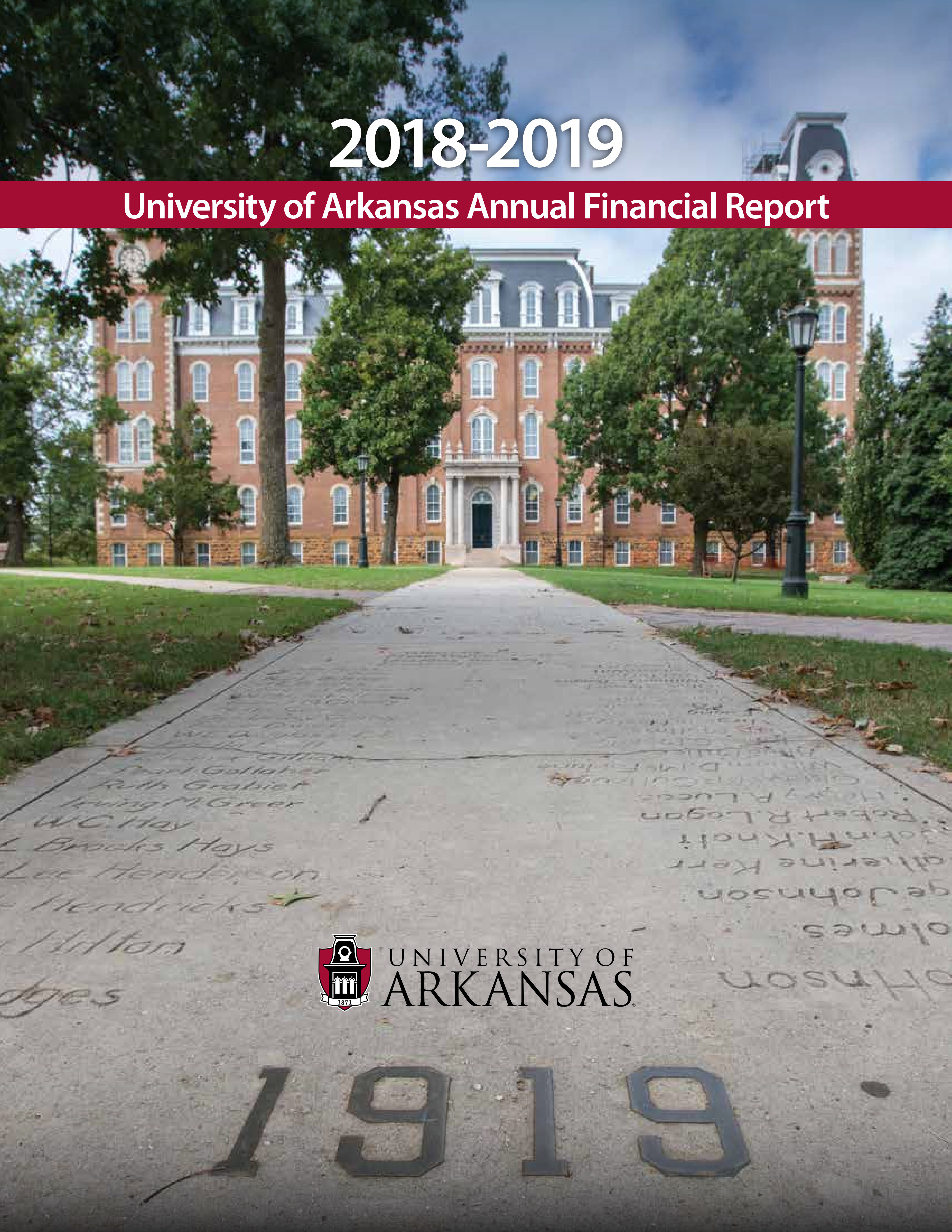
# 2018-2019

## University of Arkansas Annual Financial Report




UNIVERSITY OF ARKANSAS


1871
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ARKANSAS



# TABLE OF CONTENTS

The University of Arkansas


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UNIVERSITY OF
ARKANSAS

# MESSAGE FROM THE CHANCELLOR

Thank you for your interest in the annual financial report of the University of Arkansas. As the state's flagship university, we know how important it is to be good stewards of state resources. State resources, however, are just one component of university finances. Tuition dollars, research grants, private gift support, and various auxiliaries like housing and athletics are also critical parts of the budgetary mix. Whatever its source, it's important that we can account for how every dollar is acquired and spent.

This financial report reflects our desire to be completely open in our financial accounting. Nevertheless, it must represent the diversity and complexity of financing a major public research university. While we tried to make this report as clear and straightforward as possible, it will never be mistaken as light reading.

As detailed in these pages, it should be clear that university finances are in great shape. Private giving continues to be strong. Last year, the University had another exceptional year of fundraising, exceeding our original goal of $125.6 million by nearly $40 million. The highlight of the year was a $23.7 million dollar gift from the Walton Family Charitable Support Foundation to support research and economic development of the state. This pushed us past the $1.1 billion mark for Campaign Arkansas and closer to our goal of $1.25 billion.

We also had an increase of $47 million dollars in our net position this year, which some people refer to as our reserves, due to earnings on investments and the refinancing of some bonds, as well as other changes made in managing our finances. This money will be used to do much needed renovation work around campus as well as enable us to borrow a little less for planned projects like the Student Success Center and a new research building, among other things.

It also bears mentioning that we are in the process of implementing Workday as our new ERP system. This system will integrate and streamline processes while creating substantial cost savings. In fact, Workday licensing will cost approximately $1 million less per year than the current maintenance costs of hardware and software for BASIS and UAConnect. So while there will be some short term pain in adopting a system of this size and complexity, it will pay long-term dividends.

This is all to say your university is in good hands. We care about the bottom line and we take pride in the sound fiscal management of university resources. We also welcome the opportunity to share that information with our stakeholders across the state.

Thank you so much for your support.

Joe E. Steinmetz

Joe Steinmetz
Chancellor

# PROGRESS AND MAJOR INITIATIVES

## Private Gift Support Impacts the Institution

The University of Arkansas continues to rely on private gift support from alumni, friends, corporations and foundations to support students, faculty, staff, programs and facilities on campus. Fiscal year 2019 was the penultimate fundraising year for Campaign Arkansas and another strong year overall. The university recorded $163.4 million in private gift support, surpassing its production goal of $125.6 million, and included gifts of cash, gifts-in-kind, planned gifts and new pledges to the U of A received from July 1, 2018, through June 30, 2019.

Every aspect of the University of Arkansas campus benefits from philanthropy. Students are supported through academic and need-based scholarships and fellowships, as well as innovative programs funded through private gift support. Faculty are recruited and retained with endowed positions and research funding and thereby increase the quality of education offered to the students. And facilities are built and improved upon to keep up with the demands of a growing campus population and collaborative educational needs.

Approximately $17.8 million of the total amount raised was directed by donors to be used as endowment when received. Cash receipts, which include pledge payments, outright gifts and estate and planned gift distributions, reached $151.8 million in fiscal year 2019. More than 52,000 benefactors contributed 101,253 outright gifts and new pledges during the fiscal year.

Gifts from individuals such as alumni, friends, parents, faculty and staff made up 16 percent of the $163.4 million raised during the 2019 fiscal year. Another 35 percent came from corporations, while 40 percent came from foundations and 9 percent came from other organizations, including trusts and estates. All private gifts to the university are designated and allocated for specific purposes set forth by each donor and used solely for those purposes. The university makes every effort to align donors' giving interests with campus priorities.

Support for capital improvements accounted for 39 percent of the money raised, 31 percent provided for student scholarships and academic programs, 18 percent supported other key initiatives and 12 percent supported faculty and staff.

Fundraising totals reached $108.1 million in 2012, $108.4 million in 2013, $113.3 million in 2014, $116.5 million in 2015, $131.6 million in 2016, $134.2 million in 2017 and $292.7 million in 2018.

The following gifts of $500,000 or more were announced publicly during fiscal year 2019.

- A $23.7 million investment from the Walton Family Charitable Support Foundation for the university's research and economic development infrastructure. The gift will strengthen the university's research engine, driving innovation across disciplines, leading to the commercialization of new technologies and ultimately enhancing economic activity in the state.

- A $1 million gift from Ansel and Virginia Condray to create the Babcock and Condray Families Innovative Teaching Endowment in Chemical Engineering for the College of Engineering.

- A planned gift of more than $1 million from Jean Cameron "Cami" Jones to benefit the Fay Jones School of Architecture and Design and University Libraries. Half of Jones's gift will provide funding for the Fay and Gus Jones House Stewardship Endowment, and the remaining half will be used to create two new endowments – the Fay Jones Distinguished Visitor Endowment and the Fay and Gus Jones Endowment in Special Collections.

- A pledge of $500,000 to the Department of Civil Engineering in the College of Engineering for financial support for concrete pavement initiatives, research and related activities. The gift was made by the Oklahoma/Arkansas chapter of the American Concrete Pavement Association.

- Kelly and Steve Barnes committed $500,000 to the Sam M. Walton College of Business to create the Kelly and Steve Barnes Health and Wellbeing Innovation Fund, which will promote collaborations between health care and business.

## Campaign Arkansas

Campaign Arkansas launched to the public in fiscal year 2017 with a working goal of $1 billion, which was increased to $1.25 billion after a vote from the Campaign Arkansas Steering Committee in spring 2018. The campaign, which began July 1, 2012, and will run through June 30, 2020, is a comprehensive fundraising campaign focused on advancing academic opportunity at the University of Arkansas.

Gifts to the campaign will help students from across Arkansas access higher education at the U of A and foster their success. The campaign will also build meaningful resources for teaching and research, grow innovative and collaborative programs and enhance the university's facilities and technology. Campaign Arkansas is poised to make a difference for the university and the state today and for generations to come.

At the end of fiscal year 2019, $1.11 billion was raised toward the goal, and $253 million had been allocated to the university's endowment.

**Gifts by Purpose**

| | |
|---|---|
| Student Support | 13% |
| Faculty Support | 13% |
| Capital | 38% |
| Programs | 29% |
| Other | 7% |

**Gifts by Source**

| | |
|---|---|
| Individuals | 25% |
| Corporations | 28% |
| Foundations | 40% |
| Other Organizations | 7% |

Campaign *Arkansas*

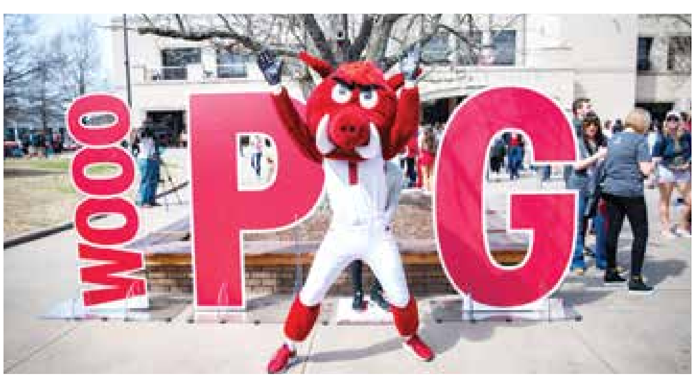
## Advance Arkansas

The Advance Arkansas scholarship initiative was launched in the spring of 2017 to catalyze the potential of the state's rising leaders by giving them resources to succeed academically at a nationally competitive institution. Advance Arkansas scholarships emphasize the following student support areas: (1) First Generation, which is awarded to new freshmen who aspire to be first in their families to earn a four-year college degree, (2) Community Leader, which is awarded to new freshmen who demonstrate significant acts of service within their communities, (3) Resilient Razorback, which is awarded to U of A students who have persisted in maintaining a compelling academic record, and (4) Talented Transfer, which is awarded to incoming transfer students with a strong academic record and commitment to degree completion at the U of A.

The University of Arkansas has raised $6.5 million toward the Advance Arkansas scholarship initiative through fiscal year 2019. Twenty scholarships were awarded in fall 2018 and spring 2019, and an additional 69 were offered for fall 2019.

## All In for Arkansas

The university hosted its fourth annual giving day, All In for Arkansas, on April 3-4 to commemorate the 148th birthday of the U of A. The effort shattered records and raised $465,123 during a 1,871-minute period from 1,420 gifts. More than $125,000 was raised for the university's new Student Success Center during the virtual birthday celebration.





ALL IN
DATE 4/3/19
PAY TO THE ORDER OF R.O.C.K. Camp Scholarships $500.00
Five hundred and 00/100 DOLLARS
MEMO Mystery Cake Tasting
#ALLIN4ARKANSAS


Thanks FOR GOING
#ALL IN 4 ARKANSAS
#ALLIN4ARKANSAS
ARE YOU ALL IN?
LIVE TO GIVE
#ALLIN4ARKANSAS


DEDICATED TO ARKANSAS


Thanks FOR GOING
#ALL IN 4 ARKANSAS
HAPPY BIRTHDAY
U OF A

## Awards Enable Cutting-Edge Research

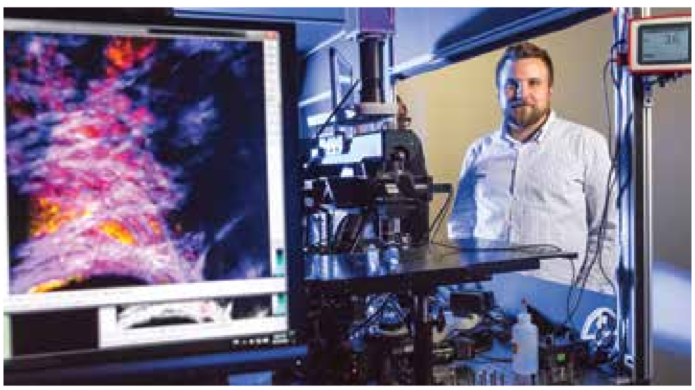
Federal agencies, research foundations and top industries alike turn to the University of Arkansas to solve problems, advance technology and better our world.

University of Arkansas research expenditures totaled over $172.6 million in fiscal year 2019, a 10 percent increase over three years. This total, which includes research expenditures from the University of Arkansas System's Division of Agriculture, was small decrease from last year's total expenditures because of a change in the way the National Science Foundation calculates expenditures, which removed administrative costs from the total. Total expenditures including administrative costs was $177.6 million.

The University of Arkansas continued its growth in research funding, receiving more funding in fiscal year 2019 than previous years. The funding supported the university's mission in three key Signature Research Areas: Advancing the Data Revolution, Improving Human Health and Community Vibrancy and Innovating a Resilient and Sustainable Future.

The Office of Research and Sponsored Programs was awarded $112 million in research funding in fiscal year 2019, including awards made to the Division of Agriculture.

"Research activity at the U of A has more than doubled in the last decade, and increasing interdisciplinary collaboration through team-based project has played a major role in that growth," said Dan Sui, vice chancellor for research and innovation.









## Among the Sponsored-Research Highlights of FY19:

A $23.7 million grant from the Walton Family Charitable Support Foundation helped strengthen and grow the university's research engine through expanded research infrastructure that increases processing capacity and efficiencies in grant processing as well as support the growth of commercialization of discoveries and economic development. Through that support the university is poised to continue to grow its research and discovery mission and increase multidisciplinary research activity.

Awards from the **National Science Foundation** totaled $18.6 million, including awards for research into cybersecurity, biomedical engineering, physics, power electronics, STEM education and alternative fuels.

The **U.S. Department of Energy** awarded a total of $11.43 million for various programs, including grants focused on developing technology to upgrade the nation's powergrid and building converters and inverters for renewable energy.

The **U.S. Department of Education** awarded $10.2 million to support research efforts focused on studying student mobility, access and outcomes.

The **National Institutes of Health** awarded $3.6 million for research focusing into child obesity, biomarkers and disease diagnosis.








# LETTER OF TRANSMITTAL

November 19, 2019

Chancellor Steinmetz,
President Bobbitt, and
Members of the Board of Trustees

I am pleased to present the annual Financial Report of the University of Arkansas for the year ended June 30, 2019. The report includes the annual financial statements, Management's Discussion and Analysis and supplemental information to assist the reader in clearly understanding the University's financial activities and outcomes.

University management is responsible for the accuracy and completeness of the information presented, including all disclosures. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and, as such, include amounts based on judgments and estimates by management.

State law, federal guidelines and certain bond covenants require the University's accounting and financial records be audited each year. The University's annual audit is performed by Arkansas Legislative Audit. The reports resulting from the audit are shared with University management and the Board of Trustees. For the year ended June 30, 2019, Arkansas Legislative Audit issued an unmodified opinion, the most favorable outcome of the audit process. The independent auditor's report follows this letter of transmittal.

The University maintains a system of internal controls over financial reporting. Such controls are designed to identify internal control weaknesses in order to permit management to take appropriate corrective action on a timely basis. Because the cost of internal controls should not exceed the anticipated benefits, the objective is to provide management with reasonable, although not absolute, assurance that the financial statements are free of material misstatements.

Based on the above, I certify that the information contained in the accompanying financial statements fairly presents, in all material respects, the financial condition, changes in net position and cash flows of the University.

Sincerely,

Michael W. White

Michael W. White
Interim Vice Chancellor for Finance and Administration

# INDEPENDENT AUDITOR'S REPORT

Arkansas



LEGISLATIVE JOINT AUDITING COMMITTEE
ARKANSAS LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

University of Arkansas, Fayetteville
Legislative Joint Auditing Committee

**Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the University of Arkansas, Fayetteville (University), an institution of higher education of the State of Arkansas, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the University of Arkansas Fayetteville Campus Foundation, Inc., the Razorback Foundation, Inc., and the Arkansas 4-H Foundation, Inc., which represents 100% of the assets and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the University of Arkansas Fayetteville Campus Foundation, Inc., the Razorback Foundation, Inc., and the Arkansas 4-H Foundation, Inc., is based solely 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 from material misstatement. The financial statements of the University of Arkansas Fayetteville Campus Foundation, Inc., the Razorback Foundation, Inc., and the Arkansas 4-H Foundation, Inc. were not audited in accordance with *Government Auditing Standards.*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Opinions***

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the University as of June 30, 2019, and the respective changes in financial position, and where applicable, cash flows thereof for the year ended in accordance with accounting principles generally accepted in the United States of America.

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www.arklegaudit.gov

***Other Matters***

*Prior Year Comparative Information*

We have previously audited the University's 2018 financial statements, and we expressed unmodified opinions on the respective financial statements of the business-type activities and the aggregate discretely presented component units in our report dated November 13, 2018. In our opinion, the comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, certain information pertaining to postemployment benefits other than pensions, and certain information pertaining to pensions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

ARKANSAS LEGISLATIVE AUDIT

Roger A. Norman

Roger A. Norman, JD, CPA, CFE, CFF
Legislative Auditor

Little Rock, Arkansas
November 19, 2019

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Introduction

The University of Arkansas (the University) is pleased to present its financial statements for fiscal year 2019, with comparative figures for fiscal year 2018. The University's financial statements, notes to the financial statements and discussion and analysis are the responsibility of, and have been prepared by management.

The discussion and analysis should be read in conjunction with financial statements and notes. All references to "2019", "2018" or another year refer to the fiscal year ended June 30, unless otherwise noted.

## Overview of the Financial Report and Financial Analysis

The University's financial report includes three basic financial statements: the Statement of Net Position, which presents the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the University as of the fiscal year end; the Statement of Revenues, Expenses, and Changes in Net Position, which reflects revenues and expenses recognized during the fiscal year; and the Statement of Cash Flows, which provides information on the major sources and uses of cash during the fiscal year. These financial statements and related note disclosures are prepared in accordance with standards issued by the Governmental Accounting Standards Board (GASB) and present a comprehensive, entity-wide perspective. Financial statements are prepared under the accrual basis of accounting, whereby revenues and assets are recognized when services are provided, and expenses and liabilities are recognized when others provide the services, regardless of when cash is exchanged. The report also includes other required supplementary information for other post-employment benefits and pension liabilities.

Effective for the year ended June 30, 2019, the University elected early implementation of GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period.* This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred. As a result, interest cost incurred before the end of a construction period will no longer be included in the historical cost of a capital asset beginning with the fiscal year ended June 30, 2019. The total amount of interest cost incurred was $35,064,908 for the fiscal year ended June 30, 2019. The total amount of interest cost incurred and the net amount thereof that has been capitalized was $34,542,620 and $5,355,064, respectively, for the fiscal year ended June 30, 2018.

The University has identified two legally separate foundations: The University of Arkansas Fayetteville Campus Foundation, Inc. and the Razorback Foundation, Inc. that meet the criteria set forth for component units under GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units.* These Foundations provide financial support for the objectives, purposes and programs of the university. Although the university does not control the timing, purpose or amount received by these Foundations; the resources (and income thereon) they hold and invest are dedicated to benefit the University. Because these resources held by the Foundations can only be used by, or for the benefit of, the University, they are considered component units and are discretely presented in the financial report. Additional information about component units is provided at Notes to the Financial Statements (Note) No. 1 "Summary of Significant Accounting Policies", under the "Discretely Presented Component Units" heading.

Note 17, "Other Entities" refers to the University of Arkansas Foundation, Inc., (the Foundation). The University is the beneficiary of only 52.4% of the net assets of the Foundation; therefore, the Foundation does not meet the requirements of a component unit.

## Statement of Net Position

The Statement of Net Position provides a fiscal snapshot of the University as of the end of the fiscal year. All assets (property that we own and what we are owed by others), deferred outflows of resources (consumption of net position by the University that is applicable to a future reporting period), liabilities (what we owe to others and have collected from others before we have provided the service), deferred inflows of resources (acquisition of net position by the University that is applicable to a future reporting period) and net position (assets and deferred outflows of resources minus liabilities and deferred inflows of resources) are reported in this statement. Assets and liabilities are presented in the order of their relative liquidity and are identified as current or noncurrent. Current assets are those assets that can be realized in the coming year, and current liabilities are expected to be paid within the next year. Noncurrent assets and liabilities are not expected to be realized as cash or paid in the subsequent year. Assets, deferred outflows of resources, liabilities and deferred inflows of resources are generally measured using current values. One exception is capital assets, which are stated at historical cost less accumulated depreciation.

Net Position is presented in four categories:

*Net invested in capital assets* – capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

*Restricted nonexpendable* - net position subject to externally imposed stipulations that it be maintained permanently by the University.

*Restricted expendable* - net position whose use by the University is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time.

*Unrestricted* - net position that is not subject to externally imposed stipulations but can be used at the discretion of the governing board to meet current expenses for any purpose if not limited by contractual agreements with outside parties.

The following summarizes the University's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position as of June 30, 2019, and 2018:

**Condensed Summary of Net Position**

| | | 2019 | | 2018 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Current Assets | $ | 592,522,447 | $ | 558,376,658 |
| Capital Assets, Net of Depreciation | | 1,464,377,332 | | 1,352,861,276 |
| Other Noncurrent Assets | | 153,265,479 | | 215,524,414 |
| **Total Assets** | **$** | **2,210,165,258** | **$** | **2,126,762,348** |
| **Total Deferred Outflows of Resources** | **$** | **18,299,296** | **$** | **21,575,374** |
| **LIABILITIES** | | | | |
| Current Liabilities | $ | 141,248,310 | $ | 146,769,799 |
| Noncurrent Liabilities | | 882,325,677 | | 892,685,448 |
| **Total Liabilities** | **$** | **1,023,573,987** | **$** | **1,039,455,247** |
| **Total Deferred Inflows of Resources** | **$** | **5,176,476** | **$** | **3,999,153** |
| **NET POSITION** | | | | |
| Net Invested in Capital Assets | $ | 649,366,007 | $ | 584,452,193 |
| Restricted – Nonexpendable | | 31,964,919 | | 25,525,393 |
| Restricted – Expendable | | 151,070,192 | | 175,457,601 |
| Unrestricted | | 367,312,973 | | 319,448,135 |
| **Total Net Position** | **$** | **1,199,714,091** | **$** | **1,104,883,322** |

Overall, the University's total assets increased $83.4 million. A review of the Statement of Net Position reveals that most significant changes were increases in Cash and cash equivalents of $15.1 million, investments of $22.4 million, Inventories, net of $2.3 million, and Capital assets, net of depreciation of $111.5 million offset by decreases in Deposits with trustees of $52.6 million and Pledges receivable of $12.7 million.

The net change in cash and cash equivalents when compared to 2018 balances was an increase of $15.1 million. Cash and cash equivalents increased $20.1 million as result of continued growth, which was offset by shifting a net of $5 million of cash to short term investments. This shift of cash to short term investments represents a continuation of the change in philosophy that began in 2017 in how excess operating funds are managed.

Investments in total increased $22.4 million. An accounting change related to accrued income by the custodian resulted in adjustments to carrying value and income for underlying investments. Investment performance also exceeded benchmarks and resulted in increased reinvestment. During 2019, a net $5 million of cash and cash equivalents were used to purchase short term investments. Also, Cooperative Extension moved $5 million, resulting from funds received from the State, to the Total Return Pool of the University of Arkansas Foundation, which increased Other Long-Term Investments.

Deposits with bond trustees represent unspent bond proceeds and bond reserve funds. The decrease in 2019 is the net of bond proceeds totaling $30.3 million associated with one new bond issue consisting of a tax-exempt series and a taxable series and continued spending of bond proceeds for ongoing construction projects.

The increase in Capital Assets, net of depreciation, is primarily a reflection of the University acquiring capital assets at a rate greater than these assets are disposed of or depreciated. The section "Significant Changes in Capital Assets and Long-Term Debt Activity" below and Note 4 "Capital Assets" provide additional information about capital assets.

Deferred outflows of resources consist of deferred amounts on refinancing of debt, deferred outflows related to OPEB and deferred outflows related to pensions. Overall deferred outflows decreased $3.3 million. Deferred amounts on refinancing of debt decreased $1.4 million because of scheduled amortization. Deferred outflows related to OPEB increased $0.1 million. Deferred outflows related to pensions decreased $2.0 million primarily due to actuarially determined deductions. Additional information about these computations can be found at Note 12 "Employee Benefits".

Overall, liabilities decreased $15.9 million. Most of the decrease was attributable to a $10.9 million decrease in Accounts payable; a decrease in long-term debt of $4.5 million; a decrease in Pension liability of $2.4 million; and a decrease in Advance receipts of $2.2 million. These decreases are offset by an increase in Accrued payroll liabilities of $4.0 million. The decrease in Accounts payable is mainly attributable to timing differences related to capital projects. Major construction projects including the Donald W. Reynolds Razorback Stadium expansion, Health Center addition, Stadium Drive Residence Halls and the Library Annex, along with a pollution remediation project were well underway at the end of 2018 and were completed, or substantially completed by the end of 2019. Pensions experienced an actuarially determined decrease and Advance receipts were down due to a decrease in season ticket sales amounts collected prior to the end of the fiscal year. Accrued payroll liabilities increased due to a timing difference in the payment of OASDI of $1.3 million and an increase in Federal Tax Payable of $2.6 million.

The University continued its investment in facilities renewal and replacement along with the addition of new facilities and improvements in 2019. Additional information about University debt, and the projects financed with debt proceeds, is provided in the "Significant Changes in Capital Assets and Long-Term Debt Activity" discussion below and at Note 8 "Long-Term Debt".

Deferred inflows of resources related to OPEB decreased slightly less than $300 thousand because of actuarially determined reductions. Deferred inflow of resources related to pensions increased $1.5 million because of actuarially determined increases. Additional information about these computations can be found at Note 13 "Other Postemployment Benefits (OPEB)". Additional information about these computations can be found at Note 12 "Employee Benefits".

The increase in assets and decrease of deferred outflows of resources of $83.4 million and $3.3 million, respectively combined with the increase in deferred inflows of resources of $1.2 million and the decrease in liabilities of $15.9 million results in a net increase of $94.8 million in net position.

The following summarizes the composition of unrestricted net position owned by the units of the University of Arkansas Fund as of June 30, 2019 and 2018:

**Unrestricted Net Position**

| Unit | 2019 | 2018 |
|---|---|---|
| Fayetteville Campus | $ 294,112,371 | $ 250,863,538 |
| Agricultural Experiment Station | 40,659,701 | 37,636,636 |
| Cooperative Extension Service | 20,958,847 | 20,508,100 |
| Arkansas Archeological Survey | 1,172,198 | 976,373 |
| Criminal Justice Institute | 4,366,037 | 3,968,125 |
| Clinton School of Public Service | 912,656 | 917,657 |
| AREON | 5,131,163 | 4,577,706 |
| **Total Unrestricted Net Position** | **$ 367,312,973** | **$ 319,448,135** |

Unrestricted net position for the Fayetteville Campus as of June 30, 2019 and 2018 is allocated as follows:

**Unrestricted Net Position – Fayetteville Campus**

| Allocation | 2019 | 2018 |
|---|---|---|
| Working Capital | $ 750,000 | $ 750,000 |
| E & G Department Uses | 176,029,992 | 137,285,704 |
| Service Operations | 2,629,546 | 1,793,872 |
| Auxiliaries | 21,866,856 | 23,321,100 |
| Plant Funds | 78,160,957 | 72,839,511 |
| Quasi-Endowment Funds | 14,675,020 | 14,873,351 |
| **Total Fayetteville Campus Unrestricted Net Position** | **$ 294,112,371** | **$ 250,863,538** |

Although unrestricted net position is not subject to externally imposed restrictions, the majority of the University's unrestricted net position is subject to internal designations to meet various specific commitments. These commitments include reserves established for capital projects, scholarships, and other academic or research priorities; working capital for self-supporting auxiliary enterprises; reserves for the continued recognition of OPEB and pension obligations; and unrestricted quasi endowments. For 2019, the increase in reserves was primarily due to additional amounts reserved for scholarships, and other academic or research priorities or for building and maintenance reserves as denoted by the increase in E&G Department Uses and Plant Funds in the table above.

## Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position present the revenues earned and expenses incurred during the year. Activities are reported as either operating or non-operating. Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the University. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for operating revenues, and to carry out the mission of the University. Non-operating revenues are revenues received for which goods and services are not provided.

In accordance with GASB standards, significant recurring sources of University revenue such as state appropriations, gifts, investment income and certain grants and contracts are reported as non-operating revenues. As a result, the operating loss of $298.8 million is of little significance, but does highlight the University's dependency on non-operating revenues to meet the costs of operations and provide funds for the acquisition of capital assets. The utilization of capital assets is reflected in the statement as depreciation, which amortizes the cost of an asset over its expected useful life.

Changes in total net position, as presented on the Statement of Net Position, is based on the activity presented in the Statement of Revenues, Expenses and Changes in Net Position. The statement presents the revenues earned by the University, both operating and non-operating, and the expenses incurred by the University, both operating and non-operating, and any other revenues, expenses, gains and losses received or spent by the University.

The following summarizes the University's revenues, expenses and changes in net position for the years ended June 30, 2019 and 2018:

**Condensed Summary of Net Revenues, Expenses, and Changes in Net Position**

| | 2019 | 2018 |
|---|---|---|
| Operating revenues | $ 607,418,298 | $ 595,421,177 |
| Operating expenses | 906,267,759 | 866,840,393 |
| Operating loss | (298,849,461) | (271,419,216) |
| Net nonoperating revenues | 338,668,639 | 329,900,003 |
| Gain before other revenues and changes in net position | 39,819,178 | 58,480,787 |
| Other revenues and changes in net position | 55,011,591 | 73,184,165 |
| **Increase in Net Position** | **$ 94,830,769** | **$ 131,664,952** |

Operating revenue increased 2.0% or $12.0 million in 2019. Net student tuition and fees increased $10.2 million, a reflection of stable enrollment and tuition rate increases for the Fayetteville campus. Grants and contracts collectively decreased $5.6 million, with a decrease in federal sources totaling $8.7 million offset by a net increase in state and nongovernmental sources of $3.1 million. Revenue from The U.S. Department of Energy decreased $12.6 million due to the completion of a project that funded voluntary pollution remediation work at an abandoned university research site. State income rose $10.1 million in large part due to increased revenue from the Arkansas Rice Research & Promotion Board, and nongovernmental awards decreased $7.0 million as a result of decreased sponsor activity funded by private foundations and businesses. Auxiliary enterprises revenue attributable to Athletics increased $7.8 million, primarily due to increases in football ticket revenue, and multimedia rights sponsorships. The remaining auxiliary enterprises realized a net increase totaling $1.4 million collectively.

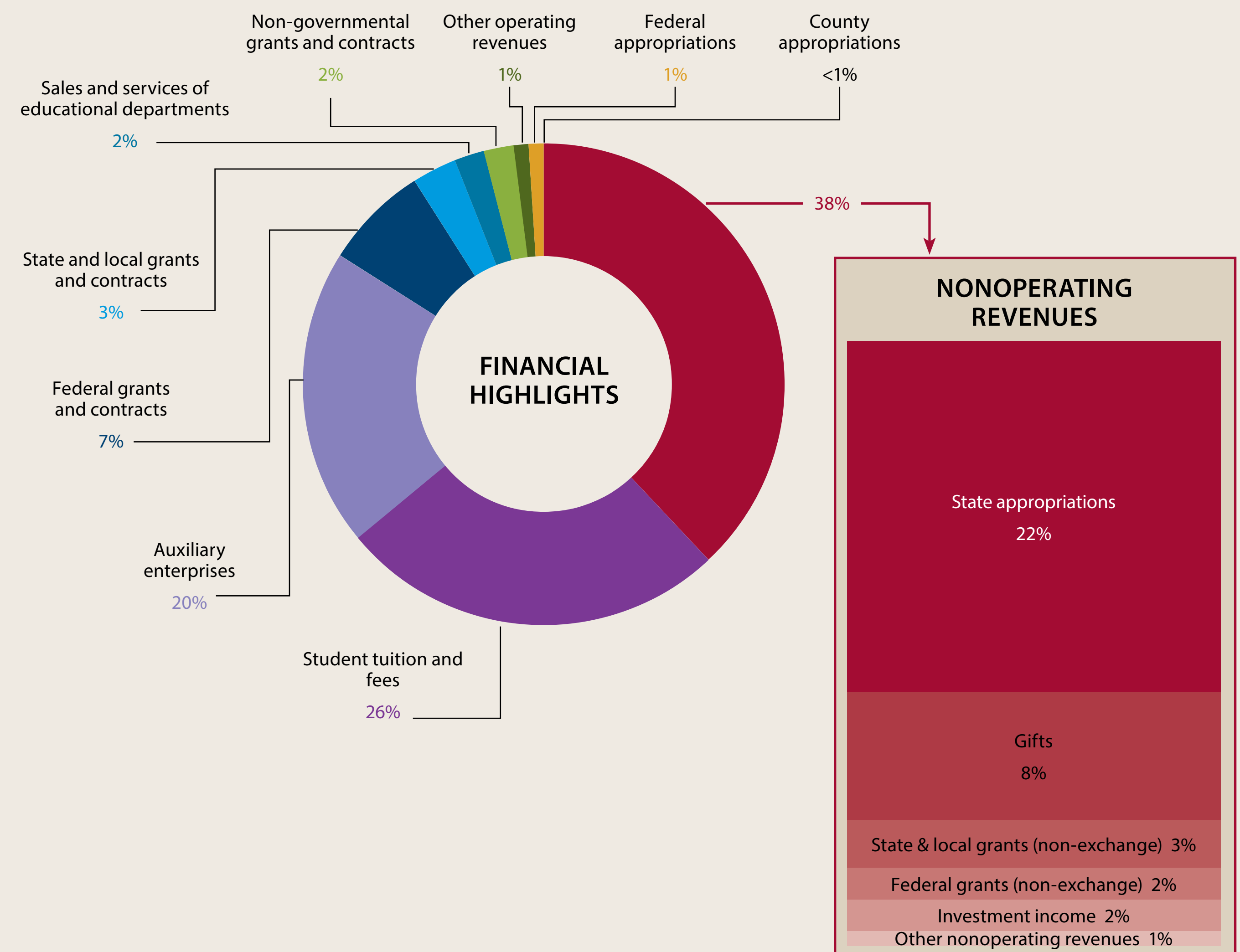
Operating expenses increased $39.4 million or 4.5% over 2018. Compensation and benefits costs increased nearly $4.9 million, or 1.0% over 2018. Supplies and other services grew $23.2 million or 9.0%. The University continues to focus on cost containment initiatives to control expenses. Depreciation expense increased $10.5 million or 13.9% over 2018 due mainly to the completion of several large construction projects during 2019, thereby starting the annual recognition of depreciation related to those projects. See the Significant Changes in Capital Assets and Long-Term Debt Activity section below for more detailed information.

Overall, net non-operating revenues increased $8.8 million. Investment income increased $9.2 million dollars due in part to an accounting change related to accrued income by the fund custodian and to overall performance exceeding benchmarks in 2019. State appropriations increased $5.4 million. Gift revenue increased a modest $1.9 million. Interest on capital asset – related debt (expense) increased $8.1 million. This increase in reported expense is due primarily to the University's early implementation of *GASB Statement No. 89, Accounting for Interest Cost Incurred Before the End of a Construction Period*. The implementation of this standard meant that the University did not capitalize any interest expense incurred during construction of any capital projects in 2019. In 2018, the net amount of interest expense capitalized was $5.4 million.

Gifts reported on the Statement of Revenues, Expenses and Changes in Net Position only reflect a portion of the gifts available to the University. Most gifts for the benefit of the University are made to the University of Arkansas Foundation, Inc. whose financial information is presented in summary form at Note 17 "Other Entities".

Other Revenues and Changes in Net Position reflect changes in capital appropriations and capital gifts. The overall decrease of $18.1 million is primarily due to a $31.5 million decrease in Capital grants and gifts offset by a decline in extraordinary expenses totaling $12.6 million for voluntary pollution remediation. The decrease in capital gifts is due primarily to the large amount of funds received to support capital building projects for athletic facilities, facilities for the Arts and Design District and various other capital building and renovation projects in the prior year. Additional information regarding the voluntary pollution remediation project is found at Note 14 "Pollution Remediation".

## Fiscal Year Operating and Nonoperating Revenues

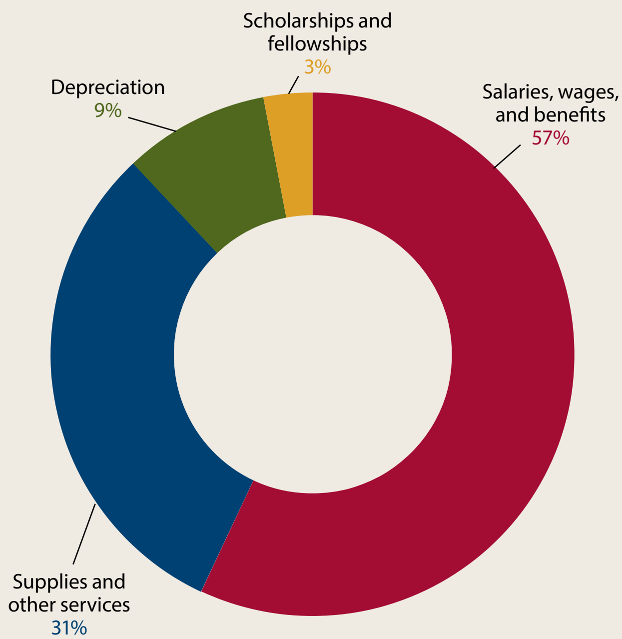



**Financial Highlights**

| Operating Revenues | FY2019 |
|---|---|
| Student tuition and fees | $ 250,731,149 |
| Auxiliary enterprises | 191,352,129 |
| Federal grants and contracts | 70,399,139 |
| State and local grants and contracts | 25,556,054 |
| Sales and services of educational departments | 22,098,014 |
| Non-governmental grants and contracts | 19,641,617 |
| Other operating revenues | 11,652,343 |
| Federal appropriations | 11,436,062 |
| County appropriations | 4,551,791 |
| **Total** | **$ 607,418,298** |

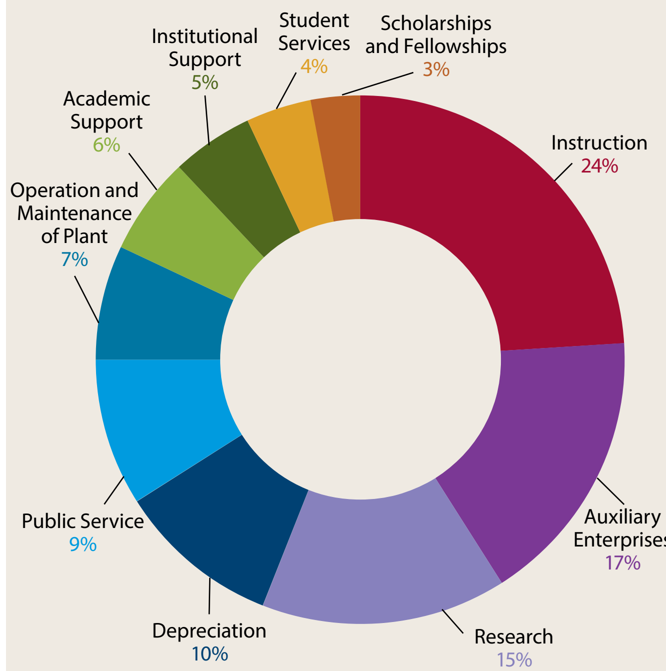
| Nonoperating Revenues | FY2019 |
|---|---|
| State appropriations | $ 212,639,371 |
| Gifts | 78,997,092 |
| State & local grants (non-exchange) | 30,816,891 |
| Federal grants (non-exchange) | 23,262,107 |
| Investment income | 19,356,562 |
| Other nonoperating revenues | 5,731,163 |
| **Total** | **$ 370,803,186** |

## Fiscal Year 2019
## Operating Expenses by Natural Classification

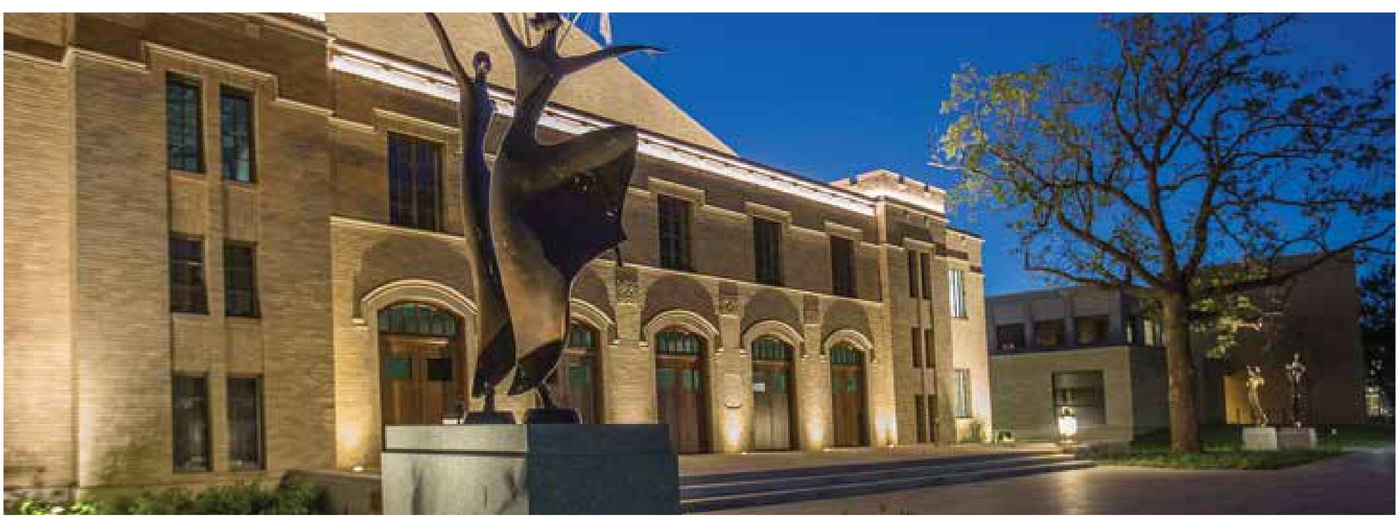



| Operating Expenses by Natural Classification | FY2019 |
|---|---|
| Salaries, wages, and benefits | $ 516,859,882 |
| Supplies and other services | 279,744,590 |
| Depreciation | 86,167,691 |
| Scholarships and fellowships | 23,495,596 |
| **Total operating expenses** | **$ 906,267,759** |

## Fiscal Year 2019
## Operating Expenses by Function




| Operating Expenses by Function | FY2019 |
|---|---|
| Instruction | $ 218,017,212 |
| Auxiliary Enterprises | 157,193,429 |
| Research | 137,743,461 |
| Depreciation | 86,167,691 |
| Public Service | 83,766,713 |
| Operations and Maintenance of Plant | 60,748,354 |
| Academic Support | 56,450,874 |
| Institutional Support | 44,318,783 |
| Student Services | 37,955,809 |
| Scholarships and Fellowships | 23,905,433 |
| **Total operating expenses** | **$ 906,267,759** |



## Statement of Cash Flows

The Statement of Cash Flows provides information about the cash activity of the University during the year. The statement is divided into five 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 noncapital financing activities. This section reflects the cash received and spent for non-operating, non-investing, and non-capital financing purposes. The third section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fifth section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses and Changes in Net Position.

The statement aids in the assessment of the University's ability to meet obligations as they become due, the need for external financing, and the ability to generate future cash flow.

The following summarizes the University's cash flows for the years ended June 30, 2019 and 2018:

**Condensed Summary of Cash Flows**

| | 2019 | 2018 |
|---|---|---|
| Net cash used by operating activities | $ (204,062,556) | $ (209,638,582) |
| Net cash provided by noncapital financing activities | 347,969,526 | 333,610,778 |
| Net cash provided by operating and noncapital financing activities | 143,906,970 | 123,972,196 |
| Net cash used by capital and related financing activities | (124,631,551) | (70,434,315) |
| Net cash provided(used) by investing activities | (4,207,178) | (45,856,506) |
| **Net increase (decrease) in cash** | **$ 15,068,241** | **$ 7,681,375** |

The University used $204.1 million of cash for operating activities in 2019 offset by cash provided by noncapital financing activities of $348.0 million. Similar to the operating loss on the Statement of Revenues, Expenses and Changes in Net Position, net cash provided by operating activities is of little significance to the University. The net cash provided by the combination of operating activities and noncapital financing activities is a much more meaningful number for the University. The positive amount of $144.0 million for 2019 indicates that these activities contributed to cash and liquidity for the year.

Cash used by capital financing activities reflects the University's continued use of bonded debt to finance the acquisition of capital assets. Net cash used by investing activities illustrates the continuation of the operating investments policy.

## Significant Changes in Capital Assets and Long-Term Debt Activity

The University continued work on the multi-year Facilities Renewal and Stewardship Plan. This large-scale, long-range plan is intended to renew, upgrade and add facilities to expand capacity and modernize the campus. A dedicated facilities fee phased in over time beginning in 2009, and creation of several targeted, operating budget lines provides a revenue stream that is used to leverage bonded debt and other resources to fund a portion of this aggressive plan. University gifts, central reserves, various grants, Athletics support, targeted facilities operating budget lines, energy saving performance contracts and other miscellaneous sources of funds all contribute to this overall program. The condition of the University's capital assets is a critical measure of the University's overall financial health. Creating and maintaining facilities that provide an exceptional academic environment in which to learn, live and work is vital to attracting new students, as well as recruiting excellent faculty and staff. The University maintains a Facility Condition Index (FCI) to assist in assessment of the overall stewardship of capital assets. The index trend is positive, demonstrating the positive effect of renewal, stewardship, renovations and the continued reduction of deferred maintenance to campus infrastructure and educational and general buildings as the Facilities Renewal and Stewardship Plan has continued to be pursued after over 10 years of deliberate effort.

A summary of the change in Net invested in capital assets is as follows:

**Changes in Net Invested in Capital Assets**

| | Amount |
|---|---|
| Net Invested in Capital Assets as of July 1, 2018 | $ 584,452,193 |
| Land Additions and Disposals (net) | 511,734 |
| Buildings Additions and Disposals, net of depreciation | 214,872,954 |
| Improvements/Infrastructure Additions, net of depreciation | 7,028,272 |
| Equipment Additions and Disposals, net of depreciation | 313,005 |
| Construction in Progress Additions net of transfers to buildings, improvements/infrastructure, and intangible assets | (110,736,516) |
| Livestock Additions/deductions | (237,345) |
| Library Holdings Additions and Disposals, net of depreciation | (271,905) |
| Intangible Assets, net of amortization | (151,982) |
| Bond debt moved to Net invested in capital assets | (76,303,650) |
| Bond Principal Paid in 2019 | 30,655,000 |
| Deferred loss on refinanced bond issues, amortized | (1,359,609) |
| Net unamortized bond issue premium | 1,259,883 |
| Notes & Capital Leases Assumed in 2019 | (5,591,430) |
| Note, Capital Lease and Installment Contract Principal Paid in 2019 | 5,131,957 |
| Prepaid maintenance contract on equipment and other | (206,554) |
| **Net Invested in Capital Assets as of June 30, 2019** | **$ 649,366,007** |

Note 4, "Capital Assets" provides additional information related to the University's depreciable and non-depreciable capital assets.

Capital projects continued at an impressive pace in 2019, with several construction projects begun in previous years completed or substantially completed, continued progress on multi-year projects and new projects initiated.

The list of projects begun in previous years completed in 2019 include:

- Donald W. Reynolds Razorback Stadium North End Zone – Project expanded the north end zone of the stadium, constructed updates to existing areas, and rebuilt the Broyles Athletic Center around the new north end zone seating. Total project cost was approximately $160 million, funded by $120 million in bonds, $30 million of gifts and $10 million from athletic reserves.

- Kimpel Hall Renovation – Project for a total renovation of the classroom block and exterior building envelope, along with a 3,500 to 7,000 square foot addition for the Student Media department to include an open newsroom, on-air studio, control room, master control, student radio and offices. The renovation also included mechanical system upgrades. Total project cost was $16.1 million and has been managed in phases. Initial funding in 2016, considered Phase 1, was comprised of $3 million in bonds and $1 million in gifts. An additional $6.4 million, funded by $6 million in bonds and the remainder from university reserves was added in 2017. Additional funding of $2.5 million in bonds were added in 2019.

- Library Annex – Project to construct a 20,000 square foot structure to house a high-density storage system and processing area, along with a modest public space for accessing the collection. Total project cost was over $15.2 million, and the project was managed in phases. Initial funding in 2016, considered Phase 1, was $3 million in bonds. An additional $9 million in bonds was added in 2017. An additional $1.7 million in bonds was added in 2019 with the remainder of the project funded by university reserves.

- Pat Walker Health Center Addition – Project to construct a 20,000 square foot addition to the Pat Walker Health Center. The addition provides space for expanded counseling and psychological services, wellness and health promotion classrooms and consultation rooms, technology support and administrative space. Total project cost was $15.4 million, funded by $12.7 million in bonds and the remainder from student health reserves.

- Global Campus Renovation – Project to renovate approximately 19,000 square feet on two floors of the Global Campus building to create workspaces for faculty to develop online course content and staff who manage and facilitate online courses; to provide studio and support space for the global campus media services team; to renovate the auditorium into a black box theatre with required equipment; and other interior renovations. Total project cost was $7.4 million, funded by $2 million in bonds, $4.7 million from global campus reserves and the remainder from university reserves.

- National Center for Reliable Electric Power Transmission (NCREPT) Addition – Project to construct a 4,000 square foot addition to increase the capacity of the test facility. The addition includes high bay research space, graduate student offices, and approximately 50 additional parking spaces. Total project cost was $3.1 million, funded by university reserves.

- Greek Housing Projects – Four separate Greek organizations were granted the ability to either construct new residence facilities or renovate existing residence facilities on university-owned property under a long-term lease. Three of the four residence facilities were completed. These projects are the responsibility of the Greek organizations and were funded by arrangements made by the organizations. See Note 19, Commitments and Contingencies for additional information about these projects.

- Beechwood Remote Parking Lot –Project to construct a new parking choice for students, faculty and staff at a remote location, south of the main campus, with easy access to major city streets and Interstate I-49 and along a major route with quick access to the center of campus. The work included the parking facility, and street connections to Hollywood Avenue and Beechwood Avenue. Also, frontage improvements and necessary drainage improvements. The remote parking lot added an additional 1,105 spaces. The total project cost was $2.4 million funded by $2.4 million in bonds.

- Arkansas Union Food Court Renovation – The renovation addresses all areas within the Arkansas Union Food Court, including the central core, food preparation and serving stations, open seating areas and private dining rooms. The new plan opens the entire space to create better visibility of the food options and more intuitive flow for patrons' circulation around the various stations, along with a new point of sale system to improve speed of service. The project also included ongoing capital renewal effort the entire building including air handling units. The total project cost was $6.8 million funded by $1 million in bonds and $5 million in contract revenue from the campus food service provider and $0.8 million from dining reserves.

Construction continuing, and new projects begun in 2019 include:

- Entrance Monument Signs – Project continues to construct monument signs to mark the three major vehicular entrances to the University of Arkansas Campus. The design of each location includes a native stone wall with capstone featuring the University of Arkansas name, new sidewalks and curbs, trees, and other landscaping. The remaining estimated project cost is $0.9 million, funded by bonds. Completion of Phase 2 will be coordinated with other construction projects in the work area.

- University Recreation Intramural Fields – Project continues to construct new University playing fields that will supplement the Mitchel Fields multi-purpose fields located on campus. Land located near the campus has been designed for two projects, the Cato Springs Softball/Soccer Fields Complex and the Indian Trails Tennis Complex/Mountain Biking Trails. The Cato Springs project will provide space for an additional six flag football/soccer fields, four softball fields, three basketball courts, and four volleyball courts; along with parking lots, lighting, a maintenance barn and restrooms. The Indian Trails project will provide tennis courts, biking trails and parking. The overall project will be funded in phases with initial funding in 2016 of $4 million in bonds. An additional $3 million, in bonds was added in 2017. An additional $3 million in bonds were added in 2019. Estimated project completion for Mitchel Fields in October 2021.

- Civil Engineering Research & Education Center – Project continues to construct a research and education facility for the civil engineering department. Project design, which included planning and programming, site options/selections at the Arkansas Research and Technology Park, early schematic design and fundraising support images, was completed in 2017. The facility is approximately 25,000 square feet of high bay lab and an adjacent 2-stort space. Lab will feature structural testing floor, associated materials preparation and testing areas, lab personnel office and research space. Total estimated project cost is $10.7 million and will be managed in phases. Initial funding of $2.7 million in 2016 was comprised of $2 million in bonds and the balance with gifts. An additional $2 million in bonds was added to project funding in 2017, 2018 and 2019. Remaining funding will be raised through gifts. Construction phases will continue when all funding is in place. Estimated project completion in April 2021.

- Stadium Drive Residence Halls – Project continues to construct a 700-bed residence hall to include multi-use meeting rooms, advising and administrative offices, laundry, vending, kitchen and front desk communal areas. This project is envisioned as part of a larger residential district to be developed in the Athletic Valley area of campus. Estimated project cost is $78.1 million, funded by $74 million in bonds and the remainder from housing reserves. Estimated project completion in September 2019.

- South Campus Steam Improvements – Project continues to replace and upgrade a portion of the steam and condensation infrastructure that provided building heat and domestic hot water to the campus. The upgraded system will provide additional capacity for future development of the Athletic Valley district on campus. Estimated project cost is $3 million, funded by $2.7 million in bonds and the remainder from utility reserves. Estimated project completion in August 2020.

- Mullins Library Renovation – Project continues to fully reorganize and renovate the interior to create a collaborative and interdisciplinary learning space focused on student and faculty engagement. The project includes installing fire sprinklers, abate asbestos, and renovate 116,000 square feet on the third and fourth floors to upgrade study and collaboration spaces to standards expected in modern libraries. The design phase is funded by $1 million in bonds. The estimated construction costs are $16.5 million funded by $7.3 million in bonds and $9.2 million in university reserves and gift funds. Estimated completion is August 2025.

- Student Success Center – Project continues to construct a 71,000 square foot facility. The student success center will create a home for a new program which has a mission to maximize the success of students, especially first-generation Arkansas students starting with pre-enrollment and transition to the university, through semester to semester retention on time graduation and ending with their transitions with careers. The student success center will be in the core campus, just north of Old Main and adjacent to Memorial Hall. The design phase was funded by $1 million in bonds. The estimated construction cost is $45 million funded by $4 million in bond proceeds with the remaining funds from university reserves, gifts and future bond proceeds. Estimated completion is December 2021.

- Greek Housing Projects – Four separate Greek organizations have been granted the ability to either construct new residence facilities or renovate existing residence facilities on university-owned property under a long-term lease. These projects are the responsibility of the Greek organizations and are funded by arrangements made by the organizations. One of those four Greek organization projects is still in the construction phase as of June 30, 2019. An additional Greek organization has begun another renovation project which is being funded by arrangements made by the organization. See Note 19, Commitments and Contingencies for additional information about these projects.

- Pomfret Dining Renovation & Expansion – New project for renovation and expansion of Pomfret Dining Hall will include new food preparation areas, serving stations, and general kitchen work flow improvements to the existing 12,000 square feet buffet-style controlled access food venue, as well as providing additional seating created by an expansion of the dining pavilion to the west to accommodate around 385-400 seats. The west addition will also house a small, 75 seat a la carte dining venue and will address the ADA access to the building entrance, to the various levels of the dining pavilion. The estimated project cost is $17.6 million funded by $5.5 million in bonds, $10 million in contract revenue from the campus food service provider and $2.1 million from dining reserves. The estimated project completion date is December 2019.

- Windgate Art & Design District Buildings – Construction of a new 142,600 square foot facility for the School of Art at SE corner of Martin Luther King to consolidate several disciplines across campus. Support the planned expansion of students and faculty. The estimated project cost is $55 million funded by $40 million in gifts and the remaining amount from university sources. Estimated completion is Fall 2021.

