

OFFICIAL STATEMENT

New Issue
Book Entry Only

NON-RATED

In the opinion of Rose Law Firm, a Professional Association, Bond Counsel, under existing law and assuming compliance with certain covenants described herein, interest on the Series 2020 Bonds is excludable from gross income for federal income tax purposes. Bond Counsel is of the further opinion that, under existing law, interest on the Series 2020 Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. The Board has designated the Bonds as “qualified tax-exempt obligations” within the meaning of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended. Bond Counsel is of the opinion that the Series 2020 Bonds and the interest thereon are exempt from all Arkansas state, county, and municipal taxes. See the caption “Tax Exemption” herein.

Board of Trustees of Southern Arkansas University



\$7,580,000

Board of Trustees of Southern Arkansas University Student Fee Secured Refunding Bonds Series 2020

Dated: Date of Delivery

Due: March 1, as shown inside front cover

FOR MATURITY SCHEDULE, INTEREST RATES, YIELDS AND CUSIPS, SEE INSIDE COVER.

The Series 2020 Bonds are obligations of the Board of Trustees of Southern Arkansas University (the “Board”), secured by and payable from certain fees and revenues identified for each series and derived from operations, projects and activities at the Board’s main campus, Southern Arkansas University, located in the City of Magnolia, Arkansas. **The Student Fee Secured Refunding Bonds Series 2020 (the “Series 2020 Bonds”) are not secured by the faith and credit of the State of Arkansas or by a pledge of any of its revenues or by a mortgage lien on any of the lands or buildings of the State of Arkansas or the Board. The Board has no taxing power.** See the caption “Security for the Bonds” herein.

The Series 2020 Bonds are issuable as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), New York, New York, to which principal and interest payments on the Series 2020 Bonds will be made so long as Cede & Co. is the registered owner of the Bonds. Individual purchases of the Series 2020 Bonds will be made only in book-entry form, in the denomination of \$5,000 or any integral multiple thereof. Individual purchasers of the Series 2020 Bonds (“Beneficial Owners”) will not receive physical delivery of bond certificates. See Appendix D—Book-entry Only System.

Interest on the Series 2020 Bonds will be payable each March 1 and September 1, commencing March 1, 2021. All such interest payments shall be payable to the person in whose name such Series 2020 Bond is registered on the bond registration book maintained by Farmers Bank & Trust Company, Magnolia, Arkansas, as trustee (the “Trustee”). Disbursement of such payments to DTC Participants is the responsibility of DTC, and distribution of such payments to Beneficial Owners is the responsibility of DTC Participants, as more fully described herein.

See inside this front cover for maturity schedules, interest rates and yields. The Series 2020 Bonds are subject to redemption prior to maturity as is more fully described in THE SERIES 2020 BONDS herein.

This cover page contains certain information for quick reference only. It is not a summary of the terms of or the security for the Bonds. Investors must read the entire Official Statement to obtain information essential to making an informed investment decision. The Series 2020 Bonds are offered when, as and if issued, subject to approval by Rose Law Firm, a Professional Association, Little Rock, Arkansas, bond counsel. It is expected that the Bonds will be delivered through the facilities of DTC on or about November 19, 2020.

Stephens Inc.

Dated October 29, 2020

Pricing and Payment Terms

\$7,580,000

**Board of Trustees of Southern Arkansas University
Student Fee Secured Refunding Bonds
Series 2020
Serial Bonds**

Year (March 1)	Principal Amount	Interest Rate	Yield	CUSIP¹
2022	\$310,000	3.000%	0.880%	842219 KQ9
2023	315,000	3.000%	0.940%	842219 KR7
2024	325,000	3.000%	1.100%	842219 KS5
2025	325,000	3.000%	1.220%	842219 KT3
2026	345,000	2.000%	1.440%	842219 KU0
2027	350,000	2.000%	1.640%*	842219 KV8
2028	355,000	2.000%	1.800%*	842219 KW6
2029	370,000	2.000%	2.000%	842219 KX4
2030	370,000	2.000%	2.100%	842219 KY2

*Priced to first optional redemption date.

Term Bonds

\$1,625,000 2.625% Term Bonds, maturing March 1 2035, Yield 2.625% CUSIP 842219 KZ9
\$1,915,000 3.000% Term Bonds, maturing March 1, 2041, Yield 3.000% CUSIP 842219 LA3
\$975,000 3.000% Term Bonds, maturing March 1, 2045, Yield 3.080% CUSIP 842219 LB1

¹ CUSIP® (Committee on Uniform Securities Identification Procedures) is a registered trademark of the American Bankers Association (“ABA”). CUSIP data herein is provided by the CUSIP Service Bureau, operated by Standard & Poor’s, a division of The McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services Bureau. CUSIP numbers have been assigned by an independent company not affiliated with the Board and are included solely for the convenience of the registered owners of the Bonds. The Board and the Underwriters are not responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness by the Board on the Bonds and by the Underwriters on the Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

USE OF INFORMATION IN OFFICIAL STATEMENT

No dealer, broker, salesman, or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the Board or the Underwriter.

Certain information set forth herein has been obtained from the Board and other sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness, and it is not to be construed as a representation by the Underwriter.

This Official Statement is not to be used in connection with an offer to sell or the solicitation of an offer to buy in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of the Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Board or other matters described herein since the date hereof. See “APPENDIX C—Form of Continuing Disclosure Agreement” herein for a description of the undertakings of the Board to provide certain information on a continuing basis.

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTIONS IN WHICH THE BONDS HAVE BEEN REGISTERED, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Neither the Board or the Underwriter make any representation or warranty with respect to the information contained in this Official Statement regarding DTC or its book-entry-only system described in “APPENDIX D—Book-Entry Only System” as such information has been provided by DTC.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement pursuant to its responsibilities to investors under federal securities laws, but the Underwriter does not guarantee the accuracy or completeness of such information.

The agreements of the Board and others related to the Bonds are contained solely in the contracts described herein. Neither this Official Statement nor any other statement made in connection with the offer or sale of the Bonds is to be construed as constituting an agreement with the purchaser of the Bonds. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

THIS OFFICIAL STATEMENT CONTAINS “FORWARD-LOOKING” STATEMENTS WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. SUCH STATEMENTS MAY INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE AND ACHIEVEMENTS TO BE DIFFERENT FROM THE FUTURE RESULTS, PERFORMANCE AND ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. INVESTORS ARE CAUTIONED THAT THE ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD-LOOKING STATEMENTS. See the caption “FORWARD-LOOKING STATEMENTS” herein.

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The cover page hereof, this Table of Contents, and the Appendices attached hereto are part of this Official Statement.



Board of Trustees

Lawrence Bearden, Chair

Monty Harrington, Vice Chair

Therral Story, Secretary

Erica Woods

President, Southern Arkansas University System

Dr. Trey Berry

Vice President for Administration and General Counsel

Roger W. Giles

Vice President for Student Affairs

Dr. Donna Y. Allen

Vice President for Finance

Shawana Reed

CONSULTANTS AND ADVISORS TO THE BOARD OF TRUSTEES

Bond Counsel

Rose Law Firm, a Professional Association

Trustee

Farmers Bank & Trust Company, Magnolia, Arkansas

Underwriter

Stephens Inc.

OFFICIAL STATEMENT

BOARD OF TRUSTEES OF SOUTHERN ARKANSAS UNIVERSITY

\$7,580,000

Board of Trustees of Southern Arkansas University Student Fee Secured Refunding Bonds Series 2020

INTRODUCTORY STATEMENT

This Official Statement is furnished in connection with the issuance of the Board of Trustees of Southern Arkansas University, Student Fee Secured Refunding Bonds, Series 2020 (the “Series 2020 Bonds”). The following Introductory Statement is subject in all respects to the more complete information set forth in this Official Statement. All descriptions and summaries of documents hereinafter set forth are qualified in their entirety by reference to each document. Except as otherwise defined, capitalized terms used in this Official Statement have the meanings ascribed to them in Appendix A-Definitions of Certain Terms. The Series 2020 Bonds are issued pursuant to the Supplemental Indenture (as defined in Appendix A and further described under the caption “Terms of the Offering –Authority”). Student Fee Revenues are pledged to the Student Fee Secured Bonds (as such term is defined in Appendix A). Student Fee Revenues are referred to herein as “Revenues.”

Board

The Board is the Board of Trustees of Southern Arkansas University (the “Board”), a body politic and corporate and a public instrumentality organized and existing under the laws of the State of Arkansas including particularly, Act No. 62 of the Acts of the General Assembly of the State of Arkansas of 1947, as amended, codified as Ark. Code Ann. §§ 6-62-301 *et seq.* (the “Act”). The Board governs two campuses located in Magnolia, Arkansas (the “SAU” or the “University”) and East Camden, Arkansas (the “SAU Tech”). Each campus operates and reports its finances independently.

Security and Source of Payment

General

The Series 2020 Bonds are referred to in this Official Statement as the “Series 2020 Bonds”. No revenues of SAU Tech are pledged to the Series 2020 Bonds. Under the Act, the Series 2020 Bonds are referred to as general obligations of the Board only and will not constitute an indebtedness for which the faith and credit of the State of Arkansas (the “State”) or any of its revenues are pledged. **See RISK FACTORS-Limited Source of Payment and Limitation on Remedies Upon Default herein.** Debt service on the Series 2020 Bonds will not be payable out of any money provided or appropriated to the Board by the State. The Series 2020 Bonds are not secured by a mortgage lien on any of the lands or buildings of the State or the Board.

Student Fee Secured Refunding Bonds, Series 2020. The Series 2020 Bonds are secured by a pledge of Student Fee Revenues at its main campus of the University in the City of Magnolia, Arkansas. The Board has previously issued various series of Student Fee Secured Bonds under the Indenture. After giving effect to previously issued Student Fee Secured Bonds being refunded by the Series 2020 Bonds (see the caption “Security and Source of Payment-Purpose” below) outstanding Student Fee Secured Bonds in addition to the Series 2020 Bonds consist of the following:

(a) \$6,465,000 original principal amount Student Fee Secured Refunding Bonds, (the “Series 2016 Student Fee Bonds”); and

(b) \$17,050,000 original principal amount Student Fee Secured Capital Improvement and Refunding Bonds, Series 2018 A, (the “Series 2018 A Bonds”)

(c) \$5,600,000 original principal amount Student Fee Secured Refunding Bonds, Series 2019 A (the “Series 2019 A Bonds”)

The Board has entered into a revolving loan with the Arkansas Sustainable Building Design Revolving Loan Fund, pursuant to a Loan Agreement dated May 9, 2011, as amended, in the amount of not to exceed \$1,600,000 (the “2011 Revolving Loan”). The 2011 Revolving Loan is secured by Student Fee Revenues and is on parity of security with the Student Fee Secured Bonds. Outstanding balances of the Student Fee Secured Bonds are set forth under the caption “Security For The Series 2020 Bonds- Student Fee Secured Series 2020 Bonds” herein.

Additional Bonds

The Indenture permits, under certain conditions, the issuance of additional bonds by the Board which will rank on parity with the Bonds.

See the caption “The Bonds—Additional Bonds” herein.

Purpose

The proceeds of the Series 2020 Bonds will be used to: (a) currently refund the Board’s Student Fee Secured Capital Improvement Bonds, Series 2013-B (the “Series 2013-B Bonds”), of which \$680,000 remains outstanding; (b) currently refund the Board’s Student Fee Secured Capital Improvement and Refunding Bonds, Series 2015 (the “Series 2015 Bonds”), of which \$6,460,000 remains outstanding; (c) fund a debt service reserve fund; and (d) pay the costs of issuance of the Series 2020 Bonds. When used in connection with the Series 2020 Bonds, collectively the Series 2013-B Bonds and the Series 2015 Bonds are referred to herein collectively as the “Refunded Bonds.”

See the captions “Plan of Finance” and “Sources and Uses of Funds” herein.

Features of the Series 2020 Bonds

Optional Redemption. The Series 2020 Bonds maturing on or after March 1, 2027 are subject to redemption by the Board on or after March 1, 2026 in whole or in part at any time from any moneys that may be available for such purpose, upon payment of 100 percent of principal amount of Bonds to be redeemed plus interest accrued to the redemption date.

Mandatory Sinking Fund Redemption. The Trustee shall redeem the Series 2020 Bonds maturing on March 1, 2035, March 1, 2040, and March 1, 2045 in the years and in the principal amounts and at a price of 100 percent of the principal amount of the Series 2020 Bonds to be redeemed plus interest accrued to the redemption date, as follows:

SERIES 2020 SINKING FUND REDEMPTIONS

Series 2020 Bonds Maturing March 1, 2035		Series 2020 Bonds Maturing March 1, 2041		Series 2020 Bonds Maturing March 1, 2045	
Year	Amount	Year	Amount	Year	Amount
2031	\$375,000	2036	\$340,000	2042	265,000
2032	300,000	2037	345,000	2043	230,000
2033	305,000	2038	355,000	2044	235,000
2034	315,000	2039	365,000	2045*	245,000
2035*	330,000	2040	250,000		
		2041*	260,000		

*Final Maturity

In the event that less than all of the Series 2020 Bonds are redeemed by operation of the foregoing, the Series 2020 Bonds to be redeemed within each series shall be selected by the Trustee pro rata among the then outstanding maturities (and by lot or in such manner as the Trustee shall deem fair and appropriate within each maturity) thereof according to the relationship borne by the outstanding principal amount of each such maturity to the total amount to be applied to redemption of the Series 2020 Bonds. In the event of partial redemption of the Series 2020 Bonds that are subject to mandatory sinking fund redemption pursuant to the Indenture, the principal amount of each sinking fund installment shall similarly be reduced pro rata.

Denominations. The Series 2020 Bonds shall be issued in Authorized Denominations.

Registration and Exchange. See Appendix D—Book-entry Only System.

Manner of Making Payments. See Appendix D—Book-entry Only System.

Notices to Bondholders. See the caption “The Series 2020 Bonds—Notice of Redemption” herein and Appendix D—Book-entry Only System.

Tax Status

In the opinion of Bond Counsel, under existing law and assuming compliance with certain covenants described herein, interest on the Series 2020 Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. The Board has designated the Bonds as “qualified tax-exempt obligations” within the meaning of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended. Bond Counsel is of the opinion that the Series 2020 Bonds and the interest thereon are exempt from all Arkansas state, county, and municipal taxes. See the caption “Tax Exemption” herein.

Professionals

Farmers Bank & Trust Company, Magnolia, Arkansas, is Trustee, bond registrar, and paying agent for the Series 2020 Bonds (the “Trustee”).

Rose Law Firm, a Professional Association, Little Rock, Arkansas, serves as Bond Counsel for the Board in connection with the Series 2020 Bonds.

Stephens Inc., Little Rock, Arkansas, is underwriter of the Series 2020 Bonds.

Terms of the Offering

Authority. The Series 2020 Bonds are being issued pursuant to the laws of the State, including particularly: the Act; a resolution to be adopted by the Board on October 29, 2020; a Supplemental Trust Indenture dated as of the date of delivery of the Series 2020 Bonds, supplementing an original Trust Indenture dated as of January 1, 1999, as supplemented, relating to the Series 2020 Bonds (collectively the “Indenture”), by and between the Board and the Trustee.

Conditions. The Series 2020 Bonds are offered when, as, and if issued by the Board, subject to the final approving opinion of Bond Counsel.

Delivery. It is expected that the Series 2020 Bonds in definitive form will be available for delivery through the facilities of DTC on or about November 19, 2020.

Book Entry. The Series 2020 Bonds are issuable as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), New York, New York, to which principal and interest payments on the Series 2020 Bonds will be made so long as Cede & Co. is the registered owner of the Series 2020 Bonds. Individual purchases of the Series 2020 Bonds will be made only in book-entry form, in Authorized Denominations. Individual purchasers of Bonds (“Beneficial Owners”) will not receive physical delivery of bond certificates. See Appendix D—Book-entry Only System.

Continuing Disclosure

The Board has entered into an undertaking for the benefit of the Bondholders to provide certain financial information and operating data to certain information repositories annually and to provide notice of certain events to the Municipal Securities Rulemaking Board (“MSRB”), pursuant to the requirements of § (b)(5)(i) of Securities and Exchange Commission Rule 15c2-12.

The only remedy available to the holders of the Series 2020 Bonds for breach by the Board of its obligations to provide the required information shall be the remedy of specific performance or mandamus against appropriate officials of the Board. The failure by the Board to provide the required information shall not be an event of default with respect to the Series 2020 Bonds under the Indenture. A failure by the Board to comply with its obligations to provide the required information must be reported as described above and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Series 2020 Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Series 2020 Bonds and their market price.

During the past five years, the Board has been obligated to comply with continuing disclosure agreements involving 18 bond issues. Such agreements require the Board to file annual reports with the trustees, as dissemination agents. The dissemination agents are required to file the annual reports with the MSRB on its Electronic Municipal Market Access system (“EMMA”) within various time periods set by those agreements.

The Board was required to provide, within one hundred eighty (180) days of the fiscal year end, an annual report and an audit. Fifteen of these bond issues had unaudited financial statements filed as part of their annual report since the audit was not available. Three bond issues required the Board to provide within one hundred fifty (150) days of the fiscal year end, an annual report and an audit.

The Board was required to furnish notice of significant events, upon knowledge, for seven bond issues and within 10 days of the occurrence for 15 bond issues. While the Board has not made any

determination as to materiality, the following summarizes a non-exhaustive discussion of the Board's compliance with its continuing disclosure obligations over the past five years.

The Annual report for fiscal year ending June 30, 2015 was not filed for two bond issues but was timely filed for 10 bond issues, however the annual report did not contain all required data for one bond issue. The annual report for fiscal year ending June 30, 2016 was not filed on one bond issue, filed nine days late on two bond issues and timely filed on 10 bond issues, however the annual report did not contain all required data for one bond issue. The annual report for fiscal year ending June 30, 2017 was filed four days late on one bond issue, 21 days late for two bond issues and timely filed on 11 bond issues, however the annual report did not contain all required data for four bond issues. The annual report for fiscal year ending June 30, 2018 was not filed on two bond issues and was timely filed on 11 bond issues, however, however the report did not contain all required data. Notices regarding these late or missed filings were not posted on EMMA. The annual report for fiscal year ending June 30, 2019 is not due by time of issuance.

As part of the annual report, the Board was obligated to file its audited financial statements, if available, or when they became available. The June 30, 2015 audit was filed 5 days after receipt by the Board, the June 30, 2016 audit was filed 135 days after receipt by the Board but was not associated to one bond issue. The June 30, 2017 audit was filed 2 days after receipt by the Board but was not associated with two bond issues. As of the date hereof, the 2018 audit has not been received by the Board.

Each continuing disclosure agreement also obligated the Board to file a notice of the occurrence of any event listed in the Securities and Exchange Commission, Rule 15c212(b)(5). Included in the listed events were bond calls. During the past five years the Board failed to file notices concerning two call notices and the defeasance notice for the 2012 Auxiliary bonds was labeled incorrectly and did not provide all pertinent information to bond holders regarding the defeasance.

See Appendix C—Form of Continuing Disclosure Agreements.

General

This Official Statement speaks only as of its date, and the information contained herein is subject to change. All references herein to the Indenture are qualified in their entirety by reference to such document, copies of which are available from the Underwriter during the offering period and from the Board thereafter, and all references to the Series 2020 Bonds are qualified in their entirety by reference to the definitive form thereof and the information with respect thereto included in the Indenture.

Further Information

For further information, communicate with Shawana Reed, Vice President for Finance, Southern Arkansas University, 100 E University St, Magnolia, AR 71753-5000 (Telephone: (870) 235-5008).

THE SERIES 2020 BONDS

General

The Series 2020 Bonds are dated as of the date of delivery, are numbered from RA-1 upward, and bear interest (calculated on the basis of a 360-day year of twelve 30-day months).

Interest on the Series 2020 Bonds is payable on March 1, 2021, and thereafter semiannually on each Interest Payment Date at the rates per annum and mature on March 1, in the years and amounts set forth inside the cover of this Official Statement. All Bonds shall bear interest (a) from the date of delivery, if authenticated prior to the first Interest Payment Date, or (b) otherwise from the Interest Payment Date

that is, or that immediately precedes, the date on which such Bond is authenticated (unless payment of interest is in default, in which case such Bond shall bear interest from the date to which interest has been paid).

The principal of and interest on the Series 2020 Bonds shall be payable in lawful money of the United States of America. Principal of the Series 2020 Bonds shall be payable by the Trustee upon presentation and surrender of the Series 2020 Bonds as they become due at the Principal Office of the Trustee. Interest on Bonds shall be payable by the Trustee to the Bondholders of Bonds by check or draft mailed to such Bondholders at their addresses as they appear on the bond registration books of the Trustee on the Record Date. Principal and interest will be paid to any person holding Bonds in aggregate principal amount of \$1,000,000 or more, upon the written request of any such Bondholder in form and substance satisfactory to the Trustee, by wire transfer of immediately available funds to an account within the United States of America designated by such Bondholder on or before the Record Date.

