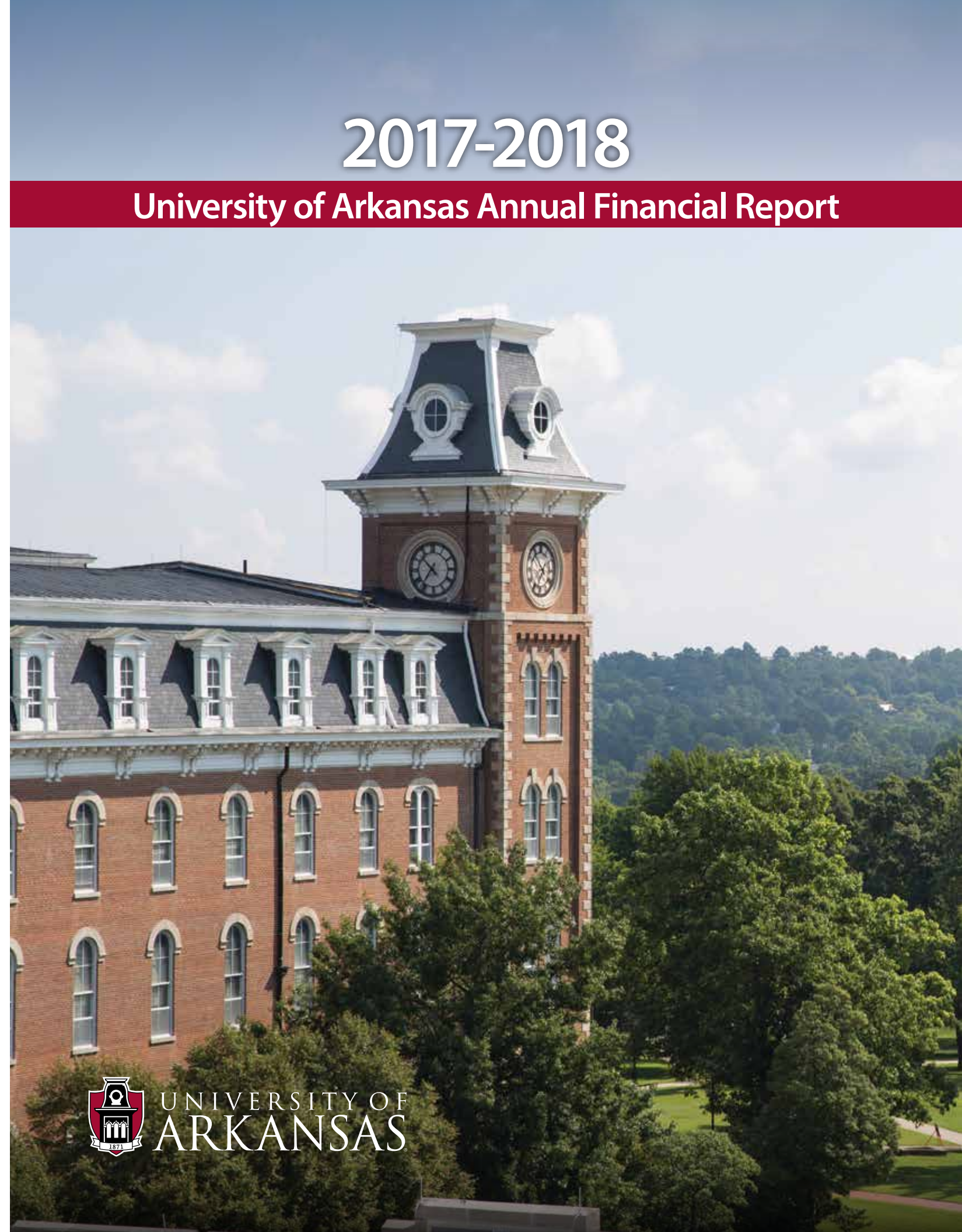


2017-2018

University of Arkansas Annual Financial Report



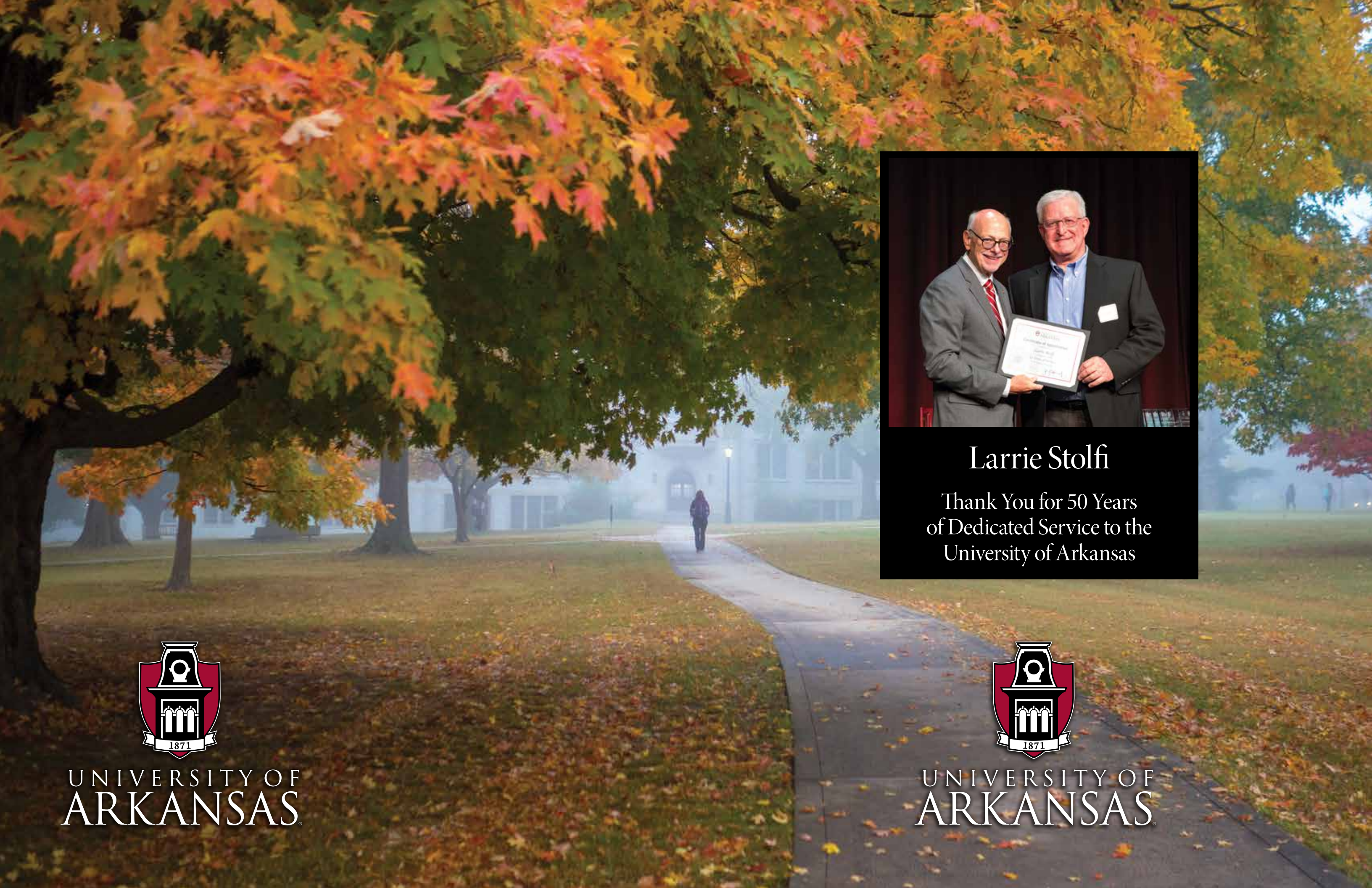
UNIVERSITY OF
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Larrie Stolfi

Thank You for 50 Years
of Dedicated Service to the
University of Arkansas



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MESSAGE FROM THE CHANCELLOR



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

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

As detailed in these pages, it should be clear that university finances are in great shape. Private giving has been exceptionally strong. Last year, the University recorded its second best fundraising year ever: \$292.7 million. These fund are critical to establishing new endowments for faculty and students as well as support for academic programs and capital projects.

The university has also made a commitment to advancing student success - an important part of which is increasing our retention and graduation rates. This isn’t just good for our students, who are better positioned to pay off their loans and earn higher paying jobs, and our state, which benefits from a more educated workforce, it’s also more cost effective. Last year, our freshmen retention rate increased 1.6% – lifting us to a record 83.8%. This translates into about 80 students, who will pay around \$950,000 in tuition – tuition that would have been lost if they went elsewhere or dropped out altogether. So increasing retention rates isn’t just good for students, it also reflects good stewardship of state resources.

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

Thank you so much for your support.

A handwritten signature in black ink, reading "Joe E. Steinmetz". The signature is fluid and cursive, with a long horizontal stroke at the end.

Joe Steinmetz
Chancellor



PROGRESS AND MAJOR INITIATIVES



Private Gift Support Impacts the Institution

The University of Arkansas continues to rely on private gift support from alumni, friends, corporations and foundations to support students, faculty, staff, programs and facilities on campus. Fiscal year 2018 was the second highest fundraising year in the history of the University of Arkansas and the best year for the university’s capital campaign, Campaign Arkansas. The university recorded \$292.7 million in private gift support, surpassing its production goal of \$245 million, and included gifts of cash, gifts-in-kind, planned gifts and new pledges to the U of A received from July 1, 2017, through June 30, 2018.

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

Approximately \$130.6 million of the total amount raised was allocated for endowed funds and added to the university’s overall endowment total. Cash receipts, which include pledge payments, outright gifts and estate and planned gift distributions, reached \$243.5 million in fiscal year 2018. The campus set new records with its 99,943 outright gifts and new pledges from 53,122 benefactors.

Gifts from individuals such as alumni, friends, parents, faculty and staff made up 12 percent of the \$292.7 million raised during the 2018 fiscal year. Another 14 percent came from corporations, while 70 percent came from foundations and 4 percent came from other organizations, including trusts and estates. All private gifts to the university are designated and allocated for specific purposes set forth by each donor and used solely for those purposes. The university makes every effort to align donors’ giving interests with campus priorities.

Support for students and programs accounted for 49 percent of the money raised, 32 percent provided for capital improvements, 14 percent supported faculty and staff and 5 percent supported other key initiatives.

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

The following gifts of \$500,000 or more were announced publicly during fiscal year 2018.

- **School of Art** - An unprecedented \$120 million gift from the Walton Family Charitable Support Foundation established the School of Art at the University of Arkansas. The gift was the largest ever given to a U.S. university to support or establish a school of art and created the first and only accredited, collegiate school of art in the state of Arkansas.
- **Windgate Art and Design District** - A \$40 million gift from the Windgate Charitable Foundation will create the Windgate Art and Design District in south Fayetteville and expand on the School of Art’s Hill Avenue sculpture complex that opened in 2016. The district will feature several new buildings for art and design classrooms, labs, studios and potentially a public gallery space. It will bring together art, design and education, while serving as the central hub for the student and faculty artists and designers at the University of Arkansas and beyond.
- **Anthony Timberlands Center for Design and Materials** - John Ed and Isabel Anthony contributed \$7.5 million to support the construction of a new \$15 million materials innovation center in the Fay Jones School of Architecture and Design, with a primary focus on design innovation in timber and wood. The Anthony Timberlands Center for Design and Materials Innovation will be a center of excellence for innovation in wood design and product development to expand the use of wood in architectural design, construction techniques and product design.
- **Ted and Leslie Belden** - A \$2 million planned gift to support faculty, students and an endowment in athletics was made by Ted and Leslie Belden. Their gift creates the Cyrus A. and Martha Sutherland Endowed Chair in Preservation Design, the Sam Smith Endowed CARE Scholarship for first-generation freshmen and the Roland Sales Endowment in Student Athlete Development.

- **Advance Arkansas** - The scholarship initiative received \$2 million from the Massey Family Charitable Foundation to support the university’s efforts to advance student success and make the U of A more accessible to Arkansans.
- **The David and Barbara Pryor Center for Arkansas Oral and Visual History** - A \$1.5 million contribution from Barbara A. Tyson and the Tyson Foods Foundation Inc in support of the KATV Preservation Project will be used to catalog, index, digitize and archive the extensive collection of KATV footage donated to the Pryor Center in 2009. The Pryor Center is in the J. William Fulbright College of Arts and Sciences.
- **College of Education and Health Professions** - The Windgate Foundation awarded a five-year grant of more than \$1.3 million to support the Arkansas A+ Schools program based in North Little Rock. The funding will assist the program in expanding its work to bring art education to students across Arkansas. Arkansas A+ Schools provides professional development, networking and research data to its member schools, and its focus is arts integration in which some type of art, including music, visual art, drama and dance, is incorporated into subjects such as literacy, math, science and history.

Campaign Arkansas

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

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

At the end of fiscal year 2018, \$947.4 million was raised toward the goal, and \$241.5 million had been allocated to the university’s endowment.

- **Don Tyson Center for Agricultural Sciences** - A pledge \$1 million was made by John Tyson toward new laboratories in the Don Tyson Center for Agricultural Sciences on Garland Avenue. The two-story building’s two wings provide modern laboratories and workspace for Division of Agriculture scientists and graduate students, ample meeting space for extension and education programs and administrative offices for the Arkansas Agricultural Experiment Station.
- **A.L. Chilton Foundation EMPOWER Arkansas** - A \$500,000 gift from the A.L. Chilton Foundation to the College of Education and Health Professions at the university created the A.L. Chilton Foundation EMPOWER Arkansas Endowed Scholarship, the A.L. Chilton Foundation EMPOWER Arkansas Operational Endowment and the A.L. Chilton Foundation Advance Arkansas Endowed Scholarship in Special Education. EMPOWER, which stands for “Educate, Motivate, Prepare, Opportunity, Workplace Readiness, Employment, Responsibility,” offers a four-year non-degree college experience program for students who have cognitive disabilities.

Gifts by Purpose

Student Support	14%
Faculty Support	14%
Capital	38%
Programs	29%
Other	5%

Gifts by Source

Individuals	27%
Corporations	27%
Foundations	40%
Other Organizations	6%

Advance Arkansas

The Advance Arkansas scholarship initiative was launched in the spring of 2017 to catalyze the potential of the state’s rising leaders by giving them resources to succeed academically at a nationally competitive institution. Advance Arkansas scholarships emphasize the following student support areas:

- First Generation, which is awarded to new freshmen who aspire to be first in their families to earn a four-year college degree
- Community Leader, which is awarded to new freshmen who demonstrate significant acts of service within their communities

- Resilient Razorback, which is awarded to U of A students who have persisted in maintaining a compelling academic record, and
- Talented Transfer, which is awarded to incoming transfer students with a strong academic record and commitment to degree completion at the U of A.

The University of Arkansas has raised \$4.6 million toward the Advance Arkansas scholarship initiative through fiscal year 2018. Sixteen scholarships were awarded in the fall 2018 semester.

All In for Arkansas

The university hosted its third annual giving day, All In for Arkansas, on April 4-5 to commemorate the 147th birthday of the U of A. The effort raised \$433,744 during a 1,871-minute

period and set a new record for the number of gifts received – 1,292. More than \$130,000 was raised for the Advance Arkansas scholarship initiative during the virtual birthday celebration.



CAMPAIGN *Arkansas*

Awards Enable Cutting-Edge Research

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

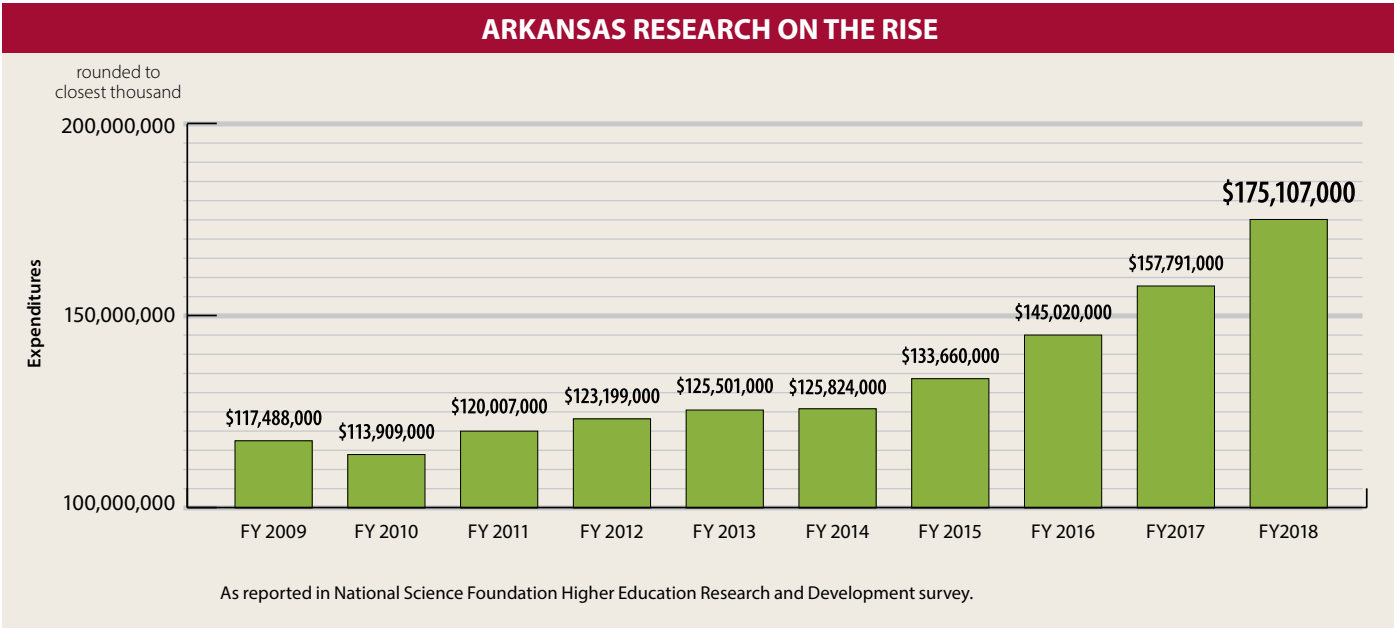
University of Arkansas research expenditures totaled over \$175 million in fiscal year 2018, the highest in the university’s history. This total, which includes research expenditures from the University of Arkansas System’s Division of Agriculture, was an 11 percent increase over last year’s total expenditures. Over the past decade, research expenditures have increased by 51.7 percent.

The University of Arkansas also continued its growth in research funding, receiving more funding in fiscal year 2018 than previous years, supporting research in key areas such as cybersecurity, nanotechnology, health and agriculture, and advancing the university’s mission.

The Office of Research and Sponsored Programs was awarded \$110.5 million in research funding in fiscal year 2018, including awards made to the Division of Agriculture. That marks a 7.2 percent increase over the \$103.2 million in research funding received in fiscal year 2017.

“Research activity at the U of A has more than doubled in the last decade,” said Daniel Sui, vice chancellor for research and innovation. “This is a reflection of the dynamic growth of collaborative research being done to improve the lives of Arkansans and build a better world through lifesaving discoveries, innovative technology, creative endeavors and economic development. I look forward to future developments, as our university community builds on this momentum, continuing to implement our strategic plan and strengthen our key research areas.”

Arkansas Research on the Rise



Among the Sponsored-Research Highlights of FY18:

Awards from the **National Science Foundation** totaled \$17.9 million, including awards for research into wastewater treatment, civil engineering, surface engineering, rice production, power electronics, STEM education and anthropological imaging. This includes a total of nine awards through the Faculty Early Career Development, or CAREER, Program.

The **U.S. Department of Education** awarded a total of \$12.2 million for various programs, including grants to support an effort to increase the number of educators prepared to teach English language learners in Arkansas schools.

The **U.S. Department of Agriculture** awarded \$12 million to support research efforts such as studying the effect of climate

change on produce supply chains, investigating water-saving irrigation practices, reducing foodborne pathogens in poultry, improving agroecosystem efficiency and developing molecular tools for spinach breeding.

