

University of Arkansas
Annual Financial Report
2010-2011

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On the cover: Fulbright Statue with Peace Fountain

UNIVERSITY OF ARKANSAS

Vice Chancellor for Finance and Administration

October 31, 2011

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, 2011.

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

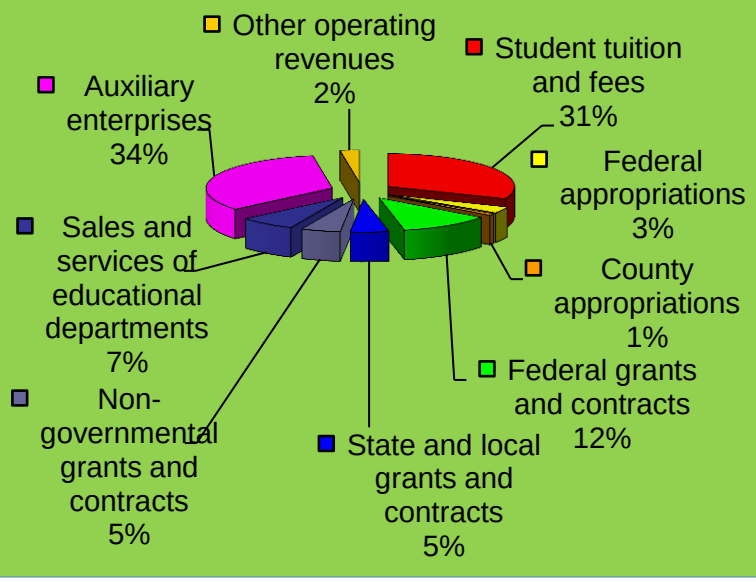
FISCAL YEAR 2011 OPERATING REVENUES

Student tuition and fees	109,167,102
Federal appropriations	11,062,386
County appropriations	2,912,870
Federal grants and contracts	40,940,355
State and local grants and contracts	17,261,150
Non-governmental grants and contracts	17,606,040
Sales and services of educational departments	25,275,263
Auxiliary enterprises	117,918,346
Other operating revenues	8,667,851
Total operating revenues	350,811,363

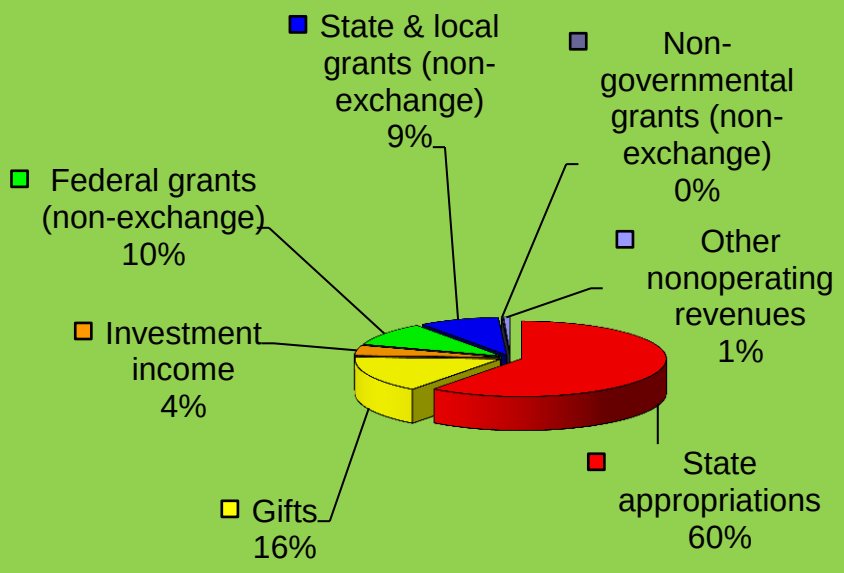
FISCAL YEAR 2011 NONOPERATING REVENUES

State appropriations	200,188,523
Gifts	51,239,306
Investment income	14,260,067
Federal grants (non-exchange)	33,451,892
State & local grants (non-exchange)	29,764,358
Non-governmental grants (non-exchange)	631,809
Other nonoperating revenues	2,449,266
Total nonoperating revenues	331,985,221

Fiscal Year 2011 Operating Revenues



Fiscal Year 2011 Nonoperating Revenues



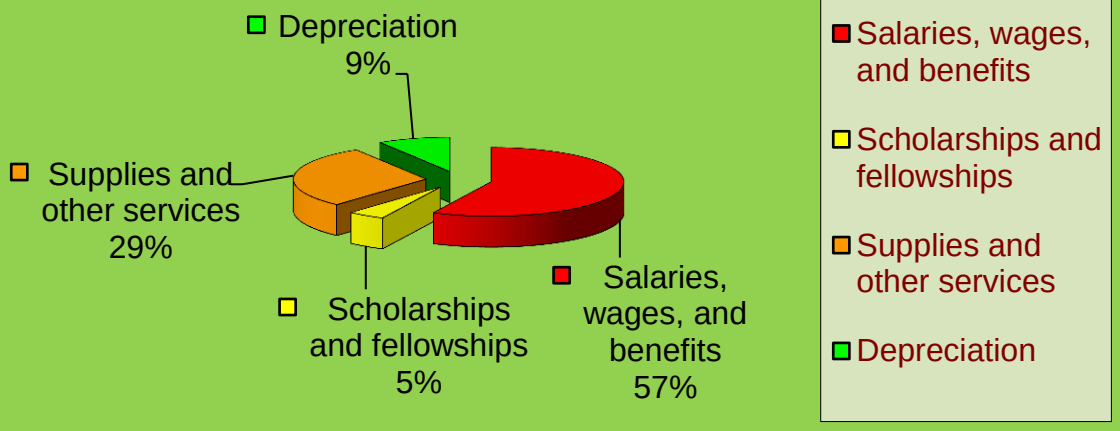
FISCAL YEAR 2011 OPERATING EXPENSES BY NATURAL CLASSIFICATION

Salaries, wages, and benefits	373,790,938
Scholarships and fellowships	29,557,381
Supplies and other services	192,618,354
Depreciation	57,645,916
Total operating expenses	653,612,589

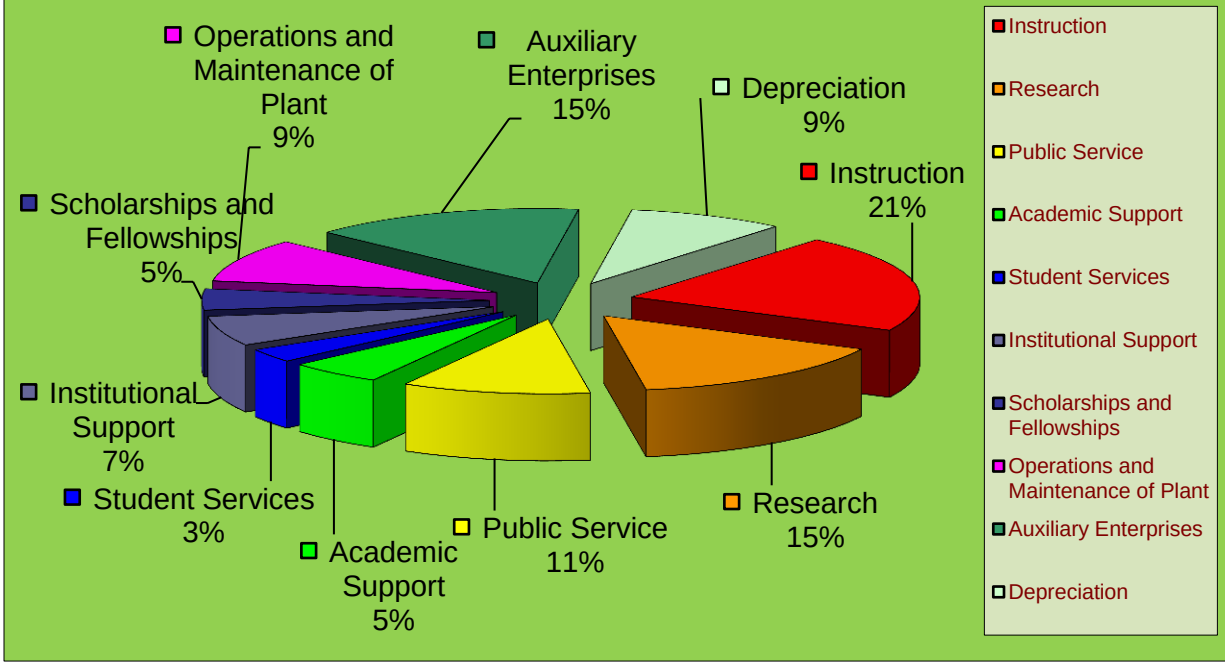
FISCAL YEAR 2011 OPERATING EXPENSES BY FUNCTION

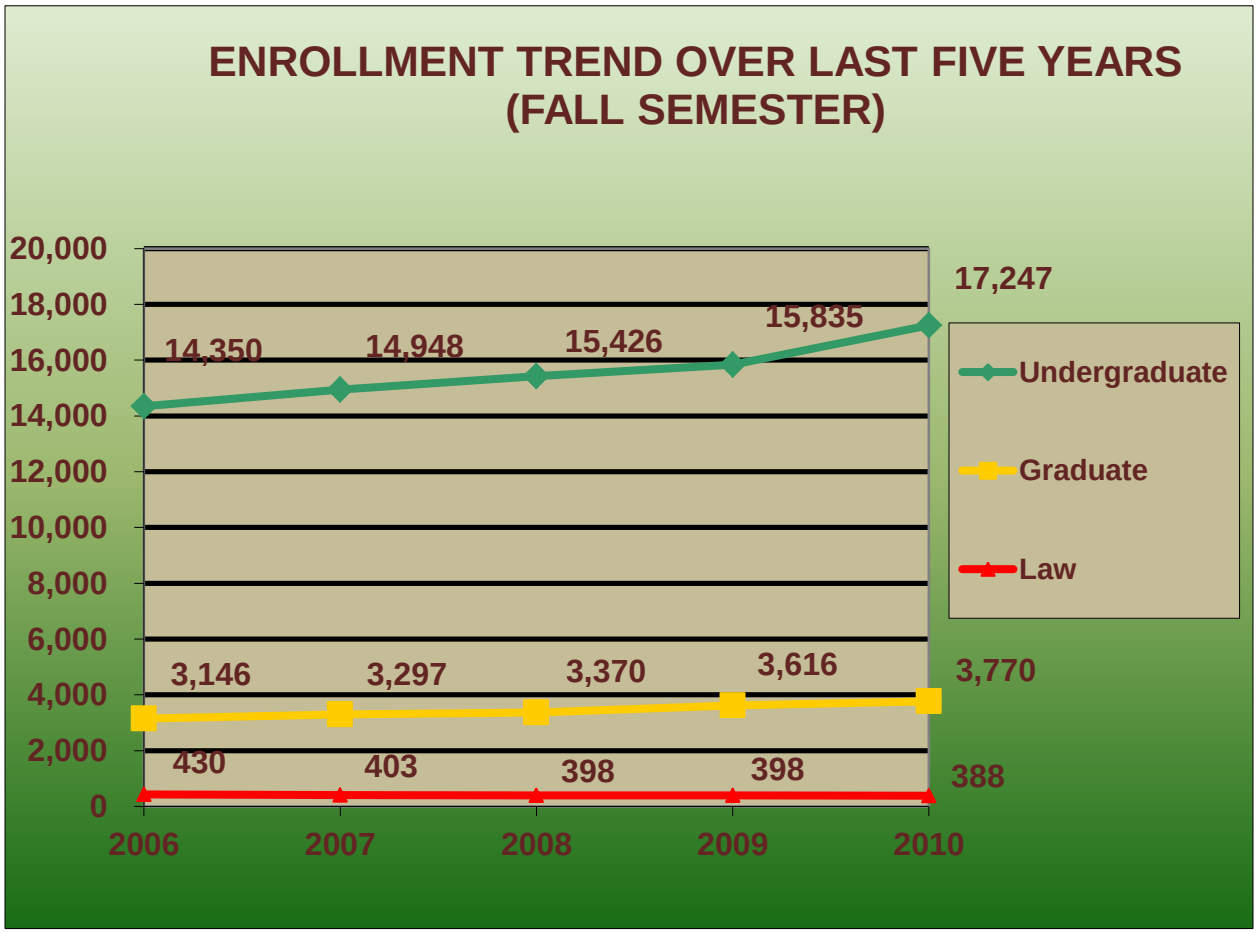
Instruction	139,066,876
Research	99,727,167
Public Service	69,242,591
Academic Support	34,393,312
Student Services	19,379,113
Institutional Support	42,200,713
Scholarships and Fellowships	29,925,084
Operations and Maintenance of Plant	61,497,726
Auxiliary Enterprises	100,534,091
Depreciation	57,645,916
Total operating expenses	653,612,589

