

University of Central Arkansas

Conway, Arkansas

Annual Financial Report Independent Auditor's Report and Other Reports

June 30, 2004

LEGISLATIVE JOINT AUDITING COMMITTEE



UNIVERSITY OF CENTRAL ARKANSAS
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Senate Co-Chair
Rep. Tommy G. Roebuck
House Co-Chair
Sen. Randy Lavery
Senate Co-Vice Chair
Rep. David Evans
House Co-Vice Chair

Arkansas



Charles L. Robinson, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

University of Central Arkansas
Legislative Joint Auditing Committee

We have audited the accompanying basic financial statements of the University of Central Arkansas (Institution), an Institution of Higher Education of the State of Arkansas, as of and for the year ended June 30, 2004 as listed in the table of contents. These financial statements are the responsibility of the Institution's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the University of Central Arkansas Foundation, Inc., which represents 100% of the assets, net assets, and revenues of the aggregate discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it related to the amounts included for University of Central Arkansas Foundation, Inc., is based on the report 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. 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 report(s) of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University of Central Arkansas and of its aggregate discretely presented component unit(s) as of June 30, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2004 on our consideration of the Institution's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in blue ink, reading "Charles L. Robinson".

Charles L. Robinson, CPA, CFE
Legislative Auditor

Little Rock, Arkansas
November 29, 2004
EDHE16504

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

Arkansas



Charles L. Robinson, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

COMBINED REPORT(S) ON COMPLIANCE, INTERNAL CONTROLS AND OTHER MATTERS

University of Central Arkansas
Legislative Joint Auditing Committee

The underlying purpose of this letter is to convey certain observations and recommendations regarding state and federal compliance and internal control in conjunction with our audit of the University of Central Arkansas (Institution). This letter reflects various requirements and pronouncements of the American Institute of Certified Public Accountants (AICPA), the United States General Accounting Office (GAO), and the United States Office of Management and Budget (OMB).

We have audited the financial statements of the University of Central Arkansas, an Institution of Higher Education of the State of Arkansas, as of and for the year ended June 30, 2004, and have issued our report thereon dated November 29, 2004. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Institution's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of the state constitution, state and federal laws and regulations, and federal contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are disclosed below in the Audit Findings section of this letter.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Institution's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Institution's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are disclosed below in the Audit Findings section of this letter.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness. Other matters involving compliance and/or internal control were reported to the Institution management in a separate letter.

AUDIT FINDINGS

As a management service, we would like to bring to your attention the following compliance and/or internal control matter(s) that came to our attention during this audit. The purpose of such comments is to provide constructive feedback and guidance, in an effort to assist management to maintain a satisfactory level of compliance with the state constitution, laws and regulations and achieve adequate internal controls. These matters were discussed previously with Institution officials during the course of our audit fieldwork and at the exit conference.

1. There is no electrical power backup system available for data center operations, resulting in inadequate Data Center environmental controls. We recommend that Information & Technology Services management determine if the cost of purchasing/maintaining an improved UPS unit and backup generator outweighs the risk of losing computer-processing abilities during an extended power outage. If there is a cost benefit, we recommend Information & Technology Services management acquire a UPS unit and backup generator.

University Response - The IT staff will investigate various options and the University will determine the best feasible option to implement.

2. Disaster Recovery Plan appears to be inadequate. Backup files are not rotated to the off-site tape storage facility frequently enough. Currently backup tapes are rotated on a monthly basis. We recommend the Institution develop and implement a Disaster Recovery Plan to address recovery efforts necessary to cope with the unavailability of the computer application in use during an unexpected outage. This plan should be written, approved by management and tested on a regular basis. The plan should address how the entity would recover from short or long-term outages, as well as how operation would continue during the recovery effort. At a minimum, the plan should:
 - a. Identify critical applications that must be restored.
 - b. Identify software and data file backups needed to restore these applications. Backup retention periods and a secure off-site storage location should be identified and utilized. Address the acquisition of replacement hardware should it be needed.
 - d. Identify an alternate processing site should it be needed. Identify alternate procedures the users can use to cope with the unavailability of the computer application during the recovery period.

Backup tapes should be rotated on a more frequent basis to ensure a current backup tape is always available.

University Response - IT will seek to develop additions to the University's Disaster Recovery Plan to include outages of computer systems. Resources issues, both financial and personnel, will need to be addressed in order to implement a plan. The staff will work with the administration to determine critical applications and the priority for recovery. IT will also assist the users in developing alternate procedures to implement during the recovery process. Backup tapes will be rotated to the off-site location on a weekly basis.

STUDENT ENROLLMENT DATA - In accordance with Ark. Code Ann. 6-60-209, we performed tests of the student enrollment data for the year ended June 30, 2004, as reported to the State Department of Higher Education, to provide reasonable assurance that the data was properly reported. Our testing was limited to the fall and spring terms of the year. The enrollment data reported was as follows:

	<u>Fall Term</u> <u>2003</u>	<u>Spring Term</u> <u>2004</u>
Student Headcount	9,898	8,823
Student Semester Credit Hours	131,656	120,141

During our review, nothing came to our attention that would cause us to believe that the student enrollment data was not substantially correct.

These reports are intended for the information and use of the Legislative Joint Auditing Committee, state executive and oversight management and Institution management, and is not intended to be and should not be used by anyone other than these specific parties. However, this report is a matter of public record and its distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT



William R. Baum, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
November 29, 2004

UNIVERSITY OF CENTRAL ARKANSAS

Management's Discussion and Analysis

Overview of the Financial Statements and Financial Analysis

The University of Central Arkansas is pleased to present its financial statements for the fiscal year ending June 30, 2004. 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*.

This discussion and analysis of the University's financial statements provides an overview of its financial activities for the year.

Statement of Net Assets

The *Statement of Net Assets* presents the assets, liabilities, and net assets of the University as of June 30, 2004. The purpose of this statement is to present to the readers a fiscal snapshot of the year-end balances that were a result of the transactions posted during the fiscal year from July 1, 2003, through June 30, 2004. This statement also serves as a starting point for transactions that will occur for the next fiscal period. The assets and liabilities are broken down into current and noncurrent sections to provide information relative to the time required in converting noncash assets to cash or to cash equivalents or that may require the use of cash. The net assets are the difference between assets and liabilities. The *Notes to the Financial Statements* explain the differences between current and noncurrent assets and liabilities.

