

**Arkansas Tech University**

**Russellville, Arkansas**

**Basic Financial Statements  
and Other Reports**

**June 30, 2014**

LEGISLATIVE JOINT AUDITING COMMITTEE

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ARKANSAS TECH UNIVERSITY  
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# Arkansas

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

## LEGISLATIVE JOINT AUDITING COMMITTEE

### DIVISION OF LEGISLATIVE AUDIT

#### INDEPENDENT AUDITOR'S REPORT

Arkansas Tech University  
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 Arkansas Tech University (University), an institution of higher education of the State of Arkansas, as of and for the year ended June 30, 2014, 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 Arkansas Tech University Foundation, Inc., and Arkansas Tech University Facilities Development Foundation, Inc., which represent 100% of the assets and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Arkansas Tech University Foundation, Inc., and Arkansas Tech University Facilities Development 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 Arkansas Tech University Foundation, Inc. and Arkansas Tech University Facilities Development 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 judgment, 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, 2014, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note 22 to the financial statements, the 2013 financial statements have been restated due to the adoption of Governmental Accounting Standards Board Statement no. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### *Prior Year Comparative Information*

We have previously audited the University's 2013 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the business-type activities and the aggregate discretely presented component units in our report dated October 22, 2013. In our opinion, the comparative information presented herein as of and for the year ended June 30, 2013, 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 and certain information pertaining to postemployment benefits other than pensions on pages 6-13 and 58-63 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.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The Schedule of Selected Information for the Last Five Years (Schedule 1) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2014 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

DIVISION OF LEGISLATIVE AUDIT



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

Little Rock, Arkansas  
October 20, 2014  
EDHE13014

Sen. Bryan B. King  
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# Arkansas



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

## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

### REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

#### INDEPENDENT AUDITOR'S REPORT

Arkansas Tech University  
Legislative Joint Auditing Committee

We have audited, in accordance with the 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, the financial statements of the business-type activities and the aggregate discretely presented component units of Arkansas Tech University (University), an institution of higher education of the State of Arkansas, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated October 20, 2014. Our report includes a reference to other auditors who audited the financial statements of the Arkansas Tech University Foundation, Inc., and Arkansas Tech University Facilities Development Foundation, Inc., as described in our report on the University's financial statements. The financial statements of the Arkansas Tech University Foundation, Inc. and Arkansas Tech University Facilities Development Foundation, Inc., were not audited in accordance with *Government Auditing Standards*.

#### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the University's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given those limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

#### Compliance and Other Matters

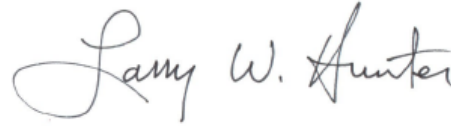
As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of the state constitution, state laws and regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the University in a separate letter dated October 20, 2014.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in cursive script that reads "Larry W. Hunter". The signature is written in black ink and is positioned above the printed name and title.

Larry W. Hunter, CPA, CFE  
Deputy Legislative Auditor

Little Rock, Arkansas  
October 20, 2014

# Arkansas

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## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

### MANAGEMENT LETTER

Arkansas Tech University  
Legislative Joint Auditing Committee

STUDENT ENROLLMENT DATA - In accordance with Ark. Code Ann. § 6-60-209, we performed tests of the student enrollment data for the year ended June 30, 2014, as reported to the State Department of Higher Education, to provide reasonable assurance that the data was properly reported. The enrollment data reported was as follows:

	<u>Summer II Term</u> <u>2013</u>	<u>Fall Term</u> <u>2013</u>	<u>Spring Term</u> <u>2014</u>	<u>Summer I Term</u> <u>2014</u>
Student Headcount	1,911	11,369	10,433	2,507
Student Semester Credit Hours	8,175	128,544	115,879	12,771

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

This letter is intended solely for the information and use of the Legislative Joint Auditing Committee, the governing board, University management, state executive and oversight management, and other parties as required by Arkansas Code, and is not intended to be and should not be used by anyone other than these specified parties. However, pursuant to Ark. Code Ann. § 10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT

Handwritten signature of Larry W. Hunter in cursive.

Larry W. Hunter, CPA, CFE  
Deputy Legislative Auditor

Little Rock, Arkansas  
October 20, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
For the year ended June 30, 2014



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## Overview of Financial Statements and Financial Analysis

Arkansas Tech University is proud to present its consolidated financial statements for fiscal year 2013-14. Comparative data for fiscal years 2013-14 and 2012-13 are presented in the statements. The following discussion and analysis of Arkansas Tech University's consolidated financial statements provides an overview of the University's financial activities for the fiscal year ended June 30, 2014. Management has prepared the financial statements, the related footnote disclosures, and Management's Discussion and Analysis as required by Governmental Accounting Standards Board (GASB) Statements 34 and 35.

Arkansas Tech University has completed another fiscal year with positive results. We have continued our enrollment growth which translates into increased utilization of our auxiliary services, such as residence halls, apartments, food services, and the bookstore.

We have been challenged during FY 13-14 as state funding has remained almost flat and interest rates have declined to very low levels. Major emphasis has been placed on the management of our expenses, such as utilities, scholarships, travel, vehicle maintenance, and personnel cost to assure that our operations remain within established budgetary limits.

The student population growth continues and we are encouraged by other positive trends during FY 13-14. We were able to do the following:

- Increased enrollment by 3.8%
- Transfer \$985,525 to Infrastructure Reserves.
- Transfer \$348,881 to Funded Depreciation.
- Campus construction and renovations of \$10,871,407.
- Purchase \$992,690 in capital equipment.
- Fund \$2,410,167 for critical maintenance repairs.

There are three financial statements presented: Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; and Statement of Cash Flows.

### Condensed Statement of Net Position

The Statement of Net Position presents the assets and deferred outflows of resources, liabilities and deferred inflows of resources, and net position of the University at the end of the fiscal year. The purpose of this statement is to show the financial position on a certain date in time and to present to readers a fiscal snapshot of Arkansas Tech University at year-end. The Statement of Net Position presents year-end data concerning assets (current and noncurrent) plus deferred outflows of resources, liabilities (current and noncurrent) plus deferred inflows of resources, and net position (difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources).

The difference between current and noncurrent assets is discussed in the footnotes to the financial statements. From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue the operations of the institution. They are also able to determine how much the Institution owes vendors, investors, and lending institutions. Finally, the Statement of Net Position provides a picture of the net position (difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources) and of their availability for expenditure by the Institution.



MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
For the year ended June 30, 2014



**Condensed Statement of Net Position (Continued)**

Net Position is divided into three major categories. The first category—net investment in capital assets—provides information on the Institution's equity in property, plant and equipment. The next net position category—restricted assets—is divided into two categories: nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes.

Expendable restricted net position is available for expenditure by the Institution but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on them. The final category—unrestricted net position—is available to the Institution for any lawful purpose of the institution.

Condensed Statement of Net Position

Assets:	June 30, 2014	June 30, 2013
Current assets	\$ 48,923,914	\$ 46,680,413
Noncurrent assets	43,062,345	34,901,625
Capital assets, net	122,117,669	118,025,528
Total Assets	214,103,928	199,607,566
Deferred Outflows of Resources	433,967	459,494
Total Assets and Deferred Outflows of Resources	214,537,895	200,067,060
Liabilities:		
Current liabilities	9,396,583	8,794,950
Noncurrent liabilities	85,831,420	82,159,408
Total Liabilities	95,228,003	90,954,357
Deferred Inflows of Resources		
Total Liabilities and Deferred Inflows of Resources	95,228,003	90,954,358
Net Position:		
Net Investment in Capital Assets	39,471,090	38,832,306
Restricted - expendable	14,979,563	11,217,228
Restricted - nonexpendable	313,621	311,693
Unrestricted	64,545,618	58,751,475
Total Net Position	\$ 119,309,892	\$ 109,112,702

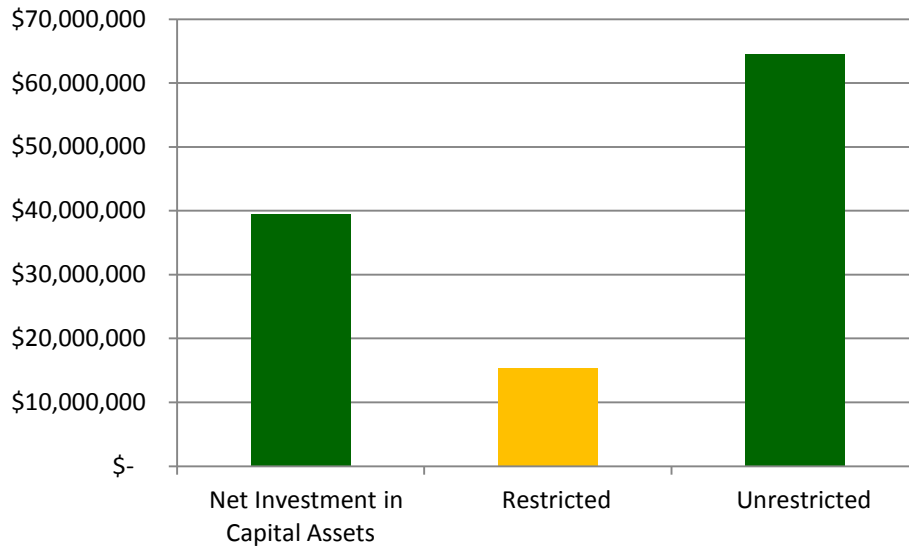
*Fiscal year ended June 30, 2013, was restated per GASB 65. Additional information is included in the Notes to the Financial Statement no. 22.*

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
For the year ended June 30, 2014



**Condensed Statement of Net Position (Continued)**

**NET POSITION**



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

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 purpose of the statement is to present the revenues received by the Institution, both operating and nonoperating, and the expenses paid by the Institution, both operating and nonoperating, and any other revenues, expenses, gains, and losses received or expended by the Institution.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
For the year ended June 30, 2014



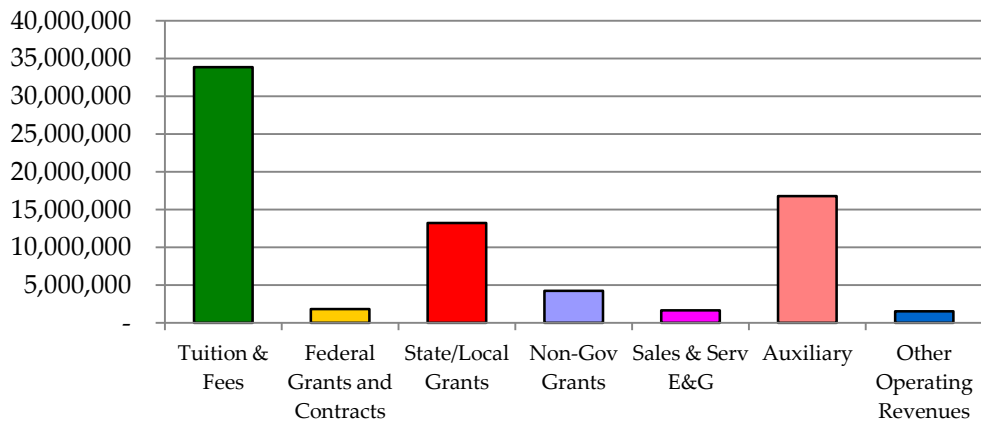
**Condensed Statement of Revenues, Expenses, and Changes in Net Position (Continued)**

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

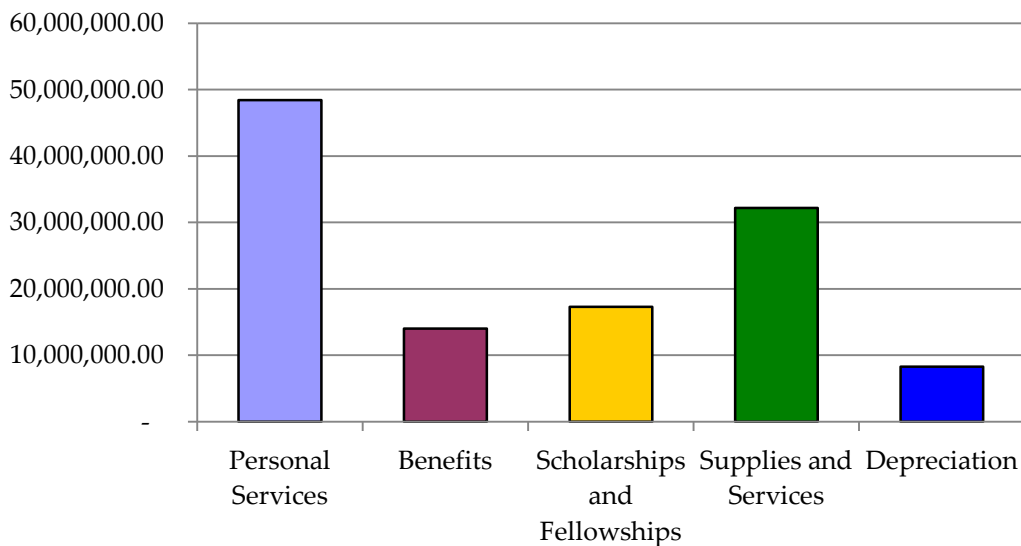
	June 30, 2014	June 30, 2013
Operating revenues	\$ 72,985,618	\$ 69,365,700
Operating expenses	(120,210,218)	(114,481,602)
Operating loss	(47,224,600)	(45,115,902)
Nonoperating revenues and expenses	53,259,131	52,728,071
Income (loss) before other revenues, expenses, gains, or losses	6,034,531	7,612,169
Other revenues, expenses, gains or losses	4,162,659	849,095
Increase (Decrease) in Net Position	10,197,190	8,461,264
Net Position at beginning of year as originally stated	109,112,702	101,858,264
Restatement of prior year balance (Note 22)		(1,206,826)
Net Position at beginning of year restated	109,112,702	100,651,438
Net Position at end of year	\$ 119,309,892	\$109,112,702



## Arkansas Tech University Operating Revenues



## Arkansas Tech University Operating Expenses



Note: Per GASB Statement no. 34, State General Revenues of \$35,468,162 received by Arkansas Tech University are classified as Nonoperating Revenue.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
For the year ended June 30, 2014



**Condensed Statement of Cash Flows**

The final statement presented by Arkansas Tech University is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the Institution during the year. The statement is divided into five sections. The first section shows the net cash used by the operating activities of the Institution. The second section reflects cash flows from noncapital financing activities and specifically reflects the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes. The third section deals with the cash flows from capital and related financing activities. 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.

Condensed Statement of Cash Flows

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Cash provided (used) by:		
Operating activities	\$ (37,920,141)	\$ (35,482,629)
Noncapital financing activities	55,701,440	55,354,929
Capital and related financing activities	(8,400,379)	(13,934,597)
Investing activities	<u>5,657,432</u>	<u>5,138,251</u>
 Net Change in Cash	 15,038,352	 11,075,954
Cash, beginning of year	<u>56,997,121</u>	<u>45,921,167</u>
Cash, end of year	<u>\$ 72,035,473</u>	<u>\$ 56,997,121</u>

**Capital Asset and Debt Administration**

At June 30, 2014, the University had \$216,977,231 invested in capital assets, less accumulated depreciation of \$94,859,562. Depreciation charges totaled \$8,291,827 for the current fiscal year. Details of these assets are shown below.

