

University of Arkansas

Annual Financial Report

2003 - 2004


UNIVERSITY OF ARKANSAS
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UNIVERSITY of ARKANSAS
1871

Vice Chancellor for Finance and Administration

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

November 23, 2004

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, 2004.

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

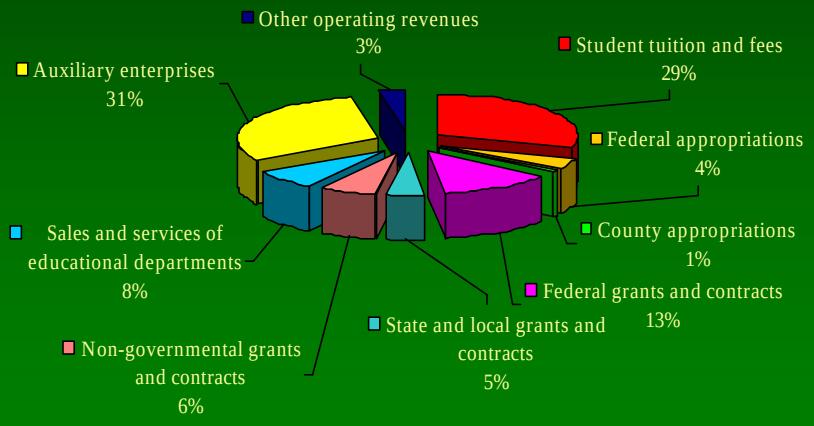
FISCAL YEAR 2004 OPERATING REVENUES

Student tuition and fees	65,391,841
Federal appropriations	9,694,975
County appropriations	2,367,398
Federal grants and contracts	29,081,181
State and local grants and contracts	10,224,829
Non-governmental grants and contracts	14,245,974
Sales and services of educational departments	16,696,558
Auxiliary enterprises	67,746,082
Other operating revenues	6,708,909
Total operating revenues	222,157,747

FISCAL YEAR 2004 NONOPERATING REVENUES

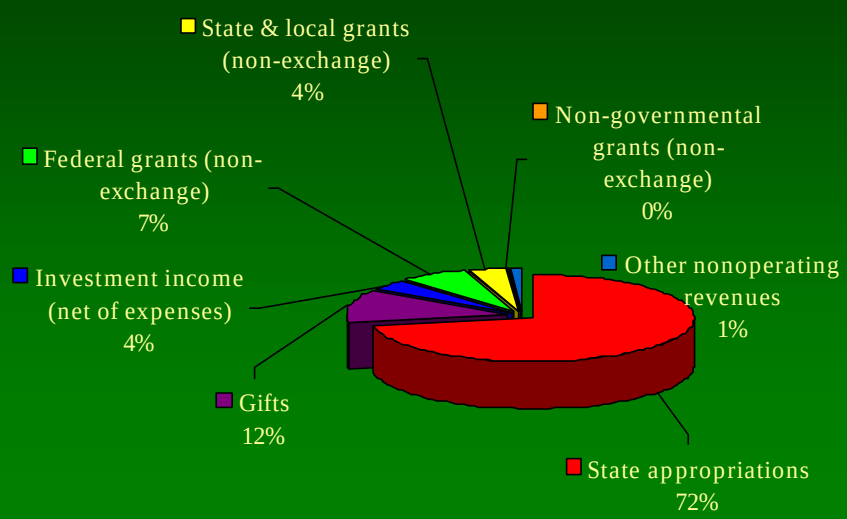
State appropriations	160,009,610
Gifts	27,127,980
Investment income (net of expense)	8,797,915
Federal grants (non-exchange)	15,032,507
State & local grants (non-exchange)	8,081,762
Non-governmental grants (non-exchange)	747,883
Other nonoperating revenues	2,530,939
Total nonoperating revenues	222,328,596

Fiscal Year 2004 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 2004 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

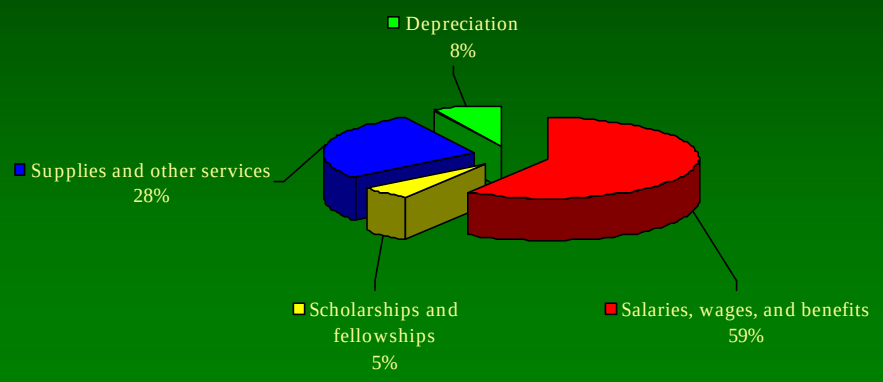
FISCAL YEAR 2004 OPERATING EXPENSES BY NATURAL CLASSIFICATION

Salaries, wages and benefits	260,292,034
Scholarships and fellowships	23,396,245
Supplies and other services	124,136,468
Depreciation	33,215,989
Total operating expenses	441,040,736

FISCAL YEAR 2004 OPERATING EXPENSES BY FUNCTION

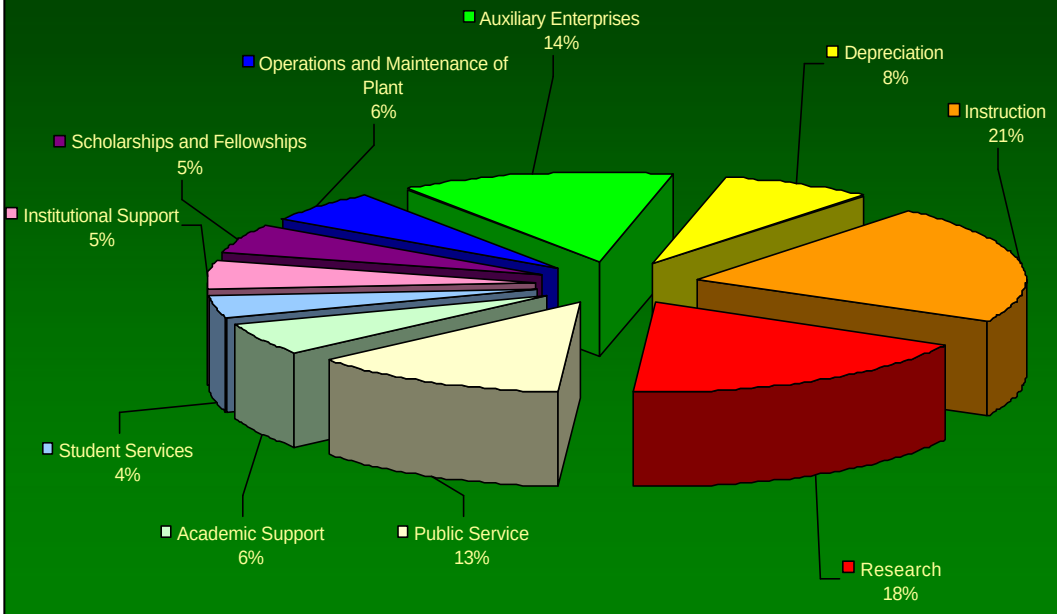
Instruction	95,412,099
Research	81,307,191
Public service	55,566,529
Academic support	26,153,045
Student services	16,887,228
Institutional support	24,155,589
Scholarships and fellowships	22,860,431
Operations and maintenance of plant	25,388,707
Auxiliary Enterprises	60,093,928
Depreciation	33,215,989
Total	441,040,736

Fiscal Year 2004 Operating Expenses by Natural Classification

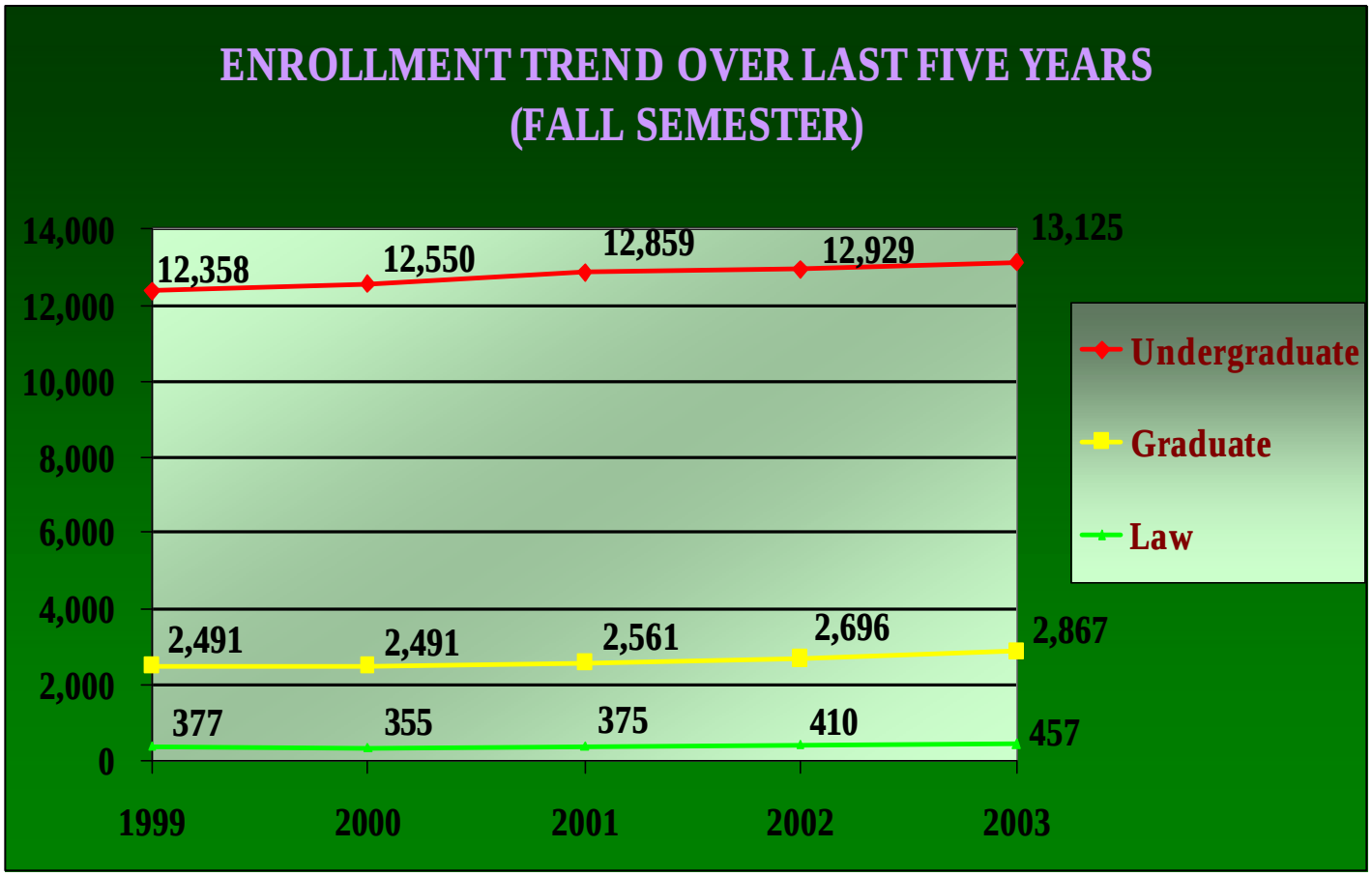


- Salaries, wages, and benefits
- Scholarships and fellowships
- Supplies and other services
- Depreciation