Readers of the *Statement of Net Assets* are able to determine the assets available to continue the operations of the institution and how much the institution owes vendors, lending institutions, and investors in the bonds of the University.

Net Assets are divided into three major categories. *Invested in capital assets, net of debt*, provides information on the institution's equity in property, plant, and equipment owned by the institution. *Restricted net assets* are divided into two categories: nonexpendable and expendable. The corpus of the nonexpendable restricted resources is only available for investment purposes. Expendable restricted 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. *Unrestricted net assets* are available to the institution for any lawful purpose of the institution.

Statement of Net Assets
June 30, 2004

	Year Ended June 30	
	2004	2003
Assets:		
Current assets	14,771,669	20,439,609
Capital assets, net	113,278,570	108,405,571
Other assets	15,026,674	15,135,477
Total Assets	143,076,913	143,980,657
Liabilities:		
Current liabilities	7,839,300	5,499,553
Non-current liabilities	52,095,703	53,740,674
Total Liabilities	59,935,003	59,240,227
Net Assets:		
Invested in capital assets, net	66,803,570	60,034,946
Restricted-expendable	5,966,669	14,160,661
Restricted-nonexpendable	-	-
Unrestricted	10,371,671	10,544,823
Total Net Assets	83,141,910	84,740,430

The total assets of the University decreased by \$903,744. A review of the *Statement of Net Assets* reveals that the decrease was primarily due to a decrease of \$8,193,992 in restricted expendable balances, which was offset by an increase of \$4,872,999 in investment in capital assets and \$173,152 in unrestricted Net Assets. The decrease in noncurrent cash and cash equivalents can be attributed to the use of unexpended bond proceeds that were used to renovate Wingo Hall, to construct an indoor recreational facility, and the use of cash reserves to purchase additional student housing.

The total liabilities for the year increased by \$694,776. The primary reason for this increase was the accrual of a current liability for construction contracts payable of \$2.2 million. The combination of the decrease in total assets plus the increase in liabilities nets to a decrease of \$1,598,520 in total net assets.

Statement of Revenues, Expenses, and Changes in Net Assets

The changes in total net assets as presented on the *Statement of Net Assets* are based on the activity presented in the *Statement of Revenues, Expenses, and Changes in Net Assets*. The purpose of the statement is to present the revenues received and the expenses paid by the institution, both operating and non-operating, and any other revenues, expenses, gains or losses received or spent by the institution.

Operating revenues generally 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 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, the Governmental Accounting and Standards Board (GASB) considers state appropriations as non-operating revenues because the revenue is provided by the Legislature to the institution without the Legislature directly receiving commensurate goods and services.

Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2004

	Year Ended June 30	
	2004	2003
Operating revenues	53,384,532	45,256,025
Operating expenses	(92,383,021)	(82,382,223)
Operating loss	(38,998,489)	(37,126,198)
Nonoperating revenues less expenses	40,609,669	38,541,800
Income before other revenues, expenses, gains or losses	1,611,180	1,415,602
Other revenues, expenses, gains or losses	(3,209,700)	(2,567,719)
Decrease in net assets	(1,598,520)	(1,152,117)
Net assets at beginning of year	84,740,430	85,892,547
Net assets at end of year	83,141,910	84,740,430

The *Statement of Revenues, Expenses, and Changes in Net Assets* reflects a negative year with a decrease in net assets at the end of the year of \$1,598,520. Highlights of the information presented on the statement are as follows:

- ◆ Revenue Changes – The financial statement indicates increased revenues in tuition and fees of \$3,896,763 and in auxiliary enterprises of \$3,768,437, as well as an increase in state appropriations of \$1,733,440. The increase in auxiliary enterprises was primarily from an increase in housing and food service revenues of \$3,289,845.

- ◆ Expense Changes – Compensation and benefits expenses reflect an increase of \$5,652,382 primarily due to the salary increases given of approximately 3% and the addition of faculty in fiscal year 2003-04. Supplies and services expenses reflect an increase of \$4,281,869 largely due to the growing number of residential students and the increased costs incurred to lease additional housing units and to provide contract food service.

*Note: The current practice among colleges and universities is to categorize federal and state grants received for student financial assistance as non-operating revenues. The University's financial statements for Fiscal Year 2004 include \$267,944 of these grants as non-operating revenues.

However, the audited financial statements for Fiscal Year 2003 included the federal and state grants received for student financial assistance as operating revenues.

The reclassification of these revenues in Fiscal Year 2004 due to a change in accounting interpretation explains the variances from one year to another for Operating Revenues, Federal and State Grants and Contracts, and Non-operating Revenues, Federal and State Grants and Contracts.

Statement of Cash Flows

The *Statement of Cash Flows* presents detailed information about the cash activity of the institution during the year. The statement is divided into the following five sections:

- ◆ The *Operating Cash Flows* section provides details of the operating cash flows and the net cash used by operating activities of the institution.
- ◆ The *Non-capital Financing Activities* section reflects cash received and spent for non-operating financing activities.
- ◆ The *Capital and Related Financing Activities* section provides specific information on the cash used for the acquisition and construction of capital and related items. The University allocated \$15.6 million in Fiscal Year 2004 to provide major additions to University facilities. Of these, \$6.6 million of the projects were completed primarily from cash reserve funds instead of creating debt service for the University.
- ◆ The *Cash Flows from Investing Activities* section indicates the purchases, proceeds, and interest received from investing activities.
- ◆ The last section reconciles the net cash used to the operating income or loss reflected on the *Statement of Revenues, Expenses, and Changes in Net Assets*.

