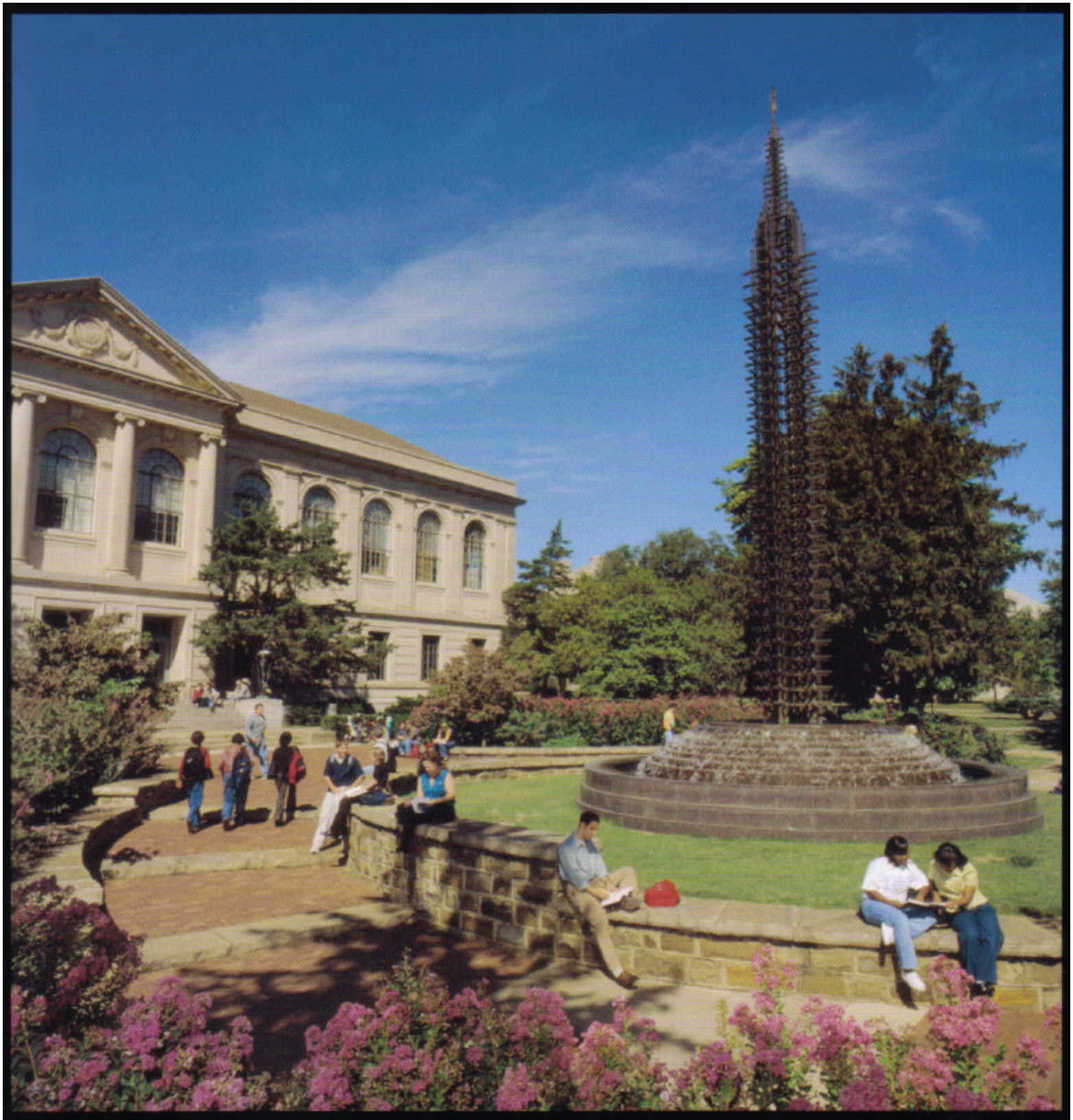


University of Arkansas

Annual Financial Report

2002 - 2003



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On the cover:
Peace Fountain—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 5, 2003

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, 2003.

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

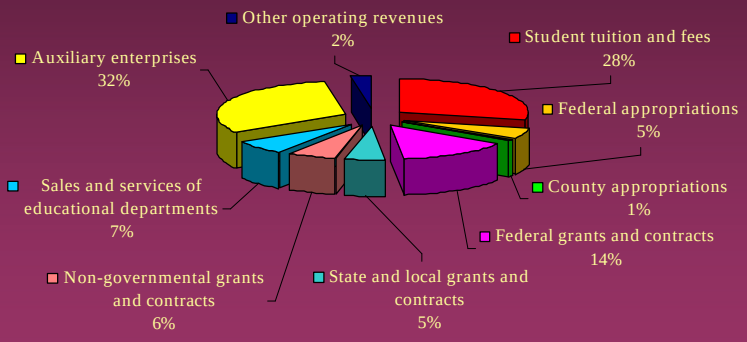
FISCAL YEAR 2003 OPERATING REVENUES

Student tuition and fees	57,965,152
Federal appropriations	10,185,291
County appropriations	2,311,834
Federal grants and contracts	28,238,928
State and local grants and contracts	10,042,415
Non-governmental grants and contracts	12,512,450
Sales and services of educational departments	13,308,699
Auxiliary enterprises	64,343,552
Other operating revenues	5,028,523
Total operating revenues	203,936,844

FISCAL YEAR 2003 NONOPERATING REVENUES

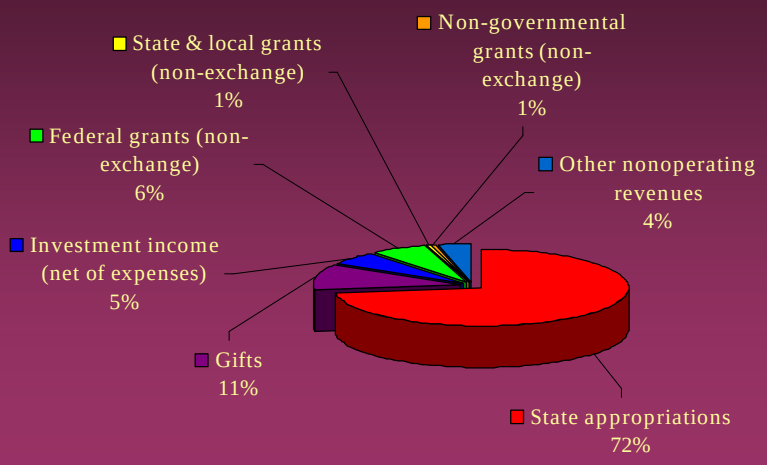
State appropriations	152,907,875
Gifts	23,203,747
Investment income (net of expenses)	11,466,481
Federal grants (non-exchange)	13,246,183
State & local grants (non-exchange)	1,198,109
Non-governmental grants (non-exchange)	1,171,574
Other nonoperating revenues	7,488,523
Total nonoperating revenues	210,682,492

Fiscal Year 2003 Operating Revenues



- Student tuition and fees
- Federal appropriations
- County appropriations
- Federal grants and contracts
- State and local grants and contracts
- Non-governmental grants and contracts
- Sales and services of educational departments
- Auxiliary enterprises
- Other operating revenues

Fiscal Year 2003 Nonoperating Revenues



- State appropriations
- Gifts
- Investment income (net of expenses)
- Federal grants (non-exchange)
- State & local grants (non-exchange)
- Non-governmental grants (non-exchange)
- Other nonoperating revenues

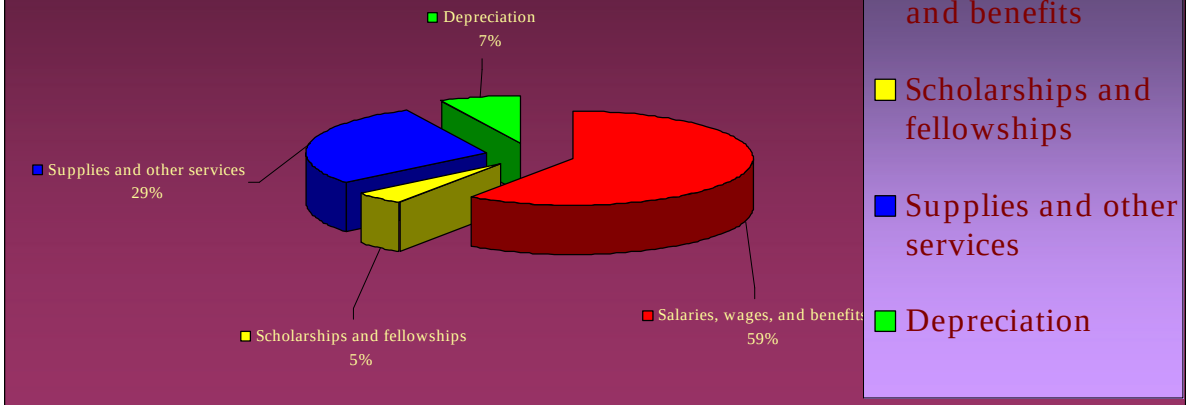
FISCAL YEAR 2003 OPERATING EXPENSES BY NATURAL CLASSIFICATION

Salaries, wages, and benefits	249,962,083
Scholarships and fellowships	20,491,689
Supplies and other services	120,002,316
Depreciation	30,358,636
Total operating expenses	420,814,724