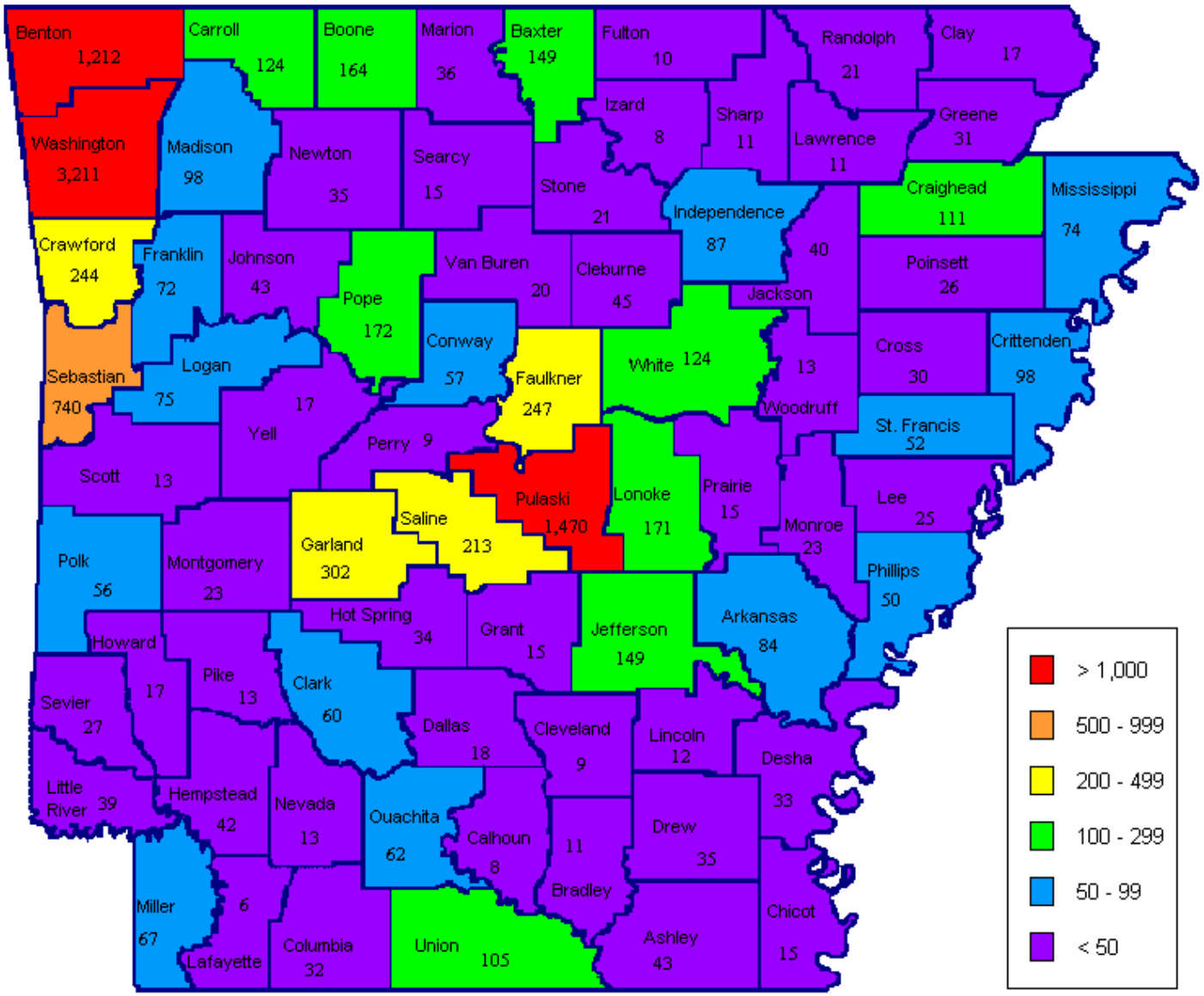
Fiscal Year 2004 Operating Expenses by Function



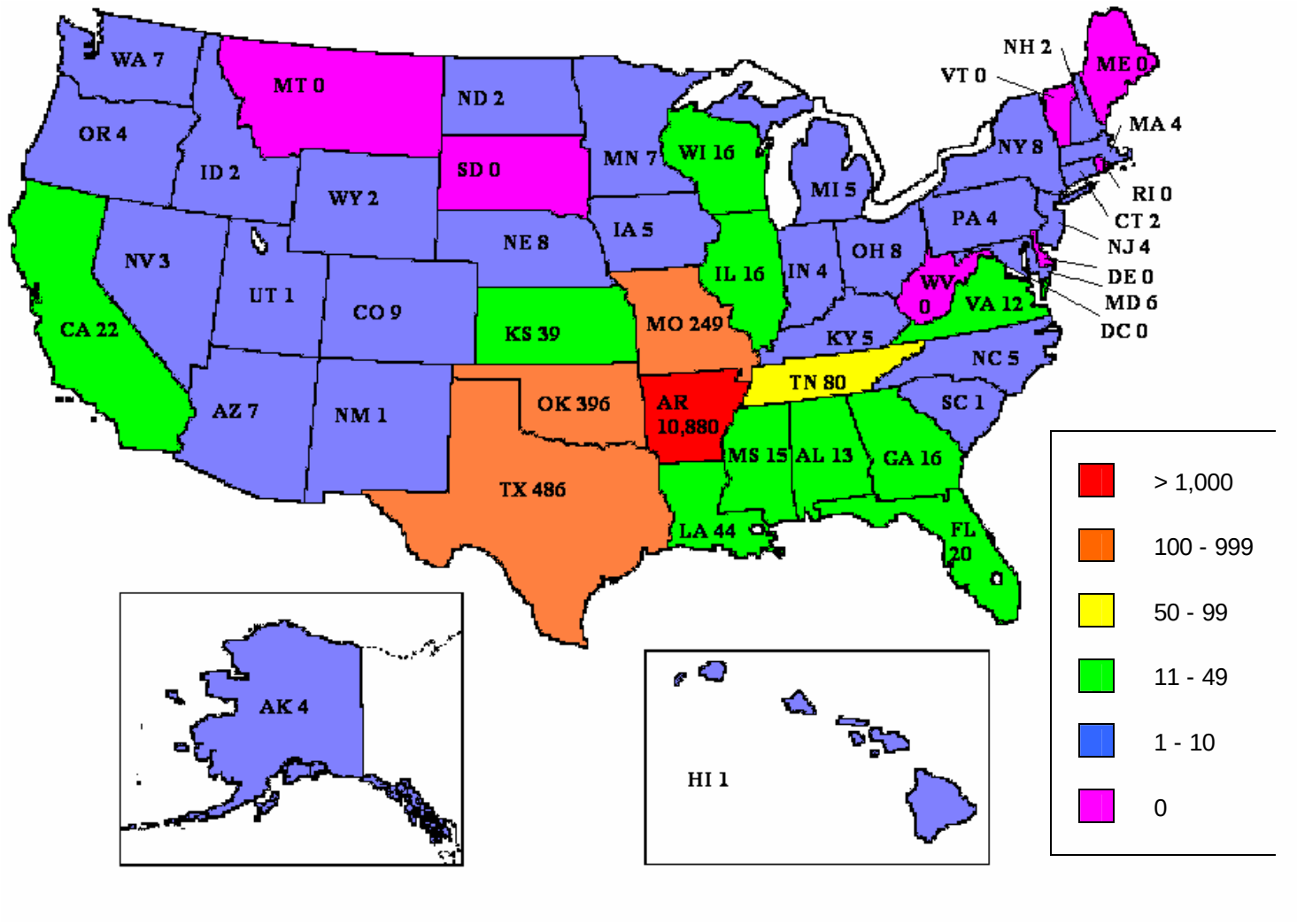
- Instruction
- Research
- Public Service
- Academic Support
- Student Services
- Institutional Support
- Scholarships and Fellowships
- Operations and Maintenance of Plant
- Auxiliary Enterprises
- Depreciation


ENROLLMENT TREND OVER LAST FIVE YEARS
(FALL SEMESTER)
14,000
12,000
10,000
8,000
6,000
4,000
2,000
0
12,358
12,550
12,859
12,929
13,125
2,491
2,491
2,561
2,696
2,867
377
355
375
410
457
1999
2000
2001
2002
2003
Undergraduate
Graduate
Law

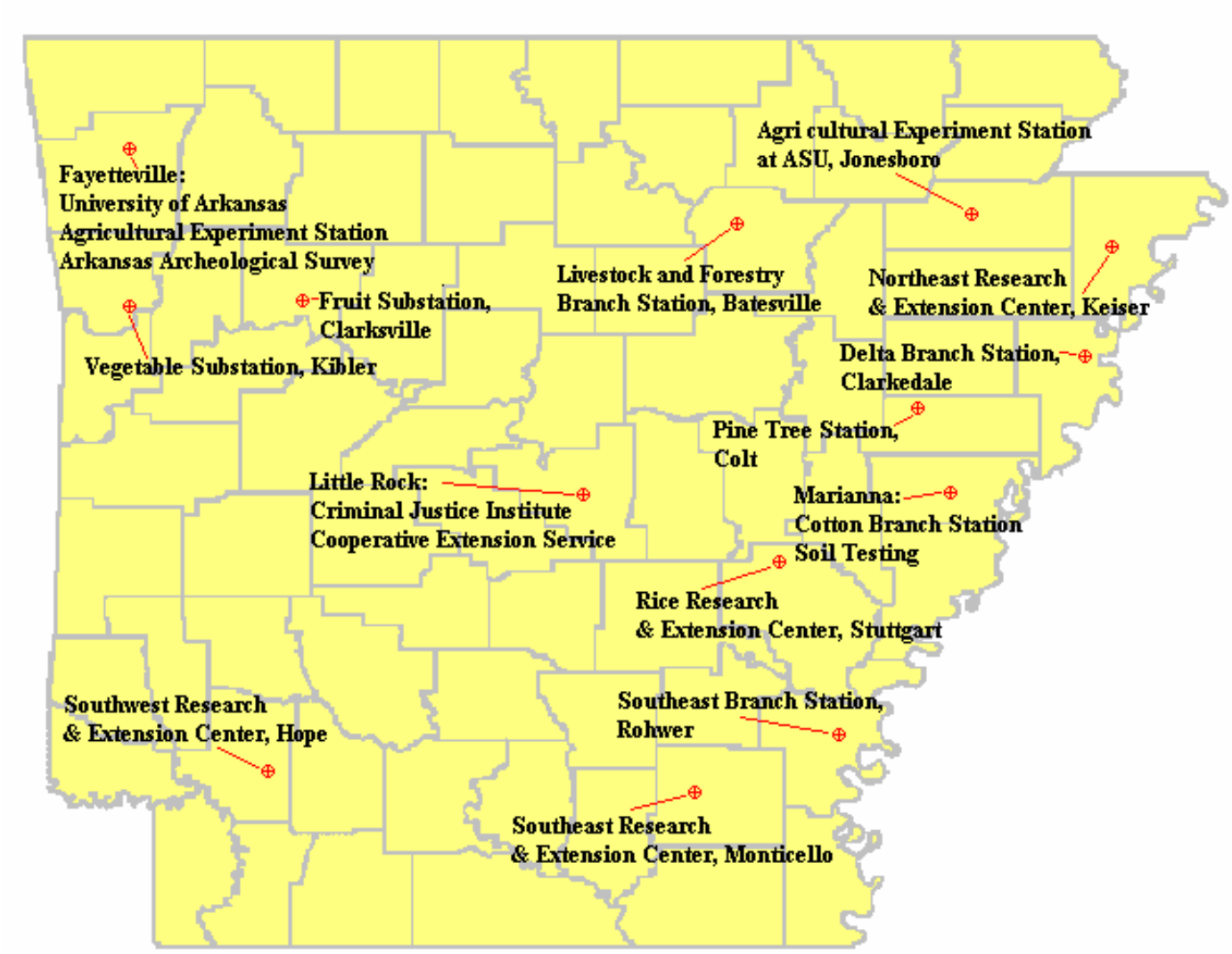
In-State Undergraduate Enrollment
by County of Origin



