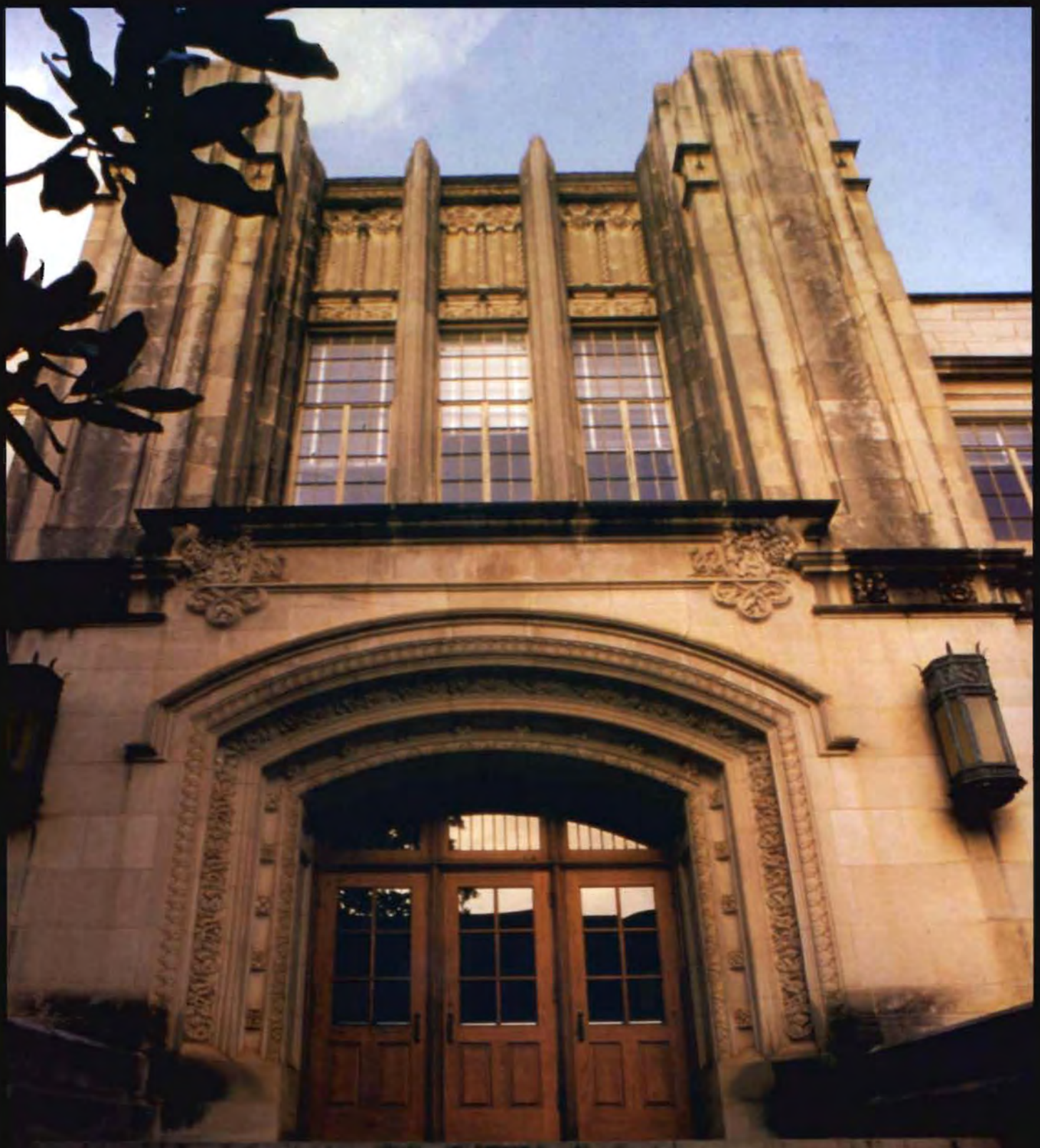


University of Arkansas

Annual Financial Report

2007-2008

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On the cover:
Memorial Hall—University Relations

UNIVERSITY of ARKANSAS
1871

Vice Chancellor for Finance and Administration

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

November 19, 2008

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

Dear Chancellor Gearhart:

It is my pleasure to present the annual Financial Report of the University of Arkansas, for the year ended June 30, 2008.

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.

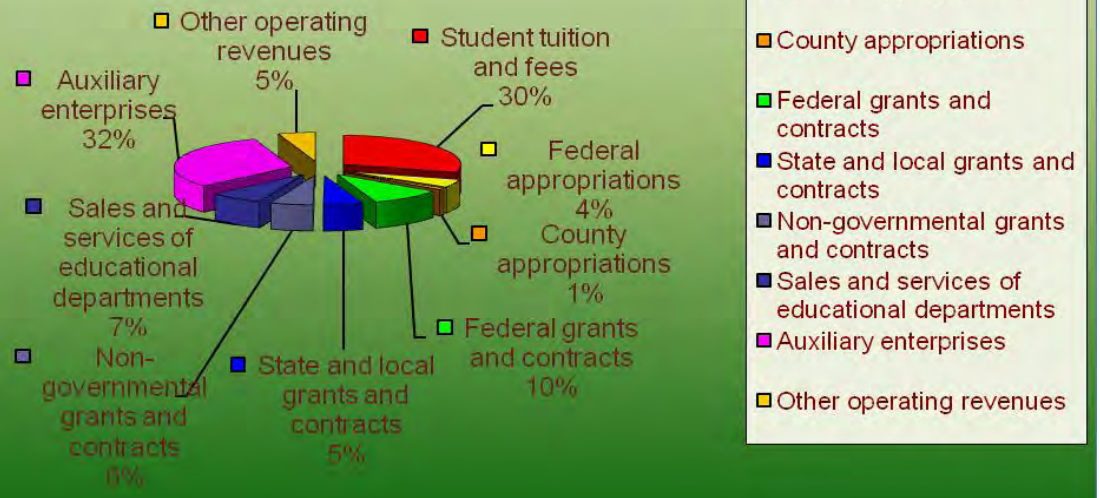
FISCAL YEAR 2008 OPERATING REVENUES

Student tuition and fees	86,687,211
Federal appropriations	13,085,061
County appropriations	2,847,184
Federal grants and contracts	28,814,895
State and local grants and contracts	16,034,187
Non-governmental grants and contracts	17,127,763
Sales and services of educational departments	21,800,428
Auxiliary enterprises	92,534,821
Other operating revenues	14,953,244
Total operating revenues	293,884,794

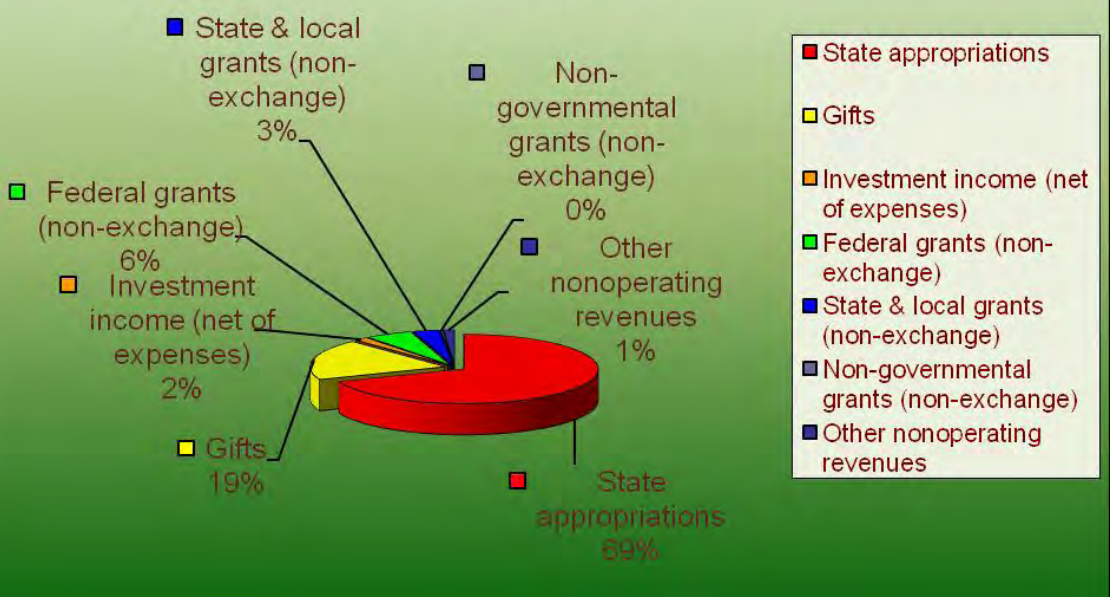
FISCAL YEAR 2008 NONOPERATING REVENUES

State appropriations	199,588,453
Gifts	54,831,877
Investment income (net of expenses)	4,717,945
Federal grants (non-exchange)	16,354,809
State & local grants (non-exchange)	9,079,460
Non-governmental grants (non-exchange)	820,355
Other nonoperating revenues	3,879,056
Total nonoperating revenues	289,271,955

Fiscal Year 2008 Operating Revenues



Fiscal Year 2008 Nonoperating Revenues



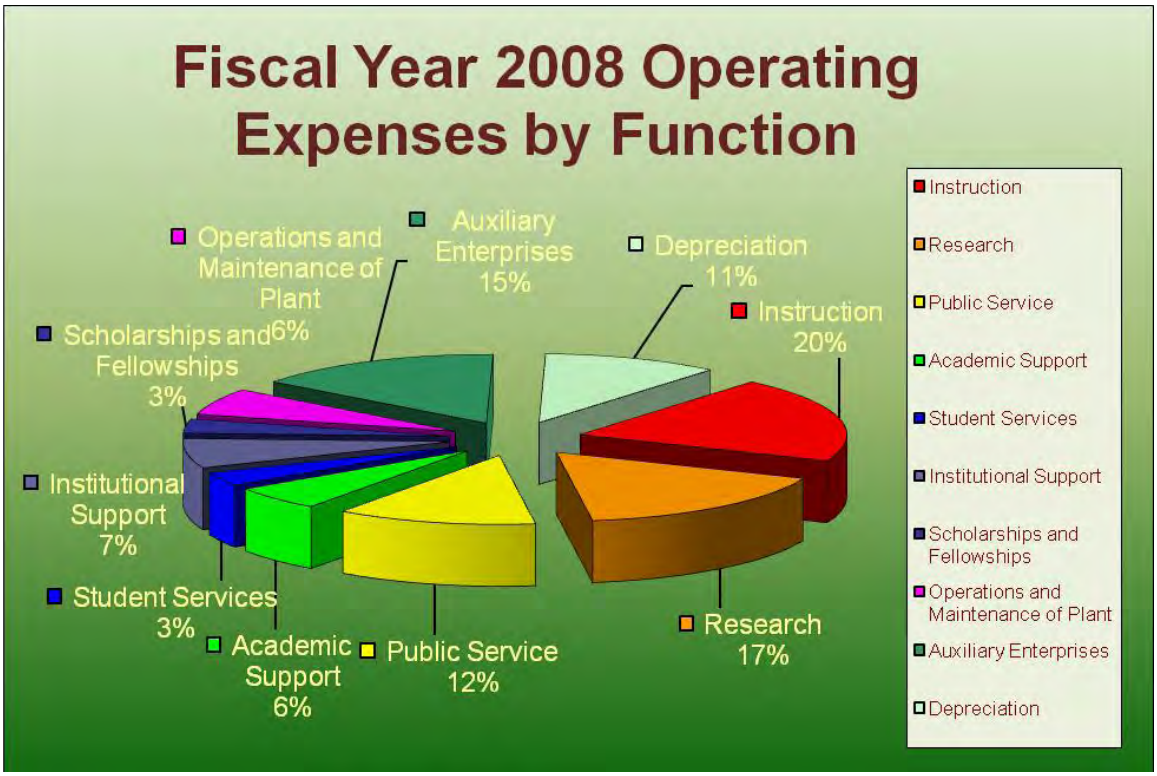
FISCAL YEAR 2008 OPERATING EXPENSES BY NATURAL CLASSIFICATION

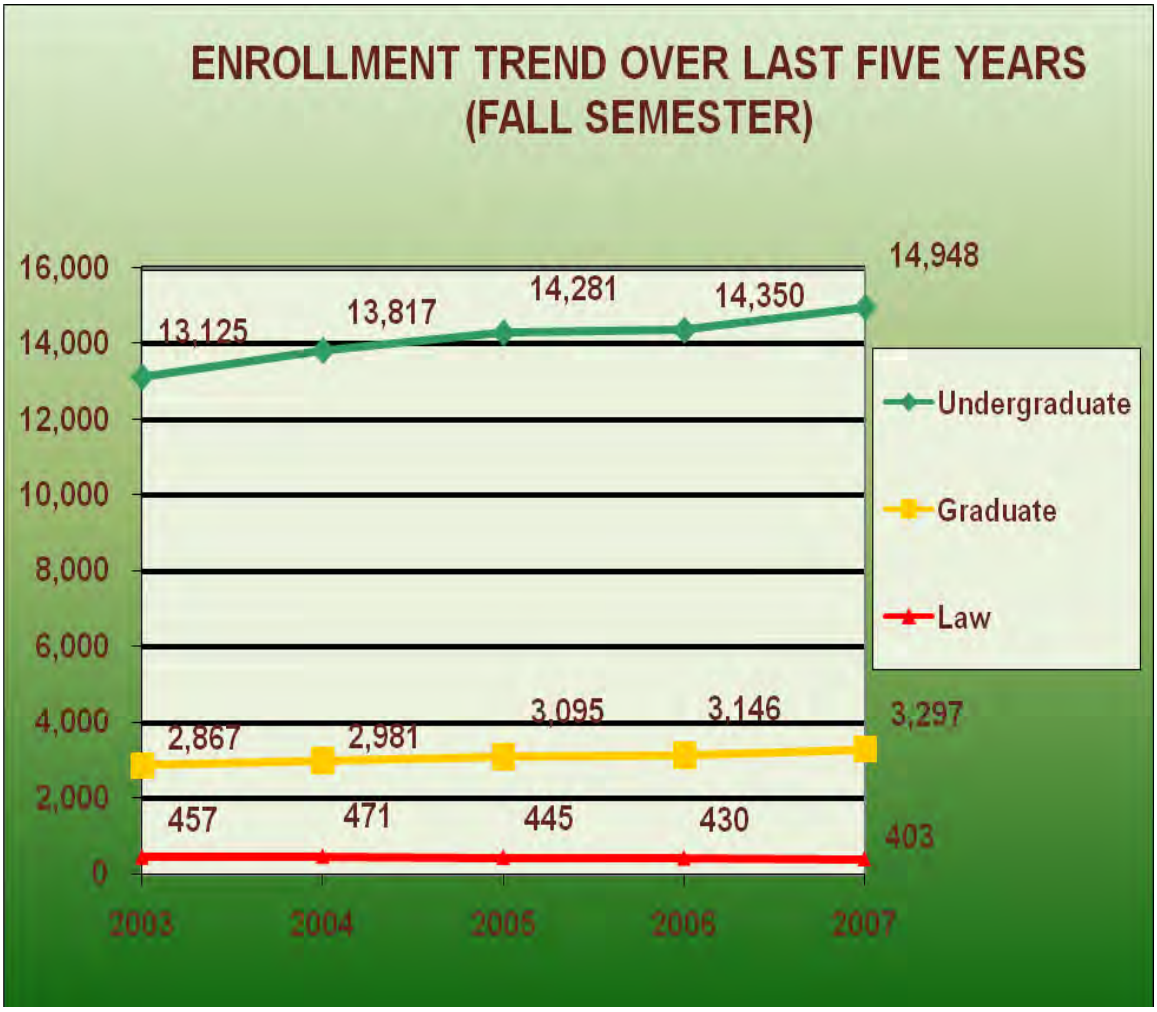
Salaries, wages, and benefits	338,747,274
Scholarships and fellowships	17,914,425
Supplies and other services	155,944,448
Depreciation	61,515,376
Total operating expenses	574,121,523

