JOHN BROWN UNIVERSITY

JOHN BROWN UNIVERSITY and AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS
With Independent Auditors' Report

June 30, 2010 and 2009

CAPINCROUSE LLP
Certified Public Accountants

JOHN BROWN UNIVERSITY
and
AFFILIATES

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CAPINCROUSE LLP
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INDEPENDENT AUDITORS' REPORT

Board of Trustees
John Brown University
and Affiliates
Siloam Springs, Arkansas

We have audited the accompanying consolidated statements of financial position of John Brown University and Affiliates (the University) as of June 30, 2010 and 2009, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of John Brown University and Affiliates as of June 30, 2010 and 2009, and the changes in its consolidated net assets and its consolidated cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 2 and 8 to the consolidated financial statements, effective July 1, 2009, the University adopted FASB Accounting Standards Update No. 2009-12, Investments in Certain Entities That Calculate Net Asset Value per Share.

Capin Crouse LLP

Colorado Springs, Colorado
September 28, 2010

JOHN BROWN UNIVERSITY
and
AFFILIATES

Consolidated Statements of Financial Position

	June 30, 2010	June 30, 2009
ASSETS:		
Cash and cash equivalents	$ 13,204,516	$ 14,560,329
Investments with trustees	4,441,774	8,356,324
Student accounts receivable–net of allowance of $72,854 and $78,832, for 2010 and 2009, respectively	553,165	735,651
Other receivables	1,007,772	614,637
Contributions receivable–net	11,720,820	6,794,518
Property held for sale	3,400,000	-
Cash held for buildings and capital projects	4,828,316	2,819,563
Other assets	829,052	518,459
Student loans–net of allowance of $184,104 for 2010 and 2009	1,792,068	1,778,120
Charitable trust investments	1,347,356	1,466,322
Retained life estate	-	391,967
Beneficial interest in trusts held by others	797,229	632,824
Property, plant, and equipment–net	68,804,071	55,566,195
Long-term investments	55,484,061	53,424,114
Total Assets	$ 168,210,200	$ 147,659,023
LIABILITIES AND NET ASSETS:		
Liabilities:		
Trade and other accounts payable	$ 5,770,076	$ 5,350,366
Contruction retainage payable	1,049,697	-
Deferred tuition revenue	1,103,276	1,140,965
Annuity and trusts payable	1,156,575	1,373,569
Government loans and grants	1,447,129	1,587,495
Asset retirement obligations	100,003	95,465
Bonds payable	9,678,916	9,215,185
	20,305,672	18,763,045
Net assets:		
Unrestricted	72,307,594	60,967,200
Temporarily restricted	23,833,796	22,239,536
Permanently restricted	51,763,138	45,689,242
	147,904,528	128,895,978
Total Liabilities and Net Assets	$ 168,210,200	$ 147,659,023

See notes to consolidated financial statements

JOHN BROWN UNIVERSITY
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Consolidated Statement of Activities

	Year Ended June 30, 2010				Year Ended June 30, 2009
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Summarized Totals
REVENUE, SUPPORT, RECLASSIFICATIONS, AND NET GAINS:					
Tuition and fees–net of discounts ($11,548,356 in 2010)	$ 18,280,312	$ -	$ -	$ 18,280,312	$ 17,904,418
Sales and services of auxiliaries–net of discounts ($689,704 in 2010)	6,314,318	-	-	6,314,318	6,500,169
Contributions	975,493	2,476,942	-	3,452,435	3,084,204
Annual gifts from Chapman trusts	1,515,030	1,577,906	-	3,092,936	3,381,674
Spendable return from endowment	3,298,668	-	-	3,298,668	3,063,704
Other income	2,113,685	-	-	2,113,685	1,715,399
Federal and state governmental grants	1,825,377	-	-	1,825,377	1,620,548
Other investment income and gains	541,765	-	-	541,765	512,891
Net assets released from purpose restrictions	4,416,537	(4,416,537)	-	-	-
Total Revenue, Support, Reclassifications, and Net Gains	39,281,185	(361,689)	-	38,919,496	37,783,007
EXPENSES:					
Instruction	13,599,956	-	-	13,599,956	12,703,257
Institutional support	6,800,837	-	-	6,800,837	6,358,062
Student services	5,685,509	-	-	5,685,509	5,214,942
Operation and maintenance of plant	4,690,244	-	-	4,690,244	4,891,295
Academic support	3,275,541	-	-	3,275,541	3,048,079
Auxiliary services	2,892,110	-	-	2,892,110	2,726,051
Depreciation expense	2,832,781	-	-	2,832,781	2,624,976
Total Expenses	39,776,978	-	-	39,776,978	37,566,662
Change in Net Assets from Operating Activity	(495,793)	(361,689)	-	(857,482)	216,345

(continued)

See notes to consolidated financial statements

JOHN BROWN UNIVERSITY
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Consolidated Statement of Activities
(continued)

	Year Ended June 30, 2010				Year Ended June 30, 2009
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Summarized Totals
NONOPERATING ACTIVITY:					
Contributions	-	11,099,487	6,073,896	17,173,383	11,813,200
Change in value of annuities and trusts	-	216,994	-	216,994	(195,315)
Nonspendable (board designated) endowment gain (loss)	2,456,907	-	-	2,456,907	(14,947,699)
Gain on disposal of property, plant, and equipment	-	18,748	-	18,748	-
Net assets released from purpose restrictions–capital expenditures	9,379,280	(9,379,280)	-	-	-
Change in Net Assets from Nonoperating Activity	11,836,187	1,955,949	6,073,896	19,866,032	(3,329,814)
Change in Net Assets	11,340,394	1,594,260	6,073,896	19,008,550	(3,113,469)
Net Assets, Beginning of Year	60,967,200	22,239,536	45,689,242	128,895,978	132,009,447
Net Assets, End of Year	$ 72,307,594	$ 23,833,796	$ 51,763,138	$ 147,904,528	$ 128,895,978

See notes to consolidated financial statements

JOHN BROWN UNIVERSITY
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Consolidated Statement of Activities

	Year Ended June 30, 2009				Year Ended June 30, 2008
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Summarized Totals
REVENUE, SUPPORT, RECLASSIFICATIONS, AND NET GAINS:					
Tuition and fees–net of discounts ($10,362,131 in 2009)	$ 17,904,418	$ -	$ -	$ 17,904,418	$ 17,650,130
Sales and services of auxiliaries–net of discounts ($644,592 in 2009)	6,500,169	-	-	6,500,169	5,971,196
Annual gifts from Chapman trusts	1,540,941	1,840,733	-	3,381,674	3,480,609
Contributions	818,130	2,266,074	-	3,084,204	2,667,215
Spendable return from endowment	3,063,704	-	-	3,063,704	3,036,251
Other income	1,715,399	-	-	1,715,399	2,719,121
Federal and state governmental grants	1,620,548	-	-	1,620,548	1,756,603
Other investment income and gains	104,951	407,940	-	512,891	1,194,058
Net assets released from purpose restrictions	4,149,766	(4,149,766)	-	-	-
Total Revenue, Support, Reclassifications, and Net Gains	37,418,026	364,981	-	37,783,007	38,475,183
EXPENSES:					
Instruction	12,703,257	-	-	12,703,257	13,186,024
Institutional support	6,358,062	-	-	6,358,062	6,070,541
Student services	5,214,942	-	-	5,214,942	5,209,468
Operation and maintenance of plant	4,891,295	-	-	4,891,295	4,999,860
Academic support	3,048,079	-	-	3,048,079	2,909,550
Auxiliary services	2,726,051	-	-	2,726,051	2,754,563
Depreciation expense	2,624,976	-	-	2,624,976	2,457,316
Total Expenses	37,566,662	-	-	37,566,662	37,587,322
Change in Net Assets from Operating Activity	(148,636)	364,981	-	216,345	887,861