Statement of Cash Flows
For the Fiscal Year Ended June 30, 2004

	Year Ended June 30	
	2004	2003
Cash provided(used) by:		
Operating activities	(31,998,743)	(28,834,933)
Non-capital financing activities	42,708,014	36,866,112
Capital and related financing activities	(15,631,245)	(4,364,116)
Investing activities	444,904	3,205,855
Net Change in Cash	(4,477,070)	6,872,918
Cash, beginning of year	19,941,970	13,069,052
Cash, end of year	15,464,900	19,941,970

Capital Assets and Debt Administration

The University made significant capital asset additions for facilities in the fiscal year 2004. The University made an investment in the following additions or improvements:

- ◆ \$4,337,733 to purchase and renovate Stadium Park apartments
- ◆ \$1,479,690 for the Wingo Hall renovation and addition
- ◆ \$1,287,369 for the purchase of Torreyson apartments
- ◆ \$1,182,019 in completion of the east side stands of Estes Stadium
- ◆ \$1,017,749 in Housing improvements
- ◆ \$830,374 in equipment purchases
- ◆ \$638,529 towards the IBM Wireless project
- ◆ \$637,648 in infrastructure and parking improvements

On October 1, 2003, the University made an early call on the 1965H and 1967A Housing bonds. This was accomplished by using the funds in excess of the debt reserve requirement for the other housing issues held by the trustee. These issues were previously scheduled to mature in 2005 and 2007, respectively. For additional information concerning Capital Assets and Debt Administration, see Notes 6 and 9 in the *Notes to the Financial Statements*.

Economic Outlook

The University experienced growth of over four percent in state appropriations during the 2004 fiscal year. In Fiscal Year 2005, the forecast for state revenue is expected to produce an additional \$915,000 of income. Student enrollment trends continue to be encouraging with a predicted growth of approximately six percent in students. The University should exceed 10,000 students in Fiscal Year 2004-05. 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 the current fiscal year beyond those already discussed.

The overall financial position continues to be strong. The University received an upgrade in the underlying rating by Moody's Investor's Service from A3 to A2 during the issuance of the 2003 bonds and that rating has been maintained into the 2004/2005 fiscal year. In 2004, the University made significant investments in housing and other physical plant facilities that will produce additional revenue and allow the University to sustain growth in the future. We will continue to monitor conditions related to internal and external issues and be prepared for opportunities that become available to the University.

Paul A. McLendon

Paul A. McLendon, CPA
Vice President for Financial Services

UNIVERSITY OF CENTRAL ARKANSAS
COMPARATIVE STATEMENT OF NET ASSETS
JUNE 30, 2004

Exhibit A

ASSETS	2003-2004	2002-2003
Current Assets		
Cash and cash equivalents	\$ 7,966,320	\$ 11,850,714
Investments	2,448,428	2,847,072
State Treasury		55,159
Accounts receivable-state	871,467	1,804,093
Accounts receivable-other	2,274,263	2,462,532
Student loans receivable, net	316,743	533,939
Prepaid expenses	442,934	455,230
Inventories	451,514	430,870
Total Current Assets	14,771,669	20,439,609
Noncurrent Assets		
Cash and cash equivalents	7,019,470	7,365,140
Investments	1,451,497	913,648
State Treasury	479,110	670,957
Accounts receivable-other	58,477	45,428
Student loans receivable, net	6,018,120	6,140,304
Capital assets, net of accumulated depreciation \$76,830,864 and \$70,993,833, respectively	113,278,570	108,405,571
Total Noncurrent Assets	128,305,244	123,541,048
TOTAL ASSETS	\$ 143,076,913	\$ 143,980,657
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 2,691,387	\$ 1,202,171
Accounts payable-payroll	1,119,100	802,089
Accrued Interest payable	769	2,697
Bonds and notes payable	1,710,000	1,840,000
Premium on bonds payable	7,335	7,335
Compensated absences	93,125	112,530
Deferred revenue	1,429,339	738,781
Annuity payable	62,500	62,500
Deposits and funds held in trust for others	725,745	731,450
Total Current Liabilities	7,839,300	5,499,553
Noncurrent Liabilities:		
Bonds and notes payable	49,180,000	51,245,000
Premium on bonds payable	153,095	160,430
Compensated absences	1,632,183	1,419,573
Annuity payable	458,465	367,931
Deposits and funds held in trust for others	671,960	547,740
Total Noncurrent Liabilities	52,095,703	53,740,674
TOTAL LIABILITIES	59,935,003	59,240,227
NET ASSETS		
Invested in capital assets, net of debt	66,803,570	60,034,946
Restricted for:		
Expendable	5,966,669	14,160,661
Unrestricted	10,371,671	10,544,823
Total net assets	\$ 83,141,910	\$ 84,740,430

See accompanying summary of significant accounting policies and notes to financial statements.

UNIVERSITY OF CENTRAL ARKANSAS FOUNDATION, INC.
COMPARATIVE STATEMENT OF FINANCIAL POSITION
JUNE 30, 2004

Exhibit A-1

ASSETS

	2004	2003
<u>Current Assets:</u>		
Cash and Cash Equivalents	\$ 112,778	\$ 253,499
Unconditional Promises to Give, Less Allowance for Uncollectible Promises of \$67,500	236,632	96,231
Royalty Receivable	4,744	5,400
Total Current Assets	354,154	355,130
<u>Other Assets:</u>		
Cash - Bond Funds	11,422	23,116
Investments	3,538,350	2,652,283
Cash Surrender Value of Life Insurance	155,064	131,840
Property	869,857	906,692
Other Assets	39,480	17,400
Total Other Assets	4,614,173	3,731,331
<u>Endowment Investments:</u>		
Cash and Cash Equivalents	494,105	28,824
Investments	8,335,118	7,347,557
Property	645,210	400,000
Total Endowment Investments	9,474,433	7,776,381
Total Assets	\$ 14,442,760	\$ 11,862,842

UNIVERSITY OF CENTRAL ARKANSAS FOUNDATION, INC.
COMPARATIVE STATEMENT OF FINANCIAL POSITION
JUNE 30, 2004

Exhibit A-1

LIABILITIES AND NET ASSETS

	2004	2003
<u>Current Liabilities:</u>		
Accrued Interest Payable	\$ 2,660	\$ 3,079
Accrued Payroll Liability	659	659
Annuity Liability	12,800	12,800
Total Current Liabilities	16,119	16,538
<u>Long-Term Liabilities:</u>		
Long-Term Debt	570,000	620,000
Annuity Liability	124,031	127,515
Total Long-Term Liabilities	694,031	747,515
Total Liabilities	710,150	764,053
<u>Net Assets:</u>		
Unrestricted	360,724	3,941
Temporarily Restricted	3,897,453	3,073,257
Permanently Restricted	9,474,433	8,021,591
Total Net Assets	13,732,610	11,098,789
Total Liabilities and Net Assets	\$ 14,442,760	\$ 11,862,842

