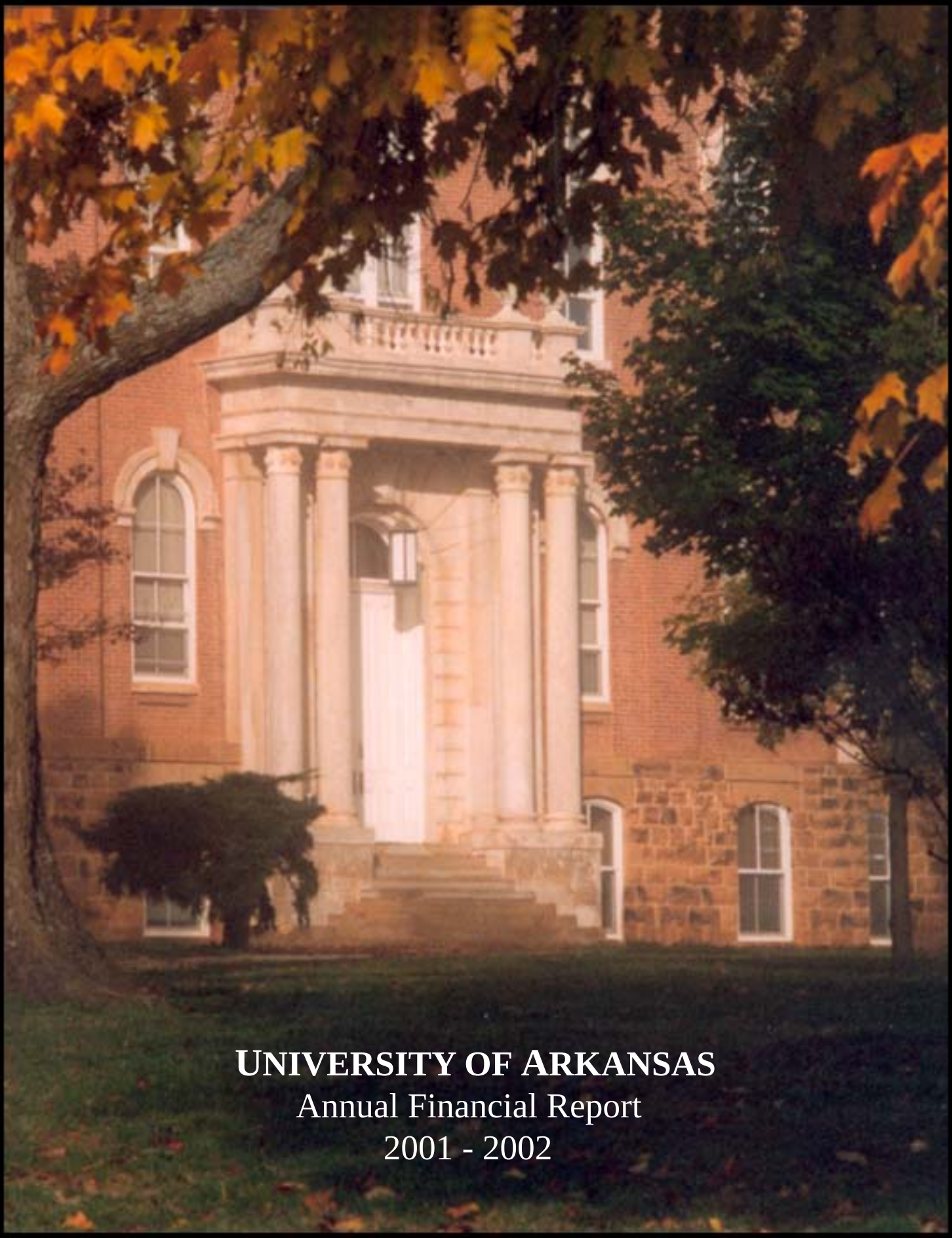


UNIVERSITY OF ARKANSAS

Annual Financial Report

2001 - 2002


UNIVERSITY OF ARKANSAS
1871
VERITATE DUCE PROGREDI

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On the cover:
Main In The Fog—University Relations

UNIVERSITY of ARKANSAS
1871

Vice Chancellor for Finance and Administration

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

November 18, 2002

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

Dear Chancellor White:

It is my pleasure to present the annual Financial Report of the University of Arkansas, for the year ended June 30, 2002.

This report has been prepared in conformity with generally accepted accounting principles established by the American Institute of Certified Public Accountants. The Division of Legislative Audit of the Legislative Joint Auditing Committee of the State of Arkansas has examined this report and their opinion is included.

Sincerely,

D. O. Pederson

D. O. Pederson
Vice Chancellor for Finance and Administration

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

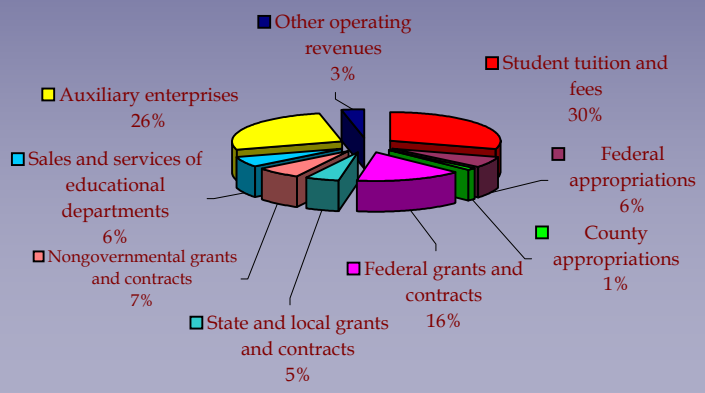
OPERATING REVENUES

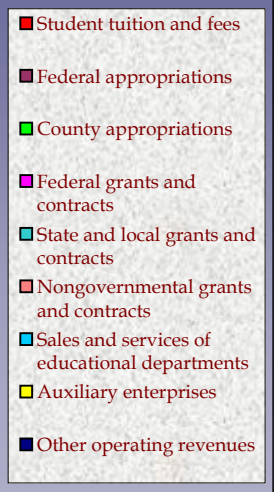
Student tuition and fees	$	54,334,114
Federal appropriations		11,659,882
County appropriations		2,097,860
Federal grants and contracts		28,928,172
State and local grants and contracts		9,109,962
Nongovernmental grants and contracts		12,265,156
Sales and services of educational departments		10,868,168
Auxiliary enterprises		48,470,929
Other operating revenues		5,869,806
Total operating revenues	$	183,604,049

NONOPERATING REVENUES

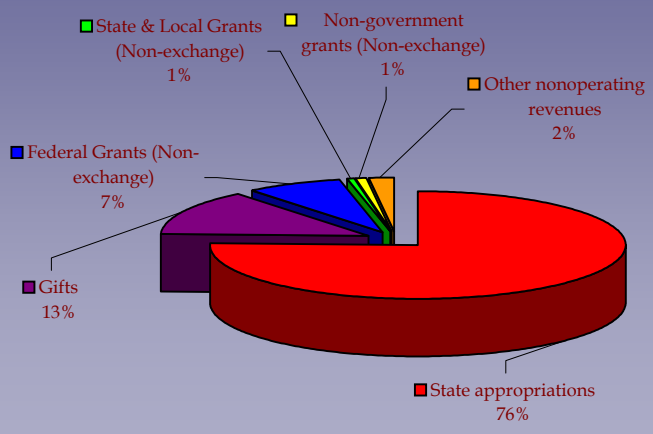
State appropriations	$	157,774,254
Gifts		28,041,994
Federal Grants (Non-exchange)		15,648,345
State & Local Grants (Non-exchange)		1,463,533
Non-government grants (Non-exchange)		1,875,141
Other nonoperating revenues		3,894,335
Total nonoperating revenues	$	208,697,602

Operating Revenues





Nonoperating Revenues





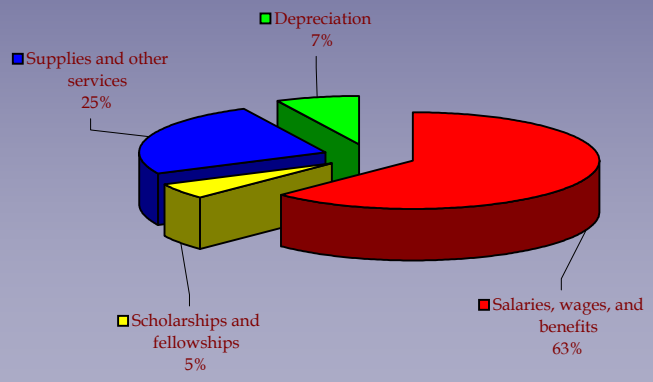
OPERATING EXPENSES BY NATURAL CLASSIFICATION