Fiscal Year 2011 Operating Expenses by Natural Classification

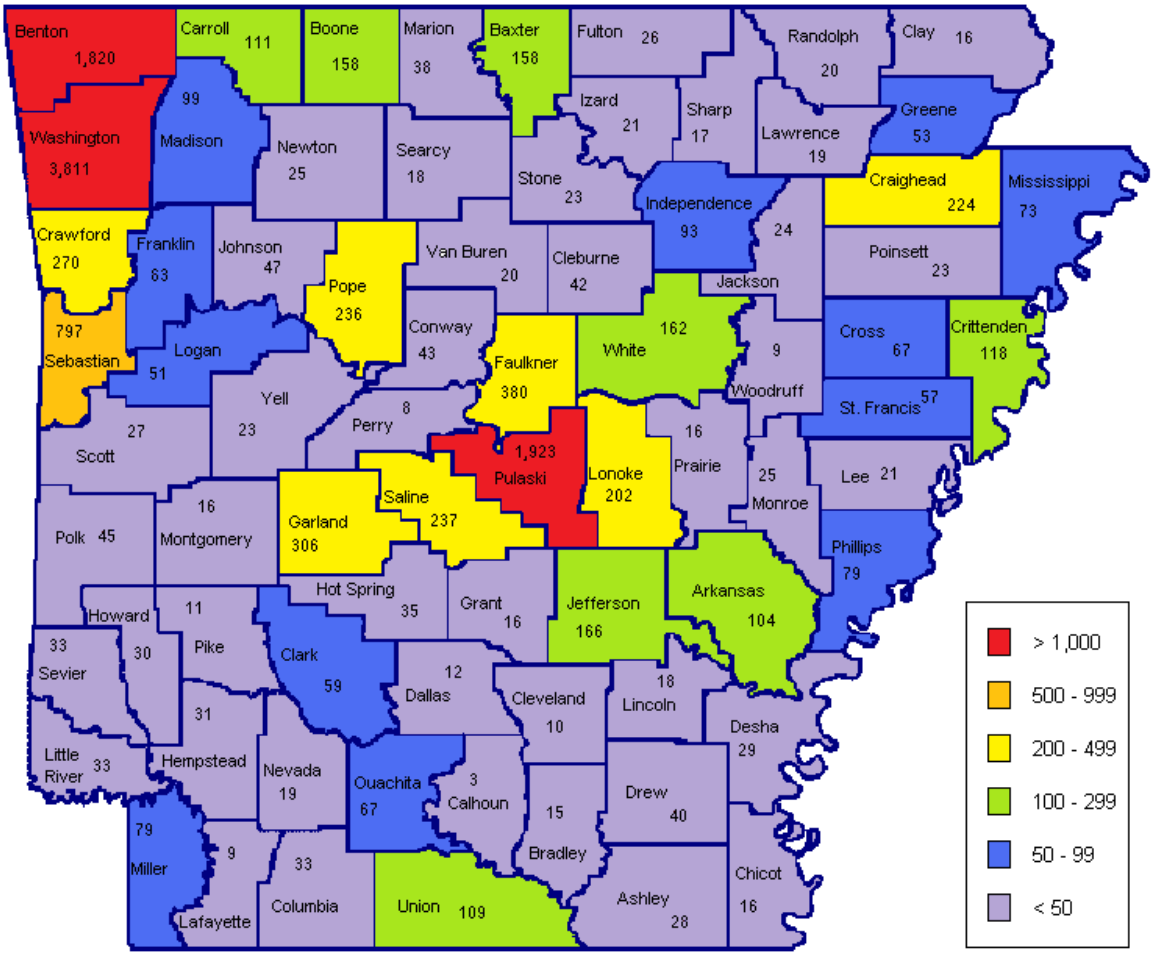


Fiscal Year 2011 Operating Expenses by Function

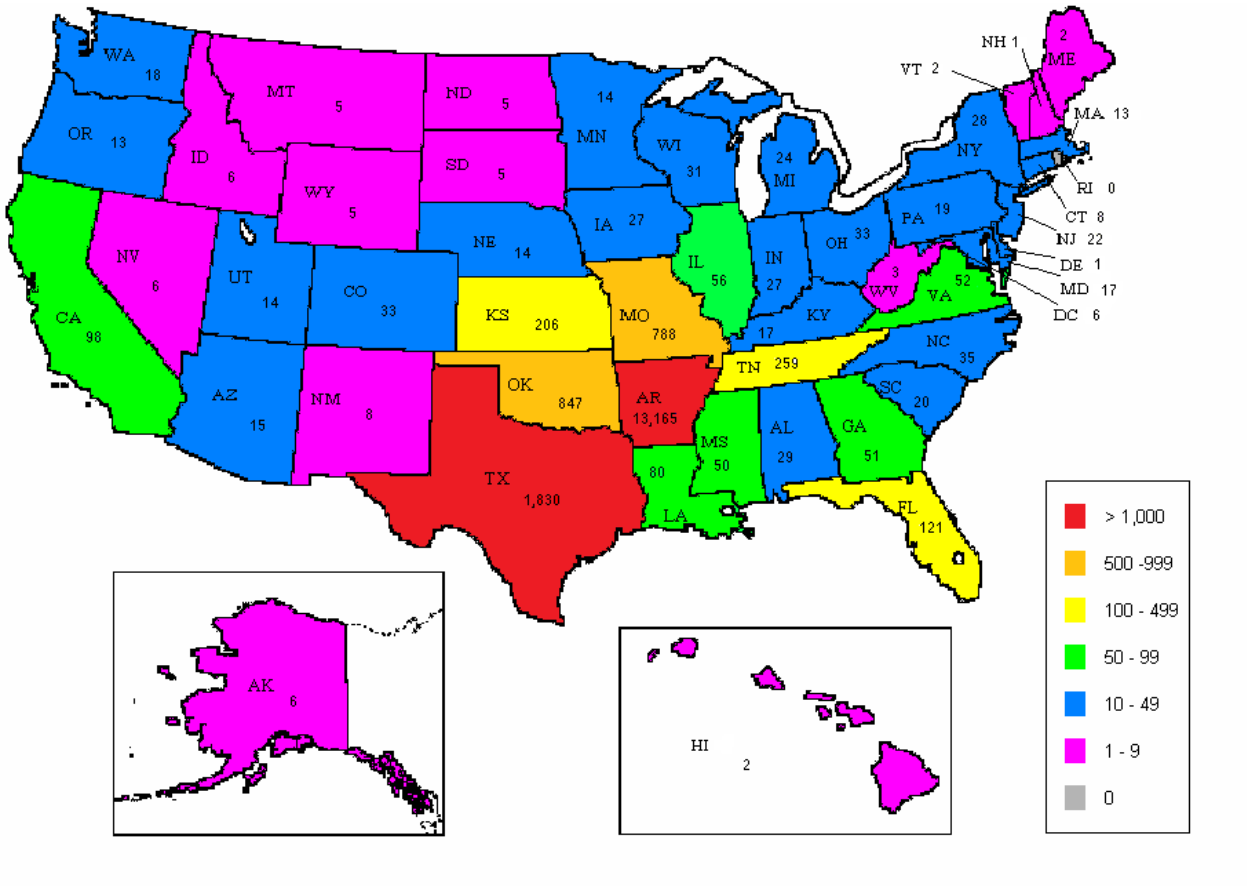



ENROLLMENT TREND OVER LAST FIVE YEARS
(FALL SEMESTER)
20,000
18,000
16,000
14,000
12,000
10,000
8,000
6,000
4,000
2,000
0
2006
2007
2008
2009
2010
14,350
14,948
15,426
15,835
17,247
3,146
3,297
3,370
3,616
3,770
430
403
398
398
388
Undergraduate
Graduate
Law

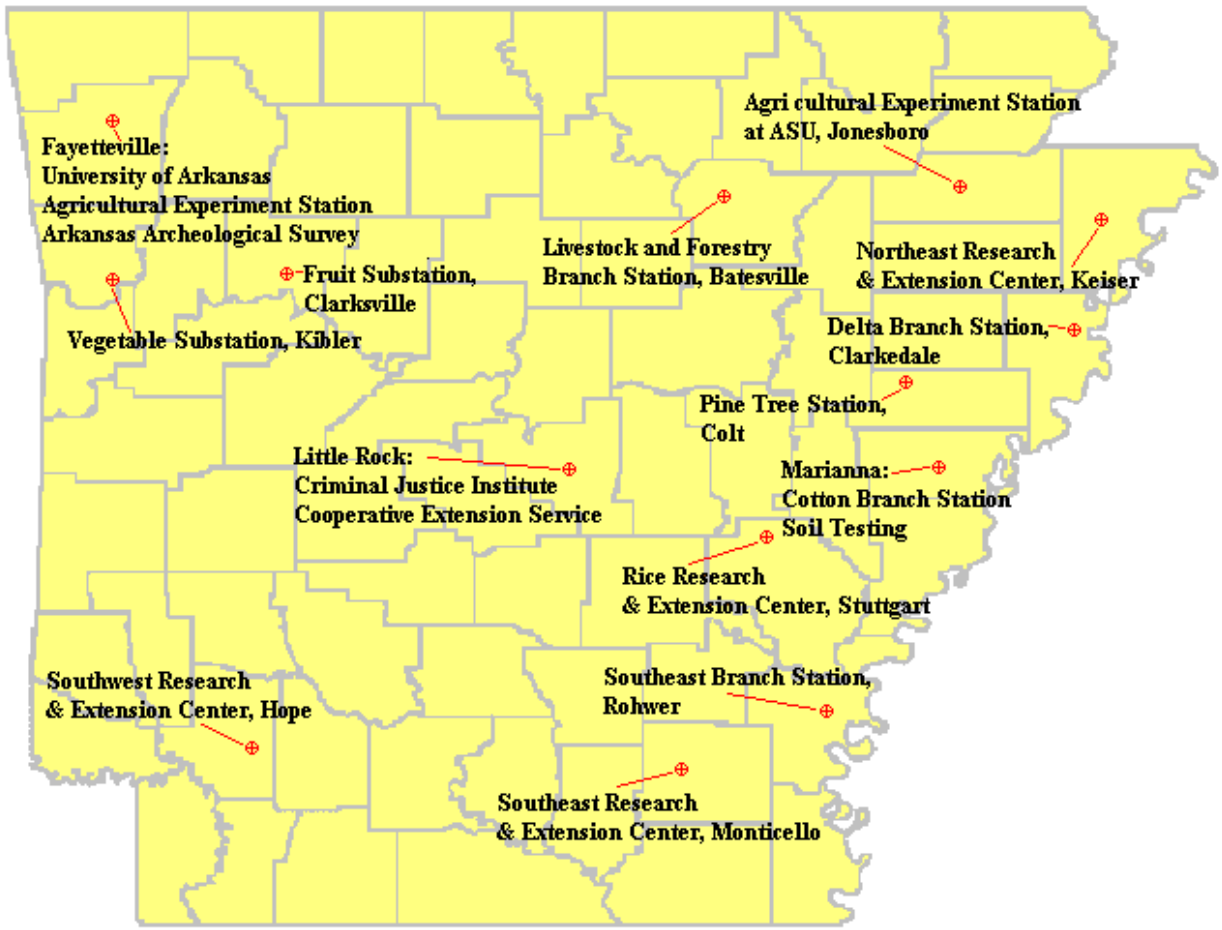
IN-STATE ENROLLMENT
BY COUNTY OF ORIGIN



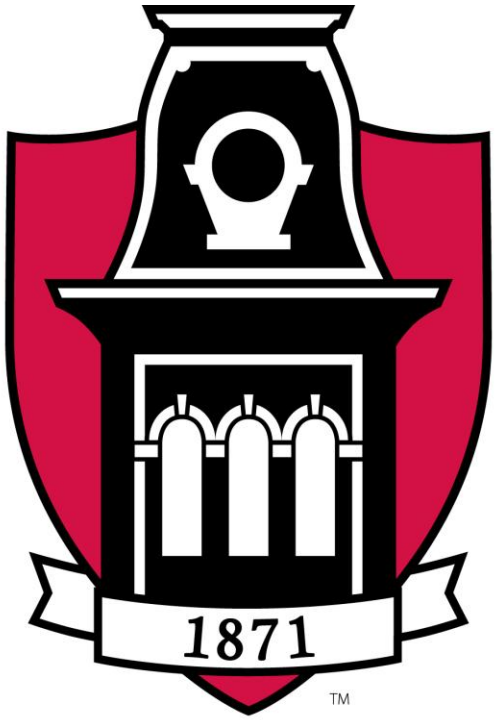
ENROLLMENT BY STATE



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. Bill Pritchard
Senate Chair
Rep. Tim Summers
House Chair
Sen. David Wyatt
Senate Vice Chair
Rep. Toni Bradford
House 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, 2011, 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 2010 financial statements and, in our report of the University of Arkansas System dated November 18, 2010, 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, 2011, 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, 2010, 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
October 31, 2011
EDHE13511

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, 2011, with fiscal year ended June 30, 2010 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 "2011", "2010" 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 in Arkansas. Established in 1871 under the provisions of the Morrill Act, it is the state's first land-grant institution and the flagship of the University of Arkansas System. Recognized as a *Carnegie Research University,* it is the state's only comprehensive research university. In 2011, the University was elevated to the highest *Carnegie* classification of "very high research activity" becoming one of just 108 institutions with this distinction. This new status documents the continued advancement of the University's position as a nationally and internationally influential research university. The continued productivity in advancing higher learning and stimulating economic opportunity reflects the return on investment the University is producing for Arkansas, our nation and our many public and private sector partners.

