

OUACHITA BAPTIST UNIVERSITY

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION**

MAY 31, 2019 and 2018

WITH

INDEPENDENT AUDITOR'S REPORTS

CONTENTS

Independent Auditor's Report	1
Statements of Financial Position.....	3
Statements of Activities	4
Statements of Cash Flows.....	6
Notes to Financial Statements.....	7
Supplemental Information:	
Schedule of Expenditures of Federal Awards	25
Notes to the Schedule of Expenditures of Federal Awards	26
Other Reports:	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	27
Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance.....	29
Schedule of Findings and Questioned Costs.....	31
Summary Schedule of Prior Audit Findings	33

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Ouachita Baptist University

Report on the Financial Statements

We have audited the accompanying financial statements of Ouachita Baptist University, which comprise the statement of financial position as of May 31, 2019, and the related statements of activities and cash flows for the year then ended and the related notes to the financial statements.

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 an opinion on these financial statements based on our audit. We conducted our audits 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 misstatements.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ouachita Baptist University as of May 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2019, Ouachita Baptist University adopted Financial Accounting Standards Board (FASB) Accounting Standard Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Other Matters

The financial statements of Ouachita Baptist University as of and for the year ended May 31, 2018, were audited by other auditors, whose report, dated August 28, 2018, expressed an unmodified opinion on those statements.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirement, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 5, 2019, on our consideration of Ouachita Baptist University's internal control over financial reporting and on our tests of its compliance with certain provision of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Ouachita Baptist University's internal control over financial reporting and compliance.



Little Rock, Arkansas
September 5, 2019

OUACHITA BAPTIST UNIVERSITY
STATEMENTS OF FINANCIAL POSITION

May 31, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents	\$ 9,342,269	\$ 16,558,136
Cash and cash equivalents, debt service reserve and bond account	6,050,752	6,391,803
Accounts receivable - student, net	383,580	202,321
Accounts receivable - federal programs	656,558	584,531
Other receivables	94,984	43,418
Contributions receivable, net	1,612,813	936,524
Notes receivable	49,722	41,943
Student loans receivable, net	425,856	593,319
Investments, at fair value	66,313,559	60,856,116
Interests in perpetual trusts	20,936,977	20,491,469
Interests in charitable trusts	6,614,793	6,432,361
Investment in real estate	1,959,614	1,103,718
Supplies inventories	370,153	404,290
Property, plant and equipment, net	88,445,694	88,357,853
Other assets	1,607,134	1,464,617
	\$ 204,864,458	\$ 204,462,419
Liabilities and Net Assets		
Accounts payable and other accrued expenses	\$ 1,104,265	\$ 1,275,320
Accrued payroll liabilities	687,758	599,592
Prepaid tuition	416,206	284,738
Deferred revenue	1,157,260	610,337
Refundable advances on federal government loans	351,853	356,623
Notes payable	57,178,483	59,303,075
Other liabilities	257,780	553,502
	61,153,605	62,983,187
Net assets:		
Without donor restrictions	20,342,785	18,441,836
With donor restrictions	123,368,068	123,037,396
	143,710,853	141,479,232
Total net assets	\$ 204,864,458	\$ 204,462,419
Total liabilities and net assets	\$ 204,864,458	\$ 204,462,419

OUACHITA BAPTIST UNIVERSITY

STATEMENT OF ACTIVITIES

Year ended May 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and support			
Gross tuition and fees	\$ 39,307,963	\$ -	\$ 39,307,963
Less: scholarships and fellowships (funded)	(2,453,152)	-	(2,453,152)
Less: scholarships and fellowships (unfunded)	(21,313,351)	-	(21,313,351)
Net tuition and fees	15,541,460	-	15,541,460
Private gifts, grants and contributions	5,216,543	5,073,336	10,289,879
Less: amounts deemed uncollectible	(85,223)	(11,773)	(96,996)
Governmental grants and programs	-	1,943,419	1,943,419
Auxiliary enterprises	11,141,916	-	11,141,916
Return on investments	1,537,489	3,594,391	5,131,880
Other revenues	412,808	1,289,068	1,701,876
Change in value of split-interest agreements	-	(95,085)	(95,085)
Net assets released from restriction	11,462,684	(11,462,684)	-
Total revenues, gains and support	45,227,677	330,672	45,558,349
Expenses			
Instruction	14,893,299	-	14,893,299
Student services	9,368,312	-	9,368,312
Public service	1,568,502	-	1,568,502
Research	300,560	-	300,560
Auxiliary enterprises	9,126,351	-	9,126,351
Academic support	1,601,476	-	1,601,476
Institutional support	5,508,685	-	5,508,685
Fundraising	959,543	-	959,543
Total expenses	43,326,728	-	43,326,728
Changes in net assets	1,900,949	330,672	2,231,621
Net assets, beginning of year	18,441,836	123,037,396	141,479,232
Net assets, end of year	\$ 20,342,785	\$ 123,368,068	\$ 143,710,853

OUACHITA BAPTIST UNIVERSITY

STATEMENT OF ACTIVITIES

Year ended May 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and support			
Gross tuition and fees	\$ 37,498,638	\$ -	\$ 37,498,638
Less: scholarships and fellowships (funded)	(2,690,053)	-	(2,690,053)
Less: scholarships and fellowships (unfunded)	(19,438,102)	-	(19,438,102)
Net tuition and fees	15,370,483	-	15,370,483
Private gifts, grants and contributions	5,187,307	6,964,540	12,151,847
Less: amounts deemed uncollectible	(4,123)	18,885	14,762
Governmental grants and programs	-	1,831,609	1,831,609
Auxiliary enterprises	11,177,974	42,792	11,220,766
Return on investments	1,397,164	8,940,712	10,337,876
Gains restoring prior losses on temporarily restricted endowment assets	8,948	(8,948)	-
Other revenues	388,698	943,588	1,332,286
Change in value of split-interest agreements	-	718,390	718,390
Net assets released from restriction	10,172,763	(10,172,763)	-
Total revenues, gains and support	43,699,214	9,278,805	52,978,019
Expenses			
Instruction	14,446,254	-	14,446,254
Student services	8,709,691	-	8,709,691
Public service	1,493,491	-	1,493,491
Research	204,898	-	204,898
Auxiliary enterprises	8,891,429	-	8,891,429
Academic support	1,663,755	-	1,663,755
Institutional support	4,988,312	-	4,988,312
Fundraising	877,746	-	877,746
Total expenses	41,275,576	-	41,275,576
Changes in net assets	2,423,638	9,278,805	11,702,443
Net assets, beginning of year	16,018,198	113,758,591	129,776,789
Net assets, end of year	\$ 18,441,836	\$ 123,037,396	\$ 141,479,232

