

University of Arkansas System Consolidated Financial Statements FY2007-08



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LETTER OF TRANSMITTAL



*Office of the Vice President
for Finance and Administration*

December 15, 2008

Board of Trustees
President B. Alan Sugg
Chancellors of the University of Arkansas System

It is my pleasure to transmit to you the Consolidated Financial Report of the University of Arkansas System for the fiscal year ended June 30, 2008. The data presented, including the Management Discussion and Analysis, Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets, and Statement of Cash Flows, is presented on a consolidated basis and includes all components of the UA System: the campuses at Fayetteville (whose statements include the Division of Agriculture, Arkansas Archeological Survey, Clinton School of Public Service and Criminal Justice Institute), Fort Smith, Little Rock, Monticello, Pine Bluff, DeQueen, Helena-West Helena, Batesville, Hope and Morrilton, the Medical Sciences campus, the Arkansas School for Mathematics, Sciences and the Arts, and System Administration.

These statements were prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). All of the financial statements used to prepare the consolidated report, except for the Medical Sciences campus and the discretely presented component units, were audited by the Arkansas Division of Legislative Audit. The financial statements from the Medical Sciences campus were audited by KPMG LLP. All received unqualified audit opinions.

Sincerely,

A handwritten signature in blue ink that reads 'Barbara A. Goswick'.

Barbara Goswick
Vice President for Finance & CFO

2404 North University Avenue / Little Rock, Arkansas 72207-3608 / 501-686-2920 / Fax 501-686-2939

University of Arkansas, Fayetteville / University of Arkansas at Little Rock / University of Arkansas at Pine Bluff
University of Arkansas for Medical Sciences / University of Arkansas at Monticello / Division of Agriculture / Criminal Justice Institute
Arkansas Archeological Survey / Phillips Community College of the University of Arkansas / University of Arkansas Community College at Hope
University of Arkansas Community College at Batesville / Cossatot Community College of the University of Arkansas
University of Arkansas Community College at Morrilton / University of Arkansas at Fort Smith
Arkansas School for Mathematics, Sciences, and the Arts / University of Arkansas Clinton School of Public Service

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

OPINION OF LEGISLATIVE AUDIT

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Arkansas



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

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

University of Arkansas System
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 System (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 for Medical Sciences, a unit of the System, whose statements reflect total assets, net assets, and revenues constituting 39 percent, 38 percent, and 50 percent, respectively, of the related combined totals. Additionally, we did not audit the financial statements of the University of Arkansas Foundation, Inc., and the University of Arkansas Fayetteville Campus 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 has been furnished to us, and our opinion, insofar as it relates to the amounts included for the University of Arkansas for Medical Sciences, the University of Arkansas Foundation, Inc., and the University of Arkansas Fayetteville Campus 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 Foundation, Inc., and the University of Arkansas Fayetteville Campus 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 System 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 13 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2008 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

OPINION OF LEGISLATIVE AUDIT (CONT.)

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 and the other auditors 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The Statement of Net Assets by Campus (Schedule 1), Statement of Revenues, Expenses and Changes in Net Assets by Campus (Schedule 2), and the Statement of Cash Flows - Direct Method - by Campus (Schedule 3) are presented for purposes of additional analysis and are not a required part of the basic financial statements. The aforementioned schedules have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the report of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in blue ink, reading "Roger A. Norman".

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

Little Rock, Arkansas
November 18, 2008
EDHE14108

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MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW OF THE FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

The University of Arkansas ("the University") is pleased to present its financial statements for the fiscal year ended June 30, 2008, with the fiscal year 2007 prior year data presented for comparative purposes. The data presented includes the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows.

The University, which prior to 1969 consisted of the Fayetteville and Medical Sciences campuses, was expanded in 1969 to include the Little Rock campus (formerly Little Rock University), in 1971 to include the Monticello campus (formerly Arkansas A&M College), in 1972 to include the Pine Bluff campus (formerly Arkansas AM&N College), in 1996 to include the Phillips campus (formerly Phillips County Community College), and the Hope campus (formerly Red River Technical College), and in 1998 to include the Batesville campus (formerly Gateway Technical College). On July 1, 2001, the System was expanded to include campuses in Morrilton (formerly Petit Jean College) and DeQueen (formerly Cossatot Community College). The Fort Smith campus (formerly Westark College) joined the System on January 1, 2002. Forest Echoes Technical Institute and Great Rivers Technical Institute merged with the Monticello campus on July 1, 2003. The Arkansas School for Mathematics, Sciences and the Arts joined the System on January 1, 2004. In addition to these campuses, the System includes the following units: Clinton School of Public Service, Division of Agriculture, Archeological Survey, Criminal Justice Institute, and the System Administration.

All programs and activities of the University of Arkansas are governed by its Board of Trustees, which has delegated to the President the administrative authority for all aspects of the University's operations. Administrative authority is further delegated to the Chancellors and Vice President for Agriculture, who have responsibility for the programs and activities of their respective campuses or state-wide operating division.

STATEMENT OF NET ASSETS

The Statement of Net Assets presents the assets, liabilities and net assets of the University. The purpose of the statement is to present to the readers of the financial statements a fiscal snapshot of the University as of the end of the fiscal year. Current assets and liabilities are distinguished from non-current assets and liabilities. The statement provides a picture of net assets (assets minus liabilities) and their availability for expenditure by the University.

Net assets are divided into four major categories:

- *Invested in capital assets, net of debt:* capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- *Restricted net assets – non-expendable:* net assets subject to externally-imposed stipulations that they be maintained permanently by the University.

- *Restricted net assets – 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.
- *Unrestricted net assets:* net assets that are not subject to externally imposed stipulations but can be used at the discretion of the governing board to meet current expenses for any purpose if not limited by contractual agreements with outside parties.

Condensed Statement of Net Assets

	June 30, 2008	June 30, 2007
ASSETS		
Current assets	\$ 639,419,503	\$ 546,503,833
Capital assets, net	1,855,899,813	1,681,777,278
Other assets	302,774,358	380,991,304
Total Assets	2,798,093,674	2,609,272,415
LIABILITIES		
Current liabilities	241,192,536	227,280,377
Noncurrent liabilities	876,017,904	816,826,370
Total Liabilities	1,117,210,440	1,044,106,747
NET ASSETS		
Invested in capital assets, net of related debt	1,051,693,500	1,014,544,026
Restricted		
Non-Expendable	78,569,934	66,855,458
Expendable	201,247,280	168,772,865
Unrestricted	349,372,520	314,993,319
Total Net Assets	1,680,883,234	1,565,165,668

The University's total assets increased \$188.8 million. Significant increases in cash and investments of \$77.9 million were in part due to the receipt of state appropriations to partially fund the construction of a nanotechnology center at UAF and for the construction and operations of the Arkansas Research and Educational Optical Network (ARE-ON), payments received by UAMS from the Arkansas Physician Supplemental Medicaid Payment Program for fiscal years 2007 and 2008, and funds received from the State of Arkansas and private foundations dedicated to the construction of the Winthrop P. Rockefeller Cancer Institute. Approximately \$10 million of the increase in notes receivable was due to an agreement between UAMS and the Arkansas State Hospital (ASH) and the Arkansas Department of Health (ADH) where ASH and ADH agreed to make monthly payments to UAMS for their share of the West Central Energy Plant construction costs. In addition, there was an increase in capital assets of \$174.1 million offset by a decrease of \$91.8 million in deposits held in trust by others. The increase in capital assets was primarily due to an increase in buildings, equipment and construction in progress.

Deposits held in trust by others represent unspent bond proceeds and bond reserve funds, the decrease of which indicate the University's use of those bond proceeds. More detail about capital assets is presented in Note 10 to the financial statements.

Total liabilities increased \$73.1 million, consisting primarily of a net increase in long-term debt of \$43.5 million, an increase of \$4.8 million in compensated absences (see Note 4) and a liability of \$18.6 million due to the implementation of GASB Statement 45, which establishes standards for the measurement, recognition, and display of OPEB (other post employment benefits). Additional information about GASB Statement 45 is presented in Note 13 to the financial statements.

The increase in assets of \$188.8 million netted with an increase of \$73.1 million in liabilities resulted in an increase of \$115.7 million in total net assets for the University.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The purpose of this statement is to present revenues received and expenses paid by the University, both operating and non-operating, and any other revenues, expenses, gains and losses. The operating income (loss) is of little significance for the University since the GASB requires a significant portion of revenues (state appropriations, gifts, and some grants and contracts) to be reported as non-operating.

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	Year Ended	
	June 30, 2008	June 30, 2007
Operating revenues	\$1,469,766,222	\$1,343,066,254
Operating expenses	(2,013,109,532)	(1,858,952,077)
Operating Loss	(543,343,310)	(515,885,823)
Non-operating revenues & expenses	574,816,140	551,059,484
Income before other revenues & expenses	31,472,830	35,173,661
Other revenues and expenses	84,244,736	62,669,179
Increase in Net Assets	115,717,566	97,842,840
Net Assets, beginning of year	1,565,165,668	1,467,322,828
Net Assets, end of year	1,680,883,234	1,565,165,668

Net patient services revenue increased \$92.8 million, which represents 73% of the increase in operating revenues of \$126.7 million. The gross amount of the Arkansas Physician Supplemental Payment Program accounted for \$43.4 million of this increase in patient services revenue as funds were received for both fiscal years 2007 and 2008. The portion related to fiscal year 2007 was not accrued in that year due to the uncertainty surrounding the payment of these funds at June 30, 2007. The balance of the increase in net patient services revenue is due to growth in patient volume, increases in reimbursement rates, and changes

in reimbursement for Medicaid disproportionate share, Medicaid Upper Payment Limit, and Cost report settlements. Student tuition and fees increased \$16.5 million due to increases in the rates charged for tuition and fees along with an increase in FTE (full-time-equivalent) enrollment of 4%.

Increased compensation and benefit costs rose 9.0% over the previous year, and accounts for \$96.8 million or 62.8% of the total increase in operating expenses of \$154.2 million. Of the increase in compensation and benefit expense, almost 60% or \$56.6 million is related to the medical sciences campus, including



University of Arkansas at Little Rock - an urban campus with a natural setting.

\$25.3 million due to necessary staffing to support increased patient volumes. Additionally, as a result of implementing GASB Statement No. 45 as discussed in Note 13, the University accrued \$18.6 million in retiree healthcare expenses for fiscal year 2008. Supplies and services expense increased \$23.2 million, including \$3.1 million due to increased patient volume discussed above. Expenses related to the University's self-funded insurance plan increased \$14.6 million. The University responded to the poor health plan experience with the following initiatives: a 4% premium increase on the employer portion of premiums imposed on September 1, 2008, implementation of a radiology pre-authorization program, pharmacy benefit formulary changes effective July 1, 2008 which effectively increases patient co-pays on a number of branded drugs, and the transfer of residual life insurance reserves of approximately \$4.8 million into the health plan. In addition, the University administration is analyzing health plan design changes such as increases in deductible and co-insurance levels and additional premium increases with a possible implementation date of January 1, 2009.

UNIVERSITY OF ARKANSAS SYSTEM • CONSOLIDATED FINANCIAL STATEMENT FY2008

Net non-operating revenues increased \$23.8 million primarily due to increases of \$27.3 million in state appropriations, \$20.2 million in non-capital gifts and \$8.8 million in grants and contracts offset by a decrease of \$33.7 million in investment gain, net of expense, primarily due to changing market conditions.

Other revenues netted against other expenses increased \$21.6 million. The primary drivers were an appropriation of \$60.2 million for the expansion of the Winthrop P. Rockefeller Cancer Institute, a transfer of the new Arkansas State Hospital valued at approximately \$32 million to the Arkansas Department of Human Services as explained in Note 20, the receipt of \$17.0 million in bond proceeds from the State of Arkansas Higher Education General Obligation Bonds as explained in Note 7, and a decrease of \$21.6 million in capital gifts and grants. A significant amount of gifts for the benefit of the University are made to the University of Arkansas Foundation, Inc. which is presented as a component unit in the financial statements.

STATEMENT OF CASH FLOWS

The purpose of the Statement of Cash Flows is to provide information about the cash receipts and disbursements of the University for the year. This statement may aid in the assessment of the University's ability to meet obligations as they become due, the need for external financing, and the ability to generate future cash flow. This statement is prepared using the "direct method" as required by the GASB.

Similar to operating income (loss) on the Statement of Revenues, Expenses, and Changes in Net Assets, net cash provided by operating activities is of little significance to the University because the GASB requires significant sources of cash to be reported as non-operating financing. The net cash provided by the combination of operating activities and non-capital financing activities is a much more meaningful number for the University. This positive amount of \$184.1 and \$118.7 million for fiscal years ending June 30, 2008 and June 30, 2007, respectively, indicates that these activities contributed cash and liquidity for the year.

Condensed Statement of Cash Flows

	Year Ended	
	June 30, 2008	June 30, 2007
Cash provided (used) by:		
Operating activities	\$ (405,265,034)	\$ (417,715,618)
Noncapital financing activities	589,382,534	536,430,423
Capital & related financing activities	(212,896,886)	(254,120,587)
Investing activities	89,871,540	157,607,778
Net change in cash	61,092,154	22,201,996
Cash, beginning of year	129,758,484	107,514,489
Cash, beginning of year adjustment		41,999
Cash, end of year	\$ 190,850,638	\$ 129,758,484

Capital Assets and Long-Term Debt Activity

At June 30, 2008, the University had \$1.9 billion of capitalized assets, net of accumulated depreciation and amortization of \$1.1 billion. Major capital additions in fiscal year 2008 included \$127.0 million for the following UAMS projects: Patient Bed Tower, South Parking Deck, Central Power Plant, Psychiatric Research Institute, Education West Building and the Winthrop P. Rockefeller Cancer Institute.

In fiscal year 2008, the University issued \$45,010,000 of Various Facilities Revenue Bonds, Series 2007A (Fayetteville campus) to finance the construction of residence hall facilities and student apartments. Bonds retired in fiscal year 2008 totaled \$25.7 million. In addition, there was an increase of \$24.2 million in notes and capital leases payable. More detailed information about debt activity is presented in Note 7.



The two newest academic buildings on the University of Arkansas campus — Willard Walker Hall to the right and the J.B. Hunt Transport Services Inc. Center for Academic Excellence at the far end of the walk — face the Linda Shollmier Plaza.

Economic Outlook

The University's financial position continued to strengthen in fiscal year 2008 as evidenced by an increase of \$115.7 million in net assets. Moody's Investment Service affirmed its rating of Aa3 of the University of Arkansas System on September 5, 2008.

One of the University's greatest strengths is the diverse stream of revenue which funds its operations, including tuition, patient services revenue, state appropriations, investment income, grants and contracts, and support from individuals, foundations and corporations.

The state's official April 7, 2008 forecast of revenue for fiscal year 2009 includes full funding of "Category A" and 53.93% of "Category B" appropriated monies. The remaining 46.07% of appropriated monies not expected to be funded for the University is \$18.9 million. Campuses incorporated this reduced forecast into their budgets for fiscal year 2009. Although the state of Arkansas net available revenues in September, 2008, were \$24.4 million above forecast due to increased revenues, it is not known at this time whether additional appropriated monies will be released during fiscal year 2009. Management will continue to institute both internal and external efforts to minimize the effect of fluctuations in state funding.

The Hospital expansion at UAMS is expected to open January 2009 and includes new patient rooms, a new emergency department, clinical lab and radiology department along with room to expand other services. In addition, the new facility will include additional surgical and interventional suites, an intensive care unit, and an intermediate care unit. The expansion will include 234 adult beds and 64 neonatal beds initially, with space for growth that

would bring the total capacity to 393 private adult patient rooms between the new facility and the Hospital's existing Ward Tower. A psychiatry wing, the Psychiatric Research Institute (PRI), will house 40 psychiatric inpatient beds, psychiatry clinics, offices, and research areas. The PRI will start outpatient services in December 2008 with inpatient services starting after the opening of the new patient tower in January 2009.

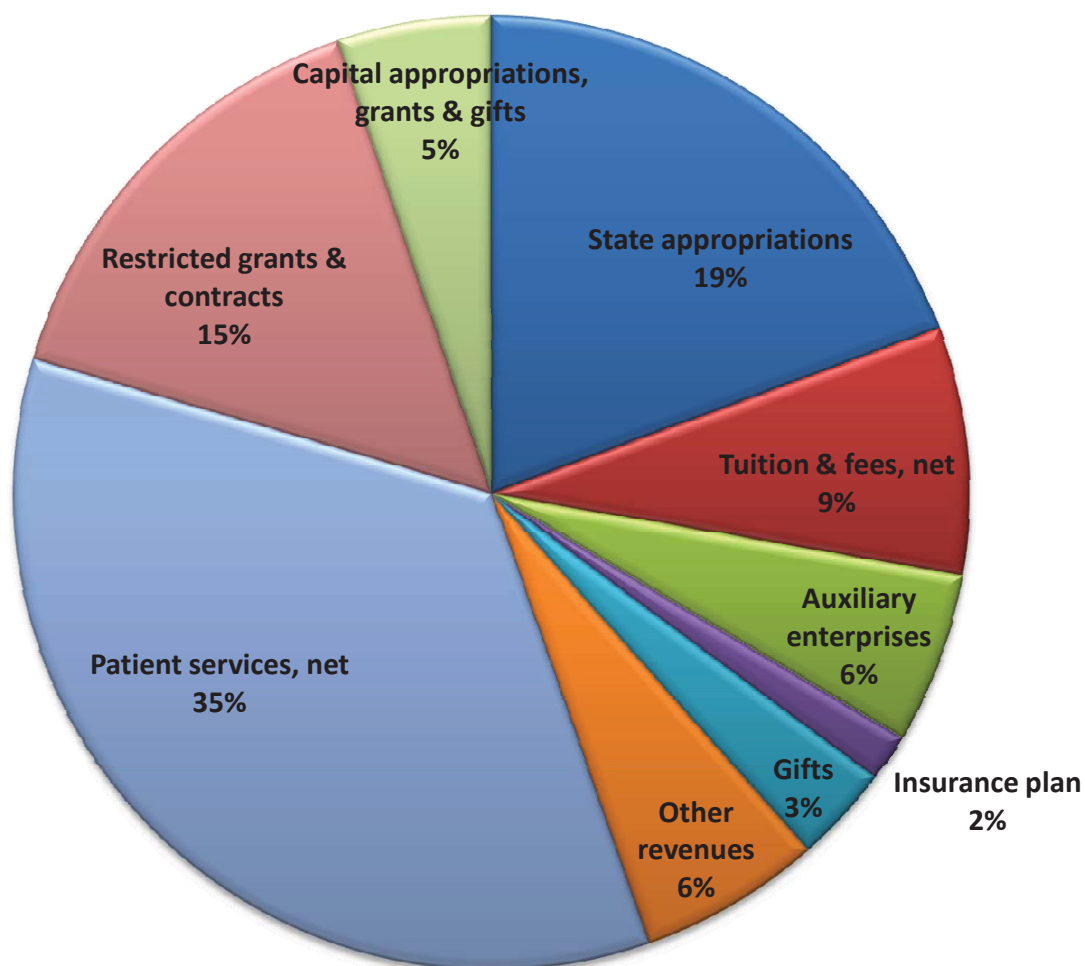
While UAMS' hospital and clinics are situated to maintain a consistent financial position in the near term, ongoing constraints on revenue are expected to continue because of the continual tightening of reimbursement and fiscal pressures on employers and federal and state governments. Management believes that much of the pressure can be offset by growth in patient volume. The average inpatient growth over the past three years has been 4.3%. With the expansion to the patient tower opening in January 2009, the growth rate is projected to increase significantly. The average outpatient growth over the past three years has been 4.0%. Additionally, management recognizes the absolute necessity of cost control. Management has identified expense reduction targets for the upcoming year and is actively developing strategies for future years.

The University has experienced consistent financial growth with an increase of 7.4% in net assets for fiscal year 2008 and 6.7% increases in both fiscal years 2007 and 2006.