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 51.4% of the net 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, 2011, and June 30, 2010:

	As of June 30, 2011	As of June 30, 2010
Assets		
Current Assets	$ 240,476,483	$ 207,441,418
Capital Assets, net of depreciation	879,064,115	853,630,611
Other Noncurrent Assets	216,825,455	132,034,744
Total Assets	$ 1,336,366,053	$ 1,193,106,773
Liabilities		
Current Liabilities	$ 90,696,161	$ 91,290,532
Noncurrent Liabilities	593,467,254	466,583,242
Total Liabilities	$ 684,163,415	$ 557,873,774
Net Assets		
Invested in Capital Assets, net of related debt	$ 425,915,450	$ 449,457,190
Restricted – Nonexpendable	22,138,905	21,835,408
Restricted – Expendable	65,040,840	54,368,748
Unrestricted	139,107,443	109,571,653
Total Net Assets	$ 652,202,638	$ 635,232,999

Overall, the University's total assets increased $143.3 million. A review of the statement of net assets reveals that increases were distributed among most asset types, while only three categories experienced modest decreases. The increases were largely attributable to an increase in cash and cash equivalents of $22.8 million, an increase in investments of $9.7 million, an increase in deposits with trustees of $78.3 million and an increase in capital assets of $25.4 million.

The University continued to strengthen its liquidity position, with 48% of current assets comprised of cash and cash equivalents. A strong cash position allows flexibility in the timing of permanent financing arrangements associated with the Facility Renewal and Stewardship Plan and other capital projects, and assures that the immediate needs of a growing campus are addressed. The increase in investments is primarily attributable to the growth and recovery of the equity markets.

Deposits with bond trustees represent unspent bond proceeds and bond reserve funds. The increase in 2011 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 $126.3 million. A review of the statement indicates there were several offsetting variances, but the most significant was the $127.1 million increase in bonds, notes, capital leases and installment contracts (long-term debt). Accounts payable decreased nearly $3 million in 2011 because of decreases in payables related to construction projects and accumulated contract retainage.

The issuance of $101.2 million Various Facilities Revenue Bonds, Series 2011A, $23.6 million Athletic Facilities Revenue Bonds, Series 2011 and the assumption of $13.8 million in additional installment contracts offset by scheduled bond retirements of $13.9 million were the most significant factors for the net increase in long-term debt. The various facilities bond proceeds were used to finance various renovation and construction projects on campus. The athletic facilities bond proceeds were used to finance a football operations center, football practice field and parking facilities. 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, and the projects financed with debt proceeds, 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 $143.3 million netted with the increase in liabilities of $126.3 million resulted in an increase of $17 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, 2011	As of June 30, 2010
Fayetteville Campus	$ 83,858,282	$ 58,244,431
Agricultural Experiment Station	35,408,862	29,930,179
Cooperative Extension Service	10,771,892	12,762,059
Arkansas Archeological Survey	489,450	554,398
Criminal Justice Institute	2,622,996	2,379,561
Clinton School of Public Service	2,012,024	1,703,631
AREON	3,943,937	3,997,394
Total Unrestricted Net Assets	$ 139,107,443	$ 109,571,653

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

	As of June 30, 2011	As of June 30, 2010
Working Capital	$ 750,000	$ 750,000
E & G Department Uses	38,514,760	34,326,877
Service Operations	845,482	(359,212)
Auxiliaries	19,918,219	11,085,543
Plant Funds	12,439,989	2,737,983
Quasi-Endowment Funds	11,389,832	9,703,240
Total Fayetteville Campus Unrestricted Net Assets	$ 83,858,282	$ 58,244,431

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 $302.8 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 2011 Total	Fiscal 2010 Total
Operating Revenues	$ 350,811,363	$ 324,850,262
Operating Expenses	653,612,589	617,687,283
Operating (loss)	(302,801,226)	(292,837,021)
Net nonoperating revenues	311,822,451	285,727,841
Loss before other revenues and changes in net assets	9,021,225	(7,109,180)
Other revenues and changes in net assets	7,948,414	20,903,679
Increase (decrease) in Net Assets	$ 16,969,639	$ 13,794,499

Operating revenue increased $26 million, $10.2 million of which is attributable to increases in auxiliary enterprises revenue. Athletics increased $4.9 million because of increased ticket

revenue due to increased attendance and price changes in football tickets, bowl game participation and conference distributions for media revenue. Residence life, Bookstore and Transit and Parking also realized increases totaling $5.2 million collectively, demonstrating the impact of enrollment growth to demand for these services. Modest rate increases for housing and parking, as well as bringing the Garland Center and Garage on-line in 2011, also contributed to auxiliary revenue growth. Federal research awards increased over $4 million, reflecting the impact of American Recovery and Reinvestment Act (ARRA) stimulus funds, and were the primary factor in the $7 million increase in grant and contract operating revenue. Tuition and fees revenue increased $4.2 million as a result of increased enrollment and rate revisions.

Operating expenses increased $35.9 million or 5.8% over 2010. Compensation and benefits costs grew $14.7 million due in part to necessary increases in faculty to support enrollment growth, along with accruing an additional $1.1 million for retiree healthcare expenses. Supplies and other services increased $20.6 million, most of which was attributable to renewal and replacement efforts throughout the campus funded by energy savings performance contracts, federal stimulus funds and auxiliary enterprises. 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". Increases in scholarships and fellowships expenses of $9.1 million, as well as the increase in scholarship allowances netted against tuition and fees, are due to increased activity associated with scholarship awards funded by the Arkansas State Lottery. Depreciation expense decreased $8.5 million due to a one-time adjustment in 2010 for intangible assets.

Net nonoperating revenues increased $26.1 million, primarily due to increased federal and state grant increases. Federal grants experienced an $8.1 million increase due in part to a $3.8 million increase in federal PELL grants for student financial aid and the receipt of $3.4 million in federal stimulus funds (ARRA) to support University operating expenses. State grants increased $18.7 million as a result of Arkansas Challenge Scholarships funded by the Arkansas State Lottery.

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 of nearly $13 million is primarily a reflection of the various funding sources and the timing of their receipt associated with the construction of the Nanoscale Science and Engineering Building. The project was financed in part with $16 million from Arkansas Department of Higher Education bonds received in 2010. An additional $2 million capital appropriation was received in 2011.

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 2011	Fiscal Year 2010
Net cash used by operating activities	$ (246,339,203)	$ (218,232,515)
Net cash provided by noncapital financing activities	314,522,932	284,321,343
Net cash provided by operating and noncapital financing activities	68,183,729	66,088,828
Net cash used by capital financing activities	(49,957,354)	(59,250,493)
Net cash provided (used) by investing activities	4,548,906	21,384,345
Net increase in cash	$ 22,775,281	$ 28,222,680

The University used $246.3 million of cash for operating activities in 2011 offset by cash provided by noncapital financing activities of $314.5 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 $68.2 for 2011 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. The significant decrease in net cash provided by investing activities illustrates scheduled redemptions for debt service, along with the positioning of matured investments to more liquid cash equivalents during 2010.

Significant Changes in Capital Assets and Long-Term Debt Activity

The university continues to implement an aggressive capital improvement plan, with many new projects initiated in 2011, along with continuation of projects begun in previous years. A dedicated facilities fee, instituted in 2009 with planned annual incremental increases, provides a revenue stream that is used to leverage bonded debt for financing of a large-scale, long-range facilities renewal plan.

Projects completed in 2011 include the Garland Avenue Parking Garage and Garland Center, Rice Research and Extension Center of the Division of Agriculture and the renovation of Peabody Hall. Several new projects were initiated in 2011, including renovations and/or additions to Vol Walker Hall, Ozark Hall, Arkansas Union, Science Building, various classrooms

and laboratories and various housing facilities; construction of two new auditoria, child development study center, hazardous waste facility and football operations center; and utility infrastructure capacity expansions. Significant progress towards completion of the Nanoscale Science and Engineering Building was made as well. Construction also continues on the Arkansas Research and Education Optical Network.

A 32,062 gsf addition is planned for Vol Walker Hall, along with a whole building renovation. When complete, the building will house all programs of the School of Architecture. Total project cost is estimated at $32.8 million, funded with bond proceeds of $19.9 million, Donald W. Reynolds Foundation grant of $10 million and the remainder with private funds. The Ozark Hall project includes a whole building renovation along with a 17,220 gsf addition. When complete, the building will house the Honor's College, Graduate School and the J. William Fulbright College of Arts and Sciences Geosciences Department. Total project cost is estimated at $27.1 million, funded with bond proceeds of $18.5 million and the remainder with private funds. Construction is scheduled to start on both projects during Summer 2011 with completion expected in Summer 2013.

Renovations at the Arkansas Union will re-purpose space vacated by the Bookstore into an information technology center and a satellite fitness center. This $5.7million project is funded in part with bond proceeds and is expected to be completed in Summer 2011. Science Building renovations include updates to infrastructure as well as life safety upgrades. The $2.4 million project is funded by bond proceeds and completion is scheduled for Summer 2012. A multi-year program to modernize up to 160 classrooms and 35 general teaching labs continued in 2011. The $9 million Phase II upgrade began in Spring 2011, with completion of this phase expected in Summer 2014. The project is funded with bond proceeds. Several residence halls will also undergo refurbishments to accommodate demand for student housing created by continued enrollment growth. Projects totaling $24.8 million are planned at Futrall, Pomfret, Humphries and Yocum Halls, beginning in the Summer 2011 with completion in Summer 2012. A $3.76 million renovation to the Phi Gamma Delta fraternity house began in 2011 with completion scheduled for occupancy in Fall 2011. Both projects were funded with a mix of bond proceeds, reserves and private funds.

A significant improvement for large capacity teaching space will be achieved with the construction of Hillside Auditorium. The 36,500 gsf building will accommodate two modern, multi-function auditoriums (550 seats and 250 seats) for teaching, fine arts presentations and other campus uses. The outdated Science Engineering Auditorium (372 seats) and Geology Building (6,413 gsf) were razed to accommodate the new structure. Total project cost is $13 million, funded with bond proceeds. Construction begins in Summer 2011 with completion in Summer 2012. The new Child Development Study center will replace two outdated structures and increase capacity from 40 children to 144 children, all housed in a single, multi-use facility. Total project cost is $8.5 million, funded with a mix of bond proceeds, private funds and reserves. Construction begins in Summer 2011 with completion expected in Fall 2012. The Hazardous Waste Facility will be used primarily by occupants of the Arkansas Research and Technology Park to properly handle waste materials generated by their research. Total project cost is just under $1 million and is funded by bond proceeds. Construction is planned to begin in 2011 with completion by Summer 2011.

Utility infrastructure capacity expansions are associated with many of the projects described above. The projects primarily address heating and cooling service extensions as well as a major improvement in core campus domestic water capacity for additional fire protection capability. Total project cost is estimated at $9.2 million funded with a mix of bond proceeds and reserves. Completion is expected during Summer 2013.

Construction of a football operations center is scheduled to begin in Fall 2011 with completion expected in Spring 2013. The $35 million project will include an operations center, practice field and parking facility. The operations center will provide space for a coaching staff suite and other administrative space; team meeting rooms and locker room; equipment room, athletic training area and other operations space as well as public space with museum quality displays and lighting. The project is funded with $25.2 million Athletic Facilities Revenue Bonds and a $10 million grant from the Donald W. Reynolds Foundation.

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. Various Facility Revenue bonds issued in 2010 provided additional funding that made it possible to complete the initial project, leaving a shelled out third floor and clean room for future expansion. An additional $2 million capital appropriation received in 2011 provides resources for further expansion of project scope. Total estimated cost for the project is $44 million. Project completion is expected in 2013.

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 is serving as a catalyst to develop and apply advanced communications technologies to support and enhance education, research, public service and economic development in Arkansas. Current infrastructure in place includes 90% of the four year higher education institutions in Arkansas. A partnership led by University of Arkansas for Medical Sciences, and including, the Arkansas Association of Two Year Colleges, and AREON competed for, and received a $102 million federal Broadband Opportunities Technology Program (BTOP) grant in 2011 to construct and/or secure infrastructure to provide high speed connectivity to over 400 healthcare facilities, and to all 22 two year campuses. AREON is managing the connectivity to the two year campuses and was awarded $41.2 million as a subrecipient of the BTOP grant. When completed, the AREON network will enable true collaboration, resource sharing, and economies of scale in higher education. Leveraging investments in technical infrastructure as a shared asset will significantly impact the Governor's goal of creating more citizens with higher education credentials in Arkansas. Funding for the project comes from Arkansas Department of Higher Education bonds, state general improvement funds, mineral lease rights, federal stimulus funds and consortium members.

Work associated with the energy savings performance contracts negotiated with Energy Systems Group, LLC continues. The first long term debt obligation was negotiated in 2009 to finance the

improvements and equipment necessary to fulfill the obligations of the contract. A second contract was negotiated in 2010 to provide additional improvements and equipment that were not economically feasible when the first contract was negotiated. 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 $26.6 million, with project completion expected in 2012.

On June 29, 2011, the University issued $101,225,000 in Various Facility Revenue Bonds, Series 2011A and $8,895,000 in Various Facility Revenue Bonds, Refunding Series 2011B. The Series A proceeds will finance the renovation and construction of and additions to Vol Walker and Ozark Halls, construction of Hillside Auditorium, renovations to various classrooms and teaching labs, renovation to the Science Building, construction of the Child Development Study Center, improvements to the Arkansas Union, construction of a hazardous waste facility, renovation and improvements to various student housing and dining facilities, and various infrastructure improvements. These projects are discussed above, with construction underway for many of them.