OUACHITA BAPTIST UNIVERSITY

STATEMENTS OF CASH FLOWS

Years ended May 31, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Change in net assets	\$ 2,231,621	\$ 11,702,443
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	4,136,642	4,003,497
Accretion of bond discount	66,633	8,097
Losses on disposal of property, plant and equipment	10,489	-
Provisions for uncollectible receivables	96,996	(2,532)
Net unrealized and realized gains on investments	(778,778)	(7,824,957)
Noncash gifts, grants and contributions	(734,463)	(4,789,352)
Change in value of split-interest agreements	95,085	(718,390)
Distributions from charitable trusts	11,438	561,084
Contributions restricted for endowment and plant improvements	(2,137,728)	(6,082,518)
Changes in assets and liabilities:		
Accounts receivable	(253,286)	190,268
Other receivables	(51,566)	127,885
Contributions receivable	(676,289)	3,098,535
Other assets	(108,380)	63,380
Accounts payable	(171,055)	199,248
Other liabilities	(76,088)	368,209
Deferred revenue	546,923	(98,972)
Net cash provided by operating activities	2,208,194	805,925
Cash Flows from Investing Activities		
Purchases of investments	(22,981,870)	(31,721,986)
Proceeds from sales or maturities of investments	17,447,309	39,036,951
Purchases of property, plant and equipment	(4,239,272)	(2,568,275)
Proceeds from disposition of property, plant and equipment	4,300	23,500
Net decrease in student loans and notes receivables	62,688	174,715
Net cash provided by (used in) investing activities	(9,706,845)	4,944,905
Cash Flows from Financing Activities		
Contributions restricted for endowment	2,137,728	5,107,800
Contributions restricted for plant improvements	-	974,718
Principal payments on notes payable	(2,191,225)	(2,184,633)
Decrease in refundable advances on federal government loans	(4,770)	(260,801)
Net cash provided by (used in) financing activities	(58,267)	3,637,084
Net change in cash and cash equivalents	(7,556,918)	9,387,914
Cash and cash equivalents, beginning of year	22,949,939	13,562,025
Cash and cash equivalents, end of year	\$ 15,393,021	\$ 22,949,939
Supplemental Disclosure		
Cash and cash equivalents	\$ 9,342,269	\$ 16,558,136
Cash and cash equivalents, debt serve reserve	6,050,752	6,391,803
	\$ 15,393,021	\$ 22,949,939

See notes to financial statements.

OUACHITA BAPTIST UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

Years ended May 31, 2019 and 2018

Note 1 – Organization and Summary of Significant Accounting Policies

Nature of activities

Ouachita Baptist University (Ouachita) is a Christ-centered learning community committed to fostering a love of God and a love of learning. Embracing the liberal arts tradition, the university prepares individuals for ongoing intellectual and spiritual growth, lives of meaningful work, and reasoned engagement with the world.

Ouachita was authorized by a vote of the Arkansas Baptist State Convention as its higher educational institution in November 1885. In April 1886, the trustees of the university voted to locate the institution in Arkadelphia, Arkansas. Classes began on September 6, 1886, and the institution has operated without interruption in the same location since that date.

Since its founding in 1886, Ouachita has aimed to unite a broad-based education in the liberal arts with preparation for service in a variety of fields. In the context of an overarching fidelity to Christian faith and practice, Ouachita's educational mission remains rooted in the liberal arts tradition and oriented toward preparing graduates for meaningful work. The hope is Ouachita graduates not only accomplish their highest vocational aspirations, but also live with a sense of purpose, act with abiding integrity, and joyfully serve their communities.

Ouachita's revenues are derived principally from student tuition and fees. The remainder is derived by income from the endowment fund, gifts from Arkansas Baptist churches through the Cooperative Program of the Arkansas Baptist State Convention, and by current gifts. Substantial support from Arkansas Baptists, alumni, former students, and other friends makes it possible for Ouachita to provide the highest quality educational opportunities at a cost that is among the lowest of all accredited private colleges and universities in the nation. Every student shares in the benefits generated by gifts and grants.

Ouachita has an enrollment of over 1,500 students from 30 states and 30 nations with a student-to-faculty ratio of 13 to 1. This allows students to get to know their professors on a personal level as role models and mentors. Learn more about Ouachita at obu.edu.

Basis of presentation

Ouachita uses the accrual basis of accounting for financial reporting purposes in accordance with accounting principles generally accepted in the United States of America (GAAP).

Cash and cash equivalents

For presentation in the statement of cash flows, cash and cash equivalents include cash on hand, bank deposits, certificates of deposits, and all highly liquid cash instruments with original maturities of three months or less.

Contributions receivable

Ouachita recognizes and classifies unconditional promises to give as contributions receivable and grant or contribution support in the period received and in the appropriate net asset class based on donor-imposed restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift. Contributions receivable expected to be collected in one year or less are reported at net realizable value. Contributions receivable that are expected to be collected in more than one year are reported at fair value initially and in subsequent periods. Changes in fair value are reported in the statement of activities as increases or decreases in grant and contribution support as they occur. Management believes that the use of fair value reduces the cost of measuring unconditional contributions receivable in periods subsequent to their receipt and provides equal or better information to users of its financial statements than if those receivables were measured using present value techniques and historical discount rates. An allowance for uncollectible contributions receivable is maintained at a level that management believes is adequate to value contributions receivable at the amount estimated to be collectible based upon such factors as prior collection history, type of contribution, and nature of fundraising activity. Because of the uncertainty described above and the inherent uncertainty involved with the estimation process related to contributions receivable, it is reasonably possible that management's estimate of the recorded allowance may change in the near term.

Revenue recognition

Revenues are reported as increases in net assets without donor restrictions unless the use of the related assets is limited by donor-imposed restrictions. Donor-restricted support, including support in which restriction are met in the same period as received, is reported as an increase in net assets with donor restriction. When a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restriction and reported on the statement of activities as net assets released from restriction. Investment earnings are recorded as net assets without donor restriction or net assets with donor restriction according to the terms of the governing documents. Expenses are reported as decreases in net assets without donor restriction. Changes or clarification in donor-imposed restrictions may cause certain net assets to be reclassified between net asset classifications. These reclassifications are reported as net assets released from restrictions among applicable net asset classes. Tuition and fees are recognized at established rates, net of financial aid and scholarships provided directly to students, in the period in which educational services are primarily provided. Funded scholarships and fellowships are provided from donor-restricted support received for scholarships whereas unfunded scholarships and fellowships represent institutional discounts.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Student accounts receivable and loans

Student accounts receivable are carried at unpaid account balances, less an allowance for uncollectible accounts of approximately \$196,000 and \$68,000 as of May 31, 2019 and 2018, respectively.

