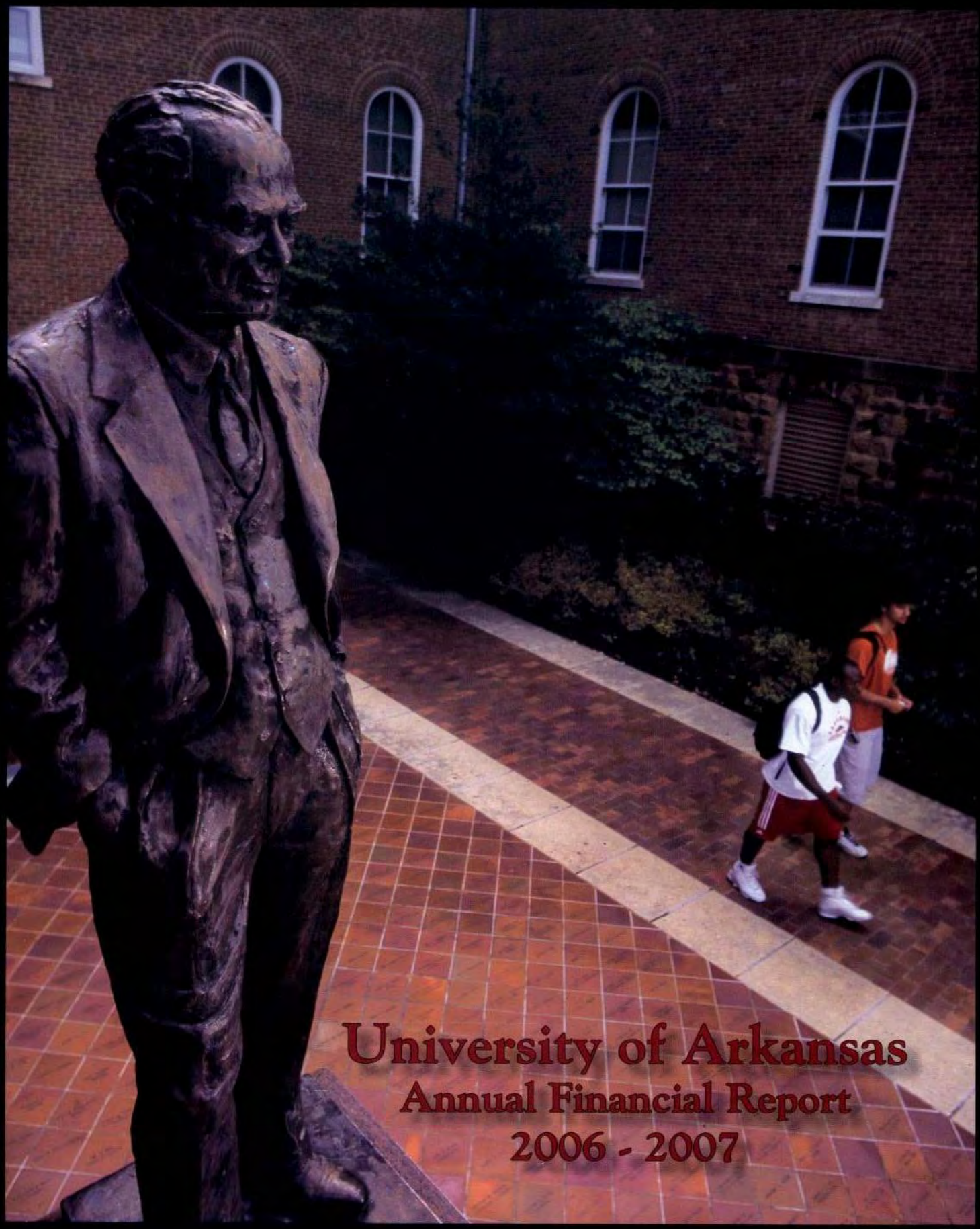


University of Arkansas

Annual Financial Report

2006 - 2007


UNIVERSITY OF ARKANSAS
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UNIVERSITY OF ARKANSAS
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1871

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Statue of J. William Fulbright—University Relations

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UNIVERSITY of ARKANSAS
1871

Vice Chancellor for Finance and Administration

406 Administration Building
Fayetteville, Arkansas 72701
(479) 575-5828
(479) 575-5400 (FAX)

November 5, 2007

Dr. John A. White
Chancellor
University of Arkansas
Fayetteville, AR 72701

Dear Chancellor White:

It is my pleasure to present the annual Financial Report of the University of Arkansas, for the year ended June 30, 2007.

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

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

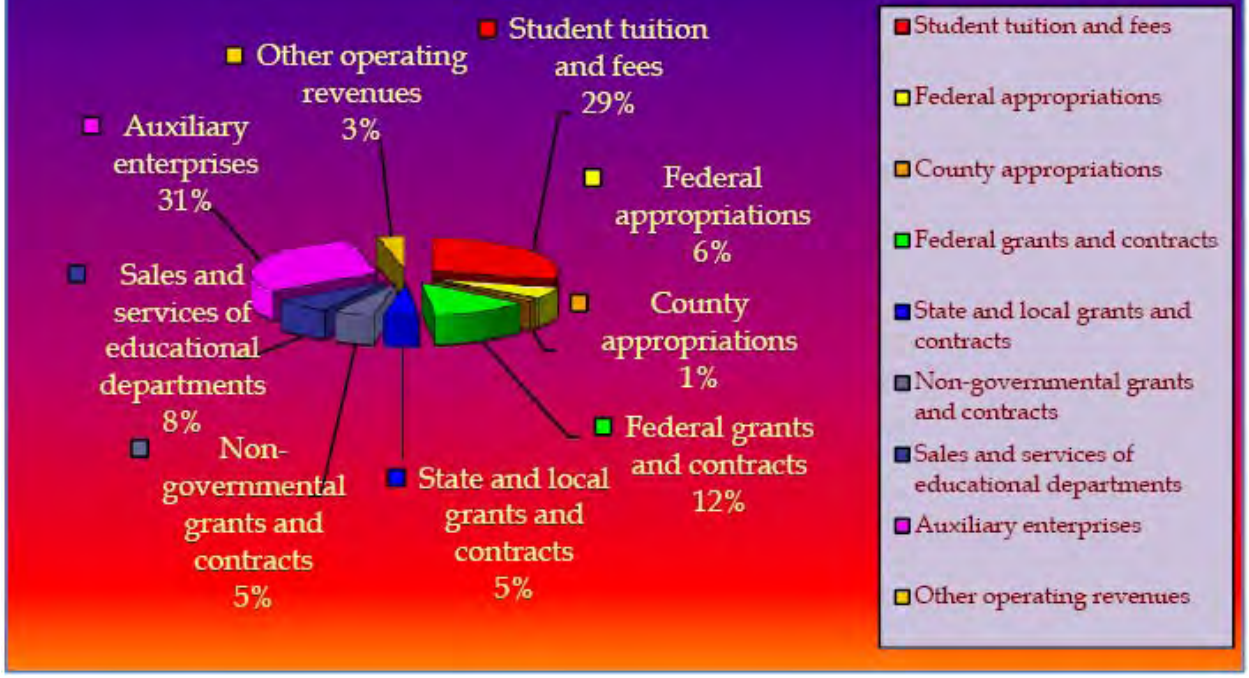
FISCAL YEAR 2007 OPERATING REVENUES

Student tuition and fees	81,394,464
Federal appropriations	15,957,347
County appropriations	2,770,866
Federal grants and contracts	34,632,063
State and local grants and contracts	12,665,997
Non-governmental grants and contracts	14,375,328
Sales and services of educational departments	20,741,669
Auxiliary enterprises	87,003,811
Other operating revenues	9,433,443
Total operating revenues	278,974,988

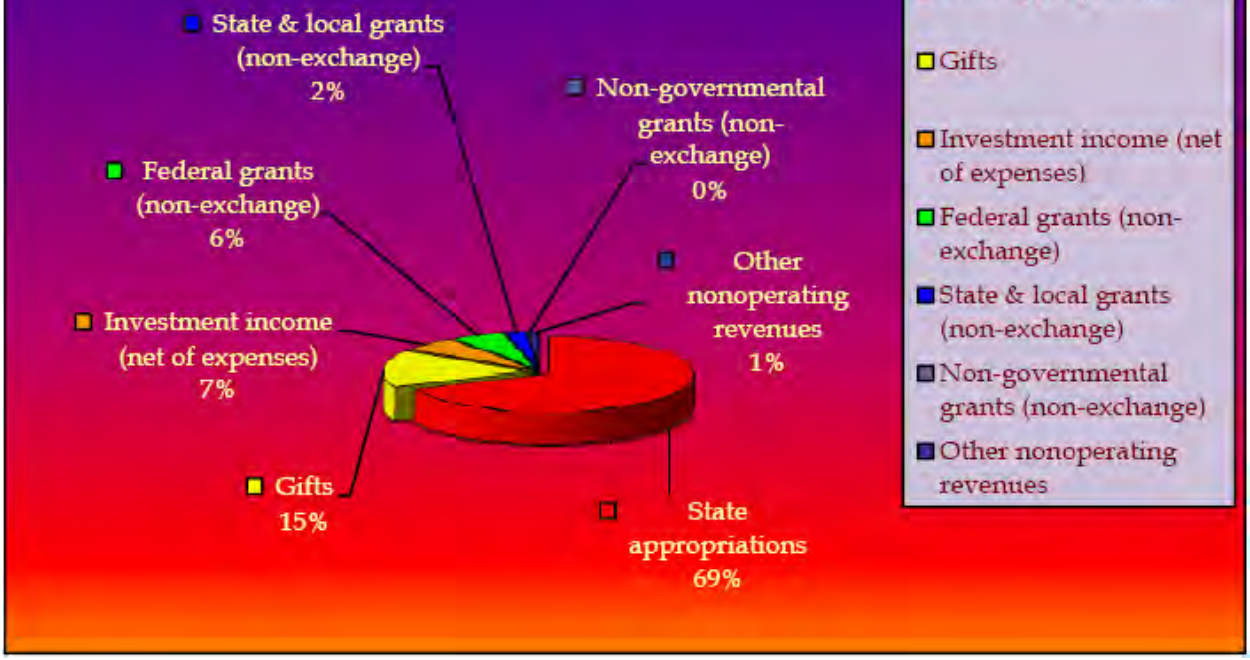
FISCAL YEAR 2007 NONOPERATING REVENUES

State appropriations	182,795,867
Gifts	40,339,155
Investment income (net of expenses)	18,320,867
Federal grants (non-exchange)	15,765,376
State & local grants (non-exchange)	5,979,816
Non-governmental grants (non-exchange)	813,493
Other nonoperating revenues	2,438,084
Total nonoperating revenues	266,452,658

Fiscal Year 2007 Operating Revenues



Fiscal Year 2007 Nonoperating Revenues



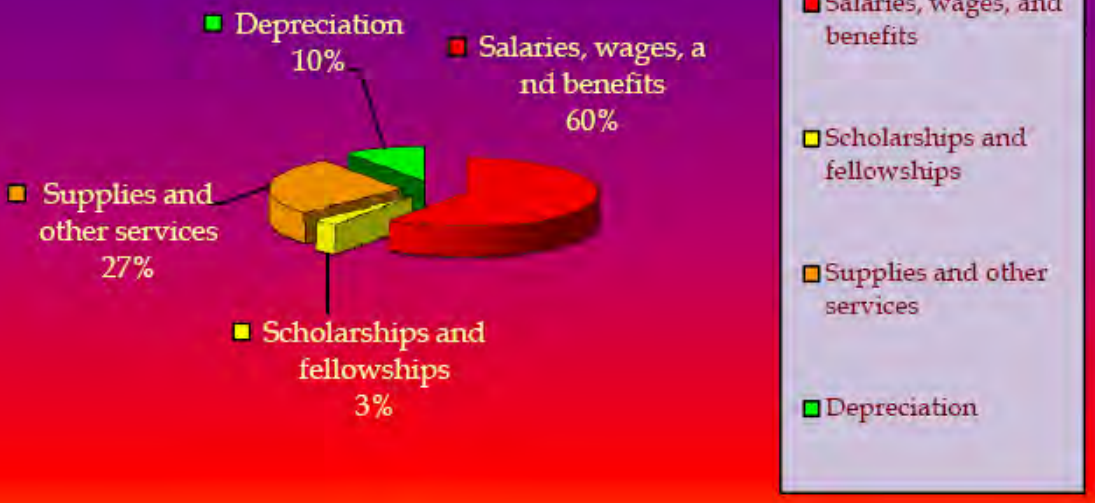
FISCAL YEAR 2007 OPERATING EXPENSES BY NATURAL CLASSIFICATION

Salaries, wages, and benefits	316,190,205
Scholarships and fellowships	15,893,133
Supplies and other services	143,826,380
Depreciation	52,159,518
Total operating expenses	528,069,236

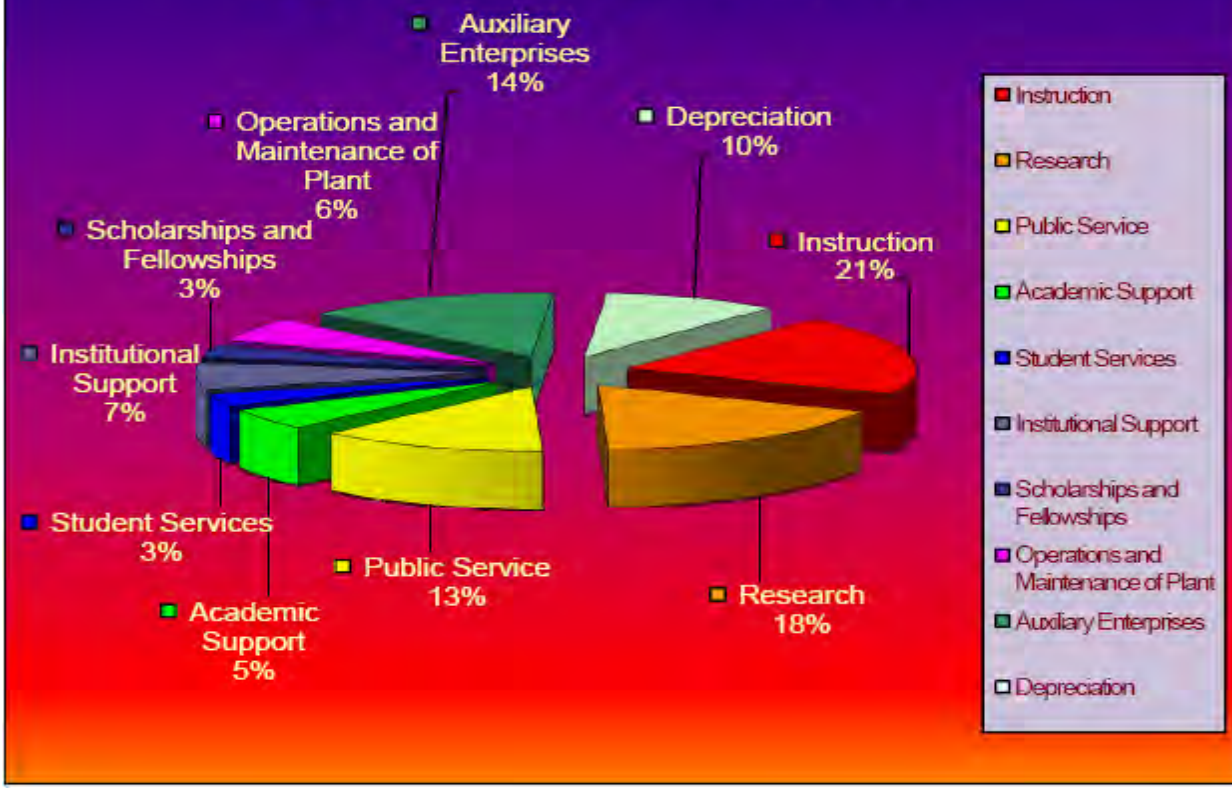
FISCAL YEAR 2007 OPERATING EXPENSES BY FUNCTION

