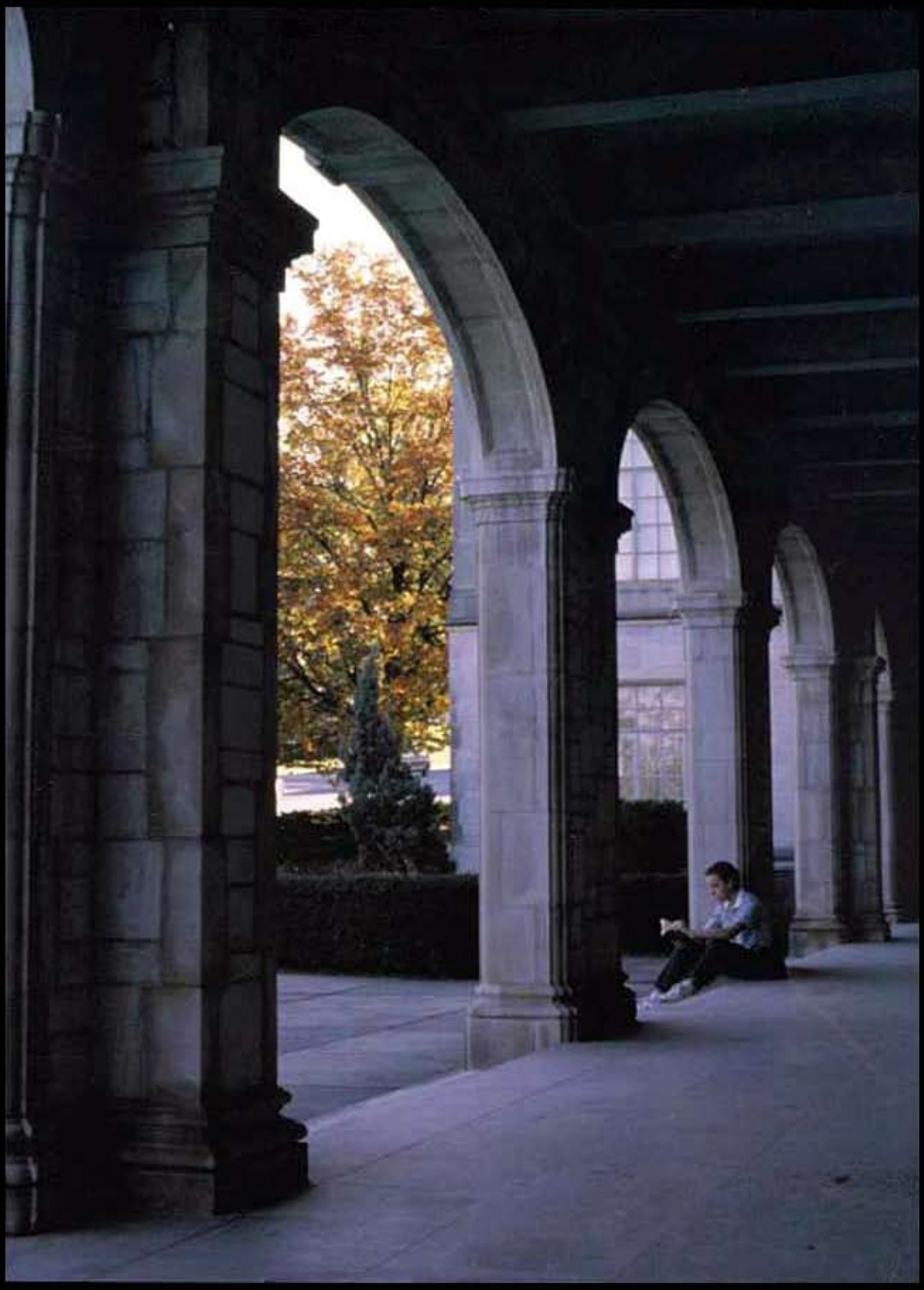


University of Arkansas

Annual Financial Report

2004 - 2005


UNIVERSITY OF ARKANSAS
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UNIVERSITY OF ARKANSAS
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1871

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UNIVERSITY of ARKANSAS
1871

Vice Chancellor for Finance and Administration

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

November 21, 2005

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, 2005.

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

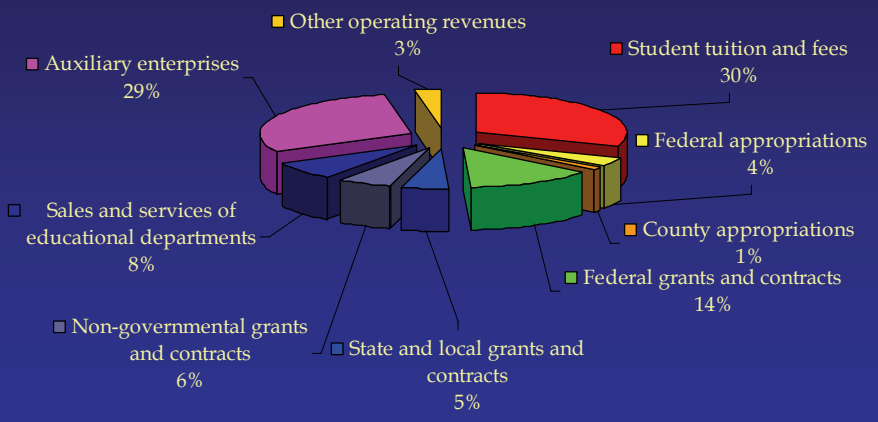
FISCAL YEAR 2005 OPERATING REVENUES

Student tuition and fees	72,535,770
Federal appropriations	9,312,406
County appropriations	2,545,695
Federal grants and contracts	32,598,656
State and local grants and contracts	11,503,777
Non-governmental grants and contracts	13,936,926
Sales and services of educational departments	17,858,836
Auxiliary enterprises	70,344,272
Other operating revenues	6,719,188
Total operating revenues	237,355,526

FISCAL YEAR 2005 NONOPERATING REVENUES

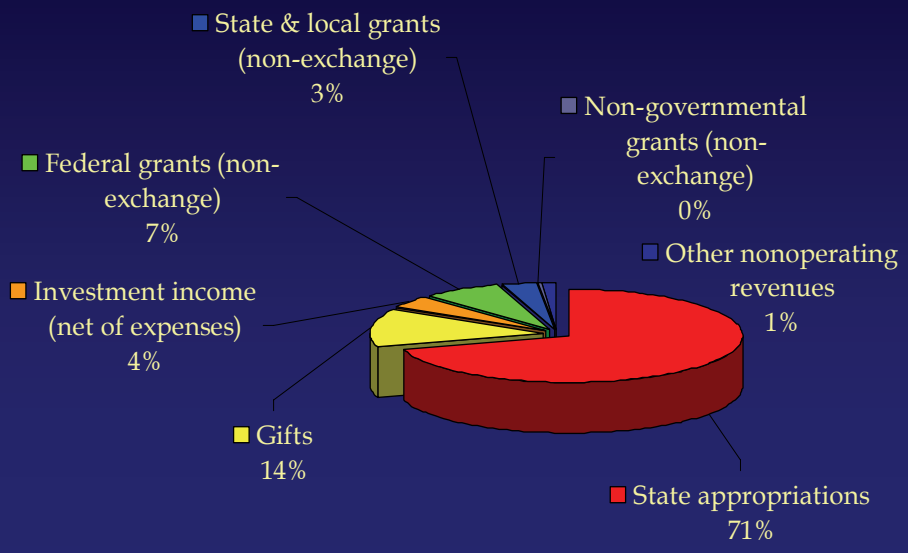
State appropriations	161,997,226
Gifts	30,411,641
Investment income (net of expenses)	10,022,697
Federal grants (non-exchange)	16,806,938
State & local grants (non-exchange)	7,522,753
Non-governmental grants (non-exchange)	815,291
Other nonoperating revenues	3,075,780
Total nonoperating revenues	230,652,326

Fiscal Year 2005 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 2005 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

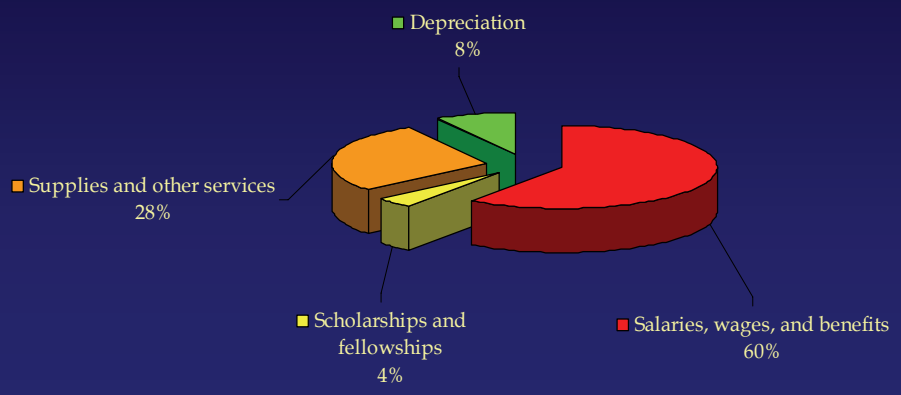
FISCAL YEAR 2005 OPERATING EXPENSES BY NATURAL CLASSIFICATION

Salaries, wages, and benefits	280,195,091
Scholarships and fellowships	19,357,247
Supplies and other services	129,508,259
Depreciation	38,875,804
Total operating expenses	467,936,401

FISCAL YEAR 2005 OPERATING EXPENSES BY FUNCTION

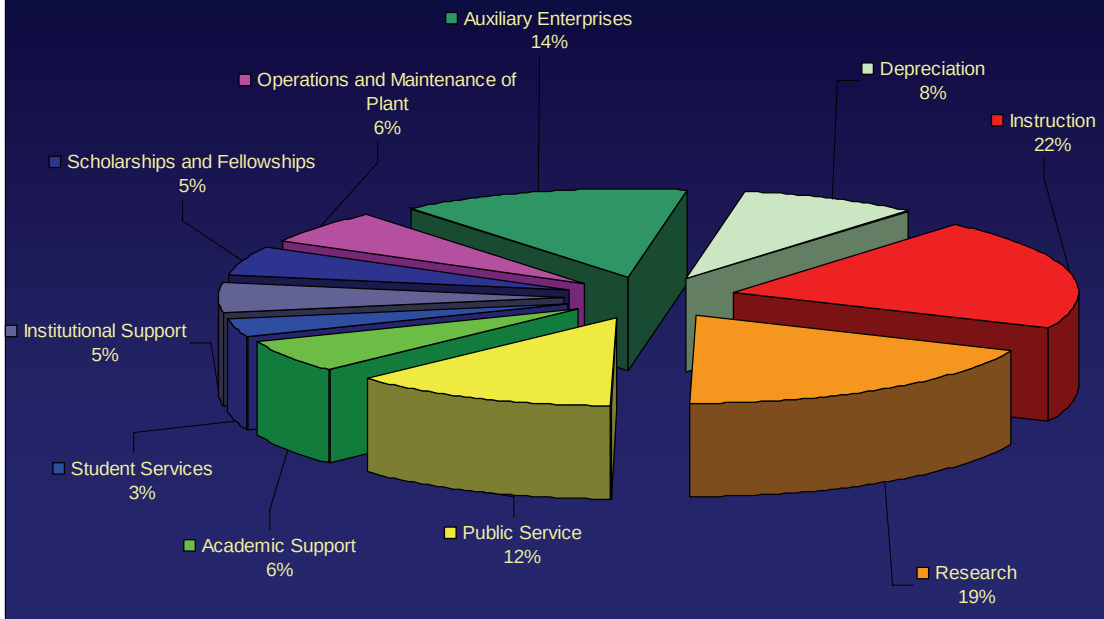
Instruction	96,087,697
Research	87,513,517
Public Service	57,677,724
Academic Support	28,909,057
Student Services	16,292,007
Institutional Support	25,239,057
Scholarships and Fellowships	24,370,475
Operations and Maintenance of Plant	29,503,679
Auxiliary Enterprises	63,467,384
Depreciation	38,875,804
Total	467,936,401