Student loans receivable are carried at unpaid principal balances, less an allowance for uncollectible loans. The allowance for uncollectible loans is increased by charges to income and decreased by charge-offs (net

of recoveries). Management's periodic evaluation of the adequacy of the allowance is based on Federal Perkins Loan Program (FPLP) requirements, Ouachita's past loan loss experience, adverse situations that may affect the borrower's ability to repay, the estimated value of an underlying collateral, and current economic conditions. Ouachita's practice is to charge off any loan or portion of a loan when the loan is determined by management to be uncollectible due to the borrower's failure to meet repayment terms, the borrower's deteriorating or deteriorated financial condition, or for other reasons. Interest on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding.

The Department of Education (DOE) has notified schools that the FPLP has expired and that no FPLP loan disbursements are permitted. Ouachita will continue to administer the remaining FPLP student loans and follow the guidelines from the DOE on the wind-down of the FPLP.

Investments

Ouachita's investments are reported at their estimated fair values in the accompanying statements of financial position. Fair values for money market funds are based on cost, which approximates fair value.

Fair value for stocks, mutual funds, real estate investment trust funds, and other publicly traded securities are based on quoted market prices. If quoted market prices are not available, fair values are based on quoted market prices of comparable securities, broker quotes, third-party pricing models, net asset values, and other relevant information generated by market transactions. Debt securities are valued using pricing models maximizing the use of observable inputs for similar securities. For investment securities traded in a market that is not active, fair value is determined using unobservable inputs. Mineral interests, consisting primarily of oil and gas producing properties, are valued at a multiple of historical revenues. The estimated fair value of alternative assets is based on the most recent valuations provided by the external investment managers. Management believes the carrying amount of these financial instruments is a reasonable estimate of fair value. Other investments for which fair value is not readily determinable are included in the statement of financial position at cost. Management believes any differences between cost and fair value for these investments are not material.

Ouachita has investments held in various common trust funds managed by the Arkansas Baptist Foundation (ABF) of the Arkansas Baptist State Convention, a nonprofit organization. Income from each common fund is distributed regularly to participating accounts. Contributions and withdrawals from each common fund are calculated at net asset value. Fair values for common funds are determined by ABF at the net asset value of units held at each month end based on the fair values of underlying assets held by the funds. Ouachita has limited transparency into the underlying positions of common funds and therefore cannot independently assess the value of these underlying positions through a public exchange or over the counter market. Common funds managed by ABF are exempt from registration requirements of the federal securities laws, pursuant to the exemption for collective investment trusts and similar funds maintained by charitable organizations under the Philanthropy Protection Act of 1995 (P.L. 104-62), and are exempt from registration requirements of Arkansas state security laws pursuant to an order issued by the Arkansas Securities Commissioner. A summary of the objectives and underlying securities included in ABF common funds are as follows:

Demand Cash Fund: The Demand Cash Fund is managed with the objective of earning interest and maintaining a constant net asset value.

Balanced Fund: The Balanced Fund maintains a balance of primarily fixed income investments including treasuries; insured CDs; debt securities including mortgage-backed securities and collateralized mortgage obligations issued by government, government agencies or investment grade bonds; and preferred stock. The objective of the Balanced Fund is to provide current income and some growth to counteract inflation.

Spending Plan Fund: The Spending Plan Fund is a broadly diversified portfolio designed for total return. The Spending Plan Fund's objective is to seek total return while distributing a predetermined annual percentage as set by ABF's board.

Total Return Fund: The Total Return Fund maintains primarily a balance of U.S. and international stocks and bonds, along with some fixed income and alternative investments. The objective of the Total Return Fund is to provide growth with some current income.

Gift Annuity Fund: The Gift Annuity Fund maintains primarily a balance of U.S. and international stocks and bonds, along with some fixed income and alternative investments. The objective of the Gift Annuity Fund is to provide growth and some current income.

In obtaining valuation information from third-party providers, Ouachita's management has evaluated the valuation methodologies used to develop the fair values in order to determine whether such valuations are representative of an exit price in its principal markets. While management 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 estimate of fair value at the reporting date.

Unrealized gains and losses are included in changes in net assets. Purchased investments are initially recorded at cost at the date of acquisition and subsequently remeasured at fair value. Investments received by gift are recorded at fair value as of the date the gifts are received.

Ouachita invests in a diversified mix of financial instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of marketable securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position and statements of activities. Significant fluctuations in fair values could occur and the amounts Ouachita will ultimately realize could differ materially from their current carrying values.

Interests in perpetual trusts

Ouachita is a party to a number of perpetual trusts held and administered by the Arkansas Baptist Foundation and various other organizations. Under the terms of these trusts, Ouachita has the irrevocable right to receive the income earned on such trust assets in perpetuity, but will never receive the assets of the trusts. These arrangements have been recorded at the fair value of the assets held in the trust, unless circumstances indicate that this value differs from the present value of the expected future cash flows from the trusts.

Interests in charitable trusts

Ouachita is also the beneficiary of a number of charitable trusts and a charitable lead unitrust. Upon termination of these trusts, Ouachita will receive the assets remaining in the trusts. The donors of these trusts may place restrictions on the use of these assets or they may be available for unrestricted use. These trusts are recorded at the present value of the estimated future benefits expected to be received.

Charitable gift annuities

Ouachita is the beneficiary of a number of charitable gift annuities. Under the terms of these agreements, the donors contribute assets to Ouachita in exchange for a promise by Ouachita to pay certain amounts for a specified period of time to the donor or to donor-specified beneficiaries. Included in other liabilities in the accompanying financial statements are annuities payable under these agreements totaling approximately \$384,000 and \$391,000 at May 31, 2019 and 2018, respectively. This liability is revalued annually and represents the present value of estimated future payments to the annuitants over their life expectancy, discounted at 5% as of May 31, 2019 and 2018.

Credit risk

Financial instruments which subject Ouachita to concentrations of credit risk consist primarily of investments in long-term corporate and U.S. government and agency bonds. Credit risk for student accounts and loans receivable, accounts receivable from federal programs, grants receivable, other accounts and notes receivable, and contributions receivable is represented by the carrying value of those receivables. Substantially all of these receivables are unsecured. At May 31, 2019, Ouachita had bank deposits in several area banks in excess of Federal Deposit Insurance Corporation's insured limits. Ouachita also invests excess cash in short-term investment sweep accounts managed by area banks. Management periodically reviews the soundness of these financial institutions and believes that these deposits are not exposed to significant credit risk.

Supplies inventories

Inventories consist of chemistry items, print shop supplies, and maintenance items. Supplies inventories are valued at cost.