If any principal of or interest on any Bond is not paid when due (whether at maturity, by acceleration, call for redemption, or otherwise), then the overdue installments of principal and, to the extent permitted by law, interest shall bear interest until paid at the same rate set forth in such Bond.

Optional Redemption

The Series 2020 Bonds maturing on or after March 1, 2027 are subject to redemption by the Board on or after March 1, 2026 in whole or in part at any time from any moneys that may be available for such purpose, upon payment of 100 percent of principal amount of Bonds to be redeemed plus interest accrued to the redemption date.

Further Information Regarding Mandatory Sinking Fund Redemption

On or before the 30th day prior to each sinking fund redemption date, the Trustee shall proceed to call the prescribed principal amount of the Series 2020 Bonds for redemption on the next redemption date, and give notice of such call. At its option, to be exercised by delivery of an Officer's Certificate of the Board to the Trustee not more than 360 days nor less than 65 days preceding the next applicable sinking fund redemption date, the Board may (a) deliver to the Trustee for cancellation Bonds of the applicable maturity date subject to redemption pursuant to the terms of the mandatory sinking fund in an aggregate principal amount desired or (b) receive credit in respect of its sinking fund redemption obligation for any Bonds of the applicable maturity date subject to redemption pursuant to the terms of the mandatory sinking fund, which prior to said date have been canceled (otherwise than through the operation of the sinking fund redemption schedule) by the Trustee and not theretofore applied as a credit against such sinking fund redemption obligation. Each Bond of the applicable maturity date so delivered or previously redeemed shall be credited by the Trustee at the principal amount thereof against the obligation of the Board on such sinking fund redemption date, and the principal amount of Bonds to be redeemed by operation of such sinking fund redemption schedule on such date shall be accordingly reduced; and any excess over the principal amount of Bonds to be redeemed by operation of the sinking fund redemption schedule on any sinking fund redemption date shall be credited against future sinking fund redemption payments in such manner as will ensure that each future sinking fund redemption payment shall be reduced as specified in an Officer's Certificate of the Board or, in the absence of such certificate, in inverse order of scheduled sinking fund redemption by an amount proportional to the amount originally established for such future sinking fund redemption date, rounded to the nearest \$5,000 amount so that the total amount so credited equals the principal amount of Bonds so delivered, and the principal amount of Bonds required to be redeemed by operation of the sinking fund on subsequent sinking fund redemption dates shall be correspondingly reduced.

Selection of Bonds for Redemption

If less than all of the Series 2020 Bonds are called for redemption, they shall be redeemed from maturities of the applicable series in such order as determined by the Board, and by lot within any maturity, subject to selection by the Trustee as provided below. The portion of any Bond to be redeemed shall be an Authorized Denomination and in selecting Bonds for redemption, each Bond shall be considered as representing that number of Bonds which is obtained by dividing the principal amount of such Bond by the minimum Authorized Denomination. If a portion of a Bond shall be called for redemption, a new Bond in principal amount equal to the unredeemed portion thereof shall be issued to the Bondholder upon the surrender thereof. If for any reason the principal amount of Bonds called for redemption would result in a redemption of Bonds less than the Authorized Denomination, the Trustee is authorized to adjust the selection of Bonds for such purpose in order to minimize any such redemption. Notwithstanding the foregoing, the Securities Depository for Book Entry Bonds shall select the Series 2020 Bonds for redemption within particular maturities according to its stated procedures.

Notice of Redemption

When Bonds (or portions thereof) are to be redeemed, the Board shall give or cause to be given notice of the redemption of the Series 2020 Bonds to the Trustee no later than 45 days prior to the redemption date or such shorter time as may be acceptable to the Trustee. In the case of an optional redemption under the Indenture (see the caption “The Series 2020 Bonds—Introductory Statement—Features of the Series 2020 Bonds—Optional Redemption” herein), the notice may state (a) that it is conditioned upon the deposit of moneys, in an amount equal to the amount necessary to effect the redemption, with the Trustee no later than the redemption date or (b) that the Board retains the right to rescind such notice on or prior to the scheduled redemption date (in either case, a “Conditional Redemption”), and such notice and optional redemption shall be of no effect if such moneys are not so deposited or if the notice is rescinded as described at “Rescission of Conditional Redemption” below. The Trustee, at the expense of the Board, shall send notice of any redemption, identifying the Series 2020 Bonds to be redeemed, the redemption date, and the method and place of payment and the information described at “Rescission of Conditional Redemption” below, by first class mail or by other standard means, including electronic or facsimile communication, to each holder of a Series 2020 Bond called for redemption to the holder’s address listed on the Bond Register. Such notice shall be sent by the Trustee by first class mail or by other standard means, including electronic or facsimile communication, between 30 and 60 days prior to the scheduled redemption date. If notice is given as stated in this paragraph, failure of any Bondholder to receive such notice, or any defect in the notice, shall not affect the redemption or the validity of the proceedings for the redemption of the Series 2020 Bonds.

On or before the date fixed for redemption, subject to the provisions described above, moneys shall be deposited with the Trustee to pay the principal of and redemption premium, if any, and interest accrued to the redemption date on the Series 2020 Bonds called for redemption. Upon the deposit of such moneys, the Series 2020 Bonds shall cease to bear interest on the redemption date and shall no longer be entitled to the benefits of the Indenture (other than for payment and transfer and exchange) and shall no longer be considered Outstanding.

Rescission of Conditional Redemption. Any Conditional Redemption may be rescinded in whole or in part at any time prior to the redemption date if the Board delivers an Officer’s Certificate to the Trustee instructing the Trustee to rescind the redemption notice. The Trustee shall give prompt notice of such rescission to the affected Bondholders. Any Bonds subject to Conditional Redemption where redemption has been rescinded shall remain Outstanding, and the rescission shall not constitute any Event of Default. Further, in the case of a Conditional Redemption, the failure of the Board to make funds available in part or in whole on or before the redemption date shall not constitute an Event of Default, and the Trustee shall

give immediate notice to the affected Bondholders that the redemption did not occur and that the Series 2020 Bonds called for redemption and not so paid remain Outstanding.

Additional Bonds-Series 2020 Bonds

General. The Board will not issue any other bonds or obligations having a lien on the Trust Estate securing the Series 2020 Bonds except for Additional Bonds issued pursuant to the Indenture and as described at this caption. Additional Bonds may be issued and the Trustee shall authenticate and deliver such Additional Bonds when there have been filed with it the following: (a) a copy certified by the Secretary of the Board of a resolution of the Board authorizing the execution and delivery of a supplemental indenture providing for, among other things, the date, rate or rates of interest on, interest payment dates, maturity dates, and redemption provisions of such Additional Bonds, and the issuance, sale, execution, and delivery of the Additional Bonds; (b) an original executed counterpart of the supplemental indenture; (c) an opinion or opinions of Bond Counsel, addressed to the Board and the Trustee, to the effect that there has been compliance with all conditions precedent to the authentication and delivery of the Additional Bonds, the issuance of the Additional Bonds has been duly authorized and issuance of the Additional Bonds will not adversely affect the income tax status of interest on Bonds Outstanding; (d) a certificate of the Board, signed by its President, that the Board is not in default under the Indenture and evidence satisfactory to the Trustee that upon issuance of the Additional Bonds amounts will be deposited in the Funds under the Indenture adequate for the necessary balances therein after issuance of the Additional Bonds; and (e) a request and authorization of the Board, signed by its President, to the Trustee to authenticate and deliver the Additional Bonds to such person or persons named therein after confirmation of payment to the Trustee for the amount of the Board of a specified sum with directions as to the disposition of such sum.

Additional Requirement for Issuance of Additional Bonds. If the Additional Bonds are to be issued to acquire, construct, or equip capital improvements to the University, there must be delivered to the Trustee a written opinion of an Accountant that the Student Fee Revenues collected by the Board in the Fiscal Year immediately prior to the Fiscal Year in which the Additional Bonds are proposed to be issued were at least 125 percent of the maximum Annual Debt Service on all Outstanding Bonds plus the Additional Bonds proposed to be issued, and if the Additional Bonds are to be issued to refund any Series of Bonds Outstanding, a written opinion of an Accountant that the 125 percent test has been satisfied or that Annual Debt Service on the Additional Bonds proposed to be issued does not exceed Annual Debt Service on all Bonds which would have been Outstanding had the same not been refunded.

Junior Lien Debt. The Board may issue junior lien debt so long as any lien on Student Fee Revenues, is expressly subordinate to the lien securing the Series 2020 Bonds.

SECURITY FOR THE SERIES 2020 BONDS

General

Under the Act, the Series 2020 Bonds will be general obligations only of the Board and will not constitute an indebtedness for which the faith and credit of the State of Arkansas or any of its revenues are pledged and will not be secured by a mortgage or a lien on any land or building belonging to the State of Arkansas or to the Board.

Student Fee Secured Series 2020 Bonds

Student Fee Revenues. The Series 2020 Bonds, will be special obligations only of the Board and will not constitute an indebtedness for which the faith and credit of the State of Arkansas or any of its revenues are pledged and will not be secured by a mortgage or a lien on any land or building belonging to the State of Arkansas or to the Board. The Series 2020 Bonds, are secured by a pledge of the student fee

revenues, including specifically an allocation of all fees charged for registration as a full-time or part-time student at the University (the “Student Fee Revenues”) equal, in annual amounts, to 125 percent of the maximum Annual Debt Service on the Series 2020 Bonds, on a parity with a pledge to secure the Board’s bonds and other obligations set forth under the caption “**Other Student Fee Secured Bonds and Other Obligations**” below.

The Board will maintain tuition and fees at the University at a level sufficient to produce annual Student Fee Revenues at least equal to 125 percent of the maximum Annual Debt Service on all Student Fee Secured Bonds Outstanding. The Board will not assign the Student Fee Revenues or create or authorize to be created any debt, lien, or charge thereon, other than the assignment thereof under the Indenture. The Board will not reduce tuition and fees at the University unless it files with the Trustee an opinion of an Accountant to the effect that Student Fee Revenues for the preceding Fiscal Year, assuming such reduction had been in effect for the entire Fiscal Year, would have equaled not less than 125 percent of the maximum Annual Debt Service on all Student Fee Secured Bonds Outstanding.

Regular student tuition and mandatory student fees, as collected by the University, are fixed as follows:

Fiscal Year	2020/2021	2019/2020	2018/2019
Tuition per Hour	214	\$214	\$228
Tuition	3,210	3,210	3,420
Athletic Fee	285	285	In tuition
Mandatory Fee	995	995	918
Total per Term	4,490	4,490	4,338

For the preceding four Fiscal Years, total student tuition and fees (net of scholarship allowances) have equaled the following:

Fiscal Year	2020¹	2019	2018	2017	2016
Student Tuition and Fees	18,689,723	\$16,859,810	\$18,623,776	\$22,751,636	19,655,949

Increases in tuition are determined during the annual budgeting process.

Other Student Fee Secured Bonds and Other Obligations. Following the refunding of the Refunded Bonds, the Board will be obligated with respect to other outstanding bonds and other obligations which are secured by allocations of Student Fee Revenues, as follows:

Issue	Principal Outstanding 10/8/2020	Final Maturity	Maximum Annual Debt Service (Fiscal Year)
2011 Revolving Loan	121,426	July 2021	113,586
Series 2016 Bonds	6,380,000	October 2040	428,774
Series 2018A Bonds	16,670,000	March 2048	1,041,694
<u>Series 2019A Bonds</u>	<u>5,600,000</u>	<u>March 2039</u>	<u>416,300</u>
Total	\$28,771,426		\$2,000,354

¹ Unaudited

Under a policy of the Department of Higher Education (of the State of Arkansas), the average annual principal and interest requirements on bonds secured by pledges of gross student fees may not exceed an amount equal to 25% of “gross student fees” at the time such pledges are effected.

Reserve Funds

With respect to the Series 2020 Bonds the Indenture requires that, upon the delivery of the Series 2020 Bonds, there shall be deposited with the Trustee for deposit in the Reserve Fund an amount equal to the maximum annual debt service payable on the Series 2020 Bonds. (See the definitions of Series 2020 Required Reserve in Appendix A hereto). The Board is permitted to substitute a letter of credit, surety bond or other credit enhancement for funds on deposit in the Reserve Fund.

Use of Moneys in the Reserve Fund. Moneys in each Reserve Fund shall be used solely for the payment of the principal of and interest on the Series 2020 Bonds to the extent moneys on deposit in the respective Debt Service Fund on any payment date are insufficient for such purpose.

STATE NOT LIABLE ON SERIES 2020 BONDS

The Series 2020 Bonds are obligations of the Board secured by a pledge of, the Trust Estate. Neither the principal of nor the interest on the Series 2020 Bonds nor the aforesaid pledge or any other agreement contained in the Indenture shall constitute an obligation of any nature whatsoever of the State, and neither the Series 2020 Bonds nor any obligation arising from said pledge or agreements shall be payable out of any moneys appropriated to the Board or to the University by the State.

THE PLAN OF FINANCING

Refunding Plan. A portion of the proceeds of the Series 2020 Bonds, together with fund balances will be used to current refund all of the outstanding Refunded Bonds.

SOURCES AND USES OF FUNDS

The proceeds of the Series 2020 Bonds will be used as follows:

	Student Fee Secured Bonds, Series 2020
Sources of Funds	
Principal Amount of Series 2020 Bonds	\$7,580,000.00
Transfers from Refunded Bonds Debt Service Reserve Funds	\$257,047.50
Reoffering Premium	\$70,186.45
Transfers from Refunded Bonds Debt Service Funds	<u>2,055.71</u>
Total Sources:	<u>\$7,909,289.66</u>
Uses of Funds	
Deposit to Current Refunding Fund	\$7,262,305.00
Deposit to Debt Service Reserve Fund	\$514,156.26
Underwriter's Discount	\$68,220.00
Costs of Issuance	\$63,390.25
Deposit to Debt Service Fund	<u>\$1,218.15</u>
Total Uses:	<u>\$7,909,289.66</u>

DEBT SERVICE REQUIREMENTS STUDENT FEE SECURED BONDS

The following tables set forth the amounts required to pay scheduled principal and interest on the Series 2020 Bonds and parity indebtedness during the Fiscal Years indicated:

Fiscal Year (June 30)	Series 2020 Bonds Total Debt Service	Debt Service on Parity Student Fee Revenue Secured Bonds	Grand Total Annual Debt Service
2021	\$57,631.77	\$1,604,066.52	\$1,661,698.29
2022	513,406.26	1,819,367.02	2,332,773.28
2023	509,106.26	1,833,767.52	2,342,873.78
2024	509,656.26	1,839,333.77	2,348,990.03
2025	499,906.26	1,833,225.02	2,333,131.28
2026	510,156.26	1,835,826.27	2,345,982.53
2027	508,256.26	1,836,657.52	2,344,913.78
2028	506,256.26	1,834,793.77	2,341,050.03
2029	514,156.26	1,826,178.14	2,340,334.40
2030	506,756.26	1,831,096.90	2,337,853.16
2031	504,356.26	1,827,134.40	2,331,490.66
2032	419,512.52	1,833,509.40	2,253,021.92
2033	416,637.50	1,827,928.15	2,244,565.65
2034	418,631.26	1,825,762.52	2,244,393.78
2035	425,362.50	1,827,009.40	2,252,371.90
2036	426,700.00	1,827,571.90	2,254,271.90
2037	421,500.00	1,826,521.90	2,248,021.90
2038	421,150.00	1,818,465.65	2,239,615.65
2039	420,500.00	1,828,284.40	2,248,784.40
2040	294,550.00	1,416,084.40	1,710,634.40
2041	297,050.00	1,414,175.01	1,711,225.01
2042	294,250.00	1,003,456.26	1,297,706.26
2043	251,300.00	998,812.50	1,250,112.50
2044	249,400.00	1,003,200.00	1,252,600.00
2045	252,350.00	1,000,200.00	1,252,550.00
2046		1,001,000.00	1,001,000.00
2047		1,000,400.00	1,000,400.00
2048		998,400.00	998,400.00
Total	\$10,148,538.15	\$44,372,228.34	\$54,520,766.49

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ESTIMATED DEBT SERVICE COVERAGE STUDENT FEE SECURED BONDS

Based on unaudited Student Fee Revenues during Fiscal Year 2020, as set forth under the caption “Security for the Series 2020 Bonds” herein, and assuming debt service on the Series 2020 Bonds as shown under the caption “Debt Service Requirements” herein, the following table illustrates historical debt service coverage on the Series 2020 Bonds and parity indebtedness secured by the Student Fee Revenues.

	Fiscal Year 2020¹	Fiscal Year 2019²
Student Fee Revenues	\$18,689,723	\$16,859,810
Maximum Annual Debt Service on Series 2020 Bonds and parity indebtedness	\$2,348,900	\$2,348,900
Coverage	7.96X ³	7.18X ⁴

THE BOARD

History and General Description

Southern Arkansas University is located in Magnolia, Arkansas, a city situated in the southwestern part of the state about 55 miles east of Texarkana on U.S. Highways 79, 82, and 371, with an estimated 2010 population of 11,577.

Southern Arkansas University was founded as the “Third District Agricultural School.” One of four such schools established by an act of the Arkansas Legislature in 1909, it opened in January 1911, as a district secondary school for southwest Arkansas. In 1925, the State Legislature authorized the school to add two years of college work to its curriculum and to change its name to “Agricultural and Mechanical College, Third District.” It carried both high school and junior college courses until 1937, at which time the high school courses were discontinued. In the fall of 1949, the Board of Trustees, exercising authority vested in it by the State Legislature, decided to make the college into a four-year, degree-granting institution. The Board authorized the adding of third-year college courses to begin with the fall semester of 1950, and fourth-year or senior courses to begin with the fall semester of 1951. By Act Eleven, January 24, 1951, the State Legislature changed the name of the institution to “Southern State College.” In 1974, the college was approved and accredited to offer a master of education degree in selected academic areas. The name was changed to “Southern Arkansas University” on July 9, 1976.

Southern Arkansas University is located on a tract of land of approximately 1,400 acres, of which 120 acres are included in the campus and 1,280 acres are used by the agriculture department as a laboratory for its students. The buildings are predominantly brick structures. The topography of the campus is a rounded, moderate elevation which slopes gently in all directions from the center portion. A five-acre park, which includes a grove of pine trees, marks the southeast corner of the campus. Major additions include the Donald W. Reynolds Campus and Community Center (\$11.5 million), Honors Hall (\$4.1 million), East Hall (\$3.8 million), Band Hall (\$2.1 million), and Wharton Nursing additions, (\$2.2 million). A \$16.5 million Science Center was constructed and occupied fall 2012. In the following years, Overstreet renovations (\$2.1 million), Agriculture building (\$6.6 million), and the Mulerider Activity Center (\$4.5

¹ Unaudited

² Audited

³ Preliminary, subject to change.

⁴ Preliminary, subject to change

million) were completed. In addition, University Hall (\$5.6 million), University Village apartments (\$8.5 million), Rodeo Arena (\$4.6 million), and Workforce Development building (\$2.3 million) were completed. A land purchase, in conjunction with the SAU Foundation, Inc., added 650 acres to the SAU farm approximately ½ mile north of the present farm. Recently completed projects include the Dining Hall expansion (\$2.0 million), Burns Harsh Hall (\$3.7 million), and Eichenberger Hall (\$2.1 million).

In conjunction with the Southern Arkansas University Foundation, SAU acquired an additional 650 acres of farm and timber land for use by SAU agriculture department and science classes. The acquisition known as the Governor Ben and Lucille Laney Farm at SAU provided approximately 170 acres for unrestricted use; the remainder is in timber production to fund a charitable remainder trust. This section is available for laboratory use by SAU students and faculty. SAU is the ultimate beneficiary of the trust.

In 1975, Southwest Technical Institute a two-year college located in Camden, Arkansas became part of the system governed by the Board and changed its name to Southern Arkansas University Tech (“SAU Tech”). SAU Tech is governed by the Board, but operated distinctly from the University. No revenues of SAU Tech are pledged as security for the Series 2020 Bonds.

SAU has recently expanded several of its campus facilities. SAU repurposed an existing armory facility on the university campus into an engineering facility to expand the engineering program and create laboratories needed for accreditation. The program, degree options, and the facility have drawn students from all over the country. The Wharton Nursing building was recently expanded to include simulation centers and an auditorium for lecture classes and speakers. The new softball field is complete, allowing for tournaments to be held on campus and also acting as a recruiting tool for student athletes. Additionally, the Workforce Development building was recently constructed to allow students the opportunity to learn alongside leaders in the workforce. Two new housing facilities have been constructed on campus to accommodate the growing student population. These new hybrid style residence halls feature traditional residence hall rooms with clusters of private bathroom suites. Additional extensive ongoing renovations are underway to update existing residence halls.