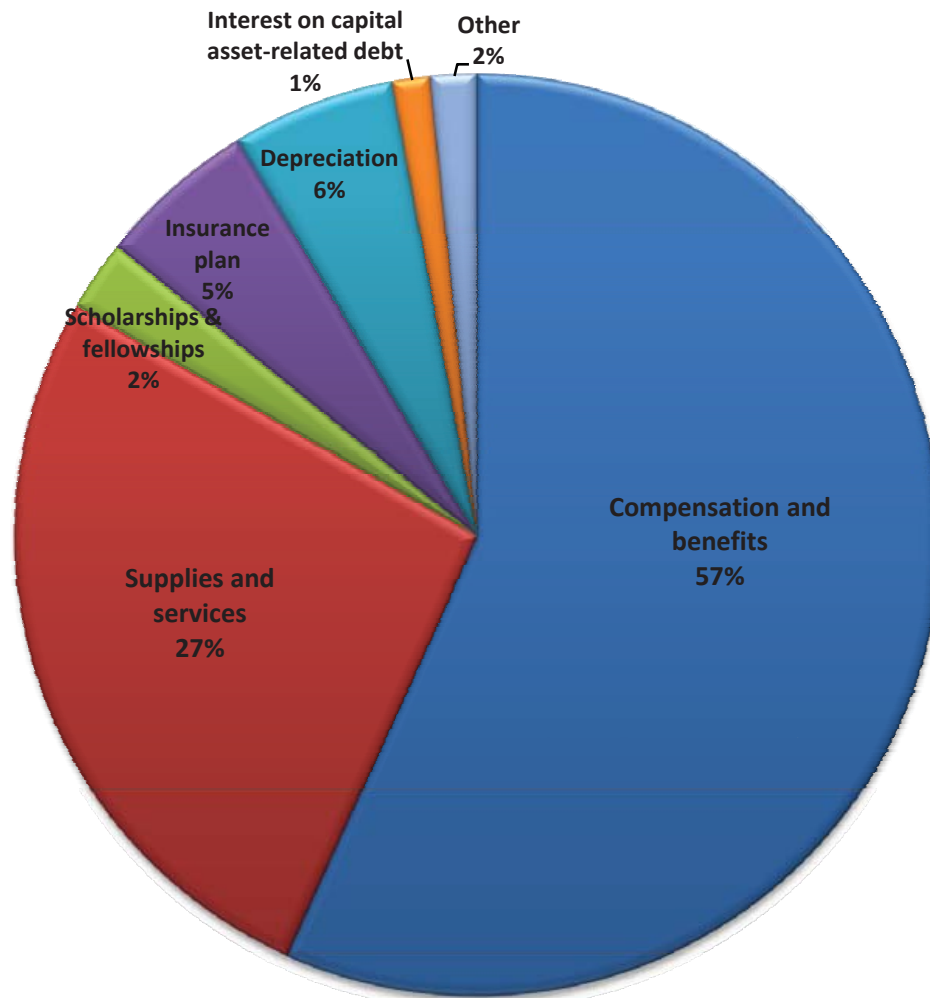
Students enjoy the friendly, laid-back atmosphere at UACCM while walking to class.

Total FY2008 University of Arkansas System Revenues



Total FY2008 Revenues: \$2.2 Billion

Total FY2008 University of Arkansas System Expenses



Total FY2008 Expenses: \$2.1 Billion

UNIVERSITY OF ARKANSAS SYSTEM • CONSOLIDATED FINANCIAL STATEMENT FY2008

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		
Cash and cash equivalents	\$167,146,791	\$115,272,767
Investments	261,805,947	237,342,859
Accounts receivable, net of allowances of \$14,047,624 & \$12,695,630	91,301,915	76,728,894
Patient accounts receivable, net of allowances of \$316,378,000 & \$876,393,000	88,492,000	84,779,000
Inventories	16,230,893	16,285,200
Deposits and funds held in trust by others	272,044	1,498,774
Notes receivable, net of allowances of \$852,807 & \$2,092,845	6,829,527	8,906,190
Other assets	7,340,386	5,690,149
Total current assets	639,419,503	546,503,833
Non-Current		
Cash and cash equivalents	23,703,847	14,485,717
Investments	188,409,200	196,033,530
Notes receivable, net of allowance of \$4,619,951 & \$5,005,553	33,997,708	22,610,153
Deposits and funds held in trust by others	51,952,191	142,504,314
Other non-current assets	4,711,412	5,357,590
Capital assets, net of depreciation of \$1,136,606,329 & \$1,032,168,030	1,855,899,813	1,681,777,278
Total non-current assets	2,158,674,171	2,062,768,582
TOTAL ASSETS	\$2,798,093,674	\$2,609,272,415
LIABILITIES		
Current		
Accounts payable and other accrued liabilities	\$141,112,155	\$135,395,243
Deferred revenue	29,142,140	26,652,707
Funds held in trust for others	4,071,468	3,182,094
Liability for future insurance claims	10,705,826	9,646,053
Estimated third party payor settlements	12,049,000	16,335,000
Compensated absences payable - current portion (Note 7)	3,863,942	3,299,283
Liability for other post retirement benefits - current portion (Note 13)	2,203,870	-
Bonds, notes and capital leases payable - current portion (Note 7)	38,044,135	32,769,997
Total current liabilities	241,192,536	227,280,377
Non-Current		
Deferred revenues, deposits and other	988,801	616,805
Compensated absences payable (Note 7)	61,095,851	56,873,136
Liability for other post retirement benefits (Note 13)	16,414,908	-
Bonds, notes and capital leases payable (Note 7)	797,518,344	759,336,429
Total non-current liabilities	876,017,904	816,826,370
TOTAL LIABILITIES	\$1,117,210,440	\$1,044,106,747
NET ASSETS		
Invested in capital assets, net of related debt	\$1,051,693,500	\$1,014,544,026
Restricted		
Non-Expendable	78,569,934	66,855,458
Expendable	201,247,280	168,772,865
Unrestricted	349,372,520	314,993,319
TOTAL NET ASSETS	\$1,680,883,234	\$1,565,165,668

See accompanying notes.

UNIVERSITY OF ARKANSAS SYSTEM • CONSOLIDATED FINANCIAL STATEMENT FY2008

UNIVERSITY OF ARKANSAS

Statement of Revenues, Expenses and Changes in Net Assets

For The Year Ended June 30, 2008 with comparative figures for 2007

	Year Ended	
	June 30, 2008	June 30, 2007
Operating Revenues		
Student tuition & fees, net of scholarship allowances of \$70,589,481 & \$61,488,239	\$183,885,092	\$167,410,197
Patient services, net of contractual allowances of \$767,059,000 & \$665,057,000	765,358,000	672,528,000
Federal and county appropriations	15,932,245	18,728,213
Federal grants and contracts	140,892,160	150,143,844
State and local grants and contracts	52,057,838	41,444,758
Non-governmental grants and contracts	66,307,600	66,289,106
Sales and services of educational departments	52,800,882	51,094,986
Insurance plan	35,384,004	34,282,613
Auxiliary enterprises		
Athletics, net of scholarship allowances of \$1,960,311 & \$1,595,355	54,862,413	55,128,840
Housing/food service, net of scholarship allowances of \$7,170,994 & \$5,705,996	35,725,360	30,005,125
Bookstore, net of scholarship allowances of \$2,516,354 & \$2,384,365	20,209,148	19,638,477
Other auxiliary enterprises, net of scholarship allowances of \$252,796 & \$258,057	16,129,771	15,501,532
Other operating revenues	30,221,709	20,870,563
Total operating revenues	<u>1,469,766,222</u>	<u>1,343,066,254</u>
Operating Expenses		
Compensation and benefits	1,176,462,926	1,079,722,671
Supplies and services	551,346,221	528,200,729
Scholarships and fellowships	51,331,763	46,529,579
Insurance plan	115,418,625	100,778,639
Depreciation	118,549,997	103,720,459
Total operating expenses	<u>2,013,109,532</u>	<u>1,858,952,077</u>
Operating income (loss)	<u>(543,343,310)</u>	<u>(515,885,823)</u>
Non-Operating Revenues (Expenses)		
State appropriations	423,376,315	396,026,328
Property and sales tax	11,023,826	10,069,710
Federal grants	59,784,187	54,515,290
State and local grants	13,038,695	9,282,971
Non-governmental grants	1,546,480	1,800,571
Gifts	72,530,232	52,349,176
Investment income (net)	19,047,116	52,714,403
Interest on capital asset-related debt	(27,537,889)	(27,935,475)
Gain (loss) on disposal of assets	(2,603,581)	(2,393,047)
Other	4,610,759	4,629,557
Net non-operating revenues	<u>574,816,140</u>	<u>551,059,484</u>
Income before other revenues and expenses	<u>31,472,830</u>	<u>35,173,661</u>
Other Changes in Net Assets		
Write-off of assets	(188,661)	(1,804)
Capital appropriations	67,818,889	5,062,606
Capital grants and gifts	28,813,032	50,378,208
Bond proceeds from Act 1282 of 2005 (Note 7)	16,984,637	-
Adjustments to prior year revenues and expenses	(125,086)	5,664,116
Other	1,177,925	321,053
Interagency transfer (Note 20)	(30,236,000)	1,245,000
Total other revenues and expenses	<u>84,244,736</u>	<u>62,669,179</u>
Increase (decrease) in net assets	<u>115,717,566</u>	<u>97,842,840</u>
Net Assets, beginning of year - restated	<u>1,565,165,668</u>	<u>1,467,322,828</u>
Net Assets, end of year	<u>\$1,680,883,234</u>	<u>\$1,565,165,668</u>

See accompanying notes.

UNIVERSITY OF ARKANSAS SYSTEM • CONSOLIDATED FINANCIAL STATEMENT FY2008

UNIVERSITY OF ARKANSAS

Statement of Cash Flows - Direct Method

For The Year Ended June 30, 2008 with comparative figures for 2007

	Year Ended	
	June 30, 2008	June 30, 2007
Cash Flows from Operating Activities		
Student tuition and fees (net of scholarships)	\$ 185,788,328	\$ 169,375,479
Patient and insurance payments	768,343,000	709,873,000
Federal and county appropriations	15,876,740	19,358,974
Grants and contracts	258,728,472	246,062,675
Collection of loans and interest	5,601,470	5,419,981
Insurance plan receipts	35,603,553	33,933,725
Auxiliary enterprise revenues:		
Athletics	54,827,297	54,400,358
Housing and food service	35,861,116	30,632,137
Bookstore	20,455,088	20,173,445
Other auxiliary enterprises	15,574,906	15,367,042
Payments to employees	(985,864,191)	(929,091,317)
Payment of employee benefits	(159,206,047)	(144,170,098)
Payments to suppliers	(550,126,851)	(549,472,780)
Loans issued to students	(4,128,915)	(5,503,805)
Scholarships and fellowships	(51,351,165)	(46,571,969)
Payments of insurance plan expenses	(114,103,962)	(99,712,785)
Other receipts (payments)	62,856,127	52,210,320
Net cash provided (used) by operating activities	(405,265,034)	(417,715,618)
Cash Flows from Noncapital Financing Activities		
State appropriations	419,773,270	397,790,305
Property and sales tax	10,123,329	9,973,814
Gifts and grants for other than capital purposes	154,820,676	119,017,169
Loan proceeds	-	292,000
Direct Lending, Plus and FFEL loan receipts	78,098,647	73,101,494
Direct Lending, Plus and FFEL loan payments	(78,080,988)	(73,002,148)
Other agency funds - net	803,804	(674,249)
Repayments of loans	-	432,610
Other	3,843,796	9,499,428
Net cash provided (used) by noncapital financing activities	589,382,534	536,430,423
Cash Flows from Capital and Related Financing Activities		
Proceeds from capital debt	74,822,412	-
Capital appropriations	44,260,452	4,935,145
Capital grants and gifts	2,709,644	26,927,166
Property taxes - capital allocation	5,604	20,331
Proceeds from sale of capital assets	7,109	1,013,755
Bond Proceeds from Act 1282 of 2005 (Note 7)	16,016,270	-
Purchases of capital assets	(274,435,444)	(291,354,816)
Principal paid on capital debt and lease	(44,969,108)	(39,398,861)
Interest and fees paid on capital debt and lease	(37,122,986)	(34,976,282)
Deposit with trustee	5,346,452	78,741,297
Other	462,709	(28,322)
Net cash provided (used) by capital & related financing activities	(212,896,886)	(254,120,587)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	353,807,735	498,116,459
Investment income (net of fees)	10,621,156	17,049,994
Purchases of investments	(274,557,351)	(357,558,675)
Net cash provided (used) by investing activities	89,871,540	157,607,778
Net increase in cash	61,092,154	22,201,996
Cash, beginning of year	129,758,484	107,514,489
Cash, beginning of year adjustment	-	41,999
Cash, end of year	\$ 190,850,638	\$ 129,758,484

UNIVERSITY OF ARKANSAS SYSTEM • CONSOLIDATED FINANCIAL STATEMENT FY2008

UNIVERSITY OF ARKANSAS

Statement of Cash Flows - Direct Method - Continued

For The Year Ended June 30, 2008 with comparative figures for 2007

	Year Ended	
	June 30, 2008	June 30, 2007
Reconciliation of net operating revenues to net cash provided by operating activities:		
Operating income (loss)	\$ (543,343,310)	\$ (515,885,823)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	118,549,997	103,720,459
Change in assets and liabilities:		
Receivables, net	(15,155,389)	(14,951,664)
Inventories	(19,728)	(2,064,264)
Deposits with others	142,000	-
Prepaid expenses and other assets	395,868	1,805,316
Accounts payable	11,990,385	13,632,357
Deferred revenue	2,712,275	(8,371,252)
Loans to students and employees	(1,231,823)	50,295
Compensated absences	4,721,135	4,237,548
OPEB liability	18,618,778	-
Other liabilities	(2,645,222)	111,410
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ (405,265,034)	\$ (417,715,618)
Non-Cash Transactions		
Capital gifts	25,820,944	24,309,748
Equipment acquired by incurring capital lease obligations	11,177,000	10,370,239
Bond issuance costs & underwriter's discounts paid directly from bond proceeds	529,300	-
Fixed asset acquisition paid for by State of Arkansas	18,937,379	2,502,780
Payments to bond escrow directly from bond proceeds	-	6,223,205
Fixed asset acquisition directly from bond/note proceeds	9,292,000	-
Interest on long-term debt paid directly from deposits with trustees	1,448,198	-
Payment of long-term debt principal paid directly from University of Arkansas Foundation, Inc. accounts	3,760,655	-
Insurance proceeds remitted directly to Arkansas Department of Finance and Administration	27,628	-
Other equipment noncash additions	33,107	-

See accompanying notes.

RELATED PRIVATE ENTITIES

UNIVERSITY OF ARKANSAS FOUNDATION, INC.
Consolidated Statement of Financial Position
June 30, 2008 and 2007

	2008	2007
ASSETS		
Contributions receivable, net of allowance for doubtful accounts of \$627,500 and \$616,500 in 2008 and 2007, respectively	\$ 45,353,912	\$ 46,200,138
Interest receivable	2,731,858	2,148,834
Notes and other receivables	122,627	135,201
Investments	644,774,668	656,170,311
Cash value of life insurance	579,509	499,482
Land	402,752	521,752
Buildings and equipment, net of accumulated depreciation of \$574,923 and \$571,168 in 2008 and 2007, respectively	100,448	39,801
TOTAL ASSETS	<u>\$ 694,065,774</u>	<u>\$ 705,715,519</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 3,845,654	\$ 5,358,676
Annuity obligations	18,362,092	19,606,381
TOTAL LIABILITIES	<u>22,207,746</u>	<u>24,965,057</u>
NET ASSETS		
Unrestricted	68,443,630	65,602,362
Temporarily restricted	120,779,568	126,839,672
Permanently restricted	482,634,830	488,308,428
TOTAL NET ASSETS	<u>671,858,028</u>	<u>680,750,462</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 694,065,774</u>	<u>\$ 705,715,519</u>

UNIVERSITY OF ARKANSAS SYSTEM • CONSOLIDATED FINANCIAL STATEMENT FY2008

UNIVERSITY OF ARKANSAS FOUNDATION, INC. Consolidated Statement of Activities Years Ended June 30, 2008 and 2007

	Year Ended June 30, 2008				Year Ended June 30, 2007			
	Unrestricted	Temporarily Restricted	Permanently Restricted	TOTAL	Unrestricted	Temporarily Restricted	Permanently Restricted	TOTAL
Revenues, Gains and Other Support								
Contributions	\$14,532,220	\$34,219,015	\$20,799,614	\$69,550,849	\$17,544,628	\$31,739,706	\$17,284,581	\$66,568,915
Sponsored programs	1,596,271	707,217	1,333	2,304,821	1,746,276	356,681	2,365	2,105,322
Interest and dividends	7,391,747	7,732,579	385,285	15,509,611	6,580,267	6,562,517	385,281	13,528,065
Net realized and unrealized gains (losses) on long-term investments	3,904,585	11,673,539	(25,098,956)	(9,520,832)	6,545,859	12,114,415	60,642,271	79,302,545
Other	288,075	136,698		424,773	246,930	173,282	2,684	422,896
Net assets released from restrictions	60,409,296	(60,409,296)		-	52,380,284	(52,380,284)		-
Total revenues, gains & other support	\$88,122,194	(\$5,940,248)	(\$3,912,724)	\$78,269,222	\$85,044,244	(\$1,433,683)	\$78,317,182	\$161,927,743
Expenses and Losses:								
Program services:								
Construction	28,961,869			28,961,869	20,809,084			20,809,084
Research	9,079,492			9,079,492	10,305,664			10,305,664
Faculty/staff support	12,313,504			12,313,504	13,697,563			13,697,563
Scholarships and awards	6,961,894			6,961,894	6,238,241			6,238,241
Public/staff relations	3,309,574			3,309,574	3,036,574			3,036,574
Equipment	4,161,863			4,161,863	7,572,801			7,572,801
Sponsored programs	1,880,172			1,880,172	2,311,102			2,311,102
Other	16,130,492			16,130,492	13,454,353			13,454,353
Total program services	82,798,860	-	-	82,798,860	77,425,382	-	-	77,425,382
Supporting services:								
Management and general	490,018			490,018	367,516			367,516
Fund raising	1,987,070			1,987,070	2,073,758			2,073,758
Change in value of split-interest agreements	-		1,605,194	1,605,194			1,939,795	1,939,795
Provision for loss on uncollectible pledges	4,978	119,856	155,680	280,514	25,376	423,380	30,570	479,326
Total supporting services	2,482,066	119,856	1,760,874	4,362,796	2,466,650	423,380	1,970,365	4,860,395
Total expenses and losses	85,280,926	119,856	1,760,874	87,161,656	79,892,032	423,380	1,970,365	82,285,777
Change in Net Assets	2,841,268	(6,060,104)	(5,673,598)	(8,892,434)	5,152,212	(1,857,063)	76,346,817	79,641,966
Net Assets, beginning of year	65,602,362	126,839,672	488,308,428	680,750,462	60,450,150	128,696,735	411,961,611	601,108,496
Net Assets, end of year	\$68,443,630	\$120,779,568	\$482,634,830	\$671,858,028	\$65,602,362	\$126,839,672	\$488,308,428	\$680,750,462

UNIVERSITY OF ARKANSAS FAYETTEVILLE CAMPUS FOUNDATION, INC.
Statement 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



The Fulbright Peace Fountain, dedicated in front of Vol Walker Hall in 1998, has become a central meeting place at the University of Arkansas for students between classes.

UNIVERSITY OF ARKANSAS SYSTEM • CONSOLIDATED FINANCIAL STATEMENT FY2008

UNIVERSITY OF ARKANSAS FAYETTEVILLE CAMPUS FOUNDATION, INC.