Property, plant, and equipment

Property, plant and equipment is stated at cost at the date of acquisition or fair value at the date of donation in the case of gifts, except properties acquired prior to May 31, 1960, which are recorded at their appraised value at that date, less accumulated depreciation. Ouachita generally capitalizes all individual expenditures for property, plant, and equipment in excess of \$1,500. Depreciation is computed on the straight-line method, using composite balances for library books, over the estimated useful lives of the assets (2 to 80 years).

Ouachita records impairments to its property, plant, and equipment when it becomes probable that the carrying values of these assets will not be fully recovered over the estimated remaining lives of the assets. Impairments, if any, are recorded to reduce the carrying value of the asset to net realizable value based on facts and circumstances in existence at the time of the determination, anticipated future economic conditions, and other available information.

Endowment funds

Ouachita's endowment consists of approximately 611 individual funds and split-interest agreements established over many years for a variety of purposes. Endowment fund balances include both donor-restricted funds and funds designated by the Board of Trustees to function as endowments. Endowment fund balances, including funds functioning as endowments, are classified and reported as net assets with and without donor restrictions in accordance with donor specifications.

Ouachita follows the Arkansas Uniform Prudent Management of Institutional Funds Act (UPMIFA) and its own governing documents to manage its endowment funds. Its Board of Trustees has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Ouachita classifies as net assets with donor restrictions: the original value of gifts donated to the endowment; the original value of subsequent gifts donated to the endowment; and, if directed by the donor gift instrument, accumulations to the endowment. The remaining portion of the donor-restricted endowment fund that is not classified as net assets with donor restrictions is classified as net assets with donor restrictions until those amounts are appropriated for expenditure in a manner consistent with donor gift instruments and the standard of prudence prescribed by UPMIFA. Ouachita considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: the duration and preservation of the funds, the purposes of the donor-restricted endowment funds, general economic conditions, the possible effects of inflation and deflation, the expected total return from income and the appreciation of investment, other resources, and its investment policies.

Ouachita has adopted investment and spending policies, approved by the Board of Trustees, for endowment assets that attempt to provide a predictable stream of funding to activities supported by its endowment funds while also preserving the purchasing power of those endowment assets over the long term. Accordingly, the investment process seeks to achieve a stable and continuously growing income stream as well as capital appreciation. The majority of endowment assets are invested in Ouachita's Endowment Pool (Pool). The Pool is made up of a diversified asset mix that includes equity, fixed income and cash equivalent securities, real estate, other alternative investments, and internal notes receivable. The Pool is invested in a manner that is intended to produce results (net of spending) that exceed the Consumer Price Index on a consistent basis over time while assuming a moderate level of investment risk. To satisfy its long-term return objectives, Ouachita relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Ouachita targets a diversified asset allocation that is intended to be more aggressive than fixed income oriented portfolios and less aggressive than equity oriented portfolios to achieve its long-term return objectives within prudent risk constraints. The investment policies related to Ouachita's interests in perpetual trusts and charitable trusts are determined by the trustees of those trusts rather than Ouachita.

Ouachita utilizes a spending rate approach to designate a portion of its endowment investment returns to support current operational budget requirements. Amounts distributed from the investment returns for pooled investments in any one year may include interest, dividends, and a portion of accumulated investment gains. The distribution is based on 5.74% for the year ended May 31, 2019, and 5.83% for the year ended May 31, 2018, of the average market value of the Pool for the preceding three years. Under this policy, investment returns in some periods may not be sufficient to fully fund distributions. Under those circumstances, distributions in excess of investment returns are considered to be funded from cumulative undistributed investment returns from prior years.

At May 31, 2019 and 2018, the fair value of the assets of certain donor-restricted endowments was less than the amount required to be retained permanently by approximately \$22,000 and \$13,000, respectively. During the years ended May 31, 2019 and 2018, gains restoring the fair value of the assets of donor-restricted endowment funds to their required levels increased unrestricted net assets by approximately \$9,000.

Collections

Ouachita's collections are made up of items of historical significance and art objects that are held for educational purposes. Each of the items is preserved and cared for, and activities verifying their existence and assessing their condition are performed periodically. The collections, which were acquired through contributions since Ouachita's inception, are not recognized as assets in the statements of financial position.

Deferred revenue

Deferred revenue consists of amounts received under a contract with Ouachita's auxiliary services provider that have not yet been earned.

Net assets classification

Net assets and revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets without donor restrictions are net assets free from donor-imposed restrictions. These funds are maintained and distributed at the discretion of the Board of Directors of Ouachita.

Net assets with donor restrictions – Net assets with donor restrictions are net assets whose use by Ouachita has been designated by donors to a specified time period or purpose.

Functional allocation of expenses

The expenses of providing various programs and support services have been categorized on a functional basis in the statement of activities. Natural expenses attributable to more than one functional expense category are allocated using a variety of cost allocation techniques such as square footage and time and effort.

Income taxes

Ouachita is a nonprofit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). Ouachita is also exempt from state income taxes under similar provisions of state law. Ouachita is no longer subject to federal or state tax examinations by tax authorities for years ended prior to May 31, 2016.

Reclassifications

Certain reclassifications have been made to the 2018 financial statements to conform to the 2019 basis of presentation.

Recent accounting pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing GAAP revenue recognition guidance when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which defers the effective date of ASU 2014-09 one year, making it effective for annual reporting periods beginning after December 15, 2018, for nonpublic entities. Early adoption is allowed for annual reporting periods beginning after December 16, 2016. Ouachita has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This guidance changes how entities account for equity investments that do not result in consolidation and are not accounted for under the equity method of accounting. Entities will be required to measure these investments at fair value at the end of each reporting period and recognize changes in fair value in net income. A practicability exception will be available for equity investments that do not have readily determinable fair values; however, the exception requires entities to adjust the carrying amount for impairment and observable price changes in orderly transactions for the identical or a similar investment of the same issuer. This guidance also changes certain disclosure requirements and other aspects of current U.S. GAAP. ASU 2016-01 is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted for fiscal years beginning after December 31, 2017. As a result, Ouachita has elected to early adopt ASU 2016-01 and the adoption did not have a material impact on the financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Among other changes, the ASU: (1) replaces the three current classes of net assets (unrestricted, temporarily restricted, and permanently restricted) with two new classes – "net assets with donor restrictions" and "net assets without donor restrictions;" (2) expands the disclosures about the nature and amount of any donor restrictions, board designations of net assets without donor restrictions as well as any underwater endowments; (3) requires expenses to be presented by nature and function, as well as an analysis of the allocation of these expenses; (4) requires specific quantitative and qualitative disclosures to improve the ability of financial statement users to assess the entity's available financial resources and the methods by which it manages liquidity and liquidity risk; and (5) requires investment returns to be presented net of external and direct internal investment expenses. ASU 2016-14 is effective for annual periods beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018, with early adoption permitted. Ouachita adopted this ASU as of and for the year ended May 31, 2019. As a result, changes in terminology used to describe categories of net assets throughout the financial statements were made as well as expanded footnote disclosures as required by this ASU. Ouachita elected to not disclose the classification of functional expenses (Note 12) and liquidity and availability of resources (Note 13) for 2018 as permitted under the ASU in the year of adoption.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, to address diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments provide guidance on specific cash flow issues. The ASU is effective fiscal years beginning after December 15, 2018, and should be applied using a retrospective transition method to each period presented. Early adoption is permitted. Ouachita is currently evaluating the effect that the updated standard will have on the financial statements.

