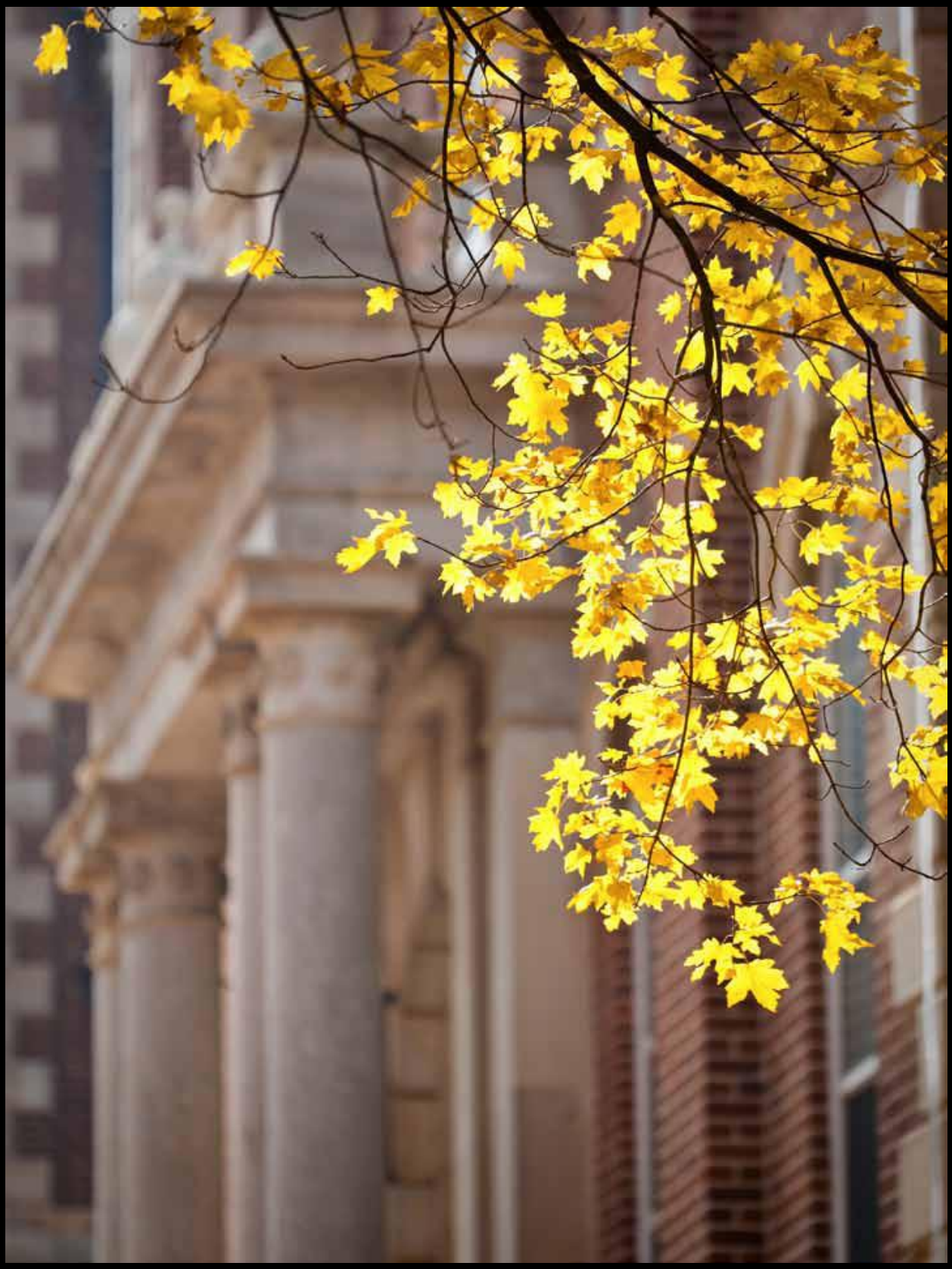
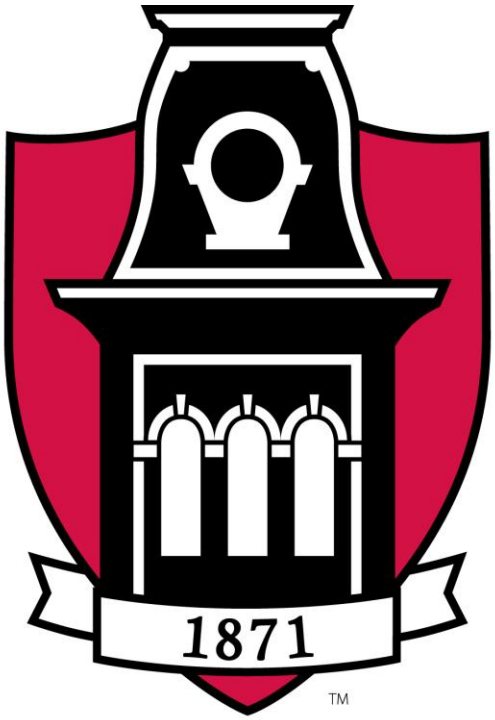


University of Arkansas Annual Financial Report
2011-2012



UNIVERSITY OF
ARKANSAS

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On the cover: Yellow Leaves (in front of Old Main)

UNIVERSITY OF ARKANSAS

Vice Chancellor for Finance and Administration

October 25, 2012

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, 2012.

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

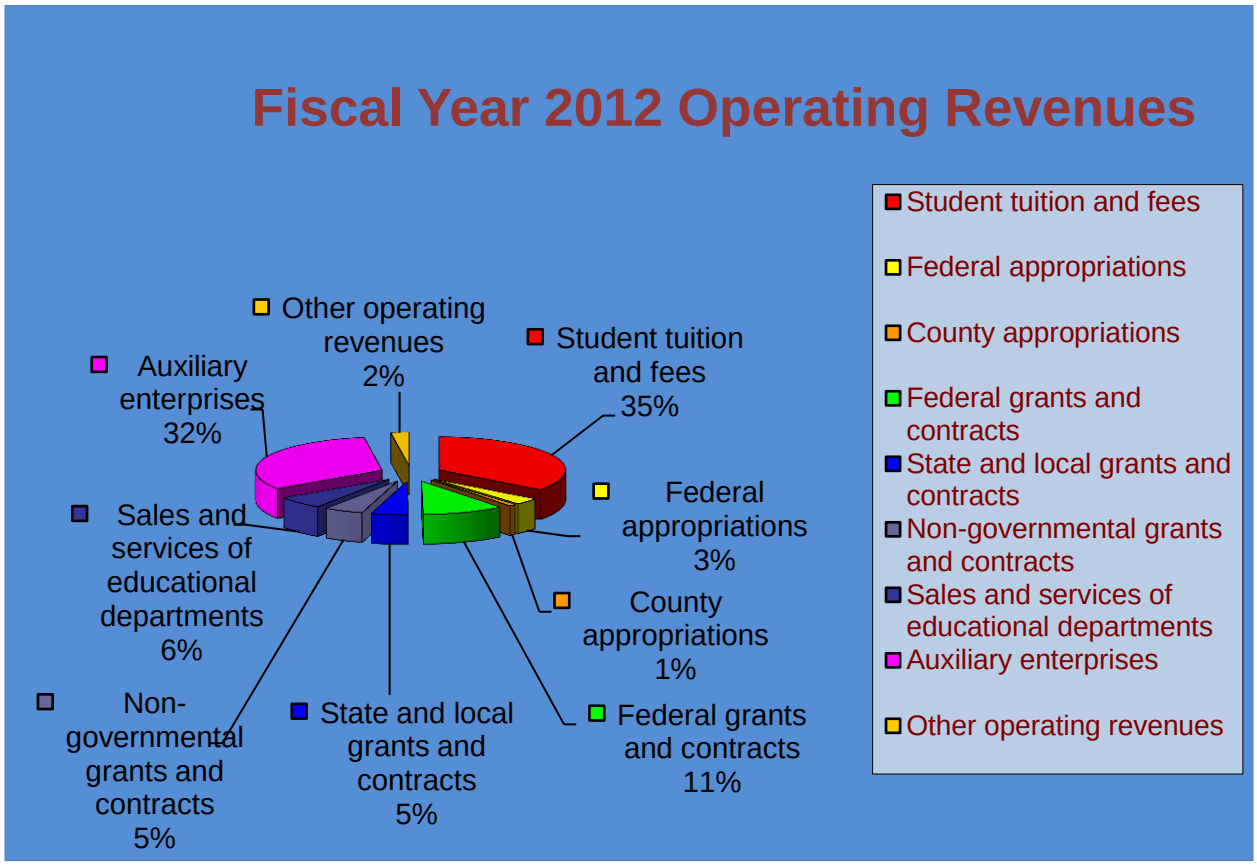
406 Administration Building • Fayetteville, AR 72701 • 479-575-5828 • Fax: 479-575-5400 • http://vcfa.uark.edu/
The University of Arkansas is an equal opportunity/affirmative action institution.

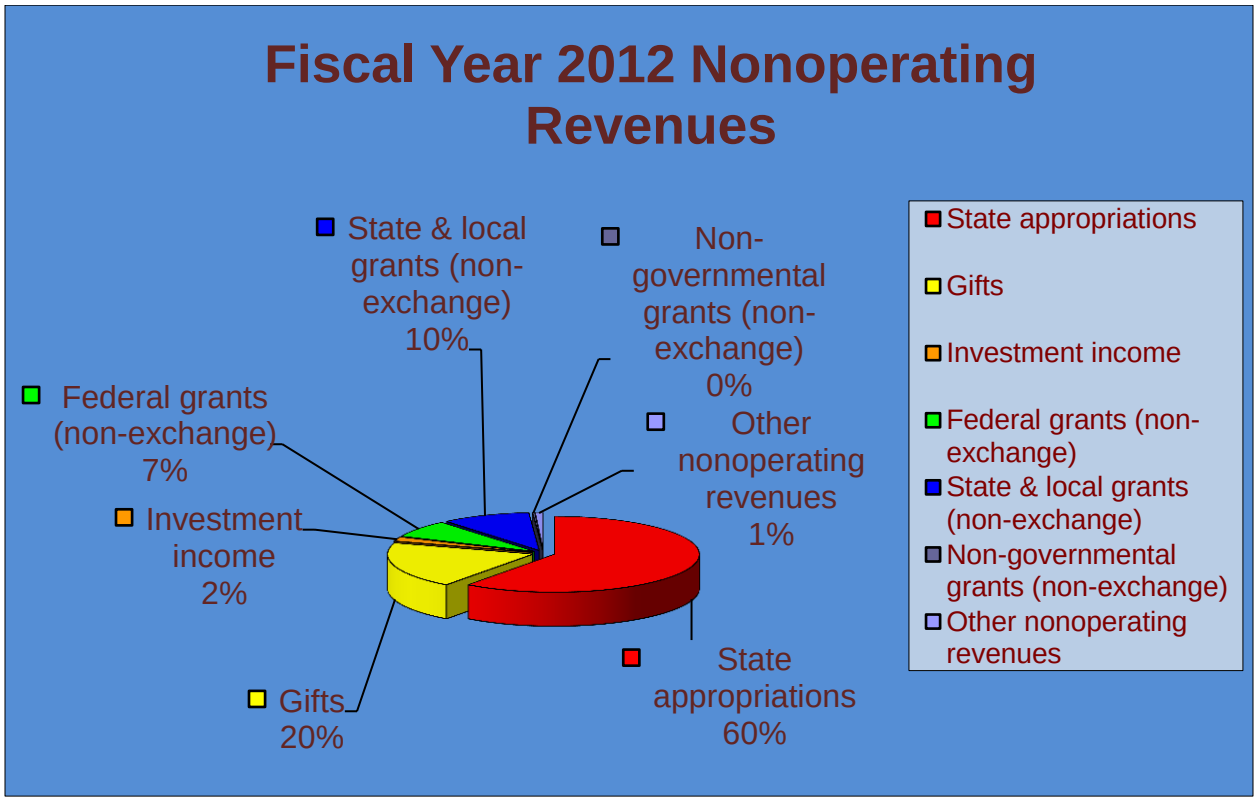
FISCAL YEAR 2012 OPERATING REVENUES

Student tuition and fees	130,571,742
Federal appropriations	11,615,106
County appropriations	3,383,149
Federal grants and contracts	38,448,980
State and local grants and contracts	17,502,653
Non-governmental grants and contracts	18,256,503
Sales and services of educational departments	22,394,961
Auxiliary enterprises	119,122,412
Other operating revenues	8,364,263
Total operating revenues	369,659,769

FISCAL YEAR 2012 NONOPERATING REVENUES

State appropriations	201,724,363
Gifts	66,051,112
Investment income	5,997,430
Federal grants (non-exchange)	24,822,337
State & local grants (non-exchange)	33,249,890
Non-governmental grants (non-exchange)	831,557
Other nonoperating revenues	2,980,378
Total nonoperating revenues	335,657,067


Fiscal Year 2012 Operating Revenues
Other operating revenues 2%
Student tuition and fees 35%
Auxiliary enterprises 32%
Federal appropriations 3%
Sales and services of educational departments 6%
County appropriations 1%
Non-governmental grants and contracts 5%
State and local grants and contracts 5%
Federal grants and contracts 11%
Student tuition and fees
Federal appropriations
County appropriations
Federal grants and contracts
State and local grants and contracts
Non-governmental grants and contracts
Sales and services of educational departments
Auxiliary enterprises
Other operating revenues