FISCAL YEAR 2008 OPERATING EXPENSES BY FUNCTION

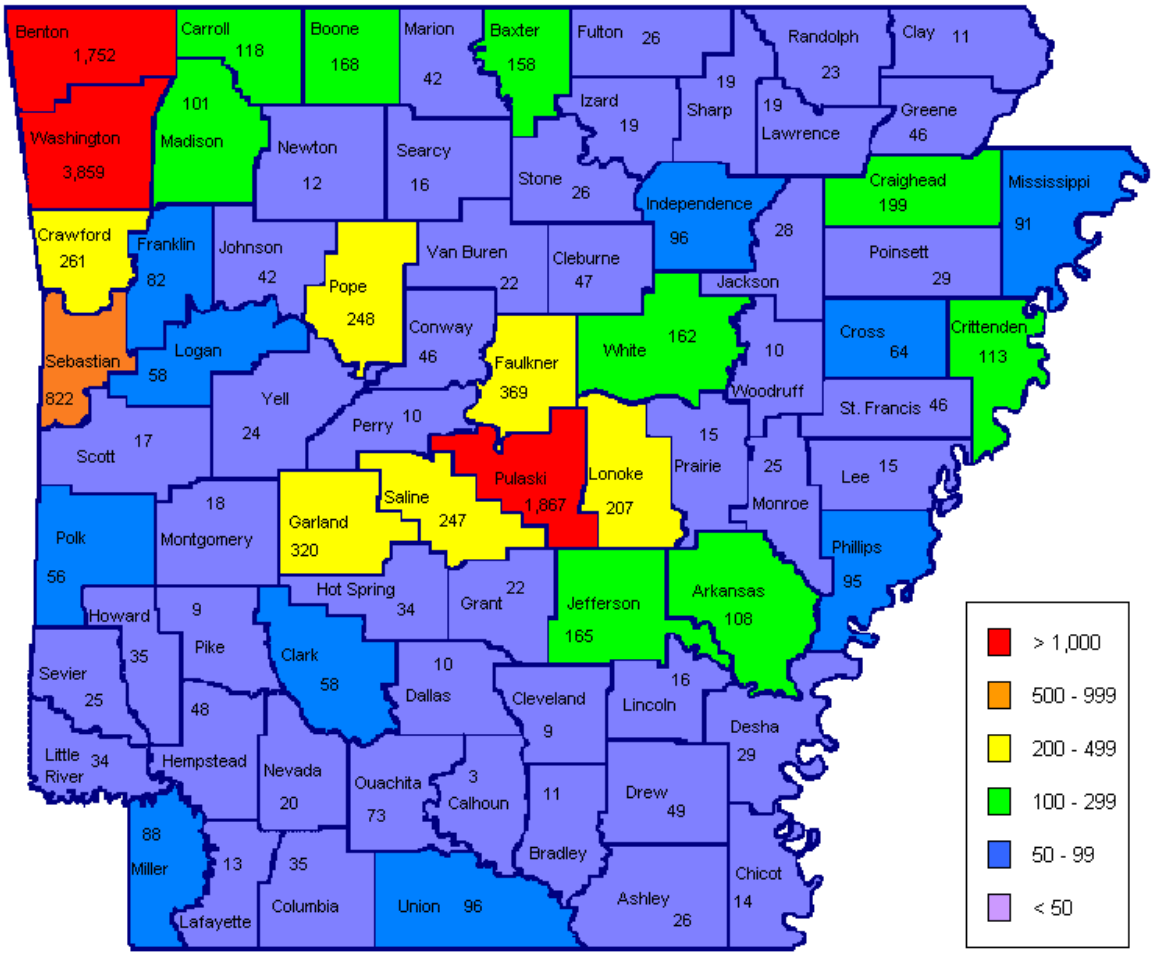
Instruction	115,431,266
Research	95,401,467
Public Service	69,605,007
Academic Support	32,378,335
Student Services	18,371,129
Institutional Support	39,614,534
Scholarships and Fellowships	18,916,321
Operations and Maintenance of Plant	36,079,653
Auxiliary Enterprises	86,808,435
Depreciation	61,515,376
Total	574,121,523


Fiscal Year 2008 Operating Expenses by Natural Classification
Depreciation 11%
Supplies and other services 27%
Scholarships and fellowships 3%
Salaries, wages, and benefits 59%
Salaries, wages, and benefits
Scholarships and fellowships
Supplies and other services
Depreciation

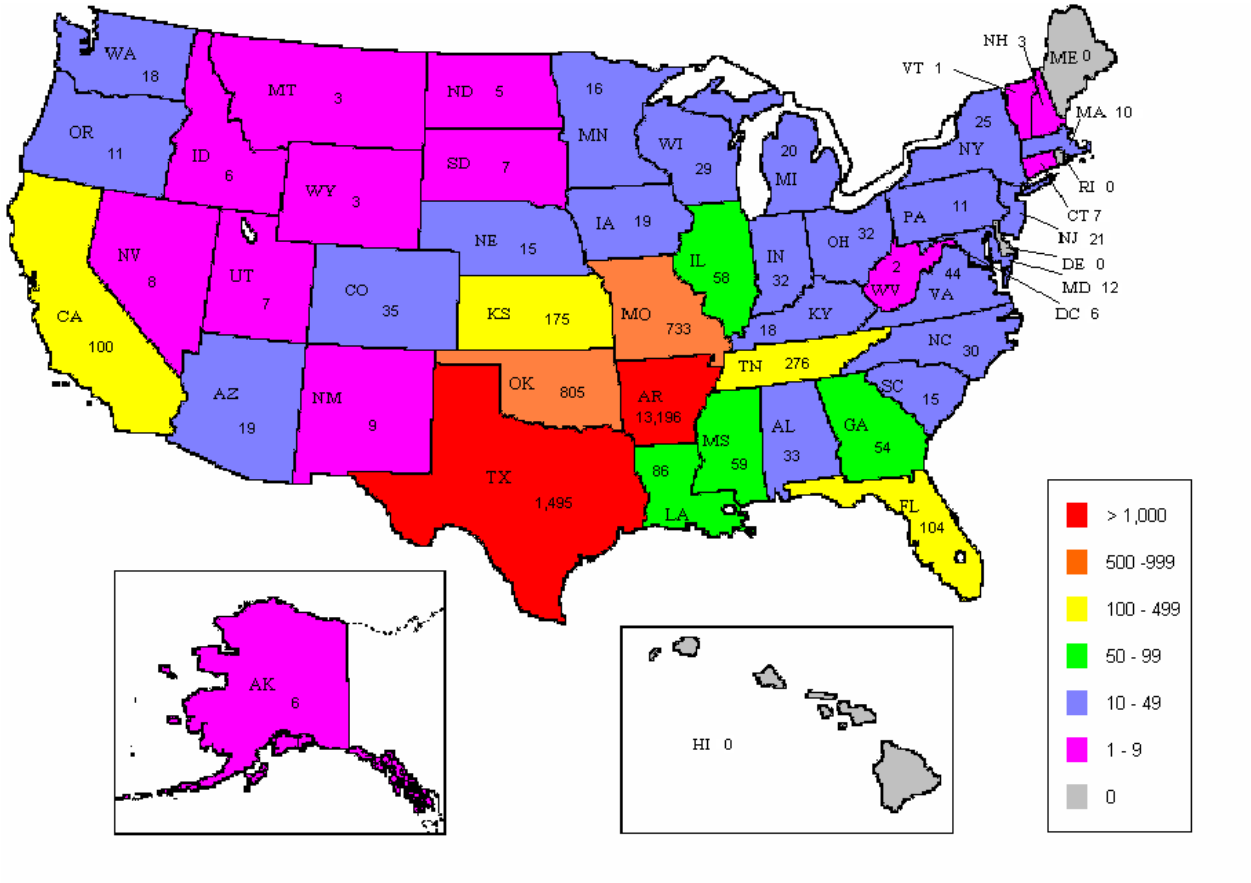

Fiscal Year 2008 Operating Expenses by Function
Operations and Maintenance of Plant 6%
Auxiliary Enterprises 15%
Depreciation 11%
Instruction 20%
Scholarships and Fellowships 3%
Institutional Support 7%
Student Services 3%
Academic Support 6%
Public Service 12%
Research 17%
Instruction
Research
Public Service
Academic Support
Student Services
Institutional Support
Scholarships and Fellowships
Operations and Maintenance of Plant
Auxiliary Enterprises
Depreciation


ENROLLMENT TREND OVER LAST FIVE YEARS
(FALL SEMESTER)
16,000
14,000
12,000
10,000
8,000
6,000
4,000
2,000
0
2003
2004
2005
2006
2007
13,125
13,817
14,281
14,350
14,948
2,867
2,981
3,095
3,146
3,297
457
471
445
430
403
Undergraduate
Graduate
Law

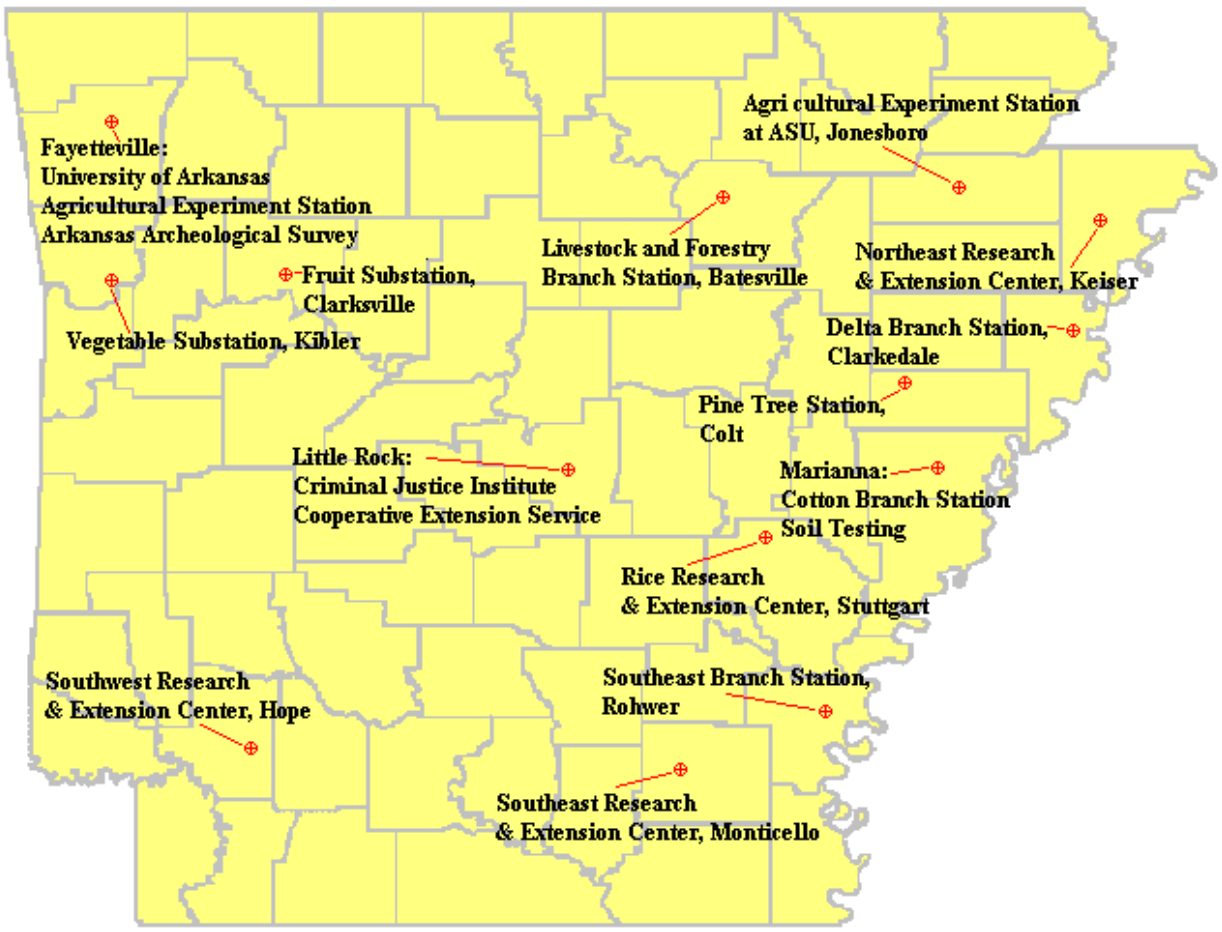
IN-STATE ENROLLMENT
BY COUNTY OF ORIGIN



ENROLLMENT BY STATE



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



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


UNIVERSITY
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1871
®

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 (University), an institution of higher education of the State of Arkansas, as of and for the year ended June 30, 2008, 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 reports of other auditors, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the University of Arkansas, Fayetteville as of June 30, 2008, 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.

As discussed in Note 12 to the financial statements, the University adopted Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* on July 1, 2007. GASB Statement No. 45 requires the recognition of other postemployment benefit costs at the time the related services are rendered to the employer instead of recognition on a pay-as-you-go basis, and additional related disclosures.

The Management's Discussion and Analysis and certain information pertaining to postemployment benefits other than pensions are not a required part of the basic financial statements, but are supplementary information required by the GASB. 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 18, 2008
EDHE13508

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis provides an overview of the financial position of the University of Arkansas, Fayetteville (the University) for the year ended June 30, 2008, with fiscal year ended June 30, 2007 data presented for comparative purposes. The emphasis of the discussion concerning the financial statements will be for the current year. Management has prepared this discussion, along with the financial statements and related note disclosures, and it should be read in conjunction with financial statements and notes to the financial statements. The financial statements, notes and discussion are the responsibility of management. All references to –2008", –2007" or another year refer to the fiscal year ended June 30, unless otherwise noted.

The University is the largest and oldest state institution of higher education and the primary state and land-grant university in Arkansas. Established in 1871 under the provisions of the Morrill Act, it is the flagship institution of the University of Arkansas System and the state. Recognized as a *Carnegie Research University*, it is the state's only comprehensive research university and through its teaching, research and outreach programs, is positioned to serve the citizens of Arkansas, the nation and the world.

Ten National Distinctions of Teaching, Research and Outreach
• The University of Arkansas is the number one supplier of research-grade nanoscale materials to institutions in the world. The university's expertise in nanomaterials has led to several inventions – nanowire paper, nanomachining and liquid nanocrystals. These in turn have led to start-up companies in northwest Arkansas.
• The Terrorism Research Center at the University of Arkansas houses a unique database provided exclusively to the center by the Federal Bureau of Investigation. It is the only full record of the FBI's counterterrorism program and the only comprehensive record of U.S. terrorism indictments. The center has further enhanced the FBI data with extensive geospatial data that has made the database particularly valuable to the counterterrorism efforts of the FBI and the Department of Justice, in addition to supporting academic research.
• The University of Arkansas has the only academic, EPCglobal Inc.-accredited radio frequency identification (RFID) laboratory in the world.
• University of Arkansas researchers lead the way in expertise on consumer perceptions of the nutritional values of menu items and of the nutritional information on the FDA panel.
• The University of Arkansas is a national leader in research on alternative fuel sources, specializing in the conversion of feedstocks such as chicken fat and tall oil into biodiesel fuel.
• The University of Arkansas is a national leader in research on the detection of foodborne pathogens during production and processing of food. A member of this group has created a sensor to rapidly detect the presence of H5N1 virus in poultry populations.
• The University of Arkansas is working with an international team to study the chemical origins of comet material brought back to earth by NASA's Stardust mission.
• The National Agricultural Law Center, based at the University of Arkansas, is the only federally funded center of its kind in the nation, and provides information on agricultural law to farmers, governmental organizations and businesses nationwide.
• A researcher in genocide studies at the University of Arkansas has set up the first scholarship program of its kind for victims of genocide. He also has helped to create a genocide studies program at the University of Rwanda.
• The Center of Excellence for Poultry Science at the University of Arkansas provides national leadership in program areas such as food safety and microbiology; genetics, genomics and biotechnology; poultry nutrition; poultry physiology; poultry health, immunology and virology; and products and processing systems.