Fiscal Year 2005 Operating Expenses by Natural Classification

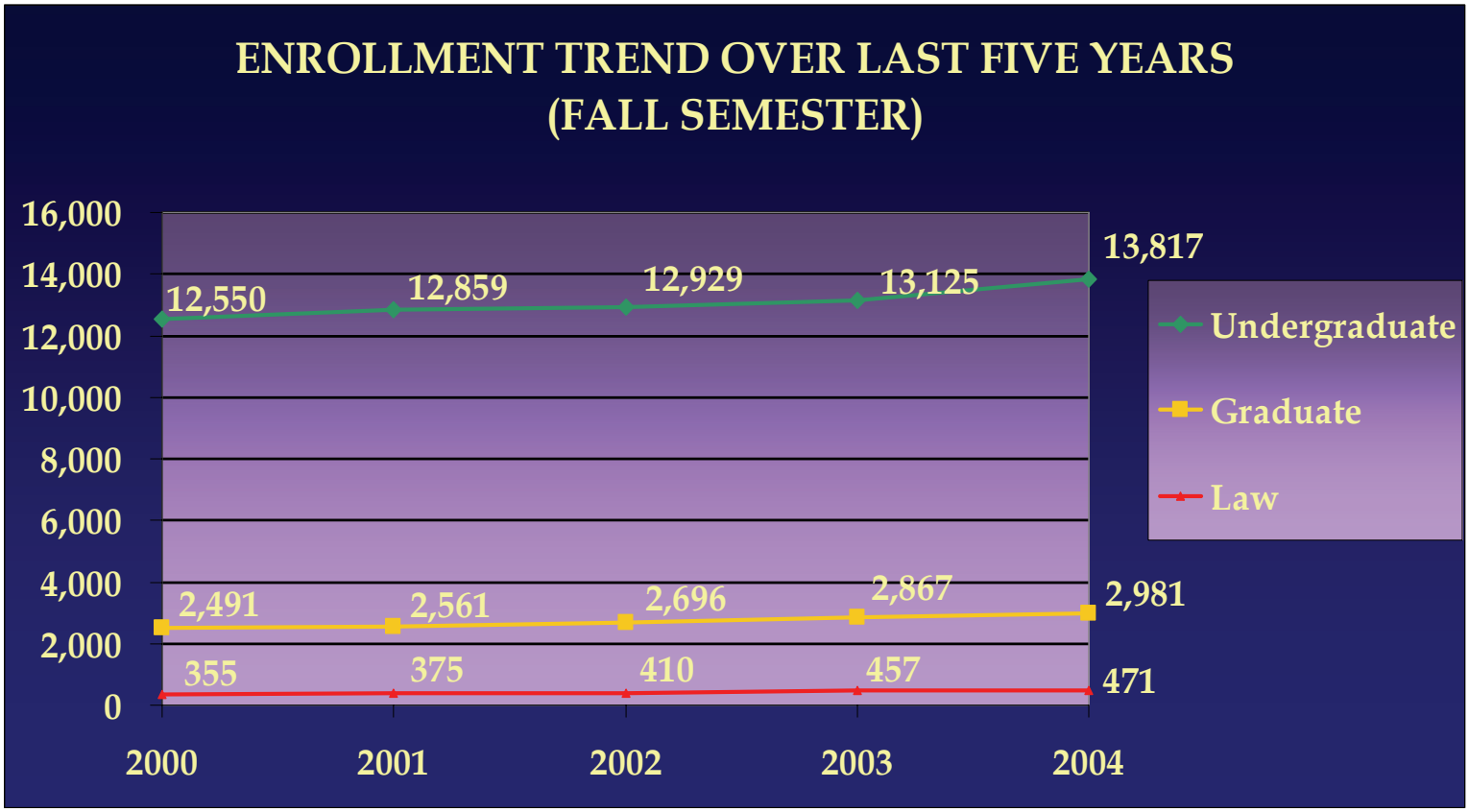


- Salaries, wages, and benefits
- Scholarships and fellowships
- Supplies and other services
- Depreciation

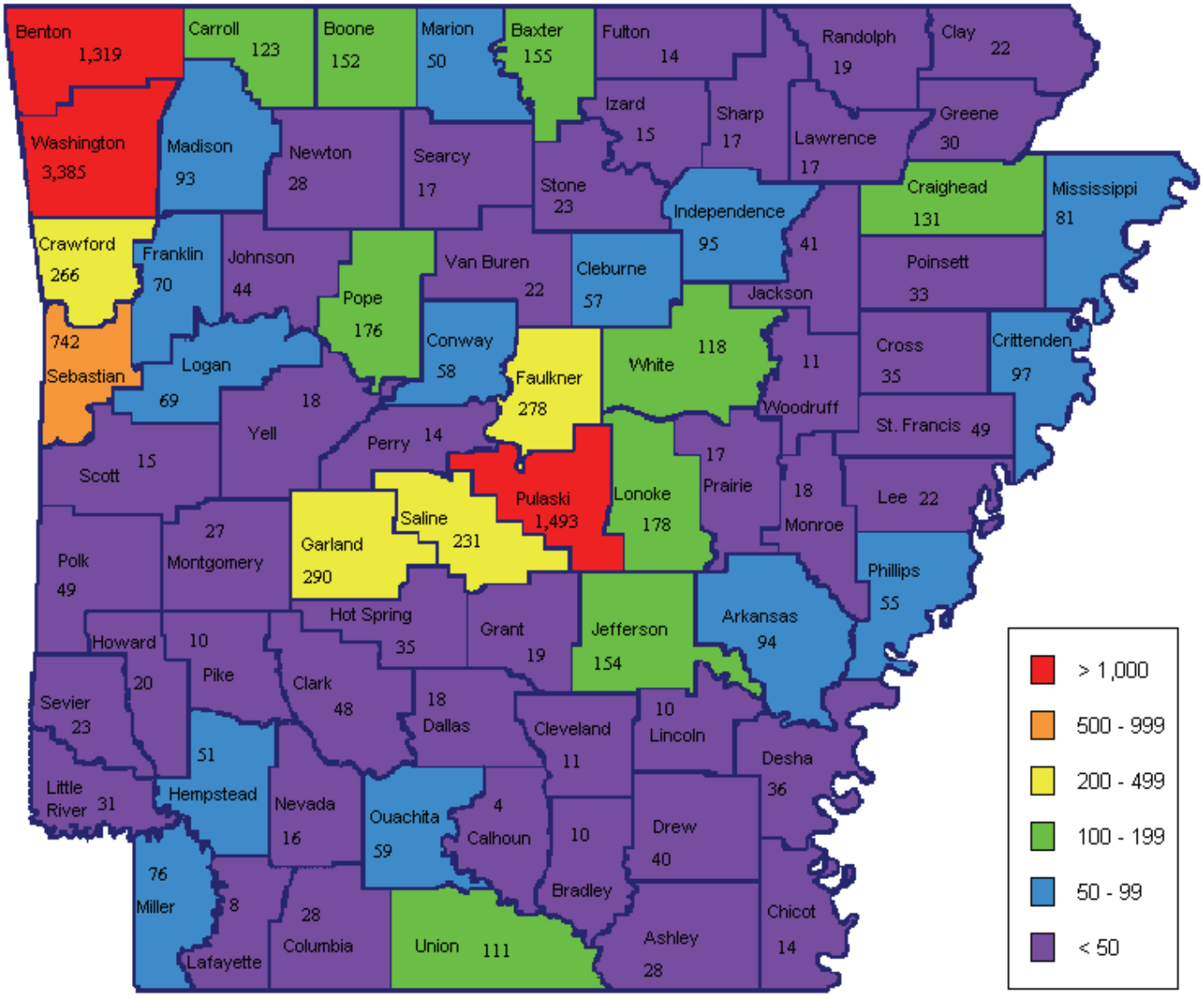
Fiscal Year 2005 Operating Expenses by Function



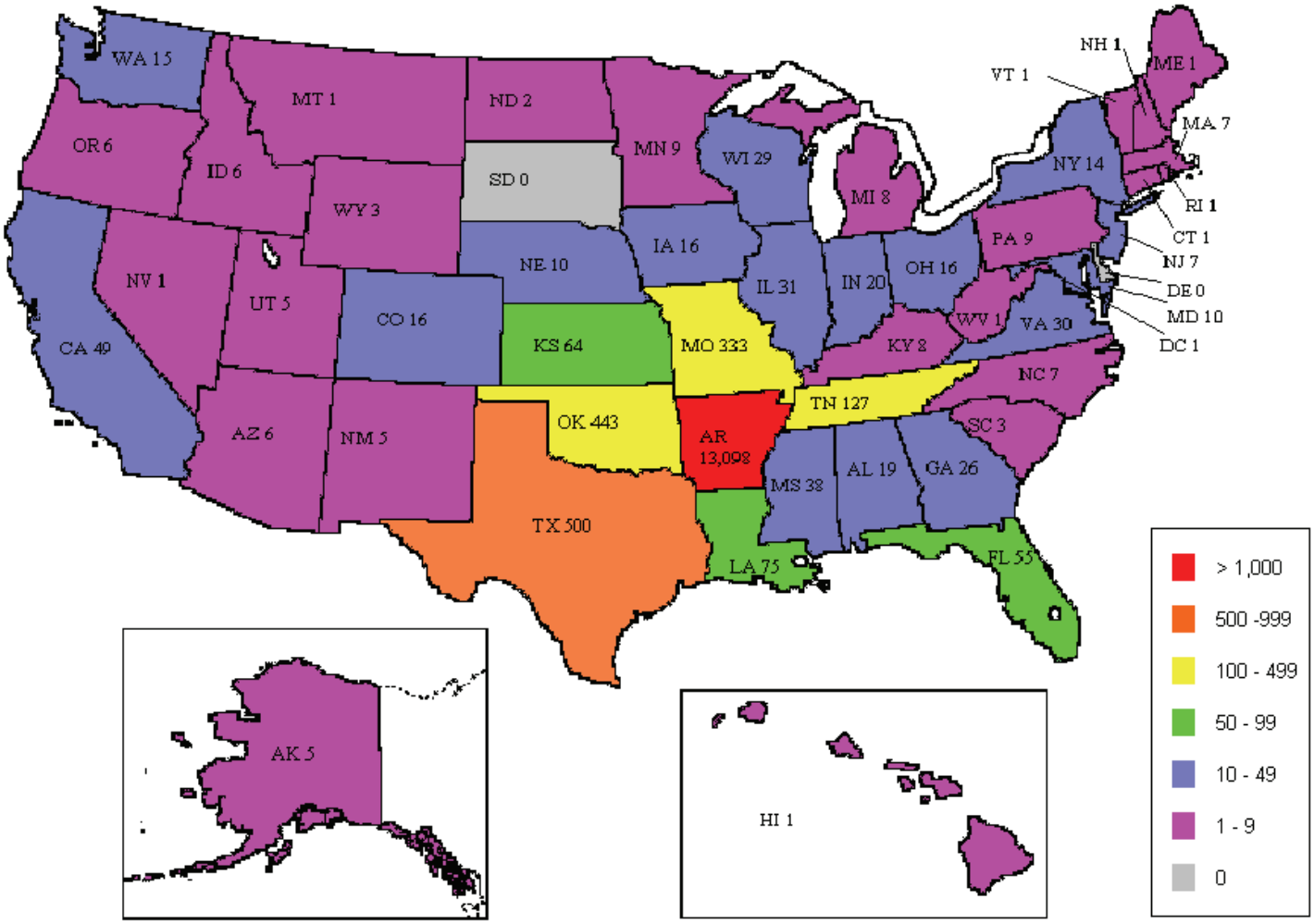
- Instruction
- Research
- Public Service
- Academic Support
- Student Services
- Institutional Support
- Scholarships and Fellowships
- Operations and Maintenance of Plant
- Auxiliary Enterprises
- Depreciation


ENROLLMENT TREND OVER LAST FIVE YEARS
(FALL SEMESTER)
16,000
14,000
12,000
10,000
8,000
6,000
4,000
2,000
0
2000
2001
2002
2003
2004
12,550
12,859
12,929
13,125
13,817
2,491
2,561
2,696
2,867
2,981
355
375
410
457
471
Undergraduate
Graduate
Law