Fiscal Year 2012 Nonoperating Revenues
State & local grants (non-exchange) 10%
Non-governmental grants (non-exchange) 0%
Federal grants (non-exchange) 7%
Other nonoperating revenues 1%
Investment income 2%
State appropriations 60%
Gifts 20%
State appropriations
Gifts
Investment income
Federal grants (non-exchange)
State & local grants (non-exchange)
Non-governmental grants (non-exchange)
Other nonoperating revenues

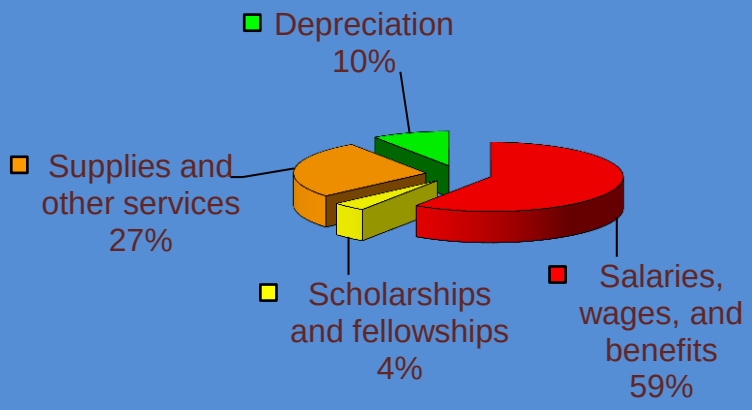
FISCAL YEAR 2012 OPERATING EXPENSES BY NATURAL CLASSIFICATION

Salaries, wages, and benefits	392,496,355
Scholarships and fellowships	27,071,128
Supplies and other services	177,430,399
Depreciation	62,757,646
Total operating expenses	659,755,528

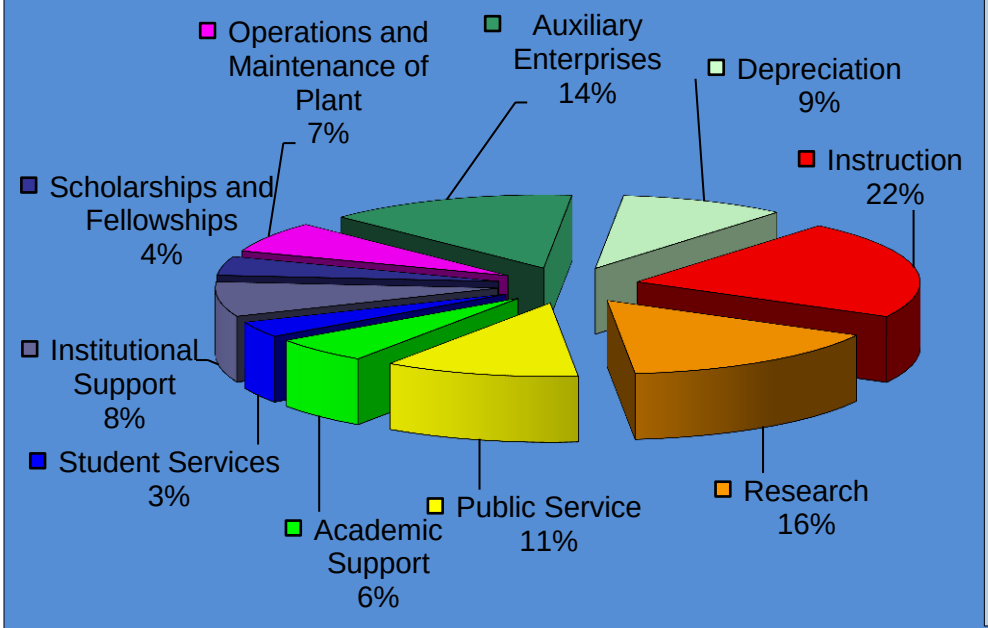
FISCAL YEAR 2012 OPERATING EXPENSES BY FUNCTION

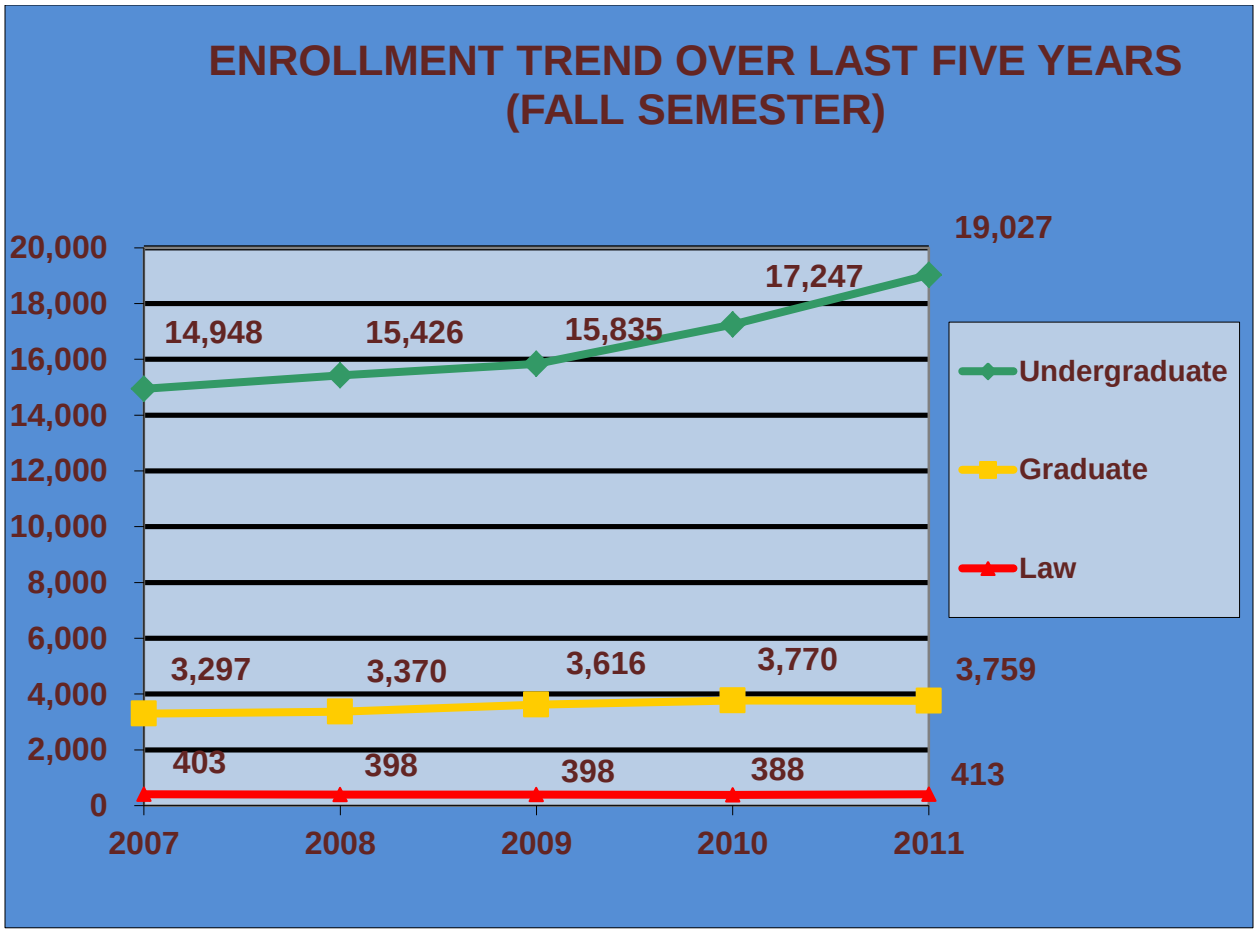
Instruction	143,484,978
Research	102,678,661
Public Service	73,552,044
Academic Support	37,434,405
Student Services	22,965,696
Institutional Support	50,260,164
Scholarships and Fellowships	27,325,073
Operations and Maintenance of Plant	44,923,769
Auxiliary Enterprises	94,373,092
Depreciation	62,757,646
Total operating expenses	659,755,528