The **U.S. Department of Energy** awarded \$9 million for a range of projects including research on cybersecurity, two-dimensional materials, surface engineering and battery technology.

The **National Institutes of Health** awarded \$3.1 million for research focusing on topics including wound healing, metabolism, drug design and delivery, DNA sequencing and obesity.





LETTER OF TRANSMITTAL



November 13, 2018

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

I am pleased to present the annual Financial Report of the University of Arkansas for the year ended June 30, 2018. The report includes the annual financial statements, Management’s Discussion and Analysis and supplemental information to assist the reader in clearly understanding the University’s financial activities and outcomes.

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

State law, federal guidelines and certain bond covenants require the University’s accounting and financial records be audited each year. The University’s annual audit is performed by Arkansas Legislative Audit. The reports resulting from the audit are shared with University management and the Board of Trustees. For the year ended June 30, 2018, Arkansas Legislative Audit issued an unmodified opinion, the most favorable outcome of the audit process. The independent auditor’s report follows this letter of transmittal.

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

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

Sincerely,

Chris McCoy
Vice Chancellor for Finance and Administration

INDEPENDENT AUDITOR’S REPORT

Arkansas



Sen. Jimmy Hickey, Jr.
Senate Chair
Sen. Lance Eads
Senate Vice Chair

Rep. Richard Womack
House Chair
Rep. Mary Bentley
House Vice Chair

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

LEGISLATIVE JOINT AUDITING COMMITTEE
ARKANSAS LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

University of Arkansas, Fayetteville
Legislative Joint Auditing Committee

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the University of Arkansas, Fayetteville (University), an institution of higher education of the State of Arkansas, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the University of Arkansas Fayetteville Campus Foundation, Inc. and the Razorback 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 University of Arkansas Fayetteville Campus Foundation, Inc. and the Razorback 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 University of Arkansas Fayetteville Campus Foundation, Inc. and the Razorback Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the University as of June 30, 2018, 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.

Emphasis of Matter

As discussed in the Notes 1 and 13 to the financial statements, the University implemented Governmental Accounting Standards Board (GASB) Statement no. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, during the year ended June 30, 2018. A restatement of the University's beginning net position was required due to the adoption of this Statement. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

ARKANSAS LEGISLATIVE AUDIT

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

Little Rock, Arkansas
November 13, 2018
EDHE13518

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)

Introduction

The University of Arkansas (the University) is pleased to present its financial statements for fiscal year 2018. While audited financial statements for fiscal year 2017 are not presented with this report because of implementation of new GASB pronouncements, condensed operations and financial position data will be presented in this discussion and analysis in order to illustrate certain increases and decreases. However, the emphasis

of discussions about these statements will be on the current year data. The University’s financial statements, notes to the financial statements and discussion and analysis are the responsibility of, and have been prepared by management. The discussion and analysis should be read in conjunction with financial statements and notes. All references to “2018”, “2017” or another year refer to the fiscal year ended June 30, unless otherwise noted.

Overview of the Financial Report and Financial Analysis

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

Effective for the year ended June 30, 2018, the University adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement established standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures for postemployment benefits other than pensions (other postemployment benefits or OPEB). For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. As a result, the University reported deferred outflows of resources attributable to other postemployment

benefits of \$591 thousand, total other postemployment benefits liabilities of \$20.6 million and deferred inflows of resources attributable to other postemployment benefits of \$3.1 million in the Statement of Net Position. Sufficient information was not available to restate the 2017 statements, and accordingly no comparative amounts for 2017 are presented. The beginning net position balance for 2018 was restated on the Statement of Revenues, Expenses and Changes in Net Position to recognize the effects of implementation of the GASB statements.

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

Note 17, “Other Entities” refers to the University of Arkansas Foundation, Inc., (the Foundation). The University is the beneficiary of only 56.1% of the net assets of the Foundation; therefore, the Foundation does not meet the requirements of a component unit.



Statement of Net Position

The Statement of Net Position provides a fiscal snapshot of the University as of the end of the fiscal year. All assets (property that we own and what we are owed by others), deferred outflows of resources (consumption of net position by the University that is applicable to a future reporting period), liabilities (what we owe to others and have collected from others before we have provided the service), deferred inflows of resources (acquisition of net position by the University that is applicable to a future reporting period) and net position (assets and deferred outflows of resources minus liabilities and deferred inflows of resources)

Net Position is presented in four categories:

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

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

Restricted expendable - net position whose use by the University is subject to externally-imposed stipulations that

are reported in this statement. Assets and liabilities are presented in the order of their relative liquidity and are identified as current or noncurrent. Current assets are those assets that can be realized in the coming year, and current liabilities are expected to be paid within the next year. Noncurrent assets and liabilities are not expected to be realized as cash or paid in the subsequent year. Assets, deferred outflows of resources, liabilities and deferred inflows of resources are generally measured using current values. One exception is capital assets, which are stated at historical cost less accumulated depreciation.

can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time.

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

The following summarizes the University’s assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position as of June 30, 2018, and 2017:

Condensed Summary of Net Position			
	2018		2017*
ASSETS			
Current Assets	\$	558,376,658	\$ 472,170,731
Capital Assets, Net of Depreciation		1,352,861,276	1,228,555,428
Other Noncurrent Assets		215,524,414	198,946,650
Total Assets	\$	2,126,762,348	\$ 1,899,672,809
Total Deferred Outflows of Resources	\$	21,575,374	\$ 23,093,566
LIABILITIES			
Current Liabilities	\$	146,769,799	\$ 128,407,232
Noncurrent Liabilities		892,685,448	813,822,658
Total Liabilities	\$	1,039,455,247	\$ 942,229,890
Total Deferred Inflows of Resources	\$	3,999,153	\$ 929,772
NET POSITION			
Net Invested in Capital Assets	\$	584,452,193	\$ 550,573,383
Restricted – Nonexpendable		25,525,393	26,542,019
Restricted – Expendable		175,457,601	111,448,473
Unrestricted		319,448,135	291,042,838
Total Net Position	\$	1,104,883,322	\$ 979,606,713

**Figures presented to illustrate increases and decreases and are not comparative*

Overall, the University’s total assets increased \$227.1 million. A review of the Statement of Net Position reveals that most significant changes were increases in Cash and cash equivalents of \$7.7 million, investments of \$56.3 million, Pledges receivable of \$37.4 million, Accounts receivable of \$13.3 and capital assets, net of depreciation of \$124.3 million offset by a decrease of deposits with trustees of \$13.6 million.

The net change in cash and cash equivalents when compared to 2017 balances was an increase of \$7.7 million. Cash and cash equivalents actually increased \$57.7 million as result of continued growth, which was offset by shifting a net of \$50 million of cash to short term investments. This shift of cash to short term investments represents a continuation of the change in philosophy that began in 2017 in how excess operating funds are managed.

Investments in total increased \$56.3 million. Nearly all this increase is due to an increased investment of operating funds. During 2017, the University implemented an investment strategy for operating funds. The objectives of the operating investments in order of priority is safety of principal, maintenance of liquidity and return on investment. During 2018 \$50 million of cash and cash equivalents were used to purchase short term investments. This new investment, coupled with improved returns across the entire investment portfolio, resulted in the overall increase.

Deposits with bond trustees represent unspent bond proceeds and bond reserve funds. The decrease in 2018 is the net of bond proceeds totaling \$13.6 million associated with one new bond issue and continued spending of bond proceeds for ongoing construction projects.

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

Deferred outflows of resources consist of deferred amounts on refinancing of debt and deferred outflows related to pensions. Overall deferred outflows decreased \$1.5 million. Deferred amounts on refinancing of debt decreased \$1.4 million because of scheduled amortization. As discussed previously, deferred

outflows related to OPEB of \$0.6 million were also reported as a result of implementation of new GASB statements. Deferred outflows related to pensions decreased \$0.7 million primarily due to actuarially determined deductions. Additional information about these computations can be found at Note 12 “Employee Benefits”.

Overall, liabilities increased \$97.2 million. The majority of the increase was attributable to an \$79.6 million net increase in bonds, notes, capital leases and installment contracts (long-term debt). Accounts payable increased nearly \$14.5 million. Major construction projects including the Donald W. Reynolds Razorback Stadium expansion, Health Center addition, Stadium Drive Residence Halls and the Library Annex, along with a pollution remediation project were well underway at year end and were the primary drivers of the increase in payables. Pensions experienced an actuarially determined increase in obligations of nearly \$0.9 million, whereas the liability for OPEB increased \$4.3 million as a result of new GASB statements.

The University continued its investment in facilities renewal and replacement along with the addition of new facilities and improvements in 2018. Additional information about University debt, and the projects financed with debt proceeds, is provided in the “Significant Changes in Capital Assets and Long-Term Debt Activity” discussion below and at Note 8 “Long-Term Debt”.

Deferred inflows of resources related to pensions decreased slightly more than \$53 thousand because of actuarially determined reductions. Additional information about these computations can be found at Note 12 “Employee Benefits”. Deferred inflows of resources related to other postemployment benefits were actuarially determined to be \$3,122,698 in 2018. There were no actuarially determined Deferred inflows of resources related to other postemployment benefits in 2017. Additional information about these computations can be found at Note 13 “Other Postemployment Benefits (OPEB)”.

The increase in assets and decrease of deferred outflows of resources of \$227.1 million and \$1.5 million, respectively combined with the increase in deferred inflows of resources of \$3.1 million and the increase in liabilities of \$97.2 million results in a net increase of \$125.3 million in net position.

The following summarizes the composition of unrestricted net position owned by the units of the University of Arkansas Fund as of June 30, 2018 and 2017:

Unrestricted Net Position		
Unit	2018	2017*
Fayetteville Campus	\$ 250,863,538	\$ 225,231,536
Agricultural Experiment Station	37,636,636	33,639,638
Cooperative Extension Service	20,508,100	21,835,442
Arkansas Archeological Survey	976,373	980,228
Criminal Justice Institute	3,968,125	3,688,617
Clinton School of Public Service	917,657	1,029,520
AREON	4,577,706	4,637,857
Total Unrestricted Net Position	\$ 319,448,135	\$ 291,042,838
*Figures presented to illustrate increases and decreases and are not comparative		

Unrestricted net position for the Fayetteville Campus as of June 30, 2018 and 2017 is allocated as follows:

Unrestricted Net Position – Fayetteville Campus		
Allocation	2018	2017*
Working Capital	\$ 750,000	\$ 750,000
E & G Department Uses	137,285,704	112,373,391
Service Operations	1,793,872	2,552,744
Auxiliaries	23,321,100	27,228,833
Plant Funds	72,839,511	68,434,510
Quasi-Endowment Funds	14,873,351	13,892,058
Total Fayetteville Campus Unrestricted Net Position	\$ 250,863,538	\$ 225,231,536
*Figures presented to illustrate increases and decreases and are not comparative		

Although unrestricted net position is not subject to externally-imposed restrictions, the majority of the University’s unrestricted net position is subject to internal designations to meet various specific commitments. These commitments include reserves established for capital projects, scholarships, and other academic or research priorities; working capital for self-supporting auxiliary enterprises; reserves for the continued

recognition of OPEB and pension obligations; and unrestricted quasi endowments. For 2018, the increase in reserves was primarily due to additional amounts reserved for scholarships, and other academic or research priorities or for building and maintenance reserves as denoted by the increase in E&G Department Uses and Plant Funds in the table above.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position present the revenues earned and expenses incurred during the year. Activities are reported as either operating or non-operating. Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the University. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for operating revenues, and to carry out the

mission of the University. Non-operating revenues are revenues received for which goods and services are not provided.

In accordance with GASB standards, significant recurring sources of University revenue such as state appropriations, gifts, investment income and certain grants and contracts are reported as non-operating revenues. As a result, the operating loss of \$271.4 million is of little significance, but does highlight

the University’s dependency on non-operating revenues to meet the costs of operations and provide funds for the acquisition of capital assets. The utilization of capital assets is reflected in the statement as depreciation, which amortizes the cost of an asset over its expected useful life.

Changes in total net position, as presented on the Statement of

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

The following summarizes the University’s revenues, expenses and changes in net position for the years ended June 30, 2018 and 2017:

Condensed Summary of Net Revenues, Expenses, and Changes in Net Position		
	2018	2017*
Operating Revenues	\$ 595,421,177	\$ 574,009,481
Operating Expenses	866,840,393	832,633,066
Operating loss	(271,419,216)	(258,623,585)
Net nonoperating revenues	329,900,003	314,034,096
Gain before other revenues and changes in net position	58,480,787	55,410,511
Other revenues and changes in net position	73,184,165	11,300,315
Increase in Net Position	\$ 131,664,952	\$ 66,710,826
*Figures presented to illustrate increases and decreases and are not comparative		

Operating revenue increased 3.7% or \$21.4 million in 2018. Net student tuition and fees increased \$13.0 million, a reflection of continued record enrollment growth and tuition rate increases for the Fayetteville campus. Grants and contracts collectively increased \$6.3 million, with an increase in federal sources totaling \$12.1 million offset by a decrease in state and nongovernmental sources of \$5.8 million. Revenue from The U.S. Department of Energy increased \$3.6 million to fund voluntary pollution remediation work at an abandoned university research site. Revenue from the National Science Foundation increased by \$1.53 million to fund basic research. Nongovernmental awards decreased \$5.5 million as a result of decreased sponsor activity funded by private foundations and businesses. Auxiliary enterprises revenue attributable to Athletics increased \$1.3 million, primarily due to increases in SEC conference distributions, and multimedia rights sponsorships. The remaining auxiliary enterprises realized a net increase totaling \$1.0 million collectively, demonstrating the impact of enrollment growth.

Operating expenses increased \$34.2 million or 4.11% over 2017. Compensation and benefits costs increased nearly \$24.4 million, or 5.0% over 2017, due in part to necessary increases in faculty to support enrollment growth, along with modest increases in salaries for faculty and staff. The implementation of GASB statements related to OPEB also impacted compensation and benefits with increased OPEB expense. Scholarships and fellowships increased nearly \$2.0 million or 9.59% which is a reflection of continued record enrollment and the effects of the

State Teacher Education Program which provides assistance for eligible teachers in the State of Arkansas. Supplies and other services grew \$7.8 million or 3.12%. The University continues to focus on cost containment initiatives to control expenses.

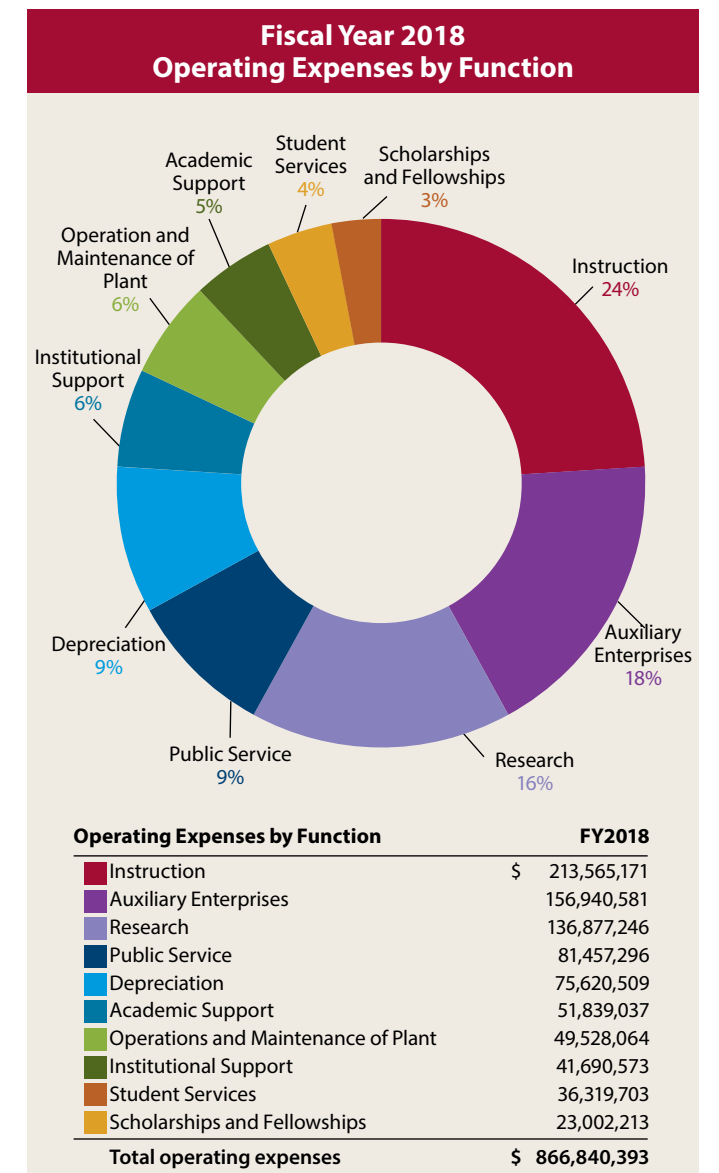
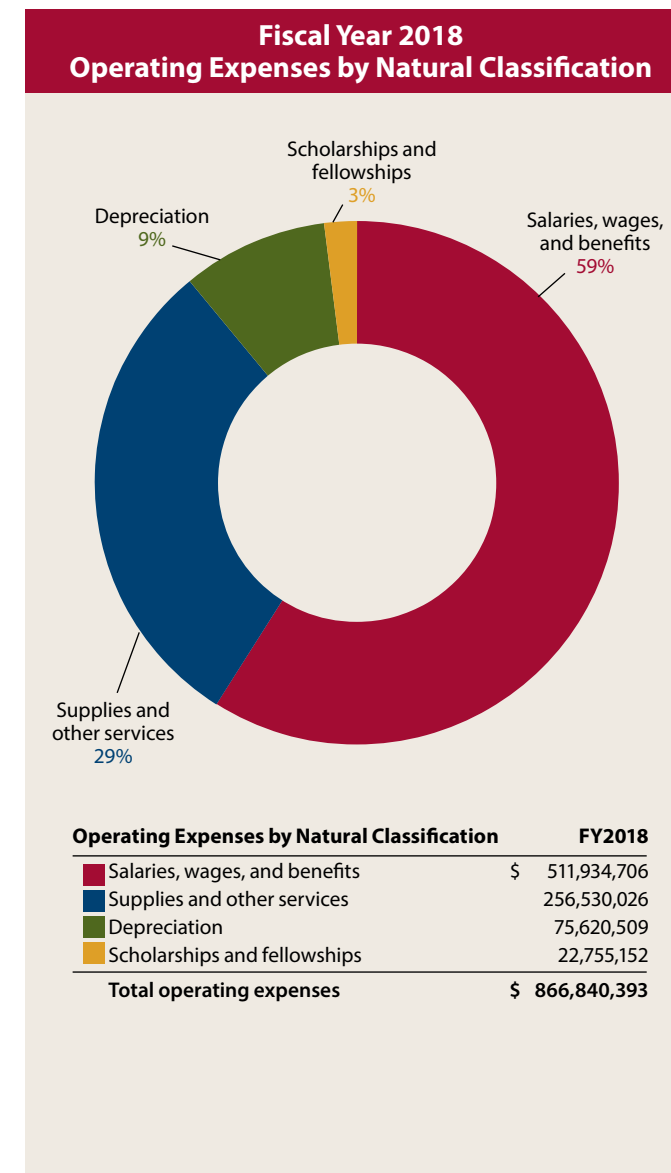
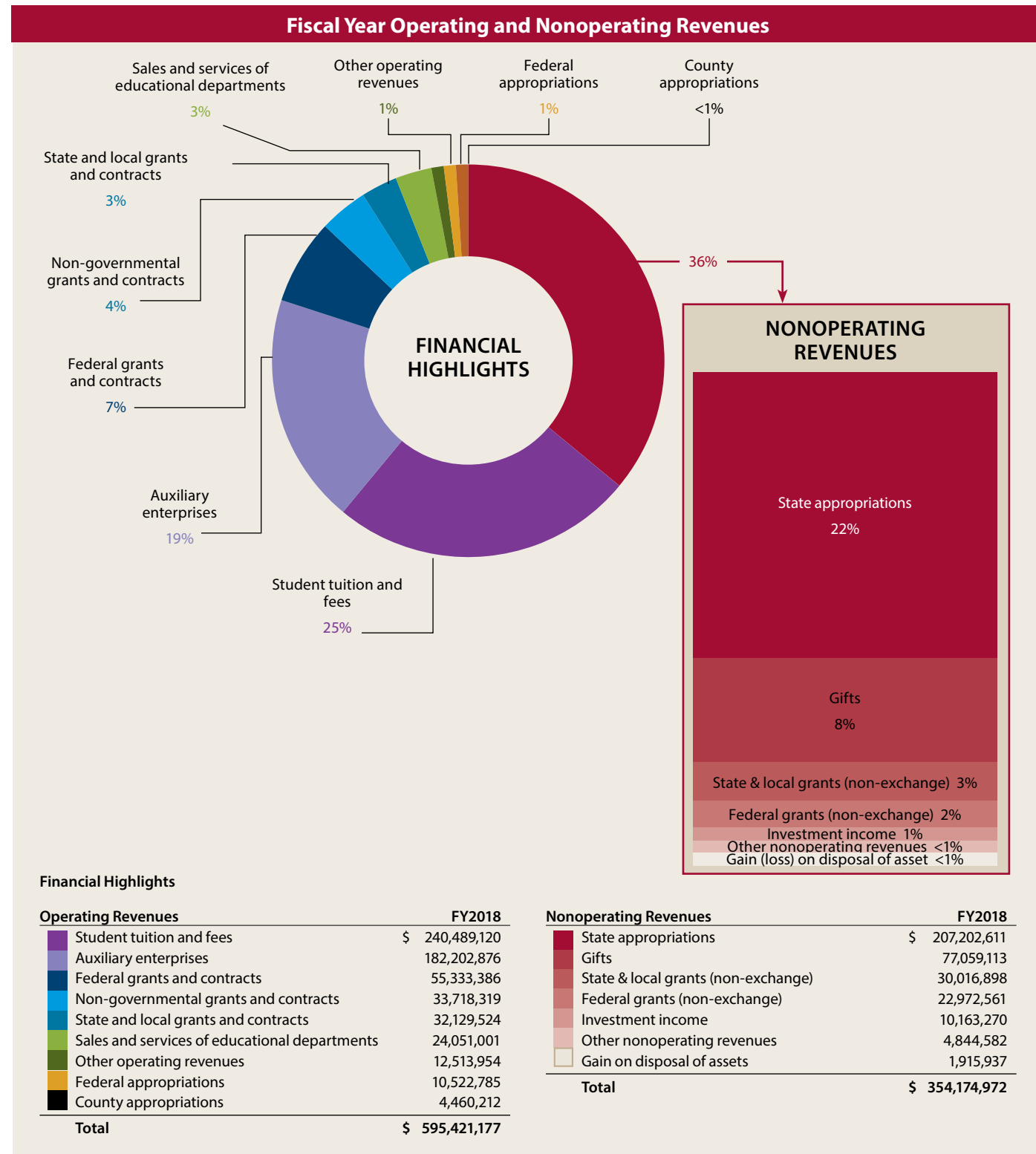
Overall, net non-operating revenues increased \$15.9 million. Investment income decreased \$1.8 million dollars due to a lower return year-over-year for the total return portfolio in 2018. The 2017 return was an exceptional return rate of 15.4% compared to a return rate of approximately 10% in 2018. State appropriations increased a modest \$0.4 million. There was a net Gain on disposal of assets (revenue) in 2018 of \$1.9 million due mainly to the sale of long-held real estate by the Division of Agriculture, in contrast to the Loss on disposal of assets (expense) in 2017 increased nearly \$3 million because of demolition of a structure as part of the stadium expansion project. Gift revenue increased \$4.8 million, evidencing continued growth in private support, and Grants (nonexchange) increased \$4.3 million.