Salaries, wages, and benefits	$	241,712,020
Scholarships and fellowships		20,475,360
Supplies and other services		95,903,074
Depreciation		28,043,909
Total operating expenses	$	386,134,363

OPERATING EXPENSES BY FUNCTION

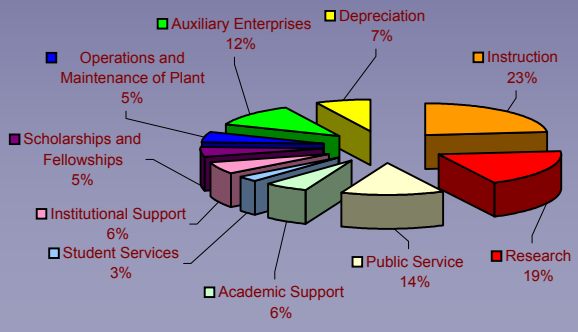
Instruction	$	89,753,586
Research		74,467,847
Public Service		52,588,656
Academic Support		22,049,777
Student Services		11,088,372
Institutional Support		23,428,885
Scholarships and Fellowships		18,942,637
Operations and Maintenance of Plant		21,226,341
Auxiliary Enterprises		44,544,353
Depreciation		28,043,909
Total Operating Expenses	$	386,134,363

Operating Expenses by Natural Classification

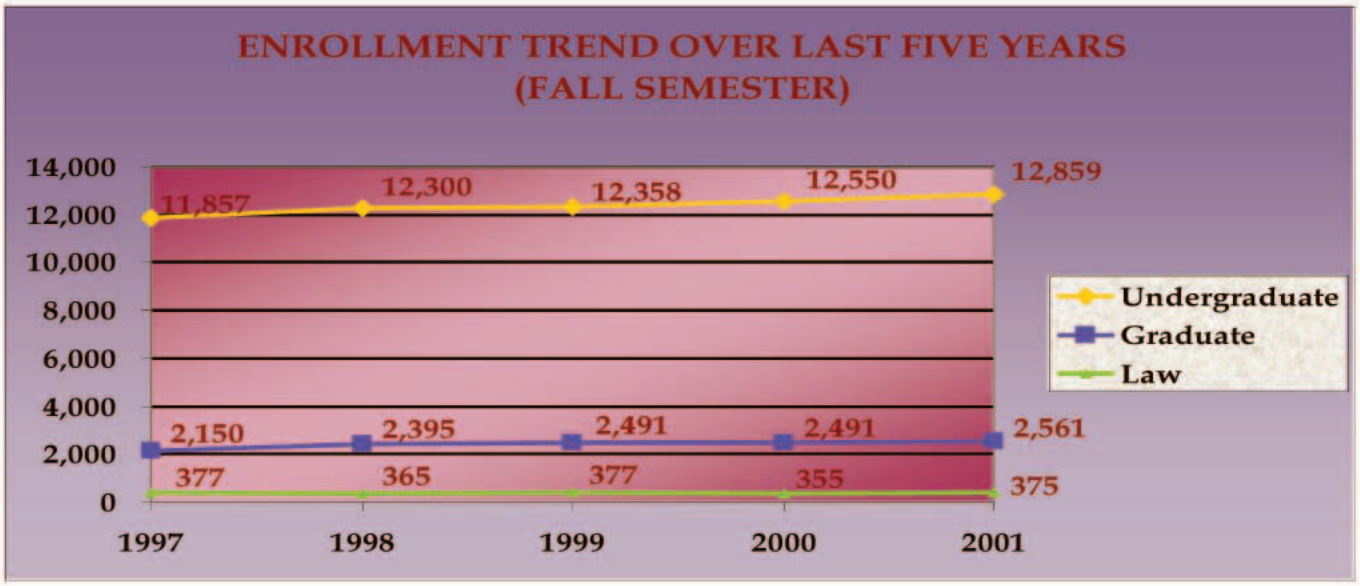


- Salaries, wages, and benefits
- Scholarships and fellowships
- Supplies and other services
- Depreciation

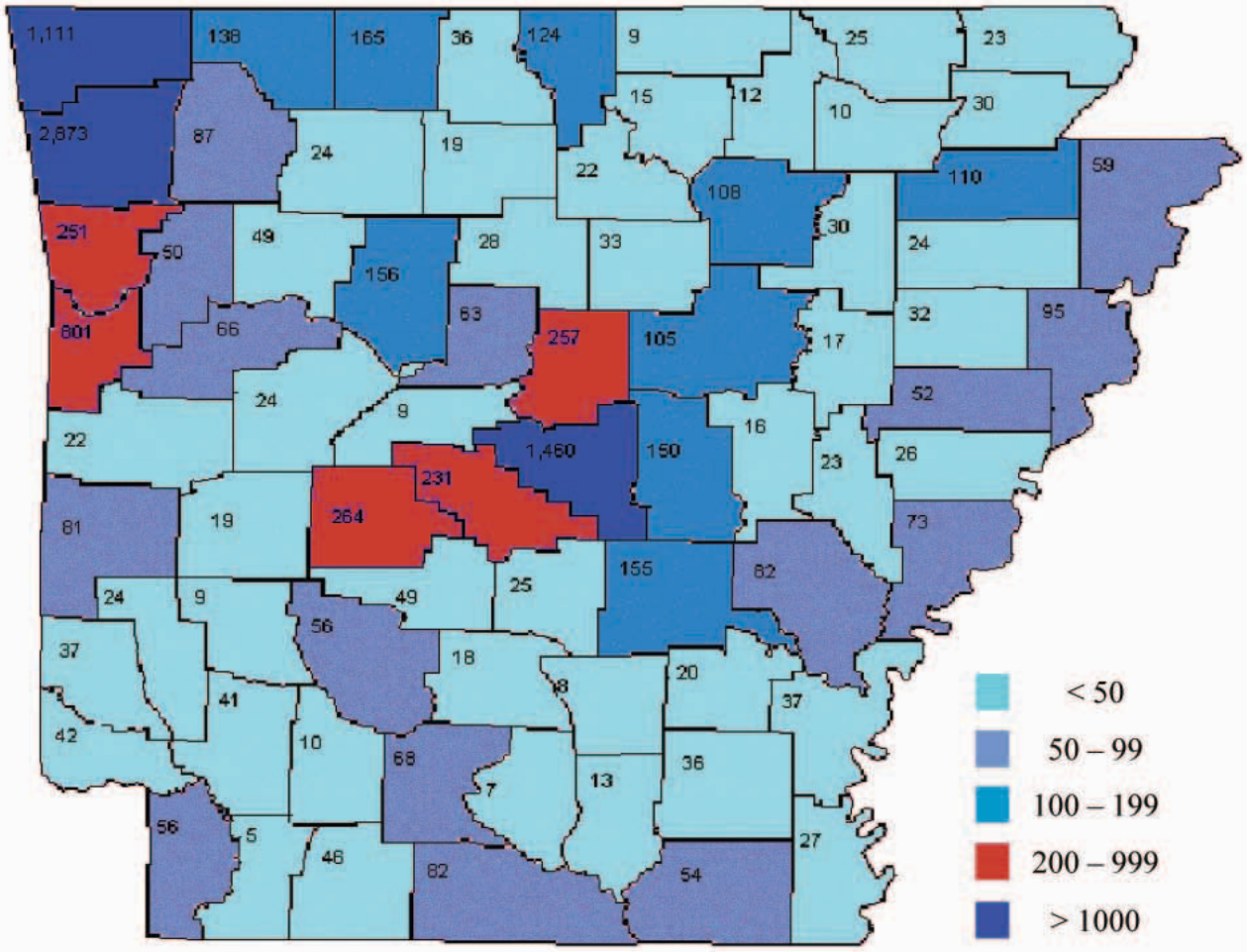
Operating Expenses by Function



- Instruction
- Research
- Public Service
- Academic Support
- Student Services
- Institutional Support
- Scholarships and Fellowships
- Operations and Maintenance of Plant
- Auxiliary Enterprises
- Depreciation



In-State Undergraduate Enrollment by County of Origin



Sen. Kevin A. Smith
Senate Co-Chair
Rep. Danny W. Ferguson
House Co-Chair
Sen. Henry "Hank" Wilkins, IV
Senate Co-Vice Chair
Rep. Tommy Roebuck
House Co-Vice Chair

Arkansas

Charles L. Robinson, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE
DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

University of Arkansas, Fayetteville
Legislative Joint Auditing Committee

We have audited the accompanying statement of net assets of the University of Arkansas, Fayetteville (Institution), an Institution of Higher Education of the State of Arkansas, as of June 30, 2002 and the related statement of revenues, expenses and changes in net assets and statement of cash flows for the year then ended as listed in the table of contents. These financial statements are the responsibility of the Institution's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. 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 provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Arkansas, Fayetteville as of June 30, 2002 and changes in its net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 1 to the financial statements, the Institution changed its accounting policy related to financial statement presentation to comply with the provisions of Statement No. 34 of the Governmental Accounting Standards Board. The primary accounting changes, other than presentation, were the adoption of depreciation of capital assets and the recognition of summer semester revenues.