(continued)

See notes to consolidated financial statements

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Consolidated Statement of Activities
(continued)

	Year Ended June 30, 2009				Year Ended June 30, 2008
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Summarized Totals
NONOPERATING ACTIVITY:					
Contributions	-	8,995,386	2,817,814	11,813,200	7,994,671
Change in value of annuities and trusts	39,107	(40,654)	(193,768)	(195,315)	30,967
Nonspendable (board designated) endowment loss	(14,947,699)	-	-	(14,947,699)	(5,416,384)
Loss on disposal of property, plant, and equipment	-	-	-	-	(360,349)
Net assets released from purpose restrictions–capital expenditures	159,394	(159,394)	-	-	-
Change in Net Assets from Nonoperating Activity	(14,749,198)	8,795,338	2,624,046	(3,329,814)	2,248,905
Change in Net Assets Before Cumulative Effect of Change in Accounting Principle	(14,897,834)	9,160,319	2,624,046	(3,113,469)	3,136,766
*Cumulative Effect of Change in Accounting Principle	(1,291,380)	1,291,380	-	-	-
Change in Net Assets	(16,189,214)	10,451,699	2,624,046	(3,113,469)	3,136,766
Net Assets, Beginning of Year	77,156,414	11,787,837	43,065,196	132,009,447	128,872,681
Net Assets, End of Year	$ 60,967,200	$ 22,239,536	$ 45,689,242	$ 128,895,978	$ 132,009,447

*Total donor-restricted endowment value as of June 30, 2009, including income and appreciation not previously appropriated for expenditure.

See notes to consolidated financial statements

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Consolidated Statements of Cash Flows

	Year Ended June 30, 2010	Year Ended June 30, 2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 19,008,550	$ (3,113,469)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	2,832,781	2,624,976
Accretion of asset retirement obligation	4,538	8,326
Change in value of annuities and trusts	(216,994)	(237,706)
Contributions restricted for permanent investment and property, plant, and equipment	(13,073,896)	(3,967,958)
Donated property, classified as held for sale	(2,000,000)	-
Net (gain) loss in investments	(4,052,780)	13,345,938
(Gain) loss on disposal of property, plant, and equipment	(18,748)	10,567
Change in operating assets and liabilities:		
Student accounts receivable	(210,649)	(26,375)
Contributions receivable	(5,689,896)	(9,546,275)
Beneficial interest in trusts held by others	(164,405)	172,527
Other assets	(310,593)	(4,002)
Trade and other accounts payable	419,710	100,698
Contruction retainage payable	1,049,697	-
Government loans and grants	(154,314)	(277,678)
Deferred tuition revenue	(37,689)	72,257
Net Cash Used by Operating Activities	(2,614,688)	(838,174)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	18,416,102	20,538,073
Purchase of investments	(16,687,975)	(20,413,083)
Purchase of property, plant, and equipment	(7,052,817)	(4,656,050)
Proceeds from sale of property, plant, and equipment	164,899	-
Net Cash Used by Investing Activities	(5,159,791)	(4,531,060)

(continued)

See notes to consolidated financial statements

JOHN BROWN UNIVERSITY
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Consolidated Statements of Cash Flows
(continued)

	Year Ended June 30, 2010	2009
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions restricted for permanent investment and property, plant, and equipment:		
Endowment	6,073,896	2,121,270
Plant	7,000,000	1,846,688
Increase in cash held for buildings and capital projects	(7,882,555)	(453,452)
Collection of contributions receivable	763,594	3,620,020
Repayment of bonds payable	(106,269)	(545,000)
Proceeds from issuance of new bonds	570,000	-
Net Cash Provided by Financing Activities	6,418,666	6,589,526
Change in Cash and Cash Equivalents	(1,355,813)	1,220,292
Cash and Cash Equivalents, Beginning of Year	14,560,329	13,340,037
Cash and Cash Equivalents, End of Year	$ 13,204,516	$ 14,560,329
SUPPLEMENTAL DISCLOSURE:		
Cash payments for interest (none capitalized)	$ 424,543	$ 447,826
Investments reclassified to property plant and equipment	$ 3,290,189	$ -
Maturity of life estate and reclassified to investments	$ 695,000	$ -
Bonds issued to finance prior bond series	$ 8,045,534	$ -
Investments reclassified to property held for sale	$ 1,900,000	$ -

See notes to consolidated financial statements

JOHN BROWN UNIVERSITY
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Notes to Consolidated Financial Statements

June 30, 2010 and 2009

1. NATURE OF ORGANIZATION:

John Brown University (the University) is an independent Christian university of arts and sciences located in Siloam Springs, Arkansas. The University offers a variety of traditional undergraduate degrees, nontraditional adult degree completion programs, and graduate degrees in counseling, leadership and ethics, MBA, and ministry. The University is classified as a tax-exempt 501(c)(3) educational organization by the Internal Revenue Service. As such, it is exempt from federal and state income tax, and contributions by the public are deductible for income tax purposes. The University does have some unrelated business activities related to community usage of the wellness center and the activities of Beaver Lake Joint Venture. There has been no tax liability related to these activities during the years ended June 30, 2010 and 2009.

ACCREDITATION

The University is accredited by the North Central Association of Colleges and Schools and is approved by the Arkansas State Department of Education for the preparation of teachers. The engineering program, including electrical and mechanical concentrations, is accredited by the Accreditation Board for Engineering and Technology (ABET). The construction management program has secondary accreditation from the American Council for Construction Education (ACCE). The University is accredited for the preparation of teachers by the National Council for the Accreditation of Teacher Education (NCATE). The United States Department of Justice has approved the University for the education of foreign students.

2. SIGNIFICANT ACCOUNTING POLICIES:

The consolidated financial statements have been prepared on the accrual basis. The significant accounting policies followed are described below to enhance the usefulness of the consolidated statements to the reader. The University uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of any contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements.

RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform to current year presentation.

PRINCIPLES OF CONSOLIDATION

These consolidated financial statements include the balances and activities of the University described above and its affiliate. The affiliate is Beaver Lake Joint Venture, a land development general partnership with undeveloped land and lots under various stages of development that have been sold on contract by the partnership. The University is a 67 percent owner and acts as managing partner. All significant intercompany balances and transactions are eliminated.

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

PRINCIPLES OF CONSOLIDATION, continued
The University has established a foundation to serve as a supporting organization to hold and invest endowment funds on behalf of the University. This entity would be required to be consolidated in the financial statements. The John Brown University Foundation received notification of its 501(c)(3) status as of May 5, 2003. Currently, there has been no activity for the Foundation. All significant intercompany balances and transactions are eliminated.

COMPARATIVE FINANCIAL INFORMATION
The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 2009, from which the summarized information was derived.

NET ASSETS
The consolidated financial statements report amounts separately by class of net assets.

