



Financial Statements

June 30, 2004

UNIVERSITY OF ARKANSAS AT LITTLE ROCK

UNIVERSITY OF ARKANSAS AT LITTLE ROCK
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Charles L. Robinson, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

University of Arkansas at Little Rock
Legislative Joint Auditing Committee

We have audited the accompanying basic financial statements of the University of Arkansas at Little Rock (Institution), an Institution of Higher Education of the State of Arkansas, as of and for the year ended June 30, 2004 as listed in the table of contents. These financial statements are the responsibility of the Institution's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University of Arkansas at Little Rock as of June 30, 2004 and the respective changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in cursive script, likely belonging to Charles L. Robinson.

Charles L. Robinson, CPA, CFE
Legislative Auditor

Little Rock, Arkansas
November 23, 2004

UNIVERSITY OF ARKANSAS AT LITTLE ROCK
MANAGEMENT'S DISCUSSION AND ANALYSIS
For
FISCAL YEAR 2004

Overview of the Financial Statements and Financial Analysis:

The following discussion and analysis provides an overview of the financial position and activities of the University of Arkansas at Little Rock (UALR; the "University") for the year ended June 30, 2004, with selected financial information for the year ended June 30, 2002. UALR is part of the University of Arkansas System and is subject to the policies and governance of the System's Board of Trustees including presenting its financial statements as a business type entity. This discussion and analysis of the University's financial statements has been prepared by management and should be read in conjunction with the accompanying financial statement and associated notes.

The University of Arkansas at Little Rock is a dynamic comprehensive metropolitan university with a student population of 11,700 full and part-time students. As an active and integral part of the community, UALR is able to put its students in close contact with the state's most influential leaders in government, business, industry, medicine, and information technology. In fact, offering the state's only comprehensive information science and systems engineering program, UALR is a leader in the field of information technology.

UALR offers both undergraduate and graduate certificate programs, a first professional degree program in law, two EdD programs, a PhD in applied science, and a wide range of associate, bachelor's, master's, and specialist degree programs. Because of its location in the state's capital city and largest metropolitan area, UALR assumes a special role in relation to the needs of urban areas in modern society in its instruction, research, and service programs.

UALR shares its resources in numerous public service activities on and off campus. These include non-credit offerings, which range from special programs for pre-collegiate students, particularly the gifted and talented, to personal enrichment and professional advancement courses for adults. Through its research and public service units and the Graduate Institute of Technology, UALR performs a statewide service role in economic and community development through assistance to business and industry, seminars for managers and workers, and support for entrepreneurial ventures. The institution provides similar research, advice, and assistance to governmental agencies, educational institutions, and other community organizations and groups.

The University provides leadership in cultural enrichment and makes its own cultural resources available to the community. For example, UALR's Artspre, a performing arts series, and UALR's Community School of the Arts benefit students and community patrons alike. UALR also cooperates with state agencies in advancing international education and economic development, and hosts the Arkansas Public Administration Consortium, which coordinates graduate internships in state government agencies and provides in-service training programs for government employees.

One of UALR's great strengths is the quality and diversity of the faculty and staff. The University supports the faculty and staff through a variety of institutional and professional development services. UALR is classified as a research-intensive university. While teaching is the primary focus for most faculty members at UALR, research is of growing importance. Much of the research is applied research related to the institution's professionally oriented graduate programs and extensive public service mission

Financial Highlights

The University's financial position remained strong at June 30, 2004, with assets of \$164.0 million and liabilities of \$34.0 million. This fiscal year's increase in assets of \$10.2 million is primarily attributable to an increase in collectable accounts receivable and a \$6.9 million increase in capital assets.

The University pools its endowments with other University of Arkansas System campuses and the University of Arkansas Foundation, Inc. to maximize total return while minimizing risk. Strong returns over sustained periods of time and the University's ability to limit losses in turbulent market periods is evidence of the success of this long-term strategy. The University makes distributions on the basis of a spending policy that minimizes market fluctuations; therefore, any change in the fair market value of the endowment portfolio will not have a significant immediate impact on the portion of investment income available to support current year operating expenses.

The University experienced an increase in the number of students and the credit hours pursued by these students. Several capital construction projects were in progress during the year, with a new business administration building nearing completion near the end of the fiscal year.

Using the Financial Statements

The University's financial report includes three statements: the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows. These financial Statements are prepared in accordance with Government Accounting Standards Board (GASB) principles. The University adopted GASB Statement 35, Basic Financial Statements - Management's Discussion and Analysis - for Public Colleges and Universities, as amended by GASB Statements No. 37 and 38 for fiscal year ended June 30, 2002 and later. These statements established new standards for external financial reporting for public institutions of higher education and require that financial statements be presented on a consolidated basis for a university-wide focus. Previously, the financial statements focused on the accountability of individual fund groups rather than on the university as a whole.

The emphasis of analysis and discussions of these statements will be on current year data with comparison made to applicable data for the prior year. There are three financial statements presented: the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets; and, the Statement of Cash Flows. The information in the schedules remains unaudited as of the date of this document.

Statement of Net Assets

Net assets represent the residual interest in the University's assets after liabilities are deducted. The Statement of Net Assets, a point of time financial statement, is one indicator of the current financial condition of UALR as of the end of the fiscal year. The Statement of Net Assets presents end-of-year data concerning Assets (current and non-current), Liabilities (current and non-current), and Net Assets (Assets minus Liabilities). Assets and liabilities are generally measured using current values. However, a material exception is capital assets, which are stated at historical cost less an allowance for depreciation. Current assets are cash and other assets that are expected to be realized in cash, sold, or consumed either in one year or the operating cycle, whichever is longer. All assets not meeting this definition are classified as non-current.

From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the institution. They are also able to determine how much the institution owes vendors, investors and lending institutions. Finally, the Statement of Net Assets provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the institution.

Net assets are divided into three major categories. The first category, invested in capital assets, net of debt, provides the institution's equity in property, plant and equipment owned by the institution. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The corpus of non-expendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the institution but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted assets are available to the institution for any lawful purpose of the institution.

