plan administered by the State of Arkansas. The University contributes 11.00% of applicable wages to the plan. Under certain conditions covered employees may voluntarily contribute 5% of his/her salary. The University's and participants' contributions for the year ending June 30, 2010, were $230,019 and $29,208, respectively. The University's and participants' contribution for the year ending June 30, 2009, were $210,583 and $18,422, respectively. The University's and participants' contribution for the year ending June 30, 2008, were $223,338 and $9,113, respectively.

ATRS is a cost-sharing multiple employer defined benefit pension plan. The University contributes 14% of all covered employees' salaries. Under certain conditions covered employees may voluntarily contribute 6% of his/her salary. The University's and participants' contributions for the year ending June 30, 2010, were $244,426 and $68,323, respectively. The University's and participants' contributions for the year ending June 30, 2009, were $177,414 and $55,826, respectively. The University's and participants' contributions for the year ending June 30, 2008, were $169,098 and $52,171, respectively.

The University's and participants' contributions to all other pension plans for the year ended June 30, 2010, were $452,997 and $349,682, respectively. The University's and participants' contributions to all other pension plans for the year ended June 30, 2009, were $583,685 and $487,685, respectively.

B. Self-Insurance Plans

The University of Arkansas System sponsors self-funded health and dental benefit plans for University employees and their eligible dependents. The Fayetteville, Medical Sciences, Little Rock, Pine Bluff, Monticello, and Batesville campuses, state-wide operating units of the Arkansas Archeological Survey and Division of Agriculture, System Administration, Criminal Justice Institute, the Clinton School of Public Service, the Arkansas School for Mathematics, Sciences and the Arts, and the University of Arkansas Foundation, Inc., participate in the health insurance program which is administered by the System Administration. Operations of the plans are recorded in the separate University of Arkansas consolidated financial report.

For the year ending June 30, 2010, a total of 4,774 active employees, former employees, and retirees were participants in the health plan. For the year ending June 30, 2009, the total of active employees, former employees, and retirees participating in the health plan was 4,753. The University pays 72.741% for the Point of Service Plan and 80.625% for the Classic Plan for

Fayetteville, the Criminal Justice Institute and the Arkansas Archeological Survey. The University pays 73.54% for the Point of Service Plan and 79.315% for the Classic Plan for the Division of Agriculture. The University pays 70% of the health plan for federal employees.

C. Life Insurance Plan

The University of Arkansas System's life insurance carrier is Unum Life Insurance Company of America. The University's life insurance is a fully-insured arrangement with the premiums being sent directly to the life insurance carrier.

Expenditures for all employee benefits are included as expenditures within the appropriate functional area.

(12): Other Postemployment Benefits

Other Postemployment Benefits (OPEB)

The University offers postemployment health (including prescription drugs) and dental benefits along with life insurance to eligible retirees ($10,000 available coverage). Health and dental benefits are provided in the University's self-funded plan sponsored by the Board of Trustees of the University of Arkansas System for current and retired employees of the Fayetteville (UAF), Little Rock (UALR), Medical Sciences (UAMS), Monticello (UAM), Pine Bluff (UAPB), Phillips (PCCUA) and Batesville (UACCB) campuses, the Cooperative Extension Service of the Division of Agriculture (CES), the Arkansas School for Mathematics, Sciences and the Arts (ASMSA), and the University of Arkansas System Administration (SYSTEM). The plan is considered a single-employer, defined benefit plan. The System Administration manages and administers the plan. Although benefits are also provided under the University's plan for the University of Arkansas Foundation, Inc. and the University of Arkansas Winthrop Rockefeller Institute, no postemployment benefit is accrued by the University for these private entities. Financial activities of the plan are reported in the University of Arkansas consolidated financial report.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which became effective for the fiscal year ending June 30, 2008. This statement requires governmental entities to recognize and match other postretirement benefit costs with related services received and also to provide information regarding the actuarially calculated liability and funding level of the benefits associated with past services. As a result of the implementation of this statement, the University accrued $8,225,317 in retiree healthcare liability as of June 30, 2010.