- Baseball Development Center – To construct a facility at the Baum Walker Stadium. Located at the southwest corner of Baum Walker Stadium, the 47,700 square foot facility will provide improved and expanded locker room spaces, team room, weight room, equipment room, training room, meet rooms, nutrition space, player development spaces, in-venue batting cages and pitching development space and coaches' offices. The estimated project cost is $25 million funded by $20 million in bonds, $4 million in gifts and $1 million from Athletic reserves. Estimated project completion is June 2021.

- Randal Tyson Track Center Renovation – Project provides audio visual and graphic upgrades to the facility. Renovation of the 106,000 square foot track facility. Reconfigure seating and enhanced circulation throughout the building. New concessions and restrooms, locker room and training room. Total estimated project cost is $20 million to be funded from gifts and Athletic reserves. The estimated project completion date is April 2021.

- Track and Field High Performance Center – To construct a track operation facility. This facility will house the Men's and Women's Track and Field teams and will combine many of the program's day to day operations to create an efficient space to serve both programs. The building is expected to be 17,000 to 20,000 square feet and located at the south end of the John McDonnell Field. The facility will provide an improved and expanded training room, weight room, team room and equipment storage space. The estimated project cost is $10 million.

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

**Summary of Changes in Long-Term Debt**

| | Bonds | Notes | Installment Contracts and Leases |
|---|---|---|---|
| Balance as of July 1, 2018 | $ 840,473,483 | $ 1,404,234 | $ 20,511,358 |
| Additions | 30,304,301 | 5,153,287 | 438,143 |
| Retirement of principal | (30,655,000) | (1,162,103) | (3,992,290) |
| Amortization of net bond premium | (4,619,184) | | |
| **Balance as of June 30, 2019** | **$ 835,503,600** | **$ 5,395,418** | **$ 16,957,211** |

Note 8, "Long-Term Debt" provides additional information related to the University's long-term debt.

The University issued bonds during 2019 to provide funds to finance various construction and renovation projects. Notable among these are construction of the new Student Success Center, the Library Annex, the Civil Engineering Research Education Center, intramural sports fields, a remote parking facility, improvements to the south campus steam and utility system, renovation of the Arkansas Union food court, renovation and expansion of the Pomfret Dining Hall, the continuing renovation of Mullins Library and Kimpel Hall. Proceeds of over $30 million, were generated to fund these projects.

## Conditions and other factors having a significant effect

Financial and political support from state government remains a critical element to the continued financial health of the University. In 2019, the total general revenue distribution from the State, which is a portion of the state appropriation revenue on the Statement of Revenues, Expenses and Changes in Net Position, remained increased slightly to $208.2 million from the $202.9 million reported in 2018. This was due primarily to Act 148 of 2017 discussed in the paragraph below. Estimates for 2020 indicate general revenue distributions from the State will remain flat, with no significant increase or decrease. Management will continue to institute both internal and external efforts to maximize the state resources available, while seeking ways to minimize the effect of state funding levels not keeping pace with growth.

In 2017, The Arkansas Legislature enacted Act 148 which adopted a productivity-based funding model for most state-supported higher education institutions. As provided in the Act, the Arkansas Department of Higher Education developed a productivity-based funding model with measures for effectiveness, affordability, and efficiency. That model was first used to determine funding recommendations for the 2018-19 academic year and resulted in a small increase in university funding based on those measures. The university does not anticipate material changes in its funding level over the short term based on the new funding policy.

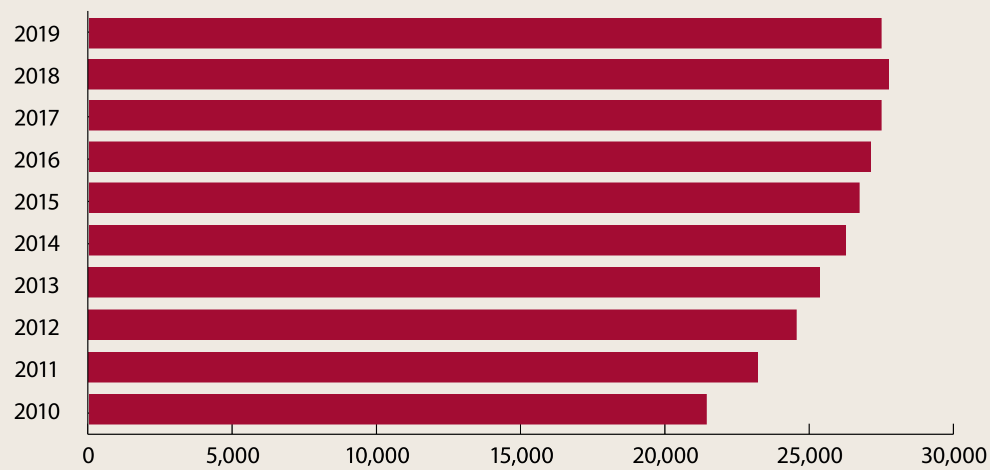
We continue to seek ways to manage the cost of attendance so that it remains affordable while achieving revenue support necessary to offer a high-quality university experience. Diverse revenue resources, including state appropriations, tuition and fees (net of scholarship allowance), private support and sponsored grants and contracts all contribute to support the mission of teaching, research and service. Tuition and mandatory fee increases totaling 0.74% for resident and 3.53% for nonresident students, respectively, were necessary in 2019 to maintain the facilities, faculty and other support needed to fulfill our mission. As enrollment stabilizes, together with state funding levels not able to keep pace with formula calculations, it is expected that the University must continue to look to increases in tuition rates for revenue support as well as grow other revenue streams.

Fiscal year 2019 was the penultimate year for Campaign Arkansas, the university's capital campaign to advance academic opportunity at the U of A. Campaign Arkansas has a goal of raising $1.25 billion by June 30, 2020, and the overall total reached $1.11 billion by the end of fiscal year 2019. The campaign is raising funds for scholarships and fellowships, endowed faculty chairs, capital projects, interdisciplinary academic programs and other priority areas that will advance the university's goals and objectives.

Like the previous years, fiscal year 2019 was another strong fundraising year, with $163.4 million raised, surpassing the goal of $125.6 million. The total amount raised includes gifts of cash, gifts-in-kind, planned gifts and new pledges. Approximately $17.8 million of the total was directed by donors to be used as endowment when received. The private support garnered each year is needed to provide the resources, facilities, experiences and campus environment that ensures the U of A fulfills its land-grant mission and remains a top-tier research institution for students while also advancing the economic development of the State of Arkansas.

Preliminary figures indicate that the university enrolled 27,559 students for the fall 2019 semester while setting new records for retention and graduation rates. As the charts below indicate, university enrollment has increased 28.75%, or 6,154 students over the past ten years. While enrollment topped 27,500 for the third year in a row, this year's total is slightly lower than last year's record enrollment of 27,778. This modest decline is an indication that the size of the university's enrollment is stabilizing after two decades of unprecedented growth. This decline of 1.0% in fall 2019 comes after increases of 1.3% in fall 2017 and 0.8% in fall 2018. This more stable enrollment is welcomed as the university assesses future goals and the optimum number of stud ents.

## Enrollment Trend Over the Last 10 Years

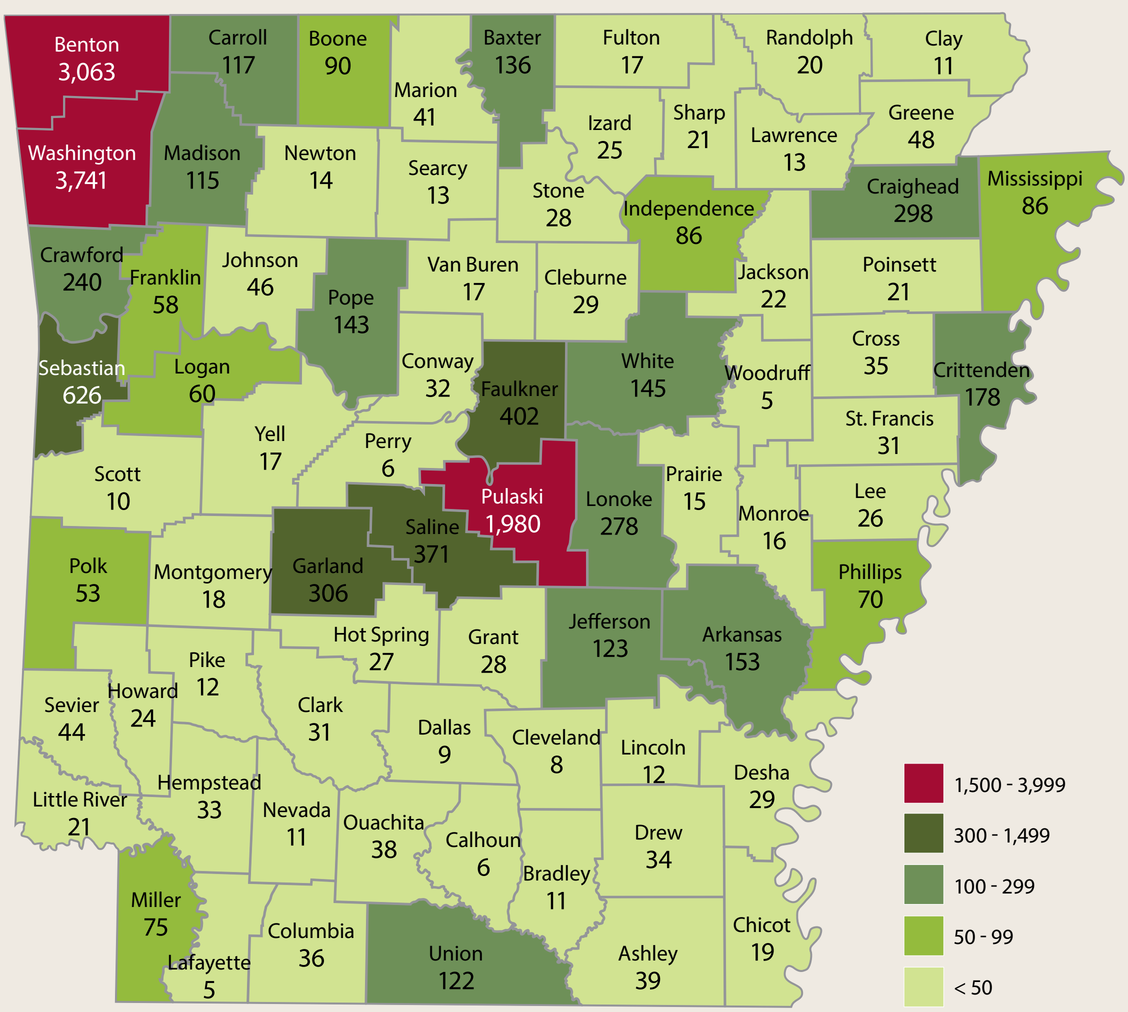



### Fall Semester Enrollment

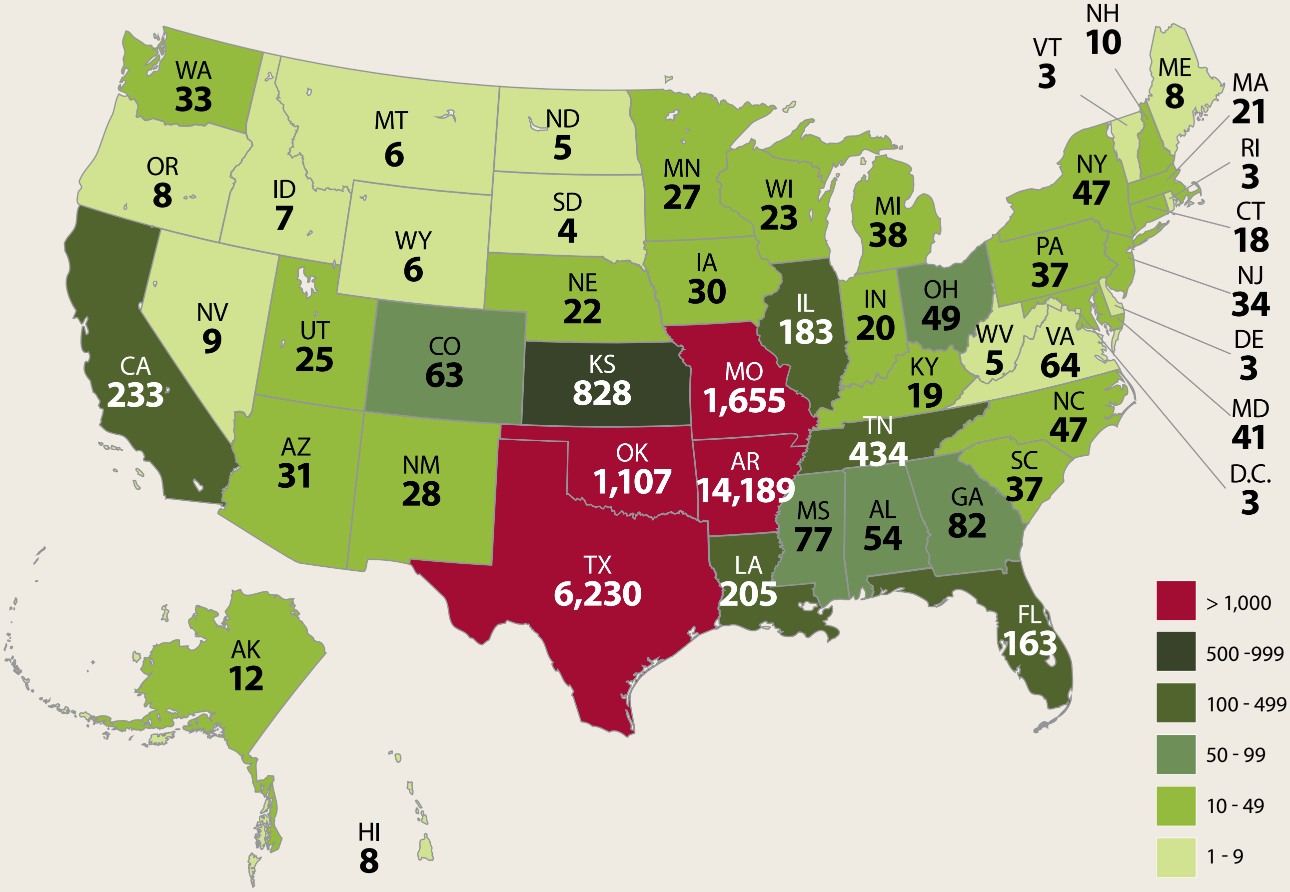
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total | 21,405 | 23,199 | 24,537 | 25,341 | 26,237 | 26,754 | 27,194 | 27,558 | 27,778 | 27,559 |
| Undergraduate | 17,247 | 19,027 | 20,350 | 21,009 | 21,836 | 22,158 | 22,548 | 23,044 | 23,386 | 23,025 |
| Law | 407 | 413 | 410 | 390 | 379 | 375 | 371 | 353 | 368 | 364 |
| Graduate | 3,751 | 3,759 | 3,777 | 3,942 | 4,022 | 4,221 | 4,275 | 4,161 | 4,024 | 4,170 |
| New Freshmen | 3,873 | 4,462 | 4,591 | 4,357 | 4,590 | 4,927 | 4,998 | 5,092 | 5,019 | 4,653 |

Per the Office of Institutional Research and Assessment

## In-State Enrollment by County of Origin

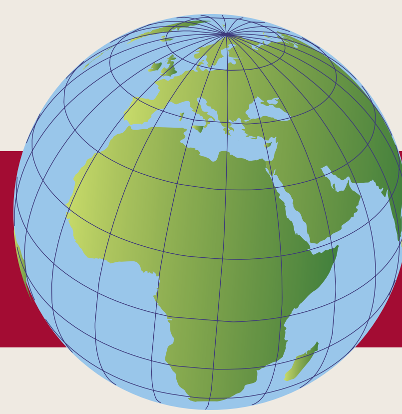


## Enrollment by State




**Foreign Countries**

**1,482**



# STATEMENT OF NET POSITION

For the Year Ended June 30, 2019 (With Comparative Figures at June 30, 2018)

| | June 30, 2019 | June 30, 2018 |
|---|---|---|
| **ASSETS** | | |
| Current Assets | | |
| Cash and cash equivalents | $ 162,667,988 | $ 147,582,098 |
| Short-term investments | 337,800,994 | 321,814,198 |
| Accounts receivable, net | 56,175,037 | 55,424,687 |
| Accrued interest receivable | 1,064,994 | 1,889,856 |
| Pledges receivable | 11,839,918 | 11,984,893 |
| Inventories, net | 7,081,785 | 4,776,712 |
| Deposits with bond trustees | 4,659,661 | 3,524,529 |
| Notes receivable, net | 3,865,795 | 4,165,979 |
| Other assets | 7,366,275 | 7,213,706 |
| Total current assets | 592,522,447 | 558,376,658 |
| Noncurrent Assets | | |
| Cash and cash equivalents | | 17,649 |
| Endowment investments | 84,409,953 | 83,255,935 |
| Other long-term investments | 5,231,004 | 3,001 |
| Notes receivable, net | 10,318,903 | 12,561,633 |
| Pledges receivable | 15,339,876 | 27,861,513 |
| Deposits with bond trustees | 37,176,347 | 90,952,626 |
| Other assets | 789,396 | 872,057 |
| Capital assets, net | 1,464,377,332 | 1,352,861,276 |
| Total noncurrent assets | 1,617,642,811 | 1,568,385,690 |
| **Total assets** | **$ 2,210,165,258** | **$ 2,126,762,348** |
| **DEFERRED OUTFLOWS OF RESOURCES** | | |
| Deferred amount on refunding | $ 12,967,665 | $ 14,327,274 |
| Deferred outflows related to other post employment benefits | 698,732 | 590,970 |
| Deferred outflows related to pensions | 4,632,899 | 6,657,130 |
| **Total deferred outflows of resources** | **$ 18,299,296** | **$ 21,575,374** |
| **LIABILITIES** | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities | $ 37,150,530 | $ 48,053,372 |
| Accrued payroll liabilities | 18,701,962 | 14,671,747 |
| Accrued interest expense | 6,550,387 | 6,478,310 |
| Student overpayments | 207,707 | 88,414 |
| Funds held in trust for others | 1,645,803 | 1,539,166 |
| Advance receipts | 32,246,315 | 34,487,884 |
| Compensated absences payable - current portion | 1,770,865 | 1,602,373 |
| Liability for other post employment benefits | 698,732 | 590,970 |
| Bonds, notes, capital leases and installment contracts payable - current portion | 42,276,009 | 39,257,563 |
| Total current liabilities | 141,248,310 | 146,769,799 |

| | | |
|---|---|---|
| Noncurrent Liabilities | | |
| Refundable federal advance - Perkins loans | 14,380,000 | 14,380,834 |
| Compensated absences payable | 19,087,187 | 20,000,007 |
| Liability for other post employment benefits | 20,494,321 | 19,996,167 |
| Pension liability | 12,751,895 | 15,144,874 |
| Bonds, notes capital leases and installment contracts payable | 815,580,220 | 823,131,512 |
| Other noncurrent liabilities | 32,054 | 32,054 |
| Total noncurrent liabilities | 882,325,677 | 892,685,448 |
| **Total liabilities** | **$ 1,023,573,987** | **$ 1,039,455,247** |
| **DEFERRED INFLOWS OF RESOURCES** | | |
| Deferred inflows related to other post employment benefits | $ 2,843,268 | $ 3,122,698 |
| Deferred inflows related to pensions | 2,333,208 | 876,455 |
| **Total deferred inflows of resources** | **$ 5,176,476** | **$ 3,999,153** |
| **NET POSITION** | | |
| Net invested in capital assets | $ 649,366,007 | $ 584,452,193 |
| Restricted for | | |
| Nonexpendable | | |
| Scholarships and fellowships | 8,658,175 | 8,653,550 |
| Research | 5,739,659 | 5,739,659 |
| Instructional department uses | 10,686,325 | 10,544,889 |
| Loans | 1,608,044 | 314,579 |
| Other | 5,272,716 | 272,716 |
| Expendable | | |
| Scholarships and fellowships | 17,088,923 | 16,455,616 |
| Research | 36,662,420 | 36,195,322 |
| Public service | 8,269,424 | 8,525,109 |
| Instructional department uses | 13,934,551 | 13,189,655 |
| Loans | 2,816,890 | 4,367,975 |
| Capital projects | 65,834,505 | 89,811,179 |
| Debt service | 212,469 | 209,418 |
| Other | 6,251,010 | 6,703,327 |
| Unrestricted | 367,312,973 | 319,448,135 |
| **Total net position** | **$ 1,199,714,091** | **$ 1,104,883,322** |

See Accompanying Notes To Financial Statements.

# STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the Year Ended June 30, 2019 (With Comparative Figures for 2018)

| | Fiscal 2019 Total | Fiscal 2018 Total |
|---|---|---|
| **REVENUES** | | |
| Operating Revenues | | |
| Student tuition and fees (net of scholarship allowances of $77,294,871 in fiscal year 2019, and $77,030,077 in fiscal year 2018) | $ 250,731,149 | $ 240,489,120 |
| Federal appropriations | 11,436,062 | 10,522,785 |
| County appropriations | 4,551,791 | 4,460,212 |
| Federal grants and contracts | 70,399,139 | 79,049,942 |
| State and local grants and contracts | 25,556,054 | 15,416,090 |
| Nongovernmental grants and contracts | 19,641,617 | 26,715,197 |
| Sales and services of educational departments | 22,098,014 | 24,051,001 |
| Auxiliary enterprises | | |
| Residence Life (net of scholarship allowances of $14,981,831 in fiscal year 2019, and $14,962,398 in fiscal year 2018) | 55,654,857 | 54,020,198 |
| Athletics | 112,613,294 | 104,833,597 |
| Bookstore (net of scholarship allowances of $136,095 in fiscal year 2019, and $127,800 in fiscal year 2018) | 10,903,754 | 11,302,662 |
| Student Health Services | 3,051,023 | 2,728,603 |
| Transit and Parking | 8,960,419 | 8,785,539 |
| Student Organizations/Activities | 110,272 | 345,462 |
| Other Auxiliary Enterprises | 58,510 | 186,815 |
| Other operating revenues | 11,652,343 | 12,513,954 |
| **Total operating revenues** | **607,418,298** | **595,421,177** |
| **EXPENSES** | | |
| Operating Expenses | | |
| Salaries, wages, and benefits | 516,859,882 | 511,934,706 |
| Scholarships and fellowships | 23,495,596 | 22,755,152 |
| Supplies and other services | 279,744,590 | 256,530,026 |
| Depreciation | 86,167,691 | 75,620,509 |
| **Total operating expenses** | **906,267,759** | **866,840,393** |
| **Operating loss** | **(298,849,461)** | **(271,419,216)** |
| **NONOPERATING REVENUES (EXPENSES)** | | |
| State appropriations | 212,639,371 | 207,202,611 |
| Gifts | 78,997,092 | 77,059,113 |
| Investment income (net of investment expense of $447,530 in fiscal year 2019, and $322,623 in fiscal year 2018) | 19,356,562 | 10,163,270 |
| Interest on capital asset - related debt | (31,883,875) | (23,799,689) |
| Federal grants (nonexchange) | 23,262,107 | 22,972,561 |
| State and local grants (nonexchange) | 30,816,891 | 30,016,898 |
| Nongovernmental grants (nonexchange) | 39,414 | |
| Gain (loss) on disposal of assets | 135,459 | 1,915,937 |
| Other nonoperating revenues | 5,556,290 | 4,844,582 |
| Other nonoperating expenses | (250,672) | (475,280) |
| **Net nonoperating revenues** | **338,668,639** | **329,900,003** |
| **Gain before other revenues and changes in net position** | **39,819,178** | **58,480,787** |

| | | |
|---|---|---|
| **OTHER REVENUES AND CHANGES IN NET POSITION** | | |
| Capital appropriations | 1,173,500 | 510,000 |
| Capital grants and gifts | 54,209,072 | 85,782,493 |
| Other changes | 200,173 | 115,882 |
| Extraordinary item - pollution remediation | (571,154) | (13,224,210) |
| **Total other revenues and changes in net position** | **55,011,591** | **73,184,165** |
| **Increase in net position** | **94,830,769** | **131,664,952** |
| **NET POSITION** | | |
| Net position, beginning of year, as originally reported | 1,104,883,322 | 979,606,713 |
| Adjustment due to GASB 75 | | (6,388,343) |
| Net position, beginning of year, restated | 1,104,883,322 | 973,218,370 |
| **Net position, end of year** | **$ 1,199,714,091** | **$ 1,104,883,322** |

See Accompanying Notes To Financial Statements.

# STATEMENT OF CASH FLOWS – DIRECT METHOD

For the Year Ended June 30, 2019 (With Comparative Figures for 2018)

| | Fiscal 2019 Total | Fiscal 2018 Total |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Student tuition and fees | $ 250,387,437 | $ 241,486,311 |
| Federal appropriations | 11,768,439 | 10,476,250 |
| County appropriations | 4,551,791 | 4,460,212 |
| Grants and contracts | 114,405,574 | 113,461,308 |
| Payments to suppliers | (272,322,848) | (263,458,805) |
| Payments to employees | (409,412,975) | (399,689,622) |
| Payments for benefits | (102,875,179) | (115,352,720) |
| Payments for scholarships and fellowships | (23,639,271) | (22,188,305) |
| Loans issued to students and employees | (1,350,313) | (1,742,636) |
| Collections of loans to students | 3,597,574 | 2,326,414 |
| Collections of interest on loans to students | 693,516 | 502,418 |
| Auxiliary enterprise charges | | |
| Residence Life | 55,761,186 | 54,748,044 |
| Athletics | 110,459,379 | 103,380,997 |
| Bookstore | 11,144,414 | 14,824,038 |
| Student Health Services | 3,037,223 | 2,686,847 |
| Transit and Parking | 8,976,032 | 8,696,112 |
| Student Organizations/Activities | 110,475 | 347,487 |
| Other Auxiliary Enterprises | 139,046 | 338,535 |
| Sales and services of educational departments | 21,493,858 | 23,555,283 |
| Other receipts | 16,676,429 | 19,533,255 |
| Extraordinary item - pollution remediation | (7,664,343) | (8,030,005) |
| **Net cash used by operating activities** | **(204,062,556)** | **(209,638,582)** |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | |
| State appropriations | 212,639,371 | 207,202,611 |
| Gifts and grants for other than capital purposes | 78,406,004 | 75,608,379 |
| Federal grants (nonexchange) | 23,262,107 | 22,977,946 |
| State and local grants (nonexchange) | 30,782,945 | 29,911,401 |
| Nongovernmental grants (nonexchange) | 39,414 | |
| Direct Lending, and private loan receipts | 132,284,770 | 125,974,482 |
| Direct Lending, and private loan payments | (129,569,558) | (124,887,805) |
| Net agency fund transactions | 124,473 | (3,176,236) |
| **Net cash provided by noncapital financing activities** | **347,969,526** | **333,610,778** |
| **Net cash provided by operating activities and noncapital financing activities** | **143,906,970** | **123,972,196** |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| Realized proceeds related to capital debt transactions | 85,187,322 | 127,663,389 |
| Capital appropriations | 1,173,500 | 510,000 |
| Capital grants and gifts received | 23,888,632 | 44,456,312 |
| Purchases of capital assets | (164,021,216) | (179,335,765) |
| Principal paid on capital debt and leases | (35,809,393) | (29,722,598) |
| Interest paid on capital debt and leases | (35,050,396) | (34,005,653) |
| **Net cash used by capital and related financing activities** | **(124,631,551)** | **(70,434,315)** |

| | | |
|---|---|---|
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Proceeds from sales and maturities of investments | 114,023,052 | 22,751,345 |
| Investment income | 2,315,480 | 1,392,174 |
| Purchase of investments | (120,545,710) | (70,000,025) |
| **Net cash provided (used) by investing activities** | **(4,207,178)** | **(45,856,506)** |
| **NET INCREASE (DECREASE) IN CASH** | 15,068,241 | 7,681,375 |
| Cash - beginning of year | 147,599,747 | 139,918,372 |
| **Cash - end of year** | **$ 162,667,988** | **$ 147,599,747** |
| **RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES** | | |
| Operating loss | $ (298,849,461) | $ (271,419,216) |
| Adjustments to reconcile net loss to net cash used by operating activities: | | |
| Depreciation expense | 86,167,691 | 75,620,509 |
| Other miscellaneous operating receipts | 5,816,480 | 7,593,444 |
| Extraordinary item - pollution remediation | (7,664,343) | (8,030,005) |
| Changes in assets and liabilities | | |
| Receivables (net) | (1,809,644) | (8,526,781) |
| Inventories | (2,367,991) | 606,560 |
| Prepaid expenses | (130,228) | (2,203,287) |
| Accounts payable and accrued liabilities | 9,861,950 | (1,430,446) |
| Accrued payroll liabilities (Employees) | (360,710) | (464,878) |
| Accrued payroll liabilities (Benefits) | 4,370,040 | (5,518,518) |
| Student overpayments | 119,332 | (33,628) |
| Advance receipts | (2,241,569) | 1,204,107 |
| Refundable federal advance | (834) | 103,443 |
| Deposits | | (143) |
| Compensated absences | (744,328) | 365,766 |
| OPEB related | 218,724 | 403,028 |
| Pension related | 1,088,005 | 1,529,408 |
| Loans to students | 2,464,330 | 562,055 |
| **Net cash used by operating activities** | **$ (204,062,556)** | **$ (209,638,582)** |
| **NONCASH TRANSACTIONS** | | |
| Donations of land, buildings, improvements, infrastructure and library holdings | $ 42,469,810 | $ 2,661,311 |
| Fair market value of network infrastructure obtained through noncash swap | | |
| Book value of network infrastructure traded though noncash swap | | |
| Equipment donations | 236,392 | 996,382 |
| Payment of bond escrow directly from bond proceeds | | |
| Payment of bond proceeds directly into deposits with trustees | 30,210,536 | 112,501,540 |
| Payment of underwriter's discounts paid directly from bond proceeds | 93,765 | 182,817 |
| Bond issuance costs paid directly from bond proceeds | 156,907 | 290,823 |
| Interest on long-term debt paid directly from deposits with trustees | 20,976 | 6,403 |
| Investment income paid on and deposited directly into deposits with trustees | 1,813,143 | 1,858,646 |
| Capital outlay and other related expenses paid directly from proceeds of University of Arkansas long-term debt instruments | 4,972,013 | 1,336,435 |
| Net loss on disposal of assets | 664,984 | 817,047 |
| Value of goods received from sponsorship agreements with vendors | 3,486,821 | 3,507,595 |
| Receipt of real property recorded as an investment | | 380,000 |

See Accompanying Notes To Financial Statements.