Statement of Net Assets

	FY2004 (Thousands)	FY2003 (Thousands)
Assets:		
Current assets	\$ 25,232	\$ 22,364
Capital assets, net	103,784	96,791
Other assets	35,017	34,632
Total Assets	<u>164,033</u>	<u>153,787</u>
Liabilities:		
Current liabilities	11,254	9,360
Non-current liabilities	22,765	26,035
Total Liabilities	<u>34,019</u>	<u>35,395</u>
Net Assets:		
Invested in capital assets, net of debt	80,380	70,773
Restricted - non-expendable	7,421	6,997
Restricted - expendable	14,916	10,179
Unrestricted	27,297	30,443
Total Net Assets	<u>\$ 130,014</u>	<u>\$ 118,392</u>

The total net assets of the institution increased by \$11.6 million. Current year depreciation is \$7.3 million. The total liabilities for the year decreased \$1.4 million in aggregate. Long term debt declined \$3.4 million in part from the retirement of three bond issues.

Statement of Revenues, Expenses and Changes in Net Assets

The statement of revenues, expense, and changes in net assets presents the University's results of operations and is the basis of changes in total net assets as presented on the Statement of Net Assets. The purpose of the statement is to present the revenues received by the institution, both operating and non-operating, the expenses paid by the institution, operating and non-operating, and any other revenues, expenses, gains and losses received or spent by the institution.

Operating revenues are received for providing goods and services to the various customers and constituencies of the institution. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institution. Non-operating revenues are revenues received for which goods and services are not provided. For example, state appropriations are non-operating because they are provided by the Legislature to the institution without the Legislature directly receiving commensurate goods and services for those revenues.

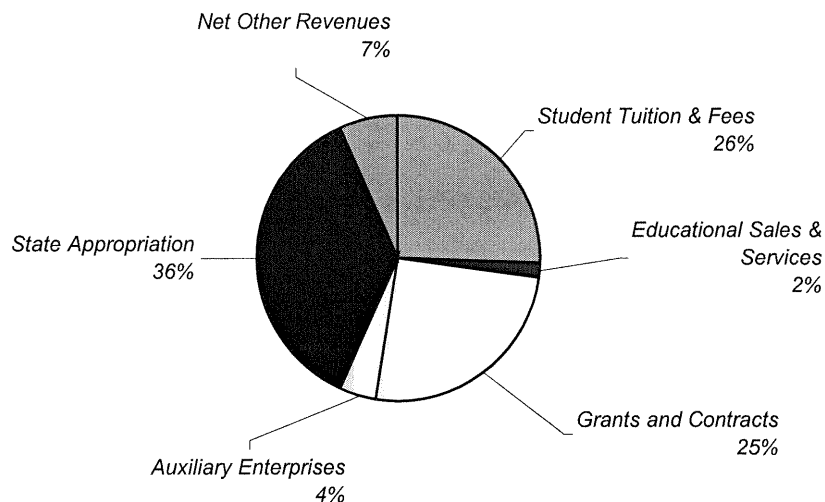
Statement of Revenues, Expenses and Changes in Net Assets

	FY2004 (Thousands)	FY2003 (Thousands)
Operating revenues	\$ 67,292	\$ 59,724
Operating expenses	(128,230)	(121,665)
Operating loss	(60,938)	(61,941)
Non-operating revenues and expenses	67,790	66,641
Income (loss) before other revenues, Expenses, gains or losses	6,852	4,700
Other revenues, expenses, gains or losses	4,771	2,812
Increase in net assets	11,623	7,512
Net assets at beginning of year, as originally reported	118,391	110,917
Cumulative effect of changes in accounting principle	-	(38)
Net assets at beginning of year - restated	118,391	110,879
Net assets at end of year	<u>\$ 130,014</u>	<u>\$ 118,391</u>

One of UALR's greatest strengths is the diverse stream of revenues that supplement its student tuition and fees, including voluntary private support from individuals, foundations and corporation, along with government and other sponsored programs, state appropriations and investment income. The University continues to make diversification, along with cost

containment, an ongoing effort as the University continues to face significant pressure, particularly in areas of total compensation and technology.

Total Revenues



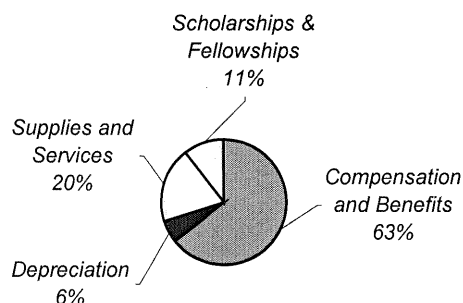
As shown in the following graph, tuition and state appropriations are the primary sources of funding for the University's academic programs. Student tuition and fees, net of allowances for scholarships and discounts were \$36.3 million in FY2004. State appropriations, net of budget reductions were \$51.6 million.

While tuition, state appropriations and grants and contracts fund the largest percentage of University costs, private support has been and will continue to be, essential to the University's academic distinction. Gift revenues for FY2004 were \$2.0 million.

The University receives revenues for sponsored programs from government and private sources, which normally provide for the recovery of direct and indirect (finance and administrative) costs. Revenues generated by numerous departments for sponsored programs were \$14.2 million for FY2004.

The operating expenses paid from the FY2004 revenue are presented in the graph below. It is interesting to note that 63 per cent of the cost is related to employee compensation. This cost is difficult to change during the respective academic terms, as the cost becomes semi-fixed.

Expenses



The University has in the past and will continue to seek funding aggressively from all possible sources consistent with its mission, to supplement student tuition and manage prudently the financial resources realized from these efforts to fund its operating activities.

Statement of Cash Flows

The final statement presented by the University of Arkansas at Little Rock is the Statement of Cash Flows. This statement provides additional information about the University's financial results, by reporting the major sources and uses of cash. The statement is divided into three parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the institution. The second section reflects cash flows from non-capital financing activities. This section reflects the cash received and spent for non-operating, non-investing, and non-capital financing purposes. The third section reflects the cash and various other assets. There have been no significant changes in credit ratings or debt limitations that may affect future financing for the University.

A summary of the statement of cash flows for the year ended June 30, 2004 is as follows.

Statement of Cash Flows

	FY2004 (Thousands)	FY2003 (Thousands)
Cash received from operations	\$ 62,826	\$ 58,742
Cash expended for operations	(118,807)	(115,396)
Net cash used in operating activities	(55,981)	(56,654)
Net cash provided by non-capital financing activities	67,394	66,536
Net cash used in capital and related financing activities	(13,406)	(9,770)
Net cash provided by investing activities	1,926	2,463
Net increase in cash and cash equivalents	(67)	2,575
Cash and cash equivalents, beginning of year	25,887	23,312
Cash and cash equivalents, end of year	\$ 25,820	\$ 25,887

The University's cash and cash equivalents remained essentially unchanged from the prior year. The University's significant sources of cash provided by non-capital financing activities, as defined by GASB Statement No. 35, include state appropriations and gifts and grants used for non-operating activities. Cash received totaled \$51.6 and \$15.7 million respectively.