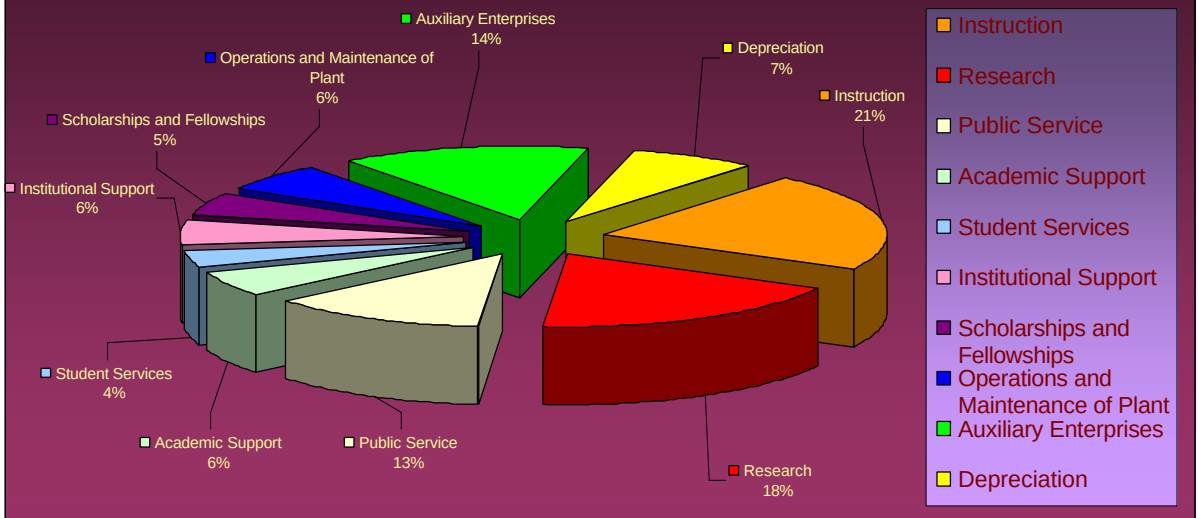
FISCAL YEAR 2003 OPERATING EXPENSES BY FUNCTION

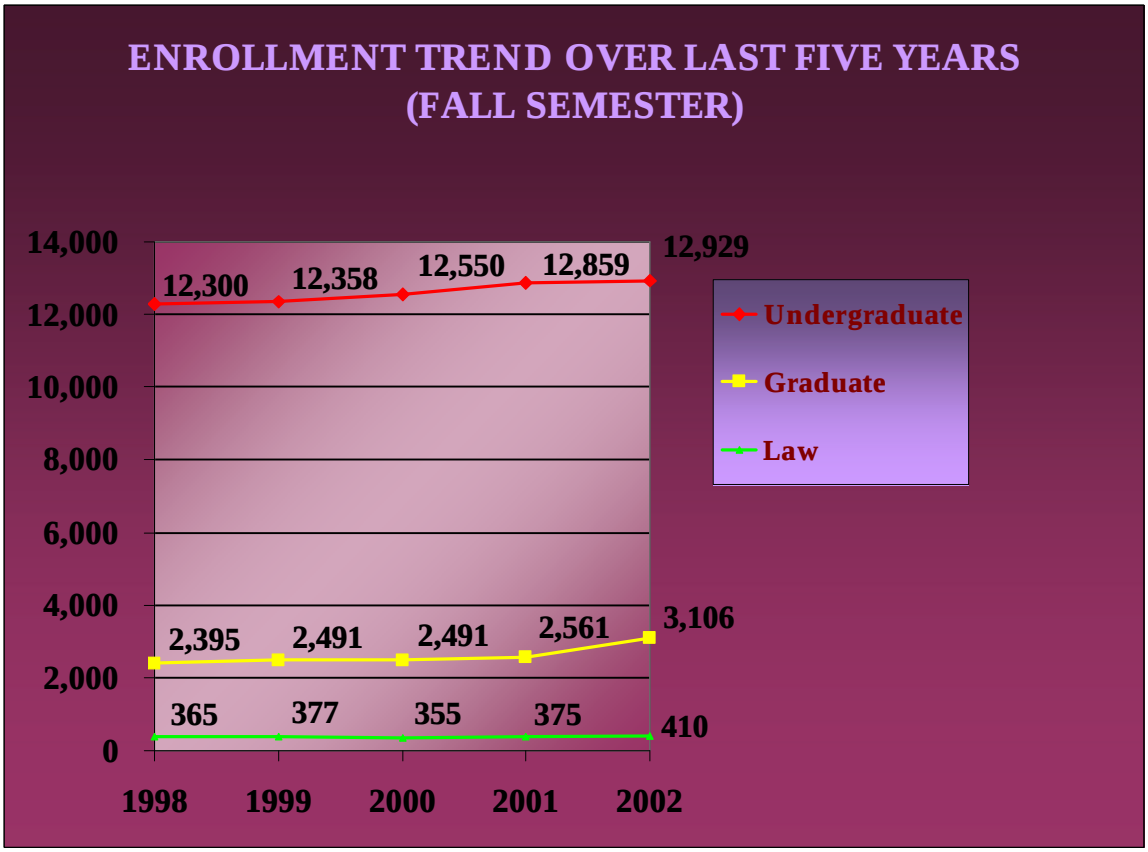
Instruction	91,550,661
Research	77,569,311
Public Service	53,268,665
Academic Support	23,520,691
Student Services	14,778,842
Institutional Support	23,153,740
Scholarships and Fellowships	21,736,508
Operations and Maintenance of Plant	24,808,020
Auxiliary Enterprises	60,069,650
Depreciation	30,358,636
	420,814,724

Fiscal Year 2003 Operating Expenses by Natural Classification

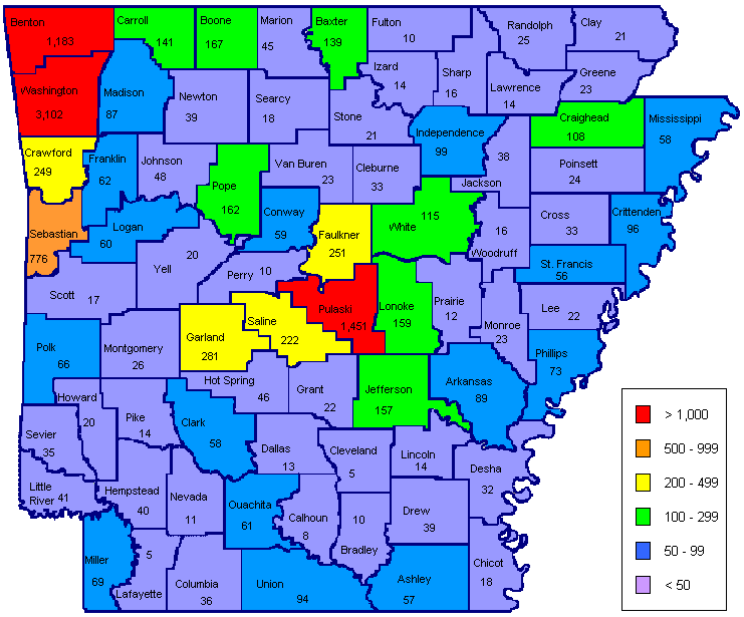


Fiscal Year 2003 Operating Expenses by Function

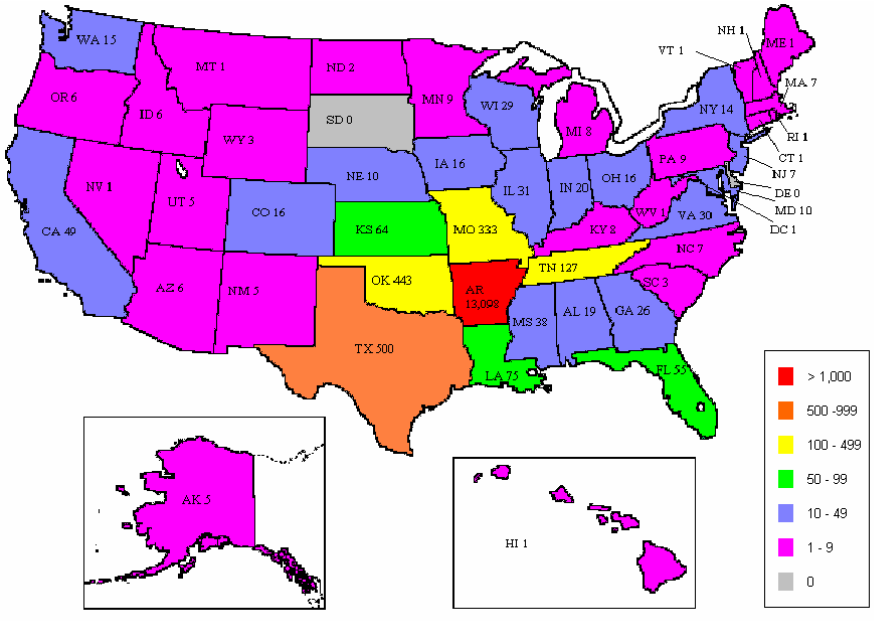



ENROLLMENT TREND OVER LAST FIVE YEARS
(FALL SEMESTER)
14,000
12,000
10,000
8,000
6,000
4,000
2,000
0
12,300
12,358
12,550
12,859
12,929
2,395
2,491
2,491
2,561
3,106
365
377
355
375
410
1998
1999
2000
2001
2002
Undergraduate
Graduate
Law