Unrestricted net assets are those currently available at the direction of the board for use in the University's operations, board designated assets for scholarships, and those resources invested in property and equipment.

Temporarily restricted net assets are those which are stipulated by donors for specific operating purposes or for the acquisition of property and equipment and those that are time restricted. It also includes positive investment income balances from permanently restricted endowments.

Permanently restricted net assets are those contributed with donor restrictions requiring they be held in perpetuity.

CASH AND CASH EQUIVALENTS
For purposes of the consolidated statements of cash flows, the University considers cash on hand, bank checking accounts, money market accounts, and certificates of deposit with original maturities of three months or less to be cash and cash equivalents. Amounts held in cash for construction of buildings are reflected in the statements of financial positions as cash held for buildings. The University maintains its cash and cash equivalents in bank accounts which may, at times, exceed federally insured limits. The University has not experienced any losses in such accounts.

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

INVESTMENTS
Investments in debt and equity securities are stated at fair value. Investments in land, buildings, and related improvements are stated at the lower of cost or market. In the event land, buildings, and related improvements which were initially acquired as investments are subsequently used to support current operations, such land, buildings, and related improvements are reclassified from investments to property and equipment in the year in which they are first used to support current operations. The alternative investments, which are not readily marketable, are carried at estimated fair values as provided by the investment managers. The University reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. Those estimated fair values may differ significantly from the values that would have been used had a readily available market for these investments existed. Included in alternative investments is privately-held stock, which is not readily marketable, and is carried at its estimated fair value according to a methodology provided by an independent appraisal.

Investment securities are exposed to various risks, such as changes in interest rates or credit ratings and market fluctuations. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is possible that the value of the University's investments and total net assets balance could fluctuate materially.

PROPERTY, PLANT, AND EQUIPMENT–NET
Plant facilities are stated at cost if acquired or at fair market or appraised amounts at the date of gift if donated. The capitalization policy is $5,000. Depreciation is provided over estimated useful lives of the assets on a straight-line basis. Upon retirement or other disposal of property, the cost and accumulated depreciation are removed, and the resulting gain or loss, if any, is recognized. The costs of repairs and maintenance are charged to expenditures as incurred, and the costs of replacements, renewals, and betterments are capitalized.

CONTRIBUTIONS RECEIVABLE
Contributions receivable are unconditional promises to give and are recognized as assets and support in the period made. An allowance for doubtful contributions receivable has been recorded based on estimates of uncollectible amounts using historical trends and knowledge of the donor.

ALLOWANCE FOR DOUBTFUL ACCOUNTS AND LOAN LOSSES
An allowance for doubtful accounts has been offset against accounts receivable based on estimates of uncollectible amounts. The allowance for loan losses in the student loan fund is computed using a historical default rate. Loans (in default) assigned to the U.S. Department of Education are charged to the allowance in the year in which they are assigned.

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

ALLOWANCE FOR DOUBTFUL ACCOUNTS AND LOAN LOSSES, continued

After a student is no longer in attendance at the University, the student receives a letter each month if no payment is received. After two or three letters, the account is turned over to a collection agency. Interest and collection fees are recognized as revenue when charged to a student's account. When a student's account is turned over to a collection agency, interest is no longer charged to the account. If the collection agency is unable to collect from the student, the account is returned to the University. The University will take legal action or turn the account over to a second collection agency. The account is written-off once there is no further action to receive collateral.

PROPERTY HELD FOR SALE

Property held for sale represent two pieces of real estate property. The properties are valued at lower of cost or fair market value. As of June 30, 2010, the values reflect recent appraisals and contracts with third parties. The University is not depreciating these assets as they are being held for sale.

The University is renting one of the properties to a foundation related to a board member. The document for this agreement has been drafted but had not been signed as of the consolidated statement of financial position date. The foundation will be making rental payments through December 31, 2010 to the University and has an option to purchase the property for $1,900,000 with the rental payments applied to the purchase of the property. Rental payments made are recorded as other payables until the foundation exercises the option or allows the option to lapse. As of June 30, 2010 and 2009, the amount included in other accounts payables is $1,768,425 and $1,560,375, respectively.

DEBT ISSUANCE COSTS

Debt issuance costs are recorded at cost and are amortized over the term of the debt agreements using the straight-line method which approximates the effective-interest method. Such amounts are recorded as other assets.

ANNUITY CONTRACTS AND ANNUITY TRUSTS

Annuity contracts and annuity trusts are recorded as liabilities at the present value of the aggregate payments due to annuitants and income beneficiaries, based upon acceptable life expectancy tables. Remainder interests to the University are reported as temporarily or permanently restricted net assets based on purpose of the donor.

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

BENEFICIAL INTEREST IN TRUSTS HELD BY OTHERS
Beneficial interest in trusts held by others includes irrevocable perpetual trusts which are not trusteed by the University. The University's interest is measured at the present value of the future cash receipts and is included in temporarily or permanently restricted net assets based on the purpose of the donor. Adjustments to the amounts reported as assets are reported in nonoperating activity of annuities and trusts in the consolidated statements of activities.

ASSET RETIREMENT OBLIGATIONS
Asset retirement obligations (ARO) are legal obligations associated with the retirement of long-lived assets. These liabilities are initially recorded at fair value and the related asset retirement costs are capitalized by increasing the carrying amount of the related assets by the same amount as the liability. Asset retirement costs are subsequently depreciated over the useful lives of the related assets. Subsequent to initial recognition, the University records period-to-period changes in the ARO liability resulting from the passage of time and revisions to either the timing of the amount of the original estimate or undiscounted cash flows. The University derecognizes ARO liabilities when the related obligations are settled.

CONTRIBUTIONS, REVENUE, AND EXPENSES
Tuition revenue is recognized when earned which is when classes occur. Tuition payments made in advance are deferred as a liability titled deferred tuition revenue.

Contributions are recorded when made, which may be when cash is received, unconditional promises are made, or ownership of other assets is transferred to the University. Gifts of cash and other assets are recognized as restricted contributions if they are received with donor stipulations that limit the use of the donated assets. When a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

The University reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how those long-lived assets must be maintained, the University reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

CONTRIBUTIONS, REVENUE, AND EXPENSES, continued
Auxiliary services consist primarily of food services income and housing fees. These amounts are recorded when earned which is when refunds are no longer available. Other income consists primarily of event revenue from the Soderquist Center for Leadership and Ethics, health club memberships, missions trip revenue, and other miscellaneous income. Other income is recorded when earned. Federal and state governmental grants consist of tuition aid received from federal or state governments. Federal and state governmental grants are recognized when earned which is when they are received. The spendable return from endowment and the nonspendable endowment gain/loss is the investment income earned on endowment assets during the year and is recognized as income when earned.

Expenses are recognized when an obligation is incurred.

OPERATING AND NON-OPERATING ACTIVITIES
The activity of the University has been reported in the consolidated statements of activities in the following two categories: operating and non-operating. Operating includes the core educational activities of the organizations. Non-operating includes all other activity that is not considered to be "core educational," such as contributions restricted for capital projects, actuarial adjustment for certain split interest agreements, and nonspendable endowment gains.

ADVERTISING COSTS
Advertising costs for the years ended June 30, 2010 and 2009, of $684,055 and $613,265, respectively, are expensed as incurred and included in the consolidated statements of activities.