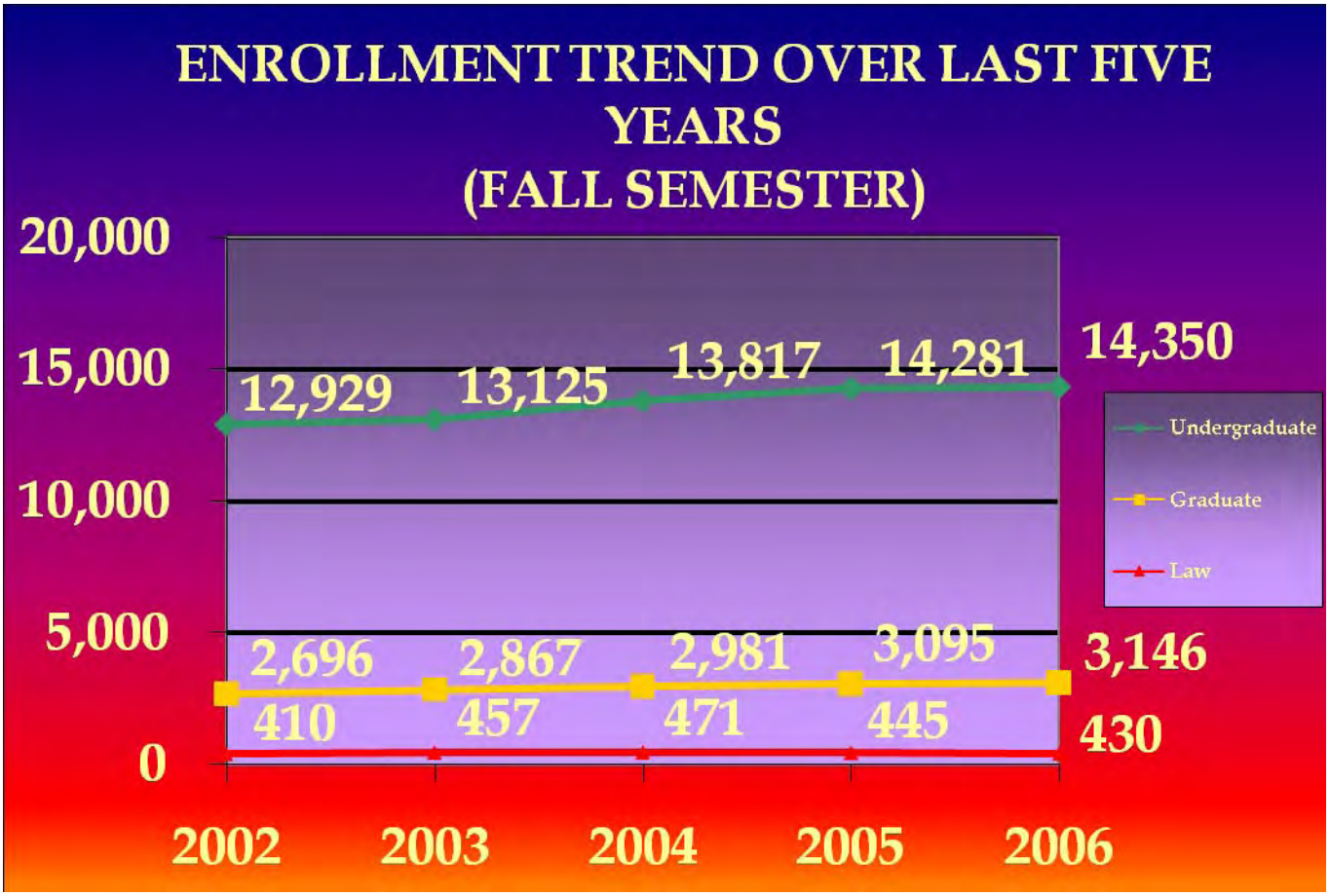
Instruction	108,442,645
Research	93,644,402
Public Service	67,540,992
Academic Support	29,100,476
Student Services	16,348,156
Institutional Support	35,837,311
Scholarships and Fellowships	17,075,534
Operations and Maintenance of Plant	32,787,635
Auxiliary Enterprises	75,132,567
Depreciation	52,159,518
Total	528,069,236

Fiscal Year 2007 Operating Expenses by Natural Classification

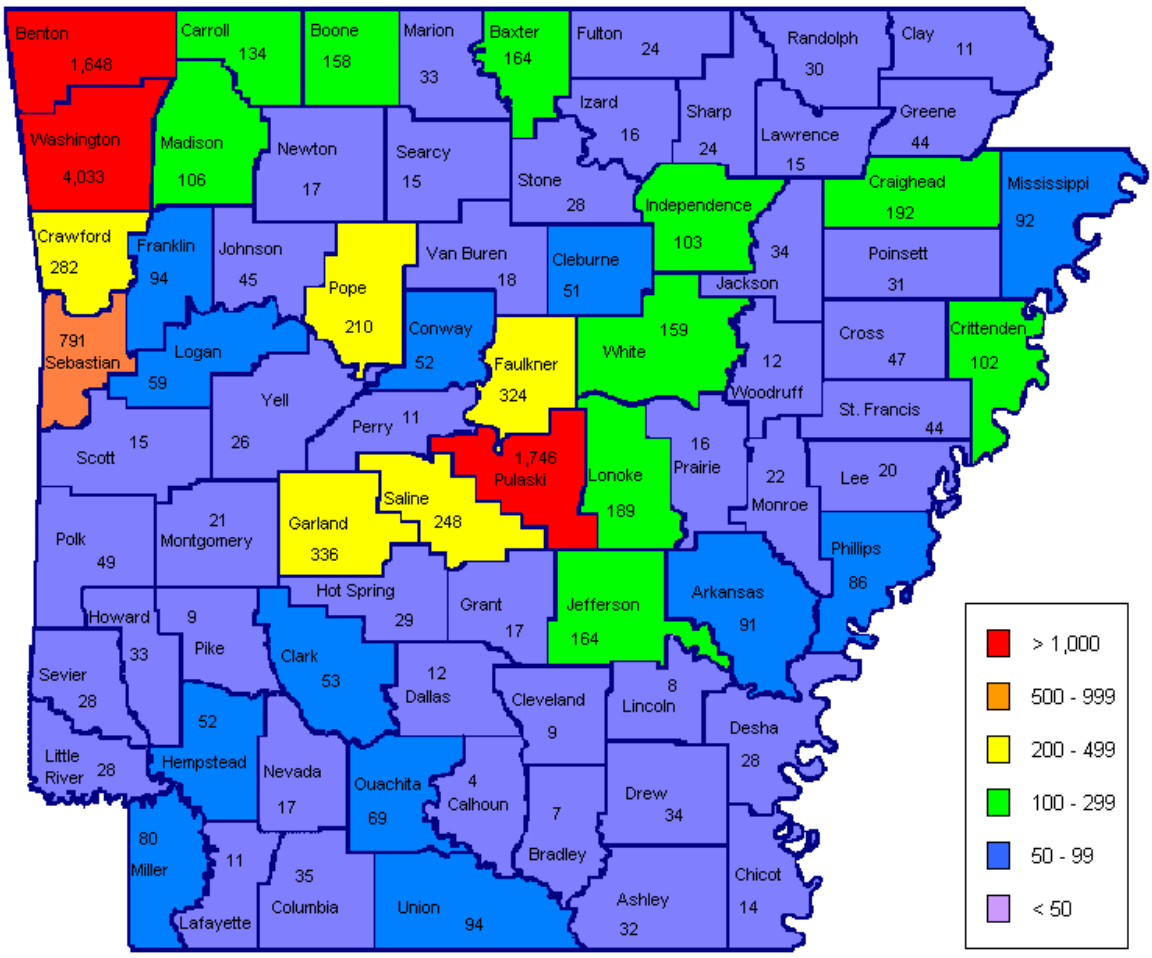


Fiscal Year 2007 Operating Expenses by Function

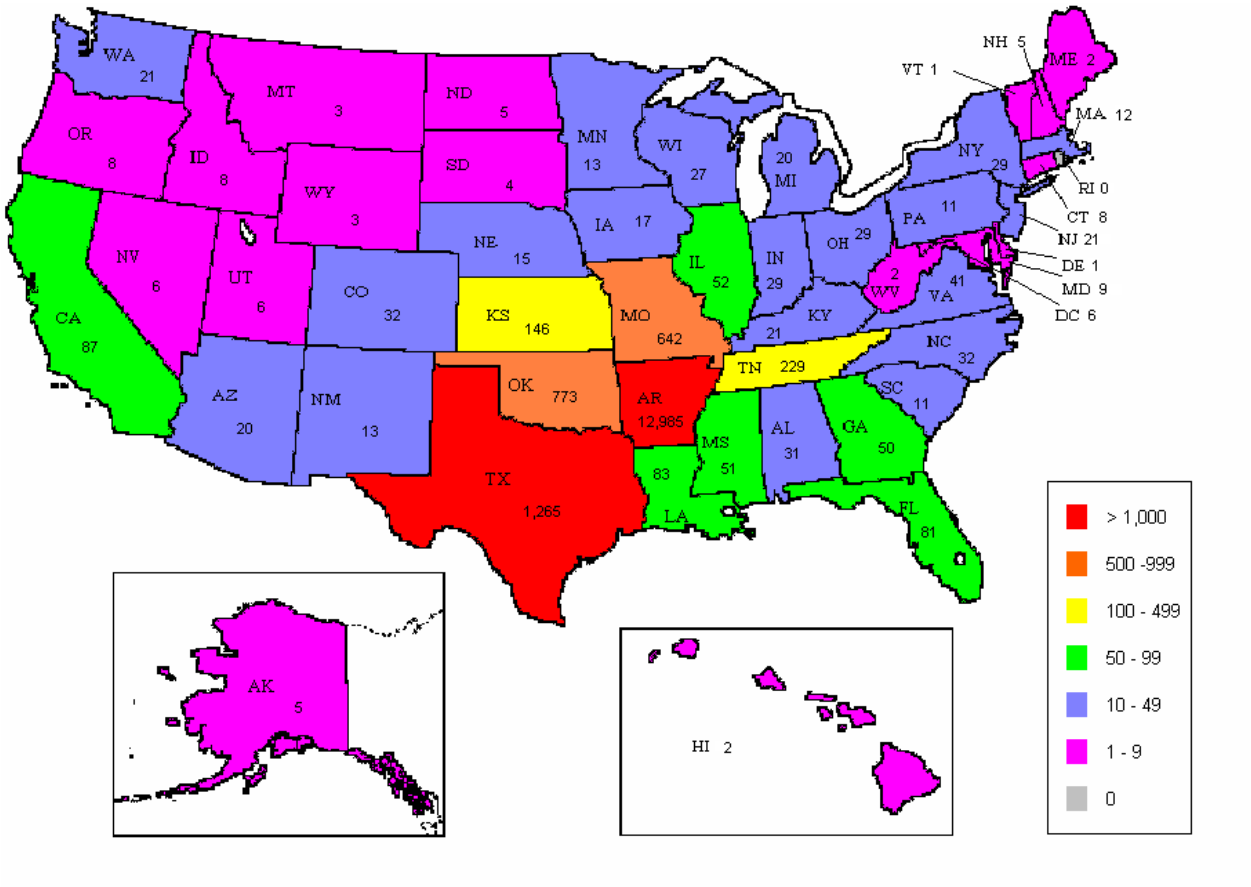



ENROLLMENT TREND OVER LAST FIVE YEARS
(FALL SEMESTER)
20,000
15,000
10,000
5,000
0
12,929
13,125
13,817
14,281
14,350
2,696
2,867
2,981
3,095
3,146
410
457
471
445
430
2002
2003
2004
2005
2006
Undergraduate
Graduate
Law

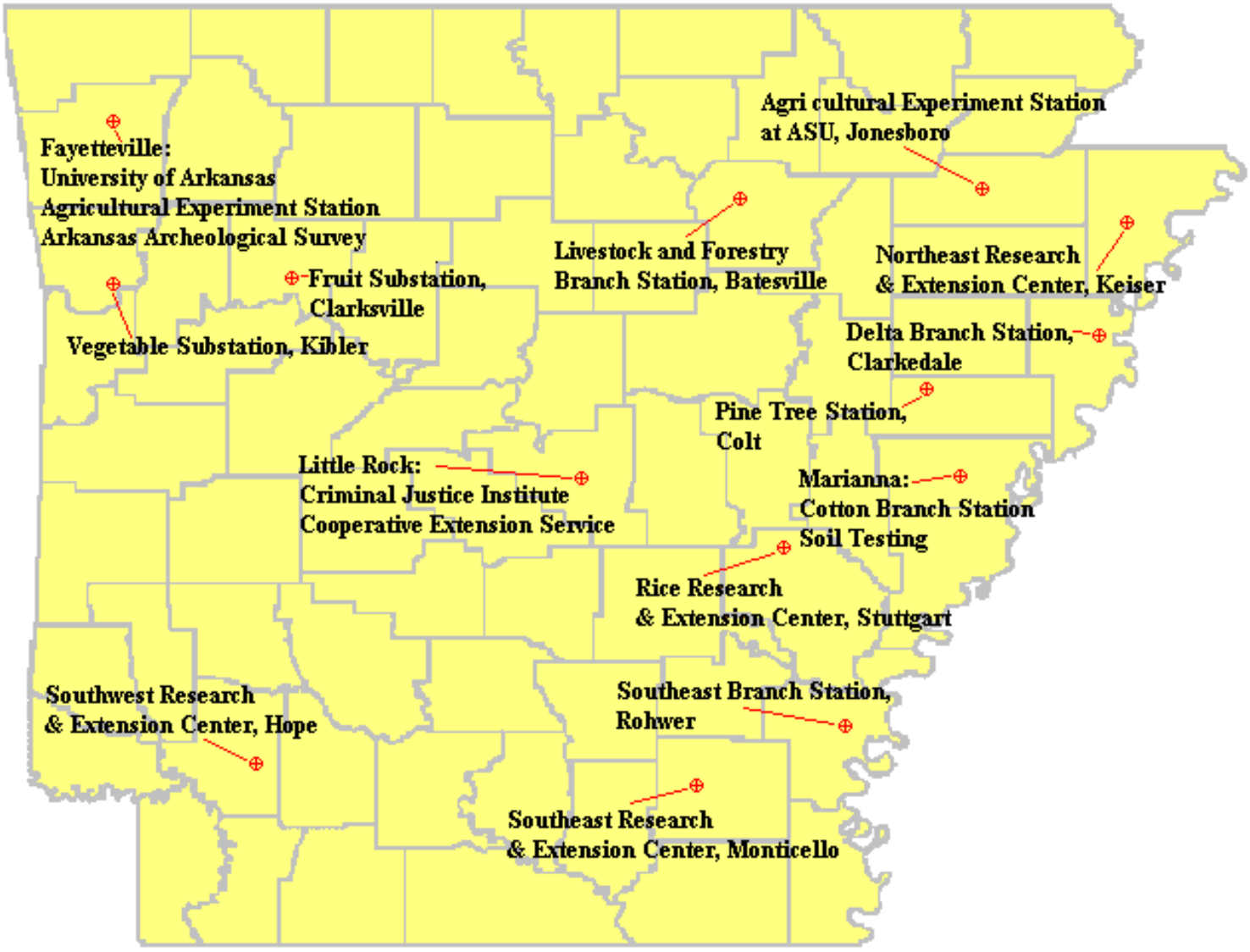
IN-STATE UNDERGRADUATE ENROLLMENT
BY COUNTY OF ORIGIN



UNDERGRADUATE 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.


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Sen. Randy Laverty
Senate Co-Chair
Rep. J R Rogers
House Co-Chair
Sen. Bobby L. Glover
Senate Co-Vice Chair
Rep. Johnny Hoyt
House Co-Vice Chair

Arkansas

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

LEGISLATIVE JOINT AUDITING COMMITTEE
DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

University of Arkansas, Fayetteville
Legislative Joint Auditing Committee

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the University of Arkansas, Fayetteville, an institution of higher education of the State of Arkansas, as of and for the year ended June 30, 2007, 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. We did not audit the financial statements 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 report of other auditors, the financial statements referred to above 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, 2007, 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 Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

DIVISION OF LEGISLATIVE AUDIT

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

Little Rock, Arkansas
November 5, 2007
EDHE13507

172 STATE CAPITOL • LITTLE ROCK, ARKANSAS 72201-1099 • PHONE (501) 683-8600 • FAX (501) 683-8605 • TDD (501) 683-8610

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Financial Report

The financial report of the University of Arkansas, Fayetteville consists of: Management's Discussion and Analysis, Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, Statement of Cash Flows, Component Units Statements, and Notes to the Financial Statements.

This report provides short-term and long-term information on the University of Arkansas, Fayetteville. Management prepared this discussion and analysis, the financial statements, and the related footnote disclosures.

This financial report has been 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.

This portion of the University's Financial Report, Management's Discussion and Analysis, provides an overview of and is limited to the financial activities for the year ended June 30, 2007. Information included for the prior year is provided for purposes of comparison and any analysis of the prior year amounts should be done using the complete financial statements for the prior year.

Financial Highlights

Overall, the University's revenues, expenditures, and net assets grew at a healthy rate during the fiscal year ended June 30, 2007. Operating revenues increased by 8.7% in fiscal year 2007 over fiscal year 2006. Operating expenses increased by 4.15% and total net assets grew by 10.28%.

The University has identified three foundations as component units. The foundations determined to be component units are: 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.* Additional information concerning this reporting requirement is provided in Note 1 "Summary of Significant Accounting Policies", under "Component Units" in the Notes to the Financial Statements.

Note 16 to the Financial Statements refers to the University of Arkansas Foundation, Inc., (the Foundation). The University is the beneficiary of only 55.9% of the nets assets of the Foundation; therefore the Foundation does not meet the requirements of a component unit.

Statement of Net Assets

The Statement of Net Assets reports all financial and capital resources of the University. This statement is presented such that assets less liabilities equal net assets. Assets and liabilities are presented in the order of their relative liquidity. In addition, assets and liabilities are reported as current and 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: Invested in Capital Assets, Restricted and Nonexpendable, Restricted and Expendable, and Unrestricted Net Assets. Net Assets Invested in Capital Assets are reported net of both depreciation and related debt. Restricted and Nonexpendable Net Assets are required to be retained in perpetuity (endowments). Restricted and Expendable Net Assets have constraints placed on their use by external entities (grantors, contractors, and capital appropriations). Unrestricted Net Assets consist of all other net assets that do not meet the definition of Invested in Capital Assets or Restricted Net Assets and are available for management to use as deemed appropriate.