YIELD

# DISCRETELY PRESENTED COMPONENT UNITS

UNIVERSITY OF ARKANSAS FAYETTEVILLE CAMPUS FOUNDATION, INC.

**THE UNIVERSITY OF ARKANSAS FAYETTEVILLE CAMPUS FOUNDATION, INC.**

**STATEMENTS OF FINANCIAL POSITION**

**June 30, 2019 and 2018**

| | 2019 | 2018 |
|---|---|---|
| **Assets** | | |
| Contribution receivable, net | $ 4,608,550 | $ 7,862,099 |
| Investments | 573,191,353 | 565,080,692 |
| Total assets | $ 577,799,903 | $ 572,942,791 |
| **Liabilities and Net Assets** | | |
| Accounts payable | $ 2,556,928 | $ 943,608 |
| Net assets with donor restrictions | 575,242,975 | 571,999,183 |
| Total liabilities and net assets | $ 577,799,903 | $ 572,942,791 |

**THE UNIVERSITY OF ARKANSAS FAYETTEVILLE CAMPUS FOUNDATION, INC.**

**STATEMENT OF ACTIVITIES**

**Year ended June 30, 2019**

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| Revenue, gains and other support: | | | |
| Amortization of pledge discount | $ - | $ 171,450 | $ 171,450 |
| Interest and dividends (see Note 6) | - | 3,974,565 | 3,974,565 |
| Net realized and unrealized gains on investments (see Note 6) | - | 22,716,071 | 22,716,071 |
| Net assets released from restrictions | 23,618,294 | (23,618,294) | - |
| Total revenue, gains and other support | 23,618,294 | 3,243,792 | 26,862,086 |
| Expenses and losses: | | | |
| Program services: | | | |
| Fayetteville campus support | 23,618,294 | - | 23,618,294 |
| Changes in net assets | - | 3,243,792 | 3,243,792 |
| Net assets, beginning of year | - | 571,999,183 | 571,999,183 |
| Net assets, end of year | $ - | $ 575,242,975 | $ 575,242,975 |

**THE UNIVERSITY OF ARKANSAS FAYETTEVILLE CAMPUS FOUNDATION, INC.**

**STATEMENT OF ACTIVITIES**

**Year ended June 30, 2018**

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| Revenue, gains and other support: | | | |
| Contribution | $ - | $ 9,891,099 | $ 9,891,099 |
| Interest and dividends (see Note 6) | - | 3,490,572 | 3,490,572 |
| Net realized and unrealized gains on investments (see Note 6) | - | 44,206,804 | 44,206,804 |
| Net assets released from restrictions | 19,314,656 | (19,314,656) | - |
| Total revenue, gains and other support | 19,314,656 | 38,273,819 | 57,588,475 |
| Expenses and losses: | | | |
| Program services: | | | |
| Fayetteville campus support | 19,314,656 | - | 19,314,656 |
| Changes in net assets | - | 38,273,819 | 38,273,819 |
| Net assets, beginning of year | - | 533,725,364 | 533,725,364 |
| Net assets, end of year | $ - | $ 571,999,183 | $ 571,999,183 |

# DISCRETELY PRESENTED COMPONENT UNITS
THE RAZORBACK FOUNDATION, INC.

**THE RAZORBACK FOUNDATION, INC.**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

**June 30, 2019**

| | |
|---|---|
| **Assets** | |
| Cash and cash equivalents | $ 7,098,096 |
| Restricted cash and cash equivalents | 1,782,569 |
| Contributions receivable, net | 25,832,840 |
| Investments, at fair value | 13,979,657 |
| Prepaid rent | 655,339 |
| Other | 1,804,609 |
| Property and equipment, net | 12,118,044 |
| Total assets | $ 63,271,154 |
| **Liabilities and Net Assets** | |
| Liabilities: | |
| Accounts payable and accrued liabilities | $ 577,656 |
| Net assets: | |
| Net assets of nonprofit parent without donor restriction | 43,664,659 |
| Stockholder's equity in for-profit subsidiary | 100 |
| Total net assets without donor restrictions | 43,664,759 |
| With donor restrictions | 19,028,739 |
| Total net assets | 62,693,498 |
| Total liabilities and net assets | $ 63,271,154 |

**THE RAZORBACK FOUNDATION, INC.**

**CONSOLIDATED STATEMENT OF ACTIVITIES**

**Year ended June 30, 2019**

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| Revenues, gains and other support: | | | |
| Contributions | $ 18,423,981 | $ 16,525,114 | $ 34,949,095 |
| Interest and dividends | 110,521 | 198,290 | 308,811 |
| Net realized and unrealized gains on investments | 343,883 | 62,915 | 406,798 |
| Other | 468,576 | - | 468,576 |
| Net assets released from restrictions | 28,799,226 | (28,799,226) | - |
| Total revenues, gains and other support | 48,146,187 | (12,012,907) | 36,133,280 |
| Expenses and losses: | | | |
| Program services: | | | |
| Athletic department expenses | 13,618,656 | - | 13,618,656 |
| Construction and capital projects | 13,253,267 | - | 13,253,267 |
| Scholarships | 187,563 | - | 187,563 |
| Total program services | 27,059,486 | - | 27,059,486 |
| Supporting services: | | | |
| Management and general | 2,881,928 | - | 2,881,928 |
| Membership, fundraising and development | 4,680,980 | - | 4,680,980 |
| Change in guaranty payment | (7,072,771) | - | (7,072,771) |
| Impairment of land | 1,800,000 | | 1,800,000 |
| Change in cash surrender value of life insurance policies | (8,574) | - | (8,574) |
| Provision for loss on uncollectible contributions | 320,255 | - | 320,255 |
| Total supporting services | 2,601,818 | - | 2,601,818 |
| Total expenses and losses | 29,661,304 | - | 29,661,304 |
| Change in net assets | 18,484,883 | (12,012,907) | 6,471,976 |
| Net assets, beginning of year | 25,179,876 | 31,041,646 | 56,221,522 |
| Net assets, end of year | $ 43,664,759 | $ 19,028,739 | $ 62,693,498 |

Per FASB ASU No. 2016-14, the Year ended June 30, 2019 and 2018 are not comparable

**THE RAZORBACK FOUNDATION, INC.**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

**June 30, 2018**

| | |
|---|---|
| **Assets** | |
| Cash and cash equivalents | $ 8,786,040 |
| Contributions receivable, net | 21,506,466 |
| Investments, at fair value | 19,486,348 |
| Prepaid rent | 729,304 |
| Other | 1,745,744 |
| Property and equipment, net | 14,436,709 |
| Total assets | $ 66,690,611 |
| **Liabilities and Net Assets** | |
| Liabilities: | |
| Accounts payable and accrued liabilities | $ 1,150,485 |
| Guaranty payment, subject to mitigation | 9,318,604 |
| Total liabilities | 10,469,089 |
| Net assets: | |
| Unrestricted net assets: | |
| Stockholder's equity in for-profit subsidiary | 100 |
| Unrestricted net assets of nonprofit parent | 25,179,776 |
| Total unrestricted net assets | 25,179,876 |
| Temporarily restricted net assets | 27,431,100 |
| Permanently restricted net assets | 3,610,546 |
| Total net assets | 56,221,522 |
| Total liabilities and net assets | $ 66,690,611 |

**THE RAZORBACK FOUNDATION, INC.**

**CONSOLIDATED STATEMENT OF ACTIVITIES**

**Year ended June 30, 2018**

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Revenues, gains and other support: | | | | |
| Contributions | $ 17,691,292 | $ 11,140,817 | $ 235,336 | $ 29,067,445 |
| Interest and dividends | 217,299 | 62,148 | - | 279,447 |
| Net realized and unrealized gains on investments | 836,812 | 310,511 | - | 1,147,323 |
| Other | 113,255 | - | - | 113,255 |
| Net assets released from restrictions | 17,251,293 | (17,251,293) | - | - |
| Total revenues, gains and other support | 36,109,951 | (5,737,817) | 235,336 | 30,607,470 |
| Expenses and losses: | | | | |
| Program services: | | | | |
| Athletic department expenses | 16,441,618 | - | - | 16,441,618 |
| Construction and capital projects | 18,849,243 | - | - | 18,849,243 |
| Total program services | 35,290,861 | - | - | 35,290,861 |
| Supporting services: | | | | |
| Management and general | 15,272,246 | - | - | 15,272,246 |
| Fundraising | 2,837,531 | - | - | 2,837,531 |
| Change in cash surrender value of life insurance policies | (55,734) | - | - | (55,734) |
| Provision for loss on uncollectible contributions | 30,736 | - | - | 30,736 |
| Total supporting services | 18,084,779 | - | - | 18,084,779 |
| Total expenses and losses | 53,375,640 | - | - | 53,375,640 |
| Change in net assets | (17,265,689) | (5,737,817) | 235,336 | (22,768,170) |
| Net assets, beginning of year | 42,445,565 | 33,168,917 | 3,375,210 | 78,989,692 |
| Net assets, end of year | $ 25,179,876 | $ 27,431,100 | $ 3,610,546 | $ 56,221,522 |

Per FASB ASU No. 2016-14, the Year ended June 30, 2019 and 2018 are not comparable

# TABLE OF CONTENTS: NOTES TO THE FINANCIAL STATEMENTS

# 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## 1A Nature of the Organization

The University of Arkansas, Fayetteville ("the University") is a State-supported institution of higher education and the flagship of the University of Arkansas System. The University was established at Fayetteville in 1871 under the provisions of the Morrill Act as both a state university and the land-grant college of Arkansas and is one of thirteen campuses of the University of Arkansas System.

The University is granted an annual appropriation for operating purposes as authorized by the Arkansas General Assembly. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total operating funds. An appropriation is construed to be available for the one-year period following the legislative session in which it was approved. All appropriations lapse at the end of the year unless otherwise provided. The laws of the State and the policies and procedures specified by the State for state agencies and institutions are applicable to the activities of the University.

The University is tax exempt under Internal Revenue Service code except for tax on unrelated business income. The University had no significant unrelated business income for the year ended June 30, 2019. It is also exempt from state income taxes under Arkansas law. Accordingly, no provision for income taxes is made in the financial statements.

The University is governed by a ten-member Board of Trustees which has been accorded constitutional status for the exercise of its powers and authority by Amendment 33 to the Arkansas Constitution. The Board of Trustees has delegated to the President the administrative authority for all aspects of the University's operations. Administrative authority is further delegated to the Chancellors, the Vice President for Agriculture, the Dean of the Clinton School, the Director of the Criminal Justice Institute, the Director of the Archeological Survey and the Executive Director of the Arkansas Research and Education Optical Network who have responsibility for the programs and activities of the respective campus or state-wide operating division.

## 1B Financial Reporting Entity

GASB Statement No. 14, The Financial Reporting Entity, as amended by GASB Statements No. 39, *Determining Whether Certain Organizations are Component Units - an amendment of GASB Statement No. 14* and No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and 34,* defines the financial reporting entity as 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. Under the provisions of these Statements, the University is a component unit of the State of Arkansas (primary government). Although the guidance is written from the perspective of the primary government, its requirements apply to the separately issued financial statements of a component unit, and therefore, the component unit should apply the provisions as if it was a primary government.

For purposes of financial reporting, the primary government of the University includes the academic units in Fayetteville, the Agricultural Experiment Station, the Cooperative Extension Service, the Arkansas Archeological Survey, the Criminal Justice Institute, the Clinton School of Public Service, and the Arkansas Research Education Optical Network. The academic units in Fayetteville include ten colleges, schools and divisions: the Dale Bumpers College of Agricultural, Food, and Life Sciences, the Fay Jones School of Architecture and Design, the J. William Fulbright College of Arts and Sciences, the Sam M. Walton College of Business, the College of Education and Health Professions, the College of Engineering, the School of Law, the Honors College, the Graduate School and International Education, and the Global Campus.

## 1C Discretely Presented Component Units

Under the provisions of the GASB Statements discussed above, the University has identified two organizations that should be reported as component units based on the nature and significance of their relationship with the primary government. The qualifying organizations are the University of Arkansas Fayetteville Campus Foundation, Inc., and the Razorback Foundation, Inc. Although the University does not control the timing or amount of receipts from any of these foundations, the majority of resources or income thereon, which the foundations hold and invest, is restricted to the activities of the University by donors. Because these restricted resources held by the foundations can be used only by, or for the benefit of, the University, and their individual net assets are considered as having met the financial accountability criteria of Statement No. 39 by management, these foundations are considered component units of the University and are discretely presented in the University's financial statements.

The University of Arkansas Fayetteville Campus Foundation, Inc. ("the Foundation") is a charitable organization described in Section 501 (c) (3) of the Internal Revenue Code of 1986, as amended, and was established by the Walton Family Charitable Support Foundation, Inc., for the exclusive benefit of the University of Arkansas, Fayetteville campus. The Foundation was established on March 11, 2003, and exists primarily to support the Honors College, the Graduate School and International Education and the University's library. The Board of Trustees of the Foundation is made up of seven (7) members, including three (3) members who are also employees of the University.

The Foundation distributed $23,617,690 and $19,311,123 to the University during the fiscal years ended June 30, 2019 and June 30, 2018, respectively, for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the administrative office at 535 Research Center Blvd Suite 120, Fayetteville, AR 72701.

The Razorback Foundation, Inc. ("the Razorback Foundation") was incorporated on October 17, 1980. It is a not-for-profit organization whose sole purpose is to support intercollegiate athletics at the University.

The Razorback Foundation distributed $19,643,002 to the University, and provided equipment, facilities, improvements and supplies in the amount of $4,079,938 during the fiscal year ended June 30, 2019. During the fiscal year ended June 30, 2018, the Razorback Foundation distributed $27,188,482 to the University, and provided equipment, facilities, improvements and supplies in the amount of $2,394,244. Complete financial statements for the Razorback Foundation can be obtained from the administrative office at 1295 S. Razorback Road, Fayetteville, AR 72701.

## 1D Basis of Presentation

The financial statements for the University have been prepared in accordance with generally accepted accounting principles accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB).

## 1E Basis of Accounting

For financial reporting purposes, the University is considered a special-purpose government engaged in business-type activities. Accordingly, the financial statements of the University have been prepared 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.

## 1F Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, deferred inflows, deferred outflows, revenues and expenses at the date of the financial statements. Significant estimates include separation of accrued compensated absences between current and non-current and depreciation expense. Actual results could differ from those estimates.

## 1G Cash and Cash Equivalents

Cash and cash equivalents on the Statement of Net Position includes all readily available sources of cash such as petty cash, demand deposits, and cash on deposit with the State Treasurer.

## 1H 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 Position.

## 1I Accounts Receivable

Accounts receivable are stated at estimated net realizable values; that is, the gross amount of the receivable is reduced by allowances for estimated uncollectible accounts.

## 1J Inventories

Inventories are valued at cost with costs generally using retail, and first in first out valuation methods, depending on the best practices of the University department to which the inventory belongs.

An allowance of $86,897 was computed based on estimated obsolete inventory values as of June 30, 2019.

## 1K Capital Assets

Capital assets consisting of land, buildings, furniture, fixtures, equipment, improvements, infrastructure, construction in progress, and intangible assets are stated at cost or fair market value at date of gift.

Buildings, improvements, and infrastructure additions are capitalized when the cost is $50,000 or more. Renovations to buildings, infrastructure and land improvements are also capitalized when they significantly increase the value or extend the useful life of the structure and the cost exceeds $50,000.

In accordance with the University's capitalization policy, equipment includes all furniture, fixtures and equipment with a unit cost of $5,000 or more and an estimated useful life of one year or more.

Intangible assets are capitalized when the cost is $500,000 or more for purchased software, $1,000,000 or more for internally developed software, or $250,000 or more for easements, land use rights, trademarks and copyrights, and patents.

Library holdings are generally defined as collections of books and reference materials and are valued using average prices for library acquisitions. A library book is a literary composition bound into a separate volume and identifiable as a separate copyrighted unit. Library reference materials are information sources other than books which include journals, periodicals, microforms, audio/visual media, computer-based information, manuscripts, maps, documents, and similar items.

Livestock is under the control of the Department of Animal Sciences and is maintained primarily for research purposes with any other benefits derived from the operations considered as incidental to the primary mission of the Department. The inventory value placed on the animals is determined by department heads utilizing current market prices and breeding and research intangibles.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 30 years for buildings, 15 to 20 years for infrastructure and land improvements, 3 to 10 years for equipment and 10 years for library holdings. Amortization of intangible assets, except for those determined to have indefinite useful lives, is computed using the straight-line method over the estimated useful lives of the assets, generally 5 years for purchased software; 10 years for internally developed software; 15 years for easements, land use rights, trademarks, and copyrights; and 20 years for patents.

## 1L Capitalization of Interest

The University elected early implementation of GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period.* This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred. As a result, interest cost incurred before the end of a construction period will no longer be included in the historical cost of a capital asset beginning with the fiscal year ended June 30, 2019. The total amount of interest cost incurred was $35,064,908 for the fiscal year ended June 30, 2019. The total amount of interest cost incurred and the net amount thereof that has been capitalized was $34,542,620 and $5,355,064, respectively, for the fiscal year ended June 30, 2018.

## 1M Deferred Outflows of Resources

Deferred outflows of resources represent a decrease of net position that applies to future periods. Thus, these items will not be recognized as an outflow of resources (an expense or expenditure) until a future period.

## 1N Advance Receipts

Advance receipts consist primarily of athletic ticket sales and related fees and unearned student revenues for summer session and fall semester. These monies were collected in advance and were not earned as of the end of each fiscal year.

## 1O Noncurrent Liabilities

Noncurrent liabilities include principal amounts of revenue bonds payable, notes payable, capital lease obligations and installment contracts payable with contractual maturities greater than one year, as well as estimated amounts for accrued compensated absences, net pension obligations, refundable advances on student loans, net other postemployment benefits obligation, and other liabilities that will not be paid within the next fiscal year.

## 1P Deferred Inflows of Resources

Deferred inflows of resources represent an increase of net position that applies to future periods. These items will not be recognized as an inflow of resources (revenue) until a future period.

## 1Q Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Arkansas Public Employees Retirement System and the Arkansas Teacher Retirement System (the respective Systems) and additions to/deductions from the respective System's fiduciary net position have been determined on the same basis as they are reported by the respective Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

## 1R Net Position

The University's net position is classified as follows:

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

- Restricted:

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

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

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

### 1S Classification of Revenues

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

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

- Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* such as state appropriations and investment income.

### 1T 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 Position. 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 and 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.

### 1U 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.

### 1V New Accounting Pronouncements

The GASB issued two Statements with requirements that became effective for the fiscal year ended June 30, 2019. Statement No. 83, *Certain Asset Retirement Obligations*, establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for Asset Retirement Obligations (AROs) and requires that recognition occur when the liability is both incurred and reasonably estimable. No AROs were identified as of June 30, 2019. Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements,* requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. See Note 8C.

The GASB issued the following Statements with requirements that become effective for the fiscal year ending June 30, 2020: Statement No. 84, *Fiduciary Activities* and Statement No, 90, *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61.* Statement No. 87, *Leases* and Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* will become effective for the fiscal year ending June 20, 2021. GASB Statement 89 has been early implemented and the effect of this implementation is discussed in detail within Note 1L. Statement No. 91, Conduit Debt Obligations will become effective for the fiscal year ending June 20, 2022. Management has not yet determined the effects of these Statements on the University's financial statements except for GASB 89.

### 1W Restatement of Prior Year

Operating revenues for fiscal year 2018 have been restated to reflect an updated classification of federal, state and local, and nongovernmental awards. Federal grants and contracts revenue, which now includes pass-through awards from state and nongovernmental sources, increased $23.7 million while state and local grants and contracts revenue decreased by $16.7 million due to the reclassification of pass-through awards to federal revenue, offset by the change of promotion board awards from nongovernmental grants and contracts revenue to state grants and contracts revenue. Nongovernmental grants and contracts revenue decreased $7.0 million primarily due to the reclassification of the promotion board awards. The effects of the restatements are provided in the following table.

**Restatement of Prior Year**

| Operating Revenues | FY2018 Prior to Restatement | Restatement | FY2018 After Restatement |
|---|---|---|---|
| Federal grants and contracts | $ 55,333,386 | $ 23,716,556 | $ 79,049,942 |
| State and local grants and contracts | 32,129,524 | (16,713,434) | 15,416,090 |
| Non-governmental grants and contracts | 33,718,319 | (7,003,122) | 26,715,197 |
| **Total of affected Operating Revenues** | **$ 121,181,229** | **$ 0** | **$ 121,181,229** |

# 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

A.C.A. §19-4-805 authorizes institutions of higher learning to determine the depositories and nature of investments of any of the cash funds which are not currently needed for operating purposes.

## 2A Cash and Cash Equivalents

The University uses commercial banks for its cash deposits. Cash deposits are carried at cost. The University of Arkansas System Administration (System Administration) does not maintain separate bank accounts. System Administration deposits are commingled in University of Arkansas, Fayetteville bank accounts. The carrying value of the System Administration funds was $5,844,369 at June 30, 2019 and $4,306,362 at June 30, 2018.

The following schedule reconciles the amount of deposits to the Statement of Net Position at June 30, 2019 and June 30, 2018:

**Cash and Cash Equivalents**

| Cash and Cash Equivalents | June 30, 2019 | June 30, 2018 |
|---|---|---|
| Cash on deposit, carrying value | $ 147,578,950 | $ 150,456,025 |
| Cash held at State Treasury | 20,880,284 | 1,393,861 |
| Imprest Funds, non-Bank | 53,123 | 56,223 |
| Less: System Administration Cash | (5,844,369) | (4,306,362) |
| **Totals** | **$ 162,667,988** | **$ 147,599,747** |

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. Deposits are exposed to custodial risk if they are not insured by Federal Deposit Insurance Corporation (FDIC) and are uncollateralized, collateralized with securities held by the pledging institution or collateralized with securities held by the pledging institution's agent but not in the University's name. Board of Trustees policy requires that all cash deposits be either insured by the FDIC or collateralized by securities held at a third-party financial institution (preferably the Federal Reserve Bank) in the University's name. At June 30, 2019, none of the University's bank balances were exposed to custodial credit risk.

## 2B Investments

The following is a summary of the University's investments held at June 30, 2019 and June 30, 2018:

| Investments | | |
|---|---|---|
| **Investment Type** | **Fair Value at June 30, 2019** | **Fair Value at June 30, 2018** |
| Mutual Treasury MM Funds | $ 1,700,620 | $ 6,154,106 |
| U.S. Treasuries | 211,527,796 | 164,430,295 |
| Federal Agencies | 24,551,752 | 46,147,794 |
| Commercial Paper | 50,561,167 | 63,068,644 |
| Mutual Bond Funds | 158,144 | 153,903 |
| Corporate Notes/Bonds | 60,128,997 | 35,319,115 |
| Negotiable CDs | 18,560,802 | 21,104,987 |
| External Investment Pool | 100,668,668 | 162,132,892 |
| Other Investments | 992,333 | 984,553 |
| **Totals** | **$ 468,850,279** | **$ 499,496,289** |

At June 30, 2019, total investments of $468,850,279 includes $41,836,008 reported as deposits with bond trustees on the Statement of Net Position; at June 30, 2018, total investments of $499,496,289 includes $94,477,155 reported as deposits with bond trustees on the Statement of Net Position. The above schedule does not include nonnegotiable certificates of deposit of $427,680 at June 30, 2019 and $54,000 at June 30, 2018 which are considered deposits for GASB Statement No. 40, *Deposit and Investment Risk Disclosures—an amendment of GASB Statement No. 3.*

During the fiscal year ended June 30, 2019, the University of Arkansas Foundation made a management decision to remove non-gift/non-endowed funds from the Short/Intermediate Pool. As a result, the University of Arkansas System Office formed a voluntary investment pool for use by various campuses and entities of the System. The University moved its funds either directly to the Operating Funds custodian, or to the new System pool.

Investment Risk

The University is required under GASB Statement No. 40 to provide investment risk disclosures for all invested funds. Disclosures related to the External Investment Pool are shown separately. No disclosures are made for Other Investments.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University does not have a formal investment policy addressing interest rate risk for non-operating investments. In accordance with its Operating Funds Investment Policy, the University limits its exposure to fair value losses arising from rising interest rates by limiting investment maturities as follows:

| Investment Maturities | |
|---|---|
| **Investment Type (Sector)** | **Maximum Maturity** |
| U.S. Treasury | 10 Years |
| Federal Agency/Government Sponsored Enterprise | 10 Years |
| Corporate Notes | 10 Years |
| Commercial Paper | 270 Days |
| Negotiable Certificates of Deposit | 5 Years |

The University of Arkansas' investments subject to GASB Statement No. 40 interest rate risk disclosure are summarized below:

**Interest Rate Risk**

June 30, 2019

| Investment Type | Value | Less than 1 | 1 to 5 | 6 to 10 | More than 10 |
|---|---|---|---|---|---|
| | | Investment Maturities (in years) | | | |
| U.S Treasury | $ 211,527,796 | $ 150,683,304 | $ 55,754,718 | $ 5,089,774 | $ 0 |
| Federal Agencies | 24,551,752 | 21,810,809 | 2,740,943 | | |
| Commercial Paper | 50,561,167 | 50,561,167 | | | |
| Corporate Notes/Bonds | 60,128,997 | 31,231,082 | 28,089,707 | 808,208 | |
| Negotiable CDs | 18,560,802 | 12,278,780 | 6,282,022 | | |
| **Totals** | **$ 365,330,514** | **$ 266,565,142** | **$ 92,867,390** | **$ 5,897,982** | **$ 0** |

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University does not have a formal investment policy addressing credit risk for non-operating investments. In accordance with its Operating Funds Investment Policy, the University applies the "prudent investor" standard which states that, "In making investments, the fiduciaries shall exercise the judgement and care, under the circumstances then prevailing, which an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation, considering probable safety of capital as well as probable income." The University manages its exposure to fair value losses arising from credit risks as follows:

**Investment Ratings**

| Investment Type (Sector) | Minimum Ratings Requirement |
|---|---|
| U.S. Treasury | N/A |
| Federal Agency/Government Sponsored Enterprise | Highest short-term or one of the two highest long-term rating categories (A-1/P-1, AA-/Aa3 or equivalent) |
| Corporate Notes | Highest short-term or one of the three highest long-term rating categories (A-1/P-1, A-/A3 or equivalent) |
| Commercial Paper | Highest short-term rating category (A-1/P-1, or equivalent) |
| Negotiable Certificates of Deposit | Highest short-term or one of the three highest long-term rating categories (A-1/P-1, A-/A3 or equivalent) |
| Money Market Funds | AAAm |
| Fixed-Income Mutual Funds & ETFs | N/A |

The University of Arkansas' investments subject to GASB Statement No. 40 credit risk disclosure are summarized below:

**Credit Risk**

June 30, 2019

| Investment Type | Value | Aaa-Aa3 | A1-A3 | Not Rated |
|---|---|---|---|---|
| Mutual Treasury MM Funds | $ 1,700,620 | $ 1,693,354 | | $ 7,266 |
| U.S. Treasury | 211,527,796 | 8,322,749 | $ 191,745,342 | 11,459,705 |
| Federal Agencies | 24,551,752 | 20,360,200 | 4,191,552 | |
| Commercial Paper | 50,561,167 | | 50,561,167 | |
| Mutual Bond Funds | 158,144 | | | 158,144 |
| Corporate Notes/Bonds | 60,128,997 | 3,754,112 | 56,374,885 | |
| Negotiable CDs | 18,560,802 | | 16,632,464 | 1,928,338 |
| **Totals** | **$ 367,189,278** | **$ 34,130,415** | **$319,505,410** | **$ 13,553,453** |

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

## 2C External Investment Pool-University of Arkansas System

In 1997, the University of Arkansas and the University of Arkansas Foundation established an external investment pool. This arrangement commingles (pools) the moneys of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio. Subsequent to its establishment, other entities have joined including the Walton Arts Foundation in 1998, the Fayetteville Campus Foundation in 2003, the University of Arkansas Community College at Hope Foundation in 2007, the Razorback Foundation in 2012, and the University of Arkansas Technology Development Foundation in 2016.