FUNCTIONAL ALLOCATION OF EXPENSES
Note 17 presents expenses by functional classification in accordance with the overall mission of the University. Each functional classification displays most expenses related to the underlying natural classification. Depreciation expense (stated separately) is allocated based on square footage occupancy in the functional expense note. Interest expense on external debt is allocated to the functional categories which have benefited from the proceeds of the external debt. Plant operations and maintenance (stated separately) represents space related costs which are allocated to the functional categories directly and/or based on the square footage occupancy. Fund-raising costs for the years ended June 30, 2010 and 2009, of $1,244,105 and $1,812,319, respectively, are included in institutional support. The University had no joint costs for the years ended June 30, 2010 and 2009.

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

RECENTLY ISSUED ACCOUNTING STANDARDS

On July 1, 2009, the University adopted the new provisions of the Income Tax Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). These provisions clarify the accounting for uncertainty in tax positions and prescribe guidance related to the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The tax benefit from an uncertain tax position is only recognized in the consolidated statement of financial position if the tax position is more likely than not to be sustained upon an examination, based on the technical merits of the position. Interest and penalties, if any, are included in expenses in the consolidated statements of activities. As of June 30, 2010, the University had no uncertain tax positions that qualify for recognition or disclosure in the consolidated financial statements.

In September 2009, the FASB issued Accounting Standards Update No. 2009-12, Investment in Certain Entities That Calculate Net Asset Value per Share (ASU 2009-12). ASU 2009-12 amends the Fair Value Measurements and Disclosures topic of the ASC, adding disclosures and providing guidance for estimating the fair value of investments in entities that calculate net asset value per share. The standard allows the net asset value per share (NAV) to be used as a practical expedient for fair value, provided that NAV is calculated in a manner consistent with the measurement principles of the Financial Services – Investment Companies topic of the ASC, including applicable provisions of the Fair Value Measurements topic of the ASC.

3. INVESTMENTS WITH TRUSTEES:

Investments with trustees, including deposits, by fund are:

	June 30,	
	2010	2009
Investments by fund:		
Central American Student Project	$ 3,131,880	$ 4,248,058
Annuity and life income funds	726,507	739,205
Funds held by others	551,947	1,435,916
Other	17,000	17,000
Plant funds–unexpended	14,440	1,916,145
	$ 4,441,774	$ 8,356,324

3. INVESTMENTS WITH TRUSTEES, continued:

Investments with trustees, including deposits, by type are:

	June 30, 2010	June 30, 2009
Investments by type:		
U.S. government bonds	$ 3,131,880	$ 4,248,058
Cash equivalents	579,632	3,358
Bond mutual fund	405,436	398,053
Bonds	293,386	1,773,710
Real estate	17,000	1,917,000
Assets of limited partnership	14,440	16,145
	$ 4,441,774	$ 8,356,324

4. CONTRIBUTIONS RECEIVABLE:

Unconditional promises to give are included in the consolidated financial statements as contributions receivable and revenue of the appropriate net asset category. Contributions receivable are recorded after discounting to the present value of the future cash flows. A discount rate of 2.27% was used at June 30, 2010 and 2009. Contributions receivable expected to be realized in the following periods are:

	June 30, 2010	June 30, 2009
One year or less	$ 10,402,508	$ 6,355,545
Between one year and five years	1,429,098	456,664
Less: present value discount	(36,000)	(11,516)
Less: allowance for uncollectible promises	(74,786)	(6,175)
	$ 11,720,820	$ 6,794,518

4. CONTRIBUTIONS RECEIVABLE continued:

Contributions receivable are for the following purposes:

	June 30, 2010	June 30, 2009
Building construction	$ 9,799,882	$ 6,115,665
Endowments	2,031,724	696,544
Less discount and allowance for uncollectible promises	(110,786)	(17,691)
	$ 11,720,820	$ 6,794,518

The University also received a Student Support Services (SSS) grant of $220,000 a year for five years from the U.S. Department of Education. Funding began during the year ended June 30, 2006, and as of August 16, 2010, this award has been renewed for another five years. No receivable was recorded for the remaining years as there are several conditions that must be met each year to receive the funding. SSS focuses on low-income students, first-generation college students, and students with disabilities. SSS grants are typically awarded for four years, but the top ten percent of applicants receive a bonus fifth year.

On March 14, 2007, the University was informed that a foundation had approved a five-year challenge grant to raise new funds for endowments. The grant will match dollar for dollar current gifts as they are received or irrevocable deferred gifts as they are completed up to $2,000,000 annually for a five year period. Any excess of $2,000,000 raised by the University in one year will be matched, up to $2,000,000 in total, in the following calendar year. If the University raises less than $2,000,000 allocated each year, the balance of the challenge will be carried over to the following years, until the full $10,000,000 is matched within the five-year challenge term. The matched funds will be placed into scholarship funds, plus other endowed programs as outlined in the proposal. One of the conditions of the match is that the matched endowment funds will be subject to a spending policy of no more than five percent of the market value of the funds unless the University Board amends its spending policy. The University received matching funds of no less than $2,000,000 for the years ended June 30, 2010 and 2009. The remaining balance of the grant for approximately $4,000,000 has not been recorded as a contribution receivable because it is contingent upon future events.

The University also received a grant of $544,000 a year for five years from the U.S. Department of Health and Human Services. Funding for Northwest Arkansas Healthy Marriages was provided by The U.S. Department of Health and Human Services (US DHHS), The Administration for Children and Families (ACF), Office of Family Assistance (OFA), Grant: 90FE000401. Funding began during the year ended June 30, 2007. No receivable was recorded for the remaining years as there are several conditions that must be met each year to receive the funding. The Center for Relationship Enrichment (CRE) is responsible for administering this grant to support research and development of healthy marriages in Northwest Arkansas.

5. STUDENT LOANS:
Student loans include loans made through the Perkins Loan Program (the Program). These loans stipulate that the federal government provide 75 percent of the total funds available with the University providing the remaining 25 percent. The Program provides for cancellation of a note at rates of 12.5 percent to 30 percent per year up to a maximum of 100 percent if the debtor complies with certain requirements of the program. The federal government reimburses the loan funds of the University for canceled indebtedness due to certain teaching services and various types of services for the U.S. government. At June 30, 2010 and 2009, approximately $1,751,600 and $1,835,100, respectively, of Perkins loans were outstanding. The allowance for possible loan losses of the Program approximates $152,400 as of June 30, 2010 and 2009. Also included in student loans are institutional loan funds of approximately $224,600 and $127,200 as of June 30, 2010 and 2009, respectively, with allowances for possible loan losses of approximately $31,700 as of June 30, 2010 and 2009.

6. CHARITABLE TRUST INVESTMENTS:
Charitable trust investments consist of:

	June 30,	
	2010	2009
Equity mutual funds	$ 939,017	$ 879,043
Bond mutual funds	370,386	364,029
Cash and cash equivalents	26,931	35,463
Government bond funds	11,022	33,838
Life insurance	-	153,949
	$ 1,347,356	$ 1,466,322

7. LONG-TERM INVESTMENTS:

Pooled investments comprise most of the endowment fund. In addition, the endowment fund holds other investments. For valuation techniques based on Fair Value Measurements Topic, see Note 8.