The following summarizes the University's assets, liabilities, and net assets as of June 30, 2007, and June 30, 2006:

Assets	As of June 30, 2007	As of June 30, 2006
Current Assets	$ 133,750,258	$ 74,564,373
Capital Assets, net of depreciation	736,600,716	632,780,417
Other Noncurrent Assets	131,344,228	248,659,572
Total Assets	$ 1,001,695,202	$ 956,004,362
Liabilities		
Current Liabilities	$ 73,852,590	$ 66,935,473
Noncurrent Liabilities	315,521,740	333,833,882
Total Liabilities	$ 389,374,330	$ 400,769,355
Net Assets		
Invested in Capital Assets, net of related debt	$ 437,113,551	$ 380,440,851
Restricted – Nonexpendable	16,975,376	16,597,898
Restricted – Expendable	80,801,524	67,918,608
Unrestricted	77,430,421	90,277,650
Total Net Assets	$ 612,320,872	$ 555,235,007

The overall increase in Current Assets of $59,185,885 is due primarily to the reclassification of certain investments with a balance of $49,129,660 from Other long-term investments to Short-term investments due to a change in the University's

investment policy as discussed in Note 18 in the Notes to the Financial Statements. Cash and cash equivalents increased by $12,747,013 from June 30, 2006, to June 30, 2007, due in large part to management's decision to cash in investments to provide greater liquidity in light of the large volume of capital projects ongoing during the fiscal year. Other changes in the items included in Current Assets are insignificant.

The increase in Capital Assets, net of depreciation, is the result 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 12 "Property, Plant and Equipment" in the Notes to Financial Statements provide additional detail concerning these assets.

The decrease in Other Noncurrent Assets of $117,315,344 can be explained by the University's use of $64,595,109 of bond proceeds from previous fiscal years for ongoing major construction projects. Also, as mentioned above in the discussion of Current Assets, certain investments totaling $49,129,660 were reclassified from Other long-term investments to Short-term investments. In addition to this reclassification, Other long-term investments decreased by a net of $15,625,505 due to management's decision to drawdown $20,000,000 of investments to provide greater liquidity in light of the large volume of capital projects ongoing during the fiscal year. This drawdown was offset by investment returns for the year. Endowment investments increased by $11,607,438, or 19.1% due to strong investment returns for the fiscal year, and due to timing differences with the endowment spending distributions for the year.

Current Liabilities are up by $6,917,117. One reason for this increase relates to an increase of $4,339,806 in accounts payable and accrued liabilities relating to major construction projects in progress at June 30, 2007. Also, accrued payroll liabilities increased by $1,012,868. The current portion of Bonds, notes and capital leases payable increased by $1,378,379 due to the normal increase in yearly principal amounts paid. Other current liabilities were virtually unchanged.

Noncurrent Liabilities are down as the result of normal amortization of long-term debt. There were no significant changes in the other items that comprise these liabilities.

Net Assets Invested in Capital Assets is reported net of both depreciation and of related debt. Like Capital Assets discussed above, additional information concerning Net Assets Invested in Capital Assets is provided in the section "Significant Changes in Capital Assets and Long Term Debt Activity" below and Note 12, "Property, Plant and Equipment," of the Notes to Financial Statements. The increase in Net Assets Invested in Capital Assets is the result of the University acquiring these assets from non-debt sources at a rate greater than these assets are being disposed of or depreciated (used).

Net Assets Restricted – Nonexpendable are also known as endowment fund assets. The increase in Net Assets Restricted – Expendable is due primarily to an increase in the amount of funds restricted for Scholarships and fellowships of $5,294,015, an increase in the amount restricted for Research of $992,340, and an increase in the amount restricted

for Instructional department use of $6,042,973. These increases are mainly due to a reclassification of some accounts previously reported as Unrestricted Net Assets, to the various Net Assets Restricted – Expendable categories. This restatement amounts to $9,013,791 as of June 30, 2007. There were also strong investment earnings for the fiscal year.

The University of Arkansas, Fayetteville Campus is responsible for the decrease in Unrestricted Net Assets. This decrease is due to the reclassification of some accounts from Unrestricted Net Assets to Net Assets Restricted – Expendable as noted in the paragraph above. This change decreased the Unrestricted Net Assets balance by $9,013,791 as of June 30, 2007. Also, the University has provided funds in the amount of $9,030,620 for some construction projects that the University expects will eventually be paid back from gift sources. All of the other units of the University of Arkansas Fund had increases in Unrestricted Net Assets or experienced only minor decreases. Unrestricted Net Assets are owned by the units of the University of Arkansas Fund as follows:

	As of June 30, 2007	As of June 30, 2006
Fayetteville Campus	$ 37,900,700	$ 57,910,290
Agricultural Experiment Station	23,925,146	19,533,755
Cooperative Extension Service	12,213,158	9,880,408
Arkansas Archeological Survey	197,156	146,171
Criminal Justice Institute	1,910,854	1,985,501
Clinton School of Public Service	1,283,407	821,525
Total Unrestricted Net Assets	$ 77,430,421	$ 90,277,650

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

	As of June 30, 2007	As of June 30, 2006
Working Capital	$ 750,000	$ 750,000
E & G Department Uses	7,567,031	5,556,798
Service Operations	1,746,952	2,545,725
Auxiliaries	6,876,812	6,730,959
Plant Funds	7,813,835	23,397,713
Quasi-Endowment Funds	13,146,070	18,929,095
Total Fayetteville Campus Unrestricted Net Assets	$ 37,900,700	$ 57,910,290

Plant Funds Unrestricted Net Assets includes amounts allocated to a non-mandatory bond sinking fund. The University is authorized to issue bonds for capital expenditures with the interest paid on the bonds exempt from federal and state income taxes (tax exempt municipal bonds) for the bond buyers. The University also has the authority to invest unrestricted net assets any way deemed appropriate. This non-mandatory bond sinking fund is the accumulation of assets resulting from the University having budgeted or

accumulated funds for capital expenditures, but instead borrowed with tax-exempt bonds for these expenditures, and invested the accumulated funds. In this process, the University realizes investment income in excess of interest expenses for the difference between the yield for taxable corporate or government bonds and tax-exempt municipal bonds. This bond sinking fund is used to pay the principal amounts due on these bonds. The amount in the sinking fund was $18,486,323 as of June 30, 2007. Since these funds are all unrestricted, the balance in the sinking fund is offset by amounts used to finance current capital projects pending finalizing permanent financing arrangements. These expenditures totaled $10,672,488 as of June 30, 2007. It is anticipated that gifts totaling $9,030,620 will be received in future periods to provide permanent financing for certain projects. Reducing the Fayetteville Campus net assets by this non-mandatory bond sinking fund leaves Unrestricted Net Assets of $19,414,377.

Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets is the operating statement for the University and provides an Operating (loss) amount. The Operating Loss of $249,094,248 is of little significance for the University of Arkansas, Fayetteville since accounting standards require a significant portion of our revenues (State appropriations, gifts, investment income, and some grants and contracts) to be reported as Nonoperating revenue.

Two other numbers on this operating statement, Gain before other revenues and changes in net assets of $7,117,094 and Increase in net assets of $57,085,865 are much more useful indicators of the University's financial health and management's effectiveness. Increases in these numbers over time indicate the University's financial health is improving, though campus needs may not be met and may have long term negative consequences. Conversely, decreases in these numbers over time indicate deteriorating financial health, while additional campus needs are met as operational investments in the future of the campus. In addition to these financial indicators, other indicators such as enrollment, ability to acquire competitive research grants, and the condition of University facilities should be considered when assessing the University's health and vigor.

Total Net Assets for the University increased by $57,085,865 or 10.28%. The following summarizes the University's operating statement:

	Fiscal 2007 Total	Fiscal 2006 Total
Operating Revenues	$ 278,974,988	$ 256,609,436
Operating Expenses	528,069,236	507,019,850
Operating (loss)	(249,094,248)	(250,410,414)
Net nonoperating revenues	256,211,342	246,147,571
Gain (loss) before other revenues and changes in net assets	7,117,094	(4,262,843)
Other revenues and changes in net assets	49,968,771	43,613,712
Increase in Net Assets	$ 57,085,865	$ 39,350,869

Operating Revenues increased by $22,365,552 or 8.72%. This is comprised of increases in Student tuition and fees of $2,251,497 or 2.84%; Federal appropriations of $4,523,016 or 39.56%; Federal grants and contracts of $2,358,255 or 7.31%; State and local grants and contracts of $947,192 or 8.08%; Residence life of $2,384,394 or 18.49%; Athletics of $10,786,090 or 28.45%, and a net decrease in other items of $884,892 or 1.24%.

Increases in Federal grants and contracts and State and local grants and contracts are due to increased research activities. Increases in Residence life are due to increased rates charged for living in on-campus student housing. Athletics experienced a large increase in revenue due in large part to an additional home football game.

Operating Expenses increased by $21,049,386 or 4.15%. Salaries, wages, and benefits increased $14,824,929 or 4.92%, as the result of salary and fringe benefit increases. Scholarships and fellowships decreased $2,430,042 or 13.26%. This decrease is a result of a change in accounting procedure related to nonresident students qualifying for academic awards. Supplies and other services increased $498,323 or .35%. This was a general increase in all areas with no particular commodity or department affected in a significant way. Depreciation increased $8,156,176 or 18.54% and is the result of the increase in Capital Assets acquired from bond proceeds and other sources.

Net nonoperating Revenues increased by $10,063,771 or 4.09%. Offsetting increases and decreases of the individual lines within this section of the report comprise this amount as follows: State Appropriations are up $9,560,072 or 5.52%; Gifts are up $421,899 or 1.06%; Investment income from all sources was up by $8,895,694 or 94.38%; Federal grants (nonexchange) increased by $849,901 or 5.70%; State & Local, and Nongovernmental grants (nonexchange) decreased by $7,709,616 or 53.16%. This decrease is primarily because of the receipt of a one-time allocation of funds from the State in the amount of $6,400,000 during the fiscal year ended June 30, 2006, for state-wide computer network development. Other nonoperating revenues are down by $1,211,101 or 33.19%; and Loss on disposal of assets decreased by $750,283 or 69.14%. Interest paid on capital asset-related debt increased by $1,493,361 or 17.75%.

The reported gift information above is not a good indicator of the University's ability to obtain gifts. 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 in Note 16 "Other Entity" in the Notes to the Financial Statements. The increase in investment income is the result of strong investment earnings and due to earnings on the bond proceeds from the Series 2006 bonds that were issued in the last fiscal year. The increase in interest on capital asset-related debt is directly related to the increase in capital debt over the last several years. The decrease in grants activity is the result of normal fluctuations in year-to-year grant amounts received by the University.

In Other Revenues and Changes in Net Assets, Capital grants and gifts were up $10,966,009 or 29.25%. This was due in large part to direct capital gifts from the Razorback Foundation, Inc., for athletic facilities.

Statement of Cash Flows

The purpose of the Statement of Cash Flows is to provide information about the cash receipts and disbursements of the University for the year. This statement may aid 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. This Statement of Cash Flows is prepared using the "direct method" as required by the Governmental Accounting Standards Board.

Similar to Operating (loss) on the Statement of Revenues, Expenses, and Changes in Net Assets, Net cash (used) by operating activities is of little significance to the University of Arkansas, Fayetteville because accounting standards require significant sources of cash to be reported as Nonoperating Financing. Net cash provided by operating activities and noncapital financing activities is a much more meaningful number for the University of Arkansas, Fayetteville.

The following summarizes the University's cash flows:

	Fiscal Year 2007	Fiscal Year 2006
Cash flows from operating activities	$ (194,711,660)	$ (198,354,074)
Cash flows from noncapital financing activities	249,750,458	243,828,428
Net cash provided by operating and noncapital financing activities	55,038,798	45,474,354
Cash flows from capital financing activities	(67,319,913)	(52,732,262)
Cash flows from investing activities	25,028,128	3,498,260
Net increase (decrease) in cash for the year	$ 12,747,013	$ (3,759,648)

Cash flows from operating activities show a decrease in the net use of cash of $3,642,414. The largest sources of operating activity cash continue to be student tuition and fees, grants and contracts and athletics. The largest uses of operating cash continue to be payments to employees, payments to suppliers, payments for benefits, and payments for scholarships and fellowships.

Cash flows from noncapital financing activities increased by $5,922,030. Increases in State appropriations, Gifts and grants for other than capital purposes, and Other non-operating revenue were offset by overall decreases in Federal, State and local and Nongovernmental grants (nonexchange).

The significant activity related to Cash flows from capital financing activities is the result of ongoing construction projects using the proceeds from the sale of bonds in the current and prior years, and the payment of regularly scheduled debt service payments. The balance of this activity is not significant.

Cash flows from investing activities show the net liquidation of investments to provide liquidity for operating and capital expenses.

Significant Changes in Capital Assets and Long-Term Debt Activity

During the 2007 fiscal year, the University called $7,555,000 in principal amount of the Athletic Facilities Revenue Bonds, Subordinate Series 2001. 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, 2006	$ 323,424,049	$ 5,310,099	$ 1,014,545
Additions, net of deferred loss Refinanced			65,643
Payments of principal	(17,445,000)	(310,332)	(392,524)
Amortization of Deferred Loss	288,627		
Balance as of June 30, 2007	$ 306,267,676	$ 4,999,767	$ 687,664

Note 9 in the Notes to the Financial Statements provides additional information related to the University's long-term debt.

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

Net Assets Invested in capital assets, net of related debt and depreciation as of June 30, 2006	$ 380,440,851
Land Additions and Disposals (net)	3,922,583
Buildings Additions and Disposals, net of depreciation	56,041,431
Improvements/Infrastructure Additions, net of depreciation	7,828,133
Equipment Additions and Disposals, net of depreciation	(40,887)
Construction In Progress Additions net of transfers to buildings and improvements/infrastructure	36,227,716
Livestock Additions/deductions	(158,677)
Prepaid Maintenance Contract (net)	(40,397)
Bond debt moved to Net Assets invested in capital assets	(64,900,788)
Bond Principal Paid in FY 07	17,445,000
Deferred loss on refinanced bond issues, amortized	(288,627)
Note Payable moved to Net Assets invested in capital assets	
Capital Leases assumed in FY 07	(65,643)
Note, Capital Lease and Installment Contract Principal Paid in FY 07	702,856
Net Assets Invested in capital assets, net of related debt and depreciation as of June 30, 2007	$ 437,113,551

Conditions and other factors having a significant effect

The University's outlook is closely related to its role as the flagship university for the state and the only major non-medical research university in the state. The University is largely dependent on the ongoing financial and political support from state government. A rational funding formula approach was adopted by the Arkansas General Assembly in the 2005 session.

During the fiscal year ended June 30, 2007, the total general revenue distribution from the State of Arkansas, including distributions from the Educational Excellence Trust Fund, totaled $179,015,689. This is an increase of $10,744,748, or 6.39% over the distribution for fiscal year 2006.

The estimated total general revenue distribution from the State for the fiscal year ended June 30, 2008, is $194,396,324. This is an expected increase of $15,380,635, or 8.59%.

The University is also dependent on its ability to recruit and retain high quality students. Preliminary numbers for Fall 2007 indicate that enrollment is 18,648, an all-time record high enrollment, and an increase of 4.03 % over the Fall 2006 enrollment. Undergraduate enrollment is up 4.08%, Graduate enrollment is up 3.84% and Law School enrollment is down 6.28%. The total number of degree-seeking freshmen was 2,900, the largest freshmen class since a concerted enrollment growth effort began in 1998. While management is encouraged to see record enrollment, undergraduate enrollment needs further increases to ensure continued increases in the revenue generated by tuition and to ensure continued support from state government.

The condition of the University's capital assets is another important consideration. An estimate of the deficiencies of the Educational and General facilities of the University has been made to provide the necessary data to develop an optimized facility renewal plan. In 2002, a consulting firm was contracted by the University to reprogram and reorganize the University's Facilities Management department. All systems in all facilities were evaluated by a team of trained engineers/architects working together with the consultants. The team assigned scores with 1 being poor condition, 2 being adequate condition, and 3 being target condition. The gross square footage weighted average for all Educational and General facilities was 1.58 for the year ended June 30, 2002.

Beginning with the fiscal year ended June 30, 2003, Facilities Management implemented a change in methodology for updating the condition assessment of the University's capital assets. The University's goal is to update twenty percent of the square footage on campus 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 replacement value, has been assigned to each building. A building with deficiencies estimated at more than the 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 the year ended June 30, 2003 and 0.22 for the year ended June 30,

2007. The small variance reflects deferred maintenance and repairs addressed by Facilities Management as well as the addition of new and remodeled buildings. An effective method of assessing the management of these assets is to track the average facility score over time.