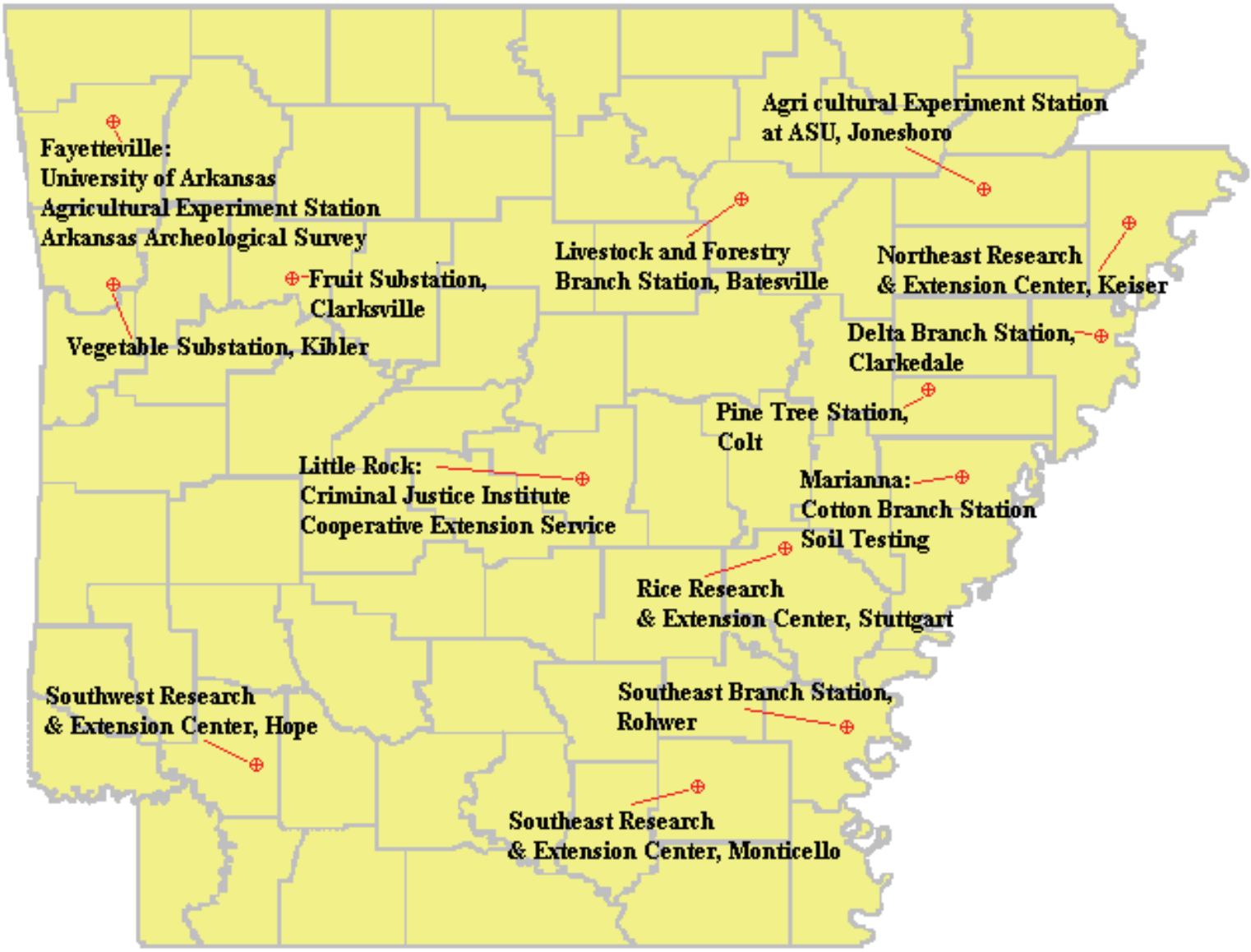
In-State Undergraduate Enrollment
by County of Origin



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.


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Sen. Henry "Hank" Wilkins, IV
Senate Co-Chair
Rep. Tommy G. Roebuck
House Co-Chair
Sen. Randy Laverty
Senate Co-Vice Chair
Rep. Sandra Prater
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, 2005 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, 2005 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 21, 2005
EDHE13505

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, 2005. 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. Beginning with the fiscal year ended June 30, 2004, 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 reporting requirement is provided in Note 1 "Summary of Significant Accounting Policies", under "Component Units" in the Notes to the Financial Statements.

The responsibility for the financial reporting of the Clinton School of Public Service was transferred from the University of Arkansas System Administration to the University of Arkansas, Fayetteville during the fiscal year ended June 30, 2005.

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 noncurrent. Current assets are those assets that can be realized, with relative ease, such as cash, in the coming year. Current liabilities are

expected to be paid within the next year. Noncurrent assets and liabilities are not expected to be realized as cash or paid in the subsequent year.

Net Assets are presented in four categories: 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, 2005, and June 30, 2004:

	As of June 30, 2005	As of June 30, 2004
Assets		
Current Assets	$ 138,590,677	$ 134,516,224
Capital Assets, net of depreciation	540,660,319	488,362,686
Other Noncurrent Assets	154,473,888	158,403,826
Total Assets	$ 833,724,884	$ 781,282,736
Liabilities		
Current Liabilities	$ 51,294,240	$ 51,272,904
Noncurrent Liabilities	266,546,506	230,048,053
Total Liabilities	$ 317,840,746	$ 281,320,957
Net Assets		
Invested in Capital Assets, net of related debt	$ 330,465,771	$ 314,539,552
Restricted – Nonexpendable	17,551,711	17,357,087
Restricted – Expendable	65,557,639	63,400,812
Unrestricted	102,309,017	104,664,328
Total Net Assets	$ 515,884,138	$ 499,961,779

The overall increase in Current Assets is almost entirely the result of increases in deposits with bond trustees. These increases are due to the proceeds resulting from two new construction bond issues during the fiscal year. 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 Noncurrent Assets.

Current Liabilities are virtually unchanged with no significant changes in the items that comprise these liabilities. Noncurrent Liabilities are up as the result of the assumption of additional long-term debt in the form of new bonds issued during the year. 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 increase in Net Assets Restricted – Expendable is due primarily to an increase in the amount of funds restricted for capital projects, an increase in Endowment funds resulting from net investment income and gains, and an increase in the amount of unreimbursed research expenses.

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 or experienced only minor decreases. 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, 2005	As of June 30, 2004
Fayetteville Campus	$ 70,174,126	$ 74,401,045
Agricultural Experiment Station	21,380,401	20,284,151
Cooperative Extension Service	8,368,759	7,803,469
Arkansas Archeological Survey	198,697	215,405
Criminal Justice Institute	1,823,884	1,960,258
Clinton School of Public Service	363,150	
Total Unrestricted Net Assets	$ 102,309,017	$ 104,664,328

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

	As of June 30, 2005	As of June 30, 2004
Working Capital	$ 750,000	$ 750,000
E & G Department Uses	17,324,380	25,149,595
Service Operations	2,494,944	1,645,623
Auxiliaries	3,742,523	9,361,068
Plant Funds	28,316,777	21,087,980
Quasi-Endowment Funds	17,545,502	16,408,086
Unallocated		(1,307)
Total Fayetteville Campus Unrestricted Net Assets	$ 70,174,126	$ 74,401,045

In Plant Funds, $18,616,593 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 $51,557,533.

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 $230,580,875 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 Nonoperating revenue.

Two other numbers on this operating statement, Loss before other revenues and changes in net assets of ($5,571,223), and Increase in net assets of $15,922,359 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, though campus needs may not be met and may have long term negative consequences. Conversely, decreases in these numbers over time indicate deteriorating financial health, while additional campus needs are met as operational investments in the future of the campus. 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 $15,922,359 or 3.18%. The following summarizes the University's operating statement:

		Fiscal 2005 Total		Fiscal 2004 Total
Operating Revenues	$	237,355,526	$	222,157,747
Operating Expenses		467,936,401		441,040,736
Operating income (loss)		(230,580,875)		(218,882,989)
Net nonoperating revenues (expenses)		225,009,652		216,115,480
Income (loss) before other revenues and changes in net assets		(5,571,223)		(2,767,509)
Other revenues and changes in net assets		21,493,582		20,238,362
Increase (decrease) in Net Assets	$	15,922,359	$	17,470,853

Operating Revenues increased by $15,197,779. This is comprised of increases in Student tuition and fees of $7,143,929; Federal grants and contracts of $3,517,475; Sales and Services of Educational Departments of $1,162,278; Other Auxiliary Enterprises of $365,700; Residence life of $2,232,490; and a net increase in other items of $775,907.

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 the income from the newly completed 600 bed Northwest Quad Residence Hall, as well as increases in the rates charged and an increase in occupancy in the other residence halls.

Operating Expenses increased by $26,895,665 or 6.1%. Salaries, wages, and benefits increased $19,903,057 or 7.65%, as the result of salary and fringe benefit increases. Scholarships and fellowships decreased $4,038,998 or 17.26%. This decrease is a result of a change in the way Graduate Assistant tuition waivers are reported. They are now reported as fringe benefits rather than scholarship and fellowship expense. Supplies and other services increased $5,371,791 or 4.33%. This was a general increase in all areas with no particular commodity or department affected in a significant way. Depreciation increased $5,659,815 or 17.04% and is directly related to the increase in Capital Assets acquired from bond proceeds and other sources.

Net nonoperating Revenues (Expenses) increased by $8,894,172 or 4.12%. Offsetting increases and decreases of the individual lines within this section of the report comprise this amount as follows: State Appropriations are up $1,987,616 or 1.24%; Gifts increased by $3,283,661 or 12.10%; Investment income was up by $1,224,782 or

13.92%; Interest on capital asset-related debt is down by $118,707 or 2.15%; Federal, State & Local, and Non-governmental grants (nonexchange) increased by $1,282,830 or 5.38%; Other nonoperating revenues are up by $544,841; and Loss on disposal of assets decreased by $451,735.

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 increase in investment income is the result of improved investment performance compared to FY 04. The increase in grants activity is the result of increases in grants received by the University.

In Other Revenues and Changes in Net Assets, Capital appropriations are down $498,504. 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 Nonoperating Financing. The Net Cash Provided by Operating Activities and Noncapital Financing Activities is a much more meaningful number for the University of Arkansas, Fayetteville.

The following summarizes the University's cash flows:

	Fiscal Year 2005	Fiscal Year 2004
Cash flows from operating activities	$ (188,893,866)	$ (192,822,526)
Cash flows from noncapital financing activities	217,023,449	212,533,584
Net cash provided by operating and noncapital financing activities	28,129,583	19,711,058
Cash flows from capital financing activities	(44,868,630)	(30,872,426)
Cash flows from investing activities	12,993,035	4,490,937
Net (decrease) in cash for the year	$ (3,746,012)	$ (6,670,431)

Cash flows from operating activities show a decrease in the use of cash of $3,928,660. 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 $4,489,865. State appropriations, gifts and grants for other than capital purposes, and federal grants (nonexchange) 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 the current and 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 05, the University of Arkansas, Fayetteville issued new bonds for construction in the total amount of $44,520,000. In addition, in FY 05, the University issued bonds for the purpose of refunding portions of existing bond issues in the amount of $67,050,000. The amount of prior year bonds refinanced totaled $62,880,000 resulting in a deferred loss on refinancing of $4,170,000, which will be amortized over the life of the refinancing bonds. 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, 2004	$ 220,183,000	$ 5,934,374	$ 1,075,702
Additions, net of deferred loss	107,400,000		258,832
Refinanced	(62,880,000)		
Payments of principal	(8,515,000)	(323,787)	(329,467)
Amortization of Deferred Loss	76,760		
Balance as of June 30, 2005	$ 256,264,760	$ 5,610,587	$ 1,005,067

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, 2004	$	314,539,552
Land Additions and Disposals (net)		445,392
Buildings Additions and Disposals, net of depreciation		46,964,316
Improvements/Infrastructure Additions, net of depreciation		4,302,611
Equipment Additions and Disposals, net of depreciation		13,023,652
Construction In Progress Additions net of transfers to buildings and improvements/infrastructure		(12,615,419)
Livestock Additions		177,080
Bond debt moved to Net Assets invested in capital assets		(44,551,669)
Bonds assumed in FY05		(67,050,000)
Bonds refinanced in FY05		62,880,000
Bond Principal Paid in FY 05		8,515,000
Deferred loss on refinanced bond issues, amortized		4,093,240
Note Payable moved to Net Assets invested in capital assets		(652,406)
Capital Leases assumed in FY 05		(258,832)
Note, Capital Lease and Installment Contract Principal Paid in FY 05		653,254
Net Assets Invested in capital assets, net of related debt and depreciation as of June 30, 2005	$	330,465,771

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. A rational funding formula approach was adopted by the Arkansas General Assembly in the 2005 session.

During the fiscal year ended June 30, 2005, the total general revenue distribution from the State of Arkansas, including distributions from the Educational Excellence Trust Fund totaled $158,036,788. This is an increase of $3,341,441, or 2.16% over the distribution for fiscal year 2004.

