

Arkansas Tech University

Russellville, Arkansas

**Basic Financial Statements
and Other Reports**

June 30, 2020

LEGISLATIVE JOINT AUDITING COMMITTEE



ARKANSAS TECH UNIVERSITY
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Arkansas

Sen. Jason Rapert
Senate Chair
Sen. Eddie Cheatham
Senate Vice Chair



Rep. Richard Womack
House Chair
Rep. DeAnn Vaught
House Vice Chair

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

LEGISLATIVE JOINT AUDITING COMMITTEE **ARKANSAS 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, 2020, 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 represents 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 reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2020, and the respective changes in financial position, and where applicable, cash flows thereof for the year ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior Year Comparative Information

We have previously audited the University's 2019 financial statements, and we expressed unmodified opinions on the respective financial statements of the business-type activities and the aggregate discretely presented component units in our report dated November 19, 2019. In our opinion, the comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, certain information pertaining to postemployment benefits other than pensions, and certain information pertaining to pensions on pages 6-17, 79-80, and 81-82 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.

The Schedule of Selected Information for the Last Five Years 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 November 12, 2020 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 solely 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 the effectiveness of the University's 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.

ARKANSAS LEGISLATIVE AUDIT



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

Little Rock, Arkansas
November 12, 2020
EDHE13020

Arkansas

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Senate Chair
Sen. Eddie Cheatham
Senate Vice Chair



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House Chair
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Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS 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 the 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, 2020, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated November 12, 2020. 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) as a basis for designing 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 these 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 financial statements. 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 a certain matter that we reported to management of the University in a separate letter dated November 12, 2020.

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 results 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.

ARKANSAS LEGISLATIVE AUDIT

A handwritten signature in black ink that reads "Patrick Nutt". The signature is written in a cursive style with a long horizontal stroke at the end.

Patrick Nutt, CPA
Deputy Legislative Auditor

Little Rock, Arkansas
November 12, 2020

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LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS 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, 2020, as reported to the Arkansas Division 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>2019</u>	<u>Fall Term</u> <u>2019</u>	<u>Spring Term</u> <u>2020</u>	<u>Summer I Term</u> <u>2020</u>
Student Headcount	1,391	11,827	10,496	1,840
Student Semester Credit Hours	5,353	125,186	110,830	9,130

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.

ARKANSAS LEGISLATIVE AUDIT

Handwritten signature of Patrick Nutt in black ink.

Patrick Nutt, CPA
Deputy Legislative Auditor

Little Rock, Arkansas
November 12, 2020



Management's
Discussion
And
Analysis
(Unaudited)

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
For the year ended June 30, 2020



Introduction

Arkansas Tech University (the University) is proud to present its consolidated financial statements for fiscal year 2019-20. The University's financial statements, notes to financial statements and discussion and analysis are the responsibility of, and prepared by management. Management's discussion and analysis as required by Governmental Accounting Standards Board (GASB) Statements 34 and 35 are to be read in conjunction with the financial statements and notes.

Overview of Financial Statements and Financial Analysis

Arkansas Tech University completed its fiscal year with an overall increase in net position due to a large increase in net investment in capital assets. This was in large part due to the transfer of the Commons property from the Facilities Foundation Board to Arkansas Tech University. The debt free asset is valued at \$16,217,398. Unrestricted net position declined slightly. The student population totaled 11,827 for the fall 2019, a 2.3% decrease from the fall 2018. The fall 2019 enrollment was almost identical to the fall 2017 enrollment.

The University's fiscal year 2019-20 state appropriations of \$36,760,998 remained relatively flat as in previous years. Major emphasis has been placed on the management of expenses and this was even more crucial this year, as COVID-19 required the University to stretch in many new ways.

Other impacts to the University's financial net position included the adoption of two Governmental Accounting Standards Board Statements, no. 68, *Accounting and Financial Reporting for Pensions* and no. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Please refer to Notes 15 and 21 for a detailed analysis of these required changes to the financial statements.

Due to the net impact of the student population growth and prudent management of resources, the following FY19-20 financial results occurred:

- Transfer \$348,881 to Funded Depreciation.
- Transfer of \$4,897,000 for Hull Renovation
- Transfer of the University Commons - \$16,217,398.

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.

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.

Restricted expendable net position is available for expenditure by the institution but must be spent for purposes subject to externally-imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time. The final category, unrestricted net position, is not subject to externally-imposed stipulations, but can be used at the discretion of the governing board to meet current expenses for any purpose if not limited by contractual agreements with outside parties.

Although unrestricted net position is not subject to externally-imposed restrictions, the majority of the University's unrestricted net position is subject to internal designations to meet various specific commitments. These commitments include reserves established for Russellville and Ozark campus operations, capital projects, scholarships, and other academic priorities; working capital for auxiliary enterprises; and reserves for the continued recognition of OPEB and pension obligations.

Overall, the University's total net position increased by \$21,331,257 from fiscal year 2019. A review of the Statement of Net Position reveals an increase overall in total assets and deferred outflows of resources by \$20,160,981 and liabilities and deferred inflows of resources decreased by \$1,170,276. The most significant changes occurred in noncurrent assets, capital assets, net, and deferred inflows of resources.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
For the year ended June 30, 2020



Condensed Statement of Net Position (continued)

Condensed Statement of Net Position

	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Assets:		
Current assets	\$61,670,613	\$64,646,311
Noncurrent assets	47,201,092	38,754,661
Capital assets, net	<u>144,669,325</u>	<u>130,009,970</u>
Total Assets	<u>253,541,030</u>	<u>233,410,942</u>
Deferred Outflows of Resources	<u>7,956,443</u>	<u>7,925,550</u>
Total Assets and Deferred Outflows of Resources	<u>261,497,473</u>	<u>241,336,492</u>
Liabilities:		
Current liabilities	13,512,103	13,553,493
Noncurrent liabilities	<u>102,639,691</u>	<u>102,537,018</u>
Total Liabilities	<u>116,151,794</u>	<u>116,090,511</u>
Deferred Inflows of Resources	<u>3,853,506</u>	<u>5,085,065</u>
Total Liabilities and Deferred Inflows of Resources	<u>120,005,300</u>	<u>121,175,576</u>
Net Position:		
Net Investment in Capital Assets	77,575,076	54,783,936
Restricted - expendable	9,313,266	9,217,463
Restricted - nonexpendable	278,332	297,917
Unrestricted	<u>54,325,499</u>	<u>55,861,600</u>
Total Net Position	<u>\$ 141,492,173</u>	<u>\$ 120,160,916</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
For the year ended June 30, 2020



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.)

Condensed Statement of Revenues, Expenses and Changes in Net Position

	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Operating revenues	\$ 80,035,237	\$ 79,978,926
Operating expenses	<u>(135,683,024)</u>	<u>(139,439,720)</u>
Operating loss	(55,647,787)	(59,460,794)
Nonoperating revenues and expenses	<u>57,749,148</u>	<u>55,169,223</u>
Income (loss) before other revenues, expenses, gains, or losses	2,101,361	(4,291,571)
Other revenues, expenses, gains or losses	<u>19,229,896</u>	<u>1,205,936</u>
Increase (Decrease) in Net Position	<u>21,331,257</u>	<u>(3,085,635)</u>
Net Position at beginning of year	<u>120,160,916</u>	<u>123,246,551</u>
Net Position at end of year	<u><u>\$ 141,492,173</u></u>	<u><u>\$ 120,160,916</u></u>

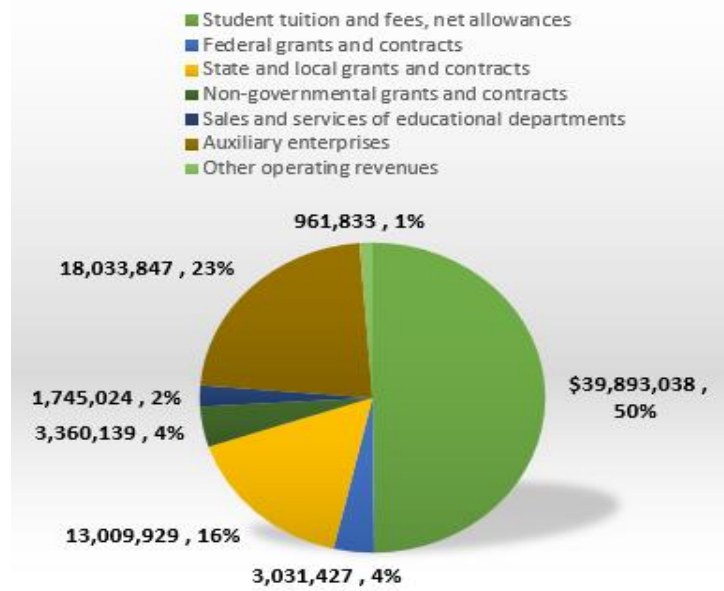
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
For the year ended June 30, 2020



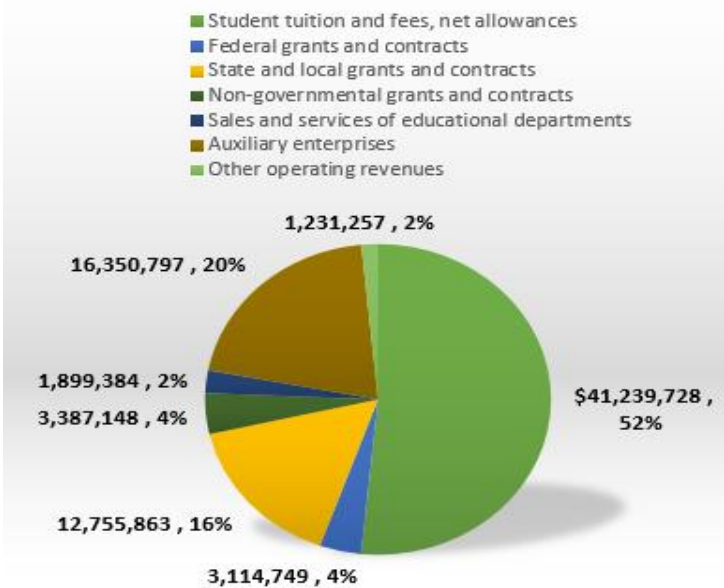
Condensed Statement of Revenues, Expenses and Changes in Net Position (Continued)

The FY20 operating revenues of \$80,035,237 compared to last year's \$79,978,926 had an increase of \$56,311. Noted decreases were in student tuition and fees, federal grants and contracts, and sales and services of educational departments. Noted increases were in auxiliaries, and state and local grants and contracts.

FY 2020 Operating Revenues



FY 2019 Operating Revenues



MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
For the year ended June 30, 2020



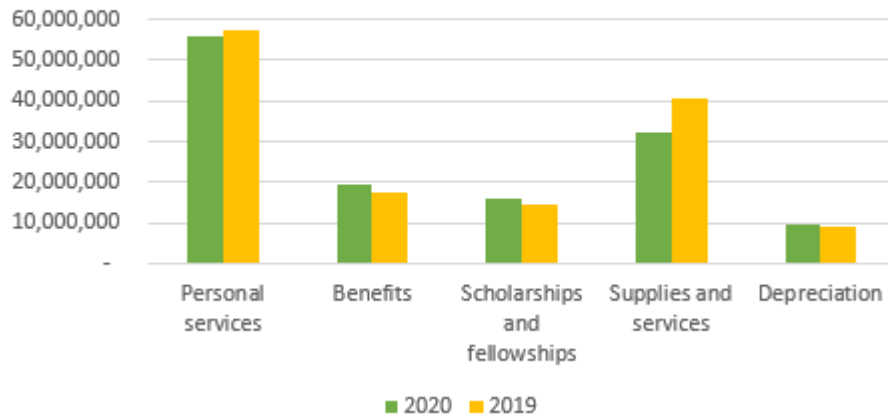
Condensed Statement of Revenues, Expenses and Changes in Net Position (Continued)

The FY20 nonoperating revenues and expenditures totaled \$57,749,148 compared to \$55,169,223 last year. The biggest gains were in state appropriations and governmental grants.



The operating expenditures of \$135,683,024 decreased by \$3,756,696 from last year, primarily due to the University holding expenses during the spring semester to address the COVID-19 event.

FY 2020 and FY 2019 Operating Expenses by Natural Classification



MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
For the year ended June 30, 2020



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 University during the year. The FY20 cash balance totaled \$92,108,371 compared to \$87,461,914 from last year. The increase was in part due to insurance proceeds from the Williamson fire event, proceeds from the sale of property, and investment income. The statement is divided into five sections on Exhibit C. 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. The condensed statement is shown below and includes a summary version of the cash flow.