Management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2002 on our consideration of the Institution's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

DIVISION OF LEGISLATIVE AUDIT

Charles L. Robinson, CPA, CFE
Legislative Auditor

Little Rock, Arkansas
November 18, 2002
EDHE13502

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Financial Report

The financial report of the University of Arkansas, Fayetteville consists of: Management's Discussion and Analysis, the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, the Statement of Cash Flows, and the Notes to the Financial Statements. This report provides short-term and long-term information on the University of Arkansas, Fayetteville. Management prepared this discussion and analysis, the financial statements, and the related footnote disclosures.

This reporting format is new for the University of Arkansas Financial Report. The Governmental Accounting Standards Board (GASB) issued statements number 34 and 35 in June 1999 and November 1999 respectively with implementation effective for the University of Arkansas with this report. These statements promulgate this reporting format. Generally, financial reports are prepared on a comparative basis (two years of information are presented for comparison purposes); these GASB statements exempt the University from issuing a comparative financial report for this year's financial report only. Future financial reports for the University will be issued on a comparative basis.

This financial report has been prepared using the accrual basis of accounting, which is consistent with the accounting method used by private-sector entities. All of the current year's revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid.

This portion of the University's Financial Report, Management's Discussion and Analysis, provides an overview of its financial activities for the year ended June 30, 2002.

Financial Highlights

Three transactions that are significant and considered material by management for this year were a write-down of Net Assets Invested in Capital of $313,607,391 for the effect of adopting depreciation in accordance with the GASB standards mentioned above, the issuance of $54,540,000 of new bonds for various University facilities and equipment, and a change in accounting practice involving the capitalization of equipment, buildings, and infrastructure resulting in a write-down of Net Assets Invested in Capital Assets of $9,935,496. All of these transactions are discussed further in the Significant Capital Asset Changes and Long Term Debt Activity section below.

Statement of Net Assets

The Statement of Net Assets reports all financial and capital resources of the University. This statement is presented such that assets less liabilities equal net assets. Assets and liabilities are presented in the order of their relative liquidity. In addition, assets and liabilities are reported as current and non-current. Current assets are those assets that can be realized, with relative ease, as cash in the coming year. Current liabilities are expected to be paid within the next year. Non-current assets and liabilities are not expected to be realized as cash or paid in the next year.

Net Assets are presented in four categories: Invested in Capital Assets, Restricted and Nonexpendable, Restricted and Expendable, and Unrestricted Net Assets. Net assets Invested in Capital Assets are reported net of depreciation and net of related debt. Restricted and Nonexpendable Net Assets are required to be retained in perpetuity (endowments). Restricted and Expendable Net Assets have constraints placed on their use by external entities (grants, contracts, and capital appropriations). Unrestricted Net Assets consist of all other net assets that do not meet the definition of Invested in Capital Assets or Restricted Net Assets.

The following summarizes the University's assets, liabilities, and net assets as of June 30, 2002:

ASSETS:		
Current Assets	$	126,224,134
Capital assets, net		371,858,936
Other Non-Current Assets		149,173,029
Total assets		647,256,099
LIABILITIES		
Current Liabilities	$	44,089,306
Noncurrent Liabilities		132,044,913
Total liabilities		176,134,219
NET ASSETS		
Invested in capital assets, net of related debt	$	272,872,660
Restricted for Nonexpendable		19,140,377
Restricted for Expendable		70,606,384
Unrestricted		108,502,459
Total net assets	$	471,121,880

Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets is the operating statement for the University and provides an Operating income (loss) amount. The Operating Income (loss) of ($202,530,314) is of little significance for the University of Arkansas, Fayetteville since GASB requires a significant portion of our revenues (State appropriations, gifts, investment income, and some grants and contracts) to be reported as Non-Operating.

Two other numbers on this statement, Income Before Other Changes in Net Assets of $1,016,525, and Increase (decrease) in net assets of $1,621,611 are much more useful indicators of the University's financial health and management's effectiveness.

Increases in these two numbers over multiple years would indicate the University's financial health is improving. Conversely, decreases in these numbers over multiple years would indicate deteriorating financial health. In addition to these financial indicators, other indicators such as enrollment, ability to acquire competitive research grants, and the condition of University facilities should be considered when assessing the University's health and vigor.

The following summarizes the University's Operating statement:

Operating Revenues	$	183,604,049
Operating Expenses		386,134,363
Operating income (loss)		(202,530,314)
Nonoperating Revenues (expenses)		203,546,839
Income before other changes in net assets		1,016,525
Other changes in Net Assets		605,086
Increase (decrease) in net assets	$	1,621,611

Statement of Cash Flows

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

Similar to Operating Income (loss) on the Statement of Revenues, Expenses, and Changes in Net Assets, Net Cash provided (used) by Operating Activities is of little significance to the University of Arkansas, Fayetteville because GASB requires significant sources of cash to be reported as Non-Operating Financing. The Net Cash Provided by Operating Activities and Non-Capital Financing Activities is a much more meaningful number for the University of Arkansas, Fayetteville. Note that this number is positive, indicating that these activities contributed cash and liquidity for the year. Equally important is the net increase in cash for the year. The following summarizes the University's cash flows for the year.

Cash Flows From Operating Activities	$	(174,683,396)
Cash Flows From Noncapital Financing Activities		197,951,179
Net cash provided (used) by operating activities and noncapital financing activities		23,267,783
Cash Flows From Capital Financing Activities		(18,478,235)
Cash Flows From Investing Activities		1,647,051
Net Increase In Cash For The Year	$	6,436,599

Significant Changes in Capital Assets and Long Term Debt Activity

Prior to this year, the University prepared its Financial Report on the modified accrual basis of accounting, which excluded depreciation of capital assets. Capital assets were carried on the basis of historical cost with no provision or allowance for depreciation. GASB Statements 34 and 35 require the University to implement full accrual accounting. The adoption of depreciation required a write-down of Net Assets Invested in Capital Assets of $313,607,391 to record depreciation from prior years that had not been recognized. This write-down and the recognition of depreciation in no way affects the condition, fair market value, or usefulness of these assets. This is a one-time adjustment resulting from this change in accounting basis.

On July 1, 2002, the University increased the capitalization level for movable equipment from $500.00 per item to $2,500.00 per item and established a capitalization level for buildings and infrastructure of $50,000 per item. As a result of these changes, the University removed $9,935,496 from the Net Assets invested in Capital. This amount is included on the Statement of Changes in Net Assets. This is a one-time adjustment resulting from these changes in accounting practice.

On November 1, 2001, the University of Arkansas, Fayetteville issued three (3) separate bond series. Series 2001A for $36,545,000 of tax-exempt bonds and Series 2001B for $6,440,000 of taxable bonds were issued with the proceeds to be used for construction, demolition, renovation, and equipping of campus building and structures. Subordinate Series 2001 for $11,555,000 of tax-exempt bonds were issued with the proceeds to be used to complete the construction of additions and renovations to the Donald W. Reynolds Razorback Stadium. These bond issues were insured by FINANCIAL SECURITY ASSURANCE INC. Moody's Investor's Service Inc. and Fitch Inc. assigned the municipal bond ratings of "Aaa" and "AAA", respectively, to these bond issues. The underlying credit rating for these bond issues were "A1" by Moody's Investor Services, Inc. and "A+" by Fitch Inc.

A summary of long-term debt activity is as follows:

	Bonds	Notes	Leases
Balance as of July 1, 2001	$ 72,318,000	$ 5,194,372	$ 278,033
Additions	54,540,000	104,087	280,815
Payments of principal	4,645,000	161,886	309,791
Balance as of June 30, 2002	$ 122,213,000	$ 5,136,573	$ 249,057

Footnote 8 in the Footnotes to Financial Statements provides additional information related to the University's long-term debt.

Conditions and Other Factors Having a Significant Effect

The University's outlook is closely related to its role as the flagship university for the state and the only major research university in the state. The University is largely dependent on the ongoing financial and political support from state government.

The economic downturn significantly impacted state revenues and, in turn, the support received by the University. The University received $2.9 million less in state funds than anticipated during this report period. For the year July 1, 2002 through June 30, 2003, the University will most likely receive $5.8 million less than had been projected by the Revenue Stabilization Act of the 2001 general legislative session. Should actual collections of state general revenues fall below the current projections, this loss could be even greater.