Statement of Activities

Years Ended June 30, 2008 and 2007

	Year Ended June 30, 2008				Year Ended June 30, 2007			
	Unrestricted	Temporarily Restricted	Permanently Restricted	TOTAL	Unrestricted	Temporarily Restricted	Permanently Restricted	TOTAL
Revenues, Gains and Other Support								
Interest and dividends	\$ -	\$ 3,659,757	\$ 362,248	\$ 4,022,005	\$ -	\$ 3,750,059	\$ 511,682	\$ 4,261,741
Net realized and unrealized gains (losses) on long-term 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 revenues, gains & 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:								
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

SUPPLEMENTAL INFORMATION

UNIVERSITY OF ARKANSAS Statement of Net Assets by Campus At June 30, 2008

ASSETS	UAF	UAFS	UALR	UAM	UAMS	UAPB
Current						
Cash and cash equivalents	59,495,763	1,649,942	22,668,686	2,734,828	50,490,000	8,307,052
Investments	57,120,010	5,576,731	13,262,123	1,245,817	166,720,000	2,000,000
Accounts receivable	28,144,545	5,307,964	12,470,708	2,745,651	23,530,000	4,020,072
Patient accounts receivable					88,492,000	
Inventories	5,337,424	997,678	124,406	708,919	8,545,000	30,858
Deposits and funds held in trust by others	108,157		100,002			
Notes receivable	3,205,873		50,000	78,234	2,686,000	809,420
Other assets	3,933,965	117,402	590,176	281,871	2,157,000	
Total current assets	157,345,737	13,649,717	49,266,101	7,795,320	342,620,000	15,167,402
Non-Current						
Cash and cash equivalents		3,607,077	9,258,675	3,724,089		5,820,066
Investments	87,297,827	12,546,640	8,457,847	4,934,178	73,820,000	1,352,708
Notes receivable	12,875,889		105,000	778,819	20,238,000	
Deposits and funds held in trust by others	19,661,955	49,588	516,125	1,815,007	28,760,000	373,999
Other non-current assets	1,312,412				3,399,000	
Capital assets	799,337,084	107,277,759	155,643,449	32,530,622	625,458,000	80,576,720
Total non-current assets	920,485,167	123,481,064	173,981,096	43,782,715	751,675,000	88,123,493
TOTAL ASSETS	1,077,830,904	137,130,781	223,247,197	51,578,035	1,094,295,000	103,290,895
LIABILITIES						
Current						
Accounts payable and other accrued liabilities	35,549,275	3,014,075	3,837,432	701,031	91,985,000	1,632,486
Deferred revenue	24,611,717	328,347	94,213	849,904	2,396,000	406,017
Funds held in trust for others	1,139,398	113,704	278,651	327,417	492,000	1,490,012
Liability for future insurance claims						
Estimated third party payor settlements					12,049,000	
Compensated absences payable - current portion	1,001,431	156,388	278,888	63,044	2,106,000	124,794
Liability for other post retirement benefits - current	865,349	14,517	215,500	81,900	686,000	87,500
Bonds, notes, capital leases payable - current	14,790,627	2,620,000	4,091,150	450,000	12,608,000	1,677,005
Total current liabilities	77,957,797	6,247,031	8,795,834	2,473,296	122,322,000	5,417,814
Non-Current						
Deferred revenues, deposits and other	4,000		95,923	-	110,000	332,987
Compensated absences payable	15,421,962	1,072,130	3,992,965	899,861	36,071,000	1,888,381
Liability for other post retirement benefits	4,225,609	75,745	1,533,600	387,100	9,115,000	659,100
Bonds, notes, capital leases payable	344,853,373	56,650,000	45,786,619	11,925,000	288,487,000	27,254,970
Total non-current liabilities	364,504,944	57,797,875	51,409,107	13,211,961	333,783,000	30,135,438
TOTAL LIABILITIES	442,462,741	64,044,906	60,204,941	15,685,257	456,105,000	35,553,252
NET ASSETS						
Invested in capital assets, net of related debt	450,298,071	48,007,759	106,509,240	21,158,295	342,789,000	51,644,745
Restricted						
Non-Expendable	37,174,746	259,294	6,799,583	1,303,395	30,337,000	2,596,311
Expendable	66,540,601	5,313,934	22,392,764	7,119,826	82,045,000	10,669,356
Unrestricted	81,354,745	19,504,888	27,340,669	6,311,262	183,019,000	2,827,231
TOTAL NET ASSETS	635,368,163	73,085,875	163,042,256	35,892,778	638,190,000	67,737,643

Key

UAF	UA, Fayetteville	UAM	UA at Monticello
UAFS	UA at Fort Smith	UAMS	UA for Medical Sciences
UALR	UA at Little Rock	UAPB	UA at Pine Bluff

UNIVERSITY OF ARKANSAS SYSTEM • CONSOLIDATED FINANCIAL STATEMENT FY2008

UNIVERSITY OF ARKANSAS Statement of Net Assets by Campus At June 30, 2008

ASSETS	CCCUA	PCCUA	UACCB	UACCH	UACCM	ASMSA	SYSTEM	TOTAL
Current								
Cash and cash equivalents	5,710,689	3,142,032	997,950	1,427,021	1,689,933	4,273,470	4,559,425	167,146,791
Investments	88,370	1,757,175	1,273,952	100,000	2,582,206		10,079,563	261,805,947
Accounts receivable	527,928	2,454,799	1,663,922	655,580	415,266	10,781	9,354,699	91,301,915
Patient accounts receivable								88,492,000
Inventories		47,033	212,332	8,940	218,303			16,230,893
Deposits and funds held in trust by others	63,627		258					272,044
Notes receivable								6,829,527
Other assets	35,853	2,768	65,320	80,449	3,400	36,872	35,310	7,340,386
Total current assets	6,426,467	7,403,807	4,213,734	2,271,990	4,909,108	4,321,123	24,028,997	639,419,503
Non-Current								
Cash and cash equivalents		1,100,000	50,000			143,940		23,703,847
Investments								188,409,200
Notes receivable								33,997,708
Deposits and funds held in trust by others			155,458	153,031	467,028			51,952,191
Other non-current assets								4,711,412
Capital assets	10,508,263	7,860,096	11,962,956	10,252,484	9,758,517	630,268	4,103,595	1,855,899,813
Total non-current assets	10,508,263	8,960,096	12,168,414	10,405,515	10,225,545	774,208	4,103,595	2,158,674,171
TOTAL ASSETS	16,934,730	16,363,903	16,382,148	12,677,505	15,134,653	5,095,331	28,132,592	2,798,093,674
LIABILITIES								
Current								
Accounts payable and other accrued liabilities	126,955	1,193,168	259,624	94,493	186,200	313,628	2,218,788	141,112,155
Deferred revenue	132,601	220,646	24,459		78,236			29,142,140
Funds held in trust for others	22,287	31,925	11,279	64,213	80,549	20,033		4,071,468
Liability for future insurance claims							10,705,826	10,705,826
Estimated third party payor settlements								12,049,000
Compensated absences payable - current portion	12,162	39,281	15,021	28,522	15,107	8,496	14,808	3,863,942
Liability for other post retirement benefits - current		237,153	800			600	14,551	2,203,870
Bonds, notes, capital leases payable - current	194,504	449,994	332,785	345,000	257,800		227,270	38,044,135
Total current liabilities	488,509	2,172,167	643,968	532,228	617,892	342,757	13,181,243	241,192,536
Non-Current								
Deferred revenues, deposits and other		445,891	-					988,801
Compensated absences payable	231,071	409,344	235,346	209,155	209,851	70,599	384,186	61,095,851
Liability for other post retirement benefits	8,608	98,568	111,800	17,477	20,110	98,800	63,391	16,414,908
Bonds, notes, capital leases payable	6,080,480	4,068,645	3,560,263	4,950,000	3,718,800		183,194	797,518,344
Total non-current liabilities	6,320,159	5,022,448	3,907,409	5,176,632	3,948,761	169,399	630,771	876,017,904
TOTAL LIABILITIES	6,808,668	7,194,615	4,551,377	5,708,860	4,566,653	512,156	13,812,014	1,117,210,440
NET ASSETS								
Invested in capital assets, net of related debt	4,233,279	3,341,457	8,069,909	4,957,484	6,360,862	630,268	3,693,131	1,051,693,500
Restricted								
Non-Expendable	99,605							78,569,934
Expendable	4,733,026	1,689,862	212,296	153,031	306,017	71,567		201,247,280
Unrestricted	1,060,152	4,137,969	3,548,566	1,858,130	3,901,121	3,881,340	10,627,447	349,372,520
TOTAL NET ASSETS	10,126,062	9,169,288	11,830,771	6,968,645	10,568,000	4,583,175	14,320,578	1,680,883,234

Key			
CCCUA	Cossatot Community College UA	UACCM	UA Community College at Morrilton
PCCUA	Phillips Community College UA	ASMSA	AR School for Mathematics, Sciences & the Arts
UACCB	UA Community College at Batesville	SYSTEM	UA System Office
UACCH	UA Community College at Hope		

UNIVERSITY OF ARKANSAS SYSTEM • CONSOLIDATED FINANCIAL STATEMENT FY2008

UNIVERSITY OF ARKANSAS Statement of Revenues, Expenses and Changes in Net Assets by Campus For the Year Ended June 30, 2008

	UAF	UAFS	UALR	UAM	UAMS	UAPB
Operating Revenues						
Student tuition & fees	86,687,211	14,096,865	46,883,946	3,978,186	19,951,000	5,890,808
Patient services					765,358,000	
Federal and county appropriations	15,932,245					
Federal grants and contracts	28,814,895	1,411,999	10,035,719	2,552,213	78,311,000	12,531,700
State and local grants and contracts	16,034,187	1,941,853	11,104,339	1,308,530	14,219,000	2,948,101
Non-governmental grants and contracts	17,127,763	1,123,970	1,850,734	785,293	44,473,000	61,712
Sales & services of educational departments	21,800,428	110,822	2,807,640	134,287	25,443,000	176,102
Insurance plan						
Auxiliary enterprises						
Athletics	48,936,555	68,585	3,745,294	362,927		1,749,052
Housing and food service	18,796,356	1,361,439	2,494,923	1,327,547	3,905,000	7,656,752
Bookstore	14,344,969	2,058,827	403,851	1,438,671	665,000	151,100
Other auxiliary enterprises	10,456,941	306,320	1,869,020	388,960	2,747,000	192,038
Other operating revenues	14,953,244	580,501	1,407,720	555,816	9,802,000	2,220,382
Total operating revenues	293,884,794	23,061,181	82,603,186	12,832,430	964,874,000	33,577,747
Operating Expenses						
Compensation and benefits	338,747,274	34,885,410	105,536,429	23,074,122	657,101,000	35,765,463
Supplies and services	155,944,448	14,595,842	30,041,581	10,358,020	299,028,000	21,020,285
Scholarships and fellowships	17,914,425	2,593,815	16,153,700	1,817,310	244,000	5,179,528
Insurance plan						
Depreciation	61,515,376	4,772,936	9,645,443	2,269,233	31,434,000	5,138,146
Total operating expenses	574,121,523	56,848,003	161,377,153	37,518,685	987,807,000	67,103,422
Operating income (loss)	(280,236,729)	(33,786,822)	(78,773,967)	(24,686,255)	(22,933,000)	(33,525,675)
Non-Operating Revenues (Expenses)						
State appropriations	199,588,453	23,298,842	66,494,380	17,839,682	45,763,000	27,002,048
Property and sales tax		5,700,152				
Federal grants	16,354,809	7,540,748	11,261,459	5,289,150		7,455,894
State and local grants	9,079,460	1,138,427	1,605,988	659,547		
Non-governmental grants	820,355		726,125			
Gifts	54,831,877		2,741,430	5,088	13,864,000	964,884
Investment income (net)	4,717,945	886,567	1,635,323	308,136	9,814,000	3,782
Interest on capital asset-related debt	(11,267,082)	(2,617,160)	(2,135,544)	(542,510)	(8,631,000)	(1,239,841)
Gain (loss) on disposal of assets	(1,368,485)	(415,708)	(595,605)	(697)	(115,000)	(92,828)
Other	3,879,056	28,828	(3,000)	(2,070)		500,000
Net non-operating revenues	276,636,388	35,560,696	81,730,556	23,556,326	60,695,000	34,593,939
Income before other revenues & expenses	(3,600,341)	1,773,874	2,956,589	(1,129,929)	37,762,000	1,068,264
Other Changes in Net Assets						
Write-off of assets						
Capital appropriations	7,561,776	1,832,940	4,100,000	3,832,927	47,454,000	685,312
Capital grants and gifts	17,465,955	232,200	3,654	218,196	10,281,000	512,088
Bond proceeds from Act 1282 of 2005	427,883	1,933,557	208,856	938,641	12,730,000	133,432
Adjustments to prior year revenues & expenses	-		(47,819)	(135,195)		32,578
Other	1,192,018	347,030	(1,256,094)	-		410,508
Interagency transfer	-			-	(30,236,000)	
Total other revenues and expenses	26,647,632	4,345,727	3,008,597	4,854,569	40,229,000	1,773,918
Increase (decrease) in net assets	23,047,291	6,119,601	5,965,186	3,724,640	77,991,000	2,842,182
Net Assets, beginning of year - restated	612,320,872	66,966,274	157,077,070	32,168,138	560,199,000	64,895,461
Net Assets, end of year	635,368,163	73,085,875	163,042,256	35,892,778	638,190,000	67,737,643

UNIVERSITY OF ARKANSAS SYSTEM • CONSOLIDATED FINANCIAL STATEMENT FY2008

UNIVERSITY OF ARKANSAS Statement of Revenues, Expenses and Changes in Net Assets by Campus For the Year Ended June 30, 2008

	CCCUA	PCCUA	UACCB	UACCH	UACCM	ASMSA	SYSTEM	Elimination	TOTAL
Operating Revenues									
Student tuition & fees	903,494	1,031,288	1,213,787	1,194,790	2,053,717				183,885,092
Patient services									765,358,000
Federal and county appropriations									15,932,245
Federal grants and contracts	1,265,595	3,660,295	846,580	914,634	547,530				140,892,160
State and local grants and contracts	575,648	1,594,216	344,828	434,236	666,379	886,521			52,057,838
Non-governmental grants and contracts	125,953	50,000			193,977	515,198			66,307,600
Sales & services of educational departments	28,584	29,648		10,823	49,070		2,210,478		52,800,882
Insurance plan							104,544,157	(69,160,153)	35,384,004
Auxiliary enterprises									
Athletics									54,862,413
Housing and food service		73,372			109,971				35,725,360
Bookstore		35,759	465,107		645,864				20,209,148
Other auxiliary enterprises		20,535	80,203	44,686	24,068				16,129,771
Other operating revenues	251,014		110,222	47,848	121,272	171,690			30,221,709
Total operating revenues	3,150,288	6,495,113	3,060,727	2,647,017	4,411,848	1,573,409	106,754,635	(69,160,153)	1,469,766,222
Operating Expenses									
Compensation and benefits	6,640,858	13,391,723	6,564,002	6,446,100	7,751,294	5,224,958	4,494,446	(69,160,153)	1,176,462,926
Supplies and services	2,503,149	5,089,825	2,586,322	1,876,166	3,227,519	3,945,641	1,129,423		551,346,221
Scholarships and fellowships	1,240,721	1,548,565	1,235,313	2,283,064	1,121,322				51,331,763
Insurance plan							115,418,625		115,418,625
Depreciation	401,191	958,656	814,224	500,447	588,048	253,722	258,575		118,549,997
Total operating expenses	10,785,919	20,988,769	11,199,861	11,105,777	12,688,183	9,424,321	121,301,069	(69,160,153)	2,013,109,532
Operating income (loss)	(7,635,631)	(14,493,656)	(8,139,134)	(8,458,760)	(8,276,335)	(7,850,912)	(14,546,434)	-	(543,343,310)
Non-Operating Revenues (Expenses)									
State appropriations	4,432,711	10,344,587	4,677,475	6,199,311	5,794,027	8,206,858	3,734,941		423,376,315
Property and sales tax	1,027,124	1,742,886	1,176,519	606,793	770,352				11,023,826
Federal grants	1,873,186	2,860,314	2,658,363	2,099,572	2,390,692				59,784,187
State and local grants	321,373		233,900						13,038,695
Non-governmental grants									1,546,480
Gifts	122,953								72,530,232
Investment income (net)	63,133	64,780	68,187	20,618	146,941		1,317,704		19,047,116
Interest on capital asset-related debt	(245,130)	(210,186)	(182,259)	(256,337)	(190,495)		(20,345)		(27,537,889)
Gain (loss) on disposal of assets	(10,511)	(953)	(5,498)				1,704		(2,603,581)
Other		152,209			(934)		56,670		4,610,759
Net non-operating revenues	7,584,839	14,953,637	8,626,687	8,669,957	8,910,583	8,206,858	5,090,674	-	574,816,140
Income before other revenues & expenses	(50,792)	459,981	487,553	211,197	634,248	355,946	(9,455,760)	-	31,472,830
Other Changes in Net Asests									
Write-off of assets		(188,661)							(188,661)
Capital appropriations	850,000	1,100,000		200,000		200,000	1,934		67,818,889
Capital grants and gifts		39,291			38,500		22,148		28,813,032
Bond proceeds from Act 1282 of 2005	375,496	185,985					50,787		16,984,637
Adjustments to prior year revenues & expenses					25,350				(125,086)
Other		(37,312)	4,258	517,517					1,177,925
Interagency transfer									(30,236,000)
Total other revenues and expenses	1,225,496	1,099,303	4,258	717,517	63,850	200,000	74,869	-	84,244,736
Increase (decrease) in net assets	1,174,704	1,559,284	491,811	928,714	698,098	555,946	(9,380,891)	-	115,717,566
Net Assets, beginning of year - restated	8,951,358	7,610,004	11,338,960	6,039,931	9,869,902	4,027,229	23,701,469		1,565,165,668
Net Assets, end of year	10,126,062	9,169,288	11,830,771	6,968,645	10,568,000	4,583,175	14,320,578	-	1,680,883,234

UNIVERSITY OF ARKANSAS SYSTEM • CONSOLIDATED FINANCIAL STATEMENT FY2008

UNIVERSITY OF ARKANSAS Statement of Cash Flows - Direct Method - By Campus For the Year Ended June 30, 2008

	UAF	UAFS	UALR	UAM	UAMS	UAPB
Cash Flows from Operating Activities						
Student tuition and fees (net of scholarships)	89,833,894	12,945,838	46,280,145	3,721,326	20,756,000	5,913,892
Patient and insurance payments					768,343,000	
Federal and county appropriations	15,876,740					
Grants and contracts	61,863,039	4,331,480	19,999,913	4,593,719	138,356,000	17,307,774
Collection of loans and interest	1,947,499	40		113,261	3,507,000	33,670
Insurance plan receipts						
Auxiliary enterprise revenues:						
Athletics	48,390,349	68,585	4,038,114	375,816		1,954,433
Housing and food service	18,851,005	1,379,731	2,494,678	1,358,502	3,917,000	7,676,931
Bookstore	14,719,039	2,076,820	403,851	1,375,960	665,000	151,693
Other auxiliary enterprises	10,399,572	309,503	1,389,091	381,798	2,741,000	192,038
Payments to employees	(266,995,326)	(27,502,568)	(84,294,067)	(17,826,984)	(517,693,000)	(33,972,644)
Payment of employee benefits	(65,505,664)	(7,172,982)	(17,817,146)	(4,700,145)	(121,564,000)	(407,342)
Payments to suppliers	(155,390,480)	(14,007,683)	(29,521,474)	(10,332,835)	(299,935,000)	(20,999,209)
Loans issued to students	(3,073,506)			(110,709)	(945,000)	300
Scholarships and fellowships	(17,914,425)	(2,593,815)	(16,153,700)	(1,838,672)	(244,000)	(5,179,528)
Payments of insurance plan expenses						
Other receipts (payments)	35,539,854	592,660	3,930,023	695,644	16,913,000	2,259,580
Net cash provided (used) by operating activities	(211,458,410)	(29,572,391)	(69,250,572)	(22,193,319)	14,817,000	(25,068,412)
Cash Flows from Noncapital Financing Activities						
State appropriations	199,588,453	23,298,842	66,494,380	17,839,682	42,334,000	27,002,048
Property and sales tax		5,058,740				
Gifts and grants for other than capital purposes	78,338,512	8,707,375	16,335,002	5,953,255	24,146,000	8,831,286
Loan proceeds						
Direct Lending, Plus and FFEL loan receipts			51,474,560	9,400,238		15,311,281
Direct Lending, Plus and FFEL loan payments			(51,474,560)	(9,394,048)		(15,299,812)
Other agency funds - net	139,691	244,928	10,571	6,205	287,000	82,937
Repayments of loans						
Other	4,005,370	(401,193)	(22,825)			
Net cash provided (used) by noncapital financing activities	282,072,026	36,908,692	82,817,128	23,805,332	66,767,000	35,927,740
Cash Flows from Capital and Related Financing Activities						
Proceeds from capital debt	62,750,075		2,541,873	3,832,927		2,000,000
Capital appropriations	7,561,776	956,430	4,100,000		28,605,000	685,312
Capital grants and gifts	2,309,644					400,000
Property taxes - capital allocation		5,604				
Proceeds from sale of capital assets		628		4,130		
Bond Proceeds from Act 1282 of 2005	427,883	1,933,557	208,856	240,000	12,730,000	133,432
Purchases of capital assets	(111,450,509)	(8,072,275)	(8,720,445)	(8,296,529)	(130,186,000)	(5,415,698)
Principal paid on capital debt and lease	(12,017,041)	(2,370,000)	(6,412,180)	(435,000)	(18,431,000)	(1,643,173)
Interest and fees paid on capital debt and lease	(15,476,770)	(2,617,160)	(2,147,972)	(548,010)	(13,979,000)	(1,239,841)
Deposit with trustee	4,554,115		792,337			
Other						500,000
Net cash provided (used) by capital & related financing act	(61,340,827)	(10,163,216)	(9,637,531)	(5,202,482)	(121,261,000)	(4,579,968)
Cash Flows from Investing Activities						
Proceeds from sales and maturities of investments	47,600,000	56,067,081	739,710	9,956,909	203,839,000	1,052,896
Investment income (net of fees)	2,718,279	920,704	2,386,727	389,858	3,009,000	82,939
Purchases of investments	(45,000,000)	(51,253,584)	(1,638,953)	(3,823,978)	(145,181,000)	(3,206,884)
Net cash provided (used) by investing activities	5,318,279	5,734,201	1,487,484	6,522,789	61,667,000	(2,071,049)
Net increase in cash	14,591,068	2,907,286	5,416,509	2,932,320	21,990,000	4,208,311
Cash, beginning of year	44,904,695	2,349,733	26,510,852	3,526,597	28,500,000	9,918,807
Cash, beginning of year adjustment						
Cash, end of year	59,495,763	5,257,019	31,927,361	6,458,917	50,490,000	14,127,118