The estimated total general revenue distribution from the State for the fiscal year ended June 30, 2006, is $168,270,941. This expected increase of $10,234,163, or 6.48% will include estimated distributions of $1,978,812 for the Clinton School of Public Service. This will be the first general revenue distributions from the State for the Clinton School. The expected increase for all reporting units other than the Clinton School of Public Service will be $8,255,351, or 5.22%

The University is also dependent on its ability to recruit and retain high quality students. Fall 2005 enrollment is 17,821, an all-time record high enrollment, and an increase of 3.2% over the fall 2004 enrollment. Undergraduate enrollment is up 4.0%, Graduate enrollment is up 3.0% and Law School enrollment is down 6.0%. The total number of degree-seeking freshmen was 2,766, the largest freshmen class since a concerted enrollment growth effort began in 1998. While management is encouraged to see record enrollment, 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/architects 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. The University's Facilities Management Department 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
Statement of Net Assets
June 30, 2005
With Comparative Figures at June 30, 2004

	June, 30	
	2005	2004
ASSETS		
Current Assets		
Cash and cash equivalents	$ 35,917,330	$ 39,663,342
Accounts receivable, net	26,953,644	24,358,810
Accrued interest receivable	936,750	1,163,886
Pledges receivable	100,000	1,530,000
Inventories	3,505,660	3,172,998
Deposit with bond trustee	62,601,211	56,881,668
Notes receivable, net	4,015,071	3,662,176
Other assets	4,561,011	4,083,344
Total current assets	138,590,677	134,516,224
Noncurrent Assets		
Endowment investments	58,708,882	55,563,792
Notes receivable, net	12,242,546	15,634,588
Other long-term receivables		211,652
Deposits with bond trustees	956,098	1,333,298
Other long-term investments	81,207,892	85,470,728
Other assets	1,358,470	189,768
Capital assets, net	540,660,319	488,362,686
Total noncurrent assets	695,134,207	646,766,512
Total assets	$ 833,724,884	$ 781,282,736
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	$ 13,293,521	$ 16,436,366
Accrued payroll liabilities	11,223,298	7,429,370
Accrued interest expense	1,453,911	1,497,984
Student overpayments		192,453
Funds held in trust for others	683,849	521,183
Deferred revenue	14,853,447	15,360,460
Compensated absences payable - current portion	710,528	713,590
Bonds, notes and capital leases payable - current portion	9,075,686	9,121,498
Total current liabilities	51,294,240	51,272,904
Noncurrent Liabilities		
Compensated absences payable	12,737,778	11,967,950
Bonds, notes and capital leases payable	253,804,728	218,071,578
Other noncurrent liabilities	4,000	8,525
Total noncurrent liabilities	266,546,506	230,048,053
Total liabilities	$ 317,840,746	$ 281,320,957

UNIVERSITY OF ARKANSAS
Statement of Net Assets
June 30, 2005
With Comparative Figures at June 30, 2004

	June, 30	
	2005	2004
NET ASSETS		
Invested in capital assets, net of related debt	$ 330,465,771	$ 314,539,552
Restricted for		
Nonexpendable		
Scholarships and fellowships	7,641,488	7,428,597
Research	4,821,144	4,859,330
Instructional department uses	4,987,922	4,968,003
Loans	101,157	101,157
Expendable		
Scholarships and fellowships	7,457,318	6,544,294
Research	17,854,126	19,409,541
Public service	3,295,854	2,369,126
Instructional department uses	9,922,935	12,912,589
Loans	16,157,020	16,611,379
Capital projects	6,357,903	3,906,462
Debt service	1,568,043	1,593,620
Other	2,944,440	53,801
Unrestricted	102,309,017	104,664,328
Total net assets	$ 515,884,138	$ 499,961,779

UNIVERSITY OF ARKANSAS
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2005
With Comparative Figures for 2004

	Fiscal 2005 Total	Fiscal 2004 Total
REVENUES		
Operating Revenues		
Student tuition and fees (net of scholarship allowances of $29,254,486 in fiscal year 2005, and $31,310,683 in fiscal year 2004)	$ 72,535,770	$ 65,391,841
Federal appropriations	9,312,406	9,694,975
County appropriations	2,545,695	2,367,398
Federal grants and contracts	32,598,656	29,081,181
State and local grants and contracts	11,503,777	10,224,829
Nongovernmental grants and contracts	13,936,926	14,245,974
Sales and services of educational departments	17,858,836	16,696,558
Auxiliary enterprises		
Residence Life (net of scholarship allowances of $4,250,168 in fiscal year 2005, and $3,988,269 in fiscal year 2004)	10,561,925	8,329,435
Athletics	40,173,489	38,409,936
Bookstore	12,087,607	11,436,780
Student Apartments	1,420,088	1,060,812
Arkansas Union	447,996	641,411
Student Health Services	1,090,624	1,234,196
Transit and Parking	3,323,318	3,287,837
Student Organizations/Activities	287,494	284,119
Other Auxiliary Enterprises	951,731	3,061,556
Other operating revenues	6,719,188	6,708,909
Total operating revenues	237,355,526	222,157,747
EXPENSES		
Operating Expenses		
Salaries, wages, and benefits	280,195,091	260,292,034
Scholarships and fellowships	19,357,247	23,396,245
Supplies and other services	129,508,259	124,136,468
Depreciation	38,875,804	33,215,989
Total operating expenses	467,936,401	441,040,736
Operating loss	(230,580,875)	(218,882,989)

UNIVERSITY OF ARKANSAS
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2005
With Comparative Figures for 2004

	Fiscal 2005 Total	Fiscal 2004 Total
NONOPERATING REVENUES (EXPENSES)		
State appropriations	161,997,226	160,009,610
Gifts	30,411,641	27,127,980
Investment income (net of investment expense of $485,281 in fiscal year 2005, and $489,181 in fiscal year 2004)	10,022,697	8,797,915
Interest on capital asset - related debt	(5,413,097)	(5,531,804)
Federal grants (nonexchange)	16,806,938	15,032,507
State & local grants (nonexchange)	7,522,753	8,081,762
Nongovernmental grants (nonexchange)	815,291	747,883
Loss on disposal of assets	(229,577)	(681,312)
Other nonoperating revenues	3,075,780	2,530,939
Net nonoperating revenues	225,009,652	216,115,480
Loss before other revenues and changes in net assets	(5,571,223)	(2,767,509)
OTHER REVENUES AND CHANGES IN NET ASSETS		
Capital appropriations	1,398,067	1,896,571
Capital grants and gifts	21,418,891	18,023,820
Other changes	(1,323,376)	317,971
Total other revenues and changes in net assets	21,493,582	20,238,362
Increase in net assets	15,922,359	17,470,853
NET ASSETS		
Net assets - beginning of year	499,961,779	482,490,926
Net assets - end of year	$ 515,884,138	$ 499,961,779

UNIVERSITY OF ARKANSAS
Statement of Cash Flows - Direct Method
For the Year Ended June 30, 2005
With Comparative Figures for 2004

	Fiscal 2005 Total	Fiscal 2004 Total
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	$ 72,035,507	$ 66,249,998
Federal appropriations	9,315,889	9,578,244
County appropriations	2,553,907	2,411,545
Grants and contracts	57,539,776	51,451,857
Payments to suppliers	(130,005,589)	(125,092,041)
Payments to employees	(223,151,064)	(213,115,130)
Payments for benefits	(53,477,778)	(48,379,537)
Payments for scholarships and fellowships	(19,357,247)	(23,396,245)
Loans issued to students and employees	(1,682,757)	(4,858,477)
Collections of loans to students	1,964,764	3,517,209
Collections of interest on loans to students	25,687	368,559
Auxiliary enterprise charges		
Residence Life	10,713,348	7,664,237
Athletics	38,828,242	39,887,048
Bookstore	12,448,780	11,600,139
Student Apartments	1,412,029	1,060,122
Arkansas Union	433,183	642,663
Student Health Services	1,058,122	1,187,633
Transit and Parking	3,335,823	3,263,315
Student Organizations/Activities	328,345	281,428
Other Auxiliary Enterprises	3,056,949	1,040,427
Sales and services of educational departments	17,765,182	16,252,363
Other receipts	5,965,036	5,562,117
Net cash used by operating activities	(188,893,866)	(192,822,526)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	161,997,226	160,009,610
Gifts and grants for other than capital purposes	30,192,511	26,261,731
Private gifts for endowment purposes		235,780
Federal grants (nonexchange)	16,170,192	14,512,337
State and local grants (nonexchange)	7,522,753	8,081,762
Nongovernmental grants (nonexchange)	815,291	747,883
Transfers to other state agencies		(10,564)
Other nonoperating revenue	205,395	2,514,052
Net agency fund transactions	120,081	180,993
Net cash provided by noncapital financing activities	217,023,449	212,533,584
Net cash provided by operating activities and noncapital financing activities	28,129,583	19,711,058
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from capital debt	44,520,000	1,000,000
Capital appropriations	1,398,067	1,896,571
Capital grants and gifts received	2,148,369	1,692,817
Purchases of capital assets	(68,038,436)	(77,622,235)
Principal paid on capital debts and leases	(9,152,827)	(7,226,466)
Interest paid on capital debt and leases	(11,218,996)	(7,628,297)
Deposit with trustee	(5,342,343)	56,710,554

UNIVERSITY OF ARKANSAS
Statement of Cash Flows - Direct Method
For the Year Ended June 30, 2005
With Comparative Figures for 2004

	Fiscal 2005 Total	Fiscal 2004 Total
Other sources	817,536	232,515
Payments received on capital notes receivable		72,115
Net cash used by capital financing activities	(44,868,630)	(30,872,426)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	$ 12,200,000	$ 13,959,062
Investment income	1,806,269	475,976
Purchase of investments	(1,013,234)	(9,944,101)
Net cash provided by investing activities	12,993,035	4,490,937
NET DECREASE IN CASH	(3,746,012)	(6,670,431)
Cash - beginning of year	39,663,342	46,333,773
Cash - end of year	$ 35,917,330	$ 39,663,342
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	$ (230,580,875)	$ (218,882,989)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense	38,875,804	33,215,989
Changes in assets and liabilities		
Receivables (net)	1,165,160	(5,974,493)
Inventories	(332,662)	3,589
Prepaid expenses	(1,792,772)	(160,067)
Other assets	127,972	(53,576)
Accounts payable and accrued liabilities	1,013,697	(392,328)
Accrued payroll liabilities (Employees)	(138,545)	204,983
Accrued payroll liabilities (Benefits)	2,938,028	(1,584,525)
Student overpayments	(240,408)	189,939
Deferred revenue	(507,015)	1,353,343
Compensated absences	766,766	176,909
Loans to students and employees	(189,016)	(919,300)
Net cash used by operating activities	$ (188,893,866)	$ (192,822,526)
NONCASH TRANSACTIONS		
Donations of buildings, improvements, and infrastructure	$ 3,090,626	$ 6,072,745
Equipment donations	17,701,708	11,693,365
Bond issuance costs and underwriter's discounts paid directly from bond proceeds	1,481,622	
Payments to bond escrow directly from bond proceeds	70,196,371	
Bond interest and fee payments made from capitalized interest and accrued interest accounts held by bond trustees		3,279,074
Credit for exchanged property		503,462

UNIVERSITY OF ARKANSAS FAYETTEVILLE CAMPUS FOUNDATION, INC.
Statements of Financial Position
June 30, 2005 and 2004

	2005	2004
Assets		
Investments	$ 411,003,798	$ 384,991,465
Liabilities and net assets		
Liabilities:		
Refundable advance	$	$ 105,700,000
Net Assets:		
Temporarily restricted	$ 10,922,717	$ 8,044,906
Permanently restricted	400,081,081	271,246,559
Total net assets	411,003,798	279,291,465
Total liabilities and net assets	$ 411,003,798	$ 384,991,465

UNIVERSITY OF ARKANSAS FAYETTEVILLE CAMPUS FOUNDATION, INC.