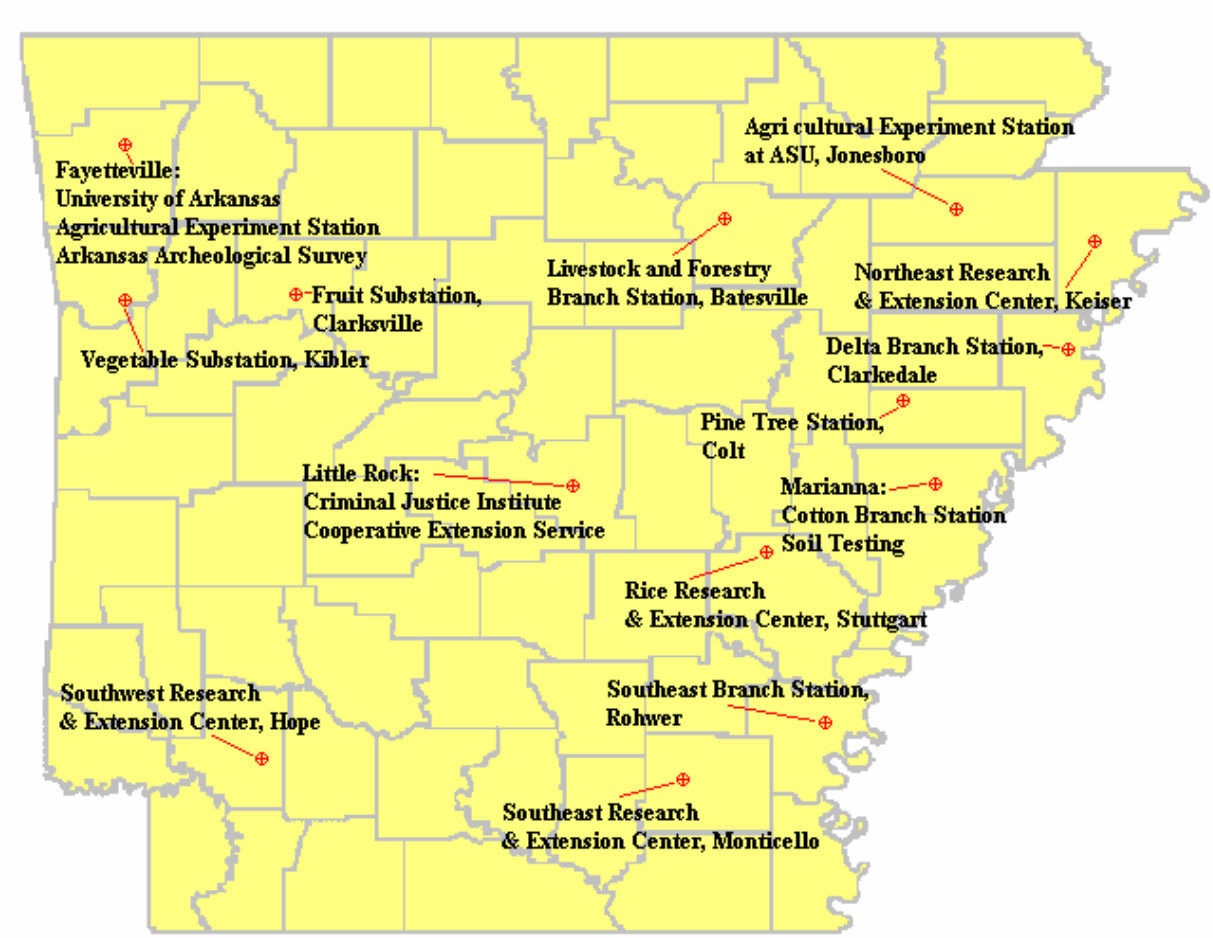
In-State Undergraduate Enrollment by County of Origin



Enrollment by State



University of Arkansas, Fayetteville Location and Locations of Other Division Sites



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

Sen. Henry "Hank" Wilkins, IV
Senate Co-Chair
Rep. Tommy G. Roebuck
House Co-Chair
Sen. Randy Laverty
Senate Co-Vice Chair
Rep. David Evans
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, 2003 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, 2003 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 of America.

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 5, 2003 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 5, 2003
EDHE13503

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Financial Report

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

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

This portion of the University's Financial Report, Management's Discussion and Analysis, provides an overview of its financial activities for the year ended June 30, 2003.

Financial Highlights

On March 11, 2003, the University of Arkansas, Fayetteville Campus Foundation, Inc. was established by the Walton Family Charitable Support Foundation, Inc. for the exclusive benefit of the University of Arkansas, Fayetteville, campus. Shortly thereafter, this new foundation received $300 million in gifts from the Walton Family Charitable Support Foundation, Inc. More detail concerning this foundation is included in note 16, "Affiliated Entities", in the Notes to the Financial Statements.

Also, on December 1, 2002, the University issued $110,980,000 of new bonds for various University facilities and equipment. This transaction is discussed further in the Significant Changes in Capital Assets 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, such 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 subsequent year.

Net Assets are presented in four categories: Invested in Capital Assets, Restricted and Nonexpendable, Restricted and Expendable, and Unrestricted Net Assets. Net assets Invested in Capital Assets are reported net of 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, 2003 and June 30, 2002:

		As of June 30, 2003		As of June 30, 2002
Assets				
Current Assets	$	194,451,053	$	126,224,134
Capital Assets, net		421,111,696		371,858,936
Other Non-Current Assets		153,173,637		149,173,029
Total Assets	$	768,736,386	$	647,256,099
Liabilities				
Current Liabilities	$	48,469,583	$	45,113,158
Non-Current Liabilities		237,775,877		132,044,913
Total Liabilities		286,245,460		177,158,071
Net Assets				
Invested in Capital Assets, net of related debt	$	291,367,965	$	272,872,660
Restricted – Nonexpendable		16,925,809		19,140,377
Restricted – Expendable		63,777,034		70,606,384
Unrestricted		110,420,118		107,478,607
Total Net Assets	$	482,490,926	$	470,098,028

The increase of $68,226,919 in current assets is comprised of increases in deposits with bond trustee of $80,758,842, and prepaid expenses of $1,532,971; decreases in cash of $7,766,645, accounts receivable of $4,995,677, and pledges receivable of $1,022,480; and net decreases in miscellaneous items of $280,092.

The increase in deposits with bond trustee is related to the issuance of $110,980,000 of bonds on December 1, 2002, which is discussed in more detail in the Significant Changes in Capital Assets and Long Term Debt Activity section below and note 9 "Compensated Absences, Bonds, Notes & Capital Leases Payable" in the Notes to Financial Statements. The prepaid expense increase is related to advance payments made to the Arkansas Highway and Transportation Department (AHTD) for street improvements and parking lot construction for the Fayetteville campus. The decrease in cash is reported in detail on the Statement of Cash Flows presented herewith. The decrease in accounts receivable is primarily the result of having payment delayed in FY 02 for the Arkansas Academic Challenge and Governor's Distinguished Scholarship from the Department of Higher Education. There were no significant delays in FY 03 for these scholarship programs. The decrease in pledges receivable is the result of payments having been received on pledges that are greater than new pledges received.

Noncurrent assets increased by $53,253,368. $49,252,760 or 92.5% of this increase was in Capital Assets, net of depreciation. This net change is reported in detail in note 12 "Property, Plant, and Equipment" in Notes to Financial Statements. There were no other noteworthy changes in Noncurrent Assets.

Total Net Assets increased by $12,392,898 or 2.64%. This is a net increase comprised of an increase in Net Assets invested in Capital Assets, net of related debt, of $18,495,305 and Unrestricted Net Assets of $2,941,511; and decreases in Net Assets Restricted – Nonexpendable of $2,214,568 and Net Assets Restricted – Expendable of $6,829,350.

The increase in Net Assets Invested in Capital Assets, net of related debt, is the result of the University investing in capital assets at a rate greater than these assets are being depreciated (used) or disposed of. The decrease in Net Assets Restricted – Nonexpendable is the result of the income generated by endowment investments (including market value fluctuations) that did not keep pace with spending from these endowments for current operations. The decrease in Net Assets Restricted – Expendable represents spending from restricted revenue sources in excess of revenues realized. The small increase (2.74%) in Unrestricted Net Assets is the result of spending from unrestricted sources at a slightly lower rate than revenues were realized. These Unrestricted Net Assets are owned by the various units of the University of Arkansas Fund as follows:

	As of June 30, 2003	As of June 30, 2002
University of Arkansas, Fayetteville	$ 85,099,102	$ 81,895,192
Agricultural Experiment Station	17,131,857	16,951,157
Cooperative Extension Service	6,505,062	7,004,518
Arkansas Archeological Survey	118,891	79,718
Criminal Justice Institute	1,565,206	1,548,022
Total Unrestricted Net Assets	$ 110,420,118	$ 107,478,607

Almost all of the increase in Unrestricted Net Assets can be attributed to University of Arkansas, Fayetteville. The unrestricted net assets for University of Arkansas, Fayetteville are allocated as follows:

	As of June 30, 2003
Working Capital	$ 750,000
E & G Department Uses	30,747,328
Service Operations	985,226
Auxiliaries	9,304,488
Plant Funds	28,987,662
Quasi-Endowment Funds	14,323,076
Unallocated	1,322
Total UAF Unrestricted Net Assets	$ 85,099,102

In Plant Funds, $18,175,842 is allocated to a non-mandatory bond sinking fund. The University is authorized to issue bonds for capital expenditures with the interest paid on the bonds exempt from federal and state income taxes (tax exempt municipal bonds) for the bond buyers. The University also has the authority to invest unrestricted net assets any way deemed appropriate. This non-mandatory bond sinking fund is the accumulation of assets resulting from the University having budgeted or accumulated funds for capital expenditures, but instead borrowed with tax-exempt bonds for these expenditures, and invested the budgeted and accumulated funds. In this process, the University realizes investment income in excess of interest expenses for the difference between the yield for taxable corporate or government bonds and tax-exempt municipal bonds.