UNIVERSITY OF ARKANSAS
Statement of Net Assets
June 30, 2007
With Comparative Figures at June 30, 2006

	June 30, 2007	June 30, 2006
ASSETS		
Current Assets		
Cash and cash equivalents	$ 44,904,695	$ 32,157,682
Short-term investments	49,129,660	
Accounts receivable, net	25,284,144	28,752,919
Accrued interest receivable	1,078,056	919,148
Pledges receivable	19,912	20,000
Inventories	4,552,400	3,708,212
Deposits with bond trustees	522,192	975,108
Notes receivable, net	3,878,816	3,980,886
Other assets	4,380,383	4,050,418
Total current assets	133,750,258	74,564,373
Noncurrent Assets		
Endowment investments	72,425,523	60,818,085
Pledges receivable		10,000
Notes receivable, net	11,429,273	11,693,482
Deposits with bond trustees	23,802,035	88,397,144
Other long-term investments	21,940,062	86,695,227
Other assets	1,747,335	1,045,634
Capital assets, net	736,600,716	632,780,417
Total noncurrent assets	867,944,944	881,439,989
Total assets	$ 1,001,695,202	$ 956,004,362
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	$ 24,452,369	$ 20,112,563
Accrued payroll liabilities	13,215,610	12,202,742
Accrued interest expense	2,633,142	2,318,755
Student overpayments	33,281	143,596
Funds held in trust for others	975,779	640,461
Deferred revenue	20,202,670	20,585,656
Compensated absences payable - current portion	854,971	825,311
Bonds, notes and capital leases payable - current portion	11,484,768	10,106,389
Total current liabilities	73,852,590	66,935,473

UNIVERSITY OF ARKANSAS
Statement of Net Assets
June 30, 2007
With Comparative Figures at June 30, 2006

	June 30, 2007	June 30, 2006
Noncurrent Liabilities		
Compensated absences payable	15,045,044	14,187,578
Bonds, notes and capital leases payable	300,470,339	319,642,304
Other noncurrent liabilities	6,357	4,000
Total noncurrent liabilities	315,521,740	333,833,882
Total liabilities	$ 389,374,330	$ 400,769,355
NET ASSETS		
Invested in capital assets, net of related debt	$ 437,113,551	$ 380,440,851
Restricted for		
Nonexpendable		
Scholarships and fellowships	6,848,841	7,375,762
Research	5,369,942	4,129,896
Instructional department uses	4,368,018	4,991,083
Loans	388,575	101,157
Expendable		
Scholarships and fellowships	13,540,027	8,246,012
Research	25,278,248	24,285,908
Public service	3,142,514	3,327,998
Instructional department uses	13,988,203	7,945,230
Loans	16,535,498	16,031,831
Capital projects	2,286,991	1,433,442
Debt service	2,585,504	2,548,457
Other	3,444,539	4,099,730
Unrestricted	77,430,421	90,277,650
Total net assets	$ 612,320,872	$ 555,235,007

UNIVERSITY OF ARKANSAS
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2007
With Comparative Figures for 2006

	Fiscal 2007 Total	Fiscal 2006 Total
REVENUES		
Operating Revenues		
Student tuition and fees (net of scholarship allowances of $27,551,790 in fiscal year 2007, and $35,101,348 in fiscal year 2006)	$ 81,394,464	$ 79,142,967
Federal appropriations	15,957,347	11,434,331
County appropriations	2,770,866	2,638,568
Federal grants and contracts	34,632,063	32,273,808
State and local grants and contracts	12,665,997	11,718,805
Nongovernmental grants and contracts	14,375,328	18,970,731
Sales and services of educational departments	20,741,669	19,718,657
Auxiliary enterprises		
Residence Life (net of scholarship allowances of $3,750,020 in fiscal year 2007, and $4,443,988 in fiscal year 2006)	15,281,444	12,897,050
Athletics	48,701,781	37,915,691
Bookstore (net of scholarship allowances of $101,321 in fiscal year 2007)	13,706,671	14,394,240
Student Apartments		695,309
Arkansas Union	1,058,264	733,461
Student Health Services	1,256,761	1,114,937
Transit and Parking	4,879,054	4,718,642
Student Organizations/Activities	429,599	284,178
Other Auxiliary Enterprises	1,690,237	1,349,572
Other operating revenues	9,433,443	6,608,489
Total operating revenues	278,974,988	256,609,436
EXPENSES		
Operating Expenses		
Salaries, wages, and benefits	316,190,205	301,365,276
Scholarships and fellowships	15,893,133	18,323,175
Supplies and other services	143,826,380	143,328,057
Depreciation	52,159,518	44,003,342
Total operating expenses	528,069,236	507,019,850
Operating loss	(249,094,248)	(250,410,414)

UNIVERSITY OF ARKANSAS
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2007
With Comparative Figures for 2006

	Fiscal 2007 Total	Fiscal 2006 Total
NONOPERATING REVENUES (EXPENSES)		
State appropriations	182,795,867	173,235,795
Gifts	40,339,155	39,917,256
Investment income (net of investment expense of $742,226 in fiscal year 2007, and $377,073 in fiscal year 2006)	18,320,867	9,425,173
Interest on capital asset - related debt	(9,906,475)	(8,413,114)
Federal grants (nonexchange)	15,765,376	14,915,475
State and local grants (nonexchange)	5,979,816	13,403,594
Nongovernmental grants (nonexchange)	813,493	1,099,331
Loss on disposal of assets	(334,841)	(1,085,124)
Other nonoperating revenues	2,438,084	3,649,185
Net nonoperating revenues	256,211,342	246,147,571
Gain (Loss) before other revenues and changes in net assets	7,117,094	(4,262,843)
OTHER REVENUES AND CHANGES IN NET ASSETS		
Capital appropriations	1,582,625	1,591,773
Capital grants and gifts	48,460,216	37,494,207
Adjustment due to change in accounting estimate		5,184,052
Other changes	(74,070)	(656,320)
Total other revenues and changes in net assets	49,968,771	43,613,712
Increase in net assets	57,085,865	39,350,869
NET ASSETS		
Net assets - beginning of year	555,235,007	515,884,138
Net assets - end of year	$ 612,320,872	$ 555,235,007

UNIVERSITY OF ARKANSAS
Statement of Cash Flows - Direct Method
For the Year Ended June 30, 2007
With Comparative Figures for 2006

	Fiscal 2007 Total	Fiscal 2006 Total
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	$ 81,824,925	$ 80,124,457
Federal appropriations	16,546,667	11,077,273
County appropriations	2,812,307	2,585,644
Grants and contracts	61,101,824	61,527,068
Payments to suppliers	(145,317,715)	(143,562,830)
Payments to employees	(251,757,728)	(238,828,483)
Payments for benefits	(62,528,902)	(60,162,468)
Payments for scholarships and fellowships	(15,893,133)	(18,323,175)
Loans issued to students and employees	(3,248,332)	(3,705,364)
Collections of loans to students	3,299,566	4,113,996
Collections of interest on loans to students	80,575	430,582
Auxiliary enterprise charges		
Residence Life	15,765,772	12,983,924
Athletics	48,387,981	43,792,626
Bookstore	14,166,228	13,712,336
Student Apartments		709,715
Arkansas Union	1,052,067	771,680
Student Health Services	1,315,156	1,208,293
Transit and Parking	4,876,066	4,786,151
Student Organizations/Activities	467,314	246,463
Other Auxiliary Enterprises	1,779,675	1,421,311
Sales and services of educational departments	20,684,895	19,371,396
Other receipts	9,873,132	7,365,331
Net cash used by operating activities	(194,711,660)	(198,354,074)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	182,795,867	173,235,795
Gifts and grants for other than capital purposes	41,574,965	39,395,033
Federal grants (nonexchange)	15,567,995	14,936,003
State and local grants (nonexchange)	5,918,614	13,403,594
Nongovernmental grants (nonexchange)	920,505	1,099,331
Other non-operating revenue	2,704,918	1,795,698
Net agency fund transactions	267,594	(37,026)
Net cash provided by noncapital financing activities	249,750,458	243,828,428
Net cash provided by operating activities and noncapital financing activities	55,038,798	45,474,354
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from capital debt		85,361,030
Capital appropriations	1,582,625	1,591,773
Capital grants and gifts received	26,850,166	6,575,186
Purchases of capital assets	(128,313,612)	(90,751,816)
Principal paid on capital debt and leases	(18,099,054)	(19,350,536)
Interest paid on capital debt and leases	(14,389,993)	(11,536,206)
Deposits with trustees	65,048,024	(25,814,943)
Other sources	1,931	1,193,250
Net cash used by capital financing activities	(67,319,913)	(52,732,262)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	$ 64,843,096	$ 21,113,975

UNIVERSITY OF ARKANSAS
Statement of Cash Flows - Direct Method
For the Year Ended June 30, 2007
With Comparative Figures for 2006

	Fiscal 2007 Total	Fiscal 2006 Total
Investment income	5,018,093	2,963,819
Purchase of investments	(44,833,061)	(20,579,534)
Net cash provided by investing activities	25,028,128	3,498,260
NET INCREASE (DECREASE) IN CASH	12,747,013	(3,759,648)
Cash - beginning of year	32,157,682	35,917,330
Cash - end of year	$ 44,904,695	$ 32,157,682
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	$ (249,094,248)	$ (250,410,414)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense	52,159,518	44,003,342
Changes in assets and liabilities		
Receivables (net)	1,848,153	(190,554)
Inventories	(844,188)	(202,553)
Prepaid expenses	(1,031,665)	803,244
Other assets		20,318
Accounts payable and accrued liabilities	790,870	(631,479)
Accrued payroll liabilities (Employees)	(56,459)	(80,455)
Accrued payroll liabilities (Benefits)	1,072,906	890,197
Student overpayments	(110,315)	191,551
Deferred revenue	(382,987)	5,732,210
Compensated absences	887,127	1,564,584
Loans to students and employees	49,628	(44,065)
Net cash used by operating activities	$ (194,711,660)	$ (198,354,074)
NONCASH TRANSACTIONS		
Donations of land, buildings, improvements, and infrastructure	$ 9,266,898	$ 8,901,884
Equipment donations	13,229,132	27,492,987
Bond issuance costs and underwriter's discounts paid directly from bond proceeds		871,254
Payments to bond escrow directly from bond proceeds		9,551,515

UNIVERSITY OF ARKANSAS FAYETTEVILLE CAMPUS FOUNDATION, INC.
Statements of Financial Position
June 30, 2007 and 2006

	2007	2006
Assets		
Investments	$ 507,028,597	$ 438,625,038
Net Assets:		
Temporarily restricted	$ 11,587,280	$ 8,488,637
Permanently restricted	495,441,317	430,136,401
Total net assets	$ 507,028,597	$ 438,625,038

UNIVERSITY OF ARKANSAS FAYETTEVILLE CAMPUS FOUNDATION, INC.

Statement of Activities

For the Years Ended June 30, 2007 and 2006

	2007				2006			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, gains and other support:								
Interest and dividends		$ 3,750,059	$ 511,682	$ 4,261,741		$ 4,034,393	$ 1,695,108	$ 5,729,501
Net unrealized and realized gains on investments		13,506,313	64,793,234	78,299,547		7,086,208	28,360,212	35,446,420
Net assets released from restrictions	$ 14,157,729	(14,157,729)			$ 13,554,681	(13,554,681)		
Total revenue, gains and other support	14,157,729	3,098,643	65,304,916	82,561,288	13,554,681	(2,434,080)	30,055,320	41,175,921
Expenses and Losses:								
Program Services-								
Construction					3,120			3,120
Research	651,800			651,800	3,467,479			3,467,479
Faculty/staff support	1,215,250			1,215,250	655,492			655,492
Scholarships and awards	9,043,306			9,043,306	6,705,673			6,705,673
Equipment and technology	2,650,882			2,650,882	2,533,506			2,533,506
Other	596,491			596,491	189,411			189,411
Total program services	14,157,729			14,157,729	13,554,681			13,554,681
Change in net assets		3,098,643	65,304,916	68,403,559		(2,434,080)	30,055,320	27,621,240
Net assets, beginning of year		8,488,637	430,136,401	438,625,038		10,922,717	400,081,081	411,003,798
Net assets, end of year	$	$ 11,587,280	$ 495,441,317	$ 507,028,597	$	$ 8,488,637	$ 430,136,401	$ 438,625,038

THE RAZORBACK FOUNDATION, INC.
Statement of Financial Position
June 30, 2007

	Total All Funds	Operating Fund	Deferred Compensation Fund	Land, Building and Equipment Fund	Endowment Fund
Assets:					
Cash in bank	$ 571,427	$ 540,064		$ 31,363	
Pledges receivable-unrestricted, less allowance for uncollectible pledges	4,390,193	3,590,193		800,000	
Investments	14,608,031	3,589,179	$ 4,254,710	2,322,395	$ 4,441,747
Land, building and equipment, at cost, less accumulated depreciation	890,525			890,525	
Prepaid rent	1,524,006	1,524,006			
Intrafund receivable	40,000				40,000
Other assets	175,218	175,218			
Total assets	$ 22,199,400	$ 9,418,660	$ 4,254,710	$ 4,044,283	$ 4,481,747
Liabilities:					
Accounts payable	$ 633,627	$ 633,627			
Intrafund payable	40,000	40,000			
Contract guarantee payable	332,024	332,024			
Deferred compensation payable	7,728,965	3,474,255	$ 4,254,710		
Total liabilities	$ 8,734,616	$ 4,479,906	$ 4,254,710		
Net Assets:					
Unrestricted	$ 4,938,754	$ 4,938,754			
Board designated-unrestricted	6,584,961			$ 3,044,283	$ 3,540,678
Temporarily restricted	1,000,000			1,000,000	
Permanently restricted	941,069				941,069
Total net assets	13,464,784	4,938,754		4,044,283	4,481,747
Total liabilities and net assets	$ 22,199,400	$ 9,418,660	$ 4,254,710	$ 4,044,283	$ 4,481,747

THE RAZORBACK FOUNDATION, INC.
Statement of Financial Position
June 30, 2006

	Total All Funds	Operating Fund	Deferred Compensation Fund	Land, Building and Equipment Fund	Endowment Fund
Assets:					
Cash in bank	$ 141,907	$ 106,893		$ 35,014	
Pledges receivable-unrestricted, less allowance for uncollectible pledges	2,776,233	2,776,233			
Investments	22,149,068	6,450,770	$ 4,156,979	7,471,730	$ 4,069,589
Land, building and equipment, at cost, less accumulated depreciation	1,278,274			1,278,274	
Other assets	174,218	174,218			
Total assets	$ 26,519,700	$ 9,508,114	$ 4,156,979	$ 8,785,018	$ 4,069,589
Liabilities:					
Accounts payable	$ 391,164	$ 391,164			
Contract guarantee payable	825,726	825,726			
Deferred compensation payable	6,680,724	2,523,745	$ 4,156,979		
Total liabilities	$ 7,897,614	$ 3,740,635	$ 4,156,979		
Net Assets:					
Unrestricted	$ 5,767,479	$ 5,767,479			
Board designated-unrestricted	11,938,538			$ 8,785,018	$ 3,153,520
Permanently restricted	916,069				916,069
Total net assets	18,622,086	5,767,479		8,785,018	4,069,589
Total liabilities and net assets	$ 26,519,700	$ 9,508,114	$ 4,156,979	$ 8,785,018	$ 4,069,589

THE RAZORBACK FOUNDATION, INC.

Statement of Activities

Year Ended June 30, 2007

	Total All Funds	Operating Fund	Deferred Compensation Fund	Land, Building and Equipment Fund	Endowment Fund
Changes in unrestricted net assets:					
Revenues and gains:					
Public support - contributions	$ 12,767,426	$ 12,717,426			$ 50,000
Investment income and other	2,032,809	1,485,345		$ 310,306	237,158
Realized gain on investments	33,700	33,700			
Total unrestricted revenues and gains	14,833,935	14,236,471		310,306	287,158
Expenses:					
Program services:					
Directly allocated to:					
Football	1,055,443	1,055,443			
Basketball	322,141	322,141			
Baseball	5,017,414	5,017,414			
Track and field	1,369,273	1,369,273			
Other sports	148,574	148,574			
Athletic department operations	9,010,526	9,010,526			
Fundraising	1,701,729	1,701,729			
Administrative	604,057	604,057			
Deferred compensation expense	1,003,152	1,003,152			
Provision for uncollectible pledges	223,455	223,455			
Total expenses	20,455,764	20,455,764			

THE RAZORBACK FOUNDATION, INC.
Statement of Activities
Year Ended June 30, 2007

	Total All Funds	Operating Fund	Deferred Compensation Fund	Land, Building and Equipment Fund	Endowment Fund
Other changes:					
Transfers to deferred compensation plans	(250,000)	(250,000)			
Transfers to endowment fund		(100,000)			100,000
Transfers for current operations		5,742,641		(5,742,641)	
Unrealized loss on investments	(2,900)	(2,073)		(827)	
Depreciation	(307,573)			(307,573)	
Total other changes	(560,473)	5,390,568		(6,051,041)	100,000
Total increase (decrease) in unrestricted net assets	(6,182,302)	(828,725)		(5,740,735)	387,158
Changes in temporarily restricted net assets:					
Transfers to deferred compensation plans	250,000		$ 250,000		
Deferred compensation investment income	208,675		208,675		
Program services:					
Deferred compensation expense	(458,675)		(458,675)		
Land, building and equipment fund public support	1,000,000			1,000,000	
Total increase (decrease) in temporarily restricted net assets	1,000,000			1,000,000	
Changes in permanently restricted net assets:					
Endowment fund public support	25,000				25,000
Increase (decrease) in net assets	(5,157,302)	(828,725)		(4,740,735)	412,158
Net assets at beginning of year	18,622,086	5,767,479		8,785,018	4,069,589
Net assets at end of year	$ 13,464,784	$ 4,938,754	$	$ 4,044,283	$ 4,481,747

THE RAZORBACK FOUNDATION, INC.