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

Overview of the Financial Report and Financial Analysis

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

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

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

Note 17, –Other Entity" refers to the University of Arkansas Foundation, Inc., (the Foundation). The University is the beneficiary of only 53.8% of the nets assets of the Foundation; therefore the Foundation does not meet the requirements of a component unit.

Overall, the University's revenues, expenditures, and net assets grew modestly during the fiscal year ended June 30, 2008. Operating revenues increased by 5.3%, operating expenses increased by 8.7% and total net assets grew by 3.8%. The University

implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, effective for 2008. This statement requires the University to perform periodic actuarial calculations to determine the annual accounting costs of other post employment benefits (OPEB), and keep a running tally of the extent to which these amounts are over or under funded. As a result, the University reported a $5.1 million liability for other post employment benefits for 2008. This accounting entry had the effect of increasing operating expenses, increasing total liabilities and reducing total net assets. Additional information about OPEB can be found at Note 12 –Other Post Employment Benefits" and other required supplementary information.

Statement of Net Assets

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

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

The following summarizes the University's assets, liabilities, and net assets as of June 30, 2008, and June 30, 2007:

		As of June 30, 2008		As of June 30, 2007
Assets				
Current Assets	$	157,345,737	$	133,750,258
Capital Assets, net of depreciation		799,337,084		736,600,716
Other Noncurrent Assets		121,148,083		131,344,228
Total Assets	$	1,077,830,904	$	1,001,695,202
Liabilities				
Current Liabilities	$	77,957,797	$	73,852,590
Noncurrent Liabilities		364,504,944		315,521,740
Total Liabilities	$	442,462,741	$	389,374,330
Net Assets				
Invested in Capital Assets, net of related debt	$	450,298,071	$	437,113,551
Restricted – Nonexpendable		37,174,746		16,975,376
Restricted – Expendable		66,540,601		80,801,524
Unrestricted		81,354,745		77,430,421
Total Net Assets	$	635,368,163	$	612,320,872

The University's total assets increased $76.1 million. A review of the statement of net assets will reveal that there are several offsetting variances, but the increase was primarily due to an increase in cash and short-term investments (current assets) of $22.6 million and an increase in capital assets of $62.7 million offset by a decrease in endowment and other long-term investments (noncurrent assets) of $7.1 million. Significant increases in cash and cash equivalents was due to the receipt of a $4 million state appropriation to partially fund the construction of a nano-technology center, and funds totaling $6 million for the construction and operation of the Arkansas Research and Education Optical Network (AREON). The performance of the financial market during 2008 was a contributing factor to both the increase in current assets and the decrease in noncurrent assets. Investment returns decreased because of the weak performance of the financial markets. A larger share of assets was maintained in short-term investments during 2008 to realize a more positive overall investment return.

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 13 "Property, Plant and Equipment" provide additional information about capital assets.

Total liabilities increased $53.1 million. The most significant cause of the increase was the assumption of $45 million in additional long-term debt with the issuance of Various Facilities Revenue Bonds, Series 2007A. The bond proceeds were used to finance the construction of phase 2 of the Maple Hill residence hall complex and the Duncan Avenue

student apartment complex. Additional information about University debt is provided in the –Significant Changes in Capital Assets and Long Term Debt Activity" discussion below and at Note 9 –Compensated Absences, Bonds, Notes, Capital Leases Payable, and Installment Contracts". Another contributing factor to the overall increase in liabilities was the recording of a $5.1 million liability for OPEB in 2008, as previously discussed at the –Overview of Financial Statements and Financial Analysis" section above.

The combination of the increase in total assets and the increase in total liabilities nets to an increase in net assets of $23 million for the University.

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

		As of June 30, 2008		As of June 30, 2007
Fayetteville Campus	$	38,378,770	$	37,900,700
Agricultural Experiment Station		22,282,073		23,925,146
Cooperative Extension Service		11,510,093		12,213,158
Arkansas Archeological Survey		402,983		197,156
Criminal Justice Institute		2,155,455		1,910,854
Clinton School of Public Service		629,848		1,283,407
AREON		5,995,523		
Total Unrestricted Net Assets	$	81,354,745	$	77,430,421

In 2008, the assets, liabilities and net assets of the Arkansas Research and Education Optical Network (AREON) were segregated from the Fayetteville Campus. AREON is a high-speed, fiber-based optical communications network established and operated by a consortium of public four-year universities in Arkansas, with the cooperation of the Arkansas Department of Higher Education. When construction is completed, the network will serve as a catalyst to develop and apply advanced communications technologies to support and enhance education, research, public service and economic development in Arkansas, nationally and internationally. The University provides administrative services for the network, and maintains its accounting records.

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

		As of June 30, 2008		As of June 30, 2007
Working Capital	$	750,000	$	750,000
E & G Department Uses		7,173,795		7,567,031
Service Operations		1,791,748		1,746,952
Auxiliaries		10,967,476		6,876,812
Plant Funds		4,944,323		7,813,835
Quasi-Endowment Funds		12,751,428		13,146,070
Total Fayetteville Campus Unrestricted Net Assets	$	38,378,770	$	37,900,700

Plant Funds Unrestricted Net Assets includes amounts allocated to a non-mandatory bond sinking fund. The 2008 sinking fund balance was $18.4 million. 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. The non-mandatory bond sinking fund is the accumulation of assets resulting from the University having budgeted or accumulated funds for capital expenditures, but instead using tax-exempt bond proceeds to fund the expenditures and investing 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 the bonds, as well as provide interim internal financing for certain projects until permanent financing is in place. Generally, the permanent financing arrangement is funded by future gifts. Reducing the Fayetteville Campus net assets by this non-mandatory bond sinking fund leaves Unrestricted Net Assets of $20 million.

Statement of Revenues, Expenses, and Changes in Net Assets

Changes in total net assets are the result of activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The statement presents the revenues earned by the University, both operating and non-operating, and the expenses incurred by the University, both operating and non-operating, and any other revenues, expenses, gains and losses and changes in net assets. GASB requires that state appropriations, gifts, investment income and certain grants and contracts be classified as non-operating revenues. As a result, the operating loss of $280.2 million is of little significance, but does highlight the University's dependency on non-operating revenues to meet the costs of operations and provide funds for the acquisition of capital assets.

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

	Fiscal 2008 Total	Fiscal 2007 Total
Operating Revenues	$ 293,884,794	$ 278,974,988
Operating Expenses	574,121,523	528,069,236
Operating (loss)	(280,236,729)	(249,094,248)
Net nonoperating revenues	276,636,388	256,211,342
Gain (loss) before other revenues and changes in net assets	(3,600,341)	7,117,094
Other revenues and changes in net assets	26,647,632	49,968,771
Increase in Net Assets	$ 23,047,291	$ 57,085,865

Operating revenues increased $14.9 million from 2007 to 2008. Student tuition and fees revenue, net of scholarship allowance, increased $5.3 million, reflecting a 4% increase in the student enrollment and a tuition rate increase of 3.95% for the 2007-2008 academic year. Federal appropriations decreased $2.9 million and auxiliary enterprises increased

$5.5 million, of which $3.5 million is attributable to residence life. Phase 1 of the Maple Hill residence hall complex was brought on-line in 2008, adding an additional 700 beds. Other operating revenue increased $5.5 million primarily due to funds transferred from University of Arkansas Medical Science campus to fund AREON construction costs.

Operating expenses increased $46.1 million from 2007 to 2008. Salaries, wages and benefits increased $22.6 million as a result of increases in salaries and benefit rates, along with recording the $5.1 million OPEB expense. Supplies and other services increased $12.1 million. Major contributors to the increase were escalating energy costs and operating expenses associated with the new residence hall complex. Depreciation increased $9.4 million mirroring the effect of the increase in capital assets acquired from bond proceeds and other sources.

Net nonoperating revenues increased $20.4 million as a result of increases of $16.8 million in state appropriations, $14.5 million in private gifts and $3.7 million in nonoperating grants and contracts; offset by $13.6 decrease in investment income and a $1.4 million increase in interest paid on capital asset- related debt.

The increase in gifts only reflects a portion of the gifts available to the University. Most gifts for the benefit of the University are made to the University of Arkansas Foundation, Inc. whose financial information is presented in summary form at Note 17 –Other Entity".

Other Revenues and Changes in Net Assets decreased $23.3 million. This was primarily a result of the increased capital gifts received in 2007 to fund capital projects. Capital grants and gifts decreased $31 million in 2008. The University also realized an increase in capital appropriations and other State funds for capital uses of $6.4 million.

Statement of Cash Flows

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

The following summarizes the University's cash flows:

	Fiscal Year 2008	Fiscal Year 2007
Net cash used by operating activities	$ (211,458,410)	$ (194,711,660)
Net cash provided by noncapital financing activities	282,072,026	249,750,458
Net cash provided by operating and noncapital financing activities	70,613,616	55,038,798
Net cash used by capital financing activities	(61,340,827)	(67,319,913)
Net cash provided by investing activities	5,318,279	25,028,128
Net increase in cash	$ 14,591,068	$ 12,747,013

The University used $211.5 million of cash for operating activities in 2008 offset by cash provided by noncapital financing activities of $282.1 million. This result depicts the reliance on nonoperating revenue to fund operating expenses. As discussed previously, state appropriations and gifts contribute significantly to meeting operating costs.

Cash used by capital financing activities reflects the University's continued use of bonded debt to finance the acquisition of capital assets. The significant decrease in cash provided by investing activities is an indicator of the difficult market conditions experienced in 2008.

Significant Changes in Capital Assets and Long-Term Debt Activity

During 2008, the University issued $45,010,000 of Various Facilities Revenue Bonds, Series 2007A to finance the construction of residence hall facilities and student apartments. Financing agreements were also negotiated with the University of Arkansas Foundation, Inc. to provide lines of credit to finance various capital projects. The financing agreements provide interim financing which will be repaid upon receipt of major gift pledges, or as other anticipated funding is received. The University has also received an allocation totaling $16 million from Arkansas Department of Higher Education bonds as authorized by Act 1282 of 2005. This allocation will be used to finance the construction of a nano-technology center. Construction is expected to begin in 2009.

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, 2007	$ 306,267,676	$ 4,999,767	$ 687,664
Additions	45,010,000	11,124,139	7,014,538
Payments of principal	(11,315,000)	(4,052,492)	(380,918)
Amortization of deferred loss	288,626		
Balance as of June 30, 2008	$ 340,251,302	$ 12,071,414	$ 7,321,284

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

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

Net Assets Invested in capital assets, net of related debt and depreciation as of June 30, 2007	$ 437,113,551
Land Additions and Disposals (net)	5,027,947
Buildings Additions and Disposals, net of depreciation	105,242,482
Improvements/Infrastructure Additions, net of depreciation	5,266,541
Equipment Additions and Disposals, net of depreciation	(6,559,714)
Construction In Progress Additions net of transfers to buildings and improvements/infrastructure	(46,328,968)
Livestock Additions/deductions	88,080
Prepaid Maintenance Contract (net)	(43,065)
Bond debt moved to Net Assets invested in capital assets	(53,779,890)
Bond Principal Paid in 2008	11,315,000
Deferred loss on refinanced bond issues, amortized	(288,626)
Note Payable assumed in 2008	(11,124,139)
Capital Leases and Installment Contracts assumed in 2008	(64,538)
Note, Capital Lease and Installment Contract Principal Paid in 2008	4,433,410
Net Assets Invested in capital assets, net of related debt and depreciation as of June 30, 2008	$ 450,298,071

Conditions and other factors having a significant effect

The University's financial position continued to strengthen in 2008 as evidenced by the $23 million increase in net assets. A critical element to the continued financial health of the University is ongoing financial and political support from state government. During 2008, the total general revenue distribution from the State of Arkansas, including distributions from the Educational Excellence Trust Fund, was $195 million, an increase of $16 million over 2007. The estimated total general revenue distribution from the State for 2009 is $193.5 million. This expected decrease of $1.5 million in state funding will challenge management to continue to provide the citizens of Arkansas, the nation and the

world with a superb place of learning and research, while holding costs of attendance at an affordable level.

Management will continue to institute both internal and external efforts to minimize the effect of fluctuations in state funding. Private support is fundamental in meeting budgetary needs. The University enjoys continued increases in private support. These gifts underscore the confidence among our alumni, foundations, and other supporters in the quality of the University's programs and the importance of its mission.

The University continues to experience increases in enrollment, which contributes to increases in tuition and fee revenue. The ability to recruit and retain high quality students is a key element to growth. Preliminary numbers for Fall 2008 indicate that enrollment is 19,191, an all-time record high, and an increase of 2.91 % over the Fall 2007 enrollment. Undergraduate enrollment is up 3.18%, Graduate enrollment is up 2.21% and Law School enrollment is down 1.24%. The total number of degree-seeking freshmen is 3,010, the largest freshmen class since a concerted enrollment growth effort began in 1998. While it is encouraging to see record enrollment, further increases in undergraduate enrollment must occur to ensure continued increases in the revenue generated by tuition and to ensure continued support from state government.

The condition of the University's capital assets is another important measure of the University's overall financial health. Providing and maintaining facilities that create an attractive environment in which to learn and live is vital to recruiting excellent faculty and staff, as well as attracting students. Management continues to implement a long-range plan to modernize and expand teaching, research and student facilities with a mix of new construction and renewal of existing facilities. Facilities Management prepared an estimate of the condition of capital assets in order to accumulate the necessary data to develop an optimized facility renewal plan. The University's goal is to update twenty percent of the square footage contained in the index annually on a rolling basis, addressing all facilities on a five year cycle. A Facilities Condition Index (FCI) between zero, indicating no deficiencies in building systems such as interiors and services, and 1.0, indicating the cost of a building's deficiencies equals its 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 2003 compared to 0.22 for 2007. The weighted average FCI for 2008 is 0.17. This relatively large improvement results from an across the board updating of replacement costs, all of which increased. In addition, the variance reflects deferred maintenance and repairs addressed by Facilities Management over the past year, and the addition of new and remodeled buildings. 2008 marked the end of the five year cycle of deficiencies updates, and all building data has now been updated based on actual inspections since the original 2003 survey. An effective method of assessing the management of these capital assets is to track the average facility score over time, however a continuing refinement of the assessment instrument can somewhat distort year-to-year comparisons.