UNIVERSITY OF CENTRAL ARKANSAS
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004

Exhibit B

Operating Revenues:	2003-2004	2002-2003
Student tuition and fees (net of scholarship allowances \$11,710,458 and \$8,803,703, respectively)	\$ 25,817,391	\$ 21,920,628
Federal grants and contracts	1,732,232	1,659,595
State and local grants and contracts	207,301	526,197
Non-governmental grants and contracts	2,427,116	1,895,095
Sales and services of educational departments	1,366,746	1,192,122
Auxiliary Enterprises:		
Athletics (net of scholarship allowances \$951,018 and \$834,013, respectively)	2,768,915	2,645,271
Housing and food service	14,380,519	11,090,674
Bookstore	250,000	246,091
Student Center	1,344,764	1,245,049
Recreational facilities	1,117,618	923,454
Other auxiliary enterprises	791,617	734,457
Other operating revenues	1,180,313	1,177,392
Total Operating Revenues	53,384,532	45,256,025
Operating Expenses:		
Compensation and Benefits	58,737,938	53,085,556
Supplies and Services	23,364,335	19,082,466
Scholarships and Fellowships	3,815,126	4,116,323
Depreciation	6,465,622	6,097,878
Total Operating Expenses	92,383,021	82,382,223
Operating Loss	(38,998,489)	(37,126,198)
Nonoperating Revenues (Expenses):		
State appropriations	42,136,266	40,402,826
Federal and state grants and contracts	267,944	
Gifts	46,796	533,322
Investment income (net of investment expense \$11,552 and \$12,099, respectively)	577,911	626,080
Interest expense and trustee fees	(2,748,582)	(2,810,303)
Disposal of capital assets (net of accumulated depreciation \$628,592 and \$669,810, respectively)	(572,947)	(354,086)
Other income	902,281	143,961
Net Non-operating Revenues	40,609,669	38,541,800
Income before other revenues & expenses	1,611,180	1,415,602
Write-off of assets due to change in capitalization level		(26,300)
Capital appropriations	463,772	59,453
Other deductions, net	(3,673,472)	(2,600,872)
Decrease in Net Assets	(1,598,520)	(1,152,117)
Net Assets - Beginning of Year	84,740,430	85,892,547
Net Assets - End of Year	\$ 83,141,910	\$ 84,740,430

See accompanying summary of significant accounting policies and notes to financial statements.

UNIVERSITY OF CENTRAL ARKANSAS FOUNDATION, INC.
COMPARATIVE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

Exhibit B-1

	Total June 30, 2004	Total June 30, 2003
<u>Revenues, Gains, and Other Support:</u>		
Contributions	\$ 2,646,998	\$ 1,128,931
Special Events	205,468	166,088
Interest and Dividends	335,517	327,389
Membership Dues and Sponsorships	94,835	74,273
Realized Gain on Investments	195,205	(167,574)
Unrealized Gain (Loss) on Investments	702,804	(34,378)
	<hr/>	<hr/>
Total Revenues, Gains, and Other Support	4,180,827	1,494,729
	<hr/>	<hr/>
<u>Expenses:</u>		
Programs:		
Scholarships	227,265	256,136
Grants and University Programs	830,163	556,518
	<hr/>	<hr/>
Total Programs	1,057,428	812,654
Administration	101,984	78,198
Investment Fees	73,456	64,980
Fund Raising	256,875	174,183
Interest	30,138	29,528
Depreciation	27,125	27,125
	<hr/>	<hr/>
Total Expenses	1,547,006	1,186,668
	<hr/>	<hr/>
Change in Net Assets	2,633,821	308,061
	<hr/>	<hr/>
Net Assets at Beginning of Year	11,098,789	10,790,728
	<hr/>	<hr/>
Net Assets at End of Year	\$ 13,732,610	\$ 11,098,789
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**UNIVERSITY OF CENTRAL ARKANSAS
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004**

Exhibit C

	2003-2004	2002-2003
Cash Flows from Operating Activities		
Student tuition and fees	\$ 25,132,403	\$ 21,166,302
Grants and contracts	4,355,971	5,428,341
Collection of loans and interest to students	959,208	1,214,254
Auxiliary Enterprise revenues:		
Athletics	3,711,033	3,493,256
Housing and food service	14,321,929	11,146,202
Bookstore	246,656	257,164
Student Center	1,359,734	1,249,911
Recreational Facilities	1,119,901	922,483
Other auxiliary enterprises	788,634	733,795
Other receipts	1,475,189	1,721,028
Payments to employees/benefits	(58,227,722)	(52,787,861)
Payments to suppliers	(23,426,553)	(19,263,485)
Payments for scholarships and fellowships	(3,815,126)	(4,116,323)
Net cash used by operating activities	(31,998,743)	(28,834,933)
Cash Flows from Non-capital Financing Activities		
State appropriations	43,109,504	39,956,913
Federal grants and contracts	858,874	
State and local grants and contracts	(765,095)	
Direct lending and plus loan receipts	30,817,682	26,549,984
Direct Lending and plus loan payments	(30,817,682)	(26,549,984)
Other agency funds - net	531,368	(296,133)
Annuity payments	(62,500)	(62,500)
Other	(964,137)	(2,732,168)
Net cash provided by non-capital financing activities	42,708,014	36,866,112
Cash Flows from Capital and Related Financing Activities		
Proceeds from capital debt	(7,335)	26,793,811
Capital appropriations	463,772	59,453
Capital grants and gifts	500,000	15,322
Proceeds from sale of capital assets	18,604	8,159
Purchases of capital assets	(11,662,551)	(5,513,062)
Principal paid on capital debt and lease	(2,195,000)	(12,123,500)
Interest & fees paid on capital debt and lease	(2,748,935)	(2,810,286)
Transfer to escrow		(10,799,456)
Prior year additions	200	5,443
Net cash used by capital and related financing activities	(15,631,245)	(4,364,116)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	849,349	6,418,431
Interest on investments (net of fees)	584,111	641,849
Purchases of investments	(988,556)	(3,854,425)
Net cash provided by investing activities	444,904	3,205,855
Net increase (decrease) in cash	(4,477,070)	6,872,918
Cash - Beginning of Year	19,941,970	13,069,052
Cash - End of Year	\$ 15,464,900	\$ 19,941,970