Fiscal Year 2012 Operating Expenses by Natural Classification

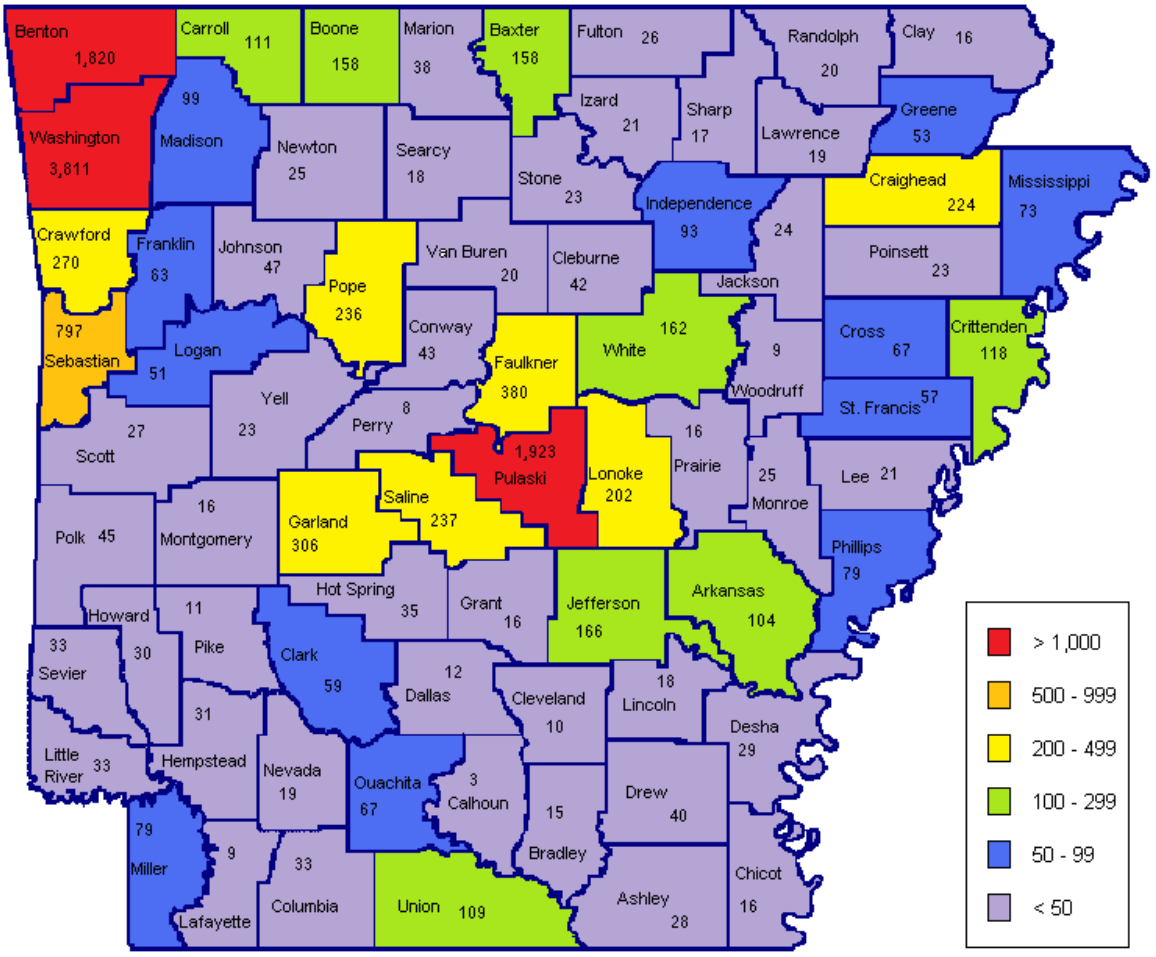


Fiscal Year 2012 Operating Expenses by Function

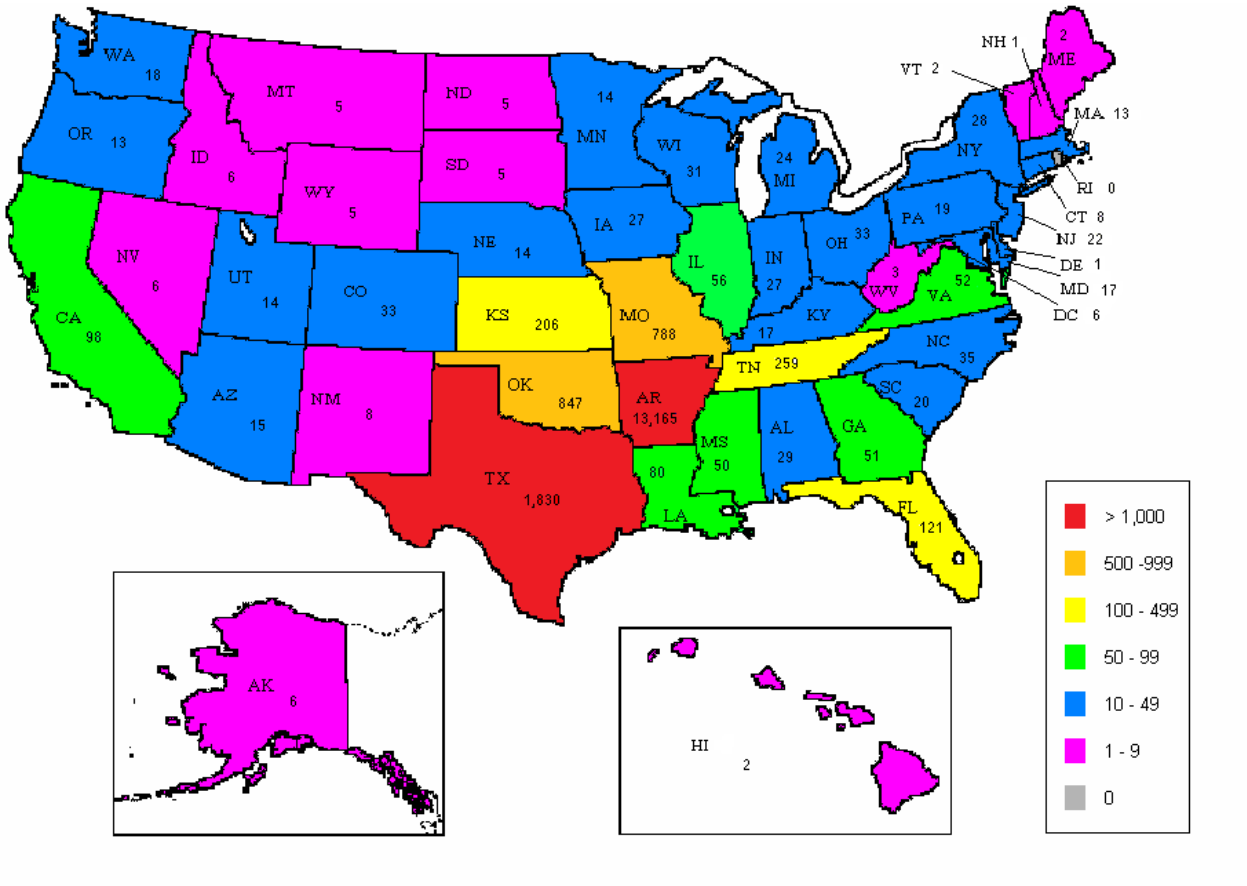



ENROLLMENT TREND OVER LAST FIVE YEARS
(FALL SEMESTER)
20,000
18,000
16,000
14,000
12,000
10,000
8,000
6,000
4,000
2,000
0
2007
2008
2009
2010
2011
14,948
15,426
15,835
17,247
19,027
3,297
3,370
3,616
3,770
3,759
403
398
398
388
413
Undergraduate
Graduate
Law

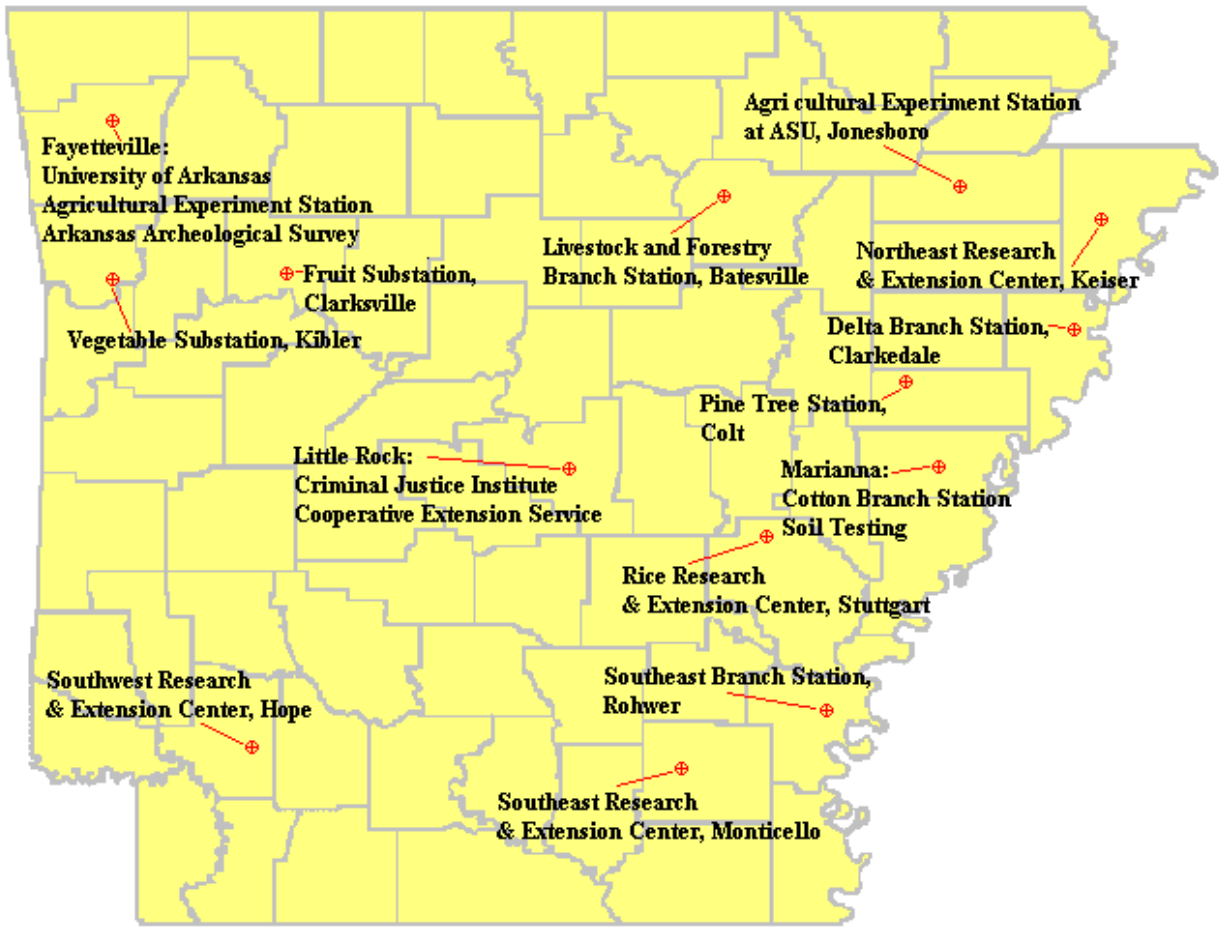
IN-STATE ENROLLMENT
BY COUNTY OF ORIGIN



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.

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, 2012, 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 2011 financial statements and, in our report of the University of Arkansas System dated November 8, 2011, 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, 2012, 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, 2011, from which such partial information was derived.

As discussed in Note 20 to the financial statements, the University restated certain items of the prior year (2011) financial statements to eliminate certain internal transactions.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and certain information pertaining to postemployment benefits other than pensions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

DIVISION OF LEGISLATIVE AUDIT



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

Little Rock, Arkansas
October 25, 2012
EDHE13512

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, 2012, with fiscal year ended June 30, 2011 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 "2012", "2011" 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,* the university is classified as a 'very high research activity' institution, the highest classification possible. As the state's only comprehensive research university, and one of a select group of institutions nationwide with the highest Carnegie classification, the University is positioned to be 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.

The University's growing reputation for academic excellence and student-centeredness was underscored in the *U.S. News & World Report's* "Best Colleges 2013" publication. A national survey of higher education leaders selected the University as one of the nation's top ten 'up and coming' public universities.

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 50.7% 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, 2012, and June 30, 2011:

	As of June 30, 2012	As of June 30, 2011
Assets		
Current Assets	$ 281,952,195	$ 240,476,483
Capital Assets, net of depreciation	978,606,995	879,064,115
Other Noncurrent Assets	140,020,888	216,825,455
Total Assets	$ 1,400,580,078	$ 1,336,366,053
Liabilities		
Current Liabilities	$ 108,451,285	$ 90,696,161
Noncurrent Liabilities	579,436,280	593,467,254
Total Liabilities	$ 687,887,565	$ 684,163,415
Net Assets		
Invested in Capital Assets, net of related debt	$ 459,488,312	$ 425,915,450
Restricted – Nonexpendable	23,663,271	22,138,905
Restricted – Expendable	69,530,747	65,040,840
Unrestricted	160,010,183	139,107,443
Total Net Assets	$ 712,692,513	$ 652,202,638

Overall, the University's total assets increased $64.2 million. A review of the statement of net assets reveals that there were several offsetting variances, but the increase was largely attributable to increases in cash and cash equivalents of $28.8 million and capital assets of $99.5 million offset by a decrease in deposits with trustees of $64.2 million.

The University continued to strengthen its liquidity position, with 51% 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.

Deposits with bond trustees represent unspent bond proceeds and bond reserve funds. The decrease in 2012 reflects the spending of 2011 and earlier bond proceeds for ongoing construction projects.

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 a modest $3.7 million. A review of the statement indicates there were several offsetting variances, but the most significant was the $12.2 million decrease in bonds, notes, capital leases and installment contracts (long-term debt) offset by increases in

accounts payable of $8.7 million, accrued payroll liabilities of $2.1 million and deferred revenue of $3.2 million. Additional payables related to construction projects and accumulated contract retainage caused the increase in accounts payable. Payroll liabilities increased because of the accrual of lump-sum merit payments to classified staff. The increase in deferred revenue was driven by growth in athletic ticket revenue because there was one additional game for the 2012 football season package.

The issuance of $56.9 million Various Facilities Revenue Refunding Bonds, Series 2012A, whose proceeds were used to refund $44.5 million of outstanding bonds dated December 1, 2002 and $17.1 million of outstanding bonds dated October 1, 2004, along with scheduled bond retirements of $14.9 million resulted in a net decrease in bonds payable of $19.6 million. The net decrease in bonds plus the assumption of $6.9 million in additional installment contracts were the most significant factors for the net decrease in long-term debt. 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 $64.2 million netted with the increase in liabilities of $3.7 million resulted in an increase of $60.5 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, 2012	As of June 30, 2011
Fayetteville Campus	$ 99,801,675	$ 83,858,282
Agricultural Experiment Station	40,708,495	35,408,862
Cooperative Extension Service	11,061,815	10,771,892
Arkansas Archeological Survey	449,952	489,450
Criminal Justice Institute	2,900,049	2,622,996
Clinton School of Public Service	1,931,129	2,012,024
AREON	3,157,068	3,943,937
Total Unrestricted Net Assets	$ 160,010,183	$ 139,107,443

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

	As of June 30, 2012	As of June 30, 2011
Working Capital	$ 750,000	$ 750,000
E & G Department Uses	55,974,308	38,514,760
Service Operations	427,195	845,482
Auxiliaries	19,419,624	19,918,219
Plant Funds	12,016,021	12,439,989
Quasi-Endowment Funds	11,214,527	11,389,832
Total Fayetteville Campus Unrestricted Net Assets	$ 99,801,675	$ 83,858,282

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 $290.1 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 2012 Total	Fiscal 2011 Total
Operating Revenues	$ 369,659,769	$ 336,187,404
Operating Expenses	659,755,528	638,964,490
Operating (loss)	(290,095,759)	(302,777,086)
Net nonoperating revenues	316,195,629	311,798,311
Gain before other revenues and changes in net assets	26,099,870	9,021,225
Other revenues and changes in net assets	34,390,005	7,948,414
Increase in Net Assets	$ 60,489,875	$ 16,969,639

Operating revenue increased nearly 10% or $33.5 million. Student tuition and fees accounted for $21.4 million of the increase, a reflection of continued enrollment growth and rate revisions.

Sales and services of educational departments also increased $3.9 million demonstrating an overall growth in programs. Auxiliary enterprises revenue attributable to Athletics increased $4.1 million, largely due to growth in ticket revenue associated with increased attendance at men's football and basketball events, and conference distributions for media revenue. Residence life, Bookstore and Transit and Parking also realized increases totaling $4.6 million collectively, demonstrating the impact of enrollment growth to demand for these services. Modest rate increases for housing and parking also contributed to auxiliary revenue growth. Federal research awards decreased $2.5 million, reflecting the receipt of American Recovery and Reinvestment Act (ARRA) stimulus funds in 2011.

Operating expenses increased $20.8 million or 3.25% over 2011. Compensation and benefits costs grew $18.7 million, due in part to necessary increases in faculty to support enrollment growth, along with accruing an additional $1.2 million for retiree healthcare expenses. Supplies and other services remained virtually flat when compared to 2011, demonstrating the continued emphasis on cost containment and efficiency for the campus.

Overall, net nonoperating revenues increased $4.4 million. There were several offsetting variances, with increases in gifts of $14.8 million and state grants of $3.4 million offset by decreases in investment income of $8.2 million and federal grants of $8.6 million being the most significant. Increased support from private sources to meet the challenges of record growth is displayed with the increase in gifts. Arkansas Academic Challenge Grants, funded by the Arkansas State Lottery, continued to grow with an increase of $3 million. The volatility of returns in the equity markets impacted the overall performance of university investments, and was the major contributor to the decrease in investment income. The decrease in federal grants illustrates the receipt of federal stimulus (ARRA) funds in 2011 to support university operating expenses.

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

The overall increase in Other Revenues and Changes in Net Assets of $26.4 million is primarily a reflection of the continued work in 2012 on an AREON construction project funded with federal Broadband Opportunities Technology Program (BTOP) grant funds awarded in 2011. Additional information about the AREON project 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".

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 2012	Fiscal Year 2011
Net cash used by operating activities	$ (219,536,339)	$ (246,339,203)
Net cash provided by noncapital financing activities	324,937,023	314,522,932
Net cash provided by operating and noncapital financing activities	105,400,684	68,183,729
Net cash used by capital financing activities	(86,269,026)	(49,957,354)
Net cash provided (used) by investing activities	9,692,270	4,548,906
Net increase in cash	$ 28,823,928	$ 22,775,281

The University used $219.5 million of cash for operating activities in 2012 offset by cash provided by noncapital financing activities of $324.9 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 $105.4 million for 2012 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 increase in net cash provided by investing activities illustrates the positioning of the cash component of matured investments to other university accounts during 2012.