UNIVERSITY OF ARKANSAS
Statement of Net Assets
June 30, 2008
With Comparative Figures at June 30, 2007

	June 30, 2008	June 30, 2007
ASSETS		
Current Assets		
Cash and cash equivalents	$ 59,495,763	$ 44,904,695
Short-term investments	57,120,010	49,129,660
Accounts receivable, net	27,292,812	25,284,144
Accrued interest receivable	851,733	1,078,056
Pledges receivable		19,912
Inventories	5,337,424	4,552,400
Deposits with bond trustees	108,157	522,192
Notes receivable, net	3,205,873	3,878,816
Other assets	3,933,965	4,380,383
Total current assets	157,345,737	133,750,258
Noncurrent Assets		
Endowment investments	66,864,979	72,425,523
Notes receivable, net	12,875,889	11,429,273
Deposits with bond trustees	19,661,955	23,802,035
Other long-term investments	20,432,848	21,940,062
Other assets	1,312,412	1,747,335
Capital assets, net	799,337,084	736,600,716
Total noncurrent assets	920,485,167	867,944,944
Total assets	$ 1,077,830,904	$ 1,001,695,202
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	$ 18,644,086	$ 24,452,369
Accrued payroll liabilities	13,887,676	13,215,610
Accrued interest expense	2,746,186	2,633,142
Student overpayments	271,327	33,281
Funds held in trust for others	1,139,398	975,779
Deferred revenue	24,611,717	20,202,670
Compensated absences payable - current portion	1,001,431	854,971
Liability for other post employment benefits - current portion	865,349	
Bonds, notes and capital leases payable - current portion	14,790,627	11,484,768
Total current liabilities	77,957,797	73,852,590

UNIVERSITY OF ARKANSAS
Statement of Net Assets
June 30, 2008
With Comparative Figures at June 30, 2007

	June 30, 2008	June 30, 2007
Noncurrent Liabilities		
Compensated absences payable	15,421,962	15,045,044
Liability for other post employment benefits	4,225,609	
Bonds, notes and capital leases payable	344,853,373	300,470,339
Other noncurrent liabilities	4,000	6,357
Total noncurrent liabilities	364,504,944	315,521,740
Total liabilities	$ 442,462,741	$ 389,374,330
NET ASSETS		
Invested in capital assets, net of related debt	$ 450,298,071	$ 437,113,551
Restricted for		
Nonexpendable		
Scholarships and fellowships	7,912,516	6,848,841
Research	5,739,659	5,369,942
Instructional department uses	7,644,839	4,368,018
Loans	15,877,732	388,575
Expendable		
Scholarships and fellowships	10,589,972	13,540,027
Research	25,734,779	25,278,248
Public service	5,967,391	3,142,514
Instructional department uses	10,840,165	13,988,203
Loans	1,141,375	16,535,498
Capital projects	7,326,199	2,286,991
Debt service	1,257,748	2,585,504
Other	3,682,972	3,444,539
Unrestricted	81,354,745	77,430,421
Total net assets	$ 635,368,163	$ 612,320,872

UNIVERSITY OF ARKANSAS
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2008
With Comparative Figures for 2007

	Fiscal 2008 Total	Fiscal 2007 Total
REVENUES		
Operating Revenues		
Student tuition and fees (net of scholarship allowances of $31,292,413 in fiscal year 2008, and $27,551,790 in fiscal year 2007)	$ 86,687,211	$ 81,394,464
Federal appropriations	13,085,061	15,957,347
County appropriations	2,847,184	2,770,866
Federal grants and contracts	28,814,895	34,632,063
State and local grants and contracts	16,034,187	12,665,997
Nongovernmental grants and contracts	17,127,763	14,375,328
Sales and services of educational departments	21,800,428	20,741,669
Auxiliary enterprises		
Residence Life (net of scholarship allowances of $4,815,844 in fiscal year 2008, and $3,750,020 in fiscal year 2007)	18,796,356	15,281,444
Athletics	48,936,555	48,701,781
Bookstore (net of scholarship allowances of $116,834 in fiscal year 2008, and $101,321 in fiscal year 2007)	14,344,969	13,706,671
Arkansas Union	1,085,153	1,058,264
Student Health Services	1,208,803	1,256,761
Transit and Parking	5,801,954	4,879,054
Student Organizations/Activities	322,287	429,599
Other Auxiliary Enterprises	2,038,744	1,690,237
Other operating revenues	14,953,244	9,433,443
Total operating revenues	293,884,794	278,974,988
EXPENSES		
Operating Expenses		
Salaries, wages, and benefits	338,747,274	316,190,205
Scholarships and fellowships	17,914,425	15,893,133
Supplies and other services	155,944,448	143,826,380
Depreciation	61,515,376	52,159,518
Total operating expenses	574,121,523	528,069,236
Operating loss	(280,236,729)	(249,094,248)

UNIVERSITY OF ARKANSAS
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2008
With Comparative Figures for 2007

	Fiscal 2008 Total	Fiscal 2007 Total
NONOPERATING REVENUES (EXPENSES)		
State appropriations	199,588,453	182,795,867
Gifts	54,831,877	40,339,155
Investment income (net of investment expense of $783,725 in fiscal year 2008, and $742,226 in fiscal year 2007)	4,717,945	18,320,867
Interest on capital asset - related debt	(11,267,082)	(9,906,475)
Federal grants (nonexchange)	16,354,809	15,765,376
State and local grants (nonexchange)	9,079,460	5,979,816
Nongovernmental grants (nonexchange)	820,355	813,493
Loss on disposal of assets	(1,368,485)	(334,841)
Other nonoperating revenues	3,879,056	2,438,084
Net nonoperating revenues	276,636,388	256,211,342
Gain (Loss) before other revenues and changes in net assets	(3,600,341)	7,117,094
OTHER REVENUES AND CHANGES IN NET ASSETS		
Capital appropriations	7,561,776	1,582,625
Capital grants and gifts	17,465,955	48,460,216
Bond Proceeds from Act 1282 of 2005	427,883	
Other changes	1,192,018	(74,070)
Total other revenues and changes in net assets	26,647,632	49,968,771
Increase in net assets	23,047,291	57,085,865
NET ASSETS		
Net assets - beginning of year	612,320,872	555,235,007
Net assets - end of year	$ 635,368,163	$ 612,320,872

UNIVERSITY OF ARKANSAS
Statement of Cash Flows - Direct Method
For the Year Ended June 30, 2008
With Comparative Figures for 2007

	Fiscal 2008 Total	Fiscal 2007 Total
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	$ 89,833,894	$ 81,824,925
Federal appropriations	13,029,556	16,546,667
County appropriations	2,847,184	2,812,307
Grants and contracts	61,863,039	61,101,824
Payments to suppliers	(155,390,480)	(145,317,715)
Payments to employees	(266,995,326)	(251,757,728)
Payments for benefits	(65,505,664)	(62,528,902)
Payments for scholarships and fellowships	(17,914,425)	(15,893,133)
Loans issued to students and employees	(3,073,506)	(3,248,332)
Collections of loans to students	1,992,994	3,299,566
Collections of interest on loans to students	(45,495)	80,575
Auxiliary enterprise charges		
Residence Life	18,851,005	15,765,772
Athletics	48,390,349	48,387,981
Bookstore	14,719,039	14,166,228
Arkansas Union	1,063,943	1,052,067
Student Health Services	1,206,404	1,315,156
Transit and Parking	5,660,672	4,876,066
Student Organizations/Activities	309,004	467,314
Other Auxiliary Enterprises	2,159,549	1,779,675
Sales and services of educational departments	21,241,888	20,684,895
Other receipts	14,297,966	9,873,132
Net cash used by operating activities	(211,458,410)	(194,711,660)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	199,588,453	182,795,867
Gifts and grants for other than capital purposes	51,674,563	41,574,965
Federal grants (nonexchange)	16,753,395	15,567,995
State and local grants (nonexchange)	9,010,704	5,918,614
Nongovernmental grants (nonexchange)	899,850	920,505
Other non-operating revenue	4,005,370	2,704,918
Net agency fund transactions	139,691	267,594
Net cash provided by noncapital financing activities	282,072,026	249,750,458
Net cash provided by operating activities and noncapital financing activities	70,613,616	55,038,798
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from capital debt	62,750,075	
Capital appropriations	7,561,776	1,582,625
Capital grants and gifts received	2,309,644	26,850,166
Bond proceeds from Act 1282 of 2005	427,883	
Purchases of capital assets	(111,450,509)	(128,313,612)
Principal paid on capital debt and leases	(12,017,041)	(18,099,054)

UNIVERSITY OF ARKANSAS
Statement of Cash Flows - Direct Method
For the Year Ended June 30, 2008
With Comparative Figures for 2007

	Fiscal 2008 Total	Fiscal 2007 Total
Interest paid on capital debt and leases	(15,476,770)	(14,389,993)
Deposits with trustees	4,554,115	65,048,024
Other sources		1,931
Net cash used by capital financing activities	(61,340,827)	(67,319,913)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	$ 47,600,000	$ 64,843,096
Investment income	2,718,279	5,018,093
Purchase of investments	(45,000,000)	(44,833,061)
Net cash provided by investing activities	5,318,279	25,028,128
NET INCREASE (DECREASE) IN CASH	14,591,068	12,747,013
Cash - beginning of year	44,904,695	32,157,682
Cash - end of year	$ 59,495,763	$ 44,904,695
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	$ (280,236,729)	$ (249,094,248)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense	61,515,376	52,159,518
Changes in assets and liabilities		
Receivables (net)	(2,940,428)	1,848,153
Inventories	(785,024)	(844,188)
Prepaid expenses	881,340	(1,031,665)
Other assets		
Accounts payable and accrued liabilities	424,389	790,870
Accrued payroll liabilities (Employees)	(9,888)	(56,459)
Accrued payroll liabilities (Benefits)	663,281	1,072,906
Student overpayments	238,046	(110,315)
Deferred revenue	4,409,047	(382,987)
Compensated absences	523,378	887,127
Retiree benefits	5,090,958	
Loans to students and employees	(1,232,156)	49,628
Net cash used by operating activities	$ (211,458,410)	$ (194,711,660)
NONCASH TRANSACTIONS		
Donations of land, buildings, improvements, and infrastructure	$ 4,232,836	$ 9,266,898
Equipment donations	10,767,910	13,229,132
Bond issuance costs and underwriter's discounts paid directly from bond proceeds	529,300	
Interest on long-term debt paid directly from deposits with trustees	1,448,198	
Payment of long-term debt principal directly from University of Arkansas Foundation, Inc. accounts	3,760,655	

UNIVERSITY OF ARKANSAS FAYETTEVILLE CAMPUS FOUNDATION, INC.
Statements of Financial Position
June 30, 2008 and 2007

	2008	2007
Assets		
Investments	$ 486,853,433	$ 507,028,597
Net Assets:		
Temporarily restricted	$ 14,534,890	$ 11,587,280
Permanently restricted	472,318,543	495,441,317
Total net assets	$ 486,853,433	$ 507,028,597

UNIVERSITY OF ARKANSAS FAYETTEVILLE CAMPUS FOUNDATION, INC.

Statement of Activities

For the Years Ended June 30, 2008 and 2007

	2008				2007			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, gains and other support:								
Interest and dividends		$ 3,659,757	$ 362,248	$ 4,022,005		$ 3,750,059	$ 511,682	$ 4,261,741
Net unrealized and realized gains on investments		14,448,261	(23,485,022)	(9,036,761)		13,506,313	64,793,234	78,299,547
Net assets released from restrictions	$ 15,160,408	(15,160,408)			$ 14,157,729	(14,157,729)		
Total revenue, gains and other support	15,160,408	2,947,610	(23,122,774)	(5,014,756)	14,157,729	3,098,643	65,304,916	82,561,288
Expenses and Losses:								
Program Services-								
Construction								
Research	1,146,977			1,146,977	651,800			651,800
Faculty/staff support	1,790,519			1,790,519	1,215,250			1,215,250
Scholarships and awards	9,330,961			9,330,961	9,043,306			9,043,306
Equipment and technology	1,977,455			1,977,455	2,650,882			2,650,882
Other	914,496			914,496	596,491			596,491
Total program services	15,160,408			15,160,408	14,157,729			14,157,729
Change in net assets		2,947,610	(23,122,774)	(20,175,164)		3,098,643	65,304,916	68,403,559
Net assets, beginning of year		11,587,280	495,441,317	507,028,597		8,488,637	430,136,401	438,625,038
Net assets, end of year	$	$ 14,534,890	$ 472,318,543	$ 486,853,433	$	$ 11,587,280	$ 495,441,317	$ 507,028,597

THE RAZORBACK FOUNDATION, INC.
Statement of Financial Position
June 30, 2008

	Total All Funds	Operating Fund	Deferred Compensation Fund	Land, Building and Equipment Fund	Endowment Fund
Assets:					
Cash in bank	$ 350,676	$ 292,806		$ 57,870	
Pledges receivable-unrestricted, less allowance for uncollectible pledges	4,203,888	3,603,888		600,000	
Investments	8,589,545	256,992	$ 2,296,092	1,471,084	$ 4,565,377
Land, building and equipment, at cost, less accumulated depreciation	599,532			599,532	
Prepaid rent	1,509,776	1,509,776			
Intrafund receivable	15,000				15,000
Other assets	14,100	14,100			
Total assets	$ 15,282,517	$ 5,677,562	$ 2,296,092	$ 2,728,486	$ 4,580,377
Liabilities:					
Accounts payable	$ 329,723	$ 329,723			
Intrafund payable	15,000	15,000			
Deferred compensation payable	5,108,391	2,812,299	$ 2,296,092		
Total liabilities	$ 5,453,114	$ 3,157,022	$ 2,296,092		
Net Assets:					
Unrestricted	$ 2,520,540	$ 2,520,540			
Board designated-unrestricted	6,338,498			$ 2,728,486	$ 3,610,012
Permanently restricted	970,365				970,365
Total net assets	9,829,403	2,520,540		2,728,486	4,580,377
Total liabilities and net assets	$ 15,282,517	$ 5,677,562	$ 2,296,092	$ 2,728,486	$ 4,580,377

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 Activities
Year Ended June 30, 2008

	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	$ 11,581,730	$ 11,531,730			$ 50,000
Investment income and other	381,184	303,662		$ 58,188	19,334
Realized gain on investments	216,457	216,457			
Total unrestricted revenues and gains	12,179,371	12,051,849		58,188	69,334
Expenses:					
Program services:					
Directly allocated to:					
Football	1,433,202	1,433,202			
Basketball	844,537	844,537			
Baseball	171,887	171,887			
Track and field	685,563	685,563			
Other sports	2,193,071	2,193,071			
Athletic department operations	5,655,450	5,655,450			
Fundraising	2,040,329	2,040,329			
Administrative	1,052,200	1,052,200			
Deferred compensation expense	1,271,021	1,271,021			
Provision for uncollectible pledges	214,229	214,229			
Total expenses	15,561,489	15,561,489			

THE RAZORBACK FOUNDATION, INC.
Statement of Activities
Year Ended June 30, 2008

	Total All Funds	Operating Fund	Deferred Compensation Fund	Land, Building and Equipment Fund	Endowment Fund
Other changes:					
Transfers to deferred compensation plans	(100,000)	(100,000)			
Transfers for current operations		1,191,252		(1,191,252)	
Unrealized loss on investments	111,614	174		111,440	
Depreciation	(294,173)			(294,173)	
Satisfaction of program restrictions	1,000,000			1,000,000	
Total other changes	717,441	1,091,426		(373,985)	
Total increase (decrease) in unrestricted net assets	(2,664,677)	(2,418,214)		(315,797)	69,334
Changes in temporarily restricted net assets:					
Transfers to deferred compensation plans	100,000		$ 100,000		
Deferred compensation investment income	146,782		146,782		
Program services:					
Deferred compensation expense	(246,782)		(246,782)		
Net assets released from restrictions	(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	29,296				29,296
Increase (decrease) in net assets	(3,635,381)	(2,418,214)		(1,315,797)	98,630
Net assets at beginning of year	13,464,784	4,938,754		4,044,283	4,481,747
Net assets at end of year	$ 9,829,403	$ 2,520,540	$	$ 2,728,486	$ 4,580,377

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

ARKANSAS 4-H FOUNDATION, INC.
Statements of Financial Position
June 30, 2008 and 2007

	2008	2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,400,419	$ 1,191,367
Investments, at fair value	1,034,643	1,109,882
Accounts receivable, net of allowance for doubtful accounts of $0 and $2,848	91,960	107,821
Inventories	15,067	16,748
Other assets	3,498	
Total current assets	2,545,587	2,425,818
OTHER ASSETS:		
Land held for investment	2,600	2,600
Cash restricted for building maintenance fund	67,159	47,433
Investments, at fair value, restricted for building maintenance fund	987,832	1,010,913
Total other assets	1,057,591	1,060,946
PROPERTY AND EQUIPMENT, NET	6,166,434	6,414,761
TOTAL ASSETS	$ 9,769,612	$ 9,901,525
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 110,410	$ 77,633
Deferred revenue	80,106	
Due to affiliate	78,012	81,796
Accrued expenses	19,487	17,204
Customer deposits	18,481	16,939
Total current liabilities	306,496	193,572
NET ASSETS:		
Unrestricted	6,981,058	7,568,710
Temporarily restricted	1,549,968	1,461,147
Permanently restricted	932,090	678,096
Total net assets	9,463,116	9,707,953
TOTAL LIABILITIES AND NET ASSETS	$ 9,769,612	$ 9,901,525

ARKANSAS 4-H FOUNDATION, INC.