The Series B bonds refunded $3,580,000 of outstanding bonds dated October 15, 1997 and $6,270,000 of outstanding bonds dated November 1, 2001. The University completed the refunding to achieve an economic gain (difference between the present values of the old and new debt service payments) of $1.1million.

On June 29, 2011, the University issued $23,575,000 in Athletic Facilities Revenue Bonds, Series 2011. The bonds were issued to provide funds to finance a portion of a football center, football practice fields and parking facilities

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, 2010	$ 410,671,412	$ 13,692,130	$ 21,507,151
Additions	140,983,598		13,840,525
Payments of principal	(12,935,000)	(3,551,154)	(1,988,155)
Refunded	(9,850,000)		
Amortization of deferred loss	617,477		
Amortization of net bond premium	(17,422)		
Balance as of June 30, 2011	$ 529,470,065	$ 10,140,976	$ 33,359,521

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, 2010	$	449,457,190
Land Additions and Disposals (net)		2,765,160
Buildings Additions and Disposals, net of depreciation		23,121,165
Improvements/Infrastructure Additions, net of depreciation		3,321,119
Equipment Additions and Disposals, net of depreciation		(1,162,994)
Construction In Progress Additions net of transfers to buildings, improvements/infrastructure, and intangible assets		(18,429,587)
Livestock Additions/deductions		2,804
Library Holdings Additions and Disposals, net of depreciation		(1,465,218)
Intangible Assets, net of amortization		(708,614)
Bond debt moved to Net Assets invested in capital assets		(52,234,080)
Bond Principal Paid in 2011		12,935,000
Bond debt refinanced		9,850,000
Deferred loss on refinanced bond issues, amortized		(434,384)
Unamortized bond issuance costs		879,052
Net unamortized bond issue premium		(6,696,598)
Capital Leases and Installment Contracts assumed in 2011		(847,123)
Note, Capital Lease and Installment Contract Principal Paid in 2011		5,474,648
Prepaid maintenance contract on equipment under capital lease		87,910
Net Assets Invested in capital assets, net of related debt and depreciation as of June 30, 2011	$	425,915,450

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 be successfully managing the effects of the national economic crisis, as evidenced in being one of only four states with a balanced budget. General revenue forecasts remain positive and fluctuations in general revenue distributions were minimal during 2011. Conservative budgeting and an emphasis on cost containment continue to allow the University to meet the operational needs of a growing student enrollment without eliminating programs or instituting lay-offs. The total general revenue distribution from the State for 2011 was $195.3 million, essentially restoring state funding back to 2009 levels. The estimated total general revenue distribution from the State for 2012 is $195.9 million. Management will continue to institute both internal and external efforts to minimize the effect of state funding levels remaining virtually flat.

The University received $14.7 million in federal stimulus, (ARRA) funds in 2011 for a total of $35.2 million since 2009. These funds provide support for operating expenses, capital projects and research. As discussed in the Significant Changes in Capital Assets and Long-Term Debt Activity section above, the AREON project received a $41.2 million stimulus-funded grant in

2011 to continue construction of the state-wide optical network. Approximately $1 million of the grant funds were used in 2011, with the remainder to be utilized as construction continues.

Managing the cost of attendance in a way that balances affordability, while achieving necessary revenue to fund operations, continues to challenge university management. The difficult economic conditions experienced since 2008 highlight the need to hold the cost of higher education as low as possible so it remains accessible to students. Although the University did not increase tuition rates for the 2010 academic year, increases totaling 6% for tuition and mandatory fees was necessary in 2011 in order to maintain the facilities, faculty and other support necessary to fulfill our mission. Because State funding has remained flat, increases in both tuition rates and mandatory fees is expected for 2012.

The University continues to experience historic enrollment growth, which in turn contributes to increased revenue from tuition and fees. Preliminary numbers for Fall 2011 indicate that enrollment is 23,199 representing an increase of 1,794 students, or 8.4%, over Fall 2010. This is the largest numerical increase the university has experienced since the 1940s and the largest percentage increase since 1975. Total undergraduate enrollment is up 10.3% to 19,027 students, and total graduate enrollment is up 0.2% to 3,759 students. Enrollment at the School of Law also increased 1.5% to 413 students. A record-setting incoming freshman class of 4,447 students validates that the university has become a school of first choice for Arkansans and students from around the nation. It appears the Arkansas Academic Challenge Scholarships, funded by the Arkansas State Lottery, were a significant factor for the growth with a total of 5,449 students receiving the "lottery scholarships" for the Fall 2011 semester compared to 4,001 recipients for the Fall 2010 semester. 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.

Private support is also fundamental in meeting budgetary needs. The University has enjoyed historically positive trends in giving, with 2011 being no different. The University recorded $121.3 million of private gift support, a 40% increase over 2010. 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 alumni and friends. Even more impressive, this significant increase occurred even though the university is not engaged in a multiyear capital campaign. These outstanding results 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 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 compared to 0.22 in 2007. The relatively large improvement from 0.22 in 2007 to 0.17 in 2008 was the result of an across the board updating of plant replacement values, all of which increased. The index continues its decline with indexes of 0.16 in 2009, 0.15 in 2010 and 0.11 in 2011. 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 and deferred maintenance 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.

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UNIVERSITY OF ARKANSAS
Statement of Net Assets
June 30, 2011
With Comparative Figures at June 30, 2010

	June 30, 2011	June 30, 2010
ASSETS		
Current Assets		
Cash and cash equivalents	$ 115,662,390	$ 95,239,927
Short-term investments	67,717,239	66,953,564
Accounts receivable, net	37,511,076	31,382,232
Accrued interest receivable	705,740	726,076
Inventories	4,816,001	4,812,878
Deposits with bond trustees	6,810,766	777,428
Notes receivable, net	3,765,007	3,723,383
Other assets	3,488,264	3,825,930
Total current assets	240,476,483	207,441,418
Noncurrent Assets		
Cash and cash equivalents	2,551,343	198,525
Endowment investments	61,490,881	53,061,841
Notes receivable, net	11,560,353	11,563,589
Deposits with bond trustees	125,595,189	53,302,121
Other long-term investments	12,682,869	12,149,173
Other assets	2,944,820	1,759,495
Capital assets, net	879,064,115	853,630,611
Total noncurrent assets	1,095,889,570	985,665,355
Total assets	$ 1,336,366,053	$ 1,193,106,773
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	$ 23,225,442	$ 26,196,357
Accrued payroll liabilities	14,409,009	14,778,738
Accrued interest expense	3,609,719	3,397,385
Student overpayments	50,920	90,588
Funds held in trust for others	1,408,211	1,280,061
Deferred revenue	27,303,474	26,716,232
Compensated absences payable - current portion	1,049,944	1,019,419
Bonds, notes, capital leases and installment contracts payable - current portion	19,639,442	17,811,752
Total current liabilities	90,696,161	91,290,532

UNIVERSITY OF ARKANSAS
Statement of Net Assets
June 30, 2011
With Comparative Figures at June 30, 2010

	June 30, 2011	June 30, 2010
Noncurrent Liabilities		
Refundable federal advance - Perkins loans	13,921,000	13,913,162
Compensated absences payable	16,897,420	16,378,204
Liability for other post employment benefits	9,312,914	8,225,317
Bonds, notes capital leases and installment contracts payable	553,331,120	428,058,941
Other noncurrent liabilities	4,800	7,618
Total noncurrent liabilities	593,467,254	466,583,242
Total liabilities	$ 684,163,415	$ 557,873,774
NET ASSETS		
Invested in capital assets, net of related debt	$ 425,915,450	$ 449,457,190
Restricted for		
Nonexpendable		
Scholarships and fellowships	7,974,721	7,908,428
Research	5,739,659	5,739,659
Instructional department uses	7,644,839	7,547,635
Loans	779,686	639,686
Expendable		
Scholarships and fellowships	9,514,103	7,148,082
Research	24,890,369	21,040,728
Public service	9,369,450	8,948,645
Instructional department uses	10,004,794	7,999,387
Loans	2,574,457	2,516,756
Capital projects	4,587,105	1,865,174
Debt service	1,116,793	1,922,368
Other	2,983,769	2,927,608
Unrestricted	139,107,443	109,571,653
Total net assets	$ 652,202,638	$ 635,232,999

UNIVERSITY OF ARKANSAS
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2011
With Comparative Figures for 2010

	Fiscal 2011 Total	Fiscal 2010 Total
REVENUES		
Operating Revenues		
Student tuition and fees (net of scholarship allowances of $50,625,836 in fiscal year 2011, and $36,354,740 in fiscal year 2010)	$ 109,167,102	$ 104,940,650
Federal appropriations	11,062,386	10,962,787
County appropriations	2,912,870	2,920,742
Federal grants and contracts	40,940,355	33,763,850
State and local grants and contracts	17,261,150	16,308,318
Nongovernmental grants and contracts	17,606,040	18,731,077
Sales and services of educational departments	25,275,263	22,799,767
Auxiliary enterprises		
Residence Life (net of scholarship allowances of $7,829,551 in fiscal year 2011, and $5,585,367 in fiscal year 2010)	23,267,801	21,827,471
Athletics	65,940,135	61,060,107
Bookstore (net of scholarship allowances of $111,200 in fiscal year 2011, and $89,306 in fiscal year 2010)	16,593,862	14,043,074
Arkansas Union	757,904	1,245,782
Student Health Services	874,019	1,026,452
Transit and Parking	7,333,833	6,143,209
Student Organizations/Activities	209,754	237,093
Other Auxiliary Enterprises	2,941,038	2,162,635
Other operating revenues	8,667,851	6,677,248
Total operating revenues	350,811,363	324,850,262
EXPENSES		
Operating Expenses		
Salaries, wages, and benefits	373,790,938	359,070,547
Scholarships and fellowships	29,557,381	20,488,633
Supplies and other services	192,618,354	172,019,026
Depreciation	57,645,916	66,109,077
Total operating expenses	653,612,589	617,687,283
Operating loss	(302,801,226)	(292,837,021)

UNIVERSITY OF ARKANSAS
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2011
With Comparative Figures for 2010

	Fiscal 2011 Total	Fiscal 2010 Total
NONOPERATING REVENUES (EXPENSES)		
State appropriations	200,188,523	198,554,670
Gifts	51,239,306	48,714,610
Investment income (net of investment expense of $672,896 in fiscal year 2011, and $809,491 in fiscal year 2010)	14,260,067	16,143,684
Interest on capital asset - related debt	(19,524,953)	(16,423,413)
Federal grants (nonexchange)	33,451,892	25,318,612
State and local grants (nonexchange)	29,764,358	11,047,508
Nongovernmental grants (nonexchange)	631,809	571,587
Loss on disposal of assets	(637,817)	(465,774)
Other nonoperating revenues	2,449,266	2,266,357
Net nonoperating revenues	311,822,451	285,727,841
Loss before other revenues and changes in net assets	9,021,225	(7,109,180)
OTHER REVENUES AND CHANGES IN NET ASSETS		
Capital appropriations	3,240,686	416,237
Capital grants and gifts	4,481,709	3,229,224
Bond Proceeds from Act 1282 of 2005		16,679,969
Other changes	226,019	578,249
Total other revenues and changes in net assets	7,948,414	20,903,679
Increase (Decrease) in net assets	16,969,639	13,794,499
NET ASSETS		
Net assets - beginning of year	635,232,999	621,438,500
Net assets - end of year	$ 652,202,638	$ 635,232,999

UNIVERSITY OF ARKANSAS
Statement of Cash Flows - Direct Method
For the Year Ended June 30, 2011
With Comparative Figures for 2010

	Fiscal 2011 Total	Fiscal 2010 Total
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	$ 108,282,670	$ 104,029,411
Federal appropriations	9,723,337	11,628,918
County appropriations	2,912,870	2,920,742
Grants and contracts	73,876,519	66,632,633
Payments to suppliers	(193,446,033)	(166,918,015)
Payments to employees	(292,715,329)	(283,347,569)
Payments for benefits	(79,709,178)	(74,715,585)
Payments for scholarships and fellowships	(29,608,257)	(20,488,633)
Loans issued to students and employees	(2,162,105)	(1,445,119)
Collections of loans to students	2,014,225	1,814,870
Collections of interest on loans to students	11,353	(94,108)
Auxiliary enterprise charges		
Residence Life	22,990,616	22,003,656
Athletics	66,579,170	62,780,352
Bookstore	16,306,226	14,177,775
Arkansas Union	774,504	1,255,896
Student Health Services	660,188	1,001,310
Transit and Parking	7,649,957	6,117,158
Student Organizations/Activities	218,706	237,913
Other Auxiliary Enterprises	3,069,150	2,267,541
Sales and services of educational departments	25,073,625	22,921,431
Other receipts	11,158,583	8,986,908
Net cash used by operating activities	(246,339,203)	(218,232,515)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	200,188,524	198,554,670
Gifts and grants for other than capital purposes	50,292,693	48,655,815
Federal grants (nonexchange)	33,374,321	25,128,327
State and local grants (nonexchange)	29,764,358	11,229,832
Nongovernmental grants (nonexchange)	656,169	562,898
Direct Lending, and private loan receipts	84,522,043	81,902,569
Direct Lending, and private loan payments	(84,438,892)	(81,929,004)
Net agency fund transactions	163,716	216,236
Net cash provided by noncapital financing activities	314,522,932	284,321,343
Net cash provided by operating activities and noncapital financing activities	68,183,729	66,088,828
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Realized proceeds related to capital debt transactions	64,199,506	45,080,973
Capital appropriations	3,240,686	416,237
Capital grants and gifts received	1,040,514	2,383,125
Bond proceeds from Act 1282 of 2005		16,679,969
Purchases of capital assets	(81,781,256)	(81,193,714)
Principal paid on capital debt and leases	(16,832,904)	(24,821,542)
Interest paid on capital debt and leases	(19,823,900)	(17,795,541)
Net cash used by capital financing activities	(49,957,354)	(59,250,493)