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

Other Revenues and Changes in Net Position reflect changes in capital appropriations and capital gifts. The overall increase of \$61.9 million is primarily due to a \$65.3 million increase in Capital

grants and gifts offset by additional extraordinary expenses totaling \$3.6 million for voluntary pollution remediation. The increase in capital gifts is primarily funds received to support capital building projects for athletic facilities, facilities for the

Arts and Design District and various other capital building and renovation projects. Additional information regarding the voluntary pollution remediation project is found at Note 14 “Pollution Remediation”.



Statement of Cash Flows

The Statement of Cash Flows provides information about the cash activity of the University during the year. The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the institution. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for non-operating, non-investing, and non-capital financing purposes. The third section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section reflects the cash flows from investing activities and shows the purchases,

proceeds, and interest received from investing activities. The fifth section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses and Changes in Net Position.

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

The following summarizes the University’s cash flows for the years ended June 30, 2018 and 2017:

Condensed Summary of Cash Flows		
	2018	2017*
Net cash used by operating activities	\$ (209,638,582)	\$ (186,860,611)
Net cash provided by noncapital financing activities	333,610,778	324,378,866
Net cash provided by operating and noncapital financing activities	123,972,196	137,518,255
Net cash used by capital and related financing activities	(70,434,315)	(100,428,300)
Net cash provided(used) by investing activities	(45,856,506)	(184,491,706)
Net increase (decrease) in cash	\$ 7,681,375	\$ (147,401,751)
<i>*Figures presented to illustrate increases and decreases and are not comparative</i>		

The University used \$209.6 million of cash for operating activities in 2018 offset by cash provided by noncapital financing activities of \$333.6 million. Similar to the operating loss on the Statement of Revenues, Expenses and Changes in Net Position, net cash provided by operating activities is of little significance to the University. The net cash provided by the combination of operating activities and noncapital financing activities is a much more meaningful number for the University. The positive

amount of \$124 million for 2018 indicates that these activities contributed to cash and liquidity for the year.

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

Significant Changes in Capital Assets and Long-Term Debt Activity

The University continued work on the multi-year Facilities Renewal and Stewardship Plan. This large-scale, long-range plan is intended to upgrade and add facilities to expand capacity and modernize the campus. A dedicated facilities fee, phased in over the time beginning in 2009, provides a revenue stream that is used to leverage bonded debt to fund a portion of this aggressive plan. University gifts, central reserves, various grants, stimulus funds, Athletics support and other miscellaneous sources of funds also contribute to this overall program. The condition of the University’s capital assets is an important measure of the

University’s overall financial health. Providing and maintaining facilities that create an attractive environment in which to learn and live is vital to attracting new students, as well as recruiting excellent faculty and staff. The University maintains a Facility Condition Index (FCI) to assist in assessment of the overall management of capital assets. The index trend is positive, demonstrating the positive effect of additions, renovations and the elimination of deferred maintenance to campus infrastructure and educational and general buildings as the Facilities Renewal and Stewardship Plan is implemented.

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

Changes in Net Invested in Capital Assets	
	Amount
Net Invested in Capital Assets as of July 1, 2017	\$ 550,573,383
Land Additions and Disposals (net)	6,427,461
Buildings Additions and Disposals, net of depreciation	(24,608,360)
Improvements/Infrastructure Additions, net of depreciation	(515,982)
Equipment Additions and Disposals, net of depreciation	838,721
Construction in Progress Additions net of transfers to buildings, improvements/infrastructure, and intangible assets	141,731,515
Livestock Additions/deductions	(185,503)
Library Holdings Additions and Disposals, net of depreciation	(1,424,572)
Intangible Assets, net of amortization	1,252,312
Bond debt moved to Net invested in capital assets	(104,898,884)
Bond Principal Paid in 2018	25,705,000
Deferred loss on refinanced bond issues, amortized	(1,410,137)
Net unamortized bond issue premium	(12,412,890)
Capital Leases Assumed in 2018	(1,336,435)
Note, Capital Lease and Installment Contract Principal Paid in 2018	4,207,428
Prepaid maintenance contract on equipment and other	509,136
Net Invested in Capital Assets as of June 30, 2018	\$ 584,452,193

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

Capital projects continued at an impressive pace in 2018, with several construction projects begun in previous years completed or substantially completed, continued progress on multi-year projects and new projects initiated.

The list of projects begun in previous years completed in 2018 include:

- Entrance Monument Signs – Project to construct monument signs to mark the three major vehicular entrances to the University of Arkansas Campus. The design of each location includes a native stone wall with capstone featuring the University of Arkansas name, new sidewalks and curbs, trees, and other landscaping. Total estimated project cost is \$2.5 million, funded by bonds. Phase 1, totaling \$1.6 million was completed in 2018. Additional work continues in phases.
- Student Housing – renovation and expansion of student Greek housing operated by the University. Total project cost was \$8.1 million funded by \$5.3 million in bond proceeds and gifts.

- The Division of Agriculture Don Tyson Center for Agricultural Sciences located at Fayetteville, Arkansas – project to construct a multipurpose laboratory, with two greenhouses and office complex. Total cost was \$16.7 million, funded by a mix of private support, Agricultural sales and reserves.

Construction continuing, and new projects begun in 2018 include:

- Donald W. Reynolds Razorback Stadium North End Zone – Project continues to expand the north end zone of the stadium, construct updates to existing areas, and rebuild the Broyles Athletic Center around the new north end zone seating. Total project cost is estimated at \$160 million, funded by \$120 million in bonds, \$30 million of gifts and \$10 million from athletic reserves. Project completion is estimated for occupancy for the 2018 football season.
- Entrance Monument Signs – Project continues to construct monument signs to mark the three major vehicular entrances to the University of Arkansas Campus. The design of each location includes a native stone wall with capstone featuring the University of Arkansas name, new sidewalks and curbs, trees, and other landscaping. The remaining estimated project cost is \$0.9 million, funded by bonds. Completion of Phase 2 will be coordinated with other construction projects in the work area.

- Kimpel Hall Renovation – Project continues for a total renovation of the classroom block and exterior building envelope, along with a 3,500 to 7,000 square foot addition for the Student Media department to include an open newsroom, on-air studio, control room, master control, student radio and offices. Total estimated project cost \$15.1 million and will be managed in phases. Initial funding in 2016, considered Phase I, was comprised of \$3 million in bonds and \$1 million in gifts. An additional \$6.4 million, funded by \$6 million in bonds and the remainder from university reserves was added in 2017. Estimated project completion is November 2018.
- Library Annex – Project continues to construct a 20,000 square foot structure to house a high-density storage system and processing area, along with a modest public space for accessing the collection. Total estimated project cost is \$14.6 million and will be managed in phases. Initial funding in 2016, considered Phase I, was \$3 million in bonds. An additional \$9 million in bonds was added in 2017, with the remainder of the project funded by university reserves. Estimated project completion in August 2018.
- Pat Walker Health Center Addition – Project continues to construct a 20,000 square foot addition to the Pat Walker Health Center. The addition will provide space for expanded counseling and psychological services, wellness and health promotion classrooms and consultation rooms, technology support and administrative space. Total estimated project cost is \$15.4 million, funded by \$12.7 million in bonds and the remainder from student health reserves. Estimated project completion in October 2018.
- University Recreation Intramural Fields – Project continues to construct new University playing fields that will supplement the Mitchel Fields multi-purpose fields located on campus. Land located near the campus has been designed for two projects, the Cato Springs Softball/Soccer Fields Complex and the Indian Trails Tennis Complex/ Mountain Biking Trails. The Cato Springs project will provide space for an additional six flag football/soccer fields, four softball fields, three basketball courts, and four volleyball courts; along with parking lots, lighting, a maintenance barn and restrooms. The Indian Trails project will provide tennis courts, biking trails and parking. During 2017, renovation began at Mitchel Fields to improve drainage, install LED lighting and install sports turf. Total estimated project cost for the Mitchel Fields project is \$4.9 million. Only the design phase has been completed for the other projects, with construction beginning when funding is in place. The overall project will be funded in phases with initial funding in 2016 of \$4 million in bonds. An additional \$3 million, in bonds was added in 2017. Estimated project completion for Mitchel Fields in October 2017.

- Civil Engineering Research & Education Center – Project continues to construct a research and education facility for the civil engineering department. Project design, which included planning and programming, site options/ selections at the Arkansas Research and Technology Park, early schematic design and fundraising support images, was completed in 2017. Total estimated project cost is \$10.7 million and will be managed in phases. Initial funding of \$2.7 million in 2016 was comprised of \$2 million in bonds and the balance with gifts. An additional \$2 million in bonds was added to project funding in 2017 and 2018. Remaining funding will be raised through gifts. Construction phases will continue when all funding is in place. Estimated project completion in April 2019.
- Stadium Drive Residence Halls – Project continues to construct a 700-bed residence hall to include multi-use meeting rooms, advising and administrative offices, laundry, vending, kitchen and front desk communal areas. This project is envisioned as part of a larger residential district to be developed in the Athletic Valley area of campus. Estimated project cost is \$78.1 million, funded by \$74 million in bonds and the remainder from housing reserves. Estimated project completion in August 2019.
- Global Campus Renovation – Project continues to renovate approximately 19,000 square feet on two floors of the Global Campus building to create workspaces for faculty to develop online course content and staff who manage and facilitate online courses; to provide studio and support space for the global campus media services team; to renovate the auditorium into a black box theatre with required equipment; and other interior renovations. Estimated project cost is \$7.4 million, funded by \$2 million in bonds, \$4.7 million from global campus reserves and the remainder from university reserves. Estimated project completion in September 2018.
- National Center for Reliable Electric Power Transmission (NCREPT) Addition – Project continues to construct a 4,000 square foot addition to increase the capacity of the test facility. The addition will include high bay research space, graduate student offices, and approximately 50 additional parking spaces. Estimated project cost is \$3.1 million, funded by university reserves. Estimated project completion in September 2018.
- South Campus Steam Improvements – Project continues to replace and upgrade a portion of the steam and condensation infrastructure that provided building heat and domestic hot water to the campus. The upgraded system will provide additional capacity for future development of the Athletic Valley district on campus. Estimated project cost is \$3 million, funded by \$2.7 million in bonds and

the remainder from utility reserves. Estimated project completion in August 2018.

- Mullins Library Renovation – Project continues to fully reorganize and renovate the interior to create a collaborative and interdisciplinary learning space focused on student and faculty engagement. The project design phase is complete, and the construction phase is moving forward. The design phase is funded by \$1 million in bonds. The estimated construction costs are \$16.5 million funded by \$7.3 million in bonds and \$9.2 million in university reserves and gift funds. Estimated completion is May 2020.
- Student Success Center – Project continues to construct a 70,000 to 75,000 square foot, ranging from three to five stories. The student success center will create a home for a new program which has a mission to maximize the success of students, especially first-generation Arkansas students starting with pre-enrollment and transition to the university, through semester to semester retention on time graduation and ending the with their transitions with careers. The student success center will be in the core campus, just north of Old Main and adjacent to Memorial Hall. The design phase was funded by \$1 million in bonds. The estimated construction cost is \$45 million funded by \$4 million in bond proceeds with the remaining funds from university reserves, gifts and future bond proceeds.
- Greek Housing Projects – Four separate Greek organizations have been granted the ability to either construct new residence facilities or renovate existing residence facilities on university-owned property under a long-term lease. These projects are the responsibility of the Greek organizations and will be funded by arrangements made by the organizations. See Note 19, Commitments and Contingencies for additional information about these projects.
- Pomfret Dining Renovation & Expansion – New project for renovation and expansion of Pomfret Dining Hall will include new food preparation areas, serving stations, and general kitchen work flow improvements to the existing 12,000 square feet buffet-style controlled access food

venue, as well as providing additional seating created by an expansion of the dining pavilion to the west to accommodate around 385-400 seats. The west addition will also house a small, 75 seat a la carte dining venue and will address the ADA access to the building entrance, to the various levels of the dining pavilion. The estimated project cost is \$17.6 million funded by \$5.5 million in bonds, \$10 million in contract revenue from the campus food service provider and \$2.1 million from dining reserves. The estimated project completion date is July 2019.

- Beechwood Remote Parking Lot – New project to construct a new parking choice for students, faculty and staff at a remote location, south of the main campus, with easy access to major city streets and Interstate I-49 and along a major route with quick access to the center of campus. The work will include parking facility, a street connection to Hollywood Avenue, Beechwood Avenue. Also, frontage improvements and necessary drainage improvements. The remote parking lot added an additional 1,105 spaces. The estimated project cost is \$5 million funded by \$2.8 million in bonds and \$2.2 million in parking and university reserves. The estimated project completion is September 2018.
- Arkansas Union Food Court Renovation – The renovation will address all areas within the Arkansas Union Food Court, including the central core, food preparation and serving stations, open seating areas and private dining rooms. The new plan will open up the entire space to create better visibility of the food options and more intuitive flow for patrons’ circulation amount the various stations, along with a new point of sale system to improve speed of service. The project also includes ongoing capital renewal effort the entire building including air handling units. The estimated project cost is \$6.8 million funded by \$1 million in bonds and \$5 million in contract revenue from the campus food service provider and \$0.8 million from dining reserves. Estimated completion is December 2018.

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

Summary of Changes in Long-Term Debt			
	Bonds	Notes	Installment Contracts and Leases
Balance as of July 1, 2017	\$ 757,960,593	\$ 1,584,045	\$ 23,202,540
Additions	112,684,358		1,336,435
Retirement of principal	(25,705,000)	(179,811)	(4,027,617)
Amortization of net bond premium	(4,466,468)		
Balance as of June 30, 2018	\$ 840,473,483	\$ 1,404,234	\$ 20,511,358

Note 8, “Long-Term Debt” provides additional information related to the University’s long-term debt.

The University issued bonds during 2018 to provide funds to finance various construction and renovation projects. Notable among these are construction of the new Stadium Drive

Residence Halls, an addition to the Pat Walker Health Center, the construction of the Library Annex and the continuing renovation and addition to Kimpel Hall. Several other smaller construction projects and design studies were included in the overall scope of the bond issue. Proceeds of over \$112 million, were generated to fund these projects.

Conditions and other factors having a significant effect

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

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

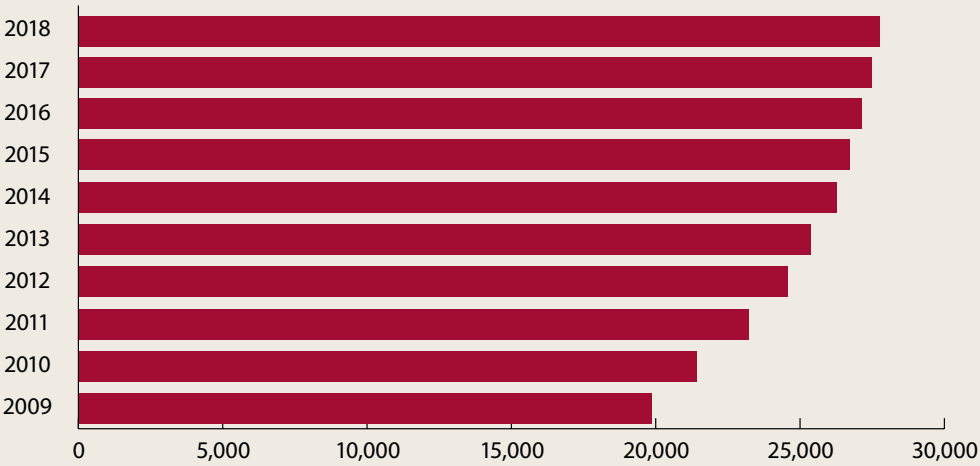
We continue to seek ways to manage the cost of attendance so that it remains affordable while achieving revenue support necessary to offer a high-quality university experience. Diverse revenue resources, including state appropriations, tuition and fees (net of scholarship allowance), private support and sponsored grants and contracts all contribute to support the mission of teaching, research and service. Tuition and mandatory fee increases totaling 2.74% for resident and 4.92% for nonresident students, respectively, were necessary in 2018 to maintain the facilities, faculty and other support needed to fulfill our mission. As record growth in enrollment continues, together with state funding levels not able to keep pace with formula calculations, it is expected that the University must continue to look to increases in tuition rates for revenue support as well as grow other revenue streams.