Statement of Activities

Year Ended June 30, 2006

	Total All Funds	Operating Fund	Deferred Compensation Fund	Land, Building and Equipment Fund	Endowment Fund
Changes in unrestricted net assets:					
Revenues and gains:					
Public support - contributions	$ 10,430,611	$ 10,430,611			
Investment income and other	614,065	327,229		$ 196,523	$ 90,313
Total unrestricted revenues and gains	11,044,676	10,757,840		196,523	90,313
Expenses:					
Program services:					
Directly allocated to:					
Football	1,584,242	1,584,242			
Basketball	220,097	220,097			
Baseball	146,871	146,871			
Track and field	1,417,951	1,417,951			
Other sports	10,717	10,717			
Athletic department operations	4,730,077	4,730,077			
Fundraising	1,337,736	1,337,736			
Administrative	640,921	640,921			
Deferred compensation expense	711,132	711,132			
Provision for uncollectible pledges	22,149	22,149			
Total expenses	10,821,893	10,821,893			

THE RAZORBACK FOUNDATION, INC.
Statement of Activities
Year Ended June 30, 2006

	Total All Funds	Operating Fund	Deferred Compensation Fund	Land, Building and Equipment Fund	Endowment Fund
Other changes:					
Transfers to deferred compensation plans	(300,000)	(300,000)			
Transfers to endowment fund		(100,000)			100,000
Transfers for current operations		(1,852,722)		1,852,722	
Unrealized loss on investments	(1,840)	(1,427)		(413)	
Depreciation	(308,197)			(308,197)	
Total other changes	(610,037)	(2,254,149)		1,544,112	100,000
Total increase (decrease) in unrestricted net assets	(387,254)	(2,318,202)		1,740,635	190,313
Changes in temporarily restricted net assets:					
Transfers to deferred compensation plans	300,000		$ 300,000		
Deferred compensation investment income	23,068		23,068		
Program services:					
Deferred compensation expense	(323,068)		(323,068)		
Total increase (decrease) in temporarily restricted net assets					
Changes in permanently restricted net assets:					
Endowment fund fund public support	49,606				49,606
Increase (decrease) in net assets	(337,648)	(2,318,202)		1,740,635	239,919
Net assets at beginning of year	18,959,734	8,085,681		7,044,383	3,829,670
Net assets at end of year	$ 18,622,086	$ 5,767,479	$	$ 8,785,018	$ 4,069,589

ARKANSAS 4-H FOUNDATION, INC.
Statements of Financial Position
June 30, 2007 and 2006

	2007	2006
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,191,367	$ 954,475
Investments, at fair value	1,109,882	1,147,756
Accounts receivable, net of allowance for doubtful accounts of $0 and $2,848	107,821	110,779
Inventories	16,748	12,947
Total current assets	2,425,818	2,225,957
OTHER ASSETS:		
Land held for investment	2,600	2,600
Cash restricted for building maintenance fund	47,433	53,813
Investments, at fair value, restricted for building maintenance fund	1,010,913	975,463
Total other assets	1,060,946	1,031,876
PROPERTY AND EQUIPMENT, NET	6,414,761	6,690,058
TOTAL ASSETS	$ 9,901,525	$ 9,947,891
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 77,633	$ 113,461
Due to affiliate	81,796	59,146
Accrued expenses	17,204	10,235
Customer deposits	16,939	11,142
Total current liabilities	193,572	193,984
NET ASSETS:		
Unrestricted	7,568,710	7,715,408
Temporarily restricted	1,461,147	1,361,760
Permanently restricted	678,096	676,739
Total net assets	9,707,953	9,753,907
TOTAL LIABILITIES AND NET ASSETS	$ 9,901,525	$ 9,947,891

ARKANSAS 4-H FOUNDATION, INC.

Statement of Activities

For the Years Ended June 30, 2007 and 2006

	2007				2006			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUES:								
Program service revenue	$ 1,683,967	$ 1,415		$ 1,685,382	$ 1,508,862	$ 1,490		$ 1,510,352
Grants and contributions	79,867	53,318	$ 1,357	134,542	119,047	6,915	$ 1,411	127,373
Interest and dividends	66,213	105,830		172,043	141,026	24,891		165,917
Net unrealized and realized appreciation (depreciation) on investments	11,800	21,553		33,353	(116,739)	(38,611)		(155,350)
Other revenues	38,637	1,319		39,956	52,547	40		52,587
Net assets released from restrictions	84,048	(84,048)			44,363	(44,363)		
Total support and revenues	1,964,532	99,387	1,357	2,065,276	1,749,106	(49,638)	1,411	1,700,879
EXPENSES:								
Program	2,058,805			2,058,805	1,966,235			1,966,235
Management and general	52,425			52,425	56,528			56,528
Fundraising					177			177
Total expenses	2,111,230			2,111,230	2,022,940			2,022,940
INCREASE (DECREASE) IN NET ASSETS	(146,698)	99,387	1,357	(45,954)	(273,834)	(49,638)	1,411	(322,061)
NET ASSETS, BEGINNING OF YEAR	7,715,408	1,361,760	676,739	9,753,907	7,989,242	1,411,398	675,328	10,075,968
NET ASSETS, END OF YEAR	$ 7,568,710	$ 1,461,147	$ 678,096	$ 9,707,953	$ 7,715,408	$ 1,361,760	$ 676,739	$ 9,753,907

(1). Summary of Significant Accounting Policies

The financial statements for the University of Arkansas, Fayetteville ("the University") for the fiscal year ended June 30, 2007, 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).

During 2002, the University adopted GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities,* as amended by GASB Statements No. 37 and No. 38, and applied those standards on a retroactive basis. GASB Statement No. 35 establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following four net asset categories:

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

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

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

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

GASB Statement No. 35 also requires the statements of net assets, revenues, expenses, and changes in net assets, and cash flows to be reported on a consolidated basis.

Basis of Presentation and Measurement Focus
The University is considered a special-purpose government engaged only in business-type activities and therefore reports as a Business Type Activity, as defined by GASB

Statement No. 35. Accordingly, the financial statements of the University have been prepared using the economic resources measurement focus and the accrual basis.

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 $13,134,364 and $13,422,351 to the University during the fiscal years ended June 30, 2007, and June 30, 2006, 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 $8,865,630 to the University, and provided equipment, facilities, improvements and supplies in the amount of $8,374,042 during the fiscal year ended June 30, 2007. During the fiscal year ended June 30, 2006, the Razorback Foundation distributed $3,856,243 to the University, and provided equipment, facilities, improvements and supplies in the amount of $2,572,328. 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 80 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, 2007, or June 30, 2006, 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, Arkansas 72203.

New Accounting Pronouncements

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, 2007, 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.

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which becomes effective with the fiscal year

ending June 30, 2007. The Statement establishes uniform financial reporting standards for Other Postemployment Benefits (OPEB). Management has determined that it does not have any OPEB plans, and the requirements of this Statement are not applicable.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* which becomes effective with the fiscal year ending June 30, 2008. The Statement establishes standards for the measurement, recognition, and display of Other Postemployment Benefits (OPEB).

Health

The University of Arkansas System offers employees who meet certain requirements the opportunity to continue health insurance coverage upon retirement. At June 30, 2007, the University of Arkansas System had approximately 1,100 retired employees enrolled in the UA Health Insurance Plan.

The University is working with an actuarial firm to determine any potential liability for postemployment healthcare benefits in accordance with the requirements of GASB Statement 45.

Life

The University of Arkansas System offers employees who meet certain requirements the option to purchase a $10,000 basic life insurance policy upon retirement. The cost of the policy is borne entirely by the retiree; there is no employer contribution towards the premium. However, the premium rates are established on a combined basis with the active employee population, thereby creating an inherent subsidy of the benefit. The University is currently evaluating the potential liability under GASB 45 for this postemployment benefit.

Dental

The University of Arkansas offers employees who meet certain requirements the opportunity to continue dental insurance coverage upon retirement at substantially the same premium rates as the active population. The dental premium is paid entirely by the retiree. Retiree premium rates are based on the claims experience of the combined active and retiree population, thereby creating an inherent subsidy of the benefit. The University is currently evaluating the potential liability under GASB 45 for this postemployment benefit.

In December 2004, GASB issued Statement No. 46, *Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34,* which became effective with the fiscal year ending June 30, 2006. The Statement clarifies the reporting requirements for net assets restricted by enabling legislation. Management has determined that GASB 46 is not applicable for Universities having no taxing authority.

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, 2007. 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*.

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, 2007	June 30, 2006
Arkansas Union	FIFO		$ 1,653
Athletics Inventory	Retail	$ 429,030	
Bookstore	Retail	2,238,489	2,043,400
COOP Warehouse	Weighted Average	114,364	93,180
Garvan Woodland Gardens Shop	Weighted Average	73,998	72,756
Physical Plant	FIFO	575,353	620,064
Printing Services	Weighted Average	179,229	176,286
Research Services	Weighted Average	57,399	60,877
Residence Life	LIFO	563,280	324,754
Student Health Pharmacy	FIFO	47,948	67,727
University Press	LCM	273,310	247,515
Total Inventories		$ 4,552,400	$ 3,708,212

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 $622,668 and $511,831 were written off during the fiscal years ended June 30, 2007, and June 30, 2006, respectively.

Accounts receivable at June 30, 2007, totaled $29,760,757. The allowance for doubtful accounts was computed to be $4,476,613 resulting in net accounts receivable totaling $25,284,144. Accounts receivable at June 30, 2006, totaled $33,034,009. The allowance for doubtful accounts was computed to be $4,281,090, resulting in net accounts receivable totaling $28,752,919.

A summary of accounts receivable balances at June 30, 2007, are as follows:

	Gross	Allowance	Net
Student Accounts Receivable	$ 8,011,014	$ (4,159,813)	$ 3,851,201
Non-student Invoiced Accounts Receivable	12,806,394	(316,800)	12,489,594
Unreimbursed Research Contract Expenses	8,943,349		8,943,349
Totals	$ 29,760,757	$ (4,476,613)	$ 25,284,144

A summary of accounts receivable balances at June 30, 2006, are as follows:

	Gross	Allowance	Net
Student Accounts Receivable	$ 9,367,250	$ (3,956,673)	$ 5,410,577
Non-student Invoiced Accounts Receivable	14,958,380	(324,417)	14,633,963
Unreimbursed Research Contract Expenses	8,708,379		8,708,379
Totals	$ 33,034,009	$ (4,281,090)	$ 28,752,919

Biennial Appropriated Budgets

Biennial appropriated budgets are adopted for the state general fund. The biennial period commences on July 1 of each odd year following the adjournment of the regular sessions of the General Assembly, and ends on June 30 two years thereafter. An appropriation is construed to be available for the two year period following the legislative session in which it was approved. All appropriations lapse at the end of the second year of the biennium unless otherwise provided.

Capital Assets

Capital assets consisting of land, buildings, furniture, fixtures, equipment, improvements, infrastructure, and construction in progress 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. For equipment, the University's capitalization policy includes all items with a unit cost of $2,500 or more, and an estimated useful life of two years or more. Renovations to buildings, infrastructure, and land improvements with a cost of $50,000 or more and that significantly increase the value or extend the useful life of the structure are capitalized. 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, and 3 to 10 years for equipment.

Capitalization of Interest

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

Classification of Revenues
The University has classified its revenues as either operating or nonoperating revenues according to the following criteria:

- Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, and (3) most Federal, state and local grants and contracts.

- Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, such as state appropriations and investment income.

Scholarship Discounts and Allowances
Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

(2). Reporting Entity

The University of Arkansas, Fayetteville ("the University") was established at Fayetteville in 1871 under the provisions of the Morrill Act as both a state university and the land-grant college of Arkansas. The University of Arkansas, Fayetteville includes the Agricultural Experiment Station, the Cooperative Extension Service, Arkansas Archeological Survey, the Criminal Justice Institute, and the Clinton School of Public Service, as well as the academic units. The academic units in Fayetteville include ten colleges, schools and divisions: the Dale Bumpers College of Agricultural, Food, and Life Sciences, the 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 Division of Continuing Education. 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.

(3). Compensated Absences

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, 2007	June 30, 2006
	Bank Balance	Bank Balance
Insured (FDIC)	$ 850,902	$ 848,134
Uninsured, Collateralized	8,923,284	5,355,236
Uninsured, Uncollateralized		
Total Deposits	$ 9,774,186	$ 6,203,370

Deposits are exposed to custodial risk if they are not covered by depository insurance (FDIC) and are uncollateralized or collateralized with securities held by the pledging institution. At June 30, 2007, none of the University's bank balance of $9,774,186 was exposed to custodial credit risk.

The University of Arkansas System Administration (System Administration) does not maintain separate bank accounts. System Administration deposits are commingled in University of Arkansas, Fayetteville bank accounts. The carrying value of the System Administration funds was $1,664,130 at June 30, 2007, and $1,850,761 at June 30, 2006. The above deposit schedule does not include cash on hand in various imprest funds maintained by the University of $88,782 or short-term investments of $37,843,877 at June 30, 2007. At June 30, 2006, these amounts were $60,564 and $29,698,880, respectively.

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

	June 30, 2007		June 30, 2006	
Bank Balance	$ 9,774,186		$ 6,203,370	
Less: Items in Transit	(3,416,217)		(3,572,149)	
Less: Nonnegotiable Certificates of Deposit	(34,000)		(34,000)	
Cash on Books		$ 6,323,969		$ 2,597,221
State Treasury Cash	$ 2,400,979		$ 1,712,342	
Cash Equivalents	37,843,877		29,698,880	
Less: System Cash	(1,664,130)		(1,850,761)	
Cash Equivalents		38,580,726		29,560,461
Total Cash and Equivalents		$ 44,904,695		$ 32,157,682

Investments

Investments are recorded at fair value. Fair value for reporting purposes is market value if a market price or quote is readily available. Investments that do not have readily available market prices or quotes are reported at cost or amortized cost. All investments

were reported at fair value. The following is a summary of the University's investments held at June 30, 2007:

Investment Type	Fair Value at June 30, 2007
Mutual Treasury Funds	$ 3,060,092
Mutual Bond Funds	8,588,320
Corporate Bonds	12,742,545
CommonFund Short Term Fund	37,843,877
Guaranteed Investment Contracts	21,264,135
External Investment Pool-University of Arkansas System	120,544,082
Other	1,586,298
Total Investments	$ 205,629,349

The Commonfund Short Term investment of $37,843,877 is reported as cash and cash equivalents on the Statement of Net Assets. Mutual Treasury Funds of $3,060,092 and Guaranteed Investment Contracts of $21,264,135 are reported as deposits with bond trustee on the Statement of Net Assets. The above schedule does not include nonnegotiable certificates of deposit of $34,000 which are considered deposits for GASB Statement 40 deposit and investment disclosures.

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

Interest Rate Risk					
Investment Maturities (in years)					
Investment Type	Fair Value	Less than 1	1 to 5	5 to 10	More than 10
Corporate Bonds	$ 12,742,545	$ 990,407	$ 9,108,476	$ 1,706,009	$ 937,653

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University of Arkansas' investments subject to GASB 40 credit risk disclosure are summarized below:

Credit Risk						
Investment Type	Fair Value	Aaa	Aa1-Aa3	A1-A3	Baa1-Baa3	Not Rated
Mutual Treasury Funds	$ 3,060,092	$ 3,060,092				
Mutual Bond Funds	8,588,320					$ 8,588,320
Corporate Bonds	12,742,544	289,149	$ 9,801,300	$ 2,412,959	$ 239,136	
Totals	$ 24,390,956	$ 3,349,241	$ 9,801,300	$ 2,412,959	$ 239,136	$ 8,588,320

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

CommonFund Short Term Fund

The University invests daily operating funds in the CommonFund for Short Term Investments (Short Term Fund). The Short Term Fund is a bank common trust fund and as such is regulated by the United States Treasury Department Office of the Comptroller of the Currency.

Interest rate risk. The Short Term Fund invests in securities with maturities from one day to five and one-half years, but the portfolio is structured so that it will approximate the volatility of 3-month U.S. Treasury securities and not exceed the volatility of one-year U.S. Treasury securities.

Credit risk. The Short Term Fund is restricted to investments in U.S. Treasury and government agency securities, high quality corporate securities, mortgage- and asset-backed securities, and commercial and bank paper. However, the Short Term Fund is not rated by an external rating agency.

Guaranteed Investment Contracts

The University invested the construction funds from the Series 2006 Various Facilities Revenue Bonds in Guaranteed Investment Contracts (GICs). The GICs offer a guaranteed rate of return for a specific period of time with a guarantee of principal and interest earnings. The GICs provide full flexibility to withdraw funds as needed.

Interest rate risk. The University is not exposed to interest rate risk on the GICs.

Credit risk. If the ratings of the long-term, senior unsecured debt obligations of the guarantors are, at any time while the guarantee is in effect with respect to the GICs, suspended, withdrawn, or rated below AA- by S&P and Aa3 by Moody's, the University has the right to require collateralization or repayment of the entire balance. The following table summarizes the University's GIC agreements at June 30, 2007:

Investment	Fair Value	Rate of Return	Credit Risk
MBIA, Inc.	$ 21,264,135	5.314%	Not rated

Concentration of Credit Risk

The University places no limit on the amount that may be invested with any one issuer. The MBIA, Inc. guaranteed investment contract constitutes 10.34% of the University's total investments.