Significant Changes in Capital Assets and Long-Term Debt Activity

The university continues to implement an aggressive facility renewal and stewardship plan, with new projects initiated in 2012, 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.

Several new projects were initiated in 2012, including the re-purposing of Hotz Hall back to a residence facility, the acquisition and renovation of property for Uptown Campus, Housing Administration Building, Founders Hall and an extension of Brough Commons, and the John A. White Jr. Engineering Hall renovation phase 1. The Division of Agriculture also began

renovation of the existing laboratory and office facility, along with construction of a new Soil Testing Laboratory.

To accommodate the increased demand for housing resulting from record growth, conversion of Hotz Hall from an administrative building back to its original purpose of residence hall began in 2012. The renovation, which includes upgrades to building infrastructure systems such as fire protection, plumbing and power distribution, will provide an additional 416 beds. Total project cost is estimated at $17.2 million, funded with a mix of bond proceeds and reserves. The building will be ready for occupancy for the Fall 2013 semester.

In order to re-locate the administrative services housed in Hotz Hall, the University began two separate projects during 2012. A commercial building complex located on 9.34 acres off campus was purchased to convert into space for various academic and campus support services whose presence was not required on the main campus. Purchase price was $6 million and renovations costing $1.9 million bring the total cost of the Uptown Campus to $7.9 million. A 20,000 gsf Housing Administration Building is also being constructed to replace Housing offices located in Hotz Hall and to serve as a welcome and resource center for parents and students. Total project cost is $5 million with completion expected in spring 2014. Interim internal financing was used to initiate both projects which will be permanently funded with bond proceeds.

Construction of Founders Hall and an extension of the Brough Commons dining facility includes 78,500 gsf of space on five floors to add several additional street-level retail food outlets, an additional 250 seats of dining connected to the existing Brough Commons at the second floor and 214 new beds in the remaining space. Total project cost is estimated at $26.6 million with completion expected in summer 2013. The project is funded with a mix of bond proceeds, dining and housing reserves and other available resources.

The John A. White Jr. Engineering Hall project consists of full design for renovation and a planned addition to the building and renovation of the first floor as Phase 1 of the full project. Renovation of the 9,200 gsf first floor includes new mechanical, electrical and plumbing systems and life safety systems upgrades. The $4.4 million project will be funded by bond proceeds and university reserves, with completion expected in summer 2013.

The Eastern Arkansas Soil Testing and Research Laboratory located at the Lon Mann Cotton Research Station in Marianna, Arkansas, is undergoing renovation and a new Soil Testing Laboratory is being constructed. Total project cost is estimated at $2.3 million with completion expected in summer 2014. The project is funded by Agriculture sales and reserves.

Projects completed in 2012 include renovations at the Arkansas Union to re-purposed space vacated by the University Bookstore into an information technology center and a satellite fitness center. This $5.7 million project, completed in summer 2012, was funded in part with bond proceeds. The Hazardous Waste Storage Facility was also completed in 2012 at a total project cost of just under $1 million funded by bond proceeds. This facility is used primarily by occupants of the Arkansas Research and Technology Park to properly handle waste materials generated by their research. Work associated with the energy savings performance contracts negotiated with Energy Systems Group, LLC was also completed in summer 2012. The

University has now begun the first year of measurement and verification. These contracts were financed with two separate long term debt obligations, negotiated in 2009 and 2010 to provide total resources of $33.5 million to finance the improvements and equipment necessary to fulfill the obligations of the contract. The debt will be serviced with realized guaranteed energy costs savings.

Several projects that were initiated in 2011 continue in 2012 including renovations and/or additions to Vol Walker Hall, Ozark Hall, Science Building, various classrooms and laboratories and various housing facilities; construction of two new auditoria, child development study center and football operations center; and utility infrastructure capacity expansions. Construction also continues on the Nanoscale Science and Engineering Building and the Arkansas Research and Education Optical Network.

A 34,320 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 now estimated at $36.6 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 an 18,310 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 now estimated at $27.6 million, funded with bond proceeds of $18.5 million and the remainder with private funds. Construction started on both projects during summer 2011 with completion expected in summer 2013.

Science Building renovations include updates to infrastructure as well as life safety upgrades. The multi-phase, multi-year $11 million project is funded by bond proceeds and completion is scheduled for summer 2014. A multi-year program to modernize up to 160 classrooms and 35 general teaching labs continued in 2012. The $7.6 million Phase II upgrade began in spring 2011, with completion of this phase expected in summer 2014. The project is funded with bond proceeds. Refurbishments are planned for several residence halls to accommodate demand for student housing created by continued enrollment growth. Projects totaling $24.8 million for Futrall, Pomfret, Humphries and Yocum Halls got underway during summer 2011 with completion expected in summer 2012. A $3.76 million renovation to the Phi Gamma Delta fraternity house began in 2011 with completion and occupancy in fall 2011. Residence hall and the Greek house projects are 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 (487 seats and 290 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 $14.6 million, funded with bond proceeds. Construction began in summer 2011 with completion in spring 2012. The Jean Tyson 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 began in summer 2011 with completion in summer 2012.

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 began in fall 2011 with completion expected in summer 2013. The $42 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 in part with $25.2 million Athletic Facilities Revenue Bonds and a $10 million grant from the Donald W. Reynolds Foundation. The practice fields and associated parking beneath them was completed summer 2012.

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 provided resources partially finish out the third floor area and provide equipment. 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.

On April 17, 2012, the University issued $56,965,000 in Various Facility Revenue Refunding Bonds, Series 2012A. The bonds refunded $44,555,000 of outstanding bonds dated December 1, 2002 and $17,080,000 of outstanding bonds dated October 1, 2004. The University completed the refunding to reduce its total debt service payments over the next twenty-one years by $9,331,777 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $7,016,631.

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, 2011	$ 529,470,065	$ 10,140,976	$ 33,359,521
Additions	62,129,723		6,971,219
Payments of principal	(14,850,000)	(1,901,695)	(2,795,245)
Refunded	(61,635,000)		
Amortization of deferred loss	394,931		
Amortization of net bond premium	(508,944)		
Balance as of June 30, 2012	$ 515,000,775	$ 8,239,281	$ 37,535,495

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

Note 22, "Subsequent Events" provides additional information related to Various Facility Revenue Bonds, Series 2012B. Proceeds of these bonds provide permanent financing for several of the projects discussed above.

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, 2011	$	425,915,450
Land Additions and Disposals (net)		5,033,288
Buildings Additions and Disposals, net of depreciation		53,649,178
Improvements/Infrastructure Additions, net of depreciation		4,934,947
Equipment Additions and Disposals, net of depreciation		(435,614)
Construction In Progress Additions net of transfers to buildings, improvements/infrastructure, and intangible assets		53,128,301
Livestock Additions/deductions		422,007
Library Holdings Additions and Disposals, net of depreciation		(1,493,917)
Intangible Assets, net of amortization		(4,513,666)
Bond debt moved to Net Assets invested in capital assets		(132,785,551)
Bond Principal Paid in 2012		14,850,000
Bond debt refinanced		61,635,000
Deferred loss on refinanced bond issues, amortized		3,687,863
Unamortized bond issuance costs		390,336
Net unamortized bond issue premium		(8,738,573)
Capital Leases and Installment Contracts assumed in 2012		(20,865,202)
Note, Capital Lease and Installment Contract Principal Paid in 2012		4,696,940
Prepaid maintenance contract on equipment and other		(22,475)
Net Assets Invested in capital assets, net of related debt and depreciation as of June 30, 2012	$	459,488,312

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, with general revenue forecasts remaining positive and a balanced budget. Only minor fluctuations in general revenue distributions occurred during 2012. 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 2012 was $197.5 million, a slight increase over 2011. Estimated total general revenue distribution from the State for 2013 will remain flat at $197.1 million. Management will continue to institute both internal and external efforts to minimize the effect of state funding levels not keeping pace with growth.

Additional support in the form of Federal stimulus, (ARRA) funds was limited to ongoing funding for existing commitments, with no new projects funded in 2012. 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 $31.4 million of the grant funds were used in 2012,

bringing the total used to $32.3 million with the remainder to be utilized as construction continues.

The University continues to seek ways to manage the cost of attendance so that it remains affordable while achieving necessary revenue to fund operations. The economic downturn has intensified the need to hold the cost of higher education as low as possible so it remains accessible to students. Tuition and mandatory fee increases totaling 5% were necessary in 2012 in order to maintain the facilities, faculty and other support necessary to fulfill our mission. Because State funding is projected to remain flat, increases in tuition rates and mandatory fees is expected for 2013.

The University set a new enrollment record in 2012 with a 5.8% increase over the record 2011 enrollment. Preliminary numbers for Fall 2012 indicate that enrollment is 24,537 representing an increase of 1,338 students. Total undergraduate enrollment is up 6.9% to 20,349 students, and marks the first time there have been more than 20,000 undergraduates on the Fayetteville campus. Graduate enrollment is up 0.5% to 3,778 students, while enrollment at the School of Law slightly decreased .7% to 410 students. A record-setting incoming freshman class of 4,571 students validates that the university has become a school of first choice for Arkansans and students from around the nation. Equally exciting is the 10.8% increase in the number of continuing undergraduates. The academic quality of University of Arkansas students has steadily improved over the past several years and continues to improve with each freshman class. With an intentional effort to recruit students who will succeed, it is expected that continued growth through retention will be experienced for the next several years. The impact of the Arkansas Academic Challenge Scholarships, funded by the Arkansas State Lottery, appears to have stabilized with a total of 5,616 students receiving the "lottery scholarships" for the Fall 2012 semester compared to 5,449 recipients for the Fall 2011 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.

The University is preparing for its next comprehensive fundraising campaign and positive momentum continues to build in private support. The University recorded $108.1 million of private gift support in 2012, surpassing its goal of $103 million. Private gift support is critical to ensure success for students and faculty, and is a fundamental component in meeting budgetary needs. Support received from alumni, friends, organizations and faculty and staff of the University have an impact on a wide variety of areas including academic and need-based scholarships; classroom technology enhancements; new and renovated facilities; undergraduate, graduate and faculty research; and study abroad opportunities.

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 and stewardship 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 and stewardship plan. The University's goal is to update twenty percent of the assessment of 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 has declined steadily over time with indexes of 0.16 in 2009, 0.15 in 2010, 0.11 in 2011 and 0.10 for 2012. 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 infrastructure and 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. Facilities Management's effort to perform scheduled preventative maintenance also contributes to the improving FCI. Although the downward trend is expected to continue, the University will likely never achieve an FCI of zero.

UNIVERSITY OF ARKANSAS
Statement of Net Assets
June 30, 2012
With Comparative Figures at June 30, 2011

	June 30, 2012	June 30, 2011
ASSETS		
Current Assets		
Cash and cash equivalents	$ 144,987,700	$ 115,662,390
Short-term investments	71,847,085	67,717,239
Accounts receivable, net	39,796,958	37,511,076
Accrued interest receivable	943,992	705,740
Inventories	5,344,354	4,816,001
Deposits with bond trustees	11,119,982	6,810,766
Notes receivable, net	3,355,845	3,765,007
Other assets	4,556,279	3,488,264
Total current assets	281,952,195	240,476,483
Noncurrent Assets		
Cash and cash equivalents	2,049,961	2,551,343
Endowment investments	62,391,332	61,490,881
Notes receivable, net	12,064,275	11,560,353
Deposits with bond trustees	57,103,469	125,595,189
Other long-term investments	3,941,264	12,682,869
Other assets	2,470,587	2,944,820
Capital assets, net	978,606,995	879,064,115
Total noncurrent assets	1,118,627,883	1,095,889,570
Total assets	$ 1,400,580,078	$ 1,336,366,053
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	$ 31,911,308	$ 23,225,442
Accrued payroll liabilities	16,558,525	14,409,009
Accrued interest expense	4,479,930	3,609,719
Student overpayments	68,877	50,920
Funds held in trust for others	628,295	1,408,211
Deferred revenue	30,519,336	27,303,474
Compensated absences payable - current portion	1,130,467	1,049,944
Bonds, notes, capital leases and installment contracts payable - current portion	23,154,547	19,639,442
Total current liabilities	108,451,285	90,696,161

UNIVERSITY OF ARKANSAS
Statement of Net Assets
June 30, 2012
With Comparative Figures at June 30, 2011

	June 30, 2012	June 30, 2011
Noncurrent Liabilities		
Refundable federal advance - Perkins loans	14,022,433	13,921,000
Compensated absences payable	17,248,439	16,897,420
Liability for other post employment benefits	10,539,604	9,312,914
Bonds, notes capital leases and installment contracts payable	537,621,004	553,331,120
Other noncurrent liabilities	4,800	4,800
Total noncurrent liabilities	579,436,280	593,467,254
Total liabilities	$ 687,887,565	$ 684,163,415
NET ASSETS		
Invested in capital assets, net of related debt	$ 459,488,312	$ 425,915,450
Restricted for		
Nonexpendable		
Scholarships and fellowships	8,118,497	7,974,721
Research	5,739,659	5,739,659
Instructional department uses	8,644,839	7,644,839
Loans	887,560	779,686
Other	272,716	
Expendable		
Scholarships and fellowships	9,125,347	9,514,103
Research	22,550,281	24,890,369
Public service	10,267,413	9,369,450
Instructional department uses	9,923,320	10,004,794
Loans	2,484,714	2,574,457
Capital projects	12,876,730	4,587,105
Debt service	211,843	1,116,793
Other	2,091,099	2,983,769
Unrestricted	160,010,183	139,107,443
Total net assets	$ 712,692,513	$ 652,202,638