Governance and Administration

The University System is governed by a Board of Trustees which consists of five persons, appointed by the Governor of the State and approved by the State Senate. The current members of the Board, their vocations, and the year of term expiration of each are as follows:

Name	Office	City of Residence	Business or Profession	Term Expires (January 14)
Lawrence Bearden	Chair	Smackover	Oil & Gas	2021
Therral Story	Secretary	Magnolia	Oil & Gas	2022
Monty Harrington	Vice Chair	Magnolia	Banking	2023
Erica Woods		Little Rock	Nursing	2024

The Board of Trustees appointed Dr. Trey Berry President of the University System on July 1, 2015. Dr. Berry joined the University in 2011 as professor of history and dean of the College of Liberal and Performing Arts. He was promoted to provost and vice president for academic affairs a year later. Before coming to the University, he spent two years as deputy director of the Department of Arkansas Heritage, two years as a dean at the University of Arkansas at Monticello, and 18 years as a faculty member and administrator at Ouachita Baptist University.

The University's administrative affairs are the responsibility of its Vice President for Administration and General Counsel, Roger W. Giles. Mr. Giles is a licensed attorney. He received his law degree from the University of Arkansas at Fayetteville in 1972. In 1986, he received his M.A. from the University of Arkansas at Little Rock (with major in interpersonal and organizational communication). In addition to the private practice of law, Mr. Giles has served as a Judge Advocate in the United States Air Force in the rank of Lieutenant Colonel, Assistant Commissioner and Staff Attorney, Arkansas Securities Department; Assistant Attorney General for the State of Arkansas; lecturer (in American National Government) at the University of Arkansas at Little Rock; and Director of Planning and Personnel at Southern Arkansas University.

The University's financial affairs are the responsibility of its Vice President for Finance, Shawana Reed. Ms. Reed received her M.B.A. in 2012 and her B.B.A in Accounting in 2002 from Southern Arkansas University. Before joining the SAU team in 2004, Ms. Reed previously worked in the banking industry. She has served SAU in progressing capacities over her career.

SOUTHERN ARKANSAS UNIVERSITY

Colleges

SAU is composed of a College of Business, a College of Education, a College of Liberal and Performing Arts, a College of Science and Engineering, and an Honors College. Studies in non-degree and supporting fields, such as computer science, are also offered. A separate School of Graduate Studies was established July 1, 2003, offering degrees in elementary and secondary education, educational leadership, counseling and development, business, library media and information specialist, kinesiology, counseling, public administration, and teaching.

Degree Programs

SAU offers over 50 degree programs with several programs having emphasis options. SAU offers bachelor's degrees in all colleges; associate degrees in the College of Business, the College of Liberal and Performing Arts, and the College of Science and Engineering; and master's degrees in all colleges. In addition, SAU offers various pre-professional curricula which will fulfill specific requirements for admission to programs in architecture, landscape architecture, chiropractic, dentistry, engineering, forestry, medicine, nursing, optometry, pharmacy, physical therapy, radiologic technology, and veterinary medicine or allow a student to pursue a career in the related health sciences of cardiopulmonary science, dental hygiene, medical technology, nuclear medicine technology, occupational therapy, radiologic technology, and respiratory therapy. The University has also been approved to offer its first doctoral degree in Rural and Diverse Educational Leadership with its first cohort scheduled for fall 2021.

Faculty

The University has 184 full-time members of the active teaching faculty located at the main campus in Magnolia, Arkansas, 76 hold master's degrees, 108 hold doctoral degrees. Thirty-nine percent of the faculty is tenured.

Library

The Magale Library, centrally located on campus, is a comprehensive library-learning resource center with 151,000 volumes. The library has 100 computers for student use in the reference area and a computer lab used to instruct students on accessing electronic information. The library currently has access to more than 38,000 full-text periodicals available from multiple database providers including Lexis/Nexus, EBSCO, JSTOR, and many others. Access to library resources is available to SAU faculty and students

from off campus from any computer with Internet access. Magale Library is open more than 65 hours per week

Online Programs

SAU provides an on-line degree program for students earning the following degrees:

- Masters of Education in Higher Adult and Lifelong Education
- Bachelor of Business Administration (Management)
- Master of Arts in Teaching
- Master of Business Administration
- Master of Business Administration (Agri Business)
- Master of Business Administration (Social Entrepreneurship)
- Master of Business Administration (Supply Chain Management)
- Master of Computer and Information Science
- Master of Education (Curriculum and Instruction)
- Master of Education (Library Media and Information Specialist)
- Master of Education (School Counseling)
- Master of Education (Student Affairs and College Counseling)
- Master of Education in Educational Administration and Supervision
- Master of Education (Gifted and Talented K-12)
- Master of Education (Special Education)
- Master of Public Administration
- Master of Science in Agriculture
- Master of Science in Clinical and Mental Health Counseling
- Master of Science in Computer and Information Science (Cyber Security and Privacy)
- Master of Science in Computer and Information Science – (Data Science)
- Master of Science in Computer and Information Science – (Information Technology)
- Master of Science in Kinesiology – Coaching
- Nursing (RN to BSN Program)

The current tuition revenue generated by the on-line programs, as well as historical enrollment for such programs is as follows:

Fiscal Year	Graduate Enrollment	Graduate (Student Semester Credit Hour)	Graduate In State / Graduate Out of State Rates Per Hour	Graduate Revenue
2015-16	1,173	10,809	271/395	\$6,763,519
2016-17	1,026	8,117	279/414	\$8,897,502
2017-18	846	8,018	285/425	\$5,660,091
2018-19	902	9,640	285/437	\$4,550,562
2019-20 ¹	1,038	11,273	280/440	\$4,486,965

¹ Year-to-date as of August 31, 2020.

Accreditations

The University is accredited by the Higher Learning Commission of the North Central Association, the National Council of Accreditation of Teacher Education, the National League for Nursing Accrediting Commission, the National Association of Schools of Music, Council of Social Work Education, AACSB International, and Commissions on Accreditation of Athletic Training Education.

Memberships

The University holds memberships in several national organizations. These include: The Higher Learning Commission of the North Central Association, American Council on Education, AACSB International—The Association to Advance Collegiate Schools of Business, American Association of Colleges for Teacher Education, American Association of State Colleges and Universities, American Association of University Women, National Collegiate Athletic Association, National Commission of Accrediting, National Council for the Accreditation of Teacher Education, National Council of Educational Opportunity Associations, National Association of College and University Business Officers, and National Association of College and University Attorneys.

Athletics

The University's sports activities encompass individual and team events. Varsity teams compete in the new Great American Athletic Conference of the NCAA Division II, with men's competition in basketball, baseball, cross country, football, golf, and track and women's competition in basketball, cross country, softball, track, and volleyball. Intramural activities are sponsored throughout the school year.

Southern Arkansas University Foundation and Endowments

The Southern Arkansas University Foundation, Inc. has approximately \$40.8 million in endowment as of June 30, 2020, and the University endowment has over \$4.6 million as of June 30, 2020, for a total endowment of over \$45.4 million. There are several hundred named endowments. These include scholarships, lectureships, professorships, artist-in-residence, and academic and athletic enrichment endowments. Almost all the Foundation's assets are restricted by donor declaration. For further financial information regarding the Southern Arkansas University Foundation, Inc. and University endowments see Appendix E—Fiscal Year 2019 Financial Report (audited).

Financial Aid

SAU offers a comprehensive scholarship program based on academic, performance, or leadership accomplishments. Scholarships can be maintained for up to two-to-eight semesters if retention criteria are met (minimum number of hours per semester and minimum grade point). Scholarship amounts vary from tuition, room and board, and stipend (books) for Presidential to a set dollar amount less than full tuition for leadership awards and performance. The overall program is designed to reward accomplishments in high school or at a two-year college that indicate potential for success at SAU. In addition, a non-traditional scholarship is offered to individuals who have been out of college for five years who meet criteria. For the 2018-2019 school year, scholarships excluding scholarship allowances totaled approximately \$3.0 million and work-study labor assistance amounted to approximately \$1.8 million. Over 73 percent of the University's students receive some form of financial aid.

Enrollment

Total undergraduate enrollment for the current and preceding fiscal years of SAU has been as follows:

Fiscal Year	2019/2020	2018/2019	2017/2018
Second Summer	547	524	475
Fall	3,655	3,606	3,540
Spring	3,249	3,223	3,221
First Summer	635	743	663
Total Annualized	8,086	8,096	7,899

Total graduate enrollment for the current and preceding fiscal years of SAU has been as follows:

Fiscal Year	2019/2020	2018/2019	2017/2018
Second Summer	477	508	755
Fall	820	862	1,103
Spring	843	855	852
First Summer	670	546	570
Total Annualized	2,810	2,771	3,280

During the fiscal years shown, the University showed a decline in the international graduate population growth stemming from global visa and political concerns. To offset the anticipated change, the University increased its strategic marketing and outreach efforts. As a result, the undergraduate population has shown growth over the fiscal years shown.

SAU's primary service area is generally those counties which are in the south central part of the State. During fiscal years 2017-18, 2018-19, and 2019-20, the enrollment averaged 74% in-state students and 26% out-of-state students with an average of 336 foreign students from 36 countries. In spring 2020, SAU's residence halls housed 1,742 students and 310 students were housed in SAU-owned apartments. In fall 2020, the most recent data indicates occupancy levels at 1,834 students.

Admissions Policy

SAU's admissions policy is a product of its mission, developed by SAU and the State of Arkansas. The mission of the Office of Admissions is to enhance the learning environment by providing personalized and updated information and timely follow-up information throughout the recruiting and admissions process to students, parents, and school officials. To accomplish this, the Office of Admissions must provide quality service while increasing student knowledge about standards, expectations, and educational choices.

Undergraduate applicants are required to submit ACT or SAT test scores and documentation of high school or GED achievement and graduation. For unconditional admission, a prospective student must have an ACT score of 19 or higher in English, Reading, and Math on the ACT examination and have graduated from high school. Additionally, a student must have successfully completed the core curriculum, recommended by the State Board of Education, with a minimum grade point average of 2.00 on a 4.00 scale to be eligible for unconditional admission. Conditional admission for beginning students requires that they must have earned a composite ACT score of 16 or higher or are ranked in the top quarter of their graduating class. Conditional admission requires completion of 12 semester hours of core academic courses and any necessary remedial courses with a cumulative grade point average of 2.0 within the first 30 hours of college level credit. Failure to do so may result in academic suspension, academic probation, or limiting the course enrollment required in the General Education block in the SAU catalog. Admitted students with less than a 15 ACT must also complete conditional prep requirements (tutoring, mandatory meetings, etc.).

Students who are 25 years of age or older are admitted regardless of their ACT scores, but they must submit ACT scores to determine whether they must take developmental courses.

All entering transfer students are required to submit a formal application for admission. Transfer students must be in good standing with the institution they last attended. Transfer students who have attempted 1–14 semester hours must meet the admission standards for beginning freshmen; those who have attempted 15–29 semester hours must have a cumulative GPA of 1.5 or higher; and those who have attempted 30 or more semester hours must have a cumulative GPA of 2.0 or higher.

Transfer students must provide transcripts indicating courses equivalent to Composition I and College Algebra have been completed with grades of C or higher or submit ACT, SAT, Compass, or ASSET scores for placement purposes. No transfer students may disregard their academic records at other institutions they have previously attended. Students transferring from two-year colleges (including SAU Tech) may transfer a maximum of 68 semester hours to SAU, but the grade point average earned at those institutions will not be used to calculate the cumulative grade point average. Only courses with grades of C or higher will transfer.

The fall 2019 average composite for ACT score for the University was 22.3. The fall 2019 average composite for ACT score for the University freshmen was 20.1.

Marketing

The University has developed a comprehensive marketing plan and reviews it annually. The marketing team advertises the University through billboards, commercials, and various forms of online media. The admissions team distributes t-shirts, pens, banners, and other promotional items to prospective students. The admissions staff and the Dean of Enrollment Services makes annual visits to area high schools and attends various events and college fairs. In addition, e-blasts and mail generating systems are used for communication. Top quality literature and graphics enhance the University website and serves as marketing tools in magazines, websites, annuals, newspapers, etc.

Financial Information

The financial statements of the University as for the fiscal year ending 2018 have been audited by the State of Arkansas Legislative Joint Auditing Committee, Division of Legislative Audit. Audited financial statements may be obtained at the Arkansas Division of Legislative Audit's website (currently www.arklegaudit.gov using the search term "Southern Arkansas University"). The unaudited financial statements of the University for the fiscal year ended 2020 are attached as Appendix E. The following is a summary of financial information for the University.

Summary of Revenues, Expenses and Changes in Net Assets. The following table contains a summary of the revenues, expenses and changes in net assets for the University for the past three fiscal years:

	2020 ¹	2019	2018	2017	2016
REVENUES					
Operating Revenues					
Student tuition and fees	18,689,723	16,859,810	18,623,776	22,751,636	19,655,949
Federal grants and contracts	2,391,148	2,652,681	2,688,494	2,898,671	2,942,156
State and local grants and contracts	345,546	626,805	551,653	495,412	481,808
Non-governmental grants and contracts	2,249,754	2,304,116	2,287,995	2,118,515	1,939,156
Sales and services of education depts.	197,173	283,770	261,587	171,012	227,819
Auxiliary enterprises:					
Athletics	84,543	87,065	128,210	94,166	122,541
Housing and food service	9,891,838	9,332,995	8,477,693	7,824,929	6,558,807
Bookstore	240,310	256,192	198,589	181,111	194,741
Health services	11,017	7,300	3,938	4,596	1,340
Student activities	9,586	11,791	16,055	19,348	34,629
Other	145,940	186,376	184,995	208,909	227,283
Other operating revenues	563,107	661,453	741,706	572,002	606,106
Total Operating Revenues	34,819,685	33,270,354	34,164,691	37,340,307	32,992,335
EXPENSES					
Operating expenses:					
Personal services	37,958,881	37,890,658	36,803,226	35,678,078	32,718,403
Supplies and other services	21,809,992	20,904,233	21,383,973	19,836,981	16,673,042
Scholarships and fellowships	3,412,957	3,035,674	3,270,189	2,337,159	2,609,407
Depreciation/amortization	3,847,140	4,961,246	4,753,056	4,447,842	4,266,252
Total Operating Expenses	67,028,970	66,791,811	66,210,444	62,300,060	56,267,104
Operating Income (Loss)	(32,209,285)	(33,521,457)	(32,045,753)	(24,959,753)	(23,274,769)
NONOPERATING REVENUES (EXPENSES)					
State appropriations	18,975,426	17,478,029	16,953,804	16,914,578	16,883,378
Federal grants	11,035,396	8,659,637	8,356,039	7,785,917	7,531,275
State grants	3,841,562	3,760,607	3,469,734	3,087,669	3,204,611
Non-governmental gifts and grants	809,933	873,134	929,295	944,812	914,668
Investment income	180,847	723,998	532,613	385,134	157,923
Interest on capital (asset related debt)	(2,404,576)	(2,519,885)	(2,437,542)	(2,099,524)	(2,142,599)
Gain (Loss) on disposal of net assets	131,594	87,771	61,305	91,898	80,788
Other nonoperating revenues	(10,0664)	(35,044)	85,399	62,135	52,598
Amortization/deferral on discount/defeasance	(51,184)	(52,121)	(49,259)	(46,368)	(36,683)
Amortization of bond premium	28,429	3,958			
Bond issuance costs	(230,187)	(6,074)	(320,343)	(236,724)	(147,092)
Net Nonoperating Revenues	32,307,176	28,974,010	27,581,045	26,889,527	26,499,319
Income before other revenues, expenses, gains/(losses)	97,891	(4,547,447)	(4,464,708)	1,929,774	3,224,550
Capital appropriations	721,320	428,331	247,127	543,913	212,000
Capital gifts and grants	405,412	404,568	768,321	2,489,845	2,077,769
Donated assets	5,350	50,641	70,000	519,340	1,341,570
Net increase (decrease) in net position	1,229,973	(3,663,907)	(3,379,260)	5,482,872	6,855,889
NET POSITION					
Net Position – Beginning year	45,983,697	49,647,604	53,460,201	47,977,329	41,121,440
Restatement for GASB 68 Pension Liability					
Restatement for GASB xx OPEB			(433,337)		
Restatement – Capital Assets	10,888,033				
Restatement Other					
Net Position – Beginning year (restated)	56,871,730	49,647,604	53,026,864	47,977,329	41,121,440
Net Position – End of Year	\$58,101,703	\$45,983,697	\$49,647,604	\$53,460,201	\$47,977,329

¹ Unaudited (Note—2016 through 2019 numbers are audited).

RISK FACTORS

Special Considerations Related to COVID-19

The World Health Organization has declared a pandemic following the global outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus. On March 13, 2020, President Trump declared a national emergency to unlock federal funds and assistance to help states and local governments fight the pandemic. Arkansas Governor Asa Hutchinson (the “Governor”) has declared a state of emergency due to the outbreak of COVID-19, which has spread to the State and to many of its counties. These measures, which alter the behavior of businesses and people, are expected to have negative impacts on regional, state and local economies. Financial markets in the United States and around the world have seen significant declines and volatility attributed to concerns about the duration of the pandemic and its continued economic impact, and such declines and volatility may continue. The federal government has approved multiple relief and aid packages, including the Coronavirus Aid, Relief and Economic Security Act (the “CARES Act”), intended to address the financial impact of the pandemic on the United States economy and financial markets. It is too early to predict if the relief programs will have their intended effect. If market declines and/or volatility continues, the ability to sell or trade securities in the financial markets could be materially constrained.

The Arkansas Department of Finance and Administration (“DFA”) announced a budget cut for the State for the fiscal year ending June 30, 2020. DFA projected that the State’s revenues would decline as a result of an economic recession following the COVID-19 outbreak and as a result of the income tax deadline extension from April 15, 2020 to July 15, 2020. Furthermore, the Arkansas General Assembly approved a budget for the 2021 fiscal year that contemplates additional declines in the State’s revenues. In late June 2020, DFA announced that the State’s revenues were higher than expected and that budgeted funding to colleges and universities would be fully restored. There can be no assurance that COVID-19 related budget or funding decreases will not be necessary in the future.

In an attempt to slow the spread of COVID-19 in the State, the Governor has taken numerous and widespread actions designed to mandate or encourage “social distancing.” In accordance with recommended social distancing measures, the University moved all of its classes online commencing March 30, 2020 and continuing through the end of the semester. The University has not refunded and does not currently plan to refund any tuition and fees related to the spring 2020 semester. Summer I and Summer II sessions were only offered online. The University announced the closure of its residence halls and apartment complexes for the remainder of the spring semester effective April 6, 2020. Students who lived on campus housing for the Spring 2020 semester received a pro-rated credit due to the closure. The credit was applied to each student account toward Fall 2020 expenses with exact amounts of each individual credit being available after July 6, 2020. Graduating seniors were told to expect a check mid-July. Any student who received a credit and who did not return to the University for the Fall 2020 semester was expected to receive a refund mid-September. The University did offer students the ability to apply for an exception to remain in campus housing. Exceptions to stay were extremely limited, and students who received the exception to stay did not receive a housing credit for future use. As of April 13, 2020, 164 students were granted the exception to stay. Students who remained on campus received brown bag “grab and go” meals at the cafeteria.

Degrees for spring 2020 graduates were conferred in May with students receiving diplomas during the summer of 2020. However, on April 2, 2020, it was announced that May 2020 commencement ceremonies will be postponed and combined with the summer ceremonies on August 7, 2020 and August 8, 2020.

The University began a phased and deliberate return of campus staff on June 15, 2020. Starting on

that date, staff returned to work in rotating teams—a “Blue Team” and a “Gold Team.” Each week, team members worked on campus two days and remotely two days. On July 6, 2020, all offices returned at full capacity. However, if a faculty or staff member had a preexisting condition or a family health concern and needed to continue working from home, the individual could have completed a request to work remotely and notified his or her immediate supervisor of such request.

University administration commenced regular operation for the fall 2020 semester. The fall 2020 semester began on August 11, 2020 and will conclude on November 20, 2020 with fall 2020 commencement scheduled to be held on November 21, 2020.

In preparation for the fall 2020 semester, the University put several protocols in place, some of which are summarized below:

Face Coverings – Masks or face-coverings are required while in all buildings on campus. All faculty and staff, and students are required to wear face coverings (i) upon entering and exiting a building; (ii) when moving from place to place within a building; and (iii) during any face-to face meeting.

Social Distancing – For the foreseeable future, the University has requested that all meetings of three or more people be conducted with Zoom, Blackboard Collaborate, or by conference call.

Enhanced Cleaning and Sanitizing – As faculty and staff returned to campus, the University made available hand sanitizers and cleaning supplies. Additionally, acrylic shields became available for high traffic areas and many departments gained access to laser thermometers.

Housing –Residence halls will receive enhanced cleaning and residents should practice social distancing with non-roommates.

Testing and Tracing –The University Health Services department will screen faculty, staff, and students and test when appropriate. Trained officials within the department will also perform on-campus contract tracing and assist the Department of Health with off-campus tracing.