Campaign Arkansas is an eight-year comprehensive fundraising effort focused on advancing academic opportunity at the university. The goal of the campaign is to raise \$1.25 billion by 2020. All colleges and schools on campus, as well as many other units, will benefit from the fundraising effort. The campaign is critical to the university’s future and efforts to keep tuition affordable while enhancing academic opportunities for faculty and students. Funds raised will support scholarships and fellowships, endowed chairs, capital projects, interdisciplinary academic programs and other priority areas that will advance the university’s goals and objectives. Campaign Arkansas had raised \$947.4 million at the close of 2018.

Positive news continues with the University fundraising production totals for private gift support for 2018 being the second-best year in university history. Production amounts include gifts of cash, gifts-in-kind, planned gifts and new pledges. In 2018, the University recognized \$292.7 million of private gift support, surpassing its goal of \$245 million. This support is critical to ensure success for students and faculty and is a fundamental component in meeting budgetary needs. Support received from alumni, friends, organizations and faculty and staff of the University enhances all aspects of the student experience, including academic and need-based scholarships; technology enhancements; new and renovated facilities; undergraduate, graduate and faculty research; study abroad opportunities and innovative programs.

Preliminary figures indicate that the university enrolled 27,778 students for the fall 2018 semester, another record enrollment. As the charts below indicate, university enrollment has increased 39.9%, or 7,929 students over the past ten years. This marks the twentieth consecutive year for enrollment growth. Although the growth trend continues, the rate of growth is becoming more controlled, with a 1.3% rate in fall 2017 and 0.8% rate in fall 2018. This more sustainable rate of growth is welcomed as the university assesses future goals and the optimum number of students.

Enrollment Trend Over the Last 10 Years

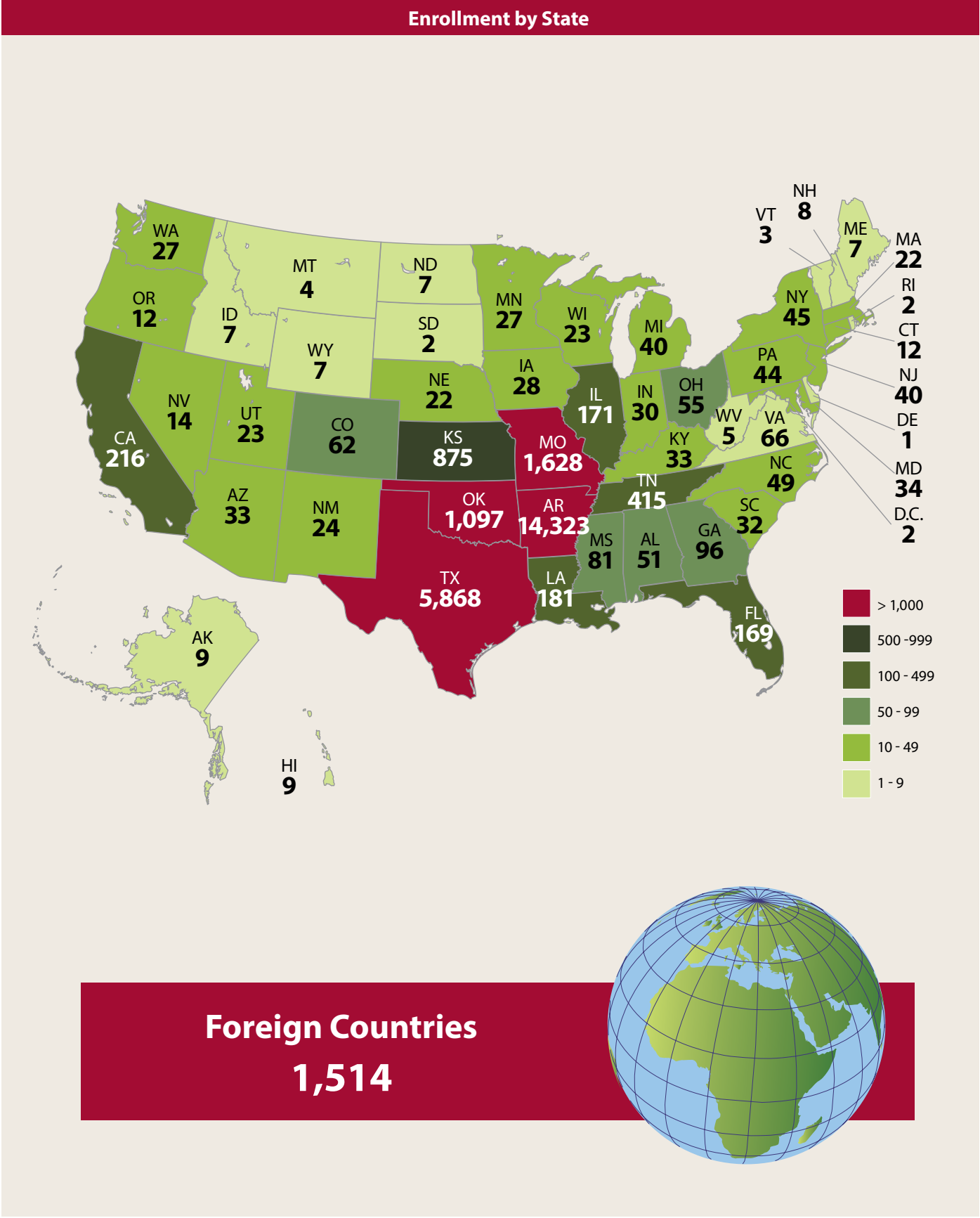
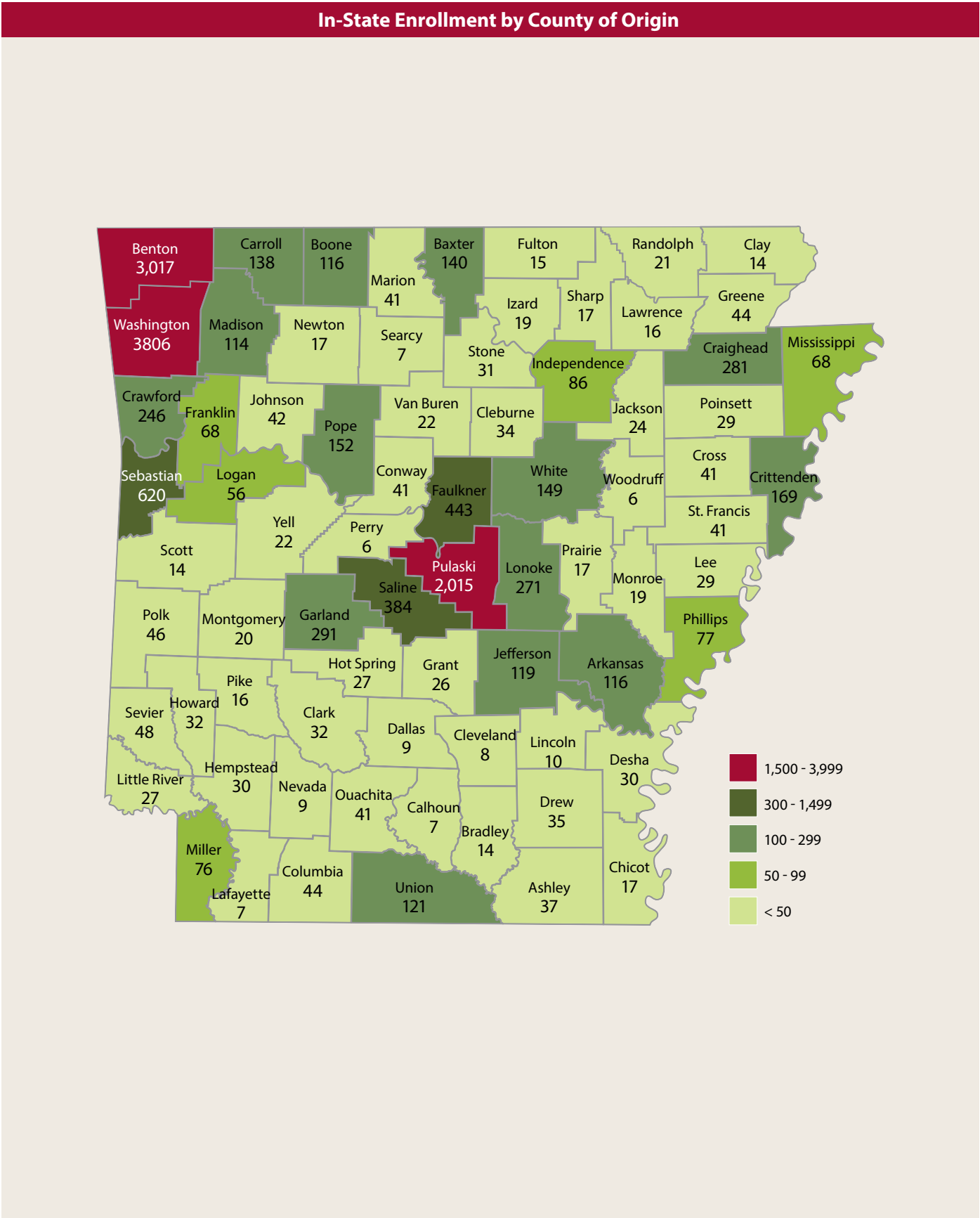


Fall Semester Enrollment

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total	19,849	21,405	23,199	24,537	25,341	26,237	26,754	27,194	27,558	27,778
Undergraduate	15,835	17,247	19,027	20,350	21,009	21,836	22,158	22,548	23,044	23,386
Law	408	407	413	410	390	379	375	371	353	368
Graduate	3,606	3,751	3,759	3,777	3,942	4,022	4,221	4,275	4,161	4,024
New Freshmen	3,046	3,873	4,462	4,591	4,357	4,590	4,927	4,998	5,092	5,019

Per the Office of Institutional Research and Assessment





STATEMENT OF NET POSITION

For the Year Ended June 30, 2018

	June 30, 2018
ASSETS	
Current Assets	
Cash and cash equivalents	\$ 147,582,098
Short-term investments	321,814,198
Accounts receivable, net	55,424,687
Accrued interest receivable	1,889,856
Pledges receivable	11,984,893
Inventories, net	4,776,712
Deposits with bond trustees	3,524,529
Notes receivable, net	4,165,979
Other assets	7,213,706
Total current assets	558,376,658
Noncurrent Assets	
Cash and cash equivalents	17,649
Endowment investments	83,255,935
Other long-term investments	3,001
Notes receivable, net	12,561,633
Pledges receivable	27,861,513
Deposits with bond trustees	90,952,626
Other assets	872,057
Capital assets, net	1,352,861,276
Total noncurrent assets	1,568,385,690
Total assets	\$ 2,126,762,348
DEFERRED OUTFLOWS OF RESOURCES	
Deferred amount on refunding	\$ 14,327,274
Deferred outflows related to other post employment benefits	590,970
Deferred outflows related to pensions	6,657,130
Total deferred outflows of resources	\$ 21,575,374
LIABILITIES	
Current Liabilities	
Accounts payable and accrued liabilities	\$ 48,053,372
Accrued payroll liabilities	14,671,747
Accrued interest expense	6,478,310
Student overpayments	88,414
Funds held in trust for others	1,539,166
Advance receipts	34,487,884
Compensated absences payable - current portion	1,602,373
Liability for other post employment benefits - current portion	590,970
Bonds, notes, capital leases and installment contracts payable - current portion	39,257,563
Total current liabilities	146,769,799

Noncurrent Liabilities	
Refundable federal advance - Perkins loans	14,380,834
Compensated absences payable	20,000,007
Liability for other post employment benefits	19,996,167
Pension liability	15,144,874
Bonds, notes capital leases and installment contracts payable	823,131,512
Other noncurrent liabilities	32,054
Total noncurrent liabilities	892,685,448

Total liabilities **\$ 1,039,455,247**

DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to other post employment benefits	\$ 3,122,698
Deferred inflows related to pensions	876,455
Total deferred inflows of resources	\$ 3,999,153

NET POSITION	
Net invested in capital assets	\$ 584,452,193
Restricted for	
Nonexpendable	
Scholarships and fellowships	8,653,550
Research	5,739,659
Instructional department uses	10,544,889
Loans	314,579
Other	272,716
Expendable	
Scholarships and fellowships	16,455,616
Research	36,195,322
Public service	8,525,109
Instructional department uses	13,189,655
Loans	4,367,975
Capital projects	89,811,179
Debt service	209,418
Other	6,703,327
Unrestricted	319,448,135
Total net position	\$ 1,104,883,322

See Accompanying Notes To Financial Statements.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the Year Ended June 30, 2018

	Fiscal 2018 Total
REVENUES	
Operating Revenues	
Student tuition and fees (net of scholarship allowances of \$77,030,077 in fiscal year 2018)	\$ 240,489,120
Federal appropriations	10,522,785
County appropriations	4,460,212
Federal grants and contracts	55,333,386
State and local grants and contracts	32,129,524
Nongovernmental grants and contracts	33,718,319
Sales and services of educational departments	24,051,001
Auxiliary enterprises	
Residence Life (net of scholarship allowances of \$14,962,398 in fiscal year 2018)	54,020,198
Athletics	104,833,597
Bookstore (net of scholarship allowances of \$127,800 in fiscal year 2018)	11,302,662
Student Health Services	2,728,603
Transit and Parking	8,785,539
Student Organizations/Activities	345,462
Other Auxiliary Enterprises	186,815
Other operating revenue	12,513,954
Total operating revenues	595,421,177
EXPENSES	
Operating Expenses	
Salaries, wages, and benefits	511,934,706
Scholarships and fellowships	22,755,152
Supplies and other services	256,530,026
Depreciation	75,620,509
Total operating expenses	866,840,393
Operating loss	(271,419,216)
NONOPERATING REVENUES (EXPENSES)	
State appropriations	207,202,611
Gifts	77,059,113
Investment income (net of investment expense of \$322,623 in fiscal year 2018)	10,163,270
Interest on capital asset - related debt	(23,799,689)
Federal grants (nonexchange)	22,972,561
State and local grants (nonexchange)	30,016,898
Gain (loss) on disposal of assets	1,915,937
Other nonoperating revenues	4,844,582
Other nonoperating expenses	(475,280)
Net nonoperating revenues	329,900,003
Gain before other revenues and changes in net position	58,480,787

OTHER REVENUES AND CHANGES IN NET POSITION	
Capital appropriations	510,000
Capital grants and gifts	85,782,493
Other changes	115,882
Extraordinary item - pollution remediation	(13,224,210)
Total other revenues and changes in net position	73,184,165
Increase in net position	131,664,952
NET POSITION	
Net position, beginning of year - as originally reported	979,606,713
Adjustment due to GASB 75	(6,388,343)
Net position, beginning of year - restated	973,218,370
Net position, end of year	\$ 1,104,883,322

See Accompanying Notes To Financial Statements.

STATEMENT OF CASH FLOWS – DIRECT METHOD

For the Year Ended June 30, 2018

	Fiscal 2018 Total
CASH FLOWS FROM OPERATING ACTIVITIES	
Student tuition and fees	\$ 241,486,311
Federal appropriations	10,476,250
County appropriations	4,460,212
Grants and contracts	113,461,308
Payments to suppliers	(263,458,805)
Payments to employees	(399,689,622)
Payments for benefits	(115,352,720)
Payments for scholarships and fellowships	(22,188,305)
Loans issued to students and employees	(1,742,636)
Collections of loans to students	2,326,414
Collections of interest on loans to students	502,418
Auxiliary enterprise charges	
Residence Life	54,748,044
Athletics	103,380,997
Bookstore	14,824,038
Student Health Services	2,686,847
Transit and Parking	8,696,112
Student Organizations/Activities	347,487
Other Auxiliary Enterprises	338,535
Sales and services of educational departments	23,555,283
Other receipts	19,533,255
Extraordinary item - pollution remediation	(8,030,005)
Net cash used by operating activities	(209,638,582)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State appropriations	207,202,611
Gifts and grants for other than capital purposes	75,608,379
Federal grants (nonexchange)	22,977,946
State and local grants (nonexchange)	29,911,401
Direct Lending, and private loan receipts	125,974,482
Direct Lending, and private loan payments	(124,887,805)
Net agency fund transactions	(3,176,236)
Net cash provided by noncapital financing activities	333,610,778
Net cash provided by operating activities and noncapital financing activities	123,972,196
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Realized proceeds related to capital debt transactions	127,663,389
Capital appropriations	510,000
Capital grants and gifts received	44,456,312
Purchases of capital assets	(179,335,765)
Principal paid on capital debt and leases	(29,722,598)
Interest paid on capital debt and leases	(34,005,653)
Net cash used by capital and related financing activities	(70,434,315)

CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	22,751,345
Investment income	1,392,174
Purchase of investments	(70,000,025)
Net cash provided (used) by investing activities	(45,856,506)
NET INCREASE (DECREASE) IN CASH	7,681,375
Cash - beginning of year	139,918,372
Cash - end of year	\$ 147,599,747
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating loss	\$ (271,419,216)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	75,620,509
Other miscellaneous operating receipts	7,593,444
Extraordinary item - pollution remediation	(8,030,005)
Changes in assets and liabilities	
Receivables (net)	(8,526,781)
Inventories	606,560
Prepaid expenses	(2,203,287)
Accounts payable and accrued liabilities	(1,430,446)
Accrued payroll liabilities (Employees)	(464,878)
Accrued payroll liabilities (Benefits)	(5,518,518)
Student overpayments	(33,628)
Advance receipts	1,204,107
Refundable federal advance	103,443
Deposits	(143)
Compensated absences	365,766
OPEB related	403,028
Pension related	1,529,408
Loans to students and employees	562,055
Net cash used by operating activities	\$ (209,638,582)
NONCASH TRANSACTIONS	
Donations of land, buildings, improvements, infrastructure and library holdings	\$ 2,661,311
Equipment donations	996,382
Payment of bond proceeds directly into deposits with trustees	112,501,540
Payment of underwriter's discounts paid directly from bond proceeds	182,817
Bond issuance costs paid directly from bond proceeds	290,823
Interest on long-term debt paid directly from deposits with trustees	6,403
Investment income paid on and deposited directly into deposits with trustees	1,858,646
Capital outlay and other related expenses paid directly from proceeds of University of Arkansas long-term debt instruments	1,336,435
Net loss on disposal of assets	817,047
Value of goods received from sponsorship agreements with vendors	3,507,595
Gift of real property recorded as an investment	380,000

See Accompanying Notes To Financial Statements.



DISCRETELY PRESENTED COMPONENT UNITS

UNIVERSITY OF ARKANSAS FAYETTEVILLE CAMPUS FOUNDATION, INC.

THE UNIVERSITY OF ARKANSAS FAYETTEVILLE CAMPUS FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2018 and 2017

	2018	2017
Assets		
Contribution receivable, net	\$ 7,862,099	\$ -
Investments	565,080,692	534,656,411
Total assets	<u>\$ 572,942,791</u>	<u>\$ 534,656,411</u>
Liabilities and Net Assets		
Accounts payable	\$ 943,608	\$ 931,047
Net assets:		
Temporarily restricted	46,640,068	36,403,141
Permanently restricted	525,359,115	497,322,223
Total net assets	<u>571,999,183</u>	<u>533,725,364</u>
Total liabilities and net assets	<u>\$ 572,942,791</u>	<u>\$ 534,656,411</u>

THE UNIVERSITY OF ARKANSAS FAYETTEVILLE CAMPUS FOUNDATION, INC.

STATEMENT OF ACTIVITIES

Year ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, gains and other support:				
Contribution	\$ -	\$ 9,891,099	\$ -	\$ 9,891,099
Interest and dividends (see Note 6)	-	3,490,572	-	3,490,572
Net realized and unrealized gains on investments (see Note 6)	-	16,169,912	28,036,892	44,206,804
Net assets released from restrictions	19,314,656	(19,314,656)	-	-
Total revenue, gains and other support	19,314,656	10,236,927	28,036,892	57,588,475
Program services:				
Research	1,052,010	-	-	1,052,010
Faculty/staff support	3,071,105	-	-	3,071,105
Scholarships and awards	13,467,454	-	-	13,467,454
Equipment and technology	1,276,912	-	-	1,276,912
Other	447,175	-	-	447,175
Total program services	19,314,656	-	-	19,314,656
Changes in net assets	-	10,236,927	28,036,892	38,273,819
Net assets, beginning of year	-	36,403,141	497,322,223	533,725,364
Net assets, end of year	\$ -	\$ 46,640,068	\$ 525,359,115	\$ 571,999,183

THE UNIVERSITY OF ARKANSAS FAYETTEVILLE CAMPUS FOUNDATION, INC.