The external investment pool is exempt from registration with the Securities and Exchange Commission. The University of Arkansas Board of Trustees and the University of Arkansas Foundation Board of Trustees were the sponsors of this investment pool and were responsible for operation and oversight for the pool. All participation in this investment pool is voluntary.

In January 2010, the University of Arkansas Investment Committee approved an agreement which delegated authority to the UA Foundation to manage University funds held in the Pool. The agreement included delegation of all responsibility for all investment guidelines and performance objectives for accounts within the Pool. The agreement also delegated to the UA Foundation authority for further delegation of portfolio implementation decisions to one or more investment managers. In January 2010, the UA Foundation entered into such an agreement with Cambridge Associates, LLC.

The implementation of GASB Statement No.72, *Fair Value Measurement and Application*, during the fiscal year ended June 30, 2016, caused management to reassess the University of Arkansas Board of Trustees' sponsorship role. Based on the UA Foundation's fiduciary responsibilities outlined in the January 2010 agreement, management concluded that the UA Foundation acts as sole sponsor of this investment pool.

The Pool consists of the Total Return Pool and the Intermediate Pool. UAF's ownership of each of these individual pools and of the total external pool was as follows:

**External Investment Pool**

| Fiscal Year | UAF Total Return Pool | UAF/CES Intermediate Pool | CES Total Return Pool | Total Pool |
|---|---|---|---|---|
| June 30, 2019 | 4.60% | 0% | 0.29% | 4.33% |
| June 30, 2018 | 5.01% | 17.52% | 0% | 7.74% |

## UNIVERSITY OF ARKANSAS EXTERNAL INVESTMENT POOL

Statement of Invested Assets

| Investment Type | | Fair Value* June 30, 2019 | | Fair Value* June 30, 2018 |
|---|---|---|---|---|
| **Equities** | **$** | **530,277,214** | **$** | **493,662,841** |
| Common Stock | | 243,200,465 | | 217,897,695 |
| Funds - Common Stock | | 286,118,374 | | 274,652,577 |
| Rights/Warrants | | 26,323 | | |
| Funds - Equities ETF | | 932,052 | | 1,112,569 |
| **Fixed Income** | **$** | **158,926,676** | **$** | **463,526,876** |
| Government Bonds | | 158,839,229 | | 127,441,525 |
| Corporate Bonds | | 87,404 | | 9,036,931 |
| Government Mortgage Backed Securities | | 43 | | 16,169,866 |
| Commercial Mortgage-Backed | | | | 2,309,016 |
| Asset Backed Securities | | | | 11,806,602 |
| Non-Government Backed C.M.O.s | | | | |
| Funds - Fixed Income ETF | | | | 296,762,936 |
| **Venture Capital and Partnerships** | **$** | **804,451,728** | **$** | **703,142,468** |
| Partnerships | | 804,451,728 | | 703,142,468 |
| **Hedge Fund** | **$** | **301,546,365** | **$** | **267,736,560** |
| Hedge Equity | | 265,841,480 | | 236,628,726 |
| Hedge Event Driven | | 35,704,885 | | 31,107,834 |
| **All Other** | **$** | **486,961** | **$** | **492,602** |
| Recoverable Taxes | | 486,961 | | 492,602 |
| **Cash/Cash Equivalents** | **$** | **243,999,764** | **$** | **165,570,901** |
| Short Term Bill and Notes | | | | 10,350,281 |
| Funds - Short Term Investment | | 237,229,952 | | 146,924,214 |
| Cash | | 1,313,503 | | 2,254,069 |
| Invested Cash | | 5,456,309 | | 6,042,337 |
| **Totals** | **$** | **2,039,688,708** | **$** | **2,094,132,248** |

*Includes accrued income

## Credit Risk – S&P Quality Ratings

June 30, 2019

| | Credit Risk | | | | | | |
|---|---|---|---|---|---|---|---|
| Investment Type & Fair Value* | AAA | AA | A | BBB | BB | NR | US GOVN. GUAR |
| Asset Backed Securities | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | | |
| Commercial Mortgage-Backed | | | | | | | |
| Corporate Bonds | | | | | | $ 87,404 | |
| Funds - Fixed Income ETF | | | | | | | |
| Funds - Short Term Investment | | | | | | 236,774,363 | |
| Government Bonds | | | | | | | $ 158,831,673 |
| Govn Mortgage Backed Securities | | | | | | | 43 |
| Hedge Event Driven | | | | | | 35,704,885 | |
| Short Term Bills and Notes | | | | | | | |
| **Totals** | **$ 0** | **$ 0** | **$ 0** | **$ 0** | **$ 0** | **$ 272,566,652** | **$ 158,831,716** |

*Does not include accrued income

## Years to Maturity

June 30, 2019

| | | Investment Maturities (in years) | | | | |
|---|---|---|---|---|---|---|
| Investment Type | Fair Value* | Less than 1 | 1+ to 6 | 6+ to 10 | 10+ | Maturity Not Determined |
| Asset Backed Securities | | $ 0 | | | | |
| Commercial Mortgage-Backed | | | | | | |
| Corporate Bonds | $ 87,404 | | | | $ 87,404 | |
| Funds - Fixed Income ETF | | | | | | |
| Funds - Short Term Investment | 236,774,363 | | | | | $ 236,774,363 |
| Government Bonds | 158,831,673 | | $ 158,831,673 | | | |
| Govn Mortgage Backed Securities | 43 | | | $ 43 | | |
| Hedge Event Driven | 35,704,885 | | | | | 35,704,885 |
| Short Term Bills and Notes | | | | | | |
| **Totals** | **$ 431,398,368** | **$ 0** | **$ 158,831,673** | **$ 43** | **$ 87,404** | **$ 272,479,248** |

*Does not include accrued income

## Interest Rate Sensitivity - Effective Duration

June 30, 2019

| Investment Type | Fair Value* | Effective Duration |
|---|---|---|
| Asset Backed Securities | | N/A |
| Commercial Mortgage-Backed | | N/A |
| Corporate Bonds | $ 87,404 | N/A |
| Funds - Fixed Income ETF | | N/A |
| Funds - Short Term Investment | 236,774,363 | N/A |
| Government Bonds | 158,831,673 | 4.78 |
| Govn Mortgage Backed Securities | 43 | 2.59 |
| Hedge Event Driven | 35,704,885 | N/A |
| Short Term Bills and Notes | | N/A |
| **Total** | **$ 431,398,368** | |

*Does not include accrued income

## Foreign Currency Risk By Investment Type

June 30, 2019

| Currency By Investment and Fair Value* | Cash | Equity | Other Assets |
|---|---|---|---|
| AUSTRALIAN DOLLAR | $ 5,754,757 | $ 3,352,073 | |
| CANADIAN DOLLAR | (1,248,945) | 2,293,423 | |
| SWISS FRANC | 177,526 | 10,625,458 | $ 221,449 |
| CHINESE YUAN RENMINBI | (5,936,308) | | |
| DANISH KRONE | | 850,491 | 8,778 |
| EURO | (739,204) | 31,486,479 | 232,993 |
| BRITISH POUND STERLING | 6,682,065 | 9,467,835 | |
| HONG KONG DOLLAR | (1) | 6,573,370 | |
| JAPANESE YEN | 2,941,794 | 23,708,124 | 21,152 |
| SOUTH KOREAN WON | 88,676 | 1,613,996 | |
| NORWEGIAN KRONE | 587,514 | | |
| POLISH ZLOTY | | | |
| SWEDISH KRONA | 2,293,230 | 1,390,147 | |
| SINGAPORE DOLLAR | 900,799 | 275,718 | |
| **Totals** | **$ 11,501,903** | **$ 91,637,114** | **$ 484,372** |

*Includes accrued income

### 2D Donor-restricted Endowments

Arkansas Code Annotated §28-69-804 states "Subject to the intent of a donor expressed in the gift instrument, an institution may appropriate for expenditure or accumulate so much of an endowment fund as the institution determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established. Unless stated otherwise in the gift instrument, the assets in an endowment fund are donor-restricted assets until appropriated for expenditure by the institution."

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

**Endowment Available for Expenditure**

| | June 30, 2019 | June 30, 2018 |
|---|---|---|
| Endowment Investments | $ 84,409,953 | $ 83,255,935 |
| Operating Investment Sweep | 400,402 | 229,722 |
| Amounts Receivable | 26,791 | 27,477 |
| Funds treated as Endowment | (14,675,020) | (14,873,352) |
| Non-expendable portion of Endowment | (25,739,466) | (25,593,406) |
| **Totals** | **$ 44,422,660** | **$ 43,046,376** |

Note: The amounts shown as available for expenditure and the funds treated as endowments are reported as expendable net position on the Statement of Net Position.

The University uses a total return policy for investing endowed funds. The University's spending policy is to expend 4.4% of the balance of the endowment averaged over the previous twelve quarters. For FY2019, the total takedown percentage of 5.243% includes 0.60% for administrative costs plus other external fees. For FY2018, the total takedown percentage was 5.237%.

# 3. RECEIVABLES

### 3A Accounts Receivable

Accounts receivable represent charges due the University from various student fees, room and board, student fines, and other charges. Accounts receivable also includes unreimbursed expenses relating to research contracts with federal, state, and private agencies.

A summary of accounts receivable balances at June 30, 2019, are as follows:

**AccountsReceivable**

June 30, 2019

| Type | Gross | Allowance | Net |
|---|---|---|---|
| Student Accounts Receivable | $ 16,695,359 | $ (5,892,248) | $ 10,803,111 |
| Non-student Accounts Receivable | 24,852,358 | (472,732) | 24,379,626 |
| Unreimbursed Research Contract Expenses | 20,992,300 | | 20,992,300 |
| **Totals** | **$ 62,540,017** | **$ (6,364,980)** | **$ 56,175,037** |

A summary of accounts receivable balances at June 30, 2018, are as follows:

**AccountsReceivable**

June 30, 2018

| Type | Gross | Allowance | Net |
|---|---|---|---|
| Student Accounts Receivable | $ 16,146,365 | $ (6,018,175) | $ 10,128,190 |
| Non-student Accounts Receivable | 24,503,079 | (328,446) | 24,174,633 |
| Unreimbursed Research Contract Expenses | 21,121,864 | | 21,121,864 |
| **Totals** | **$ 61,771,308** | **$ (6,346,621)** | **$ 55,424,687** |

## 3B Notes Receivable

Notes receivable consist of resources made available for financial loans to students of the University, and financing agreements between the University and certain organizations for the purpose of facilities construction, and an interfund loan between the University and the University of Arkansas System eVersity to help fund its initial startup.

The resources for loans to students include federal funds, funds from other external sources, and University funds. New student loans totaling $42,974 and $1,645,494 were issued under the Student Loan Programs for the years ended June 30, 2019 and June 30, 2018, respectively.

The majority of total campus-based loans are from Perkins funds provided by the federal government. The federal government halted the issuance of Perkins loans after June 30, 2018 due to the sunset of the program. The University will continue collecting on the outstanding loans until management decides to liquidate the program. The federal student loan default rate based on the U.S. Department of Education Cohort default rate was 18.57% and 16.63%, for the years ended June 30, 2019 and June 30, 2018, respectively. Notes receivable totaling $210,808 and $43,441 were written off during the fiscal years ended June 30, 2019 and June 30, 2018, respectively.

A summary of notes receivable balances at June 30, 2019, are as follows:

**Notes Receivable**

June 30, 2019

| Type | Gross Balance | Allowance | Net Balance | Current Portion |
|---|---|---|---|---|
| Student loans | $ 12,885,982 | $ (1,035,546) | $ 11,850,436 | $ 3,865,795 |
| Interfund loan | 2,334,262 | | 2,334,262 | |
| **Totals** | **$ 15,220,244** | **$ (1,035,546)** | **$ 14,184,698** | **$ 3,865,795** |

A summary of notes receivable balances at June 30, 2018, are as follows:

**Notes Receivable**

June 30, 2018

| Type | Gross Balance | Allowance | Net Balance | Current Portion |
|---|---|---|---|---|
| Student loans | $ 15,131,300 | $ (818,478) | $ 14,312,822 | $ 4,085,451 |
| Loans to Greek organizations | 80,528 | | 80,528 | 80,528 |
| Lease termination | 36,552 | (36,552) | | |
| Interfund loan | 2,334,262 | | 2,334,262 | |
| **Totals** | **$ 17,582,642** | **$ (855,030)** | **$ 16,727,612** | **$ 4,165,979** |

## 3C Pledges Receivable

Pledges receivable consists of gifts pledged for capital projects, endowments and other purposes.

A summary of pledges receivable balances at June 30, 2019, are as follows:

**Pledges Receivable**

June 30, 2019

| Category | | Total Gift Pledge | | Received as of June 30, 2019 | | Pledge Outstanding as of June 30, 2019 | | Current Portion |
|---|---|---|---|---|---|---|---|---|
| Capital projects | $ | 52,754,772 | $ | 25,759,058 | $ | 26,995,714 | $ | 11,655,838 |
| Endowments | | 30,960 | | 4,380 | | 26,580 | | 26,580 |
| Other | | 275,000 | | 117,500 | | 157,500 | | 157,500 |
| **Totals** | **$** | **53,060,732** | **$** | **25,880,938** | **$** | **27,179,794** | **$** | **11,839,918** |

A summary of pledges receivable balances at June 30, 2018, are as follows:

**Pledges Receivable**

June 30, 2018

| Category | | Total Gift Pledge | | Received as of June 30, 2018 | | Pledge Outstanding as of June 30, 2018 | | Current Portion |
|---|---|---|---|---|---|---|---|---|
| Capital projects | $ | 51,793,729 | $ | 12,091,893 | $ | 39,701,836 | $ | 11,939,373 |
| Endowments | | 30,240 | | 2,770 | | 27,470 | | 6,220 |
| Other | | 176,200 | | 59,100 | | 117,100 | | 39,300 |
| **Totals** | **$** | **52,000,169** | **$** | **12,153,763** | **$** | **39,846,406** | **$** | **11,984,893** |

# 4. CAPITAL ASSETS

The following presents a summary of changes in capital assets for the year ended June 30, 2019:

**Capital Assets**

June 30, 2019

| | Beginning Balance | Additions | Retirements | Adjustments | Ending Balance |
|---|---|---|---|---|---|
| **Nondepreciable Capital Assets** | | | | | |
| Land | $ 66,380,278 | $ 522,943 | $ (11,208) | | $ 66,892,013 |
| Construction in progress | 226,039,752 | 177,405,861 | | $ (287,954,536) | 115,491,077 |
| Other assets | 2,022,817 | | (237,345) | | 1,785,472 |
| **Total Nondepreciable Capital Assets** | **294,442,847** | **177,928,804** | **(248,553)** | **(287,954,536)** | **184,168,562** |
| **Depreciable Capital Assets** | | | | | |
| Buildings | 1,618,571,491 | 1,176,720 | (635,542) | 274,005,268 | 1,893,117,937 |
| Equipment | 255,590,291 | 16,285,258 | (7,917,447) | | 263,958,102 |
| Improvements | 51,182,693 | 34,468 | | 5,877,465 | 57,094,626 |
| Infrastructure | 115,983,583 | 493,826 | | 8,071,803 | 124,549,212 |
| Intangible assets | 78,830,516 | | | | 78,830,516 |
| Library holdings | 91,736,745 | 2,189,780 | (2,663,412) | | 91,263,113 |
| **Total depreciable capital assets** | **2,211,895,319** | **20,180,052** | **(11,216,401)** | **287,954,536** | **2,508,813,506** |
| **Less accumulated depreciation** | | | | | |
| Buildings | (706,686,321) | (60,228,774) | 555,281 | | (766,359,814) |
| Equipment | (209,746,384) | (15,958,258) | 7,903,451 | | (217,801,191) |
| Improvements | (23,125,381) | (2,400,817) | | | (25,526,198) |
| Infrastructure | (57,760,885) | (5,048,474) | | | (62,809,359) |
| Intangible assets | (77,020,894) | (151,982) | | | (77,172,876) |
| Library holdings | (79,137,025) | (2,379,386) | 2,581,113 | | (78,935,298) |
| **Total accumulated depreciation** | **(1,153,476,890)** | **(86,167,691)** | **11,039,845** | **0** | **(1,228,604,736)** |
| **Total Depreciable Capital Assets** | **1,058,418,429** | **(65,987,639)** | **(176,556)** | **287,954,536** | **1,280,208,770** |
| **Total Capital Assets, Net of Accumulated Depreciation** | **$ 1,352,861,276** | **$ 111,941,165** | **$ (425,109)** | **$ 0** | **$ 1,464,377,332** |

Note: Land of $415,652 and building of $4,824,755 related to the joint endeavor between the University of Arkansas and the City of Fayetteville are included in the above amounts. See Note 16

The following presents a summary of changes in capital assets for the year ended June 30, 2018:

**Capital Assets**

June 30, 2018

| | Beginning Balance | Additions | Retirements | Adjustments | Ending Balance |
|---|---|---|---|---|---|
| **Nondepreciable Capital Assets** | | | | | |
| Land | $ 59,952,817 | $ 6,577,461 | $ (150,000) | | $ 66,380,278 |
| Construction in progress | 83,517,981 | 173,975,377 | | $ (31,453,606) | 226,039,752 |
| Other assets | 2,208,320 | | (185,503) | | 2,022,817 |
| **Total Nondepreciable Capital Assets** | **145,679,118** | **180,552,838** | **(335,503)** | **(31,453,606)** | **294,442,847** |
| **Depreciable Capital Assets** | | | | | |
| Buildings | 1,592,760,259 | 1,732,186 | (782,581) | 24,861,627 | 1,618,571,491 |
| Equipment | 249,281,708 | 16,357,441 | (10,048,858) | | 255,590,291 |
| Improvements | 45,377,081 | 620,535 | | 5,185,077 | 51,182,693 |
| Infrastructure | 115,582,129 | 401,454 | | | 115,983,583 |
| Intangible assets | 77,423,614 | | | 1,406,902 | 78,830,516 |
| Library holdings | 90,521,260 | 1,310,980 | (95,495) | | 91,736,745 |
| **Total depreciable capital assets** | **2,170,946,051** | **20,422,596** | **(10,926,934)** | **31,453,606** | **2,211,895,319** |
| **Less accumulated depreciation** | | | | | |
| Buildings | (656,266,729) | (50,599,377) | 179,785 | | (706,686,321) |
| Equipment | (204,276,522) | (15,417,101) | 9,947,239 | | (209,746,384) |
| Improvements | (20,968,871) | (2,150,302) | (6,208) | | (23,125,381) |
| Infrastructure | (53,194,347) | (4,566,538) | | | (57,760,885) |
| Intangible assets | (76,866,304) | (154,590) | | | (77,020,894) |
| Library holdings | (76,496,968) | (2,732,601) | 92,544 | | (79,137,025) |
| **Total accumulated depreciation** | **(1,088,069,741)** | **(75,620,509)** | **10,213,360** | **0** | **(1,153,476,890)** |
| **Total Depreciable Capital Assets** | **1,082,876,310** | **(55,197,913)** | **(713,574)** | **31,453,606** | **1,058,418,429** |
| **Total Capital Assets, Net of Accumulated Depreciation** | **$ 1,228,555,428** | **$ 125,354,925** | **$ (1,049,077)** | **$ 0** | **$ 1,352,861,276** |

Note: Land of $415,652 and building of $4,824,755 related to the joint endeavor between the University of Arkansas and the City of Fayetteville are included in the above amounts. See Note 16.

## Museum Collection

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

# 5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable balances are summarized as follows:

**Accounts Payable**

| Type | June 30, 2019 | June 30, 2018 |
|---|---|---|
| Payable to Outside Vendors | $ 28,696,961 | $ 38,602,820 |
| Retainage on Construction Contracts | 8,450,166 | 9,446,664 |
| Property Taxes Payable | 3,403 | 3,888 |
| **Totals** | **$ 37,150,530** | **$ 48,053,372** |

Accrued payroll liabilities are summarized as follows:

**Accrued Payroll Liabilities**

| Type | June 30, 2019 | June 30, 2018 |
|---|---|---|
| Net Salaries and Wages Payable | $ 1,955,975 | $ 2,316,105 |
| Employee Withholdings Payable | 9,768,913 | 5,453,119 |
| Employer Payroll Taxes and Benefits Matching Payable | 6,977,074 | 6,902,523 |
| **Totals** | **$ 18,701,962** | **$ 14,671,747** |

# 6. SHORT-TERM BORROWING

GASB Statement No. 38, *Certain Financial Statement Note Disclosures,* states that governments should provide details about short-term debt activity during the year, even if no short-term debt is outstanding at year-end. The University had no short-term debt activity during the fiscal year, nor is there any outstanding balance of short-term debt as of June 30, 2019.

# 7. COMPENSATED ABSENCES

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

Classified employees who meet the conditions to be considered retirees at the time of termination of employment are entitled to a partial payment of accumulated, unused sick leave in accordance with the provisions of Arkansas Code Annotated (ACA) §21-4-501.

The University recognizes a liability for compensated absences. The liability is based on the value of unused employee vacation and compensatory time as of year-end, including the associated benefits: contributions to Social Security, Medicare, Workers' Compensation, and Unemployment Insurance. The liability also includes amounts paid to eligible classified employees for unused sick leave. A classified employee who has accumulated at least fifty (50) days, but less than sixty (60) days of sick leave upon retirement shall receive an amount equal to fifty percent (50%) of the number of accrued sick leave days (rounded to the nearest day) times fifty percent (50%) of the employee's daily salary. A classified employee who has accumulated at least sixty (60) days, but less than seventy (70) days of sick leave upon retirement shall receive an amount equal to sixty percent (60%) of the number of accrued sick leave days (rounded to the nearest day) times 60 percent (60%) of the employee's daily salary. A classified employee who has accumulated at least seventy (70) days, but less than eighty (80) days of sick leave upon retirement shall receive an amount equal to seventy percent (70%) of the number of accrued sick leave days (rounded to the nearest day) times seventy percent (70%) of the employee's daily salary. A classified employee that has accumulated at least eighty (80) or more days of sick leave upon retirement shall receive an amount equal to eighty percent (80%) of the number of accrued sick leave days (rounded to the nearest day) times eighty percent (80%) of the employee's daily salary. In no event shall an employee receive a sick leave incentive amount that exceeds $7,500.

The University recognizes the estimated amount of the liability that will be incurred within the next year as a current liability and the balance as noncurrent.

Changes in compensated absences for the year ended June 30, 2019 are as follows:

**Compensated Absences**

June 30, 2019

| | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
|---|---|---|---|---|---|
| Compensated Absences | $ 21,602,380 | $ 180,401 | $ 924,729 | $ 20,858,052 | $ 1,770,865 |

Changes in compensated absences for the year ended June 30, 2018 are as follows:

**Compensated Absences**

June 30, 2018

| | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
|---|---|---|---|---|---|
| Compensated Absences | $ 21,236,614 | $ 835,051 | $ 469,285 | $ 21,602,380 | $ 1,602,373 |

# 8. LONG-TERM DEBT

The retirement of some bond issues is secured by a specific pledge of certain gross revenues, surplus revenues and specific fees. Separate accounting is not required for these facilities under the provisions of the debt instruments; accordingly, segment reporting is not required for financial reporting purposes.

## 8A Schedule of Long-Term Debt

A summary of long-term debt at June 30, 2019, is as follows:

**Long-Term Debt**

June 30, 2019

| Date of Issue | Date of Maturity | Rate of Interest | Amount Authorized & Issued | Debt Outstanding at June 30, 2019 | Maturities & Refinanced Amounts June 30, 2019 |
|---|---|---|---|---|---|
| 12/15/2009 | 11/1/2039 | 3.00% to 5.00% | $ 52,430,000 | $ 43,560,000 | $ 8,870,000 |
| 6/30/2010 | 9/15/2020 | 1.00% to 4.82% | 23,965,000 | 5,225,000 | 18,740,000 |
| 6/29/2011 | 11/1/2040 | 2.00% to 5.00% | 101,225,000 | 86,145,000 | 15,080,000 |
| 6/29/2011 | 11/1/2022 | 3.00% to 5.00% | 8,895,000 | 7,185,000 | 1,710,000 |
| 4/17/2012 | 11/1/2032 | 1.00% to 5.00% | 56,965,000 | 46,195,000 | 10,770,000 |
| 9/13/2012 | 11/1/2042 | 2.00% to 5.00% | 60,540,000 | 54,540,000 | 6,000,000 |
| 5/16/2013 | 11/1/2042 | 1.00% to 5.00% | 54,450,000 | 47,555,000 | 6,895,000 |
| 5/16/2013 | 9/15/2027 | 1.00% to 5.00% | 30,355,000 | 20,905,000 | 9,450,000 |
| 6/30/2014 | 11/1/2043 | 2.00% to 5.00% | 24,730,000 | 22,655,000 | 2,075,000 |
| 6/30/2014 | 11/1/2043 | 0.85% to 4.50% | 5,020,000 | 4,545,000 | 475,000 |
| 2/12/2015 | 11/1/2036 | 2.00% to 5.00% | 70,360,000 | 59,390,000 | 10,970,000 |
| 2/12/2015 | 9/15/2022 | 2.00% to 5.00% | 14,180,000 | 8,520,000 | 5,660,000 |
| 8/27/2015 | 11/1/2045 | 1.02% to 4.40% | 7,510,000 | 7,065,000 | 445,000 |
| 8/27/2015 | 11/1/2021 | 2.00% to 5.00% | 36,675,000 | 14,245,000 | 22,430,000 |
| 4/5/2016 | 11/1/2046 | 3.00% to 5.00% | 93,590,000 | 87,525,000 | 6,065,000 |
| 4/5/2016 | 11/1/2028 | 0.87% to 3.25% | 15,280,000 | 12,125,000 | 3,155,000 |
| 10/19/2016 | 9/15/2036 | 5.00% | 24,845,000 | 24,845,000 | |
| 10/19/2016 | 9/15/2034 | 1.192% to 3.388% | 90,000,000 | 87,650,000 | 2,350,000 |
| 8/1/2017 | 11/1/2047 | 2.00 to 5.00% | 95,805,000 | 94,330,000 | 1,475,000 |
| 7/26/2018 | 11/1/2048 | 5.00% | 20,385,000 | 20,385,000 | |
| 7/26/2018 | 11/1/2038 | 2.65 to 4.00% | 6,560,000 | 6,560,000 | |
| 11/30/1991 | 5/1/2022 | 3.32 to 5.50% | 7,533,870 | 4,126,576 | 3,407,294 |
| 11/29/1995 | 11/1/2034 | 2.00% to 5.00% | 2,690,557 | 1,268,842 | 1,421,715 |
| 7/31/2015 | 7/1/2023 | 1.97% | 4,935,766 | 3,017,371 | 1,918,395 |
| 7/31/2015 | 11/19/2023 | 1.99% | 16,969,012 | 9,302,981 | 7,666,031 |
| 7/31/2015 | 1/8/2023 | 1.95% | 6,844,590 | 3,542,857 | 3,301,733 |
| Various | Various | Various | 1,836,141 | 1,094,002 | 742,139 |
| Net unamortized premium | | | 95,316,583 | 74,353,600 | 20,962,983 |
| **Totals** | | | **$1,029,891,519** | **$ 857,856,229** | **$ 172,035,290** |

A summary of long-term debt at June 30, 2018, is as follows:

## Long-Term Debt

June 30, 2018

| Date of Issue Issue | Date of Maturity | Rate of Interest | Amount Authorized & Issued | Debt Outstanding at June 30, 2018 | Maturities & Refinanced Amounts June 30, 2018 |
|---|---|---|---|---|---|
| 12/15/2009 | 11/1/2039 | 3.00% to 5.00% | $ 52,430,000 | $ 44,790,000 | $ 7,640,000 |
| 6/30/2010 | 9/15/2020 | 1.00% to 4.82% | 23,965,000 | 7,655,000 | 16,310,000 |
| 6/29/2011 | 11/1/2040 | 2.00% to 5.00% | 101,225,000 | 88,370,000 | 12,855,000 |
| 6/29/2011 | 11/1/2022 | 3.00% to 5.00% | 8,895,000 | 7,790,000 | 1,105,000 |
| 4/17/2012 | 11/1/2032 | 1.00% to 5.00% | 56,965,000 | 47,305,000 | 9,660,000 |
| 9/13/2012 | 11/1/2042 | 2.00% to 5.00% | 60,540,000 | 55,745,000 | 4,795,000 |
| 5/16/2013 | 11/1/2042 | 1.00% to 5.00% | 54,450,000 | 48,765,000 | 5,685,000 |
| 5/16/2013 | 9/15/2027 | 1.00% to 5.00% | 30,355,000 | 22,705,000 | 7,650,000 |
| 6/30/2014 | 11/1/2043 | 2.00% to 5.00% | 24,730,000 | 23,155,000 | 1,575,000 |
| 6/30/2014 | 11/1/2043 | 0.85% to 4.50% | 5,020,000 | 4,655,000 | 365,000 |
| 2/12/2015 | 11/1/2036 | 2.00% to 5.00% | 70,360,000 | 61,675,000 | 8,685,000 |
| 2/12/2015 | 9/15/2022 | 2.00% to 5.00% | 14,180,000 | 10,910,000 | 3,270,000 |
| 8/27/2015 | 11/1/2045 | 1.02% to 4.40% | 7,510,000 | 7,215,000 | 295,000 |
| 8/27/2015 | 11/1/2021 | 2.00% to 5.00% | 36,675,000 | 20,430,000 | 16,245,000 |
| 4/5/2016 | 11/1/2046 | 3.00% to 5.00% | 93,590,000 | 89,850,000 | 3,740,000 |
| 4/5/2016 | 11/1/2028 | 0.87% to 3.25% | 15,280,000 | 13,195,000 | 2,085,000 |
| 10/19/2016 | 9/15/2036 | 5.00% | 24,845,000 | 24,845,000 | |
| 10/19/2016 | 9/15/2034 | 1.192% to 3.388% | 90,000,000 | 90,000,000 | |
| 8/1/2017 | 11/1/2047 | 2.00 to 5.00% | 95,805,000 | 95,805,000 | |
| 11/30/1991 | 5/1/2022 | 5.50% | 3,000,000 | 728,303 | 2,271,697 |
| 11/29/1995 | 11/1/2034 | 2.00% to 5.00% | 2,071,140 | 675,931 | 1,395,209 |
| 7/31/2015 | 7/1/2023 | 1.97% | 4,935,766 | 3,691,460 | 1,244,306 |
| 7/31/2015 | 11/19/2023 | 1.99% | 16,969,012 | 11,259,863 | 5,709,149 |
| 7/31/2015 | 1/8/2023 | 1.95% | 6,844,590 | 4,444,778 | 2,399,812 |
| Various | Various | Various | 2,200,229 | 1,115,257 | 1,084,972 |
| Net unamortized premium | | | 91,957,282 | 75,613,483 | 16,343,799 |
| **Totals** | | | **$ 994,798,019** | **$ 862,389,075** | **$ 132,408,944** |

## 8B Schedule of Changes in Long-Term Debt

Changes in long-term debt for the year ended June 30, 2019, are as follows:

**Changes in Long-Term Debt**

June 30, 2019

| | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
|---|---|---|---|---|---|
| Bonds | $ 764,860,000 | $ 26,945,000 | $ 30,655,000 | $ 761,150,000 | $ 32,480,000 |
| Net unamortized premium | 75,613,483 | 3,359,301 | 4,619,184 | 74,353,600 | 4,628,438 |
| Notes | 1,404,234 | 5,153,287 | 1,162,103 | 5,395,418 | 1,133,464 |
| Leases | 1,115,257 | 438,143 | 459,398 | 1,094,002 | 430,887 |
| Installment contracts | 19,396,101 | | 3,532,892 | 15,863,209 | 3,603,220 |
| **Totals** | **$ 862,389,075** | **$ 35,895,731** | **$ 40,428,577** | **$ 857,856,229** | **$ 42,276,009** |

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

Changes in long-term debt for the year ended June 30, 2018, are as follows:

**Changes in Long-Term Debt**

June 30, 2018

| | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
|---|---|---|---|---|---|
| Bonds | $ 694,760,000 | $ 95,805,000 | $ 25,705,000 | $ 764,860,000 | $ 30,655,000 |
| Net unamortized premium | 63,200,593 | 16,879,358 | 4,466,468 | 75,613,483 | 4,517,387 |
| Notes | 1,584,045 | | 179,811 | 1,404,234 | 194,042 |
| Leases | 342,502 | 1,336,435 | 563,680 | 1,115,257 | 358,242 |
| Installment contracts | 22,860,038 | | 3,463,937 | 19,396,101 | 3,532,892 |
| **Totals** | **$ 782,747,178** | **$ 114,020,793** | **$ 34,378,896** | **$ 862,389,075** | **$ 39,257,563** |

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

## 8C Future Principal and Interest Payments

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

**Future Long-Term Payments**

| | Bonds | | | Notes from Direct Borrowings | | |
|---|---|---|---|---|---|---|
| **Year(s)** | **Principal** | **Interest** | **Total** | **Principal** | **Interest** | **Total** |
| 2020 | $ 32,480,000 | $ 33,621,325 | $ 66,101,325 | $ 1,133,464 | $ 195,131 | $ 1,328,595 |
| 2021 | 33,165,000 | 32,223,832 | 65,388,832 | 1,175,370 | 153,121 | 1,328,491 |
| 2022 | 31,845,000 | 30,783,098 | 62,628,098 | 1,219,130 | 109,326 | 1,328,456 |
| 2023 | 33,375,000 | 29,361,071 | 62,736,071 | 1,056,495 | 66,637 | 1,123,132 |
| 2024 | 29,535,000 | 28,030,147 | 57,565,147 | 124,213 | 30,906 | 155,119 |
| 2025 - 2029 | 157,805,000 | 120,192,185 | 277,997,185 | 383,585 | 96,478 | 480,063 |
| 2030 - 2034 | 168,940,000 | 84,789,039 | 253,729,039 | 247,336 | 36,747 | 284,083 |
| 2035 - 2039 | 161,545,000 | 45,005,905 | 206,550,905 | 55,825 | 1,116 | 56,941 |
| 2040 - 2044 | 79,150,000 | 16,375,964 | 95,525,964 | | | |
| 2045 - 2049 | 33,310,000 | 3,427,210 | 36,737,210 | | | |
| **Total Future Payments** | **$ 761,150,000** | **$ 423,809,776** | **$ 1,184,959,776** | **$ 5,395,418** | **$ 689,462** | **$ 6,084,880** |

**Future Long-Term Payments**

| | Leases from Direct Borrowings | | | Installment contracts from Direct Borrowings | | |
|---|---|---|---|---|---|---|
| **Year(s)** | **Principal** | **Interest** | **Total** | **Principal** | **Interest** | **Total** |
| 2020 | $ 430,887 | $ 29,094 | $ 459,981 | $ 3,603,220 | $ 287,067 | $ 3,890,287 |
| 2021 | 313,597 | 19,172 | 332,769 | 3,674,948 | 215,339 | 3,890,287 |
| 2022 | 292,199 | 13,507 | 305,706 | 3,748,104 | 142,183 | 3,890,287 |
| 2023 | 57,319 | 1,939 | 59,258 | 3,577,209 | 67,571 | 3,644,780 |
| 2024 | | | | 1,259,728 | 8,939 | 1,268,667 |
| **Total Future Payments** | **$ 1,094,002** | **$ 63,712** | **$ 1,157,714** | **$ 15,863,209** | **$ 721,099** | **$ 16,584,308** |

## 8D Capital Leases

The University has acquired certain equipment under various lease-purchase contracts. The cost of equipment and other assets held under capital leases totaled $1,558,613 at June 30, 2019. The expense resulting from depreciation of assets recorded under capital leases is included with depreciation expense as reflected in the summary of changes in capital assets. See Note 4.

**Equipment Leases**

| Type of Equipment | Cost | Accumulated Depreciation | Asset Balance June 30, 2019 | Asset Balance June 30, 2018 |
|---|---|---|---|---|
| Information Technology Equipment | $ 108,652 | $ 43,461 | $ 65,191 | $ 86,922 |
| Information Technology Equipment | 108,652 | 43,461 | 65,191 | 86,922 |
| Information Technology Equipment | 90,544 | 36,218 | 54,326 | 72,435 |
| Information Technology Equipment | 90,544 | 36,218 | 54,326 | 72,435 |
| Information Technology Equipment | 44,048 | 17,619 | 26,429 | 35,238 |
| Information Technology Equipment | 44,048 | 17,619 | 26,429 | 35,238 |
| Information Technology Equipment | 44,048 | 17,619 | 26,429 | 35,238 |
| Information Technology Equipment | 44,048 | 17,619 | 26,429 | 35,238 |
| CES Farm Equipment | 120,447 | 24,089 | 96,358 | 108,402 |
| Research Equipment | 61,563 | 26,384 | 35,179 | 43,974 |
| Farm Equipment | 11,214 | 1,121 | 10,093 | |
| Farm Equipment | 149,400 | 14,940 | 134,460 | |
| **Totals** | **$ 917,208** | **$ 296,368** | **$ 620,840** | **$ 612,042** |
| Prepaid maintenance and software | 641,405 | 206,554[1] | 434,851 | 509,138 |
| **Total asset** | **$ 1,558,613** | **$ 502,922** | **$ 1,055,691** | **$ 1,121,180** |
| Total Minimum Lease Payments | | | $ 1,157,714 | $ 1,156,567 |
| Less: Amount Representing Interest | | | 63,712 | 41,310 |
| **Total Present Value of Net Minimum Lease Payments** | | | **$ 1,094,002** | **$ 1,115,257** |

[1]Amount equals recognized maintenance and software subscriptions expenses.

## 8E Nonmonetary Capital Lease

On June 7, 2017, the Arkansas Research and Education Optical Network (AREON) entered into an agreement with E. Ritter Communications Holdings, Inc. (Ritter), for a cooperative exchange of facilities consisting of unused surplus dark fiber rather than the separate and distinct construction, ownership, and operating of two fiber optic systems. This agreement supersedes a previous capitalized long-term lease agreement between AREON and Ritter. This exchange is considered an equitable trade of similarly valued surplus dark fiber and both parties agreed that neither party shall pay a fee and that the initial term of this agreement shall be 20 years. As a result, this is a nonmonetary transaction. The fair market value of the dark fiber received from Ritter was determined to be $785,000. The book value of the dark fiber given by AREON was $268,418 thereby resulting in a noncash gain on disposal of assets of $516,582. As of June 30, 2019, and June 30, 2018, the book value of the dark fiber received from Ritter was $667,250 and $706,500, respectively.

## 8F Pledged Revenues

For purposes of extinguishing the University's long-term debt issues, certain revenues have been pledged as security.

The following is a summary of the gross revenues collected during the fiscal years ended June 30, 2019 and June 30, 2018 that are pledged:

**Pledged Revenues**

| Bond Series | Revenue Source | 2019 | 2018 |
|---|---|---|---|
| Series 2009A Various Facilities | Student Tuition and Fees | $ 326,830,169 | $ 316,569,768 |
| Series 2011A&B Various Facilities | Sales and Services | 9,738,047 | 9,324,536 |
| Series 2012A Various Facilities | Residential Life | 70,636,688 | 68,982,596 |
| Series 2012B Various Facilities | Bookstore[1] | 13,892,207 | 14,268,240 |
| Series 2013 Various Facilities | Student Health Services | 3,051,023 | 2,728,603 |
| Series 2014A&B Various Facilities | Transit and Parking | 8,960,419 | 8,785,539 |
| Series 2015A Various Facilities | Other Auxiliaries | 168,782 | 532,277 |
| Series 2015B Various Facilities | | | |
| Series 2015C Various Facilities | | | |
| Series 2016A Various Facilities | | | |
| Series 2016B Various Facilities | | | |
| Series 2017 Various Facilities | | | |
| Series 2018A Various Facilities | | | |
| Series 2018B Various Facilities | | | |
| **Total Various Fac. Pledge** | | **$ 433,277,335** | **$ 421,191,559** |
| Series 2010 Athletic Refunding | Men's Athletic Revenue | $ 105,490,170 | $ 96,088,279 |
| Series 2013 Athletic Facilities | (less game guarantees) | (3,311,000) | (3,743,500) |
| Series 2015 Athletic Facilities | | | |
| Series 2016A Athletic Facilities | | | |
| Series 2016B Athletic Facilities | | | |
| **Total Athletics Pledge** | | **$ 102,179,170** | **$ 92,344,779** |

[1]For the purposes of calculating pledged revenues, Bookstore revenues shown include internally generated revenues from sales to the University campus of $2,852,358 for the year ending June 30, 2019 and $2,837,778 for the year ending June 30, 2018.

The Various Facility revenue pledge is used to repay fourteen various facilities revenue bond issues as detailed in the schedule above. Proceeds from the bonds provided financing for the construction and renovation of various campus buildings; utility and other infrastructure; land purchases; and refunding of existing debt issues. The maturity date on the issues range from November 2021 through November 2048. Annual principal and interest payments on the bonds are expected to require approximately 11.71% of gross revenues. The total principal and interest remaining to be paid on the bonds is $988,558,366. Principal and interest paid for the current year and gross revenues were $50,718,212 and $433,277,335, respectively.

The Athletics revenue pledge is used to repay five athletic facilities revenue bond issues as detailed in the schedule above. Proceeds from the bonds provided financing for the construction and renovation of various athletic facilities as well as the refunding of existing debt issues. The maturity date on the issues range from September 2020 to September 2036. Annual principal and interest payments on the bonds are expected to require approximately 14.17% of net revenues pledged. The total principal and interest remaining to be paid on the bonds is $196,401,410. Principal and interest paid for the current year and net revenues were $14,482,472 and $102,179,170, respectively.

## 8G Fiscal Year 2019 Long-Term Debt Transactions

On July 26, 2018, the University issued $20,385,000 in Various Facility Revenue Bonds (Fayetteville Campus), Series 2018A, with an interest rate of 5.0%. The bonds were issued to provide funds to finance various construction and renovation projects on the University campus and were issued on a tax-exempt basis. Project include renovation of Mullins Library; construction, equipping and furnishing of the Student Success Center, an offsite Library Storage Building, the Civil Engineering Research Education Center and intramural sports facilities; construction and equipping of improvements to the south campus steam and utility system; construction and improving of a remote parking facility to be utilized by staff and faculty; renovation, expansion and equipping of Kimpel Hall; and preliminary design of various other facilities planned for the campus.

On July 26, 2018, the University issued $6,560,000 in Various Facility Revenue Bonds (Fayetteville Campus), Series 2018B, with an interest rate ranging from 2.65% to 4.00%. The bonds were issued to provide funds to finance various construction and renovation projects on the University campus and were issued on a taxable basis. Projects include renovation of the Arkansas Union Food Court and renovation and expansion of Pomfret Dining Hall.

On February 6, 2019, the University entered into a loan agreement with the Arkansas Development Finance Authority in the amount of $619,417 for the purchase of optical networking equipment and related services. The loan agreement is for a total of 7 years at an interest rate of 2.74%.

On March 8, 2019, the University entered into a capital lease purchase financing agreement to acquire capital equipment totaling $11,214. The agreement is for a total of 3 years at an interest rate of 5.95%.

On May 20, 2019, the University entered into a capital lease purchase financing agreement to acquire capital equipment totaling $149,400. The agreement is for a total of 4 years at an interest rate of 6.50%.

On October 26, 2018, the University entered into a financing agreement to acquire capital equipment, related software and support totaling $4,811,399. The agreement is for a total of 60 months and has interest rates ranging from 3.34% to 3.47%. Capitalized equipment purchased under this financing agreement totaled $277,529 while the remaining $4,533,870 represents noncapital equipment, software and support; therefore, we have reported the related debt as leases and notes, respectively.

## 8H Fiscal Year 2018 Long-Term Debt Transactions

On August 1, 2017, the University issued $95,805,000 in Various Facility Revenue Bonds (Fayetteville Campus), Series 2017, with an interest rate ranging from 2.0% to 5.0%. The bonds were issued to provide funds to finance various construction and renovation projects on the University campus and were issued on a tax-exempt basis. Projects include construction of an addition to the Pat Walker Student Health Center, an off-site library storage facility, new student housing facilities, a new black box theater, upgrades to the campus utility system, renovation of Kimpel Hall, and preliminary design of various other facilities planned for the campus.

On November 21, 2017, the Cooperative Extension Service entered into a capital lease purchase financing agreement to acquire capital equipment totaling $120,447. The agreement is for a total of 5 years and has an interest rate of 3.56%.

On November 7, 2017, the University entered into a capital lease purchase financing agreement to acquire capital equipment, related software subscriptions and support totaling $730,624. The agreement is for a total of 36 months and has interest rates ranging from 2.48% to 2.61%

On January 26, 2018, the University entered into a capital lease purchase financing agreement to acquire capital equipment and support totaling $485,364. The agreement is for a total of 5 years at an interest rate of 1.23%.

## 8I Refunding Long-Term Debt Transactions

On April 5, 2016, the University issued $93,590,000 in Various Facility Revenue Bonds, (Fayetteville Campus), Refunding and Improvement Series 2016A and $15,280,000 in Various Facility Revenue Bonds, (Fayetteville Campus), Refunding Series 2016B. The Series 2016A bonds, with interest rates of 3.0% to 5.0% were issued to provide funds to finance various construction and renovation projects on the University campus, and to refund $38,200,000 of outstanding bonds dated October 2, 2007 (Series 2007) with interest rates of 4.0% to 5.0%; and $35,545,000 of outstanding bonds dated August 1, 2008 (Series 2008A) with interest rates of 4.0% to 5.0%. Net bonds proceeds and premiums of $28,504,688 was available to finance construction of a civil engineering research and education center, a library storage building, campus entrance signs, intramural sports playing fields, and an addition to the Pat Walker Student Health

Center; to finance renovations of student housing; and to continue renovations of Kimpel Hall, and Discovery Hall. The Series 2016B bonds with interest rates of 0.87% to 3.35% were issued on a taxable basis to refund $13,500,000 of outstanding bonds dated August 1, 2008 (Series 2008B) with interest rates of 5.1% to 6.375%.

Net bond proceeds and premiums from Series 2016A and Series 2016B of $94,689,148 along with $1,873,821 of cash from the University was deposited into an escrow account to retire the bonds. The refunding of the bonds dated October 2, 2007 and all of the bonds dated August 1, 2008 was an advance refunding. The combined refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $5,764,322 for the Series 2016A bonds and $1,679,827 for the Series 2016B bonds. These differences, reported in the accompanying financial statements as Deferred outflows of resources, will be amortized through the fiscal year 2039 for Series 2016A and fiscal year 2029 for Series 2016B. The University completed the refunding to reduce its total debt service payments over the next twenty-three years by $13,450,092 and to obtain an economic gain of $10,092,618. The escrow account was closed out when the refunded bonds were redeemed as of November 1, 2018, and therefore has no outstanding balance as of June 30, 2019.

# 9. FAIR VALUE MEASUREMENTS

In February 2015, GASB issued Statement No. 72, Fair Value Measurement and Application. The Statement established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

An individual investment's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the University. The University considers observable data to be market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by multiple, independent sources that are actively involved in the relevant market. The categorization of an investment within the hierarchy is based upon the pricing transparency of that investment and does not necessarily correspond to the University's perceived risk of that investment.

The three levels of the fair value hierarchy are as follows:

- Level 1: Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the University has the ability to access at the measurement date. Publicly traded equity securities and mutual funds are the primary investments included in Level 1 and are valued at the individual security's closing market price.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. Observable inputs are those that reflect the assumptions market participants would use in pricing the asset developed based on market data obtained from independent sources. These types of sources would include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in inactive markets, models or other valuation methodologies. Level 2 investments include U.S. and international government debt securities valued at market corroborated prices and certain equity and fixed income investments in commingled investment vehicles reported at net asset value derived from the market prices of security holdings.
- Level 3: Inputs that are unobservable. Unobserved inputs are those that reflect the University's own assumptions about the assumptions that market participants would use in pricing the asset developed based on the best information available. These types of sources would include investment manager pricing for private equities, hedge funds and certain limited partnerships. Limited partner interests in private equity and other partnerships and hedge fund investments are included in Level 3 and are valued using the individual investment manager's reported estimates of fair value developed in accordance with reasonable valuation policies.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth, by level within the valuation hierarchy, University invested funds, including amounts reported as deposits with bond trustees on the Statement of Net Position, at June 30, 2019:

## Investment Instruments Measured at Fair Value

June 30, 2019

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| **Investments by fair value level** | **June 30, 2019** | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** |
| Equity Securities: | | | | |
| US | $ 224,533 | $ 224,533 | | |
| Fixed Income Securities: | | | | |
| US Government Debt | 74,800,414 | 37,675,468 | $ 37,124,946 | |
| Other Debt Securities | 287,808,795 | 427,680 | 287,381,115 | |
| Commingled Funds: | | | | |
| US Equity | 171,131 | 104,334 | 66,797 | |
| International Equity | 47,155 | 21,419 | 25,736 | |
| US Government Bonds | 4,892,076 | 4,210,277 | 681,799 | |
| Corporate Bonds | 258,313 | 234,930 | 23,383 | |
| Non-marketable alternatives | 3,016 | | | $ 3,016 |
| Marketable alternatives | 383,000 | | | 383,000 |
| Money markets and short-term investments | 20,858 | 20,858 | | |
| **Total investments by fair value level** | **$ 368,609,291** | **$ 42,919,499** | **$ 325,303,776** | **$ 386,016** |
| **Investments measured at the net asset value (NAV)** | | | | |
| External Investment Pools: | | | | |
| Total Return Pool | $ 88,418,478 | | | |
| UA System Short-Intermediate Pool | 12,250,190 | | | |
| Total investments measured at the NAV | 100,668,668 | | | |
| **Total investments measured at fair value** | **$ 469,277,959** | | | |

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt and equity securities classified in Level 2 of the fair value hierarchy are valued using a funds accounting technique or are provided by the security custodian. Securities classified in Level 3 are valued using par value on the face of the investments or provided by the security custodian. Life-interest in real estate classified in Level 3 is valued using an independent appraisal dated June 29, 2019.

| Investments Measured at the NAV | Fair Value | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
|---|---|---|---|---|
| External Investment Pools: | | | | |
| Total Return Pool[1] | $ 88,418,478 | - | Daily | 0 – 30 days |
| UA System Short-Intermediate Pool[2] | 12,250,190 | - | Daily | 0 – 3 days |
| **Total investments measured at the NAV** | **$ 100,668,668** | | | |

1 This type includes investments in a broadly diversified external investment pool. Pooled investments include allocations to global equities, hedge funds, bonds, natural resources and real estate. The assets in the pool are accounted for at fair value determined according to the principles of the Financial Accounting Standards Board. A one-week notice is required for redemptions over $1 million. There is also a requirement for 30-days written notice if total withdrawals will exceed $25 million in any 30-day period.

2 This type includes investments in an external investment pool comprised of fixed income investments. The pooled investments are allocated primarily to intermediate and short-term government bonds and investment-grade corporate bonds. The pool also includes allocations to commercial paper and money market funds. The assets in the pool are accounted for at fair value determined according to the principles of the Governmental Accounting Standards Board. A three day notice is required for redemptions.

# 10. NATURAL AND FUNCTIONAL CLASSIFICATIONS OF OPERATING EXPENSES

The following is a reconciliation of the natural classifications as presented in the Statement of Revenues, Expenses, and Changes in Net Position to the functional classifications for the year ended June 30, 2019:

**Operating Expenses**

June 30, 2019

| | Natural Classifications | | | | |
|---|---|---|---|---|---|
| **Functional Classifications** | **Salaries, Wages and Benefits** | **Scholarships and Fellowships** | **Supplies and Other Services** | **Depreciation** | **Total** |
| Instruction | $ 187,875,406 | | $ 30,141,806 | | $ 218,017,212 |
| Research | 95,473,170 | | 42,270,291 | | 137,743,461 |
| Public Service | 56,595,129 | | 27,171,584 | | 83,766,713 |
| Academic Support | 37,424,354 | | 19,026,520 | | 56,450,874 |
| Student Services | 26,722,274 | | 11,233,535 | | 37,955,809 |
| Institutional Support | 31,054,587 | | 13,264,196 | | 44,318,783 |
| Scholarships and Fellowships | 155,378 | $ 23,495,596 | 254,459 | | 23,905,433 |
| Operation and Maintenance of Plant | 16,827,031 | | 43,921,323 | | 60,748,354 |
| Auxiliary Enterprises | 64,732,553 | | 92,460,876 | | 157,193,429 |
| Depreciation | | | | $ 86,167,691 | 86,167,691 |
| **Totals** | **$ 516,859,882** | **$ 23,495,596** | **$ 279,744,590** | **$ 86,167,691** | **$ 906,267,759** |

The following is a reconciliation of the natural classifications as presented in the Statement of Revenues, Expenses, and Changes in Net Position to the functional classifications for the year ended June 30, 2018:

**Operating Expenses**

June 30, 2018

| | Natural Classifications | | | | |
|---|---|---|---|---|---|
| **Functional Classifications** | **Salaries, Wages and Benefits** | **Scholarships and Fellowships** | **Supplies and Other Services** | **Depreciation** | **Total** |
| Instruction | $ 182,475,238 | | $ 31,089,933 | | $ 213,565,171 |
| Research | 95,671,574 | | 41,205,672 | | 136,877,246 |
| Public Service | 57,432,704 | | 24,024,592 | | 81,457,296 |
| Academic Support | 36,221,154 | | 15,617,883 | | 51,839,037 |
| Student Services | 25,564,175 | | 10,755,528 | | 36,319,703 |
| Institutional Support | 32,042,624 | | 9,647,949 | | 41,690,573 |
| Scholarships and Fellowships | 151,688 | $ 22,755,152 | 95,373 | | 23,002,213 |
| Operation and Maintenance of Plant | 17,225,865 | | 32,302,199 | | 49,528,064 |
| Auxiliary Enterprises | 65,149,684 | | 91,790,897 | | 156,940,581 |
| Depreciation | | | | $ 75,620,509 | 75,620,509 |
| **Totals** | **$ 511,934,706** | **$ 22,755,152** | **$ 256,530,026** | **$ 75,620,509** | **$ 866,840,393** |

# 11. OPERATING LEASES

The University has entered into various operating leases for buildings and equipment. It is expected that in the normal course of business such leases will continue to be required. The total expenditures for all rental lease payments and non-lease rental payments for the fiscal year ended June 30, 2019, were $6,331,631. Below are the scheduled payments for the five succeeding fiscal years and thereafter.

**Future Operating Lease Payments**

| Year ended June 30 | Amount |
|---|---|
| 2020 | $ 1,633,350 |
| 2021 | 1,348,601 |
| 2022 | 758,988 |
| 2023 | 434,604 |
| 2024 | 226,278 |
| 2025-2029 | 436,141 |
| **Total** | **$ 4,837,962** |

# 12. EMPLOYEE BENEFITS

## 12A Retirement Plans

The University assists employees in planning for life beyond their working years with generous and flexible retirement benefits. University employees hired July 1, 2016, and after are required to participate in the University of Arkansas (UA) Retirement Plan, which includes Teachers Insurance Annuity Association (TIAA) and/or Fidelity Investments. Participation in the Arkansas Public Employees Retirement System (APERS) and the Arkansas Teachers Retirement System (ATRS) is available only to employees employed by the University that have a previous record with APERS or ATRS. University of Arkansas System employees who transfer from one campus to another and who were participating in APERS or ARTRS at their prior campus can elect to participate in APERS at their new campus. A transfer is defined as a 30-day or fewer break in service. New employees of the University will be required to participate in the UA Retirement Plan.

### University of Arkansas Retirement Plan

#### Plan Description

The University of Arkansas Retirement Plan is a defined contribution plan, offering both a 403(b) program and a 457(b) program, as defined by the Internal Revenue Service Code of 1986, as amended. The authority under which the Plan's benefit provisions are established or amended is the President of the University or his designee. Contributions to Fidelity Investments shall be applied either to annuities and/or to various mutual funds available through Fidelity Investments. Contributions to TIAA shall be applied to the annuities or various funds available through TIAA. Arkansas law authorizes participation in the plan.