Condensed Statement of Cash Flows

	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Cash provided (used) by:		
Operating activities	\$ (43,802,002)	\$ (46,154,993)
Noncapital financing activities	57,762,440	54,791,820
Capital and related financing activities	(11,609,974)	(5,281,324)
Investing activities	<u>2,295,993</u>	<u>2,388,670</u>
Net Change in Cash	4,646,457	5,744,173
Cash, beginning of year	<u>87,461,914</u>	<u>81,717,741</u>
Cash, end of year	<u>\$ 92,108,371</u>	<u>\$ 87,461,914</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
For the year ended June 30, 2020



Capital Asset and Debt Administration

At June 30, 2020, the University had \$293,074,718 invested in capital assets, less accumulated depreciation of \$148,405,393. Depreciation charges total \$9,783,370 for the current fiscal year. Details of these assets are shown below.

<u>Capital Asset (Net)</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Land, improvements and infrastructure	\$ 10,916,736	\$ 11,987,700
Buildings	122,999,368	111,197,091
Construction in progress	6,732,860	2,553,349
Furniture, fixtures and equipment	2,939,424	3,165,784
Library holdings	870,727	871,474
Livestock for educational purposes	210,210	234,572
Total	<u><u>\$ 144,669,325</u></u>	<u><u>\$ 130,009,970</u></u>

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

	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Multi-Purpose Sports Complex Bldg. - University Fund		\$ 3,961,039
Red Hill Drive Sod Farm - University Funds		341,161
Computer Networking - University Funds		468,688
Ozark Land N. 18th St. - University Funds		35,729
Turner Hall - University Funds		255,392
404 N El Paso Building and Land - University Funds	\$ 741,594	
Nutt Hall - University Funds	633,986	
Brown Hall - University Funds	402,896	
Women's Sports Complex - University Funds	206,496	
Total	<u><u>\$ 1,984,972</u></u>	<u><u>\$ 5,062,009</u></u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
For the year ended June 30, 2020



Capital Asset and Debt Administration (continued)

Debt

At June 30, 2020, the University had \$74,016,059 in debt outstanding versus \$77,653,186 the previous year. The decrease is due to the University paying off the Taxable Housing Bond early. Principal payments made on general obligation bonds during the year were \$4,320,000 and direct placement payments were \$116,047. The table below summarizes these amounts by type of debt instrument. Moody's Investor Service continued its rating of A1 with a stable outlook.

<u>Outstanding Debt</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Educational and general revenue bonds	\$ 33,863,953	\$ 34,656,765
Auxiliary facility revenue bonds	37,935,000	40,660,000
Notes payable from direct placement	975,274	1,038,389
Unamortized bond discount	(80,068)	(95,783)
Unamortized bond premium	1,321,900	1,393,815
Total	<u>\$ 74,016,059</u>	<u>\$ 77,653,186</u>

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

Economic Conditions and Other Significant Factors

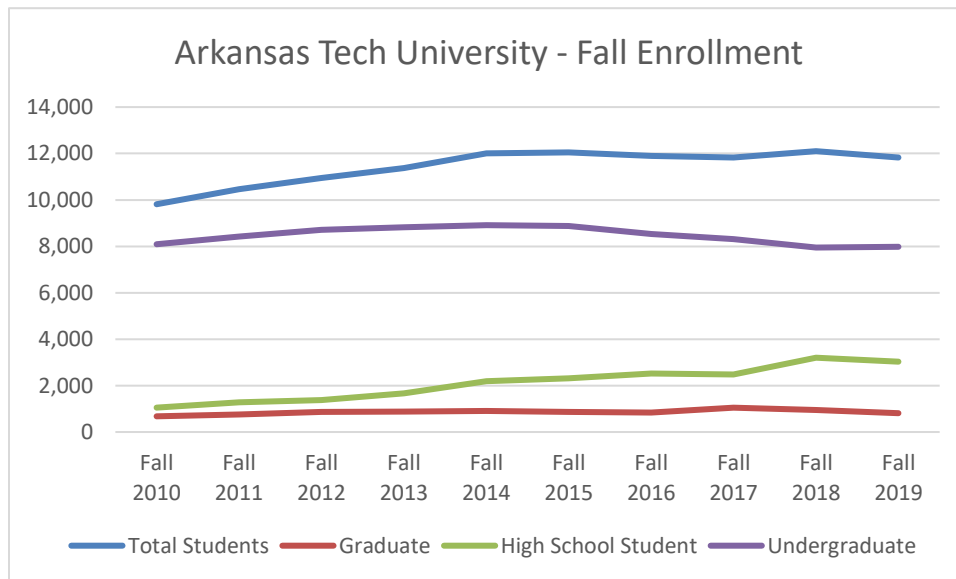
State government's financial and political support remain integral to the continued financial sustainability of the institution. The University's fiscal year 2020 state appropriations remained relatively constant, even though COVID-19 pushed into the fourth quarter. The State's higher education funding formula follows a productivity model based upon the institution's outcomes. Overall, the higher education productivity model distribution carries some uncertainty on the University's future state general revenue allocations. The Arkansas Division of Higher Education's Legislative recommendations for FY 2022 indicate a possible increase in Arkansas Tech's productivity funding and general revenue distributions. The positive productivity outcomes were made possible by the faculty and staff efforts to retain and graduate students. Arkansas Tech's three year change in the productivity index was 639 points or an increase of 2.98%. The State Legislature uses funding categories to maintain a balanced budget. Since some of the Universities' FY 21 treasury funds are in category C and D, it is possible that some of the funding will not flow unless the State's revenue collection remains stable and/or increases. In addition, the State's general improvement funding for facilities and technology may not be distributed and may negatively impact the University's deferred maintenance backlog and slow the pace of technology improvements.



Economic Conditions and Other Significant Factors (continued)

On March 11, 2020 the Governor of Arkansas issued Executive Order 20-03 declaring an emergency and ordering the Arkansas Department of Health to take action to prevent the spread of coronavirus disease (COVID-19). The campus moved to online instruction to complete the spring 2020 semester and summer terms. The impact on campus operations is still felt today. Note 23 addresses the COVID-19 event. The long-term effects are unknown. The Federal government provided CARES Act funding, through the Higher Education Emergency Relief Fund (HEERF), to address some of the vital needs. The State of Arkansas also provided some relief funding for personal protective equipment and cleaning supplies. Management continues to monitor the situation and adjust using the recommendations of the campus COVID Task Force. The future impact will depend upon the significance and duration of the event.

The “every student counts” guiding principle frames the strategic direction of managing cost of attendance, so tuition and fees remain affordable, while delivering quality academic programs and University experiences. In FY 20 the Russellville Campus tuition rates for undergraduate and graduate increased by 2.6% and 2.8% respectively. The Ozark Campus adopted a tuition rate that was 3.2% higher than the prior year. Annual undergraduate tuition and mandatory fees totaling \$9,255 resulted in a 2.1% increase. The increase was necessary to support the University mission of student success, access, and excellence. Below is a graph of fall enrollment from 2010 to 2019 categorized by student classification.



MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
For the year ended June 30, 2020



Economic Conditions and Other Significant Factors (continued)

ATU yielded the largest enrollment in the history of the institution with enrollment of 12,101 students in fall 2018. Although the total enrollment dipped slightly in fall 2019, ATU experienced a record freshman enrollment of 2069.

Looking forward, the fall 2020 preliminary enrollment of 10,866 students was a decline from the fall 2019 census primarily due to the uncertainty presented by COVID-19 and parents and students assessing the landscape. Although the 2020 freshman class declined from the 2019 record, it is still ahead of the 2018 freshmen enrollment numbers. The University continues to focus efforts on student success initiatives, student recruitment, and retention in order to achieve enrollment projections.

The University's overall financial position remains strong. We continue to strive for excellence and monitor our efforts to bring innovative programs to our students while we exercise prudent financial management. We remain optimistic for the University's operations during fiscal year 2020-21. Management will continue to align resources and make adjustments as necessary to assure the continued financial integrity of Arkansas Tech University.

Walter J. Branson

Interim Vice President for Administration and Finance

ARKANSAS TECH UNIVERSITY
COMPARATIVE STATEMENT OF NET POSITION
JUNE 30, 2020

Exhibit A

	June 30, 2020	June 30, 2019
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 56,931,951	\$ 60,559,201
Accounts receivable <i>(less allowance of \$1,138,370 and \$1,382,705, respectively)</i>	3,281,907	2,885,685
Notes receivable <i>(less allowance of \$18,401 and \$44,865, respectively)</i>	12,461	50,041
Inventories	47,636	40,773
Prepaid expenses	1,396,658	1,110,611
Total Current Assets	61,670,613	64,646,311
Noncurrent Assets:		
Cash and cash equivalents	35,176,420	26,902,713
Deposits with trustee	1,794,307	1,797,056
Endowment investments	6,084,185	5,455,203
Investments	3,752,452	4,075,817
Notes receivable <i>(less allowance of \$581,377 and \$712,313, respectively)</i>	393,728	523,872
Capital assets <i>(net of accumulated depreciation of \$148,405,393 and \$139,203,191, respectively)</i>	144,669,325	130,009,970
Total Noncurrent Assets	191,870,417	168,764,631
TOTAL ASSETS	253,541,030	233,410,942
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows of Resources-Refunding	786,483	844,675
Deferred Outflows of Resources-OPEB	1,127,212	640,867
Deferred Outflows of Resources-Pensions	6,042,748	6,440,008
TOTAL DEFERRED OUTFLOWS OF RESOURCES	7,956,443	7,925,550
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 261,497,473	\$ 241,336,492
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 4,209,286	\$ 3,863,310
Bonds and notes payable	3,642,163	3,424,796
Compensated absences payable	641,495	629,474
Total other postemployment benefit liability	457,019	417,207
Unearned revenue	3,568,867	4,268,228
Funds held in trust for others	914,256	879,016
Other liabilities	79,017	71,462
Total Current Liabilities	13,512,103	13,553,493
Noncurrent Liabilities:		
Accounts payable and accrued liabilities	309,088	63,846
Bonds and notes payable	70,373,896	74,228,390
Compensated absences	1,825,794	1,540,103
Total other postemployment benefit liability	8,235,016	7,913,176
Net pension liability	21,186,066	17,954,235
Refundable federal advances	709,831	837,268
Total Noncurrent Liabilities	102,639,691	102,537,018
TOTAL LIABILITIES	116,151,794	116,090,511
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows of Resources-OPEB	2,284,224	2,393,693
Deferred Inflows of Resources-Pensions	1,569,282	2,691,372
TOTAL DEFERRED INFLOWS OF RESOURCES	3,853,506	5,085,065
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	\$ 120,005,300	\$ 121,175,576

ARKANSAS TECH UNIVERSITY
COMPARATIVE STATEMENT OF NET POSITION
JUNE 30, 2020

Exhibit A

	<u>June 30,</u> <u>2020</u>	<u>June 30,</u> <u>2019</u>
NET POSITION		
Net Investment in capital assets:	\$ 77,575,076	\$ 54,783,936
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	155,929	155,929
Loans	122,403	141,988
Expendable:		
Scholarships and fellowships	1,370,589	1,294,233
Capital projects	298	298
Debt service	3,146,065	3,473,663
Education and general departments	4,796,314	4,449,269
Unrestricted	<u>54,325,499</u>	<u>55,861,600</u>
 TOTAL NET POSITION	 <u>141,492,173</u>	 <u>120,160,916</u>
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, and NET POSITION	 <u>\$ 261,497,473</u>	 <u>\$ 241,336,492</u>

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

ARKANSAS TECH UNIVERSITY FOUNDATION, INC.
 STATEMENTS OF FINANCIAL POSITION - COMPONENT UNIT
 JUNE 30, 2020 AND 2019

Exhibit A-1

	June 30, 2020	June 30, 2019
ASSETS		
Cash and cash equivalents	\$ 1,346,813	\$ 909,601
Unconditional promises to give, net	1,209,535	2,163,782
Investments		
Marketable securities	35,983,697	32,613,936
Annuities	364,658	354,527
Cash surrender value of life insurance	1,273,224	
Limited partnerships	2,711,190	2,143,896
Total investments	40,332,769	35,112,359
Deferred compensation trust	102,412	
TOTAL ASSETS	\$ 42,991,529	\$ 38,185,742
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 22,846	\$ 3,505
University funds under management	6,085,187	5,579,103
Reserve for annuities payable	55,240	59,932
Deferred compensation payable	102,412	
Total liabilities	6,265,685	5,642,540
NET ASSETS		
Without donor restrictions	6,431,186	6,298,692
With donor restrictions (including endowments of \$20,229,018 in 2020 and \$20,295,442 in 2019)	30,294,658	26,244,510
Total net assets	36,725,844	32,543,202
Total liabilities and net assets	\$ 42,991,529	\$ 38,185,742