STATEMENT OF ACTIVITIES

Year ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, gains and other support:				
Interest and dividends (see Note 6)	\$ -	\$ 3,597,973	\$ 2,245	\$ 3,600,218
Net realized and unrealized gains on investments (see Note 6)	-	15,846,520	44,705,391	60,551,911
Net assets released from restrictions	16,916,811	(16,916,811)	-	-
Total revenue, gains and other support	16,916,811	2,527,682	44,707,636	64,152,129
Program services:				
Research	912,263	-	-	912,263
Faculty/staff support	3,100,700	-	-	3,100,700
Scholarships and awards	11,397,251	-	-	11,397,251
Equipment and technology	1,107,626	-	-	1,107,626
Other	398,971	-	-	398,971
Total program services	16,916,811	-	-	16,916,811
Changes in net assets	-	2,527,682	44,707,636	47,235,318
Net assets, beginning of year	-	33,875,459	452,614,587	486,490,046
Net assets, end of year	\$ -	\$ 36,403,141	\$ 497,322,223	\$ 533,725,364

DISCRETELY PRESENTED COMPONENT UNITS

THE RAZORBACK FOUNDATION, INC.

THE RAZORBACK FOUNDATION, INC.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2018

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

THE RAZORBACK FOUNDATION, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2018

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

THE RAZORBACK FOUNDATION, INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2017

Assets	
Cash and cash equivalents	\$ 11,104,482
Contributions receivable, net	32,475,120
Investments, at fair value	18,117,224
Prepaid rent	1,350,234
Other	1,641,035
Property and equipment, net	<u>14,973,848</u>
Total assets	<u>\$ 79,661,943</u>
Liabilities and Net Assets	
Liabilities:	
Accounts payable and accrued liabilities	\$ 655,251
Deferred compensation	<u>17,000</u>
Total liabilities	672,251
Net assets:	
Stockholder's equity in for-profit subsidiary	100
Unrestricted net assets of nonprofit parent	<u>42,445,465</u>
Total unrestricted net assets	42,445,565
Temporarily restricted net assets	33,168,917
Permanently restricted net assets	<u>3,375,210</u>
Total net assets	<u>78,989,692</u>
Total liabilities and net assets	<u>\$ 79,661,943</u>

THE RAZORBACK FOUNDATION, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support:				
Contributions	\$ 17,342,964	\$ 19,998,979	\$ 112,664	\$ 37,454,607
Interest and dividends	224,934	58,551	-	283,485
Net realized and unrealized gains on investments	1,493,631	501,746	-	1,995,377
Other	102,074	-	-	102,074
Net assets released from restrictions	<u>34,454,737</u>	<u>(34,454,737)</u>	<u>-</u>	<u>-</u>
Total revenues, gains and other support	53,618,340	(13,895,461)	112,664	39,835,543
Expenses and losses:				
Program services:				
Athletic department expenses	14,329,310	-	-	14,329,310
Construction and capital projects	<u>14,963,679</u>	<u>-</u>	<u>-</u>	<u>14,963,679</u>
Total program services	29,292,989	-	-	29,292,989
Supporting services:				
Management and general	2,381,028	-	-	2,381,028
Fundraising	3,153,856	-	-	3,153,856
Change in cash surrender value of life insurance policies	(52,792)	-	-	(52,792)
Provision for loss on uncollectible contributions	<u>429,946</u>	<u>-</u>	<u>-</u>	<u>429,946</u>
Total supporting services	<u>5,912,038</u>	<u>-</u>	<u>-</u>	<u>5,912,038</u>
Total expenses and losses	<u>35,205,027</u>	<u>-</u>	<u>-</u>	<u>35,205,027</u>
Change in net assets	18,413,313	(13,895,461)	112,664	4,630,516
Net assets, beginning of year	<u>24,032,252</u>	<u>47,064,378</u>	<u>3,262,546</u>	<u>74,359,176</u>
Net assets, end of year	<u>\$ 42,445,565</u>	<u>\$ 33,168,917</u>	<u>\$ 3,375,210</u>	<u>\$ 78,989,692</u>

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1A Nature of the Organization

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

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

The University is tax exempt under Internal Revenue Service code except for tax on unrelated business income. The University had no significant unrelated business income for the year ended June 30, 2018. It is also exempt from state income taxes under Arkansas law. Accordingly, no provision for income taxes is made in the financial statements.

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

1B Financial Reporting Entity

GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statements No. 39, *Determining Whether Certain Organizations are Component Units - an amendment of GASB Statement No. 14* and No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and 34*, defines the financial

reporting entity as the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete. Under the provisions of these Statements, the University is a component unit of the State of Arkansas (primary government). Although the guidance is written from the perspective of the primary government, its requirements apply to the separately issued financial statements of a component unit, and therefore, the component unit should apply the provisions as if it was a primary government.

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

1C Discretely Presented Component Units

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

The University of Arkansas Fayetteville Campus Foundation, Inc. (“the Foundation”) is a charitable organization described

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

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

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

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

1D Basis of Presentation

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

1E Basis of Accounting

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

1F Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, deferred inflows, deferred outflows, revenues and expenses at the date of the financial statements. Significant estimates include separation of accrued compensated

absences between current and non-current and depreciation expense. Actual results could differ from those estimates.

1G Cash and Cash Equivalents

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

1H Investments

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

1I Accounts Receivable

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

1J Inventories

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

An allowance of \$263,354 was computed based on estimated obsolete inventory values as of June 30, 2018.

1K Capital Assets

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

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

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

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

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

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

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

1L Capitalization of Interest

The University capitalizes interest involving qualifying assets. The amount of interest cost to be capitalized is interest cost on borrowings netted against any interest earned on temporary investments of the proceeds of those borrowings from the date of borrowing until the specified qualifying assets acquired with those borrowings are ready for their intended use. The total amount of interest cost incurred and the amount thereof that has been capitalized was \$34,542,620 and \$5,355,064, respectively, for the fiscal year ended June 30, 2018.

1M Deferred Outflows of Resources

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

1N Advance Receipts

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

1O Noncurrent Liabilities

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

1P Deferred Inflows of Resources

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

1Q Pensions

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

1R Net Position

The University’s net position is classified as follows:

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

- Restricted:

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

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

purpose. Responsible officials determine at the time funds are expended whether to use any unrestricted net position that may be available.

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

1S Classification of Revenues

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

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

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

1T Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses and Changes in Net Position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University and the amount that is paid by students and/or third parties making payments on the students’ behalf. Certain governmental grants and nongovernmental programs are recorded as either operating or nonoperating revenues in the University’s financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

1U Encumbrances

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

1V New Accounting Pronouncements

The GASB issued four Statements with requirements that became effective for the fiscal year ended June 30, 2018. Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, establishes accounting and financial reporting standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The effect of implementing this Statement is discussed in detail within Note 13. Statement No. 81, *Irrevocable Split-Interest Agreements*, establishes accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The University became the beneficiary of a life-interest in real estate during the fiscal year ended June 30, 2018. The asset has been recognized as an investment and was valued using an independent appraisal dated June 24, 2018. No agreements were identified which met the criteria for this Statement. Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No.68, and No. 73*, specifies that the requirements of paragraph 7 in a circumstance in which an employer’s pension liability is measured as of a date other than the employer’s most recent fiscal year-end are effective for the year ending June 30, 2018. The other requirements of GASB Statement 82 related to selection of assumptions are applicable to the year ended June 30, 2017. Management has determined that the requirements of paragraph 7 do not affect current reporting or disclosures. Statement No. 85, *Omnibus, 2017*, addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. Management has determined that the requirements do not affect current reporting or disclosures. Statement No. 86, *Certain Debt Extinguishment Issues*, establishes essentially the same requirements for when a government places cash and other monetary assets acquired with only existing resources in an irrevocable trust to extinguish the debt as Statement No. 7, *Advanced Refunding in Defeasance of Debt*, requires that debt be considered defeased in substance when the debtor irrevocably places cash or other monetary assets acquired with refunding debt proceeds in a trust to be used solely for satisfying scheduled payments of the defeased debt. Management has determined that the requirements do not affect current reporting or disclosures.

The GASB issued the following Statements with requirements that become effective for the fiscal year ending June 30, 2019: Statement No. 83, *Certain Asset Retirement Obligations* and Statement No. 88, *Certain Disclosures Related to Debt*,

including Direct Borrowings and Direct Placements. The GASB also issued Statement No. 84, *Fiduciary Activities* which will become effective for the fiscal year ending June 30, 2020. Statement No. 87, *Leases* and Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* will become effective for the fiscal year ending June 20, 2021. Management has not yet determined the effects of these Statements on the University’s financial statements.

1W Restatement of Prior Year

Beginning net position, as reported on the Statement of Revenues, Expenses, and Changes in Net Position, was restated due to the implementation of GASB Statement 75. As a result, Net Position – beginning of the year was reduced \$6,388,343 to reflect the net effect of recognizing the University’s proportionate share of the net postemployment benefit liability and deferred outflows of resources attributable to the year ended June 30, 2017.

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

2A Cash and Cash Equivalents

The University uses commercial banks for its cash deposits. Cash deposits are carried at cost. The University of Arkansas System

Administration (System Administration) does not maintain separate bank accounts. System Administration deposits are commingled in University of Arkansas, Fayetteville bank accounts. The carrying value of the System Administration funds was \$4,306,362 at June 30, 2018.

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

Cash and Cash Equivalents	
Cash and Cash Equivalents	June 30, 2018
Cash on deposit, carrying value	\$ 150,456,025
Cash held at State Treasury	1,393,861
Imprest Funds, non-Bank	56,223
Less: System Administration Cash	(4,306,362)
Total	\$ 147,599,747

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the University’s deposits may not be returned to it. Deposits are exposed to custodial risk if they are not insured by Federal Deposit Insurance Corporation (FDIC) and are uncollateralized, collateralized with securities held by the pledging institution or collateralized with securities

held by the pledging institution’s agent but not in the University’s name. Board of Trustees policy requires that all cash deposits be either insured by the FDIC or collateralized by securities held at a third-party financial institution (preferably the Federal Reserve Bank) in the University’s name. At June 30, 2018, none of the University’s bank balances were exposed to custodial credit risk.

2B Investments

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

Investments	
Investment Type	Fair Value at June 30, 2018
Mutual Treasury MM Funds	\$ 6,154,106
U.S. Treasuries	164,430,295
Federal Agencies	46,147,794
Commercial Paper	63,068,644
Mutual Bond Funds	153,903
Corporate Notes/Bonds	35,319,115
Negotiable CDs	21,104,987
External Investment Pool	162,132,892
Other Investments	984,553
Total	\$ 499,496,289

At June 30, 2018, total investments of \$499,496,289 includes \$94,477,155 reported as deposits with bond trustees on the Statement of Net Position. The above schedule does not include nonnegotiable certificates of deposit of \$54,000 at June 30, 2018

which are considered deposits for GASB Statement No. 40, *Deposit and Investment Risk Disclosures—an amendment of GASB Statement No. 3.*

Investment Risk

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

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

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

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

Interest Rate Risk					
June 30, 2018					
Investment Type	Value	Investment Maturities (in years)			
		Less than 1	1 to 5	6 to 10	More than 10
U.S Treasury	\$ 164,430,295	\$ 112,923,551	\$ 48,286,021	\$ 3,220,723	\$ 0
Federal Agencies	46,147,794	24,528,266	21,619,528		
Commercial Paper	63,068,644	63,068,644			
Corporate Notes/Bonds	35,319,115	5,708,045	28,571,201	1,039,869	
Negotiable CDs	21,104,987	9,190,508	11,914,479		
Totals	\$ 330,070,835	\$ 215,419,014	\$ 110,391,229	\$ 4,260,592	\$ 0

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University does not have a formal investment policy addressing credit risk for non-operating investments. In accordance with its Operating Funds Investment Policy, the University applies the “prudent investor” standard which states that, “In making investments, the fiduciaries shall exercise the judgement and care, under the

circumstances then prevailing, which an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation, considering probable safety of capital as well as probable income.” The University manages its exposure to fair value losses arising from credit risks as follows:

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



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

Credit Risk				
June 30, 2018				
Investment Type	Value	Aaa-Aa3	A1-A3	Not Rated
Mutual Treasury MM Funds	\$ 6,154,106	\$ 2,974,034		\$ 3,180,072
U.S. Treasury	164,430,295	164,430,295		
Federal Agencies	46,147,794	46,147,794		
Commercial Paper	63,068,644	63,068,644		
Mutual Bond Funds	153,903	1,611		152,292
Corporate Notes/Bonds	35,319,115	3,520,628	\$ 31,798,487	
Negotiable CDs	21,104,987	9,190,508	11,914,479	
Totals	\$ 336,378,844	\$ 289,333,514	\$ 43,712,966	\$ 3,332,364

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

2C External Investment Pool-University of Arkansas System

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

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

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

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

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

External Investment Pool				
Fiscal Year	UAF Total Return Pool	UAF Intermediate Pool	CES Intermediate Pool	Total Pool
June 30, 2018	5.01%	14.88%	2.64%	7.74%

University of Arkansas External Investment Pool	
Statement of Invested Assets	
Investment Type	Fair Value* June 30, 2018
Equities	\$ 493,662,841
Common Stock	217,897,695
Funds - Common Stock	274,652,577
Rights/Warrants	
Funds - Equities ETF	1,112,569
Fixed Income	\$ 463,526,876
Government Bonds	127,441,525
Corporate Bonds	9,036,931
Government Mortgage Backed Securities	16,169,866
Commercial Mortgage-Backed	2,309,016
Asset Backed Securities	11,806,602
Non-Government Backed C.M.O.s	
Funds - Fixed Income ETF	296,762,936
Venture Capital and Partnerships	\$ 703,142,468
Partnerships	703,142,468
Hedge Fund	\$ 267,736,560
Hedge Equity	236,628,726
Hedge Event Driven	31,107,834
All Other	\$ 492,602
Recoverable Taxes	492,602
Cash/Cash Equivalents	\$ 165,570,901
Short Term Bill and Notes	10,350,281
Funds - Short Term Investment	146,924,214
Cash	2,254,069
Invested Cash	6,042,337
Total	\$ 2,094,132,248
*Includes accrued income	

Credit Risk – S&P Quality Ratings							
June 30, 2018							
Investment Type & Fair Value*	Credit Risk						US GOVN. GUAR
	AAA	AA	A	BBB	BB	NR	
Asset Backed Securities	\$ 8,400,440					\$ 3,392,353	
Commercial Mortgage-Backed	979,431					1,323,753	
Corporate Bonds	\$ 574,606	\$ 4,160,962	\$ 4,150,101			82,805	
Funds - Fixed Income ETF						296,762,936	
Funds - Short Term Investment						146,706,283	
Government Bonds							\$ 127,144,500
Govn Mortgage Backed Securities							16,119,847
Hedge Event Driven						31,107,834	
Short Term Bills and Notes							10,350,281
Totals	\$ 9,379,871	\$ 574,606	\$ 4,160,962	\$ 4,150,101	\$ 0	\$ 479,375,964	\$ 153,614,628
*Does not include accrued income							

Years to Maturity						
June 30, 2018						
Investment Type	Investment Maturities (in years)					Maturity Not Determined
	Fair Value*	Less than 1	1+ to 6	6+ to 10	10+	
Asset Backed Securities	\$ 11,792,793		\$ 11,792,793			
Commercial Mortgage-Backed	2,303,184				\$ 2,303,184	
Corporate Bonds	8,968,474	\$ 1,221,509	7,444,242	\$ 219,918	82,805	
Funds - Fixed Income ETF	296,762,936					\$ 296,762,936
Funds - Short Term Investment	146,706,283					146,706,283
Government Bonds	127,144,500	4,212,139	122,932,361			
Govn Mortgage Backed Securities	16,119,847				16,119,847	
Hedge Event Driven	31,107,834					31,107,834
Short Term Bills and Notes	10,350,281	10,350,281				
Totals	\$ 651,256,132	\$ 15,783,929	\$ 142,169,396	\$ 219,918	\$ 18,505,836	\$ 474,577,053
*Does not include accrued income						



Interest Rate Sensitivity - Effective Duration		
June 30, 2018		
Investment Type	Fair Value*	Effective Duration
Asset Backed Securities	\$ 11,792,793	0.93
Commercial Mortgage-Backed	2,303,184	0.69
Corporate Bonds	8,885,669	2.19
Corporate Bonds	82,805	N/A
Funds - Fixed Income ETF	296,762,936	N/A
Funds - Short Term Investment	146,706,283	N/A
Government Bonds	127,144,500	3.63
Govn Mortgage Backed Securities	16,119,847	4.80
Hedge Event Driven	31,107,834	N/A
Short Term Bills and Notes	10,350,281	0.66
Total	\$ 651,256,132	
*Does not include accrued income		

Foreign Currency Risk By Investment Type			
June 30, 2018			
Currency By Investment and Fair Value*	Cash	Equity	Other Assets
AUSTRALIAN DOLLAR	\$ 5,789,200	\$ 1,683,880	
CANADIAN DOLLAR	(1,136,374)	1,827,566	\$ 10,533
SWISS FRANC	10,523	8,110,306	146,702
CHINESE YUAN RENMINBI	(6,129,167)		
DANISH KRONE	(46)		9,015
EURO	(2,105,037)	33,399,368	271,666
BRITISH POUND STERLING	7,249,878	10,589,282	
HONG KONG DOLLAR	86,930	6,100,331	
JAPANESE YEN	5,705,398	17,223,428	52,814
SOUTH KOREAN WON		1,499,924	
NORWEGIAN KRONE	577,290	869,700	
POLISH ZLOTY	1,770		
SWEDISH KRONA	2,235,281	165,794	
SINGAPORE DOLLAR	938,100	647,304	
Totals	\$ 13,223,746	\$ 82,116,883	\$ 490,730
*Includes accrued income			

2D Donor-restricted Endowments

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

restricted assets until appropriated for expenditure by the institution.”

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

Endowment Available for Expenditure	
	June 30, 2018
Endowment Investments	\$ 83,255,935
Operating Investment Sweep	229,722
Amounts Receivable	27,477
Funds treated as Endowment	(14,873,352)
Non-expendable portion of Endowment	(25,593,406)
Total	\$ 43,046,376

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

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

3. RECEIVABLES

3A Accounts Receivable

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

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

Accounts Receivable			
June 30, 2018			
Type	Gross	Allowance	Net
Student Accounts Receivable	\$ 16,146,365	\$ (6,018,175)	\$ 10,128,190
Non-student Accounts Receivable	24,503,079	(328,446)	24,174,633
Unreimbursed Research Contract Expenses	21,121,864		21,121,864
Totals	\$ 61,771,308	\$ (6,346,621)	\$ 55,424,687

3B Notes Receivable

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

The resources for loans to students include federal funds, funds from other external sources, and University funds. New student loans totaling \$1,645,494 were issued under the Student Loan Programs for the year ended June 30, 2018. Of total campus-based loans processed, the majority were from Perkins funds

provided by the federal government. The federal government halted the issuance of Perkins loans after June 30, 2018 due to the sunset of the program. The University will continue collecting on the outstanding loans until management decides to liquidate the program. The federal student loan default rate based on the U.S. Department of Education Cohort default rate was 16.63% for the year ended June 30, 2018. Notes receivable totaling \$43,441 were written off during the fiscal year ended June 30, 2018.

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

Notes Receivable				
June 30, 2018				
Type	Gross Balance	Allowance	Net Balance	Current Portion
Student loans	\$ 15,131,300	\$ (818,478)	\$ 14,312,822	\$ 4,085,451
Loans to Greek organizations	80,528		80,528	80,528
Lease termination	36,552	(36,552)		
Interfund loan	2,334,262		2,334,262	
Totals	\$ 17,582,642	\$ (855,030)	\$ 16,727,612	\$ 4,165,979

Pledges Receivable

3C Pledges receivable consists of gifts pledged for capital projects, endowments and other purposes.