Undergraduate Enrollment by State



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



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


UNIVERSITY
of ARKANSAS
1871 ®

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 basic financial statements of the University of Arkansas, Fayetteville (Institution), an Institution of Higher Education of the State of Arkansas, as of and for the year ended June 30, 2004 as listed in the table of contents. These financial statements are the responsibility of the Institution's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the University of Arkansas Fayetteville Campus Foundation, Inc., The Razorback Foundation, Inc., and the Arkansas 4-H Foundation, Inc., which statements represent 100% of the assets, net assets, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the University of Arkansas Fayetteville Campus Foundation, Inc., The Razorback Foundation, Inc., and the Arkansas 4-H Foundation, Inc., is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the University of Arkansas Fayetteville Campus Foundation, Inc., The Razorback Foundation, Inc., and the Arkansas 4-H Foundation, Inc. were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University of Arkansas, Fayetteville and of its aggregate discretely presented component units as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof 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.

DIVISION OF LEGISLATIVE AUDIT

Charles L. Robinson, CPA, CFE
Legislative Auditor

Little Rock, Arkansas
November 23, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Financial Report

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

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

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

This portion of the University's Financial Report, Management's Discussion and Analysis, provides an overview of and is limited to the financial activities for the year ended June 30, 2004. Information included for the prior year is provided for purposes of comparison and any analysis of the prior year amounts should be done using the complete financial statements for the prior year.

Financial Highlights

Overall, the University's revenues, expenditures, and net assets grew modestly. Effective with this reporting period, the University is required to include additional financial information on certain component units. Three foundations: the University of Arkansas Fayetteville Campus Foundation, Inc., the Razorback Foundation, Inc., and the 4-H Foundation, Inc. were determined to be component units and have been included in our financial report. Additional information concerning this new reporting requirement is provided in Note 1 "Summary of Significant Accounting Policies", under "Component Units" in the Notes to the Financial Statements.

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 both depreciation and related debt. Restricted and Nonexpendable Net Assets are required to be retained in perpetuity (endowments). Restricted and Expendable Net Assets have constraints placed on their use by external entities (grantors, contractors, and capital appropriations). Unrestricted Net Assets consist of all other net assets that do not meet the definition of Invested in Capital Assets or Restricted Net Assets and are available for management to use as deemed appropriate.

The following summarizes the University's assets, liabilities, and net assets as of June 30, 2004 and June 30, 2003:

	As of June 30, 2004	As of June 30, 2003
Assets		
Current Assets	$ 134,516,224	$ 194,451,053
Capital Assets, net of depreciation	488,362,686	421,111,696
Other Non-Current Assets	158,403,826	153,173,637
Total Assets	$ 781,282,736	$ 768,736,386
Liabilities		
Current Liabilities	$ 51,272,904	$ 48,469,583
Non-Current Liabilities	230,048,053	237,775,877
Total Liabilities	$ 281,320,957	$ 286,245,460
Net Assets		
Invested in Capital Assets, net of related debt	$ 314,539,552	$ 291,367,965
Restricted – Nonexpendable	17,357,087	16,925,809
Restricted – Expendable	63,400,812	63,777,034
Unrestricted	104,664,328	110,420,118
Total Net Assets	$ 499,961,779	$ 482,490,926

The decrease in Current Assets is almost entirely the result of decreases in deposits with bond trustee as bond proceeds were used for construction projects. Other changes in the items included in Current Assets are insignificant.

The increase in Capital Assets, net of depreciation, is the result of the University acquiring capital assets at a rate greater than these assets are disposed of or depreciated. The section "Significant Changes in Capital Assets and Long Term Debt Activity" below and Note 12 "Property, Plant and Equipment" in the Notes to Financial Statements provide additional detail concerning these assets. There were no significant changes in Other Non-Current Assets.

Current Liabilities are up slightly with no significant changes in the items that comprise these liabilities. Non-Current Liabilities are down as the result of scheduled debt service

payments having been made. There were no significant changes in the other items that comprise these liabilities.

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

Net Assets Restricted – Nonexpendable are also known as endowment fund assets. The increase in Net Assets Restricted – Nonexpendable is the result of the income generated by endowment investments (including market value fluctuations) exceeding the spending of these funds for current operations. The small decrease in Net Assets Restricted – Expendable represents spending from restricted revenue sources in excess of revenues realized.

The University of Arkansas, Fayetteville Campus is responsible for the decrease in Unrestricted Net Assets. All of the other units of the University of Arkansas Fund had increases in Unrestricted Net Assets. The Fayetteville Campus has intentionally spent unrestricted funds at a rate greater than the revenues realized and will likely continue to do so for the next several fiscal years. Unrestricted Net Assets are owned by the units of the University of Arkansas Fund as follows:

	As of June 30, 2004	As of June 30, 2003
Fayetteville Campus	$ 74,401,045	$ 85,099,102
Agricultural Experiment Station	20,284,151	17,131,857
Cooperative Extension Service	7,803,469	6,505,062
Arkansas Archeological Survey	215,405	118,891
Criminal Justice Institute	1,960,258	1,565,206
Total Unrestricted Net Assets	$ 104,664,328	$ 110,420,118

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

	As of June 30, 2004	As of June 30, 2003
Working Capital	$ 750,000	$ 750,000
E & G Department Uses	25,149,595	30,747,328
Service Operations	1,645,623	985,226
Auxiliaries	9,361,068	9,304,488
Plant Funds	21,087,980	28,987,662
Quasi-Endowment Funds	16,408,086	14,323,076
Unallocated	(1,307)	1,322
Total Fayetteville Campus Unrestricted Net Assets	$ 74,401,045	$ 85,099,102

In Plant Funds, $18,309,870 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 accumulated funds. In this process, the University realizes investment income in excess of interest expenses for the difference between the yield for taxable corporate or government bonds and tax-exempt municipal bonds. This bond sinking fund is used to pay the principal amounts due on these bonds. Reducing the Fayetteville Campus net assets by this non-mandatory bond sinking fund leaves Unrestricted net assets of $56,091,175.

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 $218,882,989 is of little significance for the University of Arkansas, Fayetteville since accounting standards require a significant portion of our revenues (State appropriations, gifts, investment income, and some grants and contracts) to be reported as Non-Operating revenue.

Two other numbers on this operating statement, Income (loss) before other revenues and changes in net assets of ($2,767,509), and Increase (decrease) in net assets of $17,470,853 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 $17,470,853 or 3.62%. The following summarizes the University's operating statement:

		Fiscal 2004 Total		Fiscal 2003 Total
Operating Revenues	$	222,157,747	$	203,936,844
Operating Expenses		441,040,736		420,814,724
Operating income (loss)		(218,882,989)		(216,877,880)
Nonoperating revenues (expenses)		216,115,480		200,866,082
Income (loss) before other revenues and changes in net assets		(2,767,509)		(16,011,798)
Other revenues and changes in net assets		20,238,362		28,404,696
Increase (decrease) in Net Assets	$	17,470,853	$	12,392,898

Operating Revenues increased by $18,220,903. This is comprised of increases in Student tuition and fees of $7,426,689; Other Operating Revenues of $1,680,386; Sales and Services of Educational Departments of $3,387,859; Other Auxiliary Enterprises of $2,275,550; Residence life of $1,370,452; and a net increase in other items of $2,079,967.

The increase in Student tuition and fees is the result of increases in the rates charged for tuition and fees and an increase in enrollment. Other Operating Revenues includes activities such as conferences, workshops, and beverage pouring rights. Sales and services of educational departments are revenues generated and retained by academic departments. These entrepreneurial activities are encouraged and generate needed funds for these departments. Other Auxiliary enterprises include activities such as fraternities, sororities, and trademark licensing. The increase in Residence life is the result of increases in the rates charged and an increase in occupancy in the residence halls.

Operating Expenses increased by $20,226,012 or 4.81%. Salaries, wages, and benefits increased $10,329,951 or 4.13%, as the result of salary and fringe benefit increases. Scholarships and fellowships increased $2,904,556 or 14.17%. All of this increase is from restricted fund sources with over $2 million from the newly established University of Arkansas Fayetteville Campus, Foundation, Inc. Supplies and other services increased $4,134,152 or 3.46%. This was a general increase in all areas with no particular commodity or department affected in a significant way. Depreciation increased $2,857,353 or 9.41% and is directly related to the increase in Capital Assets acquired from bond proceeds and other sources.

Nonoperating Revenues (Expenses) increased by $15,249,398 or 7.59%. Offsetting increases and decreases of the individual lines within this section of the report comprise this amount as follows: State Appropriations are up $7,101,735 or 4.64%; Gifts increased by $3,924,233 or 16.91%; Investment income was down by $2,668,566 or 23.27%; Interest on capital asset-related debt is down by $3,539,865 or 39.02%; Federal, State & Local, and Non-governmental grants (nonexchange) increased by

$8,246,286 or 52.8%; Other nonoperating revenues are down by $4,957,584; and Loss on disposal of assets decreased by $63,429.

The reported gift information above is not a good indicator of the University's ability to obtain gifts. Most gifts for the benefit of the University are made to the University of Arkansas Foundation, Inc. whose financial information is presented in summary form in Note 16 "Other Entity" in the Notes to the Financial Statements. The decrease in investment income is the result of declining investment performance compared to FY 03. Interest paid on capital asset-related debt is down as the result of capitalizing interest payments of $5.6 million for projects under construction during FY 04. The increase in grants activity is the result of increases in grants received by the University. In FY 03, other nonoperating revenues of over $5 million of bond premium were recognized related to a large bond issue. There were no similar bond premiums recognized in FY 04.