Statement of Activities

For the Years Ended June 30, 2005 and 2004

	2005				2004			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, gains and other support:								
Contributions	$	$ 5,064,898	$ 100,635,102	$ 105,700,000	$	$	$ 80,800,000	$ 80,800,000
Interest and dividends		3,125,197	3,347,153	6,472,350		1,727,666	3,790,928	5,518,594
Net unrealized and realized gains/(losses) on long-term investments		4,546,851	24,852,267	29,399,118		3,310,339	41,824,816	45,135,155
Net assets released from restrictions	9,859,135	(9,859,135)			6,774,295	(6,038,068)	(736,227)	
Total revenue, gains and other support	9,859,135	2,877,811	128,834,522	141,571,468	6,774,295	(1,000,063)	125,679,517	131,453,749
Expenses and Losses:								
Program Services-								
Construction	75,962			75,962				
Research	2,615,162			2,615,162	307,796			307,796
Faculty/staff support	245,126			245,126	26,185			26,185
Scholarships and awards	4,308,911			4,308,911	2,951,471			2,951,471
Equipment and technology	2,485,128			2,485,128	3,398,120			3,398,120
Other	23,013			23,013	11,181			11,181
Total program services	9,753,302			9,753,302	6,694,753			6,694,753
Supporting services-								
Management and general	105,833			105,833	79,542			79,542
Total supporting services	105,833			105,833	79,542			79,542
Total expenses and losses	9,859,135			9,859,135	6,774,295			6,774,295
Change in net assets		2,877,811	128,834,522	131,712,333		(1,000,063)	125,679,517	124,679,454
Net assets, beginning of year		8,044,906	271,246,559	279,291,465		9,044,969	145,567,042	154,612,011
Net assets, end of year	$	$ 10,922,717	$ 400,081,081	$ 411,003,798	$	$ 8,044,906	$ 271,246,559	$ 279,291,465

THE RAZORBACK FOUNDATION, INC.

Statement of Financial Position

June 30, 2005

	Total All Funds	Operating Fund	Deferred Compensation Fund	Land, Building and Equipment Fund	Endowment Fund
Assets:					
Cash in bank	$ 618,436	$ 436,144	$	$ 182,292	$
Pledges receivable-unrestricted, less allowance for uncollectible pledges	2,599,860	2,599,860			
Investments	21,590,732	8,601,531	3,883,911	5,275,620	3,829,670
Land, building and equipment, at cost, less accumulated depreciation	1,586,471			1,586,471	
Other assets	177,218	177,218			
Total assets	$ 26,572,717	$ 11,814,753	$ 3,883,911	$ 7,044,383	$ 3,829,670
Liabilities:					
Accounts payable	$ 553,361	$ 553,361	$	$	$
Contract guarantee payable	1,314,272	1,314,272			
Deferred compensation payable	5,745,350	1,861,439	3,883,911		
Total liabilities	$ 7,612,983	$ 3,729,072	$ 3,883,911	$	$
Net Assets:					
Unrestricted	$ 9,672,152	$ 8,085,681	$	$ 1,586,471	$
Board designated-unrestricted	7,927,486			5,457,912	2,469,574
Permanently restricted	1,360,096				1,360,096
Total net assets	18,959,734	8,085,681		7,044,383	3,829,670
Total liabilities and net assets	$ 26,572,717	$ 11,814,753	$ 3,883,911	$ 7,044,383	$ 3,829,670

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 Activities
Year Ended June 30, 2005

	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	$ 10,874,789	$ 10,874,789	$	$	$
Investment income and other	357,175	203,223		153,952	
Total unrestricted revenues and gains	11,231,964	11,078,012		153,952	
Expenses:					
Program services:					
Directly allocated to:					
Football	1,728,852	1,728,852			
Basketball	470,858	470,858			
Baseball	355,686	355,686			
Track and field	1,033,844	1,033,844			
Other sports	29,942	29,942			
Athletic department operations	4,366,763	4,366,763			
Fundraising	1,590,490	1,590,490			
Administrative	650,334	650,334			
Deferred compensation expense	855,066	855,066			
Provision for uncollectible pledges	185,797	185,797			
Total expenses	11,267,632	11,267,632			

THE RAZORBACK FOUNDATION, INC.

Statement of Activities

Year Ended June 30, 2005

	Total All Funds	Operating Fund	Deferred Compensation Fund	Land, Building and Equipment Fund	Endowment Fund
Other changes:					
Transfers to deferred compensation plans	(300,000)	(300,000)			
Transfers to endowment fund		(100,000)			100,000
Transfers for current operations		2,668,546		(2,668,546)	
Unrealized loss on investments	(393,618)	(330,804)		(62,814)	
Depreciation	(308,197)			(308,197)	
Total other changes	(1,001,815)	1,937,742		(3,039,557)	100,000
Total increase (decrease) in unrestricted net assets	(1,037,483)	1,748,122		(2,885,605)	100,000
Transfers to deferred compensation plans	300,000		300,000		
Deferred compensation investment income	73,904		73,904		
Program services:					
Deferred compensation expense	(373,904)		(373,904)		
Total increase (decrease) in temporarily restricted net assets					
Changes in permanently restricted net assets:					
Endowment fund fund public support	134,342				134,342
Endowment fund investment income	107,249				107,249
Total increase in permanently restricted net assets	241,591				241,591
Increase (decrease) in net assets	(795,892)	1,748,122		(2,885,605)	341,591
Net assets at beginning of year	19,755,626	6,337,559		9,929,988	3,488,079
Net assets at end of year	$ 18,959,734	$ 8,085,681	$	$ 7,044,383	$ 3,829,670

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

ARKANSAS 4-H FOUNDATION, INC
Statements of Financial Position
June 30, 2005 and 2004

	2005	2004
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 990,864	$ 630,773
Investments, at fair value	1,138,562	1,181,010
Accounts receivable, trade, net of allowance for doubtful accounts of $2,523 and$5,738	64,640	87,832
Grant receivable		97,485
Contributions receivable, due within one year		4,481
Inventories	23,666	23,081
Total current assets	2,217,732	2,024,662
OTHER ASSETS:		
Land held for investment	2,600	2,600
Cash restricted for building maintenance fund	121,708	47,134
Investments, at fair value, restricted for building maintenance fund	926,466	897,408
Total other assets	1,050,774	947,142
PROPERTY AND EQUIPMENT, NET	6,972,314	7,190,279
TOTAL ASSETS	$ 10,240,820	$ 10,162,083
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 74,813	$ 90,291
Due to affiliate	66,183	27,343
Accrued expenses	11,356	9,987
Customer deposits	7,081	1,102
Current portion of note payable to affiliate	5,419	5,750
Total current liabilities	164,852	134,473
LONG-TERM LIABILITY:		
Note payable to affiliate, less current portion		5,419
Total liabilities	$ 164,852	$ 139,892
NET ASSETS:		
Unrestricted	$ 7,989,242	$ 7,983,374
Temporarily restricted	1,411,398	1,374,489
Permanently restricted	675,328	664,328
Total net assets	10,075,968	10,022,191
TOTAL LIABILITIES AND NET ASSETS	$ 10,240,820	$ 10,162,083

ARKANSAS 4-H FOUNDATION, INC.

Statement of Activities

For the Years Ended June 30, 2005and 2004

	2005				2004			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUES:								
Program service revenue	$ 1,506,611	$ 1,225	$	$ 1,507,836	$ 1,181,647	$	$	$ 1,181,647
Grants and contributions	80,537	41,551	11,000	133,088	84,875	237,458	1,106	323,439
Interest and dividends	35,923	110,067		145,990	43,105	75,096		118,201
Net unrealized and realized appreciation (depreciation) on investments	18,281	55,273		73,554	(34,235)	(92,872)		(127,107)
Other revenues	43,444	450		43,894	40,181			40,181
Net assets released from restrictions	171,657	(171,657)			510,593	(510,593)		
Total support and revenues	1,856,453	36,909	11,000	1,904,362	1,826,166	(290,911)	1,106	1,536,361
EXPENSES:								
Program	1,796,760			1,796,760	1,663,217			1,663,217
Management and general	53,646			53,646	67,278			67,278
Fundraising	179			179				
Total expenses	1,850,585			1,850,585	1,730,495			1,730,495
INCREASE (DECREASE) IN NET ASSETS	5,868	36,909	11,000	53,777	95,671	(290,911)	1,106	(194,134)
NET ASSETS, BEGINNING OF PERIOD	7,983,374	1,374,489	664,328	10,022,191	7,887,703	1,665,400	663,222	10,216,325
NET ASSETS, END OF PERIOD	$ 7,989,242	$ 1,411,398	$ 675,328	$ 10,075,968	$ 7,983,374	$ 1,374,489	$ 664,328	$ 10,022,191

(1). Summary of Significant Accounting Policies

The financial statements for the University of Arkansas, Fayetteville ("the University") for the fiscal year ended June 30, 2005, 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 $9,968,645 and $6,689,944 to the University during the fiscal years ended June 30, 2005, and June 30, 2004, 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 $2,750,000 to the University, and provided equipment, facilities, improvements and supplies in the amount of $2,570,977 during the fiscal year ended June 30, 2005. During the fiscal year ended June 30, 2004, the Razorback Foundation distributed $510,712 to the University, and provided equipment, facilities and improvements in the amount of $3,996,179. 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, 2005, or June 30, 2004, 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. Investment risk disclosures are made in Footnote No. 4.

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, 2006. 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. In June, 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which becomes effective with the fiscal year ending June 30, 2008. In December, 2004, GASB issued Statement No. 46, *Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34*, which becomes effective with the fiscal year ending June 30, 2006. In June 2005, GASB issued Statement No. 47, *Accounting for Termination Benefits*, 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.

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, 2005	June 30, 2004
Arkansas Union	$ 1,500	$ 1,115
Athletics Inventory	13,853	13,583
Bookstore	1,934,391	1,700,160
COOP Warehouse	99,554	129,715
Garvan Woodland Gardens Shop	88,686	70,423
Physical Plant	641,331	582,775
Printing Services	168,760	157,402
Research Services	61,705	63,129
Residence Life	240,797	237,500
Student Health Pharmacy	86,266	80,106
University Press	168,817	137,090
Total Inventories	$ 3,505,660	$ 3,172,998

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 $209,466 and $343,474 were written off during the fiscal years ended June 30, 2005, and June 30, 2004, respectively.

Accounts receivable at June 30, 2005 totaled $30,751,137. The allowance for doubtful accounts was computed to be $3,797,493 resulting in net accounts receivable totaling $26,953,644. 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.

A summary of accounts receivable balances at June 30, 2005 are as follows:

	Gross	Allowance	Net
Student Accounts Receivable	$ 9,657,370	$ (3,450,309)	$ 6,207,061
Non-student Invoiced Accounts Receivable	11,484,265	(347,184)	11,137,081
Unreimbursed Research Contract Expenses	9,609,502		9,609,502
Totals	$ 30,751,137	$ (3,797,493)	$ 26,953,644

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

Biennial Appropriated Budgets

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

Capital Assets

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

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

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

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

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

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

Scholarship Discounts and Allowances
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 Agricultural Experiment Station, the Cooperative Extension Service, Arkansas Archeological Survey, the Criminal Justice Institute, and the Clinton School of Public Service, as well as the academic units. The academic units in Fayetteville include ten colleges, schools and divisions: the Dale Bumpers College of Agricultural, Food, and Life Sciences, the School of Architecture, the J. William Fulbright College of Arts and

Sciences, the Sam M. Walton College of Business, the College of Education and Health Professions, the College of Engineering, the School of Law, the Honors College, the Graduate School, and the 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, 2005	June 30, 2004
	Bank Balance	Bank Balance
Insured (FDIC)	$ 818,388	$ 679,680
Uninsured, Collateralized	7,863,830	7,844,364
Uninsured, Uncollateralized	43,880	
Total Deposits	$ 8,726,098	$ 8,524,044

Deposits are exposed to custodial risk if they are not covered by depository insurance (FDIC) and are uncollateralized or collateralized with securities held by the pledging institution. At June 30, 2005, $43,880 of the University's bank balance of $8,726,098 was exposed to custodial credit risk.

The University of Arkansas System Administration (System Administration) does not maintain separate bank accounts. System Administration deposits are commingled in University of Arkansas, Fayetteville bank accounts. The carrying value of the System Administration funds was $2,281,112 at June 30, 2005, and $2,719,215 at June 30, 2004. The above deposit schedule does not include cash on hand in various imprest funds maintained by the University of $59,535 or short-term investments of $31,898,928 at June 30, 2005. At June 30, 2004, these amounts were $67,335 and $33,693,626, respectively.