<u>Capital Assets (Net)</u>	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Land, improvements and infrastructure	\$ 14,201,724	\$ 14,084,614
Buildings	100,072,039	95,667,704
Construction in progress	3,434,939	4,104,676
Furniture, fixtures and equipment	2,200,622	2,189,172
Intangible asset	3,631	207,405
Capital lease	689,887	368,297
Library holdings	1,161,273	1,202,185
Livestock for educational purposes	353,554	201,475
Total	<u>\$ 122,117,669</u>	<u>\$ 118,025,528</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
For the year ended June 30, 2014



**Capital Asset and Debt Administration (Continued)**

Major capital additions completed this year, and the source of the funding used for their acquisition, include:

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Chambers Cafeteria—Bond Issue, University Funds	\$ 8,185,074	
Ozark Data Center—University Funds	370,034	
Morton Hall Reroof—University Funds	350,157	
Techionery-Theater Restoration—University Funds	1,037,829	
Glenwood Parking Lot—University Funds	480,918	
Browning Hall—Bond issue, Grant, University Funds		\$ 1,647,897
Caraway Hall—University Funds		212,866
Energy Center—capital appropriations, University Funds		595,972
Crabaugh—University Funds		290,968
M Street Resident Hall—Bond issue, University Funds		11,087,144
Band Practice Field—University Funds		804,143
Baseball Field Complex—Bond issue, University Funds		1,438,299
Thone Stadium at Buerkle Field—University Funds		891,123
Total	<u>\$ 10,424,012</u>	<u>\$ 16,968,412</u>

More detailed information about the University's capital assets is presented in Note 8 and Note 13 to the financial statements.

**Debt**

At June 30, 2014, the University had \$81,735,695 in debt outstanding versus \$78,583,633 the previous year. Principal payments made on debt during the year were \$2,478,244. The table below summarizes these amounts by type of debt instrument.

<u>Outstanding Debt</u>	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Educational and general revenue bonds	\$ 30,610,000	\$ 26,385,000
Auxiliary facility revenue bonds	50,050,000	51,440,000
Capital lease obligations	823,643	406,017
Installment contracts	111,836	205,085
Unamortized bond premium	140,216	147,531
Total	<u>\$ 81,735,695</u>	<u>\$ 78,583,633</u>

More detailed information about the University's long-term liabilities is presented in Notes 10, 11, and 12 to the financial statements.



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## **Economic Outlook**

The University's president, Dr. Robert C. Brown, announced his retirement on August 23, 2013, to be effective June 30, 2014. Dr. Brown held this position as the 11<sup>th</sup> president of Arkansas Tech University for 21 years.

Dr. Robin E. Bowen was elected the 12<sup>th</sup> president of Arkansas Tech University by the Arkansas Tech Board of Trustees on April 22, 2014. She took office on July 1, 2014. She previously served at Fitchburg State University, where she was executive vice president and provost. Prior to her time at Fitchburg State, Dr. Bowen worked in administration at Donnelly College, Washburn University, and Rockhurst University. She received her Doctor of Education degree with an emphasis in higher education administration from Texas Tech University. Dr. Bowen also holds a Master of Education degree from the University of Arkansas and a Bachelor of Science degree from the University of Kansas. Dr. Bowen is the first female president of a public, four-year university in Arkansas.

The University's overall financial position is strong. Consistent student enrollment growth along with innovative academic programs and proactive budget management policies make us optimistic for the University's operations during FY 14-15. The administration will continue to manage resources and make adjustments as necessary to assure the continued financial integrity of the University.

*Mr. David C. Moseley*

Vice President for Administration and Finance

ARKANSAS TECH UNIVERSITY  
COMPARATIVE STATEMENT OF NET POSITION  
JUNE 30, 2014

Exhibit A

	June 30, 2014	June 30, 2013
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 42,437,920	\$ 35,169,032
Short-term investments		5,317,892
Accounts receivable (less allowances of \$415,305 and \$369,943, respectively)	4,377,451	3,916,543
Notes receivable (less allowances of \$50,392 and \$42,143, respectively)	67,339	60,778
Inventories	761,424	808,927
Prepaid expenses	1,277,735	1,405,196
Prepaid bond insurance	2,045	2,045
Total Current Assets	48,923,914	46,680,413
Noncurrent Assets:		
Cash and cash equivalents	29,597,553	21,828,089
Deposits with trustee	7,278,449	7,367,744
Endowment investments	3,223,511	2,568,643
Restricted investments	2,015,668	1,980,464
Notes receivable (less allowances of \$669,203 and \$697,104, respectively)	894,935	1,005,613
Prepaid expenses	11,325	108,124
Prepaid bond insurance	40,904	42,948
Capital assets (net of accumulated depreciation of \$94,859,562 and \$87,826,975, respectively)	122,117,669	118,025,528
Total Noncurrent Assets	165,180,014	152,927,153
TOTAL ASSETS	214,103,928	199,607,566
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred amount on bond refunding	433,967	459,494
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	\$ 214,537,895	\$ 200,067,060
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 3,896,385	\$ 3,488,681
Bonds, installment contracts, and leases payable	2,687,913	2,460,890
Compensated absences payable	477,140	446,709
Unearned revenue	1,574,183	1,428,148
Funds held in trust for others	743,277	906,187
Other liabilities	17,685	64,335
Total Current Liabilities	9,396,583	8,794,950
Noncurrent Liabilities:		
Accounts payable and accrued liabilities	81,415	159,939
Bonds, installment contracts, and leases payable	79,047,782	76,122,743
Compensated absences	1,358,014	1,207,768
Net other postemployment benefit liability	4,402,305	3,739,307
Refundable federal advances	941,904	929,651
Total Noncurrent Liabilities	85,831,420	82,159,408
TOTAL LIABILITIES	95,228,003	90,954,358
<b>DEFERRED INFLOWS OF RESOURCES</b>	0	0
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	\$ 95,228,003	\$ 90,954,358



ARKANSAS TECH UNIVERSITY  
COMPARATIVE STATEMENT OF NET POSITION  
JUNE 30, 2014

Exhibit A

	June 30, 2014	June 30, 2013
NET POSITION		
Net Investment in capital assets:	\$ 39,471,090	\$ 38,832,306
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	155,929	155,929
Loans	157,692	155,764
Expendable:		
Scholarships and fellowships	447,221	446,457
Capital projects	8,361,723	5,673,708
Debt service	2,895,768	2,455,897
Education and general departments	3,274,851	2,641,166
Unrestricted:	64,545,618	58,751,475
 TOTAL NET POSITION	 119,309,892	 109,112,702
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, and NET POSITION	 \$ 214,537,895	 \$ 200,067,060

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

ARKANSAS TECH UNIVERSITY  
ARKANSAS TECH UNIVERSITY FOUNDATION, INC.  
STATEMENTS OF FINANCIAL POSITION - COMPONENT UNIT  
JUNE 30, 2014 AND 2013

Exhibit A-1

	June 30, 2014	June 30, 2013
<b>ASSETS</b>		
Cash and cash equivalents	\$ 671,047	\$ 711,961
Promises to give	179,160	222,774
Investments:		
Marketable securities	20,288,062	17,552,458
Annuities	391,245	440,460
Limited partnership	1,212,115	131,351
Total investments	21,891,422	18,124,269
<b>TOTAL ASSETS</b>	<b>\$ 22,741,629</b>	<b>\$ 19,059,004</b>
 <b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable	\$ 46,984	\$ 40,127
University funds under management	3,223,511	2,568,642
Reserve for annuities payable	78,123	112,629
Deferred compensation	275,120	250,000
Total Liabilities	3,623,738	2,971,398
 Net Assets:		
Unrestricted	4,735,707	2,780,526
Temporarily restricted	4,011,665	3,583,034
Permanently restricted	10,370,519	9,724,046
Total Net Assets	19,117,891	16,087,606
 <b>TOTAL LIABILITIES and NET ASSETS</b>	<b>\$ 22,741,629</b>	<b>\$ 19,059,004</b>

ARKANSAS TECH UNIVERSITY  
ARKANSAS TECH UNIVERSITY FACILITIES DEVELOPMENT FOUNDATION, INC.  
STATEMENTS OF FINANCIAL POSITION - COMPONENT UNIT  
JUNE 30, 2014 AND 2013

Exhibit A-2

	June 30, 2014	June 30, 2013
<b>ASSETS</b>		
Current Assets:		
Rent receivable (less allowances of \$2,611 and \$5,534, respectively)	\$ 24,122	\$ 49,811
Unrestricted cash	573	573
Total Current Assets	24,695	50,384
Restricted cash and cash equivalents	4,270,757	4,238,774
Property and equipment at cost:		
Property and equipment	7,772,072	7,719,755
Less accumulated depreciation	3,099,193	3,115,653
Net property and equipment	4,672,879	4,604,102
Other Assets:		
Unamortized debt issuance cost	197,205	169,827
Unamortized debt discount	225,677	180,968
Total Other Assets	422,882	350,795
<b>TOTAL ASSETS</b>	<b>\$ 9,391,213</b>	<b>\$ 9,244,055</b>
<b>LIABILITIES AND UNRESTRICTED NET ASSETS</b>		
Current Liabilities:		
Current maturities of long-term debt	\$ 315,000	\$ 285,000
Accounts payable	4,538	373
Security deposits	56,000	63,500
Accrued interest	18,993	23,583
Total Current Liabilities	394,531	372,456
Long-term debt	6,020,000	6,305,000
Unrestricted net assets	2,976,682	2,566,599
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 9,391,213</b>	<b>\$ 9,244,055</b>

ARKANSAS TECH UNIVERSITY  
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2014

Exhibit B

	Year Ended June 30 2014	Year Ended June 30 2013
<b>OPERATING REVENUES</b>		
Student tuition and fees (net of scholarship allowances of \$22,916,810 and \$23,207,430, respectively)	\$ 33,838,582	\$ 29,343,396
Federal grants and contracts	1,810,605	1,987,371
State and local grants and contracts	13,201,161	16,133,664
Non-governmental grants and contracts	4,212,394	3,138,354
Sales and services of educational departments	1,627,668	1,523,969
Auxiliary enterprises:		
Athletics (net of scholarship allowances of \$844,255 and \$813,506, respectively)	3,839,206	3,765,341
Residence life (net of scholarship allowances of \$3,546,687 and \$3,530,020, respectively)	5,236,980	4,463,342
Bookstore	3,558,631	3,452,558
Food service (net of scholarship allowances of \$2,499,906 and \$2,701,704, respectively)	3,509,589	3,275,242
Health Services	629,877	412,072
Other operating revenues	1,520,925	1,870,391
<b>TOTAL OPERATING REVENUES</b>	<b>72,985,618</b>	<b>69,365,700</b>
<b>OPERATING EXPENSES</b>		
Personal services	48,423,399	46,055,977
Benefits	13,996,790	13,231,559
Scholarships and fellowships	17,295,242	18,315,640
Supplies and services	32,202,960	28,953,186
Depreciation	8,291,827	7,925,240
<b>TOTAL OPERATING EXPENSES</b>	<b>120,210,218</b>	<b>114,481,602</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(47,224,600)</b>	<b>(45,115,902)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	35,468,162	35,032,398
Governmental grants	20,501,097	20,328,711
Investment income (net of investment expense of \$9,421 and \$7,635, respectively)	981,971	705,348
Interest on capital asset - related debt	(3,423,912)	(2,894,417)
Bond issuance costs	(119,202)	(252,474)
Paying agents fees capital asset related debt	(47,603)	(43,278)
Gain or (loss) on disposal of capital assets	(40,781)	(1,415)
Disposal of livestock for educational purposes	(74,985)	(86,572)
Other revenues (expenses)	14,384	(60,230)
<b>NET NONOPERATING REVENUES (EXPENSES)</b>	<b>53,259,131</b>	<b>52,728,071</b>
<b>INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES</b>	<b>6,034,531</b>	<b>7,612,169</b>
Capital appropriations	4,666,643	437,207
Capital grants and gifts	231,965	130,521
Additions to endowments	488	40,511
Increase in valuation of livestock	218,564	92,101
Adjustments to prior year revenues and expenses	(117,904)	71,171
Other	155,998	77,584
Special Item:		
Write-off of assets due to impairment	(993,095)	
<b>INCREASE (DECREASE) IN NET POSITION</b>	<b>10,197,190</b>	<b>8,461,264</b>
NET POSITION - BEGINNING OF YEAR AS ORIGINALLY STATED	109,112,702	101,858,264
Restatement of prior year balance (Note 22)		(1,206,826)
NET POSITION - BEGINNING OF YEAR RESTATED	<b>109,112,702</b>	<b>100,651,438</b>
NET POSITION - END OF YEAR	<b>\$ 119,309,892</b>	<b>\$ 109,112,702</b>

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

ARKANSAS TECH UNIVERSITY  
ARKANSAS TECH UNIVERSITY FOUNDATION, INC.  
STATEMENTS OF ACTIVITIES - COMPONENT UNIT  
FOR THE YEARS ENDED JUNE 30, 2014 AND JUNE 30, 2013

	Year Ended June 30, 2014				Year Ended June 30, 2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public support, revenues, and reclassifications:								
Contributions	\$ 142,935	\$ 1,294,059	\$ 525,165	\$ 1,962,159	\$ 112,780	\$ 991,443	\$ 247,112	\$ 1,351,335
Investment income	2,397,562	248,982	121,308	2,767,852	1,299,721	262,872	128,858	1,691,451
Net assets released from restrictions:								
Satisfaction of program or time restrictions	1,114,410	(1,114,410)			842,943	(842,943)		
Total public support, revenues, and reclassifications	<u>3,654,907</u>	<u>428,631</u>	<u>646,473</u>	<u>4,730,011</u>	<u>2,255,444</u>	<u>411,372</u>	<u>375,970</u>	<u>3,042,786</u>
Expenses								
Scholarships	296,804			296,804	320,514			320,514
Capital outlay	196,633			196,633	61,508			61,508
Supplies	302,787			302,787	196,647			196,647
Professional fees and services	337,830			337,830	183,538			183,538
Travel and travel items	166,779			166,779	183,435			183,435
Printing	47,256			47,256	38,298			38,298
Salaries and benefits	123,024			123,024	95,354			95,354
Investment fees	50,566			50,566	41,782			41,782
Annuity benefits	14,945			14,945	20,538			20,538
Other	163,102			163,102	107,643			107,643
Total expenses	<u>1,699,726</u>			<u>1,699,726</u>	<u>1,249,257</u>			<u>1,249,257</u>
Changes in net assets	1,955,181	428,631	646,473	3,030,285	1,006,187	411,372	375,970	1,793,529
Net assets at beginning of year	<u>2,780,526</u>	<u>3,583,034</u>	<u>9,724,046</u>	<u>16,087,606</u>	<u>1,774,339</u>	<u>3,171,662</u>	<u>9,348,076</u>	<u>14,294,077</u>
Net assets at end of year	<u>\$ 4,735,707</u>	<u>\$ 4,011,665</u>	<u>\$ 10,370,519</u>	<u>\$ 19,117,891</u>	<u>\$ 2,780,526</u>	<u>\$ 3,583,034</u>	<u>\$ 9,724,046</u>	<u>\$ 16,087,606</u>

ARKANSAS TECH UNIVERSITY  
ARKANSAS TECH UNIVERSITY FACILITIES DEVELOPMENT FOUNDATION, INC.  
STATEMENTS OF ACTIVITIES - COMPONENT UNIT  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