ARKANSAS TECH UNIVERSITY FACILITIES DEVELOPMENT FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION - COMPONENT UNIT
JUNE 30, 2020 AND 2019

Exhibit A-2

	June 30, 2020	June 30, 2019
ASSETS		
Current assets:		
Cash in bank	\$ 1,953,589	
Rent receivable (net of allowance for doubtful accounts of \$3,210 in 2019)		\$ 38,036
Unrestricted cash		
Total current assets	1,953,589	38,036
Restricted cash		1,938,099
Property and equipment at cost:		
Property and equipment		8,712,635
Less accumulated depreciation		(4,593,778)
Net property and equipment		4,118,857
Other assets:		
Unamortized debt issuance cost		
Unamortized debt discount		
Total other assets		
 TOTAL ASSETS	 \$ 1,953,589	 \$ 6,094,992
 LIABILITIES AND UNRESTRICTED NET ASSETS		
Current liabilities:		
Accounts payable		\$ 14,119
Security deposits		96,754
Total current liabilities		110,873
Long-term debt		
Unrestricted net assets	\$ 1,953,589	5,984,119
 TOTAL LIABILITIES AND NET ASSETS	 \$ 1,953,589	 \$ 6,094,992

ARKANSAS TECH UNIVERSITY
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2020

Exhibit B

	Year Ended June 30 2020	Year Ended June 30 2019
OPERATING REVENUES		
Student tuition and fees (net of scholarship allowance of \$30,100,698 and \$28,896,878, respectively)	\$ 39,893,038	\$ 41,239,728
Federal grants and contracts	3,031,427	3,114,749
State and local grants and contracts	13,009,929	12,755,863
Non-governmental grants and contracts	3,360,139	3,387,148
Sales and services of educational departments	1,745,024	1,899,384
Auxiliary enterprises:		
Athletics (net of scholarship allowance of \$1,398,453 and \$1,392,513, respectively)	4,973,231	5,202,701
Residence life (net of scholarship allowance of \$4,737,997 and \$3,636,798, respectively)	6,279,359	5,186,359
Bookstore	364,801	306,505
Food service (net of scholarship allowance of \$3,314,192 and \$2,980,027, respectively)	3,953,667	3,900,452
Student Union	701,613	
Health Services	1,761,176	1,754,780
Other operating revenues	961,833	1,231,257
TOTAL OPERATING REVENUES	80,035,237	79,978,926
OPERATING EXPENSES		
Personal services	55,990,486	57,485,939
Benefits	19,442,390	17,341,301
Scholarships and fellowships	18,173,113	14,496,541
Supplies and services	32,293,665	40,771,908
Depreciation	9,783,370	9,344,031
TOTAL OPERATING EXPENSES	135,683,024	139,439,720
OPERATING INCOME (LOSS)	(55,647,787)	(59,460,794)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	36,760,998	36,740,075
Governmental grants	21,869,232	19,123,623
Investment income (net of investment expense of \$22,060 and \$16,888, respectively)	1,851,295	2,438,310
Interest on capital asset - related debt	(2,703,403)	(2,702,805)
Bond issuance costs		(68,500)
Paying agents fees capital asset related debt	(32,116)	(33,163)
Gain or (loss) on disposal of capital assets	114,719	(272,712)
Other revenues (expenses)	(111,577)	(55,605)
NET NONOPERATING REVENUES (EXPENSES)	57,749,148	55,169,223
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	2,101,361	(4,291,571)
Capital appropriations	487,945	496,884
Capital grants and gifts	16,388,759	458,835
Additions to endowments		200,845
Insurance proceeds	1,228,717	
Proceeds from sale of property	552,080	
Proceeds from energy project	460,575	
Increase in valuation of livestock	(39,612)	23,954
Adjustments to prior year revenues and expenses	151,432	25,418
INCREASE (DECREASE) IN NET POSITION	21,331,257	(3,085,635)
NET POSITION - BEGINNING OF YEAR	120,160,916	123,246,551
NET POSITION - END OF YEAR	\$ 141,492,173	\$ 120,160,916

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

ARKANSAS TECH UNIVERSITY FOUNDATION, INC.
 STATEMENTS OF ACTIVITIES - COMPONENT UNIT
 FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

Exhibit B-1

	Year Ended June 30, 2020			Year Ended June 30, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Public Support revenues and reclassifications:						
Contributions and revenues	\$ 612,914	\$ 4,430,907	\$ 5,043,821	\$ 635,271	\$ 4,427,520	\$ 5,062,791
Investment income, net	1,156,482	413,618	1,570,100	804,549	312,784	1,117,333
Net assets released from restrictions:						
Satisfaction of Program or time restrictions	786,044	(786,044)		1,217,687	(1,217,687)	
Uncollectible promises to give	8,333	(8,333)				
Total net assets released from restrictions	<u>794,377</u>	<u>(794,377)</u>		<u>1,217,687</u>	<u>(1,217,687)</u>	
Total public support, revenues and reclassifications	<u>2,563,773</u>	<u>4,050,148</u>	<u>6,613,921</u>	<u>2,657,507</u>	<u>3,522,617</u>	<u>6,180,124</u>
Expenses:						
Program services:						
Scholarships	550,324		550,324	555,102		555,102
Amount paid to benefit Arkansas Tech University	1,087,291		1,087,291	1,222,518		1,222,518
Supporting services:						
Management and general	100,774		100,774	109,562		109,562
Fundraising	684,557		684,557	626,428		626,428
Uncollectible promise to give	8,333		8,333			
Total expenses	<u>2,431,279</u>		<u>2,431,279</u>	<u>2,513,610</u>		<u>2,513,610</u>
Changes in net assets	132,494	4,050,148	4,182,642	143,897	3,522,617	3,666,514
Net assets at beginning of year	<u>6,298,692</u>	<u>26,244,510</u>	<u>32,543,202</u>	<u>6,154,795</u>	<u>22,721,893</u>	<u>28,876,688</u>
Net assets at end of year	<u>\$ 6,431,186</u>	<u>\$ 30,294,658</u>	<u>\$ 36,725,844</u>	<u>\$ 6,298,692</u>	<u>\$ 26,244,510</u>	<u>\$ 32,543,202</u>

ARKANSAS TECH UNIVERSITY FACILITIES DEVELOPMENT FOUNDATION, INC.
 STATEMENTS OF ACTIVITIES - COMPONENT UNIT
 FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

Exhibit B-2

	<u>June 30,</u> <u>2020</u>	<u>June 30,</u> <u>2019</u>
Income:		
Rental		\$ 1,501,422
Interest	\$ 23,267	94,761
Other		50
Total Income	<u>23,267</u>	<u>1,596,233</u>
Expenses:		
Audit and professional	6,200	12,200
Maintenance and repairs		59,924
Pest control		1,325
Utilities		145,928
Insurance		31,491
Depreciation and amortization		399,477
Interest expense		189,610
Bad debt expense (recovery)		(6,112)
Bond trustee fees		2,573
Administrative cost-Arkansas Tech University		42,271
Trustee fees		2,318
Janitorial service		55,769
Management Services		52,828
Loss on bond redemption		281,741
Miscellaneous	<u>1,577</u>	<u>8,841</u>
Total expenses	<u>7,777</u>	<u>1,280,184</u>
Increase in unrestricted net assets before allocation to Arkansas Tech University	15,490	316,049
Allocation to (received from) Arkansas Tech University		<u>(414,792)</u>
Increase in unrestricted net assets	15,490	(98,743)
Unrestricted net assets at beginning of year	5,984,119	6,082,862
Property distribution to Arkansas Tech University	<u>(4,046,020)</u>	
Unrestricted net assets at end of year	<u>\$ 1,953,589</u>	<u>\$ 5,984,119</u>

ARKANSAS TECH UNIVERSITY
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020

Exhibit C

	June 30, 2020	June 30, 2019
Cash Flows from Operating Activities:		
Tuition and fees	\$ 39,087,173	\$ 44,150,159
Grants and contracts	19,401,495	19,232,343
Payments to suppliers	(31,995,937)	(39,813,603)
Payments for personnel services	(55,990,486)	(57,248,525)
Payments for benefits	(16,871,839)	(17,365,092)
Payments for scholarships and fellowships	(18,173,113)	(14,496,541)
Auxiliary enterprises:		
Residential life	6,279,359	5,186,359
Food service	3,953,667	3,900,452
Bookstore	364,801	306,505
Athletics	4,973,231	5,202,701
Health services	1,761,176	1,754,780
Student union	701,613	
Sales and service of educational departments	1,745,024	1,899,384
Other receipts (payments)	961,834	1,136,085
Net Cash Provided (Used) by Operating Activities	(43,802,002)	(46,154,993)
Cash Flows from Noncapital Financing Activities:		
State appropriations	36,760,998	36,740,075
Direct loan receipts	33,668,320	35,497,977
Direct loan payments	(33,668,320)	(35,497,977)
Non-capital grants and gifts received	21,869,232	19,123,623
Deletions to endowment funds	(628,982)	(1,057,126)
Student organization/agency transactions (net)	35,240	(14,672)
Refund of Federal Perkins Loan funds	(274,048)	
Principal paid on noncapital debt		(80)
Net Cash Provided (Used) by Noncapital Financial Activities	57,762,440	54,791,820
Cash Flows from Capital and Related Financing Activities:		
Capital appropriations	487,945	496,884
Capital grants and gifts received	127,862	458,835
Purchases of capital assets	(1,230,872)	(2,515,234)
Construction in progress expenditures	(6,862,788)	(1,767,671)
Vendor rebates received for related debt payments	460,575	
Proceeds from sales of property	504,947	
Insurance proceeds received	1,228,717	
Received from Arkansas Department of Higher Education - note proceeds		1,100,000
Received from bond trustees - new bond issuance	918,235	3,081,765
Received from note trustees - held in trust	2,749	
Payments to note trustee - note principal	(63,115)	(61,611)
Payments to note trustee - held in trust		(2,420)
Payments for loan interest		(26,840)
Payments to bond trustees for bond principal	(4,436,047)	(3,145,000)
Payments to bond trustees for interest and fees	(2,748,182)	(2,777,305)
Principal paid on capital debt & leases		(120,570)
Interest paid on capital debt & leases		(2,157)
Net Cash Provided (Used) by Investing Activities	(11,609,974)	(5,281,324)
Cash Flows from Investing Activities:		
Purchase of investments	323,365	(79,278)
Investment income	1,972,628	2,467,948
Net Cash Provided (Used) by Investing Activities	2,295,993	2,388,670
Net Increase in Cash	4,646,457	5,744,173
Cash - beginning of the year	87,461,914	81,717,741
Cash - end of year	\$ 92,108,371	\$ 87,461,914

ARKANSAS TECH UNIVERSITY
 COMPARATIVE STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2020

Exhibit C

	June 30, 2020	June 30, 2019
Reconciliation of net operating revenues expenses to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (55,647,787)	\$ (59,460,794)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	9,783,370	9,344,031
Other miscellaneous operating receipts/payments		(87,771)
Changes in assets and liabilities:		
Receivables	(385,840)	829,626
Student loan receivables	272,686	205,181
Inventories	(6,863)	6,150
Prepaid expenses	(286,047)	727,988
Payables	590,639	230,455
Other liabilities		(39,106)
Unapplied student aid	10,260	
Unearned revenue	(702,971)	1,875,624
Compensated absences	297,712	237,414
Other post employment benefits	(234,162)	(611,041)
Pension liability	2,507,001	587,250
Net cash provided (used) by operating activities	\$ (43,802,002)	\$ (46,154,993)
Noncash transactions:		
Donated capital assets	\$ 16,260,897	\$ 6,975
Gain (Loss) on disposal	114,719	(148,271)
Increase(Decrease) in market valuation of investments	182,279	(470,787)
Unrealized gain (loss) on livestock valuation	(39,612)	23,954
(Increase) Decrease in Note Receivables allowance for bad debt	157,401	
Costs of student loan principal and interest canceled	(52,439)	

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



Notes to the Financial Statements

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020



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*, 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 2,133 students and the Ozark Campus offers nineteen associate degree programs, as well as thirty-five 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 ten career and technical areas. There are satellite offices located in Paris and Clarksville, Arkansas, as well. The enrollment is approximately 799 students from seventeen 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.

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020



NOTE 1: Summary of Significant Accounting Policies (continued)

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, 2020, the Foundation transferred equipment and funds of \$424,464 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.