UNIVERSITY OF CENTRAL ARKANSAS
COMPARATIVE STATEMENT OF CASH FLOWS - Continued
FOR THE YEAR ENDED JUNE 30, 2004

Exhibit C

	<u>2003-2004</u>	<u>2002-2003</u>
Reconciliation of net operating revenues to net cash provided by operating activities:		
Operating Income (Loss)	\$ (38,998,489)	\$ (37,126,198)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	6,465,622	6,097,878
Change in assets and liabilities:		
Receivables, net	(271,471)	1,634,844
Inventories	(20,644)	(39,311)
Deposits with others	(235)	74,842
Prepaid expenses and other assets	345,151	(148,447)
Accounts payable	(69,713)	168,435
Deferred revenue	357,831	367,025
Compensated absences	193,205	135,999
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (31,998,743)</u>	<u>\$ (28,834,933)</u>
Noncash Transactions		
Equipment and Archives	\$ 46,796	\$ 18,000
Donation	\$ (46,796)	\$ (18,000)

See accompanying summary of significant accounting policies and notes to financial statements.

UNIVERSITY OF CENTRAL ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004



NOTE 1: Reporting Entity:

The University of Central Arkansas was established as the Arkansas State Normal School by the General Assembly of Arkansas on May 14, 1907. On September 21, 1908, the Arkansas State Normal School was formally opened for instruction.

The name of the institution was changed from Arkansas State Normal School to Arkansas State Teachers College by the General Assembly of Arkansas in 1925 and, by Legislative enactment, the Board of Trustees was given authority to grant appropriate degrees. To reflect the present multi-purpose nature of the Agency, the name was changed to State College of Arkansas by Act 5 of the 1967 Legislature. The Legislature changed the name of the institution to the University of Central Arkansas by Act 3 of 1975.

The financial reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete.

The University of Central Arkansas is governed by a Board of Trustees appointed by the Governor of the state of Arkansas. The state of Arkansas allocates and allots funds to each state agency separately and requires that the funds be maintained accordingly. The state of Arkansas maintains the state allocated funds in the state treasury accounts with a specific fund designated for use by the University.

The University is a component unit of the state of Arkansas and is included in the general-purpose financial statements of the state of Arkansas.

Accounts of the University of Central Arkansas Foundation are presented in a discrete presentation as a part of the University's financial statements as required by GASB 39, *Determining Whether Certain Organizations are Component Units* based on the following criteria:

Legally separate- The Foundation is legally separate from state and/or University based on the Articles of Incorporation, organization by-laws, and mission statement.

UNIVERSITY OF CENTRAL ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004



NOTE 1: Reporting Entity (Continued):

Non-appointment of voting majority- The state and the University do not appoint any members to the board of the University of Central Arkansas Foundation.

Fiscal Dependence- The Foundation has total autonomy with respect to the assets held, the ability to issue bonded debt, and the ability to determine its budget without the approval of the state and/or the University.

NOTE 2: Summary of Significant Accounting Policies:

Financial Statement Presentation: In June 1999, GASB issued Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*. This was followed by GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities* in November 1999. As a component unit of the state of Arkansas, the University is also required to adopt GASB No. 34 and 35. These statements require a comprehensive, entity-wide perspective of the University's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows, and replace the fund-group perspective previously required.

In May 2002, GASB issued Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This statement was a follow-up to GASB Statements No. 34 and 35 to provide additional guidance on the determination of component unit reporting. GASB 39 requires the reporting as a component unit, any organization that raises and holds economic resources for the direct benefit of a governmental unit. Based on the criteria given, the University has included the University of Central Arkansas Foundation as a component unit by discrete presentation.

Basis of Accounting: For financial reporting purposes, the University is considered a special-purpose government engaged only 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. The accrual basis of accounting recognizes revenues when earned and expenses when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

UNIVERSITY OF CENTRAL ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004



NOTE 2: Summary of Significant Accounting Policies (continued):

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 not to apply FASB pronouncements issued after the applicable date.

Cash Equivalents: For purposes of the *Statement of Cash Flows*, the University considers all highly liquid investments with an original maturity of 90 days or less to be cash equivalents. These include petty cash, demand deposits, cash on deposit with the State Treasurer, and funds invested through the Short-Term Common Fund.

Investments: The University states its investments at fair market value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the *Statement of Revenues, Expenses, and Changes in Net Assets*.

Accounts Receivable: Accounts receivables consist of tuition and fee charges to students and of auxiliary enterprise services provided to students, faculty, and staff. Accounts receivables also include amounts due from federal, state and local governments, and/or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivables were not reduced by an allowance due to materiality.

Inventories: Inventories are valued at cost or market, as determined on a first-in, first-out basis.

Noncurrent Cash and Investments: Cash and investments that are externally restricted to make debt service payments, to maintain sinking or reserve funds, or to purchase or construct capital or other noncurrent assets are classified as noncurrent assets in the statement of net assets.

Capital Assets: Capital assets are recorded at cost at the date of acquisition, or at fair market value at the date of donation in the case of gifts. For equipment, the University's capitalization policy includes all items with a unit cost of \$2,500 or more and with an estimated useful life of greater than one year. Renovations to buildings, infrastructure, and

UNIVERSITY OF CENTRAL ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004



NOTE 2: Summary of Significant Accounting Policies (continued):

land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets:

<u>Asset Classification</u>	<u>Estimated Life (Years)</u>
Computer Equipment	3-5
Motor Vehicles	5-6
Transportation Equipment	5-10
Office Furnishings	7-10
Other Office Equipment	5-7
Equipment (Non-Office)	7-10
Library Holdings	10-15
Infrastructure	15-20
Houses	15-25
Buildings and Improvements	15-30

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

Compensated Absences: Employee vacation pay is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued vacation payable in the *Statement of Net Assets*, and as a component of the compensation and benefit expense in the *Statement of Revenues, Expenses, and Changes in Net Assets*. Determination of the current liability portion is based on the average of the last two fiscal years' actual experience for those employees who have terminated their services.