Exhibit B-2

	Year Ended June 30,	
	2014	2013
Income:		
Rental	\$ 1,423,374	\$ 1,500,571
Investment	31,936	36,590
Other	8,321	5,010
Total Income	1,463,631	1,542,171
Expenses:		
Audit and professional	11,225	5,600
Maintenance and repairs	76,855	96,078
Pest control	2,126	1,929
Utilities	161,345	172,867
Insurance	74,854	61,814
Depreciation and amortization	303,320	243,970
Interest expense	251,914	287,452
Bad debts expense (recovery)	(862)	866
Bond trustee fees	5,179	5,624
Administrative costs - Arkansas Tech University	41,859	42,140
Miscellaneous	16,576	2,135
Total expenses	944,391	920,475
Increase in unrestricted net assets before allocation to Arkansas Tech University	519,240	621,696
Allocation to Arkansas Tech University	109,157	37,429
Increase in unrestricted net assets	410,083	584,267
Unrestricted net assets at beginning of year	2,566,599	1,982,332
Unrestricted net assets at end of year	\$ 2,976,682	\$ 2,566,599

ARKANSAS TECH UNIVERSITY  
COMPARATIVE STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2014

Exhibit C

	<u>June 30,</u> <u>2014</u>	<u>June 30,</u> <u>2013</u>
Cash Flows From Operating Activities		
Tuition and fees	\$ 33,237,993	\$ 30,115,084
Grants and contracts	19,349,275	21,259,390
Payments to suppliers	(31,594,997)	(28,396,309)
Payments for personal services	(48,242,722)	(46,148,818)
Payments for benefits	(13,333,793)	(12,679,525)
Payments for scholarships and fellowships	(17,295,242)	(18,315,639)
Auxiliary Enterprise:		
Residential life	5,236,980	4,463,342
Food service	3,509,589	3,275,242
Bookstore	3,558,631	3,452,558
Athletics	3,839,206	3,765,340
Health services	629,877	412,072
Sales and service of educational departments	1,627,668	1,523,969
Other receipts (payments)	1,557,394	1,790,665
Net Cash Provided (Used) by Operating Activities	<u>(37,920,141)</u>	<u>(35,482,629)</u>
Cash Flows From Noncapital Financing Activities:		
State appropriations	35,468,162	35,032,398
Direct lending receipts	38,417,714	34,415,483
Direct lending payments	(38,418,873)	(34,431,559)
Noncapital grants and gifts received	20,501,097	20,328,711
Principal paid on non-capital debt	(97,739)	(94,805)
Interest paid on non-capital debt	(6,499)	(10,257)
Additions to endowment funds	488	40,511
Student organization/agency transactions (net)	(162,910)	74,447
Net Cash Provided (Used) by Noncapital Financing Activities	<u>55,701,440</u>	<u>55,354,929</u>
Cash Flows From Capital and Related Financing Activities:		
Capital appropriations	4,766,643	437,207
Capital grants and gifts received	120,417	
Purchases of capital assets	(9,584,254)	(11,548,832)
Construction in progress expenditures	(3,116,768)	(3,937,803)
Distributions from trustee of bond proceeds and interest earnings	5,053,487	5,642,359
Payments to bond trustees for bond principal	(2,165,000)	(1,625,000)
Payments to bond trustees for interest and fees	(3,244,240)	(2,695,786)
Principal paid on capital debt leases	(215,505)	(186,483)
Interest paid on capital debt leases	(15,159)	(20,259)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(8,400,379)</u>	<u>(13,934,597)</u>
Cash Flows From Investing Activities:		
Proceeds from sales and maturities of investments	5,282,240	10,356,002
Purchase of investments		(5,620,242)
Investment income	375,192	402,491
Net Cash Provided (Used) by Investing Activities	<u>5,657,432</u>	<u>5,138,251</u>
Net increase in cash	15,038,352	11,075,954
Cash - beginning of the year	56,997,121	45,921,167
Cash - end of year	<u>\$ 72,035,473</u>	<u>\$ 56,997,121</u>

ARKANSAS TECH UNIVERSITY  
 COMPARATIVE STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED JUNE 30, 2014

Exhibit C

	June 30, 2014	June 30, 2013
Reconciliation of net operating revenues (expenses) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (47,224,600)	\$ (45,115,902)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	8,291,827	7,925,240
Receivables	(562,214)	866,460
Credit memos	133,246	(13,238)
Inventories	47,503	30,295
Prepaid expenses	224,261	(55,732)
Payables	247,696	575,197
Unapplied student aid	(48,484)	47,921
Unclaimed property	1,834	96
Advances	125,115	(202,159)
Compensated absences	180,677	(92,841)
Other postemployment benefits	662,998	552,034
Net cash provided (used) by operating activities	\$ (37,920,141)	\$ (35,482,629)
 Noncash transactions:		
Donated capital assets	\$ 131,966	\$ 130,520
Gain/(Loss) on disposal of capital assets	(47,081)	(3,990)
Increase/(Decrease) in market valuation of investments	600,867	302,857
Proceeds from construction bond issue deposited with trustee	4,880,798	8,997,526
Issuance costs on construction bond issue	119,202	252,474
Interest and fees on long-term debt paid directly from deposit with trustee	117,391	353,172
Accrued interest on bond issue deposited with trustee	11,991	
Special item: write-off of assets due to impairment	993,095	
Equipment acquired through capital leases	663,131	

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



NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014



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**NOTE 1: Summary of Significant Accounting Policies**

**Nature of Operations:** Arkansas Tech University is a multi-purpose, state-supported institution of higher education dedicated to providing an opportunity for higher education to the people of Arkansas and to serving the intellectual and cultural needs of the region in which it is located.

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

Arkansas Tech University is governed by a Board of Trustees. The State of Arkansas allocates and allots funds to each agency separately and requires that the funds be maintained accordingly. Because of this requirement, separate accounts are maintained for each agency.

Arkansas Tech University was created in 1909 by Act 100 of the Arkansas General Assembly. Under the provisions of this Act, the State was divided into four agricultural school districts. The General Assembly in 1925 changed the name from the Second District Agriculture College to Arkansas Polytechnic College with power to grant degrees. In 1948, the Board of Trustees converted the college from a junior college to a degree-granting institution. In accordance with Act 343 of the Arkansas General Assembly of 1975, the name was changed to Arkansas Tech University effective July 9, 1976. The Institution's programs are now divided into the College of Education, Professional Studies and Community Outreach, Business, Arts and Humanities, Natural and Health Sciences, Applied Sciences, and Graduate Studies.

Arkansas Valley Vocational Technical Institute (AVTI) merged with Arkansas Tech University effective July 1, 2003. Act 260 of 2007 changed the name of Arkansas Valley Technical Institute of Arkansas Tech University to Arkansas Tech University – Ozark Campus. The Ozark Campus of ATU is located 50 miles west of Russellville. Enrollment for fall is 2,172 students and the Ozark Campus offers eleven associate degree programs, as well as fifteen technical and vocational programs.

Arkansas Tech University – Ozark Campus acquired the Arkansas Tech University Career Center effective July 1, 2011. It is located in Russellville, Arkansas, and offers programs in nine career and technical areas. The enrollment is approximately 600 students from eleven area high schools.

The University is an institution of higher education of the State of Arkansas and is included in the financial statements of the State of Arkansas.

The Arkansas Tech University Foundation, Inc. (the Foundation) is a legally separate, tax-exempt component unit of Arkansas Tech University (the University). The Foundation acts primarily as a fund-raising and asset management organization to develop and supplement the resources that are available to the University in support of its mission and programs. The 33 member board of the Foundation is self-perpetuating and consists of graduates and friends of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources or income thereon that the Foundation holds and invests is restricted to the activities of the University by donors. Because these restricted resources held by the Foundation may only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University under the guidelines established by Governmental Accounting Standards Board (GASB) Statement no. 39, *Determining Whether Certain Organizations are Component Units*. Accordingly, the financial statements of the Foundation are discretely presented in the University's financial statements in accordance with the provisions of GASB Statement no. 39.

During the year ended June 30, 2014, the Foundation transferred equipment and funds of \$64,604 to the University for proper accountability and academic support. Complete financial statements for the Foundation may be obtained from the Foundation at P. O. Box 8820, Russellville, AR 72801.

The Foundation reports under Financial Accounting Standards Board (FASB) standards. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the University's financial statements.

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014



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**NOTE 1: Summary of Significant Accounting Policies (Continued)**

The Arkansas Tech University Facilities Development Foundation, Inc. (the Facilities Development Foundation) is a legally separate, tax-exempt component unit of Arkansas Tech University (the University). The Facilities Development Foundation acts primarily as a fund-raising and asset management organization to develop and supplement the resources that are available to the University in support of its mission and programs. The five member board of the Facilities Development Foundation is self-perpetuating and consists of graduates and friends of the University. Although the University does not control the timing or amount of receipts from the Facilities Development Foundation, all resources, or income thereon, which the Facilities Development Foundation holds and invests are restricted to the activities of the University by donors. Because these restricted resources held by the Facilities Development Foundation may only be used by, or for the benefit of the University, the Facilities Development Foundation is considered a component unit of the University under the guidelines established by Governmental Accounting Standards Board (GASB) Statement no. 39, *Determining Whether Certain Organizations are Component Units*. Accordingly, the financial statements of the Facilities Development Foundation are discretely presented in the University's financial statements in accordance with the provisions of GASB Statement no. 39.

Complete financial statements for the Foundation may be obtained from the Facilities Development Foundation at 105 West O Street, Bryan Hall, Room 208, Russellville, AR 72801.

The Facilities Development Foundation reports under Financial Accounting Standards Board (FASB) standards. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Development Foundation's financial information in the University's financial statements.

Financial Statement Presentation: In June 1999, the GASB issued Statement no. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. This was followed in November 1999 by GASB Statement no. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. As an institution of higher education of the State of Arkansas, the University was required to adopt GASB Statements no. 34 and no. 35. The financial statement presentation required by GASB Statements no. 34 and no. 35 provides a comprehensive, entity-wide perspective of the University's assets, liabilities, net position, revenues, expenses, changes in net position and cash flows. This replaces the fund-group perspective previously required.

Basis of Accounting: For financial reporting purposes, the University is considered a special-purpose government, engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resource management focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

Cash Equivalents: For purposes of the statement of cash flows, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

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

The University has implemented GASB Statement no. 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement no. 3*. This accounting standard establishes more comprehensive disclosure requirements related to investment and deposit risks, but does not affect reported amounts of investments, net position, or changes in net position.

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

Inventories: Inventories are carried at cost with cost being determined on a first-in, first-out ("FIFO") basis.

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014



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**NOTE 1: Summary of Significant Accounting Policies (Continued)**

**Capital Assets:** Capital assets are recorded at cost on the date of acquisition or, in the case of gifts, fair market value on the date of donation. Livestock for educational purposes is recorded at estimated fair market value. The University's capitalization policy is to include all items with a unit cost of \$5,000 or more and an estimated useful life of greater than one year, including renovations to buildings, infrastructure, and land improvements that significantly increase the value and efficiency or extend the life of the structure. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 30 years for buildings, 15 years for infrastructure and land improvements, 10 years for library books and 4 to 7 years for equipment and intangible assets. Depreciation expense includes the depreciation of assets recorded under capital leases. Additional information on capital leases is included in Note 12.

GASB Statement no. 42 established reporting standards for impairment of capital assets. The Campus Courts property consisted of buildings that were no longer in use and were in poor condition. The buildings on site were demolished in FY 13-14 instead of renovating the property at a considerable cost. The cost of the buildings was \$1,604,704 with accumulated depreciation in the amount of \$611,609. The net value of \$993,095 was written off due to impairment. This is shown in the statement of revenue, expenses and changes in net position in the other revenues, expenses, gains or losses section as a special item.

The University has implemented GASB Statement no. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. The provisions of this Statement generally are required to be applied retroactively.

During the year ended June 30, 2014, actual interest incurred for debt to finance the acquisition of specified qualifying assets under construction was \$261,948. Of this amount, \$8,069 was capitalized to the asset and \$1,794 was recorded as construction in progress for those assets not completed as of June 30, 2014.

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

**Compensated Absences:** Employee annual and sick leave earned, but not paid, and related matching costs are recorded as a liability and expense on the University's financial statements as required by generally accepted accounting principles. An estimate is made to allocate this liability between its current and noncurrent components.

**Noncurrent Liabilities:** Noncurrent liabilities include (1) principal amounts of revenue bonds payable, notes payable and capital lease obligations with contractual maturities greater than one year; (2) estimated amounts for accrued uncompensated absences and other liabilities that will not be paid within the next fiscal year.

**Net Position:** The University's net position is classified as follows:

*Net Investment in capital assets:* This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. Amounts to the extent debt has been incurred but not yet expended for capital assets are not included as a component of net investment in capital assets.

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

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

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014



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**NOTE 1: Summary of Significant Accounting Policies (Continued)**

Net Position (Continued)

*Unrestricted:* Unrestricted net position represents resources derived from student tuition and fees, state appropriations, sales and services of educational departments, and auxiliary enterprises. These resources are used for transactions relating to the educational and general operation of the University and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises that are substantially self-supporting activities providing services for students, faculty, and staff.

Income Taxes: The University, as a political subdivision of the State of Arkansas, is excluded from Federal income taxes under Section 115(1) of the Internal Revenue Code, as amended. The Foundations are exempt from income taxes under Section 501(C)(3) of the Internal Revenue Code.

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, (3) most Federal, state, and local grants and contracts and Federal appropriations and (4) interest on institutional student loans.

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

Scholarship Discounts and Allowances: Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses and Changes in Net 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, such as Pell grants and other Federal, state, or nongovernmental programs are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

Noncurrent Cash and Investments: Cash and investments that are externally restricted for endowment scholarships and other purposes or to purchase or construct capital assets are classified as noncurrent assets in the Comparative Statement of Net Position. Additionally, this classification includes other long-term investments with original maturity dates greater than one year.

Deposits with Trustees: Deposits with trustees are externally restricted and held by various banks for the University. They are maintained in order to make debt service payments, to maintain sinking or reserve funds as required by bond covenants, or to purchase or construct capital assets.

Funds Held in Trust for Others: The University holds deposits as custodian or fiscal agent for students, student organizations, and certain other organized activities related to the University.

Restricted/Unrestricted Resources: The University has no formal policy addressing which resources to use when both restricted and unrestricted net position are available for the same purpose. University personnel decide which resources to use at the time expenses are incurred.

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014



**NOTE 2: Cash and Cash Equivalents**

Cash deposits are carried at cost. The University's cash deposits at year-end are shown below:

	Carrying Value	Bank Balance
Insured (FDIC)	\$ 1,240,936	\$ 1,240,936
Collateralized:		
Collateral held by the pledging bank or pledging bank's trust department in the University's name.	71,235,307	71,242,331
Total Deposits	\$ 72,476,243	\$ 72,483,267

The above deposits do not include cash on hand maintained by the University in the amount \$19,875 and cash in state treasury of \$3,869,955. The above total deposits include non-negotiable certificates of deposits of \$4,129,534 reported as investments and classified as nonparticipating contracts and cash held for the Arkansas Tech University Facilities Development Foundation, Inc., of \$201,066. Of the \$4,129,534 non-negotiable certificates of deposit, \$2,113,866 was reported as deposits with trustee.

Custodial credit risk for deposits is the risk that the University's deposits may not be returned in the event of a bank or depository failure. The State Treasurer requires that all state funds be either insured by Federal Deposit Insurance or collateralized by securities held by the cognizant Federal Reserve Bank. The University's deposits with the State Treasurer are pooled with funds of other State Agencies and then, in accordance with statutory limitations, placed in financial institutions or invested, as the Treasurer may determine, in the State's name. It is the University's policy to require collateralization of 105 percent of the total bank deposits.

**NOTE 3: Investments**

The University has implemented GASB Statement no. 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement no. 3*. The new accounting standard establishes more comprehensive disclosure requirements related to investment risks, but does not affect reported amounts of investments, net position, or changes in net position.