External Investment Pool-University of Arkansas System

The following tables contain information on the risk disclosure for the external investment pool, which commingles (pools) the moneys of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio. The pool was originally established in 1997 by the University of Arkansas and the University of Arkansas Foundation. During 1998, the Walton Arts Foundation joined the pool, and during 2003, the Fayetteville Campus foundation joined the pool. The participants of the pool have adopted investment guidelines and performance objectives for the accounts within the pool. This external investment pool is not SEC-registered. The external investment pool is not rated by an external rating agency. The University of Arkansas Board of Trustees is the sponsor of this investment pool and is responsible for operation and oversight for the pool. The University's participation in this investment pool is voluntary.

This information is provided in total for the pools, which includes the Total Return Pool, the Intermediate Pool, and the SuperCash Pool. The SuperCash Pool was terminated during fiscal year 2006. The University of Arkansas, Fayetteville owns 8.6% of the total of these pools.

FOR THE YEAR ENDED JUNE 30, 2007

University of Arkansas
Statement of Invested Assets

UNIVERSITY OF ARKANSAS GASB40 **June 30, 2007**

Investment Type		Fair Value*
CASH	**$**	**(43,387,935)**
CASH EQUIVALENTS	**$**	**800,689**
CASH COLLATERAL AT BROKER	$	800,689
SHORT-TERM INVESTMENTS	**$**	**51,849,182**
POOLED FUNDS AND MUTUAL FUNDS	$	51,095,390
GOVERNMENT AGENCIES	$	753,792
EQUITY INVESTMENTS	**$**	**420,494,066**
COMMON STOCKS	$	290,836,004
REAL ESTATE INVESTMENT TRUSTS	$	290,016
PREFERRED STOCK	$	235,135
COMMINGLED EQUITY FUNDS	$	126,677,806
OTHER EQUITIES	$	2,455,104
FIXED INCOME INVESTMENTS	**$**	**236,718,981**
GOVERNMENT FIXED INCOME	$	40,257,244
GOVERNMENT AGENCIES	$	7,797,982
GOVERNMENT BONDS	$	30,823,016
GOVERNMENT INFLATION INDEXED	$	523,842
OTHER GOVERNMENT FIXED INCOME	$	1,112,404
GOVERNMENT ASSETS AND MORTGAGE BACKED	$	74,805,438
GOVERNMENT NATIONAL MORTGAGE ASSOC.	$	551,569
FEDERAL HOME LOAN MORTGAGE CORP.	$	3,576,490
FEDERAL NATIONAL MORTGAGE ASSOC.	$	63,317,014
COLLATERALIZED MORTGAGE OBLIGATIONS	$	7,360,365
CORPORATE FIXED INCOME	$	110,514,070
ASSET BACKED SECURITIES	$	62,653,600
MORTGAGE PASS-THROUGH CERTIFICATE	$	52,065,415
AUTOMOBILE LOAN RECEIVABLES	$	2,396,251
CREDIT CARD RECEIVABLES	$	6,181,380
MISCELLANEOUS ASSET BACKED	$	2,010,554
CORPORATE BONDS	$	47,860,470
BANK CORPORATE BONDS	$	9,075,807
OTHER FINANCIAL CORPORATE BONDS	$	19,629,389
INDUSTRIAL CORPORATE BONDS	$	13,230,085
ENERGY CORPORATE BONDS	$	1,987,314
TELEPHONE CORPORATE BONDS	$	2,855,574
UTILITY (ELECTRIC) CORPORATE BONDS	$	743,788
UTILITY (GAS) CORPORATE BONDS	$	338,512
STATE AND LOCAL OBLIGATIONS	$	2,846,451
OTHER FIXED INCOME	$	8,295,778
PRIVATE PLACEMENTS	$	7,744,348
MISCELLANEOUS OTHER FIXED INCOME	$	551,430
CONVERTIBLE INVESTMENTS	**$**	**183,430**
CONVERTIBLE PREFERRED STOCK	$	183,430
OTHER ASSETS	**$**	**736,575,422**
MUTUAL FUNDS	$	715,726,049
VENTURE CAPITAL	$	20,849,373
TOTAL	**$**	**1,403,233,835**

* Includes Accrued Income

University of Arkansas
Credit Risk – S&P Quality Ratings

Quality Ratings of TSY and AGY have been assigned by The Bank of New York
UNIVERSITY OF ARKANSAS GASB40 **June 30, 2007**

Investment type and fair Value ($000)*		TSY	AGY	AAA	AA	A	BBB	BB	B	CCC & Below	A-1	A-2	A-3	NR
SHORT-TERM INVESTMENTS	**$**										**754**			**51,095**
POOLED FUNDS AND MUTUAL FUNDS	$													51,095
GOVERNMENT AGENCIES	$										754			
FIXED INCOME INVESTMENTS	**$**	**4,628**	**73,120**	**99,883**	**12,158**	**19,135**	**14,792**	**1,801**	**1,637**	**57**				**9,508**
GOVERNMENT FIXED INCOME	$	3,591	4,801	30,410	624	372	458							
GOVERNMENT AGENCIES	$		4,801	2,654	343									
GOVERNMENT BONDS	$	3,591		27,232										
GOVERNMENT INFLATION INDEXED	$			524										
OTHER GOVERNMENT FIXED INCOME	$				282	372	458							
GOVERNMENT ASSETS AND MORTGAGE BACKED	$	1,037	68,319	5,220										229
GOVERNMENT NATIONAL MORTGAGE ASSOC.	$		126	425										
FEDERAL HOME LOAN MORTGAGE CORP.	$		3,412	165										
FEDERAL NATIONAL MORTGAGE ASSOC.	$		63,150	167										
COLLATERALIZED MORTGAGE OBLIGATIONS	$	1,037	1,632	4,462										229
CORPORATE FIXED INCOME	$			57,805	10,451	17,885	13,463	1,327	1,637	57				7,888
ASSET BACKED SECURITIES	$			54,151			454	160						7,888
MORTGAGE PASS-THROUGH CERTIFICATE	$			45,274										6,791
AUTOMOBILE LOAN RECEIVABLES	$			2,054										342
CREDIT CARD RECEIVABLES	$			6,181										
MISCELLANEOUS ASSET BACKED	$			642			454	160						755
CORPORATE BONDS	$			3,654	10,451	17,885	13,009	1,167	1,637	57				
BANK CORPORATE BONDS	$				3,968	5,107								
OTHER FINANCIAL CORPORATE BONDS	$			3,401	4,234	7,239	2,540	932	1,283					
INDUSTRIAL CORPORATE BONDS	$			45	2,043	3,061	7,671		353	57				
ENERGY CORPORATE BONDS	$				206	485	1,296							
TELEPHONE CORPORATE BONDS	$					1,950	905							
UTILITY (ELECTRIC) CORPORATE BONDS	$			208		43	258	235						
UTILITY (GAS) CORPORATE BONDS	$						339							
STATE AND LOCAL OBLIGATIONS	$			2,770	77									
OTHER FIXED INCOME	$			3,678	1,005	878	871	474						1,390
PRIVATE PLACEMENTS	$			3,453	1,005	878	871	356						1,181
MISCELLANEOUS OTHER FIXED INCOME	$			225				117						209
CONVERTIBLE INVESTMENTS	**$**								**183**					
CONVERTIBLE PREFERRED STOCK	$								183					
TOTAL	**$**	**4,628**	**73,120**	**99,883**	**12,158**	**19,135**	**14,792**	**1,801**	**1,820**	**57**	**754**			**60,603**

* Includes Accrued Income

FOR THE YEAR ENDED JUNE 30, 2007

University of Arkansas
Years to Maturity

UNIVERSITY OF ARKANSAS GASB40 **June 30, 2007**

Investment Type(1)	Fair Value*	Investment Maturities (in years) Less than 1	1 to 5	6 to 10	More than 10
SHORT-TERM INVESTMENTS	**$ 51,849,182**	**$ 884,017**	**$**	**$**	**$**
POOLED FUNDS AND MUTUAL FUNDS	$ 51,095,390	$ 130,225	$	$	$
GOVERNMENT AGENCIES	$ 753,792	$ 753,792	$	$	$
FIXED INCOME INVESTMENTS	**$ 236,718,981**	**$ 5,319,364**	**$ 45,603,362**	**$ 19,610,985**	**$ 166,185,269**
GOVERNMENT FIXED INCOME	$ 40,257,244	$ 821,926	$ 10,801,525	$ 8,789,028	$ 19,844,765
GOVERNMENT AGENCIES	$ 7,797,982	$ 449,933	$ 1,289,906	$ 611,861	$ 5,446,281
GOVERNMENT BONDS	$ 30,823,016	$ 90,234	$ 9,185,374	$ 8,131,123	$ 13,416,286
GOVERNMENT INFLATION INDEXED	$ 523,842	$	$	$	$ 523,842
OTHER GOVERNMENT FIXED INCOME	$ 1,112,404	$ 281,759	$ 326,245	$ 46,044	$ 458,356
GOVERNMENT ASSETS AND MORTGAGE BACKED	$ 74,805,438	$	$ 1,305,515	$ 3,452,882	$ 70,047,041
GOVERNMENT NATIONAL MORTGAGE ASSOC.	$ 551,569	$	$	$	$ 551,569
FEDERAL HOME LOAN MORTGAGE CORP.	$ 3,576,490	$	$	$	$ 3,576,490
FEDERAL NATIONAL MORTGAGE ASSOC.	$ 63,317,014	$	$ 1,108,927	$ 2,263,452	$ 59,944,635
COLLATERALIZED MORTGAGE OBLIGATIONS	$ 7,360,365	$	$ 196,588	$ 1,189,430	$ 5,974,347
CORPORATE FIXED INCOME	$ 110,514,070	$ 3,909,103	$ 28,602,751	$ 5,549,994	$ 72,452,223
ASSET BACKED SECURITIES	$ 62,653,600	$ 1,263,138	$ 8,391,065	$	$ 52,999,398
MORTGAGE PASS-THROUGH CERTIFICATE	$ 52,065,415	$ 1,263,138	$ 645,204	$	$ 50,157,074
AUTOMOBILE LOAN RECEIVABLES	$ 2,396,251	$	$ 2,396,251	$	$
CREDIT CARD RECEIVABLES	$ 6,181,380	$	$ 4,915,152	$	$ 1,266,228
MISCELLANEOUS ASSET BACKED	$ 2,010,554	$	$ 434,458	$	$ 1,576,096
CORPORATE BONDS	$ 47,860,470	$ 2,645,965	$ 20,211,686	$ 5,549,994	$ 19,452,825
BANK CORPORATE BONDS	$ 9,075,807	$ 374,805	$ 4,481,840	$ 246,208	$ 3,972,953
OTHER FINANCIAL CORPORATE BONDS	$ 19,629,389	$ 1,793,750	$ 10,394,474	$ 3,242,584	$ 4,198,582
INDUSTRIAL CORPORATE BONDS	$ 13,230,085	$ 220,821	$ 3,073,970	$ 1,397,444	$ 8,537,850
ENERGY CORPORATE BONDS	$ 1,987,314	$ 256,589	$ 460,783	$ 316,072	$ 953,871
TELEPHONE CORPORATE BONDS	$ 2,855,574	$	$ 1,353,675	$ 304,884	$ 1,197,015
UTILITY (ELECTRIC) CORPORATE BONDS	$ 743,788	$	$ 446,944	$ 42,801	$ 254,042
UTILITY (GAS) CORPORATE BONDS	$ 338,512	$	$	$	$ 338,512
STATE AND LOCAL OBLIGATIONS	$ 2,846,451	$	$ 1,950,829	$ 818,689	$ 76,933
OTHER FIXED INCOME	$ 8,295,778	$ 588,336	$ 2,942,743	$ 1,000,392	$ 3,764,307
PRIVATE PLACEMENTS	$ 7,744,348	$ 588,336	$ 2,942,743	$ 868,864	$ 3,344,405
MISCELLANEOUS OTHER FIXED INCOME	$ 551,430	$	$	$ 131,528	$ 419,902
CONVERTIBLE INVESTMENTS	**$ 183,430**	**$**	**$**	**$**	**$ 183,430**
CONVERTIBLE PREFERRED STOCK	$ 183,430	$	$	$	$ 183,430
TOTAL	**$ 288,751,593**	**$ 6,203,382**	**$ 45,603,362**	**$ 19,610,985**	**$ 166,368,699**

* Includes Accrued Income
(1) Pooled and Mutual Fund/Commingled Fund values are displayed for Fair Value Totals only

University of Arkansas

Interest Rate Sensitivity – Effective Duration

UNIVERSITY OF ARKANSAS GASB40 **June 30, 2007**

Investment Type(1)		Fair Value*	Effective Duration
SHORT-TERM INVESTMENTS	**$**	**51,849,182**	**0.03**
POOLED FUNDS AND MUTUAL FUNDS	$	51,095,390	
GOVERNMENT AGENCIES	$	753,792	0.03
FIXED INCOME INVESTMENTS	**$**	**236,718,981**	**4.78**
GOVERNMENT FIXED INCOME	$	40,257,244	7.41
GOVERNMENT AGENCIES	$	7,797,982	4.64
GOVERNMENT BONDS	$	30,823,016	8.17
GOVERNMENT INFLATION INDEXED	$	523,842	7.03
OTHER GOVERNMENT FIXED INCOME	$	1,112,404	6.03
GOVERNMENT ASSETS AND MORTGAGE BACKED	$	74,805,438	4.47
GOVERNMENT NATIONAL MORTGAGE ASSOC.	$	551,569	6.01
FEDERAL HOME LOAN MORTGAGE CORP.	$	3,576,490	3.37
FEDERAL NATIONAL MORTGAGE ASSOC.	$	63,317,014	4.58
COLLATERALIZED MORTGAGE OBLIGATIONS	$	7,360,365	3.96
CORPORATE FIXED INCOME	$	110,514,070	4.01
ASSET BACKED SECURITIES	$	62,653,600	2.40
MORTGAGE PASS-THROUGH CERTIFICATE	$	52,065,415	2.54
AUTOMOBILE LOAN RECEIVABLES	$	2,396,251	1.08
CREDIT CARD RECEIVABLES	$	6,181,380	2.27
MISCELLANEOUS ASSET BACKED	$	2,010,554	1.30
CORPORATE BONDS	$	47,860,470	5.86
BANK CORPORATE BONDS	$	9,075,807	5.81
OTHER FINANCIAL CORPORATE BONDS	$	19,629,389	4.15
INDUSTRIAL CORPORATE BONDS	$	13,230,085	7.50
ENERGY CORPORATE BONDS	$	1,987,314	7.84
TELEPHONE CORPORATE BONDS	$	2,855,574	7.86
UTILITY (ELECTRIC) CORPORATE BONDS	$	743,788	5.68
UTILITY (GAS) CORPORATE BONDS	$	338,512	11.60
STATE AND LOCAL OBLIGATIONS	$	2,846,451	4.22
OTHER FIXED INCOME	$	8,295,778	4.47
PRIVATE PLACEMENTS	$	7,744,348	4.27
MISCELLANEOUS OTHER FIXED INCOME	$	551,430	8.84
CONVERTIBLE INVESTMENTS	**$**	**183,430**	**2.92**
CONVERTIBLE PREFERRED STOCK	$	183,430	2.92
TOTAL	**$**	**288,751,593**	**4.77**

* Includes Accrued Income

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

University of Arkansas
Foreign Currency Risk By Investment Type

American Depository Receipts (ADRs) are Non-U.s. Equity that are issued in U.S. Dollar, and have no Foreign Currency Risk.
UNIVERSITY OF ARKANSAS GASB40 **June 30, 2007**

Currency by investment and Fair Value ($000)*	CASH	Cash Equ.	Forward Contracts	Short Term	Equity	All Other**
AUSTRALIAN DOLLAR	$ 22	$	$	$	$ 1,880	$
BRITISH PND STERLING	$ 41	$	$	$	$ 14,118	$
DANISH KRONE	$ 121	$	$	$	$ 672	$
EURO CURRENCY	$ 501	$ 600	$	$	$ 30,789	$
HONG KONG DOLLAR	$ 13	$	$	$	$ 2,687	$
HUNGARIAN FORINT	$ 10	$	$	$	$	$
JAPANESE YEN	$ 150	$	$	$	$ 18,409	$
NEW ZEALAND DOLLAR	$ 2	$	$	$	$ 282	$
NORWEGIAN KRONE	$ 17	$	$	$	$ 722	$
SINGAPORE DOLLAR	$ 14	$	$	$	$ 747	$
SOUTH KOREAN WON	$	$	$	$	$ 1,177	$
SWEDISH KRONA	$	$	$	$	$ 1,144	$
SWISS FRANC	$ 123	$	$	$	$ 2,193	$
TOTAL	**$ 1,013**	**$ 600**	**$**	**$**	**$ 74,821**	**$**

*** Includes Accrued Income**
**** ALL OTHER Category includes: Fixed Income, Convertible Inv., Derivatives, Mortgages, Real Estate, Company Securities, and Other Assets**

FOR THE YEAR ENDED JUNE 30, 2007

The activities during fiscal year 2007 affecting the University's investments in the external pool are summarized below:

	Total Return Pool	Intermediate Pool	Intermediate Pool CES	Total
June 30, 2006, Balances	$ 59,648,090	$ 58,928,730	$ 7,406,460	$ 125,983,280
Income	1,089,667	1,693,010	350,005	3,132,682
Realized Gains/(Losses)				
Unrealized Gains/(Losses)	10,986,290	803,030	37,519	11,826,839
Expenses Paid from Pool	(309,625)	(74,101)	(14,993)	(398,719)
Transfers In/(Out) of Pool		(20,000,000)		(20,000,000)
June 30, 2007, Balances	$ 71,414,422	$ 41,350,669	$ 7,778,991	$ 120,544,082

The activities during fiscal year 2006 affecting the University's investments in the external pool are summarized below:

	Total Return Pool	Short Intermediate Pool	Short Intermediate Pool – CES	Total
June 30, 2005, Balances	$ 57,761,509	$ 53,220,367	$ 7,667,595	$ 118,649,471
Income	1,162,910	2,251,511	302,495	3,716,916
Realized Gains/(Losses)				
Unrealized Gains/(Losses)	4,931,770	(425,937)	(29,543)	4,476,290
Expenses Paid from Pool	(208,099)	(117,211)	(16,759)	(342,069)
Transfers In/(Out) of Pool	(4,000,000)	4,000,000	(517,328)	(517,328)
June 30, 2006, Balances	$ 59,648,090	$ 58,928,730	$ 7,406,460	$ 125,983,280

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:

	2007	2006
Fair Value @ June 30	$ 69,025,962	$ 59,858,324
Number of Units in Pool @ June 30	2,011,735	1,744,525
Fair Value per Unit @ June 30	$ 34.312	$ 34.312
Gains/(Losses) for the Year	$ 10,986,290	$ 4,931,770
Net Income Earned for the Year	$ 780,042	$ 954,811
Gain/(Loss) per Unit	$ 5.46	$ 2.83
Income Earned per Unit	0.39	0.55
Total per Unit	$ 5.85	$ 3.38

Donor-restricted Endowments

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

	2007	2006
Total Endowment at June 30	$ 70,037,104	$ 60,818,198
Less: Funds treated as Endowment	(13,146,070)	(18,929,095)
Non-expendable portion of Endowment	(16,975,377)	(16,597,898)
Available for Expenditure	$ 39,915,657	$ 25,291,205

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 28-69-603 states "(a) The governing board may expend so much of the endowment fund or an aggregation of the endowment fund as the governing body determines to be prudent under the standard established by § 28-69-607 for the uses and purposes for which an endowment fund is established. This section does not limit the authority of the governing board to expend funds as permitted under other law, the terms of the applicable gift instrument, or the charter of the institution. (b) Except as otherwise specified, this section applies to endowment funds established and instruments executed or in effect before or after July 16, 2003."