NOTE 2: Summary of Significant Accounting Policies (continued):

Noncurrent Liabilities: Noncurrent liabilities include (1) principal amounts of bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year, (2) accrued compensated absences and other liabilities that will not be paid within the next fiscal year and (3) other liabilities that, although payable within one year, are to be paid from funds that are classified as noncurrent assets.

Net Assets: The University's net assets are classified as follows:

Invested in Capital Assets, net of related debt- These represent the University's total investment in capital assets, net of outstanding debt related to those capital assets.

Restricted net assets, expendable- These include resources the University is legally and contractually obligated to use in accordance with restrictions imposed by third parties.

Restricted net assets, nonexpendable- These include 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 inviolate and in perpetuity, and is invested for the purpose of producing present and future income, which may be expended or added to the principal.

Unrestricted net assets- These assets represent resources derived from student tuition and fees, state appropriations, sales and services of educational departments, and auxiliary enterprises. These sources may be used at the discretion of the Board of Trustees to meet current expenses for a variety of purposes.

When an expense is incurred that can be paid using either restricted or unrestricted sources, the University's policy is first to apply the expense towards unrestricted resources, and then toward restricted resources.

Income Taxes: The University is tax exempt from state income taxes under Arkansas law. It is also tax exempt under Internal Revenue Service Code (Section 115(1)), except for unrelated business income tax. No provision for this tax is made in the financial statements due to materiality.



NOTE 2: Summary of Significant Accounting Policies (continued):

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, and (3) other receipts, which include sales and services of educational activities.

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 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, investment income, and grants received for student financial assistance.

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 are the difference between the stated charge for goods and services provided by the University and the amount that is paid by the students and/or third parties making payment on behalf of the students.

NOTE 3: Cash, Cash Equivalents, and Investments: Cash deposits are carried at cost. The agency's cash deposits at year-end are shown below.

Investments are stated at fair market value. The University's investments at year-end are shown by category to give an indication of the level of risk assumed by the University.

UNIVERSITY OF CENTRAL ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004



NOTE 3: Cash, Cash Equivalents, and Investments (continued):

Category 1-Includes investments that are insured or registered 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 in the broker's and/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 in the broker or dealer account by their trust department or agent but not in the University's name.

Cash, Cash Equivalents, and Investments:

	Risk Category			Fair Market	
	1	2	3	Cost	Value
Mutual funds			3,518,336	3,518,336	3,899,925
Cash in treasury	479,110			479,110	479,110
Cash in bank	7,778,351		7,200,164	14,978,515	14,978,515
Imprest accounts	7,275			7,275	7,275
Totals	8,264,736	-	10,718,500	18,983,236	19,364,825

UNIVERSITY OF CENTRAL ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004



NOTE 4: Accounts Receivable:

Accounts receivable consist of the following at June 30, 2004:

Student tuition and fees	719,832
Auxiliary enterprises	373,645
Perkins loans	6,334,863
State of Arkansas	871,467
Federal and private grants and contracts	466,964
Other	772,299
	<hr/>
Totals	9,539,070
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NOTE 5: Inventories:

Inventories consist of the following at June 30, 2004:

Storeroom	87,605
Maintenance	257,066
Postage	33,394
Housing	60,065
Other	13,384
	<hr/>
Totals	451,514
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UNIVERSITY OF CENTRAL ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004



NOTE 6: Capital Assets: Capital assets are stated as follows at cost or, if contributed, at fair market value on date of gift:

INVESTMENT IN CAPITAL ASSETS

	7/1/2003			6/30/2004
	July 1, 2003			June 30, 2004
	Balance	Additions	Deductions	Balance
Capital Assets not Being Depreciated				
Land	6,621,737	1,001,631	-	7,623,368
Construction in Progress	1,404,098	1,375,742	990,632	1,789,208
Archives	566,232	2,500	-	568,732
Total Capital Assets not Being Depreciated	8,592,067	2,379,873	990,632	9,981,308
Other Capital Assets				
Infrastructure	11,626,176	1,276,177	-	12,902,353
Buildings	128,078,512	7,172,314	23,638	135,227,188
Furniture and Equipment	12,468,500	1,080,647	932,458	12,616,689
Library Holdings	18,634,150	993,189	245,443	19,381,896
Total Other Capital Assets	170,807,338	10,522,327	1,201,539	180,128,126
Less Accumulated Depreciation for				
Infrastructure	4,725,777	556,392	-	5,282,169
Buildings	49,481,280	3,673,649	9,061	53,145,868
Furniture and equipment	7,520,327	1,033,506	619,531	7,934,302
Library holdings	9,266,450	1,202,075	-	10,468,525
Total Accumulated Depreciation	70,993,834	6,465,622	628,592	76,830,864
Total Other Capital Assets, net	99,813,504	4,056,705	572,947	103,297,262
Capital Assets Summary:				
Capital Assets not being depreciated	8,592,067	2,379,873	990,632	9,981,308
Other capital assets, at cost	170,807,338	10,522,327	1,201,539	180,128,126
Less: Accumulated Depreciation	70,993,834	6,465,622	628,592	76,830,864
Total Other Capital Assets, net	99,813,504	4,056,705	572,947	103,297,262
Capital Assets, net	108,405,571	6,436,578	1,563,579	113,278,570

UNIVERSITY OF CENTRAL ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004



NOTE 7: Loans Receivable:

Student loans made through the Federal Perkins Loan Program comprise substantially all of the loans receivable at June 30, 2004. Under this program, the federal government provides funds for approximately 75% of the total contribution for student loans with the University funding the balance. Under certain conditions such loans can be forgiven at annual rates of 10% to 30% of the original balance up to the maximums of 50% to 100% of the original loan. The federal government reimburses the University to the extent of 10% of the amounts of loans originated prior to July 1, 1993, under the Federal Perkins Loan Program.