Credit risk for investments is the risk that an issuer or counterparty to the investment will not fulfill its obligations. Interest rate risk is the risk that interest rate fluctuations will adversely affect the fair value of an investment. The risks for the University's investments including the external investment pool and deposits with trustee are shown separately below:

**External Investment Pool:** The University has investments with the Arkansas Tech University Foundation, Inc. (ATUF) that are pooled with other ATUF funds. The pool was originally established in 1999 and the funds were invested in the Common Fund. In 2003, the funds were moved under the management of Monroe Vos Consulting Group. The total amount of the pool is \$18,826,584 and Arkansas Tech University owns approximately 18 percent of that amount. The funds are invested based on the ATUF Board's approved policy of no more than five percent of the portfolio can be invested in one company. This policy reduces the concentration of credit risk.

The following table contains information on the risk disclosure for the external investment pool:

Type of Investment	Market Value	AAA	AA	A	<BBB	NR
Corporate Bonds*	\$ 5,158	\$841	\$550	\$723	\$2,267	\$ 777
US Stocks	1,721,677					1,721,677
Non-US Stocks	335,890					335,890
Other	1,160,786					1,160,786
Total investments	\$ 3,223,511	\$841	\$550	\$723	\$2,267	\$3,219,130

\*Note: Average Effective Maturity and Average Effective Duration were 6.62 and 4.09, respectively.

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014



**NOTE 3: Investments (Continued)**

Interest Rate Risk: Interest rate risk is the risk that changes in the interest rates will adversely affect the fair value of an investment. Governments with investments in external investment pools are required to disclose the interest rate risk of such investments. Interest rate risk exposure for the corporate bonds and stocks would be minimal due to the Arkansas Tech University Foundation Board's policy that no more than five percent of the portfolio can be invested in one company. The Institution does not have a policy designed to manage interest rate risk.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Governments are required to disclose the credit quality ratings of debt securities and external investment pools.

Deposits with Trustee: At June 30, 2014, the University's deposits with trustee in the amount of \$7,278,449 were invested in certificates of deposit, Federated Treasury Obligations and a money market treasury. The money market fund was rated AAAM by Standard & Poor's and Aaa by Moody's Investors Service and consisted of short term repurchase agreements and agencies in U.S. Treasuries. The effective average maturity was 40 days.

**NOTE 4: Donor Restricted Endowment**

The University has a donor restricted endowment, entitled "Lillian Massie Permanent Endowment Fund", that is to be used by the Department of Liberal and Fine Arts for support and scholarship. The original contribution was \$155,929 and the balance was \$157,029 as of June 30, 2014, for a net appreciation of \$1,100. The University may not spend any of the principal. State law allows a governing board to expend a portion of the net appreciation in the fair value of the assets over the historic dollar value of the fund unless the applicable gift document states otherwise. State law stipulates that such expenses are to be for the purpose for which the endowment funds were established. The original principal of \$155,929 was reported as nonexpendable restricted net position and the \$1,100 net appreciation was reported as expendable restricted net position. The University does not utilize a spending rate for the net appreciation.

**NOTE 5: Disaggregation of Accounts and Other Receivables**

Accounts receivable consisted of the following at June 30, 2014 and June 30, 2013, respectively:

	June 30, 2014	June 30, 2013
<i>Student tuition and fees</i>	\$ 3,111,830	\$ 2,951,109
<i>Auxiliary enterprises and other operating activities</i>	658,681	552,182
<i>Scholarship</i>	5,194	1,122
<i>Federal, state, and private grants and contracts</i>	574,315	398,234
<i>Accrued interest</i>	2,056	4,379
<i>Credit memos</i>	105,258	238,234
<i>Other</i>	335,422	141,226
	4,792,756	4,286,486
<i>Less allowance for doubtful accounts</i>	(415,305)	(369,943)
<i>Net accounts receivable</i>	\$ 4,377,451	\$ 3,916,543



NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014



**NOTE 6: Inventories**

Inventories consisted of the following at June 30, 2014, and June 30, 2013, respectively:

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Museum	\$ 8,952	\$ 8,855
Bookstore	707,508	763,040
Post Office	16,996	6,607
Lake Point Conference Center	19,564	21,422
Hospitality	2,360	2,526
Supplies	6,044	6,477
	<u>\$ 761,424</u>	<u>\$ 808,927</u>

**NOTE 7: Notes Receivable**

Student loans made through the Federal Perkins Loan Program (the Program) comprise substantially all of the notes receivable at June 30, 2014. The Program provides for cancellation of a loan at rates 10 percent to 30 percent per year up to a maximum of 100 percent if the participant complies with certain provisions. The Federal government reimburses the University for amounts cancelled under these provisions.

As the University determines that loans are uncollectible and not eligible for reimbursement by the Federal government, the loans are written off and assigned to the U.S. Department of Education. The University has provided an allowance for uncollectible notes that, in management's opinion, is sufficient to absorb loans that will ultimately be written off. At June 30, 2014, the notes receivable were \$962,274, net of the allowance for uncollectible loans of \$719,595.

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014



**NOTE 8: Capital Assets**

Following are the changes in capital assets for the year ended June 30, 2014:

	Balance June 30, 2013	Additions	Retirements	Balance June 30, 2014
Capital assets not depreciated				
Land	\$ 2,575,071	\$ 117,600		\$ 2,692,671
Landscaping	235,557			235,557
Livestock for educational purposes	201,475	232,314	\$ (80,235)	353,554
Construction in progress	4,104,676	3,116,769	(3,786,506)	3,434,939
Total capital assets not being depreciated	<u>7,116,779</u>	<u>3,466,683</u>	<u>(3,866,741)</u>	<u>6,716,721</u>
Other capital assets				
Intangible asset - software license	1,419,153			1,419,153
Capital leases	935,310	633,131		1,568,441
Non-major infrastructure networks	5,565,300	153,821		5,719,121
Land improvements	13,136,339	979,187		14,115,526
Buildings	156,858,848	10,844,519	(1,604,704)	166,098,663
Furniture, fixtures and equipment	12,069,055	1,001,494	(606,679)	12,463,870
Library holdings	8,751,719	205,751	(81,734)	8,875,736
Total other capital assets	<u>198,735,724</u>	<u>13,817,903</u>	<u>(2,293,117)</u>	<u>210,260,510</u>
Less accumulated depreciation:				
Intangible asset - software license	(1,211,748)	(203,774)		(1,415,522)
Capital leases	(567,013)	(311,541)		(878,554)
Non-major infrastructure networks	(2,752,171)	(299,365)		(3,051,536)
Land improvements	(4,675,482)	(834,133)		(5,509,615)
Buildings	(61,191,144)	(5,447,089)	611,609	(66,026,624)
Furniture, fixtures, and equipment	(9,879,883)	(949,263)	565,898	(10,263,248)
Library holdings	(7,549,534)	(246,662)	81,733	(7,714,463)
Total accumulated depreciation	<u>(87,826,975)</u>	<u>(8,291,827)</u>	<u>1,259,240</u>	<u>(94,859,562)</u>
Other capital assets, net	<u>110,908,749</u>	<u>5,526,076</u>	<u>(1,033,877)</u>	<u>115,400,948</u>
Capital Asset Summary:				
Capital assets not being depreciated	7,116,779	3,466,683	(3,866,741)	6,716,721
Other capital assets, at cost	198,735,724	13,817,903	(2,293,117)	210,260,510
Total cost of capital assets	<u>205,852,503</u>	<u>17,284,586</u>	<u>(6,159,858)</u>	<u>216,977,231</u>
Less accumulated depreciation	<u>(87,826,975)</u>	<u>(8,291,827)</u>	<u>1,259,240</u>	<u>(94,859,562)</u>
Capital assets, net	<u>\$ 118,025,528</u>	<u>\$ 8,992,759</u>	<u>\$ (4,900,618)</u>	<u>\$ 122,117,669</u>



NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014



**NOTE 9: Unearned Revenue**

Unearned Revenue consists of the following at June 30, 2014 and June 30, 2013, respectively:

	June 30, 2014	June 30, 2013
Prepaid tuition and fees	\$ 378,324	\$ 464,253
Grants and contracts	937,737	705,080
Scholarships	167,987	148,691
Other	90,135	110,124
<b>Total</b>	<b>\$ 1,574,183</b>	<b>\$ 1,428,148</b>

**NOTE 10: Long Term Liabilities**

Long-term liability activity for the year ended June 30, 2014 was as follows:

	June 30,			June 30,	Current	Noncurrent
Liabilities	2013	Additions	Deletions	2014	Portion	Portion
Revenue bonds	\$ 77,825,000	\$ 5,000,000	\$ 2,165,000	\$ 80,660,000	\$ 2,265,000	\$ 78,395,000
Plus bond premium	147,531		7,315	140,216	7,316	132,900
Total bonds payable	77,972,531	5,000,000	2,172,315	80,800,216	2,272,316	78,527,900
Capital leases	406,017	633,131	215,505	823,643	315,085	508,558
Installment contracts	205,085	4,490	97,739	111,836	100,512	11,324
Compensated absences	1,654,477	927,813	747,136	1,835,154	477,140	1,358,014
<b>Total</b>	<b>\$ 80,238,110</b>	<b>\$ 6,565,434</b>	<b>\$ 3,232,695</b>	<b>\$ 83,570,849</b>	<b>\$ 3,165,053</b>	<b>\$ 80,405,796</b>

*Additional information regarding revenue bonds payable is included in Note 11.*

*Additional information regarding capital leases and installment contracts is included in Note 12.*

*Additional information regarding restatement of beginning balances per GASB 65 is included in Note 22.*

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014



**NOTE 11: Bonds Payable**

Debt Service payments on the existing bonds amounted to \$2,165,000 for the fiscal year ended June 30, 2014. The retirement of some bond issues is secured by a specific pledge of certain gross revenues, surplus revenues, and specific fees. Debt service accounts are funded at various times during the year by transfers from the applicable funds.

<u>Pledged Revenues</u>	<u>Amount Authorized and Issued</u>	<u>Debt Outstanding June 30, 2014</u>	<u>Maturities to June 30, 2014</u>
<b>Revenue Bonds Series 2001</b>			
<b>Nutt Hall</b>			
3.6% - 5.25 %			
Issuance Date: February 1, 2001			
Final Maturity Date: December 1, 2031			
Housing revenues will be maintained at level equal to at least 120% of the combined annual debt service.			
	\$ 10,000,000	\$ 7,535,000	\$ 2,465,000
<b>Revenue Bonds Series 2006</b>			
<b>Baswell Hall</b>			
3.55% - 5.00%			
Issuance Date: May 1, 2006			
Final Maturity Date: May 1, 2036			
Housing revenues will be maintained at a level to produce annual pledged revenues equal to at least 120% of the combined maximum annual debt service.			
	10,000,000	8,555,000	1,445,000
<b>Revenue Bonds Series 2007</b>			
<b>Women's Sports Complex</b>			
3.85% - 4.60%			
Issuance Date: March 1, 2007			
Final Maturity Date: March 1, 2037			
Athletic revenues will be maintained at a level to produce annual pledged revenues equal to at least 125% of the combined maximum annual debt service.			
	2,720,000	2,350,000	370,000
<b>Revenue Bonds Series 2008</b>			
<b>Eastgate and Campus Courts</b>			
3.00% - 4.80%			
Issuance Date: February 1, 2008			
Final Maturity Date: February 1, 2038			
Housing revenues will be maintained at level equal to at least 120% of the combined annual debt service.			
	1,505,000	1,330,000	175,000

*(Continued on next page)*

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014



**NOTE 11: Bonds Payable (Continued)**

<u>Pledged Revenues</u>	<u>Amount Authorized and Issued</u>	<u>Debt Outstanding June 30, 2014</u>	<u>Maturities to June 30, 2014</u>
<b>Revenue Bonds Series 2008</b>			
<b>Physical Plant Facility</b>			
2.75% - 4.70%			
Issuance Date: April 1, 2008			
Final Maturity Date: April 1, 2038			
Student fees will be maintained at a level to produce annual pledged revenues equal to at least 125% of the combined maximum debt service.			
	\$ 3,300,000	\$ 2,910,000	\$ 390,000
<b>Revenue Bonds Series 2008</b>			
<b>Academic Advising Classroom (Rothwell Hall)</b>			
3.00% - 5.75%			
Issuance Date: December 1, 2008			
Final Maturity Date: December 1, 2038			
Student fees will be maintained at a level to produce annual pledged revenues equal to at least 125% of the combined maximum debt service.			
	3,090,000	2,815,000	275,000
<b>Revenue Bonds Series 2008</b>			
<b>Ozark Student Services Building</b>			
3.00% - 5.75%			
Issuance Date: December 1, 2008			
Final Maturity Date: December 1, 2038			
Student fees will be maintained at a level to produce annual pledged revenues equal to at least 125% of the combined maximum debt service.			
	2,105,000	1,915,000	190,000
<b>Revenue Bonds Series 2009</b>			
<b>Critz Hall and Hughes Hall</b>			
2.50% - 5.375%			
Issuance Date: April 1, 2009			
Final Maturity Date: April 1, 2039			
Housing revenues will be maintained at level equal to at least 120% of the combined annual debt service.			
	2,150,000	1,945,000	205,000

*(Continued on next page)*

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014



**NOTE 11: Bonds Payable (Continued)**

<u>Pledged Revenues</u>	<u>Amount Authorized and Issued</u>	<u>Debt Outstanding June 30, 2014</u>	<u>Maturities to June 30, 2014</u>
<b>Revenue Bond Series 2009</b>			
<b>Rothwell Hall, Corley, McEver &amp; Lake Point</b>			
2.35% - 5.3%			
Issuance Date: September 1, 2009			
Final Maturity Date: September 1, 2040			
Student Fees will be maintained at a level to produce annual pledged revenues equal to at least 125% of the combined maximum debt service.			
	\$ 9,200,000	\$ 8,485,000	\$ 715,000
<b>Revenue Bond Series 2010</b>			
1.50%-4.50%			
Ozark Student Union - Auxiliary			
Issuance Date: September 1, 2010			
Final Maturity Date: September 1, 2040			
Auxiliary revenues will be maintained at a level to produce annual pledged revenues equal to at least 125% of the combined maximum debt service.			
	1,155,000	1,080,000	75,000
<b>Revenue Bond Series 2010</b>			
2.75%-4.50%			
Ozark Student Union - Student Fee			
Issuance Date: September 1, 2010			
Final Maturity Date: September 1, 2040			
Net tuition & fee revenue will be maintained at a level to produce annual pledged revenues equal to at least 125% of combined maximum debt service.			
	575,000	545,000	30,000
<b>Revenue Bonds Series 2011</b>			
<b>Tucker Hall</b>			
1.4%-5.2%			
Issuance Date: May 1, 2011			
Final Maturity Date: May 1, 2041			
Housing revenues will be maintained at level equal to at least 120% of the combined annual debt service.			
	2,400,000	2,260,000	140,000

*(Continued on next page)*

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014



**NOTE 11: Bonds Payable (Continued)**

<u>Pledged Revenues</u>	<u>Amount Authorized and Issued</u>	<u>Debt Outstanding June 30, 2014</u>	<u>Maturities to June 30, 2014</u>
<b>Revenue Bonds Series 2011</b>			
<b>"M" Street Dorm</b>			
1.25%-5.0%			
December 1, 2011			
Final Maturity Date: December 1, 2041			
Housing revenues will be maintained at level equal to at least 120% of the combined annual debt service.			
	\$ 7,600,000	\$ 7,430,000	\$ 170,000
<b>Revenue Bonds Series 2012</b>			
<b>"M" Street Dorm</b>			
2.0%-4.5%			
April 1, 2012			
Final Maturity Date: March 1, 2041			
Housing revenues will be maintained at level equal to at least 120% of the combined annual debt service.			
	4,905,000	4,790,000	115,000
<b>Revenue Bonds Series 2012</b>			
<b>2004 Paine Hall Refunding Bond</b>			
1.0%-4.05%			
April 1, 2012			
Final Maturity Date: March 1, 2030			
Housing revenues will be maintained at level equal to at least 120% of the combined annual debt service.			
	3,100,000	2,810,000	290,000
<b>Revenue Bonds Series 2012</b>			
<b>2007 Baswell Hall Refunding Bond</b>			
2.0%-4.4%			
April 1, 2012			
Final Maturity Date: March 1, 2037			
Housing revenues will be maintained at level equal to at least 120% of the combined annual debt service.			
	1,070,000	1,005,000	65,000