UNIVERSITY OF ARKANSAS
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2012
With Comparative Figures for 2011

	Fiscal 2012 Total	Fiscal 2011 Total
REVENUES		
Operating Revenues		
Student tuition and fees (net of scholarship allowances of $58,580,598 in fiscal year 2012, and $50,625,836 in fiscal year 2011)	$ 130,571,742	$ 109,167,102
Federal appropriations	11,615,106	11,062,386
County appropriations	3,383,149	2,912,870
Federal grants and contracts	38,448,980	40,940,355
State and local grants and contracts	17,502,653	17,261,150
Nongovernmental grants and contracts	18,256,503	17,601,040
Sales and services of educational departments	22,394,961	18,491,367
Auxiliary enterprises		
Residence Life (net of scholarship allowances of $8,132,005 in fiscal year 2012, and $7,829,551 in fiscal year 2011)	24,915,952	22,388,640
Athletics	69,793,575	65,697,039
Bookstore (net of scholarship allowances of $118,422 in fiscal year 2012, and $111,200 in fiscal year 2011)	13,265,776	11,351,278
Arkansas Union		301,464
Student Health Services	569,714	851,385
Transit and Parking	6,591,747	6,387,653
Student Organizations/Activities	203,093	172,448
Other Auxiliary Enterprises	3,782,555	2,933,376
Other operating revenues	8,364,263	8,667,851
Total operating revenues	369,659,769	336,187,404
EXPENSES		
Operating Expenses		
Salaries, wages, and benefits	392,496,355	373,790,938
Scholarships and fellowships	27,071,128	29,557,381
Supplies and other services	177,430,399	177,970,255
Depreciation	62,757,646	57,645,916
Total operating expenses	659,755,528	638,964,490
Operating loss	(290,095,759)	(302,777,086)

UNIVERSITY OF ARKANSAS
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2012
With Comparative Figures for 2011

	Fiscal 2012 Total	Fiscal 2011 Total
NONOPERATING REVENUES (EXPENSES)		
State appropriations	201,724,363	200,188,523
Gifts	66,051,112	51,239,306
Investment income (net of investment expense of $887,216 in fiscal year 2012, and $672,896 in fiscal year 2011)	5,997,430	14,260,067
Interest on capital asset - related debt	(18,888,991)	(19,524,953)
Federal grants (nonexchange)	24,822,337	33,451,892
State and local grants (nonexchange)	33,249,890	29,764,358
Nongovernmental grants (nonexchange)	831,557	631,809
Loss on disposal of assets	(572,447)	(637,817)
Other nonoperating revenues	2,980,378	2,425,126
Net nonoperating revenues	316,195,629	311,798,311
Loss before other revenues and changes in net assets	26,099,870	9,021,225
OTHER REVENUES AND CHANGES IN NET ASSETS		
Capital appropriations	500,000	3,240,686
Capital grants and gifts	33,158,761	4,481,709
Other changes	731,244	226,019
Total other revenues and changes in net assets	34,390,005	7,948,414
Increase (Decrease) in net assets	60,489,875	16,969,639
NET ASSETS		
Net assets - beginning of year	652,202,638	635,232,999
Net assets - end of year	$ 712,692,513	$ 652,202,638

UNIVERSITY OF ARKANSAS
Statement of Cash Flows - Direct Method
For the Year Ended June 30, 2012
With Comparative Figures for 2011

	Fiscal 2012 Total	Fiscal 2011 Total
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	$ 130,723,176	$ 108,282,670
Federal appropriations	12,996,469	9,723,337
County appropriations	3,383,149	2,912,870
Grants and contracts	74,527,891	73,871,519
Payments to suppliers	(181,532,353)	(178,797,934)
Payments to employees	(307,098,005)	(292,715,329)
Payments for benefits	(81,614,153)	(79,709,178)
Payments for scholarships and fellowships	(26,947,157)	(29,608,257)
Loans issued to students and employees	(2,523,538)	(2,162,105)
Collections of loans to students	2,372,266	2,014,225
Collections of interest on loans to students	116,807	11,353
Auxiliary enterprise charges		
Residence Life	25,370,514	22,111,455
Athletics	73,191,812	66,336,074
Bookstore	13,021,445	11,063,642
Arkansas Union		318,064
Student Health Services	798,704	637,554
Transit and Parking	6,489,727	6,703,777
Student Organizations/Activities	200,803	181,400
Other Auxiliary Enterprises	3,885,123	3,061,488
Sales and services of educational departments	22,112,452	18,289,729
Other receipts	10,988,529	11,134,443
Net cash used by operating activities	(219,536,339)	(246,339,203)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	201,724,362	200,188,524
Gifts and grants for other than capital purposes	65,005,056	50,292,693
Federal grants (nonexchange)	24,899,908	33,374,321
State and local grants (nonexchange)	33,232,632	29,764,358
Nongovernmental grants (nonexchange)	835,181	656,169
Direct Lending, and private loan receipts	96,205,456	84,522,043
Direct Lending, and private loan payments	(96,975,441)	(84,438,892)
Net agency fund transactions	9,869	163,716
Net cash provided by noncapital financing activities	324,937,023	314,522,932
Net cash provided by operating activities and noncapital financing activities	105,400,684	68,183,729
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Realized proceeds related to capital debt transactions	70,250,078	64,199,506
Capital appropriations	500,000	3,240,686
Capital grants and gifts received	28,007,493	1,040,514
Purchases of capital assets	(143,375,809)	(81,781,256)
Principal paid on capital debt and leases	(18,557,020)	(16,832,904)
Interest paid on capital debt and leases	(23,093,768)	(19,823,900)
Net cash used by capital financing activities	(86,269,026)	(49,957,354)

UNIVERSITY OF ARKANSAS
Statement of Cash Flows - Direct Method
For the Year Ended June 30, 2012
With Comparative Figures for 2011

	Fiscal 2012 Total	Fiscal 2011 Total
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	$ 8,949,069	$ 4,283,855
Investment income	761,742	286,398
Purchase of investments	(18,541)	(21,347)
Net cash provided (used) by investing activities	9,692,270	4,548,906
NET INCREASE IN CASH	28,823,928	22,775,281
Cash - beginning of year	118,213,733	95,438,452
Cash - end of year	$ 147,037,661	$ 118,213,733
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	$ (290,095,759)	$ (302,777,086)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense	62,757,646	57,645,916
Changes in assets and liabilities		
Receivables (net)	2,085,496	(4,971,642)
Inventories	(528,352)	(3,122)
Prepaid expenses	(805,697)	694,673
Other miscellaneous operating receipts	3,090,389	2,462,871
Accounts payable and accrued liabilities	(3,108,307)	(1,060,879)
Accrued payroll liabilities (Employees)	1,039,383	(504,355)
Accrued payroll liabilities (Benefits)	1,071,940	95,230
Student overpayments	17,862	(39,668)
Deferred revenue	3,212,663	579,242
Refundable federal advance	101,433	7,838
Deposits		(2,818)
Compensated absences	446,569	534,714
Retiree benefits	1,226,690	1,087,597
Loans to students and employees	(48,295)	(87,714)
Net cash used by operating activities	$ (219,536,339)	$ (246,339,203)
NONCASH TRANSACTIONS		
Donations of land, buildings, improvements, and infrastructure	$ 967,956	$ 718,548
Equipment donations	856,427	905,589
Payments to bond escrow directly from bond proceeds	65,717,794	6,414,688
Refund of outstanding bond issues directly from bond proceeds		3,593,922
Payment of bond proceeds directly into deposits with trustees	6,358	133,057,098
Payment of premium and accrued interest on bonds directly into deposits with trustees		6,714,019
Bond issuance costs and underwriter's discounts paid directly from bond proceeds	488,365	939,978
Principal on long-term debt paid directly from deposits with trustees	908,900	
Interest on long-term debt paid directly from deposits with trustees	2,540	742,088
Payment of long-term debt directly from University of Arkansas Foundation, Inc. accounts	53,394	1,649,491
Capital outlay paid directly from proceeds of University of Arkansas long-term debt instruments		13,043
Loss on disposal of assets	640,946	462,710

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UNIVERSITY OF ARKANSAS FAYETTEVILLE CAMPUS FOUNDATION, INC.
Statements of Financial Position
June 30, 2012 and 2011

	2012	2011
Assets		
Investments	$ 435,890,065	$ 448,201,276
Liabilities and Net Assets		
Accounts payable	$ 85,612	$ 21,380
Net Assets:		
Temporarily restricted	$ 24,653,951	$ 23,045,505
Permanently restricted	411,150,502	425,134,391
Total net assets	435,804,453	448,179,896
Total liabilities and net assets	$ 435,890,065	$ 448,201,276

THE UNIVERSITY OF ARKANSAS FAYETTEVILLE CAMPUS FOUNDATION, INC.
Statement of Activities
Year ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, gains and other support:				
Contributions		$ 89,170	$ (89,170)	
Interest and dividends		3,190,757	179,645	$ 3,370,402
Net realized and unrealized gains on investments		12,630,542	(14,074,364)	(1,443,822)
Net assets released from restrictions	$ 14,302,023	(14,302,023)		
Total revenue, gains and other support	14,302,023	1,608,446	(13,983,889)	1,926,580
Program Services-				
Research	1,271,247			1,271,247
Faculty/staff support	2,335,058			2,335,058
Scholarships and awards	9,236,339			9,236,339
Equipment and technology	1,247,897			1,247,897
Other	211,482			211,482
Total program services	14,302,023			14,302,023
Change in net assets		1,608,446	(13,983,889)	(12,375,443)
Net assets, beginning of year		23,045,505	425,134,391	448,179,896
Net assets, end of year	$	$ 24,653,951	$ 411,150,502	$ 435,804,453

THE UNIVERSITY OF ARKANSAS FAYETTEVILLE CAMPUS FOUNDATION, INC.
Statement of Activities
Year ended June 30, 2011

	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
Net realized and unrealized gains on investments		12,485,128	56,748,532	69,233,660
Net assets released from restrictions	$ 14,225,026	(14,225,026)		
Total revenue, gains and other support	14,225,026	1,644,798	56,755,525	72,625,349
Program Services-				
Research	1,132,750			1,132,750
Faculty/staff support	1,819,281			1,819,281
Scholarships and awards	8,844,244			8,844,244
Equipment and technology	2,023,264			2,023,264
Other	405,487			405,487
Total program services	14,225,026			14,225,026
Change in net assets		1,644,798	56,755,525	58,400,323
Net assets, beginning of year		21,400,707	368,378,866	389,779,573
Net assets, end of year	$	$ 23,045,505	$ 425,134,391	$ 448,179,896

THE RAZORBACK FOUNDATION, INC.
Consolidated Statement of Financial Position
June 30, 2012

Assets		
Cash and cash equivalents	$	17,293,862
Contributions receivable, net		17,337,982
Investments, at fair value		15,702,869
Prepaid rent		1,444,904
Other		242,361
Property and equipment, net of accumulated depreciation of $2,362,363		50,242
Total assets	$	52,072,220
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	$	1,079,927
Deferred compensation		3,904,448
Total liabilities		4,984,375
Net assets:		
Stockholder's deficit of for-profit subsidiary		(9,840)
Unrestricted net assets of nonprofit parent		21,846,120
Total unrestricted net assets		21,836,280
Temporarily restricted net assets		22,984,129
Permanently restricted net assets		2,267,436
Total net assets		47,087,845
Total liabilities and net assets	$	52,072,220

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

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THE RAZORBACK FOUNDATION, INC.
Consolidated Statement of Activities
Year ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support:				
Contributions	$ 22,406,460	$ 14,360,604	$ 228,200	$ 36,995,264
Sports Shows, Inc. revenues	734,212			734,212
Interest and dividends	158,735	53,823		212,558
Net realized and unrealized gains on investments	737,925	127,939		865,864
Other	602,218			602,218
Reclassifications-including net assets from restrictions	271,493	(592,003)	320,510	
Total revenues, gains and other support	24,911,043	13,950,363	548,710	39,410,116
Expenses and losses:				
Program services:				
Athletic department expenses	10,997,586			10,997,586
Construction and capital projects	592,003			592,003
Total program services	11,589,589			11,589,589
Supporting services:				
Management and general	1,515,210			1,515,210
Fundraising	3,184,565			3,184,565
Sports Shows, Inc. operating expenses	1,248,210			1,248,210
Change in cash surrender value of life insurance	70,114			70,114
Provision for loss on uncollectible contributions	333,205			333,205
Total supporting services	6,351,304			6,351,304
Total expenses and losses	17,940,893			17,940,893
Change in net assets	6,970,150	13,950,363	548,710	21,469,223
Net assets, beginning of year	14,866,130	9,033,766	1,718,726	25,618,622
Net assets, end of year	$ 21,836,280	$ 22,984,129	$ 2,267,436	$ 47,087,845

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

ARKANSAS 4-H FOUNDATION, INC.
Statements of Financial Position
June 30, 2012 and 2011

ASSETS	2012	2011
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,276,631	$ 1,564,999
Investments, at fair value	1,550,256	1,614,027
Certificates of deposit	154,264	234,247
Accounts receivable	36,721	8,628
Contributions and grants receivable	10,000	145,000
Inventories	10,477	11,054
Prepaid expenses and other assets	8,295	69,274
Total current assets	3,046,644	3,647,229
OTHER ASSETS:		
Restricted cash	128,134	107,628
Investments, at fair value, restricted	1,899,996	2,007,670
Certificates of deposit, restricted	99,165	153,015
Total other assets	2,127,295	2,268,313
PROPERTY AND EQUIPMENT, NET	5,524,248	5,712,339
TOTAL ASSETS	$ 10,698,187	$ 11,627,881
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 77,877	$ 105,770
Deferred revenue	1,993	104,781
Due to affiliate	47,634	81,441
Accrued liabilities	23,321	27,441
Customer deposits	24,442	30,676
Current maturity of note payable	41,808	41,190
Total current liabilities	217,075	391,299
LONG-TERM LIABILITY:		
Note payable, less current maturity	42,438	84,246
TOTAL LIABILITIES	259,513	475,545
NET ASSETS:		
Unrestricted	6,484,980	6,856,851
Temporarily restricted	3,077,527	3,413,133
Permanently restricted	876,167	882,352
Total net assets	10,438,674	11,152,336
TOTAL LIABILITIES AND NET ASSETS	$ 10,698,187	$ 11,627,881

ARKANSAS 4-H FOUNDATION, INC.