As the University determines the loans are uncollectible and not eligible for reimbursement by the federal government, the loans are written off and assigned to the U.S. Department of Education. The University is not obligated to repay the federal portion of the uncollected student loans. The University's portion of the loans is funded on an annual basis.

NOTE 8: Deferred Revenue:

Deferred revenue consists of the following at June 30, 2004:

Prepaid tuition and fees	901,107
Continuing education fees	110,130
Other deferred income	<u>418,102</u>
Totals	<u><u>1,429,339</u></u>

UNIVERSITY OF CENTRAL ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004



NOTE 9: Early Retirement of Debt and Noncurrent Liabilities:

In May 2003, the Board of Trustees of the University authorized the early retirement of the 1965H and 1967A housing issues to be paid by the trustee on October 1, 2003 with the funds in excess of the debt reserve requirement for the other housing issues. Prior to the early retirement, the 1965H issue had a principal balance of \$153,000 that was to be paid in annual installments until April 1, 2005 and the 1967A issue had a principal balance of \$372,000 that was to be paid in annual installments until April 1, 2007. As a result, these bonds have been paid in full and the liability for these bonds has been removed from the general long-term debt. A summary of noncurrent liabilities as of June 30, 2004, follows:

	Balance			Balance	Amounts
	July 1, 2003	Additions	Reductions	June 30, 2004	due within
					one year
Bonds and Notes Payable:					
Revenue bonds	52,750,000	-	2,115,000	50,635,000	1,630,000
Note payable	335,000	-	80,000	255,000	80,000
Premium on bonds payable	167,765	-	7,335	160,430	7,335
Annuity agreement	430,431	90,534	-	520,965	62,500
Total bonds, notes and annuity	53,683,196	90,534	2,202,335	51,571,395	1,779,835
Other Liabilities:					
Accrued compensated absences	1,532,103	193,205	-	1,725,308	93,125
Deposits and funds held in trust	1,279,190	118,515	-	1,397,705	725,745
Total other liabilities	2,811,293	311,720	-	3,123,013	818,870
Total Long Term Liabilities	56,494,489	402,254	2,202,335	54,694,408	2,598,705

UNIVERSITY OF CENTRAL ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004



NOTE 9: Early Retirement of Debt and Noncurrent Liabilities (continued):

Fiscal Year	Bonds	Loan	Total Principal	Interest	Total Payments
2005	1,630,000	80,000	1,710,000	2,586,689	4,296,689
2006	1,695,000	85,000	1,780,000	2,514,360	4,294,360
2007	1,760,000	90,000	1,850,000	2,437,835	4,287,835
2008	1,820,000		1,820,000	2,364,775	4,184,775
2009	1,905,000		1,905,000	2,290,009	4,195,009
2010-2014	11,025,000		11,025,000	10,028,895	21,053,895
2015-2019	9,470,000		9,470,000	7,449,311	16,919,311
2020-2024	9,820,000		9,820,000	4,769,389	14,589,389
2025-2029	8,645,000		8,645,000	2,074,868	10,719,868
2030-2033	2,865,000		2,865,000	334,650	3,199,650
Totals	50,635,000	255,000	50,890,000	36,850,781	87,740,781

Date of Issue	Date of Maturity	Interest Rate	Amount Issued	Debt O/S June 30, 2004	Maturities as of June 30, 2004
1999	2006	4.6-5.0	585,000	255,000	330,000
1996A	2021	4.0-6.0	5,625,000	5,000,000	625,000
1996B	2026	5.4-7.5	5,000,000	4,390,000	610,000
1996C	2026	5.4-7.5	5,000,000	4,390,000	610,000
1997A	2028	4.75-7.75	6,500,000	6,015,000	485,000
1997B	2028	5.2-7.0	550,000	445,000	105,000
1997C	2028	5.2-7.0	2,000,000	1,620,000	380,000
1998	2029	4.1-7.0	6,170,000	5,585,000	585,000
2000	2031	5.3-6.5	8,000,000	7,705,000	295,000
2003A	2033	2.0-5.0	8,015,000	7,870,000	145,000
2003B	2023	2.0-4.5	8,205,000	7,615,000	590,000
Totals			55,650,000	50,890,000	4,760,000

UNIVERSITY OF CENTRAL ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004



NOTE 9: Early Retirement of Debt and Noncurrent Liabilities (continued):

The University is no longer required to maintain certain renewal and replacement reserves, but it did maintain a debt service reserve aggregating \$1,320,003 in 2004.

NOTE 10: Commitments: The University was contractually obligated for the following at June 30, 2004:

Project Name	Estimated Completion Date	Contract Balance
Wingo Hall	December 2005	4,558,906
Indoor Athletic Facility	November 2004	1,407,057
Baseball Field Parking	September 2004	12,000
Stadium Park Parking	September 2004	200,494
Demolition of Army Reserve	August 2004	35,000
Repairs of Bridge	August 2004	58,200
Renovation of Residence Halls	August 2004	176,123
Renovation of Stadium Park Apts.	August 2004	381,128

NOTE 11: Retirement Plans:

The University provides eligible employees the opportunity to participate in an alternate retirement plan, TIAA-CREF, and three defined benefit plans, the Arkansas Teachers Retirement System, Arkansas Public Employees Retirement System, and Supplemental Retirement Accounts.

Alternate Retirement Plan: The plan is administered by Teachers' Insurance and Annuity Association/College Retirement Equities Fund (TIAA/CREF)

Plan Description: The University's Alternate Plan through TIAA/CREF is a defined contribution plan. The plan is a 403 (b) program as defined by Internal Revenue Service Code of 1986 as amended. TIAA is an insurance company offering participants a traditional annuity with guaranteed principal and a specific interest rate plus the opportunity for additional growth through dividends. CREF is an investment company which offers a variable annuity. Arkansas Code Annotated authorized participation in the plan.



NOTE 11: Retirement Plans (continued):

Funding Policy: The Alternate Plan is a contributory plan in which members must contribute at least 6% of their earnings to the plan. The University contributes an amount equal to 10% of earnings for members. The University's and the participants' contributions for the year ended June 30, 2004, were \$2,998,918 and \$2,159,484, respectively.