For those campuses in the University's self-funded plan, retirees qualify for postretirement benefits as follows:

- Participation: Employees who retire with a combination of age and years of service of at least 70 with at least 10 years of coverage under the plan are eligible to participate. Retirees may cover spouses and eligible dependent children. Surviving spouses can continue coverage after retiree's death. Retirees can continue coverage past Medicare eligibility age (age 65 or disabled) with the University plan paying secondary to Medicare.

- Benefit Provided: Retirees participate in the plan at the same premium rate as an active employee.
- Required Contribution Ratio: Retirees pay 100% of premium. Employer costs are funded on a pay-as-you-go basis.

Summary of Key Actuarial Methods and Assumptions

Actuarial Assumptions **University Self-Funded Plan**	
Valuation date	July 1, 2009
Valuation year	Census data was collected as of January 1, 2009 Liabilities were measured as of January 1, 2009 and rolled forward six months to the July 1, 2009 valuation date.
Actuarial cost method	Projected unit credit
Amortization method	30 years open, level % of payroll
Asset valuation method	N/A
Discount rate	4.50%
Projected payroll growth rate	4.00%
Medical inflation rate	Non-Medicare and Rx: Immediate rate of 9.5%, with a 0.5% decrease each year to an ultimate rate of 5% in the tenth year Medicare: Immediate rate of 7.5% with a 0.5% decrease each year to an ultimate rate of 5% in the sixth year

General Overview of the Valuation Methodology

The process of determining the liability for retiree medical benefits is based on many assumptions about future events. Future increases in health care costs are affected by many factors, including: medical inflation; change in utilization patterns; technological advances; cost shifting; cost leveraging; and changes to government medical programs, such as Medicare.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. Actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Calculations are based on the types of benefits provided under the terms of each plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point.

The required frequency of valuations per GASB Statement No. 45 depends on the number of members in the plan. Even though the University's self-funded plan only requires it every two years, a valuation has been performed each year since the year of implementation. No decision has been made at this time as to whether annual or biennial valuations will be made in the future.

Changes in Actuarial Assumptions and Methods

For the calculation completed for the year ended June 30, 2008, all retirees (both eligible and not eligible for Medicare) were combined and the assumption that the retiree contributions were not sufficient to fully cover the expected claims costs was applied to both groups. However, as discussed below, when the two groups were divided, the cost for Medicare eligible retirees was ultimately excluded from subsequent valuations. For the year ended June 30, 2010 calculation, the withdrawal rates, the medical and Rx coverage election percentage for retirees not eligible for Medicare, and the election percentage assumptions for the life insurance were changed to better reflect recent plan experience and future expectations.

Medical Coverage – Retirees not Eligible for Medicare

Claim experience for the period February 1, 2008 through January 31, 2009 was used to develop the claims cost for non-Medicare-eligible retirees. The paid claims data was converted to an incurred basis using a completion factor approach. This experience includes 340 life years of exposure and was deemed to be 50% credible. The experience was combined with the active claims experience adjusted for demographic differences to produce the per capita claims costs used in the valuation. Adjustment factors were then applied to develop expected claims by age to be used in the valuation. Expected retiree premiums were developed to represent the expected cost sharing level anticipated by the University. Retiree premiums were also age-adjusted for use in the valuation.

Medical Coverage – Retirees Eligible for Medicare

Medical and prescription drug claims for the period February 1, 2008 through January 31, 2009 was used to develop per capita claims cost for Medicare-eligible retirees. This experience includes 1,300 life years of exposure and was deemed to be fully credible. Based on this analysis, it was concluded that the retiree contributions are sufficient to fully cover the expected claims costs as intended. As such, the cost for Medicare eligible retirees was excluded from this valuation.