UNIVERSITY OF ARKANSAS
Statement of Cash Flows - Direct Method
For the Year Ended June 30, 2011
With Comparative Figures for 2010

	Fiscal 2011 Total	Fiscal 2010 Total
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	$ 4,283,855	$ 21,011,098
Investment income	286,398	920,228
Purchase of investments	(21,347)	(546,981)
Net cash provided (used) by investing activities	4,548,906	21,384,345
NET INCREASE IN CASH	22,775,281	28,222,680
Cash - beginning of year	95,438,452	67,215,772
Cash - end of year	$ 118,213,733	$ 95,438,452
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	$ (302,801,226)	$ (292,837,021)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense	57,645,916	66,109,077
Changes in assets and liabilities		
Receivables (net)	(4,971,642)	(2,044,494)
Inventories	(3,122)	(39,279)
Prepaid expenses	694,673	249,265
Other miscellaneous operating receipts	2,487,011	2,315,227
Other assets		(59,492)
Accounts payable and accrued liabilities	(1,060,879)	4,913,433
Accrued payroll liabilities (Employees)	(504,355)	(578,054)
Accrued payroll liabilities (Benefits)	95,230	181,804
Student overpayments	(39,668)	45,905
Deferred revenue	579,242	1,734,054
Refundable federal advance	7,838	51,905
Deposits	(2,818)	2,918
Compensated absences	534,714	236,060
Retiree benefits	1,087,597	1,167,579
Loans to students and employees	(87,714)	318,598
Net cash used by operating activities	$ (246,339,203)	$ (218,232,515)
NONCASH TRANSACTIONS		
Donations of land, buildings, improvements, and infrastructure	$ 718,548	$ 329,961
Equipment donations	905,589	506,225
Payments to bond escrow directly from bond proceeds	6,414,688	23,689,487
Refund of outstanding bond issues directly from bond proceeds	3,593,922	
Payment of bond proceeds directly into deposits with trustees	133,057,098	52,430,000
Payment of premium and accrued interest on bonds directly into deposits with trustees	6,714,019	572,002
Bond issuance costs and underwriter's discounts paid directly from bond proceeds	939,978	743,461
Interest on long-term debt paid directly from deposits with trustees	742,088	2,351,451
Payment of long-term debt directly from University of Arkansas Foundation, Inc. accounts	1,649,491	1,403,936
Capital outlay paid directly from proceeds of University of Arkansas long-term debt instruments	13,043	580,820
Loss on disposal of assets	462,710	69,703

UNIVERSITY OF ARKANSAS FAYETTEVILLE CAMPUS FOUNDATION, INC.
Statements of Financial Position
June 30, 2011 and 2010

	2011	2010
Assets		
Investments	$ 448,201,276	$ 389,875,967
Liabilities and Net Assets		
Accounts payable	$ 21,380	$ 96,394
Net Assets:		
Temporarily restricted	$ 23,045,505	$ 21,400,707
Permanently restricted	425,134,391	368,378,866
Total net assets	448,179,896	389,779,573
Total liabilities and net assets	$ 448,201,276	$ 389,875,967

UNIVERSITY OF ARKANSAS FAYETTEVILLE CAMPUS FOUNDATION, INC.

Statement of Activities

For the Years Ended June 30, 2011 and 2010

	2011				2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, gains and other support:								
Contributions		$ 180,421	$ (180,421)					
Interest and dividends		3,204,275	187,414	$ 3,391,689		$ 3,189,698	$ 220,921	$ 3,410,619
Net unrealized and realized gains on investments		12,485,128	56,748,532	69,233,660		14,734,998	29,521,603	44,256,601
Net assets released from restrictions	$ 14,225,026	(14,225,026)			$ 14,523,273	(14,523,273)		
Total revenue, gains and other support	14,225,026	1,644,798	56,755,525	72,625,349	14,523,273	3,401,423	29,742,524	47,667,220
Expenses and Losses:								
Program Services-								
Research	1,132,750			1,132,750	1,225,284			1,225,284
Faculty/staff support	1,819,281			1,819,281	2,046,577			2,046,577
Scholarships and awards	8,844,244			8,844,244	9,631,908			9,631,908
Equipment and technology	2,023,264			2,023,264	1,298,848			1,298,848
Other	405,487			405,487	320,656			320,656
Total program services	14,225,026			14,225,026	14,523,273			14,523,273
Change in net assets		1,644,798	56,755,525	58,400,323		3,401,423	29,742,524	33,143,947
Net assets, beginning of year		21,400,707	368,378,866	389,779,573		17,999,284	338,636,342	356,635,626
Net assets, end of year	$	$ 23,045,505	$ 425,134,391	$ 448,179,896	$	$ 21,400,707	$ 368,378,866	$ 389,779,573

THE RAZORBACK FOUNDATION, INC.
Statement of Financial Position
June 30, 2011

	Total All Funds	Operating Fund	Capital Improvement Fund	Deferred Compensation Fund	Land, Building and Equipment Fund	Endowment Fund
ASSETS						
ASSETS						
Cash in bank	$ 13,158,293	$ 10,803,676	$ 2,354,617			
Pledges receivable-unrestricted, less allowance for uncollectible pledges	6,552,215	1,867,080	4,685,135			
Investments	9,520,331	4,806,894	2,005,041	$ 858,826		$ 1,849,570
Land, building and equipment, at cost, less accumulated depreciation	42,681				$ 42,681	
Prepaid rent	1,463,512	1,463,512				
Other assets	212,700	212,700				
TOTAL ASSETS	$ 30,949,732	$ 19,153,862	$ 9,044,793	$ 858,826	$ 42,681	$ 1,849,570
LIABILITIES AND NET ASSETS						
LIABILITIES						
Accounts payable	$ 1,323,640	$ 1,323,640				
Deferred compensation payable	4,007,470	3,148,644		$ 858,826		
TOTAL LIABILITIES	5,331,110	4,472,284		858,826		
NET ASSETS						
Unrestricted	14,823,449	14,681,578	11,027			130,844
Board designated-unrestricted	42,681				42,681	
Temporarily restricted	9,033,766		9,033,766			
Permanently restricted	1,718,726					1,718,726
TOTAL NET ASSETS	25,618,622	14,681,578	9,044,793		42,681	1,849,570
TOTAL LIABILITIES AND NET ASSETS	$ 30,949,732	$ 19,153,862	$ 9,044,793	$ 858,826	$ 42,681	$ 1,849,570

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 Activities

Year Ended June 30, 2011

	Total All Funds	Operating Fund	Capital Improvement Fund	Deferred Compensation Fund	Land, Building and Equipment Fund	Endowment Fund
Changes in unrestricted net assets:						
Revenues:						
Public support - contributions	$ 19,997,361	$ 19,997,361	$	$	$	$
Investment income and other	366,731	311,340	11,027			44,364
Total unrestricted revenues	20,364,092	20,308,701	11,027			44,364
Expenses:						
Program services:						
Directly allocated to:						
Football	1,556,885	1,556,885				
Basketball	1,891,482	1,891,482				
Baseball	117,739	117,739				
Track and field	51,346	51,346				
Other sports	26,378	26,378				
Women's sports	122,886	122,886				
Athletic department operations	7,208,531	7,208,531				
Fundraising	2,193,199	2,193,199				
Administrative	1,326,210	1,326,210				
Deferred compensation expense	323,276	323,276				
Provision for uncollectible pledges	21,774	21,774				
Total expenses	14,839,706	14,839,706				

THE RAZORBACK FOUNDATION, INC.
Statement of Activities
Year Ended June 30, 2011

	Total All Funds	Operating Fund	Capital Improvement Fund	Deferred Compensation Fund	Land, Building and Equipment Fund	Endowment Fund
Other changes:						
Intrafund transfers		(106,247)			19,767	86,480
Unrealized loss on investments	52,551	52,551				
Depreciation	(22,310)				(22,310)	
Total other changes	30,241	(53,696)			(2,543)	86,480
Total increase in unrestricted net assets	5,554,627	5,415,299	11,027		(2,543)	130,844
Changes in temporarily restricted net assets:						
Capital improvement Fund public support	9,280,352		9,280,352			
Capital Improvement Fund provision for uncollectible pledges	(246,586)		(246,586)			
Deferred compensation investment income	14,818			14,818		
Program services:						
Deferred compensation expense	(14,818)			(14,818)		
Total increase in temporarily restricted net assets	9,033,766		9,033,766			
Changes in permanently restricted net assets:						
Endowment fund public support	85,205					85,205
Total increase in permanently restricted assets	85,205					85,205
Increase (decrease) in net assets	14,673,598	5,415,299	9,044,793		(2,543)	216,049
Net assets at beginning of year	10,945,024	9,266,279			45,224	1,633,521
Net assets at end of year	$ 25,618,622	$ 14,681,578	$ 9,044,793	$	$ 42,681	$ 1,849,570

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

ARKANSAS 4-H FOUNDATION, INC.
Statements of Financial Position
June 30, 2011 and 2010

ASSETS	2011	2010
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,564,999	$ 1,331,551
Investments, at fair value	1,614,027	1,220,903
Certificates of deposit	234,247	331,030
Accounts receivable, net of allowance for doubtful accounts of $5,576 and $23,076	8,628	36,760
Contributions and grants receivable	145,000	30,000
Inventories	11,054	12,231
Prepaid expenses and other assets	69,274	8,339
Total current assets	3,647,229	2,970,814
OTHER ASSETS:		
Restricted cash	107,628	536,661
Investments, at fair value, restricted	2,007,670	970,937
Certificates of deposit, restricted	153,015	537,310
Total other assets	2,268,313	2,044,908
PROPERTY AND EQUIPMENT, NET	5,712,339	5,875,440
TOTAL ASSETS	$ 11,627,881	$ 10,891,162
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 105,770	$ 93,441
Participant fees collected in advance of events	104,781	76,115
Due to affiliate	81,441	71,623
Accrued expenses	27,441	22,390
Customer deposits	30,676	16,613
Current maturity of note payable	41,190	40,582
Total current liabilities	391,299	320,764
LONG-TERM LIABILITY:		
Note payable, less current maturity	84,246	125,436
TOTAL LIABILITIES	475,545	446,200
NET ASSETS:		
Unrestricted	6,856,851	6,978,861
Temporarily restricted	3,413,133	2,610,847
Permanently restricted	882,352	855,254
Total net assets	11,152,336	10,444,962
TOTAL LIABILITIES AND NET ASSETS	$ 11,627,881	$ 10,891,162

ARKANSAS 4-H FOUNDATION, INC.
Statement of Activities
For the Years Ended June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUES:				
Program service revenue	$ 1,718,064	$ 4,755		$ 1,722,819
Grants and contributions	149,140	614,493	$ 175	763,808
Interest and dividends	22,119	106,365	6,032	134,516
Net unrealized and realized appreciation (depreciation) on investments	75,746	364,251	20,891	460,888
Other revenues	623	(2,256)		(1,633)
Net assets released from restrictions	285,322	(285,322)		
Total support and revenues	2,251,014	802,286	27,098	3,080,398
EXPENSES:				
Program	2,161,497			2,161,497
Management and general	158,068			158,068
Fundraising	53,459			53,459
Total expenses	2,373,024			2,373,024
INCREASE (DECREASE) IN NET ASSETS	(122,010)	802,286	27,098	707,374
NET ASSETS, BEGINNING OF YEAR	6,978,861	2,610,847	855,254	10,444,962
NET ASSETS, END OF YEAR	$ 6,856,851	$ 3,413,133	$ 882,352	$ 11,152,336

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

(1). Summary of Significant Accounting Policies

The financial statements for the University of Arkansas, Fayetteville ("the University") for the fiscal year ended June 30, 2011, 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 as well as 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 $15,404,399 and $15,472,412 to the University during the fiscal years ended June 30, 2011, and June 30, 2010, 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 $7,693,021 to the University, and provided equipment, facilities, improvements and supplies in the amount of $14,708 during the fiscal year ended June 30, 2011. During the fiscal year ended June 30, 2010, the Razorback Foundation distributed $6,103,776 to the University, and provided equipment, facilities, improvements and supplies in the amount of $885,897. 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, 2011, or June 30, 2010, 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 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus,* which became effective for the fiscal year ending June 30, 2011. The Statement updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools. The University has determined that the requirements of the Statement have no effect on current reporting and disclosures.