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

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

4. CAPITAL ASSETS

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

Capital Assets					
June 30, 2018					
	Beginning Balance	Additions	Retirements	Adjustments	Ending Balance
Nondepreciable Capital Assets					
Land	\$ 59,952,817	\$ 6,577,461	\$ (150,000)		\$ 66,380,278
Construction in progress	83,517,981	173,975,377		\$ (31,453,606)	226,039,752
Other assets	2,208,320		(185,503)		2,022,817
Total Nondepreciable Capital Assets	145,679,118	180,552,838	(335,503)	(31,453,606)	294,442,847
Depreciable Capital Assets					
Buildings	1,592,760,259	1,732,186	(782,581)	24,861,627	1,618,571,491
Equipment	249,281,708	16,357,441	(10,048,858)		255,590,291
Improvements	45,377,081	620,535		5,185,077	51,182,693
Infrastructure	115,582,129	401,454			115,983,583
Intangible assets	77,423,614			1,406,902	78,830,516
Library holdings	90,521,260	1,310,980	(95,495)		91,736,745
Total depreciable capital assets	2,170,946,051	20,422,596	(10,926,934)	31,453,606	2,211,895,319
Less accumulated depreciation					
Buildings	(656,266,729)	(50,599,377)	179,785		(706,686,321)
Equipment	(204,276,522)	(15,417,101)	9,947,239		(209,746,384)
Improvements	(20,968,871)	(2,150,302)	(6,208)		(23,125,381)
Infrastructure	(53,194,347)	(4,566,538)			(57,760,885)
Intangible assets	(76,866,304)	(154,590)			(77,020,894)
Library holdings	(76,496,968)	(2,732,601)	92,544		(79,137,025)
Total accumulated depreciation	(1,088,069,741)	(75,620,509)	10,213,360	0	(1,153,476,890)
Total Depreciable Capital Assets	1,082,876,310	(55,197,913)	(713,574)	31,453,606	1,058,418,429
Total Capital Assets, Net of Accumulated Depreciation	\$ 1,228,555,428	\$ 125,354,925	\$ (1,049,077)	\$ 0	\$ 1,352,861,276

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

Museum Collection

The financial statements do not include the University’s museum collection which consists of numerous historical relics, artifacts, displays, and memorabilia. Major collections are in archeology,

physical anthropology, ethnography, geology, zoology, and history. The value of these collections have not been established by professionals in their respective fields.

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable balances are summarized as follows:

Accounts Payable	
Type	June 30, 2018
Payable to Outside Vendors	\$ 38,602,820
Retainage on Construction Contracts	9,446,664
Property Taxes Payable	3,888
Total	\$ 48,053,372

Accrued payroll liabilities are summarized as follows:

Accrued Payroll Liabilities	
Type	June 30, 2018
Net Salaries and Wages Payable	\$ 2,316,105
Employee Withholdings Payable	5,453,119
Employer Payroll Taxes and Benefits Matching Payable	6,902,523
Total	\$ 14,671,747

6. SHORT-TERM BORROWING

GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, states that governments should provide details about short-term debt activity during the year, even if no short-

term debt is outstanding at year-end. The University had no short-term debt activity during the fiscal year, nor is there any outstanding balance of short-term debt as of June 30, 2018.



7. COMPENSATED ABSENCES

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

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

The University recognizes a liability for compensated absences. The liability is based on the value of unused employee vacation and compensatory time as of year-end, including the associated benefits: contributions to Retirement, Social Security, Medicare, Workers’ Compensation, and Unemployment Insurance. The liability also includes amounts paid to eligible classified employees for unused sick leave. A classified employee who has accumulated at least fifty (50) days, but less than sixty (60) days of

sick leave upon retirement shall receive an amount equal to fifty percent (50%) of the number of accrued sick leave days (rounded to the nearest day) times fifty percent (50%) of the employee’s daily salary. A classified employee who has accumulated at least sixty (60) days, but less than seventy (70) days of sick leave upon retirement shall receive an amount equal to sixty percent (60%) of the number of accrued sick leave days (rounded to the nearest day) times 60 percent (60%) of the employee’s daily salary. A classified employee who has accumulated at least seventy (70) days, but less than eighty (80) days of sick leave upon retirement shall receive an amount equal to seventy percent (70%) of the number of accrued sick leave days (rounded to the nearest day) times seventy percent (70%) of the employee’s daily salary. A classified employee that has accumulated at least eighty (80) or more days of sick leave upon retirement shall receive an amount equal to eighty percent (80%) of the number of accrued sick leave days (rounded to the nearest day) times eighty percent (80%) of the employee’s daily salary. In no event shall an employee receive a sick leave incentive amount that exceeds \$7,500.

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

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

Compensated Absences					
June 30, 2018					
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated Absences	\$ 21,236,614	\$ 835,051	\$ 469,285	\$ 21,602,380	\$ 1,602,373



8. LONG-TERM DEBT

The retirement of some bond issues is secured by a specific pledge of certain gross revenues, surplus revenues and specific fees. Separate accounting is not required for these facilities

under the provisions of the debt instruments; accordingly, segment reporting is not required for financial reporting purposes.

8A Schedule of Long-Term Debt

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

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

8B Schedule of Changes in Long-Term Debt

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

Changes in Long-Term Debt					
June 30, 2018					
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds	\$ 694,760,000	\$ 95,805,000	\$ 25,705,000	\$ 764,860,000	\$ 30,655,000
Net unamortized premium	63,200,593	16,879,358	4,466,468	75,613,483	4,517,387
Notes	1,584,045		179,811	1,404,234	194,042
Leases	342,502	1,336,435	563,680	1,115,257	358,242
Installment contracts	22,860,038		3,463,937	19,396,101	3,532,892
Totals	\$ 782,747,178	\$ 114,020,793	\$ 34,378,896	\$ 862,389,075	\$ 39,257,563
Note: Amounts shown in "Ending Balance" include both current and long-term portions					

8C Future Principal and Interest Payments

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

Future Long-Term Payments			
Year(s)	Principal	Interest	Total
2019	\$ 34,740,176	\$ 34,030,119	\$ 68,770,295
2020	36,139,703	32,730,664	68,870,367
2021	36,747,299	31,264,041	68,011,340
2022	35,368,634	29,758,514	65,127,148
2023	36,378,963	28,274,748	64,653,711
2024-2028	153,924,760	12 1,602,159	275,526,919
2029-2033	162,701,637	87,494,184	250,195,821
2034-2038	166,409,420	49,472,390	215,881,810
2039-2043	88,440,000	18,229,717	106,669,717
2044-2048	35,925,000	4,244,185	40,169,185
Total Future Payments	\$ 786,775,592	\$ 437,100,721	\$ 1,223,876,313
Plus Net Unamortized Premiums	75,613,483		
Total Outstanding Debt	\$ 862,389,075		

8D Capital Leases

The University has acquired certain equipment under various lease-purchase contracts. The cost of equipment and other assets held under capital leases totaled \$1,397,998 at June 30, 2018. The

expense resulting from depreciation of assets recorded under capital leases is included with depreciation expense as reflected in the summary of changes in capital assets. See Note 4.

Equipment Leases			
Type of Equipment	Cost	Accumulated Depreciation	Asset Balance June 30, 2018
Information Technology Equipment	\$ 108,652	\$ 21,730	\$ 86,922
Information Technology Equipment	108,652	21,730	86,922
Information Technology Equipment	90,544	18,109	72,435
Information Technology Equipment	90,544	18,109	72,435
Information Technology Equipment	44,048	8,810	35,238
Information Technology Equipment	44,048	8,810	35,238
Information Technology Equipment	44,048	8,810	35,238
Information Technology Equipment	44,048	8,810	35,238
CES Farm Equipment	120,447	12,045	108,402
Research Equipment	61,562	17,588	43,974
Totals	\$ 756,593	\$ 144,551	\$ 612,042
Prepaid maintenance and software	\$ 641,405	\$ 132,267 ¹	\$ 509,138
Total assets	\$ 1,397,998	\$ 276,818	\$ 1,121,180
Total Minimum Lease Payment			\$ 1,156,567
Less: Amount Representing Interest			41,310
Total Present Value of Net Minimum Lease Payment			\$ 1,115,257
¹ Amount equals recognized maintenance and software subscriptions expenses.			

8E Nonmonetary Capital Lease

On June 7, 2017, the Arkansas Research and Education Optical Network (AREON) entered into an agreement with E. Ritter Communications Holdings, Inc. (Ritter), for a cooperative exchange of facilities consisting of unused surplus dark fiber rather than the separate and distinct construction, ownership, and operating of two fiber optic systems. This agreement supersedes a previous capitalized long-term lease agreement between AREON and Ritter. This exchange is considered an equitable trade of similarly valued surplus dark fiber and both

parties agreed that neither party shall pay a fee and that the initial term of this agreement shall be 20 years. As a result, this is a nonmonetary transaction. The fair market value of the dark fiber received from Ritter was determined to be \$785,000. The book value of the dark fiber given by AREON was \$268,418 thereby resulting in a noncash gain on disposal of assets of \$516,582. As of June 30, 2018, the book value of the dark fiber received from Ritter was \$706,500.

8F Pledged Revenues

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

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

Pledged Revenues		
Bond Series	Revenue Source	2018
Series 2009A Various Facilities	Student Tuition and Fees	\$ 316,569,768
Series 2011A&B Various Facilities	Sales and Services	9,324,536
Series 2012A Various Facilities	Residential Life	68,982,596
Series 2012B Various Facilities	Bookstore ¹	14,268,240
Series 2013 Various Facilities	Student Health Services	2,728,603
Series 2014A&B Various Facilities	Transit and Parking	8,785,539
Series 2015A Various Facilities	Other Auxiliaries	532,277
Series 2015B Various Facilities		
Series 2015C Various Facilities		
Series 2016A Various Facilities		
Series 2016B Various Facilities		
Series 2017 Various Facilities		
Total Various Fac. Pledge		\$ 421,191,559
Series 2010 Athletic Refunding	Men’s Athletic Revenue	\$ 96,088,279
Series 2013 Athletic Facilities	(less game guarantees)	(3,743,500)
Series 2015 Athletic Facilities		
Series 2016A Athletic Facilities		
Series 2016B Athletic Facilities		
Total Athletics Pledge		\$ 92,344,779
¹ For the purposes of calculating pledged revenues, Bookstore revenues shown include internally generated revenues from sales to the University campus of \$2,837,778 for the year ending June 30, 2018.		

The Various Facility revenue pledge is used to repay twelve various facilities revenue bond issues as detailed in the schedule above. Proceeds from the bonds provided financing for the construction and renovation of various campus buildings; utility and other infrastructure; land purchases; and refunding of existing debt issues. The maturity date on the issues range from November 2021 through November 2048. Annual principal and interest payments on the bonds are expected to require approximately 11.16% of gross revenues. The total principal and interest remaining to be paid on the bonds is \$989,575,703. Principal and interest paid for the current year and gross revenues were \$47,006,330 and \$421,191,559, respectively.

The Athletics revenue pledge is used to repay five athletic facilities revenue bond issues as detailed in the schedule above. Proceeds from the bonds provided financing for the construction and renovation of various athletic facilities as well as the refunding of existing debt issues. The maturity date on the issues range from September 2020 to September 2036. Annual principal and interest payments on the bonds are expected to require approximately 13.14% of net revenues pledged. The total principal and interest remaining to be paid on the bonds is \$210,883,881. Principal and interest paid for the current year and net revenues were \$12,137,916 and \$92,344,779, respectively.

8G Fiscal Year 2018 Long-Term Debt Transactions

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

On November 21, 2017, the Cooperative Extension Service entered into a capital lease purchase financing agreement to

8H Refunding Long-Term Debt Transactions

On April 5, 2016, the University issued \$93,590,000 in Various Facility Revenue Bonds, (Fayetteville Campus), Refunding and Improvement Series 2016A and \$15,280,000 in Various Facility Revenue Bonds, (Fayetteville Campus), Refunding Series 2016B. The Series 2016A bonds, with interest rates of 3.0% to 5.0% were issued to provide funds to finance various construction and renovation projects on the University campus, and to refund \$38,200,000 of outstanding bonds dated October 2, 2007 (Series 2007) with interest rates of 4.0% to 5.0%; and \$35,545,000 of outstanding bonds dated August 1, 2008 (Series 2008A) with interest rates of 4.0% to 5.0%. Net bonds proceeds and premiums of \$28,504,688 was available to finance construction of a civil engineering research and education center, a library storage building, campus entrance signs, intramural sports playing fields, and an addition to the Pat Walker Student Health Center; to finance renovations of student housing; and to continue renovations of Kimpel Hall, and Discovery Hall. The Series 2016B bonds with interest rates of 0.87% to 3.35% were issued on a taxable basis to refund \$13,500,000 of outstanding bonds dated August 1, 2008 (Series 2008B) with interest rates of 5.1% to 6.375%.

Net bond proceeds and premiums from Series 2016A and Series 2016B of \$94,689,148 along with \$1,873,821 of cash from the

acquire capital equipment totaling \$120,447. The agreement is for a total of 5 years and has an interest rate of 3.56%.

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

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

University was deposited into an escrow account to retire the bonds. The refunding of the bonds dated October 2, 2007 and all of the bonds dated August 1, 2008 was an advance refunding. The combined refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$5,764,322 for the Series 2016A bonds and \$1,679,827 for the Series 2016B bonds. These differences, reported in the accompanying financial statements as Deferred outflows of resources, will be amortized through the fiscal year 2039 for Series 2016A and fiscal year 2029 for Series 2016B. The University completed the refunding to reduce its total debt service payments over the next twenty-three years by \$13,450,092 and to obtain an economic gain of \$10,092,618. The escrow balance as of June 30, 2018 was \$47,179,270. The bonds will have regularly scheduled principal and interest payments made from the escrow account until the bond call dates of November 1, 2017 for Series 2007 and November 1, 2018 for Series 2008A and Series 2008B, at which times the remaining balances of each defeased bond issue will be refunded. On November 1, 2017, the remaining outstanding Series 2007 bonds were called in full. The remaining balance of the defeased bonds as of June 30, 2018, \$33,745,000 for Series 2008A, and \$12,460,000 for Series 2008B.

9. FAIR VALUE MEASUREMENTS

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

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

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

- Level 1: Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the University has the ability to access at the measurement date. Publicly traded equity securities and mutual funds are the primary investments included in Level 1 and are valued at the individual security’s closing market price
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. Observable inputs are those that reflect the assumptions

market participants would use in pricing the asset developed based on market data obtained from independent sources. These types of sources would include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in inactive markets, models or other valuation methodologies. Level 2 investments include U.S. and international government debt securities valued at market corroborated prices and certain equity and fixed income investments in commingled investment vehicles reported at net asset value derived from the market prices of security holdings.

- Level 3: Inputs that are unobservable. Unobserved inputs are those that reflect the University’s own assumptions about the assumptions that market participants would use in pricing the asset developed based on the best information available. These types of sources would include investment manager pricing for private equities, hedge funds and certain limited partnerships. Limited partner interests in private equity and other partnerships and hedge fund investments are included in Level 3 and are valued using the individual investment manager’s reported estimates of fair value developed in accordance with reasonable valuation policies.

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



The following table sets forth, by level within the valuation hierarchy, University invested funds, including amounts reported as deposits with bond trustees on the Statement of Net Position, at June 30, 2018:

Investment Instruments Measured at Fair Value				
June 30, 2018				
Investments by fair value level	June 30, 2018	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)
Equity Securities:				
US	\$ 216,403	\$ 216,403		
Fixed Income Securities:				
US Government Debt	209,680,707	66,738,950	\$ 142,941,757	
Other Debt Securities	121,045,690	54,000	120,991,690	
Commingled Funds:				
US Equity	149,178	89,927	59,251	
International Equity	51,815	25,828	25,987	
US Government Bonds	5,597,335	5,312,989	284,346	
Corporate Bonds	269,417	255,453	13,964	
Non-marketable alternatives	3,016			\$ 3,016
Marketable alternatives	400,149	20,149		380,000
Money markets and short-term investments	3,687	3,687		
Total investments by fair value level	\$ 337,417,397	\$ 72,717,386	\$ 264,316,995	\$ 383,016
Investments measured at the net asset value (NAV)				
External Investment Pools:				
Total Return Pool	\$ 82,073,185			
Intermediate Pool	80,059,707			
Total investments measured at the NAV	162,132,892			
Total investments measured at fair value	\$ 499,550,289			

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt and equity securities classified in Level 2 of the fair value hierarchy are valued using a funds accounting technique or are provided by the security custodian. Securities

classified in Level 3 are valued using par value on the face of the investments or provided by the security custodian. Life-interest in real estate classified in Level 3 is valued using an independent appraisal dated June 24, 2018.

Investments Measured at the NAV				
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
External Investment Pools:				
Total Return Pool ¹	\$ 82,073,185	-	Daily	0 – 30 days
Intermediate Pool ²	80,059,707	-	Daily	0 – 30 days
Total investments measured at the NAV	\$ 162,132,892			
¹ This type includes investments in a broadly diversified external investment pool. Pooled investments include allocations to global equities, hedge funds, bonds, natural resources and real estate. The assets in the pool are accounted for at fair value determined according to the principles of the Financial Accounting Standards Board. A one-week notice is required for redemptions over \$1 million. There is also a requirement for 30-days written notice if total withdrawals will exceed \$25 million in any 30-day period.				
² This type includes investments in an external investment pool comprised of fixed income investments. The pooled investments are allocated primarily to intermediate and short-term government bonds and investment-grade corporate bonds. The pool also includes allocations to mortgage-backed securities and money market funds. The assets in the pool are accounted for at fair value determined according to the principles of the Financial Accounting Standards Board. A one-week notice is required for redemptions over \$1 million. There is also a requirement for 30-days written notice if total withdrawals will exceed \$25 million in any 30-day period.				

10. NATURAL AND FUNCTIONAL CLASSIFICATIONS OF OPERATING EXPENSES

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

Operating Expenses					
June 30, 2018					
Functional Classifications	Natural Classifications				Total
	Salaries, Wages and Benefits	Scholarships and Fellowships	Supplies and Other Services	Depreciation	
Instruction	\$ 182,475,238		\$ 31,089,933		\$ 213,565,171
Research	95,671,574		41,205,672		136,877,246
Public Service	57,432,704		24,024,592		81,457,296
Academic Support	36,221,154		15,617,883		51,839,037
Student Services	25,564,175		10,755,528		36,319,703
Institutional Support	32,042,624		9,647,949		41,690,573
Scholarships and Fellowships	151,688	\$ 22,755,152	95,373		23,002,213
Operation and Maintenance of Plant	17,225,865		32,302,199		49,528,064
Auxiliary Enterprises	65,149,684		91,790,897		156,940,581
Depreciation				\$ 75,620,509	75,620,509
Totals	\$ 511,934,706	\$ 22,755,152	\$ 256,530,026	\$ 75,620,509	\$ 866,840,393

11. OPERATING LEASES

The University has entered into various operating leases for buildings and equipment. It is expected that in the normal course of business such leases will continue to be required. The total expenditures for all rental lease payments and non-lease rental payments for the fiscal year ended June 30, 2018, were \$6,918,459. Below are the scheduled payments for the five succeeding fiscal years and thereafter.

Future Operating Lease Payments	
Year ended June 30	Amount
2019	\$ 1,496,740
2020	1,300,222
2021	1,148,601
2022	654,079
2023	329,695
2024-2027	356,435
Total	\$ 5,285,772

12. EMPLOYEE BENEFITS

12A Retirement Plans

The University assists employees in planning for life beyond their working years with generous and flexible retirement benefits. University employees hired July 1, 2016, and after are required to participate in the University of Arkansas (UA) Retirement Plan, which includes Teachers Insurance Annuity Association (TIAA) and/or Fidelity Investments. Participation in the Arkansas Public Employees Retirement System (APERS) and the Arkansas Teachers Retirement System (ATRS) is available only to employees employed by the University that have a

previous record with APERS or ATRS. University of Arkansas System employees who transfer from one campus to another and who were participating in APERS or ARTRS at their prior campus can elect to participate in APERS at their new campus. A transfer is defined as a 30-day or fewer break in service. New employees of the University will be required to participate in the UA Retirement Plan.