Mandatory Procedures for Faculty and Staff– The University implemented a set of mandatory procedures for faculty and staff addressing COVID-19. Effective May 15, 2020, if any faculty or staff member exhibits COVID-19 symptoms, the individual must report those symptoms to University Health Services (UHS), notify his or her supervisor, and follow guidance provided by UHS until symptoms are no longer present, which may include self-quarantine. The individual is prohibited from coming to the University’s campus until cleared by UHS. Symptomatic reporting is required whether working on campus or working remotely. Individual must follow travel guidance provided by the CDC and travel to certain regions should be avoided. These are defined as regions in which reports indicate continued upward trends of positive cases. To ascertain which regions this affects, reference is made to the interactive map provided by Johns Hopkins University which is updated daily and is searchable not only by state but by each county in the United States. If travel is essential to an area where positive cases continue trending upward according to the Johns Hopkins University data, the individual must contact UHS and report the travel when concluded. The individual is prohibited from coming to the University’s campus until cleared by UHS. The mandate to follow CDC and UHS guidance is for each person’s wellbeing as well as the wellbeing of others. Failure to comply with mandatory procedures meant to mitigate the spread of COVID-19 to the campus of the University may result in disciplinary action within University employment guidelines.

At this time, there have been no mandates, measures, or requirements from the Governor or other State authority with respect to requiring the University's classes to be held online during the fall 2020 semester or necessitating the closure of student housing, or the changing of the occupancy density of student housing,

during the fall 2020 semester. THERE CAN BE NO ASSURANCE THAT SUCH MANDATES, MEASURES OR REQUIREMENTS WILL NOT BE PUT INTO PLACE AT SOME TIME DURING THE FALL 2020 SEMESTER. IN ADDITION THERE CAN BE NO ASSURANCE THAT THE UNIVERSITY WILL NOT DEEM IT NECESSARY TO TRANSITION TO ONLINE LEARNING AND CLOSE CAMPUS FACILITIES, INCLUDING HOUSING FACILITIES, DINING FACILITIES, BOOKSTORE FACILITIES, ATHLETIC FACILITIES OR OTHER FACILITIES, OR REDUCE THE OCCUPANCY DENSITY OF STUDENT HOUSING, DURING THE FALL 2020 SEMESTER OR ANY OTHER SUBSEQUENT SEMESTER. CLOSURE OR REDUCTION IN UTILIZATION OF THE UNIVERSITY'S STUDENT HOUSING FACILITIES DURING THE FALL 2020 SEMESTER OR ANY OTHER SUBSEQUENT SEMESTER MAY HAVE A MATERIAL ADVERSE IMPACT ON THE UNIVERSITY'S ABILITY TO PAY DEBT SERVICE ON THE SERIES 2020 BONDS AND THE UNIVERSITY'S OTHER BOND ISSUES, PARTICULARLY BONDS SECURED BY AUXILIARY REVENUES. Series 2020 Bonds constitute obligations only of the Board, and in no event shall the Series 2020 Bonds be considered a debt for which the faith and credit of the State of Arkansas or any of its revenues are pledged. Series 2020 Bonds are not secured by a mortgage or lien on any land or building belonging to the Board or the State of Arkansas.

The University will continue to monitor the COVID-19 situation and will adjust its policies as needed. The University has set up a link on its website (web.saumag.edu/coronavirus) to answer questions from students, parents, faculty and staff regarding changes related to COVID-19. Developments with respect to COVID-19 and the State's responses to COVID-19 (including governmental mandates) may continue to occur at a rapid pace, including on a daily basis, and the swift spread of the outbreak may continue to increase in severity for an unknown period of time. The full impact of COVID-19 and the scope of any adverse impact to University finances and operations cannot be fully determined at this time. Other adverse consequences of COVID-19 may include, but are not limited to, decline in enrollment with resulting losses of student tuition and fee revenues, decline in demand for University housing, and decline in University programs that involve travel or that have international connections. The potential lasting financial impact of the COVID-19 outbreak on the University cannot be predicted at this time, and the University makes no representations regarding the economic impact of the COVID-19 pandemic on the University or its financial position, but any mandates, measures, or requirements pertaining to the fall 2020 semester or any subsequent semesters that require classes to be held in an online-only setting and/or that require closure of the University's housing facilities may have a material adverse impact on the University's ability to pay debt service on the Series 2020 Bonds and the University's other bond issues.

Limited Source of Payment

The Series 2020 Bonds will be obligations of the Board, payable from, and secured by a pledge of, the Student Fee Revenues. See "SECURITY AND SOURCE OF PAYMENT". While the Act provides that the Series 2020 Bonds are general obligations of the Board, the Series 2020 Bonds will not be debts or obligations of the State, and debt service on the Series 2020 Bonds will not be payable out of any money provided or appropriated to the Board by the State. To the extent the Revenues and the Trust Estate are insufficient to pay the obligations of the Board pursuant to the Indenture, the Board is limited in paying such obligations only from such other monies as are available to the Board under the Constitution and laws of the State which do not include any money provided or appropriated to the Board by the State. Holders rights to demand payment of the Series 2020 Bonds from the Board from any source other than the applicable Trust Estate may be barred under the Constitution and laws of the State. Holders of the Series 2020 Bonds shall be entitled to payment only on a parity basis with all other bonds outstanding under the applicable Indenture.

Limitation on Remedies Upon Default

The Indenture does not constitute a mortgage on or security interest in any properties of the State or the Board, and no foreclosure or sale proceedings with respect to any property of the State or the Board may occur. Under the United States and Arkansas Constitutions, the Board has sovereign immunity from certain lawsuits, but agents and employees of the Board may, by mandamus, be compelled to apply the Revenues to the payment of the Series 2020 Bonds in accordance with the terms of the applicable Indenture. Rights of the registered owners of the Series 2020 Bonds and the enforceability of the remedies available under the Indenture may depend upon judicial action and may be subject to the valid exercise of the constitutional powers of the United States of America and the sovereign police powers of the State or other governmental units having jurisdiction, and to the application of federal bankruptcy laws or other debtor relief or moratorium laws in general. Therefore, enforcement of those remedies may be delayed or limited, or the remedies may be modified or unavailable, subject to the exercise of judicial discretion in accordance with general principals of equity. The various legal opinions to be delivered concurrently with the delivery of the Series 2020 Bonds will be qualified as to enforceability of the various legal instruments, limitations imposed by bankruptcy, reorganization, insolvency or similar laws affecting the rights of creditors generally and by judicial discretion applicable to equitable remedies and proceedings generally.

Factors Affecting the Board's Funding

Biennial appropriations by the Arkansas General Assembly are necessary to the continued operation of the University. Therefore, a reduction in such appropriations could result in a need to increase other revenues, in order to provide for payment of debt service and the operation of the University. The Arkansas Supreme Court has ruled that the State's public school (primary and secondary) funding system is a priority for appropriation of State funds. Should such need arise, the effects on enrollment and revenues cannot be predicted. There can be no assurance that the levels of future appropriations will not impair the ability of the Board to make payments on the Series 2020 Bonds.

Act 148 of the Regular Session of 2017 of the Arkansas General Assembly ("Act 148"), repealed prior needs-based and outcome-centered funding formulas for State-supported institutions of higher education replaced them with a productivity-based funding model. Act 148 enumerates the state-wide priorities and directs the Arkansas Higher Education Coordinating Board (the "AHECB") to adopt policies developed by the Arkansas Department of Higher Education to align institutional funding with those state-wide priorities. The AHECB is further directed under Act 148 to make recommendations for the allocation of funding to each State-supported institution of higher learning. Act 148 provides that AHECB is to make separate recommendations for two-year institutions and four-year institutions. Accordingly, the AHECB has adopted productivity funding models for two-year colleges and universities. These models serve as a mechanism for recommending funding for State-supported institutions of higher education as a whole. In addition, the AHECB has adopted a policy for the allocation of the overall funding to be distributed to each State-supported institution of higher education. Pursuant to that policy, a productivity index for each institution is calculated based upon the productivity funding model for either the four-year or two-year institution policy, whichever is applicable. The University is one of ten institutions included in the four-year institution policy. Each institution's current productivity index is compared to its previous year's productivity index to determine productivity changes. One productivity index is calculated to represent productivity changes for institutions of higher education as a whole and is used to determine how much new state funding is recommended. The AHECB will limit overall funding recommendations to no more than a 2% growth over the prior year's general funding amount, as adjusted by the State's revenue stabilization law ("stabilized general revenue funding"), for four- and two-year institutions. New stabilized general revenues are distributed among institutions with productivity index increases. Within each four- and two-year institution group general revenue funding is recommended for reallocation from institutions with productivity index declines to institutions with productivity index increases. Recommended reallocation is being introduced on a graduated scale with 1.5% cap in fiscal year 2019-2020 and a 2% cap

thereafter over an institutions existing stabilized general revenue funding and any funding recommendation in excess of that cap would be a one-time incentive funding for that institution.

At its meeting on October 25, 2019, the AHECB adopted recommendations for the distribution of productivity funding for the 2020-2021 fiscal year. At that meeting the AHECB recommended new general revenue funding in the amount of \$6,271,012 and reallocated funding in the amount of \$244,326 for four-year institutions. The University had an increase in its productivity index of 14.58% which was the largest of any four-year or two-year institution. As a result, the AHECB has recommended that the University receive a forecasted stabilized general funding increase of \$319,539 (resulting from the 2% cap) and a one-time incentive increase of \$882,704 for a total fiscal year 2020-2021 fiscal year increase in funding of \$1,202,242.

The productivity funding distribution policy is reviewed by the AHECB every three years to ensure that it continues to respond to the needs and priorities of the State overall. If it is determined that the funding distribution framework has created unintended consequences the policy is to be reviewed by the AHECB immediately. The Board is unable to predict how it will perform under the productivity based funding model in the future and the Board is unable to determine the effect caused by future changes in the productivity based funding model, if any. Decreases in the University productivity index could result in decreases in State funding.

The collection of revenues of the Board is subject to continued enrollment of students and utilization of facilities at necessary levels. These can be subject to change due to economic and demographic factors which are not within the control of the Board.

LEGAL MATTERS

Federal Tax Exemption

In the opinion of Rose Law Firm, a Professional Association, Bond Counsel, interest on the Series 2020 Bonds is excludable from gross income for purposes of federal income tax under existing laws as enacted and construed on the date of initial delivery of the Series 2020 Bonds, assuming the accuracy of the certifications of the Board and continuing compliance by the Board with the requirements of the Internal Revenue Code of 1986 (the "Code"). Interest on the Series 2020 Bonds is not an item of tax preference for purposes of either individual or corporate federal alternative minimum tax; however, interest on Series 2020 Bonds held by a corporation (other than an S Corporation, regulated investment company, or real estate investment trust) may be indirectly subject to federal alternative minimum tax because of its inclusion in the adjusted current earnings of a corporate holder. Bond Counsel expresses no opinion regarding other Federal tax consequences relating to ownership or disposition of, or the accrual or receipt of interest on, the Series 2020 Bonds.

As shown on the inside front cover of this Official Statement, certain Series 2020 Bonds are offered at a discount ("original issue discount") equal generally to the difference between public offering price and principal amount. For Federal income tax purposes, original issue discount on a Series 2020 Bond accrues periodically over the term of the Series 2020 Bond as interest with the same tax exemption and alternative minimum tax status as regular interest. The accrual of original issue discount increases the holder's tax basis in the Series 2020 Bond for determining taxable gain or loss from sale or from redemption prior to maturity. Bondholders should consult their tax advisers for an explanation of the accrual rules.

As shown on the inside front cover of this Official Statement, certain Series 2020 Bonds are offered at a premium ("original issue premium") over their principal amount. For federal income tax purposes, original issue premium is amortizable periodically over the term of a Series 2020 Bond through reductions in the holder's tax basis for the Series 2020 Bond for determining taxable gain or loss from sale or from

redemption prior to maturity. Amortization of premium does not create a deductible expense or loss. Bondholders should consult their tax advisors for an explanation of the amortization rules.

State Tax Exemption

Bond Counsel is of the opinion that, under existing law, the Series 2020 Bonds and interest thereon are exempt from all Arkansas state, county, and municipal taxes.

Legal Opinions

Legal matters incident to the authorization and issuance of the Series 2020 Bonds are subject to the unqualified approving opinion of Rose Law Firm, a Professional Association, Bond Counsel, whose approving opinion will be delivered with the Series 2020 Bonds.

Legal Proceedings

The Board will provide at closing a certificate to the effect that there is no litigation pending seeking to restrain or enjoin the issuance of the Series 2020 Bonds, or questioning or affecting the legality of the Series 2020 Bonds or the proceedings and authority under which the Series 2020 Bonds are to be issued, or questioning the right of the Board to enter into the Indenture or to issue the Series 2020 Bonds, that there is no litigation pending or, to management's knowledge, threatened against the Board or its properties.

FORWARD-LOOKING STATEMENTS

The statements contained in this Official Statement, and in any other information provided by the Board, that are not purely historical are forward-looking statements, including statements regarding the Board's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the Board on the date hereof, and the Board assumes no obligation to update any such forward-looking statements. It is important to note that the Board's actual results could differ materially from those in such forward-looking statements.

The forward-looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners, and competitors, and legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the Board. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

UNDERWRITING

Under a bond purchase agreement entered into by and between the Board and the Underwriter, the Series 2020 Bonds are being purchased at an aggregate purchase price of \$7,581,966.45 (representing the par amount of the Series 2020 Bonds, less the Underwriter's discount of \$68,220.00, plus a reoffering premium of \$70,186.45. The bond purchase agreement provides that the Underwriter will purchase all of the Series 2020 Bonds if any are purchased. The obligation of the Underwriter to accept delivery of the Series 2020 Bonds is subject to various conditions contained in the bond purchase agreement, including the absence of pending or threatened litigation questioning the validity of the Series 2020 Bonds or any

proceedings in connection with the issuance thereof and the absence of material adverse changes in the financial or operating condition of the University.

The Underwriter has offered the Series 2020 Bonds to the public initially at the offering prices set forth inside the cover page of this Official Statement, which prices may subsequently change without any requirement of prior notice. The Underwriter reserves the right to join with dealers and other underwriters in offering the Series 2020 Bonds to the public. The Underwriter may offer and sell Bonds to certain dealers (including dealers depositing Bonds into investment trusts) at prices lower than the public offering price. In connection with this offering, the Underwriter may over-allot or effect transactions which stabilize or maintain the market price of Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

MISCELLANEOUS

The Board has furnished the information in this Official Statement relating to the operations and finances of the University. The Underwriter has furnished the information in this Official Statement with respect to the public offering price of the Series 2020 Bonds and the information under the caption “Underwriting” herein.

Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

ACCURACY AND COMPLETENESS OF OFFICIAL STATEMENT

The information contained in this Official Statement has been taken from sources considered to be reliable, but is not guaranteed. To the best of the knowledge of the undersigned this Official Statement does not include any untrue statement of a material fact; nor does it omit the statement of any material fact required to be stated herein, or necessary to make the statements herein, in light of the circumstances under which they were made, not misleading.

The execution and delivery of this Official Statement has been duly authorized by the Board.

**BOARD OF TRUSTEES OF SOUTHERN
ARKANSAS UNIVERSITY**

Dr. Trey Berry, President

APPENDIX A

DEFINITIONS OF CERTAIN TERMS

The following are definitions of some of the words and terms used in this Official Statement including Appendix B-Summary Portions of the Indenture:

“Accountant” means an independent certified public accountant or firm of independent certified public accountants (who may be an Accountant for the Board but who is not a trustee, officer, or employee of the Board), acceptable to the Trustee.

“Act” means Ark. Code Ann. §§ 6-62-301 *et seq.*

“Additional Bonds” means the additional parity bonds authorized to be issued by the Board pursuant to the provisions of the Indenture regarding additional bonds to pay (i) the costs of constructing capital improvements to the University, or (ii) the costs of refunding, to the extent permitted by law, any Outstanding Bonds. See the caption “The Series 2020 Bonds—Additional Bonds” in the Official Statement.

“Annual Debt Service” means, for any Fiscal Year the sum of all amounts required to pay principal (at maturity or upon mandatory redemption) and interest due in such Fiscal Year on all outstanding Student Fee Secured Bonds.

“Authorized Denomination” means \$5,000 and any multiple thereof.

“Bankruptcy Code” means Title 11 of the United States Code, as it is amended from time to time, and any successor thereto or replacement thereof.

“Board Representative” means, the President, the Vice President for Administration, or the Vice President for Finance of the University.

“Board” means the Board of Trustees of Southern Arkansas University and its successors and assigns.

“Bond” or “Bonds” shall mean the Student Fee Secured Bonds.

“Bond Counsel” means Rose Law Firm, a Professional Association, Little Rock, Arkansas, or any other firm of attorneys of nationally recognized expertise with respect to tax-exempt obligations of political subdivisions, selected by the Board and not unacceptable to the Trustee.

“Bond Register” and “Bond Registrar” shall have the respective meanings specified in the provisions of the Indenture regarding registration of transfer and exchange of Bonds and Persons treated as Bondholders.

“Bond Resolutions or Bond Resolution” means the resolutions adopted by the Board on June 18, 2020, authorizing the issuance of the Series 2020 Bonds and the execution and delivery of the Indenture.

“Bondholder” or “holder of Bonds” or “owner of Bonds” means the Person who owns a Bond, provided that, pursuant to the provisions of the Indenture regarding registration of transfer and exchange of Bonds and Persons treated as Bondholders, the person in whose name a Bond is registered in the Bond Register shall be regarded for all purposes as such owner.

“Book Entry Bonds” means that part of a Series for which a Securities Depository or its nominee is the Bondholder.

“Business Day” means any day of the year other than (a) a Saturday or Sunday, (b) any day on which banks located in Little Rock, Arkansas or the city in which the Principal Office of the Trustee is located are required or authorized by law to remain closed, or (c) any day on which the New York Stock Exchange is closed.

“Chairman” means the Chairman of the Board.

“Chief Financial Officer” means the Vice President for Finance of the University or any officer designated by the Board, by whatever title, to succeed to the duties thereof.

“Code” means the Internal Revenue Code of 1986, as amended, including, when appropriate, the statutory predecessor or successor of the Code, and all Regulations.

“Conditional Redemption” means a redemption where the Board has stated in the redemption notice to the Trustee that the Board has retained the right to rescind the redemption, as further described in the Indenture. See the caption “The Series 2020 Bonds—Notice of Redemption” in the Official Statement.

“Continuing Disclosure Agreement” means the Continuing Disclosure Agreement, dated as of November 19, 2020, by and between the Board and the Trustee. See Appendix C—Form of Continuing Disclosure Agreement.

“Counsel” means an attorney-at-law or law firm (who may be Counsel for the Board), acceptable to the Trustee.

“Debt Service Fund” means the trust fund so designated which is described in the provisions of the Indenture regarding the Debt Service Fund. See the caption “Security for the Series 2020 Bonds—Debt Service Fund” in the Official Statement.

“Defeasance Obligations” means obligations of the type described in (a) and (b) of the definition of “Eligible Investments” and which provide for the timely payment of principal and interest and cannot be callable or prepayable prior to maturity or earlier redemption of the rated debt (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date).

“DTC” shall have the meaning given to such term in the Indenture. See Appendix D—Book-Entry Only System.

“Eligible Investments” means: (a) cash (insured at all times by the Federal Deposit Insurance Corporation); (b) obligations of, or obligations guaranteed as to principal and interest by, the U.S. or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the U.S. including: U.S. treasury obligations, guaranteed Title XI financing, Government National Mortgage Association (GNMA), and State and Local Government Series; (c) obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including: Export-Import Bank, Rural Economic Community Development Administration, U.S. Maritime Administration, Small Business Administration, U.S. Department of Housing & Urban Development (PHAs), Federal Housing Administration, and Federal Financing Bank; (d) direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America: Senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC), Obligations of the Resolution Funding Corporation (REFCORP), and senior debt obligations of the Federal Home Loan Bank System; (e) U.S. dollar denominated deposit accounts, federal funds, and bankers’ acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of “P-1” by Moody’s and “A-1” or “A-1+” by S&P and maturing not more than 360 calendar days after the date of purchase (ratings on holding companies are not considered as the rating of the bank); (f) commercial paper which is rated at the

time of purchase in the single highest classification, “P-1” by Moody’s and “A-1+” by S&P, and which matures not more than 270 calendar days after the date of purchase; (g) investments in a money market fund rated “AAAm” or “AAAm-G” or better by S&P; (h) pre-refunded Municipal Obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and (i) which are rated, based on an irrevocable escrow account or fund (the “escrow”), in the highest rating category of Moody’s or S&P or any successors thereto; or (ii) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in clause (b) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate; and (i) Municipal Obligations rated “Aaa/AAA” or general obligations of States with a rating of “A2/A” or higher by both Moody’s and S&P;

“Event of Bankruptcy” means the filing of a petition in bankruptcy (or other commencement of a bankruptcy or similar proceedings) by or against the Board, as debtor, under the Bankruptcy Code or any other bankruptcy, reorganization, insolvency, or other similar law as now or hereafter in effect.

“Event of Default” means any of the events specified in the provisions of the Indenture regarding the definition of Events of Default to be an Event of Default. See the caption “Event of Default and Remedies—Events of Default Defined” in Appendix B—Summary of Portions of the Indenture. A “default” means any event which, with the giving of notice or the lapse of time or both, would constitute an Event of Default.

“Fiscal Year” means the 12-month period ending on June 30.