*(continued on next page)*

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014



**NOTE 11: Bonds Payable (Continued)**

<u>Pledged Revenues</u>	<u>Amount Authorized and Issued</u>	<u>Debt Outstanding June 30, 2014</u>	<u>Maturities to June 30, 2014</u>
<b>Student Fee Revenue Bond 2012</b>			
<b>Browning Hall - Old Art Building</b>			
2.0%-4.375%			
May 1, 2012			
Final Maturity Date: June 1, 2042			
Student Fees will be maintained at level equal to at least 120% of the combined maximum annual debt service.			
	\$ 830,000	\$ 795,000	\$ 35,000
<b>Student Fee Revenue Bond 2012</b>			
<b>2003 Art Building Refunding Bond</b>			
2.0%-4.0%			
May 1, 2012			
Final Maturity Date: May 1, 2033			
Student Fees will be maintained at level equal to at least 120% of the combined maximum annual debt service.			
	3,355,000	3,110,000	245,000
<b>Student Fee Revenue Bond 2012</b>			
<b>2004 Hull Building Refunding Bond</b>			
2.0%-3.65%			
May 1, 2012			
Final Maturity Date: June 1, 2029			
Student Fees will be maintained at level equal to at least 120% of the combined maximum annual debt service.			
	4,680,000	4,235,000	445,000
<b>Student Fee Revenue Bond 2012</b>			
<b>2005 Art Building Refunding Bond</b>			
2.0%-4.1%			
May 1, 2012			
Final Maturity Date: May 1, 2034			
Student Fees will be maintained at level equal to at least 120% of the combined maximum annual debt service.			
	860,000	800,000	60,000

*(Continued on next page)*

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014



**NOTE 11: Bonds Payable (Continued)**

<u>Pledged Revenues</u>	<u>Amount Authorized and Issued</u>	<u>Debt Outstanding June 30, 2014</u>	<u>Maturities to June 30, 2014</u>
<b>Revenue Bond Series 2012</b>			
<b>Baseball Field Renovation</b>			
2.0%-4.38%			
July 1, 2012			
Final Maturity Date: March 1, 2042			
Athletic revenues will be maintained at level equal to at least 125% of the combined annual debt service.			
	\$ 1,500,000	\$ 1,420,000	\$ 80,000
<b>Revenue Bond Series 2012</b>			
<b>Chambers Cafeteria Renovation</b>			
1.3%-3.8%			
December 1, 2012			
Final Maturity Date: January 1, 2043			
Food Service revenues will be maintained at level equal to at least 120% of the combined maximum annual debt service.			
	2,750,000	2,690,000	60,000
<b>Revenue Bond Series 2013</b>			
<b>Chambers Cafeteria Renovation</b>			
1.2%-4.0%			
February 1, 2013			
Final Maturity Date: February 1, 2043			
Food Service revenues will be maintained at level equal to at least 120% of the combined maximum annual debt service.			
	3,250,000	3,165,000	85,000
<b>Revenue Bond Series 2013A</b>			
<b>Chambers Cafeteria Renovation</b>			
1.0%-4.2%			
June 1, 2013			
Final Maturity Date: January 1, 2043			
Food Service revenues will be maintained at level equal to at least 120% of the combined maximum annual debt service.			
	1,750,000	1,685,000	65,000

*(Continued on next page)*

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014



**NOTE 11: Bonds Payable (Continued)**

<u>Pledged Revenues</u>	<u>Amount Authorized and Issued</u>	<u>Debt Outstanding June 30, 2014</u>	<u>Maturities to June 30, 2014</u>
<b>Student Fee Revenue Bond Series 2013</b>			
<b>Brown Building</b>			
1.2%-4.0%			
November 1, 2013			
Final Maturity Date: November 1, 2043			
Student Fees will be maintained at level equal to at least 120% of the combined maximum annual debt service.			
	\$ 5,000,000	\$ 5,000,000	
Bond Premium	147,531	140,216	\$ 7,315
Total	<u>\$ 88,997,531</u>	<u>\$ 80,800,216</u>	<u>\$ 8,197,315</u>

Principal and interest on these revenue bonds are collateralized by a pledge of revenues produced by the facilities constructed with the bond proceeds and/or student activity fees and facility fees. Certain of these bonds payable are callable at the option of the Board of Trustees.

As of June 30, 2014, debt service reserves aggregating \$2,514,986 were maintained. The University's reserve balances exceeded the reserve requirements at June 30, 2014.

The changes in bonds payable are as follows:

<u>Balance July 1, 2013</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance June 30, 2014</u>
<u>\$ 77,825,000</u>	<u>\$ 5,000,000</u>	<u>\$ 2,165,000</u>	<u>\$ 80,660,000</u>

The principal and interest payments are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 2,265,000	\$ 3,378,188	\$ 5,643,188
2016	2,355,000	3,316,709	5,671,709
2017	2,415,000	3,249,772	5,664,772
2018	2,485,000	3,177,169	5,662,169
2019	2,555,000	3,099,424	5,654,424
2020-2024	14,205,000	14,082,642	28,287,642
2025-2029	17,195,000	11,020,776	28,215,776
2030-2034	16,830,000	7,084,500	23,914,500
2035-2039	14,630,000	3,257,960	17,887,960
2040-2044	5,725,000	512,483	6,237,483
Total	<u>\$ 80,660,000</u>	<u>\$ 52,179,623</u>	<u>\$ 132,839,623</u>

Bond principal due within one year is reported as short-term bonds, while all principal due over one year is reported as long-term bonds. Short-term and long-term bonds payable at June 30, 2014, were \$2,265,000 and \$78,395,000, respectively.



NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014



**NOTE 12: Capital Leases and Installment Contracts Payable**

**Capital Lease Payable**

The University entered into an agreement with IBM Credit LLC, in August, 2010, to lease redundant servers. The lease term is five years with payments made from Current Funds Unrestricted and the present value of net minimum lease payments at June 30, 2014 was \$214,403.

Total capital lease principal and interest payments on this lease are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 197,581	\$ 4,955	\$ 202,536
2016	16,822	56	16,878
Totals	<u>\$ 214,403</u>	<u>\$ 5,011</u>	<u>\$ 219,414</u>

Additional information on the University's capital leases is below.

Class of Property	Asset Balance June 30, 2014
Equipment – Redundant Server	<u>\$ 916,909</u>
Total Minimum Lease Payments	\$ 219,414
Less: Amount Representing Interest	5,011
Total Present Value of Net Minimum Lease Payments	<u>\$ 214,403</u>

Accumulated depreciation for the above item was \$733,527 at June 30, 2014.

**Capital Lease Payable**

The University entered into an agreement with SECAP, in July, 2013, to lease a folding machine. The lease term is five years with payments made from Current Funds Unrestricted and the present value of net minimum lease payments at June 30, 2014 was \$8,351.

Total capital lease principal and interest payments on this lease are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 1,961	\$ 201	\$ 2,162
2016	2,014	148	2,162
2017	2,070	92	2,162
2018	2,306	37	2,343
Totals	<u>\$ 8,351</u>	<u>\$ 478</u>	<u>\$ 8,829</u>

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014



**NOTE 12: Capital Leases and Installment Contracts Payable (Continued)**

**Capital Lease Payable (Continued)**

Additional information on the University's capital leases is below.

Class of Property	Asset Balance June 30, 2014
Equipment – Folding Machine	\$ 10,102
Total Minimum Lease Payments	\$ 8,829
Less: Amount Representing Interest	478
Total Present Value of Net Minimum Lease Payments	\$ 8,351

Accumulated depreciation for the above item was \$2,020 at June 30, 2014.

**Capital Lease Payable**

The University entered into an agreement with Dell Financial Services, in April, 2014, to lease server equipment. The lease term is five years with payments made from Current Funds Unrestricted and the present value of net minimum lease payments at June 30, 2014 was \$82,150.

Total capital lease principal and interest payments on this lease are as follows:

Year Ending	Principal	Interest	Total
June 30,			
2015	\$ 16,058	\$ 2,912	\$ 18,970
2016	16,694	2,276	18,970
2017	17,355	1,615	18,970
2018	18,043	927	18,970
2019	14,000	228	14,228
Totals	\$ 82,150	\$ 7,958	\$ 90,108

Additional information on the University's capital leases is below.

Class of Property	Asset Balance June 30, 2014
Equipment – Server	\$ 86,349
Total Minimum Lease Payments	\$ 90,108
Less: Amount Representing Interest	7,958
Total Present Value of Net Minimum Lease Payments	\$ 82,150

Accumulated depreciation for the above item was \$17,270 at June 30, 2014.

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014



**NOTE 12: Capital Leases and Installment Contracts Payable (Continued)**

**Capital Lease Payable**

The University entered into an agreement with Dell Financial Services in April, 2014, to lease server equipment. The lease term is five years with payments made from Current Funds Unrestricted and the present value of net minimum lease payments at June 30, 2014 was \$56,861.

Total capital lease principal and interest payments on this lease are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 10,905	\$ 2,019	\$ 12,924
2016	11,337	1,587	12,924
2017	11,786	1,138	12,924
2018	12,253	671	12,924
2019	10,580	190	10,770
Totals	<u>\$ 56,861</u>	<u>\$ 5,605</u>	<u>\$ 62,466</u>

Additional information on the University's capital leases is below.

Class of Property	Asset Balance June 30, 2014
Equipment – Server	<u>\$ 58,826</u>
Total Minimum Lease Payments	\$ 62,466
Less: Amount Representing Interest	5,605
Total Present Value of Net Minimum Lease Payments	<u>\$ 56,861</u>

Accumulated depreciation for the above item was \$11,765 at June 30, 2014.

**Capital Lease Payable**

The University entered into an agreement with Dell Financial Services, in April, 2014, to lease server equipment. The lease term is five years with payments made from Current Funds Unrestricted and the present value of net minimum lease payments at June 30, 2014 was \$461,878.

Total capital lease principal and interest payments on this lease are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 88,580	\$ 16,402	\$ 104,982
2016	92,089	12,893	104,982
2017	95,736	9,246	104,982
2018	99,528	5,454	104,982
2019	85,945	1,540	87,485
Totals	<u>\$ 461,878</u>	<u>\$ 45,535</u>	<u>\$ 507,413</u>

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014



**NOTE 12: Capital Leases and Installment Contracts Payable (Continued)**

**Capital Lease Payable (Continued)**

Additional information on the University's capital leases is below.

Class of Property	Asset Balance June 30, 2014
Equipment – Server	\$ 477,854
Total Minimum Lease Payments	\$ 507,413
Less: Amount Representing Interest	45,535
Total Present Value of Net Minimum Lease Payments	\$ 461,878

Accumulated depreciation for the above item was \$95,571 at June 30, 2014.

**Installment Contract Payable**

The University entered into an agreement with IBM Credit, LLC, in August, 2010, for maintenance on the IBM redundant server. The installment contract term is five years with payments made from unrestricted current funds. Total payments made in the fiscal year ended June 30, 2014 were \$102,140.

Total installment contract principal and interest payments are as follows:

Year Ending	Principal	Interest	Total
June 30,			
2015	\$ 99,641	\$ 2,499	\$ 102,140
2016	8,483	28	8,511
Totals	\$ 108,124	\$ 2,527	\$ 110,651

The University entered into an agreement with SECAP, in July 2013, for maintenance on the folding machine. The installment contract term is five years with payments made from unrestricted current funds. Total payments made in fiscal year ended June 30, 2014 were \$881.

Total installment contract principal and interest payments are as follows:

Year Ending	Principal	Interest	Total
June 30,			
2015	\$ 871	\$ 90	\$ 961
2016	895	66	961
2017	920	41	961
2018	945	16	961
2019	81		81
Totals	\$ 3,712	\$ 213	\$ 3,925

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014



**NOTE 13: Commitments**

The Institution was contractually obligated for the following at June 30, 2014:

Project Name	Construction in Progress	Balance Remaining on Contract	Completion Date
Wilson Hall ANCRC Grant	\$ 319,960	\$ 22,379	7/31/14
Tucker Coliseum Reroof	645,736	29,199	7/31/14
Young Building Reroof	163,686	336,852	9/15/14
Caraway Renovation	366,316	261,336	8/04/14
Paine Hall Reroof	128,642	228,440	8/14/14
Paine Hall HVAC Project	2,000	8,212	8/31/14
Jones Renovation	143,410	337,575	8/31/14
New Academic Facility	109,248		6/30/15
Brown Building	1,277,935	11,459,671	10/31/15
Glenwood Parking Lot	3,041		7/31/14
Roush Hall Renovation	2,500		8/15/14
Tucker Coliseum Parking Lot	7336		8/20/14
Ozark Electrical Upgrade	98,989	4,688	7/31/14
Ozark Morton Hall Renovation	166,140		6/30/15
Total	\$ 3,434,939	\$ 12,688,352	

**NOTE 14: Employee Retirement Benefits**

**Teachers Insurance and Annuity Association/College Retirement Equities Fund (TIAA/CREF)**

Plan Description: Arkansas Tech University participates in TIAA/CREF, a defined contribution plan. The plan is a 403(b) program as defined by Internal Revenue Service Code of 1986 as amended and is administered by TIAA/CREF. TIAA is an insurance company offering participants a traditional annuity with guaranteed principal and a specific interest rate plus the opportunity for additional growth through dividends. CREF is an investment company that offers a number of equity investment options. Arkansas Code Annotated § 24-7-804 authorizes participation in the plan. The University's contributions to TIAA/CREF for the years ended June 30, 2014, 2013, and 2012 were \$2,962,524, \$2,801,479, and \$2,717,715, respectively. Participants' contributions were \$2,226,607 for the year ended June 30, 2014.

Funding Policy: TIAA/CREF has contributory plans. Contributory members contribute a minimum of six percent of earnings to the plan. The University matches 10 percent for contributory members.

On September 1, 2004, the University also began offering the 457(b) plan. The plan is on a voluntary basis. Employees must reach their maximum contribution to the 403(b) plan before participating in the 457(b) plan and they are eligible to contribute up to the maximum amount established by the IRS. Employees have the same investment options under this plan as they do under the current 403(b) plan.

**Arkansas Teacher Retirement System**

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

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014



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**NOTE 14: Employee Retirement Benefits (Continued)**

**Arkansas Teacher Retirement System (Continued)**

Funding Policy: ATRS has contributory and noncontributory plans. Contributory members are required by State law to contribute six percent of their salaries. Each participating employer is required by State law to contribute at a rate determined by the Board of Trustees, based on the annual actuarial valuation. The current employer rate is 14 percent of covered salaries, the maximum allowed by State law. The University contributions to ATRS for the years ended June 30, 2014, 2013, and 2012 were \$573,963, \$595,161, and \$640,998, respectively, equal to the required contributions for each year.