Dental Coverage

Dental claims coverage for the period February 1, 2008 through January 31, 2009 was used to develop per capita claims cost for dental coverage. The claims experience includes over 30,000 life years of exposure and was deemed to be fully credible. Based on this analysis, it was concluded that the retiree contributions are sufficient to fully cover the expected dental claims costs as intended. As such, the cost for dental coverage is excluded from this valuation.

Actuarial Assumptions	
University Self-Funded Plan	
Healthy Mortality	RP-2000 Combined Healthy Mortality Table projected to 2009 by scale AA

Actuarial Assumptions

University Self-Funded Plan

Disability Rates — Various rates based on age. Selected rates are:

	Rate per 1,000	
Age	Male	Female
25	.0003	.0003
30	.0003	.0004
40	.0008	.0013
50	.0033	.0040
55	.0069	.0064
60	.0115	.0090

Actuarial Assumptions

University Self-Funded Plan

Turnover — Select and ultimate rates by location are based on length of service for the first five years and age thereafter:

Service	Select Rates			
	UAF	UALR	UAMS	OTHER
0	25%	20%	30%	20%
1	25%	20%	20%	20%
2	20%	20%	18%	20%
3	16%	15%	18%	15%
4	16%	15%	15%	15%

Ultimate rates are from Sarason turnover table T-6 for UAF, table T-7 for UAMS, and table T-4 for UALR and all other locations.

Actuarial Assumptions

University Self-Funded Plan

Retirement

Age	Rate
50-59	5%
60-61	10%
62	15%
63-66	10%
67-69	50%
70+	100%

Actuarial Assumptions

University Self-Funded Plan

Future Retiree Coverage

For medical insurance, retiring employees are assumed to elect medical and Rx coverage as follows:

	UAF	UALR	UAMS	OTHER
Pre-Medicare	55%	55%	55%	55%
Post Medicare	60%	60%	50%	45%

75% of retiring employees are assumed to continue life insurance at retirement.

Actuarial Assumptions

University Self-Funded Plan

Future Dependent Coverage

50% of employees electing medical and Rx coverage at retirement are assumed to be married and elect spouse coverage. Males are assumed to be 4 years older than females.

Determination of End of Year Accrual		
Unfunded actuarial accrued liability at 7/1/09	$	23,547,619
Annual Required Contribution (ARC)		
Normal cost	$	1,111,361
Amortization of the unfunded actuarial accrued liability over 30 years		840,726
Interest		87,844
Annual Required Contribution for FY10		2,039,931
Interest on Net OPEB Obligation		317,644
ARC Amortization Adjustment		(263,361)
Annual OPEB Cost for FY10	$	2,094,214
Net OPEB Obligation, 7/1/09	$	7,057,738
Annual OPEB Cost for FY10		2,094,214
Less: Expected Employer Contributions		(926,635)
Net OPEB Obligation, 6/30/10	$	8,225,317

Schedule of Employer Contributions

Fiscal Year Ending	Annual OPEB Cost	Expected Contribution	Percentage Contributed	Net Obligation at Year End
6/30/08	$ 5,956,307	$ 865,349	14.53%	$ 5,090,958
6/30/09	$ 2,947,165	$ 980,385	33.27%	$ 7,057,738
6/30/10	$ 2,094,214	$ 926,635	44.25%	$ 8,225,317

Since there is no funding, the expected contributions are any retiree premiums actually paid by the University plus expected implicit subsidy payments. The implicit rate subsidy is the difference between the true cost of medical benefits and the cost sharing premiums paid by the retiree.

Schedule of Funding Progress

Fiscal Year Ending	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as Percentage Of Covered Payroll
6/30/08	$ 0	$ 61,714,145	$ 61,714,145	0%	$ 184,734,160	33.41%
6/30/09	$ 0	$ 30,301,850	$ 30,301,850	0%	$ 195,259,991	15.52%
6/30/10	$ 0	$ 23,547,619	$ 23,547,619	0%	$ 197,228,603	11.94%

(13). Property, Plant and Equipment

In November 2003, GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which became effective with the fiscal year ending June 30, 2006. The Statement established guidance for accounting and reporting for the impairment of capital assets and for insurance recoveries. For the purposes of this Statement, asset impairment is a significant, unexpected decline in the service utility of a capital asset. The events or changes in circumstances affecting a capital asset that may indicate impairment are prominent – that is, conspicuous or known to University management.