“Funds” means the Project Fund, the Debt Service Fund, the Reserve Fund, and the Rebate Fund for each series of Bonds and (a) any account within each such Fund and (b) any other Fund designated as such with respect to a Series.

“Governmental Obligations” means (a) direct obligations of the United States of America, (b) obligations the timely payment of the principal of and interest on which is fully and unconditionally guaranteed by the United States of America, and (c) securities or receipts evidencing ownership interests in obligations or specified portions (such as principal or interest) of obligations described in (a) or (b).

“Immediate Notice” means notice transmitted by electronic means, in writing, by telecopier, or by telephone (promptly confirmed in writing), and received by the party addressed.

“Indenture” means the Trust Indenture, dated as of January 1, 1999, by and between the Board and the Trustee, with any amendments or supplements made thereto in accordance with the terms thereof including the Supplemental Trust Indenture dated as of November 19, 2020 by and between the Board and the Trustee providing for the Student Fee Secured Bonds.

“Interest Payment Date” means, (a) with respect to the Series 2020 Bonds, March 1 and September 1 of each year beginning March 1, 2021, (b) for any Additional Bonds, the days designated in the supplemental indenture authorizing such Additional Bonds, (c) for Bonds subject to redemption in whole or in part on any date, the date of such redemption, and (d) for all Bonds any date determined pursuant to the provisions of the Indenture regarding priority of payment following an Event of Default. See the caption

“Events of Default and Remedies—Priority of Payment Following Event of Default” in Appendix B—Summary of Portions of the Indenture.

“Issue Date” means, with respect to the Series 2020 Bonds, the date of issuance and delivery of the Series 2020 Bonds to the Underwriter and, with respect to any Additional Bonds, the date of issuance and delivery of such Additional Bonds to the initial purchasers thereof.

“Letter of Representations” means when all of the bonds of a Series are Book Entry Bonds, the Blanket Letter of Representations executed by the Board and delivered to the Securities Depository and any amendments thereto or successor blanket agreements between the Board and any successor Securities Depository, relating to a system of Book Entry Bonds to be maintained by the Securities Depository with respect to any bonds, notes, or other obligations issued by the Board.

“Officer’s Certificate” of the Board means a written certificate, statement, request, direction, or order signed in the name of the Board by its Chairman, Secretary, a Board Representative, or such other person as may be designated and authorized in writing to sign for the Board, signed by the President of the University and forwarded to the Trustee.

“Outstanding” in connection with Bonds means, as of the time in question, all Bonds authenticated and delivered under the Indenture, except (A) Bonds theretofore canceled or delivered to the Trustee for cancellation under the provisions of the Indenture regarding cancellation and disposition of Bonds (see the caption “Authorization and Registration of Bonds—Cancellation and Disposition of Bonds” in Appendix B—Summary of Portions of the Indenture), (B) Bonds which are deemed to have been paid in accordance with the provisions of the Indenture regarding defeasance (see the caption “Defeasance” in Appendix B—Summary of Portions of the Indenture), and (C) Bonds in substitution for which other Bonds have been authenticated and delivered pursuant to the provisions of the Indenture. In determining whether the owners of a requisite aggregate principal amount of Bonds Outstanding have concurred in any request, demand, authorization, direction, notice, consent, or waiver under the provisions of the Indenture, Bonds which are held by or on behalf of the Board (unless all of the Outstanding Bonds are then owned by the Board) shall be disregarded for the purpose of any such determination.

“Paying Agent” or “Co-Paying Agent” means any national banking association, bank and trust company, or trust company appointed by the Board and meeting the qualifications of, and subject to the obligations of, the Trustee in the Indenture. Initially, the Trustee shall be the Paying Agent.

“Person” or “person” means an individual, corporation, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

“President” means the person appointed as President of the University.

“Principal Office of any Paying Agent” means the office designated in writing to the Trustee.

“Principal Office of the Trustee” means the designated corporate trust office of the Trustee, which office at the date of acceptance by the Trustee of the duties and obligations imposed on the Trustee by the Indenture is 200 E Main St, Magnolia, Arkansas 71753.

“Project” with respect to the Series 2020 Bonds means the Project as further described under caption Introductory Statement-Purpose in the Official Statement.

“Project Costs” or “Cost of the Project” or “Costs” means costs of the Board properly attributable to the Project and all expenses preliminary and incidental thereto incurred by the Board in connection therewith and in the issuance of the Series 2020 Bonds, including all fiscal, underwriting, financing, and legal expenses and

costs of issuance, printing, and advertising, for which funds may be disbursed from the Project Fund, including but not limited to: (a) Costs of refunding the Refunded Bonds; (b) Payment of the initial or acceptance fee of the Trustee; (b) Payment to the Board of such amounts, if any, as shall be necessary to reimburse the Board in full for advances and payments theretofore made or costs theretofore incurred by the Board; (c) Payment of the costs of issuance of the Series 2020 Bonds, including legal, accounting, and fiscal agent and underwriting fees and expenses, payments and fees due under any agreement pursuant to which any Series of Bonds is sold, bond discount, and printing and engraving costs incurred in connection with the authorization, sale, and issuance of the Series 2020 Bonds and preparation of the Indenture or any supplemental indenture pursuant to which the Series 2020 Bonds will be issued; (d) The amount, if any, to be deposited into the Debt Service Reserve Account pursuant to the Indenture; and (j) Payment of any other costs and expenses relating to such Project, including fees and expenses of the Trustee and of professional services to comply with the arbitrage rebate requirements of the Code.

“Project Fund” means the trust fund so designated which is described in the Indenture. See the caption “Funds and Accounts—Project Fund” in Appendix B—Summary of Portions of the Indenture.

“Rebate Amount” has the meaning ascribed in § 1.148-3(b) of the Regulations and generally means the excess as of any date of the future value of all receipts on nonpurpose investments over the future value of all payments on nonpurpose investments all as determined in accordance with § 1.148-3 of the Regulations.

“Rebate Fund” means the fund so designated which is described in the Indenture. See the caption “Funds and Accounts—Rebate Fund” in Appendix B—Summary of Portions of the Indenture.

“Record Date” means, (a) with respect to any Interest Payment Date described in (a) or (b) of that defined term, (1) in the case of Bonds which are not Book Entry Bonds the Trustee’s close of business on the 15th day of the calendar month next preceding such Interest Payment Date, regardless of whether such day is a Business Day, and (2) in the case of Book Entry Bonds the Trustee’s close of business on the Business Day preceding the Interest Payment Date, and (b) with respect to any other Interest Payment Date, a date selected by the Trustee.

“Refunded Bonds” means the Series 2013-B Bonds and the Series 2015 Bonds.

“Regulations” means any applicable Internal Revenue Service Regulations promulgated in proposed, temporary, or final form pursuant to the Code or any corresponding provision of a predecessor or successor statute. Proposed regulations are “applicable” only if, in the event they are adopted in final form, such regulations would apply to the Series 2020 Bonds.

“Reserve Fund” means the trust fund so designated which is described in described in the Indenture. See the captions “Security for the Series 2020 Bonds—Reserve Fund” in the Official Statement and “Funds and Accounts—Reserve Fund” in Appendix B—Summary of Portions of the Indenture.

“Responsible Officer,” when used with respect to the Trustee, means any officer in the corporate trust department (or any successor thereto) of the Trustee, or any other officer or representative of the Trustee customarily performing functions similar to those performed by any of such officers and also means, with respect to a particular corporate trust matter, any other officer of the Trustee to whom such matter is referred because of that officer’s knowledge of and familiarity with the particular subject.

“Revenues” means the Student Fee Revenues.

“Series” means a series of bonds so designated in the Indenture.

“Secretary” means the Secretary of the Board.

“Securities Depository” means a person that is registered as a clearing agency under section 17A of the Securities Exchange Act of 1934 or whose business is confined to the performance of the functions of a clearing agency with respect to exempted securities, as defined in section 3(a) (12) of such Act for the purposes of section 17A thereof.

“Series 2013-B Bonds” means the Board’s \$850,000 Student Fee Secured Capital Improvement Bonds, Series 2013-B.

“Series 2015 Bonds” means the Board’s \$7,500,000 Student Fee Secured Capital Improvement and Refunding Bonds, Series 2015.

“Series 2016 Student Fee Bonds” means the Board’s \$6,465,000 Student Fee Secured Refunding Bonds, Series 2016.

“Series 2018 A Bonds” means the Board’s \$17,050,000 Student Fee Secured Capital Improvement and Refunding Bonds, Series 2018 A.

“Series 2019 A Bonds” means the Board’s \$5,600,000 Student Fee Secured Refunding Bonds, Series 2019 A.

“Series 2020 Bonds” means the Board’s \$7,580,000 Student Fee Secured Refunding Bonds, Series 2020.

“Series 2020 Required Reserve” means for the Series 2020 Bonds, an amount equal to the lesser of (1) maximum annual debt service on the Series 2020 Bonds (2) 10 percent of the original principal amount of the Series 2020 Bonds, and (3) 125 percent of the average annual debt service payment on the Series 2020 Bonds, or such other amounts permitted by changes in federal tax law with the Series 2020 Reserve being initially funded in the amount of \$514,156.26, being the maximum annual debt service on the Series 2020 Bonds.

“State” means the State of Arkansas.

“Student Fee Revenues” means (a) an allocation of all fees charged for registration as a full-time or part-time student at SAU equal, in annual amounts, to 125 percent of the maximum Annual Debt Service on the Student Fee Bonds, (b) all amounts payable to the Trustee with respect to the principal of or redemption premium, if any, or interest on the Student Fee Bonds upon deposit in the Debt Service Fund, and (c) investment income with respect to any moneys held by the Trustee in the Project Fund, the Debt Service Fund, and the Reserve Fund for Student Fee Bonds. The term “Student Fee Revenues” does not include any moneys or investments in the Rebate Fund for the Student Fee Bonds.

“Student Fee Secured Bonds” means the Series 2013-B Bonds, the Series 2015 Bonds, the Series 2016 Student Fee Bonds, the Series 2018 A Bonds, the Series 2020 Bonds, and any Additional Bonds issued under the Indenture secured with Student Fee Revenues on a parity such Bonds.

“Tax Regulatory Agreement” means the agreement or agreements by and between the Board and the Trustee presenting the procedures for compliance with section 148 of the Code which are applicable to the Series 2020 Bonds and the Indenture.

“Trust Estate” means the Trust Estate-Student Fee Secured Bonds.

“Trust Estate-Student Fee Secured Bonds” means all right, title, and interest of the Board in and to (a) Student Fee Revenues, (b) Funds (except for the Rebate Fund), and (c) all other property of every name

and nature from time to time hereafter by delivery or by writing mortgaged, pledged, delivered, or hypothecated as and for additional security under the Indenture by the Board or by anyone on its behalf or with its written consent in favor of the Trustee.

“Trustee” means the bank or trust company serving as trustee under the Indenture. The original Trustee is Farmers Bank & Trust Company, Magnolia, Arkansas, a state banking association, and its successors.

“Underwriter” means Stephens Inc.

“University” means the Magnolia, Arkansas campus of Southern Arkansas University, an institution of higher education of the State, created and existing pursuant to the laws of the State under the direct control and supervision of the Board.

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APPENDIX B

SUMMARY OF PORTIONS OF THE INDENTURE

The following statements are brief summaries of certain provisions of the Indenture. The statements do not purport to be complete, and reference is made to the Indenture, copies of which are available for examination at the offices of the President of the University System, for a full statement thereof.

Authorization and Registration of Bonds

Limitation. No obligations may be issued by the Board (a) which are senior in claim on the Trust Estate to the Series 2020 Bonds or (b) which, other than Additional Bonds, have a claim on the Trust Estate in parity with the Series 2020 Bonds. The Board reserves the right to issue obligations which are junior or subordinate in claim on the Trust Estate to the Series 2020 Bonds.

Registration of Transfer and Exchange of Bonds; Persons Treated as Bondholders. The Trustee shall act as initial bond registrar (the "Bond Registrar") and in such capacity shall maintain a bond register (the "Bond Register") for the registration and transfer of Bonds. Upon surrender of any Bonds at the Principal Office of the Trustee, together with an assignment duly executed by the current Bondholder of such Bonds or such Bondholder's duly authorized attorney or legal representative in such form as shall be satisfactory to the Trustee, such Bonds may, at the option of the Bondholder, be exchanged for an equal aggregate principal amount of Bonds of the same Series and maturity, of Authorized Denominations, and bearing interest at the same rate and in the same form as the Series 2020 Bonds surrendered for exchange, registered in the name or names requested by the assignee of the then Bondholder; provided the Trustee is not required to exchange or register the transfer of Bonds after the giving of notice calling such Bond for redemption, in whole or in part. The Board shall execute and the Trustee shall authenticate any Bonds whose execution and authentication is necessary to provide for exchange of Bonds as described at this caption and the Board may rely on a representation from the Trustee that such execution is required.

Any exchange or registration of transfer of Bonds shall be at the expense of the Board except that the Trustee may make a charge to any Bondholder requesting such exchange or registration in the amount of any tax or other governmental charge required to be paid with respect thereto but will not impose any other charge.

Prior to due presentment for registration of transfer of any Bond, the Trustee shall treat the Person shown on the Bond Register as owning a Bond as the Bondholder and the Person exclusively entitled to payment of principal thereof and redemption premium, if any, and interest thereon and, except as otherwise expressly provided in the Indenture, the exercise of all other rights and powers of the owner thereof, and neither the Board, the Trustee, nor any agent of the Board or the Trustee shall be affected by notice to the contrary.

Temporary Bonds. Prior to the preparation of definitive Bonds of a Series the Board may issue temporary Bonds in registered form and in such denominations as the Board may determine but otherwise in substantially the form provided for definitive Bonds of such Series with appropriate variations, omissions, and insertions. The Board shall promptly prepare, execute, and deliver to the Trustee before the first Interest Payment Date for such Bonds, definitive Bonds and, upon presentation and surrender of Bonds in temporary form, the Trustee shall authenticate and deliver in exchange therefor definitive Bonds of the same maturity for the same aggregate principal amount. Until exchanged for definitive Bonds, Bonds in temporary form shall be entitled to the lien and benefit of the Indenture.

Mutilated, Lost, or Destroyed Bonds. If any Bond has been mutilated, lost, or destroyed, the Board shall execute, and the Trustee shall authenticate and deliver to the Bondholder, a new Bond of like date and

tenor in exchange and substitution for, and upon cancellation of, such mutilated Bond or in lieu of and in substitution for such lost or destroyed Bond but only if the Bondholder has paid the reasonable expenses and charges of the Board and the Trustee in connection therewith and, in the case of a lost or destroyed Bond, (a) filed with the Trustee evidence satisfactory to the Trustee that such Bond was lost or destroyed and (b) furnished to the Trustee indemnity satisfactory to it. If any such Bond has matured or been called for redemption and is payable, instead of issuing a new Bond the Trustee may pay the same without issuing a replacement Bond.

If, after the delivery of such replacement Bond, the original Bond in lieu of which such replacement Bond was issued is presented for payment or registration, the Trustee shall seek to recover such replacement Bond from the person to whom it was delivered or any person taking therefrom and shall be entitled to recover from the security or indemnity provided therefor to the extent of any loss, damage, cost, or expense incurred by the Trustee or the Board in connection therewith.

Cancellation and Disposition of Bonds. The Board may deliver Bonds to the Trustee for cancellation at any time and for any reason and the Trustee is authorized to cancel such Bonds. All Bonds that have been paid (whether at maturity or by acceleration, upon redemption, or pursuant to provisions of the Indenture regarding purchase of Bonds by the Board; see the caption “Redemption of Bonds—Purchase of Bonds by Board” herein) or delivered to the Trustee for cancellation shall not be reissued. Unless otherwise directed by the Board, the Trustee shall treat such Bonds in accordance with its document retention policies.

Securities Depository Provisions. The Series 2020 Bonds shall be registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), and shall be held in the custody of DTC. The Board and the Trustee acknowledge that they have executed and delivered a Letter of Representations with DTC. All payments of principal of and interest on the Series 2020 Bonds and all notices with respect thereto, including notices of full or partial redemption, shall be made and given at the times and in the manner set out in the Letter of Representations. The terms and provisions of the Letter of Representations shall govern in the event of any inconsistency between the provisions of the Indenture and the Letter of Representations. The Letter of Representations may be amended without Bondholder consent. All payments of principal of and interest on the Book Entry Bonds and all notices with respect thereto, including notices of full or partial redemption, shall be made and given at the times and in the manner set out in the Letter of Representations.

The book-entry registration system for all of the Series 2020 Bonds may be terminated and certificates delivered to and registered in the name of the Beneficial Owners, under either of the following circumstances:

(a) DTC notifies the Board and the Trustee that it is no longer willing or able to act as Securities Depository for the Series 2020 Bonds and a successor Securities Depository for the Series 2020 Bonds is not appointed by the Board prior to the effective date of such discontinuation; or

(b) The Board determines that continuation of the book-entry system through DTC (or a successor securities depository) is not in the best interest of the Owners of the Series 2020 Bonds.

In the event a successor Securities Depository is appointed by the Board, the Series 2020 Bonds will be registered in the name of such successor securities depository or its nominee. In the event certificates are required to be issued to Beneficial Owners, the Trustee, and the Board shall be fully protected in relying upon a certificate of DTC or any DTC participant as to the identity of and the principal amount of Bonds held by such Beneficial Owners.

The Beneficial Owners of Bonds will not receive physical delivery of certificates except as provided in the Indenture. For so long as there is a Securities Depository for the Series 2020 Bonds, all of such Bonds shall be registered in the name of the nominee of the Securities Depository, all transfers of beneficial

ownership interests in such Bonds will be made by the nominee of the Securities Depository, and no investor or other party purchasing, selling, or otherwise transferring beneficial ownership of such Bonds is to receive, hold, or deliver any certificate. The Board and the Trustee shall have no responsibility or liability for transfers of beneficial ownership interests in such Bonds.

The Board and the Trustee will recognize the Securities Depository or its nominee as the Bondholder for all purposes, including receipt of payments, notices, and voting; provided the Trustee may recognize votes by or on behalf of Beneficial Owners as if such votes were made by Bondholders of a related portion of the Series 2020 Bonds when such votes are received in compliance with an omnibus proxy or other comparable evidence delivered to the Trustee by the Bondholders.

With respect to Book Entry Bonds, the Board and the Trustee shall be entitled to treat the Person in whose name such Bond is registered as the absolute owner of such Bond for all purposes of the Indenture, and neither the Board nor the Trustee shall have any responsibility or obligation to any Beneficial Owner of such Book Entry Bond. Without limiting the immediately preceding sentence, neither the Board nor the Trustee shall have any responsibility or obligation with respect to (a) the accuracy of the records of any Securities Depository or any other Person with respect to any ownership interest in Book Entry Bonds, (b) the delivery to any Person, other than a Bondholder, of any notice with respect to Book Entry Bonds, including any notice of redemption or refunding, (c) the selection of the particular Bonds or portions thereof to be redeemed or refunded in the event of a partial redemption or refunding of part of the Series 2020 Bonds Outstanding, or (d) the payment to any Person, other than a Bondholder, of any amount with respect to the principal of or redemption premium, if any, or interest on Book Entry Bonds.

Redemption of Bonds

Redemption Dates and Prices. The Series 2020 Bonds may not be called for redemption by the Board except as provided in the Indenture. Additional Bonds may not be called for redemption by the Board except as provided in the supplemental indenture providing for their issuance.

Purchase at Any Time. The Trustee, upon the written request of the Board, shall purchase Bonds as specified by the Board in the open market at a price not exceeding a price set by the Board. Such purchase of Bonds shall be made with funds provided by the Board and not with any portion of the Trust Estate. Upon purchase by the Trustee, such Bonds shall be treated as delivered for cancellation pursuant to the provisions of the Indenture regarding cancellation and disposition of Bonds (see the caption “Authorization and Registration of Bonds—Cancellation and Disposition of Bonds” herein). Nothing in the Indenture shall prevent the Board from purchasing Bonds on the open market without the involvement of the Trustee and delivering such Bonds to the Trustee for cancellation pursuant to the provisions of the Indenture regarding cancellation and disposition of Bonds. The principal amount of Bonds to be redeemed by optional redemption under the Indenture may be reduced by the principal amount of Bonds purchased by the Board and delivered to the Trustee for cancellation at least 45 days prior to the redemption date.

Funds and Accounts

Creation of Funds. The following funds are created by the Indenture and the proceeds of the Series 2020 Bonds are, subject to the provisions of the Indenture regarding priority of payment following an Event of Default (see the caption “Events of Default and Remedies—Priority of Payment Following Event of Default” herein), to be deposited by it in the Funds described in the Indenture and held in trust for the purposes set forth in the Indenture: (a) Project Fund; (b) Debt Service Fund; (c) Reserve Fund; and (d) Rebate Fund.