Subsequent events

Ouachita has evaluated subsequent events through September 5, 2019, which is the date these financial statements were available to be issued.

Note 2 – Contributions Receivable, Net

Contributions receivable were expected to be collected as follows at May 31:

	2019	2018
Receivable in one year or less	\$ 644,651	\$ 690,070
Receivable in one through five years	1,069,012	292,329
Receivable in more than five years	-	25,000
	<u>1,713,663</u>	<u>1,007,399</u>
Less: discount to net present value	(71,026)	(34,182)
Allowance for uncollectible contributions receivable	(29,824)	(36,693)
Contributions receivable, net	<u>\$ 1,612,813</u>	<u>\$ 936,524</u>

Note 3 – Student Loans

Student loans consist of short-term loans to students and loans made under the FPLP. The balances were comprised of the following at May 31:

	2019	2018
Short-term loans	\$ 167,582	\$ 210,180
Federal Perkins loans	454,440	558,485
	<u>622,022</u>	<u>768,665</u>
Allowance for loan losses	(196,166)	(175,346)
Student loans receivable, net	<u>\$ 425,856</u>	<u>\$ 593,319</u>

U.S. government loan funds refundable under the FPLP are distributable to the federal government upon liquidation of the loan program and thus are reflected as a liability, refundable advances on federal government loans, in the accompanying statements of financial position.

Note 4 – Investments

Ouachita measures certain assets on a fair value basis using various valuation techniques and assumptions, depending on the nature of the asset. FASB Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring and disclosing fair value under GAAP. The framework provides a fair value hierarchy based upon observable and unobservable inputs prioritized by the reliability of the assumptions used to measure fair value. The highest priority is given to unadjusted quoted prices in active market for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

- Level 2 Inputs to the valuation methodology include observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; other inputs that are observable for the asset or liability, or inputs derived principally from or corroborated by observable market data by correlation or other means.
- Leve 3 Inputs to the valuation methodology are unobservable and significant to determining the fair value measurement and reflect the entity's own assumptions about the assumptions that market participants would use in pricing assets or liabilities.

Ouachita's assets measured at fair value by fair value hierarchy are as follows as of May 31, 2019:

	Level 1	Level 2	Level 3	Total
Investments:				
Common stocks:				
U.S. equity	\$ 43,047,874	\$ -	\$ -	\$ 43,047,874
International equity	3,629,852	-	-	3,629,852
Mutual funds	10,467,383	-	-	10,467,383
Debt securities:				
U.S. government obligations	-	3,203,228	-	3,203,228
Corporate bonds	-	1,679,539	-	1,679,539
Mineral interests	-	-	1,728,618	1,728,618
Alternative investments	-	-	2,557,065	2,557,065
Investments at fair value	57,145,109	4,882,767	4,285,683	66,313,559
Interests in perpetual trusts	-	-	20,936,977	20,936,977
Interests in charitable trusts	-	-	6,614,793	6,614,793
Interests in trust	-	-	27,551,770	27,551,770
Total investments and interests at fair value	\$ 57,145,109	\$ 4,882,767	\$ 31,837,453	\$ 93,865,329

Ouachita's assets measured at fair value by fair value hierarchy are as follows as of May 31, 2018:

	Level 1	Level 2	Level 3	Total
Investments:				
Common stocks:				
U.S. equity	\$ 42,527,093	\$ -	\$ -	\$ 42,527,093
International equity	3,402,495	-	-	3,402,495
Mutual funds	7,138,099	-	-	7,138,099
Debt securities:				
U.S. government obligations	-	2,859,320	-	2,859,320
Corporate bonds	-	1,785,099	-	1,785,099
U.S. real estate investment trust funds	1,066,919	-	-	1,066,919
Mineral interests	-	-	1,565,869	1,565,869
Alternative investments	-	-	511,222	511,222
Investments at fair value	54,134,606	4,644,419	2,077,091	60,856,116
Interests in perpetual trusts	-	-	20,491,469	20,491,469
Interests in charitable trusts	-	-	6,432,361	6,432,361
Interests in trusts	-	-	26,923,830	26,923,830
Total investments and interests at fair value	\$ 54,134,606	\$ 4,644,419	\$ 29,000,921	\$ 87,779,946

The following schedule summarizes the return on investments and its classification in the accompanying statements of activities for the years ended May 31:

	Without Donor Restrictions	With Donor Restrictions	Total
2019			
Dividends and interest, net of expenses	\$ 328,000	\$ 1,611,986	\$ 1,939,986
Royalties from mineral interests	763,431	-	763,431
Income from perpetual trusts	272,291	873,285	1,145,576
Net realized and unrealized gains	173,767	1,109,120	1,282,887
Return on investments	\$ 1,537,489	\$ 3,594,391	\$ 5,131,880
2018			
Dividends and interest, net of expenses	\$ 213,546	\$ 1,276,941	\$ 1,490,487
Royalties from mineral interests	259,291	-	259,291
Income from perpetual trusts	165,742	597,399	763,141
Net realized and unrealized gains	758,585	7,066,372	7,824,957
Return on investments	\$ 1,397,164	\$ 8,940,712	\$ 10,337,876

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation

techniques may require the transfer of financial instruments from one fair value level to another. In such instances, Ouachita recognizes transfers at the end of the reporting period. There were no transfers between input levels during the year ended May 31, 2019. Ouachita does not hold any material financial or nonfinancial assets or liabilities that are measured at fair value on a nonrecurring basis.

Investments included in Level 3 primarily consist of Ouachita's ownership in mineral interests and alternative assets (principally partnership interests in hedge and other similar funds). The value of alternative assets generally represents the ownership interest in the net asset value of the respective partnership. Redemption frequency is generally restricted to monthly or quarterly and with notice periods ranging from 5 to 65 days prior to the desired redemption date. Some funds place additional restrictions on the timing of redemptions during the period of fund liquidations initiated by the investment manager. There were no unfunded purchase commitments at May 31, 2019 or 2018.