**Arkansas Public Employees Retirement System**

Plan Description: The University contributes to the Arkansas Public Employees Retirement System (APERS), a cost sharing and multiple-employer defined benefit pension plan. Employees may elect coverage under APERS as a qualified retirement system. APERS, administered by a Board of Trustees, provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefit provisions are established by State Law and can be amended only by the Arkansas General Assembly. The Arkansas Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for APERS. That report may be obtained by writing to Arkansas Public Employees Retirement System, 124 West Capitol, Suite 400, Little Rock, Arkansas 72201 or by calling 1-800-682-7377.

Funding Policy: APERS has contributory and noncontributory plans. Contributory members are required by State law to contribute five percent of their salaries. Each participating employer is required by State law to contribute at a rate determined by the Board of Trustees, based on the annual actuarial valuation. The current employer rate for higher education entities is 14.88 percent of covered salaries. The University's contributions to APERS for the years ended June 30, 2014, 2013, and 2012 were \$1,235,420, \$1,054,538, and \$772,791, respectively, equal to the required contributions for each year.

**Alternate Retirement Plans: VALIC and Delta Life**

Arkansas Tech University Ozark Campus offers two different Alternate Retirement Plans. The Alternate Retirement Plans are defined contribution plans. The plans are 403(b) programs as defined by IRS Code of 1986 as amended, and is administered by the Arkansas State Board of Career Education and the respective plan providers. The administrator provides insurance policies and annuity contracts and when they are issued they become property of the participant. Act 480 of 1983 provides alternative retirement plans, as approved by the Arkansas State Board of Career Education for the staff members of Arkansas Tech University - Ozark Campus.

Funding Policy: The participants' contributions are tax-sheltered and amount to a minimum of six percent of compensation. Arkansas Tech University's contribution rate is 12 percent. Participants become vested after one year. Arkansas Tech University's contributions to VALIC for Arkansas Tech University - Ozark Campus staff that were employed prior to July 1, 2003 for the years ended June 30, 2014, 2013, and 2012 were \$64,401, \$67,262, and \$84,624, respectively. The participants' contributions for VALIC for the years ended June 30, 2014, 2013, and 2012 were \$35,126, \$44,199, and \$51,848, respectively.

Arkansas Tech University's contributions to Delta Life for Arkansas Tech University - Ozark Campus staff that were employed prior to July 1, 2003 for the years ended June 30, 2014, 2013, and 2012 were \$6,890, \$6,755, and \$7,578, respectively. The participants' contributions for Delta Life for the years ended June 30, 2014, 2013, and 2012 were \$3,440, \$3,369, and \$3,339, respectively.

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014



**NOTE 15: Postemployment Healthcare and Life Insurance Benefits**

Arkansas Tech University implemented GASB Statement no. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, during fiscal year 2007-08. This statement calls for the measurement and recognition of the cost of other postemployment benefits (“OPEB”) during the period that employees render their services. This statement also requires disclosure of information regarding the actuarially calculated liability and funding level of the benefits associated with past services. The authority under which the plan’s benefit provisions are established or amended is the University Board of Trustees. Any amendments to the plan are approved by the Board of Trustees.

**Medical Plan Description**

The University presently offers a single-employer, defined benefit plan where an employee is eligible to elect medical coverage upon retiring. Eligibility for medical coverage is based on reaching age 60 and the completion of 10 years of service. The University pays the premium for health insurance coverage until the retiree reaches Medicare eligibility. Coverage is also provided to spouses of retirees who are currently receiving benefits. If the retiree predeceases the spouse, coverage for the surviving spouse ceases.

For participants retiring before July 1, 1998, eligibility is based on attainment of age 55 and completion of 20 years of service or completion of 30 years of service at any age. The University pays the premium for health insurance coverage for the lifetime of the retiree.

Additionally, the University has eight employees that participate in the Arkansas State Employee Health Insurance Plan (administered by the Arkansas Department of Finance and Administration Employee Benefits Division), a single-employer defined benefit healthcare plan. As a partial participant in the plan, the University’s partial increase in the OPEB liability of \$34,614 represents a pro-rata share of the statewide liability which was actuarially determined in accordance with GASB Statement no. 45. Required information and actuarial data of the statewide liability are disclosed in the Arkansas Comprehensive Annual Financial Report for the fiscal year ended June 30, 2014.

**Base Plan Summary – Medical/Rx/Dental**

<b>1. Deductible</b>	\$750 individual coverage \$1,500 maximum per family per covered year
<b>2. Co-Insurance</b>	80/20% in-network 60/40% out-of-network
<b>3. Stop-loss</b>	\$10,000 individual, \$20,000 family in-network No out-of-network stop-loss
<b>4. Maximum Out-of-Pocket Expense</b>	\$2,750 (\$750 deductible + 20% of first \$10,000 in charges) per individual
<b>5. Office Visit Co-Pay</b>	\$35 for each office visit In-network General Practitioner, Pediatrician or Family Practitioner (Specialists are subject to deductible)
<b>6. Drug Co-payment</b>	\$15/\$45/\$65 - \$15 for generic drugs, \$45 for brand name, and \$65 for non-preferred brand name. Oral contraceptives are covered.
<b>7. Mail Order</b>	\$15/\$45/\$65 for maintenance drugs A 90 day supply is available for one co-pay through mail order only. Oral contraceptives are covered.
<b>8. Emergency</b>	In case of emergency, the 80% coverage is extended to any hospital or doctor if treated within the first 48 hours and the deductible is waived for that incident.
<b>9. Wellness</b>	Benefit pays 100% for routine physical exams, gynecological exams and preventive child care.

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014



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**NOTE 15: Postemployment Healthcare and Life Insurance Benefits (Continued)**

**10. Dental Care**

Diagnostic & Preventative: No deductible and 100% coverage for routine exams, X-rays, fluoride treatment, prophylaxis and sealants.  
Basic Services: 80% coverage, after \$50 deductible, for basic restorative, endodontics, simple extractions, nonsurgical and oral surgery.  
Major Services: 50% coverage after \$50 deductible for inlays, onlays, crowns, bridges, fixed prosthetics, surgical periodontics and implants.  
Orthodontic Services: 50% coverage after deductible for diagnostic, active, retention treatment for eligible children under age 19.  
Maximums: \$1,000 per calendar year per member  
\$1,000 orthodontic lifetime max per member

**Life Insurance Plan Description**

The University also offers a life insurance plan to retirees. Maximum coverage is the lower of either \$50,000 or two times the employee's annual salary. Coverage reduces by 33 1/3% at age 65 and at age 70. Upon retirement, benefits reduce to a maximum of \$20,000.

**Funding Policy**

Expenses for postemployment health care benefits are currently recognized on a pay-as-you-go basis. Although funds have been set aside for the purpose of funding the before-mentioned expenses, these financial statements still assume pay-as-you-go funding, due to the GASB 45 requirement that assets can only be considered funded if they are (1) held in an irrevocable trust, (2) dedicated solely to provide benefits under the plan to retirees and their beneficiaries, and (3) are protected from creditors. The University paid the employer portion of premiums for the medical and life insurance plans in the amount of \$5,451,278 for the year ended June 30, 2014. Of this amount, the retiree premiums for the benefits described above were paid monthly by the University and totaled \$201,592 for the year ended June 30, 2014.

As part of adopting GASB no. 45, the University accrued \$662,998 in additional retiree healthcare expense during the fiscal year 2013-14. The calculation of this amount is shown below.

The plan does not issue a stand-alone financial report. For inquiries relating to the plan, please contact Mr. David Moseley, Vice President for Finance and Administration, 1509 North Boulder Avenue, Administration Building Room 207, Russellville, AR 72801.



NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014



**NOTE 15: Postemployment Healthcare and Life Insurance Benefits (Continued)**

**Determination of Annual Required Contribution and End of Year Net OPEB Obligation**

	Year ended June 30, 2014	Year ended June 30, 2013
<b>Unfunded actuarial accrued liability at July 1</b>	\$ 8,907,054	\$ 8,271,985
<b>Normal Costs</b>		
Current Year Normal Cost as of July 1	646,222	557,690
Assumed Interest to the End of the Year	<u>45,660</u>	<u>22,308</u>
<b>Current Year Normal Cost as of June 30</b>	<b>\$ 691,882</b>	<b>\$ 579,998</b>
<b>Determination of Current Year Amortization Payment</b>		
Amortization Amount as of July 1 <sup>1</sup>	\$ 478,370	\$ 459,971
Assumed Interest to the End of the Year	<u>16,914</u>	<u>18,399</u>
<b>Amortization Amount as of June 30</b>	<b>\$ 495,284</b>	<b>\$ 478,370</b>
<b>Determination of Annual Required Contribution</b>		
Normal Cost at year end	\$ 691,882	\$ 579,998
Amortization of UAL	<u>495,284</u>	<u>478,370</u>
<b>Annual Required Contribution (ARC)</b>	<b>\$ 1,187,166</b>	<b>\$ 1,058,368</b>
<b>Determination of Net OPEB Obligation</b>		
Annual Required Contribution	\$ 1,187,166	\$ 1,058,368
Interest on prior year Net OPEB Obligation	149,572	127,491
Adjustment to ARC	<u>(216,244)</u>	<u>(177,231)</u>
Annual OPEB Cost	1,120,494	1,008,628
Contributions made <sup>2</sup>	<u>(457,496)</u>	<u>(456,594)</u>
<b>Increase in Net OPEB Obligation</b>	<b>\$ 662,998</b>	<b>\$ 552,034</b>
<b>Net OPEB Obligation – beginning of year</b>	<b>\$ 3,739,307</b>	<b>\$ 3,187,273</b>
<b>Net OPEB Obligation – end of year</b>	<b>\$ 4,402,305</b>	<b>\$ 3,739,307</b>

<sup>1</sup> The Amortization of UAL was calculated with a level dollar amortization factor of 17.9837 and the maximum permissible amortization period of 30 years.

<sup>2</sup> Actual contributions for postemployment premiums in fiscal year 13-14 were \$255,904 plus retiree premium subsidy of \$201,592.

**Schedule of Employer Contributions**

Fiscal Year Ended	Discount Rate	Annual OPEB Cost	Contributions Made <sup>4</sup>	Percentage of OPEB Cost Contributed	Net OPEB Obligation
June 30, 2011	4.00%	\$1,074,940	\$453,785	42.20%	\$2,591,933
June 30, 2012	4.00%	1,012,153	416,813	41.20%	3,187,273
June 30, 2013	4.00%	1,008,628	456,594	45.27%	3,739,307
June 30, 2014	4.00%	1,120,494	457,496	40.83%	4,402,305

<sup>4</sup> Since there is no funding, these are actual payments of \$255,904 plus expected retiree subsidy payments of \$201,592 for FY 14.

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014



**NOTE 15: Postemployment Healthcare and Life Insurance Benefits (Continued)**

**Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value Of Assets	Actuarial Liabilities (AL) <sup>1</sup>	Unfunded Actuarial Liabilities (UAL) <sup>2</sup>	Funded Ratio	Covered Payroll	UAL as a Percentage of Covered Payroll
July 1, 2007	\$0	\$9,053,874	\$9,053,874	0.0%	\$30,325,904	29.9%
July 1, 2009	0	9,092,569	9,092,569	0.0%	38,867,855	23.4%
July 1, 2011	0	8,271,985	8,271,985	0.0%	43,697,419	18.9%
July 1, 2013	0	8,907,054	8,907,054	0.0%	38,259,712	23.3%

<sup>1</sup> Actuarial liability determined under the entry age normal cost method for July 1, 2007 and the projected unit credit cost method for July 1, 2009, 2011, and 2013.

<sup>2</sup> Actuarial accrued liability less actuarial value of assets.

**General Overview of the Valuation Methodology**

The actuarial cost method determines, in a systematic way, the incidence of plan sponsor contributions required to provide plan benefits. It also determines how actuarial gains and losses are recognized in OPEB costs. These gains and losses result from the difference between the actual experience under the plan and what was anticipated by the actuarial assumptions.

**Actuarial Cost Method and Assumptions**

The cost of the plan is derived by making certain specific assumptions as to rates of interest, mortality, turnover, etc. that are assumed to hold for many years into the future. Since actual experience may differ somewhat from the long term assumptions, the costs determined by the valuation must be regarded as estimates of the true costs of the plan.

The required schedule of funding progress presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial liabilities and comparative costs shown in this report were computed using the **Projected Unit Credit Actuarial Cost Method**, which consists of the following cost components:

1. **The Normal Cost** is the Actuarial Present Value of benefits allocated to the valuation year.
2. **The Actuarial Accrued Liability** is the Actuarial Present Value of benefits accrued as of the valuation date.
3. **Valuation Assets** are equal to the market value of assets as of the valuation date, if any.
4. **Unfunded Actuarial Accrued Liability** is the difference between the Actuarial Accrued Liability and the Valuation Assets. It is amortized over the maximum permissible period under GASB no. 45 of 30 years.

In addition to the actuarial method used, actuarial cost estimates depend to an important degree on the assumptions made relative to various occurrences, such as rate of expected investment earnings by the fund, rates of mortality among active and retired employees, rates of termination from employment, and retirement rates. In the current valuation, the actuarial assumptions used for the calculations of costs and liabilities are as follows:

**Measurement Date:** Benefit liabilities are valued as of July 1, 2013.

**Discount Rate:** 4.0% per annum, compounded annually (without prefunding)

**Mortality Rates:** RP 2000 Combined Mortality Table projected to 2014 using Scale AA. (Pre-retirement and Post-retirement)

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014



**NOTE 15: Postemployment Healthcare and Life Insurance Benefits (Continued)**

Turnover Rates: Sample rates of employee turnover are illustrated below.

Sample Ages	Years of Service	Male Rates	Female Rates
	0	32.00%	25.00%
	1	15.00%	12.00%
	2	11.00%	9.00%
	3	7.50%	9.00%
	4	5.00%	7.00%
20	5 & Up	4.60%	4.60%
25		4.60%	4.84%
30		3.94%	4.40%
35		3.20%	3.10%
40		2.70%	2.20%
45		2.08%	2.00%
50		1.62%	1.70%
55		1.50%	1.50%
60		1.50%	1.50%
65		1.50%	1.50%

Retirement Rates: Sample rates of retirement are illustrated below.

Ages	Male	Female
60	14%	17%
61	14%	15%
62	28%	25%
63	17%	18%
64	17%	17%
65	27%	38%
66 – 74	30%	30%
75 and over	100%	100%

Participation: All eligible members are assumed to elect coverage at retirement.

Marriage: For actives, it is assumed that husbands are three years older than their wives. 25% of active participants making it to retirement are assumed to be married and elect spouse coverage.

Health Care Trend: Claim costs in future years equal the starting claim costs adjusted for the assumed ongoing cost trends. Such trends are based on the health care cost trend rate adjusted for the impact of plan design, cost containment features, and Medicare coordination.

The medical trends are summarized below:

Year	Medical Trend Rates
2014-16	6.60%
2017-20	6.50%
2021-23	6.40%
2024-25	6.30%
2026-27	6.10%
2028-39	6.00%
2040-49	5.30%
2050-74	5.00%
2075-98	4.70%
2099+	4.20%

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014



**NOTE 15: Postemployment Healthcare and Life Insurance Benefits (Continued)**

The dental trends are summarized below:

Year	Dental Trend Rates
2014	5.70%
2015	5.56%
2016	5.42%
2017	5.28%
2018	5.15%
2019	5.01%
2020	4.87%
2021	4.73%
2022	4.59%
2023	4.45%
2024	4.32%
2025	4.18%
2026	4.04%
2027+	3.90%

**Claim Costs at Sample Ages:**

***Medical***

Age	Medical Retirees		Medical Spouses	
	Male	Female	Male	Female
60	\$8,984	\$8,342	\$7,237	\$7,197
64	11,099	9,953	8,916	8,548
65	3,063	2,961	3,063	2,961
70	3,731	3,536	3,731	3,536
75	4,516	4,192	4,516	4,192
80	5,281	4,848	5,281	4,848
85	6,049	5,553	6,049	5,553

***Dental***

The annual dental per capita cost is assumed to be \$312. It is assumed to increase with dental trend rates.