UNIVERSITY OF ARKANSAS SYSTEM • CONSOLIDATED FINANCIAL STATEMENT FY2008

UNIVERSITY OF ARKANSAS Statement of Cash Flows - Direct Method - By Campus For the Year Ended June 30, 2008

	CCCUA	PCCUA	UACCB	UACCH	UACCM	ASMSA	SYSTEM	Elimination	TOTAL
Cash Flows from Operating Activities									
Student tuition and fees (net of scholarships)	921,373	1,037,117	927,958	1,382,275	2,068,510				185,788,328
Patient and insurance payments									768,343,000
Federal and county appropriations									15,876,740
Grants and contracts	2,087,816	4,841,051	1,031,500	1,438,053	1,476,408	1,401,719			258,728,472
Collection of loans and interest									5,601,470
Insurance plan receipts							105,438,024	(69,834,471)	35,603,553
Auxiliary enterprise revenues:									-
Athletics									54,827,297
Housing and food service		73,372			109,897				35,861,116
Bookstore		35,759	362,320		664,646				20,455,088
Other auxiliary enterprises		20,535	80,203	37,098	24,068				15,574,906
Payments to employees	(5,022,715)	(9,705,743)	(4,906,674)	(4,611,869)	(5,813,279)	(4,003,056)	(3,516,266)		(985,864,191)
Payment of employee benefits	(1,593,422)	(3,120,094)	(1,507,678)	(1,760,380)	(1,881,013)	(1,124,861)	(885,791)	69,834,471	(159,206,047)
Payments to suppliers	(2,453,048)	(4,901,068)	(2,570,179)	(1,874,267)	(3,235,956)	(3,786,573)	(1,119,079)		(550,126,851)
Loans issued to students									(4,128,915)
Scholarships and fellowships	(1,241,297)	(1,548,565)	(1,232,777)	(2,283,064)	(1,121,322)				(51,351,165)
Payments of insurance plan expenses							(114,103,962)		(114,103,962)
Other receipts (payments)	273,343	32,336	114,414	58,671	170,341	170,708	2,105,553		62,856,127
Net cash provided (used) by operating activities	(7,027,950)	(13,235,300)	(7,700,913)	(7,613,483)	(7,537,700)	(7,342,063)	(12,081,521)	-	(405,265,034)
Cash Flows from Noncapital Financing Activities									
State appropriations	4,604,746	10,344,587	4,331,394	6,199,311	5,794,027	8,206,859	3,734,941		419,773,270
Property and sales tax	928,071	1,601,760	1,162,524	651,882	720,352				10,123,329
Gifts and grants for other than capital purposes	2,326,481	2,868,831	2,823,670	2,099,572	2,390,692				154,820,676
Loan proceeds									-
Direct Lending, Plus and FFEL loan receipts				296,702	1,615,866				78,098,647
Direct Lending, Plus and FFEL loan payments				(296,702)	(1,615,866)				(78,080,988)
Other agency funds - net	(5,554)	5,056	1,506	11,811	20,374	(721)			803,804
Repayments of loans									-
Other		212,484	(1,230)				51,190		3,843,796
Net cash provided (used) by noncapital financing activities	7,853,744	15,032,718	8,317,864	8,962,576	8,925,445	8,206,138	3,786,131	-	589,382,534
Cash Flows from Capital and Related Financing Activities									
Proceeds from capital debt	2,000,000		1,268,048				429,489		74,822,412
Capital appropriations	850,000	1,100,000		200,000		200,000	1,934		44,260,452
Capital grants and gifts									2,709,644
Property taxes - capital allocation									5,604
Proceeds from sale of capital assets					2,351				7,109
Bond Proceeds from Act 1282 of 2005	291,755						50,787		16,016,270
Purchases of capital assets	(457,724)	(451,981)	(271,866)	(267,956)	(449,187)	(341,397)	(53,877)		(274,435,444)
Principal paid on capital debt and lease	(205,812)	(465,872)	(1,570,963)	(330,000)	(260,000)		(828,067)		(44,969,108)
Interest and fees paid on capital debt and lease	(245,817)	(215,604)	(180,855)	(256,337)	(186,580)		(29,040)		(37,122,986)
Deposit with trustee									5,346,452
Other		(37,312)			21				462,709
Net cash provided (used) by capital & related financing act	2,232,402	(70,769)	(755,636)	(654,293)	(893,395)	(141,397)	(428,774)	-	(212,896,886)
Cash Flows from Investing Activities									
Proceeds from sales and maturities of investments	191,891	1,578,216	1,064,823		900,000		30,817,209		353,807,735
Investment income (net of fees)	62,269	64,251	38,705	19,395	65,584		863,445		10,621,156
Purchases of investments		(1,591,757)	(1,550,000)		(1,250,000)		(20,061,195)		(274,557,351)
Net cash provided (used) by investing activities	254,160	50,710	(446,472)	19,395	(284,416)	-	11,619,459	-	89,871,540
Net increase in cash	3,312,356	1,777,359	(585,157)	714,195	209,934	722,678	2,895,295	-	61,092,154
Cash, beginning of year	2,398,333	2,464,673	1,633,107	712,826	1,479,999	3,694,732	1,664,130	-	129,758,484
Cash, beginning of year adjustment									-
Cash, end of year	5,710,689	4,242,032	1,047,950	1,427,021	1,689,933	4,417,410	4,559,425	-	190,850,638

UNIVERSITY OF ARKANSAS SYSTEM • CONSOLIDATED FINANCIAL STATEMENT FY2008

UNIVERSITY OF ARKANSAS Statement of Cash Flows - Direct Method - Continued - By Campus For the Year Ended June 30, 2008

Reconciliation of net operating revenues to net cash provided by operating activities:	UAF	UAFS	UALR	UAM	UAMS	UAPB
Operating income (loss)	(280,236,729)	(33,786,822)	(78,773,967)	(24,686,255)	(22,933,000)	(33,525,675)
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation expense	61,515,376	4,772,936	9,645,443	2,269,233	31,434,000	5,138,146
Change in assets and liabilities:						
Receivables, net	(2,940,428)	(1,000,499)	(1,424,204)	(725,984)	(11,548,000)	1,727,315
Inventories	(785,024)	(100,796)	4,349	(49,666)	917,000	11,315
Deposits with others						
Prepaid expenses & other assets	881,340	56,569	(134,027)	(34,732)	(560,000)	
Accounts payable & other accrued liabilities	1,077,782	282,135	1,405,920	141,306	8,278,000	133,129
Deferred revenue	4,409,047	(12,469)	(2,178,659)	336,600	223,000	516,893
Loans to students & employees	(1,232,156)	333				
Compensated Absences	523,378		455,473	87,179	3,502,000	(44,134)
OPEB Liability	5,090,958	90,262	1,749,100	469,000	9,801,000	746,600
Other liabilities	238,046	125,960			(4,297,000)	227,999
NET CASH PROVIDED BY OPERATING ACTIVITIES	(211,458,410)	(29,572,391)	(69,250,572)	(22,193,319)	14,817,000	(25,068,412)
Non-Cash Transactions						
Capital gifts	15,000,746	232,200	3,654	218,196	10,281,000	57,000
Equipment acquired by incurring capital lease obligations					11,177,000	
Bond issuance costs and underwriter's discounts paid directly from bond proceeds	529,300					
Fixed asset acquisition paid for by State of Arkansas					18,849,000	55,088
Payments to bond escrow directly from bond proceeds						
Fixed asset acquisition directly from bond/note proceeds					9,292,000	
Interest on long-term debt paid directly from deposits with trustees	1,448,198					
Payment of long-term debt principal paid directly from University of Arkansas Foundation, Inc. accounts	3,760,655					
Insurance proceeds remitted directly to Arkansas Department of Finance and Administration						
Other equipment noncash additions						

UNIVERSITY OF ARKANSAS SYSTEM • CONSOLIDATED FINANCIAL STATEMENT FY2008

UNIVERSITY OF ARKANSAS Statement of Cash Flows - Direct Method - Continued - By Campus For the Year Ended June 30, 2008

Reconciliation of net operating revenues to net cash provided by operating activities:	CCCUA	PCCUA	UACCB	UACCH	UACCM	ASMSA	SYSTEM	Elimination	TOTAL
Operating income (loss)	(7,635,631)	(14,493,656)	(8,139,134)	(8,458,760)	(8,276,335)	(7,850,912)	(14,546,434)		(543,343,310)
Adjustments to reconcile net income to net cash provided by operating activities:									
Depreciation expense	401,191	958,656	814,224	500,447	588,048	253,722	258,575		118,549,997
Change in assets and liabilities:									
Receivables, net	374,155	(406,374)	(562,335)	681,218	23,786	(981)	646,942		(15,155,389)
Inventories		(2,551)	(13,694)	6,339	(7,000)				(19,728)
Deposits with others							142,000		142,000
Prepaid expenses & other assets	45,507	5,050	60,341	91,101	564	(13,456)	(2,389)		395,868
Accounts payable & other accrued liabilities	(72,181)	343,689	(33,889)	(14,822)	9,440	172,253	267,623		11,990,385
Deferred revenue	(164,475)	(21,045)	18,003	(492,856)	78,236				2,712,275
Loans to students & employees									(1,231,823)
Compensated Absences	14,876	45,210	42,971	56,373	25,451	(2,089)	14,447		4,721,135
OPEB Liability	8,608	335,721	112,600	17,477	20,110	99,400	77,942		18,618,778
Other liabilities							1,059,773		(2,645,222)
NET CASH PROVIDED BY OPERATING ACTIVITIES	(7,027,950)	(13,235,300)	(7,700,913)	(7,613,483)	(7,537,700)	(7,342,063)	(12,081,521)		(405,265,034)
Non-Cash Transactions									
Capital gifts		6,000					22,148		25,820,944
Equipment acquired by incurring capital lease obligations									11,177,000
Bond issuance costs and underwriter's discounts paid directly from bond proceeds									529,300
Fixed asset acquisition paid for by State of Arkansas		33,291							18,937,379
Payments to bond escrow directly from bond proceeds									-
Fixed asset acquisition directly from bond/note proceeds									9,292,000
Interest on long-term debt paid directly from deposits with trustees									1,448,198
Payment of long-term debt principal paid directly from University of Arkansas Foundation, Inc. accounts									3,760,655
Insurance proceeds remitted directly to Arkansas Department of Finance and Administration							27,628		27,628
Other equipment noncash additions							33,107		33,107

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements for the University of Arkansas ("the University") have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The accompanying notes to the financial statements are an integral part of the financial statements.

Basis of Presentation and Measurement Focus

For financial reporting purposes, the University is considered a special-purpose government engaged in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable. Expenses are recognized in the period in which they are incurred, if measurable, including depreciation.

The University has elected not to apply Financial Accounting Standards Board (FASB) statements and interpretations issued since November 30, 1989, unless they are adopted by the Governmental Accounting Standards Board (GASB).

Cash and Cash Equivalents

The Statement of Net Assets classification of "Cash and Cash Equivalents" includes all readily available sources of cash such as petty cash, demand deposits, cash on deposit with the State Treasurer, and highly liquid short-term investments.

Investments

Investments are stated at fair value. Changes in unrealized gain (loss) on the carrying value are reported as a component of investment income on the Statement of Revenues, Expenses and Changes in Net Assets.

Inventories

Inventories are valued at cost with cost generally being determined on a first-in, first-out basis.

Accounts Receivable

Receivables that represent charges due the University from various student fees, room and board, student fines, patient care services and other charges are stated at estimated net realizable values; that is, the gross amount of the receivable is reduced by allowances for estimated uncollectible accounts and contractual allowances (related to patient care revenue). Receivables can also include unreimbursed expenses relating to research contracts with federal, state and private agencies.

Patient Care Revenue

Patient care revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered. Retroactive adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period in which the related services are rendered and adjusted as final settlements are determined.

Encumbrances

Encumbrances representing commitments and outstanding purchase orders for goods and services not received as of the last day of the fiscal year are not reported as expenses or included in liabilities in the accompanying financial statements.

Capital Assets

Capital assets consisting of land, buildings, improvements, furniture, equipment and construction in progress are stated at cost or fair market value at date of gift. Depreciation is computed using the straight-line method over the estimated useful lives of the assets -- generally 15-30 years for buildings, 15-20 years for improvements, and 3-10 years for equipment. Livestock is maintained primarily for research purposes with any other benefits derived from the operations considered as incidental to the primary mission of the University. The inventory value placed on the animals is determined by utilizing current market prices and breeding and research intangibles. UAMS bases their estimated useful lives on guidelines established by the American Hospital Association (AHA).

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.

Net Assets

The University's net assets are classified as follows:

- *Invested in capital assets, net of related debt:* This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. However, unexpended debt proceeds at year-end are reported as net assets restricted for capital projects.
- *Restricted net assets – non-expendable:* This consists of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.
- *Restricted net assets – expendable:* This includes resources in which 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.
- *Unrestricted net assets:* This represents resources not subject to externally imposed stipulations. These resources may be designated for specific purposes by management or the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

Classification of Revenues

The University has classified its revenues as either operating or non-operating revenues according to the following criteria:

- *Operating Revenues:* Operating revenues include activities that have the characteristics of exchange transactions, such as student tuition and fees (net of scholarship discounts and allowances), patient services (net of contractual agreements), most federal, state and local grants and contracts, revenues associated with auxiliary enterprises (net of scholarship discounts and allowances), interest on institutional student loans, and the university's self-funded insurance plans.
- *Non-Operating Revenues:* Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating revenues by GASB No. 34, such as state appropriations and investment income.

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses and Changes in Net Assets. Scholarship discounts and allowances are the differences between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or non-operating 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.

Component Units

In May 2002, GASB issued Statement No. 39, *Determining Whether Certain Organizations are Component Units*, which amends GASB 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 standard, 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. In FY08, there were two qualifying foundations for the University of Arkansas: the University of Arkansas Foundation, Inc. and the University of Arkansas Fayetteville Campus Foundation, Inc. Although the University does not control the timing or amount of receipts from either of these foundations, the majority of resources, or income thereon, which the foundations hold and invest, is restricted to the activities of the University by the donors. Because these restricted resources held by the foundations can only be used by, or for the benefit of, the University, the foundations are considered component units of the University and are discretely presented in the University's financial statements.

The University of Arkansas Foundation, Inc. is a separate nonprofit organization, which operates for charitable educational purposes, including the administration and investment of gifts and other amounts received directly or indirectly for the benefit of the University of Arkansas. The Board of Directors of the Foundation must include four members who are current or previous members of the University of Arkansas Board of Trustees. During the year ended June 30, 2008, the Foundation distributed \$83,182,561 to or on behalf of the University. Complete financial statements for the Foundation can be obtained from the administrative office at 535 Research Center Boulevard, Suite 120, Fayetteville, AR 72701.

The University of Arkansas Fayetteville Campus Foundation, Inc. is a nonprofit charitable organization which 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 members, including three members who are also employees of the University. During the year ended June 30, 2008, the Foundation distributed \$15,160,408 to or on behalf of the University. Complete financial statements for the Foundation can be obtained from the administrative office at 535 Research Center Boulevard, Suite 120, Fayetteville, AR 72701.

New Accounting Pronouncements

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. The Statement establishes standards for the measurement, recognition, and display of Other Postemployment Benefits (OPEB). The impact on the University as a result of adoption of the statement in the fiscal year ended June 30, 2008, is disclosed in Note 13.

The following new pronouncements become effective in later years. The University has not determined the effects of their implementation on the University's financial statements.

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 other GASB 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.

NOTE 2: REPORTING ENTITY

The University of Arkansas System ("the University"), which prior to 1969 consisted of the Fayetteville and Medical Sciences campuses, was expanded in 1969 to include the Little Rock campus (formerly Little Rock University), in 1971 to include the Monticello campus (formerly Arkansas A&M College), in 1972 to include the Pine Bluff campus (formerly Arkansas AM&N College), in 1996 to include the Phillips campus (formerly Phillips County Community College), and the Hope campus (formerly Red River Technical College), and in 1998 to include the Batesville campus (formerly Gateway Technical College). On July 1, 2001, the System was expanded to include campuses in Morrilton (formerly Petit Jean College) and DeQueen (formerly Cossatot Community College). The Fort Smith campus (formerly Westark College) joined the System on January 1, 2002. Forest Echoes Technical Institute and Great Rivers Technical Institute merged with the Monticello campus on July 1, 2003. The Arkansas School for Mathematics, Sciences and the Arts joined the System on January 1, 2004. In addition to these campuses, the System includes the following units: Clinton School of Public Service, Division of Agriculture, Archeological Survey, Criminal Justice Institute, and the System Administration.

All programs and activities of the University of Arkansas are governed by its Board of Trustees, which has been accorded constitutional status for the exercise of its powers and authority by Amendment 33 to the Arkansas Constitution. The Board of Trustees has delegated to the President the administrative authority for all aspects of the University's operations. Administrative authority is further delegated to the Chancellors and Vice President for Agriculture, who have responsibility for the programs and activities of their respective campuses or state-wide operating division.

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.

NOTE 3: HOSPITAL REVENUE

The University Hospital of Arkansas (the Hospital) is a division of the University of Arkansas for Medical Sciences (UAMS), and the Faculty Group Practice (FGP) is the collective body of the College of Medicine faculty involved in professional practice at UAMS. FGP is an integral component of UAMS, functioning as an unincorporated division of the College of Medicine. As such, it is subject to the policies and regulations of the College of Medicine, UAMS and the Board of Trustees of the University of Arkansas System. Patient care operations are included in the accompanying financial statements under accounting principles generally followed by governmental colleges and universities. Patient accounts receivable at June 30, 2008 and 2007 are recorded net of an allowance for doubtful accounts of \$316,378,000 and \$876,393,000, respectively.

Net patient services revenue for the years ended June 30, 2008 and 2007, is as follows:

	FY2008	FY2007
Gross patient revenue	1,611,456,000	1,396,283,000
Less patient services contractual allowances	767,059,000	665,057,000
Less provision for bad debt	79,039,000	58,698,000
Net patient services revenue	765,358,000	672,528,000

UAMS provided approximately \$84,901,000 and \$101,000,000 in charity care, based on established rates, during the years ended June 30, 2008 and 2007, respectively. Because UAMS does not pursue collection of amounts determined to qualify as charity care, they are not included in gross patient revenue above. Net patient services revenue for the years ended June 30, 2008 and 2007, includes approximately \$61,124,000 and \$50,816,000, respectively, from the Medicaid program representing payments relating to Upper Payment Limit and Disproportionate Share reimbursements. These payments are available to state-operated teaching hospitals under Medicaid regulations. Net patient services revenue for the years ended June 30, 2008 and 2007, includes approximately \$43,415,000 and \$1,245,363, respectively, of net revenue from the Supplemental Medicaid program.

The Hospital, FGP, and AHECs have agreements with governmental and other third-party payors that provide for reimbursement at amounts different from their established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the billings at established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with significant third-party payors follows:

Hospital:

- *Medicare* – Inpatient acute care services rendered to program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Some transplantation services are paid based upon a cost reimbursement methodology. Outpatient services are paid based on a prospective payment system where services are classified into groups called Ambulatory Payment Classifications or APCs. Services in each APC are similar clinically and in terms of the resources they require. The Hospital is paid for cost-reimbursable items at a tentative rate with final settlement determined after submission of an annual cost report by the Hospital and audit by the Medicare fiscal intermediary. As of June 30, 2008, the Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2006.
- *Medicaid* – Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed based upon a cost reimbursement methodology. The Hospital is paid at a tentative rate with final settlement determined after submission of an annual cost report by the Hospital and audits by the Medicaid fiscal intermediary. The Hospital is required to pay the federal match for the difference in reimbursement between the Tax Equity and Fiscal Responsibility Act (TEFRA) inpatient rate and full cost. For outpatient services, the Hospital is required to pay the federal match for the difference reimbursed between the outpatient prospective rates and full cost. As of June 30, 2008, the Hospital's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through June 30, 2006.