The Lake View School funding lawsuit hangs as a big question mark over the state's fiscal future. If upheld by the Arkansas Supreme Court, that ruling could lead to pressure to add up to $800 million a year to K-12 funding.

The University is also dependent on its ability to recruit and retain high quality students. Fall 2002 enrollment is 16,035, an all-time record high enrollment, and an increase of 1.5% over the Fall 2001 enrollment. Undergraduate enrollment is

up 0.5%, Law School enrollment is up 9.6%, and Graduate enrollment is up 5.3%. While management is encouraged to see the improvement in enrollment overall, undergraduate enrollment needs to increase at a higher rate to ensure continued increases in the revenue generated by tuition and to ensure continued support from state government.

The condition of University's capital assets is another important consideration. An estimate of the deficiencies of the Educational and General facilities of the University has been made to provide the necessary data to develop an optimized facility renewal plan. All systems in all facilities were evaluated by a team of trained engineers and assigned scores with 1 being poor condition, 2 being adequate condition, and 3 being target condition. The gross square footage weighted average for all Educational and General facilities was 1.58 for the year ended June 30, 2002. An effective method of assessing the management of these assets is to track the average facility score over time. Management is committed to providing comparative facility scores in future reports.

UNIVERSITY OF ARKANSAS, FAYETTEVILLE
Statement of Net Assets
June 30, 2002

	Fiscal 2002 Total
ASSETS	
Current Assets	
Cash and cash equivalents	$ 54,100,418
Accounts receivable, net	24,616,874
Accrued interest receivable	1,153,275
Pledges receivable	2,001,500
Inventories	3,229,089
Deposits with bond trustee	34,561,219
Notes receivable, net	3,962,424
Other assets	2,599,335
Total current assets	126,224,134
Noncurrent Assets	
Endowment investments	51,197,213
Pledges receivable	1,000,000
Notes receivable, net	12,245,276
Deposits with bond trustee	1,333,298
Other long-term investments	83,397,242
Capital assets, net	371,858,936
Total noncurrent assets	521,031,965
Total assets	647,256,099
LIABILITIES	
Current Liabilities	
Accounts payable and accrued liabilities	$ 13,208,526
Accrued payroll liabilities	8,811,836
Student overpayments	137,645
Funds held in trust for others	282,431
Deferred revenue	14,305,156
Long-term liabilities-current portion	7,262,317
Other liabilities	81,395
Total current liabilities	44,089,306
Noncurrent Liabilities	
Deposits	4,000
Long-term liabilities	132,040,913
Total noncurrent liabilities	132,044,913
Total liabilities	176,134,219

NET ASSETS		
Invested in capital assets, net of related debt	$	272,872,660
Restricted for		
Nonexpendable		
Scholarships and fellowships		11,914,194
Research		3,333,436
Instructional department uses		3,791,590
Loans		101,157
Expendable		
Scholarships and fellowships		18,017,115
Research		13,469,134
Public service		1,932,764
Instructional department uses		6,219,292
Loans		15,861,772
Capital projects		10,743,433
Debt service		3,448,240
Other		914,634
Unrestricted		108,502,459
Total net assets	$	471,121,880

UNIVERSITY OF ARKANSAS, FAYETTEVILLE
Statement of Revenues, Expenses, and Changes in Net Assets
For The Year Ended June 30, 2002

	Fiscal 2002 Total
REVENUES	
Operating Revenues	
Student tuition and fees (net of scholarship allowances of $27,012,919)	$ 54,334,114
Federal appropriations	11,659,882
County appropriations	2,097,860
Federal grants and contracts	28,928,172
State and local grants and contracts	9,109,962
Nongovernmental grants and contracts	12,265,156
Sales and services of educational departments	10,868,168
Auxiliary enterprises	
Residential Life (net of scholarship allowances of $3,368,783)	6,687,898
Athletics	34,902,171
Bookstore	840,718
Student Apartments	1,188,269
Arkansas Union	493,174
Student Health Services	1,003,286
Transit and Parking	2,445,299
Student Organizations/Activities	290,252
Other Auxiliary Enterprises	619,862
Other operating revenues	5,869,806
Total operating revenues	183,604,049
EXPENSES	
Operating Expenses	
Salaries, wages, and benefits	241,712,020
Scholarships and fellowships	20,475,360
Supplies and other services	95,903,074
Depreciation	28,043,909
Total operating expenses	386,134,363
Operating income (loss)	(202,530,314)

NONOPERATING REVENUES (EXPENSES)		
State appropriations		157,774,254
Gifts		28,041,994
Investment income (loss) (net of investment expense of $552,654)		(119,658)
Interest and fees on capital asset - related debt		(5,031,105)
Federal Grants (Non-exchange)		15,648,345
State & Local Grants (Non-exchange)		1,463,533
Non-government grants (Non-exchange)		1,875,141
Other nonoperating revenues		3,894,335
Net nonoperating revenues		203,546,839
Income (loss) before other changes in net assets		1,016,525
OTHER CHANGES IN NET ASSETS		
Capital appropriations		3,926,893
Capital grants and gifts		5,082,163
Other changes		1,531,526
Adjustment due to change in accounting practice		(9,935,496)
Total other revenues		605,086
Increase (decrease) in net assets		1,621,611
NET ASSETS		
Net assets - beginning of year		469,500,269
Net assets - End of year	$	471,121,880

UNIVERSITY OF ARKANSAS, FAYETTEVILLE
Statement of Cash Flows - Direct Method
For the Year Ended June 30, 2002

		Fiscal 2002 Totals
CASH FLOWS FROM OPERATING ACTIVITIES		
Student Tuition and fees	$	54,326,263
Federal appropriations		11,535,756
County appropriations		2,016,658
Grants and contracts		50,203,720
Payments to suppliers		(97,764,587)
Payments to employees		(199,760,482)
Payments for benefits		(40,991,742)
Payments for scholarships and fellowships		(20,475,360)
Loans issued to students and employees		(2,178,580)
Collections of loans to students		2,116,122
Collections of interest on loans to students		277,763
Auxiliary enterprises charges		
Resident Life		6,714,101
Athletics		36,396,142
Bookstore		842,002
Student Apartments		1,181,895
Arkansas Union		493,350
Student Health Services		1,010,001
Transit and Parking		2,380,752
Student Organizations/Activities		307,996
Other Auxiliary Enterprises		606,949
Sales and services of educational departments		10,248,278
Other receipts (payments)		5,829,607
Net cash provided (used) by operating activities		(174,683,396)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations		157,774,254
Gifts and grants for other than capital purposes		17,588,900
Private gifts for endowment purposes		1,951,339
Federal grants (Non-exchange)		15,635,845
State & Local Grants (Non-exchange)		1,360,199
Non-government Grants (Non-exchange)		1,728,582
Transfers to other state agencies		485,236
Other nonoperating revenue		1,767,030
Net agency fund transactions		(340,206)
Net cash provided (used) by noncapital financing activities		197,951,179
Net cash provided (used) by operating activities and noncapital financing activities		23,267,783
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from capital debt		54,540,000
Capital appropriations		3,915,393
Capital grants and gifts received		2,073,063
Purchases of capital assets		(37,649,987)
Principal paid on capital debts and leases		(4,836,677)
Interest and fees paid on capital debt and leases		(5,019,333)
Deposit with trustee		(33,867,720)
Other sources		2,239,553
Payments received on capital notes receivable		127,473
Net cash provided (used) by capital financing activities		(18,478,235)

CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments		12,260,308
Investment income (loss)		825,464
Purchase of investments		(11,438,721)
Net cash provided (used) by investing activities		1,647,051
NET INCREASE (DECREASE) IN CASH		6,436,599
Cash - beginning of year		47,663,819
Cash - end of year	$	54,100,418
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	$	(202,530,314)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation expense		28,043,909
Changes in assets and liabilities		
Receivables (net)		(1,249,335)
Accrued interest receivable		0
Inventories		(1,059,056)
Prepaid expenses		(574,835)
Other assets		(31,207)
Accounts payable		412,966
Accrued payroll liabilities (Employees)		154,163
Accrued payroll liabilities (Benefits)		690,026
Student overpayments		16,486
Deferred revenue		1,439,042
Compensated absences		(210,546)
Loans to students and employees		215,305
Net cash provided (used) by operating activities	$	(174,683,396)
NONCASH TRANSACTIONS		
Equipment donations	$	4,877,841
Equipment acquired by incurring capital lease obligations		280,815
Bond interest and fees payments made from capitalized interest accounts held by bond trustees		1,418,139
Bond issuance costs and underwriter's discounts paid directly from bond proceeds		958,589

UNIVERSITY OF ARKANSAS, FAYETTEVILLE
NOTES TO THE FINANCIAL STATEMENTS

(1). Summary of Significant Accounting Policies

The financial statements for the University of Arkansas, Fayetteville ("the University") for the fiscal year ended June 30, 2002, have been prepared in accordance with generally accepted accounting principles accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB).