Project Fund. The Project Fund shall be used for the payment of Project Costs and any future capital acquisitions and improvements to be paid from the proceeds of Additional Bonds. The Project Fund shall

consist of the amounts required or permitted to be deposited therein pursuant to any provision of the Indenture and that portion of the proceeds of the Series 2020 Bonds designated in a certificate of the Board signed by its Authorized Representative shall be deposited therein. Separate accounts within the Project Fund shall be maintained by the Trustee for future capital acquisitions and improvements if the Board determines that separate accounts are desirable with respect to particular capital acquisitions and improvements or designated portions of capital acquisitions and improvements. Payments from the Project Fund or any account so established shall be made by the Trustee as follows:

(a) Payments from the Project Fund shall be made only upon receipt by the Trustee of a requisition executed by the Board. Each such requisition shall state: (i) the name and address of the Person to whom the payment is to be made; (ii) the amount to be paid; (iii) the obligation on account of which the payment is to be made, showing the total obligation, any amount previously paid, and the unpaid balance; (iv) that the obligation was properly incurred and is a proper charge against the Project Fund or the account from which the payment is to be made; (v) that the amount requisitioned is due and unpaid or is to reimburse the Board for amounts it has previously paid; and (vi) that, with respect to items covered in the requisition, there are no vendors', mechanics', or other liens, bailment leases, or conditional sale contracts which should be satisfied or discharged before the payments as requisitioned therein are made, or which will not be discharged before the payments as requisitioned therein are made, or which will not be discharged by such payments.

(b) Notwithstanding anything to the contrary in the Indenture, to the extent an Event of Default described in clause (a) or (b) at the caption "Events of Default and Remedies—Events of Default Defined" herein shall have occurred and be continuing and no other moneys are available under the Indenture to cure such Event of Default, moneys on deposit in the Project Fund shall be applied in accordance with the provisions of the Indenture described at the caption "Funds and Accounts—Project Fund" herein. In such event, moneys on deposit in the Project Fund shall be applied by the Trustee in accordance with the provisions of the Indenture regarding events of default and remedies.

Debt Service Fund—Deposits into Debt Service Fund. The Trustee shall deposit into the Debt Service Fund a portion of the proceeds of the Series 2020 Bonds for deposit in such Fund as may be required by the Indenture upon the delivery of the Series 2020 Bonds (see the caption "Sources and Uses of Funds" in the Official Statement) and all other amounts required or permitted under the Indenture to be deposited in the Debt Service Fund.

Payments by Board. On the Business Day prior to each Interest Payment Date, the Board shall deposit into the Debt Service Fund from the Student Fee Revenues an amount equal to the principal and interest due on the Series 2020 Bonds on such Interest Payment Date together with the fees and expenses of the Trustee. The required deposits shall be reduced by any amount in the Debt Service Fund available for meeting the purpose for which a deposit is required to be made, including amounts received as accrued interest upon delivery of a Series of Bonds.

Application of Moneys in Debt Service Fund. Moneys on deposit in the Debt Service Fund shall be applied as follows:

- (1) to the payment of interest, when due, on all Outstanding Bonds, including any accrued interest due in connection with redemptions of Bonds;
- (2) to the payment, when due, of the principal of or redemption premium on the Series 2020 Bonds then payable at maturity or upon redemption; and

(3) to the payment of principal of and interest on Bonds purchased by the Board pursuant to the provisions of the Indenture described at the caption “Redemption of Bonds—Purchase of Bonds by Board” herein.

Reserve Fund—Deposits into Reserve Fund. The Trustee shall initially deposit in the Reserve Fund an amount equal to the Series 2020 Required Reserve applicable to each series of the Series 2020 Bonds from the proceeds of the Series 2020 Bonds. Except as described below, in connection with the issuance of any Additional Bonds, the Series 2020 Required Reserve shall be recomputed for all Bonds then to be Outstanding, including the Additional Bonds then being issued, and any required increase in the amount on deposit in such Fund shall be funded at settlement for the Additional Bonds. The amount of any withdrawal for the purpose described in (1) below shall be restored by the Board in no more than 12 substantially equal, consecutive, monthly installments, each payable on the last Business Day of the month, commencing with the month in which the withdrawal is made; provided that, if any withdrawal is made and if, prior to the restoration of the amount withdrawn, an additional withdrawal is made, such additional withdrawal shall be restored in equal monthly installments over the remainder of the restoration period for the initial withdrawal. In addition, if the fair market value of the investments in the Reserve Fund is less than the Series 2020 Required Reserve on all Bonds Outstanding on any valuation date in accordance with the provisions of the Indenture described at the caption “Investment or Deposit of Funds—Valuation of Funds” herein, the difference between such Series 2020 Required Reserve and the value of the Reserve Fund shall be restored by the Board in no more than 6 equal, consecutive, monthly installments, each payable on the last Business Day of the month, commencing with the month in which the valuation revealing the deficiency is made. Upon the making of any monthly deposit to restore a withdrawal or deficiency, the Board, at its cost, may direct the Trustee to recompute the value of the assets in the Reserve Fund, in which event the remaining amount to be restored, if any, after taking the new valuation into account shall be deposited in equal monthly installments over the balance of the restoration period.

Application of Moneys in Reserve Fund. Moneys on deposit in the Reserve Fund shall be applied as follows:

(1) On the date of each required payment from the Debt Service Fund, moneys in the Reserve Fund shall be applied to cure any deficiency in the Debt Service Fund;

(2) Upon delivery of an Officer’s Certificate of the Board delivered to the Trustee, any amount in the Reserve Fund in excess of the Series 2020 Required Reserve on all Outstanding Bonds on any valuation date shall be (A) transferred to the Debt Service Fund and credited against the payments next becoming due (in direct order) under the Indenture in respect of the principal of or redemption premium, if any, or interest on the Series 2020 Bonds or any Additional Bonds, or (B) applied as may be specified in an Officer’s Certificate of the Board if such Certificate is accompanied by an opinion of Bond Counsel to the effect that such application will not cause interest on any Series of Bonds to be includable in gross income for federal income tax purposes; and

(3) In each month during the 12-month period preceding the final maturity date of any Series of Bonds, moneys held in the Reserve Fund shall be credited against the payments otherwise due under the Indenture in respect of principal of and redemption premium, if any, and interest on such Series of Bonds and shall be transferred to the Debt Service Fund for the payment of such principal, redemption premium, and interest; provided, however, that no such credit shall be given and no such transfer shall be made if and to the extent that, immediately prior to such crediting and transfer, the amount on deposit in the Reserve Fund is not at least equal to the Series 2020 Required Reserve on all Bonds, less the amounts previously transferred to the Fund during such 12-month period pursuant to this paragraph.

Additional Bonds. Any deposit made in connection with the issuance of Additional Bonds under the Indenture may, if authorized under the supplemental indenture providing for the issuance of the Additional

Bonds, be deposited into a separate, segregated account within the Reserve Fund, provided that all accounts within the Reserve Fund shall be held for the equal and proportionate benefit of all Bondholders and that the aggregate amount on deposit in all such accounts shall meet the requirements of the Indenture described at this caption. Any supplemental indenture providing for the establishment of such separate accounts may contain such further provisions as may be necessary or appropriate for the proper administration of such accounts, including provisions establishing priorities for the application of amounts on deposit in the various accounts (including investment income) for the purposes set forth in the Indenture and described at this caption.

Credit Facility. The Board shall be permitted to substitute a letter of credit, surety bond, or other credit enhancement (each, a “credit facility”) for funds on deposit in the Reserve Fund, provided that:

(1) the credit facility (including any replacement credit facility) is issued by a bank, trust company, national banking association, or insurance company whose unsecured long term debt obligations (in the case of a bank, trust company, or national banking association) or whose claims paying abilities (in the case of an insurance company) are rated by a Rating Service, at the time the credit facility is issued and at the time of each extension or renewal thereof, in a rating category at least equal to the rating category assigned by such Rating Service to the Series 2020 Bonds at the Closing Date, determined without regard to credit enhancement, if applicable, but in no event lower than an “investment grade” rating category, or the Rating Service otherwise provides evidence to the Trustee that the credit facility shall not result in a decrease or withdrawal of the rating on the Series 2020 Bonds;

(2) the Board of the credit facility does not receive as security for any reimbursement obligation in respect of the credit facility any lien, security interest, or other similar right or interest in any property which is superior to the rights of the Trustee in respect of such property;

(3) the credit facility (including any replacement credit facility, if provided by a different issuer) has an initial term of not less than three years and any extension, renewal, or replacement (if provided by the same issuer) thereof has a term of not less than one year

(4) the Trustee is authorized and has the duty and right to draw on the credit facility to satisfy the purposes for which the Reserve Fund was established; and

(5) The Trustee shall receive an opinion of Counsel to the effect that all of the requirements set forth above have been satisfied.

Upon such substitution, funds on deposit in the Reserve Fund which, when added to the face amount of the credit facility, exceed the Series 2020 Required Reserve on all Outstanding Bonds shall be applied as described in (2) at “Application of Moneys in Reserve Fund” above. Thereafter, the credit facility shall be considered a part of the Reserve Fund and the amount available thereunder shall be included in any calculations of the amount required to be retained in the Reserve Fund; provided that, (A) if the sum of the amount available under the credit facility and the amount of moneys on deposit in the Reserve Fund exceeds the amount required to be on deposit as described at “Deposits into Reserve Fund” above, the Board shall be permitted (i) to cause the amount available under the credit facility to be reduced by an amount equal to such excess, or (ii) to direct that the excess moneys be applied as described in (2) at “Application of Moneys in Reserve Fund” above, and (B) if the credit facility is not extended, renewed, or replaced at least six months prior to its scheduled expiration or termination date, the Trustee shall, not later than 45 days prior to such date, draw on the credit facility for the full amount thereof.

Priority of Draws. If there are cash and investments on deposit in the Reserve Fund in addition to a credit facility, such cash and investments will be drawn on prior to any draws on such credit facility.

Revenues to Be Held for All Bondholders, With Certain Exceptions. Until applied as provided in the Indenture and except where moneys have been deposited with or paid to the Trustee pursuant to an instrument restricting the application of such moneys to particular Bonds, the moneys and investments held in all Funds (other than Rebate Fund) established under the Indenture and the proceeds of any remedies exercised under the provisions of the Indenture regarding events of default and remedies shall be held in trust pursuant to the terms of the Indenture for the equal and proportionate benefit of the holders of all Outstanding Bonds, except that: (a) on and after the date on which the interest or redemption premium on or principal of any particular Bond or Bonds is due and payable from the Debt Service Fund or, with respect to which a call for redemption has been given and funds for such redemption have been deposited with the Trustee, the unexpended balance of the amount deposited or reserved in the Debt Service Fund for the making of such payments shall, to the extent necessary therefor, be held for the benefit of the Bondholder or Bondholders entitled thereto; and (b) any special redemption fund established in connection with the defeasance of any Bonds in accordance with the provisions of the Indenture regarding defeasance shall be held for the benefit of the holders of Bonds being defeased.

Rebate Fund. The Board covenants to pay directly to the government of the United States of America all amounts due in respect of “arbitrage rebate” under section 148(f) of the Code with respect to the Series 2020 Bonds. Accordingly, no amounts shall be deposited in the Rebate Fund provided, however, that the Board may in the future direct the Trustee to deposit in the Rebate Fund amounts for any or all Series of Bonds (which direction shall specify the procedures for collection and payment of amounts due in respect of arbitrage rebate) if (a) required under any amendments to section 148(f) of the Code, (b) the Board fails to make any arbitrage rebate payments to the government of the United States of America, or (c) the Board otherwise agrees that the funding of the Rebate Fund is desirable and appropriate. The Rebate Fund is a trust fund but amounts therein do not constitute part of the Trust Estate. Amounts on deposit in the Rebate Fund may be used solely to make payments to the United States of America under section 148 of the Code and to pay costs related to the calculation of the amounts due. Upon satisfaction of the Board’s covenants described above, any amounts remaining in the Rebate Fund shall be applied in accordance with the Indenture and described at Appendix B—Summary of Portions of the Indenture—Funds and Accounts—Repayment to the Board from Amounts Remaining in Any Funds” herein.

Repayment to the Board from Amounts Remaining in Any Funds. Any amounts remaining in any Funds after all of the Outstanding Bonds shall be deemed paid and discharged under the provisions of the Indenture and after payment of all fees, charges, and expenses of the Trustee, the Bond Registrar, and any Paying Agents and of all other amounts required to be paid under the Indenture, shall be paid to the Board as provided in the Indenture to the extent that such amounts are in excess of those necessary to effect the payment and discharge of the Outstanding Bonds.

Disposition of Unclaimed Funds. Notwithstanding any provisions of the Indenture, and subject to applicable unclaimed property laws, any money deposited with the Trustee or any Paying Agent in trust for the payment of principal of or redemption premium, if any, or interest on the Series 2020 Bonds remaining unclaimed for three years after the payment thereof: (a) shall be reported and disposed of by the Trustee in accordance with applicable unclaimed property laws; or (b) to the extent permitted by applicable law, shall be paid to the Board, whereupon all liability of the Board and the Trustee with respect to such money shall cease, and the holders of the Series 2020 Bonds shall thereafter look solely to the Board for payment of any amounts then due. All moneys held by the Trustee or any Paying Agent and subject to the provisions of the Indenture described at this caption shall be held uninvested and without liability for interest thereon.

Additional Funds and Accounts. In addition to the funds and accounts specifically authorized under the Indenture, the Trustee shall have the authority to create and maintain such other funds and accounts as it may deem necessary for proper administration under the Indenture.

Investment or Deposit of Funds

Deposits and Security Therefor. All moneys received by the Trustee under the Indenture for deposit in any Fund established under the Indenture shall be considered trust funds. All moneys on deposit with the Trustee shall, to the extent not insured, be secured in the manner required or permitted by State or other applicable law. Subject to the foregoing requirements as to security, if at any time the commercial department of the Trustee is unwilling to accept such deposits or unable to secure them as provided above, the Trustee may deposit such moneys with any other depository which is authorized to receive and secure them as aforesaid and the deposits of which are insured by the Federal Deposit Insurance Corporation. All security for deposits shall be perfected in such manner as may be required or permitted under applicable law in order to grant to the Trustee a perfected security interest in such deposits.

Investment or Deposit of Funds. Moneys on deposit in the Funds established pursuant to the Indenture shall be invested and reinvested by the Trustee as follows:

(a) All moneys on deposit in Funds shall be invested in Eligible Investments which shall mature, or be subject to repurchase, withdrawal without penalty, or redemption at the option of the holder, on or before the dates on which the amounts invested are reasonably expected to be needed for the purposes of the Indenture.

(b) All purchases or sales of Eligible Investments shall be made at the direction of the Board (given in writing or orally, confirmed in writing), or in the absence of such direction, by the Trustee in those Eligible Investments described in paragraphs (a), (b), (c), or (f) of the definition thereof payable on demand.

(c)(1) Any securities or investments held by the Trustee may be transferred by the Trustee, if required in writing by the Board, from any of the Funds or accounts established by the Indenture to any other Fund or account established by the Indenture at the then current market value thereof without having to be sold and purchased or repurchased; provided, however, that after any such transfer or transfers, the investments in each such Fund or account shall be in accordance with the provisions as stated in the Indenture; and (2) whenever any other transfer or payment is required to be made from any particular Fund, such transfer or payment shall be made from such combination of maturing principal, redemption premiums, liquidation proceeds, and withdrawals of principal as the Trustee deems appropriate for such purpose.

(d) Neither the Board nor the Trustee shall be accountable for any depreciation in the value of Eligible Investments or any losses incurred upon any authorized disposition thereof.

(e) Subject to the foregoing, the Trustee is expressly authorized to invest moneys in two or more Funds in a single investment, provided that a portion of the investment allocable to each such Fund, and all payments received with respect to such allocable portion, shall be applied in accordance with the applicable provisions governing such Fund under the Indenture.

(f) Unless otherwise provided in an applicable supplemental indenture, prior to the completion of the Project, investment income on amounts on deposit in the Reserve Fund and the Debt Service Fund shall be transferred to the Project Fund to the extent that no deficiency will exist in the Reserve Fund or the Debt Service Fund after such transfer or applied to such other purpose or purposes as directed by the Board with an opinion of Bond Counsel that such application will not cause interest on the Series 2020 Bonds to be includable in gross income for federal income tax purposes. After completion of the Project, investment income on amounts on deposit in the Reserve Fund shall be transferred to the Debt Service Fund to the extent that no deficiency will exist in the Debt Service Reserve Fund

after such transfer. In all other situations, earnings from investment shall remain in the respective Fund where earned.

Valuation of Funds. The Trustee shall determine the value of the assets in each of the Funds established under the Indenture on, or on a date not earlier than three days prior to, (a) September 1 of each year and (b) the date of settlement for a Series of Additional Bonds. As soon as practicable after each such valuation date, the Trustee shall furnish to the Board a report of the status of each Fund as of such date. The Trustee shall also advise the Board at such time of the amount then available in the Debt Service Fund as a credit against future deposits prior to the next valuation date in direct order of the due dates of such deposits. In computing the value of assets in any Fund, investments shall be valued at the fair market value thereof and shall include accrued but unpaid interest on each investment, and all investments (valued as aforesaid) and accrued interest thereon shall be deemed a part of such Funds. Upon the request of the Board, the Trustee shall also provide the Board with monthly or other periodic statements showing amounts deposited into and withdrawn from each Fund, the investments made with amounts in each Fund, and the investment income received from such investments.

For the purpose of determining the amount in any fund, all Eligible Investments credited to such fund shall be valued at fair market value. The Trustee shall determine the fair market value based on accepted industry standards and from accepted industry providers. Accepted industry providers shall include but are not limited to pricing services provided by Financial Times Interactive Data Corporation, Merrill Lynch, or Citigroup Global Markets Inc. As to certificates of deposit and bankers' acceptances: the face amount thereof, plus accrued interest thereon; and as to any investment not specified above: the value thereof established by prior agreement among the Board and the Trustee.

Covenants and Agreements of the Board

In addition to any other covenants and agreements of the Board contained in the Indenture, the Board further covenants and agrees with the Bondholders and the Trustee as follows:

Payment of Principal, Interest, and Redemption Premium. The Board will pay all principal of and redemption premium, if any, and interest on the Series 2020 Bonds or cause them to be paid, solely from the sources provided in the Indenture, on the dates, at the places, and in the manner provided in the Indenture.

Recordings and Filings. At the expense of the Board, the Board will cause the Indenture, or any related instruments or documents relating to the assignment made by the Board under the Indenture to secure the Series 2020 Bonds, to be recorded and filed in the manner and in the places which may be required by law in order to preserve and protect fully the security of the holders of the Series 2020 Bonds and the rights of the Trustee under the Indenture.

Inspection of Project Books. All books, instruments, and documents in the Board's possession relating to any Project and the Revenues shall be open to inspection at all times during the Board's regular business hours by any accountants or other agents of the Trustee which the Trustee may designate from time to time or by the holders of 25 percent or more in principal amount of any Series of Bonds then Outstanding, or a designated representative thereof.

Register. At reasonable times and under reasonable regulations established by the Bond Registrar, the Bond Register may be inspected and copied by or delivered to the Board, the Trustee, by holders of 25 percent or more in principal amount of any Series of Bonds then Outstanding, or a designated representative thereof.

Board Not to Adversely Affect Exclusion from Gross Income of Interest on the Series 2020 Bonds. The Board covenants that it will take, or require to be taken, all actions that may be required of the Board

for the interest on the Series 2020 Bonds to be and remain excludable from the gross income for federal income tax purposes and will not take or authorize to be taken any actions that would adversely affect that exclusion under the provisions of the Code.

Events of Default and Remedies

Events of Default Defined. Each of the following is an “Event of Default” under the Indenture:

- (a) Default in the payment of any installment of interest on any Bond when it becomes due and payable;
- (b) Default in the payment of principal of (or redemption premium, if any, on) any Bond when it becomes due and payable;
- (c) Subject to the provisions of the Indenture regarding notice and opportunity to cure certain defaults (see the caption “Events of Default and Remedies—Notice and Opportunity to Cure Certain Defaults” herein), default in the performance or breach of any covenant, warranty, or representation of the Board contained in the Indenture (other than a default described in under (a) and (b) above); or
- (d)(1) An Event of Bankruptcy of the Board; (2) the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator, or other similar official of the Board or of any substantial portion of its property; or (3) the ordering of the winding up or liquidation of its affairs and the continuance of any such involuntary filing, appointment, or order unstayed and in effect for a period of 60 consecutive days.

Acceleration. If an Event of Default under the Indenture occurs and is continuing, the Trustee may, and shall, upon the written request to the Trustee by the holder or holders of not less than 25 percent in aggregate principal amount of the Bonds then Outstanding, subject to the requirements of the Indenture affording the Trustee the right to security and indemnification (see the caption “The Trustee—Certain Rights of the Trustee” herein), by written notice to the Board, declare the principal of the Bonds and all interest accrued thereon to the date of acceleration to be immediately due and payable.