#### Contributions

Effective July 1, 2016, all benefits-eligible employees of the University of Arkansas are required to contribute 1% of their regular salary to the TIAA and/or Fidelity Investments. The required contribution will increase by 1% each July 1 until July 1, 2020, when the required contribution reaches the maximum required employee contribution of 5%. The University automatically contributes 5% of an employee's regular salary to TIAA 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 the Internal Revenue Service (IRS) limit. Under IRS regulations as of June 30, 2019, the employer contributions can only be made on $280,000 of salary. Employee contributions in excess of 10% are allowed by the plans in accordance with IRS regulations but the University does not match these additional contributions. All benefits attributable to plan contributions made by the participant are vested immediately. All benefits attributable to contributions made by the University for faculty and staff hired July 1, 2016, and after, will be vested at the end of 24 consecutive months of employment, upon death or attainment of age 65 while actively employed, or should they become disabled while actively employed as determined by the Social Security Administration or the University's long-term disability insurance provider. The University's and participant's TIAA contributions for the year ending June 30, 2019, were $17,088,078 and $19,490,553, respectively. The University's and participants' Fidelity Investment contributions for the year ending June 30, 2019, were $10,585,794 and $12,147,259, respectively.

### Arkansas Public Employees Retirement System (APERS)

#### Plan Description

APERS is a cost-sharing, multiple-employer, defined benefit plan administered by the State of Arkansas. The plan was established by the authority of the Arkansas General Assembly with the passage of Act 177 of 1957. The costs of administering the plan are paid out of investment earnings. The general administration and responsibility for the proper operation of the System is vested in the nine members of the Board of Trustees of the Arkansas Public Employees Retirement System (the Board).

Membership includes three state and three non-state employees, all appointed by the Governor, and three ex officio trustees, including the Auditor of the State, the Treasurer of the State and the Director of the Department of Finance and Administration. APERS issues a publicly available financial report that can be obtained at http://www.apers.org/publications.

### Benefits Provided

Benefit provisions are set forth in Arkansas Code Annotated, Title 24, Chapter 4 and may only be amended by the Arkansas General Assembly. APERS provides retirement, disability and death benefits. Retirement benefits are determined as a percentage of the member's highest 3-year average compensation times the member's years of service. The percentage used is based upon whether a member is contributory or noncontributory as follows:

| | |
|---|---|
| Contributory, prior to 7/1/2001 | 2.11% |
| Contributory, prior to 7/1/2005 | 2.07% |
| Contributory, 7/1/2005 – 6/30/2007 | 2.03% |
| Contributory, on or after 7/1/2007 | 2.00% |
| Non-Contributory, prior to 7/1/2007 | 1.75% |
| Non-Contributory | 1.72% |

Members are eligible to retire with a full benefit under the following conditions:

- at age 65 with 5 years of service,
- at any age with 28 years actual service.

Members may retire with a reduced benefit at age 55 with at least 5 years of actual service at age 55, or at any age with 25 years of service.

Members are eligible for disability benefits with 5 years of service. Disability benefits are computed as an age and service benefit, based on service and pay at disability. Death benefits are paid to a surviving spouse as if the member had 5 years of service and the monthly benefit is computed as if the member had retired and elected the Joint & 75% Survivor option. A cost-of-living adjustment of 3% of the current benefit is added each year.

Effective July 1, 2016, new employees of the University are no longer eligible to participate in the Arkansas Public Employees Retirement System (APERS). Existing APERS participants can continue APERS participation.

### Contributions

Contribution requirements are set forth in Arkansas Code Annotated, Title 24, Chapter 4. The contributions are expected to be sufficient to finance the costs of benefits earned by members during the year and make a level payment that, if paid annually over a reasonable period of future years, will fully cover the unfunded costs of benefit commitments for services previously rendered. Members who began service prior to July 1, 2005, who elected to remain in the non-contributory plan, are not required to make contributions to APERS. Members who began service on or after July 1, 2005, are required to participate in the contributory plan and contribute 5% of their salaries. Employers are required to contribute at a rate established by the Board of Trustees of APERS based on an actuary's determination of a rate required to fund the plan. The University contributed 15.32% of applicable compensation for the fiscal year ended June 30, 2019. The University's and members' contributions for the year ending June 30, 2019, were $1,285,922 and $365,075, respectively.

### Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2019, the University reported a liability of $11,755,892 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The University's proportion of the net pension liability was based on the University's share of contributions to the pension plan relative to the total contributions of all participating employers. At June 30, 2019, the University's proportion was 0.4366% for Fayetteville and 0.1076% for Cooperative Extension Service, for a total proportion of 0.5442%; which was an increase of 0.0046 from its total proportion measured as of June 30, 2018.

Changes in assumptions or other inputs that affected pension liability measurement since the prior measurement date included the following:

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period of July 1, 2012 – June 30, 2017.

Changes of benefit terms that affected measurement of the total pension liability since the prior measurement date included the following:

There were no significant changes in benefit terms for the fiscal year ended June 30, 2018.

For the year ended June 30, 2019, the University recognized pension expense of $2,650,794. At June 30, 2019, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**Net Pension Deferred Inflows and Outflows**

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ 186,962 | $ 123,407 |
| Changes of assumptions or other inputs | 1,337,576 | 727,010 |
| Net difference between projected and actual earnings on pension plan investments | 0 | 297,479 |
| Changes in the proportion and differences between the employer contributions and share of contributions | 1,470,312 | 562,414 |
| University contributions subsequent to the measurement date | 1,285,922 | 0 |
| **Totals** | **$ 4,280,772** | **$ 1,710,310** |

Deferred outflows of resources of $1,285,922 is related to pensions resulting from University contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in the pension expense in the financial statements as follows:

**Amortization of Other Deferred Inflows and Outflows**

| Year ended June 30: | Amount |
|---|---|
| 2019 | $ 2,902,659 |
| 2020 | 1,280,648 |
| 2021 | (2,012,954) |
| 2022 | (885,813) |
| 2023 | 0 |
| Thereafter | 0 |

### Actuarial Assumptions

The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| Actuarial Assumptions | |
|---|---|
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | Level of Percent of Payroll, Closed |
| Remaining Amortization Period | 21 years |
| Asset Valuation Method | 4-year smoothed market; 25% corridor |
| Investment Rate of Return | 7.50% |
| Salary Increases | 3.25% – 9.85% including inflation |
| Wage Inflation | 3.25% |
| Post-Retirement Cost-of-Living Increases | 3.00% Annual Compounded Increase |
| Retirement Age | Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2018 valuation pursuant to an experience study for the period 2012-2017. |
| Mortality Table | Based on RP-2000 Combined Health mortality table, projected to 2020 using Projection Scale BB, set-forward 2 years for males and 1 year for females |
| Average Service Life of All Members | 4.1233 |

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the current asset allocation percentage and by adding expected price inflation. Best estimates of arithmetic real rates of return for the 10-year period from 2018 to 2027 were based upon capital market assumptions provided by plan's investment consultant(s). For each major asset class that is included in the pension plan's current asset allocation as of June 30, 2018, these best estimates are summarized in the following table:

**Expected Rate of Return**

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Broad Domestic Equity | 37 % | 5.97 % |
| International Equity | 24 | 6.07 |
| Real Assets | 16 | 4.59 |
| Absolute Return | 5 | 3.15 |
| Domestic Fixed | 18 | 0.83 |
| **Total** | **100%** | |
| Total Real Rate of Return | | 4.71 % |
| Plus: Price Inflation - Actuary's Assumption | | 2.50 |
| Less: Investment Expense (Passive) | | 0.00 |
| Net Expected Rate of Return | | 7.21% |

### Discount Rate

A single discount rate of 7.15% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.15%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

### Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the University's proportionate share of the net pension liability using the discount rate of 7.15%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.15%) or 1-percentage-point higher (8.15%) than the current rate:

**Sensitivity of Discount Rate**

| 1% Discount (6.15%) | Decrease Rate (7.15%) | 1% Increase (8.15%) |
|---|---|---|
| $ 19,220,297 | $ 11,755,892 | $ 5,598,357 |

### Pension Plan Fiduciary Net Position

Detailed information about the pension plan's net position is available in the separately issued APERS financial report.

### Payables to the Pension Plan

The University reported payables to APERS of $98,325 at June 30, 2019.

## Arkansas Teacher Retirement System (ATRS)

### Plan Description

ATRS is a cost-sharing, multiple-employer, defined benefit pension plan administered by the State of Arkansas. The plan was established by the authority of the Arkansas General Assembly with the passage of Act 266 of 1937. The costs of administering the plan are paid out of investment earnings. The general administration and responsibility for the proper operation of the System is vested in the fifteen members of the Board of Trustees of the Arkansas Teacher Retirement System (the Board). Membership includes eleven members who are elected and consist of seven active members of ATRS with at least five years of actual service, three retired members receiving an annuity from ATRS, and one active or retired member from a minority racial ethnic group. There are also four ex officio members, including the State Bank Commissioner, the Treasurer of the State, the Auditor of the State and the Commissioner of Education. ATRS issues a publicly available financial report that can be obtained at https://www.artrs.gov/publications.

### Benefits Provided

Benefit provisions are set forth in Arkansas Code Annotated, Title 24, Chapter 7 and may only be amended by the Arkansas General Assembly. ATRS provides retirement, disability and death benefits. Retirement benefits are determined as a percentage of the member's highest 3-year average compensation times the member's years of service. The percentage used is based upon whether a member is contributory or noncontributory as follows:

| | |
|---|---|
| Contributory, | |
| 10 years or more of service | 2.15% |
| less than 10 years of service through 6/30/2018 | 2.15% |
| less than 10 years of service after 7/1/2018 | 1.75% |
| | |
| Non-Contributory | |
| 10 years or more of service through 6/30/2019 | 1.39% |
| 10 years or more of service beginning 7/1/2019 | 1.25% |
| less than 10 years of service through 6/30/2018 | 1.39% |
| less than 10 years of service after 7/1/2018 | 1.00% |

Members are eligible to retire with a full benefit under the following conditions:

- at age 60 with 5 years of credited service,
- at any age with 28 years credited service.

Members with 25 years of credited service who have not attained age 60 may retire with a reduced benefit.

Members are eligible for disability benefits with 5 years of service. Disability benefits are computed as an age and service benefit, based on service and pay at disability. Survivor benefits are payable to qualified survivors upon the death of an active member with 5 years of service. The monthly benefit paid to eligible spouse survivors is computed as if the member had retired and elected the Joint & 100% Survivor option. Minor child survivors receive a percentage of the member's highest salary earned. ATRS also provides a lump sum death benefit for active and retired members with 10 years of actual service. The amount for contributory members will be up to $10,000 and up to $6,667 for noncontributory members. A cost-of-living adjustment of 3% of the current benefit is added each year.

Effective July 1, 2011, new employees of the University are no longer eligible to participate in the Arkansas Teacher Retirement System (ATRS).  Existing ATRS participants are allowed to continue ATRS participation.

### Contributions

Contribution requirements are set forth in Arkansas Code Annotated, Title 24, Chapter 7. The contributions are expected to be sufficient to finance the costs of benefits earned by members during the year and make a level payment that, if paid annually over a reasonable period of future years, will fully cover the unfunded costs of benefit commitments for services previously rendered. ATRS has contributory and noncontributory plans. The contributory plan has been in effect since the beginning of ATRS. The noncontributory plan became available July 1, 1986. Act 81 and 907 of 1999, effective July 1, 1999, require all new members under contract for 181 or more days to be contributory. Act 93 of 2007 allows any noncontributory member to make an irrevocable election to become contributory on July 1 of each fiscal year. Employers are required to contribute at a rate established by the Board of Trustees of ATRS based on an actuary's determination of a rate required to fund the plan. The University contributed 14.00% of applicable compensation for the fiscal year ended June 30, 2019. The University's and member's contributions for the year ending June 30, 2019, were $103,562 and $38,314, respectively.

### Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2019, the University reported a liability of $996,003 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The University's proportion of the net pension liability was based on the University's share of contributions to the pension plan relative to the total contributions of all participating employers. At June 30, 2019, the University's proportion was 0.0245% for Fayetteville and 0.0078% for Cooperative Extension Service, for a total proportion of 0.0323%, which was a decrease of 0.0082 from its total proportion measured as of June 30, 2018.

Changes in assumptions or other inputs that affected pension liability measurement since the prior measurement date included the following:

There were no significant changes in assumptions for the year ended June 30, 2018.

Changes of benefit terms that affected measurement of the total pension liability since the prior measurement date included the following:

- There were no significant changes in benefit terms for the year ended June 30, 2018.

For the year ended June 30, 2019, the University recognized pension expense of ($42,150). At June 30, 2019, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**Net Pension Deferred Inflows and Outflows**

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ 9,991 | $ 20,285 |
| Changes of assumptions or other inputs | 238,574 | 0 |
| Net difference between projected and actual earnings on pension plan investments | 0 | 170,498 |
| Changes in the proportion and differences between the employer contributions and share of contributions | 0 | 432,115 |
| University contributions subsequent to the measurement date | 103,562 | 0 |
| **Totals** | **$ 352,127** | **$ 622,898** |

Deferred outflows of resources of $103,562 is related to pensions resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in the pension expense in the financial statements as follows:

**Amortization of Other Deferred Inflows and Outflows**

| Year ended June 30: | |
|---|---|
| 2019 | $ (399,375) |
| 2020 | (217,909) |
| 2021 | 212,909 |
| 2022 | 28,994 |
| 2023 | 1,048 |
| Thereafter | 0 |

### Actuarial Assumptions

The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| Actuarial Assumptions | |
|---|---|
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | Level of Percent of Payroll, closed |
| Amortization Period | 28 years |
| Asset Valuation Method | 4-year closed period; 20% corridor |
| Wage Inflation | 2.75% |
| Salary Increases | 2.75 – 7.75% including inflation |
| Investment Rate of Return | 7.50% compounded annually |
| Post-Retirement Cost-of-Living Increases | 3.00% Simple |
| Mortality Table | RP-2014 Healthy Annuitant, Disabled Annuitant, and Employee Mortality Tables were used for males and females. Mortality rates were adjusted using projection scale MP-2017 from 2006 (94% for men & 84% for women) |
| Retirement Age | Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2017 valuation pursuant to an experience study for the period July 1, 2010 – June 30, 2015 |

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return were adopted by the plan's trustees after considering input from the plan's investment consultant and actuary.

For each major asset class included in the System's target asset allocation as of June 30, 2018, these best estimates are summarized below:

**Expected Rate of Return**

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Total Equity | 55 % | 4.9 % |
| Fixed Income | 15 | 1.2 |
| Alternatives | 5 | 4.3 |
| Real Assets | 15 | 4.2 |
| Private Equity | 10 | 6.0 |
| Cash Equivalents | 0 | 0.3 |
| **Total** | **100 %** | |

### Discount Rate

A single discount rate of 7.50% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.50%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be 14% of payroll. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the University's proportionate share of the net pension liability using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

**Sensitivity of Discount Rate**

| 1% Decrease (6.50%) | Discount Rate (7.50%) | 1% Increase (8.50%) |
|---|---|---|
| $ 1,708,273 | $ 996,003 | $ 405,317 |

### Pension Plan Fiduciary Net Position

Detailed information about the pension plan's net position is available in the separately issued ATRS financial report.

### Payables to the Pension Plan

The University reported payables to ATRS of $6,773 at June 30, 2019.

## Other Plans

Cooperative Extension Service employees who previously held appointments with the U.S. Department of Agriculture are covered by either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS), depending on date of appointment. Both plans are single-employer defined benefit plans. The CSRS plan became effective in 1920, and established retirement benefits for certain federal employees. Congress created the FERS plan in 1986, becoming effective on January 1, 1987. Since that time new federal civilian employees who have retirement coverage are covered under the FERS plan. FERS provides benefits from three different sources: a Basic Benefit Plan, Social Security and the Thrift Savings Plan. As of June 30, 2019, six active employees were covered under the CSRS plan and eleven active employees were covered under the FERS plan. Participants in the CSRS plan contribute 7% of salaries and employers are required to contribute 7%. Participants in the FERS plan are required to contribute 0.80% of salaries and employers are required to contribute 13.7% for the Basic Benefit and Social Security portions of the plan benefits. The University's and participants' CSR and FERS contributions were $193,945 and $64,071 respectively for the fiscal year ended June 30, 2019.

The Thrift Savings Plan (TSP) is the third component of the FERS plan and is a supplement to the CSRS plan. It is a defined contribution plan designed to provide retirement income for Federal employees similar to a 401(k) plan. The TSP is administered by the Federal Retirement Thrift Investment Board. For FERS participants, employers are required to contribute an amount equal to 1% of salaries to a TSP account established for the participant. Employees may also contribute to their TSP account, with employer matching on the first 5% of employee contributions up to 4%. There is no employer matching for CSRS participants. All contributions are exempt from taxation. The University's and participants' TSP contributions were $46,857 and $85,038 respectively for the fiscal year ended June 30, 2019.

Additionally, employees covered by these plans may also participate in the University of Arkansas Retirement Plan which includes Teachers Insurance Annuity Association (TIAA) and Fidelity Investments but are not eligible for any additional University contribution.

The University's participation in the Federal retirement system plans is not considered material by University management.

## 12B Self-Insurance Plans

The Board of Trustees of the University of Arkansas System sponsors self-funded health (including prescription coverage) and dental plans for University of Arkansas System employees and their eligible dependents. All campuses in the University of Arkansas System participate in the health plan which is administered by the System Administration. The plans are also offered to employees of the University of Arkansas Winthrop Rockefeller Institute, the University of Arkansas Foundation, Inc., the Razorback Foundation, Inc., the Walton Arts Center, and the University of Arkansas Technology Development Foundation. Operations of the plans are recorded in the separate University of Arkansas consolidated financial report.

As of January 1, 2014, post age 65, Medicare eligible retirees no longer participate in the University of Arkansas' self-funded health and dental benefit plan. Those individuals are now covered by the UnitedHealthcare Medicare Advantage PPO plan.

For the year ending June 30, 2019, a total of 4,813 active employees, former employees, and retirees were participants in the health plan. The University's contributions to health coverage are based on the employee's salary and percent of appointment. Six salary bands are used to determine the employer contribution with the average contribution for 75%-100% appointed employees being:

**Salary Bands**

| | Employer Contribution | | |
|---|---|---|---|
| **Salary Range** | **Classic Plan** | **Health Savings Plan** | **Premier Plan** |
| Under $28,000 | 82.10% | 88.37% | 67.87% |
| Between $28,000 to $38,999 | 81.01 | 87.20 | 66.35 |
| Between $39,000 to $54,999 | 79.59 | 85.67 | 64.58 |
| Between $55,000 to $99,999 | 78.09 | 84.06 | 62.63 |
| Between $100,000 to $149,999 | 76.77 | 82.64 | 61.14 |
| $150,000 and above | 75.42 | 81.19 | 59.22 |

The University pays 70% for the health plan for federal employees.

## 12C Life Insurance Plan

The University of Arkansas System's life insurance carrier is the Standard Life Insurance Company. The University's life insurance is a fully-insured arrangement with the premiums being sent directly to the life insurance carrier.

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

The University has, from time to time, negotiated early retirement agreements with faculty and staff which may include the provision of healthcare or other benefits for future periods.

There was no liability for these type of agreements at June 30, 2019 or at June 30, 2018.

# 13. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

## 13A General Information about the OPEB Plan

*Plan description.* The University of Arkansas System Health Plan (Plan) is a non-ERISA, self-funded medical benefit plan that provides other postemployment benefits (OPEB) to eligible retirees. The Plan is a single-employer, defined benefit plan authorized by the Board of Trustees of the University of Arkansas and administered by the University President. Within the scope of applicable federal and state regulation, the University President in conjunction with the University of Arkansas System Office establishes and amends the benefit terms and financing requirements. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* which became effective for the fiscal year ending June 30, 2018. This Statement requires governmental entities to recognize net OPEB liability (asset), payables to OPEB plans, and deferred outflows and inflows of resources related to certain changes in the net OPEB liability (asset) not yet recognized in the OPEB expense on the Statement of Net Position and that most changes in the net OPEB liability be included in OPEB expense in the period of the change. For defined benefit OPEB, this Statement also requires that Actuarial Standards of Practice be applied in developing assumptions and establishes additional requirements for the measurement of the total OPEB liability and the disclosure of significant assumptions and other inputs used to calculate the OPEB liability. As a result of the implementation of this Statement, the University accrued $21,193,053 in retiree healthcare liability as of June 30, 2019.

*Benefits provided.* The University offers postemployment health (including prescription drugs) and dental benefits along with life insurance ($10,000 available coverage) to eligible retirees. Health and dental benefits are provided in the University's self-funded plan sponsored by the Board of Trustees of the University of Arkansas System for current and pre-65 retired employees. Although benefits are also provided under the University's plan for the University of Arkansas Foundation, Inc., the Razorback Foundation, Inc., the University of Arkansas Technology Development Foundation, the Walton Arts Center, and the University of Arkansas Winthrop Rockefeller Institute, no postemployment benefit is accrued by the University for these private entities. Financial activities of the plan are reported in the University of Arkansas consolidated financial report.

Retirees qualify for postretirement benefits as follows:

- Participation: Employees who retire with a combination of age and years of service of at least 70 and if, immediately prior to retirement they have completed ten (10) or more consecutive years of continuous coverage under the plan. Retirees may cover spouses and eligible dependent children. Surviving spouses can continue coverage after retiree's death.
- Benefit Provided: Retirees participate in the plan at the same premium rate as an active employee.
- Required Contribution Ratio: Retirees pay 100% of premium. Employer costs are funded on a pay-as-you-go basis.

*Employees covered by benefit terms.* At June 30, 2019, the following employees were covered by the benefit terms:

**Employees Covered by Benefit Terms**

June 30, 2019

| | Medical | Life |
|---|---|---|
| Inactive employees currently receiving benefit payments | | |
| (Retirees, Spouses, and Survivors) | 78 | 957 |
| Inactive employees entitled to but not yet receiving benefit payments | 0 | 0 |
| Active employees | 4,953 | 5,268 |
| **Totals** | **5,031** | **6,225** |

Covered employee data was provided as of February 2019. Since the data represents school employees who usually retire/terminate in June, all the new hires after July 1, 2018 were set to have a hire date as of July 1, 2018. This adjustment was done to capture the true census of the systems during the academic year.

### 13B OPEB Liability

At June 30, 2019, the University reported a liability of $21,193,053 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018 and was determined by an actuarial valuation as of that date.

*Actuarial assumptions and other inputs*. The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

| Actuarial Assumptions and Other Inputs | |
|---|---|
| Valuation Date | July 1, 2018 |
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | 30 years rolling, level % of payroll |
| Asset Valuation Method | N/A |
| | |
| Actuarial Assumptions: | |
| Rate of Medical Inflation | 6.75% grading to 4.00% over 15 years |
| Rate of Pharmacy Inflation | 8.50% grading to 4.00% over 15 years |
| Discount Rate | 3.87% per annum |
| Rate of Salary Increase for Amortization | 4.00% |
| Healthy Mortality Rate | RP-2014 Fully Generational Mortality Table for employees and healthy annuitants using projection scale MP-2014. |
| Disabled Mortality Rate | RP-2014 Fully Generational Mortality Table for disabled retirees using projection scale MP-2014. |

The discount rate was based on the 20-year tax-exempt general obligation bond rates published in the Bond Buyer index as of the valuation date

Effective January 1, 2014, the plan for Medicare eligible retirees was changed to a fully insured Medicare Advantage program. Retirees pay 100% of the premium directly to the insurance carrier. As a result, no liabilities for Medicare eligible retiree medical benefits are included in this valuation.

The dental rates are set to match projected costs. Retirees pay 100% of the budget rate for coverage. Therefore, the cost for dental coverage was excluded from this valuation.

## 13C Changes in the Proportionate Share of the Net OPEB Liability

| Changes in the Proportionate Share of the Net OPEB Liability | |
|---|---|
| Balances at 6/30/2017 (Reporting Date 6/30/2018) | $ 20,587,137 |
| Changes for the year: | |
| Service cost | 960,919 |
| Interest | 793,912 |
| Changes of benefits | 0 |
| Differences between expected and actual experience | (603,423) |
| Changes of assumptions | 73,502 |
| Contributions - employer | 0 |
| Contributions - member | 0 |
| Net investment income | 0 |
| Benefit payments | (618,994) |
| Administrative expense | 0 |
| Net changes | 605,916 |
| **Balances at 6/30/2018 (Reporting Date 6/30/2019)** | **$ 21,193,053** |

Changes of assumptions and other inputs reflect a change in the discount rate from 3.58% in 2017 to 3.87% in 2018.

There were no investment gains or losses during the measurement year.

*Sensitivity of the University's proportionate share of the net OPEB liability to changes in the discount rate.* The following represents the proportionate share of the net OPEB liability of the University, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.87 percent) or 1-percentage-point higher (4.87 percent) than the current discount rate:

**Sensitivity of Discount Rate**

| 1% decrease (2.87%) | Discount Rate (3.87 %) | 1% increase (4.87%) |
|---|---|---|
| $ 23,931,913 | $ 21,193,053 | $ 18,922,963 |

*Sensitivity of the University's proportionate share of the net OPEB liability to changes in the healthcare cost trend rates.* The following represents the proportionate share of the net OPEB liability of the University, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

**Sensitivity of Healthcare Cost Trend Rates**

| 1% decrease | Healthcare Cost Trend Rate | 1% increase |
|---|---|---|
| $ 19,823,621 | $ 21,193,053 | $ 22,781,568 |

### 13D OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2019, the University recognized OPEB expense of $826,698. At June 30, 2019, University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

**Net OPEB Deferred Inflows and Outflows**

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ 0 | $ 474,670 |
| Changes of assumptions | 57,129 | 2,368,598 |
| Contributions subsequent to the measurement date | 641,603 | 0 |
| **Totals** | **$ 698,732** | **$ 2,843,268** |

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

**Amortization of Other Deferred Inflows**

| Year ending June 30: | |
|---|---|
| 2020 | $ (854,862) |
| 2021 | (854,862) |
| 2022 | (854,864) |
| 2023 | (189,324) |
| 2024 | (32,227) |
| Thereafter | 0 |

# 14. POLLUTION REMEDIATION

GASB Statement 49, *Accounting and Financial Reporting for Pollution Remediation Obligations,* establishes standards for the accounting and financial reporting of pollution (including contamination) remediation obligations. The University completed a study in 2012, funded by a $1,889,647 award from the United States Department of Energy (DOE), to develop a plan for remediation of the Southwest Experimental Fast Oxide Reactor (SEFOR) site. This study developed an estimate for future remediation costs and assessed the University's obligation for remediation at the site. The cost estimate was $26.1 million to complete remediation of the site. Although the study concluded that the University was under no obligation to begin remediation work at that time, the study was considered Phase 1 of the voluntary remediation of the SEFOR site. During 2014, DOE appropriated an additional $1 million to review estimated remediation costs. Of that award, $968,500 was made available to the University in the 2017 funding obligation.

During fiscal year 2018, the University received an additional DOE award totaling $7,904,718. In August 2018 the University received an additional DOE award totaling $5,595,282. These awards, combined with the residual left from the 2014 appropriation, brought total funds available for remediation costs to $23,968,500. The University began Phase 3B of the voluntary remediation by entering into a contract with EnergySolutions, LLC on May 18, 2018 to provide technical services for deconstruction and green fielding of the site. Total estimated cost of the Phase 3B voluntary remediation project was $9,457,585. Expenses paid during fiscal year 2018 totaled $8,030,005. The remaining project costs to complete Phase 3B, totaling $7,566,068, were accrued and are included in the accounts payable reported on the Statement of Net Position. All project costs were funded by the DOE award on a cost reimbursement basis. Drawdowns during fiscal year 2018 totaled $7,852,519. A receivable of $8,743,334, reflecting amounts that have not yet been invoiced to the DOE award, was also established, and is included in the accounts receivable reported on the Statement of Net Position.

The remediation of the SEFOR site is complete. Expenses paid during fiscal year 2019 totaled $7,664,343. The remaining project costs totaling $945,758 were accrued and are included in the accounts payable reported on the Statement of Net Position. Drawdowns during fiscal year 2019 totaled $7,881,202. A receivable of $1,906,166, reflecting amounts that have not yet been invoiced to the DOE award, was also established, and is included in the accounts receivable reported on the Statement of Net Position.

# 15. RISK MANAGEMENT

The University of Arkansas Risk Management Program provides insurance coverage for all campuses within the University of Arkansas System. The role of the System Administration is to analyze and recommend insurance coverage, but it is ultimately up to each campus to inform the System Administration regarding their specific coverage requirements.

All campuses are currently covered under the property and auto coverage provided through the System Administration. The property coverage is insured through Travelers with a $100,000 deductible at the Fayetteville, Medical Sciences, and Little Rock Campuses. All other campuses have a $50,000 deductible. The deductible for wind and hail damage is $500,000 for all campuses with a separate insurance policy through Lloyds of London. It is the responsibility of each campus to confirm all building and content values to be covered. The Travelers policy also contains earthquake and flood insurance coverage. The System Administration has also secured domestic and foreign terrorism coverage.

Likewise, with the auto coverage, each campus is responsible for providing a list of vehicles to be covered under the auto coverage through Cypress Insurance. The auto coverage has a physical damage deductible of $1,000 and provides coverage against liability losses up to $1,000,000 per occurrence.