During the fiscal year ended June 30, 2010, there have been no prominent or conspicuous events that would indicate impairment of any material capital assets, nor have there been any material insurance recoveries during the fiscal year.

The following schedule presents a summary of property, plant and equipment for the fiscal year 2010:

	Beginning Balance	Additions	Retirements	Adjustments	Ending Balance
NONDEPRECIABLE CAPITAL ASSETS					
Land	$ 29,043,821	$ 824,955	$ 5,000		$ 29,863,776
Construction in progress	58,538,470	74,346,302		$ (38,568,576)	94,316,196
Software in development		1,028,103			1,028,103
Other assets	1,215,395	14,243			1,229,638
TOTAL NONDEPRECIABLE CAPITAL ASSETS	88,797,686	76,213,603	5,000	(38,568,576)	126,437,713
DEPRECIABLE CAPITAL ASSETS					
Buildings	964,809,158	767,619	538,444	34,104,505	999,142,838
Equipment	260,453,825	14,587,961	7,681,524	(75,680,567)	191,679,695
Improvements	25,077,363			463,413	25,540,776
Infrastructure	46,594,025			82,021	46,676,046
Intangible assets		115,000		79,594,146	79,709,146
Library holdings	70,769,147	834,158	289,125	25,325	71,339,505
Total depreciable capital asssets	1,367,703,518	16,304,738	8,509,093	38,588,843	1,414,088,006
Less accumulated depreciation					
Buildings	(339,216,034)	(31,584,817)	(486,432)	(2,046)	(370,316,465)
Equipment	(196,718,094)	(15,949,032)	(7,382,690)	57,299,924	(147,984,512)
Improvements	(10,743,868)	(1,037,078)			(11,780,946)
Infrastructure	(25,481,298)	(1,677,871)			(27,159,169)
Intangible assets		(13,050,078)		(57,755,260)	(70,805,338)
Library holdings	(56,569,922)	(2,810,201)	(280,191)	251,254	(58,848,678)
Total accumulated depreciation	(628,729,216)	(66,109,077)	(8,149,313)	(206,128)	(686,895,108)
TOTAL DEPRECIABLE CAPITAL ASSETS	738,974,302	(49,804,339)	359,780	38,382,715	727,192,898
TOTAL CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION	$ 827,771,988	$ 26,409,264	$ 364,780	$ (185,861)	$ 853,630,611

Note 1: Land of $213,375 and buildings of $4,824,755 related to the joint endeavor between the University of Arkansas and the City of Fayetteville are included in the above amounts. See Note 16.

Note 2: For the fiscal year ended June 30, 2010, the net value of intangible assets is included in the Statement of Net Assets in compliance with GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets.* See New Accounting Pronouncements at Note 1 above.

The following schedule presents a summary of property, plant and equipment for the fiscal year 2009:

	Beginning Balance	Additions	Retirements	Adjustments	Ending Balance
NONDEPRECIABLE CAPITAL ASSETS					
Land	$ 28,353,040	$ 822,862	$ 132,081		$ 29,043,821
Construction in progress	79,432,495	56,239,033		$ (77,133,058)	58,538,470
Other assets	1,223,023		7,628		1,215,395
TOTAL NONDEPRECIABLE CAPITAL ASSETS	109,008,558	57,061,895	139,709	(77,133,058)	88,797,686
DEPRECIABLE CAPITAL ASSETS					
Buildings	890,628,195	1,831,247	1,093,932	73,443,648	964,809,158
Equipment	251,208,436	16,782,238	7,536,849		260,453,825
Improvements	22,107,747	313,899		2,655,717	25,077,363
Infrastructure	45,585,415			1,008,610	46,594,025
Library holdings	65,849,023	5,485,789	565,665		70,769,147
Total depreciable capital asssets	1,275,378,816	24,413,173	9,196,446	77,107,975	1,367,703,518
Less accumulated depreciation					
Buildings	(309,512,088)	(30,305,321)	(601,375)		(339,216,034)
Equipment	(176,154,424)	(27,871,667)	(7,307,997)		(196,718,094)
Improvements	(9,730,713)	(1,013,155)			(10,743,868)
Infrastructure	(23,804,042)	(1,677,256)			(25,481,298)
Library holdings	(53,349,715)	(3,769,317)	(549,110)		(56,569,922)
Total accumulated depreciation	(572,550,982)	(64,636,716)	(8,458,482)		(628,729,216)
TOTAL DEPRECIABLE CAPITAL ASSETS	702,827,834	(40,223,543)	737,964	77,107,975	738,974,302
TOTAL CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION	$ 811,836,392	$ 16,838,352	$ 877,673	$ (25,083)	$ 827,771,988

The University estimates holdings of $13.70 million in timber resources as of June 30, 2010. The estimated value of these holdings was $11.61 million as of June 30, 2009. These resources, which total 13,260 acres, are located on various tracts of land in Arkansas. These resources are currently being inventoried.

(14). Museum Collection

The financial statements do not include the University's museum collection which consists of numerous historical relics, artifacts, displays, and memorabilia. Major collections are in archeology, physical anthropology, ethnography, geology, zoology, and history. The value of this collection has not been established by professionals in this field.

(15). Operating Expenses by Function

For the year ended June 30, 2010:

	Salaries, Wages and Benefits	Scholarships and Fellowships	Supplies and Other Services	Depreciation	Total
Instruction	$ 113,370,185		$ 17,653,952		$ 131,024,137
Research	70,509,302		26,171,961		96,681,263
Public Service	51,865,999		18,440,278		70,306,277
Academic Support	22,343,662		12,245,730		34,589,392
Student Services	12,249,622		5,887,015		18,136,637
Institutional Support	32,291,538		5,560,749		37,852,287
Scholarships and Fellowships	288,030	$ 20,488,633	113,066		20,889,729
Operation and Maintenance of Plant	16,615,148		15,593,263		32,208,411
Auxiliary Enterprises	39,537,061		70,353,012		109,890,073
Depreciation				$ 66,109,077	66,109,077
Totals	$ 359,070,547	$ 20,488,633	$ 172,019,026	$ 66,109,077	$ 617,687,283

For the year ended June 30, 2009:

	Salaries, Wages and Benefits	Scholarships and Fellowships	Supplies and Other Services	Depreciation	Total
Instruction	$ 105,799,760		$ 16,865,432		$ 122,665,192
Research	73,132,722		26,321,365		99,454,087
Public Service	53,458,404		16,165,187		69,623,591
Academic Support	22,304,021		12,450,936		34,754,957
Student Services	12,057,591		6,060,177		18,117,768
Institutional Support	31,467,476		6,778,429		38,245,905
Scholarships and Fellowships	984,068	$ 18,350,081	66,606		19,400,755
Operation and Maintenance of Plant	16,675,424		25,143,197		41,818,621
Auxiliary Enterprises	38,838,763		50,003,623		88,842,386
Depreciation				$ 64,636,716	64,636,716
Totals	$ 354,718,229	$ 18,350,081	$ 159,854,952	$ 64,636,716	$ 597,559,978

(16). Walton Arts Center

The University of Arkansas and the City of Fayetteville engaged in a joint endeavor to operate the Walton Arts Center. Funds were pooled from each entity to provide for the construction and operation of the center. To administer this project and its funds, the University and the City of Fayetteville established a nonprofit organization called the University of Arkansas/City of Fayetteville Arts Foundation, Inc., now called the Walton Arts Center Foundation, Inc., which was incorporated on January 19, 1987. There are nine directors, three are appointed by the University, three by the City of Fayetteville, and three are recommended by the Foundation that must be approved by the mayor and chancellor.