Statement of Activities

For the Years Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUES:				
Program service revenue	$ 1,606,250	$ 6,553		$ 1,612,803
Grants and contributions	126,195	63,702	$ 100	189,997
Interest and dividends	18,065	119,800	9,164	147,029
Net unrealized and realized appreciation (depreciation) on investments	(30,458)	(201,987)	(15,449)	(247,894)
Other revenues (expenses), net	7,395	(3,176)		4,219
Net assets released from restrictions	320,498	(320,498)		
Total support and revenues	2,047,945	(335,606)	(6,185)	1,706,154
EXPENSES:				
Program	2,063,693			2,063,693
Management and general	235,593			235,593
Fundraising	120,530			120,530
Total expenses	2,419,816			2,419,816
CHANGE IN NET ASSETS	(371,871)	(335,606)	(6,185)	(713,662)
NET ASSETS, BEGINNING OF YEAR	6,856,851	3,413,133	882,352	11,152,336
NET ASSETS, END OF YEAR	$ 6,484,980	$ 3,077,527	$ 876,167	$ 10,438,674

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

(1). Summary of Significant Accounting Policies

The financial statements for the University of Arkansas, Fayetteville ("the University") for the fiscal year ended June 30, 2012, 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 $15,833,989 and $15,404,399 to the University during the fiscal years ended June 30, 2012, and June 30, 2011, 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 $9,342,604 to the University, and provided equipment, facilities, improvements and supplies in the amount of $592,003 during the fiscal year ended June 30, 2012. During the fiscal year ended June 30, 2011, the Razorback Foundation distributed $7,693,021 to the University, and provided equipment, facilities, improvements and supplies in the amount of $14,708. 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, 2012, or June 30, 2011, 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 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53,* which became effective with the fiscal year ending June 30, 2012. The University has determined that the requirements of the Statement have no effect on current reporting and disclosures.

GASB issued the following four statements which 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 No. 14 and No. 34,* which modifies certain requirements for inclusion of component units; 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; and Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* which redefines some assets and liabilities. Management has not yet determined the effects on the University's financial statements when these statements are implemented.

GASB issued the following three statements which become effective with the fiscal year ending June 30, 2014: Statement No. 65, *Items Previously Reported as Assets and Liabilities,* Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62,* and Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25.* GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27,* which becomes effective for the fiscal year ending June 30, 2015. Management has determined that the requirements of Statement No. 66 will not have an effect on current reporting and disclosures, but has not yet determined the effects on the University's financial statements when the other three statements become effective.

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, 2012	June 30, 2011
Athletics Inventory	Retail	$ 260,986	$ 347,596
Bookstore	Retail	3,234,147	2,538,977
CES Warehouse	Weighted Average	84,197	77,768
Garvan Woodland Gardens Shop	Weighted Average	91,067	145,114
Facilities Management	FIFO	495,731	507,919
Printing Services	Weighted Average	169,380	164,525
Research Services	Weighted Average	51,795	52,229
Residence Life	LIFO	394,679	395,671
University Press	LCM	562,372	586,202
Total Inventories		$ 5,344,354	$ 4,816,001

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 $285,791 and $950,578 were written off during the fiscal years ended June 30, 2012, and June 30, 2011, respectively.

Accounts receivable at June 30, 2012, totaled $45,895,365. The allowance for doubtful accounts was computed to be $6,098,407, resulting in net accounts receivable totaling $39,796,958. 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.

A summary of accounts receivable balances at June 30, 2012, are as follows:

	Gross	Allowance	Net
Student Accounts Receivable	$ 11,451,730	$ (5,929,782)	$ 5,521,948
Non-student Invoiced Accounts Receivable	21,922,130	(168,625)	21,753,505
Unreimbursed Research Contract Expenses	12,521,505		12,521,505
Totals	$ 45,895,365	$ (6,098,407)	$ 39,796,958

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

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, 2012. 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, 2012	June 30, 2011
	Bank Balance	Bank Balance
Insured (FDIC)	$ 3,371,791	$ 23,789,790
Uninsured, Collateralized	151,094,821	80,959,787
Uninsured, Uncollateralized		
Total Deposits	$ 154,466,612	$ 104,749,577

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, 2012, none of the University's bank balance of $154,466,612 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 $2,327,154 at June 30, 2012, and $2,324,433 at June 30, 2011. The above deposit schedule does not include cash on hand in various imprest funds maintained by the University of $69,180 or short-term investments (cash equivalents) of $18,433,153 at June 30, 2012. At June 30, 2011, these amounts were $79,221 and $18,254,815, respectively.

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

	June 30, 2012		June 30, 2011	
Bank Balance	$ 154,466,612		$ 104,749,577	
Less: Items in Transit	(25,767,574)		(5,492,419)	
Less: Nonnegotiable Certificates of Deposit	(280,686)		(281,369)	
Cash on Books		$ 128,418,352		$ 98,975,789
State Treasury Cash	$ 2,513,310		$ 3,307,562	
Cash Equivalents	18,433,153		18,254,815	
Less: System Cash	(2,327,154)		(2,324,433)	
Cash and Equivalents		18,619,309		19,237,944
Total Cash and Equivalents		$ 147,037,661		$ 118,213,733

Investments

Investments, other than deposits held with trustees, are recorded at fair value. Fair value for reporting purposes is market value if a market price or quote is readily available. Investments that are not recorded at fair value are reported at cost or amortized cost.

The following is a summary of the University's investments held at June 30, 2012:

Investment Type		Value at June 30, 2012
Mutual Treasury Funds	$	18,834,287
Treasury Notes/Bonds		49,613,354
Mutual Bond Funds		139,827
Corporate Bonds		2,957,388
External Investment Pool-University of Arkansas System		132,962,691
Other		1,589,777
Total Investments	$	206,097,324

The Mutual Treasury Funds of $18,834,287 includes $18,610,097 reported as deposits with bond trustees on the Statement of Net Assets. The Treasury Notes/Bonds of $49,613,354 are reported as deposits with bond trustees on the Statement of Net Assets. The above schedule does not include nonnegotiable certificates of deposit of $305,808 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	Value	Less than 1	1 to 5	6 to 10
Treasury Notes/Bonds	$ 49,613,354	$ 47,676,516	$ 1,936,838	
Corporate Bonds	2,957,388	649,824	1,251,220	$ 1,056,344
Totals	$ 52,570,742	$ 48,326,340	$ 3,188,058	$ 1,056,344

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	$ 18,834,287	$ 18,610,098				$ 224,189
Treasury Notes/Bonds	49,613,354	49,613,354				
Mutual Bond Funds	139,827					139,827
Corporate Bonds	2,957,388		$ 1,848,533	$ 829,985	$ 278,870	
Totals	$ 71,544,856	$ 68,223,452	$ 1,848,533	$ 829,985	$ 278,870	$ 364,016

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, other than U.S. Treasuries/Notes, with any one issuer that represented 5% or more of the total funds invested on June 30, 2012.

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 9.23% of the Pool's net assets.

UNIVERSITY OF ARKANSAS EXTERNAL INVESTMENT POOL
Statement of Invested Assets
June 30, 2012

Investment Type		Fair Value*
Equity	**$**	**331,649,344**
Common Stock		49,762,773
Funds – Common Stock		281,825,964
Preferred Stock		58,373
Rights/Warrants		2,234
Fixed Income		**432,670,824**
Government Bonds		31,440,381
Corporate Bonds		73,025
Funds – Corporate Bond		24,671,498
Government Mortgage Back Securities		143
Non-Government Backed C.M.O.s		1
Other Fixed Income		376,485,776
Venture Capital and Partnerships		**565,297,542**
Partnerships		565,297,542
Hedge Fund		**74,460,336**
Hedge Equity		74,460,336
All Other		**72,873**
Recoverable Taxes		72,873
Cash/Cash Equivalents		**36,594,103**
Short Term Investment Funds		66,858,005
Cash		(30,288,792)
Invested Cash		24,890
TOTAL	**$**	**1,440,745,022**

*Includes accrued income

UNIVERSITY OF ARKANSAS EXTERNAL INVESTMENT POOL
Credit Risk - S&P Quality Ratings
June 30, 2012

Investment Type and Fair Value*	TOTAL	A	BBB	NR	US GOVN. GUAR
Corporate Bonds	$ 73,025			$ 73,025	
Funds – Corporate Bond	24,548,330			24,548,330	
Funds – Other Fixed Income	376,190,996			376,190,996	
Funds – Short Term Investment	66,857,267			66,857,267	
Government Bonds	31,439,343		$ 38,643		$ 31,400,700
Govn Mortgage Backed Securities	142				142
Non-Govn Backed C.M.O.s	1	$ 1			
Total	$ 499,109,104	$ 1	$ 38,643	$ 467,669,618	$ 31,400,842

*Does not include accrued income

UNIVERSITY OF ARKANSAS EXTERNAL INVESTMENT POOL
Years to Maturity
June 30, 2012

		Investment Maturities (in years)			
Investment Type(1)	Fair Value*	Less than 1	1 to 5	6 to 10	More than 10
Corporate Bonds	$ 73,025				$ 73,025
Funds – Corporate Bond	24,548,330				
Funds – Other Fixed Income	376,190,996				
Funds – Short Term Investment	66,857,267				
Government Bonds	31,439,343		$ 31,400,700		38,643
Govn Mortgage Backed Securities	142				142
Non-Govn Backed C.M.O.s	1				
Total	$ 499,109,104	$	$ 31,400,700	$	$ 111,810

*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, 2012

Investment Type(1)	Fair Value*	Effective Duration
Corporate Bonds	$ 73,025	
Funds – Corporate Bond	24,548,330	
Funds – Other Fixed Income	376,190,996	
Funds – Short Term Investment	66,857,267	
Government Bonds	31,439,343	1.99
Govn Mortgage Backed Securities	142	3.32
Non-Govn Backed C.M.O.s	1	
Total	$ 499,109,104	

*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, 2012

Currency By Investment and Fair Value*	Cash	Equity	Other Assets
Australian Dollar			$ 2,651
Swiss Franc			33,242
Danish Krone			3,729
Euro	$ 10,212	$ 22,335	26,673
British Pound Sterling	1,230	780	
Hong Kong Dollar		5,552	
Japanese Yen	7,053		
Polish Zloty			6,578
Swedish Krona	466		
	$ 18,961	$ 28,667	$ 72,873

*Includes accrued income

The activities during fiscal year 2012 affecting the University's investments in the external pool are summarized below:

	Total Return Pool	Intermediate Pool	Intermediate Pool CES	Total
June 30, 2011, Balances	$ 60,465,127	$ 57,298,639	$ 10,171,231	$ 127,934,997
Income	604,689	1,559,916	276,904	2,441,509
Realized Gains/(Losses)	674,977	1,170,838	207,839	2,053,654
Unrealized Gains/(Losses)	(154,082)	826,608	146,733	819,259
Expenses Paid from Pool	(228,419)	(49,519)	(8,790)	(286,728)
June 30, 2012, Balances	$ 61,362,292	$ 60,806,482	$ 10,793,917	$ 132,962,691

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

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:

	2012	2011
Fair Value @ June 30	$ 60,120,477	$ 60,375,618
Number of Units in Pool @ June 30	1,638,336	1,658,908
Fair Value per Unit @ June 30	$ 36.696	$ 36.395
Gains/(Losses) for the Year	$ 520,894	$ 9,820,248
Net Income Earned for the Year	$ 43,970	$ 354,906
Gain/(Loss) per Unit	$ 0.32	$ 5.92
Income Earned per Unit	0.03	0.21
Total per Unit	$ 0.35	$ 6.13

Donor-restricted Endowments

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

	2012	2011
Total Endowment at June 30	$ 61,149,504	$ 61,401,360
Less: Funds treated as Endowment	(11,214,527)	(11,389,832)
Non-expendable portion of Endowment	(23,126,342)	(21,741,811)
Available for Expenditure	$ 26,808,635	$ 28,269,717

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 5.350% 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 $2,463,097 and $1,873,057 were issued under the Student Loan Programs for the years ended June 30, 2012, and June 30, 2011, 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 12.03% for the year ended June 30, 2012, and 12.05% for the year ended June 30, 2011. Notes receivable totaling $28,642 and $7,574 were written off during the fiscal year ended June 30, 2012, and June 30, 2011, respectively.