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.

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020



NOTE 1: Summary of Significant Accounting Policies (continued)

Complete financial statements for the Foundation may be obtained from the Facilities Development Foundation at 1509 North Boulder Avenue, Administration Room 206, 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 separately in the Statement of Revenues, Expenses and Changes in Net Position. 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.

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020



NOTE 1: Summary of Significant Accounting Policies (continued)

The University has implemented GASB Statement no. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. Further information can be found in Note 3.

Accounts Receivables: Accounts receivables consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, and staff. Accounts receivables 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 receivables 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.

Capital Assets: Capital assets are recorded at cost on the date of acquisition or, in the case of gifts, acquisition 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.

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.

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020



NOTE 1: Summary of Significant Accounting Policies (continued)

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.

Pensions: The University has implemented GASB Statement no. 68, *Accounting and Financial Reporting for Pensions*, as amended. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2014. For purposes of measuring net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net positions of the Arkansas Teacher Retirement System (ATRS) and Arkansas Public Employees Retirement System (APERS) and additions to and deductions from ATRS and APERS fiduciary net positions have been determined on the same basis as they are reported by ATRS and APERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Further information can be found in Note 21.

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 invested 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 consist 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, 2020



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, and 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.

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020



NOTE 1: Summary of Significant Accounting Policies (continued)

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 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.

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)	\$ 1,875,670	\$ 2,070,142
Collateralized:		
Collateral held by the pledging bank or pledging bank's trust department in the University's name.	92,646,184	92,259,308
Total Deposits	\$ 94,521,853	\$ 94,329,450

The above deposits do not include cash on hand maintained by the University in the amount \$13,825. In addition, the above deposits do not include cash in state treasury of \$1,636,420. The above deposits include certificates of deposits of \$3,752,452 reported as investments and classified as nonparticipating contracts and cash held for the Arkansas Tech University Facilities Development Foundation, Inc. of \$311,275.

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020



NOTE 2: Cash and Cash Equivalents (continued)

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 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 \$34,439,346 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	<B	NR
US Stocks	\$1,949,373					\$1,949,373
Non-US Stocks	741,662					741,662
Other	3,393,150					3,393,150
Total investments	<u>\$ 6,084,185</u>					<u>\$6,084,185</u>

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020



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 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.

The University has implemented GASB Statement no. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments, and disclosures related to all fair value measurements.

Investments Measured at Fair Value

The University measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

Level 1: Quoted prices (unadjusted) for identical investments in active markets that a government can access at the measurement date. Examples are equity securities traded on an open market, actively traded mutual funds, or US Treasuries.

Level 2: Inputs - other than quoted prices included within Level 1 - that are observable for an investment, either directly or indirectly. Examples are quoted prices for similar investments in active markets, quoted prices for identical or similar investments in markets that are not active, inputs other than quoted prices that are observable for the investment, and market-corroborated inputs.

Level 3: Unobservable inputs for an investment. This uses the best information available which might include the government's own data.

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020



NOTE 3: Investments (continued)

Investments by fair value level	6/30/2020	Fair Value Measurements Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Bonds and Equity Funds-				
External Investment Pool	\$ 6,084,185	\$ 5,710,616		\$ 373,569
Total Investments at Fair Value	\$ 6,084,185	\$ 5,710,616		\$ 373,569

Deposits with Trustee

At June 30, 2020, the University’s deposits with trustee in the amount of \$1,794,307 were invested by the trustee in certificates of deposit and The Federated Government Obligations Fund.

The Federated Government Obligations Fund

This fund operates as a “government money market fund” as defined in or interpreted under Rule 2a-7 under the Investment Company Act of 1940, as amended. Under normal conditions, this fund will invest its assets so that at least 80% of its net assets are invested in government securities and/or repurchase agreements that are collateralized fully by government securities.

Investments Measured at the NAV

Calculation of Net Asset Value – The Fund attempts to stabilize the NAV of its Shares at \$1.00 by valuing the portfolio securities using the amortized cost method. In addition, for regulatory purposes, the Fund calculates a market-based NAV per Share on a periodic basis. The Fund cannot guarantee that its NAV will always remain at \$1.00 per Share. The Fund does not charge a front-end sales charge. Shares can be purchased, redeemed or exchanged any day the NYSE is open.

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020



NOTE 3: Investments (continued)

Federated Government Obligations Fund

Security Description	Fair Value
Government Agencies ⁽¹⁾	\$ 549,058
Repurchase Agreements ⁽²⁾	252,997
U.S. Treasury ⁽¹⁾	992,252
Total Investments measured at the NAV	\$ 1,794,307

- (1) *Government Agencies and U.S. Treasury – Fixed-Income Securities.* Fixed-income securities pay interest, dividends, or distributions at a specified rate. The rate may be a fixed percentage of the principal or may be adjusted periodically. In addition, the issuer of a fixed-income security must repay the principal amount of the security, normally within a specified time. Fixed-income securities provide more regular income than equity securities. However, the returns on fixed-income securities are limited and normally do not increase the issuer’s earnings. This limits the potential appreciation of fixed-income securities as compared to equity securities.

A security’s yield measures the annual income earned on a security as a percentage of its price. A security’s yield will increase or decrease depending upon whether it costs less (a “discount”) or more (a “premium”) than the principal amounts. If the issuer may redeem the security before its scheduled maturity, the price and yield on a discount or premium security may change based upon the probability of an early redemption. Securities with higher risks generally have higher yields.

The following describes the types of fixed-income securities in which the Fund principally invests:

U.S. Treasury Securities – are direct obligations of the federal government of the United States.

Government Securities – are issued or guaranteed by a federal agency or instrumentality acting under federal authority. Some government securities, including those issued by Fannie Mae, are supported by the full faith and credit of the United States and are guaranteed only as to the timely payment of interest and principal.

Other government securities receive support through federal subsidies, loans or other benefits, but are not backed by the full faith and credit of the United States. For example, the U.S. Treasury is authorized to purchase specified amounts of securities issued by (or otherwise make funds available to) the Federal Home Loan Bank System, Freddie Mac, and Fannie Mae in support of such obligations.

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020



NOTE 3: Investments (continued)

Some government agency securities have no explicit financial support, and are supported only by the credit of the applicable agency, instrumentality, or corporation. The U.S. government has provided financial support to Freddie Mac, and Fannie Mae, but here is no assurance that it will support these or other agencies in the future.

Callable Securities – are certain U.S. Treasury or government securities in which the Fund invests are callable at the option of the issuer. Callable securities are subject to call risks.

- (2) *Repurchase Agreements.* Repurchase agreements are transactions in which the Fund buys a security from a dealer or bank and agrees to sell the security back at a mutually agreed-upon time and price. The repurchase price exceeds the sale price, reflecting the Fund's return on the transaction. This return is unrelated to the interest rate on the underlying security. The Fund will enter into repurchase agreements only with banks and other recognized financial institutions, such as securities dealers, deemed creditworthy by the Adviser.

The Fund's custodian or sub-custodian will take possession of the securities subject to repurchase agreements. The Adviser or sub custodian will monitor the value of the underlying security each day to ensure that the value of the security always equals or exceeds the repurchase price.

Repurchase agreements are subject to credit risks.

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 \$173,000 as of June 30, 2020. During fiscal year 2020, the endowment funds were invested in an external investment pool under the management of the Arkansas Tech University Foundation, Inc. The same guidelines will continue to apply in that 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. The University does not utilize a spending rate for the net appreciation.

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020



NOTE 5: Disaggregation of Accounts and Other Receivables

Accounts receivable consisted of the following at June 30, 2020 and June 30, 2019, respectively:

	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Student Tuition and Fees	\$ 2,640,486	\$ 3,351,588
Auxiliary Enterprise and Other Operating Activities	1,073,539	195,910
Scholarship	6,832	6,709
Federal, State and Private Grants & Contracts	540,013	534,682
Accrued Interest	3,233	3,676
Credit Memos	61,625	48,538
Other	94,549	127,287
	<u>4,420,277</u>	<u>4,268,390</u>
Less Allowance for Doubtful Accounts	<u>(1,138,370)</u>	<u>(1,382,705)</u>
Net Accounts Receivable	<u>\$ 3,281,907</u>	<u>\$ 2,885,685</u>

NOTE 6: Inventories

Inventories consisted of the following at June 30, 2020, and June 30, 2019, respectively:

	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Museum	\$12,078	\$12,078
Post Office	14,400	8,660
Lake Point Conference Center	14,849	14,849
Supplies	6,309	5,186
	<u>\$47,636</u>	<u>\$40,773</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, 2020. 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.

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, 2020, the notes receivable were \$406,189, net of the allowance for uncollectible loans of \$599,778.

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020



NOTE 8: Capital Assets

Following are the changes in capital assets for the year ended June 30, 2020:

	Balance June 30, 2019	Additions	Retirements	Balance June 30, 2020
Capital assets not depreciated				
Land	\$ 3,312,813	\$ 271,196	\$ (11,750)	\$ 3,572,259
Landscaping	235,557			235,557
Livestock for educational purposes	234,572	85,971	(110,333)	210,210
Construction in progress	2,553,349	4,852,894	(673,383)	6,732,860
Total capital assets not being depreciated	\$ 6,336,291	\$ 5,210,061	\$ (795,466)	\$ 10,750,886
Other capital assets				
Intangible Asset - Software License	\$ 1,419,153			\$ 1,419,153
Capital Leases*	1,614,785			1,614,785
Non-major infrastructure networks	9,124,879			9,124,879
Land improvements	14,788,510	\$ 13,900		14,802,410
Buildings	209,591,962	19,366,250	\$ (80,000)	228,878,212
Furniture, fixtures and equipment	17,544,512	586,652	(508,638)	17,622,526
Library holdings	8,793,069	100,454	(31,656)	8,861,867
Total other capital assets	262,876,870	20,067,256	(620,294)	282,323,832
Less accumulated depreciation:				
Intangible Asset - Software License	(1,419,153)			(1,419,153)
Capital Leases*	(1,614,785)			(1,614,785)
Non-major infrastructure networks	(5,957,532)	(615,252)		(6,572,784)
Land improvements	(9,516,528)	(729,057)		(10,245,585)
Buildings	(98,394,869)	(7,528,592)	44,618	(105,878,843)
Furniture, fixtures, and equipment	(14,378,728)	(809,269)	504,894	(14,683,103)
Library materials	(7,921,596)	(101,200)	31,656	(7,991,140)
Total accumulated depreciation	(139,203,191)	(9,783,370)	581,168	(148,405,393)
Other capital assets, net	\$ 123,673,679	\$ 10,283,886	\$ (39,126)	\$ 133,918,439
Capital Asset Summary:				
Capital assets not being depreciated	\$ 6,336,291	\$ 5,210,061	\$ (795,466)	\$ 10,750,886
Other capital assets, at cost	262,876,870	20,067,256	(620,294)	282,323,832
Total cost of capital assets	269,213,161	25,277,317	(1,415,760)	293,074,718
Less accumulated depreciation	(139,203,191)	(9,783,370)	581,168	(148,405,393)
Capital assets, net	\$ 130,009,970	\$ 15,493,947	\$ (834,592)	\$ 144,669,325

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020



NOTE 9: Unearned Revenue

Unearned revenue consists of the following at June 30, 2020 and June 30, 2019, respectively:

	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Prepaid tuition and fees	\$939,504	\$1,079,561
Grants and contracts	953,412	1,327,088
Scholarships	137,981	174,515
Other	<u>1,537,970</u>	<u>1,687,064</u>
	<u>\$3,568,867</u>	<u>\$4,268,228</u>

NOTE 10: Long Term Liabilities

Long-term liability activity for the year ended June 30, 2020 was as follows:

Long Term Liabilities	June 30, 2019	Additions	Deletions	June 30, 2020	Current Portion	Noncurrent Portion
General obligation bonds	\$ 72,235,000		\$ 4,320,000	\$ 67,915,000	\$ 3,280,000	\$ 64,635,000
Less bond discount	95,783		15,715	80,068	3,796	76,272
Plus bond premium	1,393,815		71,915	1,321,900	63,941	1,257,959
Bonds from direct placements	<u>3,081,765</u>	\$ 918,235	116,047	3,883,953	237,363	3,646,590
Total bonds payable	76,614,797	918,235	4,492,247	73,040,785	3,577,508	69,463,277
Notes Payable from direct placements	1,038,389		63,115	975,274	64,655	910,619
Compensated absences	<u>2,169,577</u>	1,652,914	1,355,201	2,467,289	641,495	1,825,794
Total	<u>\$ 79,822,763</u>	<u>\$ 2,571,149</u>	<u>\$ 5,910,563</u>	<u>\$ 76,483,348</u>	<u>\$ 4,283,658</u>	<u>\$ 72,199,690</u>

Additional information regarding the note payable is included in note 12

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

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020



NOTE 11: Bonds Payable

Debt service principal payments on the bonds amounted to \$4,320,000 for the fiscal year ended June 30, 2020. 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.