Statement of Activities

For the Years Ended June 30, 2008 and 2007

	2008				2007			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUES:								
Program service revenue	$ 1,580,822	$ 3,705		$ 1,584,527	$ 1,683,967	$ 1,415		$ 1,685,382
Grants and contributions	140,088	167,700	$ 1,621	309,409	79,867	53,318	$ 1,357	134,542
Interest and dividends	62,624	121,019		183,643	66,213	105,830		172,043
Net unrealized and realized appreciation (depreciation) on investments	(34,110)	(106,640)		(140,750)	11,800	21,553		33,353
Other revenues	43,374	29,464		72,838	38,637	1,319		39,956
Net assets released from restrictions	174,645	(174,645)			84,048	(84,048)		
Total support and revenues	1,967,443	40,603	1,621	2,009,667	1,964,532	99,387	1,357	2,065,276
EXPENSES:								
Program	2,177,059			2,177,059	2,058,805			2,058,805
Management and general	73,634			73,634	52,425			52,425
Fundraising	3,811			3,811				
Total expenses	2,254,504			2,254,504	2,111,230			2,111,230
INCREASE (DECREASE) IN NET ASSETS	(287,061)	40,603	1,621	(244,837)	(146,698)	99,387	1,357	(45,954)
NET ASSETS, BEGINNING OF YEAR	7,268,119	1,509,365	930,469	9,707,953	7,715,408	1,361,760	676,739	9,753,907
NET ASSETS, END OF YEAR	$ 6,981,058	$ 1,549,968	$ 932,090	$ 9,463,116	$ 7,568,710	$ 1,461,147	$ 678,096	$ 9,707,953

(1). Summary of Significant Accounting Policies

The financial statements for the University of Arkansas, Fayetteville (~~t~~the University") for the fiscal year ended June 30, 2008, 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. (~~t~~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 $14,471,234 and $13,134,364 to the University during the fiscal years ended June 30, 2008, and June 30, 2007, 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. (~~t~~the Razorback Foundation") was incorporated on October 17, 1980. It is a non-for-profit organization whose sole purpose is to support intercollegiate athletics at the University. Although the University does not control the timing or amount of receipts from the Razorback Foundation, the majority of resources,

or income thereon that the Razorback Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Razorback Foundation can only be used by, or for the benefit of, the University, the Razorback Foundation is considered a component unit of the University and is discretely presented in the University's financial statements.

The Razorback Foundation distributed $9,282,289 to the University, and provided equipment, facilities, improvements and supplies in the amount of $4,019,175 during the fiscal year ended June 30, 2008. During the fiscal year ended June 30, 2007, the Razorback Foundation distributed $8,865,630 to the University, and provided equipment, facilities, improvements and supplies in the amount of $8,374,042. 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. (~~t~~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, 2008, or June 30, 2007, 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 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations,* which becomes effective with the fiscal year ending June 30, 2009. The Statement establishes standards for the accounting and financial reporting of pollution (including contamination) remediation obligations.

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

In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, which becomes effective with the fiscal year ending June 30, 2009. The Statement establishes consistent standards for the reporting of land and real estate held as investments by essentially similar entities.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which becomes effective with the fiscal year ending June 30, 2010. The Statement addresses the recognition, measurement and disclosure of information regarding derivative instruments entered into by governments.

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

Cash and Cash Equivalents

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

Inventories

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

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

Inventories	Valuation Method	June 30, 2008	June 30, 2007
Athletics Inventory	Retail	$ 519,694	$ 429,030
Bookstore	Retail	2,711,346	2,238,489
COOP Warehouse	Weighted Average	131,984	114,364
Garvan Woodland Gardens Shop	Weighted Average	87,794	73,998
Facilities Management	FIFO	540,976	575,353
Printing Services	Weighted Average	217,040	179,229
Research Services	Weighted Average	56,772	57,399
Residence Life	LIFO	433,045	563,280
Student Health Pharmacy	FIFO	33,748	47,948
University Press	LCM	605,025	273,310
Total Inventories		$ 5,337,424	$ 4,552,400

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 $30,329 and $622,668 were written off during the fiscal years ended June 30, 2008, and June 30, 2007, respectively.

Accounts receivable at June 30, 2008, totaled $33,347,680. The allowance for doubtful accounts was computed to be $6,054,868, resulting in net accounts receivable totaling $27,292,812. 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.

A summary of accounts receivable balances at June 30, 2008, are as follows:

	Gross	Allowance	Net
Student Accounts Receivable	$ 8,013,482	$ (5,061,539)	$ 2,951,943
Non-student Invoiced Accounts Receivable	16,384,754	(993,329)	15,391,425
Unreimbursed Research Contract Expenses	8,949,444		8,949,444
Totals	$ 33,347,680	$ (6,054,868)	$ 27,292,812

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

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

Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants and nongovernmental programs are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

(2). Reporting Entity

The University of Arkansas, Fayetteville (~~t~~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 School of Continuing Education and Academic Outreach. The University is one of eleven campuses of the University of Arkansas System. The governing body is the Board of Trustees which is comprised of ten members.

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

(3). Compensated Absences

In June 2005, GASB issued Statement No. 47, *Accounting for Termination Benefits*, which became effective with the fiscal year ending June 30, 2006. The Statement established guidance for accounting and reporting of the costs and liabilities associated with termination benefits, such as those associated with early retirement incentives. The University has not extended a large-scale or age-related early retirement offering during the fiscal year ended June 30, 2008. The University has, from time to time, negotiated early retirement agreements with faculty which may include the provision of healthcare or other benefits for future periods. The number of early retirement agreements is small and the obligation for future benefits is considered immaterial. Arkansas Code Annotated 21-4-501 authorized the compensation for accumulated unused sick leave for certain employees upon retirement. The University has accrued a liability for these amounts in *Compensated Absences Payable*.

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

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

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

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

(4). Cash, Cash Equivalents, and Investments

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

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

	June 30, 2008	June 30, 2007
	Bank Balance	Bank Balance
Insured (FDIC)	$ 579,055	$ 850,902
Uninsured, Collateralized	19,316,516	8,923,284
Uninsured, Uncollateralized		
Total Deposits	$ 19,895,571	$ 9,774,186

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, 2008, none of the University's bank balance of $19,895,571 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 $1,698,170 at June 30, 2008, and $1,664,130 at June 30, 2007. The above deposit schedule does not include cash on hand in various imprest funds maintained by the University of $116,808 or short-term investments of $38,922,464 at June 30, 2008. At June 30, 2007, these amounts were $88,782 and $37,843,877, respectively.

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

	June 30, 2008		June 30, 2007	
Bank Balance	$ 19,895,571		$ 9,774,186	
Less: Items in Transit	(3,992,607)		(3,416,217)	
Less: Nonnegotiable Certificates of Deposit	(34,000)		(34,000)	
Cash on Books		$ 15,868,964		$ 6,323,969
State Treasury Cash	$ 6,402,505		$ 2,400,979	
Cash Equivalents	38,922,464		37,843,877	
Less: System Cash	(1,698,170)		(1,664,130)	
Cash Equivalents		43,626,799		38,580,726
Total Cash and Equivalents		$ 59,495,763		$ 44,904,695

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, 2008:

Investment Type	Fair Value at June 30, 2008
Mutual Treasury Funds	$ 30,607,283
Mutual Bond Funds	243,694
Corporate Bonds	11,497,764
CommonFund Short Term Fund	38,922,464
External Investment Pool-University of Arkansas System	120,733,237
Other	1,071,971
Total Investments	$ 203,076,413

The CommonFund Short Term investment of $38,922,464 is reported as cash and cash equivalents on the Statement of Net Assets. Mutual Treasury Funds of $19,770,112 is 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 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	$ 11,497,764	$ 983,823	$ 8,683,823	$ 1,219,995	$ 610,123

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	$ 30,607,283	$ 30,607,283				
Mutual Bond Funds	243,694					$ 243,694
Corporate Bonds	11,497,764	315,836	$ 8,572,106	$ 2,029,999	$ 409,183	170,640
Totals	$ 42,348,741	$ 30,923,119	$ 8,572,106	$ 2,029,999	$ 409,183	$ 414,334

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.

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

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. The University of Arkansas, Fayetteville owns 8.7% of the total of these pools.

University of Arkansas
Statement of Invested Assets

UNIVERSITY OF ARKANSAS GASB40 **June 30, 2008**

Investment Type		Fair Value*
CASH	**$**	**(19,252,990)**
CASH EQUIVALENTS	**$**	**58,677**
CASH COLLATERAL AT BROKER	$	58,677
SHORT-TERM INVESTMENTS	**$**	**15,518,605**
POOLED FUNDS AND MUTUAL FUNDS	$	13,906,656
TREASURIES	$	1,611,949
EQUITY INVESTMENTS	**$**	**183,294,011**
COMMON STOCKS	$	170,393,040
REAL ESTATE INVESTMENT TRUSTS	$	11,174,219
PREFERRED STOCK	$	296,651
OTHER EQUITIES	$	1,430,101
FIXED INCOME INVESTMENTS	**$**	**215,784,572**
GOVERNMENT FIXED INCOME	$	13,281,122
GOVERNMENT AGENCIES	$	2,770,330
GOVERNMENT BONDS	$	8,808,980
GOVERNMENT INFLATION INDEXED	$	1,125,516
OTHER GOVERNMENT FIXED INCOME	$	576,297
GOVERNMENT ASSETS AND MORTGAGE BACKED	$	61,519,484
GOVERNMENT NATIONAL MORTGAGE ASSOC.	$	2,014,892
FEDERAL HOME LOAN MORTGAGE CORP.	$	7,694,331
FEDERAL NATIONAL MORTGAGE ASSOC.	$	44,470,021
COLLATERALIZED MORTGAGE OBLIGATIONS	$	7,340,240
CORPORATE FIXED INCOME	$	127,841,109
ASSET BACKED SECURITIES	$	67,005,366
CORPORATE BONDS	$	60,835,743
STATE AND LOCAL OBLIGATIONS	$	2,867,680
OTHER FIXED INCOME	$	10,275,177
PRIVATE PLACEMENTS	$	10,004,546
MISCELLANEOUS OTHER FIXED INCOME	$	270,630
CONVERTIBLE INVESTMENTS	**$**	**113,750**
CONVERTIBLE PREFERRED STOCK	$	113,750
OTHER ASSETS	**$**	**989,412,327**
MUTUAL FUNDS	$	921,835,527
VENTURE CAPITAL	$	67,576,799
TOTAL	**$**	**1,384,928,952**

* 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 Mellon
UNIVERSITY OF ARKANSAS GASB40 **June 30, 2008**

Investment type and fair Value ($000)*		TSY	AGY	AAA	AA	A	BBB	BB	B	CCC & Below	A-1	A-2	A-3	NR
SHORT-TERM INVESTMENTS	**$**	**981**												**14,538**
POOLED FUNDS AND MUTUAL FUNDS	$													13,907
TREASURIES	$	981												631
FIXED INCOME INVESTMENTS	**$**	**1,660**	**62,191**	**80,960**	**18,633**	**27,624**	**16,169**	**1,384**	**1,566**	**593**				**5,005**
GOVERNMENT FIXED INCOME	$	1,660	1,095	9,588	362	48	528							
GOVERNMENT AGENCIES	$		1,095	1,314	362									
GOVERNMENT BONDS	$	1,660		7,149										
GOVERNMENT INFLATION INDEXED	$			1,126										
OTHER GOVERNMENT FIXED INCOME	$					48	528							
GOVERNMENT ASSETS AND MORTGAGE BACKED	$		56,816	4,526										178
GOVERNMENT NATIONAL MORTGAGE ASSOC.	$		2,015											
FEDERAL HOME LOAN MORTGAGE CORP.	$		7,694											
FEDERAL NATIONAL MORTGAGE ASSOC.	$		43,773	697										
COLLATERALIZED MORTGAGE OBLIGATIONS	$		3,333	3,829										178
CORPORATE FIXED INCOME	$		4,280	60,395	16,333	26,040	13,762	1,028	1,566	361				4,076
ASSET BACKED SECURITIES	$		4,280	56,789	1,067	126	865	388						3,491
CORPORATE BONDS	$			3,606	15,266	25,914	12,897	640	1,566	361				585
STATE AND LOCAL OBLIGATIONS	$			2,797	71									
OTHER FIXED INCOME	$			3,655	1,867	1,536	1,880	356		231				751
PRIVATE PLACEMENTS	$			3,411	1,867	1,536	1,880	332		231				748
MISCELLANEOUS OTHER FIXED INCOME	$			244				24						3
CONVERTIBLE INVESTMENTS	**$**								**114**					
CONVERTIBLE PREFERRED STOCK	$								114					
TOTAL	**$**	**2,641**	**62,191**	**80,960**	**18,633**	**27,624**	**16,169**	**1,384**	**1,680**	**593**				**19,543**

* Includes Accrued Income

University of Arkansas
Years to Maturity

UNIVERSITY OF ARKANSAS GASB40 **June 30, 2008**

		Investment Maturities (in years)			
Investment Type(1)	**Fair Value***	**Less than 1**	**1 to 5**	**6 to 10**	**More than 10**
SHORT-TERM INVESTMENTS	**$ 15,518,605**	**$ 980,942**	**$**	**$**	**$**
POOLED FUNDS AND MUTUAL FUNDS	$ 13,906,656	$	$	$	$
TREASURIES	$ 1,611,949	$ 980,942	$	$	$
FIXED INCOME INVESTMENTS	**$ 215,784,572**	**$ 1,438,802**	**$ 34,874,260**	**$ 20,421,129**	**$ 159,050,380**
GOVERNMENT FIXED INCOME	$ 13,281,122	$	$ 4,443,160	$ 272,384	$ 8,565,578
GOVERNMENT AGENCIES	$ 2,770,330	$	$ 230,820	$	$ 2,539,510
GOVERNMENT BONDS	$ 8,808,980	$	$ 4,212,340	$ 224,233	$ 4,372,408
GOVERNMENT INFLATION INDEXED	$ 1,125,516	$	$	$	$ 1,125,516
OTHER GOVERNMENT FIXED INCOME	$ 576,297	$	$	$ 48,152	$ 528,145
GOVERNMENT ASSETS AND MORTGAGE BACKED	$ 61,519,484	$	$ 1,480,741	$ 2,519,682	$ 57,519,061
GOVERNMENT NATIONAL MORTGAGE ASSOC.	$ 2,014,892	$	$	$	$ 2,014,892
FEDERAL HOME LOAN MORTGAGE CORP.	$ 7,694,331	$	$	$	$ 7,694,331
FEDERAL NATIONAL MORTGAGE ASSOC.	$ 44,470,021	$	$ 1,302,764	$ 264,518	$ 42,902,739
COLLATERALIZED MORTGAGE OBLIGATIONS	$ 7,340,240	$	$ 177,977	$ 2,255,164	$ 4,907,100
CORPORATE FIXED INCOME	$ 127,841,109	$ 1,124,675	$ 23,129,771	$ 14,452,589	$ 89,134,074
ASSET BACKED SECURITIES	$ 67,005,366	$ 316,985	$ 1,545,151	$ 747,346	$ 64,395,883
CORPORATE BONDS	$ 60,835,743	$ 807,690	$ 21,584,620	$ 13,705,243	$ 24,738,191
STATE AND LOCAL OBLIGATIONS	$ 2,867,680	$ 207,832	$ 1,699,872	$ 888,965	$ 71,012
OTHER FIXED INCOME	$ 10,275,177	$ 106,295	$ 4,120,717	$ 2,287,509	$ 3,760,656
PRIVATE PLACEMENTS	$ 10,004,546	$ 106,295	$ 4,096,604	$ 2,284,797	$ 3,516,850
MISCELLANEOUS OTHER FIXED INCOME	$ 270,630	$	$ 24,113	$ 2,712	$ 243,806
CONVERTIBLE INVESTMENTS	**$ 113,750**	**$**	**$**	**$**	**$ 113,750**
CONVERTIBLE PREFERRED STOCK	$ 113,750	$	$	$	$ 113,750
TOTAL	**$ 231,416,927**	**$ 2,419,744**	**$ 34,874,260**	**$ 20,421,129**	**$ 159,164,131**