In Other Revenues and Changes in Net Assets, Capital appropriations are up slightly. Capital grants and gifts are down as a result of fewer gifts for the acquisition or improvement of capital assets. 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 the Governmental Accounting Standards Board.

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 2004	Fiscal Year 2003
Cash flows from operating activities	$ (192,822,526)	$ (185,113,176)
Cash flows from noncapital financing activities	212,533,584	197,560,017
Net cash provided (used) by operating and noncapital financing activities	19,711,058	12,446,841
Cash flows from Capital financing activities	(30,872,426)	(27,378,232)
Cash flows from Investing activities	4,490,937	7,164,746
Net increase (decrease) in cash for the year	$ (6,670,431)	$ (7,766,645)

Cash Flows from Operating Activities show an increase in the use of cash of $7,709,350. The largest sources of operating activity cash continue to be student tuition and fees, grants and contracts and athletics. The largest uses of operating cash continue to be payments to employees, payments to suppliers, payments for benefits, and payments for scholarships and fellowships.

Cash Flows from Noncapital financing activities increased by $14,973,567. State appropriations and grants contributed to this increase with no changes of significance in the other items included in this amount.

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

Cash Flows from Investing Activities show the net liquidation of investments to support the operating and capital expenses.

Significant Changes in Capital Assets and Long Term Debt Activity

In FY 03 and FY 02 the University of Arkansas, Fayetteville issued new bonds in the amounts of $110,980,000 and $54,540,000, respectively to be used for capital improvements to the Fayetteville campus. No significant amounts of new debt were issued in this fiscal year. A summary of long-term debt (including the current portion) activity is as follows:

	Bonds	Notes	Installment Contracts and Leases
Balance as of July 1, 2003	$ 226,878,000	$ 6,074,418	$ 201,702
Additions		250,000	1,000,000
Payments of principal	6,695,000	390,044	126,000
Balance as of June 30, 2004	$ 220,183,000	$ 5,934,374	$ 1,075,702

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, 2003	$	291,367,965
Land Additions and Disposals (net)		773,315
Buildings Additions and Disposals, net of depreciation		17,523,934
Improvements/Infrastructure Additions, net of depreciation		2,986,773
Equipment Additions and Disposals, net of depreciation		7,820,137
Construction In Progress Additions net of transfers to buildings and improvements/infrastructure		38,000,288
Livestock Additions		146,541
Bond debt moved to Net Assets invested in capital assets		(49,212,557)
Note Payable moved to Net Assets invested in capital assets		(827,888)
Notes Payable and Capital Leases assumed in FY 04		(1,250,000)
Bond Principal Paid in FY 04		6,695,000
Note, Capital Lease and Installment Contract Principal Paid in FY 04		516,044
Net Assets Invested in capital assets, net of related debt and depreciation as of June 30, 2004	$	314,539,552

Conditions and other factors having a significant effect

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

The Lake View School funding lawsuit was largely resolved by the Arkansas General Assembly with addressing public school facilities the remaining question to be addressed during the 2005 session.

The University is also dependent on its ability to recruit and retain high quality students. Fall 2004 enrollment is 17,269, an all-time record high enrollment, and an increase of 5.0% over the Fall 2003 enrollment. Undergraduate enrollment is up 5.3%, Law School enrollment is up 5.9%, and Graduate enrollment is up 3.4%. While management is encouraged to see record enrollment of over 17,000, undergraduate enrollment needs further increases to ensure continued increases in the revenue generated by tuition and to ensure continued support from state government.

The condition of the University's capital assets is another important consideration. An estimate of the deficiencies of the Educational and General facilities of the University has been made to provide the necessary data to develop an optimized facility renewal plan. 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 expects to update this facility assessment on a rolling basis addressing all facilities on a five year cycle.

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UNIVERSITY OF ARKANSAS, FAYETTEVILLE
Statement of Net Assets
June 30, 2004
With Comparative Figures at June 30, 2003

	June 30, 2004	June 30, 2003
ASSETS		
Current Assets		
Cash and cash equivalents	$ 39,663,342	$ 46,333,773
Accounts receivable, net	24,358,810	19,621,197
Accrued interest receivable	1,163,886	1,213,897
Pledges receivable	1,530,000	979,020
Inventories	3,172,998	3,176,585
Deposit with bond trustee	56,881,668	115,320,061
Notes receivable, net	3,662,176	3,674,214
Other assets	4,083,344	4,132,306
Total current assets	134,516,224	194,451,053
Noncurrent Assets		
Endowment investments	55,563,792	49,288,293
Pledges receivable		1,530,300
Notes receivable, net	15,634,588	13,033,491
Other long-term receivables	211,652	
Deposit with bond trustee	1,333,298	1,333,298
Other long-term investments	85,470,728	87,988,255
Other assets	189,768	
Capital assets, net	488,362,686	421,111,696
Total noncurrent assets	646,766,512	574,285,333
Total assets	$ 781,282,736	$ 768,736,386
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	$ 16,436,366	$ 15,681,648
Accrued payroll liabilities	7,429,370	9,060,129
Accrued interest payable	1,497,984	1,438,280
Student overpayments	192,453	2,514
Funds held in trust for others	521,183	527,907
Deferred revenue	15,360,460	14,007,118
Compensated absences payable - current portion	713,590	784,642
Bonds, notes and capital leases payable - current portion	9,121,498	6,967,345
Total current liabilities	51,272,904	48,469,583
Noncurrent Liabilities		
Compensated absences payable	11,967,950	11,585,102
Bonds, notes and capital leases payable	218,071,578	226,186,775
Other noncurrent liabilities	8,525	4,000
Total noncurrent liabilities	230,048,053	237,775,877
Total liabilities	$ 281,320,957	$ 286,245,460

UNIVERSITY OF ARKANSAS, FAYETTEVILLE
Statement of Net Assets
June 30, 2004
With Comparative Figures at June 30, 2003

	June 30, 2004	June 30, 2003
NET ASSETS		
Invested in capital assets, net of related debt	$ 314,539,552	$ 291,367,965
Restricted for		
Nonexpendable		
Scholarships and fellowships	7,428,597	7,112,641
Research	4,859,330	2,142,600
Instructional department uses	4,968,003	7,626,903
Loans	101,157	43,665
Expendable		
Scholarships and fellowships	6,544,294	6,867,711
Research	19,409,541	13,971,821
Public service	2,369,126	2,114,202
Instructional department uses	12,912,589	9,989,269
Loans	16,611,379	16,085,812
Capital projects	3,906,462	9,311,893
Debt service	1,593,620	4,839,349
Other	53,801	596,977
Unrestricted	104,664,328	110,420,118
Total net assets	$ 499,961,779	$ 482,490,926

UNIVERSITY OF ARKANSAS, FAYETTEVILLE
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2004
With Comparative Figures for 2003

	Fiscal 2004 Total	Fiscal 2003 Total
REVENUES		
Operating Revenues		
Student tuition and fees (net of scholarship allowances of $31,310,683 in fiscal year 2004, and $29,458,862 in fiscal year 2003)	$ 65,391,841	$ 57,965,152
Federal appropriations	9,694,975	10,185,291
County appropriations	2,367,398	2,311,834
Federal grants and contracts	29,081,181	28,238,928
State and local grants and contracts	10,224,829	10,042,415
Nongovernmental grants and contracts	14,245,974	12,512,450
Sales and services of educational departments	16,696,558	13,308,699
Auxiliary enterprises		
Residential Life (net of scholarship allowances of $3,988,269 in fiscal year 2004, and $3,597,023 in fiscal year 2003)	8,329,435	6,958,983
Athletics	38,409,936	37,529,788
Bookstore	11,436,780	12,874,306
Student Apartments	1,060,812	1,175,558
Arkansas Union	641,411	489,962
Student Health Services	1,234,196	1,140,592
Transit and Parking	3,287,837	3,112,120
Student Organizations/Activities	284,119	276,237
Other Auxiliary Enterprises	3,061,556	786,006
Other operating revenues	6,708,909	5,028,523
Total operating revenues	222,157,747	203,936,844
EXPENSES		
Operating Expenses		
Salaries, wages, and benefits	260,292,034	249,962,083
Scholarships and fellowships	23,396,245	20,491,689
Supplies and other services	124,136,468	120,002,316
Depreciation	33,215,989	30,358,636
Total operating expenses	441,040,736	420,814,724
Operating loss	(218,882,989)	(216,877,880)

UNIVERSITY OF ARKANSAS, FAYETTEVILLE
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2004
With Comparative Figures for 2003

	Fiscal 2004 Total	Fiscal 2003 Total
NONOPERATING REVENUES (EXPENSES)		
State appropriations	160,009,610	152,907,875
Gifts	27,127,980	23,203,747
Investment income (net of investment expense of $489,181 in fiscal year 2004, and $450,365 in fiscal year 2003)	8,797,915	11,466,481
Interest on capital asset - related debt	(5,531,804)	(9,071,669)
Federal grants (non-exchange)	15,032,507	13,246,183
State and local grants (non-exchange)	8,081,762	1,198,109
Non-governmental grants (non-exchange)	747,883	1,171,574
Loss on disposal of assets	(681,312)	(744,741)
Other nonoperating revenues	2,530,939	7,488,523
Net nonoperating revenues	216,115,480	200,866,082
Loss before other revenues and changes in net assets	(2,767,509)	(16,011,798)
OTHER REVENUES AND CHANGES IN NET ASSETS		
Capital appropriations	1,896,571	1,455,618
Capital grants and gifts	18,023,820	27,277,389
Other changes	317,971	(328,311)
Total other revenues and changes in net assets	20,238,362	28,404,696
Increase in net assets	17,470,853	12,392,898
NET ASSETS		
Net assets - beginning of year	482,490,926	470,098,028
Net assets - end of year	$ 499,961,779	$ 482,490,926

UNIVERSITY OF ARKANSAS, FAYETTEVILLE
Statement of Cash Flows - Direct Method
For the Year Ended June 30, 2004
With Comparative Figures for 2003