On December 18, 2018, the University was authorized to issue \$4,000,000 in student fee revenue bonds. The issue, referred to as Student Fee Revenue Bond, Series 2018A is for the purpose of the Phase I Energy Project. The term of the loan is fifteen years with an interest rate of 2.975% per annum. Interest only shall be due for approximately 12 months, making the first principal due January 18, 2020. The bond issue cost of \$68,500 were expensed in fiscal year 2019. The sale proceeds of \$3,931,500 will be available for the University to request during the construction period. For fiscal year 2019, the University requested advances of \$3,081,765, leaving a balance of \$918,235 which was drawn down in fiscal year 2020.

The Housing system Refunding Revenue Bond Taxable Series 2017B had an uncalled principal balance of \$1,150,000. The trustee called the Housing Revenue Taxable Bond on December 1, 2019. The Bond redemption was payable at a redemption price of 100% of par value, \$1,150,000, thereof plus accrued interest, \$20,844. The maturity date of the Housing Revenue Taxable Bond was June 1, 2038. This resulted in interest savings of \$438,988 for Arkansas Tech University.

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020



NOTE 11: Bonds Payable (continued)

<u>Pledged Revenues</u>	<u>Amount Authorized and Issued</u>	<u>Debt Outstanding June 30, 2020</u>	<u>Maturities to June 30, 2020</u>
Revenue Bonds Series 2012			
Chambers Cafeteria Renovation			
1.3%-3.8%			
December 1, 2012			
Final Maturity Date: January 1, 2043			
Food Service revenues will be maintained at a level equal to at least 120% of the combined maximum annual debt service.			
	\$ 2,750,000	\$ 2,295,000	\$ 455,000
Revenue Bonds Series 2013			
Chambers Cafeteria Renovation			
1.2%-4.0%			
February 1, 2013			
Final Maturity Date: January 1, 2043			
Food Service revenues will be maintained at a level equal to at least 120% of the combined maximum annual debt service.			
	3,250,000	2,705,000	545,000
Revenue Bonds Series 2013A			
Chambers Cafeteria Renovation			
1.0%-4.2%			
June 13, 2013			
Final Maturity Date: January 1, 2043			
Food Service revenues will be maintained at a level equal to at least 120% of the combined maximum annual debt service.			
	1,750,000	1,450,000	300,000

(Continued on next page)

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020



NOTE 11: Bonds Payable (continued)

<u>Pledged Revenues</u>	<u>Amount Authorized and Issued</u>	<u>Debt Outstanding June 30, 2020</u>	<u>Maturities to June 30, 2020</u>
Revenue Bonds Series 2013			
Brown Building			
1.2%-5.0%			
November 1, 2013			
Final Maturity Date: December 1, 2043			
Student Fees will be maintained at a level equal to at least 120% of the combined maximum annual debt service.			
	\$ 5,000,000	\$ 4,375,000	\$ 625,000
Student Fee Refunding Bond Series 2014			
2008 Student Services/Academic Classroom			
2008 Physical Plant			
2009 Rothwell, McEver & Corley			
2.0%-3.63%			
October 1, 2014			
Final Maturity Date: May 1, 2039			
Student Fees will be maintained at a level equal to at least 120% of the combined maximum annual debt service.			
	16,335,000	13,600,000	2,735,000
Student Fee Revenue Bond Series 2014			
Ozark Allied Health Building			
2.0%-3.75%			
October 1, 2014			
Final Maturity Date: May 1, 2044			
Student Fees will be maintained at a level equal to at least 120% of the combined maximum annual debt service.			
	6,000,000	5,275,000	725,000

(Continued on next page)

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020



NOTE 11: Bonds Payable (continued)

<u>Pledged Revenues</u>	<u>Amount Authorized and Issued</u>	<u>Debt Outstanding June 30, 2020</u>	<u>Maturities to June 30, 2020</u>
Housing Revenue Refunding Bond Series 2014			
2006 Baswell Hall, 2009 Hughes/Critz			
2.0%-3.63%			
October 1, 2014			
Final Maturity Date: May 1, 2039			
Housing Fees will be maintained at a level equal to at least 120% of the combined maximum annual debt service.			
	\$ 10,995,000	\$ 8,635,000	\$ 2,360,000
Student Fee Revenue Improvement Bonds			
2015 Computer Equipment Project			
1.0%-2.0%			
November 1, 2015			
Final Maturity Date: November 1, 2020			
Student Fees will be maintained at a level equal to at least 120% of combined maximum annual debt service.			
	2,000,000	410,000	1,590,000
Housing Revenue Refunding Bond Series 2017			
2001 Nutt Hall/ 2011 Tucker Hall			
2011A & 2012A M Street Dorm			
2012B Paine Hall			
2012C Baswell Hall			
3.0%-3.75%			
December 21, 2017			
Final Maturity Date: June 1, 2041			
Housing Fees will be maintained at a level equal to at least 120% of combined maximum annual debt service.			
	21,945,000	19,725,000	2,220,000

(Continued on next page)

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020



NOTE 11: Bonds Payable (continued)

<u>Pledged Revenues</u>	<u>Amount Authorized and Issued</u>	<u>Debt Outstanding June 30, 2020</u>	<u>Maturities to June 30, 2020</u>
Student Fee Revenue Refunding Bond Series 2017			
2010 Ozark Student Union			
2012A Old Art & 2012B 2003 Art Building			
2012C 2004 Hull Building			
2012B 2005 Art Building			
3.0%-4.0%			
December 21, 2017			
Final Maturity Date: June 1, 2042			
Student Fee will be maintained at a level equal to at least 120% of combined maximum annual debt service.			
	\$ 7,550,000	\$ 6,320,000	\$ 1,230,000
 Revenue Refunding Bond Series 2017			
2007 Sports Complex/Baswell Hall			
2012 Baseball Field			
3.0%-3.75%			
December 21, 2017			
Final Maturity Date: June 1, 2042			
Athletic Fees will be maintained at a level equal to at least 120% of combined maximum annual debt service.			
	3,470,000	3,125,000	345,000

(Continued on next page)

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020



NOTE 11: Bonds Payable (continued)

<u>Pledged Revenues</u>	<u>Amount Authorized and Issued</u>	<u>Debt Outstanding June 30, 2020</u>	<u>Maturities to June 30, 2020</u>
Student Fee Revenue Bond, Series 2018A Phase I Energy Project 2.975% December 8, 2018 Final Maturity Date: December 18, 2033	4,000,000	3,883,953	116,047
Revenue Refunding Bond Series 2017 2008 Eastgate/Campus Courts 3.625% December 21, 2017 Final Maturity Date: June 1, 2038 Housing Fees will be maintained at a level equal to at least 120% of combined maximum annual debt service.	\$ 1,230,000	\$ -	\$ 1,230,000
Bond Discount	(115,192)	(80,068)	(35,124)
Bond Premium	<u>1,537,594</u>	<u>1,321,900</u>	<u>215,694</u>
Total	<u>\$ 87,697,402</u>	<u>\$ 73,040,785</u>	<u>\$ 14,656,617</u>

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020



NOTE 11: Bonds Payable (continued)

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, 2020, debt service reserves aggregating \$1,794,307 were maintained. The University's reserve balances exceeded the reserve requirements at June 30, 2020.

The changes in bonds payable are as follows:

June 30, 2019	Issued	Retired	June 30, 2020
<u>\$ 75,316,765</u>	<u>918,235</u>	<u>4,436,047</u>	<u>\$ 71,798,953</u>

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020



NOTE 11: Bonds Payable (continued)

Debt service requirements on long-term debt as June 30th, are as follows:

Year Ending June 30,	Bonds		Bonds from Direct Placements		Total
	Principal	Interest	Principal	Interest	
2021	\$ 3,280,000	\$ 2,469,054	\$ 237,364	\$ 112,328	\$ 6,098,746
2022	2,955,000	2,367,253	244,512	105,170	5,671,935
2023	3,070,000	2,265,411	251,886	97,796	5,685,093
2024	3,190,000	2,153,530	259,483	90,199	5,693,212
2025	3,275,000	2,036,679	267,308	82,373	5,661,360
2026 - 2030	17,935,000	8,320,992	1,462,442	285,966	28,004,400
2031 - 2035	16,540,000	5,059,672	1,160,958	62,928	22,823,558
2036 - 2040	13,140,000	2,221,388			15,361,388
2041 - 2044	4,530,000	362,163			4,892,163
Total	<u>\$ 67,915,000</u>	<u>\$ 27,256,142</u>	<u>\$ 3,883,953</u>	<u>\$ 836,760</u>	<u>\$ 99,891,855</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, 2020, were \$3,517,363 and \$68,281,590, respectively.

The University's outstanding bond from direct placement of \$3,883,953 contain a provision that in an event of default, outstanding amounts become immediately due if the University is unable to make payment.

In the event of a default for the general obligation bonds, the Trustee may, and upon written request of the holders of not less than 20% in principal amount of Bonds then outstanding shall, declare the principal of all the Bonds then outstanding to be due and immediately payable. The Trustee may, and upon the written request of the holders of not less than 20% of the Bonds then outstanding shall, proceed to protect and enforce its rights and the rights of the holders of the Bonds under the applicable law of the State of Arkansas and under the Indenture by such suits, actions or special proceedings in equity or at law, either for the specific performance of any covenant or agreement contained in the indenture or in-aid or execution of any power granted in the indenture or for the enforcement of any other proper legal or equitable remedy, including mandamus, as the Trustee shall determine most effectual to enforce and protect such rights.

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020



NOTE 12: Note Payable

On December 16, 2018, the University entered into an agreement with the Arkansas Division of Higher Education for a \$1,100,000 College Savings Bond Loan. The purpose of the loan will be used for Phase I Energy Project, to include campus HVAC controls, and lighting. The debt service on the loan will be supported by revenue from tuition and fees. The term of the loan is fifteen (15) years at an estimated annual interest rate not to exceed 2.5 percent. Principal payments of \$63,115 and interest of \$25,337 were paid as of June 30, 2020. The principal outstanding at June 30, 2020 was \$975,274. The total principal and interest remaining to be paid on the note is \$1,149,870, as of June 30, 2020. The unpaid principal may be prepaid in whole or in part at any time without penalty.

Fiscal Year	Total Principal	Interest	Total Payments
2021	\$ 64,655	\$ 23,797	\$ 88,452
2022	66,232	22,219	88,451
2023	67,848	20,603	88,451
2024	69,504	18,948	88,452
2025	71,200	17,252	88,452
2026-2030	382,922	59,336	442,258
2031-2033	252,913	12,441	265,354
Totals	\$ 975,274	\$ 174,596	\$ 1,149,870

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020



NOTE 13: Commitments

The Institution was contractually obligated for the following at June 30, 2020:

Project Name	Construction in Progress	Balance Remaining on Contract	Completion Date
New Academic Facility	\$ 109,248		Suspended
New Public Safety Building	33,637		Suspended
Williamson ANCRC TGT1724	441,037		8/1/2021
Williamson Hall Renovation	724,656		8/1/2021
Williamson ANCRC TGT1807	571,524		8/1/2021
Williamson ANCRC TGT1910	487,944	472,248	8/1/2021
Williamson Fire Recovery	368,846	636,287	8/1/2021
Williamson Fire ATU Portion	9,786	265,308	8/1/2021
Williamson Insurance Proceeds	166,401	273,851	8/1/2021
New Campus Entrance	102,247	137,753	6/30/2023
Witherspoon Elevator		173,766	12/15/2020
Commons Summer Projects	73,622		8/30/2020
Hughes Hall	50,630	63,000	Suspended
ATU Student Rec & Student Union	632,777	17,026	Suspended
901 & 911 Denver Avenue	6,310	66,166	9/30/2020
Baswell Hall ResLife 2020	25,950	5,000	8/30/2020
Wilson Hall ResLife 2020	18,520	716,953	9/15/2020
Hull Student Union	2,525,434	1,472,541	11/30/2020
M Street		39,000	7/31/2020
Paine Hall		117,497	7/31/2020
Turner		16,345	7/31/2020
McEver Hoods	3,919	149,947	8/10/2020
Nutt Hall - ResLife		5,245	7/31/2020
Oz Walking Trail '19	14,391		6/30/2021
Chambers Cafeteria Project	63,206	65,552	8/30/2020
Commons Bldg E	66,349		8/10/2020
Brown Hall ResLife 2020	36,070	36,070	8/10/2020
ResLife Wifi 2020	4,671	430,328	9/30/2020
Total CIP	\$ 6,537,174	\$ 5,159,883	

*Due to pending litigation, at this time the University is unable to determine the balance remaining on the contracts associated with the Williamson building.