* 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, 2008**

Investment Type(1)		Fair Value*	Effective Duration
SHORT-TERM INVESTMENTS	**$**	**15,518,605**	**0.24**
POOLED FUNDS AND MUTUAL FUNDS	$	13,906,656	
TREASURIES	$	1,611,949	0.24
FIXED INCOME INVESTMENTS	**$**	**215,784,572**	**4.83**
GOVERNMENT FIXED INCOME	$	13,281,122	8.49
GOVERNMENT AGENCIES	$	2,770,330	6.47
GOVERNMENT BONDS	$	8,808,980	9.18
GOVERNMENT INFLATION INDEXED	$	1,125,516	6.98
OTHER GOVERNMENT FIXED INCOME	$	576,297	10.69
GOVERNMENT ASSETS AND MORTGAGE BACKED	$	61,519,484	3.64
GOVERNMENT NATIONAL MORTGAGE ASSOC.	$	2,014,892	3.27
FEDERAL HOME LOAN MORTGAGE CORP.	$	7,694,331	3.16
FEDERAL NATIONAL MORTGAGE ASSOC.	$	44,470,021	3.59
COLLATERALIZED MORTGAGE OBLIGATIONS	$	7,340,240	4.66
CORPORATE FIXED INCOME	$	127,841,109	5.07
ASSET BACKED SECURITIES	$	67,005,366	3.75
CORPORATE BONDS	$	60,835,743	6.32
STATE AND LOCAL OBLIGATIONS	$	2,867,680	3.48
OTHER FIXED INCOME	$	10,275,177	5.72
PRIVATE PLACEMENTS	$	10,004,546	5.60
MISCELLANEOUS OTHER FIXED INCOME	$	270,630	9.88
CONVERTIBLE INVESTMENTS	**$**	**113,750**	**1.83**
CONVERTIBLE PREFERRED STOCK	$	113,750	1.83
TOTAL	**$**	**231,416,927**	**4.80**

* 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, 2008**

Currency by investment and Fair Value ($000)*	CASH	Cash Equ.	Forward Contracts	Short Term	Equity	All Other**
AUSTRALIAN DOLLAR	$	$	$	$	$ 1,679	$
BRITISH PND STERLING	$ 40	$	$	$	$ 13,377	$
CANADIAN DOLLAR	$ 13	$	$	$	$ 1,047	$
DANISH KRONE	$	$	$	$	$ 317	$
EURO CURRENCY	$ (155)	$ 58	$	$	$ 24,939	$
HONG KONG DOLLAR	$ 43	$	$	$	$ 1,926	$
JAPANESE YEN	$ 167	$	$	$	$ 13,218	$
NEW ZEALAND DOLLAR	$ 3	$	$	$	$ 75	$
NORWEGIAN KRONE	$ (7)	$	$	$	$ 1,828	$
SINGAPORE DOLLAR	$ 3	$	$	$	$ 475	$
SOUTH KOREAN WON	$	$	$	$	$ 884	$
SWEDISH KRONA	$ 47	$	$	$	$ 902	$
SWISS FRANC	$ 34	$	$	$	$ 2,143	$
TOTAL	**$ 188**	**$ 58**	**$**	**$**	**$ 62,809**	**$**

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

The activities during fiscal year 2008 affecting the University's investments in the external pool are summarized below:

	Total Return Pool	Intermediate Pool	Intermediate Pool CES	Total
June 30, 2007, Balances	$ 71,414,422	$ 41,350,669	$ 7,778,991	$ 120,544,082
Income	1,286,639	1,803,096	381,702	3,471,437
Realized Gains/(Losses)	5,738,931	242,566	49,638	6,031,135
Unrealized Gains/(Losses)	(6,870,583)	486,690	98,535	(6,285,358)
Expenses Paid from Pool	(356,182)	(58,869)	(13,008)	(428,059)
Transfers In/(Out) of Pool	(7,600,000)	5,000,000		(2,600,000)
June 30, 2008, Balances	$ 63,613,227	$ 48,824,152	$ 8,295,858	$ 120,733,237

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

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:

	2008	2007
Fair Value @ June 30	$ 65,864,836	$ 69,025,962
Number of Units in Pool @ June 30	1,917,419	2,011,735
Fair Value per Unit @ June 30	$ 34.351	$ 34.312
Gains/(Losses) for the Year	$ (1,226,069)	$ 10,986,290
Net Income Earned for the Year	$ 546,998	$ 780,042
Gain/(Loss) per Unit	$ (0.64)	$ 5.46
Income Earned per Unit	0.29	0.39
Total per Unit	$ (0.35)	$ 5.85

Donor-restricted Endowments

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

	2008	2007
Total Endowment at June 30	$ 66,865,020	$ 70,037,104
Less: Funds treated as Endowment	(12,751,428)	(13,146,070)
Non-expendable portion of Endowment	(21,679,605)	(16,975,376)
Available for Expenditure	$ 32,433,987	$ 39,915,658

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

Arkansas Code Annotated (ACA) 28-69-603 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 ACA 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 5.545% of the balance of the endowment averaged over the previous twelve quarters.

(5). Notes Receivable

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

The resources for loans to students include federal funds, funds from other external sources, and University funds. New student loans totaling $2,943,383 and $3,114,647 were issued under the Student Loan Programs for the years ended June 30, 2008, and June 30, 2007, respectively. Of total campus-based loans processed, the majority were from Perkins funds provided by the federal government. The federal student loan default rate based on the U.S. Department of Education Cohort default rate was 12.87% for the year ended June 30, 2008, and 9.38% for the year ended June 30, 2007. Notes receivable totaling $19,778 and $7,166 were written off during the fiscal year ended June 30, 2008, and June 30, 2007, respectively.

The following summarizes the balance of notes receivable at June 30, 2008:

Type of Note	Gross Balance	Allowance	Net Balance	Current Portion
Student loans	$ 15,523,430	$ 764,475	$ 14,758,955	$ 3,104,686
Loans to Greek organizations	1,322,807		1,322,807	101,187
Totals	$ 16,846,237	$ 764,475	$ 16,081,762	$ 3,205,873

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

(6). Pledges Receivable

The University did not have any material amounts pledged that were receivable at June 30, 2008.

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

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

(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, 2008. 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, 2008	June 30, 2007
Payable to Outside Vendors	$ 14,655,426	$ 17,519,393
Retainage on Construction Contracts	3,897,504	6,806,314
Property Taxes Payable	91,156	126,662
Total	$ 18,644,086	$ 24,452,369

Accrued payroll liabilities are summarized as follows:

	June 30, 2008	June 30, 2007
Net Salaries and Wages Payable	$ 3,014,004	$ 2,971,011
Employee Withholdings Payable	6,476,772	5,981,054
Employer Payroll Taxes and Benefits Matching Payable	4,396,900	4,263,545
Total	$ 13,887,676	$ 13,215,610

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

Debt service payments on existing bonds amounted to $26,389,449 for the fiscal year ended June 30, 2008. The amount of $4,800,441 was expended for principal and interest on notes payable, installment contracts and capital leases for the same period.

On October 1, 2007, the University issued $45,010,000 in Various Facility Revenue Bonds, Series 2007A. The bonds were issued to provide funds to finance two construction projects on the University campus including a new residence hall complex and a new student apartment complex.

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, 2008, the University has drawn down $3,023,075 for the project. A payment of $10,975 has been applied against the principal; therefore, a liability is recorded in the amount of $3,012,100 on the Statement of Net Assets.

In October, 2007, the University signed a promissory note with the University of Arkansas Foundation, Inc. that formally incorporated a previously recorded note payable. On May 7, 1999, the University of Arkansas Board of Trustees had approved borrowing up to $1,800,000 from the University of Arkansas Foundation, Inc. to finance the renovation of the building now known as the University House. Through June 30, 2007, the University had drawn $827,888 from the University of Arkansas Foundation, Inc. for the building renovation, and had accrued interest payable in the amount of $334,064 for a total debt of $1,161,952. The total debt was converted to a promissory note with interest to be assessed at a variable rate equal to the investment return rate of the University of Arkansas Foundation, Inc. Repayment is to be made quarterly, with final maturity by December 31, 2019.

On October 31, 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 $9,067,000 for the construction of J.B. Hunt Transport, Inc. Center for Academic Excellence building. 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. The University drew down funds totaling $7,767,000 during the fiscal year ended June 30, 2008. With the receipt of gifts applied to the principal after the draw was made, and the assessment of accrued interest, the balance of the liability at June 30, 2008, was $4,117,502.

The project has been completed, and the unpaid principal balance of the draw note will be replaced by a promissory note. The promissory note shall be fully repaid by September

30, 2011. The promissory note is anticipated to be repaid primarily from major gift pledges.

On November 30, 2007, the University entered into a financing agreement with BOSC, Inc. in the amount of $6,950,000 for the purchase of various pieces of equipment and other additions, accessions repairs and replacements associated with the University's Energy Savings Performance Contract project. The agreement carries an interest rate of 4.69% with annual payments made on the July 1 of each fiscal year. Final maturity is July 1, 2023. Debt is to be serviced from the savings resulting from the work performed.

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 were continued through November 1, 2007, from the escrow fund. All outstanding refunded Series 1997 bonds were redeemed on November 1, 2007, at a price equal to 100% of the principal amount plus interest accrued thereon. 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, 2008, was $10.

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, 2008, was $60,071,756.

Remaining balances of defeased bond issues as of June 30, 2008:

Title	Principal Balance at June 30, 2008
Various Facilities Revenue Bonds, Series 2002	$ 44,195,000
Various Facilities Revenue Bonds, Series 2001	12,135,000
Various Facilities Revenue Bonds, Series 1997	0
Total	$ 56,330,000

During the fiscal year ended June 30, 2008, the University entered into two capital lease purchase agreements to finance the purchase of equipment. One lease is for the purchase of equipment for the University's student health center in the amount of $18,950. The lease is financed at an annual interest rate of 7.95%. Monthly payments commenced in November, 2007 and are scheduled to continue through October, 2012.

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

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 are scheduled to continue through January, 2012.

A summary of long term debt at June 30, 2008, is as follows:

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized & Issued	Debt Outstanding at June 30, 2008	Maturities and Refinanced Amounts to June 30, 2008
11/01/1996	11/01/2009	3.85% to 5.25%	$ 12,105,000	$ 1,075,000	$ 11,030,000
10/15/1997	11/01/2022	3.95% to 5.25%	21,445,000	6,720,000	14,725,000
05/01/1999	09/15/2020	3.35% to 4.85%	30,000,000	21,680,000	8,320,000
11/01/2001	12/01/2021	2.90% to 5.50%	42,985,000	21,550,000	21,435,000
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	56,095,000	54,885,000
10/01/2004	11/01/2024	2.00% to 4.75%	30,550,000	27,735,000	2,815,000
03/01/2005	11/01/2025	3.00% to 4.50%	81,020,000	78,630,000	2,390,000
07/01/2005	09/15/2011	3.00% to 3.25%	9,645,000	6,500,000	3,145,000
06/01/2006	11/01/2036	4.00% to 5.00%	67,420,000	66,745,000	675,000
06/01/2006	09/15/2022	4.00% to 4.375%	8,205,000	7,835,000	370,000
10/01/2007	11/01/2037	4.00% to 5.00%	45,010,000	45,010,000	
11/30/1991	05/01/2022	5.50%	3,000,000	1,986,557	1,013,443
11/29/1995	12/01/2019	4.00% to 5.00%	2,071,140	1,322,807	748,333
09/13/1995	12/01/2010	5.75% to 7.05%	535,000	155,000	380,000
12/20/1999	12/20/2023	Variable	1,161,952	1,095,402	66,550
10/31/2007	09/30/2011	Variable	7,767,000	4,117,502	3,649,498
05/11/2008	03/31/2013	Variable	3,023,075	3,012,100	10,975
07/31/2002	07/01/2012	2.05%	900,000	382,046	517,954
11/30/2007	07/01/2023	4.69%	6,950,000	6,950,000	
Various	Various	Various	2,136,708	371,284	1,765,424
Deferral on debt defeasance			(4,295,000)	(3,323,698)	(971,302)
Totals			$ 494,169,875	$ 359,644,000	$ 134,525,875

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

Equipment Leases

The University has acquired certain equipment under various lease-purchase contracts. The cost of equipment held under capital leases totaled $977,247 at June 30, 2008.

Type of Equipment	Asset Balance June 30, 2008
Computing Service Equipment	$ 841,461
Health Center Equipment	55,451
Farm Equipment	80,335
Total	$ 977,247
Total Minimum Lease Payments	$ 259,310
Less: Amount Representing Interest	14,513
Total Present Value of Net Minimum Lease Payments	$ 244,797

Changes in long-term liabilities for the year ended June 30, 2008, are as follows:

	Fiscal Year Ended June 30, 2008				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds	$ 309,880,000	$ 45,010,000	$ 11,315,000	$ 343,575,000	$ 12,475,000
Deferral on debt defeasance	(3,612,324)		(288,626)	(3,323,698)	(288,625)
Notes	4,999,767	11,124,139	4,052,492	12,071,414	2,395,338
Leases	350,633	64,538	170,374	244,797	55,819
Installment contracts	337,031	6,950,000	210,544	7,076,487	153,095
Compensated absences	15,900,015	581,936	58,558	16,423,393	1,001,431
Liability for retiree insurance benefits		5,090,958		5,090,958	865,349
Totals	$ 327,855,122	$ 68,821,571	$ 15,518,342	$ 381,158,351	$ 16,657,407

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

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.

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

	PRINCIPAL	INTEREST*	TOTAL
2009	$ 14,790,627	$ 16,444,833	$ 31,235,460
2010	24,582,370	15,698,611	40,280,981
2011	14,556,638	14,841,302	29,397,940
2012	13,884,761	14,223,946	28,108,707
2013	12,576,035	13,656,469	26,232,504
2014-2018	71,718,805	59,348,566	131,067,371
2019-2023	87,859,767	40,262,074	128,121,841
2024-2028	42,709,997	23,997,708	66,707,705
2029-2033	46,075,000	13,718,994	59,793,994
2034-2038	30,890,000	3,549,656	34,439,656
Totals	$ 359,644,000	$ 215,742,159	$ 575,386,159

*Interest payments made on three notes payable are calculated using floating interest rates. The interest on the notes will be calculated using a floating rate equal to the amount earned on non-endowed investments known as the short-term intermediate pool each quarter from the fiscal years ended June 30, 2008, until maturity. The estimated future interest for these notes was calculated using the rate of 3.71%.