	Fiscal 2004 Total	Fiscal 2003 Total
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	$ 66,249,998	$ 57,933,333
Federal appropriations	9,578,244	9,857,605
County appropriations	2,411,545	2,215,192
Grants and contracts	51,451,857	53,368,859
Payments to suppliers	(125,092,041)	(119,418,618)
Payments to employees	(213,115,130)	(205,452,497)
Payments for benefits	(48,379,537)	(43,641,168)
Payments for scholarships and fellowships	(23,396,245)	(20,491,689)
Loans issued to students and employees	(4,858,477)	(3,544,343)
Collections of loans to students	3,517,209	3,022,907
Collections of interest on loans to students	368,559	75,055
Auxiliary enterprise charges		
Resident Life	7,664,237	7,013,623
Athletics	39,887,048	36,022,449
Bookstore	11,600,139	11,709,514
Student Apartments	1,060,122	1,176,275
Arkansas Union	642,663	511,908
Student Health Services	1,187,633	1,094,893
Transit and Parking	3,263,315	3,140,437
Student Organizations/Activities	281,428	289,933
Other Auxiliary Enterprises	1,040,427	784,778
Sales and services of educational departments	16,252,363	13,791,845
Other receipts	5,562,117	5,426,533
Net cash used by operating activities	(192,822,526)	(185,113,176)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	160,009,610	152,907,875
Gifts and grants for other than capital purposes	26,261,731	26,923,762
Private gifts for endowment purposes	235,780	89,038
Federal grants (non-exchange)	14,512,337	13,246,183
State and local grants (non-exchange)	8,081,762	1,198,109
Non-governmental grants (non-exchange)	747,883	1,171,574
Transfers to other state agencies	(10,564)	
Other non-operating revenue	2,514,052	1,964,585
Net agency fund transactions	180,993	58,891
Net cash provided by noncapital financing activities	212,533,584	197,560,017
Net cash provided by operating activities and noncapital financing activities	19,711,058	12,446,841
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from capital debt	1,000,000	112,168,802
Capital appropriations	1,896,571	1,467,118
Capital grants and gifts received	1,692,817	3,040,439
Purchases of capital assets	(77,622,235)	(55,593,955)
Principal paid on capital debts and leases	(7,226,466)	(6,324,807)
Interest paid on capital debt and leases	(7,628,297)	(8,607,971)
Deposit with trustee	56,710,554	(79,376,428)

UNIVERSITY OF ARKANSAS, FAYETTEVILLE
Statement of Cash Flows - Direct Method
For the Year Ended June 30, 2004
With Comparative Figures for 2003

	Fiscal 2004 Total	Fiscal 2003 Total
Other sources	$ 232,515	$ 5,779,940
Payments received on capital notes receivable	72,115	68,630
Net cash used by capital financing activities	(30,872,426)	(27,378,232)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	13,959,062	11,684,347
Investment income	475,976	991,243
Purchase of investments	(9,944,101)	(5,510,844)
Net cash provided by investing activities	4,490,937	7,164,746
NET DECREASE IN CASH	(6,670,431)	(7,766,645)
Cash - beginning of year	46,333,773	54,100,418
Cash - end of year	$ 39,663,342	$ 46,333,773
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	$ (218,882,989)	$ (216,877,880)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense	33,215,989	30,358,636
Changes in assets and liabilities		
Receivables (net)	(5,974,493)	918,230
Inventories	3,589	52,504
Prepaid expenses	(160,067)	1,190,521
Other assets	(53,576)	(2,723,492)
Accounts payable	(392,328)	2,132,141
Accrued payroll liabilities (Employees)	204,983	101,949
Accrued payroll liabilities (Benefits)	(1,584,525)	30,015
Student overpayments	189,939	(135,131)
Deferred revenue	1,353,343	(379,433)
Compensated absences	176,909	665,145
Loans to students and employees	(919,300)	(446,381)
Net cash used by operating activities	$ (192,822,526)	$ (185,113,176)
NONCASH TRANSACTIONS		
Donations of buildings	$ 6,072,745	$ 21,282,414
Equipment donations	11,693,365	3,015,817
Bond interest and fee payments made from capitalized interest and accrued interest accounts held by bond trustees	3,279,074	2,192,807
Bond issuance costs and underwriter's discounts paid directly from bond proceeds		1,515,196
Credit for exchanged property	503,462	

UNIVERSITY OF ARKANSAS FAYETTEVILLE CAMPUS FOUNDATION, INC.
Statements of Financial Position
June 30, 2004 and 2003

	2004	2003
Assets		
Investments	$ 384,991,465	$ 341,112,011
Liabilities and net assets		
Liabilities:		
Refundable advance	$ 105,700,000	$ 186,500,000
Net Assets:		
Temporarily restricted	$ 8,044,906	$ 9,044,969
Permanently restricted	271,246,559	145,567,042
Total net assets	279,291,465	154,612,011
Total liabilities and net assets	$ 384,991,465	$ 341,112,011

UNIVERSITY OF ARKANSAS FAYETTEVILLE CAMPUS FOUNDATION, INC.
Statement of Activities
For the Years Ended June 30, 2004 and 2003

	2004				Period from inception (March 12, 2003) through June 30, 2003			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, gains and other support:								
Contributions	$	$	$ 80,800,000	$ 80,800,000	$	$ 10,000,000	$ 103,500,000	$ 113,500,000
Interest and dividends		1,727,666	3,790,928	5,518,594		642,477		642,477
Net unrealized and realized gains/(losses) on long-term investments		3,310,339	41,824,816	45,135,155		881,363	42,067,042	42,948,405
Net assets released from restrictions	6,774,295	(6,038,068)	(736,227)		2,478,871	(2,478,871)		
Total revenue, gains and other support	6,774,295	(1,000,063)	125,679,517	131,453,749	2,478,871	9,044,969	145,567,042	157,090,882
Expenses and Losses:								
Program Services-								
Research	307,796			307,796				
Faculty/staff support	26,185			26,185				
Scholarships and awards	2,951,471			2,951,471	961,871			961,871
Equipment and technology	3,398,120			3,398,120	1,517,000			1,517,000
Other	11,181			11,181				
Total program services	6,694,753			6,694,753	2,478,871			2,478,871
Supporting services-								
Management and general	79,542			79,542				
Total supporting services	79,542			79,542				
Total expenses and losses	6,774,295			6,774,295	2,478,871			2,478,871
Change in net assets		(1,000,063)	125,679,517	124,679,454		9,044,969	145,567,042	154,612,011
Net assets, beginning of year		9,044,969	145,567,042	154,612,011				
Net assets, end of year	$	$ 8,044,906	$ 271,246,559	$ 279,291,465	$	$ 9,044,969	$ 145,567,042	$ 154,612,011

THE RAZORBACK FOUNDATION, INC.
Statement of Financial Position
June 30, 2004

	Total All Funds	Operating Fund	Deferred Compensation Fund	Land, Building and Equipment Fund	Endowment Fund
Assets:					
Cash in bank	$ 1,001,779	$ 900,942	$	$ 100,837	$
Pledges receivable-unrestricted, less allowance for uncollectible pledges	2,520,533	2,520,533			
Investments	20,830,032	5,897,464	3,510,007	7,934,482	3,488,079
Land, building and equipment, at cost, less accumulated depreciation	1,894,669			1,894,669	
Other assets	179,218	179,218			
Total assets	$ 26,426,231	$ 9,498,157	$ 3,510,007	$ 9,929,988	$ 3,488,079
Liabilities:					
Accounts payable	$ 311,221	$ 311,221	$	$	$
Contract guarantee payable	1,797,719	1,797,719			
Deferred compensation payable	4,561,665	1,051,658	3,510,007		
Total liabilities	$ 6,670,605	$ 3,160,598	$ 3,510,007	$	$
Net Assets:					
Unrestricted	$ 8,232,228	$ 6,337,559	$	$ 1,894,669	$
Board designated-unrestricted	10,404,893			8,035,319	2,369,574
Temporarily restricted					
Permanently restricted	1,118,505				1,118,505
Total net assets	19,755,626	6,337,559		9,929,988	3,488,079
Total liabilities and net assets	$ 26,426,231	$ 9,498,157	$ 3,510,007	$ 9,929,988	$ 3,488,079

THE RAZORBACK FOUNDATION, INC.
Statement of Financial Position
June 30, 2003

	Total All Funds	Operating Fund	Deferred Compensation Fund	Land, Building and Equipment Fund	Endowment Fund
Assets:					
Cash in bank	$ 3,157,340	$ 354,233	$	$ 2,803,107	$
Pledges receivable-unrestricted, less allowance for uncollectible pledges	2,504,103	2,504,103			
Investments	16,213,924	5,459,405	3,172,716	4,238,585	3,343,218
Land, building and equipment, at cost, less accumulated depreciation	2,089,775			2,089,775	
Other assets	178,718	178,718			
Total assets	$ 24,143,860	$ 8,496,459	$ 3,172,716	$ 9,131,467	$ 3,343,218
Liabilities:					
Accounts payable	$ 71,210	$ 71,210	$	$	$
Deferred compensation payable	3,986,376	813,660	3,172,716		
Total liabilities	$ 4,057,586	$ 884,870	$ 3,172,716	$	$
Net Assets:					
Unrestricted	$ 9,701,364	$ 7,611,589	$	$ 2,089,775	$
Board designated-unrestricted	5,389,027			3,164,314	2,224,713
Temporarily restricted	3,877,378			3,877,378	
Permanently restricted	1,118,505				1,118,505
Total net assets	20,086,274	7,611,589		9,131,467	3,343,218
Total liabilities and net assets	$ 24,143,860	$ 8,496,459	$ 3,172,716	$ 9,131,467	$ 3,343,218

THE RAZORBACK FOUNDATION, INC.
Statement of Activities
Year Ended June 30, 2004

	Total All Funds	Operating Fund	Deferred Compensation Fund	Land, Building and Equipment Fund	Endowment Fund
Changes in unrestricted net assets:					
Revenues and gains:					
Public support - contributions	$ 11,641,556	$ 11,641,556	$	$	$
Investment income and other	384,348	298,730		40,757	44,861
Total unrestricted revenues and gains	12,025,904	11,940,286		40,757	44,861
Expenses:					
Program services:					
Directly allocated to:					
Football	800,864	800,864			
Basketball	977,500	977,500			
Baseball	3,251,323	3,251,323			
Track and field	165,008	165,008			
Other sports	842,957	842,957			
Athletic department operations	786,436	786,436			
Fundraising	1,441,149	1,441,149			
Administrative	605,831	605,831			
Contract guarantee	2,297,718	2,297,718			
Deferred compensation expense	280,000	280,000			
Provision for uncollectible pledges	191,050	191,050			
Total expenses	11,639,836	11,639,836			

THE RAZORBACK FOUNDATION, INC.
Statement of Activities
Year Ended June 30, 2004

	Total All Funds	Operating Fund	Deferred Compensation Fund	Land, Building and Equipment Fund	Endowment Fund
Other changes:					
Transfers to deferred compensation plans	(340,000)	(340,000)			
Transfers to endowment fund		(100,000)			100,000
Transfers for current operations	3,869,843	(1,073,497)		4,943,340	
Unrealized loss on investments	(60,983)	(60,983)			
Depreciation	(308,198)			(308,198)	
Total other changes	3,160,662	(1,574,480)		4,635,142	100,000
Total increase (decrease) in unrestricted net assets	3,546,730	(1,274,030)		4,675,899	144,861
Changes in temporarily restricted net assets:					
Land, building and equipment fund public support	5,000			5,000	
Unrealized loss on investments	(12,535)			(12,535)	
Transfers to deferred compensation plans	340,000		340,000		
Deferred compensation investment income	(2,709)		(2,709)		
Program services:					
Transfers for current operations	(3,869,843)			(3,869,843)	
Deferred compensation expense	(337,291)		(337,291)		
Total increase (decrease) in temporarily restricted net assets	(3,877,378)			(3,877,378)	
Increase (decrease) in net assets	(330,648)	(1,274,030)		798,521	144,861
Net assets at beginning of year	20,086,274	7,611,589		9,131,467	3,343,218
Net assets at end of year	$ 19,755,626	$ 6,337,559	$	$ 9,929,988	$ 3,488,079