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020



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, 2020, 2019, and 2018 were \$3,348,210, \$3,442,711, and \$3,488,128, respectively. Participants' contributions were \$2,510,983, \$2,553,801, and \$2,593,792, for the year ended June 30, 2020, 2019, and 2018, respectively.

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.

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 14.25 percent of covered salaries, the maximum allowed by State law. The University contributions to ATRS for the years ended June 30, 2020, 2019, and 2018, were \$486,724, \$541,074, and \$500,381, respectively, equal to the required contributions for each year. See Note 21 for further detail on the ATRS pension plan.

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020



NOTE 14: Employee Retirement Benefits (continued)

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 15.32 percent of covered salaries. The University's contributions to APERS for the years ended June 30, 2020, 2019, and 2018, were \$1,992,404, \$2,062,144, and \$1,712,980, respectively, equal to the required contributions for each year. See Note 21 for further detail on the APERS pension plan.

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 Workforce Education and Career Opportunities 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 Workforce Education and Career Opportunities, 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, 2020, 2019, and 2018, were \$37,432, \$39,378, and \$40,859, respectively. The participants' contributions for VALIC for the years ended June 30, 2020, 2019, and 2018, were \$18,716, \$19,676, and \$20,677, respectively.

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020



NOTE 14: Employee Retirement Benefits (continued)

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, 2020, 2019, and 2018, were \$8,243, \$7,439, and \$7,277, respectively. The participants' contributions for Delta Life for the year ended June 30, 2020, 2019, and 2018, were \$4,122, \$3,714, and \$3,638, respectively.

NOTE 15: Postemployment Benefits Other Than Pension (OPEB)

Arkansas Tech University implemented GASB Statement no. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, during fiscal year 2017-18. This statement replaces GASB no. 45. GASB Statement no. 75 establishes new standards for accounting and financial reporting of employer provided OPEB plans. This statement identifies methods and assumptions that are required to be used to project future benefit payments.

General Information about OPEB Plan

Medical Plan description.

Arkansas Tech University offers a single-employer, defined benefit OPEB plan for all permanent benefits eligible employees. Employees who have reached age 60 and completed 10 years of service with Arkansas Tech University are eligible to participate in the University's Retirement with Benefits Plan. The University allows continued group health insurance coverage until the retiree reaches Medicare eligibility. Coverage is also offered to dependents. If the retiree predeceases the dependent, coverage for the survivor 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.

For participants retiring between July 1, 1998 and July 1, 2017, the University pays one hundred percent of the retiree's premium for health insurance coverage until the individual reaches Medicare eligibility.

For participants retiring after July 1, 2017, the retiree will be responsible for the same percentage of premium that they were responsible for while active. The retiree will also be subject to premium changes in the same proportion as the active employee group. Coverage is still offered until Medicare eligibility.

Additionally, the University has four 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 \$302,777 represents a pro-rata share of the statewide liability, which was actuarially determined in accordance with GASB Statement no. 75. 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, 2020.

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020



NOTE 15: Postemployment Benefits Other Than Pension (OPEB) (continued)

Arkansas Tech University Medical Plans Effective January 1, 2020			
Plan:	PPO \$950	PPO \$4,000	HSA \$4,000
Non-Medicare Benefit Ratio	0.831	0.730	0.782
<u>In-Network (INN) Benefits</u>			
Deductible (Ded) (Individual/Family)	\$950/\$1,900	\$4,000/\$8,000	\$4,000/\$8,000
Coinsurance	20%	30%	0% after Deductible
Out-of-Pocket Max (Individual/Family)	\$3,450/\$6,900	\$7,500/\$15,000	\$4,000/\$8,000
Preventive Care	No Charge	No Charge	No Charge
Office Visit (OV) - Primary Care (PCP)	\$35 Copay	\$50 Copay	DC*
OV - Specialist Care Provider (SCP)/Urgent Care/Chiro/PT	\$35 Copay	DC*	DC*
Hospital Emergency Room (ER)	DC*	DC*	DC*
Outpatient Surgery	DC*	DC*	DC*
Hospital Inpatient	DC*	DC*	DC*
<u>Out-of-Network (OON) Benefits</u>			
Deductible (Individual/Family)	\$950/\$1,900	\$4,000/\$8,000	\$8,000/\$16,000
Coinsurance	40%	50%	20%
Out-of-Pocket Max (Individual/Family)	N/A	\$18,000/\$36,000	N/A
Office Visits (PCP) & (SCP)	DC*	DC*	DC*
<u>Prescription Drugs</u>			
Retail (30 Days) - Generic/Formulary / Non-Form./Specialty Copay	\$15/\$45/\$65/\$65	\$20/\$50/\$70/\$250	DC*
Mail Order (90 Days) - Generic/Form / Non-Form./Specialty Copay	\$15/\$45/\$65/\$65	\$20/\$50/\$70/\$250	DC*
<u>Selected INN Detail Benefits</u>			
Skilled Nursing Facility	DC*	DC*	DC*
Advanced Imagines (CT, MRI, PET)	DC*	DC*	DC*
Manipulations (Physical, Speech, and Occupational Therapy)	DC*	DC*	DC*
Home Health	DC*	DC*	DC*
Ambulance	DC*	DC*	DC*

* DC=Deductible and Coinsurance apply.

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020



NOTE 15: Postemployment Healthcare and Life Insurance Benefits (continued)

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.

Employees Covered by Benefit Terms.

At June 30, 2020, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payment	60
Inactive employees entitled to but not yet receiving benefit payments	0
Active employees	883
	943
	943

Total OPEB Liability

Arkansas Tech University’s total OPEB liability of \$8,692,035 was measured as of June 30, 2019, and was determined by a June 30, 2019 valuation date. No assets are accumulated in a trust that meets the criteria in paragraph 4 of the GASB statement no. 75.

Actuarial assumptions and other inputs:

The total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	3.25 percent
Salary increases	Sample merit and longevity increases excluding inflation shown below.

<u>Age</u>	<u>Merit & Longevity</u>
20	6.6%
25	5.1%
30	3.2%
35	2.3%
40	1.9%
45	1.5%
50	1.1%
55	0.8%
60	0.7%

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020



NOTE 15: Postemployment Healthcare and Life Insurance Benefits (continued)

Actuarial assumptions and other inputs (Continued).

Discount rate	3.50 percent for the valuation measured as of June 30, 2019 3.87 percent for the valuation measured as of June 30, 2018
Health cost trend rates	The initial health cost trend was 7.5% in 2020 and declines gradually to an ultimate rate of 4.50% starting in 2041.
Retirees' share of benefit-related costs	Retirees are responsible for the portion of premium rates not covered by the University's explicit subsidy. Employees retiring on/after July 1, 2017 will be responsible for the same percentage of premiums that they were responsible for while active.
Measurement date	A July 1, 2019 measurement date was used.

The discount rate as of June 30, 2019 is 3.50%, which is the 20-year bond buyer index rate as of June 28, 2019. The discount rate as of June 30, 2018 is 3.87%, which is the 20-year bond buyer index rate as of June 29, 2018.

Mortality rates were based on the RPH-2017 Total Dataset Mortality Table fully generational using Scale MP-2017.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of a 2011 actuarial experience study.

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020



NOTE 15: Postemployment Healthcare and Life Insurance Benefits (continued)

Changes in Total OPEB Liability

	Total OPEB Liability
Balance at 6/30/19	\$ 8,330,383
Changes for the year:	
Service cost	557,275
Interest	331,669
Changes in benefits	(217,357)
Differences between expected and actual experience	(144,335)
Changes of assumptions	475,267
Benefit payments	(640,867)
Net changes	361,652
Balance at 6/30/20	\$ 8,692,035

During the measurement year, the TOL increased by \$361,652. The service cost and interest cost increased the TOL by \$888,944 while benefit payments decreased the TOL by \$640,867.

There were liability gains of \$217,357 due to benefit changes during the year. This gain was due to the closing of the PPO 950 medical plan to new retirees. There were liability gains of \$144,335 during the year due to population changes.

There were assumption changes due to the change in the 20-year Bond Buyer Index rate and the changes in claim curves and trends. The discount rate changed from 3.87% to 3.50% as of June 30, 2019. These assumption changes increase the liability by \$475,267.

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020



NOTE 15: Postemployment Healthcare and Life Insurance Benefits (continued)

Sensitivity of the total OPEB liability to changes in the discount rate:

Changes in the discount rate affect the measurement of the TOL. Lower discount rates produce higher TOL and higher discount rates produce a lower TOL. The following table shows the sensitivity of the TOL to the discount rate. A one percent decrease in the discount rate increases the TOL by approximately 9%. A one percent increase in the discount rate decreases the TOL by approximately 7%.

	1% Decrease 2.50%	Discount Rate 3.50%	1% Increase 4.50%
Total OPEB Liability	\$ 9,446,530	\$ 8,692,035	\$ 8,048,408

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rate:

Changes in healthcare trends affect the measurement of the TOL. Lower healthcare trends produce lower TOL and higher healthcare trends produce higher TOL. The following table shows the sensitivity of the TOL to healthcare trends. A one percent decrease in healthcare trends decreases the TOL by approximately 7%. A one percent increase in the healthcare trend rate increases the TOL by approximately 8%.

	1% Decrease	Heathcare Trend	1% Increase
Total OPEB Liability	\$ 8,110,427	\$ 8,692,035	\$ 9,367,474

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020



NOTE 15: Postemployment Healthcare and Life Insurance Benefits (continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2020, the University recognized contributions subsequent to the measurement date of \$699,472. In addition, the University recognized an OPEB expense of \$222,857. The following table summarizes the current balances of deferred outflows and deferred inflows of resources related to the Plan along with the net recognition over the next five years and the total recognition thereafter if any.

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience		\$ 480,319
Changes in assumptions	\$ 427,740	1,803,905
Contributions subsequent to the measurement date	<u>699,472</u>	
Totals	<u>\$ 1,127,212</u>	<u>\$ 2,284,224</u>

The subsequent contributions after the measurement date are reflected as a deferred outflow, but this is not subject to a deferred recognition period in the OPEB expense. Instead, these subsequent contributions will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2021. Other amounts reported above as deferred inflows will be recognized in OPEB expense as follows:

Year Ended	
<u>June 30,</u>	<u>Amount</u>
2021	\$ (206,277)
2022	(206,277)
2023	(206,277)
2024	(206,277)
2025	(206,277)
Thereafter	(825,099)

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020



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	Partial 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

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020



Note 16: Risk Management (continued)

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 \$300,000 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.

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.

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020



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	\$ 26,073,368	\$ 8,338,584	\$ 131,906	\$ 7,627,619		\$ 42,171,477
Research	3,587,946	1,037,875	4,964	144,536		4,775,320
Public service	414,777	144,861		22,225		581,863
Academic support	4,812,623	1,769,216		2,972,531		9,554,370
Student service	4,785,727	1,871,484	7,412	1,756,212		8,420,834
Institutional support	7,959,372	2,749,844	4,380	4,285,049		14,998,645
Operation of plant	3,482,385	1,993,834		5,699,761		11,175,980
Scholarships			15,975,953			15,975,953
Depreciation					\$ 9,783,370	9,783,370
Auxiliary enterprises	4,874,289	1,536,691	2,048,498	9,785,733		18,245,212
Total expense	\$ 55,990,486	\$ 19,442,390	\$ 18,173,113	\$ 32,293,665	\$ 9,783,370	\$ 135,683,024

NOTE 18: Disaggregation of Payables

The accounts payable and other liabilities of \$4,518,374 consisted of \$3,091,720 due to vendors, salaries, and other payroll related items, \$309,087 of construction contract retainages held, \$734,148 due for construction contractor payments, and \$383,419 due for bond interest.