Reducing University of Arkansas, Fayetteville net assets by this non-mandatory bond sinking fund leaves net assets of $66,923,260.

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 Loss of ($216,877,880) is of little significance for the University of Arkansas, Fayetteville since accounting standards require a significant portion of our revenues (state appropriations, gifts, investment income, and some grants) to be reported as Non-Operating.

Two other numbers on this statement, Income (loss) before other revenues and changes in net assets of ($16,011,798), and Increase (decrease) in net assets of $12,392,898 are much more useful indicators of the University's financial health and management's effectiveness.

Increases in these numbers over time indicate the University's financial health is improving. Conversely, decreases in these numbers over time 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.

Total Net Assets for the University increased by $12,392,898 or 2.64%. The following summarizes the University's operating statement:

		Fiscal 2003 Total		Fiscal 2002 Total
Operating Revenues	$	203,936,844	$	183,604,049
Operating Expenses		420,814,724		386,134,363
Operating income (loss)		(216,877,880)		(202,530,314)
Nonoperating revenues (expenses)		200,866,082		202,522,987
Income (loss) before other revenues and changes in net assets		(16,011,798)		(7,327)
Other revenues and changes in net assets		28,404,696		605,086
Increase (decrease) in Net Assets	$	12,392,898	$	597,759

Operating Revenues increased by $20,332,795. This is comprised of increases in Auxiliary enterprises – Bookstore of $12,033,588, Student tuition and fees of $3,631,038, Auxiliary enterprises – Athletics of $2,627,617, and Sales and services of educational departments of $2,440,531, along with a decrease in Federal appropriations of $1,474,591, and a net increase in other items of $1,074,612.

The increase in Auxiliary enterprises – Bookstore is the result of having a full year's activity for the Bookstore included in the financial statement for this year. Prior to May 28, 2002, the University Bookstore was operated by a contractor. Since that time the University has operated the Bookstore. Only about one month's financial activity for the University Bookstore was included in the FY 02 financial statement. There is a full year's activity for the University Bookstore included in this year's financial statement. The increase in Student tuition and fees is the result of increases in the rates charged for tuition and fees and a small enrollment increase. The increase in Auxiliary enterprises – Athletics is the result of a general increase of athletic revenues. The Sales and services of educational departments is a general increase across many departments. The decrease in Federal appropriations is the result of smaller appropriations from the federal Department of Agriculture (USDA) to the Agricultural Experiment Station and Cooperative Extension Service.

Operating Expenses increased by $34,680,361 or 8.98%. Salaries, wages, and benefits increased $8,250,063 or 3.41%, as the result of general salary and benefit increases. Scholarships and fellowships increased $16,329 or 0.08%, effectively no change in this operating expense. Supplies and other services increased $24,099,242 or 25.13%. Over $12 million of this increase relates to the University having assumed operation of the University Bookstore as discussed above. The balance of this increase was general in all areas with no particular commodity or department affected in a significant way. Depreciation increased $2,314,727 or 8.25% and is directly related to the increase in Capital Assets discussed below in Significant Changes in Capital Assets and Long Term Debt Activity.

Nonoperating Revenues (Expenses) are down slightly by $1,656,905 or .82%, however, offsetting increases and decreases of the individual lines within this section of the report are considerably larger. State Appropriations are down $4,866,379 or 3.08% as the result of reductions in state funding for the year.

Gifts are down $4,838,247 or 17.25% as a result of fewer gifts to the University. This information is not a good indicator of the University's ability to obtain gifts. Most gifts for the benefit of the University are made to the University of Arkansas Foundation, Inc. whose financial information is presented in summary form in the note 16 "Affiliated Entities" in the Notes to the Financial Statements.

A significant increase was realized in Investment income for the year. FY02 Investment income was a loss of $119,658 and FY03 Investment income was a gain of $11,466,481. This is the result of improved investment performance over FY 02, which was a particularly difficult year for investing activities.

The nonoperating expense of Interest on capital asset-related debt increased by $3,016,712 or 49.82% and is the result of interest expense on the new debt issues in FY 02 and FY 03. Federal grants (nonexchange) are down by $2,402,162 or 15.35% as a result of fewer federal grants being received by the University. The increase in Other nonoperating revenues is the result of $110,980,000 of bonds having been issued at a premium. There were no other significant items in this section of this statement.

In Other Revenues (expenses) and Changes in Net Assets, capital appropriations are down by $2,471,275 as a result of fewer state appropriations for capital acquisitions. Capital grants and gifts increased by $22,195,226 primarily as a result of gift funds from the Razorback Foundation, Inc. for improvements to the Donald W. Reynolds Razorback Stadium. There were no other noteworthy items in this section of this report.

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 accounting standards require 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.

The following summarizes the University's cash flows:

	Fiscal Year 2003	Fiscal Year 2002
Cash flows from operating activities	$ (185,113,176)	$ (174,683,396)
Cash flows from noncapital financing activities	197,560,017	197,951,179
Net cash provided (used) by operating and noncapital financing activities	12,446,841	23,267,783
Cash flows from Capital financing activities	(27,378,232)	(18,478,235)
Cash flows from Investing activities	7,164,746	1,647,051
Net increase (decrease) in cash for the year	$ (7,766,645)	$ 6,436,599

Cash Flows from Operating Activities show an increase in the use of cash by $10,429,780. This is the result of general increases across the board with no particular commodity or department affected in a significant way. This use of cash by departments was requested by management to reduce accumulated funds. Cash Flows from Noncapital financing activities are virtually

unchanged. Cash Flows from Capital financing activities are related to the issuance of the approximately $110 million in new debt and are discussed in more detail in the following section. Cash Flows from Investing Activities show the net liquidation of investments to support the operating and capital expenses.

Significant Changes in Capital Assets and Long Term Debt Activity

On December 1, 2002, the University of Arkansas, Fayetteville issued a new bond series. Series 2002 for $110,980,000 of tax-exempt bonds were issued with the proceeds to be used for capital improvements to the Fayetteville campus. This bond issue was insured by FINANCIAL GUARANTY INSURANCE COMPANY. Moody's Investors Service and Fitch Inc. assigned the municipal bond ratings of "Aaa" and "AAA", respectively, to this bond issue. The underlying credit rating for this bond issue was "A1" by Moody's Investor Service and "A+" by Fitch Inc.

A summary of long-term debt (including the current portion) activity is as follows:

	Bonds	Notes	Leases
Balance as of July 1, 2002	$ 122,213,000	$ 5,136,573	$ 249,057
Additions	110,980,000	1,188,802	
Payments of principal	6,315,000	250,957	47,355
Balance as of June 30, 2003	$ 226,878,000	$ 6,074,418	$ 201,702

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

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

Net Assets Invested in capital assets, net of related debt and depreciation as of June 30, 2002	$ 272,872,660
Land Additions and Disposals	2,573,944
Buildings Additions and Disposals, net of depreciation	33,867,703
Improvements/Infrastructure Additions, net of depreciation	441,207
Equipment Additions and Disposals, net of depreciation	925,973
Construction In Progress Additions net of transfers to buildings and improvements/infrastructure	11,379,928
Livestock Additions	64,005
Bond debt moved to Net Assets invested in capital assets	(37,123,175)
Note Payable moved to Net Assets invested in capital assets	(247,592)
Bond Principal Paid in FY 03	6,315,000
Note and Capital Lease Principal Paid in FY 03	298,312
Net Assets Invested in capital assets, net of related debt and depreciation as of June 30, 2003	$ 291,367,965

Conditions and other factors having a significant effect:

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

The Lake View School funding lawsuit hangs as a big question mark over the state's fiscal future. One recent estimate of the additional funding required to meet the court ordered criteria is $847 million.

The University is also dependent on its ability to recruit and retain high quality students. Fall 2003 enrollment is 16,449, an all-time record high enrollment, and an increase of 2.6% over the Fall 2002 enrollment. Undergraduate enrollment is up 1.2%, Law School enrollment is up 11.5%, and Graduate enrollment is up 6.0%. 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 the University's capital assets is another important consideration. An estimate of the deficiencies of the Educational and General facilities of the University has been made to provide the necessary data to develop an optimized facility renewal plan. 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 and is in the process of implementing the software to enable such annual tracking.