FGP and AHECs:

- Services rendered to both Medicare and Medicaid program beneficiaries are reimbursed on prospectively determined rates per unit of service.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The net adjustments to estimated settlements resulted in a decrease to net patient services revenue of \$1,509,000 and an increase of \$3,277,000 for the years ended June 30, 2008 and 2007, respectively. Management believes that UAMS is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

The Hospital, FGP, and AHECs have agreements with certain commercial insurance carriers and preferred provider organizations, which include prospectively determined rates per discharge, discounts from established charges, and prospectively determined per diem rates.

NOTE 4: COMPENSATED ABSENCES

Employees accrue and accumulate annual and sick leave in accordance with policies established by the Board of Trustees. Full-time, non-classified employees accrue annual leave at the rate of fifteen hours per month; classified employees accrue at a variable rate (from eight to fifteen hours per month) depending upon the number of years of employment in state government. Under the University's policy, an employee may carry accrued annual 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 accrues the dollar value of leave benefits in accordance with generally accepted accounting principles which require accrual of salary-related payments directly and incrementally associated with compensated absences such as employer's share of social security taxes, as well as applicable salary expenses. These leave benefits are payable upon retirement, termination, or death of employees. 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.

NOTE 5: CASH, CASH EQUIVALENTS AND INVESTMENTS

Ark. Code Ann. 19-4-805 authorizes institutions of higher learning the right to determine the depositories and nature of investments of any of their cash funds which are not currently needed for operating purposes.

Cash at June 30, 2008:

Cash deposits are carried at cost. The following schedule reconciles the amount of deposits to the Statement of Net Assets:

+Cash deposits at year end	\$ 100,253,427
+cash held on deposit in state treasury	22,799,677
+cash equivalents	69,822,875
+cash on hand	227,292
-cash equiv shown as investments on Smts	-
-cash/cash equiv shown as deposits held in trust on Smts	(2,252,633)
TOTAL	\$ 190,850,638

Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University does not have a deposit policy for custodial credit risk. As of June 30, 2008, \$2,437,169 of the University's bank balance was exposed to custodial credit risk as follows:

uninsured and uncollateralized	\$ 2,437,169
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Investments at June 30, 2008:

Investments are reported at fair value, which, for reporting purposes, is market value. The following is a summary of the University's investments held at June 30, 2008:

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Investment Type	Fair Value
Mutual Funds	\$ 36,241,415
Corporate Bonds	14,634,732
Common Fund	171,613,201
External Investment Pool	275,433,693
Certificate of Deposits	25,532,030
Other	37,628,857
Sub-Total	561,083,928
-shown as cash/cash equiv on Smts	(60,931,179)
-shown as deposits held in trust on Smts	(49,971,602)
+reported as deposits for footnotes	34,000
Investments as reported on Stmt of Net Assets	\$ 450,215,147

The University is required under GASB Statement No. 40 to provide investment risk disclosures for all invested funds. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The following tables show these risks for the University's funds outside the external investment pool and the Commonfund.

Interest Rate Risk					
Investment Type	Fair Value	Investment Maturities (in years)			
		Less than 1	1 to 5	6 to 10	More than 10
Corporate Bonds	\$ 14,634,732	\$ 2,204,128	\$ 10,408,440	\$ 1,412,041	\$ 610,123
Other	\$ 7,878,379	\$ 2,158,592	\$ 5,130,207	\$ 589,580	\$ -
Totals	\$ 22,513,111	\$ 4,362,720	\$ 15,538,647	\$ 2,001,621	\$ 610,123

		Credit Risk				
Investment Type	Fair Value	AAA	AA	A	B & below	Not Rated
Mutual Funds	\$ 31,596,453	\$ 30,607,283	\$ -	\$ -	\$ -	\$ 989,170
Corporate Bonds	14,634,732	415,180	10,616,632	3,023,097	409,183	170,640
Other	7,703,296	7,454,954	-	248,342	-	-
Totals	\$ 53,934,481	\$ 38,477,417	\$ 10,616,632	\$ 3,271,439	\$ 409,183	\$ 1,159,810

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. 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. 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. The fair value of the investments in the Commonfund at June 30, 2008, was \$171,613,201. 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. More information is provided in Note 22, *Subsequent Events*.

Effective June 30, 1997, the University of Arkansas adopted Governmental Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Pools*. GASB No. 31 requires that investments be carried at fair value and all changes in fair value be reported in revenue as a component of investment income. In 1997, the University of Arkansas and the University of Arkansas Foundation established an external investment pool. This arrangement commingles (pools) the moneys of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio. During 1998, the Walton Arts Foundation joined the pool, and, during 2003, the Fayetteville Campus Foundation joined the pool. During 2007, the University of Arkansas Community College at Hope Foundation joined the pool.

The governmental external investment pool is exempt from registration with the SEC. The University of Arkansas Board of Trustees and the University of Arkansas Foundation Board of Trustees are the sponsors of this investment pool and are responsible for operation and oversight for the pool. All participation in this investment pool is voluntary. The participants of the Pool have adopted investment guidelines and performance objectives for the accounts within the Pool. At June 30, 2008, five campuses, Cooperative Extension Service, and four foundations participated in the Pool. As of June 30, 2008, the pool's net assets totaled \$1,384,928,952. The pool was combined with 19.89% of the net assets owned by the University of Arkansas, 44.69% by the University of Arkansas Foundation (external portion), 34.47% by the Fayetteville Campus Foundation (external portion), 0.90% by the Walton Arts Foundation (external portion), and 0.05% by the University of Arkansas Community College at Hope Foundation (external portion). The following tables contain information on the risk disclosure of the Pool.

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Statement of Invested Assets

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	<u>\$ 1,384,928,952</u>

*Includes Accrued Income

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Credit Risk - S&P Quality Ratings

June 30, 2008

Investment Type & Fair Value (\$000) *	TSY	AGY	AAA	AA	A	BBB	BB	B	CCC & Below	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 & Mortgage Backed		56,816	4,526							178
Government National Mortgage Assoc.		2,015								
Federal Home Loan Mortgage Corp.		7,694								
Federal National Mortgage Assoc. Agencies		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

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Years to Maturity

June 30, 2008

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 & 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 GASB 40

Interest Rate Sensitivity - Effective Duration

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 & 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	5.6
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	4.8

*Includes accrued income

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

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Foreign Currency Risk By Investment Type

June 30, 2008

Currency by Investment and Fair Value (\$000)*	Cash		Equity
	Cash	Equivalent	
AUSTRALIAN DOLLAR			\$ 1,679
BRITISH PND STERLING	40		13,371
CANADIAN DOLLAR	13		1,041
DANISH KRONE			311
EURO CURRENCY	-155	58	24,939
HONG KONG DOLLAR	43		1,926
JAPANESE YEN	167		13,218
NEW ZEALAND DOLLAR	3		71
NORWEGIAN KRONE	-7		1,828
SINGAPORE DOLLAR	3		471
SOUTH KOREAN WON			884
SWEDISH KRONA	47		901
SWISS FRANC	34		2,141
TOTAL	\$ 188	\$ 58	\$ 62,809

*Includes accrued income

Endowment Funds

The following Arkansas Code sections outline the ability of the University to spend any net appreciation in endowment funds:

- 28-69-603** *Expenditure of endowment funds.* 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 Section 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. Except as otherwise specified, this section applies to endowment funds established and instruments executed or in effect before or after the effective date of this subsection.
- 28-69-604** *Rule of construction.* A restriction upon the expenditure of an endowment fund may not be implied from a designation of a gift as an endowment, or from a direction or authorization in the applicable gift instrument to use only 'income,' 'interest,' 'dividends,' 'net appreciation in the fair value of the assets of an endowment fund over the historic dollar value of the endowment,' or 'rents, issues or profits' or 'to preserve the principal intact' or a direction which contains other words of similar import. The rule of construction under subsection (a) of this section applies to endowment funds and gift instruments executed or in effect before or after the effective date of this subsection. The provisions of 28-69-603(a) shall not apply to instruments if the instrument indicates by saying 'I direct that the expenditure provisions of Arkansas Code 28-69-603(a) not apply to this gift' or words of similar import reflecting a donor's specific intent that 28-69-603(a) not apply to the gift.
- 28-69-607** *Standard of conduct.* In the administration of the powers to expend endowment funds, to make and retain investments, and to delegate investment management of institutional funds, members of a governing board shall exercise ordinary business care and prudence under the facts and circumstances prevailing at the time of the action or decision. In so doing they shall consider long and short term needs of the institution in carrying out its educational, religious, charitable, or other eleemosynary purposes, its present and anticipated financial requirements, expected total return on its investments, price level trends, and general economic conditions, and the aggregate value of all endowment funds held by the institution.

The University does not have a uniform policy addressing the authorization and spending of investment income. Such policies have been established at the applicable campuses and include spending rates averaged over a specified period and compliance with donor restrictions. The computation of net appreciation on investments of donor-restricted endowments that are available for expenditure, reported on the Statement of Net Assets as restricted expendable net assets, is as follows:

Total Endowment at June 30, 2008	\$ 121,107,780
Less: Funds treated as endowment	(28,677,018)
Non-expendable portion of endowment	(40,376,982)
Available for Expenditure	<u>\$ 52,053,780</u>

NOTE 6: INCOME TAXES

The University is tax exempt under the Internal Revenue code 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.



Physics instruction at the University of Arkansas at Monticello.

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NOTE 7: COMPENSATED ABSENCES, BONDS, NOTES & CAPITAL LEASES PAYABLE

The retirement of some bond issues is secured by a specific pledge of certain gross revenues, surplus revenues and specific fees. Separate accounting is not required for these facilities under the provisions of the debt instruments; accordingly, segment reporting is not required for financial reporting purposes. A summary of long-term debt by campus is as follows:

UNIVERSITY OF ARKANSAS FAYETTEVILLE					
Issue Date	Maturity Date	Interest Rate	Amount Issued	Maturities to 6-30-2008	Outstanding 6-30-2008
11/1/1996	11/1/2009	3.85%-5.25%	\$ 12,105,000	\$ 11,030,000	\$ 1,075,000
10/15/1997	11/1/2022	3.95%-5.25%	21,445,000	14,725,000	6,720,000
5/1/1999	9/15/2020	3.35%-4.85%	30,000,000	8,320,000	21,680,000
11/1/2001	12/1/2021	2.90%-5.50%	42,985,000	21,435,000	21,550,000
11/1/2001	12/1/2021	4.20%	11,555,000	7,555,000	4,000,000
12/1/2002	12/1/2032	1.80%-5.50%	110,980,000	54,885,000	56,095,000
10/1/2004	11/1/2024	2.00%-4.75%	30,550,000	2,815,000	27,735,000
3/1/2005	11/1/2025	3.00%-4.50%	81,020,000	2,390,000	78,630,000
7/1/2005	9/15/2011	3.00%-3.25%	9,645,000	3,145,000	6,500,000
6/1/2006	11/1/2036	4.00%-5.00%	67,420,000	675,000	66,745,000
6/1/2006	9/15/2022	4.00%-4.375%	8,205,000	370,000	7,835,000
10/1/2007	11/1/2037	4.00%-5.00%	45,010,000	-	45,010,000
11/30/1991	5/1/2022	5.50%	3,000,000	1,013,443	1,986,557
11/29/1995	12/1/2019	4.00%-5.00%	2,071,140	748,333	1,322,807
9/13/1995	12/1/2010	5.75%-7.05%	535,000	380,000	155,000
12/20/1999	12/20/2023	Variable	1,161,952	66,550	1,095,402
10/31/2007	9/30/2011	Variable	7,767,000	3,649,498	4,117,502
5/11/2008	3/31/2013	Variable	3,023,075	10,975	3,012,100
7/31/2002	7/1/2012	2.05%	900,000	517,954	382,046
11/30/2007	7/1/2023	4.69%	6,950,000	-	6,950,000
Various	Various	Various	2,136,708	1,765,424	371,284
Deferral on debt defeasance			(4,295,000)	(971,302)	(3,323,698)
TOTALS			\$ 494,169,875	\$ 134,525,875	\$ 359,644,000

UNIVERSITY OF ARKANSAS AT FORT SMITH					
Issue Date	Maturity Date	Interest Rate	Amount Issued	Maturities to 6-30-2008	Outstanding 6-30-2008
12/1/2001	12/1/2021	2.0% - 5.0%	\$ 41,500,000	\$ 9,095,000	\$ 32,405,000
6/1/2003	12/1/2023	1.0% - 3.8%	9,880,000	1,685,000	8,195,000
9/1/2005	12/1/2030	3.0% - 4.375%	13,055,000	545,000	12,510,000
12/1/2006	12/1/2031	3.6% - 5.0%	6,160,000	-	6,160,000
TOTALS			\$ 70,595,000	\$ 11,325,000	\$ 59,270,000

UNIVERSITY OF ARKANSAS AT LITTLE ROCK					
Issue Date	Maturity Date	Interest Rate	Amount Issued	Maturities to 6-30-2008	Outstanding 6-30-2008
9/15/2004	12/1/2010	4.26%	\$ 16,930,000	\$ 9,355,000	\$ 7,575,000
9/15/2004	12/1/2024	4.43%	24,285,000	2,560,000	21,725,000
10/1/2004	12/1/2029	4.25%	17,385,000	555,000	16,830,000
5/7/2008	10/1/2015	4.22%	2,541,873	-	2,541,873
10/30/2007	1/1/2011	5.50%	150,000	19,395	130,605
Leases	5/18/2015		2,981,825	1,912,905	1,068,920
Unamortized premium/discount			601,769	376,846	224,923
Deferral on debt defeasance			(509,954)	(291,402)	(218,552)
TOTALS			\$ 64,365,513	\$ 14,487,744	\$ 49,877,769

UNIVERSITY OF ARKANSAS AT MONTICELLO					
Issue Date	Maturity Date	Interest Rate	Amount Issued	Maturities to 6-30-2008	Outstanding 6-30-2008
7/1/2005	10/1/2018	2.65% - 4.0%	\$ 4,505,000	\$ 815,000	\$ 3,690,000
12/1/2005	12/1/2035	3.1% - 5.0%	9,000,000	315,000	8,685,000
TOTALS			\$ 13,505,000	\$ 1,130,000	\$ 12,375,000

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UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES					
Issue Date	Maturity Date	Interest Rate	Amount Issued	Maturities to 6-30-2008	Outstanding 6-30-2008
6/30/1998	7/1/2013	4.5% - 5.05%	\$ 14,260,000	\$ 4,230,000	\$ 10,030,000
10/28/2004	11/1/2034	2.00% - 5.00%	99,327,000	1,177,000	98,150,000
10/28/2004	11/1/2018	4.0% - 5.00%	58,882,000	10,584,000	48,298,000
11/18/2004	7/1/2034	2.25% - 5.00%	10,232,000	395,000	9,837,000
3/8/2006	3/1/2036	3.4% - 5.0%	112,548,000	4,088,000	108,460,000
5/7/2008	6/1/2012	4.22%	495,000	-	495,000
Misc Notes			17,805,000	15,580,000	2,225,000
Leases			37,625,000	14,025,000	23,600,000
TOTALS			\$ 351,174,000	\$ 50,079,000	\$ 301,095,000

UNIVERSITY OF ARKANSAS AT PINE BLUFF					
Issue Date	Maturity Date	Interest Rate	Amount Issued	Maturities to 6-30-2008	Outstanding 6-30-2008
10/1/1963	10/1/2013	3.63%	\$ 1,822,000	\$ 1,316,000	\$ 506,000
10/12/2005	12/1/2035	3.0% - 5.0%	20,780,920	736,062	20,044,858
10/12/2005	12/1/2017	2.8% - 3.8%	3,317,513	737,919	2,579,594
9/1/1999	12/1/2015	4.0%-5.70%	880,000	397,500	482,500
10/12/1999	10/1/2020	6.50%	1,800,000	550,000	1,250,000
12/23/2003	12/30/2008	7.21%	174,226	153,853	20,373
11/25/2005	10/27/2010	4.38%	3,904,192	1,855,542	2,048,650
2/4/2008	8/1/2011	2.00%	2,000,000	-	2,000,000
TOTALS			\$ 34,678,851	\$ 5,746,876	\$ 28,931,975

COSSATOT COMMUNITY COLLEGE OF THE UNIVERSITY OF ARKANSAS					
Issue Date	Maturity Date	Interest Rate	Amount Issued	Maturities to 6-30-2008	Outstanding 6-30-2008
5/1/2005	5/1/2035	5.18%	\$ 4,500,000	\$ 218,529	\$ 4,281,471
3/1/2005	3/1/2008	8.00%	30,030	30,030	-
1/1/2003	4/1/2008	2.05%	371,100	371,100	-
11/1/2002	10/1/2007	7.84%	5,584	5,584	-
10/1/2003	9/1/2008	6.25%	5,493	5,178	315
8/3/2006	8/3/2010	10.25%	13,028	5,317	7,711
8/16/2006	8/1/2010	10.25%	13,970	5,701	8,269
7/26/2006	8/1/2009	9.50%	9,241	5,333	3,908
1/25/2008	3/30/2023	2.91%	2,000,000	26,690	1,973,310
TOTALS			\$ 6,948,446	\$ 673,462	\$ 6,274,984

PHILLIPS COMMUNITY COLLEGE OF THE UNIVERSITY OF ARKANSAS					
Issue Date	Maturity Date	Interest Rate	Amount Issued	Maturities to 6-30-2008	Outstanding 6-30-2008
9/1/1997	9/1/2017	3.9% - 5%	\$ 6,560,000	\$ 2,390,000	\$ 4,170,000
4/1/2006	4/1/2008	9.99%	21,368	21,368	-
7/1/2005	4/1/2008	3.68%	136,669	136,669	-
12/30/2005	12/30/2010	3.58%	661,882	313,243	348,639
TOTALS			\$ 7,379,919	\$ 2,861,280	\$ 4,518,639

UNIVERSITY OF ARKANSAS COMMUNITY COLLEGE AT BATESVILLE					
Issue Date	Maturity Date	Interest Rate	Amount Issued	Maturities to 6-30-2008	Outstanding 6-30-2008
12/1/1998	12/1/2018	3.1% - 5%	\$ 4,000,000	\$ 1,375,000	\$ 2,625,000
5/7/2008	11/1/2015	4.22%	816,432	-	816,432
5/7/2008	11/1/2015	4.22%	451,616	-	451,616
TOTALS			\$ 5,268,048	\$ 1,375,000	\$ 3,893,048

UNIVERSITY OF ARKANSAS COMMUNITY COLLEGE AT HOPE					
Issue Date	Maturity Date	Interest Rate	Amount Issued	Maturities to 6-30-2008	Outstanding 6-30-2008
7/1/1998	4/1/2021	3.8 - 5.125%	\$ 3,985,000	\$ 1,270,000	\$ 2,715,000
7/13/2004	9/1/2018	4.33%	3,105,000	525,000	2,580,000
TOTALS			\$ 7,090,000	\$ 1,795,000	\$ 5,295,000

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UNIVERSITY OF ARKANSAS COMMUNITY COLLEGE AT MORRILTON					
Issue Date	Maturity Date	Interest Rate	Amount Issued	Maturities to 6-30-2008	Outstanding 6-30-2008
05/01/2002	05/01/2022	2.25%-5.25%	\$ 3,000,000	\$ 655,000	\$ 2,345,000
05/18/2005	11/01/2017	4.00%-5.25%	2,095,000	395,000	1,700,000
Deferral on debt defeasance			(90,000)	(21,600)	(68,400)
TOTALS			\$ 5,005,000	\$ 1,028,400	\$ 3,976,600

UNIVERSITY OF ARKANSAS SYSTEM ADMINISTRATION					
Issue Date	Maturity Date	Interest Rate	Amount Issued	Maturities to 6-30-2008	Outstanding 6-30-2008
1994-1996	5/7/2008	Variable	\$ 2,000,000	\$ 2,000,000	\$ -
1997-1998	6/29/2008	Variable	1,982,000	1,982,000	-
8/21/2000	5/7/2008	Variable	200,000	200,000	-
5/7/2008	10/1/2009	4.22%	312,183	18,180	294,003
5/7/2008	8/1/2015	4.22%	117,306	845	116,461
TOTALS			\$ 4,611,489	\$ 4,201,025	\$ 410,464

The capitalized value of capital assets held under capital leases totaled \$32,636,145 at June 30, 2008. The present value of the net minimum lease payments is as follows:

Type	Cost	Acc Deprec	Net
Land	\$ 259,264	\$ -	\$ 259,264
Improve/Infrastructure	6,603,668	335,428	6,268,240
Buildings	14,375,169	1,244,736	13,130,433
Equipment	23,525,904	10,547,696	12,978,208
TOTAL			\$ 32,636,145
Total Minimum Lease Payments			\$ 52,612,563
Less: Amount representing interest			14,251,663
Total Present Value of Net Minimum Lease Payments			\$ 38,360,900

Changes in long-term liabilities are as follows:

BONDS PAYABLE					
Campus	Balance 6-30-07	Issued FY08	Retired FY08	Balance 6-30-08	Current Portion
UAF	\$ 306,267,676	\$ 45,010,000	\$ 11,026,374	\$ 340,251,302	\$ 12,186,375
UAFS	61,640,000		2,370,000	59,270,000	2,620,000
UALR	49,582,732		3,446,361	46,136,371	3,606,361
UAM	12,810,000		435,000	12,375,000	450,000
UAMS	281,490,000		6,715,000	274,775,000	6,325,000
UAPB	23,824,943		694,490	23,130,453	709,490
PCCUA	4,460,000		290,000	4,170,000	315,000
UACCB	2,805,000		180,000	2,625,000	185,000
UACCH	5,625,000		330,000	5,295,000	345,000
UACCM	4,229,400		252,800	3,976,600	257,800
TOTAL	\$ 752,734,751	\$ 45,010,000	\$ 25,740,025	\$ 772,004,726	\$ 27,000,026

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NOTES PAYABLE					
Campus	Balance 6-30-07	Issued FY08	Retired FY08	Balance 6-30-08	Current Portion
UAF	\$ 4,526,957	\$ 11,124,139	\$ 3,961,728	\$ 11,689,368	\$ 2,395,338
UALR	2,761,666	2,691,873	2,781,061	2,672,478	344,252
UAMS	1,138,000	9,292,000	7,710,000	2,720,000	2,011,000
UAPB	1,885,000	2,000,000	152,500	3,732,500	155,000
CCCUA	77,293	2,000,000	103,983	1,973,310	108,722
PCCUA	477,974		129,335	348,639	134,994
UACCB	1,382,148	1,268,048	1,382,148	1,268,048	147,785
SYSTEM	809,042	429,489	828,067	410,464	227,270
TOTAL	\$ 13,058,080	\$ 28,805,549	\$ 17,048,822	\$ 24,814,807	\$ 5,524,361

OTHER CAPITAL LEASES PAYABLE					
Campus	Balance 6-30-07	Issued FY08	Retired FY08	Balance 6-30-08	Current Portion
UAF	\$ 687,664	\$ 7,014,538	\$ 380,918	\$ 7,321,284	\$ 208,914
UALR	236,769	1,083,268	251,117	1,068,920	140,537
UAMS	17,591,000	11,177,000	5,168,000	23,600,000	4,272,000
UAPB	2,865,205		796,183	2,069,022	812,515
CCCUA	4,403,503		101,829	4,301,674	85,782
PCCUA	56,644		56,644	-	-
TOTAL	\$ 25,840,785	\$ 19,274,806	\$ 6,754,691	\$ 38,360,900	\$ 5,519,748

ARKANSAS DEVELOPMENT FINANCE AUTHORITY LEASES PAYABLE					
Campus	Balance 6-30-07	Issued FY08	Retired FY08	Balance 6-30-08	Current Portion
UAF	\$ 472,810		\$ 90,764	\$ 382,046	
TOTAL	\$ 472,810	\$ -	\$ 90,764	\$ 382,046	\$ -

COMPENSATED ABSENCES PAYABLE					
Campus	Balance 6-30-07	Additions FY08	Retired FY08	Balance 6-30-08	Current Portion
UAF	\$ 15,900,015	\$ 581,936	\$ 58,558	\$ 16,423,393	\$ 1,001,431
UAFS	1,163,282	234,658	169,422	1,228,518	156,388
UALR	3,816,379	749,212	293,738	4,271,853	278,888
UAM	875,726	854,962	767,783	962,905	63,044
UAMS	34,674,000	3,503,000		38,177,000	2,106,000
UAPB	2,057,309	1,547,750	1,591,884	2,013,175	124,794
CCCUA	228,356	181,014	166,137	243,233	12,162
PCCUA	403,415	107,523	62,313	448,625	39,281
UACCB	207,395	247,142	204,170	250,367	15,021
UACCH	181,304	260,208	203,835	237,677	28,522
UACCM	199,507	44,780	19,329	224,958	15,107
ASMSA	81,184	12,291	14,380	79,095	8,496
SYSTEM	384,547	26,831	12,384	398,994	14,808
TOTAL	\$ 60,172,419	\$ 8,351,307	\$ 3,563,933	\$ 64,959,793	\$ 3,863,942

Total long-term debt principal and interest payments on bonds and notes payable are as follows:

Year Ended June 30,	Principal	Interest	Total
2009	\$ 33,154,386	\$ 36,315,416	\$ 69,469,802
2010	41,445,005	34,740,285	76,185,290
2011	32,034,798	33,219,753	65,254,551
2012	31,329,869	31,913,903	63,243,772
2013	28,522,364	30,652,016	59,174,380
2014-2018	160,396,965	132,961,817	293,358,782
2019-2023	164,211,203	94,260,047	258,471,250
2024-2028	110,709,029	61,492,967	172,201,996
2029-2033	122,456,321	33,914,878	156,371,199
2034-2038	72,559,593	6,717,405	79,276,998
TOTALS	\$ 796,819,533	\$ 496,188,487	\$ 1,293,008,020

Note: Principal for FY09 includes \$630,000 premium amortization. Total principal of \$796,819,533 includes \$11,370,000 premium amortization.

Total long-term debt principal and interest payments on Arkansas Development Finance authority capital leases payable are as follows:

Year Ended June 30,	Principal	Interest	Total
2009	\$ -	\$ -	\$ -
2010	92,624	7,832	100,456
2011	94,523	5,933	100,456
2012	96,461	3,995	100,456
2013	98,438	2,018	100,456
TOTALS	\$ 382,046	\$ 19,778	\$ 401,824

Total long-term debt principal and interest payments on other capital leases payable are as follows:

Year Ended June 30,	Principal	Interest	Total
2009	\$ 5,519,748	\$ 1,763,785	\$ 7,283,533
2010	4,956,886	1,693,962	6,650,848
2011	3,815,104	1,461,899	5,277,003
2012	2,372,894	1,303,256	3,676,150
2013	1,984,670	1,174,738	3,159,408
2014-2018	12,310,875	4,362,244	16,673,119
2019-2023	3,559,817	1,537,463	5,097,280
2024-2028	2,127,815	625,487	2,753,302
2029-2033	1,175,544	300,543	1,476,087
2034-2038	537,547	28,286	565,833
TOTALS	\$ 38,360,900	\$ 14,251,663	\$ 52,612,563

Note: As required by GASB No. 38, interest payments for variable rate debt have been calculated using the rate in effect at the financial statement date. Actual rates will vary.

State of Arkansas Bonds

Act 1285 of 2005 authorized the Arkansas Development Finance Authority to issue State of Arkansas Higher Education General Obligation Bonds up to \$150 million for technology and facility improvements for institutions of higher education in the state of Arkansas, after approval by the voters of Arkansas, which was obtained on November 7, 2006, during the general election. The State of Arkansas is obligated to make debt service payments on the bonds; therefore, no liability is established by the University. Bond proceeds of \$16,984,637 received in fiscal year 2008 are included in Other Changes in Net Assets on the Statement of Revenues, Expenses and Changes in Net Assets.



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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, that are pledged:

BOND SERIES	Maturity Date	Purpose of Debt	Remaining Principal + Interest	FY08 Principal + Interest	Revenue Source	FY08 Revenue	% of Revenue Pledged
UAF/VARIOUS FACILITIES							
Series 1996 Various Facilities	11/1/2009	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	11/1/2022	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	12/1/2021	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	12/1/2032	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	11/1/2024	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	11/1/2025	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	11/1/2036	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	11/1/2037	Construction of Student Housing	84,911,844	1,228,828	Various Fac. Pledge	177,936,629	0.69%
Total Percentage of Pledged Revenues							12.04%
UAF/ATHLETIC FACILITIES							
Series 1999 Athletic Facilities	9/15/2020	Expansion of Football Stadium	29,395,528	2,261,775	Athletics Pledge	41,608,387	5.44%
Series 2001 Athletic Facilities	12/1/2021	Expansion of Football Stadium	6,268,000	168,000	Athletics Pledge	41,608,387	0.40%
Series 2005 Athletic Facilities	9/15/2011	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	9/15/2022	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%
UAFS							
Series 2001 Student Fee Revenue	12/1/2021	General improvements	44,086,593	3,165,721	Student Fee Revenue	22,505,970	14.07%
Series 2003 Student Fee Revenue	12/1/2023	General improvements	11,152,434	701,164	Student Fee Revenue	22,505,970	3.12%
Series 2005 Student Fee Revenue	12/1/2030	Sebastian Commons Phase I	19,466,953	851,290	Student Fee Revenue	22,505,970	3.78%
Series 2006 Student Fee Revenue	12/1/2031	Sebastian Commons Phase II	10,005,396	268,985	Student Fee Revenue	22,505,970	1.20%
Total Percentage of Pledged Revenues							22.16%
UALR							
Series 2004A Revenue Refunding & Capital Improvements	12/1/2024	Refunding Bond Series 1995, 1996 & 1997; General improvements	39,212,731	4,545,681	Student Fee Revenue	54,295,649	8.37%
Series 2004 Housing Revenue	12/1/2029	Construction of housing	26,286,129	900,170	Housing Revenues	2,860,624	31.47%
UAM							
Series 2005 Auxiliary Facilities Refunding	10/1/2018	Refund Series 1998 Auxiliary Facilities Bonds	4,493,269	409,948	Auxiliary Revenues	5,289,362	7.75%
Series 2005 Various Facilities Refunding and Construction	12/1/2035	Finance capital improvements & refund ADFA loan	15,828,421	567,562	Student Fee Revenue & Auxiliary Revenues	15,151,891	3.75%

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UAMS							
Series 2006 Various Facilities	3/1/2036	Hospital Patient Bed Tower, Psychiatry Building, Residence Hall & Power Plant	199,102,385	6,952,700	Clinical Programs Revenue	488,488,303	1.42%
Series 2004 - Various Facilities & Refunding	11/1/2034	Refinance Series 1998 Various Facility Bonds; Patient Bed Tower, Psychiatry Building, Residence Hall & Power Plant	244,857,147	10,430,114	Clinical Programs Revenue	488,488,303	2.14%
Total Percentage of Pledged Revenues							3.56%
Series 1998 Parking System Revenue Construction	7/1/2013	Parking Deck construction	13,332,114	1,117,868	Parking Fees	2,172,073	51.47%
Series 2004 Parking System Revenue Construction	7/1/2034	Parking Deck construction	17,460,315	646,420	Parking Fees	2,172,073	29.76%
Total Percentage of Pledged Revenues							81.23%

UAPB							
Series 2005A Various Facilities Revenue, Refunding and Construction	12/1/2035	Refunding and capital improvements	34,974,325	1,258,600	All E&G Funds (excluding State Appropriations)	26,089,276	4.82%
Series 2005B Various Facilities Revenue, Refunding and Construction	12/1/2017	Refunding and capital improvements	3,041,002	343,624	All E&G Funds (excluding State Appropriations)	26,089,276	1.32%
Total Percentage of Pledged Revenues							6.14%
Series 1963B	10/1/2013	AM&N Building Bond	563,021	94,702	Student Fee Revenue	15,746,044	0.60%

PCCUA							
Series 1997 Student Fee Revenue	9/1/2017	Construction of Stuttgart Campus	5,317,250	505,605	Student Fee Revenue	2,780,194	18.19%

UACCB							
Series 1998 Student Fee Revenue	12/1/2018	Construction of Independence Hall	3,395,381	308,071	Student Fee Revenue	2,606,272	11.82%

UACCH							
Series 1998 Refunding & Construction Student Fee Revenue	4/1/2021	Construction	3,270,421	297,503	Student Fee Revenue	1,909,987	15.58%
Series 2004 Student Fee Revenue Refunding	9/1/2018	Refund Series 1996	3,774,047	288,034	Student Fee Revenue	1,909,987	15.08%
Total Percentage of Pledged Revenues							30.66%

UACCM							
Series 2002 Student Fee Revenue	5/1/2022	Construction of educational building	3,328,020	239,657	Student Fee Revenue	3,791,736	6.32%
Series 2005 Student Fee Revenue Refunding	11/1/2017	Refund Series 1999	2,035,869	203,637	Student Fee Revenue	3,791,736	5.37%
Total Percentage of Pledged Revenues							11.69%

Advanced Refundings

Fayetteville Campus: 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 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 outstanding principal balance at June 30, 2008, was \$56,330,000 for these issues, and the related escrow balance was \$60,071,756.

UAFS Campus: Student Fee Revenue Bonds, Series 2001 was issued in December, 2001 in the amount of \$41,500,000 with interest rates ranging from 2% to 5%. The primary portion of the proceeds was pledged to advance refund the outstanding balances of the 1999 and 1997 general obligation bonds, \$9,705,000 and \$25,905,000 respectively. The required portion was deposited in an irrevocable trust to provide full funding for all future debt service payments on the old outstanding bonds. Final payment from the Defeasance Escrow Fund is scheduled for April 1, 2009. The date all payments have been made according to the schedule. In accordance with GASB reporting requirements, neither this defeased debt, nor the activity associated with it, is reported in the financial statements of the University. The outstanding principal balance at June 30, 2008, was \$8,425,000, all attributable to the 1999 issue, and the related escrow balance was \$8,583,204.

UAPB Campus: On October 12, 2005, the University issued \$19,565,000 in Various Facility Revenue Refunding and Construction Bonds, Series 2005A, and \$3,330,000 in Various Facility Revenue Refunding Bonds, Series 2005B. Series 2005A bonds were issued for the purpose of financing (1) the transfer of a student housing facility from Delta Student Housing, Inc. in exchange for \$10,150,000 to retire Delta's existing debt; (2) the refunding of the university's note to the Department of Education in the amount of \$2,652,295; (3) the refunding of the university's note to the Arkansas Development Finance Authority in the amount of \$668,968; (4) and the capital repairs and improvements to existing facilities on campus. Series 2005B bonds were issued with average coupon rate of 3.53% in order to advance refund \$3,320,000 of Series 1997 Athletic Facilities Revenue Bonds having an average interest rate of 5.23%. Proceeds in the amount \$3,448,792 were deposited in trust with an escrow agent to provide for the all future debt service payments of the refunded 1997 Series bonds. All outstanding refunded bonds were redeemed on December 1, 2007, and the escrow balance at June 30, 2008 was \$0.



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NOTE 8: COMMITMENTS

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

Campus	Project Name	Estimated Completion Date	Contract Balance
UAF	Billingsley Tennis Center	September 2008	\$ 27,053
	Bogle Park – Softball	August 2008	2,392,328
	Broyles Center XOS System	November 2008	263,684
	Center for Academic Excellence	August 2008	310,521
	Duncan Avenue Apartments	December 2008	3,074,892
	Fine Arts Theater Life Safety Issues	December 2008	31,737
	Fowler House Area B	August 2008	91,310
	Garland Avenue Parking Garage	June 2010	2,352,898
	Harmon Avenue Garage Addition	April 2009	484,138
	Harmon Road Waste Site	September 2008	370,615
	Holcombe Hall Renovations	October 2008	500,199
	Leflar Law Addition and Renov. Phase II	September 2008	341,271
	Maple Hill Housing Complex	August 2008	4,098,703
	Memorial Hall Restoration	August 2008	43,309
	National Ctr for Reliable Electricity	September 2008	50,024
	Phi Delta Theta Fraternity House	July 2009	215,229
	Physics Lab Additions	October 2008	60,854
	Rice Research Facility	October 2009	274,785
	Senior Walks 2008-2011	August 2008	313,080
	Sigma Nu Fraternity House	August 2008	2,876
	Steam Plant Performance Contract	December 2008	3,331,704
	Tyson Ctr of Excellence for Poultry	December 2008	105,486
	UAPD Communications System	September 2008	48,170
	Veterinary Diagnostic Lab	September 2008	124,607
	Willard J. Walker Hall	August 2008	126,332
	Other	Various	234,332
UAFS	Drennen Scott Home Historical Restoration	October 2009	890,558
	Vines Building Renovation/Addition	January 2009	924,158
	Misc Power Projects	January 2009	31,592
UALR	University Plaza	August 2008	13,539
	CSB-Campus Network Refibering	October 2009	340,545
	CSB-Speech HVAC Replacement	August 2008	245,937
	Data Center-UPS	August 2008	7,516
	DSC Audio/Visual Project	September 2008	71,078
	HPCC Project	August 2008	86,116
	Interior Painting - Residence Hall E	August 2008	30,642
	Library 5th Floor Renovation	August 2008	84,855
	Mth Lab Renovation	August 2008	22,043
	Parking Fee Reserve	Substantially Complete	3,911
	Ross Hall 122 & 123 Renovation	September 2008	193,653
	Sequoyah Research Center	August 2008	15,751
	Speech HVAC	August 2008	673,857
UAM	Crossett Building Additions	September 2008	140,979
	McGehee Building Additions	September 2008	68,689
	Renovation of Wells, Sorrells & Babin	October 2008	940,754
	Indoor Athletic/Band Practice Facility	February 2009	1,753,308
	Stadium/Press Box Renovations	September 2008	107,397
	University-wide Data Network Upgrade	September 2008	110,298
UAMS	*		87,417,000
JAPB	Field House/Wellness Center	July 2008	734,066
	Golden Lion Practice Field	September 2008	272,911
	Lonoke Maint & Storage	October 2008	111,198
	ADA Improvements	November 2008	560,520
	Information Center Parking	August 2008	5,000
CCCUA	Building "C" Roof	July 2008	40,410
	Ashdown Renovations	February 2009	1,336,280
UACCB	Website Design	March 2009	12,465
UACCH	Walking Trail	November 2008	43,681
UACCM	Library Complex	June 2009	3,522,010
ASMSA	Science Lab Renovations	July 2008	160,942
	Campus Master Plan	August 2008	26,621
	Distance Ed Complex Wiring	August 2008	74,649
TOTAL			\$ 120,345,066

*Patient Bed Tower, the Psychiatric Research Institute, the Education West Building, and the Winthrop P. Rockefeller Cancer Institute.

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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. Below are the scheduled payments for the five succeeding fiscal years and thereafter.

Operating Leases	
Year Ended June 30,	Amount
2009	\$ 7,123,522
2010	4,072,698
2011	2,073,437
2012	1,339,003
2013	1,302,104
2014-2018	2,886,600
2019-2023	156,000
2024-2028	7,800

NOTE 9: SHORT-TERM BORROWING

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.

NOTE 10: CAPITAL ASSETS

Following are changes in capital assets for the year ended June 30, 2008:

	June 30, 2007 Balance	Additions & Transfers	Deletions & Transfers	June 30, 2008 Balance
Land	\$ 55,459,470	\$ 6,210,002	\$ (677,000)	\$ 62,346,472
Construction in progress	325,386,526	224,467,581	228,767,195	321,086,912
Improvements & infrastructure	116,290,970	9,845,564	18,074	126,118,460
Buildings	1,703,479,338	193,062,421	(16,289,204)	1,912,830,963
Equipment	442,564,072	50,416,414	10,293,820	482,686,666
Other	70,764,932	10,983,339	(5,688,398)	87,436,669
Total Capital Assets	\$ 2,713,945,308	\$ 494,985,321	\$ 216,424,487	\$ 2,992,506,142
Less accumulated depreciation:				
Improvements & infrastructure	\$ 51,288,341	\$ 4,124,366	\$ 100	\$ 55,412,607
Buildings	632,542,795	58,004,524	130,796	690,416,523
Equipment	301,390,812	49,440,860	9,155,896	341,675,776
Other	46,946,082	6,980,247	4,824,906	49,101,423
Total Accum Depreciation	\$ 1,032,168,030	\$ 118,549,997	\$ 14,111,698	\$ 1,136,606,329
Capital Assets, Net	\$ 1,681,777,278	\$ 376,435,324	\$ 202,312,789	\$ 1,855,899,813

Note 11: 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 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 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 for such losses are heard before the State Claims Commission. In such cases where the University enters into a lease agreement to hold a function at a location not owned by the University, general liability coverage may be purchased for such functions.

The University 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 Arkansas Department of Finance and Administration. 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 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 Arkansas 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.