Debt Activity

Old Indebtedness: During the year the Series 1965, Series 1986 and Series 1969 bond issues were retired.

New Indebtedness: Subsequent to the end of the Fiscal Year 2004, the University of Arkansas Board of Trustees issued bonds on behalf of UALR. Specific revenues are committed to each of issue.

Tuition and Fees revenues were committed to the retirement of the \$ 41.2 indebtedness related to a combined issue.

The issue is to:

- 1) defease the 1995, 1996 and 1997 bond issues totaling \$16.9 million, and
- 2) issue \$24.3 million of new debt for capital improvement. The proceeds will be used for the purchase of additional land, renovations to academic buildings and capital construction.

The second bond issue, completed in October 2004, will provide additional student housing. Housing revenues are committed to repayment of the \$ 17.4 million of indebtedness. The residence facility will have single occupancy two and four bedroom apartments for approximately 326 students. A Commons area will provide for socialization and other activities.

Economic Outlook

The University is not aware of any currently known facts, decisions, or conditions that are expected to have a significant effect on the financial position or results of operations during this fiscal year beyond those unknown variations having a global effect on virtually all types of business operations.

The University's overall financial position is strong. Even with a relatively flat funded year, the University was able to generate a modest increase in Net Assets. The University anticipates the current fiscal year will be similar to last fiscal year and will maintain a close watch over resources to maintain the University's ability to react to unknown internal and external issues.



Lucian Shockey
Vice Chancellor
for Finance and Administration

November 23, 2004
Date

UNIVERSITY OF ARKANSAS AT LITTLE ROCK
COMPARATIVE STATEMENT OF NET ASSETS
JUNE 30, 2004

EXHIBIT A

	June 30,	
	2004	2003
ASSETS		
Current assets:		
Cash and Cash Equivalents	\$ 10,185,491	\$ 11,305,839
Accounts Receivable (net of allowances of \$1,095,095)	14,196,636	9,937,282
Notes Receivable (net of allowances of \$64,029)	67,703	138,897
Inventories	144,770	140,355
Deposits and Funds Held in Trust by Others	74,539	223,026
Prepaid Expenses	562,553	618,619
Total Current Assets	<u>25,231,692</u>	<u>22,364,018</u>
Non-Current assets:		
Cash and Cash Equivalents	15,635,081	14,581,459
Investments	17,713,284	17,226,453
Notes Receivable	280,000	315,000
Deposits and Funds Held in Trust by Others	1,389,293	2,509,560
Capital Assets (net of accumulated depreciation of \$98,032,414)	103,783,739	96,790,794
Total Non-Current Assets	<u>138,801,397</u>	<u>131,423,266</u>
TOTAL ASSETS	<u>164,033,089</u>	<u>153,787,284</u>
LIABILITIES		
Current liabilities:		
Accounts Payable and Other Liabilities	3,181,601	2,197,352
Deferred Revenues and Deposits	4,738,228	4,201,032
Funds Held in Trust for Others	185,312	134,298
Compensated Absences Payable	187,244	143,866
Bonds, Notes and Capital Leases Payable	2,961,690	2,683,938
Total Current Liabilities	<u>11,254,075</u>	<u>9,360,486</u>
Non-Current liabilities:		
Deposits	118,923	93,419
Compensated Absences Payable	2,630,143	2,526,069
Bonds, Notes and Capital Leases Payable	20,015,700	23,415,722
Total Non-Current Liabilities	<u>22,764,766</u>	<u>26,035,210</u>
TOTAL LIABILITIES	<u>34,018,841</u>	<u>35,395,696</u>
NET ASSETS		
Invested in capital assets, net of debt	80,379,790	70,772,725
Restricted:		
Non-Expendable	7,421,342	6,996,519
Expendable	14,916,304	10,179,509
Unrestricted	27,296,812	30,442,835
TOTAL NET ASSETS	<u>\$ 130,014,248</u>	<u>\$ 118,391,588</u>

The accompanying notes are an integral part of these financial statements.

UNIVERSITY OF ARKANSAS AT LITTLE ROCK
COMPARATIVE STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004

EXHIBIT B

	Year ended June 30,	
	2004	2003
Operating Revenues:		
Student tuition & fees (net of scholarship allowances of \$5,791,767)	\$ 36,321,732	\$ 31,738,158
Federal grants and contracts	8,164,993	7,118,934
State and local grants and contracts	10,825,011	9,395,435
Non-governmental grants and contracts	2,716,535	2,647,176
Sales & services of educational departments	2,187,213	1,998,000
Auxiliary enterprises		
Athletics (net of scholarship allowances of \$805,279)	2,705,346	2,513,173
Housing & food service (net of scholarship allowances of \$213,688)	977,130	967,096
Bookstore (net of scholarship allowances of \$84,228)	295,491	255,442
Student union	326,127	296,624
Other auxiliary enterprises	1,599,577	1,771,537
Other operating revenues	1,173,261	1,021,873
Total Operating Revenues	<u>67,292,416</u>	<u>59,723,448</u>
Operating Expenses:		
Compensation and benefits	82,339,506	78,562,483
Supplies and services	25,043,325	23,256,466
Scholarships and fellowships	13,574,518	13,167,040
Depreciation	7,272,689	6,678,797
Total Operating Expenses	<u>128,230,038</u>	<u>121,664,786</u>
Operating Income (Loss)	<u>(60,937,622)</u>	<u>(61,941,338)</u>
Non-Operating Revenues (Expenses):		
State appropriations	51,609,754	50,576,231
Gifts	2,002,207	1,980,305
Investment income (net)	1,144,885	1,061,839
Interest on capital	(1,087,051)	(1,227,684)
Gain (loss) on disposal of capital assets (net of accumulated depreciation of \$4,741,564)	(50,675)	(2,369,952)
Other revenue (Federal, State and non-governmental)	14,209,141	14,241,576
Other expenses	(37,924)	
Net Non-Operating Revenues	<u>67,790,337</u>	<u>64,262,315</u>
Income Before Other Revenues & Expenses	<u>6,852,716</u>	<u>2,320,977</u>
Write-off of assets due to changes in capitalization level	154,345	
Capital appropriations	5,027,145	2,687,219
Adjustments to prior year revenues & expenses	(353,451)	446,854
Other	(58,094)	2,057,354
Increase (Decrease) in Net Assets	<u>11,622,660</u>	<u>7,512,404</u>
Net Assets - Beginning of Year	<u>118,391,588</u>	<u>110,879,184</u>
Net Assets - End of Year	<u>\$ 130,014,248</u>	<u>\$ 118,391,588</u>

The accompanying notes are an integral part of these financial statements.