UNIVERSITY OF ARKANSAS, FAYETTEVILLE
Statement of Net Assets
June 30, 2003

	Fiscal 2003 Total	Fiscal 2002 Total
ASSETS		
Current Assets		
Cash and cash equivalents	$ 46,333,773	$ 54,100,418
Accounts receivable, net	19,621,197	24,616,874
Accrued interest receivable	1,213,897	1,153,275
Pledges receivable	979,020	2,001,500
Inventories	3,176,585	3,229,089
Deposit with bond trustee	115,320,061	34,561,219
Notes receivable, net	3,674,214	3,962,424
Other assets	4,132,306	2,599,335
Total current assets	194,451,053	126,224,134
Noncurrent Assets		
Endowment investments	49,288,293	51,197,213
Pledges receivable	1,530,300	1,000,000
Notes receivable, net	13,033,491	12,245,276
Deposit with bond trustee	1,333,298	1,333,298
Other long-term investments	87,988,255	83,397,242
Capital assets, net	421,111,696	371,858,936
Total noncurrent assets	574,285,333	521,031,965
Total assets	$ 768,736,386	$ 647,256,099
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	$ 15,681,648	$ 13,094,135
Accrued payroll liabilities	9,060,129	8,926,227
Accrued interest payable	1,438,280	1,023,852
Student overpayments	2,514	137,645
Funds held in trust for others	527,907	282,431
Deferred revenue	14,007,118	14,305,156
Compensated absences payable - current portion (Note 9)	784,642	709,056
Bonds, notes and capital leases payable - current portion (Note 9)	6,967,345	6,553,261
Other liabilities		81,395
Total current liabilities	48,469,583	45,113,158
Noncurrent Liabilities		
Deposits	4,000	4,000
Compensated absences payable (Note 9)	11,585,102	10,995,544
Bonds, notes and capital leases payable (Note 9)	226,186,775	121,045,369
Total noncurrent liabilities	237,775,877	132,044,913
Total liabilities	$ 286,245,460	$ 177,158,071

NET ASSETS				
Invested in capital assets, net of related debt	$	291,367,965	$	272,872,660
Restricted for				
Nonexpendable				
Scholarships and fellowships		7,112,641		11,914,194
Research		2,142,600		3,333,436
Instructional department uses		7,626,903		3,791,590
Loans		43,665		101,157
Expendable				
Scholarships and fellowships		6,867,711		18,017,115
Research		13,971,821		13,469,134
Public service		2,114,202		1,932,764
Instructional department uses		9,989,269		6,219,292
Loans		16,085,812		15,861,772
Capital projects		9,311,893		10,743,433
Debt service		4,839,349		3,448,240
Other		596,977		914,634
Unrestricted		110,420,118		107,478,607
Total net assets	$	482,490,926	$	470,098,028

UNIVERSITY OF ARKANSAS, FAYETTEVILLE
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2003

	Fiscal 2003 Total	Fiscal 2002 Total
REVENUES		
Operating Revenues		
Student tuition and fees (net of scholarship allowances of $29,458,862 in fiscal year 2003, and $27,012,919 in fiscal year 2002)	$ 57,965,152	$ 54,334,114
Federal appropriations	10,185,291	11,659,882
County appropriations	2,311,834	2,097,860
Federal grants and contracts	28,238,928	28,928,172
State and local grants and contracts	10,042,415	9,109,962
Non-governmental grants and contracts	12,512,450	12,265,156
Sales and services of educational departments	13,308,699	10,868,168
Auxiliary enterprises		
Residential Life (net of scholarship allowances of $3,597,023 in fiscal year 2003, and $3,368,783 in fiscal year 2002)	6,958,983	6,687,898
Athletics	37,529,788	34,902,171
Bookstore	12,874,306	840,718
Student Apartments	1,175,558	1,188,269
Arkansas Union	489,962	493,174
Student Health Services	1,140,592	1,003,286
Transit and Parking	3,112,120	2,445,299
Student Organizations/Activities	276,237	290,252
Other Auxiliary Enterprises	786,006	619,862
Other operating revenues	5,028,523	5,869,806
Total operating revenues	203,936,844	183,604,049
EXPENSES		
Operating Expenses		
Salaries, wages, and benefits	249,962,083	241,712,020
Scholarships and fellowships	20,491,689	20,475,360
Supplies and other services	120,002,316	95,903,074
Depreciation	30,358,636	28,043,909
Total operating expenses	420,814,724	386,134,363
Operating income (loss)	(216,877,880)	(202,530,314)

NONOPERATING REVENUES (EXPENSES)		
State appropriations	152,907,875	157,774,254
Gifts	23,203,747	28,041,994
Investment income (loss) (net of investment expense of $450,365 in fiscal year 2003, and $552,654 in fiscal year 2002)	11,466,481	(119,658)
Interest on capital asset - related debt	(9,071,669)	(6,054,957)
Federal grants (non-exchange)	13,246,183	15,648,345
State & Local grants (non-exchange)	1,198,109	1,463,533
Non-governmental grants (non-exchange)	1,171,574	1,875,141
Gain or (loss) on disposal of assets	(744,741)	
Other nonoperating revenues	7,488,523	3,894,335
Net nonoperating revenues	200,866,082	202,522,987
Income (loss) before other revenues and changes in net assets	(16,011,798)	(7,327)
OTHER REVENUES AND CHANGES IN NET ASSETS		
Capital appropriations	1,455,618	3,926,893
Capital grants and gifts	27,277,389	5,082,163
Other changes	(328,311)	1,531,526
Adjustment due to change in accounting principle		(9,935,496)
Total other revenues and changes in net assets	28,404,696	605,086
Increase (decrease) in net assets	12,392,898	597,759
NET ASSETS		
Net assets - beginning of year	470,098,028	469,500,269
Net assets - end of year	$ 482,490,926	$ 470,098,028

UNIVERSITY OF ARKANSAS, FAYETTEVILLE
Statement of Cash Flows - Direct Method
For the Year Ended June 30, 2003

	Fiscal 2003 Total	Fiscal 2002 Total
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	$ 57,933,333	$ 54,326,263
Federal appropriations	9,857,605	11,535,756
County appropriations	2,215,192	2,016,658
Grants and contracts	53,368,859	50,203,720
Payments to suppliers	(119,418,618)	(97,764,587)
Payments to employees	(205,452,497)	(199,760,482)
Payments for benefits	(43,641,168)	(40,991,742)
Payments for scholarships and fellowships	(20,491,689)	(20,475,360)
Loans issued to students and employees	3,022,907	(2,178,580)
Collections of loans to students	(3,544,343)	2,116,122
Collections of interest on loans to students	75,055	277,763
Auxiliary enterprise charges		
Resident Life	7,013,623	6,714,101
Athletics	36,022,449	36,396,142
Bookstore	11,709,514	842,002
Student Apartments	1,176,275	1,181,895
Arkansas Union	511,908	493,350
Student Health Services	1,094,893	1,010,001
Transit and Parking	3,140,437	2,380,752
Student Organizations/Activities	289,933	307,996
Other Auxiliary Enterprises	784,778	606,949
Sales and services of educational departments	13,791,845	10,248,278
Other receipts (payments)	5,426,533	5,829,607
Net cash provided (used) by operating activities	(185,113,176)	(174,683,396)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	152,907,875	157,774,254
Gifts and grants for other than capital purposes	26,923,762	17,588,900
Private gifts for endowment purposes	89,038	1,951,339
Federal grants (non-exchange)	13,246,183	15,635,845
State & Local grants (non-exchange)	1,198,109	1,360,199
Non-governmental grants (non-exchange)	1,171,574	1,728,582
Transfers to other state agencies		485,236
Other non-operating revenue	1,964,585	1,767,030
Net agency fund transactions	58,891	(340,206)
Net cash provided (used) by noncapital financing activities	197,560,017	197,951,179
Net cash provided (used) by operating activities and noncapital financing activities	12,446,841	23,267,783

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from capital debt	$ 112,168,802	$ 54,540,000
Capital appropriations	1,467,118	3,915,393
Capital grants and gifts received	3,040,439	2,073,063
Purchases of capital assets	(55,593,955)	(37,649,987)
Principal paid on capital debts and leases	(6,324,807)	(4,836,677)
Interest paid on capital debt and leases	(8,607,971)	(5,019,333)
Deposit with trustee	(79,376,428)	(33,867,720)
Other sources	5,779,940	2,239,553
Payments received on capital notes receivable	68,630	127,473
Net cash provided (used) by capital financing activities	(27,378,232)	(18,478,235)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	11,684,347	12,260,308
Investment income (loss)	991,243	825,464
Purchase of investments	(5,510,844)	(11,438,721)
Net cash provided (used) by investing activities	7,164,746	1,647,051
NET INCREASE (DECREASE) IN CASH	(7,766,645)	6,436,599
Cash - beginning of year	54,100,418	47,663,819
Cash - end of year	$ 46,333,773	$ 54,100,418
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	$ (216,877,880)	$ (202,530,314)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	30,358,636	28,043,909
Changes in assets and liabilities		
Receivables (net)	918,230	(1,249,335)
Inventories	52,504	(1,059,056)
Prepaid expenses	1,190,521	(574,835)
Other assets	(2,723,492)	(31,207)
Accounts payable	2,132,141	412,966
Accrued payroll liabilities (Employees)	101,949	154,163
Accrued payroll liabilities (Benefits)	30,015	690,026
Student overpayments	(135,131)	16,486
Deferred revenue	(379,433)	1,439,042
Compensated absences	665,145	(210,546)
Loans to students and employees	(446,381)	215,305
Net cash provided (used) by operating activities	$ (185,113,176)	$ (174,683,396)
NONCASH TRANSACTIONS		
Donations of buildings	$ 21,282,414	
Equipment donations	3,015,817	$ 4,877,841
Bond interest and fee payments made from capitalized interest and accrued interest accounts held by bond trustees	2,192,807	1,418,139
Bond issuance costs and underwriter's discounts paid directly from bond proceeds	1,515,196	958,589
Equipment acquired by incurring capital lease obligations		280,815

(1). Summary of Significant Accounting Policies

The financial statements for the University of Arkansas, Fayetteville ("the University") for the fiscal year ended June 30, 2003, have been prepared in accordance with generally accepted accounting principles accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB).

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

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

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

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

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

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

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

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

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

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, 2003	June 30, 2002
Arkansas Union	$ 857	$ 1,105
Athletics Inventory	13,583	
Bookstore	1,542,657	1,298,558
COOP Warehouse	180,436	299,258
Garvan Woodland Gardens Shop	32,288	
Physical Plant	578,688	798,940
Physics Electronics Shop	24,696	18,781
Printing Services	165,087	155,750
Research Services	64,412	64,973
Residence Life	334,190	338,434
Student Health Pharmacy	73,350	63,919
University Press	166,341	189,371
Total Inventories	$ 3,176,585	$ 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 $498,592 and $398,984 were written off during the fiscal years ended June 30, 2003, and June 30, 2002, respectively.