NOTE 12: EMPLOYEE BENEFITS

Insurance Plans

The Board of Trustees of the University of Arkansas System sponsors self-funded health (including prescription coverage) and dental benefit plans for University of Arkansas System (the University) employees and their eligible dependents. The System Administration manages and administers these plans. Health and dental benefits are equal for all plan participants. Participation in the health and dental plans includes employees of the Fayetteville, Batesville, Little Rock, Monticello, Pine Bluff, Medical Sciences campuses, the Cooperative Extension Service of the Division of Agriculture, the Arkansas School for Mathematics, Sciences and the Arts, the Criminal Justice Institute, The University of Arkansas Foundation, Inc., the University of Arkansas Winthrop Rockefeller Institute, the state-wide operating units of Arkansas Archeological Survey and the University of Arkansas System Administration.

At June 30, 2008, a total of 15,039 active employees, former employees, and retirees were participants in the health plan. The University offers three different health plans: Classic (HMO), Point of Service (POS), and POS Alternate (for out-of-state employees and retirees only). Participating campuses pay anywhere from 72% to 78% of the Classic Plan premium and 65% to 70% of the Point of Service Plan premium. Each campus makes its contribution determination based on budget considerations. For the POS Alternate Plan premium, the campuses pay 64% of the total premium. Retirees and former employees, through COBRA, participate on a fully contributory basis. A total of 14,596 active employees, former employees, and retirees were participants in the dental plan as of June 30, 2008. The University pays 50% of the total premium for full-time active employees, while retirees and former employees, through COBRA, participate on a fully contributory basis.

Both plans are accounted for on the accrual basis. No acquisition costs were capitalized at the onset of the plan. The System Administration estimates the medical and pharmacy claims liability to be \$10,475,378 at June 30, 2008. This liability is established for incurred but not reported (IBNR) claims, and includes a related accrual for claim adjustment expenses, which are expenses incurred in the ultimate settlement of the claim. The claim and claim adjustment accrual for health and pharmacy claims is based on the calculation prepared by Regions Insurance.

The System Administration estimates the dental claim liability to be \$230,448 at June 30, 2008. This liability is established for incurred but not reported (IBNR) claims. The IBNR claims liability includes a related accrual for claim adjustment expenses, which are expenses incurred in the ultimate settlement of the claim. The IBNR claims accrual is based on 3% of total claims paid in the prior 12 months. The 3% level is based on an average of current versus prior year claims paid for the last three fiscal years. The claim adjustment accrual is based on dividing the amount for incurred but not reported claims by the average cost per claim for the year ended June 30, 2008, to determine the number of claims that are projected to be processed during the run-out period. Delta Dental's charge per claim will not exceed \$10 per claim.

The System Administration purchases specific reinsurance to reduce its exposure to large claims. United Healthcare Insurance Company is the reinsurance carrier. Under specific arrangement, the reinsurance carrier pays claims for covered individuals that exceed a

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deductible of \$750,000. In fiscal year 2009, the health plan expects to receive \$133,591 for excessive claims incurred in the fiscal year ended June 30, 2008.

The plan has not purchased any annuity contracts on behalf of claimants. If needed, United Healthcare Insurance Company, the University's reinsurance carrier, would make the arrangements.

The funding levels for the Plan were established based upon anticipated year-end loss ratios of 95%. As of June 30, 2008, the loss ratio for the health plan was 108% and the loss ratio for the dental plan was 103%.

The System Administration retains and accounts for all of the risk financing associated with the self-insurance plan's activities as defined by GASB Statement No. 10.

Reconciliation of Health, Pharmacy and Dental Incurred But Not Reported Claims		
	FY08	FY07
Unpaid claims and claim adjustment expenses at beginning of year	9,646,053	8,694,534
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current year	103,730,098	89,425,902
Adjustment in provision for insured events of prior years	160,360	(8,318)
Total incurred claims and claim adjustment expenses	113,536,511	98,112,118
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current year	93,024,272	79,779,849
Claims and claim adjustment expenses attributable to insured events of prior years	9,806,413	8,686,216
Total Payments	102,830,685	88,466,065
Total unpaid claims and claim adjustment expenses at end of year.	10,705,826	9,646,053
<i>The liability for future insurance claims includes health, pharmacy and dental incurred but not reported (IBNR) claims/claim adjustment expenses only. Claims known but not paid as of the end of FY07 and FY08 were \$1,359,677& \$1,565,092, respectively, and were carried under Accounts Payable.</i>		

Retirement Benefits

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

The ORP is a defined contribution plan. The plan includes both a 403(b) program and a 457(b) program as defined by the Internal Revenue Service Code of 1986 as amended. The authority under which the Plan's benefit provisions are established or amended is the President of the University or his designee. 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 Code Annotated 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 total University contribution of 10% of regular salary. (The plan for the Ft. Smith campus is structured differently and allows the university to contribute 10% of the employee's salary even if the employee chooses not to contribute.) 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

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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 employees other than those described previously, 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 TIAA/CREF and Fidelity contributions for the fiscal years 2008, 2007 and 2006 were \$67,926,185, \$63,542,563 and \$61,326,923, respectively. The participants' contributions for the fiscal years 2008, 2007 and 2006 were \$72,317,216, \$55,622,160 and \$59,650,016, respectively.

APERS is a cost-sharing multiple employer defined benefit pension 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 contributions for the fiscal years 2008, 2007 and 2006 were \$1,470,416, \$1,286,385, and \$1,271,849, respectively. Participants' contributions for the fiscal years 2008, 2007 and 2006 were \$80,965, \$45,748 and \$19,685, respectively. Arkansas Code establishes the contribution requirements of plan members and the University. The annual required contribution amounts and the percentage contributed are determined by the annual actuarial valuation as set forth in Arkansas Code.

ATRS is a cost-sharing multi-employer defined benefit pension plan. The University contributes 14% of all covered employees' salaries. Under certain conditions, covered employees may voluntarily contribute 6% of their salary. The University's contributions for the fiscal years 2008, 2007 and 2006 were \$1,784,301, \$1,550,982, and \$1,452,351, respectively. Participants' contributions for the fiscal years 2008, 2007 and 2006 were \$593,333, \$519,450 and \$473,330, respectively. Arkansas Code establishes the contribution requirements of plan members and the University. The annual required contribution amounts and the percentage contributed are determined by the annual actuarial valuation as set forth in Arkansas Code.

Cooperative Extension Service employees who hold accepted appointments with the U.S. Department of Agriculture are covered by one of the above plans depending on when employment began. Employees employed prior to January 1, 1984 are on the Civil Service Retirement System. This system requires an employee contribution of 7% and the University contributes 8.51%. Employees employed between January 1, 1984 and July 31, 1987, are on either the Civil Service Offset or the Federal Employees Retirement System, depending on their length of prior federal service. Both systems require an employee contribution of .80%. The Civil Service Offset requires matching of 8.51% and the Federal Employees Retirement system requires agency matching of 10.7%. Employees on Civil Service participate in TIAA-CREF and Fidelity. The Thrift Savings Plan is another retirement savings and investment plan for Federal employees at the UA Cooperative Extension Service. It is a defined contribution plan and its purpose is to provide retirement income for Federal employees similar without employer matching for employees covered under the Civil Service Retirement System. Employees covered under the Federal Employees Retirement System receive a mandatory 1% employer contribution. The University's contributions for the fiscal years 2008, 2007 and 2006 for both the Civil Service Retirement System and the Thrift Savings Plan were \$608,415, \$592,663 and \$569,465, respectively. The participants' contributions for the fiscal years 2008, 2007 and 2006 were \$516,681, \$506,271 and \$483,420, respectively.



Cossatot Community College UA

The University of Arkansas community colleges offer APERS, ATRS, and their own ORP. The ORP is a 403(b) plan in which the institution will contribute 10-14% of earnings as long as the employee contributes 6%. Contributions can be made to TIAA-CREF, VALIC or Travelers. The University's VALIC contributions for the fiscal years 2008, 2007 and 2006 were \$1,480,851, \$1,343,874 and \$1,241,888, respectively. The participants' contributions to VALIC for fiscal years 2008, 2007 and 2006 were \$1,062,081, \$996,958 and \$935,721, respectively. The University's contributions to Travelers for the fiscal years 2008, 2007 and 2006 were \$7,390, \$8,416, and \$8,559, respectively. Participants' contributions to Travelers for the fiscal years 2008, 2007 and 2006 were \$3,167, \$3,607 and \$4,541, respectively.

NOTE 13: 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 consolidated financial report.

Health benefits are provided for current and retired employees of the Cossatot (CCCUA), Phillips (PCCUA), Hope (UACCH), and Morrilton (UACCM) campuses through the Arkansas Higher Education Consortium Benefits Trust which is considered an agent multiple-employer plan.

The Fort Smith (UAFS) campus provides health and dental benefits for current and retired employees through the University of Arkansas at Fort Smith Benefit Plan, which is considered a single-employer plan.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which became effective for the fiscal year ending June 30, 2008. This statement requires governmental entities to recognize and match other postretirement benefit costs with related services received and also to provide information regarding the actuarially calculated liability and funding level of the benefits associated with past services. As a result of the implementation of this statement, the University accrued \$18,618,778 in retiree healthcare expense during the fiscal year ended June 30, 2008.

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

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

Retirees from UAFS qualify for postretirement benefits as follows:

- **Participation:** Employees who retire at age 55 or above and have at least 10 years of service are eligible to participate.
- **Benefit Provided:** Retirees participate in the plan at the same premium as an active employee. Coverage ends at age 65.
- **Required Contribution Ratio:** Retirees pay 100% of premium. Employer costs are funded on a pay-as-you-go basis.

Retirees from CCCUA qualify for postretirement benefits as follows:

- **Participation:** Employees who retire at age 60 or above and have at least 5 years of service are eligible to participate.
- **Benefit Provided:** Retirees participate in the plan at the same premium as an active employee.
- **Required Contribution Ratio:** Retirees pay 100% of premium. Employer costs are funded on a pay-as-you-go basis.

Retirees from PCCUA qualify for postretirement benefits as follows:

- **Participation:** Employees who retire at age 55 or above and have at least 15 years of service are eligible to participate.
- **Benefit Provided:** Before age 65, retirees participate in the plan at the same premium as an active employee. At age 65, the campus pays for supplemental Medicare coverage.
- **Required Contribution Ratio:** Retirees pay 100% of premium before age 65. Employer costs are funded on a pay-as-you-go basis.

Retirees from UACCH qualify for postretirement benefits as follows:

- **Participation:** Employees who retire with at least 10 years of service are eligible to participate.
- **Benefit Provided:** Retirees participate in the plan at the same premium as an active employee.
- **Required Contribution Ratio:** Retirees pay 100% of premium. Employer costs are funded on a pay-as-you-go basis.

Retirees from UACCM qualify for postretirement benefits as follows:

- **Participation:** Employees who retire at age 60 or above and have at least 10 years of service are eligible to participate.
- **Benefit Provided:** Retirees participate in the plan at the same premium as an active employee.
- **Required Contribution Ratio:** Retirees pay 100% of the same premium as an active employee. However, if an employee retires on or after age 62, with at least 20 years of service, the campus will pay their coverage until age 65. Employer costs are funded on a pay-as-you-go basis.



Phillips Community College challenges its students to excel in their studies. At PCCUA, students are prepared for their career choices and learn marketable skills in a short period of time.

Summary of Key Actuarial Methods and Assumptions**University Self-Funded Plan:**

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%

UAFS, CCCUA, PCCUA, UACCH, UACCM:

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
Asset valuation method	N/A
Discount rate	6.00%
Medical inflation rate	Initial rate of 10%, with a 1% decrease each year for the next two years and a 0.50% decrease each year, to an ultimate rate of 5% in the ninth year.

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.

University Self-Funded Plan:

Healthy Mortality RP 2000 Male and Female Mortality Tables

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

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

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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%

Retirement

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

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.

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.

UAFS, CCCUA, PCCUA, UACCH, UACCM:

Healthy Mortality 1994 Uninsured pensioners Mortality Table

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

Age	Rate per 100
20	.10
25	.10
30	.08
35	.08
40	.14
45	.24
50	.53
55	.88
60	1.0

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Voluntary terminations:

Termination rates at some sample ages are:

<u>Age</u>	<u>Rate per 100</u>
20	4.60
25	4.84
30	4.40
35	3.10
40	2.20
45	2.00
50	2.00
55	5.00

For those with less than five years of service, the following multiples of the above rates were used:

1 st year of service	4.0
2 nd year of service	2.5
3 rd year of service	2.0
4 th year of service	1.5

Retirement

<u>Age</u>	<u>Rate per 100</u>
55-59	5.0
60	15.0
61	14.0
62	25.0
63-64	15.0
65	35.0
66-68	30.0
69	100.0

Future Retiree Coverage

The assumption is that 80% of eligible retirees would select the coverage when they initially retire, and that 0% of them would continue it past age 65.

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

Unfunded actuarial accrued liability at 7-1-07	<u><u>\$ 177,561,973</u></u>
<u>Annual Required Contribution (ARC)</u>	
Normal cost	\$ 13,391,139
Amortization of the unfunded actuarial accrued liability over 30 years	6,525,037
Interest	<u>906,472</u>
Annual Required Contribution for FY08	20,822,648
Less: Expected Employer Contributions	<u>2,203,870</u>
Accrual at 6-30-08	<u><u>\$ 18,618,778</u></u>

Schedule of Employer Contributions

<u>Fiscal Year</u>	<u>Annual Required</u>	<u>Expected</u>	<u>Percentage</u>
<u>Ending</u>	<u>Contribution</u>	<u>Contribution</u>	<u>Contributed</u>
6-30-08	\$ 20,822,648	\$ 2,203,870	10.58%

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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 30, 2007 as it was expected that actual contributions for the fiscal year ended June 30, 2008 would not have been materially different.

Schedule of Funding Progress

Fiscal Year	Actuarial	Actuarial	Unfunded			UAAL as
Ending	Value of	Accrued	AAL	Funded	Covered	Percentage
	Assets	Liability	(UAAL)	Ratio	Payroll	of Covered
		(AAL)				Payroll
6-30-08	\$ -	\$ 177,561,973	\$ 177,561,973	-%	\$ 826,596,948	21.48%

Note 14: Affiliated Entities

There are in existence several entities, in addition to those identified as component units in Note 1, which are related to the University. The purposes of these organizations are varied, but all were established to benefit the University, or its students, faculty and staff in some manner.

The Razorback Foundation, Inc. was incorporated on October 17, 1980, for the sole purpose of supporting intercollegiate athletics at the University of Arkansas. The audited financial statements of the Foundation for the year ended June 30, 2008, are presented below in summary form.

CONDENSED STATEMENT OF FINANCIAL POSITION	
As of June 30, 2008	
Assets	
Cash and investments	\$ 8,940,221
Pledges receivable	4,203,888
Other assets	2,138,408
Total Assets	<u>\$ 15,282,517</u>
Liabilities and Net Assets	
Liabilities	\$ 5,453,114
Net Assets	9,829,403
Total Liabilities and Net Assets	<u>\$ 15,282,517</u>
CONDENSED STATEMENT OF ACTIVITIES	
FY Ended June 30, 2008	
Income and Other Additions	
Donations	\$ 11,581,730
Other revenues and additions	597,641
Total Income and Other Additions	<u>\$ 12,179,371</u>
Total Expenditures and Other Deductions	<u>\$ 15,814,752</u>
Total Increase (Decrease) in Net Assets	<u>\$ (3,635,381)</u>

The Arkansas Alumni Association, Inc. was incorporated in 1960 for the purposes of promoting the welfare of the University and its graduates and former students. The audited financial statements of the Alumni Association for the year ended June 30, 2008, are presented below in summary form.

CONDENSED STATEMENT OF FINANCIAL POSITION	
As of June 30, 2008	
Assets	
Cash and investments	\$ 1,373,479
Other assets	4,071,000
Total Assets	\$ 5,444,479
Liabilities and Net Assets	
Liabilities	\$ 69,281
Net Assets	5,375,198
Total Liabilities and Net Assets	\$ 5,444,479
CONDENSED STATEMENT OF ACTIVITIES	
FY Ended June 30, 2008	
Income and Other Additions	
Memberships	\$ 503,983
Other revenues and additions	1,416,461
Total Income and Other Additions	\$ 1,920,444
Total Expenditures and Other Deductions	\$ 2,082,427
Total Increase (Decrease) in Net Assets	\$ (161,983)

The Arkansas Four-H Foundation, Inc. was incorporated in 1951. The purpose and objectives of the Foundation are educational. The Foundation was formed for educational purposes that will meet the needs and advance the interests of 4-H Club work throughout the State of Arkansas. Financial statements, which have been audited by an independent certified public accountant, are presented below for the year ended June 30, 2008:

CONDENSED STATEMENT OF FINANCIAL POSITION	
As of June 30, 2008	
Assets	
Cash and investments	\$ 3,490,053
Other assets	6,279,559
Total Assets	\$ 9,769,612
Liabilities and Net Assets	
Liabilities	\$ 306,496
Net Assets	9,463,116
Total Liabilities and Net Assets	\$ 9,769,612
CONDENSED STATEMENT OF ACTIVITIES	
FY Ended June 30, 2008	
Income and Other Additions	
Program revenue	\$ 1,584,527
Grants and Contributions	309,409
Other income	115,731
Total Income and Other Additions	\$ 2,009,667
Total Expenditures and Other Deductions	\$ 2,254,504
Total Increase (Decrease) in Net Assets	\$ (244,837)



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The University of Arkansas Technology Development Foundation, a 501(c)(3) corporation, was formed in May 2003, for the purpose of promoting the development and effective operation, administration and advancement of the Arkansas Research and Technology Park (ARTP), a University-owned science and technology development located near the main campus in Fayetteville. The Foundation also assists entrepreneurial University faculty in the development of inventions, technology or other intellectual property in which the University or the Foundation may own or otherwise have a vested interest, including, where appropriate, the creation of new startup companies. A summary of their unaudited financial statements as of June 30, 2008 is presented below.

CONDENSED STATEMENT OF FINANCIAL POSITION	
As of June 30, 2008	
Assets	
Cash	\$ 551,134
Other assets	44,219
Total Assets	<u>\$ 595,353</u>
Liabilities and Net Assets	
Liabilities	\$ 124,454
Net Assets	470,899
Total Liabilities and Net Assets	<u>\$ 595,353</u>

CONDENSED STATEMENT OF ACTIVITIES	
FY Ended June 30, 2008	
Income and Other Additions	
Rent	\$ 466,440
Other revenues and additions	38,445
Total Income and Other Additions	<u>\$ 504,885</u>
Total Expenditures and Other Deductions	<u>\$ 416,701</u>
Total Increase (Decrease) in Net Assets	<u>\$ 88,184</u>

The University of Arkansas Fort Smith Foundation, Inc. operates as a nonprofit corporation whose primary activity is providing support to the Fort Smith campus. A summary of the Foundation's audited financial position as of June 30, 2008, follows:

CONDENSED STATEMENT OF FINANCIAL POSITION	
As of June 30, 2008	
Assets	
Cash and investments	\$ 52,619,645
Other assets	237,358
Total Assets	<u>\$ 52,857,003</u>
Liabilities and Net Assets	
Liabilities	\$ 1,317,294
Net Assets	51,539,709
Total Liabilities and Net Assets	<u>\$ 52,857,003</u>

CONDENSED STATEMENT OF ACTIVITIES	
FY Ended June 30, 2008	
Income and Other Additions	
Contributions	\$ 7,405,541
Other revenues and additions	(1,300,196)
Total Income and Other Additions	<u>\$ 6,105,345</u>
Total Expenditures and Other Deductions	<u>\$ 1,720,378</u>
Total Increase (Decrease) in Net Assets	<u>\$ 4,384,967</u>

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The University of Arkansas Fort Smith Benefit Plan was established on January 1, 1993 under the guidelines of the voluntary employees' beneficiary association described in Section 501, Section (9) of the Internal Revenue Service Code. The Benefit Plan provides a self-insurance program for sickness, health and dental benefits for eligible employees and their eligible dependents. In accordance with Section 501, Section (3) of the Internal Revenue Service Code, all benefits are paid to members of the Association with no part of net earnings being paid to private shareholders or individuals. A summary of the audited Benefit Plan's financial position as of December 31, 2007, follows:

CONDENSED STATEMENT OF FINANCIAL POSITION	
As of December 31, 2007	
Assets	
Cash	\$ 2,260,687
Other Assets	40,481
Total Assets	<u>\$ 2,301,168</u>
Liabilities and Net Assets	
Liabilities	\$ 267,338
Net Assets	2,033,830
Total Liabilities and Net Assets	<u>\$ 2,301,168</u>
CONDENSED STATEMENT OF ACTIVITIES	
FY Ended December 31, 2007	
Income and Other Additions	
Contributions	\$ 2,693,470
Other revenues and additions	115,854
Total Income and Other Additions	<u>\$ 2,809,324</u>
Total Expenditures and Other Deductions	<u>\$ 2,461,962</u>
Total Increase (Decrease) in Net Assets	<u>\$ 347,362</u>

The University of Arkansas at Little Rock Alumni Association is utilized to receive and disburse funds obtained from gifts, activity fees and receipts from special projects. The Association operates as a nonprofit benevolent corporation for charitable educational purposes. The assets of the Foundation are held by the University of Arkansas Foundation, Inc. and are reported in audited financial statements of the Foundation as of June 30, 2008.