The Walton Arts Center Council, Inc. was formed to construct, operate, manage, and maintain the Arts Center in Fayetteville, Arkansas, in accordance with the Interlocal Cooperation Agreement between the City of Fayetteville and the University of Arkansas. The ownership of the Arts Center facilities, including land, is held equally by the City and the University. The Arts Center Council must submit an annual budget to both the City and the University for approval. The Board of Trustees of The Arts Center Council is comprised of five members appointed by the University, five members appointed by the City, and ten members appointed at large, all of whom serve as volunteers.

The combined audited financial statements of the Walton Arts Center Council, Inc., and the Walton Arts Center Foundation, Inc., as of and for the year ended June 30, 2010, which have been audited by an independent certified public accountant, are presented below in summary form.

Condensed Statement of Financial Position	
Assets	
Cash and Cash Equivalents	$ 2,451,631
Investments	11,123,629
Other Assets	3,261,380
Fixed Assets, Net of Depreciation	5,740,261
Total Assets	**$ 22,576,901**
Liabilities and Net Assets	
Liabilities	$ 3,262,722
Net Assets	19,314,179
Total Liabilities and Net Assets	**$ 22,576,901**

Condensed Statement of Activities		
Ticket Sales	$	4,703,313
Contributions and Sponsorships		2,463,275
Other Income		3,124,592
Total Income and Other Additions	**$**	**10,291,180**
Total Expenditures and Other Deductions	**$**	**10,264,428**
Increase/(Decrease) in Net Assets	**$**	**26,752**

(17). Other Entity

University of Arkansas Foundation, Inc. - The Foundation operates as a nonprofit benevolent corporation for charitable educational purposes. The Board of Trustees of the Foundation includes one (1) member who is also a member of the University's Board of Trustees. The audited financial statements of the Foundation, as of and for the year ended June 30, 2010, which have been audited by an independent certified public accountant, are presented below in summary form. The University of Arkansas, Fayetteville is the beneficiary of 49.4% of the net assets of the Foundation. The remaining 50.6% benefits other University of Arkansas campuses.

Condensed Statement of Financial Position		
Assets		
Investments	$	571,798,818
Contributions Receivable, less Allowance		78,609,611
Other Receivables		2,076,577
Fixed Assets, Net of Depreciation		390,752
Other Assets		643,968
Total Assets	**$**	**653,519,726**
Liabilities and Net Assets		
Liabilities	$	22,350,336
Net Assets		
Unrestricted		69,625,749
Restricted		561,543,641
Net Assets		631,169,390
Total Liabilities and Net Assets	**$**	**653,519,726**

Condensed Statement of Activities		
Contributions	$	91,806,328
Other Revenues, Additions and Gains/(Losses)		74,388,383
Total Income and Other Additions/(Losses)	**$**	**166,194,711**
Total Expenditures and Other Deductions	**$**	**77,628,722**
Increase/(Decrease) in Net Assets	**$**	**88,565,989**

(18). Short-Term Debt

GASB Statement No. 38 issued June 1, 2001, states that governments should provide details about short-term debt activity during the year, even if no short-term debt is outstanding at year-end. The University had no short-term debt activity during the fiscal year, nor is there any outstanding balance of short-term debt as of June 30, 2010.

(19). Risk Management

The University of Arkansas Risk Management Program provides insurance coverage for all campuses within the University of Arkansas System. The role of the System Office is to analyze and recommend insurance coverage but it is ultimately up to each campus to inform the System Office regarding their specific coverage requirements.

All campuses are currently covered under the property and auto coverage provided through the System Office. The property coverage is insured through FM Global with a $100,000 deductible at the Fayetteville, Medical Sciences, and Little Rock Campuses. All other campuses have a $50,000 deductible. It is the responsibility of each campus to confirm all building and content values to be covered. The FM Global policy also contains earthquake and flood insurance coverage. The System Office has also secured domestic and foreign terrorism coverage.