GASB issued the following three statements which all become effective with the fiscal year ending June 30, 2013: Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements,* which addresses partnerships with private and other public entities; Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34,* which modifies certain requirements for inclusion of component units; and Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which incorporates pre-November 30, 1989 pronouncements into GASB's authoritative language from FASB, APB and AICPA. Management has not yet determined the effects on the University's financial statements when these statements are implemented.

Subsequent to the fiscal year ending June 30, 2011, on July 13, 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Positions,* which becomes effective for the fiscal year ending June 30, 2013 and Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53,* which becomes effective with the fiscal year ending June 30, 2012. Management has not yet determined the effects on the University's financial statements when these statements are implemented.

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, 2011	June 30, 2010
Athletics Inventory	Retail	$ 347,596	$ 591,280
Bookstore	Retail	2,538,977	2,318,468
CES Warehouse	Weighted Average	77,768	75,494
Garvan Woodland Gardens Shop	Weighted Average	145,114	93,281
Facilities Management	FIFO	507,919	491,084
Printing Services	Weighted Average	164,525	170,054
Research Services	Weighted Average	52,229	56,947
Residence Life	LIFO	395,671	398,329
Student Health Pharmacy[1]	FIFO		25,324
University Press	LCM	586,202	592,617
Total Inventories		$ 4,816,001	$ 4,812,878

[1]The Student Health Pharmacy was discontinued during the fiscal year ended June 30, 2011.

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 $950,578 and $222,127 were written off during the fiscal years ended June 30, 2011, and June 30, 2010, respectively.

Accounts receivable at June 30, 2011, totaled $43,837,111. The allowance for doubtful accounts was computed to be $6,326,035, resulting in net accounts receivable totaling $37,511,076. 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.

A summary of accounts receivable balances at June 30, 2011, are as follows:

	Gross	Allowance	Net
Student Accounts Receivable	$ 10,604,046	$ (6,126,299)	$ 4,477,747
Non-student Invoiced Accounts Receivable	20,798,359	(199,736)	20,598,623
Unreimbursed Research Contract Expenses	12,434,706		12,434,706
Totals	$ 43,837,111	$ (6,326,035)	$ 37,511,076

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

Annual Appropriated Budgets
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, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, 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, the 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, 2011. 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, 2011	June 30, 2010
	Bank Balance	Bank Balance
Insured (FDIC)	$ 23,789,790	$ 9,576,891
Uninsured, Collateralized	80,959,787	83,569,454
Uninsured, Uncollateralized		
Total Deposits	$ 104,749,577	$ 93,146,345

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, 2011, none of the University's bank balance of $104,749,577 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 $2,324,433 at June 30, 2011, and $1,836,879 at June 30, 2010. The above deposit schedule does not include cash on hand in various imprest funds maintained by the University of $79,221 or short-term investments (cash equivalents) of $18,254,815 at June 30, 2011. At June 30, 2010, these amounts were $81,821 and $5,062,765, respectively.

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

	June 30, 2011		June 30, 2010	
Bank Balance	$ 104,749,577		$ 93,146,345	
Less: Items in Transit	(5,492,419)		(3,148,977)	
Less: Nonnegotiable Certificates of Deposit	(281,369)		(2,548,800)	
Cash on Books		$ 98,975,789		$ 87,448,568
State Treasury Cash	$ 3,307,562		$ 4,763,998	
Cash Equivalents	18,254,815		5,062,765	
Less: System Cash	(2,324,433)		(1,836,879)	
Cash and Equivalents		19,237,944		7,989,884
Total Cash and Equivalents		$ 118,213,733		$ 95,438,452

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, 2011:

Investment Type	Fair Value at June 30, 2011
Mutual Treasury Funds	$ 140,223,309
Mutual Bond Funds	121,790
Corporate Bonds	3,287,127
External Investment Pool-University of Arkansas System	127,934,997
Other	2,448,352
Total Investments	$ 274,015,575

The Mutual Treasury Funds of $140,223,309 includes $132,405,955 reported as deposits with bond trustees on the Statement of Net Assets. The above schedule does not include nonnegotiable certificates of deposit of $281,369 which are considered deposits for GASB Statement No. 40, *Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3)*.

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 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	$ 3,287,127	$ 300,201	$ 1,970,995	$ 768,274	$ 247,657

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University does not have a formal investment policy addressing credit risk. 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	$ 140,223,309	$ 140,223,309				
Mutual Bond Funds	121,790					$ 121,790
Corporate Bonds	3,287,127	335,128	$ 2,078,091	$ 304,953	$ 568,955	
Totals	$ 143,632,226	$ 140,558,437	$ 2,078,091	$ 304,953	$ 568,955	$ 121,790

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

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, 2011.

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 Securities and Exchange Commission. 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 9.01% of the Pool's net assets.

UNIVERSITY OF ARKANSAS EXTERNAL INVESTMENT POOL
Statement of Invested Assets
June 30, 2011

Investment Type		Fair Value*
Equity	**$**	**345,171,317**
Common Stock		345,097,007
Preferred Stock		70,424
Rights/Warrants		3,886
Fixed Income		**498,074,011**
Government Bonds		85,816,456
Corporate Bonds		79,930
Government Mortgage Back Securities		158
Non-Government Backed C.M.O.s		1
Other Fixed Income		412,177,466
Venture Capital and Partnerships		**494,674,278**
Partnerships		494,674,278
Hedge Fund		**73,768,540**
Hedge Equity		73,768,540
All Other		**81,236**
Recoverable Taxes		81,236
Cash/Cash Equivalents		**8,103,053**
Short Term Investment Funds		12,843,213
Cash		(4,743,316)
Invested Cash		3,156
TOTAL	**$**	**1,419,872,435**

*Includes accrued income

UNIVERSITY OF ARKANSAS EXTERNAL INVESTMENT POOL

Credit Risk - S&P Quality Ratings

June 30, 2011

Investment Type and Fair Value*	TOTAL	AAA	AA	A	BBB	NR	US GOVN. GUAR
Corporate Bonds	$ 79,930					$ 79,930	
Government Bonds	84,857,943	$ 2,943,047	$ 2,594,459	$ 620,969	$ 645,509	29,959,485	$ 48,094,474
Govn Mortgage Backed Securities	157						157
Non-Govn Backed C.M.O.s	1			1			
Other Fixed Income	408,647,319					408,647,319	
Short Term Investment Funds	12,843,040					12,843,040	
Total	$ 506,428,390	$ 2,943,047	$ 2,594,459	$ 620,970	$ 645,509	$ 451,529,774	$ 48,094,631

*Does not include accrued income

UNIVERSITY OF ARKANSAS EXTERNAL INVESTMENT POOL

Years to Maturity

June 30, 2011

		Investment Maturities (in years)			
Investment Type(1)	Fair Value*	Less than 1	1 to 5	6 to 10	More than 10
Corporate Bonds	$ 79,930	$ 52,175	$ 27,755		
Government Bonds	84,857,943		17,925,643	$ 56,953,944	$ 9,978,356
Govn Mortgage Backed Securities	157				157
Non-Govn Backed C.M.O.s	1				
Other Fixed Income	408,647,319				
Short Term Investment Funds	12,843,040				
Total	$ 506,428,390	$ 52,175	$ 17,953,398	$ 56,953,944	$ 9,978,513

*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, 2011

Investment Type(1)	Fair Value*	Effective Duration
Corporate Bonds	$ 79,930	
Government Bonds	84,857,943	7.52
Govn Mortgage Backed Securities	157	3.09
Non-Govn Backed C.M.O.s	1	
Other Fixed Income	408,647,319	
Short Term Investment Funds	12,843,040	
Total	$ 506,428,390	

*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, 2011

Currency By Investment and Fair Value*	Cash	Equity	Fixed Income	Other Assets
Australian Dollar				$ 2,769
Swiss Franc	$ 158,791		$ 310,680	35,751
Danish Krone			600,352	4,247
Euro	(316,740)	$ 32,279	30,161,820	30,474
British Pound Sterling	184,120	798	5,126,547	
Hong Kong Dollar		5,534		
Japanese Yen	6,969			
Norwegian Krone	8,925		181,497	
Polish Zloty	10,345		640,526	7,996
Swedish Krona	14,495	26,516	466,539	
	$ 66,905	$ 65,127	$ 37,487,961	$ 81,237

*Includes accrued income

The activities during fiscal year 2011 affecting the University's investments in the external pool are summarized below:

	Total Return Pool	Intermediate Pool	Intermediate Pool CES	Total
June 30, 2010, Balances	$ 52,127,478	$ 54,724,479	$ 9,714,285	$ 116,566,242
Income	770,894	1,508,010	267,691	2,546,595
Realized Gains/(Losses)	1,172,120	1,000,048	177,521	2,349,689
Unrealized Gains/(Losses)	8,648,127	97,105	17,237	8,762,469
Expenses Paid from Pool	(253,492)	(31,003)	(5,503)	(289,998)
Transfers In/(Out) of Pool	(2,000,000)			(2,000,000)
June 30, 2011, Balances	$ 60,465,127	$ 57,298,639	$ 10,171,231	$ 127,934,997

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

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:

	2011	2010
Fair Value @ June 30	$ 60,375,618	$ 51,436,424
Number of Units in Pool @ June 30	1,658,908	1,698,011
Fair Value per Unit @ June 30	$ 36.395	$ 30.292
Gains/(Losses) for the Year	$ 9,820,248	$ 6,901,838
Net Income Earned for the Year	$ 354,906	$ 535,672
Gain/(Loss) per Unit	$ 5.92	$ 4.06
Income Earned per Unit	0.21	0.32
Total per Unit	$ 6.13	$ 4.38

Donor-restricted Endowments

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

	2011	2010
Total Endowment at June 30	$ 61,401,360	$ 52,815,631
Less: Funds treated as Endowment	(11,389,832)	(9,703,240)
Non-expendable portion of Endowment	(21,741,811)	(21,578,313)
Available for Expenditure	$ 28,269,717	$ 21,534,078

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 §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 5.116% 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 $1,873,057 and $1,420,859 were issued under the Student Loan Programs for the years ended June 30, 2011, and June 30, 2010, 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 12.05% for the year ended June 30, 2011, and 16.73% for the year ended June 30, 2010. Notes receivable totaling $7,574 and $49,641 were written off during the fiscal year ended June 30, 2011, and June 30, 2010, respectively.

The following summarizes the balance of notes receivable at June 30, 2011:

Type of Note	Gross Balance	Allowance	Net Balance	Current Portion
Student loans	$ 15,210,254	$ 892,159	$ 14,318,095	$ 3,650,461
Loans to Greek organizations	1,007,265		1,007,265	114,546
Totals	$ 16,217,519	$ 892,159	$ 15,325,360	$ 3,765,007

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

(6). Pledges Receivable

The University did not have any material amounts pledged that were receivable at June 30, 2011 or 2010.

(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, 2011. 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, 2011	June 30, 2010
Payable to Outside Vendors	$ 19,164,946	$ 20,501,779
Retainage on Construction Contracts	3,946,085	5,571,781
Property Taxes Payable	114,411	122,797
Total	$ 23,225,442	$ 26,196,357

Accrued payroll liabilities are summarized as follows:

	June 30, 2011	June 30, 2010
Net Salaries and Wages Payable	$ 2,245,306	$ 3,090,950
Employee Withholdings Payable	6,746,738	6,594,468
Employer Payroll Taxes and Benefits Matching Payable	5,416,965	5,093,320
Total	$ 14,409,009	$ 14,778,738

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

Debt service payments on existing bonds amounted to $31,329,024 for the fiscal year ended June 30, 2011. The amount of $7,712,595 was expended for principal and interest on notes payable, installment contracts and capital leases for the same period.

On June 29, 2011, the University issued $101,225,000 in Various Facility Revenue Bonds, Series 2011A and $8,895,000 in Various Facility Revenue Bonds, Refunding Series 2011B. The Series 2011A bonds were issued to provide funds to finance various construction and renovation projects on the University campus. Projects include renovation and construction of and additions to Vol Walker and Ozark Halls, construction of Hillside Auditorium, renovations to various classrooms and teaching labs, renovation to the Science Building, construction of the Child Development Study Center, improvements to the Arkansas Union, construction of a hazardous waste facility, renovation and improvements to various student housing and dining facilities, and various infrastructure improvements.

The Various Facility Revenue Bonds, Refunding Series 2011B, with interest rates of 3.0% to 5.0% were issued to refund $3,580,000 of outstanding bonds dated October 15, 1997 with an interest rate of 5.0%, and $6,270,000 of outstanding bonds dated November 1, 2001 with interest rates of 4.10% to 4.75%. Bond proceeds of $3,593,922 were used to redeem the 1997 bonds. Bond proceeds of $6,414,688 were deposited into the advance refunding fund to retire the 2001 bonds. The combined refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $158,610. This difference, reported in the accompanying financial statements as a deduction from bonds payable, will be amortized through the fiscal year 2023 using the straight-line method. The University completed the refunding to reduce its total debt service payments over the next eleven years by $1,496,871 and to obtain an economic gain

(difference between the present values of the old and new debt service payments) of $1,130,158. The escrow balance at June 30, 2011 was $6,414,688. The bonds dated October 15, 1997 were redeemed on July 29, 2011. The bonds dated November 1, 2001 will be refunded on December 1, 2011.