Following is a reconciliation of activity during 2019 and 2018 for investments included in Level 3:

	Mineral Interests	Alternative Investments	Total
Balance, June 1, 2017	\$ 1,219,575	\$ 819,845	\$ 2,039,420
Purchases	-	1,618	1,618
Dispositions	-	(277,607)	(277,607)
Return on investments	346,294	(32,634)	313,660
Balance, May 31, 2018	1,565,869	511,222	2,077,091
Purchases	-	1,776,613	1,776,613
Dispositions	-	(140,355)	(140,355)
Return on investments	162,749	409,585	572,334
Balance, May 31, 2019	\$ 1,728,618	\$ 2,557,065	\$ 4,285,683

Fair values for interests in perpetual trusts are determined based on either the fair value of the assets held in trust or by calculating the present values of estimated future distributions expected to be received over the expected terms of the agreements using a discount rate of 5% at May 31, 2019 and 2018. The change in value of perpetual trusts is included in the change in value of split interest agreements in the statement of activities.

The table below presents information about the changes in interests in perpetual trusts within the Level 3 classification for the years ended May 31:

	2019	2018
Balance, beginning of year	\$ 20,491,469	\$ 19,532,970
Contributions	654,422	455,136
Distributions	(1,734)	-
Transfers from charitable trust	120,373	-
Change in value	(327,553)	503,363
Balance, end of year	\$ 20,936,977	\$ 20,491,469

Fair values for interests in charitable trusts are determined by calculating the present value of estimated future distributions expected to be received using a discount rate of 5% at May 31, 2019 and 2018. The change in value of charitable trusts is reported as change in value of split interest agreements in the statements of activities. The table below represents information about the changes in interests in charitable trusts within the Level 3 classification for the years ended May 31:

	2019	2018
Balance, beginning of year	\$ 6,432,361	\$ 2,678,157
Contributions	80,041	4,136,855
Distributions	(9,704)	(561,084)
Transfers to perpetual trust	(120,373)	-
Change in value	232,468	178,433
Balance, end of year	<u>\$ 6,614,793</u>	<u>\$ 6,432,361</u>

Note 5 – Property, Plant, and Equipment

The following is a summary of property, plant, and equipment at May 31:

	2019	2018
Land and land improvements	\$ 9,424,875	\$ 9,424,875
Stadium and tennis courts	6,247,601	6,227,801
Buildings	118,657,808	113,488,125
Equipment	10,720,747	9,997,716
Vehicles	1,041,105	949,218
Library books	5,021,588	5,011,908
Construction in progress	-	1,826,050
	<u>151,113,724</u>	<u>146,925,693</u>
Less accumulated depreciation	<u>(62,668,030)</u>	<u>(58,567,840)</u>
Property, plant and equipment, net	<u>\$ 88,445,694</u>	<u>\$ 88,357,853</u>

Depreciation expense totaled approximately \$4,137,000 and \$3,932,000 for the years ended May 31, 2019 and 2018, respectively.

Note 6 – Notes Payable

Ouachita has entered into various loan agreements, funded by the issuance of tax-exempt bonds, with the City of Arkadelphia Public Facilities Board primarily for the purpose of financing campus construction and improvement projects. These loan agreements are secured by a lien on all tuition and fee revenue and require Ouachita to fund and maintain debt reserve accounts in amounts sufficient to pay the principal and interest on the bonds as they are due.

Following is a summary of notes payable at May 31:

	<u>2019</u>	<u>2018</u>
Loan agreements:		
2016 loan agreement; varying interest rates ranging from 2.13% to 4.00%; optional redemption on or after March 1, 2024, with a final maturity on March 1, 2038.	\$ 39,255,000	\$ 39,950,000
2015 loan agreement; varying interest rates ranging from 2.05% to 4.25%; optional redemption on or after March 1, 2025, with a final maturity on March 1, 2038.	7,050,000	7,320,000
2014 loan agreement; varying interest rates ranging from 2.00% to 4.25%; optional redemption on or after March 1, 2025, with a final maturity on March 1, 2038.	5,835,000	6,050,000
2013 loan agreement; varying interest rates ranging from 2.00% to 3.50%; optional redemption on or after September 1, 2018, with a final maturity on September 1, 2029.	5,635,000	6,075,000
2012 loan agreement; interest rates of 1.85%; optional redemption on or after March 1, 2018, with a final maturity on March 1, 2019.	-	525,000
Note payable at a fixed rate of 5.50%; principal and interest of \$4,944 due monthly with a balloon payment due March 2028; secured by real estate.	412,537	443,561
Note payable at a fixed rate of 2.89%; principal and interest of \$1,344 due monthly through October 2020; secured by a vehicle.	23,625	38,826
	<u>58,211,162</u>	<u>60,402,387</u>
Less: debt issuance costs	<u>(1,032,679)</u>	<u>(1,099,312)</u>
Total notes payable	<u>\$ 57,178,483</u>	<u>\$ 59,303,075</u>

Scheduled principal payments are as follows for years subsequent to May 31, 2019:

2020	\$ 2,251,203
2021	2,274,698
2022	2,341,938
2023	2,399,303
2024	2,456,802
Thereafter	<u>46,487,218</u>
	<u>\$ 58,211,162</u>

The combined annual debt service requirements under these agreements total approximately \$4,254,000 in the year ending May 31, 2019. At May 31, 2019 and 2018, cash equivalents of approximately \$6,051,000 and \$6,392,000, respectively, were reserved for debt service and bond account.

These loan agreements also contain certain compliance requirements and covenants including maintenance of specified levels of tuition and fee revenues, maintenance of debt service reserve balances, and limitations on real property that can be used to secure other debt. Management believes Ouachita was in compliance with all such requirements as of May 31, 2019 and 2018.

Interest expense was approximately \$2,871,000 and \$2,174,000 for the years ended May 31, 2019 and 2018, respectively, exclusive of bond discount accretion and debt issuance costs related to the 2008, 2012, 2013, 2014, 2015, and 2016 loan agreements.

Fees and other expenses associated with the borrowings under 2012, 2013, 2014, 2015, and 2016 Arkadelphia Public Facilities Board loans are being amortized using the straight-line method over the terms of the loans. As of May 31, 2019 and 2018, the gross amount of unamortized debt issuance costs was approximately \$1,033,000 and \$1,134,000, respectively. As of May 31, 2019 and 2018, accumulated amortization of those costs was \$285,000 and \$187,000, respectively. Total amortization recognized during 2019 and 2018, was approximately \$67,000 and \$72,000, respectively.

Note 7 – Internal Borrowings from Endowment Funds

In December 2012, the Board of Trustees approved an internal borrowing from Ouachita's endowment funds not to exceed \$1,500,000 to facilitate the completion of several campus construction projects. The loan carries an interest rate of 5% which was based on similar instruments at the time of authorization. Monthly payments are required based on a 15-year amortization schedule and are funded with payments received from donors on contributions receivable specified for these construction projects. At May 31, 2019 and 2018, the principal amount outstanding was approximately \$627,000 and \$661,000, respectively.