Rescission of Acceleration. At any time after such a declaration of acceleration has been made and before the entry of a judgment or decree for payment of the money due, the Trustee may, or the holders of not less than 25 percent in aggregate principal amount of the Bonds then Outstanding may by written notice to the Board and the Trustee, and subject to the requirements of the Indenture affording the Trustee the right to security and indemnification (see the caption “The Trustee—Certain Rights of the Trustee” herein), direct the Trustee to, rescind and annul such declaration and its consequences if:

- (1) there has been paid to or deposited with the Trustee by or for the account of the Board, or provision satisfactory to the Trustee in reliance upon an opinion of Counsel has been made for the payment, of a sum sufficient to pay: (A) all overdue installments of interest on the Bonds; (B) the principal of and redemption premium, if any, on any Bonds which have become due other than by such declaration of acceleration and interest thereon; (C) to the extent lawful, interest upon overdue installments of interest and redemption premium, if any; and (D) all sums paid or advanced by the Trustee under the Indenture, together with the reasonable compensation, expenses, disbursements, and advances of the Trustee, its agents, and Counsel prior to the date of notice of rescission; and
- (2) all Events of Default, other than the nonpayment of principal of and redemption premium, if any, and interest on the Series 2020 Bonds which have occasioned such acceleration, have been cured or waived.

Subsequent Defaults. No such rescission and annulment shall affect any subsequent default or impair any consequent right.

Suits. The Trustee, upon the occurrence of an Event of Default may, and upon the written request of the holders of not less than 25 percent in aggregate principal amount of the Bonds Outstanding, and subject to the requirements of the Indenture affording the Trustee the right to security and indemnification (see the caption “The Trustee—Certain Rights of the Trustee” herein), shall proceed to protect and enforce its rights and the rights of the holders of the Bonds under the Indenture by a suit or suits in equity or at law, either for the specific performance of any covenant or agreement contained in the Indenture or therein or in aid of the execution of any power in the Indenture or therein granted, or for the enforcement of any other appropriate legal or equitable remedy, and the Trustee in reliance upon the advice of Counsel may deem most effective to protect and enforce any of the rights or interests of the holders of the Bonds under the Bonds or the Indenture.

Other Proceedings. Without limiting the generality of the foregoing, the Trustee shall at all times have the power to institute and maintain such proceedings as it may deem expedient: (1) to prevent any impairment of the Trust Estate by any acts which may be unlawful or in violation of the Indenture; and (2) to protect its interests and the interests of the Bondholders in the Trust Estate and in the issues, profits, revenues, and other income arising therefrom, including the power to maintain proceedings to restrain the enforcement of or compliance with any governmental enactment, rule, or order which may be unconstitutional or otherwise invalid, if the enforcement of, or compliance with, such enactment, rule, or order would impair the Trust Estate or be prejudicial to the interests of the Bondholders or the Trustee. The Trustee shall have the right of mandamus or other lawful remedy in any court of competent jurisdiction to enforce its rights and the rights of the holders of the Bonds against the Board and any officers, agents, or employees of the Board, including but not limited to the right to require the Board and its officers, agents or employees to perform and observe all of its or their duties under Act.

Marshaling of Assets. Upon the occurrence of an Event of Default, all moneys in all Funds (other than moneys in the Rebate Fund) shall be available to be utilized by the Trustee in accordance with the provisions of the Indenture regarding events of default and remedies. The rights of the Trustee under the Indenture regarding compensation and expenses of the Trustee (see the caption “The Trustee—Compensation and Expenses of the Trustee” herein) shall be applicable. During the continuance of any such Event of Default, all provisions of the Indenture relating to the utilization of Funds shall be superseded by the provisions of the Indenture regarding events of default and remedies. Subsequent to the curing or waiver of any such Event of Default, the provisions of the Indenture relating to utilization of Funds, including the provisions of the Indenture regarding funds and accounts shall be reinstated.

Trustee May File Proofs of Claim. In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition, or other judicial proceeding under the Bankruptcy Code relating to the Board or any property of the Board, the Trustee (whether or not the principal of the Series 2020 Bonds shall then be due and payable by acceleration or otherwise, and whether or not the Trustee shall have made any demand upon the Board for the payment of overdue principal, redemption premium, if any, and interest) shall be entitled and empowered, by intervention in such proceeding or other means:

(1) to file and prove a claim for the whole amount of the principal, redemption premium, if any, and interest owing and unpaid in respect of the Bonds then Outstanding or for breach of the Indenture and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements, and advances of the Trustee, its agents, and Counsel) and of the holders allowed in such proceeding; and

(2) to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same;

and any receiver, assignee, trustee, liquidator, sequestrator, or similar official in any such judicial proceeding is authorized by each holder to make such payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the holders, to pay to the Trustee any amount due it for the reasonable compensation, expenses, disbursements, and advances of the Trustee, its agents, and Counsel, and any other amounts due the Trustee under the Indenture regarding compensation and expenses of the Trustee (see the caption “The Trustee—Compensation and Expenses of the Trustee” herein).

No provision of the Indenture empowers the Trustee to authorize or consent to or accept or adopt on behalf of any holders of the Bonds any plan of reorganization, arrangement, adjustment, or composition affecting any of the Bonds or the rights of any holder thereof, or to authorize the Trustee to vote in respect of the claim of any holder in any proceeding described above.

Possession of Bonds Not Required. All rights under the Indenture and the Bonds may be enforced by the Trustee without possession of any Bonds or the production of them at trial or other proceedings. Any proceedings instituted by the Trustee may be brought in its name for itself as representative of the Bondholders without the necessity of joining Bondholders as parties, and any recovery resulting from such proceedings shall, subject to the provisions of the Indenture regarding priority of payment following an Event of Default (see the caption “Events of Default and Remedies—Priority of Payment Following Event of Default” herein), be for the ratable benefit of the Bondholders.

Notice and Opportunity to Cure Certain Defaults. No default described in (c) at the caption “Events of Default and Remedies—Events of Default Defined” herein shall constitute an Event of Default until written notice of such default shall have been given to the Board by the Trustee or by the holders of at least 25 percent in aggregate principal amount of the applicable Bonds Outstanding, and the Board shall have had 30 days after receipt of such notice to correct such default or cause such default to be corrected, and shall have failed to do so. In the event, however, that the default be such that it cannot be corrected within such 30-day period, it shall not constitute an Event of Default if corrective action is instituted by the Board within such period and diligently pursued (as determined by the Trustee) until the default is corrected. The Trustee shall send a copy of each such notice to the Board, but receipt of such notice by the Board shall not be a condition precedent to further action by the Trustee.

Priority of Payment Following Event of Default. If at any time after the occurrence of an Event of Default the moneys held by the Trustee under the Indenture shall not be sufficient to pay the principal of and interest on the Bonds as the same become due and payable, whether by their terms or as a result of acceleration pursuant to the Indenture as described at the caption “Events of Default and Remedies—Additional Remedies” herein, such moneys, together with any moneys then available or thereafter becoming available for such purpose, whether through the exercise of remedies in the Indenture or otherwise, shall, subject to the provisions of the Indenture described in the last two paragraphs of this caption, be applied by the Trustee as follows:

(1) first, to the payment of all amounts due the Trustee under the Indenture (see the caption “The Trustee—Compensation and Expenses of the Trustee” herein);

(2) second, to the payment of all installments of interest on the Bonds then due and payable in the order in which such installments became due and payable, and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment, ratably, according to the amounts due on such installments, without discrimination or preference; and

(3) third, to the payment of the unpaid principal amount of any of the Bonds which shall have become due and payable, in the order of due dates (other than Bonds called for redemption or contracted to be purchased for the payment of which moneys are held pursuant to the provisions of the

Indenture), with interest upon the principal amount of the Bonds from the respective dates upon which they shall have become due and payable, and, if the amount available shall not be sufficient to pay in full the principal of such Bonds due and payable on any particular due date, together with such interest, then to the payment first of such interest, ratably, according to the amount of principal due on such date, without any discrimination or preference.

If the principal of all Bonds shall have become due and payable, whether by their terms or by a declaration of acceleration, and subject to the provisions of the Indenture described in (1) above regarding payment to the Trustee, all such moneys shall be applied to the payment of the principal and interest then due and unpaid upon the Bonds, without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, without any discrimination or preference.

Whenever moneys are to be applied pursuant to the provisions of the Indenture described in this caption, the Trustee may, in its discretion, establish and maintain a reserve for future fees and expenses, and may apply moneys to be distributed at such times, and from time to time, as the Trustee shall determine, having due regard for the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee shall apply such funds, it shall fix a date (which shall be an Interest Payment Date unless it shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such dates, and for which moneys are available, shall cease to accrue. The Trustee shall also select a Record Date for such payment date. The Trustee shall give such notice as it may deem appropriate of the deposit with it of any moneys and of the fixing of any such Record Date and payment date, and shall not be required to make payment to the holder of any Bond until such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Bondholders May Direct Proceedings. The owners of a majority in aggregate principal amount of the Bonds Outstanding shall, subject to the requirements of the Indenture affording the Trustee the right to security and indemnification (see the caption “The Trustee—Certain Rights of the Trustee” herein), have the right, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings by the Trustee under the Indenture, provided that such direction shall not be in conflict with any rule of law or the Indenture and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unduly prejudicial to the rights of Bondholders not parties to such direction or would subject the Trustee to personal liability. Notwithstanding the foregoing, the Trustee shall have the right to select and retain Counsel of its choosing to represent it in any such proceedings. The Trustee may take any other action which is not inconsistent with any direction under the Indenture as described at this caption.

Limitations on Rights of Bondholders. No Bondholder shall have any right to pursue any other remedy under the Indenture unless: (1) an Event of Default shall have occurred and is continuing; (2) the owners of not less than 25 percent in aggregate principal amount of all Bonds then Outstanding have requested the Trustee, in writing, to exercise the powers granted in the Indenture or to pursue such remedy in its or their name or names; (3) the Trustee shall have been offered indemnity satisfactory to it against costs, expenses, and liabilities reasonably anticipated to be incurred; (4) the Trustee has declined to comply with such request, or has failed to do so, within 60 days after its receipt of such written request and offer of indemnity; and (5) no direction inconsistent with such request has been given to the Trustee during such 60-day period by the holders of a majority in aggregate principal amount of the Bonds Outstanding.

The provisions of the Indenture described above are conditions precedent to the exercise by any Bondholder of any remedy under the Indenture. The exercise of such rights is further subject to the provisions of the Indenture described at the captions “Events of Default and Remedies—Bondholders May

Direct Proceedings,” “Unconditional Right of Bondholder to Receive Payment,” and “Delay or Omission Not Waiver” herein. No one or more Bondholders shall have any right in any manner whatever to enforce any right under the Indenture, except in the manner provided in the Indenture. All proceedings at law or in equity with respect to an Event of Default shall be instituted and maintained in the manner provided in the Indenture for the equal and ratable benefit of the Bondholders of all Bonds Outstanding.

Unconditional Right of Bondholder to Receive Payment. Notwithstanding any other provision of the Indenture, any Bondholder shall have the absolute and unconditional right to receive payment of principal of and redemption premium, if any, and interest on the Bonds on and after the due date thereof, and to institute suit for the enforcement of any such payment.

Restoration of Rights and Remedies. If the Trustee or any Bondholder has instituted any proceeding to enforce any right or remedy under the Indenture, and any such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Trustee or such Bondholder, then the Board, the Trustee, and the Bondholders shall, subject to any determination in such proceeding, be restored to their former positions under the Indenture, and all rights and remedies of the Trustee and the Bondholders shall continue as though no such proceeding had been instituted.

Rights and Remedies Cumulative. No right or remedy conferred upon or reserved to the Trustee in the Indenture is intended to be exclusive of any other right or remedy, but each such right or remedy shall, to the extent permitted by law, be cumulative of and in addition to every other right or remedy given under the Indenture or now or hereafter existing at law, in equity, or otherwise. The assertion or employment of any right or remedy under the Indenture shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

Delay or Omission Not Waiver. No delay or omission by the Trustee or any Bondholder to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of such Event of Default. Every right and remedy given by the provisions of the Indenture regarding events of default and remedies or by law to the Trustee or the Bondholders may be exercised from time to time, and as often as may be deemed expedient, by the Trustee or the Bondholders, as the case may be.

Waiver of Defaults. The holders of a majority in aggregate principal amount of the Outstanding Bonds may, by written notice to the Trustee and subject to the requirements of the Indenture affording the Trustee the right to security and indemnification (see the caption “The Trustee—Certain Rights of the Trustee” herein), waive any existing default or Event of Default and its consequences, except an Event of Default described in (a) or (b) at the caption “Events of Default and Remedies—Events of Default Defined” herein. Upon any such waiver, the default or Event of Default shall be deemed cured and shall cease to exist for all purposes. No waiver of any default or Event of Default shall extend to or effect any subsequent default or Event of Default or shall impair any right or remedy consequent thereto.

Notwithstanding any provision of the Indenture, in no event shall any Person, other than all of the affected Bondholders, have the ability to waive any Event of Default under the Indenture if such event results or may result, in the opinion of Bond Counsel, in interest on any of the Series 2020 Bonds becoming includable in gross income for federal income tax purposes.

Notice of Events of Default. If an Event of Default occurs of which the Trustee has or is deemed to have notice under the provisions of the Indenture described in (h) at the caption “The Trustee—Certain Rights of the Trustee” herein, the Trustee shall give Immediate Notice thereof to the Board. Within 30 days thereafter (unless such Event of Default has been cured or waived), the Trustee shall give notice of such Event of Default to each holder of Bonds then Outstanding, provided, however, that except in the instance of an Event of Default described in (a), (b), or (c) at the caption “Events of Default and Remedies—Events

of Default Defined” herein, the Trustee may withhold such notice to Bondholders if and so long as the Trustee in good faith determines that the withholding of such notice is in the interests of such Bondholders, and provided, further, that notice to Bondholders of any Event of Default described in (c) at the caption “Events of Default and Remedies—Events of Default Defined” herein shall be subject to the provisions of the Indenture regarding notice and opportunity to cure certain defaults (see the caption “Events of Default and Remedies—Notice and Opportunity to Cure Certain Defaults” herein).

The Trustee

Duties and Liabilities of the Trustee. Prior to the occurrence of an Event of Default of which it has or is deemed to have notice under the Indenture, and after the curing of any Event of Default which may have occurred:

(1) the Trustee undertakes to perform such duties and only such duties as are specifically set forth in the Indenture, and no implied covenants or obligations shall be read into the Indenture against the Trustee; and

(2) in the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of the Indenture; but in the case of any such certificates or opinions which by any provision of the Indenture are specifically required to be furnished to the Trustee, the Trustee is under a duty to examine same to determine whether or not they conform to the requirements of the Indenture.

In case an Event of Default of which the Trustee has or is deemed to have notice under the Indenture has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use in the conduct of such person’s own affairs.

No provision of the Indenture shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that:

(1) the provisions described in this paragraph shall not be construed to limit the effect of those described in the first paragraph above;

(2) the Trustee is not liable for any error of judgment made in good faith by a Responsible Officer, unless it is proven that the Trustee was negligent in ascertaining the pertinent facts;

(3) the Trustee is not liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Bondholders under any provision of the Indenture relating to the time, method, and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under the Indenture; and

(4) no provision of the Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the Indenture, or in the exercise of any of its rights or powers, if it has reasonable grounds for believing that the repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

Whether or not expressly so provided, every provision of the Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee is subject to the provisions of the Indenture described at this caption.

Certain Rights of the Trustee. Except as otherwise provided in the Indenture and described at the caption “The Trustee—Duties and Liabilities of the Trustee” herein:

(a) the Trustee may rely and is protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, approval, bond, debenture, or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

(b) any request, direction, order, or demand of the Board under the Indenture shall be sufficiently evidenced by an Officer’s Certificate (unless other evidence thereof is specifically prescribed) and any resolution of the board of directors of the Board may be sufficiently evidenced by a copy thereof certified by a Board Representative or the Chairman or Secretary of the Board, as appropriate;

(c) whenever in the administration of the Indenture the Trustee deems it desirable that a matter be proved or established prior to taking, suffering, or omitting any action under the Indenture, the Trustee (unless other evidence thereof is specifically prescribed) may, in the absence of bad faith on its part, rely upon an Officer’s Certificate;

(d) the Trustee may consult with Counsel and the written advice of such Counsel or an opinion of Counsel shall be full and complete authorization and protection for any action taken, suffered, or omitted by it in good faith and in accordance with such advice or opinion;

(e) the Trustee is under no obligation to exercise any of the rights or powers vested in it by the Indenture at the request or direction of any of the Bondholders unless such holders have offered to the Trustee security or indemnity satisfactory to the Trustee as to its terms, coverage, duration, amount, and otherwise with respect to the costs, expenses, and liabilities which may be incurred by it in compliance with such request or direction, and the provision of such indemnity shall be mandatory for any remedy taken upon direction of the holders of 25 percent in aggregate principal amount of the Bonds;

(f) the Trustee is not required to make any inquiry or investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, approval, bond, debenture, or other paper or document but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit and, if the Trustee determines to make such further inquiry or investigation, it is entitled to examine the books, records, and premises of the Board, in person or by agent or attorney;

(g) the Trustee may execute any of its trusts or powers or perform any duties under the Indenture either directly or by or through agents or attorneys, and may in all cases pay, subject to reimbursement as provided in the Indenture and described at the caption “The Trustee—Compensation and Expenses of the Trustee” herein, such reasonable compensation as it deems proper to all such agents and attorneys reasonably employed or retained by it, and the Trustee shall not be responsible for any misconduct or negligence of any agent or attorney appointed with due care by it;

(h) the Trustee is not required to take notice or deemed to have notice of any default or Event of Default under the Indenture, except Events of Default described in (a) and (b) at the caption “Events of Default and Remedies—Events of Default Defined” herein, unless a Responsible Officer of the Trustee has actual notice thereof or has received notice in writing of such default or Event of Default from the Board or the holders of at least 25 percent in aggregate principal amount of the Outstanding Bonds, and in the absence of any such notice, the Trustee may conclusively assume that no default or Event of Default exists;

(i) the Trustee is not required to give any bond or surety with respect to the performance of its duties or the exercise of its powers under the Indenture;

(j) in the event the Trustee receives inconsistent or conflicting requests and indemnity from two or more groups of holders of Bonds, each representing less than a majority in aggregate principal amount of the Bonds Outstanding, pursuant to the provisions of the Indenture, the Trustee, in its sole discretion, may determine what action, if any, shall be taken;

(k) the Trustee's immunities and protections from liability and its right to indemnification in connection with the performance of its duties under the Indenture shall extend to the Trustee's officers, directors, agents, attorneys, and employees. Such immunities and protections and right to indemnification, together with the Trustee's right to compensation, shall survive the Trustee's resignation or removal, the discharge of the Indenture, and final payment of the Bonds;

(l) The permissive right of the Trustee to take the actions permitted by the Indenture shall not be construed as an obligation or duty to do so; and

(m) except for information provided by the Trustee concerning the Trustee, the Trustee shall have no responsibility for any information in any offering memorandum or other disclosure material distributed with respect to the Bonds, and the Trustee shall have no responsibility for compliance with any state or federal securities laws in connection with the Bonds.

Trustee Not Responsible for Recitals. The recitals contained in the Indenture and in the Series 2020 Bonds (other than the certificate of authentication on the Series 2020 Bonds) are statements of the Board and the Trustee assumes no responsibility for their correctness. The Trustee makes no representations as to the value, condition, or sufficiency of any assets pledged or assigned as security for the Series 2020 Bonds, the right, title, or interest of the Board therein, the security provided thereby or by the Indenture, the technical or financial feasibility of the Project, the compliance of the Project with the Act, or the tax-exempt status of the Series 2020 Bonds. The Trustee is not accountable for the use or application by the Board of any of the Series 2020 Bonds or the proceeds of the Series 2020 Bonds or for the use or application of any moneys paid over by the Trustee in accordance with any provision of the Indenture.

Trustee May Own Bonds. The Trustee, in its commercial banking or in any other capacity, may in good faith buy, sell, own, hold, and deal in any of the Bonds and may join in any action which any Bondholder may be entitled to take with like effect as if it were not Trustee. The Trustee, in its commercial banking or in any other capacity, may also engage in or be interested in any financial or other transaction with the Board and may act as depository, trustee, or agent for any committee of Bondholders secured by the Indenture or other obligations of the Board as freely as if it were not Trustee.

Compensation and Expenses of the Trustee. The Board covenants and agrees:

(a) to pay to the Trustee compensation for all services rendered by it under the Indenture and under the other agreements relating to the Series 2020 Bonds to which the Trustee is a party in accordance with terms agreed to from time to time and, subsequent to default, in accordance with the Trustee's then-current fee schedule for default administration (the entirety of which compensation shall not be limited by any provision of law regarding compensation of a trustee of an express trust);

(b) to reimburse the Trustee upon its request for all reasonable expenses, disbursements, and advances incurred or made by the Trustee in accordance with any provision of the Indenture, any other agreement relating to the Bonds to which it is a party, or in complying with any request by the Board, including the reasonable compensation, expenses, and disbursements of its agents and Counsel, except any such expense, disbursement, or advance attributable to the Trustee's negligence or bad faith; and

(c) to indemnify, defend, and hold the Trustee harmless from and against any loss, liability, or expense incurred without negligence or bad faith on its part, arising out of or in connection with the acceptance or administration of the office of Trustee under the Indenture, including the costs of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties under the Indenture or thereunder.