**Administrative Costs:** Included in claims.

**Life Insurance:** Life insurance premiums are \$.31 per \$1,000 of coverage. Upon retirement, benefits reduce to a maximum amount of \$20,000.

**Retiree Premiums:** Retirees pay the full cost of life insurance premiums (i.e. \$.31 per \$1,000 of coverage).

Medical + Rx		Dental	
Retirees	Spouses	Retirees	Spouses
\$4,609.20	\$4,333.20	\$312.00	\$316.80

**Children:** Children are not included in our valuation results.

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014



**NOTE 16: Risk Management**

Due to the diverse risk exposure, the insurance maintained by the University contains a comprehensive variety of coverage. These coverages are outlined as follows:

Items Insured	Coverage	Contributions	Administrator
Buildings	Replacement value or agreed amount (\$25,000 deductible for each incident)	N/A	State of Arkansas Multi-Agency Property Program
Contents	Replacement value (\$25,000 deductible for each incident.)	N/A	State of Arkansas Multi-Agency Property Program
General liability	N/A	N/A	Arkansas Claims Commission
Automobile fleet	Comprehensive or liability	N/A	State of Arkansas Automobile Insurance Policy
Life insurance program	N/A	50% Employee 50% University	USABLE
Health care program	N/A	No employee contribution for individual coverage; entire premium amount for covered dependents.	Arkansas Blue Cross Blue Shield
Workers' compensation	Reimbursement of medical expenses and loss of salary due to job-related injury or illness.	The administrator is reimbursed quarterly for claims paid and administrative expenses	Arkansas Public Employees Claims Division

The University participates in the Arkansas Fidelity Bond Trust Fund administered by the Governmental Bonding Board. Coverage is provided for actual losses incurred as a result of fraudulent or dishonest acts by State employees or officials. There is a limit of \$250,000 and a \$2,500 deductible for each loss. The Department of Finance and Administration withholds the amounts for the premiums from the University's State Treasury funds.

The University participates in the Property Insurance Trust Fund Program administered by the Risk Management Division of the Arkansas Insurance Department. The program's general objectives are to formulate, develop, and administer on behalf of members, a program of insurance to obtain lower costs for property coverage and to develop a comprehensive loss control program. The fund uses a reinsurance policy to reduce exposure to large losses on insured events. The University pays an annual premium for this coverage.

The University participates in the Vehicle Insurance Trust Fund Program administered by the Risk Management Division of the Arkansas Insurance Department. The general objective of the program is to allow members a means of insuring vehicles. The fund uses a reinsurance policy to reduce exposure to large losses on insured events. The University pays an annual premium for this coverage.

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014



**NOTE 16: Risk Management (Continued)**

The University maintains workers' compensation coverage through the State of Arkansas program, Arkansas Code Annotated § 11-9-305. Annual premiums are based on a formula calculated by the Arkansas Department of Finance and Administration.

Settled claims have not exceeded this commercial insurance coverage in any of the past three fiscal years. There were no significant reductions in insurance coverage from the prior year in the major categories of risk.

**NOTE 17: Natural Classifications with Functional Classifications**

The University's operating expenses by functional classification were as follows:

Functional Classification	Personal Services	Benefits	Scholarships & Fellowships	Supplies & Services	Depreciation & Amortization	Total
Instruction	\$ 26,431,780	\$ 6,673,483	\$ 433,788	\$ 5,291,785		\$ 38,830,836
Research	768,626	165,424	5,727	113,341		1,053,118
Public service	24,945	32		800		25,777
Academic support	3,267,627	932,726		1,382,047		5,582,400
Student services	3,760,077	1,199,596		1,405,473		6,365,146
Institutional support	8,172,134	3,153,352		6,523,885		17,849,371
Operation of plant	2,513,232	1,111,612		5,019,306		8,644,150
Scholarships			15,465,997			15,465,997
Depreciation					\$ 8,291,827	8,291,827
Auxiliary enterprises	3,484,978	760,565	1,389,730	12,466,323		18,101,596
<b>Total expenses</b>	<b>\$ 48,423,399</b>	<b>\$ 13,996,790</b>	<b>\$ 17,295,242</b>	<b>\$ 32,202,960</b>	<b>\$ 8,291,827</b>	<b>\$ 120,210,218</b>

**NOTE 18: Disaggregation of Payables**

The accounts payable and other liabilities of \$3,977,800 consisted of \$2,349,152 due to vendors, salaries, and other payroll related items, \$81,415 of construction contract retainages held, \$833,197 due for construction contractor payments, and \$714,036 due for bond interest.

**NOTE 19: Construction Bonds**

The University issued \$5,000,000 in construction bonds with interest rates from 1.20% to 4.00% on November 1, 2013, for the purpose of partially funding the construction of the new Brown Building on the Russellville Campus. The four story facility will be 66,900 square feet and will be composed of Student Support areas, classrooms, conference rooms and some administrative areas. The facility will also be funded by Appropriated General Improvement Funds and University Funds. The building is set for completion in the fall of 2015.

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014



**NOTE 20: Pledged Revenues**

At June 30, 2014, the University's pledged revenues were as follows:

BONDS	ISSUE DATE	MATURITY DATE	PURPOSE	PLEGDED	GROSS REVENUE COLLECTED
Housing Bonds-2001	2/1/2001	12/1/2031	Construct Nutt Hall	Housing Fees	\$8,783,667
Housing Revenue Bonds-2006	5/1/2006	5/1/2036	Construct Baswell Hall	Housing Fees	8,783,667
Athletic Revenue Bonds-2007	3/1/2007	3/1/2037	Construct athletic facilities & Baswell Hall	Athletic Revenues	4,683,461
Housing Revenue Bonds-2008	2/1/2008	2/1/2038	Renovate Campus Courts and Eastgate Apartments	Housing Fees	8,783,667
Student Fee Revenue Bonds-2008	4/1/2008	4/1/2038	Construct new Physical Plant Facility	Student Tuition & Fees	56,755,392
Student Fee Revenue Bonds-2008	12/1/2008	12/1/2038	Construct Advising Center Building	Student Tuition & Fees	56,755,392
Student Fee Revenue Bonds-2008	12/1/2008	12/1/2038	Construct Ozark Student Services Building	Student Tuition & Fees	56,755,392
Housing Revenue Bonds-2009	4/1/2009	4/1/2039	Renovate Hughes and Critz Hall	Housing Fees	8,783,667
Student Fee Revenue Bonds-2009	9/1/2009	9/1/2040	Construct Rothwell Hall, expand Corley & McEver & Lakepoint	Student Tuition & Fees	56,755,392
Student Fee Revenue Bonds-2010	9/1/2010	9/1/2040	Construct Ozark Student Union	Student Tuition & Fees	56,755,392
Auxiliary Revenue Bonds 2010	9/1/2010	9/1/2040	Construct Ozark Student Union	Ozark Bookstore Revenue	1,078,707
Housing Revenue Bonds 2011	5/1/2011	5/1/2041	Tucker Hall	Housing Fees	8,783,667
Housing Revenue Bonds 2011	12/1/2011	12/1/2041	Construct "M" Street Dorm	Housing Fees	8,783,667
Housing Revenue Bonds 2012A	4/1/2012	3/1/2041	Construct "M" Street Dorm	Housing Fees	8,783,667
Housing Refunding Bonds 2012B	4/1/2012	3/1/2030	Paine Hall	Housing Fees	8,783,667

*(continued on next page)*

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014



**NOTE 20: Pledged Revenues (Continued)**

BONDS	ISSUE DATE	MATURITY DATE	PURPOSE	PLEGGED	GROSS REVENUE COLLECTED
Housing Refunding Bonds 2012C	4/1/2012	3/1/2037	Construct Baswell Hall	Housing Fees	\$8,783,667
Student Fee Revenue Bonds 2012A	5/1/2012	6/1/2042	Renovate Old Art Building	Student Tuition & Fees	56,755,392
Student Fee Refunding Bonds 2012B	5/1/2012	5/1/2033	Construct Art Building	Student Tuition & Fees	56,755,392
Student Fee Refunding Bonds 2012C	5/1/2012	6/1/2029	Construct Hull Building	Student Tuition & Fees	56,755,392
Student Fee Refunding Bonds 2012D	5/1/2012	5/1/2034	Construct Art Building	Student Tuition & Fees	56,755,392
Athletic Revenue Bond 2012	7/1/2012	3/1/2042	Renovate Baseball Field Complex	Athletic Revenue	4,683,461
Auxiliary Revenue Bond 2012	12/1/2012	1/1/2043	Renovate Chambers Cafeteria	Food Service Revenue	6,009,495
Auxiliary Revenue Bond 2013	2/1/2013	2/1/2043	Renovate Chambers Cafeteria	Food Service Revenue	6,009,495
Auxiliary Revenue Bond 2013A	6/1/2013	1/1/2043	Renovate Chambers Cafeteria	Food Service Revenue	6,009,495
Student Fee Revenue Bonds 2013	11/1/2013	11/1/2043	Construct Brown Building	Student Tuition & Fees	56,755,392



NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014



**NOTE 20: Pledged Revenues (Continued)**

<b>BONDS</b>	<b>ISSUE</b>	<b>FY 2014 PRINCIPAL PAID</b>	<b>FY 2014 INTEREST PAID</b>	<b>PRINCIPAL OUTSTANDING 6/30/2014</b>	<b>INTEREST OUTSTANDING 6/30/2014</b>
Housing Bonds-2001	\$10,000,000	\$255,000	\$394,932	\$7,535,000	\$4,064,961
Housing Revenue Bonds-2006	10,000,000	230,000	408,910	8,555,000	5,501,330
Athletic Revenue Bonds-2007	2,720,000	60,000	106,810	2,350,000	1,468,895
Housing Revenue Bonds-2008	1,505,000	30,000	61,794	1,330,000	909,641
Student Fee Revenue Bonds-2008	3,300,000	70,000	131,762	2,910,000	1,944,443
Student Fee Revenue Bonds-2008	3,090,000	60,000	149,025	2,815,000	2,331,915
Student Fee Revenue Bonds-2008	2,105,000	40,000	101,282	1,915,000	1,581,456
Housing Revenue Bonds-2009	2,150,000	45,000	96,295	1,945,000	1,529,981
Student Fee Revenue Bonds-2009	9,200,000	185,000	401,731	8,485,000	6,624,414
Student Fee Revenue Bonds-2010	575,000	10,000	21,972	545,000	366,343
Auxiliary Revenue Bonds-2010	1,155,000	25,000	42,930	1,080,000	724,666
Housing Revenue Bonds-2011	2,400,000	50,000	104,062	2,260,000	1,846,640
Housing Revenue Bonds 2011	7,600,000	170,000	309,945	7,430,000	5,550,260
Housing Revenue Bonds 2012A	4,905,000	115,000	184,268	4,790,000	3,235,196

*(continued on next page)*

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014



**NOTE 20: Pledged Revenues (Continued)**

BONDS	ISSUE	FY 2014 PRINCIPAL PAID	FY 2014 INTEREST PAID	PRINCIPAL OUTSTANDING 6/30/2014	INTEREST OUTSTANDING 6/30/2014
Housing Refunding Bonds 2012B	\$3,100,000	\$140,000	\$89,835	\$2,810,000	\$885,388
Housing Refunding Bonds 2012C	1,070,000	30,000	37,612	1,005,000	548,033
Student Fee Revenue Bonds 2012A	830,000	20,000	30,418	795,000	546,871
Student Fee Refunding Bonds 2012B	3,355,000	130,000	100,995	3,110,000	1,193,578
Student Fee Refunding Bonds 2012C	4,680,000	230,000	125,145	4,235,000	1,138,317
Student Fee Refunding Bonds 2012D	860,000	30,000	27,493	800,000	341,582
Athletic Revenue Bond 2012	1,500,000	30,000	53,938	1,420,000	973,518
Auxiliary Revenue Bond 2012	2,750,000	60,000	88,012	2,690,000	1,603,320
Auxiliary Revenue Bond 2013	3,250,000	85,000	92,476	3,165,000	1,973,134
Auxiliary Revenue Bond 2013A	1,750,000	65,000	32,486	1,685,000	1,122,822
Student Fee Revenue Bonds 2013	5,000,000		119,900	5,000,000	4,172,919

The approximate percentages of revenues pledged for the year ended June 30, 2014 were as follows:

- Student tuition and fees – 3.50%
- Food service fees – 7.04 %
- Housing fees – 31.34%
- Athletic revenues – 5.35%
- Ozark Auxiliary revenues – 6.30%

**NOTE 21: Contingent Liabilities**

There are two employment-related cases pending in U.S. District Court for the Eastern District of Arkansas. The defendants are Arkansas Tech University, the Board of Trustees of Arkansas Tech University, as well as certain administrators in their official and individual capacities. In both cases, the former employees have filed suit primarily alleging discrimination in employment. Damages sought include compensatory and punitive damages, injunctive relief, attorney fees, costs and lost wages are sought, as well as reinstatement in at least one case. In addition, there is an unasserted claim for personal injury by a student who alleges injury using stretching equipment.

**NOTE 22: Prior Year Restatement**

GASB Statement no. 65, *Items Previously Reported as Assets and Liabilities*, established accounting and financial reporting standards that reclassify, as deferred outflows/inflows of resources, certain items that were previously reported as assets and liabilities. The Statement also required certain bond issuance costs that had been previously capitalized to be expensed in the year incurred. Due to the retroactive implementation of this statement, the financial statements presented for comparative purposes for the fiscal year ended June 30, 2013, have been restated. The effects of the restatement are shown below.

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014



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**NOTE 22: Prior Year Restatement (Continued)**

**Statement of Net Position**

Current deferred charges (currently prepaid bond insurance) were reduced by \$62,632 and noncurrent deferred charges (currently prepaid bond insurance) were reduced by \$1,343,620 for bond issuance costs capitalized and scheduled to be amortized over the life of the bond. This decreased total assets and unrestricted net position by \$1,406,252.

Current bonds, installment contracts, and leases payable were increased by \$25,527 and noncurrent bonds, installment contracts, and leases payable were increased by \$433,967 for deferral on bond refunding. The total amount of the deferral on bond refunding of \$459,494 is shown as a deferred outflow of resources. This did not affect total net position or cash balance.

The net effect of the restatements was a decrease to total net position of \$1,406,252.

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

Changes on the statement of net position described above also affected the statement of revenues, expenses, and changes in net position. Bond issuance costs of \$2,045, that had been amortized in FY 13 and reported as bond discount and issue costs, were reclassified to interest on capital asset – related debt. The \$2,045 represented the amortization of the prepaid bond insurance portion. The remaining \$53,048 bond issuance costs that had been amortized in FY 13 and reported as bond discount and issue costs were eliminated. Additionally, bond issuance costs of \$252,474, incurred in FY 13, were expensed. Also, beginning net position was reduced by \$1,206,826 for the prior years' unamortized bond issuance costs, excluding the prepaid bond insurance portion.

The net effect of the restatements was a decrease to total net position of \$1,406,252.