In November 2015, the Board of Trustees approved an internal borrowing from endowment funds not to exceed \$18,600,000 to repay a bank term note payable and credit line. The loan carries an interest rate of 3.5% which was based on projected market returns for instruments similar to debt instruments included in the fixed income portfolio of endowment funds. Monthly payments of \$83,537 are required from unrestricted funds based on a 30-year amortization schedule with the remaining balance due at maturity in December 2030. At May 31, 2019 and 2018, the principal amount outstanding was \$17,349,000 and \$17,737,000, respectively.

Scheduled principal payments on the above loans are as follows for years subsequent to May 31, 2019:

2020	\$ 473,300
2021	492,923
2022	511,658
2023	531,120
2024	549,863
Thereafter	<u>15,416,770</u>
	<u>\$ 17,975,634</u>

In November 2015, the Board of Trustees approved a credit line from the endowment of up to \$5,000,000 to repay and replace a bank credit line. Interest on this credit line is based on the prime rate of interest, as reported by The Wall Street Journal, plus 25 basis points and is reset annually. No amount was outstanding under this credit line at May 31, 2019 or 2018.

Note 8 – Net Assets

The composition of endowment net assets is as follows as of May 31:

	2019	2018
Donor-restricted endowment funds	\$ 117,678,303	\$ 115,721,915
Board-designated quasi-endowment funds, without donor restrictions	3,110,859	2,984,055
	<u>\$ 120,789,162</u>	<u>\$ 118,705,970</u>

Total endowment net assets include the balances of internal notes receivable totaling approximately \$17,976,000 and \$18,398,000, at May 31, 2019 and 2018, respectively (Note 7).

Changes in endowment net assets are as follows during the years ended May 31:

	Without Donor Restriction	With Donor Restriction	Total
Net assets, May 31, 2017	\$ 3,007,767	\$ 105,173,242	\$ 108,181,009
Contributions	-	5,117,277	5,117,277
Investment return:			
Investment income	384,448	2,064,061	2,448,509
Net realized and unrealized gains	746,331	6,943,032	7,689,363
Total investment return	1,130,779	9,007,093	10,137,872
Gains restoring prior losses on temporarily restricted endowment assets	8,948	(8,948)	-
Change in value of split-interest agreements	-	638,017	638,017
Endowment income distributed for operations	(1,163,439)	(4,204,766)	(5,368,205)
Net assets, May 31, 2018	2,984,055	115,721,915	118,705,970
Contributions	-	2,137,728	2,137,728
Investment return:			
Investment income	157,340	1,607,092	1,764,432
Net realized and unrealized gains	195,391	3,283,548	3,478,939
Total investment return	352,731	4,890,640	5,243,371
Change in value of split-interest agreements	-	(95,085)	(95,085)
Endowment income distributed for operations	(225,927)	(4,976,895)	(5,202,822)
Net assets, May 31, 2019	<u>\$ 3,110,859</u>	<u>\$ 117,678,303</u>	<u>\$ 120,789,162</u>

Note 9 – Employee Benefit Plans

Ouachita offers a contributory employee benefit plan administered by TIAA-CREF and GuideStone Financial Resources of the Southern Baptist Convention to substantially all full-time employees. Ouachita contributes 4% of all participants' compensation to the plan and contributes an additional amount of up to 3% of a participant's salary for participants who are employed at least half-time. Total retirement plan expense for the years ended May 31, 2019 and 2018, was approximately \$926,000 and \$883,000, respectively.

Effective April 1, 2003, Ouachita adopted two nonqualified Deferred Compensation Plans under IRC Sections 457(b) and 457(f). The plans, which are administered by GuideStone Financial Resources of the Southern Baptist Convention, were adopted to encourage retirement savings by employees. Total expense under these plans for the years ended May 31, 2019 and 2018, was approximately \$10,000 and \$11,000, respectively.

Note 10 – Commitments and Contingencies

Ouachita conducts certain programs pursuant to federal grants and contracts which are subject to often complex and ambiguous administrative requirements contained in grant or contract agreements, applicable federal laws and regulations, agency program announcements, and stipulations contained in the application submitted for the award. Compliance with these requirements, which is the responsibility of the management of Ouachita, may be determined through operational, procedural or performance audits by the grantor agencies or the inspectors general for these agencies. Such audits could lead to requests for reimbursement by the grantor agencies. Other grantors may also place certain terms and restrictions on the use of grant funds. Management is not aware of any events of material noncompliance with grant or loan terms, requirements and restrictions.

Ouachita maintains a self-insurance program for the portion of health care costs not covered by insurance. Reinsurance coverage has been obtained to cover medical benefit claims in excess of \$90,000 per individual or 100% of aggregate expected claims annually. The cost of providing medical benefits is funded by contributions from Ouachita and participating employees. Required contributions are determined by Ouachita based on expected claims and administrative costs. Participating employees contribute approximately one-third of the total required contributions. Ouachita made contributions to the trust totaling approximately \$1,802,000 and \$1,954,000 during the years ended May 31, 2019 and 2018, respectively.

Ouachita is subject to certain claims and lawsuits arising in the normal course of business. In the opinion of management, there are no known outstanding claims for which resolution will materially impact the financial position or results of Ouachita.

Note 11 – Related Party Transactions

Included in private gifts, grants and contributions in the statement of activities are contributions received from the Arkansas Baptist State Convention, an affiliate, of approximately \$2,968,000 and \$2,998,000, respectively, for the years ended May 31, 2019 and 2018.

Note 12 – Functional Classification of Expenses

Expenses by functional classification for the year ended May 31, 2019, consist of the following:

	Instructional	Academic Support	Student Services	Public Service	Research	Institutional Support	Auxiliary Enterprises	Fundraising	Total
Salaries and wages	\$ 8,266,621	\$ 729,507	\$ 3,445,235	\$ 611,701	\$ 123,769	\$ 2,026,012	\$ 880,988	\$ 436,645	\$ 16,520,478
Employee benefits	2,496,957	74,680	932,176	154,531	11,589	769,717	239,463	131,615	4,810,728
Plant operations	785,237	121,366	597,885	14,187	3,653	220,980	1,319,907	10,412	3,073,627
Depreciation expense	1,120,870	184,518	682,220	22,120	5,700	351,696	1,745,629	16,246	4,128,999
Interest expense	785,124	127,929	472,990	15,336	3,952	243,835	1,210,264	11,264	2,870,694
Contracted services	67,622	213	199,891	268,406	-	407,805	3,418,638	148,770	4,511,345
Travel and meals	291,878	4,336	903,542	173,464	16,693	449,969	997	35,970	1,876,849
Supplies and other	1,078,990	358,927	2,134,373	308,757	135,204	1,038,671	310,465	168,621	5,534,008
Total	\$ 14,893,299	\$ 1,601,476	\$ 9,368,312	\$ 1,568,502	\$ 300,560	\$ 5,508,685	\$ 9,126,351	\$ 959,543	\$ 43,326,728