Likewise with the auto coverage, each campus is responsible for providing a list of vehicles to be covered under the auto coverage through Praetorian Insurance Company. The auto coverage has a physical damage deductible of $1,000 for vans, buses and larger trucks and $500 for all others, and provides coverage against liability losses up to $1,000,000 per occurrence.

The University of Arkansas does not purchase general liability, errors or omissions, or tort immunity for claims arising from third-party losses on University property as the University of Arkansas has sovereign immunity against such claims. Claims against the University of Arkansas for such losses are heard before the State Claims Commission. In such cases where the University of Arkansas enters into a lease agreement to hold a function at a location not owned by the University of Arkansas, general liability coverage may be purchased for such function.

The University of Arkansas maintains workers' compensation coverage through the State of Arkansas program. Premiums are paid through payroll and are based on a formula calculated by the Department of Finance and Administration which is provided to the campuses around April 1 of each year to be used for the upcoming fiscal year. The types of benefits and expenditures that are paid include the following: medical expenses, hospital expenses, death benefits, disability, and claimant’s attorney fees.

Additionally, the University of Arkansas participates in the State of Arkansas Fidelity Bond Program for claims of employee dishonesty. This program has a limit of $250,000 recovery per occurrence with a $1,000 deductible. Premiums are paid annually via a fund transfer from state appropriations to the Department of Finance and Administration.

There have been no reductions in insurance coverage from the prior fiscal year. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(20). Pollution Remediation

In November 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations,* which became effective with the fiscal year ending June 30, 2009. The Statement establishes standards for the accounting and financial reporting of pollution (including contamination) remediation obligations. On July 21, 2009, the University was awarded a grant in the amount of $1,900,000 from the United States Department of Energy to conduct a study to determine what obligation, if any, the University may have for potential remediation of the Southwest Experimental Fast Oxide Reactor site (SEFOR); including estimated remediation cost and development of a plan for necessary remediation. As of June 30, 2010, the University was under no obligation to complete the remediation of the site.

(21). Contingencies

The University has been named as defendant in several lawsuits. It is the opinion of management and its legal counsel that the ultimate outcome of litigation will not have a material effect on the future operations or financial position of the University.

UNIVERSITY OF ARKANSAS, FAYETTEVILLE

2010
ANNUAL FINANCIAL REPORT

REQUIRED SUPPLEMENTAL INFORMATION

Other Postemployment Benefits

Determination of End of Year Accrual		
Unfunded actuarial accrued liability at 7/1/09	$	23,547,619
Annual Required Contribution (ARC)		
Normal cost	$	1,111,361
Amortization of the unfunded actuarial accrued liability over 30 years		840,726
Interest		87,844
Annual Required Contribution for FY10		2,039,931
Interest on Net OPEB Obligation		317,644
ARC Amortization Adjustment		(263,361)
Annual OPEB Cost for FY10	$	2,094,214
Net OPEB Obligation, 7/1/09	$	7,057,738
Annual OPEB Cost for FY10		2,094,214
Less: Expected Employer Contributions		(926,635)
Net OPEB Obligation, 6/30/10	$	8,225,317

Schedule of Employer Contributions

Fiscal Year Ending	Annual OPEB Cost	Expected Contribution	Percentage Contributed	Net Obligation at Year End
6/30/08	$ 5,956,307	$ 865,349	14.53%	$ 5,090,958
6/30/09	$ 2,947,165	$ 980,385	33.27%	$ 7,057,738
6/30/10	$ 2,094,214	$ 926,635	44.25%	$ 8,225,317

Since there is no funding, the expected contributions are any retiree premiums actually paid by the University plus expected implicit subsidy payments. The implicit rate subsidy is the difference between the true cost of medical benefits and the cost sharing premiums paid by the retiree.