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

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

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

  Expendable – Net assets whose use by the University is subject to externally-imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time.

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

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

Basis of Presentation and Measurement Focus
The University is considered a special-purpose government engaged only in business-type activities and therefore reports as a Business Type Activity, as defined by GASB Statement No. 35. Accordingly, the financial statements of the University have been prepared using the economic resources measurement focus and the accrual basis.

The University has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The University has elected to not apply FASB pronouncements issued after the applicable date.

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

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

Inventories	June 30, 2002
Arkansas Union	$ 1,105
Bookstore	1,298,558
COOP Warehouse	299,258
Physical Plant	798,940
Physics Electronics Shop	18,781
Printing Services	155,750
Research Services	64,973
Residence Life	338,434
Student Health Pharmacy	63,919
University Press	189,371
Total Inventories	$ 3,229,089

Accounts Receivable
Accounts receivable are stated at estimated net realizable values; that is, the gross amount of the receivable is reduced by allowances for estimated uncollectible accounts. Accounts receivable represent charges due the University from various student fees, room and board, student fines, and other charges. Accounts receivable also consist of unreimbursed expenses relating to research contracts with federal, state, and private agencies. Accounts receivable totaling $398,984 were written off during the fiscal year ended June 30, 2002.

Accounts receivable at June 30, 2002 totaled $28,042,435. The allowance for doubtful accounts was computed to be $3,425,561, resulting in net accounts receivable totaling $24,616,874.

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

Capital Assets
Capital assets consisting of land, buildings, furniture, fixtures, equipment, improvements, and construction in progress are stated at cost or fair market value at date of gift. Buildings, improvements and infrastructure additions are capitalized when the cost is $50,000 or more. For equipment, the University's capitalization policy includes all items with a unit cost of $2,500 or more, and an estimated useful life of two years or more. Renovations to buildings, infrastructure, and land improvements with a cost of $50,000 or more and that significantly increase the value or extend the useful life of the structure are capitalized. Livestock is under the control of the Department of Animal Sciences and is maintained primarily for research purposes with any other benefits derived from the operations considered as incidental to the primary mission of the Department. The inventory value placed on the animals is determined by department heads utilizing current market prices and breeding and research intangibles.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 30 years for buildings, 15 to 20 years for infrastructure and land improvements, and 3 to 10 years for equipment.

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

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

- Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most Federal state and local grants and contracts, and (4) interest on institutional student loans.

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

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

Changes in Accounting Policy
GASB Statement No. 34 and Statement No. 35, which became effective for public colleges and universities in fiscal year ended June 30, 2002, requires that summer school revenues and expenditures be recognized in the fiscal period that revenues are earned and expended. The University is also required to adopt depreciation on capital assets. Net assets at July 1, 2001 were reduced by $313,607,391 for the effect of the adoption of depreciation.

(2). Reporting Entity

The University of Arkansas, Fayetteville ("the University") was established at Fayetteville in 1871 under the provisions of the Morrill Act as both a state university and the land-grant college of Arkansas. The University of Arkansas, Fayetteville includes the Division of Agriculture, the Cooperative Extension Service, Arkansas Archeological Survey, and the Criminal Justice Institute as well as the academic units. The academic units in Fayetteville include eight colleges and schools: the Dale Bumpers College of Agricultural, Food, and Life Sciences, the School of Architecture, the J. William Fulbright College of Arts and Sciences, the Sam M. Walton College of Business Administration, the College of Education, the College of Engineering, the School of Law, and the Graduate School. The University is one of eleven campuses of the University of Arkansas System. The governing body is the Board of Trustees which is comprised of ten members.

(3). Compensated Absences

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

The University recognizes a liability for compensated absences. The liability is based on the value of unused employee vacation and compensatory time as of year-end, including the associated benefits: contributions to Retirement, Social Security, Medicare, Workers' Compensation, and Unemployment Insurance. The University recognizes the estimated amount of the liability that will be incurred within the next year as a current liability and the balance as noncurrent.

It is the policy of the University to recognize the cost of sick leave when paid. Employees who leave University employment are not entitled to be paid for accrued sick leave. Therefore no liability is shown in the financial statements for accrued sick leave.

(4). Cash, Cash Equivalents, and Investments

Cash and cash equivalents – The University uses commercial banks for its cash deposits. Board of Trustee policy requires that all cash deposits be either insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized by securities held at a third party financial institution (preferably the cognizant Federal Reserve Bank) in the University's name. Cash deposits are carried at cost. Cash balances in excess of current requirements are pooled and invested in highly liquid, short-term investments with the funds available on a daily basis. The University's cash position at year-end was:

	Carrying Value	Bank Balance
Insured (FDIC)	$ 475,890	$ 556,738
Uninsured, Collateralized	8,621,734	9,607,446
Uninsured, Uncollateralized	0	0
Total Deposits	$ 9,097,624	$ 10,164,184

The University of Arkansas System Administration (System Administration) does not maintain separate bank accounts. System Administration deposits are commingled in University of Arkansas, Fayetteville bank accounts. The carrying value of the System Administration funds was $1,965,960 at June 30, 2002. The above deposit schedule does not include cash on hand in various imprest funds maintained by the University of $100,677 or short-term investments of $36,621,995 at June 30, 2002.

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

Bank Balance	$ 10,164,184	
Less: Items in Transit	(2,918,744)	
Cash on Books		$ 7,245,440
State Treasury Cash	$ 12,198,943	
Cash Equivalents	36,621,995	
Less: System Cash	(1,965,960)	
Cash Equivalents		46,854,978
Total Cash and Equivalents		$ 54,100,418

Investments

External Investment Pool

GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* defines an external investment pool as "an arrangement that commingles (pools) the moneys of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio and one or more of the participants is not part of the sponsor's reporting entity. An external investment pool can be sponsored by an individual government, jointly by more than one government, or by a nongovernmental entity. An investment pool that is sponsored by an individual state or local government is an external investment pool if it includes participation by a legally separate entity that is not part of the same reporting entity as the sponsoring government. If a government-sponsored pool includes only the primary government and its component units, it is an internal investment pool and not an external investment pool ."

On February 28, 1997, the University of Arkansas Board of Trustees approved a statement of investment policy that was developed jointly with the chief fiscal officers of each campus of the University of Arkansas System, the University of Arkansas Foundation, Inc. and with an investment consulting firm.

During the year ended June 30, 1997, the University of Arkansas System and the University of Arkansas Foundation established and began using an external investment pool. This external investment pool is not SEC-registered. The University of Arkansas Board of Trustees is the sponsor of this investment pool and is responsible for operation and oversight for the pool. The University's participation in this investment pool is voluntary.

The activities during fiscal year 2002 affecting the University's investments in the external pool are summarized below:

	Total Return Pool	Short Intermediate Pool	Total
June 30, 2001 Balances	$ 52,983,263	$ 83,108,415	$ 136,091,678
Income	$ 1,366,611	$ 4,760,299	$ 6,126,910
Capital Gains/(Losses)	(5,850,700)	(1,917,358)	(7,768,058)
Expenses Paid from Pool	(277,324)	(224,944)	(502,268)
Transfers In/(Out) of Pool	(485,740)	(12,000,000)	(12,485,740)
June 30, 2002 Balances	$ 47,736,110	$ 73,726,412	$ 121,462,522

Investments are recorded at fair value. Fair value for reporting purposes is market value if a market price or quote is readily available. Investments that do not have readily available market prices or quotes are reported at cost or amortized cost. In fiscal 2002, all investments were reported at fair value.

The University's investments at year-end are shown below, by category, to give an indication of the level of credit risk assumed by the University. Category 1 investments are insured or registered, or held by the University or its agent in the University's name. Category 2 investments are uninsured and unregistered, with securities held by the counterparty's trust department or agent in the University's name. Category 3 investments are uninsured and unregistered, with securities held by the counterparty, or by it's trust department or agent, but not in the University's name. The University has no Category 3 investments.

Type of Investment	Category 1	Category 2	External Investment Pool	Total
Federal Agency Obligations	$ 176,858			$ 176,858
Certificates of Deposit	34,000			34,000
Corporate Bonds		$ 11,625,621		11,625,621
Common Stock	693	55,469		56,162
Agriculture Debentures	5,208			5,208
Other Managed Investments		1,234,084	$ 121,462,522	122,696,606
Totals	$ 216,759	$ 12,915,174	$ 121,462,522	$ 134,594,455

Note: This table does not include Deposits with Trustees of $35,894,517 and System Administration endowments of $492,965.