Accounts receivable at June 30, 2003 totaled $23,016,737. The allowance for doubtful accounts was computed to be $3,395,540, resulting in net accounts receivable totaling $19,621,197. 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.

A summary of accounts receivable balances at June 30, 2003 are as follows:

	Gross	Allowance	Net
Student Accounts Receivable	$ 7,917,502	$ (3,022,096)	$ 4,895,406
Non-student Invoiced Accounts Receivable	8,523,611	(373,444)	8,150,167
Unreimbursed Research Contract Expenses	6,575,624	0	6,575,624
Totals	$ 23,016,737	$ (3,395,540)	$ 19,621,197

A summary of accounts receivable balances at June 30, 2002 are as follows:

	Gross	Allowance	Net
Student Accounts Receivable	$ 7,774,364	$ (3,042,891)	$ 4,731,473
Non-student Invoiced Accounts Receivable	13,256,988	(382,670)	12,874,318
Unreimbursed Research Contract Expenses	7,011,083	0	7,011,083
Totals	$ 28,042,435	$ (3,425,561)	$ 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, and (3) most Federal state and local grants and contracts.

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

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

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 ten colleges, schools and divisions: the Dale Bumpers College of Agricultural, Food, and Life Sciences, the School of Architecture, the J. William Fulbright College of Arts and Sciences, the Sam M. Walton College of Business Administration, the College of Education, the College of Engineering, the School of Law, the Honors College, the Graduate School and the Division of Continuing Education. The University is one of eleven campuses of the University of Arkansas System. The governing body is the Board of Trustees which is comprised of ten members.

(3). Compensated Absences

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

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 Trustees policy requires that all cash deposits be either insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized by securities held at a third party financial institution (preferably the cognizant Federal Reserve Bank) in the University's name. Cash deposits are carried at cost. Cash balances in excess of current requirements

are pooled and invested in highly liquid, short-term investments with the funds available on a daily basis. The following summarizes the University's cash position:

	June 30, 2003		June 30, 2002	
	Carrying Value	Bank Balance	Carrying Value	Bank Balance
Insured (FDIC)	$ 521,705	$ 588,622	$ 475,890	$ 556,738
Uninsured, Collateralized	7,249,230	8,013,569	8,621,734	9,607,446
Uninsured, Uncollateralized	40,000	0	0	0
Total Deposits	$ 7,810,935	$ 8,602,191	$ 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 $1,720,780 at June 30, 2003, and $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 $71,875 or short-term investments of $35,145,363 at June 30, 2003. At June 30, 2002, these amounts were $100,677 and $36,621,995, respectively.

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

	June 30, 2003		June 30, 2002	
Bank Balance	$ 8,602,191		$ 10,164,184	
Less: Items in Transit	(3,732,530)		(2,918,744)	
Cash on Books		$ 4,869,661		$ 7,245,440
State Treasury Cash	$ 8,039,529		$ 12,198,943	
Cash Equivalents	35,145,363		36,621,995	
Less: System Cash	(1,720,780)		(1,965,960)	
Cash Equivalents		41,464,112		46,854,978
Total Cash and Equivalents		$ 46,333,773		$ 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, Inc. 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 2003 affecting the University's investments in the external pool are summarized below:

	Total Return Pool	Short Intermediate Pool	Short Intermediate Pool – CES	Total
June 30, 2002 Balances	$ 47,736,110	$ 73,726,412	$	$ 121,462,522
Income	1,236,432	3,652,437	293,951	5,182,820
Realized Gains/(Losses)	(4,696,818)	(444,916)	(3,971)	(5,145,705)
Unrealized Gains/(Losses)	3,974,434	3,149,549		7,123,983
Expenses Paid from Pool	(198,039)	(188,345)	(7,376)	(393,760)
Transfers In/(Out) of Pool		(10,000,000)	4,000,000	(6,000,000)
June 30, 2003 Balances	$ 48,052,119	$ 69,895,137	$ 4,282,604	$ 122,229,860

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. All investments were reported at fair value.

The University's investments 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 its trust department or agent, but not in the University's name. The University has no Category 3 investments.

Investments at June 30, 2003:

Type of Investment	Category 1	Category 2	External Investment Pool	Total
Federal Agency Obligations	$ 35,436			$ 35,436
Certificates of Deposit	34,000			34,000
Corporate Bonds		$ 13,187,432		13,187,432
Common Stock	180	72,550		72,730
Agriculture Debentures	4,829			4,829
Other Managed Investments		1,712,262	$ 122,229,860	123,942,122
Totals	$ 74,445	$ 14,972,244	$ 122,229,860	$ 137,276,549

Note: This table does not include Deposits with Trustees of $116,653,358 and System Administration endowments of $497,815.

Investments at June 30, 2002:

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:

	2003	2002
Fair Value @ June 30	$ 48,850,194	$ 50,792,615
Number of Units in Pool @ June 30	1,423,788	1,481,858
Fair Value per Unit @ June 30	$ 34.310	$ 34.276
Realized Gains/(Losses) for the Year	$ (727,676)	$ (4,566,606)
Income Earned for the Year	$ 1,248,571	$ 1,366,107
Realized Gain/(Loss) per Unit	$ (0.51)	$ (3.08)
Income Earned per Unit	0.88	0.92
Total per Unit	$ 0.37	$ (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:

	2003	2002
Total Endowment at June 30	$ 49,288,313	$ 51,197,242
Less: Quasi-endowment	(14,323,076)	(14,442,405)
Non-expendable portion of True Endowment	(16,925,809)	(18,260,732)
Available for Expenditure	$ 18,039,428	$ 18,494,105

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

Arkansas Code Annotated 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 5.666% 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. New student loans totaling $3,022,907 and $2,178,580 were issued under the Student Loan Programs for the years ended June 30, 2003, and June 30, 2002, respectively. Of total campus-based loans processed, the majority were from Perkins funds provided by the federal government. The federal student loan default rate based on the U.S. Department of Education Cohort default rate was 13.12% for the year ended June 30, 2003, and 9.76% for the year ended June 30, 2002. Notes receivable totaling $35,644 and $24,888 were written off during the fiscal year ended June 30, 2003, and June 30, 2002, respectively.

The following summarizes the balance of notes receivable at June 30, 2003:

Type of Note	Gross Balance	Allowance	Net Balance	Current Portion
Student loans	$ 13,906,940	$ 739,023	$ 13,167,917	$ 3,291,979
Loans to Greek organizations	2,359,788	465,000	1,894,788	87,235
Construction notes	1,645,000		1,645,000	295,000
Totals	$ 17,911,728	$ 1,204,023	$ 16,707,705	$ 3,674,214

The following summarizes the balance of notes receivable at June 30, 2002:

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, 2003, is summarized as follows:

Type of Pledge	Balance	Current Portion
Scholarship	$ 1,600	$ 1,300
Capital	2,507,720	977,720
Totals	$ 2,509,320	$ 979,020

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
Totals	$ 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, 2003. It is also exempt from state income taxes under Arkansas law. Accordingly, no provision for income taxes is made in the financial statements.

(8).Accounts Payable and Accrued Liabilities

Accounts payable balances are summarized as follows:

	June 30, 2003	June 30, 2002
Payable to Outside Vendors	$ 13,402,601	$ 10,382,594
Retainage on Construction Contracts	2,149,793	2,594,847
Property Taxes Payable	129,254	116,694
Total	$ 15,681,648	$ 13,094,135

Accrued payroll liabilities are summarized as follows:

	June 30, 2003	June 30, 2002
Net Salaries and Wages Payable	$ 1,069,349	$ 965,462
Employee Withholdings Payable	4,734,539	4,677,644
Employer Payroll Taxes and Benefits Matching Payable	3,256,241	3,283,121
Total	$ 9,060,129	$ 8,926,227

(9). Compensated Absences, Bonds, Notes & Capital Leases Payable

Debt service payments on existing bonds amounted to $14,702,200 for the fiscal year ended June 30, 2003. The amount of $562,022 was expended for principal and interest on notes payable and capital leases for the same period.

On December 1, 2002, the University issued tax-exempt bonds in the amount of $110,980,000 for new construction, completion of major renovation projects and other qualifying capital projects. The bonds were issued at fixed rates ranging from 1.80 to 5.50% with a final maturity date of December 1, 2032. Principal payments are due annually on December 1 and interest payments are due on June 1 and December 1 of each year.

On July 31, 2002, the University entered into a loan agreement with the Arkansas Development Finance Authority in the amount of $900,000 for capital projects and other purposes. The loan bears interest at 2.05% and has a final maturity date of July 1, 2012. Payments are due annually on July 1 with the next payment due July 1, 2004.

A summary of long term debt at June 30, 2003, is as follows:

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized & Issued	Debt Outstanding at June 30, 2003	Maturities to June 30, 2003
04/01/1966	04/01/2006	3.00%	$ 4,000,000	$ 463,000	$ 3,537,000
11/01/1996	11/01/2009	3.85% to 5.25%	12,105,000	3,360,000	8,745,000
11/01/1997	09/15/2011	4.10% to 5.00%	19,170,000	13,525,000	5,645,000
10/15/1997	11/01/2022	3.95% to 5.25%	21,445,000	18,310,000	3,135,000
05/01/1999	09/15/2020	3.35% to 4.85%	30,000,000	27,175,000	2,825,000
11/01/2001	12/01/2021	2.90% to 5.50%	42,985,000	41,510,000	1,475,000
11/01/2001	12/01/2021	3.55%	11,555,000	11,555,000	0
12/01/2002	12/01/2032	1.80% to 5.50%	110,980,000	110,980,000	0
11/30/1991	05/01/2022	5.50%	3,000,000	2,401,538	598,462
11/29/1995	12/01/2019	Various	2,071,140	1,676,998	394,142
09/13/1995	12/01/2010	5.75% to 7.05%	535,000	350,000	185,000
12/20/1999	12/20/2023	Various	827,888	827,888	0
07/31/2002	07/01/2012	2.05%	900,000	817,994	82,006
Various	Various	Various	280,815	201,702	79,113
Totals			$ 259,854,843	$ 233,154,120	$ 26,700,723

A summary of long term debt at June 30, 2002, 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	12/01/2019	Various	2,071,140	1,745,627	325,513
09/13/1995	12/01/2010	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, 2003.