UNIVERSITY OF ARKANSAS AT LITTLE ROCK
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004

EXHIBIT C

	Year ended June 30,	
	2004	2003
CASH FLOW FROM OPERATING ACTIVITIES		
Student tuition and fees (net of scholarships)	\$ 35,235,489	\$ 31,813,335
Grants and contracts	19,322,026	18,389,603
Auxiliary enterprises revenues:		
Athletics	2,751,286	2,417,235
Housing and food service	1,002,634	965,474
Bookstore	295,491	273,392
Student Union	326,127	311,042
Other auxiliary enterprises	1,100,309	1,641,424
Collection of principal and interest related to student loans	67,509	25,683
Other receipts	2,725,243	2,904,697
Payments to employees	(67,498,709)	(64,629,264)
Payment of employee benefits	(14,578,071)	(13,772,960)
Payment to suppliers	(23,156,412)	(23,821,110)
Scholarships and fellowships	(13,574,518)	(13,172,235)
Net cash used by operating activities	<u>(55,981,596)</u>	<u>(56,653,684)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	51,609,754	50,576,231
Gifts and grants	2,002,207	1,980,305
Direct lending and plus loan receipts	44,411,804	39,402,500
Direct lending and plus loan payments	(44,411,804)	(39,402,500)
Other receipts	13,731,355	13,987,444
Other agency funds - net	51,014	(8,285)
Net cash provided by noncapital financing activities	<u>67,394,330</u>	<u>66,535,695</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt	280,875	164,352
Capital appropriations	154,345	
Capital gifts and grants		610,614
Purchases of capital assets	(9,224,927)	(6,541,629)
Principal paid on capital debt and leases	(3,498,943)	(2,786,600)
Interest and fees paid on capital debt and leases	(1,117,618)	(1,216,081)
Net cash used by capital and related financing activities	<u>(13,406,268)</u>	<u>(9,769,344)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	2,246,907	6,341,221
Interest on investments (net of fees)	732,298	105,681
Purchases of investments	(1,052,397)	(3,984,006)
Net cash provided by investing activities	<u>1,926,808</u>	<u>2,462,896</u>
Net increase (decrease) in cash and cash equivalents	(66,726)	2,575,563
Cash - Beginning of Year	<u>25,887,298</u>	<u>23,311,735</u>
Cash - End of Year	<u>\$ 25,820,572</u>	<u>\$ 25,887,298</u>

The accompanying notes are an integral part of these financial statements.

UNIVERSITY OF ARKANSAS AT LITTLE ROCK
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004

EXHIBIT C

	Year ended June 30,	
	2004	2003
Reconciliation of net operating revenues(expenses) to net cash provided (used) by operating activities		
Operating income (loss)	\$ (60,937,622)	\$ (61,941,338)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities		
Depreciation expense	7,272,690	6,678,797
Change in assets and liabilities:		
Receivables, net	(4,259,354)	(1,811,767)
Inventories	(4,415)	15,170
Prepaid expenses	56,066	(100,835)
Other assets	71,194	25,230
Accounts payable	1,109,692	(542,128)
Deferred revenue	530,480	723,863
Compensated absences	147,452	153,869
Other liabilities	32,221	145,455
Net cash used by operating activities	<u>\$ (55,981,596)</u>	<u>\$ (56,653,684)</u>
NONCASH TRANSACTIONS		
Capital gifts	<u>\$ 5,027,145</u>	<u>\$ 2,076,605</u>
Change in fair value of investments	<u>\$ (17,061)</u>	

The accompanying notes are an integral part of these financial statements.

UNIVERSITY OF ARKANSAS AT LITTLE ROCK
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

Note 1: Summary of Significant Accounting Policies

The financial statements of the University of Arkansas at Little Rock (the University) have been prepared in accordance with generally accepted accounting principles contained in College and University Business Administration published by the National Association of College and University Business Officers (NACUBO), as well as Audits of Colleges and Universities published by the American Institute of Certified Public Accountants. The accompanying notes to the financial statements are an integral part of the financial statements.

Financial Statement Presentation

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements and Management Discussion and Analysis for State and Local Governments. This was followed in November 1999 by GASB Statement No. 35, Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities. As a component unit of the State of Arkansas, the University was required to adopt GASB No. 34 and No. 35 effective for the fiscal year ended June 30, 2003. The financial statement presentation provides a comprehensive, entity-wide perspective of the University's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows, and replaces the fund-group perspective previously required.

Basis of Accounting

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

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

Cash and Cash Equivalents

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

Investments

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

Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also includes amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

UNIVERSITY OF ARKANSAS AT LITTLE ROCK
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Encumbrances

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

Capital Assets

Capital assets consisting of land, buildings, improvements, equipment, construction in progress and library holdings are stated at cost or fair market value at date of gift. The Arkansas Department of Finance and Administration changed their capitalization policy effective July 1, 2001, to increase the threshold for equipment from \$500 to \$2,500.

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

Capitalization of Interest

The University capitalizes interest involving qualifying assets. 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.

Deferred Revenue

Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

Compensated Absences Payable

Employees accrue and accumulate annual and sick leave in accordance with policies established by the Board of Trustees. Full-time, non-classified employees accrue annual leave at the rate of fifteen hours per month; classified employees accrue at a variable rate (from eight to fifteen hours per month) depending upon the number of years of employment in state government. Under the University's policy, an employee may carry accrued annual leave forward from one calendar year to another, up to a maximum of 240 hours (30 working days). Employees who terminate their employment are entitled to payment for all accumulated annual leave, up to the maximum allowed. The University accrues the dollar value of leave benefits in accordance with generally accepted accounting principals which require accrual of salary-related payments directly and incrementally associated with compensated absences such as employer's share of social security taxes, as well as applicable salary expenses. These leave benefits are payable upon retirement, termination, or death of employees. This liability has been projected to be \$2,817,387 at June 30, 2004. The current portion of this liability is calculated based on a two-year average of the annual amounts paid to terminated employees for accrued vacation and amounts to \$187,244 at year-end.

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.

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Net Assets

The University's net assets are classified as follows:

Invested in capital assets, net of debt: This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets.