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020



NOTE 19: Pledged Revenues

At June 30, 2020, the University's pledged revenues were as follows:

BONDS	ISSUE DATE	MATURITY DATE	PURPOSE	PLEDGED	REVENUE COLLECTED
Auxiliary Revenue Bond 2012	12/1/2012	1/1/2043	Renovate Chambers Cafeteria	Russellville Food Service Revenue	\$7,267,859
Auxiliary Revenue Bond 2013	12/1/2012	1/1/2043	Renovate Chambers	Russellville Food Service Revenue	7,267,859
Auxiliary Revenue Bond 2013A	6/13/2013	1/1/2043	Renovate Chambers	Russellville Food Service Revenue	7,267,859
Student Fee Revenue Bonds-2013	11/1/2013	12/1/2043	Construct Brown Building	Student Tuition & Fees	69,993,736
Student Fee Revenue Bonds-2014	10/1/2014	5/1/2039	Ozark Student Services Building; Academic Classroom; Physical Plant; Rothwell McEver & Corley Buildings	Student Tuition & Fees	69,993,736
Student Fee Revenue Bonds-2014	10/1/2014	5/1/2044	Construct Ozark Allied Health Building and refoof Ozark Technology and Academic Support Building	Student Tuition & Fees	69,993,736
Housing Refunding Bonds 2014	10/1/2014	5/1/2039	Baswell Hall, Critz Hall and Hughes Building	Housing Fees	11,017,356
Student Fee Revenue Bonds-2015	11/1/2015	11/1/2020	Computer Equipment Upgrade	Student Tuition & Fees	69,993,736

(continued on next page)

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020



NOTE 19: Pledged Revenues (continued)

BONDS	ISSUE DATE	MATURITY DATE	PURPOSE	PLEDGED	GROSS REVENUE COLLECTED
Housing Refunding Bonds-2017	12/21/2017	6/1/2041	2001 Nutt Hall 2011 Tucker Hall 2011A M. Street Dorm 2012A M. Street Dorm 2012B Paine Hall 2012C Baswell Hall	Housing Fees	\$11,017,356
Student Fee Refunding Bonds-2017	12/21/2017	6/1/2042	2010 Oz Student Union 2012A Old Art Building 2012B 2003 Art Bldg 2012C 2004 Hull Bldg 2012D 2005 Art Bldg	Student Tuition & Fees	69,993,736
Athletic Refunding Bonds 2017	12/21/2017	6/1/2042	2007 Sports Complex 2012 Baseball Field	Athletic Revenues	6,371,684
Housing Refunding Bonds-2017 Taxable	12/21/2017	6/1/2038	2008 Eastgate/ Campus Courts	Housing Fees	11,017,356
Student Fee Refunding Bonds-2018	12/18/2018	6/1/2033	Phase I Energy Project	Student Tuition & Fees	69,993,736

(continued on next page)

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020



NOTE 19: Pledged Revenues (continued)

BONDS	ISSUE	FY 2020 PRINCIPAL PAID	FY 2020 INTEREST PAID	PRINCIPAL OUTSTANDING 6/30/2020	INTEREST OUTSTANDING 6/30/2020
Auxiliary Revenue Bond 2012	\$ 2,750,000	\$ 70,000	\$ 79,420	\$ 2,295,000	\$ 1,110,128
Auxiliary Revenue Bond 2013	3,250,000	80,000	98,884	2,705,000	1,369,274
Auxiliary Revenue Bond 2013A	1,750,000	40,000	55,965	1,450,000	781,128
Student Fee Revenue Bonds 2013	5,000,000	110,000	199,798	4,375,000	2,961,586
Student Fees Refunding Bonds 2014	16,335,000	520,000	498,613	13,600,000	5,190,975
Student Fee Revenue Bonds 2014	6,000,000	140,000	194,619	5,275,000	2,701,056

(continued on next page)

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020



NOTE 19: Pledged Revenues (continued)

BONDS	ISSUE	FY 2020 PRINCIPAL PAID	FY 2020 INTEREST PAID	PRINCIPAL OUTSTANDING 6/30/2020	INTEREST OUTSTANDING 6/30/2020
Housing Refunding Bonds 2014	\$10,995,000	\$385,000	\$320,113	\$8,635,000	\$3,051,856
Student Fee Revenue Bonds 2015	2,000,000	405,000	11,744	410,000	4,100
Housing Refunding Bonds 2017	21,945,000	880,000	770,638	19,725,000	7,285,457
Student Fee Refunding Bonds 2017	7,550,000	420,000	250,481	6,320,000	1,718,532
Athletic Fee Refunding Bonds 2017	3,470,000	120,000	101,100	3,125,000	1,082,050
Housing Refunding Bonds 2017 Taxable	1,230,000	1,150,000	20,844		
Student Fee Refunding Bonds- 2018	4,000,000	116,047	111,680	3,883,953	836,760

The approximate percentages of revenues pledged for the year ended June 30, 2019 were as follows:

Student tuition and fees – 4.25%

Food service fees – 5.84%

Housing fees – 32.01%

Athletic revenue – 3.47%

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020



NOTE 20: Contingent Liabilities

On August 24, 2016, the Securities and Exchange Commission entered a cease-and-desist order to the Board of Trustees of Arkansas Tech University pursuant to Section 8A of the Securities Act of 1933. The matter involved material omissions by Arkansas Tech University in the sale of municipal securities. Specifically, in certain official statements for municipal securities, Arkansas Tech University failed to disclose that it had not been in material compliance with prior agreements to provide continuing disclosure. Arkansas Tech University was an issuer responsible for making the continuing disclosure and for the omissions in the official statements. As a result of the conduct, Arkansas Tech University violated Section 17(a)(2) of the Securities Act. The violations were self-reported by Arkansas Tech University to the SEC pursuant to the Division of Enforcement's Municipalities Continuing Disclosure Cooperation Initiative. In addition to other undertakings including, but not limited to establishing appropriate written policies, complying with existing continuing disclosure undertaking, and updating past delinquent filings, Arkansas Tech University shall disclose in a clear and conspicuous fashion the terms of the settlement in Administrative Proceeding File No. 3-17426 in any final official statement for an offering by Arkansas Tech University for five years.

On July 3, 2017, the University received a demand letter from a former employee asserting a claim in the amount \$105,611 for alleged salary shortages that began in July, 2011. On February 27, 2018, the former employee filed a lawsuit against Arkansas Tech University in Pope County Circuit Court, Case No. 58-CV-2018-132, alleging breach of contract. The University filed a motion to dismiss based upon sovereign immunity and the plaintiff voluntarily dismissed her claim. On May 16, 2018, Plaintiff re-filed her breach of contract claim before the Arkansas State Claims Commission. It was assigned claim number 180951. The complaint did not specify the amount of damages being sought. A portion of the University's motion to dismiss the claim was granted. On the remaining portion, the parties are currently engaged in discovery. No hearing date has been set as of September 16, 2020. The University has, and will continue to, aggressively defend the matter.

On April 30, 2019, Flynco, Inc. filed claim no. 191111 with the Arkansas State Claims Commission against Arkansas Tech University, alleging breach of contract. The claim is for \$292,868 in addition to attorney's fees and costs. The claim alleges the University wrongfully terminated two contracts with Flynco, Inc. that were related to the remodel of Williamson Hall on the Russellville campus of Arkansas Tech University. The hearing date that has been set by the Claims Commission is May 2021. The University has, and will continue to, aggressively defend the matter.

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020



NOTE 21: Pensions

General Information about the Pension Plans

Plan descriptions: Eligible employees of Arkansas Tech University (the University) are provided with pensions through the Arkansas Teacher Retirement System (ATRS), administered by the Arkansas Teacher Retirement System Board of Trustees, and Arkansas Public Employees Retirement System (APERS), administered by the Arkansas Public Employees Retirement System Board of Trustees. ATRS and APERS are cost-sharing multiple-employer defined benefit plans. Benefit provisions are established and amended by Arkansas Code Title 24.

Each plan issues a publicly available financial report, which may be obtained by contacting the appropriate plan:

Arkansas Teacher Retirement System

1400 West Third Street
Little Rock, AR 72201
(501) 682-1517
<https://www.artrs.gov/publications>

Arkansas Public Employees Retirement System

124 W. Capitol, Suite 400
Little Rock, AR 72201-3704
(501) 682-7800
<http://www.apers.org/annualreports/index.php>

Benefits Provided: Each plan provides retirement, disability and death benefits and annual adjustments to plan members and beneficiaries, as follows:

APERS

The normal retirement benefit, paid on a monthly basis, is determined based on (1) the member's final average compensation (an average of the highest 36 months' earnings) and (2) the number of years of credited service. Retiree benefit increases are calculated each year on July 1, for the following 12 months. The predetermined amount is the amount of the benefit payable as of the immediately preceding July 1, increased by 3%. Members are eligible for full retirement benefits (1) at any age with 28 years of credited service; (2) at age 65 with five years of actual service, except for members of the General Assembly who must have 10 years of actual service if the member only has service as a member of the General Assembly; or (3) at age 55 with 35 years of credited service as an elected official or public safety member. Members are eligible for reduced benefits (1) at any age with at least 25 years but less than 28 years of actual service; or (2) at age 55 with five years of actual service. Members who are defined as a public safety member are eligible for a reduced benefit with five years of actual service if the member is within 10 years of normal retirement age.

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020



NOTE 21: Pensions (continued)

ATRS

Members are eligible for full retirement benefits at age 60 with five or more years of credited service or at any age with 28 or more years of credited service. Members with 25 years of credited service who have not attained age 60 may receive an annuity reduced by 5-/12 of 1% multiplied by the number of months by which the early retirement precedes the earlier of (1) completion of 28 years of credited service or (2) attainment of age 60. The normal retirement benefit, paid monthly, is determined based on (1) the member's final average salary and (2) the number of years of service. Disability retirement benefits are payable to members who are vested and demonstrate total and permanent incapacity to perform the duties of their position while in active employment. The disability annuity is computed in the same manner as the age and service annuity. Survivor benefits are payable to qualified survivors upon the death of an active, vested member

Eligible spouse survivors receive a survivor annuity that is based on the member's years of service credit prior to their death, and minor child survivors receive a percentage of the member's highest salary earned. A lump sum death benefit is provided for active and retired members with 10 years of actual service. A cost of living adjustment (COLA) is payable on July 1 of each year to retirees, certain survivors, and annuity beneficiaries who received monthly benefits for the previous 12 months. The COLA is determined by multiplying the member's base retirement annuity by 3%.

Contributions. Arkansas Code Title 24 establishes the contribution requirements of active members and participating employers. Contribution rates for each plan are as follows:

APERS

Contribution provisions applicable to the participating employers are established by the APERS Board of Trustees and should be based on an independent actuary's determination of the rate required to fund the plan. The General Assembly and certain agencies employing individuals in public safety positions must also remit additional amounts. For the fiscal year ended June 30, 2020, the employer contribution rate, as a percentage of active member payrolls, was 15.32%. Contributions to APERS from the University were \$1,992,404 for the year ended June 30, 2020.

APERS consists of both a contributory plan and a noncontributory plan. The contributory plan has been in effect since the beginning of the plan and is available to all persons who became members prior to January 1, 1978.

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020



NOTE 21: Pensions (continued)

APERS (Continued)

The noncontributory plan was created by Act 793 of 1977 and was effective January 1, 1978. It automatically applied to all members hired from January 1, 1978, to June 30, 2005. Act 2084 of 2005 requires that, beginning July 1, 2005, all new hires become contributory members and are required to contribute 5% of their earnings to APERS. All other noncontributory members were given the opportunity to become contributory if they so elected by December 31, 2005.

During a member's participation in the APERS deferred retirement option plan (DROP), the employer continues to make contributions and the employee ceases to make contributions.

ATRS

The funding policy of ATRS provides for periodic employer contributions at statutorily established rates based on annual actuarial valuations. For the fiscal year ended June 30, 2020, the employer contribution rate was 14.25% of covered employee payroll. Contributions to ATRS from the University were \$486,724 for the year ended June 30, 2020.

ATRS has contributory and noncontributory plans. The contributory plan has been in effect since the beginning of the plan. Contributory members of ATRS contribute 6% of their gross wages. The noncontributory plan began July 1, 1986. Effective July 1, 1999, all new members were automatically enrolled as contributory members. Active members as of July 1, 1999 were allowed to make an irrevocable choice between the contributory or noncontributory plan. Employee contributions are refundable if covered employment terminates before a monthly benefit is payable.

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020



NOTE 21: Pensions (continued)

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

At June 30, 2020, the University reported liabilities of \$21,186,066 (\$16,137,521 APERS and \$5,048,545 ATRS) for its proportionate share of the net pension liabilities. The net pension liabilities were measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability for each plan was determined by an actuarial valuation as of that date. The University's proportion of the net pension liability was based on current contributions of all participating employers. At June 30, 2019, the University's proportion was 0.1210% for ATRS and 0.6689% for APERS.