University of Arkansas Retirement Plan

Plan Description

The University of Arkansas Retirement Plan is a defined contribution plan, offering both a 403(b) program and a 457(b) program, as defined by the Internal Revenue Service Code of 1986, as amended. The authority under which the Plan's benefit provisions are established or amended is the President of the University or his designee. Contributions to Fidelity Investments

shall be applied either to annuities and/or to various mutual funds available through Fidelity Investments. Contributions to TIAA shall be applied to the annuities or various funds available through TIAA. Arkansas law authorizes participation in the plan.

Contributions

Effective July 1, 2016, all benefits-eligible employees of the University of Arkansas are required to contribute 1% of their regular salary to the TIAA and/or Fidelity Investments. The required contribution will increase by 1% each July 1 until July 1, 2020, when the required contribution reaches the maximum required employee contribution of 5%. The University automatically contributes 5% of an employee’s regular salary to TIAA and/or Fidelity Investments retirement account, allocated between the two companies according to the employee’s choice. For any contributions an employee makes in excess of 5% regular salary, the University makes an equal contribution, up to the Internal Revenue Service (IRS) limit. Under IRS regulations as of June 30, 2018, the employer contributions can only be made on \$275,000 of salary. Employee contributions in excess of 10% are allowed by the plans in accordance with IRS regulations but

the University does not match these additional contributions. All benefits attributable to plan contributions made by the participant are vested immediately. All benefits attributable to contributions made by the University for faculty and staff hired July 1, 2016, and after, will be vested at the end of 24 consecutive months of employment, upon death or attainment of age 65 while actively employed, or should they become disabled while actively employed as determined by the Social Security Administration or the university’s long-term disability insurance provider. The University’s and participant’s TIAA contributions for the year ending June 30, 2018, were \$17,166,598 and \$18,950,981, respectively. The University’s and participants’ Fidelity Investment contributions for the year ending June 30, 2018, were \$9,518,929 and \$10,532,902, respectively.

Arkansas Public Employees Retirement System (APERS)

Plan Description

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

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

Benefits Provided

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

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

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

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

Contributions

Contribution requirements are set forth in Arkansas Code Annotated, Title 24, Chapter 4. The contributions are expected to be sufficient to finance the costs of benefits earned by members during the year and make a level payment that, if paid annually over a reasonable period of future years, will fully cover the unfunded costs of benefit commitments for services previously rendered. Members who began service prior to July 1, 2005, who elected to remain in the non-contributory plan, are not required to make contributions to APERS. Members who

began service on or after July 1, 2005, are required to participate in the contributory plan and contribute 5% of their salaries. Employers are required to contribute at a rate established by the Board of Trustees of APERS based on an actuary’s determination of a rate required to fund the plan. The University contributed 14.75% of applicable compensation for the fiscal year ended June 30, 2018. The University’s and members’ contributions for the year ending June 30, 2018, were \$1,381,943 and \$397,642, respectively.

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

At June 30, 2018, the University reported a liability of \$13,671,584 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The university’s proportion of the net pension liability was based on the university’s share of contributions to the pension plan relative to the total contributions of all participating employers. At June 30, 2018, the university’s proportion was 0.4000% for Fayetteville and 0.1396% for Cooperative Extension Service, for a total proportion of 0.5396%; which was an increase of 0.0039 from its total proportion measured as of June 30, 2017.

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

There were no significant changes in assumptions for the fiscal year ended June 30, 2017.

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

There were no significant changes in benefit terms for the fiscal year ended June 30, 2017.

For the year ended June 30, 2018, the University recognized pension expense of \$3,133,429. At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Net Pension Deferred Inflows and Outflows		
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 265,030	\$ 268,890
Changes of assumptions or other inputs	2,199,737	0
Net difference between projected and actual earnings on pension plan investments	572,881	0
Changes in the proportion and differences between the employer contributions and share of contributions	1,703,521	89,952
University contributions subsequent to the measurement date	1,381,943	0
Totals	\$ 6,123,112	\$ 358,842

Deferred outflows of resources of \$1,381,943 is related to pensions resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other

amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in the pension expense in the financial statements as follows:

Amortization of Other Deferred Inflows and Outflows	
Year ended June 30:	Amount
2018	\$ 1,158,909
2019	2,078,486
2020	1,331,187
2021	(186,255)
2022	0
Thereafter	0

Actuarial Assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Assumptions	
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level of Percent of Payroll, Closed
Remaining Amortization Period	25 years
Asset Valuation Method	4-year smoothed market; 25% corridor
Investment Rate of Return	7.50%
Salary Increases	3.25% – 9.85% including inflation
Wage Inflation	3.25%
Post-Retirement Cost-of-Living Increases	3.00% Annual Compounded Increase
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2013 valuation pursuant to an experience study for the period 2007-2012.
Mortality Table	Based on RP-2000 Combined Health mortality table, projected to 2020 using Projection Scale BB, set-forward 2 years for males and 1 year for females
Average Service Life of All Members	4.3774



The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the current asset allocation percentage and by adding expected

price inflation. Best estimates of arithmetic real rates of return for the 10-year period from 2017 to 2026 were based upon capital market assumptions provided by plan's investment consultant(s). For each major asset class that is included in the pension plan's current asset allocation as of June 30, 2017, these best estimates are summarized in the following table:

Expected Rate of Return		
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Broad Domestic Equity	37%	5.97%
International Equity	24	6.54
Real Assets	16	4.59
Absolute Return	5	3.15
Domestic Fixed	18	0.83
Total	100%	
Total Real Rate of Return		4.82%
Plus: Price Inflation - Actuary's Assumption		2.5
Less: Investment Expense (Passive)		0
Net Expected Rate of Return		7.32%

Discount Rate

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

was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The current discount rate reflects a 0.35% decrease compared to the 7.5% single discount rate used to measure the total pension liability as of the prior measurement date.

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

The following presents the University's proportionate share of the net pension liability using the discount rate of 7.15%, as well as what the net pension liability would be if it were calculated

using a discount rate that is 1-percentage-point lower (6.15%) or 1-percentage-point higher (8.15%) than the current rate:

Sensitivity of Discount Rate		
1% Decrease (6.15%)	Discount Rate (7.15%)	1% Increase (8.15%)
\$ 20,821,250	\$ 13,671,584	\$ 7,736,319

Pension Plan Fiduciary Net Position

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

Payables to the Pension Plan

The University reported payables to APERS of \$121,022 at June 30, 2018.

Arkansas Teacher Retirement System (ATRS)

Plan Description

ATRS is a cost-sharing, multiple-employer, defined benefit pension plan administered by the State of Arkansas. The plan was established by the authority of the Arkansas General Assembly with the passage of Act 266 of 1937. The costs of administering the plan are paid out of investment earnings. The general administration and responsibility for the proper operation of the System is vested in the fifteen members of the Board of Trustees of the Arkansas Teacher Retirement System (the Board). Membership includes eleven members who are

elected and consist of seven active members of ATRS with at least five years of actual service, three retired members receiving an annuity from ATRS, and one active or retired member from a minority racial ethnic group. There are also four ex officio members, including the State Bank Commissioner, the Treasurer of the State, the Auditor of the State and the Commissioner of Education. ATRS issues a publicly available financial report that can be obtained at <https://www.artrs.gov/publications>.

Benefits Provided

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

Contributory	2.15%
Non-Contributory	1.39%

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

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

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

Contributions

Contribution requirements are set forth in Arkansas Code Annotated, Title 24, Chapter 7. The contributions are expected to be sufficient to finance the costs of benefits earned by members during the year and make a level payment that, if paid annually over a reasonable period of future years, will fully cover the unfunded costs of benefit commitments for services previously rendered. ATRS has contributory and noncontributory plans. The contributory plan has been in effect since the beginning of ATRS. The noncontributory plan became available July 1,

1986. Act 81 of 1999, effective July 1, 1999, requires all new members to be contributory and allowed active members as of July 1, 1999, until July 1, 2000, to make an irrevocable choice to be contributory or noncontributory. Act 93 of 2007 allows any noncontributory member to make an irrevocable election to become contributory on July 1 of each fiscal year. Employers are required to contribute at a rate established by the Board of Trustees of ATRS based on an actuary’s determination of a rate required to fund the plan. The University contributed 14.00% of

applicable compensation for the fiscal year ended June 30, 2018. The University’s and member’s contributions for the year ending

June 30, 2018, were \$119,927 and \$38,680, respectively.

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

At June 30, 2018, the University reported a liability of \$1,473,290 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The university’s proportion of the net pension liability was based on the university’s share of contributions to the pension plan relative to the total contributions of all participating employers. At June 30, 2018, the university’s proportion was 0.0325% for Fayetteville and 0.0080% for Cooperative Extension Service, for a total proportion of 0.0405%, which was a decrease of 0.0021 from its total proportion measured as of June 30, 2017.

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

- The assumed rate of interest was lowered from 8% to 7.5%.
- The assumed rate of price inflation was decreased to 2.5%.
- The assumed rate of payroll growth was decreased to 2.75%.
- The mortality tables changed to RP 2014 Healthy Annuitant, Disability Annuitant, and Employee Mortality Tables adjusted using projection scale MP 2017 based on the ATRS Experience Study.
- The actuarial assumption used in the June 30, 2017 were based on the results of an actuarial experience study for the period of July 1, 2010 – June 30, 2015.

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

- The noncontributory multiplier was decreased from 1.39% to 1.25% beginning in fiscal year 2020.
- For fiscal year 2018, the three-year final average salary was calculated for all members. The final average salary for benefit calculation purposes will be the greater of the five-year final average salary at retirement and the three-year final average salary for fiscal year 2018.
- The retiree benefit stipend was removed from the base for COLA calculations and was lowered from \$75 to \$50 per month.
- The T-DROP interest rate was lowered to a fixed 3% for future crediting.
- The T-DROP annuity factors were updated to use a static version of the updated mortality tables and interest rate changes of 7.5% for fiscal year 2018, 7% for fiscal year 2019, 6% for fiscal year 2020, 5% for fiscal year 2021, 4% for fiscal year 2022, and 3% for fiscal year 2023 and thereafter.
- The beneficiary annuity factors were updated to use a static version of the updated mortality tables and an assumed interest rate of 5%.
- The Cash Balance Account (CBA) interest rates were increased by year of participation. Interest rates are 2.50% for Year 1, 2.75% for Year 2, 3.00% for Year 3, 3.25% for Year 4, 3.50% for Year 5, and 4.00% for Year 6 and thereafter.
- The reduction for early retirement was increased from 5/12 to 10/12 of 1% per month.

For the year ended June 30, 2018, the University recognized pension expense of \$79,745. At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Net Pension Deferred Inflows and Outflows		
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 20,417	\$ 36,116
Changes of assumptions or other inputs	393,673	0
Net difference between projected and actual earnings on pension plan investments	0	104,063
Changes in the proportion and differences between the employer contributions and share of contributions	0	377,434
University contributions subsequent to the measurement date	119,928	0
Totals	\$ 534,018	\$ 517,613

Deferred outflows of resources of \$119,928 is related to pensions resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts

reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in the pension expense in the financial statements as follows:

Amortization of Other Deferred Inflows and Outflows		
Year ended June 30:		
2018	\$	(8,448)
2019		(46,591)
2020		(33,036)
2021		(854)
2022		(14,594)
Thereafter		0

Actuarial Assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Assumptions	
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level of Percent of Payroll, closed
Amortization Period	29 years
Asset Valuation Method	4-year closed period; 20% corridor
Wage Inflation	2.75%
Salary Increases	2.75 – 7.75%
Investment Rate of Return	7.50% compounded annually
Post-Retirement Cost-of-Living Increases	3.00% Simple
Mortality Table	RP-2014 Healthy Annuitant, Disabled Annuitant, and Employee Mortality Tables were used for males and females. Mortality rates were adjusted using projection scale MP-2017 from 2006 (94% for men & 84% for women)
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2017 valuation pursuant to an experience study for the period July 1, 2010 – June 30, 2015

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by

the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return were adopted by the plan’s trustees after considering input from the plan’s investment consultant and actuary.

For each major asset class included in the System’s target asset allocation as of June 30, 2017, these best estimates are summarized below:

Expected Rate of Return		
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Total Equity	50%	5.0%
Fixed Income	20	1.2
Alternatives	5	4.8
Real Assets	15	3.7
Private Equity	10	6.5
Cash Equivalents	0	0.3
Total	100%	

Discount Rate

A single discount rate of 7.50% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.50%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be 14% of payroll. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to

make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The current discount rate reflects a 0.5% decrease compared to the 8.0% single discount rate used to measure the total pension liability as of the prior measurement date.

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

The following presents the University’s proportionate share of the net pension liability using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated

using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

Sensitivity of Discount Rate		
1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
\$ 2,360,231	\$ 1,473,290	\$ 738,445

Pension Plan Fiduciary Net Position

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

Payables to the Pension Plan

The University reported payables to ATRS of \$9,409 at June 30, 2018.

Other Plans

Cooperative Extension Service employees who previously held appointments with the U.S. Department of Agriculture are covered by either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS), depending on date of appointment. Both plans are single-employer defined benefit plans. The CSRS plan became effective in 1920, and

established retirement benefits for certain federal employees. Congress created the FERS plan in 1986, becoming effective on January 1, 1987. Since that time new federal civilian employees who have retirement coverage are covered under the FERS plan. FERS provides benefits from three different sources: a Basic Benefit Plan, Social Security and the Thrift Savings Plan. As of

June 30, 2018, ten active employees were covered under the CSRS plan and thirteen active employees were covered under the FERS plan. Participants in the CSRS plan contribute 7% of salaries and employers are required to contribute 7%. Participants in the FERS plan are required to contribute 0.80% of salaries and employers are required to contribute 13.7% for the Basic Benefit and Social Security portions of the plan benefits. The University’s and participants’ CSR and FERS contributions were \$208,799 and \$69,911 respectively for the fiscal year ended June 30, 2018.

The Thrift Savings Plan (TSP) is the third component of the FERS plan and is a supplement to the CSRS plan. It is a defined contribution plan designed to provide retirement income for Federal employees similar to a 401(k) plan. The TSP is administered by the Federal Retirement Thrift Investment Board. For FERS participants, employers are required to contribute an

12B Self-Insurance Plans

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

Salary Bands			
Salary Range	Employer Contribution		
	Classic Plan	Health Savings Plan	Premier Plan
Under \$28,000	84.18%	90.61%	66.87%
Between \$28,000 to \$38,999	83.42	89.79	65.37
Between \$39,000 to \$54,999	82.31	88.60	63.63
Between \$55,000 to \$99,999	81.18	87.38	61.70
Between \$100,000 to \$149,999	80.05	86.17	60.24
\$150,000 and above	79.14	85.18	58.35

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

12C Life Insurance Plan

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

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

amount equal to 1% of salaries to a TSP account established for the participant. Employees may also contribute to their TSP account, with employer matching on the first 5% of employee contributions up to 4%. There is no employer matching for CSRS participants. All contributions are exempt from taxation. The University’s and participants’ TSP contributions were \$50,442 and \$95,928 respectively for the fiscal year ended June 30, 2018.

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

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

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

For the year ending June 30, 2018, a total of 4,893 active employees, former employees, and retirees were participants in the health plan. The University’s contributions to health coverage are based on the employee’s salary and percent of appointment. Six salary bands are used to determine the employer contribution with the average contribution for 75%-100% appointed employees being:

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

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

13. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

13A General Information about the OPEB Plan

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

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which became effective for the fiscal year ending June 30, 2018. This Statement requires governmental entities to recognize net OPEB liability (asset), payables to OPEB plans, and deferred outflows and inflows of resources related to certain changes in the net OPEB liability (asset) not yet recognized in the OPEB expense on the Statement of Net Position and that most changes in the net OPEB liability be included in OPEB expense in the period of the change. For defined benefit OPEB, this Statement also requires that Actuarial Standards of Practice be applied in developing assumptions and establishes additional requirements for the measurement of the total OPEB liability and the disclosure of significant assumptions and other inputs used to calculate the OPEB liability. As a result of the implementation of this Statement, the University accrued \$20,587,137 in retiree healthcare liability as of June 30, 2018.

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

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

Employees covered by benefit terms. At June 30, 2018, the following employees were covered by the benefit terms:

Employees Covered by Benefit Terms		
June 30, 2018		
	Medical	Life
Inactive employees currently receiving benefit payments (Retirees, Spouses, and Survivors)	84	931
Inactive employees entitled to but not yet receiving benefit payments	0	0
Active employees	4,948	5,267
Totals	5,032	6,198

Covered employee data was provided as of February 2018. Since the data represents school employees who usually retire/terminate in June, all the new hires after July 1, 2017 were set to

have a hire date as of July 1, 2017. This adjustment was done to capture the true census of the systems during the academic year.

13B OPEB Liability

At June 30, 2018, the University reported a liability of \$20,587,137 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017 and was determined by an actuarial valuation as of that date.

Actuarial assumptions and other inputs. The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Actuarial Assumptions and Other Inputs	
Valuation Date	July 1, 2017
Actuarial Cost Method	Entry Age Normal
Amortization Method	30 years rolling, level % of payroll
Asset Valuation Method	N/A
Actuarial Assumptions:	
Rate of Medical Inflation	6.75% grading to 4.00% over 16 years
Rate of Pharmacy Inflation	9.00% grading to 4.00% over 16 years
Discount Rate	3.58% per annum
Rate of Salary Increase for Amortization	4.00%
Healthy Mortality Rate	RP-2014 Fully Generational Mortality Table for employees and healthy annuitants using projection scale MP-2014.
Disabled Mortality Rate	RP-2014 Fully Generational Mortality Table for disabled retirees using projection scale MP-2014.
The discount rate was based on the 20-year tax exempt general obligation bond rates published in the Bond Buyer index as of the valuation date	

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

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



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

Changes in the Proportionate Share of the Net OPEB Liability	
Balances at 6/30/2016 (Reporting Date 6/30/2017)	\$ 23,383,959
Changes for the year:	
Service cost	1,064,107
Interest	687,316
Changes of benefits	0
Differences between expected and actual experience	0
Changes of assumptions	(3,880,123)
Contributions - employer	0
Contributions - member	0
Net investment income	0
Benefit payments	(668,122)
Administrative expense	0
Net changes	(2,796,822)
Balances at 6/30/2017 (Reporting Date 6/30/2018)	\$ 20,587,137

Changes of assumptions and other inputs reflect a change in the discount rate from 2.85% in 2016 to 3.58% in 2017.

Changes in the funding method changed from Project Unit Credit (PUC) to Entry Age Normal (EAN) in 2017.

The plan changed to only offering Classic plan to retirees.