Endowment Funds - Assets of endowed funds, except where donor restrictions prohibit commingling of investments, are pooled on a fair value basis, with each fund subscribing or disposing of units on the basis of the unit fair value. The unit fair value is recalculated each month. The following summarizes the relationship between the pooled assets and their earnings at June 30, 2002:

	2002
Fair Value @ June 30	$ 50,792,615
Number of Units in Pool @ June 30	1,481,858
Fair Value per Unit @ June 30	$ 34.276
Realized Gains/(Losses) for the Year	$ (4,566,606)
Income Earned for the Year	$ 1,366,107
Realized Gain/(Loss) per Unit	$ (3.08)
Income Earned per Unit	0.92
Total per Unit	$ (2.16)

Donor-restricted Endowments

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

Total Endowment at June 30, 2002	$ 51,197,242
Less: Quasi-endowment	(14,442,405)
Non-expendable portion of True Endowment	(18,260,732)
Available for Expenditure	$ 18,494,105

Arkansas Code 28-69-603 states "The governing board may appropriate for expenditure for the uses and purposes for which an endowment fund is established so much of the net appreciation, realized and unrealized, in the fair value of the assets of an endowment fund over the historic dollar value of the fund as is prudent under the standard established by § 28-69-607." Historic dollar value is defined as "the aggregate fair value in dollars of (i) an endowment fund at the time it became an endowment fund, (ii) each subsequent donation to the fund at the time it is made, and (iii) each accumulation made pursuant to a direction in the applicable gift instrument at the time the accumulation is added to the fund. The determination of historic dollar value made in good faith by the institution is conclusive."

The University uses a total return policy for investing endowed funds. The University's spending policy is to expend 5% of the balance of the endowment averaged over the previous twelve quarters.

(5). Notes Receivable

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

The resources for loans to students include federal funds, funds from other external sources, and University funds. For the year ended June 30, 2002, new student loans totaling $2,178,580 were issued under the Student Loan Programs. Of total campus-based loans processed, the majority were from Perkins funds provided by the federal government. The federal student loan default rate for the year ended June 30, 2002, was 9.76% based on the U.S. Department of Education Cohort default rate. Notes receivable totaling $24,888 were written off during the fiscal year ended June 30, 2002.

The following summarizes the balance of notes receivable:

Type of Note	Gross Balance	Allowance	Net Balance	Current Portion
Student loans	$ 13,264,765	$ 732,692	$ 12,532,073	$ 3,608,795
Construction notes	4,140,627	465,000	3,675,627	353,629
Totals	$ 17,405,392	$ 1,197,692	$ 16,207,700	$ 3,962,424

(6). Pledges Receivable

The composition of pledges receivable at June 30, 2002 is summarized as follows:

Type of Pledge	Balance	Current Portion
Scholarship	$ 1,500	$ 1,500
Capital	3,000,000	2,000,000
Total	$ 3,001,500	$ 2,001,500

(7). Income Taxes

The University is tax exempt from federal income taxes except for tax on unrelated business income. The University had no significant unrelated business income for the year ended June 30, 2002. It is also exempt from state income taxes under Arkansas law. Accordingly, no provision for income taxes is made in the financial statements.

(8). Long Term Liabilities

Debt service payments on existing bonds amounted to $9,394,718 for the fiscal year ended June 30, 2002. The amount of $723,717 was expended for principal and interest on notes payable and capital leases for the same period.

On November 1, 2001 the University issued tax-exempt bonds in the amount of $36,545,000 for new construction, completion of major renovation projects and other qualifying capital projects. On the same date, the University issued taxable bonds in the amount of $6,440,000 for the construction of a research facility. The tax-exempt bonds are named Series 2001A and the taxable bonds are named Series 2001B. Series 2001A bonds were issued at fixed rates ranging from 3.50 percent to 5.50 percent with a final

maturity date of December 1, 2019. Series 2001B bonds were issued at fixed rates ranging from 2.90% to 5.40% with a final maturity date of December 1, 2008.

On November 1, 2001 the University issued tax-exempt bonds in the amount of $11,555,000 for the purpose of completing the renovation and expansion of Donald W. Reynolds Razorback Stadium. The bonds are subordinate to the Athletic Facilities Revenue Bonds, Series 1999 and the Athletic Facilities Revenue Refunding Bonds, Series 1997. The bonds will bear interest at 3.55% until December 1, 2006. The bonds may be converted to a variable rate or another fixed rate after December 1, 2006.

A summary of long term debt is as follows:

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized & Issued	Debt Outstanding at June 30, 2002	Maturities to June 30, 2002
04/01/1966	04/01/2006	3.00%	$ 4,000,000	$ 618,000	$ 3,382,000
11/01/1996	11/01/2009	3.85% to 5.25%	12,105,000	4,975,000	7,130,000
11/01/1997	09/15/2011	4.10% to 5.00%	19,170,000	14,750,000	4,420,000
10/15/1997	11/01/2022	3.95% to 5.25%	21,445,000	19,180,000	2,265,000
05/01/1999	09/15/2020	3.35% to 4.85%	30,000,000	28,150,000	1,850,000
11/01/2001	12/01/2021	2.90% to 5.50%	42,985,000	42,985,000	0
11/01/2001	12/01/2021	3.55%	11,555,000	11,555,000	0
11/30/1991	05/01/2022	5.50%	3,000,000	2,471,859	528,141
11/29/1995	Various	Various	2,071,140	1,745,627	325,513
09/13/1995	12/1/2010	5.75% to 7.05%	535,000	380,000	155,000
12/20/1999	12/20/2023	Various	539,087	539,087	0
Various	Various	Various	280,815	249,057	31,758
TOTALS	-	-	$ 147,686,042	$ 127,598,630	$ 20,087,412

Equipment Leases

The University has acquired certain equipment under various lease-purchase contracts. The cost of equipment held under capital leases totaled $280,815 at June 30, 2002.

Type of Equipment	Asset Balance June 30, 2002
Groundskeeping Equipment	$260,599
Baler	20,216
Total	$280,815
Total Minimum Lease Payments	$285,428
Less: Amount Representing Interest	36,371
Total Present Value of Net Minimum Lease Payments	$249,057

Changes in long term liabilities are as follows:

		Fiscal Year Ended June 30, 2002			
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds	$72,318,000	$54,540,000	$4,645,000	$122,213,000	$6,310,000
Notes	5,194,372	104,087	161,886	5,136,573	195,905
Leases	278,033	280,815	309,791	249,057	47,356
Compensated absences	11,915,144	188,317	398,861	11,704,600	709,056
Totals	$89,705,549	$55,113,219	$5,515,538	$139,303,230	$7,262,317

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

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

	PRINCIPAL	INTEREST *	TOTAL
2003	$ 6,553,261	$ 5,772,011	$ 12,325,272
2004	5,532,904	5,526,203	11,059,107
2005	5,748,369	5,286,899	11,035,268
2006	5,967,780	5,032,153	10,999,933
2007	6,036,516	4,761,528	10,798,044
2008-2012	38,515,420	18,373,167	56,888,587
2013-2017	21,633,251	11,375,963	33,009,214
2018-2022	36,706,129	5,052,744	41,758,873
2023-2027	905,000	22,625	927,625
Total	$ 127,598,630	$ 61,203,293	$ 188,801,923

* In addition, there will be interest payments made on two Notes Payable that will be calculated using floating interest rates. One will use interest rates ranging from 2.5% to 4.7% from the fiscal years ending June 30, 2003 through June 30, 2020. The second will be calculated using a floating rate equal to the amount earned on non-endowed investments known as the short-term intermediate pool from the fiscal years ending June 30, 2003 through June 30, 2022.

On November 1, 1997, the University issued $19,170,000 in bonds with an average interest rate of 4.82 percent to advance refund $17,825,000 of outstanding Athletic Facilities Revenue Bonds Series 1991 with an average interest rate of 6.55 percent. The net proceeds of $18.9 million (after payment of $243,473 in underwriting fees, insurance, and other issuance costs) plus an additional $1,024,372 of 1991 sinking fund monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments of the 1991 Series bonds. As a result, the 1991 Series bonds were considered defeased. The liability for those bonds was removed from the Statement of Net Assets. The University advance refunded the 1991 Series bonds to reduce its total debt service payments over the next 15 years by $1,558,118 and to obtain economic gain (difference between the present value of the debt service payments on the old and new debt) of $901,333. Regularly scheduled interest and principal payments on the 1991 issue were made on March 15, 1998 and continued through September 15, 2001 from the escrow fund. All outstanding Series 1991 Bonds were redeemed on September 15, 2001 at a price equal to 100% of the principal amount plus interest accrued thereon.