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

	June 30, 2005		June 30, 2004	
Bank Balance	$ 8,726,098		$ 8,524,044	
Less: Items in Transit	(5,865,120)		(6,314,098)	
Less: Nonnegotiable Certificates of Deposit	(34,000)		(34,000)	
Cash on Books		$ 2,826,978		$ 2,175,946
State Treasury Cash	$ 3,472,536		$ 6,512,985	
Cash Equivalents	31,898,928		33,693,626	
Less: System Cash	(2,281,112)		(2,719,215)	
Cash Equivalents		33,090,352		37,487,396
Total Cash and Equivalents		$ 35,917,330		$ 39,663,342

Investments

Investments are recorded at fair value. Fair value for reporting purposes is market value if a market price or quote is readily available. Investments that do not have readily available market prices or quotes are reported at cost or amortized cost. All investments were reported at fair value. The following is a summary of the University's investments held at June 30, 2005:

Investment Type	Fair Value at June 30, 2005
Mutual Treasury Funds	$ 37,861,877
Mutual Bond Funds	4,306,245
Corporate Bonds	15,527,981
CommonFund Short Term Fund	31,138,416
Guaranteed Investment Contracts	25,707,886
External Investment Pool-University of Arkansas System	118,649,471
Other	1,386,623
Total Investments	$ 234,578,499

The Commonfund Short Term investment of $31,138,416 is reported as cash and cash equivalents on the Statement of Net Assets. Mutual Treasury Funds of $37,849,423 and Guaranteed Investment Contracts of $25,707,886 are reported as deposits with bond trustee on the Statement of Net Assets. The above schedule does not include nonnegotiable certificates of deposit of $34,000 which are considered deposits for GASB Statement 40 deposit and investment disclosures.

Effective June 30, 2005, the University is required under GASB Statement No. 40 to provide investment risk disclosures for all invested fund. Disclosures related to the CommonFund Short Term Fund, Guaranteed Investment Contracts and the External Investment Pool are shown separately. No disclosures were made for Other Investments. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University does not have a formal investment policy addressing interest rate risk. The University of Arkansas' investments subject to GASB 40 interest rate risk disclosure are summarized below:

Interest Rate Risk					
Investment Maturities (in years)					
Investment Type	Fair Value	Less than 1	1 to 5	5 to 10	More than 10
Corporate Bonds	$ 15,527,981	$ 510,937	$ 10,815,128	$ 2,868,218	$ 1,333,698

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University of Arkansas' investments subject to GASB 40 credit risk disclosure are summarized below:

Credit Risk						
Investment Type	Fair Value	Aaa	Aa1-Aa3	A1-A3	Baa1-Baa3	Not Rated
Mutual Treasury Funds	$ 37,861,877	$ 37,849,423				$ 12,454
Mutual Bond Funds	4,306,245					4,306,245
Corporate Bonds	15,527,981	341,352	$ 10,748,640	$ 4,403,196	$ 34,793	
Totals	$ 57,696,103	$ 38,190,775	$ 10,748,640	$ 4,403,196	$ 34,793	$ 4,318,699

The ratings are assigned by the Moody's investment ratings service.

CommonFund Short Term Fund

The University invests daily operating funds in the CommonFund for Short Term Investments (Short Term Fund). The Short Term Fund is a bank common trust fund and as such is regulated by the United States Treasury Department Office of the Comptroller of the Currency.

Interest rate risk. The Short Term Fund invests in securities with maturities from one day to five and one-half years, but the portfolio is structured so that it will approximate the volatility of 3-month U.S. Treasury securities and not exceed the volatility of one-year U.S. Treasury securities.

Credit risk. The Short Term Fund is restricted to investments in U.S. Treasury and government agency securities, high quality corporate securities, mortgage- and asset-backed securities, and commercial and bank paper. However, the Short Term Fund is not rated by an external rating agency.

Guaranteed Investment Contracts

The University invested the construction funds from the Series 1997 Athletic Facilities Revenue Refunding Bonds and the Series 2002 Various Facilities Revenue Bonds in Guaranteed Investment Contracts (GICs). The GICs offer a guaranteed rate of return for a specific period of time with a guarantee of principal and interest earnings. The GICs provide full flexibility to withdraw funds as needed.

Interest rate risk. The University is not exposed to interest rate risk on the GICs.

Credit risk. If the ratings of the long-term, senior unsecured debt obligations of the guarantors are, at any time while the guarantee is in effect with respect to the GICs, suspended, withdrawn, or rated below AA- by S&P and Aa3 by Moody's, the University has the right to require collateralization or repayment of the entire balance. The following table summarizes the University's GIC agreements at June 30, 2005:

Investment		Fair Value	Rate of Return	Credit Risk
Bayerische Landesbank Girozentrale	$	956,098	5.85%	Not rated
Trinity Plus Funding Company, LLC		24,751,788	1.53%	Not rated
Total	$	25,707,886		

Concentration of Credit Risk

The University places no limit on the amount that may be invested with any one issuer. The Trinity Plus Funding Co., LLC guaranteed investment contract constitutes 10.5% of the University's total investments.

External Investment Pool-University of Arkansas System

The following tables contain information on the risk disclosure for the external investment pool, which commingles (pools) the moneys of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio. The pool was originally established in 1997 by the University of Arkansas and the University of Arkansas Foundation. During 1998, the Walton Arts Foundation joined the pool, and during 2003, the Fayetteville Campus foundation joined the pool. The participants of the pool have adopted investment guidelines and performance objectives for the accounts within the pool. This external investment pool is not SEC-registered. The external investment pool is not rated by an external rating agency. The University of Arkansas Board of Trustees is the sponsor of this investment pool and is responsible for operation and oversight for the pool. The University's participation in this investment pool is voluntary.

This information is provided in total for the pools, which includes the Total Return Pool, the Intermediate Pool, and the Cash Pool. The University of Arkansas at Fayetteville owns 10.2% of the total of these pools.

University of Arkansas
Statement of Invested Assets

Total Plan	**June 30, 2005**

Investment Type	**Fair Value***
Fixed Income	**$ 374,511,480**
U.S. Government	$ 100,382,420
U.S. Government Treasuries, Notes, Bonds	$ 55,102,962
U.S. Government TIPS	$ 29,050,494
U.S. Government Agency	$ 15,893,583
Other U.S. Government	$ 335,381
Mortgage Backed	$ 59,054,803
Government Pass-Through	$ 49,709,661
Corporate Pass-Through	$ 9,345,143
Collateralized Mortgage Obligations	$ 37,237,510
Government CMO's	$ 9,574,229
Corporate CMO's	$ 27,663,281
Corporate	$ 161,443,641
Corporate Bonds	$ 100,727,884
Corporate Asset Backed	$ 56,165,293
Private Placements	$ 4,550,463
Municipals	$ 3,528,024
Yankee Bonds	$ 530,244
Non-U.S. Fixed Income	$ 12,334,838
Developed Markets	$ 4,600,285
Dev. Government/Sovereign	$ 1,491,004
Dev. Corporate	$ 3,109,281
Emerging Markets	$ 7,734,554
Emg. Government/Sovereign	$ 2,050,366
Emg. Corporate	$ 5,684,187
Short Term	**$ 994,080**
Repurchase Agreements	$ 994,080
Equity	**$ 311,617,265**
U.S.	$ 304,018,894
Non-U.S.	$ 7,598,372
Alternative Investments	**$ 51,937,145**
Private Equity	$ 51,937,145
Real Estate	**$ 48,250,288**

University of Arkansas
Statement of Invested Assets

Total Plan **June 30, 2005**

	Investment Type	Fair Value*
	Commingled Funds	**$ 402,939,457**
	U.S. Equity	$ 92,050,946
	Non-U.S. Equity	$ 137,875,797
	U.S. Fixed Income	$ 91,109,371
	Money Market Funds	$ 81,903,343
**	**Other Investments**	**$ 64,966**
	Cash	**$ (26,972,588)**
	Total	**$ 1,163,342,093**

* Includes Accrued Income
** Other Investments include GICS/GACS, and loan to participants

University of Arkansas

Credit Risk – S&P Quality Ratings

Quality Ratings of TSY and AGY have been assigned by The Bank of New York

Total Plan **June 30, 2005**

Investment type and fair Value ($000)		TSY	AGY	AAA	AA	A	BBB	BB	B	CCC & Below	A-1	A-2	A-3	NR
Fixed Income	**$**	**8,817**	**51,829**	**193,952**	**14,777**	**52,898**	**42,452**	**4,780**						**5,006**
U.S. Government	$	8,817	6,020	85,209										335
U.S. Government Treasuries, Notes, Bonds	$	3,929		51,174										
U.S. Government TIPS	$	4,888		24,162										
U.S. Government Agency	$		6,020	9,873										
Other U.S. Government	$													335
Mortgage Backed	$		39,481	17,826	528									1,220
Government Pass-Through	$		39,481	10,228										
Corporate Pass-Through	$			7,597	528									1,220
Collateralized Mortgage Obligations	$		6,327	28,250	228	500								1,932
Government CMO's	$		6,327	3,019	228									
Corporate CMO's	$			25,231		500								1,932
Corporate	$			59,960	11,902	48,604	34,678	4,780						1,519
Corporate Bonds	$			6,319	9,276	45,971	33,867	4,631						664
Corporate Asset Backed	$			53,192	139	2,003	380							451
Private Placements	$			449	2,487	630	431	149						404
Municipals	$			2,255	1,273									
Yankee Bonds	$					131	399							
Non-U.S. Fixed Income	$			452	845	3,663	7,375							
Developed Markets	$			452	845	2,531	772							
Dev. Government/ Sovereign	$			452	487	552								
Dev. Corporate	$				358	1,979	772							
Emerging Markets	$					1,132	6,602							
Emg. Government/Sovereign	$						2,050							
Emg. Corporate	$					1,132	4,552							
Short Term	**$**													**994**
Repurchase Agreements	$													994
Total	**$**	**8,817**	**51,829**	**193,952**	**14,777**	**52,898**	**42,452**	**4,780**						**6,000**

University of Arkansas
Years to Maturity

Total Plan **June 30, 2005**

Investment Type	Fair Value	Investment Maturities (in years) Less than 1	1 – 5	6 – 10	More than 10
Fixed Income	**$ 374,511,480**	**$ 24,771,206**	**$ 163,224,976**	**$ 29,453,368**	**$ 157,061,929**
U.S. Government	$ 100,382,420	$ 9,986,762	$ 58,050,771	$ 13,779,520	$ 18,565,367
U.S. Government Treasuries, Notes, Bonds	$ 55,102,962	$ 3,863,561	$ 39,863,143	$ 1,093,794	$ 10,282,464
U.S. Government TIPS	$ 29,050,494	$	$ 9,415,405	$ 11,562,984	$ 8,072,105
U.S. Government Agency	$ 15,893,583	$ 6,123,202	$ 8,772,222	$ 787,361	$ 210,798
Other U.S. Government	$ 335,381	$	$	$ 335,381	$
Mortgage Backed	$ 59,054,803	$ 944,392	$ 2,162,241	$ 125,794	$ 55,822,377
Government Pass-Through	$ 49,709,661	$ 542,593	$ 296,353	$	$ 48,870,715
Corporate Pass-Through	$ 9,345,143	$ 401,799	$ 1,865,888	$ 125,794	$ 6,951,663
Collateralized Mortgage Obligations	$ 37,237,510	$	$ 5,189,952	$ 2,002,418	$ 30,045,140
Government CMO's	$ 9,574,229	$	$ 1,988,425	$ 2,002,418	$ 5,583,387
Corporate CMO's	$ 27,663,281	$	$ 3,201,527	$	$ 24,461,754
Corporate	$ 161,443,641	$ 13,024,915	$ 91,169,165	$ 10,850,815	$ 46,398,745
Corporate Bonds	$ 100,727,884	$ 11,897,117	$ 47,056,130	$ 9,833,152	$ 31,941,485
Corporate Asset Backed	$ 56,165,293	$ 1,023,964	$ 40,929,593	$ 976,277	$ 13,235,459
Private Placements	$ 4,550,463	$ 103,835	$ 3,183,442	$ 41,386	$ 1,221,801
Municipals	$ 3,528,024	$	$ 2,266,226	$ 1,261,798	
Yankee Bonds	$ 530,244	$	$	$ 183,442	$ 346,802
Non-U.S. Fixed Income	$ 12,334,838	$ 815,137	$ 4,386,622	$ 1,249,582	$ 5,883,497
Developed Markets	$ 4,600,285	$ 815,137	$ 2,222,518	$ 455,593	$ 1,107,037
Dev. Government/Sovereign	$ 1,491,004	$	$ 833,749	$ 205,271	$ 451,984
Dev. Corporate	$ 3,109,281	$ 815,137	$ 1,388,768	$ 250,323	$ 655,053
Emerging Markets	$ 7,734,554	$	$ 2,164,10	$ 793,989	$ 4,776,461
Emg. Government/Sovereign	$ 2,050,366	$	$	$	$ 2,050,366
Emg. Corporate	$ 5,684,187	$	$ 2,164,104	$ 793,989	$ 2,726,094
Short Term	**$ 994,080**	**$ 994,080**	**$**	**$**	**$**
Repurchase Agreements	$ 994,080	$ 994,080	$	$	$
Total	**$ 375,505,559**	**$ 25,765,286**	**$ 163,224,976**	**$ 29,453,368**	**$ 157,061,929**