The following summarizes the balance of notes receivable at June 30, 2012:

Type of Note	Gross Balance	Allowance	Net Balance	Current Portion
Student loans	$ 15,408,524	$ 881,123	$ 14,527,401	$ 3,235,790
Loans to Greek organizations	892,719		892,719	120,055
Totals	$ 16,301,243	$ 881,123	$ 15,420,120	$ 3,355,845

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

(6). Pledges Receivable

The University did not have any material amounts pledged that were receivable at June 30, 2012 or 2011.

(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, 2012. 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, 2012	June 30, 2011
Payable to Outside Vendors	$ 27,173,130	$ 19,164,946
Retainage on Construction Contracts	4,513,307	3,946,085
Property Taxes Payable	224,871	114,411
Total	$ 31,911,308	$ 23,225,442

Accrued payroll liabilities are summarized as follows:

	June 30, 2012	June 30, 2011
Net Salaries and Wages Payable	$ 3,645,205	$ 2,245,306
Employee Withholdings Payable	7,175,609	6,746,738
Employer Payroll Taxes and Benefits Matching Payable	5,737,711	5,416,965
Total	$ 16,558,525	$ 14,409,009

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

Debt service payments on existing bonds amounted to $35,684,264 for the fiscal year ended June 30, 2012. The amount of $6,921,215 was expended for principal and interest on notes payable, installment contracts and capital leases for the same period.

On April 17, 2012, the University issued $56,965,000 in Various Facility Revenue Refunding Bonds, Series 2012A. The bonds, with interest rates of 1.0% to 5.0% were issued to refund $44,555,000 of outstanding bonds dated December 1, 2002 with an interest rate of 4.75% to 5.50%, and $17,080,000 of outstanding bonds dated October 1, 2004 with interest rates of 3.25% to 4.75%. Net bond proceeds and premiums of $65,717,794 were deposited into the advance refunding fund to retire the bonds. The combined refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $4,082,794. This difference, reported in the accompanying financial statements as a deduction from bonds payable, will be amortized through the fiscal year 2033 using the straight-line method. The University completed the refunding to reduce its total debt service payments over the next twenty-one years by $9,331,777 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $7,016,631. The escrow balance as of June 30, 2012 was $64,248,522. The bonds dated December 1, 2002 will be refunded on December 1, 2012. The bonds dated October 1, 2004 will continue to have regularly scheduled principal and interest payments made from the escrow account until the bond call date of November 1, 2014, at which time the remaining balance will be refunded.

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 bonds dated October 15, 1997 were redeemed on July 29, 2011. The bonds dated November 1, 2001 were refunded on December 1, 2011. The escrow account has been closed as of June 30, 2012.

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 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 bonds dated May 1, 1999 were refunded on July 16, 2010. The bonds dated November 1, 2001 were refunded on December 1, 2011. The escrow account has been closed as of June 30, 2012.

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, 2012, the University has drawn down the entire $9,694,713.

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, 2012, the University has drawn down the entire $23,842,000.

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 were 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, 2012, was $44,972,460.

Remaining balances of defeased bond issues as of June 30, 2012:

Title	Principal Balance at June 30, 2012
Various Facilities Revenue Bonds, Series 2002	$ 88,750,000
Various Facilities Revenue Bonds, Series 2004A	17,080,000
Total	$ 105,830,000

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 date of February 22, 2016.

A summary of long term debt at June 30, 2012, is as follows:

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized & Issued	Debt Outstanding at June 30, 2012	Maturities and Refinanced Amounts to June 30, 2012
10/15/1997	11/01/2022	3.95% to 5.25%	$ 21,445,000	$ 1,440,000	$ 20,005,000
11/01/2001	12/01/2021	2.90% to 5.50%	42,985,000		42,985,000
12/01/2002	12/01/2032	1.80% to 5.50%	110,980,000		110,980,000
10/01/2004	11/01/2024	2.00% to 4.75%	30,550,000	5,205,000	25,345,000
03/01/2005	11/01/2025	3.00% to 4.50%	81,020,000	74,030,000	6,990,000
07/01/2005	09/15/2011	3.00% to 3.25%	9,645,000		9,645,000
06/01/2006	11/01/2036	4.00% to 5.00%	67,420,000	63,710,000	3,710,000
06/01/2006	09/15/2022	4.00% to 4.375%	8,205,000	6,190,000	2,015,000
10/01/2007	11/01/2037	4.00% to 5.00%	45,010,000	41,960,000	3,050,000
08/01/2008	11/01/2038	4.00% to 5.00%	36,750,000	36,610,000	140,000
08/01/2008	11/01/2028	4.10% to 6.375%	15,210,000	14,820,000	390,000
12/15/2009	11/01/2039	3.00% to 5.00%	52,430,000	51,435,000	995,000
06/30/2010	09/15/2020	1.00% to 4.82%	23,965,000	20,460,000	3,505,000
06/29/2011	11/01/2040	2.00% to 5.00%	101,225,000	100,555,000	670,000
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	
04/17/2012	11/01/2032	1.00% to 5.00%	56,965,000	56,965,000	
11/30/1991	05/01/2022	5.50%	3,000,000	1,563,231	1,436,769
11/29/1995	12/01/2019	4.00% to 5.00%	2,071,140	892,719	1,178,421
12/20/1999	12/31/2019	Variable	1,161,952	647,648	514,304
05/11/2007	03/31/2013	Variable	6,000,000	3,700,893	2,299,107
11/30/2007	07/01/2023	4.69%	6,950,000	6,102,174	847,826
10/15/2008	09/13/2013	5.00%	5,000,000	1,434,790	3,565,210
12/19/2008	08/19/2023	4.581%	23,842,000	21,309,523	2,532,477
04/08/2010	01/08/2023	4.80%	9,694,713	8,922,992	771,721
Various	Various	Various	3,044,230	1,200,806	1,843,424
Deferral on debt defeasance			(9,080,890)	(6,795,443)	(2,285,447)
Net unamortized premium			16,483,472	15,946,218	537,254
Totals			$ 804,441,617	$ 560,775,551	$ 243,666,066

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

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, 2012.

Type of Equipment	Asset Balance June 30, 2012
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	$ 1,326,895
Less: Amount Representing Interest	126,089
Total Present Value of Net Minimum Lease Payments	$ 1,200,806

Changes in long-term liabilities for the year ended June 30, 2012, are as follows:

Fiscal Year Ended June 30, 2012					
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds	$ 525,370,000	$ 56,965,000	$ 76,485,000	$ 505,850,000	$ 17,895,000
Deferral on debt defeasance	(3,107,580)	(4,082,794)	(394,931)	(6,795,443)	(595,130)
Net unamortized premium	7,207,645	9,247,517	508,944	15,946,218	865,339
Notes	10,140,976		1,901,695	8,239,281	2,082,072
Leases	1,671,707		470,901	1,200,806	473,109
Installment contracts	31,687,814	6,971,219	2,324,344	36,334,689	2,434,157
Compensated absences	17,947,364	615,607	184,065	18,378,906	1,130,467
Liability for retiree insurance benefits	9,312,914	1,226,690		10,539,604	
Totals	$ 600,230,840	$ 70,943,239	$ 81,480,018	$ 589,694,061	$ 24,285,014

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

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.

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

	Principal	Interest*	Total
2013	$ 22,884,338	$ 23,853,406	$ 46,737,744
2014	23,306,288	23,597,566	46,903,854
2015	24,037,155	22,761,149	46,798,304
2016	24,680,307	21,850,975	46,531,282
2017	26,379,602	20,846,742	47,226,344
2018-2022	137,583,606	87,204,308	224,787,914
2023-2027	87,313,480	59,588,798	146,902,278
2028-2032	81,955,000	39,933,433	121,888,433
2033-2037	83,930,000	19,916,150	103,846,150
2038-2042	39,555,000	3,314,141	42,869,141
Totals	$ 551,624,776	$ 322,866,668	$ 874,491,444
Less Deferral on Debt Defeasance	(6,795,443)		
Plus Net unamortized premiums	15,946,218		
Totals	$ 560,775,551		

*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, 2012, until maturity. The estimated future interest for these notes was calculated using the rate of 2.2%.

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, 2012, and June 30, 2011, that are pledged:

BOND SERIES	REVENUE SOURCE	2012	2011[1]
Series 1997 Various Facilities	Student Tuition and Fees	$ 188,696,913	$ 159,341,171
Series 2001 Various Facilities	Sales and Services	13,074,148	12,101,079
Series 2002 Various Facilities	Residential Life	33,047,957	31,097,352
Series 2004 Various Facilities	Arkansas Union[2]		757,904
Series 2005 Various Facilities	Bookstore[3]	18,487,696	16,705,062
Series 2006 Various Facilities	Student Health Services	569,714	874,019
Series 2007 Various Facilities	Transit and Parking	6,591,747	7,333,833
Series 2008 Various Facilities	Other Auxiliaries	3,985,648	3,150,792
Series 2009 Various Facilities			
Series 2011 Various Facilities			
Series 2012 Various Facilities	Total Various Fac. Pledge	$ 264,453,823	$ 231,361,212
Series 2005 Athletic Refunding	Men's Athletic Revenue	$ 61,439,528	$ 60,972,368
Series 2006 Athletic Facilities	(less game guarantees)	(3,368,027)	(2,429,200)
Series 2010 Athletic Refunding			
Series 2011 Athletic Facilities			
	Total Athletics Pledge	$ 58,071,501	$ 58,543,168

[1]Pledged revenue amounts for the year ended June 30, 2011 do not reflect the changes to revenue as a result of the prior year restatement discussed at Note 20.
[2]For the year ending June 30, 2012, the Arkansas Union was reclassified from Auxiliary Enterprises to Educational and General. Its applicable revenues are now included in Sales and Services.
[3]For the purposes of calculating pledged revenues, Bookstore revenues shown include internally generated revenues from sales to the University campus of $5,103,498 for the year ending June 30, 2012 and $5,242,584 for the year ending June 30, 2011.

The following is a comparison of pledged revenues earned to the amount of debt service per bond issue for the year ended June 30, 2012:

BOND SERIES	MATURITY DATE	PURPOSE OF DEBT	REMAINING PRINCIPAL & INTEREST	FY2012 PRINCIPAL & INTEREST	REVENUE SOURCE	FY2012 REVENUE	% OF PLEDGED REVENUES IN FY2012
VARIOUS FACILITIES BONDS:							
Series 1997 Various Facilities	11/01/2022	Construction of Parking Facility, Alumni Center, Union Renovation and other Capital Assets	$ 1,832,474	$ 196,913	Various Fac. Pledge	$ 264,453,823	.07%
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	Various Fac. Pledge	264,453,823	.48%
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		4,478,175	Various Fac. Pledge	264,453,823	1.69%
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	5,849,207	2,340,884	Various Fac. Pledge	264,453,823	.89%
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.	93,490,704	4,444,738	Various Fac. Pledge	264,453,823	1.68%
Series 2006 Various Facilities	11/01/2036	Construction of Student Housing, Law School Addition, Steam Plant Performance Contract, and Poultry Science Energy Management	112,875,367	3,953,985	Various Fac. Pledge	264,453,823	1.50%
Series 2007 Various Facilities	11/01/2037	Construction of Student Housing	73,663,594	2,851,563	Various Fac. Pledge	264,453,823	1.08%
Series 2008 Various Facilities	11/01/2038	Construction of Parking Garage, Bookstore, KUAF Radio, and other facilities, also purchase of parcels of land.	92,578,957	3,015,683	Various Fac. Pledge	264,453,823	1.14%
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	90,530,324	3,233,058	Various Fac. Pledge	264,453,823	1.22%
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.	194,823,279	4,709,036	Various Fac. Pledge	264,453,823	1.78%
Series 2012 Various Facilities Refunding	11/01/2032	Refunded $44,555,000 of Series 2002 Various Facility Revenue Bonds and $17,080,000 of Series 2004A Various Facility Revenue Bonds	90,889,169		Various Fac. Pledge	264,453,823	
		Total Percentage of Pledged Revenues					11.53%
ATHLETIC FACILITIES BONDS AND NOTE:							
Series 2005 Athletic Facilities	09/15/2011	Refund Series 1997 Athletic Facilities Bonds for Walton Arena		1,442,720	Athletics Pledge	58,071,501	2.48%
Series 2006 Athletic Facilities	09/15/2022	Construction of John McDonnell Outdoor Track Stadium	7,747,664	702,091	Athletics Pledge	58,071,501	1.21%
Series 2010 Athletic Facilities	09/15/2020	Refunded Series 1999 and 2001 Athletic Facilities Bonds for Football Stadium	24,632,978	2,426,952	Athletics Pledge	58,071,501	4.18%
Series 2011 Athletic Facilities	09/15/2021	Construction of Football Center	28,355,850	607,218	Athletics Pledge	58,071,501	1.05%
Series 2008 Athletic Facilities Revenue Prom. Note	09/13/2013	Improvements to various athletic facilities	1,489,851	1,191,881	Athletics Pledge	58,071,501	2.05%
		Total Percentage of Pledged Revenues					10.97%

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%

(10). Commitments

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

Construction and Architect Contracts

Project Name	Completion Date	Beginning Contract Balance Plus Amendments	Amount Paid	Year-End Contract Balance
ARKU Interior Fit-Out and Renovations	Substantially Complete	$ 4,596,217	$ 4,388,499	$ 207,718
ARE-ON Fiber Optic	July, 2013	13,781,750	9,167,990	4,613,760
ARTP Hazmat Building	Substantially Complete	385,396	225,076	160,320
Child Development Research Center	August, 2012	6,824,999	5,281,733	1,543,266
Chiller Replacement	August, 2012	1,981,523	1,775,627	205,896
Football Center	June, 2013	36,955,366	13,440,523	23,514,843
Founders Hall	December, 2013	4,051,017	1,113,897	2,937,120
Hillside Auditorium	October, 2012	12,949,785	5,969,465	6,980,320
Hotz Hall Renovation	August, 2013	1,202,246	876,992	325,254
Housing Administration Building	October, 2013	337,884	32,996	304,888
Nano Science & Technology Center	Substantially Complete	1,066,571	839,395	227,176
Ozark Hall Renovation and Addition	July, 2013	22,394,544	7,351,514	15,043,030
Peabody Hall Renovation	Substantially Complete	3,925,500	3,853,071	72,429
Phi Gamma Delta Fraternity House	Substantially Complete	2,452,497	2,434,538	17,959
Pi Beta Phi Gate & Campus Walk Ext.	September, 2012	3,123,890	1,981,251	1,142,639
Pomfret Honors Quarters	December, 2012	7,483,190	2,717,015	4,766,175
Science D Building Lab Upgrades	December, 2014	2,059,109	1,517,252	541,857
Uptown Campus	August, 2012	776,228	651,359	124,869
Vol Walker Hall Renovation	August, 2013	31,228,716	12,401,456	18,827,260
Walton Hall South-Wilson Sharp	Substantially Complete	2,847,745	2,829,130	18,615
WCOB Atrium Renovation	August, 2012	989,511	184,213	805,298
Yocum Hall Renovation	December, 2012	4,392,876	588,834	3,804,042
Other	Various	7,259,343	5,136,681	2,122,662
Totals		$ 173,065,903	$ 84,758,507	$ 88,307,396

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, 2012.