Restricted net assets – non-expendable: This consists of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Restricted net assets – expendable: This includes resources in which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Unrestricted Net Assets: Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions related to the educational and general operations of the University, and may be used at the discretion of the governing board to meet current expenses for any purpose. The resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

Classification of Revenues

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

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

Non-Operating Revenues: Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating revenues by GASB No. 34, such as state appropriations and investment income. Also included in this category are certain Federal, State and nongovernmental income as they relate to scholarships in the amount of \$14,209,141.

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 statements 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.

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Restatement

Certain amounts reported on the Statement of Revenues, Expenses and Changes in Net Assets have been restated from the June 30, 2003 financial statements. Amounts reported as Non-Operating Revenues and Other Changes in Net Assets for the year ended June 30, 2003 have been re-classified for the purpose of presenting comparable information to June 30, 2004 reporting.

Accounting Changes

As a result of the adoption of GASB Statement No. 34, the University was also required to make certain changes in accounting principles, specifically the adoption of depreciation on capital assets, and recording of certain summer semester revenues between fiscal years rather than the fiscal year in which the semester was predominantly conducted.

In May 2002, GASB issued Statement No. 39, *"Determining Whether Certain Organizations are Component Units – an amendment of GASB Statement No. 14"*. GASB 39 provides 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 the primary government. GASB No. 39 became effective for the University for the fiscal year beginning July 2, 2003.

In March 2003, GASB issued Statement No. 40, *"Deposit and Investment Risk Disclosures"*, which amends GASB No. 3. This Statement, effective FY05, addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Management has not yet determined the effect of the implementation of this statement on the University's financial statements.

In November 2003, GASB issued Statement No. 42, *"Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries"*. This Statement, effective FY05, establishes accounting and financial reporting standards for impairment of capital assets. Management has not yet determined the effect of the implementation of this statement on the University's financial statements.

In April 2004, GASB issued Statement No. 43, *"Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans"*. This Statement, effective FY06, establishes reporting standards for Other Postemployment Benefit Plans. Management has not yet determined the effect of the implementation of this statement on the University's financial statements.

In June 2004, GASB issued Statement No. 45, *"Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions"*. This Statement, effective FY07, establishes standards for the measurement, recognition, and display of Other Postemployment Benefit Plans expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information. Management has not yet determined the effect of the implementation of this statement on the University's financial statements.

Note 2: Reporting Entity

The University of Arkansas at Little Rock, a component of State government, was founded in 1927 as Little Rock Junior College under the supervision of the City Board of Education. The North Central Association of Colleges and Secondary Schools in 1929 accredited the College.

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In 1957, the University began a four-year degree program, became independent and privately supported under a separate board of trustees, and took the name Little Rock University.

On August 17, 1967, an agreement of merger and plan of transition was entered into between the Board of Trustees of the University of Arkansas and the Board of Trustees of Little Rock University.

Act 35 of 1969 Regular Session of the General Assembly provided for the merger of Little Rock University with the University of Arkansas to be effective July 1, 1969.

Act 19 of 1975 established a full-time law school at Little Rock, Arkansas, to be known as the "School of Law, University of Arkansas at Little Rock" beginning July 1, 1975.

The University has no component units, as defined by GASB Statement No. 39, *"Determining Whether Certain Organizations are Component Units – an amendment of GASB Statement No. 14"*, however, the University does have related organizations which are listed in Note 12. These organizations are separate legal entities from the University of Arkansas at Little Rock and the University exercises no control over them. Therefore, they are not included in these financial statements.

Note 3: Cash Deposits and Investments

The University of Arkansas at Little Rock uses commercial banks for its depositories, which are insured by the Federal Deposit Insurance Corporation (FDIC). Any deposits not covered by FDIC are secured with collateral held by a third party financial institution (normally Federal Reserve, Richmond, Virginia). Cash deposits are carried at cost and the University's cash deposits at June 30, 2004 and 2003 are shown as follows:

	June 30, 2004		June 30, 2003	
	Carrying Value	Bank Balance	Carrying Value	Bank Balance
Insured (FDIC)	\$ 200,000	\$ 200,000	\$ 200,000	\$ 200,000
Uninsured, Collateralized	19,393,673	20,827,243	19,321,347	20,966,957
Total Deposits	\$ 19,593,673	\$ 21,027,243	\$ 19,521,347	\$ 21,166,957

At June 30, 2004 and 2003, the above deposits did not include cash held by the state treasury and cash maintained by the University. The following is a summary of cash and cash equivalents as shown on the Statement of Net Assets.

	June 30, 2004	June 30, 2003
Cash Deposits	\$ 19,593,673	\$ 19,521,347
Cash Held By State Treasury	5,097,504	5,258,164
Treasury Reimbursements Due	1,017,273	1,052,559
Petty Cash, Revolving Funds & Change Funds	112,122	55,227
Total Cash and Cash Equivalents	\$ 25,820,572	\$ 25,887,297

UNIVERSITY OF ARKANSAS AT LITTLE ROCK
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JUNE 30, 2004

Investments

External Investment Pool

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

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

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

The activities during fiscal year 2004 affecting the University’s investments in the external pool are summarized below:

	Total Return Pool	Short Intermediate Pool	Total
June 30, 2003 Balances	\$ 6,441,941	\$ 10,777,233	\$ 17,219,174
Income	167,165	485,961	653,126
Realized Gains (Losses)	567,808	(141,720)	426,088
Unrealized Gains (Losses)	272,132	(289,193)	(17,061)
Expenses Paid from Pool	(29,871)	(26,225)	(56,096)
Transfers In/(Out) of Pool	(519,217)		(519,217)
June 30, 2004 Balances	\$ 6,899,958	\$ 10,806,056	\$ 17,706,014

The investments at year-end are shown below by category to give an indication of the level of risk assumed. Category 1 includes investments that are insured or registered or for which the securities are held by the University or its agent in the University’s name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker’s or dealer’s trust department or agent in the University’s name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer or by its trust department or agent but not in the University’s name.

UNIVERSITY OF ARKANSAS AT LITTLE ROCK
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Type of Investment	June 30, 2004		June 30, 2003	
	Risk Category 1	Not Subject to Categorization	Total	Fair Value
Managed Funds		\$ 17,706,014	\$ 17,706,014	\$ 17,219,174
Treasury Notes	\$ 7,270		7,270	7,270
TOTAL	\$ 7,270		\$ 17,713,284	\$ 17,226,444

Endowment Funds

Assets of endowed funds, except where donor restrictions prohibit commingling of investments, are pooled on a fair value basis. The following summarizes the net investment earnings of endowment funds at June 30, 2004 and 2003.