THE RAZORBACK FOUNDATION, INC.
Statement of Activities
Year Ended June 30, 2003

	Total All Funds	Operating Fund	Deferred Compensation Fund	Land, Building and Equipment Fund	Endowment Fund
Changes in unrestricted net assets:					
Revenues and gains:					
Public support - contributions	$ 10,623,027	$ 10,623,027	$	$	$
Investment income and other	368,522	144,402		34,812	189,308
Gain on sale of equipment	498,310			498,310	
Total unrestricted revenues and gains	11,489,859	10,767,429		533,122	189,308
Expenses:					
Program services:					
Directly allocated to:					
Football	1,627,370	1,627,370			
Basketball	804,510	804,510			
Baseball	728,890	728,890			
Track and field	134,529	134,529			
Other sports	11,226	11,226			
Athletic department operations	1,320,910	1,320,910			
Fundraising	757,865	757,865			
Administrative	588,749	588,749			
Provision for uncollectible pledges	271,519	271,519			
Total expenses	6,245,568	6,245,568			

THE RAZORBACK FOUNDATION, INC.
Statement of Activities
Year Ended June 30, 2003

	Total All Funds	Operating Fund	Deferred Compensation Fund	Land, Building and Equipment Fund	Endowment Fund
Other changes:					
Transfers to deferred compensation plans	(500,000)	(500,000)			
Transfers to endowment fund		(100,000)			100,000
Transfers for current operations	322,961	(1,828,157)		2,151,118	
Unrealized loss on investments	(74,265)	(74,265)			
Depreciation	(282,991)			(282,991)	
Total other changes	(534,295)	(2,502,422)		1,868,127	100,000
Total increase in unrestricted net assets	4,709,996	2,019,439		2,401,249	289,308
Changes in temporarily restricted net assets:					
Land, building and equipment fund public support	512,665			512,665	
Unrealized loss on investments	(5,783)			(5,783)	
Transfers to deferred compensation plans	500,000		500,000		
Transfers for current operations	(322,961)			(322,961)	
Deferred compensation investment income	143,048		143,048		
Program services:					
Deferred compensation expense	(724,394)		(724,394)		
Total increase (decrease) in temporarily restricted net assets	102,575		(81,346)	183,921	
Increase (decrease) in net assets	4,812,571	2,019,439	(81,346)	2,585,170	289,308
Net assets at beginning of year	15,273,703	5,592,150	81,346	6,546,297	3,053,910
Net assets at end of year	$ 20,086,274	$ 7,611,589	$	$ 9,131,467	$ 3,343,218

ARKANSAS 4-H FOUNDATION, INC
Statements of Financial Position
June 30, 2004 and 2003

	2004	2003
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 647,597	$ 933,756
Investments, at fair value, with a cost of $1,116,859 and $913,632 for 2004 and 2003	1,181,010	1,042,820
Accounts receivable, trade, net of allowance for doubtful accounts of $5,738 and $0	87,832	111,035
Grant receivable	97,485	326,748
Contributions receivable, due within one year, net of allowance for doubtful contributions of $16,188 and $12,138	4,481	10,802
Inventories	23,081	26,293
Total current assets	2,041,486	2,451,454
OTHER ASSETS:		
Contributions receivable, due after one year		6,764
Land held for investment	2,600	2,600
Cash restricted for building maintenance fund	30,310	927,718
Investments, at fair value, restricted for building maintenance fund, with a cost of $950,176	897,408	
Total other assets	930,318	937,082
PROPERTY AND EQUIPMENT, NET	7,190,279	7,325,066
TOTAL ASSETS	$ 10,162,083	$ 10,713,602
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 90,291	$ 63,258
Construction contracts payable		304,145
Due to affiliate	27,343	101,947
Current portion of note payable to affiliate	5,750	5,750
Accrued expenses	9,987	9,277
Customer deposits	1,102	1,400
Total current liabilities	134,473	485,777
LONG-TERM LIABILITY:		
Note payable to affiliate, less current portion	5,419	11,500
Total liabilities	139,892	497,277
NET ASSETS:		
Unrestricted	7,983,374	7,887,703
Temporarily restricted	1,374,489	1,665,400
Permanently restricted	664,328	663,222
Total net assets	10,022,191	10,216,325
TOTAL LIABILITIES AND NET ASSETS	$ 10,162,083	$ 10,713,602

ARKANSAS 4-H FOUNDATION, INC.
Statement of Activities
For the Years Ended June 30, 2004 and 2003

	2004				2003			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUES:								
Program service revenue	$ 1,181,647	$	$	$ 1,181,647	$ 1,154,671	$	$	$ 1,154,671
Grants and contributions	84,875	238,564		323,439	76,400	121,229		197,629
Interest and dividends	43,105	75,096		118,201	42,149	51,686		93,835
Net unrealized and realized appreciation (depreciation) on investments	(34,235)	(92,872)		(127,107)	35,447	43,468		78,915
Other revenues	40,181			40,181	44,415			44,415
Net assets released from restrictions	510,593	(511,699)	1,106		4,423,096	(4,388,580)	(34,516)	
Total support and revenues	1,826,166	(290,911)	1,106	1,536,361	5,776,178	(4,172,197)	(34,516)	1,569,465
EXPENSES:								
Program	1,663,217			1,663,217	1,596,510			1,596,510
Management and general	67,278			67,278	29,732			29,732
Fundraising					26,342			26,342
Total expenses	1,730,495			1,730,495	1,652,584			1,652,584
INCREASE (DECREASE) IN NET ASSETS	95,671	(290,911)	1,106	(194,134)	4,123,594	(4,172,197)	(34,516)	(83,119)
NET ASSETS, BEGINNING OF PERIOD	7,887,703	1,665,400	663,222	10,216,325	3,764,109	5,837,597	697,738	10,299,444
NET ASSETS, END OF PERIOD	$ 7,983,374	$ 1,374,489	$ 664,328	$ 10,022,191	$ 7,887,703	$ 1,665,400	$ 663,222	$ 10,216,325

(1). Summary of Significant Accounting Policies

The financial statements for the University of Arkansas, Fayetteville ("the University") for the fiscal year ended June 30, 2004, have been prepared in accordance with generally accepted accounting principles accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB).

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

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

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

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

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

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

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

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

Component Units

In May 2002, GASB issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, which amends GASB Statement No. 14 to provide additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with a primary government. Under the statement, which became effective with the fiscal year ending June 30, 2004, the financial activities of qualifying foundations are to be included in the financial statements of the primary government, through discrete presentations. There were three qualifying foundations for the University of Arkansas, Fayetteville: the University of Arkansas Fayetteville Campus Foundation, Inc., The Razorback Foundation, Inc., and the Arkansas 4-H Foundation, Inc.

The University of Arkansas Fayetteville Campus Foundation, Inc. ("the Foundation") is a charitable organization described in Section 501 (c) (3) of the Internal Revenue Code of 1986, as amended, and was established by the Walton Family Charitable Support Foundation, Inc., for the exclusive benefit of the University of Arkansas, Fayetteville, campus. The Foundation was established on March 11, 2003, and exists primarily to support the Honors College, the Graduate School and the University's library. The Board of Trustees of the Foundation is made up of seven (7) members, including three (3) members who are also employees of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements.

The Foundation distributed $6,722,722 and $2,478,871 to the University during the fiscal years ended June 30, 2004, and June 30, 2003, respectively, for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the administrative office at 700 Research Center Boulevard, Fayetteville, AR 72701.

The Razorback Foundation, Inc. ("the Razorback Foundation") was incorporated on October 17, 1980. It is a non-for-profit organization whose sole purpose is to support intercollegiate athletics at the University. Although the University does not control the timing or amount of receipts from the Razorback Foundation, the majority of resources, or income thereon that the Razorback Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the

Razorback Foundation can only be used by, or for the benefit of, the University, the Razorback Foundation is considered a component unit of the University and is discretely presented in the University's financial statements.

The Razorback Foundation distributed $510,712 to the University, and provided equipment, facilities and improvements in the amount of $3,966,179 during the fiscal year ended June 30, 2004. The Razorback Foundation made no direct distributions to the University during the fiscal year ended June 30, 2003, but provided equipment, facilities and improvements in the amount of $1,717,034. Complete financial statements for the Razorback Foundation can be obtained from the administrative office at 91 North Razorback Road, Fayetteville, AR 72701.

The Arkansas 4-H Foundation, Inc. ("the 4-H Foundation") was incorporated under the laws of the State of Arkansas in 1951. The purposes and objectives of the 4-H Foundation are exclusively educational. The 4-H Foundation was formed to encourage and support such educational purposes, as in the judgment of the 4-H Foundation, will best meet the needs and advance the interests of 4-H youth programs throughout the State of Arkansas. The 4-H Foundation is organized into approximately 80 distinct funds that are used to account for various educational or administrative activities.

The 4-H Foundation made no distributions directly to the University during the fiscal years ended June 30, 2004, or June 30, 2003, other than to reimburse the University for expenses incurred on their behalf. Complete financial statements for the 4-H Foundation can be obtained from the administrative office at 2301 S. University Avenue, P.O. Box 391, Little Rock, Arkansas 72203.

New Accounting Pronouncements

In March 2003, GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures*, which amends GASB Statement No. 3. This Statement, effective with 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. In November 2003, GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which becomes effective with the fiscal year ending June 30, 2005. In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which becomes effective with the fiscal year ending June 30, 2006. Management has not yet determined the effect of the implementation of these statements on the University's financial statements.

In addition, GASB has issued the following exposure drafts: (1) *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* with a proposed implementation date of the fiscal year ending June 30, 2007, (2) *Net Assets Restricted by Enabling Legislation* with a proposed implementation date of fiscal year ending June 30, 2006, and (3) *Communication Methods* with, as yet, no proposed implementation date. Management has not yet determined the effect of the implementation of these proposed statements on the University's financial statements.

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

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

Inventories	June 30, 2004	June 30, 2003
Arkansas Union	$ 1,115	$ 857
Athletics Inventory	13,583	13,583
Bookstore	1,700,160	1,542,657
COOP Warehouse	129,715	180,436
Garvan Woodland Gardens Shop	70,423	32,288
Physical Plant	582,775	578,688
Physics Electronics Shop		24,696
Printing Services	157,402	165,087
Research Services	63,129	64,412
Residence Life	237,500	334,190
Student Health Pharmacy	80,106	73,350
University Press	137,090	166,341
Total Inventories	$ 3,172,998	$ 3,176,585

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 $343,474 and $498,592 were written off during the fiscal years ended June 30, 2004, and June 30, 2003, respectively.

Accounts receivable at June 30, 2004 totaled $28,256,709. The allowance for doubtful accounts was computed to be $3,897,899 resulting in net accounts receivable totaling $24,358,810. 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.