University of Arkansas

Interest Rate Sensitivity – Effective Duration

Total Plan			**June 30, 2005**
Investment Type	**$**	**Fair Value**	**Effective Duration**
Fixed Income	**$**	**374,511,480**	**3.31**
U.S. Government	$	100,382,420	4.79
U.S. Government Treasuries, Notes, Bonds	$	55,102,962	3.67
U.S. Government TIPS	$	29,050,494	8.73
U.S. Government Agency	$	15,893,583	1.48
Other U.S. Government	$	335,381	0.00
Mortgage Backed	$	59,054,803	2.82
Government Pass-Through	$	49,709,661	2.60
Corporate Pass-Through	$	9,345,143	3.98
Collateralized Mortgage Obligations	$	37,237,510	2.33
Government CMO's	$	9,574,229	2.01
Corporate CMO's	$	27,663,281	2.43
Corporate	$	161,443,641	2.59
Corporate Bonds	$	100,727,884	3.05
Corporate Asset Backed	$	56,165,293	1.74
Private Placements	$	4,550,463	3.28
Municipals	$	3,528,024	1.68
Yankee Bonds	$	530,244	9.27
Non-U.S. Fixed Income	$	12,334,838	5.75
Developed Markets	$	4,600,285	5.57
Dev. Government/Sovereign	$	1,491,004	6.98
Dev. Corporate	$	3,109,281	4.89
Emerging Markets	$	7,734,554	5.86
Emg. Government/Sovereign	$	2,050,366	12.38
Emg. Corporate	$	5,684,187	3.51
Short Term	**$**	**994,080**	**0.00**
Repurchase Agreements	$	994,080	0.00
Total	**$**	**375,505,559**	**3.31**

The activities during fiscal year 2005 affecting the University's investments in the external pool are summarized below:

	Total Return Pool	Intermediate Pool	Intermediate Pool and SuperCash – CES	Total
June 30, 2004 Balances	$ 54,636,849	$ 59,988,182	$ 6,290,342	$ 120,915,373
Income	1,372,900	2,217,279	394,433	3,984,612
Realized Gains/(Losses)	3,614,729	(6,310)	(617)	3,607,802
Unrealized Gains/(Losses)	602,623	1,167,727		1,770,350
Expenses Paid from Pool	(265,592)	(146,511)	(16,563)	(428,666)
Transfers In/(Out) of Pool	(2,200,000)	(10,000,000)	1,000,000	(11,200,000)
June 30, 2005 Balances	$ 57,761,509	$ 53,220,367	$ 7,667,595	$ 118,649,471

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

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:

	2005	2004
Fair Value @ June 30	$ 57,118,301	$ 54,015,477
Number of Units in Pool @ June 30	1,666,034	1,575,534
Fair Value per Unit @ June 30	$ 34.284	$ 34.284
Gains/(Losses) for the Year	$ 4,228,273	$ 6,531,014
Net Income Earned for the Year	$ 1,124,564	$ 1,062,833
Gain/(Loss) per Unit	$ 2.54	$ 4.15
Income Earned per Unit	0.67	0.67
Total per Unit	$ 3.21	$ 4.82

Donor-restricted Endowments

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

	2005	2004
Total Endowment at June 30	$ 58,065,682	$ 54,942,404
Less: Quasi-endowment	(17,545,502)	(16,408,085)
Non-expendable portion of True Endowment	(17,262,995)	(17,357,087)
Available for Expenditure	$ 23,257,185	$ 21,177,232

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 5.054% of the balance of the endowment averaged over the previous twelve quarters.

(5). Notes Receivable

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

The resources for loans to students include federal funds, funds from other external sources, and University funds. New student loans totaling $2,717,837 and $3,663,952 were issued under the Student Loan Programs for the years ended June 30, 2005, and June 30, 2004, respectively. Of total campus-based loans processed, the majority were from Perkins funds provided by the federal government. The federal student loan default rate based on the U.S. Department of Education Cohort default rate was 12.59% for the year ended June 30, 2005, and 13.56% for the year ended June 30, 2004. Notes receivable totaling $546,659 and $44,036 were written off during the fiscal year ended June 30, 2005, and June 30, 2004, respectively.

The following summarizes the balance of notes receivable at June 30, 2005:

Type of Note	Gross Balance	Allowance	Net Balance	Current Portion
Student loans	$ 14,377,958	$ 760,224	$ 13,617,734	$ 3,594,489
Loans to Greek organizations	2,069,883	465,000	1,604,883	90,582
Construction notes	1,035,000		1,035,000	330,000
Totals	$ 17,482,841	$ 1,225,224	$ 16,257,617	$ 4,015,071

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

(6). Pledges Receivable

The composition of pledges receivable at June 30, 2005, is summarized as follows:

Type of Pledge	Balance	Current Portion
Scholarship	$ 100,000	$ 100,000
Totals	$ 100,000	$ 100,000

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

(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, 2005. 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, 2005	June 30, 2004
Payable to Outside Vendors	$ 10,506,498	$ 12,690,411
Retainage on Construction Contracts	2,760,322	3,712,874
Property Taxes Payable	26,701	37,606
Total	$ 13,293,521	$ 16,440,891

Note: This table includes noncurrent liabilities of $4,525 for June 30, 2004.

Accrued payroll liabilities are summarized as follows:

	June 30, 2005	June 30, 2004
Net Salaries and Wages Payable	$ 1,154,127	$ 1,139,157
Employee Withholdings Payable	6,247,521	3,890,753
Employer Payroll Taxes and Benefits Matching Payable	3,821,650	2,399,460
Total	$ 11,223,298	$ 7,429,370

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

Debt service payments on existing bonds amounted to $19,454,605 for the fiscal year ended June 30, 2005. The amount of $961,792 was expended for principal and interest on notes payable, installment contracts and capital leases for the same period.

On October 1, 2004, the University issued $23,500,000 in Various Facility Revenue Bonds, Series 2004A, and $7,050,000 in Various Facility Revenue Refunding Bonds, Series 2004B. Series 2004A bonds were issued to provide funds to finance several construction projects on the University campus including the Law Library addition, the Central Chilled Water rebuild, Harmon Avenue Parking Facility, the Lewis Epley Band Building addition and various other projects. Series 2004B bonds were issued with an

average coupon rate of 3.677% in order to advance refund $6,550,000 of Series 1997 Various Facility Revenue Bonds having an average interest rate of 5.198%. Proceeds in the amount of $6,992,044, plus an additional $169,605, were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments of the refunded 1997 Series bonds. Regularly scheduled interest and principal payments on the 1997 Series issue were made on November 1, 2004 and will continue through November 1, 2007, from the escrow fund. All outstanding refunded Series 1997 bonds will be redeemed on November 1, 2007, at a price equal to 100% of the principal amount plus interest accrued thereon. As a result, the 1997 bonds are considered defeased. The liability for those bonds has been removed from the Statement of Net Assets. The University advance refunded the 1997 Series bonds to reduce its total debt service payments over the next 14 years by $557,636 and to obtain economic gain (difference between the present value of the debt service payments on the old and new debt) of $299,199. The escrow balance at June 30, 2005, was $6,928,120.

On March 1, 2005, the University issued $21,020,000 in Various Facility Revenue Bonds, Series 2005A, and $60,000,000 in Various Facility Revenue Refunding Bonds, Series 2005B. Series 2005A bonds were issued to provide funds to finance the construction of the Willard Walker Graduate School of Business building, the Center for Academic Excellence building, and the Chemistry building. Series 2005B bonds were issued with an average coupon rate of 4.408% in order to advance refund $44,195,000 of Series 2002 Various Facility Revenue Bonds and $12,135,000 of Series 2001 Various Facility Revenue Bonds. The refunded bonds have an average interest rate of 5.472%. Proceeds in the amount of $62,255,099, plus an additional $779,632, were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments of the refunded 2002 and 2001 Series bonds. Regularly scheduled interest and principal payments on the 2002 Series and 2001 Series issues were made on June 1, 2005 and will continue through December 1, 2012 for Series 2002 and through December 1, 2011 for Series 2001, from the escrow fund. All outstanding refunded Series 2002 bonds will be redeemed on December 1, 2012, at a price equal to 100% of the principal amount plus interest accrued thereon. All outstanding refunded Series 2001 bonds will be redeemed on December 1, 2011, at a price equal to 100% of the principal amount plus interest accrued thereon. As a result, those portions of the 2002 Series and 2001 Series bonds are considered defeased. The liability for those bonds has been removed from the Statement of Net Assets. The University advance refunded portions of the 2002 and 2001 Series bonds to reduce its total debt service payments over the next 18 years by $4,116,788 and to obtain economic gain (difference between the present value of the debt service payments on the old and new debt) of $2,263,717. The escrow balance at June 30, 2005, was $62,103,318.

Remaining balances of defeased bond issues as of June 30, 2005:

Title	Principal Balance at June 30, 2005
Various Facilities Revenue Bonds, Series 2002	$ 44,195,000
Various Facilities Revenue Bonds, Series 2001	12,135,000
Various Facilities Revenue Bonds, Series 1997	6,550,000
Total	$ 62,880,000

On May 24, 2004, the University entered into a capital lease purchase agreement in the amount of $258,832 to finance the purchase of several pieces of computer server equipment. The lease purchase bears and interest rate of 2.73%, with annual payments commencing July, 2004, and continuing until July, 2006.

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. Management of the University elected to accelerate the repayment of the loan agreement by paying $125,000 of the principal during the fiscal year ended June 30, 2004, and the remaining $125,000 during the fiscal year ended June 30, 2005.

A summary of long term debt at June 30, 2005, is as follows:

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized & Issued	Debt Outstanding at June 30, 2005	Debt Partially Refunded during FYE June 30, 2005	Maturities to June 30, 2005
04/01/1966	04/01/2006	3.00%	$ 4,000,000	$ 153,000		$ 3,847,000
11/01/1996	11/01/2009	3.85% to 5.25%	12,105,000	2,510,000		9,595,000
11/01/1997	09/15/2011	4.10% to 5.00%	19,170,000	10,915,000		8,255,000
10/15/1997	11/01/2022	3.95% to 5.25%	21,445,000	9,885,000	$ 6,550,000	5,010,000
05/01/1999	09/15/2020	3.35% to 4.85%	30,000,000	25,105,000		4,895,000
11/01/2001	12/01/2021	2.90% to 5.50%	42,985,000	26,335,000	12,135,000	4,515,000
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	62,330,000	44,195,000	4,455,000
10/01/2004	11/01/2024	2.00% to 4.75%	30,550,000	30,550,000		
03/01/2005	11/01/2025	3.00% to 4.50%	81,020,000	81,020,000		
11/30/1991	05/01/2022	5.50%	3,000,000	2,248,913		751,087
11/29/1995	12/01/2019	4.00% to 5.00%	2,071,140	1,604,883		466,257
09/13/1995	12/01/2010	5.75% to 7.05%	535,000	280,000		255,000
12/20/1999	12/20/2023	Various	827,888	827,888		
07/31/2002	07/01/2012	2.05%	900,000	648,903		251,097
06/25/2003	06/30/2008	Various	250,000			250,000
Various	Various	Various	1,539,647	1,005,067		534,580
Deferral on debt defeasance			(4,170,000)	(4,093,240)		(76,760)
Totals			$ 368,763,675	$ 262,880,414	$ 62,880,000	$ 43,003,261

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

Equipment Leases

The University has acquired certain equipment under various lease-purchase contracts. The cost of equipment held under capital leases totaled $539,647 at June 30, 2005.