The University of Arkansas does have an insurance policy covering the Razorback Foundation, Inc. and Board of Trustees of the University of Arkansas for the owned aircraft, which provides coverage liability losses up to $50,000,000 per occurrence and medical coverage of $25,000 per person.

The University of Arkansas does not purchase general liability, errors or omissions, or tort immunity for claims arising from third-party losses on University property as the University of Arkansas has sovereign immunity against such claims. Claims against the University of Arkansas for such losses are heard before the State Claims Commission. In such cases where the University of Arkansas enters into a lease agreement to hold a function at a location not owned by the University of Arkansas, general liability coverage may be purchased for such functions.

The University of Arkansas maintains workers' compensation coverage through the State of Arkansas program. Premiums are paid through payroll and are based on a formula calculated by the Department of Finance and Administration which is provided to the campuses around April 1 of each year to be used for the upcoming fiscal year. The types of benefits and expenditures that are paid include the following: medical expenses, hospital expenses, death benefits, disability, and claimant's attorney fees.

Additionally, the University of Arkansas participates in the State of Arkansas Fidelity Bond Program for claims of employee dishonesty. This program has a limit of $300,000 recovery per occurrence with a $2,500 deductible. Premiums are paid annually via a fund transfer from state appropriations to the Department of Finance and Administration.

There have been no reductions in insurance coverage from the prior fiscal year. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

# 16. WALTON ARTS CENTER

In 1987, the University of Arkansas and the City of Fayetteville engaged in a joint endeavor to operate the Walton Arts Center. Funds were pooled from each entity to provide for the construction and operation of the center. The University of Arkansas/City of Fayetteville Arts Foundation, Inc., now called the Walton Arts Center Foundation, Inc., was established to administer this project and its funds. Activities of the foundation were managed by nine directors - three appointed by the University, three by the City of Fayetteville, and three recommended by the Foundation that were approved by the mayor and chancellor.

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

On August 14, 2014, the governing documents establishing and defining the joint endeavor between the City of Fayetteville and the University of Arkansas to operate the Walton Arts Center were revised to ensure clarity and flexibility to allow the Walton Arts Center to meet the arts and entertainment needs of all residents of Northwest Arkansas with a multi-venue system, while at the same time confirming support of the original partnership. Revisions were made to the respective Articles of Incorporation of the Walton Arts Center Foundation, Inc. and the Walton Arts Center Council, Inc. to clarify the purpose of each entity to encompass multiple venues in the Northwest Arkansas region; to allow the Walton Family Foundation to appoint nine additional directors to the Board of Directors of the Arts Center Council while ensuring that the City and University maintain their proportionate number of directors on the Board; to return the City of Fayetteville's initial payment of $1.5 million to the Foundation back to the City for the City's use in the construction of a parking facility adjacent to the Walton Arts Center or as otherwise determined by the Fayetteville City Council; and with consent by the University to expend the institution's initial payment of $1.5 million to the Foundation to help defray the construction costs of the proposed enlargement and enhancement of the Walton Arts Center located in Fayetteville, Arkansas. To date, the University's funds placed in the endowment have not been spent. Accordingly, the relationship of the University and Walton Arts Center Foundation, Inc, remains unchanged. In the event the funds are expended, as provided in the revised agreement, the Walton Arts Center Foundation, Inc. would no longer be an agent for the University nor would the University have the right of appointment of Walton Arts Center Foundation, Inc. directors.

An Amended and Restated Interlocal Cooperation Agreement was also executed that permits the Walton Arts Center to conduct business as a separate, free-standing non-profit corporation; that budget and operational oversight rests exclusively with the Walton Arts Center Council and confirms the Walton Arts Center is no longer an agent of the University or the City, nor restricted to the terms of the original agreement; and affirms the Walton Arts Center must comply with the terms of a new lease agreement executed by the University, City of Fayetteville and the Walton Arts Center Council.

The lease agreement extends the term to twenty-five years and recognizes the changed scope of the Walton Arts Center. The lease also provides assurances regarding the on-going quality and type of performances at the Walton Arts Center in Fayetteville.

# 17. OTHER ENTITIES

*University of Arkansas Foundation, Inc.* - The Foundation operates as a nonprofit benevolent corporation for charitable educational purposes. The Board of Trustees of the Foundation includes one (1) member who is also a member of the University's Board of Trustees. The audited financial statements of the Foundation, as of and for the years ended June 30, 2019 and June 30, 2018, which have been audited by an independent certified public accountant, are presented below in summary form. The University of Arkansas, Fayetteville is the beneficiary of 52.4% and 56.1% of the net assets of the Foundation for the years ended June 30, 2019 and June 30, 2018, respectively. The remaining 47.6% and 43.9% benefits other University of Arkansas campuses for the years ended June 30, 2019 and June 30, 2018, respectively. Complete financial statements for the Foundation can be obtained from the administrative office at 700 Research Center Boulevard, Fayetteville, AR 72701.

**Condensed Statement of Financial Position**
University of Arkansas Foundation, Inc

| | | 2019 | | 2018 |
|---|---|---|---|---|
| Assets | | | | |
| Investments, at fair value | $ | 1,329,835,542 | $ | 1,164,638,882 |
| Contributions Receivable, net | | 43,656,718 | | 27,274,658 |
| Other Receivables | | 3,755,684 | | 2,983,595 |
| Fixed Assets, Net of Depreciation | | 31,425 | | 257,025 |
| Other Assets | | 1,570,547 | | 1,492,384 |
| **Total Assets** | **$** | **1,378,849,916** | **$** | **1,196,646,544** |
| | | | | |
| **Liabilities and Net Assets** | | | | |
| Liabilities | $ | 17,774,398 | $ | 17,863,032 |
| Net Assets | | | | |
| Unrestricted | | 117,892,372 | | 106,304,205 |
| Restricted | | 1,243,183,146 | | 1,072,479,307 |
| Net Assets | | 1,361,075,518 | | 1,178,783,512 |
| **Total Liabilities and Net Assets** | **$** | **1,378,849,916** | **$** | **1,196,646,544** |

**Condensed Statement of Activities**
University of Arkansas Foundation, Inc

| | | 2019 | | 2018 |
|---|---|---|---|---|
| Contributions | $ | 190,574,861 | $ | 188,361,346 |
| Other Revenues, Additions and Gains/(Losses) | | 65,934,025 | | 87,381,574 |
| **Total Income and Other Additions/(Losses)** | **$** | **256,508,886** | **$** | **275,742,920** |
| **Total Expenditures and Other Deductions** | **$** | **74,216,880** | **$** | **70,260,449** |
| **Increase/(Decrease) in Net Assets** | **$** | **182,292,006** | **$** | **205,482,471** |

*Arkansas Alumni Association, Inc.* – The Arkansas Alumni Association, Inc., was incorporated in 1960 for the purposes of promoting the welfare of the University and its graduates and former students. Audited financial statements for the years ended June 30, 2019 and June 30, 2018 are presented below in summary form. Complete financial statements for the Arkansas Alumni Association, Inc. can be obtained from the administrative office at 491 N. Razorback Road, Fayetteville AR 72701.

**Condensed Statement of Financial Position**
Arkansas Alumni Association, Inc.

| | | 2019 | | 2018 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and investments | $ | 3,494,376 | $ | 3,156,024 |
| Other Assets | | 10,749,171 | | 10,252,872 |
| **Total Assets** | **$** | **14,243,547** | **$** | **13,408,896** |
| **Liabilities and Net Assets** | | | | |
| Liabilities | $ | 1,582,914 | $ | 1,498,291 |
| Net Assets | | 12,660,633 | | 11,910,605 |
| **Total Liabilities and Net Assets** | **$** | **14,243,547** | **$** | **13,408,896** |

**Condensed Statement of Activities**
Arkansas Alumni Association, Inc.

| | | 2019 | | 2018 |
|---|---|---|---|---|
| Income and Other Additions | $ | 4,734,419 | $ | 5,860,818 |
| Expenditures and Other Deductions | | 3,984,391 | | 4,109,104 |
| **Increase/(Decrease) in Net Assets** | **$** | **750,028** | **$** | **1,751,714** |

*University of Arkansas Technology Development Foundation* – The Foundation was incorporated in May 2003 and is considered a supporting organization of the Fayetteville campus. The Foundation's mission is to stimulate a knowledge-based economy through partnerships that lead to new opportunities for learning and discovery, that build and retain a knowledge-based workforce and that spawn the development of new technologies that enrich the economic base of Arkansas. Audited financial statements for the years ended June 30, 2019 and June 30, 2018 are presented below in summary form. Complete financial statements for the Foundation can be obtained from the administrative office at 535 W. Research Center Boulevard, Fayetteville, AR 72701.

**Condensed Statement of Financial Position**
University of Arkansas Technology Development Foundation

| | | 2019 | | 2018 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and investments | $ | 1,964,911 | $ | 1,811,163 |
| Other Assets | | 6,999 | | 13,347 |
| **Total Assets** | **$** | **1,971,910** | **$** | **1,824,510** |
| Liabilities and Net Assets | | | | |
| Liabilities | $ | 63,371 | $ | 137,262 |
| Net Assets | | 1,908,539 | | 1,687,248 |
| **Total Liabilities and Net Assets** | **$** | **1,971,910** | **$** | **1,824,510** |

**Condensed Statement of Activities**
University of Arkansas Technology Development Foundation

| | | 2019 | | 2018 |
|---|---|---|---|---|
| Income and Other Additions | $ | 1,810,889 | $ | 1,755,067 |
| Expenditures and Other Deductions | | 1,589,598 | | 1,593,617 |
| **Increase/(Decrease) in Net Assets** | **$** | **221,291** | **$** | **161,450** |

*Arkansas 4-H Foundation, Inc.* – The 4-H Foundation was incorporated in 1951 and was formed to encourage and support such education purposes that will best meet the needs and advance the interest of 4-H youth programs throughout the State of Arkansas. Audited financial statements for the years ended June 30, 2019 and June 30, 2018 are presented below in summary form. Complete financial statements for the 4-H Foundation can be obtained from the administrative office at 2301 S. University Avenue, Little Rock, AR 72204.

**Condensed Statement of Financial Position**
Arkansas 4-H Foundation, Inc.

| | | 2019 | | 2018 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | $ | 535,381 | $ | 402,013 |
| Certificates of deposits | | 201,652 | | 207,291 |
| Investments, at fair value | | 4,130,093 | | 4,228,408 |
| Property and equipment, net | | 4,606,412 | | 4,899,593 |
| Other assets | | 21,822 | | 79,625 |
| **Total Assets** | **$** | **9,495,360** | **$** | **9,816,930** |
| | | | | |
| Liabilities and Net Assets | | | | |
| Liabilities | $ | 233,918 | $ | 246,638 |
| Net Assets | | | | |
| Unrestricted | | 5,503,104 | | 5,825,599 |
| Restricted | | 3,758,338 | | 3,744,693 |
| Net Assets | | 9,261,442 | | 9,570,292 |
| **Total Liabilities and Net Assets** | **$** | **9,495,360** | **$** | **9,816,930** |

**Condensed Statement of Activities**
Arkansas 4-H Foundation, Inc.

| | | 2019 | | 2018* |
|---|---|---|---|---|
| Income and Other Additions | $ | 2,105,546 | $ | 2,263,924 |
| Expenditures and Other Deductions | | 2,414,396 | | 2,451,615 |
| **Increase/(Decrease) in Net Assets** | **$** | **(308,850)** | **$** | **(187,691)** |

*The June 30, 2018 amounts presented in this table reflect the Foundation's fiscal year ended June 30, 2019 audit amounts which differ from the Foundation's fiscal year ended June 30, 2018 audited financial statements.

# 18. RELATED PARTIES

There were significant related party transactions other than those with component units discussed in Note 1.

The Vice Chancellor for Economic Development is a member of the Board of Directors of Arvest Bank Fayetteville, one of sixteen autonomous community-oriented banks which comprise Arvest Bank Group, Inc., based in Bentonville, Arkansas. At June 30, 2019, bank balances held at Arvest Bank Group, Inc. banks total $18,773,746 (book balances included on the Statement of Net Position were $18,260,279).

The Vice Chancellor for Economic Development also is a member of the following Boards of Directors of Fayetteville Chamber of Commerce, The Sustainability Consortium, Theatre Squared, and Arkansas Children's. During the fiscal year ended June 30, 2019, the University made payments of $15,343, $30,000, $26,165, and $129,500, respectively, to these related parties. The Dean of the Clinton School of Public Service is also a member of the Board of Directors of Arkansas Children's.

# 19. COMMITMENTS AND CONTINGENCIES

### Construction

The University has contracted for the construction and renovation of several facilities. At June 30, 2019, the estimated remaining cost to complete the construction and renovation of these facilities is $47,298,708, which is expected to be financed from bond proceeds, private gifts and other university funds. At June 30, 2018, the estimated remaining cost to complete the construction and renovation of these facilities was $146,792,942.

### Other Commitments

The University has agreed to supplement the base rent received from existing tenants of the Enterprise Center at the Arkansas Research and Technology Park to the degree necessary to ensure the related debt obligations are met. For the fiscal year ended June 30, 2019, the amount of this obligation was $200,003. For the fiscal year ended June 30, 2018, the amount of this obligation was $386,524.

The University has entered into lease agreements with four different Greek organizations (Lessees) that may create future commitments to the University. The lease agreements allow the Greek organizations to either construct new residence facilities or renovate existing residence facilities on University owned property. The construction and/or renovation of these facilities is the responsibility of the organizations and shall be financed through a combination of gifts as well as financing from banks and/or national house corporations to be repaid through each chapter's generated revenue. The period in which the financing arrangements are being repaid is known as the Chapter House Amortization Period. As of June 30, 2019, three of the four Greek facilities were completed, and one new Greek agreement was added. Four organizations had entered into financing agreements for the construction or renovation of their residence facilities as of June 30, 2018.

In the lease agreements, it is stipulated that if the University exercises its right to terminate the agreement for cause and extinguish the Lessee's leasehold estate for cause at any time during the Chapter House Amortization Period, the University shall pay the Lessee an amount equal to the sum of the value of the remaining unamortized value of the bank financing plus the value of the financing coming from the national organizations if any.

The University's total potential commitment resulting from these lease agreements totaled $53,115,373 and $45,365,221 as of June 30, 2019 and June 30, 2018, respectively.

### Contingencies

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

# 20. SUBSEQUENT EVENTS

### Long-term Debt

On August 22, 2019, the University closed the Board of Trustees of the University of Arkansas Various Facility Revenue Bonds (Fayetteville Campus), Refunding and Improvement Series 2019A with a par amount of $59,655,000. The bonds provide resources of $30,000,000 for the renovation and reorganization of the interior of Mullins Library; construction, equipping and furnishing of the Student Success Center; construction and equipping of improvements to the north chilled water plant and utility systems; the acquisition, construction, and equipping of intramural sports facilities; and the acquisition, construction, improvement, renovation, equipping and/or furnishings of other qualifying capital projects. In the addition, the bonds provide resources of $44,551,904 for the current refunding of the Board of Trustees of the University of Arkansas Various Facility Revenue Bonds (Fayetteville Campus), Series 2009A. The University contributed $1,889,889 into the escrow account to pay the principal amount of $1,270,000 due on November 1, 2019 plus accrued interest. The remaining outstanding balance of $42,290,000 will be redeemed via the escrow account on the same day.

On August 22, 2019, the University closed the Board of Trustees of the University of Arkansas Athletic Facilities Revenue Bonds (Fayetteville Campus) Series 2019A with a par amount of $24,900,000. The bonds provide resources of $31,043,204 for the acquisition, construction, furnishing and equipping of a track and field high performance center; and the acquisition, construction, furnishing and equipping of a baseball development center and the acquisition, construction, improvement, renovation, equipping and/or furnishings of other qualifying capital projects.

On November 5, 2019, the University closed the Board of Trustees of the University of Arkansas Various Facility Revenue Bonds (Fayetteville Campus) Taxable Refunding Series 2019B with a par amount of $139,220,000. The bonds provide resources of $138,656,975 to advance refund $78,945,000 of outstanding Board of Trustees of the University of Arkansas Various Facility Revenue Bonds (Fayetteville Campus) Series 2011A, and $50,645,000 of outstanding Board of Trustees of the University of Arkansas Various Facility Revenue Bonds (Fayetteville Campus) Series 2012B. The amount of each refunded series represents all of the outstanding maturities starting with the November 1, 2022 until final maturity for each issue. After the regularly scheduled debt service payments were made on November 1, 2019, there are remaining balances of $4,905,000 for Series 2011A and $2,650,000 for Series 2012B representing bonds with maturity dates through November 1, 2021.


Wild Band of Razorbacks

# REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

## Employee Benefits

**Schedule of University's Proportional Share of the Net Pension Liability**
**Arkansas Public Employees Retirement System**

| Last Five Fiscal Years* | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| University's proportion of net pension liability | 0.5442% | 0.5396% | 0.5357% | 0.4263% | 0.3455% |
| University's proportionate share of net pension liability | $ 11,755,892 | $ 13,671,584 | $ 12,570,257 | $ 7,728,708 | $ 4,833,430 |
| University's covered payroll | $ 8,989,803 | $ 9,695,224 | $ 9,013,808 | $ 7,329,295 | $ 5,914,094 |
| University's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 130.77% | 141.01% | 139.46% | 105.45% | 81.73% |
| Plan fiduciary net position as a percentage of the total pension liability | 79.59% | 75.65% | 75.50% | 80.39% | 84.15% |

* Information is presented for those years for which it is available until a full 10-year trend is compiled. The amounts presented for each fiscal year were determined as of June 30 of the previous year

**Schedule of University Contributions**
**Arkansas Public Employees Retirement System**

| Last Five Fiscal Years* | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| Contractually required contribution | $ 1,285,922 | $ 1,381,943 | $ 1,435,567 | $ 1,364,539 | $ 1,081,804 |
| Contributions in relation to the contractually required contribution | (1,285,922) | (1,381,943) | (1,435,567) | (1,364,539) | (1,081,804) |
| Contribution deficiency (excess) | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 |
| University's covered-employee payroll | $ 8,036,695 | $ 8,989,803 | $ 9,695,224 | $ 9,013,808 | $ 7,329,295 |
| Contributions as a percentage of covered-employee payroll | 16.00% | 15.37% | 14.81% | 15.14% | 14.76% |

*Information is presented for those years for which it is available until a full 10-year trend is compiled.

### Notes to Required Supplementary Information for the Year Ended June 30, 2019

Changes in benefit terms that significantly affect trends in the amounts reported in the schedules (APERS):

- There were no significant changes in benefit terms for the fiscal years ended June 30, 2018 and June 30, 2017.
- Changes in the use of different assumptions that significantly affect trends in the amounts reported in the schedules (APERS):
- The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period of July 1, 2012 – June 30, 2017.
- The assumed remaining amortization period was reduced from 25 to 21 years.
- The assumed average service life of all members was reduced from 4.3774 to 4.1233.
- Amounts reported in 2016 reflect changes in economic assumptions used in the June 30, 2015 valuation. The investment return (7.50%), price inflation (2.50%) and wage inflation (3.25%) assumptions were changed and an adjustment of expected salary increases (3.25 – 9.85% including inflation) to more closely reflect actual experiences was also reflected in 2016.

## Schedule of University's Proportional Share of the Net Pension Liability
## Arkansas Teacher Retirement System

Last Five Fiscal Years*

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| University's proportion of net pension liability | 0.0323% | 0.0405% | 0.0426% | 0.0481% | 0.0616% |
| University's proportionate share of net pension liability | $ 996,003 | $ 1,473,290 | $ 1,690,917 | $ 1,567,419 | $ 1,617,272 |
| University's covered payroll | $ 833,812 | $ 1,054,878 | $ 1,302,421 | $ 1,401,043 | $ 1,703,007 |
| University's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 119.45% | 139.66% | 129.83% | 111.88% | 94.97% |
| Plan fiduciary net position as a percentage of the total pension liability | 82.78% | 79.48% | 76.75% | 82.20% | 84.98% |

*Information is presented for those years for which it is available until a full 10-year trend is compiled. The amounts presented for each fiscal year were determined as of June 30 of the previous year.

## Schedule of University Contributions
## Arkansas Teacher Retirement System

Last Five Fiscal Years*

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| Contractually required contribution | $ 103,562 | $ 119,928 | $ 151,184 | $ 175,617 | $ 196,146 |
| Contributions in relation to the contractually required contribution | (103,562) | (119,928) | (151,184) | (175,617) | (196,146) |
| **Contribution deficiency (excess)** | **$ 0** | **$ 0** | **$ 0** | **$ 0** | **$ 0** |
| University's covered-employee payroll | $ 719,766 | $ 883,812 | $ 1,054,878 | $ 1,302,421 | $ 1,401,043 |
| Contributions as a percentage of covered-employee payroll | 14.39% | 14.38% | 14.33% | 13.48% | 14.00% |

*Information is presented for those years for which it is available until a full 10-year trend is compiled.

### Notes to Required Supplementary Information for the Year Ended June 30, 2019

Changes of benefit terms that significantly affect trends in the amounts reported in the schedules (ATRS):

- There were no significant changes in benefit terms for the fiscal year ended June 30, 2018.
- The noncontributory multiplier was decreased from 1.39% to 1.25% beginning in fiscal year 2020.
- For fiscal year 2018, the three-year final average salary was calculated for all members. The final average salary for benefit calculation purposes will be the greater of the five-year final average salary at retirement and the three-year final average salary for fiscal year 2018.
- The retiree benefit stipend was removed from the base for COLA calculations and was lowered from $75 to $50 per month.
- The T-DROP interest rate was lowered to a fixed 3% for future crediting.
- The T-DROP annuity factors were updated to use a static version of the updated mortality tables and interest rate changes of 7.5% for fiscal year 2018, 7% for fiscal year 2019, 6% for fiscal year 2020, 5% for fiscal year 2021, 4% for fiscal year 2022, and 3% for fiscal year 2023 and thereafter.
- The beneficiary annuity factors were updated to use a static version of the updated mortality tables and an assumed interest rate of 5%.
- The Cash Balance Account (CBA) interest rates were increased by year of participation. Interest rates are 2.50% for Year 1, 2.75% for Year 2, 3.00% for Year 3, 3.25% for Year 4, 3.50% for Year 5, and 4.00% for Year 6 and thereafter.
- The reduction for early retirement was increased from 5/12 to 10/12 of 1% per month.

Changes in the use of different assumptions that significantly affect trends in the amounts reported in the schedules (ATRS):

- There were no significant changes in assumptions for the fiscal year ended June 30, 2018.
- The assumed rate of interest was lowered from 8% to 7.5%.
- The assumed rate of price inflation was decreased to 2.5%.
- The assumed rate of payroll growth was decreased to 2.75%.

- The mortality tables changed to RP 2014 Healthy Annuitant, Disability Annuitant, and Employee Mortality Tables adjusted using projection scale MP 2017 based on the ATRS Experience Study.
- The actuarial assumption used in the June 30, 2017 were based on the results of an actuarial experience study for the period of July 1, 2010 – June 30, 2015.

### Other Postemployment Benefits

**Changes in the Proportionate Share of the Net OPEB Liability and Related Ratios**

Last Two Fiscal Years*

| | 2019 | 2018 |
|---|---|---|
| Service cost (MOY) | $ 960,919 | 1,064,107 |
| Interest (includes interest on service cost) | 793,912 | 687,316 |
| Change of benefit terms | 0 | 0 |
| Difference between expected and actual experience | (603,423) | 0 |
| Change of assumptions | 73,502 | (3,880,123) |
| Benefit payments, including refunds of member contributions | (618,994) | (668,122) |
| **Net change in OPEB liability** | **605,916** | **(2,796,822)** |
| **Total OPEB liability, beginning of the year** | **$ 20,587,137** | **$ 23,383,959** |
| **Total OPEB liability, end of the year** | **$ 21,193,053** | **$ 20,587,137** |
| Covered-employee payroll | $ 300,491,386 | $ 300,599,948 |
| Total OPEB liability as a percentage of covered-employee payroll | 7.05% | 6.85% |

*Information is presented for those years for which it is available until a full 10-year trend is compiled. The amounts presented for each fiscal year were determined as of June 30 of the previous year.

### Notes to Schedule:

- No assets are accumulated in a trust that meets the criteria in paragraph 4 of GABS 75.

Changes in benefit terms that significantly affect trends in the amounts reported in the schedules:
- There were no significant changes in benefit terms for the fiscal year ended June 30, 2018.

Changes in the use of different assumptions that significantly affect trends in the amounts reported in the schedules:
- The assumed Rate of Medical Inflation changed from 6.75% grading to 4.00% over 16 years to 6.75% grading to 4.00% over 15 years.
- The assumed Rate of Pharmacy Inflation changed from 9.00% grading to 4.00% over 16 years to 8.50% grading to 4.00% over 15 years.
- The funding method changed from Project Unit Credit (PUC) to Entry Age Normal (EAN) for the June 30, 2017 valuation.

Changes of assumptions and other inputs reflect the changes in the discount rate each period. The following are the discount rates used in each period:
- 2018: 3.87%
- 2017: 3.58%
- 2016: 2.85%

# BOARD OF TRUSTEES, UNIVERSITY OFFICIALS

**John Goodson, Chairman**
John Goodson of Texarkana is a law partner at Keil & Goodson, P.A. He earned his bachelor's degree in 1987 and law degree in 1989 from the University of Arkansas. His term expires in 2021.

**Mark Waldrip, Vice Chairman**
Mark Waldrip, of Moro, is founder and Chairman of the Board of Armor Bank, Chairman of Big Creek Bancshares, LLC and owner and president of East Arkansas Seeds, Inc. Waldrip is a 1977 graduate of the University of Arkansas and was recognized with a Distinguished Alumni Award at his alma mater in 2017. His term expires in 2020.

**Morril Harriman, Secretary**
Morril Harriman of Little Rock is an attorney with the Mitchell Williams law firm. He served as Governor Mike Beebe's chief of staff from 2007 to 2015. Prior to that, Harriman served 16 years in the Arkansas Senate. He earned both his bachelor and law degrees from the University of Arkansas, Fayetteville. His term expires in 2024.

**Kelly Eichler, Assistant Secretary**
Kelly Eichler of Little Rock is a graduate of the University of Arkansas, Fayetteville. A former policy director for Gov. Asa Hutchinson, she earned a Juris Doctorate from the UALR Bowen School of Law and formerly served as a Pulaski County Deputy Prosecutor, private practice partner and Special Judge in Circuit and Juvenile Courts. Her term expires in 2026.

**Stephen Broughton**
Dr. Stephen Broughton of Pine Bluff is a staff psychiatrist for the Southeast Arkansas Behavioral Health System. Broughton earned his bachelor's degree from the University of Arkansas at Pine Bluff and completed his medical education at the University of Arkansas for Medical Sciences. His term expires in 2022.

**C.C. "Cliff" Gibson III**
C.C. "Cliff" Gibson III of Monticello is founder of Gibson and Keith Law Firm and serves as county attorney for Drew County, Arkansas. The former president of the Monticello Economic Development Commission, Gibson attended the University of Arkansas at Monticello and earned his Juris Doctor at the UALR Bowen School of Law. His term expires in 2023.

**Sheffield Nelson**
Sheffield Nelson of Little Rock is a senior partner at Jack Nelson and Jones. He earned his Juris Doctorate from the University of Arkansas School of Law and is a graduate of the Arkansas State Teachers College. Nelson is the former chairman, president and CEO of Arkla, and won the Republican nomination for Arkansas Governor in 1990 and 1994. His term expires in 2025.

**Tommy Boyer**
Tommy Boyer, of Fayetteville, graduated from the University of Arkansas, Fayetteville in 1964, where he was also an All-American basketball player. He retired from the Eastman Kodak Company in 1989, and founded Micro Images in Amarillo, Texas. Within two years, Micro Images had become the largest Kodak document imaging systems broker and reseller in the United States. Boyer was inducted into the Arkansas Business Hall of Fame in 2013 and the Arkansas Sports Hall of Fame in 2000. His term expires in 2027.

**Steve Cox**
Steve Cox of Jonesboro graduated from the University of Arkansas in 1982 after having earned All Southwest Conference and All America honors during his football career as a punter and kicker, later playing in the NFL for the Cleveland Browns and Washington Redskins. He rose through the ranks of banking before becoming a managing partner at Rainwater and Cox LLC, which oversees ownership and management of an array of commercial, hotel and agricultural properties. His term expires in 2018.

**Ed Fryar, Ph.D.**
Edward (Ed) Fryar, Jr., Ph.D., of Rogers, is a graduate and former professor at the University of Arkansas, Fayetteville, having earned degrees in economics and agricultural economics. As a professor of agricultural economics at the UA for more than 13 years, he published more than 50 professional articles to go along with his 40-plus years of experience. He co-founded Ozark Mountain Poultry in Rogers in 2000, which grew from 15 employees to more than 1,800 before selling it in 2018. He was inducted into the Arkansas Agriculture Hall of Fame in 2019. His term expires in 2029.

## Senior Management

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