	June 30,	
	2010	2009
Long-term investments consist of:		
Bond mutual funds	$ 15,187,032	$ 11,588,084
International equity funds	12,241,869	12,297,628
Equity securities	10,753,328	9,797,803
Private investment companies	5,921,920	5,732,512
Bonds	3,066,770	3,011,381
Natural resource equity funds	2,432,397	1,288,016
Limited partnerships	2,173,467	1,675,729
Real estate	2,054,198	4,379,387
Oil and gas rights	692,554	813,347
Cash and cash equivalents	505,463	1,564,199
Real estate funds	298,067	743,761
Cash surrender value of life insurance	122,146	497,417
Artwork	34,850	34,850
Total Long-Term Investments	$ 55,484,061	$ 53,424,114

Investments in Private Investment Companies –Investments in private investment companies are valued by management in those companies at fair value utilizing the latest audited and unaudited financial statements provided by the underlying private investment companies, unless management of those companies determines that some other valuation is more appropriate.

The private investment companies have invested in certain securities whose values have been estimated by the management of the private investment companies in the absence of readily ascertainable market values. A majority of the remaining underlying assets of the private investments in investment companies are comprised of readily marketable securities, which are valued on a mark-to-market basis.

7. LONG-TERM INVESTMENTS, continued:

Investments in Limited Partnerships– Investments in limited partnerships are recorded based on the Partnership's proportionate share of the equity of the underlying investment vehicles, as reported. Net unrealized appreciation (depreciation) of investments is recorded based on the proportionate share of the aggregate amount of appreciation (depreciation) recorded by each underlying limited partnership. It includes a share of interest and dividend income, and realized and unrealized gains and losses on securities held by the underlying limited partnerships, net of operating expenses and fees by the general partner. Realized gains and losses are recognized on a cost recovery basis.

The University has committed a total of approximately $5,390,000 to various investment funds listed above. Theses amounts are due to a fund when the fund makes a capital call. Total capital calls, made and funded, as of June 30, 2010, were approximately $3,505,000.

Total investment income consists of:

	Year Ended June 30,	
	2010	2009
Investment income from investments with fair value determined by quoted market prices:		
Dividend and interest income	$ 924,857	$ 1,724,839
Net realized and unrealized losses	4,170,287	(8,207,363)
Investment and broker fees	(141,380)	(73,702)
	4,953,764	(6,556,226)
Investment income from investments with fair value determined by other methods:		
Interest and rental income	516,455	467,925
Net realized and unrealized gains and (losses)	903,715	(4,953,577)
Investment and broker fees	(76,594)	(329,226)
	1,343,576	(4,814,878)
	$ 6,297,340	$ (11,371,104)

7. LONG-TERM INVESTMENTS, continued:

Total investment income, consists of:

	Year Ended June 30, 2010	Year Ended June 30, 2009
Reported on consolidated financial statements:		
Spendable return from endowment	$ 3,298,668	$ 3,063,704
Other investment income and gains	541,765	512,891
Nonspendable board designated investment gain (loss)	2,456,907	(14,947,699)
	$ 6,297,340	$ (11,371,104)

8. FAIR VALUE MEASUREMENTS:

The University uses appropriate valuation techniques in compliance with Fair Value Measurements Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs have the lowest priority. The University uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the University measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs were not available.

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying statements of financial position measured at the fair value on a recurring basis and the level within the fair value measurement hierarchy in which the fair value measurements fall:

8. FAIR VALUE MEASUREMENTS, continued:

Fair value measurements as of June 30, 2010:

	Fair Value Measurements Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
Investments with trustees:				
U.S. government bonds	$ 3,131,880	$ -	$ -	$ 3,131,880
Bonds	293,386	-	-	293,386
Real estate	-	-	17,000	17,000
Bond mutual fund	405,436	-	-	405,436
Assets of limited partnership	-	-	14,440	14,440
Charitable trust investments:				
Equity mutual funds	939,017	-	-	939,017
Bond mutual funds	370,386	-	-	370,386
Government bond funds	11,022	-	-	11,022
Long-term investments:				
Equity securities	10,753,328	-	-	10,753,328
Bond mutual fund - readily tradeable	15,187,032	-	-	15,187,032
Bonds	3,066,770	-	-	3,066,770
Natural resource equity funds	2,432,397	-	-	2,432,397
Real estate funds - non-readily tradeable	-	-	298,067	298,067
International equity funds	12,241,869	-	-	12,241,869
Private investment companies	-	-	5,921,920	5,921,920
Real estate	-	-	2,054,198	2,054,198
Limited partnerships	-	-	2,173,467	2,173,467
Oil and gas rights	-	-	692,554	692,554
Cash surrender value of life insurance	-	122,146	-	122,146

8. FAIR VALUE MEASUREMENTS, continued:

Fair value measurements as of June 30, 2009:

	Fair Value Measurements Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
Investments with trustees:				
U.S. government bonds	$ 4,248,058	$ -	$ -	$ 4,248,058
Bonds	1,773,710	-	-	1,773,710
Real estate	-	-	1,917,000	1,917,000
Bond mutual fund	398,053	-	-	398,053
Assets of limited partnership	-	-	16,145	16,145
Charitable trust investments:				
Equity mutual funds	879,043	-	-	879,043
Bond mutual funds	364,029	-	-	364,029
Life insurance	-	153,949	-	153,949
Government bond funds	33,838	-	-	33,838
Long-term investments:				
Equity securities	9,797,803	-	-	9,797,803
Bond mutual fund - readily tradeable	11,588,084	-	-	11,588,084
Bonds	3,011,381	-	-	3,011,381
Natural resource equity funds	1,288,016	-	-	1,288,016
Real estate funds - readily tradeable	104,311	-	-	104,311
Real estate funds	-	-	639,450	639,450
International equity funds	12,297,628	-	-	12,297,628
Private investment companies	-	-	5,732,512	5,732,512
Real estate	-	-	4,379,387	4,379,387
Limited partnerships	-	-	1,675,729	1,675,729
Oil and gas rights	-	-	813,347	813,347
Cash surrender value of life insurance	-	497,417	-	497,417

8. FAIR VALUE MEASUREMENTS, continued:

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Level 1 Fair Value Measurements

The fair values of equity securities, corporate bonds, mutual funds, and U.S. Government securities are based on quoted market prices, when available.

Level 2 Fair Value Measurements

The fair value of the cash surrender value of life insurance policies is based on the University's share of the cash surrender value of the respective life insurance policy as represented by the insurance company.

Level 3 Fair Value Measurements

Investments in fund of hedge funds, real property, private equity, and natural resources are valued using level 3 inputs. The underlying investments in real estate are generally valued using a mixture of external and internal appraisals, based on current market information available for comparable properties. Fund of hedge funds are valued at monthly NAV, calculated by an independent administrator. For private equity, managers seek public market comparables of companies of similar industry, size, and product mix and determine an applicable valuation multiple, generally of EBITDA, which is then applied to the portfolio holdings to determine a total portfolio value. External purchase or sale offers or subsequent financings are also incorporated into the process for determining valuation and tend to be more prevalent in venture capital where public comparables are more difficult to find and apply. For oil and gas investments, reserve engineers quantify proved developed producing reserves, and based on production rates and a NYMEX forward price strip, the general partner provides a present value figure with cash flows discounted at a 10% rate, which is the industry standard. The following table provides further details of the Level 3 fair value measurements.