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 revenues collected during the fiscal year that are pledged:

BOND SERIES	REVENUE SOURCE	AMOUNT (gross)
Series 1966 Dormitory	Residential Life	$ 10,056,681
Series 1996 Refunding	Student Tuition and Fees	$ 81,347,033
Series 1997 Various Facilities	Sales and Services	3,235,007
Series 2001 Various Facilities	Residential Life	10,056,681
	Student Apartments	1,188,269
	Arkansas Union	493,174
	Student Health Services	1,003,286
	Transit and Parking	2,445,299
	Other Auxiliaries	910,114
	Total	$100,678,863
Series 1997 Athletic Refunding	Men's Athletic Revenue	$ 33,919,129
Series 1999 Athletic Facilities	(less game guarantees)	(1,964,850)
Series 2001 Athletic Subordinate	Total	$ 31,954,279

(9). Commitments

The University was contractually obligated for the following at June 30, 2002:

A. Construction and Architect Contracts

Project Name	Completion Date	Beginning Year Contract Balance Plus Amendments	Amount Paid	Year-End Contract Balance
Agriculture Building Renovation	October, 2002	$ 405,258	$ 359,100	$ 46,158
Arkansas Union Renovation	December, 2002	1,141,815	737,626	404,189
Carnall Hall	June, 2003	4,511,967	1,178,874	3,333,093
Engineering Research Center	November, 2002	489,877	319,448	170,429
Northwest Quadrant	August, 2004	2,410,280	952,758	1,457,522
Poultry Facility for Research	December, 2002	1,373,142	450,480	922,662
Printing Services Expansion	March, 2003	1,382,895	128,825	1,254,070
Razorback Stadium Expansion	August, 2003	13,857,963	12,027,734	1,830,229
Research Technology Center	July, 2003	385,175	0	385,175
Science Engineering Renovation	October, 2002	7,097,870	5,619,626	1,478,244
Southwest Chiller	May, 2003	1,626,790	325,983	1,300,807
Swine Res. and Teach Fac	December, 2002	417,699	371,595	46,104
University House Renovation	November, 2002	1,707,443	1,508,800	198,643
Women's Gymnastics Center	January, 2003	6,213,048	1,698,490	4,514,558
Other	Various	144,404	19,130	125,274
Totals		$ 43,165,626	$ 25,698,469	$ 17,467,157

The beginning year contract balance/amendments column represents the balance remaining on contracts at the beginning of the fiscal year plus new contracts for the current fiscal year and any amendments made to existing contracts in the current fiscal year. The year-end contract balances listed above do not reflect the effects of accrued expenses as of June 30, 2002.

B. Operating Leases

The University has entered into various operating leases for buildings and equipment. It is expected that in the normal course of business such leases will continue to be required. The total expenditures for all rental lease payments and non-lease rental payments for the fiscal year ended June 30, 2002, was $3,662,737. Minimum annual rental payments for leases having an initial term in excess of one year total $732,677. Below are the scheduled payments for the five succeeding fiscal years and thereafter.

Year ended June 30	Amount	
2003	$	480,773
2004		187,786
2005		64,118
2006		0
2007		0
Thereafter		0
Total	$	732,677

(10). Employee Benefits

A. Retirement Benefits

The University offers employees the option of participating in either the Optional Retirement Program (ORP) which includes Teachers Insurance Annuity Association—College 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 is a 403(b) program as defined by the Internal Revenue Service Code of 1986 as amended, and is administered by the President of the University or his delegate. 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 University contribution of 10% of regular salary. Employee contributions in excess of 10% are allowed by the plans in accordance with Internal Revenue Service regulations but the University does not match these additional contributions. All benefits attributable to plan contributions made by both the University and the participant are immediately vested in the participant for all faculty members and non-classified employees and all classified employees whose initial employment occurred prior to January 1, 1985, and who made any plan contributions prior to that date. For all other classified employees, vesting of benefits attributable to plan contributions made by the University shall occur on the earlier of completion of three years of service, or attainment of age 65, or the participant's having made plan contributions of at least five percent of regular salary for six consecutive months. The University's and participants' TIAA-CREF contributions for the year ending June 30, 2002 were $11,448,563 and

$10,596,993 respectively. The University's and participants' Fidelity Investments contributions for the year ending June 30, 2002 were $2,349,294 and $2,212,031 respectively.

APERS is a cost-sharing multiple employer defined benefit plan administered by the State of Arkansas. The University contributes 10% of applicable wages to the plan. The University's and participants' contributions for the year ending June 30, 2002 were $108,032 and $0 respectively.

ATRS is a cost-sharing multiple employer defined benefit pension plan. The University contributes 12% of all covered employees' salaries. Under certain conditions covered employees may voluntarily contribute 6% of his/her salary. The University's and participants' contributions for the year ending June 30, 2002 were $64,414 and $26,335 respectively.

The University's and participants' contributions to all other pension plans for the year ended June 30, 2002 were $744,376 and $552,186 respectively.

B. Self-Insurance Plans

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

At year end, a total of 4,030 active employees, former employees, and retirees were participants in the health plan. The University pays 62.264% for the Point of Service Plan and 72.760% for the Classic Plan for Fayetteville. For the Division of Agriculture, Arkansas Archeological Survey and Criminal Justice Institute the University pays 70.040% for the Classic Plan. The University pays 72% of the health plan for federal employees.

C. Life Insurance Plan

The University of Arkansas System's life insurance carrier is Teachers Insurance and Annuity Association (TIAA). The funding arrangement for the University's life insurance plan is a minimum premium arrangement whereby the University's monthly life insurance premium is based on the actual loss experience of the previous month, plus fixed monthly retention and contingency reserve charges. The difference between the actual loss experience and the total premium collected is held by the University of Arkansas System. Any surplus that may develop can be called by TIAA in the event of unfavorable life experience.

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

(11). Property, Plant and Equipment

The following schedule presents a summary of property, plant, and equipment for the fiscal year 2002:

	Beginning Balance	Change in Accounting Practice	Additions	Retirements	Ending Balance
Land	$ 11,131,376		$ 802,443		$ 11,933,819
Buildings	390,073,496	($ 3,944,673)	87,570,614	$ 220,800	473,478,637
Equipment	147,175,217	(37,156,526)	18,549,548	4,672,687	123,895,552
Improvements	9,463,004	(265,837)	50,782	20,885	9,227,064
Infrastructure	24,627,233	(351,470)	308,303	13,801	24,570,265
Other Assets	897,538			29,966	867,572
Construction in Progress	93,679,947		26,365,080	87,210,722	32,834,305
Total	677,047,811	(41,718,506)	133,646,770	92,168,861	676,807,214
Less accumulated depreciation:					
Buildings	180,500,961	(2,775,275)	13,879,764	220,800	191,384,650
Equipment	110,596,975	(28,552,689)	13,042,809	4,664,526	90,422,569
Improvements	5,988,919	(148,431)	291,386	20,885	6,110,989
Infrastructure	16,520,536	(306,615)	829,950	13,801	17,030,070
Total accumulated depreciation	313,607,391	(31,783,010)	28,043,909	4,920,012	304,948,278
Capital Assets, Net	$363,440,420	($ 9,935,496)	$105,602,861	$87,248,849	$371,858,936

Note: Land of $176,625 and buildings of $4,019,443 related to the joint endeavor between the University of Arkansas and the City of Fayetteville are included in the above amounts. See note 13.

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

Selected Estimate of Library Holdings as of June 30, 2002		
Books and Periodicals		
Mullins Library	1,409,361	
Chemistry Library	38,703	
Fine Arts Library	38,946	
Law Library	146,861	
Physics Library	23,036	
Total Books and Periodicals		1,656,907
Microforms		3,291,968
Maps and Charts		123,960
Audio/Visual		24,255
CD-ROMs		1,679
U.S. Documents (volumes and microfiche)		222,703
Total Estimate		5,321,472

The University estimates holdings of $7.2 million in timber resources as of the balance sheet date. These resources are located on various tracts of land in Arkansas, which total 12,781 acres. These resources are currently being inventoried.