	2004	2003
Fair Value @ June 30	\$ 6,899,958	\$ 6,441,941
Gains (Losses) for the Year	\$ 839,940	\$ (93,651)
Income Earned for the Year	\$ 167,165	\$ 164,472
Expenses Paid from Pool	\$ (29,871)	\$ (26,450)

Donor-Restricted Endowments

The computation of net appreciation/(depreciation) on donor-restricted endowments that are available for authorization for expenditure at June 30, 2004 and 2003 are as follows:

	2004	2003
Total Endowment at June 30	\$ 6,899,958	\$ 6,441,941
Less: Quasi-endowment	\$ (1,811,035)	\$ (1,817,549)
Non-expendable portion of True Endowment	\$ (3,257,814)	\$ (3,239,585)
Available for Expenditure	\$ 1,831,109	\$ 1,384,807

The following Arkansas Code sections, as amended by the 2003 Arkansas General Assembly, outline the ability of the Institution to spend net appreciation:

- 28-69-603. Expenditure of endowment funds. The governing board may expend so much of the endowment fund or an aggregation of the endowment fund as the governing body determines to be prudent under the standard established by Section 28-69-607 for the uses and purposes for which an endowment fund is established. This section does not limit the authority of the governing board to expend funds as permitted under other law, the terms of the applicable gift instrument, or the charter of the institution.
- 28-69-604. Rule of construction. A restriction upon the expenditure of net appreciation may not be implied from a designation of a gift as an endowment, or from a direction or authorization in the applicable gift instrument to use only 'income', 'interest',

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NOTES TO THE FINANCIAL STATEMENTS
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‘dividends’, ‘net appreciation in the fair value of the assets of an endowment fund over the historic dollar value of the endowment’, or ‘rents, issues or profits’ or ‘to preserve the principal intact’ or a direction which contains other words of similar import.

- 28-69-607. Standard of conduct. In the administration of the powers to expend endowment funds, to make and retain investments, and to delegate investment management of institutional funds, members of a governing board shall exercise ordinary business care and prudence under the facts and circumstances prevailing at the time of the action or decision. In so doing they shall consider long and short term needs of the institution in carrying out its educational, religious, charitable, or other eleemosynary purposes, its present and anticipated financial requirements, expected total return on its investments, price level trends, and general economic conditions and the aggregate value of all endowment funds held by the institution.

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

Note 4: Accounts Receivable

The composition of accounts receivable as of June 30 is summarized as follows:

	2004	2003
Student tuition and fees	\$ 5,326,888	\$ 4,118,752
Federal, state and private grants and contracts	9,100,994	5,969,731
Auxiliary enterprises and other operating activities	863,849	536,099
	<u>\$ 15,291,731</u>	<u>\$ 10,624,582</u>
Less: Allowance for Doubtful Accounts	(1,095,095)	(687,300)
Net Accounts Receivable	<u>\$ 14,196,636</u>	<u>\$ 9,937,282</u>

Note 5: Accounts Payable and Other Liabilities

The following is a summary of accounts payable and other liabilities as of June 30:

	2004	2003
Payable to outside vendors	\$ 1,325,337	\$ 921,300
Payroll related liabilities	785,770	675,960
Short term line of credit	100,000	195,797
Other payables	970,494	404,295
Net Accounts Payable	<u>\$ 3,181,601</u>	<u>\$ 2,197,352</u>

Note 6: Long Term Liabilities

Long-term debt consisted of the following as of June 30, 2004:

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Little Rock University Classroom Building Bonds of 1965, \$777,000

The proceeds of the Bonds dated June 1, 1965 were used for the construction of Stabler Hall and Fine Arts Building expansion. At an interest rate of 3.75%, the Bonds mature serially November 1 and interest is payable November 1 and May 1, with final bonds maturing November 1, 2005. The indenture stipulates a first lien on and a pledge on all or security interest in all general student tuition fees paid to the applicant. Final principal payment in the amount of \$108,000 was paid in fiscal year 2004.

Little Rock University Student Union Building Bonds of 1968, \$500,000

The proceeds of the Bonds dated April 1, 1968 were used for the refunding of LRU Student Center Bond of 1958, original issue amount of \$323,000 and to construct a Student Union Addition. At an interest rate of 3%, the Bonds mature serially April 1 and interest is payable April 1 and October 1, with final bonds maturing April 1, 2008. The indenture stipulates a first lien and pledge of (a) the net revenues derived from the operation of the project, including but not limited to the Bookstore, Snack Bar and Cafeteria, and (b) from a Student Union Building fee to the extent necessary with the aforesaid net revenues to provide a coverage of 135% of the annual payments of principal and interest. Final principal payment in the amount of \$100,000 was paid in fiscal year 2004.

Little Rock University Academic Building Bond of 1969, \$483,000

The proceeds of the Bonds dated May 1, 1969 were used for the Administration Building Renovation, Library Addition and Health and Physical Education Building. At an interest rate of 3%, the Bonds mature serially November 1 and interest is payable November 1 and May 1, with final bonds maturing November 1, 2009. The indenture stipulates, to mortgage and pledge, in the form of this indenture, its general student tuition fees as hereinafter more fully described, to secure payment of said bonds. A first lien on and pledge of all general student tuition fee paid or to be paid to Little Rock University and all proceeds thereof during each twelve month period beginning each September 1, subject only to the prior pledge therefore to secure the Bonds. Final principal payment in the amount of \$120,000 was paid in fiscal year 2004.

Board of Trustees of University of Arkansas, UALR Campus Student Fee Refunding Revenue Bonds, Series 1995, \$4,490,000

The proceeds of the bonds dated December 1, 1995 were used for the refunding of the 1975 Student Union Bonds, 1976 Academic Building Bonds and the 1979 Utility System Bonds. At an interest rate of 4.837%, the Bonds mature serially November 1 and interest is payable November 1 and May 1, with final bonds maturing November 1, 2014. The indenture stipulates the bonds are secured by a pledge of, and are payable from, an allocation of registration fees sufficient to produce revenues providing coverage of 110% of current annual debt service on the Series 1995 Bonds.

Board of Trustees of University of Arkansas Revenue Refunding Bonds (UALR Campus) Series 1996, \$22,925,000

The proceeds of the bonds dated January 15, 1996 were used to refund and defease Series 1990, which was used to fund the construction of the parking deck, the renovation and addition of the Donaghey Student Center and to fund the construction of a residence hall. At an interest rate of 4.88%, the Bonds mature serially December 1 and interest is payable December 1 and June 1, with final bonds maturing December 1, 2010. The indenture stipulates the bonds are secured by student tuition and fees paid by students attending the Little Rock Campus of the University in each Bond year equal to 100% of the aggregate of principal and interest due on the Bonds for such bond year.