Arkansas Teacher Retirement System- Plan Description: The University contributes to the Arkansas Teacher Retirement (ATRS), a cost-sharing multiple-employer defined benefit pension plan for employees who do not elect the retirement plan. ATRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit and contribution provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Teacher Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for ATRS. That report may be obtained by writing to Arkansas Teacher Retirement System, 1400 West Third Street, Little Rock, Arkansas 72201 or by calling 1-800-666-2877.

Funding Policy: ATRS has contributory and non-contributory plans. Contributory members are required by code to contribute 6% of their salary. Each participating employer is required by code to contribute at a rate established by the Arkansas General Assembly. The fiscal year 2004 employer rate was 13%. The University's contributions to ATRS for the years ended June 30, 2004, 2003, 2002 were \$486,653, \$356,101, and \$342,446, respectively, equal to the required contributions for each year.

Arkansas Public Employees Retirement System- Plan Description: The University contributes to the Arkansas Public Employees Retirement System (PERS), a cost-sharing multiple-employer defined benefit pension plan. Employees may elect coverage under PERS as a qualified retirement system. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit and contribution provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for PERS. That report may be obtained by writing to Arkansas Public Employees Retirement System, One



NOTE 11: Retirement Plans (continued):

Union National Plaza, 124 W. Capitol, Little Rock, Arkansas 72201
or by calling 1-800-682-7377.

Funding Policy: PERS is a non-contributory plan. Each participating employer is required by code to contribute at a rate established by the Arkansas General Assembly. The current statutory employer rate is 10% of annual covered payroll. The University's contributions to PERS for the years ended June 30, 2004, 2003, and 2002, were \$757,889, \$652,247, and \$594,205, respectively, equal to the required contributions for each year.

Supplemental Retirement Accounts- Plan Description: The University provides all employees with the voluntary option of participating in a supplemental account with TIAA-CREF or Valic. The vendors provide contracts to the participants upon participation and all contributions are the property of the participants.

Funding Policy: Participants' contributions are tax-sheltered and contributions limits are based upon annual pre-tax calculations. The University makes no contributions to supplemental accounts. Participants' contributions for the year ended June 30, 2004, were \$538,948.

NOTE 12: Annuity Payable:

The Agency entered into a trust agreement for land and housing facilities located in Conway, Arkansas, on September 1, 1992, with Doyle W. and Eleanor F. Baldrige. The property consists of apartments located at 229 and 232 Elizabeth and 2003 and 2005 Bruce, and land adjacent to the buildings. The total acreage is approximately 2.09. The property was appraised at \$766,000. The life annuity to be received annually by the Baldriges is \$62,500. The university has estimated that there should be adequate income from the apartments to pay this annuity.

The annuity payable at June 30, 2004, was \$520,965 based on the longest life expectancy of the two. Adjustments to the annuity payable will be made yearly to reflect the present value of expected future payments to the Baldriges based upon their life expectancy and expected earnings rate of fund investments.

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NOTE 13: Claims and Judgments/Contingencies:

The following claims and potential judgments/contingencies existed as of June 30, 2004:

Crittenden County Litigation- As of June 30, 2004, lawsuits were pending in the Circuit Court of Crittenden County, Arkansas, as well as before the Arkansas State Claims Commission. The litigation all relates to an automobile accident on March 10, 2000, in which a University of Central Arkansas employee, Mary Landreth, was involved.

In Crittenden County Circuit Court, UCA's Insurance carrier has paid \$500,000, the limits of the policy, into the registry of the court to be divided among the plaintiffs. After the Crittenden County litigation is finally resolved, the Arkansas State Claims Commission will consider the claims filed (which request \$3.9 million for all injured parties). No trial date has been set before the Claims Commission. An award, if any, by the Claims Commission would then be considered by the Arkansas General Assembly.

Robin Matthews- Robin Matthews vs. UCA, City of Conway, Arkansas, and City of Bentonville, Arkansas: U.S. District Court, Eastern District of Arkansas, Western Division, Case No. 4-03-CV10002 GH. This is a suit brought by a former officer of the University of Central Arkansas Police Department alleging sex discrimination and other matters. Ms. Matthews resigned from the police force effective March 5, 2003. She then filed an EEOC complaint. The EEOC determined that it could not conclude that UCA was violating any of the federal statutes cited by Ms. Matthews. Ms. Matthews filed suit in federal district court against the three defendants. Answers have been filed denying her claim. This case is set for trial in early 2005.

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NOTE 13: Claims and Judgments/Contingencies (Continued):

Arch Bradley- Arch Bradley vs. UCA and Larry James, UCA Chief of Police: U.S. District Court, Eastern District of Arkansas, Western Division, Case No. 4-04-00567. Mr. Bradley was terminated from the UCA police department by letter dated March 16, 2004. He then filed an EEOC complaint on March 31, 2004, against UCA alleging age discrimination in the termination of his employment. The EEOC determined that it could not conclude that UCA violated any federal statute. Mr. Bradley then filed suit in U.S. District Court, Eastern District of Arkansas, Western Division, against UCA and Chief Larry James. The suit was filed on June 10, 2004, but the defendants were not served until mid-September of 2004. Answers will be filed, and discovery will be conducted. No trial date has been set.

NOTE 14: Natural Classifications with Functional Classifications:

The University operating expenses by functional classification were as follows:

Year Ended June 30, 2004
Natural Classification

Functional Classification	Personal Services	Scholarships	Supplies	Depreciation	TOTAL
Instruction	35,872,443		5,245,965		41,118,408
Research	863,279		252,663		1,115,942
Public service	455,017		325,985		781,002
Academic support	4,680,743		1,213,451		5,894,194
Student services	2,534,156		1,164,783		3,698,939
Institutional support	5,524,573		627,948		6,152,521
Operation of plant	4,690,786		3,407,316		8,098,102
Scholarships		2,864,108			2,864,108
Auxiliary enterprises	4,116,941	951,018	11,126,224		16,194,183
Depreciation				6,465,622	6,465,622
Total Expenses	58,737,938	3,815,126	23,364,335	6,465,622	92,383,021