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The Trojan Athletic Foundation, Inc. is a non-profit entity established to support the athletic department at the Little Rock campus. Contributions are received from the University of Arkansas Foundation and used for the benefit of the athletic foundation. A summary of the Foundation's audited financial position as of June 30, 2008, follows.

CONDENSED STATEMENT OF FINANCIAL POSITION	
As of June 30, 2008	
Assets	
Cash	\$ 19,498
Other Assets	94,266
Total Assets	<u>\$ 113,764</u>
Liabilities and Net Assets	
Liabilities	\$ 5,676
Net Assets	108,088
Total Liabilities and Net Assets	<u>\$ 113,764</u>
CONDENSED STATEMENT OF ACTIVITIES	
FY Ended June 30, 2008	
Income and Other Additions	
Contributions	\$ 200,332
Other revenues and additions	238,300
Total Income and Other Additions	<u>\$ 438,632</u>
Total Expenditures and Other Deductions	<u>\$ 488,307</u>
Total Increase (Decrease) in Net Assets	<u>\$ (49,675)</u>

The University of Arkansas at Pine Bluff/AM&N Alumni Association, Inc. was organized to foster and promote the general welfare and growth of the University of Arkansas at Pine Bluff. A summary of the Association's unaudited financial position as of December 31, 2007, follows:

CONDENSED STATEMENT OF FINANCIAL POSITION	
As of December 31, 2007	
Assets	
Cash & investments	\$ 95,579
Other assets	116,547
Total Assets	<u>\$ 212,126</u>
Liabilities and Net Assets	
Liabilities	\$ 6,259
Net Assets	205,867
Total Liabilities and Net Assets	<u>\$ 212,126</u>
CONDENSED STATEMENT OF ACTIVITIES	
FY Ended December 31, 2007	
Total Income	\$ 91,549
Total Expenditures and Other Deductions	<u>\$ 88,415</u>
Total Increase (Decrease) in Net Assets	<u>\$ 3,134</u>

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The Golden Lion Foundation, Inc. was organized to foster and promote the general welfare and growth of the University of Arkansas at Pine Bluff. A summary of the Foundation's audited financial position as of June 30, 2006, follows:

CONDENSED STATEMENT OF FINANCIAL POSITION	
As of June 30, 2006	
Assets	
Cash	\$ 11,205
Total Assets	<u>\$ 11,205</u>
Liabilities & Net Assets	
Liabilities	\$ -
Net Assets	11,205
Total Liabilities & Net Assets	<u>\$ 11,205</u>
CONDENSED STATEMENT OF ACTIVITIES	
FY Ended June 30, 2006	
Total Income	\$ 92,409
Total Expenditures and Other Deductions	<u>\$ 85,722</u>
Total Increase (Decrease) in Net Assets	<u>\$ 6,687</u>



The Cossatot Community College of the University of Arkansas Foundation, Inc. operates as a nonprofit benevolent corporation for charitable educational purposes. A summary of the Foundation's audited financial condition as of June 30, 2008, follows:

CONDENSED STATEMENT OF FINANCIAL POSITION	
As of June 30, 2008	
Assets	
Cash and investments	\$ 274,636
Other	83,287
Total Assets	<u>\$ 357,923</u>
Liabilities and Net Assets	
Liabilities	\$ 26,000
Net Assets	331,923
Total Liabilities and Net Assets	<u>\$ 357,923</u>
CONDENSED STATEMENT OF ACTIVITIES	
FY Ended June 30, 2008	
Income and Other Additions	
Donations and other revenues	\$ 41,754
Total Income and Other Additions	<u>\$ 41,754</u>
Total Expenditures and Other Deductions	<u>\$ 3,240</u>
Total Increase (Decrease) in Net Assets	<u>\$ 38,514</u>

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The Phillips Community College Foundation operates as a nonprofit benevolent corporation for charitable educational purposes. A summary of the Foundation's audited financial condition as of December 31, 2007, follows:

CONDENSED STATEMENT OF FINANCIAL POSITION	
As of December 31, 2007	
Assets	
Cash and investments	\$ 1,857,988
Other Assets	190,149
Total Assets	\$ 2,048,137
Liabilities and Net Assets	
Liabilities	\$ 31,430
Net Assets	2,016,707
Total Liabilities and Net Assets	\$ 2,048,137
CONDENSED STATEMENT OF ACTIVITIES	
FY Ended December 31, 2007	
Income and Other Additions	
Donations	\$ 387,698
Other income and additions	66,625
Total Income and Other Additions	\$ 454,323
Total Expenditures and Other Deductions	\$ 374,490
Total Increase (Decrease) in Net Assets	\$ 79,833

The University of Arkansas Community College at Hope Foundation, Inc. operates as a nonprofit benevolent corporation for charitable educational purposes. A summary of the Foundation's unaudited financial condition as of June 30, 2008, follows:

CONDENSED STATEMENT OF FINANCIAL POSITION	
As of June 30, 2008	
Assets	
Cash and investments	\$ 1,920,144
Other Assets	16,999
Total Assets	\$ 1,937,143
Total Net Assets	\$ 1,937,143
CONDENSED STATEMENT OF ACTIVITIES	
FY Ended June 30, 2008	
Income and Other Additions	
Donations	\$ 1,073,106
Other income and additions	263,371
Total Income and Other Additions	\$ 1,336,477
Total Expenditures and Other Deductions	\$ 97,003
Total Increase (Decrease) in Net Assets	\$ 1,239,474



UA Community College at Hope

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The University of Arkansas Community College at Morrilton Foundation, Inc. operates as a nonprofit benevolent corporation for charitable educational purposes for the Morrilton campus. A summary of the Foundation's audited financial condition as of December 31, 2007, follows:

CONDENSED STATEMENT OF FINANCIAL POSITION	
As of December 31, 2007	
Assets	
Cash and investments	\$ 69,912
Other	-
Total Assets	\$ 69,912
Liabilities and Net Assets	
Liabilities	\$ -
Net Assets	69,912
Total Liabilities and Net Assets	\$ 69,912
CONDENSED STATEMENT OF ACTIVITIES	
FY Ended December 31, 2007	
Income and Other Additions	
Contributions	\$ 29,009
Other income and additions	2,984
Total Income and Other Additions	\$ 31,993
Total Expenditures and Other Deductions	\$ 32,171
Total Increase (Decrease) in Net Assets	\$ (178)

The University of Arkansas Winthrop Rockefeller Center, Inc. is a conference center incorporated in January 2005. The Center's mission is to provide extended learning for youth and adults, internship opportunities for students, professional development for faculty and staff of the University of Arkansas as well as for the general public and conferences focused on enriching and informing Arkansas leaders. A summary of their unaudited financial statements as of June 30, 2008, is presented below:

CONDENSED STATEMENT OF FINANCIAL POSITION	
As of June 30, 2008	
Assets	
Cash & Investments	\$ 1,369,255
Grant Receivable	19,467,370
Other	\$ 240,104
Property and Equipment, Net	19,481,589
Total Assets	\$ 40,558,318
Liabilities and Net Assets	
Liabilities	\$ 552,633
Net Assets	40,005,685
Total Liabilities and Net Assets	\$ 40,558,318
CONDENSED STATEMENT OF ACTIVITIES	
FY Ended June 30, 2008	
Income and Other Additions	
Grants and contributions	\$ 2,644,799
Other income and additions	1,194,856
Total Income and Other Additions	\$ 3,839,655
Total Expenditures and Other Deductions	\$ 5,976,555
Prior Year Adjustment	\$ 1,568,210
Total Increase (Decrease) in Net Assets	\$ (568,690)

NOTE 15: NATURAL & FUNCTIONAL CLASSIFICATIONS OF OPERATING EXPENSES

Following is a reconciliation of the natural classifications as presented in the Statement of Revenues, Expenses and Changes in Net Assets to the functional classifications:

Functional Classifications	Natural Classifications					TOTAL
	Compensation & Benefits	Supplies & Services	Scholarships & Fellowships	Insurance	Depreciation	
Instruction	\$ 309,806,840	\$ 41,752,764	\$ -	\$ -	\$ -	\$ 351,559,604
Research	140,271,296	67,577,266	-	-	-	207,848,562
Public Service	75,012,171	32,873,289	-	-	-	107,885,460
Academic Support	55,563,402	27,539,247	-	-	-	83,102,649
Student Services	31,677,177	14,099,171	-	-	-	45,776,348
Institutional Support	156,511,838	19,772,290	-	-	-	176,284,128
Scholarships/Fellow	905,881	105,500	51,025,387	-	-	52,036,768
Plant Operations	44,184,032	51,449,040	-	-	-	95,633,072
Auxiliary Enterprises	45,593,639	76,046,116	306,376	-	-	121,946,131
Depreciation	-	-	-	-	118,549,997	118,549,997
Patient Care	316,103,650	214,821,000	-	-	-	530,924,650
Other	833,000	5,310,538	-	-	-	6,143,538
Insurance expenses	-	-	-	115,418,625	-	115,418,625
TOTAL	1,176,462,926	551,346,221	51,331,763	115,418,625	118,549,997	2,013,109,532

NOTE 16: CONTINGENCIES

The University has been named as defendant in several lawsuits. It is the opinion of management and its legal counsel that these matters will be resolved without material adverse effect on the future operations or financial position of the University.

In fiscal year 2006, the Arkansas Development Finance Authority (the Authority) issued \$36,775,000 in Tobacco Settlement Revenue Bonds. The Authority has made the proceeds of the bonds available to the University of Arkansas Board of Trustees (UA Board) to fund an expansion to the Arkansas Cancer Research Center (ACRC) on the campus of the University of Arkansas for Medical Sciences (UAMS). The bonds have an approximate yield to maturity of 4.77% to 5.10% and principal and accumulated interest are payable beginning in 2021 through 2031 for \$22,158,000 of serial bonds and beginning in 2036 through 2046 for \$14,617,000 of term bonds. Funds received from the Arkansas Tobacco Settlement Funds Act of 2000 are pledged for debt service and are the primary source of payment for the bonds. In accordance with a Loan Agreement dated June 1, 2006 between the UA Board and the Authority, the UA Board will be required to make debt service



payments on the Series 2006 bond issue in the event of a shortfall in tobacco settlement revenues. However, no such payments will be made unless the Debt Service Revenues are insufficient to make such payments. Management believes the Debt Service revenues will be sufficient to service the entire principal and interest due. The latest *Global Insights USA, Inc.* report, prepared in August 2006, on the *Forecast of U.S. Cigarette Consumption (2004-2046)* indicates that tobacco consumption in 2046 is expected to decline by 54% from the 2003 level. For fiscal year 2003, Arkansas received \$60,067,457 from the Tobacco Settlement Fund. Using the 54% decline from above, Arkansas should receive approximately \$27.6 million in 2046 with the first \$5 million dedicated to pay the debt service on the above bond issue. If Debt Service Revenues would have been considered insufficient at June 30, 2008, the University would have incurred a liability of \$26,644,000 related to issue. This amount includes draw down of funds related to the project, issuance costs, discounts, accreted interest, and other expenses related to the issue. The revenues pledged by UAMS to secure the Loan Agreement consist of inpatient service fees and fees collected from other ancillary, therapeutic, and diagnostic services provided within the walls of the hospital but excludes (a) physician-generated revenues, (b) State appropriations, and (c) revenues restricted for other purposes.

NOTE 17: ELIMINATION OF INTER-COMPANY TRANSACTIONS

The consolidated financial statements were prepared from the audited financial statements of each campus and the System Administration of the University. The inclusion of inter-company transactions in the consolidated financial statements, with the exception of the University's self-insurance transactions, is not considered materially significant to distort the amounts presented in the consolidated financial statements. Therefore, inter-company adjustments were only made for the elimination of those transactions affecting the University's insurance program revenues and expenditures. As explained in Note 12, the System Administration administers the insurance programs for the University. Insurance premiums remitted to the System Administration by the campuses are shown as insurance revenues in the System Administration's financial statements. The insurance claims paid are shown as insurance expenditures on the System Administration's financial statements. The premiums expensed by the campuses are recorded in the appropriate institutional expenditure categories. An elimination adjustment was made to reduce the insurance revenue amount and the combined institutional expenditure categories in the amount of \$69,160,153 and \$67,963,961 for fiscal years ended June 30, 2008 and June 30, 2007, respectively.

NOTE 18: DISAGGREGATION OF ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE

Accounts Receivable balances of \$91,301,915, as shown on the Statement of Net Assets, consist of the following at year-end:

June 30, 2008	
Balance	
Student accounts receivable	\$14,663,060
Non-student accounts receivable	39,796,325
Federal grants and contracts	11,757,650
Other grants and contracts	8,129,268
Property and sales taxes	2,369,040
Insurance premiums	8,479,609
Other	6,106,963
Total	\$91,301,915

Accounts Payable balance of \$141,112,155, as shown on the Statement of Net Assets, consists of the following at year-end:

June 30, 2008	
Balance	
Trade payables	\$34,056,394
Payroll related	55,484,757
Interest payable	4,990,394
Insurance premiums	799,740
Line of credit	0
Other	45,780,870
Total	\$141,112,155

NOTE 19: JOINT ENDEAVOR

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

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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 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	
As of June 30, 2008	
Assets	
Cash and cash equivalents	\$ 2,099,651
Investments	14,059,716
Other assets	6,447,586
Total Assets	<u>\$ 22,606,953</u>
Liabilities and Net Assets	
Liabilities	\$ 2,516,982
Net Assets	20,089,971
Total Liabilities and Net Assets	<u>\$ 22,606,953</u>
CONDENSED STATEMENT OF ACTIVITIES	
FY Ended June 30, 2008	
Income and Other Additions	
Contributions and sponsorships	\$ 1,996,546
Other revenues and additions	5,340,297
Total Income and Other Additions	<u>\$ 7,336,843</u>
Total Expenditures and Other Deductions	<u>\$ 7,738,284</u>
Total Increase (Decrease) in Net Assets	<u>\$ (401,441)</u>

NOTE 20: INTERAGENCY TRANSFER

The majority of the interagency transfer shown on the Statement of Revenues, Expenses and Changes in Net Assets was due to an agreement executed on February 23, 2005, between UAMS and the Arkansas Department of Human Services (DHS) in which DHS agreed to transfer to UAMS certain land and buildings adjacent to the UAMS campus in consideration of a new Arkansas State Hospital building with an estimated construction cost of \$32,327,000. The construction began and the land was transferred to UAMS in fiscal year 2005. The majority of the project was funded by reducing the administrative fee contractual payments due to DHS by approximately \$26,227,000 over a four year period with the remaining \$6,100,000 paid with UAMS unrestricted net assets. In the current fiscal year, the hospital building was completed and transferred to DHS.

NOTE 21: PRIOR YEAR RECLASSIFICATION

Certain reclassifications have been made to the June 30, 2007 financial statements. Cash equivalents of approximately \$90,684,000 were reclassified to current investments to properly disclose liquidity of certain investments. Net cash and cash equivalents provided by investing activities were reclassified as purchases and sales of investments.



UA Community College at Batesville

NOTE 21: SUBSEQUENT EVENTS**UAF: Various Facilities Revenue Bonds**

On March 28, 2008, the Board of Trustees of the University of Arkansas adopted a resolution expressing its intention to issue bonds 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.

UAF: 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. Management anticipates drawing down the entire \$6,000,000 to complete the construction.

UAF: 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. ("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 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 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.

PCCUA: On June 6, 2008, the Board of Trustees adopted a resolution expressing its intention to issue bonds to help finance the Grand Prairie Center on the Stuttgart campus. On September 19, 2008, the Board of Trustees authorized the issuance of the bonds with amounts not to exceed \$12,305,000 to help finance the project along with refunding the Student Fee Revenue Bonds, Series 1997. As of October 20, 2008, the bonds had not yet been offered.

UACCH: On June 6, 2008, the Board of Trustees authorized the issuance of bonds to help finance a Science and Technology Center with amounts not to exceed \$2,700,000. On October 2, 2008, the University closed on the Series 2008 Student Fee Revenue Bonds with a par value of \$2,685,000.

Commonfund Short Term Fund Liquidity

As discussed at Note 5, 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. On October 1, 2008, the University had \$152,366,148 invested in the Fund.

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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
50%	October 31, 2008
58%	November 25, 2008
63%	December 29, 2008
68%	March 2009
72%	June, 2009
77%	December, 2009
85%	December, 2010
Remainder	2011 and beyond

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.



Former President Clinton congratulating a new graduate from the UA Clinton School of Public Service.

REQUIRED SUPPLEMENTAL INFORMATION

OTHER POST EMPLOYMENT BENEFITS

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

Unfunded actuarial accrued liability at 7-1-07	<u>\$ 177,561,973</u>
Annual Required Contribution (ARC)	
Normal cost	\$ 13,391,139
Amortization of the unfunded actuarial accrued liability over 30 years	6,525,037
Interest	<u>906,472</u>
Annual Required Contribution for FY08	20,822,648
Less: Expected Employer Contributions	<u>2,203,870</u>
Accrual at 6-30-08	<u>\$ 18,618,778</u>

Schedule of Employer Contributions

Fiscal Year Ending	Annual Required Contribution	Expected Contribution	Percentage Contributed
6-30-08	\$ 20,822,648	\$ 2,203,870	10.58%

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 30, 2007 as it was expected that actual contributions for the fiscal year ended June 30, 2008 would not have been 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	\$ -	\$ 177,561,973	\$ 177,561,973	-%	\$ 826,596,948	21.48%

Summary of Key Actuarial Methods and Assumptions

University Self-Funded Plan:

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%

UAFS, CCCUA, PCCUA, UACCH, UACCM:

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
Asset valuation method	N/A
Discount rate	6.00%
Medical inflation rate	Initial rate of 10%, with a 1% decrease each year for the next two years and a 0.50% decrease each year, to an ultimate rate of 5% in the ninth year.

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.

University Self-Funded Plan:

Healthy Mortality RP 2000 Male and Female Mortality Tables

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

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

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%

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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%

Retirement

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

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.

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.

UAFS, CCCUA, PCCUA, UACCH, UACCM:

Healthy Mortality 1994 Uninsured pensioners Mortality Table

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

<u>Age</u>	<u>Rate per 100</u>
20	.10
25	.10
30	.08
35	.08
40	.14
45	.24
50	.53
55	.88
60	1.0

Voluntary terminations:

Termination rates at some sample ages are:

<u>Age</u>	<u>Rate per 100</u>
20	4.60
25	4.84
30	4.40
35	3.10
40	2.20
45	2.00
50	2.00
55	5.00

For those with less than five years of service, the following multiples of the above rates were used:

1 st year of service	4.0
2 nd year of service	2.5
3 rd year of service	2.0
4 th year of service	1.5

Retirement

<u>Age</u>	<u>Rate per 100</u>
55-59	5.0
60	15.0
61	14.0
62	25.0
63-64	15.0
65	35.0
66-68	30.0
69	100.0

Future Retiree Coverage

The assumption is that 80% of eligible retirees would select the coverage when they initially retire, and that 0% of them would continue it past age 65.



Brilliant minds - Students at the UA-Arkansas School for Mathematics, Sciences and the Arts, a residential high school in Hot Springs, Arkansas.

CAMPUS ADMINISTRATORS

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UNIVERSITY OF ARKANSAS AT LITTLE ROCK
Joel E. Anderson, PhD, *Chancellor*

UNIVERSITY OF ARKANSAS AT FORT SMITH
Paul Beran, PhD, *Chancellor*

UNIVERSITY OF ARKANSAS AT MONTICELLO
Jack Lassiter, EdD, *Chancellor*

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES
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Chris Thomason, JD, *Chancellor*

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ARKANSAS SCHOOL FOR MATHEMATICS, SCIENCES, & THE ARTS
Janet Hugo, PhD, *Director*



This report was prepared by the Office of the Vice President for Finance.
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