8. FAIR VALUE MEASUREMENTS, continued:

	Beginning Balance	Total losses (realized and unrealized) included in changes in net assets available for benefits	Purchases	Ending Balance
Year Ended June 30, 2010				
Real estate funds - non-readily tradeable	$ 639,450	$ (471,370)	$ 129,987	$ 298,067
Real estate	6,296,387	(4,225,189)	-	2,071,198
Private investment companies	5,732,512	189,408	-	5,921,920
Limited partnerships	1,691,874	94,664	401,369	2,187,907
Oil and gas rights	813,347	(120,793)	-	692,554
Year Ended June 30, 2009				
Real estate funds - non-readily tradeable	$ 1,129,768	$ (527,818)	$ 37,500	$ 639,450
Real estate	6,296,387	-	-	6,296,387
Private investment companies	5,854,197	(721,685)	600,000	5,732,512
Limited partnerships	1,177,700	(261,873)	776,047	1,691,874
Oil and gas rights	921,203	(107,856)	-	813,347

Losses (realized and unrealized) related to private investment companies, limited partnerships, real estate funds, and oil and gas rights are reported in the spendable return from the endowment or the nonspendable endowment loss.

8. DISCLOSURE OF FAIR VALUE AND FAIR VALUE MEASUREMENTS, continued:

The University uses the Net Asset Value (NAV) to determine the fair value for all hedge funds which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have attributes of an investment company. The following table lists investments in other investment companies (in partnership format) by major category at June 30, 2010.

Investment Category	Strategy	Fair Value Determined Using NAV	$ Amount of Unfunded Commitments	Timing to Draw Down Commitments	Redemption Terms	Redemption Restrictions	Redemption Restrictions In Place at Year End
Hedge Funds	Generate superior, long-term return with less risk than the market	$ 2,438,584	$ -	Funded at time of investment	With 100 days notice prior to redemption on the last day of the fiscal year of the fund	Directors may under emergency situations suspend redemption ability.	No emergency restrictions at year end
Hedge Funds	Achieve superior return with limited volatility	3,483,336	-	Funded at time of investment	With 100 days notice prior to redemption on the last day of the fiscal year of the fund	Directors may suspend redemptions in certain circumstances	No special restrictions or suspensions at year end
Private Equity	Generate superior long-term return through private equity investment in buyouts, venture capital, special situations and secondaries	381,956	1,266,602	5 days advance notice until commitment is met	By consent of general partner	Restricted by the availability of cash to meet the general obligations of the limited partnership	Normal consent of general partner

8. DISCLOSURE OF FAIR VALUE AND FAIR VALUE MEASUREMENTS, continued:

Investment Category	Strategy	Fair Value Determined Using NAV	$ Amount of Unfunded Commitments	Timing to Draw Down Commitments	Redemption Terms	Redemption Restrictions	Redemption Restrictions In Place at Year End
Private Equity	Generate superior long-term return through private equity investment in buyouts, venture capital, special situations and secondaries	$ 504,470	$ 213,750	5 days advance notice until commitment is met	By consent of general partner	Restricted by the availability of cash to meet the general obligations of the limited partnership	Normal consent of general partner
Private Equity	Generate superior long-term return through investment in partnership interests, limited liability company interests, and other equity interests	616,558	270,000	5 days advance notice until commitment is met	By consent of general partner	Restricted by the regulatory rules for private placement and consent of general partner	Normal consent of general partner
Private Equity	Generate superior long-term return through private equity investments in buyouts, venture capital, and mezzanine funds	670,483	135,313	7 days advance notice until commitment is met	By consent of general partner	Restricted by the regulatory rules for private placement and consent of general partner	Normal consent of general partner
		$ 8,095,387	$ 1,885,665				

9. PROPERTY, PLANT, AND EQUIPMENT–NET:

The following is a summary of the property, plant, and equipment at cost or amounts recorded at dates of gift, less accumulated depreciation.

	June 30, 2010	June 30, 2009
Property, plant, and equipment		
Land	$ 217,254	$ 247,416
Building and improvements	82,465,976	78,471,709
Equipment	10,002,982	9,581,091
Library books	1,154,787	1,117,870
	93,840,999	89,418,086
Less accumulated depreciation	(37,750,361)	(34,937,456)
	56,090,638	54,480,630
Construction in progress	12,713,433	1,085,565
Property, plant, and equipment–net	$ 68,804,071	$ 55,566,195

Depreciation is computed using the following estimated useful lives:

Buildings	40 - 50 years
Building improvements	15 - 25 years
Equipment	3 - 10 years
Library books	10 years

10. FEDERAL FINANCIAL ASSISTANCE:

The federal government awards the University various monies restricted for student financial aid. The monies are awarded through three federal programs: Pell Grant (Pell), Federal Supplemental Educational Opportunity Grant (FSEOG), and Federal Work Study (FWS).

Pell provides eligible students a foundation of financial aid to assist with defraying the costs of post-secondary education. Because the grants are classified as pass-through grants in the amount of $2,314,554 and $1,378,936 for the years ending June 30, 2010 and 2009, respectively, they are excluded from income and expense on these consolidated statements.

The FSEOG program provides need based grants to low income undergraduate students to promote access to post-secondary education. The University received and disbursed $128,291 and $88,076 of FSEOG awards during the years ended June 30, 2010 and 2009, respectively.

10. FEDERAL FINANCIAL ASSISTANCE, continued:

The FWS program provides part-time employment to students who need the earnings to help meet their post-secondary education costs. The program is also intended to broaden the range of worthwhile job opportunities to qualified students. The University received and disbursed $178,172 and $156,084 of FWS awards during fiscal years 2010 and 2009, respectively.

11. BONDS PAYABLE:

Bonds payable are comprised of:

	Amount Authorized	Interest Rates	June 30, 2010	June 30, 2009
Series 2000 bonds (a)	$ 10,000,000	4.35-5.35	$ -	$ 8,866,269
Series 2002 bonds (b)	2,445,000	2.00-4.50	138,916	348,916
Series 2009 bonds (c)	9,540,000	2.00-4.60	9,540,000	-
	$ 21,985,000		$ 9,678,916	$ 9,215,185

(a) On December 1, 2000, the City of Siloam Springs, Arkansas, Public Education Facilities Board (Facilities Board) issued $10,000,000 in Capital Improvement Revenue Bonds (Series 2000), with an average interest rate of 4.85 percent, for the purpose of providing funds to purchase a note issued by the University under a trust indenture. The University used the proceeds for the acquisition, construction, and equipping of certain capital improvements; to fund the purchase of a surety bond and municipal bond insurance company in lieu of a debt service reserve; and to pay a portion of the costs of issuance. The Series 2000 bonds were payable annually through December 1, 2020. Interest was payable semiannually. In the opinion of bond counsel, the deposit of the proceeds from issuance of the Series 2009 bonds (see below) on December 1, 2009 with the escrow trustee defeased the Series 2000 bond obligation.

(b) On June 1, 2002 , the Facilities Board issued $2,455,000 in Refunding Revenue Bonds (Series 2002), with an average interest rate of 3.25 percent. The University used the Series 2002 proceeds to advance refund $2,665,000 of outstanding Capital Improvement Revenue Bonds, Series 1995 and Series 1995B bonds with an average interest rate of 4.9 percent. The net proceeds of $2,455,000 (after payment of $58,227 in issuance costs and contingency of $3,126) plus an additional $182,486 of Series 1995 and 1995B monies released by defeasement were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Series 1995 and 1995B bonds to be defeased on September 1, 2002. As a result, the Series 1995 and 1995B bonds are considered to be defeased, and the liability for those bonds has been removed from the consolidated financial statements of the University. The Series 2002 bonds are payable annually through September 1, 2013. Interest is payable semiannually.