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, 2008, and June 30, 2007, that are pledged:

BOND SERIES	REVENUE SOURCE	2008	2007
Series 1996 Refunding	Student Tuition and Fees	$ 117,979,624	$ 108,946,254
Series 1997 Various Facilities	Sales and Services	11,426,061	10,199,074
Series 2001 Various Facilities	Residential Life	23,612,200	19,031,464
Series 2002 Various Facilities	Arkansas Union	1,085,153	1,058,264
Series 2004 Various Facilities	Bookstore	14,461,803	13,807,992
Series 2005 Various Facilities	Student Health Services	1,208,803	1,256,761
Series 2006 Various Facilities	Transit and Parking	5,801,954	4,879,054
Series 2007 Various Facilities	Other Auxiliaries	2,361,031	2,119,836
	Total Various Fac. Pledge	$ 177,936,629	$ 161,298,699
Series 1999 Athletic Facilities	Men's Athletic Revenue	$ 44,470,387	$ 45,097,323
Series 2001 Athletic Subordinate	(less game guarantees)	(2,862,000)	(2,132,921)
Series 2005 Athletic Refunding			
Series 2006 Athletic Facilities	Total Athletics Pledge	$ 41,608,387	$ 42,964,402

The following is a comparison of pledged revenues earned to the amount of debt service per bond issue for the year ended June 30, 2008:

BOND SERIES	MATURITY DATE	PURPOSE OF DEBT	REMAINING PRINCIPAL & INTEREST	FY2008 PRINCIPAL & INTEREST	REVENUE SOURCE	FY2008 REVENUE	% OF PLEDGED REVENUES IN FY2008
VARIOUS FACILITIES BONDS:							
Series 1996 Various Facilities	11/01/2009	Refunding Bond Series 1988 and 1989 for HPER and Old Main	$ 1,131,831	$ 568,538	Various Fac. Pledge	$ 177,936,629	0.32%
Series 1997 Various Facilities	11/01/2022	Construction of Parking Facility, Alumni Center, Union Renovation and other Capital Assets	9,769,624	1,462,163	Various Fac. Pledge	177,936,629	0.82%
Series 2001 Various Facilities	12/01/2021	Renovation of Science Engineering, University House, Construction of Chiller, Gymnastics Facility, Research Building and other Capital Assets	26,073,473	2,679,320	Various Fac. Pledge	177,936,629	1.51%
Series 2002 Various Facilities	12/01/2032	Construction of Student Housing, Health Center, Parking Structure, Walker Graduate School of Business, Chemistry Building Renovation, HPER Renovation, Utility Infrastructure and other Capital Asset	97,826,325	5,117,975	Various Fac. Pledge	177,936,629	2.88%
Series 2004 Various Facilities	11/01/2024	Law Library Addition, Chiller Rebuild, Old Main Renovation, Parking Structure, Band Building Addition, Land Purchases, Health Center, Vol Walker Renovation, and other Capital Assets. Refund portion of Series 1998 Var. Facilities Bonds	37,885,283	2,040,736	Various Fac. Pledge	177,936,629	1.15%
Series 2005 Various Facilities	11/01/2025	Construction of Center for Academic Excellence, Walker Graduate School of Business, Law School Addition, and Refund Portion of Series 2001 Var. Facilities Bonds and Series 2002 Var. Facilities Bonds.	111,272,262	4,446,990	Various Fac. Pledge	177,936,629	2.50%
Series 2006 Various Facilities	11/01/2037	Construction of Student Housing, Law School Addition, Steam Plant Performance Contract, and Poultry Science Energy Management	128,470,807	3,886,685	Various Fac. Pledge	177,936,629	2.18%
Series 2007 Various Facilities	11/01/2037	Construction of Student Housing	84,911,844	1,228,828	Various Fac. Pledge	177,936,629	0.69%
		Total Percentage of Pledged Revenues					12.05%
ATHLETIC FACILITIES BONDS:							
Series 1999 Athletic Facilities	09/15/2020	Expansion of Football Stadium	29,395,528	2,261,775	Athletics Pledge	41,608,387	5.44%
Series 2001 Athletic Facilities	12/01/2021	Expansion of Football Stadium	6,268,000	168,000	Athletics Pledge	41,608,387	0.40%
Series 2005 Athletic Facilities	09/15/2011	Refund Series 1997 Athletic Facilities Bonds for Walton Arena	6,903,559	1,826,848	Athletics Pledge	41,608,387	4.39%
Series 2006 Athletic Facilities	09/15/2022	Construction of John McDonnell Outdoor Track Stadium	10,561,128	701,591	Athletics Pledge	41,608,387	1.69%
		Total Percentage of Pledged Revenues					11.92%

The following is a comparison of pledged revenues earned to the amount of debt service per bond issue for the year ended June 30, 2007:

BOND SERIES	MATURITY DATE	PURPOSE OF DEBT	REMAINING PRINCIPAL & INTEREST	FY2007 PRINCIPAL & INTEREST	REVENUE SOURCE	FY2007 REVENUE	% OF PLEDGED REVENUES IN FY2007
VARIOUS FACILITIES BONDS:							
Series 1996 Various Facilities	11/01/2009	Refunding Bond Series 1988 and 1989 for HPER and Old Main	$ 1,700,639	$ 573,043	Various Fac. Pledge	$ 161,298,699	0.36%
Series 1997 Various Facilities	11/01/2022	Construction of Parking Facility, Alumni Center, Union Renovation and other Capital Assets	11,231,786	1,468,355	Various Fac. Pledge	161,298,699	0.91%
Series 2001 Various Facilities	12/01/2021	Renovation of Science Engineering, University House, Construction of Chiller, Gymnastics Facility, Research Building and other Capital Assets	28,752,793	2,783,329	Various Fac. Pledge	161,298,699	1.73%
Series 2002 Various Facilities	12/01/2032	Construction of Student Housing, Health Center, Parking Structure, Walker Graduate School of Business, Chemistry Building Renovation, HPER Renovation, Utility Infrastructure and other Capital Asset	102,944,300	5,012,850	Various Fac. Pledge	161,298,699	3.11%
Series 2004 Various Facilities	11/01/2024	Law Library Addition, Chiller Rebuild, Old Main Renovation, Parking Structure, Band Building Addition, Land Purchases, Health Center, Vol Walker Renovation, and other Capital Assets. Refund portion of Series 1998 Var. Facilities Bonds	39,926,019	2,045,164	Various Fac. Pledge	161,298,699	1.27%
Series 2005 Various Facilities	11/01/2025	Construction of Center for Academic Excellence, Walker Graduate School of Business, Law School Addition, and Refund Portion of Series 2001 Var. Facilities Bonds and Series 2002 Var. Facilities Bonds.	115,719,251	4,448,490	Various Fac. Pledge	161,298,699	2.76%
Series 2006 Various Facilities	11/01/2037	Construction of Student Housing, Law School Addition, Steam Plant Performance Contract, and Poultry Science Energy Management	132,357,493	2,956,420	Various Fac. Pledge	161,298,699	1.83%
		Total Percentage of Pledged Revenues					11.97%
ATHLETIC FACILITIES BONDS:							
Series 1999 Athletic Facilities	09/15/2020	Expansion of Football Stadium	31,657,303	2,260,135	Athletics Pledge	42,964,402	5.26%
Series 2001 Athletic Facilities	12/01/2021	Expansion of Football Stadium	6,436,000	168,000	Athletics Pledge	42,964,402	0.39%
Series 2005 Athletic Facilities	09/15/2011	Refund Series 1997 Athletic Facilities Bonds for Walton Arena	8,730,406	1,829,023	Athletics Pledge	42,964,402	4.26%
Series 2006 Athletic Facilities	09/15/2022	Construction of John McDonnell Outdoor Track Stadium	11,262,718	267,426	Athletics Pledge	42,964,402	0.62%
		Total Percentage of Pledged Revenues					10.53%

(10). Commitments

The University was contractually obligated for the following at June 30, 2008:

A. Construction and Architect Contracts

Project Name	Completion Date	Beginning Year Contract Balance Plus Amendments	Amount Paid	Year-End Contract Balance
Billingsley Tennis Center	September, 2008	$ 596,981	$ 569,928	$ 27,053
Bogle Park – Softball	August, 2008	8,974,267	6,581,939	2,392,328
Broyles Center XOS System	November, 2008	376,691	113,007	263,684
Center for Acad. Excellence	August, 2008	3,350,432	3,039,911	310,521
Duncan Avenue Apartments	December, 2008	14,232,196	11,157,304	3,074,892
Fine Arts Theater Life Safety Issues	December, 2008	31,737		31,737
Fowler House Area B	August, 2008	640,432	549,122	91,310
Garland Avenue Parking Garage	June, 2010	2,827,345	474,447	2,352,898
Harmon Avenue Garage Addition	April, 2009	995,000	510,862	484,138
Harmon Road Waste Site	September, 2008	1,705,041	1,334,426	370,615
Holcombe Hall Renovations	October, 2008	914,389	414,190	500,199
Leflar Law Addition and Renov. Phase II	September, 2008	1,983,965	1,642,694	341,271
Maple Hill Housing Complex	August, 2008	32,459,640	28,360,937	4,098,703
Memorial Hall Restoration	August, 2008	300,000	256,691	43,309
National Center for Reliable Electricity	September, 2008	752,392	702,368	50,024
Phi Delta Theta Fraternity House	July, 2009	350,349	135,120	215,229
Physics Lab Additions	October, 2008	189,964	129,110	60,854
Rice Research Facility	October, 2009	532,872	258,087	274,785
Senior Walks 2008 - 2011	August, 2008	442,270	129,190	313,080
Sigma Nu Fraternity House	August, 2008	1,024,397	1,021,521	2,876
Steam Plant Performance Contract	December, 2008	12,000,000	8,668,296	3,331,704
Tyson Center of Excellence for Poultry	December, 2008	3,006,916	2,901,430	105,486
UAPD Communications System	September, 2008	735,914	687,744	48,170
Veterinary Diagnostic Lab	September, 2008	2,037,241	1,912,634	124,607
Willard J. Walker Hall	August, 2008	3,197,327	3,070,995	126,332
Other	Various	1,720,926	1,486,594	234,332
Totals		$ 95,378,684	$ 76,108,547	$ 19,270,137

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, 2008.

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, 2008, were $4,325,157. Minimum annual rental payments for

leases having an initial term in excess of one year totaled $3,040,007. Below are the scheduled payments for the five succeeding fiscal years and thereafter.

Year ended June 30	Amount
2009	$ 810,002
2010	626,946
2011	257,751
2012	251,804
2013	220,104
2014-2018	709,600
2019-2023	156,000
2024-2028	7,800
Total	$ 3,040,007

(11). Employee Benefits

A. Retirement Benefits

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

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

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

employees and all classified employees whose initial employment occurred prior to January 1, 1985, and who made any plan contributions prior to that date. For all other classified employees, vesting of benefits attributable to plan contributions made by the University shall occur on the earlier of completion of three years of service, or attainment of age 65, or the participant's having made plan contributions of at least five percent of regular salary for six consecutive months. The University's and participants' TIAA-CREF contributions for the year ending June 30, 2008, were $14,151,415 and $14,532,171, respectively. The University's and participants' Fidelity Investments contributions for the year ending June 30, 2008, were $3,998,368 and $4,589,515, respectively. 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.

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, 2008, were $223,338 and $9,113, respectively. The University's and participants' contribution 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, 2008, were $169,098 and $52,171, respectively. 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, 2008, were $608,415 and $516,681, 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.

B. Self-Insurance Plans

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

administered by the System Administration. Operations of the plans are recorded in the separate University of Arkansas System Consolidated Financial Statements.

For the year ending June 30, 2008, a total of 4,655 active employees, former employees, and retirees were participants in the health plan. For the year ending June 30, 2007, the total of active employees, former employees, and retirees participating in the health plan was 4,585. The University pays 68.441% for the Point of Service Plan and 77.39% for the Classic Plan for Fayetteville and the Criminal Justice Institute. The University pays 68.441% for the Point of Service Plan and 75.135% for the Classic Plan for the Division of Agriculture and the Arkansas Archeological Survey. The University pays 70% of the health plan for federal employees.

C. Life Insurance Plan

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

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

(12). Other Post Employment Benefits

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

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

this statement, the University accrued $5,090,958 in retiree healthcare expense during the fiscal year ended June 30, 2008.

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

- Participation: Covers employees who retire with a combination of age and years of service of at least 70 with at least 10 years of coverage under the plan. Retirees may cover spouses and eligible dependent children. Surviving spouses can continue coverage after retiree's death. Retirees can continue coverage past Medicare eligibility age (age 65 or disabled) with the University plan paying secondary to Medicare.
- Benefit Provided: Retirees participate in the plan at the same premium rate as an active employee.
- Required Contribution Rates: Retirees pay 100% of premium. Employer costs are funded on a pay-as-you-go basis.

Summary of Key Actuarial Methods and Assumptions

Actuarial Methods and Assumptions	
University Self-Funded Plan	
UAF, UALR, UAMS, UAM, UAPB, UACCB, ASMSA, CES, SYSTEM:	
Valuation date	July 1, 2007 Valuation for the fiscal year ended June 30, 2008
Valuation year	July 1, 2006 – July 1, 2007
Actuarial cost method	Projected unit credit
Amortization method	30 years closed, level % of payroll
Asset valuation method	N/A
Discount rate	4.50%
Projected payroll growth rate	4.00%
Medical inflation rate	Initial rate of 9% for 5 years; ultimate rate of 5%
Dental inflation rate	Initial rate of 4% for 2 years; ultimate rate of 3%
Projected increase/retiree premiums	3%

General Overview of the Valuation Methodology

The process of determining the liability for retiree medical benefits is based on many assumptions about future events. The results are highly dependent on two key assumptions: the rate at which it is assumed that medical costs will increase over time and the discount rate used to translate future payments into current dollars. The annual payments for retiree medical benefits are expected to rise sharply in coming years, both because medical costs are expected to rise over time and because more employees will retire and start to receive University paid medical, dental and life benefits.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are

subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Calculations are based on the types of benefits provided under the terms of each plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the University and plan members in the future.

Actuarial calculations reflect a long-term perspective. Actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

Actuarial Assumptions
University Self-Funded Plan
UAF, UALR, UAMS, UAM, UAPB, UACCB, ASMSA, CES, SYSTEM

Healthy Mortality	RP 2000 Male and Female Mortality Tables

Actuarial Assumptions
University Self-Funded Plan
UAF, UALR, UAMS, UAM, UAPB, UACCB, ASMSA, CES, SYSTEM

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

	Rate per 1,000	
Age	Male	Female
25	.106	.124
30	.128	.128
40	.173	.198
50	.226	.399
55	.366	.573
60	.492	.623

Actuarial Assumptions

University Self-Funded Plan

UAF, UALR, UAMS, UAM, UAPB, UACCB, ASMSA, CES, SYSTEM

Turnover

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

Service	Select Rates			
	UAF	UALR	UAMS	OTHER
0-1	35%	20%	30%	20%
1-2	25%	20%	20%	20%
2-3	20%	20%	18%	20%
3-4	20%	15%	18%	15%
4-5	20%	15%	15%	15%

Age	Ultimate Rates			
	UAF	UALR	UAMS	OTHER
25	7.7%	5.3%	9.7%	5.3%
30	7.4%	5.1%	9.3%	5.1%
35	6.9%	4.7%	8.7%	4.7%
40	6.1%	4.2%	7.8%	4.2%
45	5.2%	3.5%	6.4%	3.5%
50	3.6%	2.5%	4.3%	2.5%
55	1.4%	0.9%	1.6%	0.9%
60	0.1%	0.1%	0.1%	0.1%

Actuarial Assumptions

University Self-Funded Plan

UAF, UALR, UAMS, UAM, UAPB, UACCB, ASMSA, CES, SYSTEM

Retirement

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

Actuarial Assumptions

University Self-Funded Plan
UAF, UALR, UAMS, UAM, UAPB, UACCB, ASMSA, CES, SYSTEM

Future Retiree Coverage

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

	UAF	UALR	UAMS	OTHER
Pre-Medicare	70%	70%	60%	55%
Post Medicare	60%	60%	50%	45%

55% of retiring employees are assumed to elect dental coverage. 90% of retiring employees are assumed to continue life insurance after retirement.

Actuarial Assumptions

University Self-Funded Plan
UAF, UALR, UAMS, UAM, UAPB, UACCB, ASMSA, CES, SYSTEM

Future Dependent Coverage

45% of current active members are assumed to elect spouse coverage at retirement. All female spouses are assumed to be 4 years younger than males. No dependent children are assumed to be covered in retirement.

Determination of Annual Required Contribution (ARC) and End of Year Accrual

Unfunded actuarial accrued liability at 7-1-07	$	61,714,145
Annual Required Contribution (ARC)		
Normal cost		3,496,330
Amortization of the unfunded actuarial accrued liability		
Over 30 years using level percent of payroll amortization		2,203,462
Interest		256,515
Annual Required Contribution for FY08		5,956,307
Less: Expected Employer Contributions		(865,349)
End of year accrual	$	5,090,958

Schedule of Employer Contributions

Fiscal Year Ending	Annual Required Contributions	Expected Contributions	Percentage Contributed
6-30-08	$ 5,956,307	$ 865,349	14.53%

Since there is no funding, the expected contributions are any retiree premiums actually paid by the University plus expected implicit subsidy payments. The implicit rate subsidy is the difference between the true cost of medical benefits and the cost sharing premiums paid by the retiree. Expected contributions were based on actual contributions for the fiscal year ended June 20, 2007, as it was expected that actual contributions for the fiscal year ended June 30, 2008 would not be materially different.