The University uses a total return policy for investing endowed funds. The University's spending policy is to expend 5.028% 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 $3,114,647 and $2,946,992 were issued under the Student Loan Programs for the years ended June 30, 2007, and June 30, 2006, 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 9.38% for the year ended June 30, 2007, and 16.01% for the year ended June 30, 2006. Notes receivable totaling $7,166 and $266,680 were written off during the fiscal year ended June 30, 2007, and June 30, 2006, respectively.

The following summarizes the balance of notes receivable at June 30, 2007:

Type of Note	Gross Balance	Allowance	Net Balance	Current Portion
Student loans	$ 14,255,617	$ 727,804	$ 13,527,813	$ 3,421,348
Loans to Greek organizations	1,885,276	465,000	1,420,276	97,468
Construction notes	360,000		360,000	360,000
Totals	$ 16,500,893	$ 1,192,804	$ 15,308,089	$ 3,878,816

The following summarizes the balance of notes receivable at June 30, 2006:

Type of Note	Gross Balance	Allowance	Net Balance	Current Portion
Student loans	$ 14,167,444	$ 712,377	$ 13,455,067	$ 3,541,861
Loans to Greek organizations	1,979,301	465,000	1,514,301	94,025
Construction notes	705,000		705,000	345,000
Totals	$ 16,851,745	$ 1,177,377	$ 15,674,368	$ 3,980,886

(6). Pledges Receivable

The composition of pledges receivable at June 30, 2007, is summarized as follows:

Type of Pledge	Balance	Current Portion
Capital	$ 19,912	$ 19,912
Totals	$ 19,912	$ 19,912

The composition of pledges receivable at June 30, 2006, is summarized as follows:

Type of Pledge	Balance	Current Portion
Capital	$ 30,000	$ 20,000
Totals	$ 30,000	$ 20,000

(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, 2007. 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, 2007	June 30, 2006
Payable to Outside Vendors	$ 17,519,393	$ 14,774,988
Retainage on Construction Contracts	6,806,314	5,230,788
Property Taxes Payable	126,662	106,787
Total	$ 24,452,369	$ 20,112,563

Accrued payroll liabilities are summarized as follows:

	June 30, 2007	June 30, 2006
Net Salaries and Wages Payable	$ 2,971,011	$ 2,291,997
Employee Withholdings Payable	5,981,054	5,788,265
Employer Payroll Taxes and Benefits Matching Payable	4,263,545	4,122,480
Total	$ 13,215,610	$ 12,202,742

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

Debt service payments on existing bonds amounted to $31,488,078 for the fiscal year ended June 30, 2007. The amount of $1,005,217 was expended for principal and interest on notes payable, installment contracts and capital leases for the same period.

On November 30, 2006, the University called $7,555,000 in principal amount of the Athletic Facilities Revenue Bonds, Subordinate Series 2001. The Bonds were originally issued on November 29, 2001, with a principal amount of $11,755,000 with an interest rate fixed at 3.55% to December 1, 2006. The Bonds were subject to optional redemption on December 1, 2006, in whole or in part. The University elected to call $7,555,000 of

the principal amount, and convert the interest rate on the remaining Bonds in the amount of $4,000,000 to a fixed rate of 4.2% until the final maturity date of December 1, 2021.

On May 11, 2007, the University entered into a financing agreement with the University of Arkansas Foundation, Inc. The agreement calls for the University of Arkansas Foundation, Inc., to provide credit up to $6,000,000 for the construction of a new softball stadium for the Women's Softball team. The University will draw down funds up to the $6,000,000 credit limit as the construction project proceeds. The University is to make minimum quarterly payments of interest accrued on the draw note balance. The interest accrued on the draw note balance will be assessed at a variable rate equal to the investment return rate of the University of Arkansas Foundation, Inc.

Once the total financial need of the project has been determined, the unpaid principal balance of the draw note will be replaced by a promissory note. The promissory note shall be fully repaid by March 31, 2013. An option to renew the promissory note for an additional five year period to March 31, 2018, will require the approval of the University of Arkansas Foundation, Inc. The promissory note is anticipated to be repaid from major gift pledges, Trademark Licensing proceeds and other gifts.

As of June 30, 2007, the University has not drawn down any funds for the project; therefore, no liability is recorded on the Statement of Net Assets at this time.

On July 1, 2005, the University issued $9,645,000 in Athletic Facilities Revenue Refunding Bonds, Series 2005. The Series 2005 bonds were issued with an average coupon rate of 3.162% in order to refund $9,520,000 Athletic Facilities Revenue Refunding Bonds, Fayetteville Campus, Series 1997 Bonds, having an average interest rate of 4.962%. Proceeds in the amount of $8,595,418 were deposited along with the University's contribution of $153,561 for interest due on the Series 1997 Bonds through July 13, 2005, and $956,097 released from the Series 1997 Debt Service Reserve Fund into an irrevocable trust with an escrow agent to provide for the refunding of all the outstanding Series 1997 Bonds except for the Series 1997 Bonds maturing on September 15, 2005. The balance in the escrow account was paid out on September 15, 2005, to fully redeem the bonds to be refunded. The University refunded the 1997 Series bonds to reduce its total debt service payments over the next 5 years by $351,245 and to obtain economic gain (difference between the present value of the debt service payments on the old and new debt) of $324,968.

On June 1, 2006, the University issued $67,420,000 in Various Facility Revenue Bonds, Series 2006. The bonds were issued to provide funds to finance several construction projects on the University campus including two new residence halls, the second phase of improvements and expansion to the law school facilities, and several energy efficiency improvements to various existing facilities on campus. Proceeds will also be used to purchase various pieces of real property adjacent to the campus and to finance various other improvements and acquisitions.

On June 1, 2006, the University issued $8,205,000 in Athletic Facilities Revenue Bonds, Series 2006 to provide funds to finance the construction, renovation and equipment of John McDonnell Field, the varsity outdoor track and field facility.

On October 1, 2004, the University issued $23,500,000 in Various Facility Revenue Bonds, Series 2004A, and $7,050,000 in Various Facility Revenue Refunding Bonds, Series 2004B. Series 2004A bonds were issued to provide funds to finance several construction projects on the University campus including the Law Library addition, the Central Chilled Water rebuild, Harmon Avenue Parking Facility, the Lewis Epley Band Building addition and various other projects. Series 2004B bonds were issued with an average coupon rate of 3.677% in order to advance refund $6,550,000 of Series 1997 Various Facility Revenue Bonds having an average interest rate of 5.198%. Proceeds in the amount of $6,992,044, plus an additional $169,605, were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments of the refunded 1997 Series bonds. Regularly scheduled interest and principal payments on the 1997 Series issue were made on November 1, 2004, and will continue through November 1, 2007, from the escrow fund. All outstanding refunded Series 1997 bonds will be redeemed on November 1, 2007, at a price equal to 100% of the principal amount plus interest accrued thereon. As a result, the 1997 bonds are considered defeased. The liability for those bonds has been removed from the Statement of Net Assets. The University advance refunded the 1997 Series bonds to reduce its total debt service payments over the next 14 years by $557,636 and to obtain economic gain (difference between the present value of the debt service payments on the old and new debt) of $299,199. The escrow balance at June 30, 2007, was $6,627,482.

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

to obtain economic gain (difference between the present value of the debt service payments on the old and new debt) of $2,263,717. The escrow balance at June 30, 2007, was $60,770,618.

Remaining balances of defeased bond issues as of June 30, 2007:

Title	Principal Balance at June 30, 2007
Various Facilities Revenue Bonds, Series 2002	$ 44,195,000
Various Facilities Revenue Bonds, Series 2001	12,135,000
Various Facilities Revenue Bonds, Series 1997	6,550,000
Total	$ 62,880,000

During the fiscal year ended June 30, 2007, the University entered into two capital lease purchase agreements to finance the purchase of two pieces of equipment. One lease is for the purchase of farm equipment in the amount of $34,748. The lease is financed at an interest rate of 8.145%. Annual payments commenced on December 1, 2006, and continue until December 1, 2009.

The second lease is for the purchase of equipment for the University's student health center in the amount of $30,895. The lease is financed at an annual interest rate of 7.99%. Monthly payments commenced in February, 2007, and will continue through January, 2012.

FOR THE YEAR ENDED JUNE 30, 2007

A summary of long term debt at June 30, 2007, is as follows:

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized & Issued	Debt Outstanding at June 30, 2007	Maturities and Refinanced Amounts to June 30, 2007
11/01/1996	11/01/2009	3.85% to 5.25%	$ 12,105,000	$ 1,575,000	$ 10,530,000
10/15/1997	11/01/2022	3.95% to 5.25%	21,445,000	7,820,000	13,625,000
05/01/1999	09/15/2020	3.35% to 4.85%	30,000,000	22,870,000	7,130,000
11/01/2001	12/01/2021	2.90% to 5.50%	42,985,000	23,140,000	19,845,000
11/01/2001	12/01/2021	4.20%	11,555,000	4,000,000	7,555,000
12/01/2002	12/01/2032	1.80% to 5.50%	110,980,000	58,370,000	52,610,000
10/01/2004	11/01/2024	2.00% to 4.75%	30,550,000	28,690,000	1,860,000
03/01/2005	11/01/2025	3.00% to 4.50%	81,020,000	79,695,000	1,325,000
07/01/2005	09/15/2011	3.00% to 3.25%	9,645,000	8,095,000	1,550,000
06/01/2006	11/01/2036	4.00% to 5.00%	67,420,000	67,420,000	
06/01/2006	09/15/2022	4.00% to 4.375%	8,205,000	8,205,000	
11/30/1991	05/01/2022	5.50%	3,000,000	2,078,794	921,206
11/29/1995	12/01/2019	4.00% to 5.00%	2,071,140	1,420,275	650,865
09/13/1995	12/01/2010	5.75% to 7.05%	535,000	200,000	335,000
12/20/1999	12/20/2023	Variable	827,888	827,888	
07/31/2002	07/01/2012	2.05%	900,000	472,810	427,190
Various	Various	Various	1,822,170	687,664	1,134,506
Deferral on debt defeasance			(4,295,000)	(3,612,324)	(682,676)
Totals			$ 430,771,198	$ 311,955,107	$ 118,816,091

FOR THE YEAR ENDED JUNE 30, 2007

A summary of long term debt at June 30, 2006, is as follows:

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized & Issued	Debt Outstanding at June 30, 2006	Debt Refunded during FYE June 30, 2006	Maturities and Refinanced Amounts to June 30, 2006
11/01/1996	11/01/2009	3.85% to 5.25%	$ 12,105,000	$ 2,055,000		$ 10,050,000
11/01/1997	09/15/2011	4.10% to 5.00%	19,170,000		$ 9,520,000	9,650,000
10/15/1997	11/01/2022	3.95% to 5.25%	21,445,000	8,875,000		12,570,000
05/01/1999	09/15/2020	3.35% to 4.85%	30,000,000	24,010,000		5,990,000
11/01/2001	12/01/2021	2.90% to 5.50%	42,985,000	24,760,000		18,225,000
11/01/2001	12/01/2021	3.55%	11,555,000	11,555,000		
12/01/2002	12/01/2032	1.80% to 5.50%	110,980,000	60,440,000		50,540,000
10/01/2004	11/01/2024	2.00% to 4.75%	30,550,000	29,630,000		920,000
03/01/2005	11/01/2025	3.00% to 4.50%	81,020,000	80,730,000		290,000
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	67,420,000		
06/01/2006	09/15/2022	4.00% to 4.375%	8,205,000	8,205,000		
11/30/1991	05/01/2022	5.50%	3,000,000	2,166,161		833,839
11/29/1995	12/01/2019	4.00% to 5.00%	2,071,140	1,514,300		556,840
09/13/1995	12/01/2010	5.75% to 7.05%	535,000	240,000		295,000
12/20/1999	12/20/2023	Various	827,888	827,888		
07/31/2002	07/01/2012	2.05%	900,000	561,750		338,250
Various	Various	Various	2,017,126	1,014,545		1,002,581
Deferral on debt defeasance			(4,295,000)	(3,900,951)		(394,049)
Totals			$ 450,136,154	$ 329,748,693	$ 9,520,000	$ 110,867,461

Equipment Leases

The University has acquired certain equipment under various lease-purchase contracts. The cost of equipment held under capital leases totaled $910,580 at June 30, 2007.

Type of Equipment	Asset Balance June 30, 2007
Computing Service Equipment	$ 841,461
Health Center Equipment	34,371
Farm Equipment	34,748
Total	$ 910,580
Total Minimum Lease Payments	$ 383,229
Less: Amount Representing Interest	32,596
Total Present Value of Net Minimum Lease Payments	$ 350,633

Changes in long-term liabilities for the year ended June 30, 2007, are as follows:

	Fiscal Year Ended June 30, 2007				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds	$ 327,325,000		$ 17,445,000	$ 309,880,000	$ 11,315,000
Deferral on debt defeasance	(3,900,951)		(288,627)	(3,612,324)	(288,626)
Notes	5,310,099		310,332	4,999,767	234,706
Leases	474,668	$ 65,643	189,678	350,633	13,144
Installment contract	539,877		202,846	337,031	210,544
Compensated absences	15,012,889	918,023	30,897	15,900,015	854,971
Totals	$ 344,761,582	$ 983,666	$ 17,890,126	$ 327,855,122	$ 12,339,739

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

Changes in long-term liabilities for the year ended June 30, 2006, are as follows:

	Fiscal Year Ended June 30, 2006				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds	$ 260,358,000	$ 85,270,000	$ 18,303,000	$ 327,325,000	$ 9,890,000
Deferral on debt defeasance	(4,093,240)	(125,000)	(317,289)	(3,900,951)	(288,625)
Notes	5,610,587		300,488	5,310,099	262,786
Leases	269,759	756,527	551,618	474,668	39,382
Installment contract	735,308		195,431	539,877	202,846
Compensated absences	13,448,306	1,590,401	25,818	15,012,889	825,311
Totals	$ 276,328,720	$ 87,491,928	$ 19,059,066	$ 344,761,582	$ 10,931,700

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
2008	$ 11,484,768	$ 14,374,169	$ 25,858,937
2009	12,216,373	13,898,728	26,115,101
2010	21,294,432	13,140,359	34,434,791
2011	11,520,809	12,403,646	23,924,455
2012	11,871,609	11,897,350	23,768,959
2013-2017	61,710,021	63,453,353	125,163,374
2018-2022	80,917,095	35,359,564	116,276,659
2023-2027	40,230,000	19,264,319	59,494,319
2028-2032	34,215,000	11,129,625	45,344,625
2033-2037	26,495,000	3,059,875	29,554,875
Totals	$ 311,955,107	$ 197,980,988	$ 509,936,095

*Interest payments made on one Note Payable are calculated using floating interest rates. The interest on the Note will be calculated using a floating rate equal to the amount earned on non-endowed investments known as the short-term intermediate pool each month from the fiscal years ended June 30, 2007, through June 30, 2020. The estimated future interest for this Note was calculated using the rate, of 3.464%.