Type of Equipment	Asset Balance June 30, 2003
Groundskeeping Equipment	$ 260,599
Baler	20,216
Total	$ 280,815
Total Minimum Lease Payments	$ 225,242
Less: Amount Representing Interest	23,540
Total Present Value of Net Minimum Lease Payments	$ 201,702

Changes in long-term liabilities for the year ended June 30, 2003, are as follows:

	Fiscal Year Ended June 30, 2003				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds	$ 122,213,000	$ 110,980,000	$ 6,315,000	$ 226,878,000	$ 6,695,000
Notes	5,136,573	1,188,802	250,957	6,074,418	222,752
Leases	249,057		47,355	201,702	49,593
Compensated absences	11,704,600	745,964	80,820	12,369,744	784,642
Totals	$ 139,303,230	$ 112,914,766	$ 6,694,132	$ 245,523,864	$ 7,751,987

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

Changes in long term liabilities for the year ended June 30, 2002, 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 principal and interest payments are as follows:

	PRINCIPAL	INTEREST*	TOTAL
2004	$ 6,967,345	$ 11,137,934	$ 18,105,279
2005	8,881,497	10,859,373	19,740,870
2006	7,957,623	10,538,249	18,495,872
2007	8,208,110	10,191,937	18,400,047
2008	8,540,235	9,809,419	18,349,654
2009-2013	51,918,693	41,116,218	93,034,911
2014-2018	44,675,099	29,809,678	74,484,777
2019-2023	61,390,518	16,083,473	77,473,991
2024-2028	15,155,000	6,834,625	21,989,625
2029-2033	19,460,000	2,529,750	21,989,750
Totals	$ 233,154,120	$ 148,910,656	$ 382,064,776

*Interest payments made on two Notes Payable are calculated using floating interest rates. For one of the Notes, the rates will be set quarterly from the fiscal years ending June 30, 2004, through June 30, 2020. The estimated future interest for this Note was calculated using the rate in effect at June 30, 2003, of 1.01%. The interest on the second Note will be calculated using a floating rate equal to the amount earned on non-endowed investments known as the short-term intermediate pool each month from the fiscal years ended June 30, 2004, through June 30, 2023. The estimated future interest for this Note was calculated using the rate in effect at June 30, 2003, of 4.2%.

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, 2003, and June 30, 2002, that are pledged:

BOND SERIES	REVENUE SOURCE	2003	2002
Series 1966 Dormitory	Residential Life	$ 10,556,006	$ 10,056,681
Series 1996 Refunding	Student Tuition and Fees	$ 87,424,014	$ 81,347,033
Series 1997 Various Facilities	Sales and Services	5,886,028	3,235,007
Series 2001 Various Facilities	Residential Life	10,556,006	10,056,681
Series 2002 Various Facilities	Student Apartments	1,175,558	1,188,269
	Arkansas Union	489,962	493,174
	Student Health Services	1,140,592	1,003,286
	Transit and Parking	3,112,120	2,445,299
	Other Auxiliaries	1,062,243	910,114
	Total	$ 110,846,523	$ 100,678,863
Series 1997 Athletic Refunding	Men's Athletic Revenue	$ 36,279,977	$ 33,919,129
Series 1999 Athletic Facilities	(less game guarantees)	(2,580,220)	(1,964,850)
Series 2001 Athletic Subordinate	Total	$ 33,699,757	$ 31,954,279

(10). Commitments

The University was contractually obligated for the following at June 30, 2003:

A. Construction and Architect Contracts

Project Name	Completion Date	Beginning Year Contract Balance Plus Amendments	Amount Paid	Year-End Contract Balance
Arkansas Union Renovation	October, 2003	$ 269,718	$ 251,868	$ 17,850
Bev Lewis Women's Gym. Ctr.	October, 2003	4,926,313	4,667,959	258,354
Carnall Hall	August, 2003	3,333,093	2,934,782	398,311
Central Chilled Water Plant	July, 2005	733,465	94,763	638,702
Chemistry Building Renovation	January, 2006	1,477,566	103,850	1,373,716
D. W. Reynolds Razorback Sta.	August, 2003	3,818,869	3,031,364	787,505
Engineering Research Center	October, 2003	170,429	151,229	19,200
Enhanced Learning Center	July, 2003	782,567	486,766	295,801
Food Science Build. Renov.	August, 2003	638,954	530,192	108,762
Garland & Dickson Intersection	September, 2003	554,000	98,548	455,452
HPER Center Improvements	September, 2003	2,284,841	1,673,960	610,881
Innovation Center	April, 2004	853,367	715,706	137,661
Library Storage Facility	August, 2004	200,896	140,389	60,507
Northwest Quadrant	August, 2004	34,280,158	10,814,428	23,465,730
Parking Facility	December, 2004	4,338,324	1,401,055	2,937,269
Poultry Facility for Research	October, 2003	960,532	955,532	5,000
Printing Services Expansion	October, 2003	1,282,367	1,210,425	71,942
Science Engineering Renovation	December, 2003	1,654,318	1,406,634	247,684
Southwest Chiller	August, 2003	5,223,077	4,115,446	1,107,631
Other	Various	1,112,585	828,914	283,671
Totals		$ 68,895,439	$ 35,613,810	$ 33,281,629

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, 2003.

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, 2003, were $3,434,336. Minimum annual rental payments for

leases having an initial term in excess of one year totaled $1,459,576. Below are the scheduled payments for the five succeeding fiscal years and thereafter.

Year ended June 30	Amount
2004	$ 842,536
2005	363,455
2006	183,532
2007	70,053
2008	0
Thereafter	0
Total	$ 1,459,576

(11). Employee Benefits

A. Retirement Benefits

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

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

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

employees, vesting of benefits attributable to plan contributions made by the University shall occur on the earlier of completion of three years of service, or attainment of age 65, or the participant's having made plan contributions of at least five percent of regular salary for six consecutive months. The University's and participants' TIAA-CREF contributions for the year ending June 30, 2003, were $11,739,376 and $11,360,543, respectively. The University's and participants' Fidelity Investments contributions for the year ending June 30, 2003, were $2,558,419 and $2,468,022, respectively. 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, 2003, were $115,447 and $0, respectively. The University's and participants' contribution 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, 2003, were $45,170 and $14,532, respectively. 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, 2003, were $619,714 and $494,818, 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, Inc., participate in the health insurance program which is administered by the System Administration. Operations of the plans are recorded in the separate financial statements of the System Administration.

For the year ending June 30, 2003, a total of 4,213 active employees, former employees, and retirees were participants in the health plan. For the year ending June 30, 2002, the total of active employees, former employees, and retirees participating in the health plan was 4,030. 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 Unum Life Insurance Company of America. The University's life insurance is a fully-insured arrangement with the premiums being sent directly to the life insurance carrier.

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

(12). Property, Plant and Equipment

The following schedule presents a summary of property, plant and equipment for the fiscal year 2003:

	Beginning Balance	Additions	Retirements	Ending Balance
Land	$ 11,933,819	$ 2,660,031	$ 86,087	$ 14,507,763
Buildings	473,478,637	49,733,448	2,486,495	520,725,590
Equipment	123,895,552	15,531,274	6,982,020	132,444,806
Improvements	9,227,064	1,027,720		10,254,784
Infrastructure	24,570,265	602,673		25,172,938
Other Assets	867,572	64,005		931,577
Construction in Progress	32,834,305	40,352,367	28,972,439	44,214,233
Total	676,807,214	109,971,518	38,527,041	748,251,691
Less accumulated depreciation				
Buildings	191,384,650	15,403,962	2,024,712	204,763,900
Equipment	90,422,569	13,765,488	6,142,207	98,045,850
Improvements	6,110,989	337,505		6,448,494
Infrastructure	17,030,070	851,681		17,881,751
Total accumulated depreciation	304,948,278	30,358,636	8,166,919	327,139,995
Capital Assets, Net	$ 371,858,936	$ 79,612,882	$ 30,360,122	$ 421,111,696

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 15.

UNIVERSITY OF ARKANSAS, FAYETTEVILLE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2003

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

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	2003		2002	
Books and Periodicals				
Mullins Library	1,431,852		1,409,361	
Chemistry Library	39,641		38,703	
Fine Arts Library	39,493		38,946	
Law Library	154,819		146,861	
Physics Library	24,169		23,036	
Total Books and Periodicals		1,689,974		1,656,907
Microforms		3,336,025		3,291,968
Maps and Charts		125,864		123,960
Audio/Visual		24,776		24,255
CD-ROMs		2,881		1,679
U.S. Documents (volumes and microfiche)		222,703		222,703
Total Estimate		5,402,223		5,321,472

The University estimates holdings of $6.97 million in timber resources as of June 30, 2003. The estimated value of these holdings was $7.2 million as of June 30, 2002. These resources, which total 12,781 acres, are located on various tracts of land in Arkansas. These resources are currently being inventoried.