Schedule of Funding Progress

Fiscal Year Ending	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as Percentage Of Covered Payroll
6-30-08	$ 0	$ 61,714,145	$ 61,714,145	0%	$ 184,734,160	33.41%

(13). Property, Plant and Equipment

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

During the fiscal year ended June 30, 2008, there have been no prominent or conspicuous events that would indicate impairment of any material capital assets, nor have there been any material insurance recoveries during the fiscal year.

The following schedule presents a summary of property, plant and equipment for the fiscal year 2008:

	Beginning Balance	Additions	Retirements	Ending Balance
Land (not depreciated)	$ 23,325,093	$ 5,027,947		$ 28,353,040
Buildings	757,800,640	134,257,980	$ 1,430,425	890,628,195
Equipment	232,677,966	25,173,126	6,642,656	251,208,436
Improvements	18,558,074	3,549,673		22,107,747
Infrastructure	41,349,618	4,235,797		45,585,415
Other Assets	1,134,943	88,080		1,223,023
Construction in Progress	125,761,463	86,844,333	133,173,301	79,432,495
Total	1,200,607,797	259,176,936	141,246,382	1,318,538,351
Less accumulated depreciation				
Buildings	281,927,015	27,660,962	75,889	309,512,088
Equipment	151,064,240	31,335,485	6,245,301	176,154,424
Improvements	8,863,372	867,341		9,730,713
Infrastructure	22,152,454	1,651,588		23,804,042
Total accumulated depreciation	464,007,081	61,515,376	6,321,190	519,201,267
Capital Assets, Net	$ 736,600,716	$ 197,661,560	$ 134,925,192	$ 799,337,084

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

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

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	2008	2007
Books and Periodicals	1,809,373	1,776,460
Microforms	5,522,480	5,517,096
Maps and Charts	144,054	142,514
Audio/Visual	27,239	37,131
Computer Files	7,838	7,260
U.S. Documents (pieces)	97,374	97,374
Total Estimate	7,608,358	7,577,835

The University estimates holdings of $11.65 million in timber resources as of June 30, 2008. The estimated value of these holdings was $7.96 million as of June 30, 2007. These resources, which total 13,228 acres, are located on various tracts of land in Arkansas. These resources are currently being inventoried.

(14). Museum Collection

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

(15). Operating Expenses by Function

For the year ended June 30, 2008:

	Salaries, Wages and Benefits	Scholarships and Fellowships	Supplies and Other Services	Depreciation	Total
Instruction	$ 98,566,196		$ 16,865,070		$ 115,431,266
Research	69,118,750		26,282,717		95,401,467
Public Service	53,622,058		15,982,949		69,605,007
Academic Support	21,941,131		10,437,204		32,378,335
Student Services	12,198,215		6,172,914		18,371,129
Institutional Support	31,600,167		8,014,367		39,614,534
Scholarships and Fellowships	896,396	$ 17,914,425	105,500		18,916,321
Operation and Maintenance of Plant	15,978,369		20,101,284		36,079,653
Auxiliary Enterprises	34,825,992		51,982,443		86,808,435
Depreciation				$ 61,515,376	61,515,376
Totals	$ 338,747,274	$ 17,914,425	$ 155,944,448	$ 61,515,376	$ 574,121,523

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

(16). Walton Arts Center

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

and three are recommended by the Foundation that must be approved by the mayor and chancellor.

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

The combined audited financial statements of the Walton Arts Center Council, Inc., and the Walton Arts Center Foundation, Inc., as of and for the year ended June 30, 2008, which have been audited by an independent certified public accountant, are presented below in summary form.

Condensed Statement of Financial Position	
Assets	
Cash and Cash Equivalents	$ 2,099,651
Investments	14,059,716
Other Assets	565,268
Fixed Assets, Net of Depreciation	5,882,318
Total Assets	**$ 22,606,953**
Liabilities and Net Assets	
Liabilities	$ 2,516,982
Net Assets	20,089,971
Total Liabilities and Net Assets	**$ 22,606,953**

Condensed Statement of Activities		
Ticket Sales	$	3,265,668
Contributions and Sponsorships		1,996,546
Other Income		2,074,629
Total Income and Other Additions	**$**	**7,336,843**
Total Expenditures and Other Deductions	**$**	**7,738,284**
Increase/(Decrease) in Net Assets	**$**	**(401,441)**

(17). Other Entity

University of Arkansas Foundation, Inc. - The Foundation operates as a nonprofit benevolent corporation for charitable educational purposes. The Board of Trustees of the Foundation includes one (1) member who is also a member of the University's Board of Trustees. The audited financial statements of the Foundation, as of and for the year ended June 30, 2008, 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 53.8% of the net assets of the Foundation. The remaining 46.2% benefits other University of Arkansas campuses.

Condensed Statement of Financial Position		
Assets		
Investments	$	644,774,668
Contributions Receivable, less Allowance		45,353,912
Other Receivables		2,854,485
Fixed Assets, Net of Depreciation		503,200
Other Assets		579,509
Total Assets	**$**	**694,065,774**
Liabilities and Net Assets		
Liabilities	$	22,207,746
Net Assets		
Unrestricted		68,443,630
Restricted		603,414,398
Net Assets		671,858,028
Total Liabilities and Net Assets	**$**	**694,065,774**

Condensed Statement of Activities		
Contributions	$	69,550,849
Other Revenues, Additions and Gains/(Losses)		8,718,373
Total Income and Other Additions	**$**	**78,269,222**
Total Expenditures and Other Deductions	**$**	**87,161,656**
Increase/(Decrease) in Net Assets	**$**	**(8,892,434)**

(18). Short-Term Debt

GASB Statement No. 38 issued June 1, 2001, states that governments should provide details about short-term debt activity during the year, even if no short-term debt is outstanding at year-end. The University had no short-term debt activity during the fiscal year, nor is there any outstanding balance of short-term debt as of June 30, 2008.

(19). Risk Management

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

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

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

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

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

Additionally, the University of Arkansas participates in the State of Arkansas Fidelity Bond Program for claims of employee dishonesty. This program has a limit of $250,000

recovery per occurrence with a $1,000 deductible. Premiums are paid annually via a fund transfer from state appropriations to the Department of Finance and Administration.

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

(20). Change in Accounting Procedures

The University has determined that Net Assets of the Federal Perkins Loan Program that have been reported as Restricted Net Assets – Expendable for Loans in past years, should be reported as Restricted Net Assets – Nonexpendable for Loans. The net effect of this change is to increase the balances in Restricted Net Assets – Nonexpendable for Loans by $15,495,141 over what it would have been using the old classification method. Restricted Net Assets – Expendable for Loans is lower as of June 30, 2008, by the same amount.

(21). Subsequent Events

Various Facilities Revenue Bonds
On March 28, 2008, the Board of Trustees of the University of Arkansas adopted a resolution expressing its intention to finance the construction of various capital projects. On June 6, 2008, the Board of Trustees authorized the issuance of the bonds with amounts not to exceed $37,000,000 in tax-exempt bonds and $15,500,000 in taxable bonds. On August 20, 2008, the University closed on the Series 2008A Various Facilities Revenue Bonds (tax-exempt) with a par value of $36,750,000 and the Series 2008B Various Facilities Revenue Bonds (taxable) with a par value of $15,210,000. The bonds will be used for the construction of a new parking facility, bookstore and other capital projects.

Softball Stadium Financing Agreement
Subsequent to June 30, 2008, the University has drawn an additional $1,761,106 on the financing agreement for the construction of a new softball stadium with the University of Arkansas Foundation, Inc., as referenced in Note 9. Management anticipates drawing down the entire $6,000,000 to complete the construction.

International Sports Properties Letter of Agreement
In August, 2008, the University of Arkansas entered into a Letter of Agreement (LOA) with International Sports Properties, Inc. (~~I~~ISP"). Pursuant to the LOA, the University grants to ISP an exclusive, comprehensive worldwide license for the University's multi-media sports marketing rights for all men's and women's sports programs.

Under the LOA, the University agrees to consent to the assignment to ISP of the current Sports Programming License Agreement between the University of Arkansas and Little Rock television station KATV. After and upon such assignment to ISP, the University agrees that the rights, obligations and rights fees existing under such prior agreement with

KATV shall be replaced and superseded by the rights set forth in this LOA. The LOA also assigns all advertising and sponsorship agreements from the University to ISP. The parties agree to the development of a long-form license agreement that shall include the terms contained in the LOA. The term of the license agreement shall be for a period of ten years, beginning July 1, 2008, and ending June 30, 2018.

In consideration of the exclusive grant of rights under this LOA and the subsequent License Agreement, ISP shall pay the University an Annual Royalty which shall consist of "Guaranteed Base Rights Fees" and various other reimbursement stipends.

CommonFund Short Term Fund Liquidity

As discussed at Note 4, the University invests cash balances in excess of current requirements in the CommonFund Short Term Fund (the Fund). The Fund invests in securities with maturities from one day to five and one-half years, but is structured in a manner to allow funds to be available on a daily basis. Accordingly, the University considers these assets cash equivalents. On September 29, 2008, as an investor in the Fund, the University received notice from Wachovia Bank, in its capacity as Trustee of the Fund, of its decision to initiate the termination of the Fund, to stop accepting deposits, to establish procedures for an orderly liquidation and distribution of the Fund's assets and to resign as Trustee of the Fund. The Trustee took this action upon recognizing that market conditions had become increasingly disrupted, and to ensure fair and equitable treatment of all investors in the Fund. Accordingly, Fund assets which the Trustee considered less liquid in the current market environment and representing approximately 90% of the Fund's portfolio as of September 26, 2008, were placed in a separate account within the Fund identified as the "Intermediate/Longer-Term Tranche". The assets held in the Intermediate/Longer-Term Tranche were effectively frozen, and were not available for drawdown by investors. A separate pool, identified as the "Immediate Tranche", was also established and held the Fund assets that were readily converted to cash on a same or next-day basis and available for drawdown. At close of business September 29, 2008, the University had $57,603,981 invested in the Fund, with $57,042,629 allocated to the Intermediate/Longer-Term Tranche.

Assets held in the Intermediate/Longer-Term Tranche will be liquidated as market conditions permit or as they mature, at which point they will be transferred to the Immediate Tranche. Liquidity projections of the Fund, based on maturity dates of securities held, are as follows:

% of Fund Assets	Liquidity Date
38%	October 31, 2008
50%	November 25, 2008
57%	December 29, 2008
64%	March, 2009
68%	June, 2009
74%	December, 2009
85%	December, 2010

Remainder	2011 and beyond

Actual performance has exceeded projections based solely on maturity dates. As of October 2, 2008, 36.2% of the Fund's assets were allocated to the Immediate Tranche and were readily available on a same or next-day basis.

Under the terms of the Trustee agreement, CommonFund may designate a successor Trustee who may establish a fund substantially identical to the Fund. Upon establishment, the assets held by Wachovia in their capacity as Trustee, would be transferred to the successor Trustee. CommonFund has indicated its intent to name a successor Trustee as soon as possible, and to establish a substantially identical Fund. Future liquidity projections will likely be positively impacted when this action is completed and with stabilized or improved market conditions.

(22). Contingencies

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

UNIVERSITY OF ARKANSAS, FAYETTEVILLE

2008
ANNUAL FINANCIAL REPORT

REQUIRED SUPPLEMENTAL INFORMATION

Other Postemployment Benefits (OPEB)

Determination of Annual Required Contribution (ARC) and End of Year Accrual	
Unfunded actuarial accrued liability at 7-1-07	$ 61,714,145
Annual Required Contribution (ARC)	
Normal cost	3,496,330
Amortization of the unfunded actuarial accrued liability	
Over 30 years using level percent of payroll amortization	2,203,462
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Annual Required Contribution for FY08	5,956,307
Less: Expected Employer Contributions	(865,349)
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Schedule of Employer Contributions

Fiscal Year Ending	Annual Required Contributions	Expected Contributions	Percentage Contributed
6-30-08	$ 5,956,307	$ 865,349	14.53%

Since there is no funding, the expected contributions are any retiree premiums actually paid by the University plus expected implicit subsidy payments. The implicit rate subsidy is the difference between the true cost of medical benefits and the cost sharing premiums paid by the retiree. Expected contributions were based on actual contributions for the fiscal year ended June 20, 2007, as it was expected that actual contributions for the fiscal year ended June 30, 2008 would not be materially different.

Schedule of Funding Progress

Fiscal Year Ending	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as Percentage Of Covered Payroll ((b-a)/c)
6-30-08	$ 0	$ 61,714,145	$ 61,714,145	0%	$ 184,734,160	33.41%

Summary of Key Actuarial Methods and Assumptions

Actuarial Methods and Assumptions University Self-Funded Plan UAF, UALR, UAMS, UAM, UAPB, UACCB, ASMSA, CES, SYSTEM:	
Valuation date	July 1, 2007 Valuation for the fiscal year ended June 30, 2008
Valuation year	July 1, 2006 – July 1, 2007
Actuarial cost method	Projected unit credit
Amortization method	30 years closed, level % of payroll
Asset valuation method	N/A
Discount rate	4.50%
Projected payroll growth rate	4.00%
Medical inflation rate	Initial rate of 9% for 5 years; ultimate rate of 5%
Dental inflation rate	Initial rate of 4% for 2 years; ultimate rate of 3%
Projected increase/retiree premiums	3%

General Overview of the Valuation Methodology

The process of determining the liability for retiree medical benefits is based on many assumptions about future events. The results are highly dependent on two key assumptions: the rate at which it is assumed that medical costs will increase over time and the discount rate used to translate future payments into current dollars. The annual payments for retiree medical benefits are expected to rise sharply in coming years, both because medical costs are expected to rise over time and because more employees will retire and start to receive University paid medical, dental and life benefits.

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Actuarial calculations reflect a long-term perspective. Actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

Actuarial Assumptions
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UAF, UALR, UAMS, UAM, UAPB, UACCB, ASMSA, CES, SYSTEM

Healthy Mortality RP 2000 Male and Female Mortality Tables

Actuarial Assumptions
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Disability Incidence Various rates based on age. Selected rates are:

	Rate per 1,000	
Age	Male	Female
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Actuarial Assumptions

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UAF, UALR, UAMS, UAM, UAPB, UACCB, ASMSA, CES, SYSTEM

Turnover

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

Service	Select Rates			
	UAF	UALR	UAMS	OTHER
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1-2	25%	20%	20%	20%
2-3	20%	20%	18%	20%
3-4	20%	15%	18%	15%
4-5	20%	15%	15%	15%

Age	Ultimate Rates			
	UAF	UALR	UAMS	OTHER
25	7.7%	5.3%	9.7%	5.3%
30	7.4%	5.1%	9.3%	5.1%
35	6.9%	4.7%	8.7%	4.7%
40	6.1%	4.2%	7.8%	4.2%
45	5.2%	3.5%	6.4%	3.5%
50	3.6%	2.5%	4.3%	2.5%
55	1.4%	0.9%	1.6%	0.9%
60	0.1%	0.1%	0.1%	0.1%

Actuarial Assumptions

University Self-Funded Plan

UAF, UALR, UAMS, UAM, UAPB, UACCB, ASMSA, CES, SYSTEM

Retirement

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

Actuarial Assumptions

University Self-Funded Plan

UAF, UALR, UAMS, UAM, UAPB, UACCB, ASMSA, CES, SYSTEM

Future Retiree Coverage

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

	UAF	UALR	UAMS	OTHER
Pre-Medicare	70%	70%	60%	55%
Post Medicare	60%	60%	50%	45%

55% of retiring employees are assumed to elect dental coverage. 90% of retiring employees are assumed to continue life insurance after retirement.

Actuarial Assumptions

University Self-Funded Plan

UAF, UALR, UAMS, UAM, UAPB, UACCB, ASMSA, CES, SYSTEM

Future Dependent Coverage

45% of current active members are assumed to elect spouse coverage at retirement. All female spouses are assumed to be 4 years younger than males. No dependent children are assumed to be covered in retirement.

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