A summary of accounts receivable balances at June 30, 2004 are as follows:

	Gross	Allowance	Net
Student Accounts Receivable	$ 8,530,995	$ (3,511,248)	$ 5,019,747
Non-student Invoiced Accounts Receivable	11,176,025	(386,651)	10,789,374
Unreimbursed Research Contract Expenses	8,549,689		8,549,689
Totals	$ 28,256,709	$ (3,897,899)	$ 24,358,810

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		6,575,624
Totals	$ 23,016,737	$ (3,395,540)	$ 19,621,197

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.

(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,

the College of Education and Health Professions, the College of Engineering, the School of Law, the Honors College, the Graduate School and the Division of Continuing Education. The University is one of eleven campuses of the University of Arkansas System. The governing body is the Board of Trustees which is comprised of ten members.

(3). Compensated Absences

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

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, 2004		June 30, 2003	
	Carrying Value	Bank Balance	Carrying Value	Bank Balance
Insured (FDIC)	$ 599,874	$ 645,680	$ 521,705	$ 588,622
Uninsured, Collateralized	8,276,760	7,844,364	7,249,230	8,013,569
Uninsured, Uncollateralized	17,444		40,000	
Total Deposits	$ 8,894,078	$ 8,490,044	$ 7,810,935	$ 8,602,191

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 $2,719,215 at June 30, 2004, and $1,720,780 at June 30, 2003. The above deposit schedule does not include cash on hand in various imprest funds maintained by the University of $67,335 or short-term investments of $33,693,626 at June 30, 2004. At June 30, 2003, these amounts were $71,875 and $35,145,363, respectively.

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

	June 30, 2004		June 30, 2003	
Bank Balance	$ 8,490,044		$ 8,602,191	
Less: Items in Transit	(6,314,098)		(3,732,530)	
Cash on Books		$ 2,175,946		$ 4,869,661
State Treasury Cash	$ 6,512,985		$ 8,039,529	
Cash Equivalents	33,693,626		35,145,363	
Less: System Cash	(2,719,215)		(1,720,780)	
Cash Equivalents		37,487,396		41,464,112
Total Cash and Equivalents		$ 39,663,342		$ 46,333,773

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 2004 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, 2003 Balances	$ 48,052,119	$ 69,895,137	$ 4,282,604	$ 122,229,860
Income	1,292,306	2,901,555	18,216	4,212,077
Realized Gains/(Losses)	4,360,110	(895,391)		3,464,719
Unrealized Gains/(Losses)	2,164,568	(1,754,113)		410,455
Expenses Paid from Pool	(230,069)	(159,006)	(10,478)	(399,553)
Transfers In/(Out) of Pool	(1,002,185)	(10,000,000)	2,000,000	(9,002,185)
June 30, 2004 Balances	$ 54,636,849	$ 59,988,182	$ 6,290,342	$ 120,915,373

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

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, 2004:

Type of Investment	Category 1	Category 2	External Investment Pool	Total
Federal Agency Obligations	$ 53,960			$ 53,960
Certificates of Deposit	34,000			34,000
Corporate Bonds		$ 15,548,547		15,548,547
Common Stock		136,161		136,161
Agriculture Debentures	4,270			4,270
Other Managed Investments		4,342,209	$ 120,915,373	125,257,582
Totals	$ 92,230	$ 20,026,917	$ 120,915,373	$ 141,034,520

Note: This table does not include Deposits with Trustees of $58,214,966.

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		$ 13,187,431		13,187,431
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	$ 14,972,243	$ 122,229,860	$ 137,276,548

Note: This table does not include Deposits with Trustees of $116,653,359 and System Administration endowments of $497,815.

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:

	2004	2003
Fair Value @ June 30	$ 54,015,477	$ 48,850,194
Number of Units in Pool @ June 30	1,575,534	1,423,788
Fair Value per Unit @ June 30	$ 34.284	$ 34.310
Gains/(Losses) for the Year	$ 6,531,014	$ (727,676)
Net Income Earned for the Year	$ 1,062,833	$ 1,248,571
Gain/(Loss) per Unit	$ 4.15	$ (0.51)
Income Earned per Unit	0.67	0.88
Total per Unit	$ 4.82	$ 0.37

Donor-restricted Endowments

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

	2004	2003
Total Endowment at June 30	$ 54,942,404	$ 49,288,313
Less: Quasi-endowment	(16,408,085)	(14,323,076)
Non-expendable portion of True Endowment	(17,357,087)	(16,925,809)
Available for Expenditure	$ 21,177,232	$ 18,039,428

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

The University uses a total return policy for investing endowed funds. The University's spending policy is to expend 5.241% of the balance of the endowment averaged over the previous twelve quarters.

(5). Notes Receivable

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

The resources for loans to students include federal funds, funds from other external sources, and University funds. New student loans totaling $3,520,607 and $3,022,907 were issued under the Student Loan Programs for the years ended June 30, 2004, and June 30, 2003, 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 13.56% for the year ended June 30, 2004, and 13.12% for the year ended June 30, 2003. Notes receivable totaling $44,036 and $35,644 were written off during the fiscal year ended June 30, 2004, and June 30, 2003, respectively.

The following summarizes the balance of notes receivable at June 30, 2004:

Type of Note	Gross Balance	Allowance	Net Balance	Current Portion
Student loans	$ 15,187,160	$ 790,519	$ 14,396,641	$ 3,174,448
Loans to Greek organizations	4,015,123	465,000	3,550,123	172,728
Construction notes	1,350,000		1,350,000	315,000
Totals	$ 20,552,283	$ 1,255,519	$ 19,296,764	$ 3,662,176

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

(6). Pledges Receivable

The composition of pledges receivable at June 30, 2004, is summarized as follows:

Type of Pledge	Balance	Current Portion
Capital	$ 1,530,000	$ 1,530,000
Totals	$ 1,530,000	$ 1,530,000

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

(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, 2004. 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, 2004	June 30, 2003
Payable to Outside Vendors	$ 12,690,411	$ 13,402,601
Retainage on Construction Contracts	3,712,874	2,149,793
Property Taxes Payable	37,606	129,254
Total	$ 16,440,891	$ 15,681,648

Note: This table includes noncurrent liabilities of $4,525.

Accrued payroll liabilities are summarized as follows:

	June 30, 2004	June 30, 2003
Net Salaries and Wages Payable	$ 1,139,157	$ 1,069,349
Employee Withholdings Payable	3,890,753	4,734,539
Employer Payroll Taxes and Benefits Matching Payable	2,399,460	3,256,241
Total	$ 7,429,370	$ 9,060,129

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

Debt service payments on existing bonds amounted to $17,616,144 for the fiscal year ended June 30, 2004. The amount of $728,247 was expended for principal and interest on notes payable and capital leases for the same period.

On November 5, 2003, the University entered into an installment contract in the amount of $1,000,000 to finance the purchase of an energy management system to be installed in various athletic facilities. The contract bears an interest rate of 3.73%, with payments commencing on February 2, 2004, and continuing until January 1, 2009.

On June 25, 2003, the University entered into a loan agreement with the University of Arkansas Foundation, Inc., in the amount of $250,000 to finance a portion of the purchase price of a new airplane. Interest on the loan is to be incurred from the date of the loan until maturity, at a variable rate of interest computed quarterly reflecting the rate of interest earned on the University of Arkansas Foundation, Inc., non-endowed accounts. The first payment of principal in the amount of $50,000, plus interest, was due on July 30, 2003, and like payments are to continue annually on the same day of the year thereafter until the entire balance has been paid in full.

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, 2004, is as follows:

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized & Issued	Debt Outstanding at June 30, 2004	Maturities to June 30, 2004
04/01/1966	04/01/2006	3.00%	$ 4,000,000	$ 308,000	$ 3,692,000
11/01/1996	11/01/2009	3.85% to 5.25%	12,105,000	2,945,000	9,160,000
11/01/1997	09/15/2011	4.10% to 5.00%	19,170,000	12,250,000	6,920,000
10/15/1997	11/01/2022	3.95% to 5.25%	21,445,000	17,400,000	4,045,000
05/01/1999	09/15/2020	3.35% to 4.85%	30,000,000	26,160,000	3,840,000
11/01/2001	12/01/2021	2.90% to 5.50%	42,985,000	40,005,000	2,980,000
11/01/2001	12/01/2021	3.55%	11,555,000	11,555,000	
12/01/2002	12/01/2032	1.80% to 5.50%	110,980,000	109,560,000	1,420,000
11/30/1991	05/01/2022	5.50%	3,000,000	2,327,295	672,705
11/29/1995	12/01/2019	Various	2,071,140	1,604,883	466,257
09/13/1995	12/01/2010	5.75% to 7.05%	535,000	315,000	220,000
12/20/1999	12/20/2023	Various	827,888	827,888	
07/31/2002	07/01/2012	2.05%	900,000	734,308	165,692
06/25/2003	06/30/2008	Various	250,000	125,000	125,000
Various	Various	Various	1,280,815	1,075,702	205,113
Totals			$ 261,104,843	$ 227,193,076	$ 33,911,767

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	
12/01/2002	12/01/2032	1.80% to 5.50%	110,980,000	110,980,000	
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	
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

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, 2004.

Type of Equipment	Asset Balance June 30, 2004
Groundskeeping Equipment	$ 260,599
Baler	20,216
Total	$ 280,815
Total Minimum Lease Payments	$ 165,055
Less: Amount Representing Interest	12,946
Total Present Value of Net Minimum Lease Payments	$ 152,109

Changes in long-term liabilities for the year ended June 30, 2004, are as follows:

	Fiscal Year Ended June 30, 2004				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds	$ 226,878,000		$ 6,695,000	$ 220,183,000	$ 8,515,000
Notes	6,074,418	$ 250,000	390,044	5,934,374	365,645
Leases	201,702		49,593	152,109	52,567
Installment contract		1,000,000	76,407	923,593	188,286
Compensated absences	12,369,744	502,371	190,575	12,681,540	713,590
Totals	$ 245,523,864	$ 1,752,371	$ 7,401,619	$ 239,874,616	$ 9,835,088

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

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.