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Board of Trustees of University of Arkansas Revenue Refunding Bonds (UALR Campus), Series 1997, \$6,770,000

The proceeds of the bonds dated February 1, 1997 were used to refund and defease the 1989, Law School Renovation Bonds. At an interest rate of 4.89%, the Bonds mature serially August 1 and interest is payable August 1 and February 1, with final bonds maturing August 1, 2010. The indenture stipulates the bonds are secured by a pledge of, and are payable from, student tuition and fees paid by students attending the Little Rock campus of the University in each bond year equal to 100% of the aggregate of principal and interest due on the Bonds for such Bond year.

Arkansas Development Finance Authority Project Loan Agreement (University of Arkansas at Little Rock) \$4,000,000 Variable Rate Demand Revenue Bonds (Higher Education Capital Asset Program) 1985 Series A

The proceeds of the Loan dated October 31, 2001 are being utilized for various deferred maintenance projects including but not limited to the Donaghey Student Center kitchen, the Performing Arts Center, renovation of the 5th floor of Stabler Hall and chiller replacements. For the year ended June 30, 2004, the average interest rate per annum was 1.27%. The loan is repaid on a monthly installment basis, with the final payment due October 23, 2015.

The summary of long-term debt is as follows:

	Balance July 1, 2003	Additions FY04	Reductions FY04	Balance June 30, 2004	Current Portion
1965 HEW Bldg Bonds	\$ 108,000	\$ -	\$ 108,000	\$ -	\$ -
1968B HUD Std Union	100,000	-	100,000	-	-
1969 HEW Academic Bldg	120,000	-	120,000	-	-
Sub-Total	328,000	-	328,000	-	-
1995 Refunding Bonds	2,210,000	-	375,000	1,835,000	400,000
1996 Refunding Bonds	14,070,000	-	1,485,000	12,585,000	1,550,000
1997 Refunding Bonds	4,410,000	-	465,000	3,945,000	485,000
Sub-Total	20,690,000	-	2,325,000	18,365,000	2,435,000
2002 ADFA Loan	3,676,667	-	208,333	3,468,333	221,667
Sub-Total	3,676,667	-	208,333	3,468,333	221,667
Capital Leases	1,404,993	-	260,937	1,144,056	305,023
Compensated Absences	2,669,935	316,428	168,976	2,817,387	187,244
Sub-Total	4,074,928	316,428	429,913	3,961,443	492,267
TOTAL	\$ 28,769,595	\$ 316,428	\$ 3,291,246	\$ 25,794,776	\$ 3,148,933

Issue Date	Maturity Date	Interest Rate	Amount Issued	Maturities to 6-30-2004	Outstanding 6-30-2004
6/1/1965	11/1/2005	3.75%	\$ 777,000	\$ 777,000	\$ -
4/1/1968	4/1/2008	3.00%	323,000	323,000	-
5/1/1969	11/1/2009	3.00%	483,000	483,000	-
12/1/1995	11/1/2014	4.84%	4,490,000	2,655,000	1,835,000
1/15/1996	12/1/2010	4.80%	22,925,000	10,340,000	12,585,000
2/1/1997	8/1/2010	4.89%	6,770,000	2,825,000	3,945,000
10/31/2001	10/23/2015	1.00%	4,000,000	531,667	3,468,333
Leases	1/1/2008		1,898,556	754,500	1,144,056
TOTALS			\$ 41,666,556	\$ 18,689,167	\$ 22,977,389

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

	Principal	Interest	TOTAL
2005	\$ 2,961,690	\$ 935,527	\$ 3,897,217
2006	3,101,456	793,411	3,894,867
2007	3,070,151	651,161	3,721,312
2008	2,914,093	509,129	3,423,222
2009	2,823,333	376,145	3,199,478
2010-2014	7,461,667	393,234	7,854,901
2015-2016	645,000	8,293	653,293
TOTAL	\$ 22,977,389	\$ 3,666,899	\$ 26,644,288

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

Note 7: Short-term Debt

The summary of activity in short-term debt is as follows for the year ended June 30, 2004:

	Balance July 1, 2003	Additions FY04	Reductions FY04	Balance June 30, 2004
2002 Real Estate Line of Credit	195,797	280,875	376,673	100,000
TOTAL	\$ 195,797	\$ 280,875	\$ 376,673	\$ 100,000

The real estate line of credit is available for short-term borrowing for the acquisition of property.

Note 8: Commitments

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

Operating Leases

The Institution has one hundred and six (106) operating leases for certain equipment. Lease terms range from 12 to 36 months. None of the leases provided for contingent payments. The rental payments made for the period ending June 30, 2004 were \$400,401. Minimum annual lease payments for leases having an initial term in excess of one year total \$604,306. Scheduled payments for the five succeeding fiscal years are as follows:

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Fiscal Year Ended June 30	Amount
2005	\$ 352,107
2006	175,754
2007	76,445
2008	0
2009	0

It is expected that in the normal course of business, such leases will continue to be required.

Note 9: Capital Assets

Following are changes in capital assets for the year ended June 30, 2004:

	July 1, 2003		June 30, 2004	
	Balance	Additions	Deletions	Balance
Land	\$ 8,529,553	\$ 237,301	\$ -	\$ 8,766,854
Construction in Progress	15,913,183	10,297,376	15,547,467	10,663,092
Improvements	7,258,967	168,140	-	7,427,107
Buildings	112,428,616	16,488,670	24,562	128,892,724
Equipment	28,335,695	2,046,050	4,351,466	26,030,279
Library Holdings	19,497,189	979,681	440,773	20,036,097
Total Capital Assets	\$ 191,963,203	\$ 30,217,218	\$ 20,364,268	\$ 201,816,153
Less accumulated depreciation:				
Improvements	\$ (5,402,544)	\$ (259,142)	\$ -	\$ (5,661,686)
Buildings	(53,366,897)	(3,902,942)	(24,562)	(57,245,276)
Equipment	(21,750,582)	(2,436,446)	(4,300,791)	(19,886,237)
Library Holdings	(14,652,386)	(674,526)	(87,698)	(15,239,214)
Total Accum Deprec	\$ (95,172,409)	\$ (7,273,056)	\$ (4,413,051)	\$ (98,032,414)
Capital Assets, Net	\$ 96,790,794	\$ 22,944,162	\$ 15,951,217	\$ 103,783,739

Note 10: Income Taxes

The University is tax exempt from federal income taxes except on unrelated business income. The University has no significant unrelated business income for the year ended June 30, 2004. It is also exempt from state income taxes under Arkansas law. Accordingly, no provision for income taxes is made in the financial statements.