For the year ended June 30, 2020, the University recognized an increase in pension expense of \$356,954 for ATRS and an increase of \$2,150,077 for APERS. The total pension expense for year ended June 30, 2020 for ATRS and APERS was \$824,044, and \$4,041,365, respectively. For the year ended June 30, 2020, the University reported deferred outflows of resources and deferred inflows of resources related to pensions as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience (ATRS - \$135,539 deferred outflows, APERS - \$439,195 deferred outflows; ATRS - \$52,826 deferred inflows, and APERS - 23,976)	\$574,734	\$76,802
Changes of assumptions or other inputs (APERS - \$875,900, ATRS - 750,371 - deferred outflow; APERS - \$620,354 - deferred inflow)	1,626,271	620,354
Net differences between projected and actual earnings on pension plan investments (APERS-\$122,573 deferred inflows. ATRS \$355,649 - deferred inflows)		478,122
Changes in University's proportion and differences between the University's contributions and proportionate share of the University's contributions (APERS - \$1,277,325 - deferred outflows; ATRS - \$85,290 - deferred inflows, APERS - \$846 - deferred inflows; ATRS \$393,058)	1,362,615	393,904
The University's contributions subsequent to the measurement date (ATRS - \$486,724 and APERS - \$1,992,404)	2,479,128	
Total	\$6,042,748	\$1,569,282

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020



NOTE 21: Pensions (continued)

\$2,479,128 (APERS - \$1,992,404; ATRS - \$486,724) was reported as deferred outflows of resources related to pensions resulting from University's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2021	\$1,483,655 (ATRS - \$151,856 and APERS - \$1,331,799)
2022	(\$147,601) (ATRS - (\$131,831) and APERS - (\$15,770))
2023	\$273,687 (ATRS - \$25,257 and APERS - \$248,430)
2024	\$366,916 (ATRS - \$106,704 and APERS - \$260,212)
2025	\$17,681 ATRS - \$17,681
Total	\$1,994,338 (ATRS - \$169,667 and APERS - \$1,824,671)

Actuarial assumptions. The total pension liability in the actuarial valuation (as of the date noted below) was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	ATRS	APERS
Date of actuarial valuation	June 30, 2019	June 30, 2019
Inflation rate	2.75%	3.25%
Salary increases	2.75% to 7.75%, including inflation	3.25% - 9.85%, including inflation
Investment rate of return	7.50%	7.15%
Mortality rates	RP-2014 Healthy Annuitant Disabled Annuitant, and Employee Mortality Tables were used for males and females.	RP-2014 weighted generational mortality tables for healthy annuitant, disability, or employee health in service, if applicable.
Actuarial experience study dates	July 1, 2010, through June 30, 2015	July 1, 2012, through June 30, 2017

ATRS

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

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020



NOTE 21: Pensions (continued)

APERS

The long-term expected rate of return on pension plan investments of each plan was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for the 10-year period from 2019-2028 were based upon capital market assumptions provided by the plan investment consultant.

For each major asset class that is included in each pension plans' target asset allocation as of June 30, 2019, these best estimates are summarized in the following table.

ATRS		
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global equity	53.00%	5.1%
Fixed income	15.00%	1.4%
Alternatives	5.00%	4.2%
Real assets	15.00%	5.0%
Private equity	12.00%	6.3%
Cash equivalents	0.00%	0.6%

APERS		
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Broad Domestic Equity	37.00%	6.20%
International Equity	24.00%	6.33%
Real Assets	16.00%	3.32%
Absolute Return	5.00%	3.56%
Domestic Fixed	18.00%	1.54%

Discount rate. The discount rate for each plan was determined as follows:

APERS

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

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020



NOTE 21: Pensions (continued)

ATRS

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

Sensitivity of University’s proportionate share of the net pension liability to changes in the discount rate. The following presents the University’s proportionate share of the net pension liability for each plan calculated using the discount rate stated above, as well as what the University’s proportionate share of net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease	Current discount rate	1% Increase
ATRS – Current discount rate 7.50%	\$8,300,264	\$5,048,545	\$2,351,723
APERS – Current discount rate 7.15%	\$25,864,419	\$16,137,521	\$8,112,386

Pension plan fiduciary net position. Detailed information about each pension plan’s fiduciary net position is available in the separately issued financial report of each plan.

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020



Note 22: Impaired Capital Assets

On April 3, 2019, the Williamson building at Arkansas Tech University was significantly damaged by a fire. The Williamson Building was constructed in 1940 at a cost of \$142,447. The University completed two additions to the Williamson Building in 2003 for \$564,305 and 2016 for \$57,334, which brings the total historical cost of the building to \$764,086. The accumulated depreciation remaining on the building is \$721,877, making the carrying value \$42,210. In addition, at June 30, 2020, the University had construction in progress cost of \$2,770,193. The construction in progress was related to the remodel of the Williamson Building in fiscal years 2019 and 2018. Due to a claim being held at the State Claims Commission, the University has not been able to determine the final amount of construction in progress. Therefore, the construction in progress amount has not been included in the historical costs of the building. Also, the University was unable to determine the restoration cost. Due to safety concerns the building was closed. The building, however was insured, along with all parties who were working on the building when the fire occurred. The University is currently working with all parties involved to determine the cause of the fire and ultimately the liable party. The cost of replacement, demolition, and insurance settlement has not been determined at this time. Due to the unknown amounts, an impairment loss or gain could not be determined for the fiscal year ending June 30, 2020.

Note 23: COVID-19

On March 11, 2020, the Governor of Arkansas issued Executive Order 20-03 declaring an emergency and ordering the Arkansas Department of Health to take action to prevent the spread of coronavirus disease 2019 (COVID-19). As a result, the University was unable to conduct its annual inventory on capital assets. The extent of the impact of COVID-19 on the financial statements for future reporting periods will depend on certain developments, including the duration and speed of the outbreak, revenue collections, and any possible issues – all of which are uncertain and cannot be predicted. The financial impact of COVID-19 to the University is uncertain.



REQUIRED SUPPLEMENTARY
INFORMATION
(UNAUDITED)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
June 30, 2020



Other Postemployment Benefits (OPEB)

The schedule of Required Supplementary Information generally starts with information as of the implementation of GASB Statement no. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and eventually will build up to 10 years of information.

Arkansas Tech University implemented GASB Statement no. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, during fiscal year 2017-18. This statement replaces GASB no. 45. GASB Statement no. 75 establishes new standards for accounting and financial reporting of employer provided OPEB plans. This statement identifies methods and assumptions that are required to be used to project future benefit payments.

Schedule of Changes in Total OPEB Liability and Related Ratios

	<u>6/30/2020*</u>	<u>6/30/2019*</u>
Service cost	\$ 557,275	\$ 690,617
Interest (includes interest on service cost)	331,669	332,836
Changes of benefit terms	(217,357)	(445,594)
Differences between expected and actual experience	(144,335)	(176,952)
Changes of assumptions	475,267	(380,600)
Benefit payments	<u>(640,867)</u>	<u>(691,248)</u>
Net change in total OPEB liability	361,652	(670,941)
Total OPEB liability - beginning	<u>8,330,383</u>	<u>9,001,324</u>
Total OPEB liability - ending	<u>\$ 8,692,035</u>	<u>\$ 8,330,383</u>
Covered employee payroll	\$45,449,605	\$46,942,626
Total OPEB liability as a percentage of covered employee payroll	19.12%	17.75%

* amounts presented for each fiscal year were determined as of June 30 of the previous year.

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Notes to Schedule:

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement no. 75.

During the measurement year, the TOL increased by \$361,652. The service cost and interest cost increased the TOL by \$888,994 while benefit payments decreased the TOL by \$640,867.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
June 30, 2020



Other Postemployment Benefits (OPEB) (Continued)

There were liability gains of \$144,335 due to benefit changes during the year. There was a decrease in enrollment across all plans.

There were assumption changes due to the change in the 20-year Bond Buyer Index rate and the changes in claim curves and trends. The discount rate changed from 3.87% to 3.50% as of June 30, 2019. These assumption changes increased the liability by \$475,267.

The plan does not issue a stand-alone financial report. For inquiries relating to the plan, please contact Mr. Walter J. Branson, Interim Vice President for Finance and Administration, 1509 North Boulder Avenue, Administration Building Room 202, Russellville, AR 72801.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
June 30, 2020



**Schedule of the University's Proportionate Share of the Net Pension Liability
Arkansas Teacher Retirement System**

	2020	2019	2018	2017	2016	2015
University's proportion of the NPL	0.1210%	0.1180%	0.1300%	0.1362%	0.1386%	0.1394%
University's proportionate share of NPL	\$5,048,545	\$ 4,292,979	\$5,466,689	\$6,009,569	\$4,513,157	\$3,660,521
University's covered payroll**	\$3,724,788	\$ 3,574,150	\$3,854,064	\$3,853,121	\$3,836,236	\$4,099,736
University's proportionate share of NPL as a % of covered payroll	135.54%	120.11%	141.84%	155.97%	117.65%	89.29%
Plan fiduciary net position as % of total pension liability	80.96%	82.78%	79.48%	76.75%	82.20%	84.98%

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

	2020	2019	2018	2017	2016	2015
University's proportion of the NPL	0.6689%	0.6193%	0.6003%	0.5586%	0.5447%	0.4638%
University's proportionate share of NPL	\$16,137,521	\$ 13,661,256	\$ 15,513,102	\$13,357,051	\$10,031,477	\$6,580,919
University's covered payroll **	\$12,800,302	\$ 11,813,655	\$ 10,826,228	\$10,038,448	\$ 9,243,408	\$8,302,554
University's proportionate share of NPL as a % of covered payroll	126.07%	115.64%	143.29%	133.06%	108.53%	79.26%
Plan fiduciary net position as % of total pension liability	78.55%	79.59%	75.65%	75.50%	80.39%	84.15%

*The 2020 amounts presented were determined as of June 30, 2019 and the 2019 amounts were determined as of June 30, 2018, etc., the actuarial valuation dates.

**Restated 2016 and 2015 amounts per GASB No. 82 – Pension Issues, an amendment of GASB Statements No. 67, No. 68, and No. 73.

Note: Schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
June 30, 2020



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

	2020	2019	2018	2017	2016	2015
Contractually required contribution	\$ 486,724	\$ 521,469	\$ 500,381	\$ 539,569	\$ 539,437	\$ 537,073
Contributions in relation to contractually required contribution	(486,724)	(521,469)	(500,381)	(539,569)	(539,437)	(537,073)
Contribution deficiency (excess)	-	-	-	-	-	-
University's covered payroll*	\$ 3,460,363	\$ 3,724,778	\$ 3,754,150	\$ 3,854,064	\$ 3,853,121	\$ 3,836,236
Contributions as a % of covered-employee payroll	14.25%	14.00%	14.00%	14.00%	14.00%	14.00%

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

	2020	2019	2018	2017	2016	2015
Contractually required contribution	\$ 1,992,404	\$ 1,961,212	\$ 1,712,980	\$ 1,569,803	\$ 1,455,575	\$ 1,364,327
Contributions in relation to contractually required contribution	(1,992,404)	(1,961,212)	(1,712,980)	(1,569,803)	(1,455,575)	(1,364,327)
Contribution deficiency (excess)	-	-	-	-	-	-
University's covered payroll*	\$ 13,005,518	\$ 12,800,302	\$ 11,813,655	\$ 10,826,228	\$ 10,038,448	\$ 9,243,408
Contributions as a % of covered-employee payroll	15.32%	15.32%	14.50%	14.50%	14.50%	14.76%

*Restated 2016 and 2015 amounts per GASB No. 82 – Pension Issues, an amendment of GASB Statements No. 67, No. 68, and No. 73.

Note: Schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

ARKANSAS TECH UNIVERSITY
 SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS
 FOR THE YEAR ENDED JUNE 30, 2020
 (Unaudited)

Schedule 1

	Year Ended June 30,				
	2020	2019	2018	2017	2016
Total Assets and Deferred Outflows	\$ 261,497,473	\$ 241,336,492	\$ 242,963,699	\$ 237,621,732	\$ 238,465,156
Total Liabilities and Deferred Inflows	120,005,300	121,175,576	119,717,148	116,606,685	119,455,665
Total Net Position	141,492,173	120,160,916	123,246,551	121,015,047	119,009,491
Total Operating Revenues	80,035,237	79,978,926	82,018,193	81,210,221	80,684,954
Total Operating Expenses	135,683,024	139,439,720	132,658,350	131,453,612	130,738,612
Total Net Non-Operating Revenues	57,749,148	55,169,223	53,670,932	52,580,852	52,929,085
Total Other Revenues, Expenses, Gains or Losses	19,229,896	1,205,936	3,535,111	(331,905)	2,224,490