11. BONDS PAYABLE, continued:

(c) On December 1, 2009 , the Facilities Board issued $9,540,000 in Refunding Revenue Bonds (Series 2009), with an average interest rate of 3.30%. The University used the Series 2009 proceeds to advance refund $8,535,000 of outstanding Capital Improvement Revenue Bonds, Series 2000 bonds with an average interest rate of 4.85%, to fund a debt service reserve and pay the bond issuance costs. The net proceeds of $8,950,930 (after an original issue discount of $78,189, payment of $165,400 in issuance costs, $3,406 for contingency and funding of a debt service reserve fund deposit of $342,075) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Series 2000 bonds to be defeased on December 1, 2010. As a result, the Series 2009 bonds are considered to be defeased, and the liability for those bonds has been removed from the consolidated financial statements of the University. The Series 2009 bonds are payable annually through September 1, 2030 Interest is payable semiannually. The Series 2009 bonds are secured by pledged tuition and fee revenues from the University.

The agreements between the University and the issuers of the various bonds provide for the establishment and maintenance of various special funds under the control of the trustee for the bonds.

Annual debt maturities are:

Year Ending June 30,	
2011	$ 335,000
2012	340,000
2013	350,000
2014	355,000
2015	365,000
Thereafter	7,933,916
	$ 9,678,916

12. CHAPMAN TRUSTS:

The University is one of seven educational and charitable organizations designated to receive income from three charitable trusts established by Mr. and Mrs. James A. Chapman. From inception of the trusts, the trustee (a board member of the University), who has discretionary powers as to distribution, has distributed the maximum percentage (five percent) to the University. During the fiscal years ended June 30, 2010 and 2009, the University received $3,092,936 and $3,381,674, respectively, from the Chapman Trusts. The market value of the assets held by the Chapman Trusts at June 30, 2010 and 2009, aggregated approximately $1,123,860,000 and $1,105,629,000, respectively.

13. CENTRAL AMERICAN STUDENT PROJECT:

The Central American Student Project, which began in the fall of 1985, provides continuous educational opportunities to Central American students. Walton Enterprises, sole supporter of this program, has contributed gifts totaling $28,927,000 since inception of the project. During fiscal year 2007, Walton Enterprises contributed $10,000,000 to fund the program for future years. No additional gifts have been contributed. During fiscal years 2010 and 2009, Central American students were brought to the University and educated for total project costs of $2,073,393 and $1,973,515, respectively.

14. RETIREMENT PLAN:

The University participates in the Teachers' Insurance and Annuity Association (TIAA) and College Retirement Equities Fund (CREF). Under these retirement planning programs, employee authorized payroll deductions are remitted to TIAA and CREF. These programs are not employer maintained pension plans, and there is no liability accruing to the University. Contributions to these retirement programs for the years ended June 30, 2010 and 2009, totaled $910,840 and $906,859, respectively.

15. MEDICAL BENEFIT PLANS:

The University provides major medical and dental benefits through a partially self-funded health insurance plan for all eligible employees. The plan provides an aggregate stop loss point of 125 percent of expected claims, which is calculated annually by the insurance company. The plan also provides specific stop loss coverage of $115,000 per covered individual per year. Contributions to the plan for the years ended June 30, 2010 and 2009, were approximately $1,711,590 and $1,661,145, respectively.

16. SPECIAL TERMINATION BENEFITS:

Any full-time employee, who has served full-time for a continuous five years prior to retirement and elects to retire during or after the calendar year in which the employee turns 62 and no later than June 30 following the employee's attaining Social Security Full Retirement Age (FRA), will be eligible for a bonus equal to 50% of their last year's salary or hourly earnings. This bonus will be paid to the employee, one-half January 1 following retirement and one-half January 1, one year later.

Any full-time employee who has served full-time continuously for a minimum of ten years prior to retirement and elects to retire during or after the calendar year in which the employee turns 62 and before reaching Medicare eligibility, shall be eligible for the above bonus, and the University's contribution to the employee's medical/dental plan will be continued through the month in which the employee attains Medicare eligibility. The program benefits are contingent upon continuous employment with the University, up to the employee's retirement date. Liabilities for future payments to retired employees are recorded in the year the employee retires. The liability as of June 30, 2010 and 2009, was $144,302 and $262,293, respectively, and is included in accounts payable. Due to the inability to measure the amount, no liability is recorded related to future participation of current employees.

17. FUNCTIONAL EXPENSES:

The expenses of the University are classified in the following functional categories:

	Year Ended June 30, 2010			
	Department	Operation and Maintenance of Plant	Depreciation	Functional Total
Program services:				
Instruction	$ 11,124,689	$ 847,811	$ 1,148,151	$ 13,120,651
Student services	5,685,509	1,237,611	391,216	7,314,336
Auxiliary services	2,892,111	2,084,509	621,456	5,598,076
Academic support	3,275,541	312,203	273,154	3,860,898
Public service	1,993,062	288,646	100,500	2,382,208
	24,970,912	4,770,780	2,534,477	32,276,169
Supporting activities:				
Institutional support	6,803,707	398,798	298,304	7,500,809
	$ 31,774,619	$ 5,169,578	$ 2,832,781	$ 39,776,978

	Year Ended June 30, 2009			
	Department	Operation and Maintenance of Plant	Depreciation	Functional Total
Program services:				
Instruction	$ 10,935,074	$ 1,184,717	$ 773,301	$ 12,893,092
Student services	5,214,940	1,481,282	243,636	6,939,858
Auxiliary services	2,726,053	1,462,604	1,058,228	5,246,885
Academic support	3,048,079	338,436	267,008	3,653,523
Public service	1,768,183	91,091	82,653	1,941,927
	23,692,329	4,558,130	2,424,826	30,675,285
Supporting activities:				
Institutional support	6,358,062	333,165	200,150	6,891,377
	$ 30,050,391	$ 4,891,295	$ 2,624,976	$ 37,566,662

18. NET ASSETS:
Net assets consist of:

	June 30, 2010	June 30, 2009
Unrestricted net assets consist of:		
Undesignated	$ 2,238,307	$ 5,201,071
Quasi-endowment net assets	11,993,829	11,993,829
Net investment in land, buildings, and equipment	58,075,458	43,772,300
	$ 72,307,594	$ 60,967,200
Temporarily restricted net assets consist of:		
Contributions held for building	$ 4,828,316	$ 7,165,325
Contributions held for scholarships	4,722,699	6,692,369
Contributions receivable for building activities	9,689,096	6,109,490
Endowment income	3,554,779	1,291,380
Contributions held for radio station	358,999	409,343
Trust net assets	361,909	343,161
Other purpose and time restricted funds	416,990	228,468
	$ 23,833,796	$ 22,239,536
Permanently restricted net assets consist of:		
Scholarships	$ 25,142,572	$ 22,630,034
Instruction	20,605,043	20,699,437
Trust net assets	1,836,784	1,416,184
Contributions receivable	2,031,724	696,544
Property	2,006,585	-
Other	140,430	247,043
	$ 51,763,138	$ 45,689,242

19. ENDOWMENT FUNDS:
The State of Arkansas enacted the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) effective February 26, 2009, the provisions of which apply to endowment funds existing on or established after that date. The board has determined that the University's permanently restricted net assets meet the definition of endowment funds under UPMIFA.