(12). Museum Collection

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

(13). Operating Expenses by Function

	Personal Services	Scholarships	Supplies	Depreciation	Total
Instruction	$ 77,663,732	$ 147,482	$11,942,372		$ 89,753,586
Research	53,206,336	553,491	20,708,020		74,467,847
Public Service	41,194,383	15,053	11,379,220		52,588,656
Academic Support	13,432,959	359,253	8,257,565		22,049,777
Student Services	7,741,622	18,707	3,328,043		11,088,372
Institutional Support	16,873,433	1,906	6,553,546		23,428,885
Scholarships and Fellowships	62,468	18,174,882	705,287		18,942,637
Operations and Maintenance of Plant	11,944,607		9,281,734		21,226,341
Auxiliary Enterprises	19,592,480	1,204,586	23,747,287		44,544,353
Depreciation				$28,043,909	28,043,909
Totals	$241,712,020	$20,475,360	$95,903,074	$28,043,909	$386,134,363

(14). City of Fayetteville Arts Interlocal Agreement

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 operations 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., 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 audited financial statements of the University of Arkansas/City of Fayetteville Arts Foundation, Inc., as of and for the year ended June 30, 2002, were not available at the time
these financial statements were prepared. Therefore, the financial statements of the Arts Foundation at June 30, 2001, which have been audited by an independent certified public accountant, are presented below in summary form:

Condensed Statement of Financial Position		
Assets		
Cash	$	73,068
Investments		12,128,898
Receivables		255,125
Total Assets	**$**	**12,457,091**
Liabilities and Net Assets		
Liabilities	$	0
Net Assets	$	12,457,091
Total Liabilities and Net Assets	**$**	**12,457,091**

Condensed Statement of Activities		
Investment Income (loss)	$	(277,253)
Other Income		16,040
Transfers		(683,006)
Total Income and Other Additions	**$**	**(944,219)**
Total Expenditures and Other Deductions	**$**	**77,259**
Increase/(Decrease) in Net Assets	**$**	**(1,021,478)**

The Arts Center Council, Inc. was formed to construct, operate, manage, and maintain the Arts Center in Fayetteville, Arkansas, in accordance with the Interlocal Cooperation Agreement between the City of Fayetteville and the University of Arkansas. The ownership of the Arts Center facilities, including land, is held equally by the City and the University. The Arts Center Council must submit an annual budget to both the City and the University for approval. The Board of Trustees of The Arts Center Council is comprised of five members appointed by the University, five members appointed by the City, and ten members appointed at large, all of whom serve as volunteers. The audited financial statements of the Council, as of and for the year ended June 30, 2002, were not available at the time these financial statements were prepared. Therefore, the financial statements of the Council at June 30, 2001, which have been audited by an independent certified public accountant, are presented below in summary form:

Condensed Statement of Financial Position		
Assets		
Cash	$	840,785
Other Assets		182,989
Fixed Assets, Net of Depreciation		5,587,980
Total Assets	**$**	**6,611,754**
Liabilities and Net Assets		
Liabilities	$	1,035,197
Net Assets		5,576,557
Total Liabilities and Net Assets	**$**	**6,611,754**

Condensed Statement of Activities		
Ticket Sales	$	1,206,527
Contributions and Sponsorships		936,450
Other Income		1,091,342
Transfers		683,006
Total Income and Other Additions	**$**	**3,917,325**
Total Expenditures and Other Deductions	**$**	**3,797,461**
Increase/(Decrease) in Net Assets	**$**	**119,864**

(15). Affiliated Entities

There are in existence several entities, 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.

University of Arkansas Foundation, Inc. - The Foundation operates as a nonprofit benevolent corporation for charitable educational purposes. The Board of Trustees of the Foundation includes four (4) members who are also members of the University's Board of Trustees. The audited financial statements of the Foundation, as of and for the year ended June 30, 2002, were not available at the time these financial statements were prepared. Therefore, the financial statements of the Foundation, as of and for the year ended June 30, 2001, which have been audited by an independent certified public accountant, are presented below in summary form. The University of Arkansas, Fayetteville is the beneficiary of 60.7% of the net assets of the Foundation. The remaining 39.3% benefits other University of Arkansas campuses.

Condensed Statement of Financial Position		
Assets		
Cash and Cash Equivalents	$	328,075
Investments		324,209,899
Contributions Receivable, less Allowance		51,149,887
Other Receivables		2,819,589
Land and Improvements		2,367,915
Other Assets		342,278
Total Assets	**$**	**381,217,643**
Liabilities and Net Assets		
Liabilities	$	16,118,995
Net Assets		
Unrestricted		45,881,480
Restricted		319,217,168
Net Assets		365,098,648
Total Liabilities and Net Assets	**$**	**381,217,643**

Condensed Statement of Activities		
Contributions	$	86,115,403
Other Revenues and Additions		3,610,360
Total Income and Other Additions	**$**	**89,725,763**
Total Expenditures and Other Deductions	**$**	**45,374,269**
Increase/(Decrease) in Net Assets	**$**	**44,351,494**

Arkansas Alumni Association, Inc. - The Association was incorporated in 1960 for the purposes of promoting the welfare of the University and its graduates and former students. Financial statements of the Alumni Association are presented below; they have been audited by an independent certified public accountant for the year ended June 30, 2002

Condensed Statement of Financial Position		
Assets		
Cash	$	551,445
Investments		823,174
Life Memberships		25,999
Fixed Assets, Net of Depreciation		76,465
Other Assets		2,939,206
Total Assets	**$**	**4,416,289**
Liabilities and Net Assets		
Liabilities	$	21,087
Net Assets		
Unrestricted		1,539,179
Restricted		2,856,023
Net Assets		4,395,202
Total Liabilities and Net Assets	**$**	**4,416,289**

Condensed Statement of Activities		
Memberships	$	479,024
Other Revenues and Additions		708,737
Total Income and Other Additions	**$**	**1,187,761**
Expenditures and Other Deductions	**$**	**1,908,662**
Increase/(Decrease) in Net Assets	**$**	**(720,901)**

Arkansas Four-H Foundation, Inc. - The Arkansas Four-H Foundation, Inc. was incorporated in 1951. The purpose and objectives of the Foundation are educational. The Foundation was formed for such educational purposes as, in the judgment of the Foundation, will best meet the needs and advance the interests of 4-H Club work throughout the State of Arkansas by providing educational programs in agriculture, home economics, natural resources, community development, etc. Financial statements of the corporation are presented below; they have been audited by an independent certified public accountant for the year ended June 30, 2002.

Condensed Statement of Financial Position		
Assets		
Cash and Investments	$	2,724,249
Accounts and Grants Receivable		3,238,322
Prepaid Expenses		29,203
Inventories		22,537
Fixed Assets, Net of Depreciation		4,936,555
Total Assets	**$**	**10,950,866**
Liabilities and Net Assets		
Liabilities	$	651,422
Net Assets		10,299,444
Total Liabilities and Net Assets	**$**	**10,950,866**

Condensed Statement of Activities		
Program Revenue	$	1,048,423
Contributions		4,771,527
Other Income		133,748
Total Income and Other Additions	**$**	**5,953,698**
Total Expenditures and Other Deductions	**$**	**1,462,334**
Increase/(Decrease) in Net Assets	**$**	**4,491,364**

The Razorback Foundation, Inc. - The Razorback Foundation, Inc. was incorporated on October 17, 1980. The audited financial statements of the Razorback Foundation, Inc., as of and for the year ended June 30, 2002, were not available at the time these financial statements were prepared. Therefore, the financial statements of the Razorback Foundation, Inc., as of and for the year ended June 30, 2001, which have been audited by an independent certified public accountant, are presented below in summary form:

Condensed Statement of Financial Position		
Assets		
Cash	$	1,178,824
Investments		26,497,132
Land and Improvements		173,174
Pledges Receivable		2,162,029
Other Assets		197,349
Total Assets	**$**	**30,208,508**
Liabilities and Net Assets		
Liabilities	$	7,250,158
Net Assets		
Unrestricted		10,439,390
Restricted		12,518,960
Net Assets		22,958,350
Total Liabilities and Net Assets	**$**	**30,208,508**

Condensed Statement of Activities		
Donations	$	13,957,916
Other Revenues and Additions		1,445,168
Total Income and Other Additions	**$**	**15,403,084**
Total Expenditures and Other Deductions	**$**	**47,953,799**
Increase/(Decrease) in Net Assets	**$**	**(32,550,715)**

(16). Change in Accounting Practice

The University changed its capitalization policy for equipment from $500 to $2,500. This change resulted in a write down of the total equipment balance of $37,156,526. The accumulated depreciation related to this change was $28,552,689 for a net write down of net assets of $8,603,837. In addition, the University adopted a capitalization policy for buildings, improvements and infrastructure of $50,000. This policy adoption resulted in a write down of buildings, improvements and infrastructure of $4,561,980. The accumulated depreciation related to this change was $3,230,321 for a net write down of net assets of $1,331,659. The total amount attributable to the changes in accounting practices was $9,935,496.

(17). Contingencies

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

(18). Subsequent Events

The Board of Trustees approved a resolution on November 10, 2002, authorizing the issuance of up to $119,250,000 in principal amount of University of Arkansas Various Facility Revenue Bonds (Fayetteville Campus), Series 2002. The proceeds from the bonds will be used to finance various capital improvement projects on the Fayetteville campus.

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