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, 2012, were $7,850,017. Minimum future annual rental payments for leases having an

initial term in excess of one year totaled $3,914,821. Below are the scheduled payments for the five succeeding fiscal years and thereafter.

Year ended June 30	Amount
2013	$ 1,938,650
2014	1,153,741
2015	269,297
2016	214,400
2017	112,533
2018-2022	156,000
2023-2027	70,200
Total	$ 3,914,821

(11). Employee Benefits

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, 2012, were $14,973,403 and $15,168,522, respectively. The University's and participants' Fidelity Investments contributions for the year ending June 30, 2012, were $5,721,349 and $5,900,388, respectively. 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.

APERS is a cost-sharing multiple employer defined benefit plan administered by the State of Arkansas. The University contributes 13.47% 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, 2012, were $420,627 and $83,389, respectively. The University's and participants' contribution 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.

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, 2012, were $303,552 and $82,177, respectively. 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 to all other pension plans for the year ended June 30, 2012, were $429,643 and $322,556, 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.

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, 2012, a total of 4,903 active employees, former employees, and retirees were participants in the health plan. For the year ending June 30, 2011, the total of active employees, former employees, and retirees participating in the health plan was 4,827. The University pays 73.519% for the Point of Service Plan and 81.178% for the Classic Plan for Fayetteville, the Criminal Justice Institute and the Arkansas Archeological Survey. The

University pays 74.295% for the Point of Service Plan and 79.905% for the Classic Plan for the Division of Agriculture. The University pays 70% of the health plan for federal employees.

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 ($10,000 available coverage) to eligible retirees. 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 $10,539,604 in retiree healthcare liability as of June 30, 2012.

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, 2011
Valuation year	Census data was collected as of January 1, 2010 Liabilities were rolled forward to the July 1, 2011 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 9.5%, 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.

Changes in Actuarial Assumptions and Methods

The mortality rates were changed from the RP-2000 Combined Healthy Mortality Table projected to 2011 by scale AA to the RP-2000 Fully Generational Combined Healthy Mortality Table projected by scale AA to better reflect anticipated future mortality improvements. The immediate medical inflation rate was changed from 9.0% to 9.5% to better anticipate future experience.

Medical Coverage – Retirees not Eligible for Medicare
Claim experience for the period May 1, 2010 through April 30, 2012 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 610 life years of exposure and was deemed to be 80% 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 May 1, 2010 through April 30, 2012 was used to develop per capita claims cost for Medicare-eligible retirees. This experience includes 2,900 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 May 1, 2010 through April 30, 2012 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 Fully Generational Combined Healthy Mortality Table projected 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 7/1/11	$	22,239,601
Annual Required Contribution (ARC)		
Normal cost	$	1,079,510
Amortization of the unfunded actuarial accrued liability over 30 years		794,025
Interest		84,308
Annual Required Contribution for FY12		1,957,843
Interest on Net OPEB Obligation		418,690
ARC Amortization Adjustment		(347,139)
Annual OPEB Cost for FY12	$	2,029,394
Net OPEB Obligation, 7/1/11	$	9,312,914
Annual OPEB Cost for FY12		2,029,394
Less: Expected Employer Contributions		(802,704)
Net OPEB Obligation, 6/30/12	$	10,539,604

Schedule of Employer Contributions

Fiscal Year Ending	Annual OPEB Cost	Expected Contribution	Percentage Contributed	Net Obligation at Year End
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
6/30/12	$ 2,029,394	$ 802,704	39.55%	$ 10,539,604

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
6/30/12	$ 0	$ 22,239,601	$ 22,239,601	0%	$ 247,779,672	8.98%

(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, 2012, 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 2012:

	Beginning Balance	Additions	Retirements	Adjustments	Ending Balance
NONDEPRECIABLE CAPITAL ASSETS					
Land	$ 32,628,936	$ 5,033,288			$ 37,662,224
Construction in progress	94,904,381	134,845,249		$ (92,898,592)	136,851,038
Other assets	1,232,442	422,007			1,654,449
TOTAL NONDEPRECIABLE CAPITAL ASSETS	128,765,759	140,300,544		(92,898,592)	176,167,711
DEPRECIABLE CAPITAL ASSETS					
Buildings	1,055,395,008	4,826,696	$ 1,015,153	85,786,306	1,144,992,857
Equipment	199,690,583	15,634,935	5,488,615		209,836,903
Improvements	26,048,919	610,840		84,602	26,744,361
Infrastructure	52,496,647	845,352		7,021,900	60,363,899
Intangible assets	81,620,339				81,620,339
Library holdings	72,441,664	1,110,262	121,627		73,430,299
Total depreciable capital assets	1,487,693,160	23,028,085	6,625,395	92,892,808	1,596,988,658
Less accumulated depreciation					
Buildings	(403,447,470)	(36,355,866)	(407,195)		(439,396,141)
Equipment	(157,158,394)	(15,870,794)	(5,292,170)	(3,310)	(167,740,328)
Improvements	(12,826,184)	(1,060,891)		(7,591)	(13,894,666)
Infrastructure	(29,121,556)	(2,356,009)		(203,256)	(31,680,821)
Intangible assets	(73,425,145)	(4,513,666)			(77,938,811)
Library holdings	(61,416,055)	(2,600,420)	(117,868)		(63,898,607)
Total accumulated depreciation	(737,394,804)	(62,757,646)	(5,817,233)	(214,157)	(794,549,374)
TOTAL DEPRECIABLE CAPITAL ASSETS	750,298,356	(39,729,561)	808,162	92,678,651	802,439,284
TOTAL CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION	$ 879,064,115	$ 100,570,983	$ 808,162	$ (219,941)	$ 978,606,995

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 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

The University estimates holdings of $10.3 million in timber resources as of June 30, 2012. The estimated value of these holdings was $11 million as of June 30, 2011. These resources, which total 13,268 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, 2012:

	Salaries, Wages and Benefits	Scholarships and Fellowships	Supplies and Other Services	Depreciation	Total
Instruction	$ 123,825,928		$ 19,659,050		$ 143,484,978
Research	71,466,948		31,211,713		102,678,661
Public Service	54,610,957		18,941,087		73,552,044
Academic Support	25,858,042		11,576,363		37,434,405
Student Services	15,659,684		7,306,012		22,965,696
Institutional Support	38,544,801		11,715,363		50,260,164
Scholarships and Fellowships	117,901	$ 27,071,128	136,044		27,325,073
Operation and Maintenance of Plant	17,764,876		27,158,893		44,923,769
Auxiliary Enterprises	44,647,218		49,725,874		94,373,092
Depreciation				$ 62,757,646	62,757,646
Totals	$ 392,496,355	$ 27,071,128	$ 177,430,399	$ 62,757,646	$ 659,755,528

For the year ended June 30, 2011:

	Salaries, Wages and Benefits	Scholarships and Fellowships	Supplies and Other Services	Depreciation	Total
Instruction	$ 120,557,795		$ 18,165,641		$ 138,723,436
Research	71,946,538		27,663,658		99,610,196
Public Service	52,761,143		16,105,308		68,866,451
Academic Support	22,874,916		11,438,045		34,312,961
Student Services	13,049,305		6,081,729		19,131,034
Institutional Support	34,065,139		7,985,770		42,050,909
Scholarships and Fellowships	199,077	$ 29,557,381	168,584		29,925,042
Operation and Maintenance of Plant	16,878,857		44,361,055		61,239,912
Auxiliary Enterprises	41,458,168		46,000,465		87,458,633
Depreciation				$ 57,645,916	57,645,916
Totals	$ 373,790,938	$ 29,557,381	$ 177,970,255	$ 57,645,916	$ 638,964,490

(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. 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, 2012, 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	$ 2,326,192
Investments	12,658,269
Other Assets	5,665,126
Fixed Assets, Net of Depreciation	5,957,490
Total Assets	**$ 26,607,077**
Liabilities and Net Assets	
Liabilities	$ 2,091,231
Net Assets	24,515,846
Total Liabilities and Net Assets	**$ 26,607,077**

Condensed Statement of Activities		
Ticket Sales	$	4,973,143
Contributions and Sponsorships		2,241,422
Other Income		7,995,274
Total Income and Other Additions	**$**	**15,209,839**
Total Expenditures and Other Deductions	**$**	**11,713,614**
Increase/(Decrease) in Net Assets	**$**	**3,496,225**

(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, 2012, 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 50.7% of the net assets of the Foundation. The remaining 49.3% benefits other University of Arkansas campuses.

Condensed Statement of Financial Position		
Assets		
Investments	$	679,169,662
Contributions Receivable, less Allowance		51,874,709
Other Receivables		1,853,869
Fixed Assets, Net of Depreciation		1,106,752
Other Assets		869,703
Total Assets	**$**	**734,874,695**
Liabilities and Net Assets		
Liabilities	$	19,263,746
Net Assets		
Unrestricted		78,209,537
Restricted		637,401,412
Net Assets		715,610,949
Total Liabilities and Net Assets	**$**	**734,874,695**

Condensed Statement of Activities		
Contributions	$	59,785,223
Other Revenues, Additions and Gains/(Losses)		15,142,023
Total Income and Other Additions/(Losses)	**$**	**74,927,246**
Total Expenditures and Other Deductions	**$**	**87,599,190**
Increase/(Decrease) in Net Assets	**$**	**(12,671,944)**

(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, 2012.

(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 $2,500 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 Revenues, Expenses and Changes in Net Assets has been restated for the year ended June 30, 2011. The University has determined that the revenue and expenses arising from certain internal transactions between Educational and General departments and Auxiliary Enterprises should have been eliminated. Revenues and expenses have each been reduced by a total of $14,648,099. The Statement of Cash Flows has also been restated to reflect this change. This change has no effect on Net Assets.

(21). 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, 2012, the study has been completed and the grant closed. The University remains under no obligation to begin pollution remediation of the site.

(22). Subsequent Events

On September 13, 2012, the University issued $60,540,000 in Various Facility Revenue Bonds, Series 2012B. The purpose of the bonds is to finance all or a portion of certain capital improvements on the Fayetteville campus.

(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

2012
ANNUAL FINANCIAL REPORT

REQUIRED SUPPLEMENTAL INFORMATION

Other Postemployment Benefits

Determination of End of Year Accrual		
Unfunded actuarial accrued liability at 7/1/11	$	22,239,601
Annual Required Contribution (ARC)		
Normal cost	$	1,079,510
Amortization of the unfunded actuarial accrued liability over 30 years		794,025
Interest		84,308
Annual Required Contribution for FY12		1,957,843
Interest on Net OPEB Obligation		418,690
ARC Amortization Adjustment		(347,139)
Annual OPEB Cost for FY12	$	2,029,394
Net OPEB Obligation, 7/1/11	$	9,312,914
Annual OPEB Cost for FY12		2,029,394
Less: Expected Employer Contributions		(802,704)
Net OPEB Obligation, 6/30/12	$	10,539,604

Schedule of Employer Contributions

Fiscal Year Ending	Annual OPEB Cost	Expected Contribution	Percentage Contributed	Net Obligation at Year End
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
6/30/12	$ 2,029,394	$ 802,704	39.55%	$ 10,539,604

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
6/30/10	$ 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%
6/30/12	$ 0	$ 22,239,601	$ 22,239,601	0%	$ 247,779,672	8.98%

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.

Changes in Actuarial Assumptions and Methods

The mortality rates were changed from the RP-2000 Combined Healthy Mortality Table projected to 2011 by scale AA to the RP-2000 Fully Generational Healthy Mortality Table projected by scale AA to better reflect anticipated future mortality improvements. The immediate medical inflation rate was changed from 9.0% to 9.5% to better anticipate future experience.

Medical Coverage – Retirees not Eligible for Medicare

Claim experience for the period May 1, 2010 through April 30, 2012 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 610 life years of exposure and was deemed to be 80% 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 May 1, 2010 through April 30, 2012 was used to develop per capita claims cost for Medicare-eligible retirees. This experience includes 2,900 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 May 1, 2010 through April 30, 2012 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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