An explanation of the differences in the annual required contribution is provided in the section, *General Overview of the Valuation Methodology.*

Schedule of Funding Progress

Fiscal Year Ending	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as Percentage Of Covered Payroll
6/30/08	$ 0	$ 61,714,145	$ 61,714,145	0%	$ 184,734,160	33.41%
6/30/09	$ 0	$ 30,301,850	$ 30,301,850	0%	$ 195,259,991	15.52%
6/30/10	$ 0	$ 23,547,619	$ 23,547,619	0%	$ 197,228,603	11.94%

General Overview of the Valuation Methodology

The process of determining the liability for retiree medical benefits is based on many assumptions about future events. Future increases in health care costs are affected by many factors, including: medical inflation; change in utilization patterns; technological advances; cost shifting; cost leveraging; and changes to government medical programs, such as Medicare.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. Actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Calculations are based on the types of benefits provided under the terms of each plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point.

The required frequency of valuations per GASB Statement No. 45 depends on the number of members in the plan. Even though the University's self-funded plan only requires it every two years, a valuation has been performed each year since the year of implementation. No decision has been made at this time as to whether annual or biennial valuations will be made in the future.

Discussion of Change in OPEB Expense

For the calculation completed for the year ended June 30, 2008, all retirees (both eligible and not eligible for Medicare) were combined and the assumption that the retiree contributions were not sufficient to fully cover the expected claims costs was applied to both groups. However, as discussed below, when the two groups were divided, the cost for Medicare eligible retirees was ultimately excluded from subsequent valuations. For the year ended June 30, 2010 calculation, the withdrawal rates, the medical and Rx coverage election percentage for retirees not eligible for

Medicare, and the election percentage assumptions for the life insurance were changed to better reflect recent plan experience and future expectations.

Medical Coverage – Retirees not Eligible for Medicare

Claim experience for the period February 1, 2008 through January 31, 2009 was used to develop the claims cost for non-Medicare-eligible retirees. The paid claims data was converted to an incurred basis using a completion factor approach. This experience includes 340 life years of exposure and was deemed to be 50% credible. The experience was combined with the active claims experience adjusted for demographic differences to produce the per capita claims costs used in the valuation. Adjustment factors were then applied to develop expected claims by age to be used in the valuation. Expected retiree premiums were developed to represent the expected cost sharing level. Retiree premiums were also age-adjusted for use in the valuation.

Medical Coverage – Retirees Eligible for Medicare

Medical and prescription drug claims for the period February 1, 2008 through January 31, 2009 was used to develop per capita claims cost for Medicare-eligible retirees. This experience includes 1,300 life years of exposure and was deemed to be fully credible. Based on this analysis, it was concluded that the retiree contributions are sufficient to fully cover the expected claims costs as intended. As such, the cost for Medicare eligible retirees was excluded from this valuation.

Dental Coverage

Dental claims coverage for the period February 1, 2008 through January 31, 2009 was used to develop per capita claims cost for dental coverage. The claims experience includes over 30,000 life years of exposure and was deemed to be fully credible. Based on this analysis, it was concluded that the retiree contributions are sufficient to fully cover the expected dental claims costs as intended. As such, the cost for dental coverage is excluded from this valuation.

BOARD OF TRUSTEES

John Ed Anthony, Chairman
Hot Springs, AR
Term Ends 03/01/11

Carl L. Johnson, Vice-Chairman
Little Rock, AR
Term Ends 03/01/12

Jane Rogers, Secretary
Little Rock, AR
Term Ends 03/01/16

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North Little Rock, AR
Term Ends 03/01/14

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Monticello, AR
Term Ends 03/01/13

Jim von Gremp
Rogers, AR
*Term Ends 03/01/1*5

John Tyson
Springdale, AR
Term Ends 03/01/17

Ben Hyneman
Jonesboro, AR
Term Ends 03/01/18

David Pryor
Fayetteville, AR
Term Ends 03/01/19

Mark Waldrip
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Term Ends 03/01/20

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