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

Sensitivity of the University’s proportionate share of the net OPEB liability to changes in the discount rate. The following represents the proportionate share of the net OPEB liability of the University, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.58 percent) or 1-percentage-point higher (4.58 percent) than the current discount rate:

Sensitivity of Discount Rate		
1% decrease (2.58%)	Discount Rate (3.58 %)	1% increase (4.58%)
\$ 23,353,249	\$ 20,587,137	\$ 18,310,864

Sensitivity of the University’s proportionate share of the net OPEB liability to changes in the healthcare cost trend rates. The following represents the proportionate share of the net OPEB liability of the University, as well as what the net OPEB

liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (8.0% decreasing to 3.0%) or 1-percentage-point higher (10.0% decreasing to 5.0%) than the current healthcare cost trend rates:

Sensitivity of Healthcare Cost Trend Rates		
1% decrease (8.0% decreasing to 3.0%)	Healthcare Cost Trend Rates (9.0% decreasing to 4.0%)	1% increase (10.0% decreasing to 5.0%)
\$ 19,319,717	\$ 20,587,137	\$ 22,056,048

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

For the year ended June 30, 2018, the University recognized OPEB expense of \$993,998. At June 30, 2018, University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Net OPEB Deferred Inflows and Outflows		
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 0	\$ 0
Changes of assumptions	0	3,122,698
Contributions subsequent to the measurement date	590,970	0
Totals	\$ 590,970	\$ 3,122,698

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

Amortization of Other Deferred Inflows		
Year ending June 30:		
2019		\$ (757,425)
2020		(757,425)
2021		(757,425)
2022		(757,428)
2023		(92,995)
Thereafter		0

14. POLLUTION REMEDIATION

GASB Statement 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, establishes standards for the accounting and financial reporting of pollution (including contamination) remediation obligations. The university completed a study in 2012, funded by a \$1,889,647 award from the United States Department of Energy (DOE), to develop a plan for remediation of the Southwest Experimental Fast Oxide Reactor (SEFOR) site. This study developed an estimate for future remediation costs and assessed the university’s obligation for remediation at the site. The cost estimate was \$26.1 million to complete remediation of the site. Although the study concluded that the University was under no obligation to begin

remediation work at that time, the study was considered Phase 1 of the voluntary remediation of the SEFOR site. During 2014, DOE appropriated an additional \$1 million to review estimated remediation costs. Of that award, \$968,500 was made available to the university in the 2017 funding obligation.

During fiscal year 2018, the university received an additional DOE award totaling \$7,904,718. In August 2018 the university received an additional DOE award totaling \$5,595,282. These awards, combined with the residual left from the 2014 appropriation, brought total funds available for remediation costs to \$23,968,500. The university began Phase 3B of

the voluntary remediation by entering into a contract with EnergySolutions, LLC on May 18, 2018 to provide technical services for deconstruction and green fielding of the site. Total estimated cost of the Phase 3B voluntary remediation project was \$9,457,585. Expenses paid during fiscal year 2018 totaled \$8,030,005. The remaining project costs to complete Phase 3B, totaling \$7,566,068, were accrued and are included in the accounts payable reported on the Statement of Net

Position. All project costs were funded by the DOE award on a cost reimbursement basis. Drawdowns during fiscal year 2018 totaled \$7,852,519. A receivable of \$8,743,334, reflecting amounts that have not yet been invoiced to the DOE award, was also established, and is included in the accounts receivable reported on the Statement of Net Position.

The project will be completed once phase 3 has been finished.

15. RISK MANAGEMENT

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

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

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

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

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

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

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

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

16. WALTON ARTS CENTER

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

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

On August 14, 2014, the governing documents establishing and defining the joint endeavor between the City of Fayetteville and the University of Arkansas to operate the Walton Arts Center were revised to ensure clarity and flexibility to allow the Walton Arts Center to meet the arts and entertainment needs of all residents of Northwest Arkansas with a multi-venue system, while at the same time confirming support of the original partnership. Revisions were made to the respective Articles of Incorporation of the Walton Arts Center Foundation, Inc. and the Walton Arts Center Council, Inc. to clarify the purpose of each entity to encompass multiple venues in the Northwest Arkansas region; to allow the Walton Family Foundation to

appoint nine additional directors to the Board of Directors of the Arts Center Council while ensuring that the City and University maintain their proportionate number of directors on the Board; to return the City of Fayetteville’s initial payment of \$1.5 million to the Foundation back to the City for the City’s use in the construction of a parking facility adjacent to the Walton Arts Center or as otherwise determined by the Fayetteville City Council; and with consent by the University to expend the institution’s initial payment of \$1.5 million to the Foundation to help defray the construction costs of the proposed enlargement and enhancement of the Walton Arts Center located in Fayetteville, Arkansas. To date, the University’s funds placed in the endowment have not been spent. Accordingly, the relationship of the University and Walton Arts Center Foundation, Inc. remains unchanged. In the event the funds are expended, as provided in the revised agreement, the Walton Arts Center Foundation, Inc. would no longer be an agent for the University nor would the University have the right of appointment of Walton Arts Center Foundation, Inc. directors.

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

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

17. OTHER ENTITIES

University of Arkansas Foundation, Inc. - The Foundation operates as a nonprofit benevolent corporation for charitable educational purposes. The Board of Trustees of the Foundation includes one (1) member who is also a member of the University’s Board of Trustees. The audited financial statements of the Foundation, as of and for the year ended June 30, 2018, which have been audited by an independent certified public accountant, are

presented below in summary form. The University of Arkansas, Fayetteville is the beneficiary of 56.1% of the net assets of the Foundation for the year ended June 30, 2018. The remaining 43.9% benefits other University of Arkansas campuses for the year ended June 30, 2018. Complete financial statements for the Foundation can be obtained from the administrative office at 700 Research Center Boulevard, Fayetteville, AR 72701.

Condensed Statement of Financial Position		
University of Arkansas Foundation, Inc.		
		2018
Assets		
Investments, at fair value	\$	1,164,638,882
Contributions Receivable, net		27,274,658
Other Receivables		2,983,595
Fixed Assets, Net of Depreciation		257,025
Other Assets		1,492,384
Total Assets	\$	1,196,646,544
Liabilities and Net Assets		
Liabilities	\$	17,863,032
Net Assets		
Unrestricted		106,304,205
Restricted		1,072,479,307
Net Assets		1,178,783,512
Total Liabilities and Net Assets	\$	1,196,646,544

Condensed Statement of Activities		
University of Arkansas Foundation, Inc.		
		2018
Contributions	\$	188,361,346
Other Revenues, Additions and Gains/(Losses)		87,381,574
Total Income and Other Additions/(Losses)	\$	275,742,920
Total Expenditures and Other Deductions	\$	70,260,449
Increase/(Decrease) in Net Assets	\$	205,482,471

Arkansas Alumni Association, Inc. – The Arkansas Alumni Association, Inc., was incorporated in 1960 for the purposes of promoting the welfare of the University and its graduates and former students. Audited financial statements for the year ended

June 30, 2018 are presented below in summary form. Complete financial statements for the Arkansas Alumni Association, Inc. can be obtained from the administrative office at 491 N. Razorback Road, Fayetteville AR 72701.

Condensed Statement of Financial Position		
Arkansas Alumni Association, Inc.		
	2018	
Assets		
Cash and investments	\$	3,156,024
Other Assets		10,252,872
Total Assets	\$	13,408,896
Liabilities and Net Assets		
Liabilities	\$	1,498,291
Net Assets		11,910,605
Total Liabilities and Net Assets	\$	13,408,896

Condensed Statement of Activities		
Arkansas Alumni Association, Inc.		
	2018	
Income and Other Additions	\$	5,860,818
Expenditures and Other Deductions		4,109,104
Increase/(Decrease) in Net Assets	\$	1,751,714

University of Arkansas Technology Development Foundation – The Foundation was incorporated in May 2003 and is considered a supporting organization of the Fayetteville campus. The Foundation’s mission is to stimulate a knowledge-based economy through partnerships that lead to new opportunities for learning and discovery, that build and retain a knowledge-based workforce and that spawn the

development of new technologies that enrich the economic base of Arkansas. Audited financial statements for the year ended June 30, 2018 are presented below in summary form. Complete financial statements for the Foundation can be obtained from the administrative office at 535 W. Research Center Boulevard, Fayetteville, AR 72701.

Condensed Statement of Financial Position		
University of Arkansas Technology Development Foundation		
	2018	
Assets		
Cash and investments	\$	1,811,163
Other Assets		13,347
Total Assets	\$	1,824,510
Liabilities and Net Assets		
Liabilities	\$	137,262
Net Assets		1,687,248
Total Liabilities and Net Assets	\$	1,824,510

Condensed Statement of Activities		
University of Arkansas Technology Development Foundation		
	2018	
Income and Other Additions	\$	1,755,067
Expenditures and Other Deductions		1,593,617
Increase/(Decrease) in Net Assets	\$	161,450

Arkansas 4-H Foundation, Inc. – The 4-H Foundation was incorporated in 1951 and was formed to encourage and support such education purposes that will best meet the needs and advance the interest of 4-H youth programs throughout the State of Arkansas. Audited financial statements for the year

ended June 30, 2018 are presented below in summary form. Complete financial statements for the 4-H Foundation can be obtained from the administrative office at 2301 S. University Avenue, Little Rock, AR 72204.

Condensed Statement of Financial Position		
Arkansas 4-H Foundation, Inc.		
	2018	
Assets		
Cash and cash equivalents	\$	402,013
Certificates of deposits		207,291
Investments, at fair value		4,228,408
Property and equipment, net		4,899,593
Other assets		79,625
Total Assets	\$	9,816,930
Liabilities and Net Assets		
Liabilities	\$	246,638
Net Assets		
Unrestricted		5,825,599
Restricted		3,744,693
Net Assets		9,570,292
Total Liabilities and Net Assets	\$	9,816,930

Condensed Statement of Activities		
Arkansas 4-H Foundation, Inc.		
	2018	
Income and Other Additions	\$	2,313,035
Expenditures and Other Deductions		2,500,726
Increase/(Decrease) in Net Assets	\$	(187,691)

18. RELATED PARTIES

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

The Vice Chancellor for Economic Development is a member of the Board of Directors of Arvest Bank Fayetteville, one of sixteen autonomous community-oriented banks which comprise Arvest Bank Group, Inc., based in Bentonville, Arkansas. During the fiscal year ended June 30, 2018, the former Vice Chancellor and Director of Athletics also served on this Board. At June 30, 2018, bank balances held at Arvest Bank Group, Inc. banks total \$68,029,912 (book balances included on the Statement of Net Position were \$67,476,975).

The Vice Chancellor for Economic Development is also a member of the following Boards of Directors of: Fayetteville Chamber of Commerce, The Sustainability Consortium, Theatre Squared, and Arkansas Children's. During the fiscal year ended June 30, 2018, the University made payments of \$13,113, \$297,000, \$14,021, and \$53,958, respectively, to these related parties. The Dean of the Clinton School of Public Service is also a member of the Board of Directors of Arkansas Children's.

19. COMMITMENTS AND CONTINGENCIES

Construction

The University has contracted for the construction and renovation of several facilities. At June 30, 2018, the estimated remaining cost to complete the construction and renovation of

these facilities is \$146,792,942, which is expected to be financed from bond proceeds, private gifts and other university funds.

Other Commitments

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

The University has entered into lease agreements with four different Greek organizations (Lessees) that may create future commitments to the University. The lease agreements allow the Greek organizations to either construct new residence facilities or renovate existing residence facilities on University owned property. The construction and/or renovation of these facilities is the responsibility of the organizations and shall be financed through a combination of gifts as well as financing from banks and/or national house corporations to be repaid through each chapter's generated revenue. The period of time in which

the financing arrangements are being repaid is known as the Chapter House Amortization Period. As of June 30, 2018, four organizations have entered into financing agreements for the construction or renovation of their residence facilities.

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

As of June 30, 2018, the University's total potential commitment resulting from these lease agreements totaled \$45,365,221.

Contingencies

The University has been named as defendant in several lawsuits. It is the opinion of management and its legal counsel that the

ultimate outcome of litigation will not have a material effect on the future operations or financial position of the University.

20. SUBSEQUENT EVENTS

Long-term Debt

On July 26, 2018, the University closed the Board of Trustees of the University of Arkansas Various Facility Revenue Bonds (Fayetteville Campus), Tax-Exempt Series 2018A and Taxable Series 2018B with a par amounts of \$20,385,000 and \$6,560,000, respectively. The bonds provide resources for the purpose the renovation and reorganization of the interior of Mullin Library; construction, equipping and furnishing of the Student Success Center, an offsite library storage buildings, the Civil Engineering Research and Education Center, and intramural sports facilities;

construction of improvements to the south campus steam and utility systems; construction and improvement of a remote parking facility; and the acquisition, construction, improvement, renovation, equipping and/or furnishings of other qualifying capital projects.



REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

Employee Benefits

Schedule of University's Proportional Share of the Net Pension Liability Arkansas Public Employees Retirement System				
	Last Four Fiscal Years*			
	2018	2017	2016	2015
University's proportion of net pension liability	0.5396%	0.5357%	0.4263%	0.3455%
University's proportionate share of net pension liability	\$ 13,671,584	\$ 12,570,257	\$ 7,728,708	4,833,430
University's covered payroll	\$ 9,695,224	\$ 9,013,808	\$ 7,329,295	\$ 5,914,094
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll	141.01%	139.46%	105.45%	81.73%
Plan fiduciary net position as a percentage of the total pension liability	75.65%	75.50%	80.39%	84.15%
* Information is presented for those years for which it is available until a full 10-year trend is compiled. The amounts presented for each fiscal year were determined as of June 30 of the previous year.				

Schedule of University Contributions Arkansas Public Employees Retirement System				
	Last Four Fiscal Years*			
	2018	2017	2016	2015
Contractually required contribution	\$ 1,381,943	\$ 1,435,567	\$ 1,364,539	\$ 1,081,804
Contributions in relation to the contractually required contribution	(1,381,943)	(1,435,567)	(1,364,539)	(1,081,804)
Contribution deficiency (excess)	\$ 0	\$ 0	\$ 0	\$ 0
University's covered-employee payroll	\$ 8,989,803	\$ 9,695,224	\$ 9,013,808	\$ 7,329,295
Contributions as a percentage of covered-employee payroll	15.37%	14.81%	15.14%	14.76%
*Information is presented for those years for which it is available until a full 10-year trend is compiled.				

Notes to Required Supplementary Information for the Year Ended June 30, 2018

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

There were no significant changes in benefit terms for the fiscal year ended June 30, 2017.

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

Amounts reported in 2016 reflect changes in economic assumptions used in the June 30, 2015 valuation. The investment return (7.50%), price inflation (2.50%) and wage inflation (3.25%) assumptions were changed and an adjustment of expected salary increases (3.25 – 9.85% including inflation) to more closely reflect actual experiences was also reflected in 2016.

Schedule of University's Proportional Share of the Net Pension Liability Arkansas Teacher Retirement System				
	Last Four Fiscal Years*			
	2018	2017	2016	2015
University's proportion of net pension liability	0.0405%	0.0426%	0.0481%	0.0616%
University's proportionate share of net pension liability	\$ 1,473,290	\$ 1,690,917	\$ 1,567,419	\$ 1,617,272
University's covered payroll	\$ 1,054,878	\$ 1,302,421	\$ 1,401,043	\$ 1,703,007
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll	139.66%	129.83%	111.88%	94.97%
Plan fiduciary net position as a percentage of the total pension liability	79.48%	76.75%	82.20%	84.98%
*Information is presented for those years for which it is available until a full 10-year trend is compiled. The amounts presented for each fiscal year were determined as of June 30 of the previous year.				

Schedule of University Contributions Arkansas Teacher Retirement System				
	Last Four Fiscal Years*			
	2018	2017	2016	2015
Contractually required contribution	\$ 119,928	\$ 151,184	\$ 175,617	\$ 196,146
Contributions in relation to the contractually required contribution	(119,928)	(151,184)	(175,617)	(196,146)
Contribution deficiency (excess)	\$ 0	\$ 0	\$ 0	\$ 0
University's covered-employee payroll	\$ 833,812	\$ 1,054,878	\$ 1,302,421	\$ 1,401,043
Contributions as a percentage of covered-employee payroll	14.38%	14.33%	13.48%	14.00%
*Information is presented for those years for which it is available until a full 10-year trend is compiled.				

Notes to Required Supplementary Information for the Year Ended June 30, 2018

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

- The noncontributory multiplier was decreased from 1.39% to 1.25% beginning in fiscal year 2020.
- For fiscal year 2018, the three-year final average salary was calculated for all members. The final average salary for benefit calculation purposes will be the greater of the five-year final average salary at retirement and the three-year final average salary for fiscal year 2018.
- The retiree benefit stipend was removed from the base for COLA calculations and was lowered from \$75 to \$50 per month.
- The T-DROP interest rate was lowered to a fixed 3% for future crediting.
- The T-DROP annuity factors were updated to use a static version of the updated mortality tables and interest rate changes of 7.5% for fiscal year 2018, 7% for fiscal year 2019, 6% for fiscal year 2020, 5% for fiscal year 2021, 4% for fiscal year 2022, and 3% for fiscal year 2023 and thereafter.
- The beneficiary annuity factors were updated to use a static version of the updated mortality tables and an assumed interest rate of 5%.

- The Cash Balance Account (CBA) interest rates were increased by year of participation. Interest rates are 2.50% for Year 1, 2.75% for Year 2, 3.00% for Year 3, 3.25% for Year 4, 3.50% for Year 5, and 4.00% for Year 6 and thereafter.
- The reduction for early retirement was increased from 5/12 to 10/12 of 1% per month.

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

- The assumed rate of interest was lowered from 8% to 7.5%.
- The assumed rate of price inflation was decreased to 2.5%.
- The assumed rate of payroll growth was decreased to 2.75%.
- The mortality tables changed to RP 2014 Healthy Annuitant, Disability Annuitant, and Employee Mortality Tables adjusted using projection scale MP 2017 based on the ATRS Experience Study.
- The actuarial assumption used in the June 30, 2017 were based on the results of an actuarial experience study for the period of July 1, 2010 – June 30, 2015.

Other Postemployment Benefits

Changes in the Proportionate Share of the Net OPEB Liability and Related Ratios		
Last Fiscal Year*		
		2018
Service cost (MOY)	\$	1,064,107
Interest (includes interest on service cost)		687,316
Change of benefit terms		0
Difference between expected and actual experience		0
Change of assumptions		(3,880,123)
Benefit payments, including refunds of member contributions		(668,122)
Net change in OPEB liability		(2,796,822)
Total OPEB liability, beginning of the year	\$	23,383,959
Total OPEB liability, end of the year	\$	20,587,137
Covered-employee payroll	\$	300,599,948
Total OPEB liability as a percentage of covered-employee payroll		6.85%
*Information is presented for those years for which it is available until a full 10-year trend is compiled. The amounts presented for each fiscal year were determined as of June 30 of the previous year.		

Notes to Schedule:

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

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

There were no significant changes in benefit terms for the fiscal year ended June 30, 2017.

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

The funding method changed from Project Unit Credit (PUC) to Entry Age Normal (EAN) for the June 30, 2017 valuation.

Changes of assumptions and other inputs reflect the changes in the discount rate each period. The following are the discount rates used in each period:

2017: 3.58%
2016: 2.85%



BOARD OF TRUSTEES, UNIVERSITY OFFICIALS

Mark Waldrip, Chairman

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

John Goodson, Vice Chairman

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

Morril Harriman, Secretary

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

Kelly Eichler, Assistant Secretary

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

David Pryor

David H. Pryor of Fayetteville is a former U.S. senator (1979-1997), Arkansas governor (1975-1979) and U.S. congressman (1967-1973). He is founding dean of the University of Arkansas Clinton School of Public Service and serves on the board of the Corporation for Public Broadcasting. His term expires in 2019.

Stephen Broughton

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

C.C. "Cliff" Gibson III

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

Sheffield Nelson

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

Tommy Boyer

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

Steve Cox

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

Senior Management

President, University of Arkansas – Donald Bobbitt
Chancellor, University of Arkansas – Joseph E. Steinmetz
Vice President for Agriculture – Mark J. Cochran
Dean of the Clinton School – James L. Rutherford
Director of the Criminal Justice Institute – Cheryl P. May
Director of the Archeological Survey – George Sabo III
Executive Director of the Arkansas Research and Education Optical Network – David Merrifield

University of Arkansas Financial Officers

Vice Chancellor for Finance and Administrations – Chris McCoy
Associate Vice Chancellor for Finance and Administration – Michael White
Controller – Larrie Stolfi and Mark E. Hubbell
Associate Controller/Senior Director of Financial Management Analysis – Charles D. Ramseyer
Director of Research Accounting – Nick Freyaldenhoven
Director of Student Accounts – Jason Rankin
Director of Budget – Christopher E. Frala
Director of Information Technology – Kyle Smith
Director of Cash Management – Susan V. Slinkard
Director of Financial Affairs Compliance – Sandra K. Sturgeon
Director of Property Accounting – Janice Harrison