**NOTE 23: Subsequent Events**

On June 19, 2014, the Board of Trustees approved the issuance of Revenue Bonds in the amount of \$6,000,000, Student Fee Refunding Revenue Bonds in the amount of \$16,070,000, and Housing Refunding Bonds in the amount of \$10,970,000. The Revenue Bonds in the amount of \$6,000,000 will be used to construct the new Allied Health Building and reroof the Technology and Academic Support Building, both on the Ozark Campus. The Student Fee Refunding Revenue Bonds will refinance Student Fee Revenue Bonds Series 2008A, 2008B, and 2009. The Housing Refunding Bonds will refinance Housing Revenue Bonds Series 2006 and 2009. The bonds are expected to be issued the latter part of October, 2014.



## Postemployment Healthcare and Life Insurance Benefits

Arkansas Tech University implemented GASB Statement no. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, during fiscal year 2007-08. This statement calls for the measurement and recognition of the cost of other postemployment benefits (“OPEB”) during the period that employees render their services. This statement also requires disclosure of information regarding the actuarially calculated liability and funding level of the benefits associated with past services. The authority under which the plan’s benefit provisions are established or amended is the University Board of Trustees. Any amendments to the plan are approved by the Board of Trustees.

### Medical Plan Description

The University presently offers a single-employer, defined benefit plan where an employee is eligible to elect medical coverage upon retiring. Eligibility for medical coverage is based on reaching age 60 and the completion of 10 years of service. The University pays the premium for health insurance coverage until the retiree reaches Medicare eligibility. Coverage is also provided to spouses of retirees who are currently receiving benefits. If the retiree predeceases the spouse, coverage for the surviving spouse ceases.

For participants retiring before July 1, 1998, eligibility is based on attainment of age 55 and completion of 20 years of service or completion of 30 years of service at any age. The University pays the premium for health insurance coverage for the lifetime of the retiree.

Additionally, the University has eight employees that participate in the Arkansas State Employee Health Insurance Plan (administered by the Arkansas Department of Finance and Administration Employee Benefits Division), a single-employer defined benefit healthcare plan. As a partial participant in the plan, the University’s partial increase in the OPEB liability of \$34,614 represents a pro-rata share of the statewide liability which was actuarially determined in accordance with GASB Statement no. 45. Required information and actuarial data of the statewide liability are disclosed in the Arkansas Comprehensive Annual Financial Report for the fiscal year ended June 30, 2014.

### Base Plan Summary – Medical/Rx/Dental

<b>1. Deductible</b>	\$750 individual coverage \$1,500 maximum per family per covered year
<b>2. Co-Insurance</b>	80/20% in-network 60/40% out-of-network
<b>3. Stop-loss</b>	\$10,000 individual, \$20,000 family in-network No out-of-network stop-loss
<b>4. Maximum Out-of-Pocket Expense</b>	\$2,750 (\$750 deductible + 20% of first \$10,000 in charges) per individual
<b>5. Office Visit Co-Pay</b>	\$35 for each office visit In-network General Practitioner, Pediatrician or Family Practitioner (Specialists are subject to deductible)
<b>6. Drug Co-payment</b>	\$15/\$45/\$65 - \$15 for generic drugs, \$45 for brand name, and \$65 for non-preferred brand name. Oral contraceptives are covered.
<b>7. Mail Order</b>	\$15/\$45/\$65 for maintenance drugs A 90 day supply is available for one co-pay through mail order only. Oral contraceptives are covered.
<b>8. Emergency</b>	In case of emergency, the 80% coverage is extended to any hospital or doctor if treated within the first 48 hours and the deductible is waived for that incident.
<b>9. Wellness</b>	Benefit pays 100% for routine physical exams, gynecological exams and preventive child care.



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**Postemployment Healthcare and Life Insurance Benefits (Continued)**

**10. Dental Care**

Diagnostic & Preventative: No deductible and 100% coverage for routine exams, X-rays, fluoride treatment, prophylaxis and sealants.  
Basic Services: 80% coverage, after \$50 deductible, for basic restorative, endodontics, simple extractions, nonsurgical and oral surgery.  
Major Services: 50% coverage after \$50 deductible for inlays, onlays, crowns, bridges, fixed prosthetics, surgical periodontics and implants.  
Orthodontic Services: 50% coverage after deductible for diagnostic, active, retention treatment for eligible children under age 19.  
Maximums: \$1,000 per calendar year per member  
\$1,000 orthodontic lifetime max per member

**Life Insurance Plan Description**

The University also offers a life insurance plan to retirees. Maximum coverage is the lower of either \$50,000 or two times the employee's annual salary. Coverage reduces by 33 1/3% at age 65 and at age 70. Upon retirement, benefits reduce to a maximum of \$20,000.

**Funding Policy**

Expenses for postemployment health care benefits are currently recognized on a pay-as-you-go basis. Although funds have been set aside for the purpose of funding the before-mentioned expenses, these financial statements still assume pay-as-you-go funding, due to the GASB 45 requirement that assets can only be considered funded if they are (1) held in an irrevocable trust, (2) dedicated solely to provide benefits under the plan to retirees and their beneficiaries, and (3) are protected from creditors. The University paid the employer portion of premiums for the medical and life insurance plans in the amount of \$5,451,278 for the year ended June 30, 2014. Of this amount, the retiree premiums for the benefits described above were paid monthly by the University and totaled \$201,592 for the year ended June 30, 2014.

As part of adopting GASB no. 45, the University accrued \$662,998 in additional retiree healthcare expense during the fiscal year 2013-14. The calculation of this amount is shown below.

The plan does not issue a stand-alone financial report. For inquiries relating to the plan, please contact Mr. David Moseley, Vice President for Finance and Administration, 1509 North Boulder Avenue, Administration Building Room 207, Russellville, AR 72801.

REQUIRED SUPPLEMENTARY INFORMATION  
June 30, 2014



**Postemployment Healthcare and Life Insurance Benefits (Continued)**

**Determination of Annual Required Contribution and End of Year Net OPEB Obligation**

	Year ended June 30, 2014	Year ended June 30, 2013
<b>Unfunded actuarial accrued liability at July 1</b>	\$ 8,907,054	\$ 8,271,985
<b>Normal Costs</b>		
Current Year Normal Cost as of July 1	646,222	557,690
Assumed Interest to the End of the Year	45,660	22,308
<b>Current Year Normal Cost as of June 30</b>	<b>\$ 691,882</b>	<b>\$ 579,998</b>
<b>Determination of Current Year Amortization Payment</b>		
Amortization Amount as of July 1 <sup>1</sup>	\$ 478,370	\$ 459,971
Assumed Interest to the End of the Year	16,914	18,399
<b>Amortization Amount as of June 30</b>	<b>\$ 495,284</b>	<b>\$ 478,370</b>
<b>Determination of Annual Required Contribution</b>		
Normal Cost at year end	\$ 691,882	\$ 579,998
Amortization of UAL	495,284	478,370
<b>Annual Required Contribution (ARC)</b>	<b>\$ 1,187,166</b>	<b>\$ 1,058,368</b>
<b>Determination of Net OPEB Obligation</b>		
Annual Required Contribution	\$ 1,187,166	\$ 1,058,368
Interest on prior year Net OPEB Obligation	149,572	127,491
Adjustment to ARC	(216,244)	(177,231)
Annual OPEB Cost	1,120,494	1,008,628
Contributions made <sup>2</sup>	(457,496)	(456,594)
<b>Increase in Net OPEB Obligation</b>	<b>\$ 662,998</b>	<b>\$ 552,034</b>
<b>Net OPEB Obligation – beginning of year</b>	<b>\$ 3,739,307</b>	<b>\$ 3,187,273</b>
<b>Net OPEB Obligation – end of year</b>	<b>\$ 4,402,305</b>	<b>\$ 3,739,307</b>

<sup>1</sup> The Amortization of UAL was calculated with a level dollar amortization factor of 17.9837 and the maximum permissible amortization period of 30 years.

<sup>2</sup> Actual contributions for postemployment premiums in fiscal year 13-14 were \$255,904 plus retiree premium subsidy of \$201,592.

**Schedule of Employer Contributions**

Fiscal Year Ended	Discount Rate	Annual OPEB Cost	Contributions Made <sup>4</sup>	Percentage of OPEB Cost Contributed	Net OPEB Obligation
June 30, 2011	4.00%	\$1,074,940	\$453,785	42.20%	\$2,591,933
June 30, 2012	4.00%	1,012,153	416,813	41.20%	3,187,273
June 30, 2013	4.00%	1,008,628	456,594	45.27%	3,739,307
June 30, 2014	4.00%	1,120,494	457,496	40.83%	4,402,305

<sup>4</sup> Since there is no funding, these are actual payments of \$255,904 plus expected retiree subsidy payments of \$201,592 for FY 14.

REQUIRED SUPPLEMENTARY INFORMATION  
June 30, 2014



**Postemployment Healthcare and Life Insurance Benefits (Continued)**

**Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value Of Assets	Actuarial Liabilities (AL) <sup>1</sup>	Unfunded Actuarial Liabilities (UAL) <sup>2</sup>	Funded Ratio	Covered Payroll	UAL as a Percentage of Covered Payroll
July 1, 2007	\$0	\$9,053,874	\$9,053,874	0.0%	\$30,325,904	29.9%
July 1, 2009	0	9,092,569	9,092,569	0.0%	38,867,855	23.4%
July 1, 2011	0	8,271,985	8,271,985	0.0%	43,697,419	18.9%
July 1, 2013	0	8,907,054	8,907,054	0.0%	38,259,712	23.3%

<sup>1</sup> Actuarial liability determined under the entry age normal cost method for July 1, 2007 and the projected unit credit cost method for July 1, 2009, 2011 and 2013.

<sup>2</sup> Actuarial accrued liability less actuarial value of assets.

**General Overview of the Valuation Methodology**

The actuarial cost method determines, in a systematic way, the incidence of plan sponsor contributions required to provide plan benefits. It also determines how actuarial gains and losses are recognized in OPEB costs. These gains and losses result from the difference between the actual experience under the plan and what was anticipated by the actuarial assumptions.

**Actuarial Cost Method and Assumptions**

The cost of the plan is derived by making certain specific assumptions as to rates of interest, mortality, turnover, etc. that are assumed to hold for many years into the future. Since actual experience may differ somewhat from the long term assumptions, the costs determined by the valuation must be regarded as estimates of the true costs of the plan.

The required schedule of funding progress presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial liabilities and comparative costs shown in this report were computed using the **Projected Unit Credit Actuarial Cost Method**, which consists of the following cost components:

1. **The Normal Cost** is the Actuarial Present Value of benefits allocated to the valuation year.
2. **The Actuarial Accrued Liability** is the Actuarial Present Value of benefits accrued as of the valuation date.
3. **Valuation Assets** are equal to the market value of assets as of the valuation date, if any.
4. **Unfunded Actuarial Accrued Liability** is the difference between the Actuarial Accrued Liability and the Valuation Assets. It is amortized over the maximum permissible period under GASB no. 45 of 30 years.

In addition to the actuarial method used, actuarial cost estimates depend to an important degree on the assumptions made relative to various occurrences, such as rate of expected investment earnings by the fund, rates of mortality among active and retired employees, rates of termination from employment, and retirement rates. In the current valuation, the actuarial assumptions used for the calculations of costs and liabilities are as follows:

- Measurement Date:** Benefit liabilities are valued as of July 1, 2013.
- Discount Rate:** 4.0% per annum, compounded annually (without prefunding)
- Mortality Rates:** RP 2000 Combined Mortality Table projected to 2014 using Scale AA. (Pre-retirement and Post-retirement)

REQUIRED SUPPLEMENTARY INFORMATION  
June 30, 2014



**Postemployment Healthcare and Life Insurance Benefits (Continued)**

**Turnover Rates:**

Sample rates of employee turnover are illustrated below.

Sample Ages	Years of Service	Male Rates	Female Rates
	0	32.00%	25.00%
	1	15.00%	12.00%
	2	11.00%	9.00%
	3	7.50%	9.00%
	4	5.00%	7.00%
20	5 & Up	4.60%	4.60%
25		4.60%	4.84%
30		3.94%	4.40%
35		3.20%	3.10%
40		2.70%	2.20%
45		2.08%	2.00%
50		1.62%	1.70%
55		1.50%	1.50%
60		1.50%	1.50%
65		1.50%	1.50%

**Retirement Rates:**

Sample rates of retirement are illustrated below.

Ages	Male	Female
60	14%	17%
61	14%	15%
62	28%	25%
63	17%	18%
64	17%	17%
65	27%	38%
66 – 74	30%	30%
75 and over	100%	100%

**Participation:**

All eligible members are assumed to elect coverage at retirement.

**Marriage:**

For actives, it is assumed that husbands are three years older than their wives. 25% of active participants making it to retirement are assumed to be married and elect spouse coverage.

**Health Care Trend:**

Claim costs in future years equal the starting claim costs adjusted for the assumed ongoing cost trends. Such trends are based on the health care cost trend rate adjusted for the impact of plan design, cost containment features, and Medicare coordination.

The medical trends are summarized below:

Year	Medical Trend Rates
2014-16	6.60%
2017-20	6.50%
2021-23	6.40%
2024-25	6.30%
2026-27	6.10%
2028-39	6.00%
2040-49	5.30%
2050-74	5.00%
2075-98	4.70%
2099+	4.20%



REQUIRED SUPPLEMENTARY INFORMATION  
June 30, 2014



**Postemployment Healthcare and Life Insurance Benefits (Continued)**

The dental trends are summarized below:

Year	Dental Trend Rates
2014	5.70%
2015	5.56%
2016	5.42%
2017	5.28%
2018	5.15%
2019	5.01%
2020	4.87%
2021	4.73%
2022	4.59%
2023	4.45%
2024	4.32%
2025	4.18%
2026	4.04%
2027+	3.90%

**Claim Costs at Sample Ages:**

***Medical***

Age	Medical Retirees		Medical Spouses	
	Male	Female	Male	Female
60	\$8,984	\$8,342	\$7,237	\$7,197
64	11,099	9,953	8,916	8,548
65	3,063	2,961	3,063	2,961
70	3,731	3,536	3,731	3,536
75	4,516	4,192	4,516	4,192
80	5,281	4,848	5,281	4,848
85	6,049	5,553	6,049	5,553

***Dental***

The annual dental per capita cost is assumed to be \$312. It is assumed to increase with dental trend rates.

**Administrative Costs:** Included in claims.

**Life Insurance:** Life insurance premiums are \$.31 per \$1,000 of coverage. Upon retirement, benefits reduce to a maximum amount of \$20,000.

**Retiree Premiums:** Retirees pay the full cost of life insurance premiums (i.e. \$.31 per \$1,000 of coverage).

Medical + Rx		Dental	
Retirees	Spouses	Retirees	Spouses
\$4,609.20	\$4,333.20	\$312.00	\$316.80

**Children:** Children are not included in our valuation results.

ARKANSAS TECH UNIVERSITY  
SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS  
FOR THE YEAR ENDED JUNE 30, 2014  
(Unaudited)

Schedule 1

	Year Ended June 30,				
	2014	2013	2012	2011	2010
Total Assets and Deferred Outflows	\$ 214,537,895	\$ 200,067,060	\$ 184,302,557	\$ 162,389,314	\$ 147,026,923
Total Liabilities and Deferred Inflows	95,228,003	90,954,358	82,444,293	70,305,571	66,384,309
Total Net Position	119,309,892	109,112,702	101,858,264	92,083,743	80,642,614
Total Operating Revenues	72,985,618	69,365,700	66,521,807	59,694,389	48,808,205
Total Operating Expenses	120,210,218	114,481,602	111,430,165	104,155,653	94,596,141
Total Net Non-Operating Revenues	53,259,131	52,728,071	52,902,167	54,683,562	47,972,037
Total Other Revenues, Expenses, Gains or Losses	4,162,659	849,095	1,780,712	1,218,831	1,281,116