Type of Equipment	Asset Balance June 30, 2005
Engineering Server Equipment	$ 258,832
Groundskeeping Equipment	260,599
Baler	20,216
Total	$ 539,647
Total Minimum Lease Payments	$ 282,096
Less: Amount Representing Interest	12,336
Total Present Value of Net Minimum Lease Payments	$ 269,760

Changes in long-term liabilities for the year ended June 30, 2005, are as follows:

	Fiscal Year Ended June 30, 2005				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds	$ 220,183,000	$ 111,570,000	$ 71,395,000	$ 260,358,000	$ 8,783,000
Deferral on debt defeasance		(4,170,000)	(76,760)	(4,093,240)	(297,155)
Notes	5,934,374		323,787	5,610,587	254,728
Leases	152,109	258,832	141,182	269,759	139,682
Installment contract	923,593		188,285	735,308	195,431
Compensated absences	12,681,540	803,398	36,632	13,448,306	710,528
Totals	$ 239,874,616	$ 108,462,230	$ 72,008,126	$ 276,328,720	$ 9,786,214

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

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.

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

	PRINCIPAL	INTEREST*	TOTAL
2006	$ 9,075,686	$ 12,039,572	$ 21,115,258
2007	10,214,375	11,628,922	21,843,297
2008	10,512,091	11,182,787	21,694,878
2009	10,998,721	10,699,325	21,698,046
2010	20,043,241	9,967,184	30,010,425
2011-2015	51,372,146	41,713,897	93,086,043
2016-2020	60,540,691	29,238,457	89,779,148
2021-2025	59,618,463	13,034,115	72,652,578
2026-2030	18,250,000	5,271,665	23,521,665
2031-2034	12,255,000	939,375	13,194,375
Totals	$ 262,880,414	$ 145,715,299	$ 408,595,713

*Interest payments made on one Note Payable are calculated using floating interest rates. The interest on the 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, 2025. The estimated future interest for this Note was calculated using the rate in effect at June 30, 2005, 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, 2005, and June 30, 2004, that are pledged:

BOND SERIES	REVENUE SOURCE	2005	2004
Series 1966 Dormitory	Residential Life	$ 14,812,093	$ 12,317,704
Series 1996 Refunding	Student Tuition and Fees	$ 101,790,256	$ 96,702,524
Series 1997 Various Facilities	Sales and Services	8,602,627	8,106,954
Series 2001 Various Facilities	Residential Life	14,812,093	12,317,704
Series 2002 Various Facilities	Student Apartments	1,420,088	1,060,812
Series 2004 Various Facilities	Arkansas Union	447,996	641,411
Series 2005 Various Facilities	Bookstore	12,087,607	11,436,780
	Student Health Services	1,090,624	1,234,196
	Transit and Parking	3,323,318	3,287,837
	Other Auxiliaries	1,239,225	3,345,675
	Total	$ 144,813,834	$ 138,133,893
Series 1997 Athletic Refunding	Men's Athletic Revenue	$ 41,486,848	$ 37,328,650
Series 1999 Athletic Facilities	(less game guarantees)	(2,384,578)	(2,270,584)
Series 2001 Athletic Subordinate	Total	$ 39,102,270	$ 35,058,066

(10). Commitments

The University was contractually obligated for the following at June 30, 2005:

A. Construction and Architect Contracts

Project Name	Completion Date	Beginning Year Contract Balance Plus Amendments	Amount Paid	Year-End Contract Balance
AFLS Building – HVAC Upgrade	December, 2005	$ 1,410,620	$ 293,330	$ 1,117,290
Building Metering & Controls	March, 2006	6,389,441	3,693,600	2,695,841
Center for Acad. Excellence	June, 2007	3,067,866	1,597,416	1,470,450
Central Chilled Water Plant	December, 2005	7,298,961	6,165,634	1,133,327
Chemistry Building Renovation	December, 2006	854,377	388,650	465,727
East Tunnel Extension	December, 2005	1,279,650	1,188,728	90,922
Garvan Gardens – Child. Garden	December, 2005	810,000	243,163	566,837
Harmon Road Waste Site	December, 2005	857,335	128,740	728,595
Innovation Center	December, 2005	597,254	592,087	5,167
Leflar Law Addition and Renov.	June, 2006	9,768,114	701,353	9,066,761
Lewis Epley Band Building	August, 2006	123,030	75,157	47,873
Library Storage Facility	August, 2005	2,429,106	1,923,214	505,892
Northwest Quadrant	October, 2005	2,866,112	2,489,786	376,326
Parking Facility – Harmon Ave.	November, 2005	16,352,900	14,152,129	2,200,771
Physics MBE Lab	December, 2005	768,824	705,973	62,851
Strength Training Facility	August, 2005	2,574,381	2,557,386	16,995
Summer Parking Improvements	September, 2005	547,058	205,052	342,006
Transportation Study	December, 2005	518,294	401,649	116,645
U of A Poultry Health Lab	December, 2005	343,526	308,458	35,068
Vol Walker Interior	December, 2005	3,046,595	1,696,679	1,349,916
Willard J. Walker Hall	August, 2007	2,044,063	989,194	1,054,869
Other	Various	1,438,325	901,692	536,633
Totals		$ 65,385,832	$ 41,399,070	$ 23,986,762

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, 2005.

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, 2005, were $3,798,188. Minimum annual rental payments for

leases having an initial term in excess of one year totaled $1,557,139. Below are the scheduled payments for the five succeeding fiscal years and thereafter.

Year ended June 30	Amount
2006	$ 745,683
2007	231,724
2008	72,732
2009	31,200
2010	31,200
Thereafter	444,600
Total	$ 1,557,139

(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, 2005, were $12,510,668 and $12,631,883 respectively. The University's and participants' Fidelity Investments contributions for the year ending June 30, 2005, were $2,888,933 and $2,878,070, respectively. 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 $2,601,072, respectively.

APERS is a cost-sharing multiple employer defined benefit plan administered by the State of Arkansas. The University contributes 11.09% of applicable wages to the plan. The University's and participants' contributions for the year ending June 30, 2005, were $156,070 and $0, respectively. The University's and participants' contribution for the year ending June 30, 2004, were $133,531 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, 2005, were $80,079 and $14,154, respectively. 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 to all other pension plans for the year ended June 30, 2005, were $524,347 and $458,263, 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.

B. Self-Insurance Plans

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

For the year ending June 30, 2005, a total of 3,721 active employees, former employees, and retirees were participants in the health plan. For the year ending June 30, 2004, the total of active employees, former employees, and retirees participating in the health plan was 4,210. The University pays 66.863% for the Point of Service Plan and 76.260% for the Classic Plan for Fayetteville. For the Division of Agriculture, Arkansas

Archeological Survey and Criminal Justice Institute the University pays 73.892% 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 2005:

	Beginning Balance	Additions	Retirements	Ending Balance
Land (not depreciated)	$ 15,281,078	$ 445,392		$ 15,726,470
Buildings	554,522,948	65,753,879	$ 645,742	619,631,085
Equipment	150,396,937	32,071,465	6,380,153	176,088,249
Improvements	14,214,960	775,456		14,990,416
Infrastructure	25,563,285	5,010,912		30,574,197
Other Assets	1,078,118	177,080		1,255,198
Construction in Progress	82,214,521	53,011,716	65,627,135	69,599,102
Total	843,271,847	157,245,900	72,653,030	927,864,717
Less accumulated depreciation				
Buildings	221,037,323	18,724,118	580,297	239,181,144
Equipment	108,177,843	18,667,930	6,000,270	120,845,503
Improvements	6,982,481	556,177		7,538,658
Infrastructure	18,711,514	927,579		19,639,093
Total accumulated depreciation	354,909,161	38,875,804	6,580,567	387,204,398
Capital Assets, Net	$ 488,362,686	$ 118,370,096	$ 66,072,463	$ 540,660,319

Note: Land of $176,625 and buildings of $3,979,780 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 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

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	2005	2004
Books and Periodicals	1,727,893	1,714,085
Microforms	5,472,437	4,574,538
Maps and Charts	141,460	127,477
Audio/Visual	27,908	25,291
Computer Files	6,114	3,533
U.S. Documents (pieces)	99,926	114,028
Total Estimate	7,475,738	6,558,952

The University estimates holdings of $7.6 million in timber resources as of June 30, 2005. The estimated value of these holdings was $7.8 million as of June 30, 2004. These resources, which total 12,902 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, 2005:

	Salaries, Wages and Benefits	Scholarships and Fellowships	Supplies and Other Services	Depreciation	Total
Instruction	$ 81,790,926		$ 14,296,771		$ 96,087,697
Research	63,294,514		24,219,003		87,513,517
Public Service	43,716,754		13,960,970		57,677,724
Academic Support	17,994,503		10,914,554		28,909,057
Student Services	10,656,165		5,635,842		16,292,007
Institutional Support	19,924,013		5,315,044		25,239,057
Scholarships and Fellowships	4,834,724	$ 19,357,247	178,504		24,370,475
Operation and Maintenance of Plant	13,396,995		16,106,684		29,503,679
Auxiliary Enterprises	24,586,497		38,880,887		63,467,384
Depreciation				$ 38,875,804	38,875,804
Totals	$ 280,195,091	$ 19,357,247	$ 129,508,259	$ 38,875,804	$ 467,936,401

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

(15). Walton Arts Center

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

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

The combined audited financial statements of the Walton Arts Center Council, Inc., and the Walton Arts Center Foundation, Inc., as of and for the year ended June 30, 2005, which have been audited by an independent certified public accountant, are presented below in summary form.

Condensed Statement of Financial Position	
Assets	
Cash and Cash Equivalents	$ 316,398
Investments	12,100,636
Other Assets	811,570
Fixed Assets, Net of Depreciation	6,321,088
Total Assets	**$ 19,549,692**
Liabilities and Net Assets	
Liabilities	$ 1,389,129
Net Assets	18,160,563
Total Liabilities and Net Assets	**$ 19,549,692**

Condensed Statement of Activities		
Ticket Sales	$	2,649,513
Contributions and Sponsorships		1,789,547
Other Income		3,115,502
Total Income and Other Additions	**$**	**7,554,562**
Total Expenditures and Other Deductions	**$**	**6,436,620**
Increase/(Decrease) in Net Assets	**$**	**1,117,942**

(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, 2005, 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	$	5,727,423
Investments		480,755,420
Contributions Receivable, less Allowance		73,538,807
Other Receivables		2,655,411
Fixed Assets, Net of Depreciation		2,201,982
Other Assets		459,337
Total Assets	**$**	**565,338,380**
Liabilities and Net Assets		
Liabilities	$	19,226,950
Net Assets		
Unrestricted		59,962,667
Restricted		486,148,763
Net Assets		546,111,430
Total Liabilities and Net Assets	**$**	**565,338,380**

Condensed Statement of Activities		
Contributions	$	131,454,068
Other Revenues, Additions and Gains/(Losses)		39,770,352
Total Income and Other Additions	**$**	**171,224,420**
Total Expenditures and Other Deductions	**$**	**70,356,980**
Increase/(Decrease) in Net Assets	**$**	**100,867,440**

(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, 2005.

(18). Subsequent Events

On June 3, 2005, the Board of Trustees of the University of Arkansas adopted a resolution granting its approval to issue bonds to refinance the Series 1997 Athletic Facilities Revenue Refunding Bonds. On July 13, 2005, the University issued University of Arkansas Athletic Facilities Revenue Refunding Bonds (Fayetteville Campus), Series 2005 dated July 1, 2005, in the amount of $9,645,000.

(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.

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BOARD OF TRUSTEES

Charles E. Scharlau, III, Chairman
Fayetteville, AR
Term Ends 03/01/07

Stanley Reed, Vice-Chairman
Marianna, AR
Term Ends 03/01/08

Jane Rogers, Secretary
Little Rock, AR
Term Ends 03/01/06

Carl L. Johnson, Assistant Secretary
Little Rock, AR
Term Ends 03/01/12

James E. Lindsey
Fayetteville, AR
Term Ends 03/01/09

Mike Akin
Monticello, AR
Term Ends 03/01/13

Tim E. Hunt
Paragould, AR
Term Ends 03/01/10

Craig Campbell
Little Rock, AR
Term Ends 03/01/14

John Ed Anthony
Hot Springs, AR
Term Ends 03/01/11

Jim von Gremp
Rogers, AR
Term Ends 03/01/15

UNIVERSITY OF ARKANSAS FINANCIAL OFFICERS

Donald O. Pederson
Vice Chancellor for
Finance & Administration

Larrie Stolfi
Interim Associate Vice Chancellor for
Finance & Administration

Larrie Stolfi
Controller

Stephen Turner
Director of Research Accounting

Michael White
Associate Controller

Jo Ann Pepper
Director of Student Accounts

Eric Robinson
Budget Officer

Peter Campbell
Information Technology Manager

Allen Lacey
Investment Manager