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

	PRINCIPAL	INTEREST*	TOTAL
2005	$ 9,121,498	$ 10,897,310	$ 20,018,808
2006	8,204,804	10,566,838	18,771,642
2007	8,437,743	10,210,898	18,648,641
2008	8,752,603	9,819,522	18,572,125
2009	9,179,837	9,392,804	18,572,641
2010-2014	50,775,708	38,613,080	89,388,788
2015-2019	47,082,640	27,385,065	74,467,705
2020-2024	53,758,243	13,307,773	67,066,016
2025-2029	15,930,000	6,057,500	21,987,500
2030-2034	15,950,000	1,644,500	17,594,500
Totals	$ 227,193,076	$ 137,895,290	$ 365,088,366

*Interest payments made on three 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, 2005, through June 30, 2020. The estimated future interest for this Note was calculated using the rate in effect at June 30, 2004, of 1.1%. 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, 2005, through June 30, 2024. The estimated future interest for this Note was calculated using the rate in effect at June 30, 2004, of 4.2%. The interest on the third Note will be calculated quarterly using a floating rate equal to the amount earned on the non-endowed investments from fiscal years ended June 30, 2005, through June 30, 2008. The estimated future interest for this Note was calculated using the rate in effect at June 30, 2004, 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, 2004, and June 30, 2003, that are pledged:

BOND SERIES	REVENUE SOURCE	2004	2003
Series 1966 Dormitory	Residential Life	$ 12,317,704	$ 10,556,006
Series 1996 Refunding	Student Tuition and Fees	$ 96,702,524	$ 87,424,014
Series 1997 Various Facilities	Sales and Services	8,106,954	5,886,028
Series 2001 Various Facilities	Residential Life	12,317,704	10,556,006
Series 2002 Various Facilities	Student Apartments	1,060,812	1,175,558
	Arkansas Union	641,411	489,962
	Bookstore	11,436,780	12,874,306
	Student Health Services	1,234,196	1,140,592
	Transit and Parking	3,287,837	3,112,120
	Other Auxiliaries	3,345,675	1,062,243
	Total	$ 138,133,893	$ 123,720,829
Series 1997 Athletic Refunding	Men's Athletic Revenue	$ 37,328,650	$ 36,279,977
Series 1999 Athletic Facilities	(less game guarantees)	(2,270,584)	(2,580,220)
Series 2001 Athletic Subordinate	Total	$ 35,058,066	$ 33,699,757

(10). Commitments

The University was contractually obligated for the following at June 30, 2004:

A. Construction and Architect Contracts

Project Name	Completion Date	Beginning Year Contract Balance Plus Amendments	Amount Paid	Year-End Contract Balance
ADSB Emergency Power Backup	July, 2004	$ 509,045	$ 458,140	$ 50,905
Advance Information Tech. Bldg.	January, 2007	2,224,420	308,315	1,916,105
Carnall Hall	July, 2004	398,311	383,065	15,246
Central Chilled Water Plant	July, 2005	638,703	446,931	191,772
Chemistry Building Renovation	May, 2006	1,373,716	904,495	469,221
Chi Omega Greek Theatre Renov.	October, 2004	153,461	88,600	64,861
EH&S Storage Facility	October, 2004	398,663	270,992	127,671
Garland & Dickson Intersection	September, 2004	557,312	487,495	69,817
HPER Center Improvements	June, 2005	995,725	971,325	24,400
Innovation Center	September, 2004	5,436,962	4,919,409	517,553
Leflar Law Addition and Renov.	March, 2006	186,590	25,869	160,721
Library Storage Facility	May, 2005	737,512	559,643	177,869
Northwest Quadrant	September, 2004	30,358,589	26,865,239	3,493,350
Parking Facility	April, 2005	24,181,044	8,661,633	15,519,411
Physics Laser Water System	October, 2004	238,814	5,902	232,912
Physics MBE Lab	October, 2004	802,600		802,600
Sigma Alpha Epsilon Renovation	August, 2004	1,983,755	1,803,809	179,946
Southwest Chiller	January, 2005	1,395,093	1,350,243	44,850
Strength Training Facility	October, 2004	3,711,238	1,342,140	2,369,098
Student Health Center	October, 2004	5,850,799	4,596,759	1,254,040
Willard J. Walker Hall	June, 2006	1,499,857	216,110	1,283,747
Other	Various	942,260	742,901	199,359
Totals		$ 84,574,469	$ 55,409,015	$ 29,165,454

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, 2004.

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, 2004, were $3,790,500. Minimum annual rental payments for

leases having an initial term in excess of one year totaled $1,621,411. Below are the scheduled payments for the five succeeding fiscal years and thereafter.

Year ended June 30	Amount
2005	$ 824,291
2006	579,883
2007	134,830
2008	82,407
2009	
Thereafter	
Total	$ 1,621,411

(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, 2004, were $11,961,717 and $11,818,703, respectively. The University's and participants' Fidelity Investments contributions for the year ending June 30, 2004, were $2,668,072 and $2,601,722, respectively. 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.

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, 2004, were $133,531 and $0, respectively. The University's and participants' contribution for the year ending June 30, 2003, were $115,447 and $0, respectively.

ATRS is a cost-sharing multiple employer defined benefit pension plan. The University contributes 13% 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, 2004, were $57,329 and $13,207, respectively. 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 to all other pension plans for the year ended June 30, 2004, were $561,564 and $474,508, 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.

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, 2004, a total of 4,210 active employees, former employees, and retirees were participants in the health plan. For the year ending June 30, 2003, the total of active employees, former employees, and retirees participating in the health plan was 4,213. The University pays 64.733% for the Point of Service Plan and 74.542% for the Classic Plan for Fayetteville. For the Division of Agriculture, Arkansas

Archeological Survey and Criminal Justice Institute the University pays 72% 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 2004:

	Beginning Balance	Additions	Retirements	Ending Balance
Land (not depreciated)	$ 14,507,763	$ 1,343,984	$ 570,669	$ 15,281,078
Buildings	520,725,590	34,239,037	441,679	554,522,948
Equipment	132,444,806	23,792,012	5,839,881	150,396,937
Improvements	10,254,784	3,960,176		14,214,960
Infrastructure	25,172,938	390,347		25,563,285
Other Assets	931,577	146,541		1,078,118
Construction in Progress	44,214,233	68,115,448	30,115,160	82,214,521
Total	748,251,691	131,987,545	36,967,389	843,271,847
Less accumulated depreciation				
Buildings	204,763,900	16,343,352	69,929	221,037,323
Equipment	98,045,850	15,508,887	5,376,894	108,177,843
Improvements	6,448,494	533,987		6,982,481
Infrastructure	17,881,751	829,763		18,711,514
Total accumulated depreciation	327,139,995	33,215,989	5,446,823	354,909,161
Capital Assets, Net	$ 421,111,696	$ 98,771,556	$ 31,520,566	$ 488,362,686

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.

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

	Beginning Balance	Additions	Retirements	Ending Balance
Land (not depreciated)	$ 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

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	2004		2003	
Books and Periodicals				
Mullins Library	1,469,295		1,431,852	
Chemistry Library	21,305		39,641	
Fine Arts Library	36,231		39,493	
Law Library	163,829		154,819	
Physics Library	23,425		24,169	
Total Books and Periodicals		1,714,085		1,689,974
Microforms		4,574,538		3,336,025
Maps and Charts		127,477		125,864
Audio/Visual		25,291		24,776
Computer Files		3,533		2,881
U.S. Documents (pieces)		114,028		222,703
Total Estimate		6,558,952		5,402,223

The University estimates holdings of $7.8 million in timber resources as of June 30, 2004. The estimated value of these holdings was $6.97 million as of June 30, 2003. These resources, which total 12,917 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, 2004:

	Salaries, Wages and Benefits	Scholarships and Fellowships	Supplies and Other Services	Depreciation	Total
Instruction	$ 79,890,157		$ 15,521,942		$ 95,412,099
Research	58,252,504		23,054,687		81,307,191
Public Service	42,808,825		12,757,704		55,566,529
Academic Support	15,651,965		10,501,080		26,153,045
Student Services	9,420,733		7,466,495		16,887,228
Institutional Support	18,977,850		5,177,739		24,155,589
Scholarships and Fellowships	583,945	$ 23,396,245	(1,119,759)		22,860,431
Operation and Maintenance of Plant	12,339,202		13,049,505		25,388,707
Auxiliary Enterprises	22,366,853		37,727,075		60,093,928
Depreciation				$ 33,215,989	33,215,989
Totals	$ 260,292,034	$ 23,396,245	$ 124,136,468	$ 33,215,989	$ 441,040,736

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

(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, 2004, 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, 2003, which have been audited by an independent certified public accountant, are presented below in summary form:

Condensed Statement of Financial Position		
Assets		
Cash	$	5
Investments		9,756,246
Receivables		146,000
Total Assets	**$**	**9,902,251**
Liabilities and Net Assets		
Liabilities	$	9,515
Net Assets	$	9,892,736
Total Liabilities and Net Assets	**$**	**9,902,251**

Condensed Statement of Activities		
Investment Income (loss)	$	52,646
Other Income		1,522
Total Income and Other Additions	**$**	**54,168**
Total Expenditures and Other Deductions	**$**	**913,535**
Increase/(Decrease) in Net Assets	**$**	**(859,367)**

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, 2004, 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, 2003, which have been audited by an independent certified public accountant, are presented below in summary form:

Condensed Statement of Financial Position		
Assets		
Cash	$	1,256,661
Other Assets		129,749
Fixed Assets, Net of Depreciation		5,874,174
Total Assets	**$**	**7,260,584**
Liabilities and Net Assets		
Liabilities	$	1,151,457
Net Assets		6,109,127
Total Liabilities and Net Assets	**$**	**7,260,584**

Condensed Statement of Activities		
Ticket Sales	$	1,695,803
Contributions and Sponsorships		816,598
Other Income		1,347,702
Transfers		852,884
Total Income and Other Additions	**$**	**4,712,987**
Total Expenditures and Other Deductions	**$**	**4,217,495**
Increase/(Decrease) in Net Assets	**$**	**495,492**

(16). Other Entity

University of Arkansas Foundation, Inc. - The Foundation operates as a nonprofit benevolent corporation for charitable educational purposes. The Board of Trustees of the Foundation includes one (1) member who is also a member of the University's Board of Trustees. The audited financial statements of the Foundation, as of and for the year ended June 30, 2004, 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 52% of the net assets of the Foundation. The remaining 48% benefits other University of Arkansas campuses.

Condensed Statement of Financial Position		
Assets		
Cash and Cash Equivalents	$	12,412,687
Investments		402,391,986
Contributions Receivable, less Allowance		43,313,228
Other Receivables		2,539,319
Land and Improvements		2,688,214
Other Assets		442,334
Total Assets	**$**	**463,787,768**
Liabilities and Net Assets		
Liabilities	$	18,543,778
Net Assets		
Unrestricted		54,476,734
Restricted		390,767,256
Net Assets		445,243,990
Total Liabilities and Net Assets	**$**	**463,787,768**

Condensed Statement of Activities		
Contributions	$	85,615,850
Other Revenues, Additions and Gains/(Losses)		41,564,627
Total Income and Other Additions	**$**	**127,180,477**
Total Expenditures and Other Deductions	**$**	**50,785,460**
Increase/(Decrease) in Net Assets	**$**	**76,395,017**

(17). Short-Term Debt

GASB Statement No. 38 issued June 1, 2001, states that governments should provide details about short-term debt activity during the year, even if no short-term debt is outstanding at year-end. The University had no short-term debt activity during the fiscal year, nor is there any outstanding balance of short-term debt as of June 30, 2004.

(18). Subsequent Events

On August 4, 2004, the Board of Trustees of the University of Arkansas adopted a resolution expressing its intention to issue bonds to finance the acquisition and construction of various capital projects. The amount of the bonds is not to exceed $23,500,000.

(19). Contingencies

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

BOARD OF TRUSTEES

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