19. ENDOWMENT FUNDS, continued:

The University's endowment consists of approximately 200 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the board to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The board of trustees of the University has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditures by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the endowment fund;
2. The purposes of the institution and the endowment fund;
3. General economic conditions;
4. The possible effect of inflation or deflation;
5. The expected total return from income and the appreciation of investments;
6. Other resources of the institution; and
7. The investment policy of the institution.

19. ENDOWMENT FUNDS, continued:

Endowment net asset composition by type of fund as of June 30, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ -	$ 3,554,779	$ 51,763,138	$ 55,317,917
Board designated endowment funds	11,993,829	-	-	11,993,829
Total endowment funds	$ 11,993,829	$ 3,554,779	$ 51,763,138	$ 67,311,746

Changes in endowment net assets for the year ended June 30, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2009	$ 11,993,829	$ 1,291,380	$ 45,689,242	$ 58,974,451
Investment return:				
Interest and dividend income	-	1,054,298	-	1,054,298
Realized and unrealized gains and losses	-	4,310,109	-	4,310,109
Change in actuarial value	-	(26,890)	420,600	393,710
Total investment return	-	5,337,517	420,600	5,758,117
Contributions	-	-	5,653,296	5,653,296
Expenditure of endowment assets	-	(3,074,118)	-	(3,074,118)
Endowment net assets, June 30, 2010	$ 11,993,829	$ 3,554,779	$ 51,763,138	$ 67,311,746

19. ENDOWMENT FUNDS, continued:

Endowment net asset composition by type of fund as of June 30, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ -	$ 1,291,380	$ 45,689,242	$ 46,980,622
Board designated endowment funds	11,993,829	-	-	$ 11,993,829
Total endowment funds	$ 11,993,829	$ 1,291,380	$ 45,689,242	$ 58,974,451

Changes in endowment net assets for the year ended June 30, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2008	$ 28,177,514	$ -	$ 43,065,196	$ 71,242,710
Investment return:				
Interest and dividend income	1,453,607	-	-	1,453,607
Realized and unrealized gains and losses	(13,282,208)	-	-	(13,282,208)
Change in actuarial value	-	-	(193,768)	(193,768)
Total investment return	(11,828,601)	-	(193,768)	(12,022,369)
Contributions	-	-	2,817,814	2,817,814
Expenditure of endowment assets	(3,063,704)	-	-	(3,063,704)
Endowment net assets before reclassification	13,285,209	-	45,689,242	58,974,451
Net asset reclassification based on FSP FAS 117-1	(1,291,380)	1,291,380	-	-
Endowment net assets, June 30, 2009	$ 11,993,829	$ 1,291,380	$ 45,689,242	$ 58,974,451

19. ENDOWMENT FUNDS, continued:

Funds with deficiencies: From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the University to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were $7,284,616 and $8,246,861, as of June 30, 2010 and 2009, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that were deemed prudent by the board.

Return objectives and risk parameters: The University's Endowment exists to keep the cost of education in the lower quartile of tuition and fee charges among members of the Council for Christian Colleges and Universities, to provide student aid support to qualified students, and to ensure that the quality of that education remains excellent in the eyes of peers, accrediting associations, regional and national ratings of like institutions by third parties and among the University's publics. The endowment should be managed to provide both support for the current generation of students as well as growth to keep pace with inflation to support future generations of students. Specifically, managed funds as a whole should earn 5% over the risk-free rate of return (90-day T-bill rate) measured over five-year rolling periods. Actual returns in any given year may vary from this amount.

Strategies employed for achieving objectives: To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending policies and how the investment objectives relate to spending policy: The University has a policy of appropriating for distribution each year a percent of each endowment fund's average fair value measured over a five-year rolling period. The blended rate for the year ended June 30, 2010, was 5.33 percent. In establishing this policy, the University considered the long-term expected return on its endowment. The University's objective is to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

20. RELATED PARTY TRANSACTIONS:

COMPENSATION
The spouse of a former board member received payments related to development work in the amount of $11,000 for each of the years ended June 30, 2010 and 2009.

FACILITY LEASE
The University has a pending lease for conference facilities through a foundation associated with a board member. The documents completing this lease agreement have been drafted but had not been signed as of the date of the consolidated statements of financial position. The lease calls for semi-annual rental payments of $104,025 through 2010. The amount incurred under the facility lease expense for each of the years ended June 30, 2010 and 2009, was $208,050.

PRESIDENT'S RESIDENCE
In an effort to keep the President’s residence on campus, the University has entered into an agreement with the President whereby the President paid for the cost of constructing a new residence to be occupied by him and his family during his service as President of the University. This President’s residence is built upon a parcel of land currently owned by the University adjacent to its campus. The residence and the land on which it is constructed are owned by the President and the University as tenants-in-common.

BANKING
The President of the University is on the board of a local financial institution where the University has multiple bank accounts, investment accounts, and access to a line of credit. The total balance of the bank accounts and investment accounts held with this institution at June 30, 2010, was $14,494,478 and $5,138,051, respectively. The total balance of the bank accounts and investment accounts held with this institution at June 30, 2009, was $12,602,060 and $5,239,193, respectively. The line of credit available to the University as of June 30, 2010 and 2009 is a maximum amount of $1,500,000. There were no outstanding amounts as of June 30, 2010 or June 30, 2009.

21. LEASING COMMITMENTS:
The University has various operating leases for facilities and equipment.

The University entered into a new lease in July 2007 for a facility for its non-traditional adult education program. The lease calls for monthly lease payments of $24,944 beginning July 2007 through June 2012. The amount incurred under the agreement for facility lease expense was $299,325, for each of the years ended June 30, 2010 and 2009.

21. LEASING COMMITMENTS, continued:

The University has a facility operating lease for rental of off-site classrooms that runs through October 2010 with monthly payments of $4,258 per classroom. The amount incurred under the agreement for facility lease expense was $51,896 and $51,096, for the years ended June 30, 2010 and 2009, respectively.

The amounts incurred for lease expense in relation to equipment leases were $86,604 and $118,637, for the years ended June 30, 2010 and 2009, respectively.

Future minimum lease payments in relation to these facility leases are:

Years Ending June 30,	
2011	$ 393,467
2012	388,480
2013	10,156
	$ 792,103

22. BUILDING CONTRACTS:

During the year ended June 30, 2009, the University entered into two contracts with a general contractor for construction of a performing arts center and an arena. The total amount of these contracts was $4,623,438 and $6,148,213. As of June 30, 2010, the majority of the costs have been incurred. These costs have been capitalized and reported as construction in progress in the consolidated statement of financial position. A construction retainage of $1,049,697 is included in total costs incurred, and is reflected as a liability at June 30, 2010. Subsequent to June 30, 2010, construction was completed, the buildings were put into services and the retainage was paid in full. In addition, as of June 30, 2010, the University was in negotiations to enter into a new construction contract for the Engineering/CM Building.

23. LINE OF CREDIT:

The University has available a line of credit in the amount of $1,500,000, with a local financial institution. The stated interest rate was 5.5% as of June 30, 2010. The agreement matures on June 30, 2011. There were no outstanding amounts as of June 30, 2010.

24. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through the report date, which represents the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.