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, 2007, and June 30, 2006, that are pledged:

BOND SERIES	REVENUE SOURCE	2007	2006
Series 1966 Dormitory	Residential Life		$ 14,912,489
Series 1996 Refunding	Student Tuition and Fees	$ 108,946,254[1]	$ 114,244,315
Series 1997 Various Facilities	Sales and Services	10,199,074	10,229,074
Series 2001 Various Facilities	Residential Life	19,031,464	17,341,038
Series 2002 Various Facilities	Student Apartments	[2]	695,309
Series 2004 Various Facilities	Arkansas Union	1,058,264	733,461
Series 2005 Various Facilities	Bookstore	13,807,992	14,394,240
Series 2006 Various Facilities	Student Health Services	1,256,761	1,114,937
	Transit and Parking	4,879,054	4,718,642
	Other Auxiliaries	2,119,836	1,633,750
	Total	$ 161,298,699	$ 165,104,766
Series 1999 Athletic Facilities	Men's Athletic Revenue	$ 45,097,323	$ 40,619,088
Series 2001 Athletic Subordinate Series 2005 Athletic Refunding Series 2006 Athletic Facilities	(less game guarantees)	(2,132,921)	(2,090,078)
	Total	$ 42,964,402	$ 38,529,010

[1] Due to a change in accounting procedure, the gross amount of revenue reported as Student tuition and fees is down from the previous year. See Note 18 for further details on this change in accounting procedure.

[2]The University did not have any Student Apartments during the fiscal year ended June 30, 2007.

(10). Commitments

The University was contractually obligated for the following at June 30, 2007:

A. Construction and Architect Contracts

Project Name	Completion Date	Beginning Year Contract Balance Plus Amendments	Amount Paid	Year-End Contract Balance
Building Metering & Controls	Substantially Complete	$ 782,979	$ 661,488	$ 121,491
Center for Acad. Excellence	August, 2007	22,264,936	18,851,020	3,413,916
Central Chilled Water Plant	Substantially Complete	335,100	116,209	218,891
Chemistry Building Renovation	Substantially Complete	7,393,896	6,864,766	529,130
Dan Felton Jr. Bldg – Cotton Branch	Substantially Complete	1,019,893	981,658	38,235
Duncan Avenue Apartments	December, 2008	935,730	259,132	676,598
Fine Arts Theater Life Safety Issues	December, 2008	98,875	67,138	31,737
Fowler House Area B	March, 2008	297,576	258,622	38,954
Harmon Road Waste Site	September, 2007	798,470	498,076	300,394
John McDonnell Track Renovation	Substantially Complete	4,541,695	4,458,358	83,337
Leflar Law Addition and Renov. Phase II	October, 2007	7,373,040	5,680,431	1,692,609
Maple Hill Housing Complex	August, 2007	44,270,263	38,915,497	5,354,766
National Center for Reliable Electricity	July, 2007	941,387	907,069	34,318
Old Main Exterior Renovation	March, 2008	2,029,351	1,717,286	312,065
Parking Facility – Harmon Ave.	Substantially Complete	300,000	142,306	157,694
Sigma Nu Fraternity House	August, 2007	4,729,226	3,922,043	807,183
Tyson Center of Excellence for Poultry	December, 2008	3,510,020	593,590	2,916,430
Veterinary Diagnostic Lab	March, 2008	2,100,000	138,584	1,961,416
Willard J. Walker Hall	August, 2007	16,427,325	13,613,634	2,813,691
Women's Softball Complex - Design	May, 2008	334,717	137,108	197,609
Other	Various	1,743,445	1,054,177	689,268
Totals		$ 122,227,924	$ 99,838,192	$ 22,389,732

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, 2007.

B. Operating Leases

The University has entered into various operating leases for buildings and equipment. It is expected that in the normal course of business such leases will continue to be required. The total expenditures for all rental lease payments and non-lease rental payments for the fiscal year ended June 30, 2007, were $4,444,879. Minimum annual rental payments for

leases having an initial term in excess of one year totaled $2,921,065. Below are the scheduled payments for the five succeeding fiscal years and thereafter.

Year ended June 30	Amount
2008	$ 1,003,705
2009	292,040
2010	197,520
2011	184,800
2012	184,800
Thereafter	1,058,200
Total	$ 2,921,065

(11). Employee Benefits

A. Retirement Benefits

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

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

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

classified employees, vesting of benefits attributable to plan contributions made by the University shall occur on the earlier of completion of three years of service, or attainment of age 65, or the participant's having made plan contributions of at least five percent of regular salary for six consecutive months. The University's and participants' TIAA-CREF contributions for the year ending June 30, 2007, were $13,963,029 and $14,204,031, respectively. The University's and participants' Fidelity Investments contributions for the year ending June 30, 2007, were $3,341,196 and $3,765,210, respectively. The University's and participants' TIAA-CREF contributions for the year ending June 30, 2006, were $13,345,672 and $12,818,618, respectively. The University's and participants' Fidelity Investments contributions for the year ending June 30, 2006, were $2,996,793 and $3,103,456, respectively.

APERS is a cost-sharing multiple employer defined benefit plan administered by the State of Arkansas. The University contributes 12.54% 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, 2007, were $200,652 and $4,000, respectively. The University's and participants' contribution for the year ending June 30, 2006, were $176,864 and $1,857, 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, 2007, were $111,262 and $27,526, respectively. The University's and participants' contributions for the year ending June 30, 2006, were $85,420 and $20,637, respectively.

The University's and participants' contributions to all other pension plans for the year ended June 30, 2007, were $592,663 and $506,271, respectively. The University's and participants' contributions to all other pension plans for the year ended June 30, 2006, were $569,465 and $483,420, respectively.

B. Self-Insurance Plans

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

For the year ending June 30, 2007, a total of 4,585 active employees, former employees, and retirees were participants in the health plan. For the year ending June 30, 2006, the total of active employees, former employees, and retirees participating in the health plan

was 4,505. The University pays 68.441% for the Point of Service Plan and 77.39% for the Classic Plan for Fayetteville. The University pays 75.135% for the Division of Agriculture and the Arkansas Archeological Survey and 68.441% for the Criminal Justice Institute for the Point of Service Plan and 77.39% for the Classic Plan. The University pays 70% of the health plan for federal employees.

C. Life Insurance Plan

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

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

(12). Property, Plant and Equipment

The following schedule presents a summary of property, plant and equipment for the fiscal year 2007:

	Beginning Balance	Additions	Retirements	Ending Balance
Land (not depreciated)	$ 19,402,510	$ 3,922,583		$ 23,325,093
Buildings	678,633,260	79,441,104	$ 273,724	757,800,640
Equipment	210,682,646	27,190,595	5,195,275	232,677,966
Improvements	16,123,580	2,434,494		18,558,074
Infrastructure	33,790,596	7,559,022		41,349,618
Other Assets	1,293,620		158,677	1,134,943
Construction in Progress	89,533,747	114,332,534	78,104,818	125,761,463
Total	1,049,459,959	234,880,332	83,732,494	1,200,607,797
Less accumulated depreciation				
Buildings	258,801,066	23,254,386	128,437	281,927,015
Equipment	129,028,033	26,739,749	4,703,542	151,064,240
Improvements	8,140,153	723,219		8,863,372
Infrastructure	20,710,290	1,442,164		22,152,454
Total accumulated depreciation	416,679,542	52,159,518	4,831,979	464,007,081
Capital Assets, Net	$ 632,780,417	$ 182,720,814	$ 78,900,515	$ 736,600,716

Note: Land of $176,625 and buildings of $3,979,780 related to the joint endeavor between the University of Arkansas and the City of Fayetteville are included in the above amounts. See note 15.

The following schedule presents a summary of property, plant and equipment for the fiscal year 2006:

	Beginning Balance	Additions	Retirements	Change in Accounting Estimate	Ending Balance
Land (not depreciated)	$ 15,726,470	$ 3,676,040			$ 19,402,510
Buildings	619,631,085	60,356,765	$ 1,354,590		678,633,260
Equipment	176,088,249	43,819,600	9,225,203		210,682,646
Improvements	14,990,416	1,133,164			16,123,580
Infrastructure	30,574,197	3,216,399			33,790,596
Other Assets	1,255,198	38,422			1,293,620
Construction in Progress	69,599,102	71,654,124	51,719,479		89,533,747
Total	927,864,717	183,894,514	62,299,272		1,049,459,959
Less accumulated depreciation					
Buildings	239,181,144	20,754,832	1,134,910		258,801,066
Equipment	120,845,503	21,575,818	8,209,236	$ (5,184,052)	129,028,033
Improvements	7,538,658	601,495			8,140,153
Infrastructure	19,639,093	1,071,197			20,710,290
Total accumulated depreciation	387,204,398	44,003,342	9,344,146	(5,184,052)	416,679,542
Capital Assets, Net	$ 540,660,319	139,891,172	$ 52,955,126	$ 5,184,052	$ 632,780,417

Library holdings are comprised of books and periodicals, including old and rare books, held by the University and the separate collection of U.S. documents which includes bound volumes, unbound pieces, including maps cataloged or not. The estimated value of the holdings at June 30, 1995, was $41,593,020. The holdings are housed in the Chemistry Library, Fine Arts Library, Law Library, Physics Library, and Mullins Library. The holdings also include manuscript collections, microfilm, microfiche, classified maps and charts, and audio/video materials and are disclosed in the following table:

Selected Estimate of Library Holdings as of June 30	2007	2006
Books and Periodicals	1,776,460	1,761,444
Microforms	5,517,096	5,498,396
Maps and Charts	142,514	142,192
Audio/Visual	37,131	22,497
Computer Files	7,260	6,581
U.S. Documents (pieces)	97,374	94,046
Total Estimate	7,577,835	7,525,156

The University estimates holdings of $7.96 million in timber resources as of June 30, 2007. The estimated value of these holdings was $8.3 million as of June 30, 2006. These resources, which total 13,042 acres, are located on various tracts of land in Arkansas. These resources are currently being inventoried.

(13). 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.

(14). Operating Expenses by Function

For the year ended June 30, 2007:

	Salaries, Wages and Benefits	Scholarships and Fellowships	Supplies and Other Services	Depreciation	Total
Instruction	$ 93,738,503		$ 14,704,142		$ 108,442,645
Research	66,825,569		26,818,833		93,644,402
Public Service	50,825,265		16,715,727		67,540,992
Academic Support	18,885,548		10,214,928		29,100,476
Student Services	11,246,361		5,101,795		16,348,156
Institutional Support	30,170,748		5,666,563		35,837,311
Scholarships and Fellowships	206,086	$ 15,893,133	976,315		17,075,534
Operation and Maintenance of Plant	14,804,311		17,983,324		32,787,635
Auxiliary Enterprises	29,487,814		45,644,753		75,132,567
Depreciation				$ 52,159,518	52,159,518
Totals	$ 316,190,205	$ 15,893,133	$ 143,826,380	$ 52,159,518	$ 528,069,236

For the year ended June 30, 2006:

	Salaries, Wages and Benefits	Scholarships and Fellowships	Supplies and Other Services	Depreciation	Total
Instruction	$ 89,570,446		$ 16,707,139		$ 106,277,585
Research	66,088,269		25,642,576		91,730,845
Public Service	47,878,432		14,777,540		62,655,972
Academic Support	18,703,554		11,038,963		29,742,517
Student Services	11,700,067		5,705,968		17,406,035
Institutional Support	24,806,189		6,729,819		31,536,008
Scholarships and Fellowships	1,181,781	$ 18,323,175	172,520		19,677,476
Operation and Maintenance of Plant	13,919,190		21,115,679		35,034,869
Auxiliary Enterprises	27,517,348		41,437,853		68,955,201
Depreciation				$ 44,003,342	44,003,342
Totals	$ 301,365,276	$ 18,323,175	$ 143,328,057	$ 44,003,342	$ 507,019,850

(15). Walton Arts Center

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

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

The combined audited financial statements of the Walton Arts Center Council, Inc., and the Walton Arts Center Foundation, Inc., as of and for the year ended June 30, 2007, 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	$ 1,439,375
Investments	14,756,725
Other Assets	535,217
Fixed Assets, Net of Depreciation	5,831,577
Total Assets	**$ 22,562,894**
Liabilities and Net Assets	
Liabilities	$ 2,071,482
Net Assets	20,491,412
Total Liabilities and Net Assets	**$ 22,562,894**

Condensed Statement of Activities		
Ticket Sales	$	3,028,889
Contributions and Sponsorships		1,956,924
Other Income		4,430,768
Total Income and Other Additions	**$**	**9,416,581**
Total Expenditures and Other Deductions	**$**	**7,509,758**
Increase/(Decrease) in Net Assets	**$**	**1,906,823**

(16). 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, 2007, 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 55.9% of the net assets of the Foundation. The remaining 44.1% benefits other University of Arkansas campuses.

Condensed Statement of Financial Position		
Assets		
Cash and Cash Equivalents	$	9,842,743
Investments		646,327,568
Contributions Receivable, less Allowance		46,200,138
Other Receivables		2,284,035
Fixed Assets, Net of Depreciation		561,553
Other Assets		499,482
Total Assets	**$**	**705,715,519**
Liabilities and Net Assets		
Liabilities	$	24,965,057
Net Assets		
Unrestricted		65,602,362
Restricted		615,148,100
Net Assets		680,750,462
Total Liabilities and Net Assets	**$**	**705,715,519**

Condensed Statement of Activities		
Contributions	$	66,568,915
Other Revenues, Additions and Gains/(Losses)		95,358,828
Total Income and Other Additions	**$**	**161,927,743**
Total Expenditures and Other Deductions	**$**	**82,285,777**
Increase/(Decrease) in Net Assets	**$**	**79,641,966**

(17). 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, 2007.

(18). Change in Investment Policy

In September, 2006, the University adopted a revised investment policy. The revised policy states that the Intermediate Pool of the External Investment Pool sponsored by the University of Arkansas Board of Trustees is expected to be managed as a prudently diversified reserve fund that is sufficiently liquid to easily meet the cash flow needs of the Intermediate Pool's investors. Due to this policy revision, the University has determined that the investments included in the Intermediate Pool and the Intermediate

Pool – CES classifications in the table presented in Note 4 should be classified as Current Short-term investments rather than Noncurrent Long-term investments for the fiscal year ended June 30, 2007. The amount reclassified from Noncurrent Long-term investments to Current Short-term investments for the fiscal year ended June 30, 2007 is $49,129,660.

(19). Changes in Accounting Procedures

The University identified several accounts that have been reported as Unrestricted Net Assets in the past that are more correctly reported as Restricted Net Assets – Expendable for Scholarships and Fellowships and for Instruction department uses. The net effect of this change is to increase the balances in Restricted Net Assets – Expendable for Scholarships and Fellowships by $2,116,799, Instruction department uses by $5,318,750, Research by $1,294,066, and Other by $284,176 over what they would have been using the old classification method. Unrestricted Net Assets are lower as of June 30, 2007, by $9,013,791 than what would have been reported using the old classifications.

Student Tuition and Fees revenue reflects a change in procedures during the fiscal year ended June 30, 2007, from previous years regarding the out-of-state portion of tuition and fees for scholarship recipients. Students receiving out-of-state academic awards are now classified as residents for fee purposes which results in a waiver of the out-of-state portion of tuition and fees. In prior years, these students were classified as non-resident students; therefore, being charged the full non-resident tuition rate. Additional scholarship expense was then recorded to pay the non-resident portion of the tuition and fees. This change reduces Student Tuition and Fees revenues, the related scholarship allowance and Scholarships and Fellowships expense. The effects of this change have been determined to be that Student Tuition and Fees revenue and Scholarships and Fellowships expense are both lower by $15,755,629 than would have been reported under the previous accounting procedure.

(20). Restatement of Prior Year

Scholarship allowances have been restated for the year ended June 30, 2006. The restatement is due to the inclusion of graduate students in the computation and to make the prior fiscal year comparable to the current fiscal year. The effects of the restatement are to increase the scholarship allowance netted against Student tuition and fees by $4,489,367 and Residence Life by $568,374.

(21). Change in Accounting Estimate

During the fiscal year ended June 30, 2006, the University made an adjustment to the accumulated depreciation totals due to a change in the estimate of useful lives of certain classes of equipment. The net adjustment made due to the change in accounting estimate was a reduction of accumulated depreciation of $5,184,052.

(22). Subsequent Events

On May 25, 2007, the Board of Trustees of the University of Arkansas adopted a resolution expressing its intention to finance the construction of various capital projects. The amount of the bonds authorized was not to exceed $47,000,000. On October 2, 2007, the University closed on the Series 2007A Various Facilities Revenue Bonds. The bonds have a par value of $45,010,000, and will be used to finance construction of new student housing.

(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.

BOARD OF TRUSTEES

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Marianna, AR
Term Ends 03/01/08

James E. Lindsey, Vice-Chairman
Fayetteville, AR
Term Ends 03/01/09

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

Carl L. Johnson, Assistant Secretary
Little Rock, AR
Term Ends 03/01/12

Tim E. Hunt
Paragould, AR
Term Ends 03/01/10

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

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

Jim von Gremp
Rogers, AR
Term Ends 03/01/15

Mike Akin
Monticello, AR
*Term Ends 03/01/1*3

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

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Vice Chancellor for
Finance & Administration

Jean E. Schook
Associate Vice Chancellor for
Finance & Administration

Larrie Stolfi
Controller

Stephen Turner
Director of Research Accounting

Michael White
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Allen Lacey
Investment Manager