On June 29, 2011, the University issued $23,575,000 in Athletic Facilities Revenue Bonds, Series 2011. The bonds were issued to provide funds to finance a portion of a football center, football practice fields and parking facilities.

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 reacquisition 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, 2011 was $4,076,152. 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 was obligated to pay quarterly interest-only payments to the lender until the original anticipated completion date of the project of April 8, 2011. On that date, the amortization of the loan agreement commenced with quarterly payments. 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, 2011, the University has drawn down $5,990,278.

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 was obligated to pay quarterly interest-only payments to the lender until the original anticipated completion date of the project of October 19, 2010. On that date, the amortization of the loan agreement commenced 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, 2011, the University has drawn down $20,575,216.

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, 2011, was $57,823,463.

Remaining balances of defeased bond issues as of June 30, 2011:

Title	Principal Balance at June 30, 2011
Athletic Facilities Revenue Bonds, Series 2001	$ 4,000,000
Various Facilities Revenue Bonds, Series 2002	44,195,000
Various Facilities Revenue Bonds, Series 2001	18,405,000
Total	$ 66,600,000

On March 29, 2011, the University entered into an equipment lease purchase agreement with Equity Resources Group, Inc. The purpose of the agreement is to provide the University with the financing to purchase a color copier. The total of the lease agreement is $13,043. The lease purchase agreement bears an interest rate of 5.50%. The agreement has a final maturity of date of February 22, 2016.

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.

A summary of long term debt at June 30, 2011, is as follows:

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized & Issued	Debt Outstanding at June 30, 2011	Maturities and Refinanced Amounts to June 30, 2011
10/15/1997	11/01/2022	3.95% to 5.25%	$ 21,445,000	$ 1,560,000	$ 19,885,000
11/01/2001	12/01/2021	2.90% to 5.50%	42,985,000	1,250,000	41,735,000
12/01/2002	12/01/2032	1.80% to 5.50%	110,980,000	47,845,000	63,135,000
10/01/2004	11/01/2024	2.00% to 4.75%	30,550,000	24,040,000	6,510,000
03/01/2005	11/01/2025	3.00% to 4.50%	81,020,000	75,235,000	5,785,000
07/01/2005	09/15/2011	3.00% to 3.25%	9,645,000	1,420,000	8,225,000
06/01/2006	11/01/2036	4.00% to 5.00%	67,420,000	64,570,000	2,850,000
06/01/2006	09/15/2022	4.00% to 4.375%	8,205,000	6,625,000	1,580,000
10/01/2007	11/01/2037	4.00% to 5.00%	45,010,000	42,810,000	2,200,000
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	15,035,000	175,000
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	22,105,000	1,860,000
06/29/2011	11/01/2040	2.00% to 5.00%	101,225,000	101,225,000	
06/29/2011	11/01/2022	3.00% to 5.00%	8,895,000	8,895,000	
06/29/2011	09/15/2021	2.00% to 4.895%	23,575,000	23,575,000	
11/30/1991	05/01/2022	5.50%	3,000,000	1,677,825	1,322,175
11/29/1995	12/01/2019	4.00% to 5.00%	2,071,140	1,007,265	1,063,875
09/13/1995	12/01/2010	5.75% to 7.05%	535,000		535,000
12/20/1999	12/31/2019	Variable	1,161,952	753,885	408,067
10/31/2007	09/30/2011	Variable	7,767,000		7,767,000
05/11/2007	03/31/2013	Variable	6,000,000	4,182,932	1,817,068
11/30/2007	07/01/2023	4.69%	6,950,000	6,388,552	561,448
10/15/2008	09/13/2013	5.00%	5,000,000	2,519,069	2,480,931
12/19/2008	08/19/2023	4.581%	20,575,216	19,460,336	1,114,880
04/08/2010	01/08/2023	4.80%	5,990,278	5,838,927	151,351
Various	Various	Various	3,044,230	1,671,707	1,372,523
Deferral on debt defeasance			(4,998,096)	(3,107,580)	(1,890,516)
Net unamortized premium			7,235,955	7,207,644	28,311
Totals			$ 743,642,675	$ 572,970,562	$ 170,672,113

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

Equipment Leases

The University has acquired certain equipment under various lease-purchase contracts. The cost of equipment held under capital leases totaled $2,885,674 at June 30, 2011.

Type of Equipment	Asset Balance June 30, 2011
Electronic Message Board	$ 2,337,685
Mainframe	397,091
Color Digital Copier	14,419
Farm Equipment	136,479
Total	$ 2,885,674
Total Minimum Lease Payments	$ 1,887,333
Less: Amount Representing Interest	215,626
Total Present Value of Net Minimum Lease Payments	$ 1,671,707

Changes in long-term liabilities for the year ended June 30, 2011, are as follows:

Fiscal Year Ended June 30, 2011					
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds	$ 414,460,000	$ 133,695,000	$ 22,785,000	$ 525,370,000	$ 14,850,000
Deferral on debt defeasance	(3,566,447)	(158,610)	(617,477)	(3,107,580)	(341,143)
Net unamortized premium	(222,141)	7,447,208	17,422	7,207,645	415,155
Notes	13,692,130		3,551,154	10,140,976	1,920,186
Leases	2,107,040	13,043	448,376	1,671,707	470,900
Installment contracts	19,400,111	13,827,482	1,539,779	31,687,814	2,324,344
Compensated absences	17,397,623	620,798	71,057	17,947,364	1,049,944
Liability for retiree insurance benefits	8,225,317	1,087,597		9,312,914	
Totals	$ 471,493,633	$ 156,532,518	$ 27,795,311	$ 600,230,840	$ 20,689,386

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

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.

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

	Principal	Interest*	Total
2012	$ 19,639,442	$ 24,196,370	$ 43,835,812
2013	23,063,866	24,427,006	47,490,872
2014	23,456,681	23,582,571	47,039,252
2015	24,233,768	22,727,735	46,961,503
2016	24,872,982	21,797,106	46,670,088
2017-2021	135,717,743	92,271,539	227,989,282
2022-2026	97,451,874	63,864,759	161,316,633
2027-2031	81,505,568	43,638,163	125,143,731
2032-2036	84,985,568	23,439,431	108,424,999
2037-2041	58,043,070	5,207,087	63,250,157
Totals	$ 572,970,562	$ 345,151,767	$ 918,122,329

*Interest payments made on two 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, 2011, until maturity. The estimated future interest for these notes was calculated using the rate of 2.31%.

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, 2011, and June 30, 2010, that are pledged:

BOND SERIES	REVENUE SOURCE	2011	2010
Series 1996 Refunding	Student Tuition and Fees	$ 159,341,171	$ 141,295,390
Series 1997 Various Facilities	Sales and Services	12,101,079	12,234,589
Series 2001 Various Facilities	Residential Life	31,097,352	27,412,838
Series 2002 Various Facilities	Arkansas Union	757,904	1,245,782
Series 2004 Various Facilities	Bookstore	16,705,062	14,132,380
Series 2005 Various Facilities	Student Health Services	874,019	1,026,452
Series 2006 Various Facilities	Transit and Parking	7,333,833	6,143,209
Series 2007 Various Facilities	Other Auxiliaries	3,150,792	2,399,728
Series 2008 Various Facilities			
Series 2009 Various Facilities			
Series 2011 Various Facilities	Total Various Fac. Pledge	$ 231,361,212	$ 205,890,368
Series 1999 Athletic Facilities	Men's Athletic Revenue	$ 60,972,368	$ 53,796,867
Series 2001 Athletic Subordinate	(less game guarantees)	(2,429,200)	(2,596,200)
Series 2005 Athletic Refunding			
Series 2006 Athletic Facilities			
Series 2010 Athletic Refunding			
Series 2011 Athletic Facilities	Total Athletics Pledge	$ 58,543,168	$ 51,200,667

The following is a comparison of pledged revenues earned to the amount of debt service per bond issue for the year ended June 30, 2011:

BOND SERIES	MATURITY DATE	PURPOSE OF DEBT	REMAINING PRINCIPAL & INTEREST	FY2011 PRINCIPAL & INTEREST	REVENUE SOURCE	FY2011 REVENUE	% OF PLEDGED REVENUES IN FY2011
VARIOUS FACILITIES BONDS:							
Series 1997 Various Facilities	11/01/2022	Construction of Parking Facility, Alumni Center, Union Renovation and other Capital Assets	$ 2,029,386	$ 391,734	Various Fac. Pledge	$ 231,361,212	.17%
Series 2001 Various Facilities	12/01/2021	Renovation of Science Engineering, University House, Construction of Chiller, Gymnastics Facility, Research Building and other Capital Assets	1,281,250	1,543,088	Various Fac. Pledge	231,361,212	.67%
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 Assets	81,803,275	5,456,475	Various Fac. Pledge	231,361,212	2.36%
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	31,085,936	2,706,211	Various Fac. Pledge	231,361,212	1.17%
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.	97,935,441	4,454,428	Various Fac. Pledge	231,361,212	1.93%
Series 2006 Various Facilities	11/01/2036	Construction of Student Housing, Law School Addition, Steam Plant Performance Contract, and Poultry Science Energy Management	116,829,352	3,881,285	Various Fac. Pledge	231,361,212	1.68%
Series 2007 Various Facilities	11/01/2037	Construction of Student Housing	76,515,156	2,854,963	Various Fac. Pledge	231,361,212	1.23%
Series 2008 Various Facilities	11/01/2038	Construction of Parking Garage, Bookstore, KUAF Radio, and other facilities, also purchase of parcels of land.	95,594,639	2,846,800	Various Fac. Pledge	231,361,212	1.23%
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	93,763,381	2,252,983	Various Fac. Pledge	231,361,212	.97%
Series 2011 Various Facilities	11/01/2040	Renovation of and additions to Vol Walker and Ozark Halls, Hillside Auditorium, renovation to various classrooms and labs and Science Building, construction of Child Development Study Center, improvements to Arkansas Union, construction of hazardous waste facility, improvements to various student housing and dining facilities and various infrastructure improvements.	199,532,315		Various Fac. Pledge	231,361,212	
		Total Percentage of Pledged Revenues					11.41%
ATHLETIC FACILITIES BONDS AND NOTE:							
Series 2005 Athletic Facilities	09/15/2011	Refund Series 1997 Athletic Facilities Bonds for Walton Arena	1,442,720	1,817,488	Athletics Pledge	58,543,168	3.10%
Series 2006 Athletic Facilities	09/15/2022	Construction of John McDonnell Outdoor Track Stadium	8,449,755	704,191	Athletics Pledge	58,543,168	1.20%
Series 2010 Athletic Facilities	09/15/2020	Refunded Series 1999 and 2001 Athletic Facilities Bonds for Football Stadium	27,059,830	2,426,380	Athletics Pledge	58,543,168	4.14%
Series 2011 Athletic Facilities	09/15/2021	Construction of Football Center	28,963,068		Athletics Pledge	58,543,168	
Series 2008 Athletic Facilities Revenue Prom. Note	09/13/2013	Improvements to various athletic facilities	2,681,732	1,191,881	Athletics Pledge	58,543,168	2.04%
		Total Percentage of Pledged Revenues					10.48%

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 Assets	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%

(10). Commitments

The University was contractually obligated for the following at June 30, 2011:

A. Construction and Architect Contracts

Project Name	Completion Date	Beginning Contract Balance Plus Amendments	Amount Paid	Year-End Contract Balance
ADSB Data Center	September, 2011	$ 1,155,163	$ 104,489	$ 1,050,674
AHU Replacement – Mullins Library	September, 2011	1,298,000	1,130,543	167,457
ARKU Interior Fit-Out and Renovations	January, 2012	731,499	246,627	484,872
ARE-ON Fiber Optic	July, 2013	5,557,309	1,162,345	4,394,964
Campus Wide ESPC	March, 2012	17,857,384	13,213,591	4,643,793
Child Development Research Center	August, 2012	603,868	396,858	207,010
Chiller Replacement	December, 2011	1,527,000	230,882	1,296,118
Davis Hall Renovation	August, 2011	2,818,394	2,564,052	254,342
Football Center	February, 2013	3,277,409	1,331,975	1,945,434
Hillside Auditorium	August, 2012	1,057,048	635,643	421,405
HVAC Renovation – Humphreys Hall	December, 2011	2,453,424	269,021	2,184,403
Nano Science & Technology Center	August, 2012	19,122,392	18,123,874	998,518
Ozark Hall Renovation and Addition	October, 2013	2,318,156	1,158,009	1,160,147
Peabody Hall Renovation	September, 2011	10,048,781	6,343,550	3,705,231
Phi Gamma Delta Fraternity House	September, 2011	3,372,284	1,157,499	2,214,785
Pi Beta Phi Gate & Campus Walk Ext.	March, 2012	2,162,569	280,404	1,882,165
Pomfret Honors Quarters – Summer 2010	December, 2011	5,983,199	3,154,671	2,828,528
Rice Research Facility	August, 2011	1,653,584	866,799	786,785
SEFOR Decommissioning	January, 2012	347,467	56,479	290,988
School of Nursing/Speech Hearing Clinic	December, 2011	8,724,461	2,731,075	5,993,386
Science D Building Lab Upgrades	June, 2013	2,351,620	1,587,454	764,166
Vol Walker Hall Renovation	August, 2013	4,160,454	1,858,359	2,302,095
Walton Hall South-Wilson Sharp	October, 2011	4,064,867	1,518,114	2,546,753
Yocum Hall Renovation	August, 2012	1,183,549		1,183,549
Other	Various	6,812,728	4,450,941	2,361,787
Totals		$ 110,642,609	$ 64,573,254	$ 46,069,355

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, 2011.