(13). Museum Collection

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

(14). Operating Expenses by Function

For the year ended June 30, 2003:

	Salaries, Wages and Benefits	Scholarships and Fellowships	Supplies and Other Services	Depreciation	Total
Instruction	$ 76,622,363		$ 14,928,298		$ 91,550,661
Research	56,348,217		21,221,094		77,569,311
Public Service	40,964,780		12,303,885		53,268,665
Academic Support	14,655,367		8,865,324		23,520,691
Student Services	8,422,785		6,356,057		14,778,842
Institutional Support	18,170,972		4,982,768		23,153,740
Scholarships and Fellowships	322,359	$ 20,491,689	922,460		21,736,508
Operation and Maintenance of Plant	12,485,128		12,322,892		24,808,020
Auxiliary Enterprises	21,970,112		38,099,538		60,069,650
Depreciation				$ 30,358,636	30,358,636
Totals	$ 249,962,083	$ 20,491,689	$ 120,002,316	$ 30,358,636	$ 420,814,724

For the year ended June 30, 2002:

	Salaries, Wages and Benefits	Scholarships and Fellowships	Supplies and Other Services	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
Operation 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

(15). 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 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., 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, 2003, were not available at the time these financial statements were prepared. Therefore, the financial statements of the Arts Foundation as of and for the year ended June 30, 2002, which have been audited by an independent certified public accountant, are presented below in summary form:

Condensed Statement of Financial Position		
Assets		
Cash	$	120,189
Investments		10,351,169
Receivables		280,748
Total Assets	**$**	**10,752,106**
Liabilities and Net Assets		
Liabilities	$	0
Net Assets	$	10,752,106
Total Liabilities and Net Assets	**$**	**10,752,106**

Condensed Statement of Activities		
Investment Income (loss)	$	(1,029,477)
Other Income		22,480
Transfers		(621,715)
Total Income and Other Additions	**$**	**(1,628,712)**
Total Expenditures and Other Deductions	**$**	**76,273**
Increase/(Decrease) in Net Assets	**$**	**(1,704,985)**

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, 2003, were not available at the time these financial statements were prepared. Therefore, the financial statements of the Council as of and for the year ended June 30, 2002, which have been audited by an independent certified public accountant, are presented below in summary form:

Condensed Statement of Financial Position		
Assets		
Cash	$	1,299,680
Other Assets		154,132
Fixed Assets, Net of Depreciation		5,484,004
Total Assets	**$**	**6,937,816**
Liabilities and Net Assets		
Liabilities	$	1,324,184
Net Assets		5,613,632
Total Liabilities and Net Assets	**$**	**6,937,816**

Condensed Statement of Activities		
Ticket Sales	$	1,284,123
Contributions and Sponsorships		1,007,175
Other Income		1,144,152
Transfers		621,715
Total Income and Other Additions	**$**	**4,057,165**
Total Expenditures and Other Deductions	**$**	**4,020,090**
Increase/(Decrease) in Net Assets	**$**	**37,075**

(16). 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 one (1) member who is also a member of the University's Board of Trustees. The audited financial statements of the Foundation, as of and for the year ended June 30, 2003, 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, 2002, 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 62% of the net assets of the Foundation. The remaining 38% benefits other University of Arkansas campuses.

Condensed Statement of Financial Position		
Assets		
Cash and Cash Equivalents	$	3,261,242
Investments		311,674,108
Contributions Receivable, less Allowance		28,251,301
Other Receivables		2,716,195
Land and Improvements		2,985,561
Other Assets		357,980
Total Assets	**$**	**349,246,387**
Liabilities and Net Assets		
Liabilities	$	18,687,030
Net Assets		
Unrestricted		49,445,606
Restricted		281,113,751
Net Assets		330,559,357
Total Liabilities and Net Assets	**$**	**349,246,387**

Condensed Statement of Activities		
Contributions	$	48,333,112
Other Revenues, Additions and Gains/(Losses)		(18,011,840)
Total Income and Other Additions	**$**	**30,321,272**
Total Expenditures and Other Deductions	**$**	**64,860,563**
Increase/(Decrease) in Net Assets	**$**	**(34,539,291)**

University of Arkansas Fayetteville Campus Foundation, Inc. – The Fayetteville Campus Foundation is a charitable organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, and was established by the Walton Family Charitable Support Foundation, Inc., for the exclusive benefit of the University of Arkansas, Fayetteville, campus. The Foundation was established on March 11, 2003 and exists primarily to support the Honors College, the Graduate School and the University's library. The Board of Trustees of the Foundation is made up of seven (7) members, including three (3) members who are also employees of the University. The audited financial statements of the Fayetteville Campus Foundation, as of and for the year ended June 30, 2003, were not available at the time these financial statements were prepared. Therefore, the unaudited financial statements of the Foundation, as of and for the year ended June 30, 2003, are presented below in summary form.

Condensed Statement of Financial Position		
Assets		
Investments	$	341,112,011
Liabilities and Net Assets		
Liabilities		0
Net Assets		
Unrestricted		85,904
Restricted		341,026,107
Total Liabilities and Net Assets	$	**341,112,011**

Condensed Statement of Activities		
Contributions	$	300,000,000
Other Revenues and Additions		43,590,882
Total Income and Other Additions	$	**343,590,882**
Total Expenditures and Other Deductions	$	**2,478,871**
Increase/(Decrease) in Net Assets	$	**341,112,011**

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. The audited financial statements of the Alumni Association, as of and for the year ended June 30, 2003, which have been audited by an independent certified public accountant, are presented below in summary form.

Condensed Statement of Financial Position		
Assets		
Cash	$	535,397
Investments		838,031
Receivables		47,140
Fixed Assets, Net of Depreciation		42,044
Other Assets		2,585,559
Total Assets	**$**	**4,048,171**
Liabilities and Net Assets		

Liabilities	$	6,825
Net Assets		
Unrestricted		1,415,260
Restricted		2,626,086
Net Assets		4,041,346
Total Liabilities and Net Assets	**$**	**4,048,171**

Condensed Statement of Activities		
Memberships	$	539,758
Other Revenues and Additions		1,017,643
Total Income and Other Additions	**$**	**1,557,401**
Expenditures and Other Deductions	**$**	**1,911,257**
Increase/(Decrease) in Net Assets	**$**	**(353,856)**

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. The audited financial statements of the Arkansas Four-H Foundation, as of and for the year ended June 30, 2003, which have been audited by an independent certified public accountant, are presented below in summary form.

Condensed Statement of Financial Position		
Assets		
Cash and Investments	$	2,904,294
Accounts and Grants Receivable		464,219
Inventories		26,293
Fixed Assets, Net of Depreciation		7,327,666
Total Assets	**$**	**10,722,472**
Liabilities and Net Assets		
Liabilities	$	506,147
Net Assets		10,216,325
Total Liabilities and Net Assets	**$**	**10,722,472**

Condensed Statement of Activities		
Program Revenue	$	1,154,671
Contributions		197,629
Other Income		217,165
Total Income and Other Additions	**$**	**1,569,465**
Total Expenditures and Other Deductions	**$**	**1,652,584**
Increase/(Decrease) in Net Assets	**$**	**(83,119)**

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, 2003, 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, 2002, which have been audited by an independent certified public accountant, are presented below in summary form:

Condensed Statement of Financial Position		
Assets		
Cash	$	3,630,618
Investments		12,689,616
Land and Improvements		161,562
Pledges Receivable		2,200,877
Other Assets		182,218
Total Assets	**$**	**18,864,891**
Liabilities and Net Assets		
Liabilities	$	3,591,188
Net Assets		
Unrestricted		8,843,605
Restricted		6,430,098
Net Assets		15,273,703
Total Liabilities and Net Assets	**$**	**18,864,891**

Condensed Statement of Activities		
Donations	$	11,203,457
Other Revenues and Additions		2,926,589
Total Income and Other Additions	**$**	**14,130,046**
Total Expenditures and Other Deductions	**$**	**21,814,693**
Increase/(Decrease) in Net Assets	**$**	**(7,684,647)**

(17). Change in Accounting Practice

Effective with the year ended June 30, 2002, 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.

(18). Restatement of Prior Year Net Assets

The balance of net assets as reported in the June 30, 2002, financial report was $471,121,880. The balance was restated by $1,023,852, which represents an accrual of interest expense for the year ended June 30, 2002, and is shown as accrued interest payable in the fiscal 2002 column of the Statement of Net Assets.

(19). Short-Term Debt

GASB Statement No. 38 issued June 1, 2001, states that governments should provide details about short-term debt activity during the year, even if no short-term debt is outstanding at year-end. The University had no short-term debt activity during the fiscal year, nor is there any outstanding balance of short-term debt as of June 30, 2003.

(20). New Accounting Pronouncements

In May 2002, GASB issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units,* which amends GASB Statement No. 14 to provide additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with a primary government. Under the standard, which becomes effective in the fiscal year ending June 30, 2004, the financial

activities of qualifying foundations would be included in the financial statements of the primary government, through discrete presentations. Management has not yet determined the effect of the implementation of this statement on the University's financial statements.

In March 2003, GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures*, which amends GASB Statement No. 3. This Statement, effective in the fiscal year ending June 30, 2005, addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Management has not yet determined the effect of the implementation of this statement on the University's financial statements.

In addition, GASB has issued the following exposure drafts: (1) *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* with a proposed implementation date in the fiscal year ending June 30, 2005; (2) *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* with a proposed implementation date in the fiscal year ending June 30, 2006; and (3) *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* with a proposed implementation date in the fiscal year ending June 30, 2007. Management has not yet determined the effect of the implementation of these proposed statements on the University's financial statements.

(21). 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.

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