Note 11: Funds Held in Trust by Others

The University is beneficiary of and annually receives income from funds held in trust by other trustees. These funds are administered by outside trustees and are neither in the possession of nor under the control of the University and are, therefore, not included on the Statement of Net Assets. The principal amount of these funds as of June 30, 2004 is \$1,318,903. For the year ended June 30, 2004, the University received distributions totaling \$21,944 from these funds.

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Note 12: Employee Benefits

Insurance Plans

The System Administration (the System) sponsors and administers self-funded health and dental plans for the University employees and their eligible dependents. Health benefits are equal for all plan participants.

The University pays 60% of the total health insurance premium for full-time active employees, while retirees and former employees, through COBRA, participate on a fully contributory basis. The University pays 50% of the total dental premium for full-time active employees, while retirees and former employees, through COBRA, participate on a fully contributory basis.

Both plans are accounted for on the accrual basis. No acquisition costs were capitalized at the onset of the plan.

Retirement Benefits

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

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

Participants in the University's plan can choose to be contributory or non-contributory. The University automatically contributes 5% of an employee's regular salary to TIAA-CREF and/or Fidelity Investments retirement account, allocated between the two companies according to the employee's choice. For any contributions an employee makes in excess of 5% regular salary, the University makes an equal contribution, up to a maximum University contribution of 10% of regular salary. Employee contributions in excess of 10% are allowed by the plans in accordance with Internal Revenue Service regulations but the University does not match these additional contributions. All benefits attributable to plan contributions made by both the University and the participant are immediately vested in the participant for all faculty members and non-classified employees and all classified employees whose initial employment occurred prior to January 1, 1985, and who made any plan contributions prior to that date. For all other classified employees, vesting of benefits attributable to plan contributions made by the University shall occur on the earlier of completion of three years of service, or attainment of age 65, or the participant's having made plan contributions of at least five percent of regular salary for six consecutive months. The University's and participants' TIAA/CREF contributions for the year ending June 30, 2004 were \$4,231,006 and \$4,492,281 respectively. The University's and participants' Fidelity Investments contributions for the year ending June 30, 2004 were \$659,374 and \$702,439 respectively.

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APERS is a cost sharing multiple employer defined benefit plan administered by the State of Arkansas. The University contributes 10% of applicable wages to the plan. The University's contributions for the year ending June 30, 2004 were \$98,003.

ATRS is a cost sharing multiple employer defined benefit pension plan. The University contributes 12% of all covered employee's salaries. Under certain conditions covered employees may voluntarily contribute 6% of his/her salary. The University's and participants' contributions for the year ending June 30, 2004 were \$68,622 and \$25,981 respectively.

Total University payroll for all employees was \$67,498,709.

Note 13: Related Organizations

UNIVERSITY OF ARKANSAS FOUNDATION

The University of Arkansas Foundation, Inc. (The Foundation) operates as a nonprofit benevolent corporation for charitable educational purposes and is a component unit of the University of Arkansas. The Board of Trustees of the Foundation includes four (4) members who are also members of the University's Board of Trustees. The financial statements of the University of Arkansas at Little Rock do not include assets, liabilities, net assets and changes in net assets, related to the Foundation.

The Statement of Financial Position as of June 30, 2004 for The Foundation, was audited by an independent certified public accountant, but not the Division of Legislative Audit. According to the Statement, The Foundation had net assets applicable to the Little Rock campus in the amount of \$53,430,269; which represents 12% of The Foundation's total net assets.

UNIVERSITY OF ARKANSAS AT LITTLE ROCK ALUMNI ASSOCIATION

The University of Arkansas at Little Rock Alumni Association is utilized to receive and disburse funds from gifts, activity fees and receipts from special projects. The financial statements of the University do not include assets, liabilities, net assets and changes in net assets, related to the Association.

The Association operates as a nonprofit benevolent corporation for charitable educational purposes. The assets of the Association are held by the University of Arkansas Foundation, Inc. and are reported in audited financial statements of The Foundation as of June 30, 2004.

Note 14: Natural & Functional Classifications of Operating Expenses

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

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Program Title	Compensation and Benefits	Supplies and Services	Scholarships and Fellowships	Depreciation	FY 2004 Total	FY 2003 Total
Instruction	\$ 38,049,330	\$ 4,885,918			\$ 42,935,248	\$ 40,743,793
Research	6,441,890	2,894,906			9,336,796	8,438,300
Public Service	9,260,028	4,992,100			14,252,128	14,028,001
Academic Support	9,808,923	5,628,876			15,437,799	13,403,204
Student Services Administration	4,138,551	918,931			5,057,482	4,708,579
Institutional Support	7,410,872	589,708			8,000,580	8,526,475
Operation & Maintenance of Plant	4,131,290	2,006,462		\$ 7,272,689	13,410,441	12,455,524
Scholarships & Fellowships			\$ 13,324,011		13,324,011	13,088,798
Auxiliary Enterprises	3,098,622	3,126,424	250,507		6,475,553	6,272,112
Total	\$ 82,339,506	\$ 25,043,325	\$ 13,574,518	\$ 7,272,689	\$ 128,230,038	\$ 121,664,786

Note 15: Subsequent Events

On July 30, 2004 the University completed the purchase of the University Plaza property adjacent to the main campus at a cost of \$5.4 million. The property includes 22.58 acres and 11 buildings with 245,574 square feet of enclosed space. The purchase was funded through the issuance of UALR Capital Improvement Revenue Bonds, Series 2004B.

On September 15, 2004 the University issued revenue bonds totaling \$41,215,000. The series 1995, 1996 and 1997 bond issues were refunded through the issuance of \$16,930,000 UALR Revenue Refunding Bonds, Series 2004A. The Refunding Bonds will be repaid over a seven year period. The refunding will result in a net present value benefit of \$956,107. In addition, \$24,285,000 UALR Capital Improvement Revenue Bonds, Series 2004B were issued for the purpose of property acquisition and renovation of campus facilities. The bonds are secured by a pledge of tuition and fees revenue and are scheduled for repayment over a 20 year period.

On October 1, 2004 the University issued \$17,385,000 UALR Student Housing Revenue Bonds, Series 2004. The proceeds of these bonds will be used for the construction of a student residential facility. The proposed project consists of two and four bedroom apartments for approximately 326 students. The bonds are secured by a pledge of housing revenues and are scheduled for repayment over a 25 year period.