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, 2011, were $7,070,878. Minimum future annual rental payments for leases having an

initial term in excess of one year totaled $4,827,236. Below are the scheduled payments for the five succeeding fiscal years and thereafter.

Year ended June 30	Amount
2012	$ 2,064,591
2013	1,317,578
2014	730,867
2015	194,400
2016	194,400
2017-2021	224,000
2022-2026	101,400
Total	$ 4,827,236

(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). Effective July 1, 2011, new employees of the University are no longer eligible to participate in the Arkansas Teacher Retirement System (ATRS). Existing ATRS participants are allowed to continue ATRS participation. 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, 2011, were $14,542,439 and $14,618,161, respectively. The University's and participants' Fidelity Investments contributions for the year ending June 30, 2011, were $5,365,415 and $5,371,783, respectively. 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.

APERS is a cost-sharing multiple employer defined benefit plan administered by the State of Arkansas. The University contributes 12.46% 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, 2011, were $306,730 and $49,017, respectively. The University's and participants' contribution 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.

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, 2011, were $283,388 and $85,694, respectively. 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 to all other pension plans for the year ended June 30, 2011, were $458,678 and $349,169, 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.

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, 2011, a total of 4,827 active employees, former employees, and retirees were participants in the health plan. For the year ending June 30, 2010, the total of active employees, former employees, and retirees participating in the health plan was 4,774. 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. The calculation reflects expected future medical costs. It includes an accrual for all active employees valuing the benefits they are anticipated to receive in retirement based on the likelihood that they will stay employed until eligible for postretirement benefits. As a result of the implementation of this statement, the University accrued $9,312,914 in retiree healthcare liability as of June 30, 2011.

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, 2010
Valuation year	Census data was collected as of January 1, 2010 Liabilities were measured as of January 1, 2010 and rolled forward six months to the July 1, 2010 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	Immediate rate of 9.0%, with a 0.5% decrease each year to an ultimate rate of 5%

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
The mortality rates were changed from the RP-2000 Combined Healthy Mortality Table projected to 2009 by scale AA to the RP-2000 Combined Healthy Mortality Table projected to 2011 by scale AA to better reflect anticipated future mortality improvements.

Medical Coverage – Retirees not Eligible for Medicare
Claim experience for the period October 1, 2007 through September 30, 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 890 life years of exposure and was deemed to be 60% 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 October 1, 2007 through September 30, 2009 was used to develop per capita claims cost for Medicare-eligible retirees. This experience includes 3,600 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 October 1, 2007 through September 30, 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 2011 by scale AA

Actuarial Assumptions
University Self-Funded Plan

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

Age	Rate per 1,000 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

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

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

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

Actuarial Assumptions

University Self-Funded Plan

Retirement Rates

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%
Medicare Eligible	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 7/1/10	$	21,255,846
Annual Required Contribution (ARC)		
Normal cost	$	1,011,209
Amortization of the unfunded actuarial accrued liability over 30 years		758,902
Interest		79,655
Annual Required Contribution for FY11		1,849,766
Interest on Net OPEB Obligation		370,160
ARC Amortization Adjustment		(306,904)
Annual OPEB Cost for FY11	$	1,913,022
Net OPEB Obligation, 7/1/10	$	8,225,317
Annual OPEB Cost for FY11		1,913,022
Less: Expected Employer Contributions		(825,425)
Net OPEB Obligation, 6/30/11	$	9,312,914

Schedule of Employer Contributions

Fiscal Year Ending	Annual OPEB Cost	Expected Contribution	Percentage Contributed	Net Obligation at Year End
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
6/30/11	$ 1,913,022	$ 825,425	43.15%	$ 9,312,914

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
6/30/09	$ 0	$ 30,301,850	$ 30,301,850	0%	$ 226,768,611	13.36%
6/30/10	$ 0	$ 23,547,619	$ 23,547,619	0%	$ 227,163,777	10.37%
6/30/11	$ 0	$ 21,255,846	$ 21,255,846	0%	$ 234,043,967	9.08%

Note: Covered payroll for fiscal years 2009 and 2010 were increased $31,508,620 and $29,935,174, respectively, to include amounts inadvertently omitted in previous years.

(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, 2011, 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 2011:

	Beginning Balance	Additions	Retirements	Adjustments	Ending Balance
NONDEPRECIABLE CAPITAL ASSETS					
Land	$ 29,863,776	$ 2,765,160			$ 32,628,936
Construction in progress	94,316,196	63,199,850		$ (62,611,665)	94,904,381
Software in development	1,028,103	883,090		(1,911,193)	
Other assets	1,229,638	2,804			1,232,442
TOTAL NONDEPRECIABLE CAPITAL ASSETS	126,437,713	66,850,904		(64,522,858)	128,765,759
DEPRECIABLE CAPITAL ASSETS					
Buildings	999,142,838	226,460	$ 638,694	56,664,404	1,055,395,008
Equipment	191,679,695	15,103,106	7,092,218		199,690,583
Improvements	25,540,776	304,143		204,000	26,048,919
Infrastructure	46,676,046	77,340		5,743,261	52,496,647
Intangible assets	79,709,146			1,911,193	81,620,339
Library holdings	71,339,505	1,247,031	144,872		72,441,664
Total depreciable capital assets	1,414,088,006	16,958,080	7,875,784	64,522,858	1,487,693,160
Less accumulated depreciation					
Buildings	(370,316,465)	(33,402,933)	(271,928)		(403,447,470)
Equipment	(147,984,512)	(15,907,778)	(6,737,650)	(3,754)	(157,158,394)
Improvements	(11,780,946)	(1,045,238)			(12,826,184)
Infrastructure	(27,159,169)	(1,962,387)			(29,121,556)
Intangible assets	(70,805,338)	(2,619,807)			(73,425,145)
Library holdings	(58,848,678)	(2,707,773)	(140,396)		(61,416,055)
Total accumulated depreciation	(686,895,108)	(57,645,916)	(7,149,974)	(3,754)	(737,394,804)
TOTAL DEPRECIABLE CAPITAL ASSETS	727,192,898	(40,687,836)	725,810	64,519,104	750,298,356
TOTAL CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION	$ 853,630,611	$ 26,163,068	$ 725,810	$ (3,754)	$ 879,064,115

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.

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 assets	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

The University estimates holdings of $11 million in timber resources as of June 30, 2011. The estimated value of these holdings was $13.70 million as of June 30, 2010. These resources, which total 13,284 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, 2011:

	Salaries, Wages and Benefits	Scholarships and Fellowships	Supplies and Other Services	Depreciation	Total
Instruction	$ 120,557,795		$ 18,509,081		$ 139,066,876
Research	71,946,538		27,780,629		99,727,167
Public Service	52,761,143		16,481,448		69,242,591
Academic Support	22,874,916		11,518,396		34,393,312
Student Services	13,049,305		6,329,808		19,379,113
Institutional Support	34,065,139		8,135,574		42,200,713
Scholarships and Fellowships	199,077	$ 29,557,381	168,626		29,925,084
Operation and Maintenance of Plant	16,878,857		44,618,869		61,497,726
Auxiliary Enterprises	41,458,168		59,075,923		100,534,091
Depreciation				$ 57,645,916	57,645,916
Totals	$ 373,790,938	$ 29,557,381	$ 192,618,354	$ 57,645,916	$ 653,612,589

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

(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.

On July 16, 2010, the Arts Center Council filed articles of incorporation for NWA Entertainment, LLC ("NWA") for the purpose of acquiring certain assets of the Arkansas Music Pavilion, Inc. and for the purpose of operating, managing and maintaining assets related to the promotion and presentation of the arts in Northwest Arkansas. NWA is a 100% wholly-owned subsidiary of the Council and has a fiscal year end of March 31, 2011. The results of the operations of NWA have been included in the combined financial statements of the Walton Arts Center.

The combined audited financial statements of the Walton Arts Center Council, Inc., the Walton Arts Center Foundation, Inc., and NWA Entertainment, LLC as of and for the year ended June 30, 2011, 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	$ 2,493,224
Investments	12,674,055
Other Assets	2,616,803
Fixed Assets, Net of Depreciation	5,786,628
Total Assets	**$ 23,570,710**
Liabilities and Net Assets	
Liabilities	$ 2,551,089
Net Assets	21,019,621
Total Liabilities and Net Assets	**$ 23,570,710**

Condensed Statement of Activities		
Ticket Sales	$	5,541,960
Contributions and Sponsorships		2,170,592
Other Income		5,274,654
Total Income and Other Additions	**$**	**12,987,206**
Total Expenditures and Other Deductions	**$**	**11,281,764**
Increase/(Decrease) in Net Assets	**$**	**1,705,442**

(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, 2011, 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 51.4% of the net assets of the Foundation. The remaining 48.6% benefits other University of Arkansas campuses.

Condensed Statement of Financial Position		
Assets		
Investments	$	679,284,645
Contributions Receivable, less Allowance		67,127,113
Other Receivables		2,881,560
Fixed Assets, Net of Depreciation		385,752
Other Assets		758,667
Total Assets	**$**	**750,437,737**
Liabilities and Net Assets		
Liabilities	$	22,154,844
Net Assets		
Unrestricted		76,064,090
Restricted		652,218,803
Net Assets		728,282,893
Total Liabilities and Net Assets	**$**	**750,437,737**

Condensed Statement of Activities		
Contributions	$	68,927,071
Other Revenues, Additions and Gains/(Losses)		97,862,335
Total Income and Other Additions/(Losses)	**$**	**166,789,406**
Total Expenditures and Other Deductions	**$**	**69,675,903**
Increase/(Decrease) in Net Assets	**$**	**97,113,503**

(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, 2011.

(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). Restatement of Prior Year

The Statement of Net Assets has been restated for the year ended June 30, 2010. The University has determined that Cash and cash equivalents in the amount of $198,525 should be classified as Noncurrent Assets. This balance represents the amount of Cash and cash equivalents that are designated specifically for capital projects net of related obligations.

The Statement of Cash Flows has been restated for the year ended June 30, 2010. The University has determined that certain miscellaneous cash flows should be included in the operating activities category even though the income is considered a nonoperating item. Therefore, Other receipts have been restated in the amount of $2,315,227. The same amount is now shown in the Reconciliation of Net Operating Loss to Net Cash Used by Operating Activities as Other miscellaneous operating receipts.

(21). Change in Accounting Procedures

For the year ended June 30, 2011, the University has changed the method of reporting unamortized bond issuance costs. Those costs are now being reported as an asset, and are included in other assets. In previous years, unamortized bond issuance costs were netted against Bonds, notes and capital leases payable. As of June 30, 2011, the balance of unamortized bond issuance costs was $1,636,723.

(22). 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, 2011, the University was under no obligation to complete the remediation of the site.

(23). 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

2011
ANNUAL FINANCIAL REPORT

REQUIRED SUPPLEMENTAL INFORMATION

Other Postemployment Benefits

Determination of End of Year Accrual		
Unfunded actuarial accrued liability at 7/1/10	$	21,255,846
Annual Required Contribution (ARC)		
Normal cost	$	1,011,209
Amortization of the unfunded actuarial accrued liability over 30 years		758,902
Interest		79,655
Annual Required Contribution for FY11		1,849,766
Interest on Net OPEB Obligation		370,160
ARC Amortization Adjustment		(306,904)
Annual OPEB Cost for FY11	$	1,913,022
Net OPEB Obligation, 7/1/10	$	8,225,317
Annual OPEB Cost for FY11		1,913,022
Less: Expected Employer Contributions		(825,425)
Net OPEB Obligation, 6/30/11	$	9,312,914

Schedule of Employer Contributions

Fiscal Year Ending	Annual OPEB Cost	Expected Contribution	Percentage Contributed	Net Obligation at Year End
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
6/30/11	$ 1,913,022	$ 825,425	43.15%	$ 9,312,914

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
6/30/09	$ 0	$ 30,301,850	$ 30,301,850	0%	$ 226,768,611	13.36%
6/30/10	$ 0	$ 23,547,619	$ 23,547,619	0%	$ 227,163,777	10.37%
6/30/11	$ 0	$ 21,255,846	$ 21,255,846	0%	$ 234,043,967	9.08%

Note: Covered payroll for fiscal years 2009 and 2010 were increased $31,508,620 and $29,935,174, respectively, to include amounts inadvertently omitted in previous years.

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

The mortality rates were changed from the RP-2000 Combined Healthy Mortality Table projected to 2009 by scale AA to the RP-2000 Combined Healthy Mortality Table projected to 2011 by scale AA to better reflect anticipated future mortality improvements.

Medical Coverage – Retirees not Eligible for Medicare

Claim experience for the period October 1, 2007 through September 30, 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 890 life years of exposure and was deemed to be 60% 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 October 1, 2007 through September 30, 2009 was used to develop per capita claims cost for Medicare-eligible retirees. This experience includes 3,600 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 October 1, 2007 through September 30, 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.

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