Expenses by functional classification for the year ended May 31, 2018, consist of the following:

Salaries and wages	\$ 7,977,998	\$ 700,614	\$ 3,232,257	\$ 645,608	\$ 116,127	\$ 1,903,054	\$ 805,904	\$ 406,181	\$ 15,787,743
Employee benefits	2,613,056	218,103	1,000,911	162,729	12,309	643,388	246,007	137,122	5,033,625
Plant operations	882,412	133,460	517,851	15,701	4,466	247,820	1,394,665	10,918	3,207,293
Depreciation expense	1,075,335	175,216	647,825	21,005	5,413	333,965	1,657,621	15,427	3,931,807
Interest expense	802,847	130,816	483,667	15,683	4,041	249,339	1,237,584	11,518	2,935,495
Contracted services	143,630	14,222	184,747	224,035	-	393,765	3,381,616	77,733	4,419,748
Travel and meals	252,630	3,481	863,701	111,932	10,342	392,506	923	33,218	1,668,733
Supplies and other	698,346	287,843	1,778,732	296,798	52,200	824,475	167,109	185,629	4,291,132
Total	\$ 14,446,254	\$ 1,663,755	\$ 8,709,691	\$ 1,493,491	\$ 204,898	\$ 4,988,312	\$ 8,891,429	\$ 877,746	\$ 41,275,576

Note 13 – Liquidity and Availability of Resources

As of May 31, 2019, financial assets and liquidity resources available within one year for general expenditures, such as operating expenses, scheduled principal payments of debt, and capital construction costs not financed with debt, were as follows:

Financial assets:

Cash and cash equivalents	\$ 9,342,269
Cash and cash equivalents, debt service reserve and bond account	6,050,752
Notes and accounts receivable, net	1,068,951
Pledge payments available for operations	<u>555,704</u>

Total financial assets available within one year 17,017,676

Liquidity resources:

Endowment line of credit	<u>5,000,000</u>
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Total financial assets and liquidity resources available within one year \$ 22,017,676

Ouachita's cash flows have seasonal variations during the year attributable to tuition billing and a concentration of contributions received at calendar and fiscal year-end. As part of Ouachita's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. While Ouachita does not intend to appropriate quasi-endowment funds, they are available in times of need with a vote of the trustees. To manage liquidity, Ouachita maintains a line of credit within the endowment pool that is drawn upon as needed during the year to manage cash flows. No amount was outstanding under this line of credit as of May 31, 2019. See Note 7.

SUPPLEMENTAL INFORMATION

OUACHITA BAPTIST UNIVERSITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended May 31, 2019

Federal Grantor/Cluster or Program	CFDA Number	Pass-Through to Subrecipients	Federal Expenditures
U.S. Department of Education:			
Student Financial Assistance Cluster:			
Federal Supplemental Educational Opportunity Grants	84.007	\$ -	\$ 80,227
Federal Direct Student Loans	84.268	-	7,167,438
Federal Work Study Program	84.033	-	338,488
Federal Perkins Loan Program:			
Federal Perkins Loans as of June 1, 2018	84.038	-	454,440
New loans issued during 2019	84.038	-	-
Administrative cost allowance	84.038	-	-
Federal Pell Grant Program	84.063	-	2,179,177
Teacher Education Assistance for College and Higher Education (TEACH) Grants	84.379	-	67,248
Total Student Financial Assistance Cluster		-	10,287,018
TRIO Cluster:			
Talent Search Program	84.044	-	441,103
Upward Bound Program	84.047	-	474,963
Total TRIO Cluster		-	916,066
Total U.S. Department of Education		-	11,203,084
The Corporation for National and Community Service:			
Foster Grandparent Program	94.011	-	299,123
Department of Health and Human Services:			
National Institutes of Health:			
Passed-through program from:			
University of Arkansas for Medical Sciences:			
Institutional Development Award Program			
Partnerships for Biomedical Research in Arkansas	93.859	-	99,396
National Science Foundation:			
Passed-through program from:			
Arkansas Economic Development Commission:			
Arkansas Advancing and Supporting Science, Engineering and Technology (ASSET project)	47.079	-	142,121
National Aeronautics and Space Administration:			
Passed-through programs from:			
University of Arkansas at Little Rock:			
National Space Grant College and Fellowship Program (SPACe Grant) Training Grant	43.008	-	6,381
Total Expenditures of Federal Awards		\$ -	\$ 11,750,105

OUACHITA BAPTIST UNIVERSITY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended May 31, 2019

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal awards activity of Ouachita under programs of the federal government for the year ended May 31, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the University, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Ouachita.

Note 2 – Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Ouachita has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3 – Federal Perkins Loan Program

The Federal Perkins Loan program (FPLP) is administered directly by Ouachita and balances and transactions relating to this program are included in Ouachita's financial statements. There were no disbursements for loans to students and no administrative cost allowances during the year ended May 31, 2019. The loan balance outstanding at May 31, 2019, was \$289,756, net of an allowance for doubtful accounts. During the year ended May 31, 2019, the University did not receive federal capital contributions of the FPLP. Accordingly, the University did not transfer contributions for its share of the current year matching grant.

Note 4 – Subrecipients

The University provided no federal awards to subrecipients.

OTHER REPORTS

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Ouachita Baptist University

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Ouachita Baptist University (Ouachita), which comprise the statement of financial position as of May 31, 2019, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 5, 2019.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

 Hogan Taylor LP

Little Rock, Arkansas
September 5, 2019

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Ouachita Baptist University

Report on Compliance for Each Major Federal Program

We have audited Ouachita Baptist University's (Ouachita) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Ouachita's major federal programs for the year ended May 31, 2019. Ouachita's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Ouachita's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Ouachita's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Ouachita's compliance.

Opinion on Each Major Federal Program

In our opinion, Ouachita complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended May 31, 2019.

Report on Internal Control Over Compliance

Management of Ouachita is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Ouachita's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Ouachita's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

 Hogan Taylor UP

Little Rock, Arkansas
September 5, 2019

OUACHITA BAPTIST UNIVERSITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

Year ended May 31, 2019

Section II – Financial Statement Findings

None

Section III – Findings and Questioned Costs for Federal Awards

None

OUACHITA BAPTIST UNIVERSITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year ended May 31, 2019

There were no findings or questioned costs for the year ended May 31, 2018, that require reporting of resolution or status in the year ended May 31, 2019.