In the event the Trustee incurs expenses or renders services in any proceedings under the Bankruptcy Code relating to the Board, the expenses so incurred and compensation for services so rendered are intended to constitute expenses of administration under the Bankruptcy Code.

As security for the performance of the obligations of the Board under the Indenture and described at this caption, the Trustee shall have a lien, which it may exercise through a right of setoff, prior to the Series 2020 Bonds upon all property or funds held or collected by the Trustee pursuant to the Indenture (other than moneys in the Rebate Fund) for the payment of principal of and redemption premium, if any, and interest on the Series 2020 Bonds. The obligations of the Board to make the payments described in this caption shall survive discharge of the Indenture and payment in full of the Series 2020 Bonds.

Qualifications of Trustee. There shall at all times be a trustee under the Indenture which shall be a corporation or banking association organized and doing business under the laws of the United States of America or of any state, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least \$5,000,000, and subject to supervision or examination by federal or state banking authority. If such corporation or banking association publishes reports of condition at least annually, pursuant to law or the requirements of any supervising or examining authority above referred to, then for purposes of the Indenture as described in this caption the combined capital and surplus of such corporation or banking association shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee shall cease to be eligible in accordance with the provisions of the Indenture as described in this caption, it shall resign promptly in the manner and with the effect specified in the provisions of the Indenture regarding the Trustee.

Resignation or Removal of Trustee; Appointment of Successor Trustee. No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to the provisions of the Indenture regarding the Trustee shall become effective until the acceptance of appointment by the successor Trustee under the Indenture and described at the caption “The Trustee—Acceptance of Appointment by Successor Trustee” herein.

The Trustee may resign at any time by giving written notice to the Board. Upon receiving such notice of resignation, the Board shall promptly appoint a successor Trustee by an instrument in writing. If an instrument of acceptance has not been delivered to the resigning Trustee within 30 days after the giving of such notice of resignation, the resigning Trustee or any holder of a Bond then Outstanding may petition a court of competent jurisdiction for the appointment of a successor Trustee.

Prior to the occurrence and continuance of an Event of Default under the Indenture, or after the curing or waiver of any such Event of Default, the Board, the holders of a majority in aggregate principal amount of the Outstanding Bonds may remove the Trustee and shall appoint a successor Trustee. In the event there shall have occurred and be continuing an Event of Default under the Indenture, the holders of a majority in aggregate principal amount of the Outstanding Bonds may remove the Trustee and shall appoint a successor Trustee. In each instance such removal and appointment shall be accomplished by an instrument or concurrent instruments in writing signed by the Board or such holders, as the case may be, and delivered to the Trustee, the Board, and holders of the Outstanding Bonds.

If at any time: (1) the Trustee shall cease to be eligible and qualified under the Indenture (see the caption “The Trustee—Qualifications of Trustee” herein) and shall fail or refuse to resign after written request to

do so by the Board or the holder of any Bond or (2) the Trustee shall become incapable of acting or shall be adjudged insolvent, or a receiver of the Trustee or its property shall be appointed, or any public officer shall take charge or control of the Trustee, its property, or affairs for the purpose of rehabilitation, conservation, or liquidation, then in either such case (A) the Board may remove the Trustee and appoint a successor Trustee in accordance with the provisions of the Indenture described above; or (B) any holder of a Bond then Outstanding may, on behalf of the holders of all Outstanding Bonds, petition a court of competent jurisdiction for removal of the Trustee and appointment of a successor Trustee.

The Board shall give written notice of each resignation or removal of the Trustee and each appointment of a successor Trustee to each holder of Bonds then Outstanding as listed in the Bond Register. Each such notice shall include the name and address of the corporate trust office of the successor Trustee.

Acceptance of Appointment by Successor Trustee. Every successor Trustee appointed under the Indenture shall execute, acknowledge, and deliver to the Board and the predecessor Trustee an instrument accepting its appointment. The resignation or removal of the retiring Trustee shall thereupon become effective, and the successor Trustee shall, without further act, deed, or conveyance, become vested with all the estates, properties, rights, powers, and duties of the predecessor Trustee. Upon the request of the Board or the successor Trustee, the predecessor Trustee shall execute and deliver an instrument transferring to the successor Trustee all the estates, properties, rights, powers, and duties of the predecessor Trustee under the Indenture, and shall duly assign, transfer, deliver, and pay over to the successor Trustee all moneys and other property then held under the Indenture, subject, however, to the lien, if any, provided for in the Indenture and described at the caption “The Trustee—Compensation and Expenses of the Trustee” herein. The successor Trustee shall promptly give written notice of its appointment to the holders of all Bonds Outstanding in the manner prescribed in the Indenture, unless such notice has previously been given.

No successor Trustee shall accept appointment as provided in the Indenture and described at this caption unless, as of the date of such acceptance, it is eligible under the provisions of the Indenture. See the caption “The Trustee—Qualifications of Trustee” herein.

Merger or Consolidation of Trustee. Any corporation or association into which the Trustee is merged or with which it is consolidated, resulting from any merger or consolidation to which the Trustee is a party, or succeeding to all or substantially all of the corporate trust business of the Trustee shall be the successor Trustee without the execution or filing of any document or the taking of any further action. Any such successor shall nevertheless be eligible and qualified under the provisions of the Indenture. See the caption “The Trustee—Qualifications of Trustee” herein.

Defeasance

Defeasance. If (a) the principal of any Series of Bonds and the interest due or to become due thereon together with any redemption premium required by redemption of any of the Series 2020 Bonds prior to maturity shall be paid, or is caused to be paid, or is provided for under the provisions of the Indenture regarding deposit of funds for payment of Bonds (see the caption “Defeasance—Deposit of Funds for Payment of Bonds” herein), at the times and in the manner to which reference is made in the Series 2020 Bonds, according to the true intent and meaning thereof, or the outstanding Bonds shall have been paid and discharged in accordance with the provisions of the Indenture regarding defeasance, and (b) all of the covenants, agreements, obligations, terms, and conditions of the Board under the Indenture shall have been kept, performed, and observed and there shall have been paid to the Trustee, the Bond Registrar, and the Paying Agents all sums of money due or to become due to them in accordance with the terms and provisions of the Indenture, then the right, title, and interest of the Trustee in the Trust Estate shall thereupon cease and the Trustee, on request of the Board and at the expense of the Board, shall release the Indenture and the Trust Estate and shall execute such documents to evidence such release as may be reasonably required by the Board and shall turn over to the Board, or to such other Person as may be entitled to receive the same,

all balances remaining in any Funds under the Indenture except for amounts required to pay such Bonds or held pursuant to the provisions of the Indenture regarding unclaimed funds See the caption “Funds and Accounts—Disposition of Unclaimed Funds” herein.

Deposit of Funds for Payment of Bonds. If the Board deposits with the Trustee moneys or Defeasance Obligations which, together with the earnings thereon, are sufficient to pay the principal of or redemption premium on any particular Bond or Bonds becoming due, either at maturity or by call for redemption or otherwise, together with all interest accruing thereon to the due date or Redemption Date, and pays or makes provision for payment of all fees, costs, and expenses of the Board and the Trustee due or to become due with respect to such Bonds, all liability of the Board with respect to such Bond or Bonds shall cease, such Bond or Bonds shall be deemed not to be Outstanding under the Indenture, the holder or holders of such Bond or Bonds shall be restricted exclusively to the moneys or Defeasance Obligations so deposited, together with the earnings thereon, for any claim of whatsoever nature with respect to such Bond or Bonds, and the Trustee shall hold such moneys, Defeasance Obligations, and earnings in trust for such holder or holders. In determining the sufficiency of the moneys and Defeasance Obligations deposited as described at this caption, together with the earnings thereon, the Trustee shall be entitled to receive, at the expense of the Board, and may rely upon: (a) a verification report of a firm of nationally recognized independent certified public accountants; and (b) an opinion of Bond Counsel to the effect that (1) all conditions set forth in the provisions of the Indenture regarding defeasance have been satisfied and (2) that defeasance of the Series 2020 Bonds will not affect the tax-exempt status of the Series 2020 Bonds. Upon such defeasance all rights of the Board, including its right to provide for optional redemption of Bonds on dates other than planned pursuant to such defeasance, shall cease unless specifically retained by filing a written notification thereof with the Trustee.

Notice of Defeasance. In case any of the Series 2020 Bonds, for the payment of which moneys or Defeasance Obligations have been deposited with the Trustee pursuant to the Indenture regarding deposit of funds for payment of Bonds (see the caption “Defeasance—Deposit of Funds for Payment of Bonds” herein), are to be redeemed on any date prior to their maturity, the Board shall give to the Trustee in form satisfactory to it irrevocable instructions to give notice of redemption of such Bonds on the redemption date for such Bonds as provided in the Indenture. See the caption “The Series 2020 Bonds—Notice of Redemption” in the Official Statement.

In addition to the foregoing notice, in the event such Bonds to be redeemed are not by their terms subject to redemption within the next succeeding 65 days, the Trustee shall give further notice that the deposit required by the provisions of the Indenture regarding deposit of funds for payment of Bonds (see the caption “Defeasance—Deposit of Funds for Payment of Bonds” herein) has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with the provisions of the Indenture regarding defeasance and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal of and redemption premium, if any, on said Bonds; such further notice shall be given promptly following the making of the deposit required by the provisions of the Indenture regarding defeasance and described at the captions “Defeasance—Defeasance” and “Deposit of Funds for Payment of Bonds” herein; and such further notice shall be given in the manner set forth in the Indenture and described in (b) at the caption “The Series 2020 Bonds—Notice of Redemption” in the Official Statement; but no defect in said further notice nor any failure to give all or any portion of such further notice shall in any manner defeat the effectiveness of the deposit.

If the Board has retained any rights to provide for optional redemption of Bonds on dates other than planned pursuant to a defeasance pursuant to the provisions of the Indenture described at the caption “Defeasance—Deposit of Funds for Payment of Bonds” herein, notice thereof shall be sent to Bondholders of such Bonds as soon as practicable and not later than any notice required by the Indenture and described above.

Supplemental Indentures

Supplemental Indentures without Bondholders' Consent. The Board and the Trustee may from time to time and at any time enter into trust indentures supplemental to the Indenture, without the consent of or notice to any Bondholder, to effect any one or more of the following:

(a) cure any ambiguity, defect, or omission, or correct or supplement any provision in the Indenture or in any supplemental indenture;

(b) grant to or confer upon the Trustee for the benefit of the Bondholders any additional rights, remedies, powers, authority, or security that may lawfully be granted to or conferred upon the Bondholders or the Trustee which are not contrary to or inconsistent with the Indenture as theretofore in effect or to subject to the pledge and lien of the Indenture additional revenues, properties, or collateral;

(c) add to the covenants and agreements of the Board in the Indenture other covenants and agreements thereafter to be observed by the Board or to surrender any right or power reserved to or conferred upon the Board in the Indenture which are not contrary to or inconsistent with the Indenture as theretofore in effect;

(d) permit the appointment of a co-trustee under the Indenture;

(e) modify, alter, supplement, or amend the Indenture in such manner as shall permit the qualification of the Indenture, if required, under the Trust Indenture Act of 1939 or the Securities Act of 1933, as from time to time amended, or any similar federal statute hereafter in effect;

(f) make any other change in the Indenture which is determined by the Trustee to be not materially adverse to the interests of the Bondholders and which does not involve a change described in the Indenture regarding supplemental Indenture requiring Bondholders' consent (see the caption "Supplemental Indenture and Amendments—Supplemental Indenture Requiring Bondholders' Consent" herein);

(g) implement the issuance of Additional Bonds as provided by the provisions of the Indenture described at the caption "The Series 2020 Bonds—Additional Bonds" in the Official Statement; or

(h) if a Series of Bonds are all Book Entry Bonds, amend, modify, alter, or replace the Letter of Representations or other provisions relating to Book Entry Bonds.

The Trustee shall not be obligated to enter into any such supplemental indenture which adversely affects the Trustee's own rights, duties, or immunities under the Indenture. Any

Supplemental Indenture Requiring Bondholders' Consent. The Board and the Trustee, at any time and from time to time, may execute and deliver a supplemental indenture for the purpose of making any modification or amendment to the Indenture, but only with the written consent, given as provided in the Indenture and described at the caption "Supplemental Indenture and Amendments—Consents of Bondholders and Opinions" herein, of the holders of at least two-thirds in aggregate principal amount of the Series 2020 Bonds Outstanding at the time such consent is given, and in case less than all of the Series 2020 Bonds then Outstanding are affected by the modification or amendment, of the holders of at least two-thirds in aggregate principal amount of the Series 2020 Bonds so affected and Outstanding at the time such consent is given; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Bonds so affected remain Outstanding, the consent of the holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this Section. Notwithstanding the foregoing, no modification or amendment

contained in any such supplemental indenture shall permit any of the following, without the consent of each Bondholder whose rights are affected thereby: (a) a change in the terms of stated maturity or redemption of any Bond or of any installment of interest thereon; (b) a reduction in the principal amount of or redemption premium on any Bond or in the rate of interest thereon or a change in the coin or currency in which such Bond is payable; (c) the creation of a lien on or a pledge of any part of the Trust Estate or the money or assets pledged under the Indenture, or any part thereof; (d) the granting of a preference or priority of any Bond or Bonds over any other Bond or Bonds; (e) a reduction in the aggregate principal amount of Bonds of which the consent of the Bondholders is required to effect any such modification or amendment; or (f) a change in the provisions of the provisions of the Indenture regarding waiver of defaults (see the caption “Events of Default and Remedies—Waiver of Defaults” herein). Notwithstanding the foregoing, the holder of any Bond may extend the time for payment of the principal of or interest on such Bond; provided, however, that upon the occurrence of an Event of Default, funds available under the Indenture for the payment of the principal of and interest on the Series 2020 Bonds shall not be applied to any payment so extended until all principal and interest payments which have not been extended have first been paid in full.

Consents of Bondholders and Opinions. Each supplemental indenture executed and delivered pursuant to the provisions of the Indenture regarding supplemental Indenture requiring Bondholders’ consent (see the caption “Supplemental Indenture and Amendments—Supplemental Indenture Requiring Bondholders’ Consent” herein) shall take effect only when and as provided in the Indenture and described at this caption. A copy of such supplemental indenture (or brief summary thereof or reference thereto in form approved by the Trustee), together with a request to Bondholders for their consent thereto in form satisfactory to the Trustee, shall be sent by the Trustee to Bondholders, at the expense of the Board, by first class mail, postage prepaid, provided that a failure to mail such request shall not affect the validity of the supplemental indenture when consented to as provided in the Indenture. Such supplemental indenture shall not be effective unless and until there shall have been filed with the Trustee (a) the written consents of Bondholders of the percentage of Bonds specified in the Indenture regarding supplemental Indenture requiring Bondholders’ consent (see the caption “Supplemental Indenture and Amendments—Supplemental Indenture Requiring Bondholders’ Consent” herein) given as provided in the Indenture and described at the caption “Miscellaneous provisions—Consent of Holders” herein, and (b) the opinion of Counsel described in the Indenture and described at the caption “Supplemental Indenture and Amendments—Reliance Upon Counsel’s Opinion with Respect to Supplemental Indenture” herein. Any such consent shall be binding upon the Bondholder giving such consent and upon any subsequent holder of such Bonds and of any Bonds issued in exchange therefor or in lieu thereof (whether or not such subsequent Bondholder has notice thereof), unless such consent is revoked in writing by the Bondholder giving such consent or a subsequent holder of such Bonds by filing such revocation with the Trustee prior to the date the Trustee receives the material required in the Indenture and described in (a) and (b) at this caption.

Notwithstanding anything else in the Indenture, if a supplemental indenture is to become effective under the provisions of the Indenture regarding supplemental Indenture requiring Bondholders’ consent (see the caption “Supplemental Indenture and Amendments—Supplemental Indenture Requiring Bondholders’ Consent” herein) on the same date as the date of issuance of Additional Bonds, the consents of the underwriters or purchasers of such Additional Bonds shall be counted for purposes of such provisions and the purposes described at this caption.

Exclusion of Certain Bonds. Bonds owned or held by or for the account of the Board shall not be deemed Outstanding for the purpose of consent or other action or any calculation of Outstanding Bonds provided for in the provisions of the Indenture regarding supplemental Indenture and amendments, and the Board shall not be entitled with respect to such Bonds to give any consent or take any other action provided for in the provisions of the Indenture regarding supplemental Indenture and amendments or elsewhere in the Indenture. At the time of any consent or other action taken under the provisions of the Indenture regarding supplemental Indenture and amendments or elsewhere in the Indenture, the Board shall furnish

the Trustee an Officer's Certificate of the Board, upon which the Trustee may rely, describing all Bonds so to be excluded.

Notation on Bonds. Bonds authenticated and delivered after the effective date of any action taken as provided in the provisions of the Indenture regarding supplemental Indenture and amendments may, and if the Board so determines shall, bear a notation by endorsement or otherwise in form approved by the Trustee as to such action, and in that case upon demand of the holder of any Outstanding Bond at such effective date and presentation of such Bond for the purpose at the Principal Office of the Trustee, or upon any transfer of any Bond Outstanding at such effective date, suitable notation shall be made on such Bond or upon any Bond issued upon any such transfer by the Trustee as to any such action. If the Board shall so determine, new Bonds so modified as in the opinion of the Trustee and the Board to conform to such action shall be prepared, authenticated, and delivered, and upon demand of the holder of any Bond then Outstanding shall be exchanged, without cost to such Bondholder for Bonds then Outstanding, upon surrender of such Bonds for Bonds of an equal aggregate principal amount and of the same Series, maturity, and interest rate, in any Authorized Denomination.

Reliance upon Counsel's Opinion with Respect to Supplemental Indenture. Subject to the provisions of the Indenture described at the caption "The Trustee—Duties and Liabilities of the Trustee" herein, the Trustee in executing or accepting the additional trusts permitted by the provisions of the Indenture regarding supplemental Indenture and amendments or the modifications thereby of the trusts created by the Indenture may rely, and shall be fully protected in relying on, an opinion of Counsel acceptable to it stating that: (a) the execution of such supplemental indenture is authorized or permitted by the Indenture and (b) all conditions precedent to the execution and delivery of such supplemental indenture have been complied with.

Effect of Supplemental Indenture. Upon the execution of any supplemental indenture under the provisions of the Indenture regarding supplemental Indenture and amendments, the Indenture shall be modified in accordance therewith; such supplemental indenture shall form a part of the Indenture for all purposes; and every holder of any Bond theretofore or thereafter authenticated and delivered under the Indenture shall be bound thereby.

Consent of Holders

Any consent, request, direction, approval, objection, or other instrument required to be signed and executed by the Bondholders may be in any number of concurrent writings of similar tenor and must be signed or executed by such Bondholders in person or by agent appointed in writing. Proof of execution of any such consent, request, direction, approval, objection, or other instrument or of the writing appointing any such agent and of the ownership of Bonds, if made in the following manner, shall be sufficient for any of the purposes of the Indenture, and shall be conclusive in favor of the Trustee with regard to any action taken by it under such request or other instrument, namely:

(a) The fact and date of the execution by any person of any such writing may be proved by the certificate of any officer in any jurisdiction who by law has power to take acknowledgments within such jurisdiction that the person signing such writing acknowledged the execution thereof, or by an affidavit of any witness to such execution.

(b) The Board may establish a Record Date for the purpose of identifying Bondholders entitled to issue any such consent, request, direction, approval, or instrument.

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APPENDIX C

Proposed Form of Continuing Disclosure Agreement

This Continuing Disclosure Agreement dated as of November 19, 2020 (the “Agreement”) is executed and delivered by the Board of Trustees of Southern Arkansas University (the “Board”) and Farmers Bank and Trust Company, as Trustee (the “Trustee”), in connection with the issuance by the Board of its \$7,580,000 Student Fee Secured Refunding Bonds, Series 2020 (the “Series 2020 Bonds”). The Series 2020 Bonds are being issued pursuant to a Trust Indenture (the “Indenture”), between the Board and Farmers Bank & Trust Company, Magnolia, Arkansas, as trustee (the “Trustee”). Pursuant to Rule 15c2-12(b)(5) (17 C.F.R. § 240.15c2-12) (the “Rule”) adopted by the Securities and Exchange Commission (the “SEC”) under the Securities Exchange Act of 1934, as amended (the “1934 Act”), the Board and the Trustee covenant and agree as follows:

Section 1. Definitions. In addition to the definitions set forth in the first paragraph of this Agreement and in the Indenture, which apply to any capitalized term used in this Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” means the Annual Report provided by the Board, as described hereinafter under the subheading “Provision of Annual Reports.”

“Beneficial Owner” means any person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories, or other intermediaries) or is treated as the owner of any Bonds for federal income tax purposes.

“Dissemination Agent” means the Trustee, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Board and which has filed a written acceptance of such designation with the Trustee.

“EMMA” means the Electronic Municipal Market Access system as described in 1934 Act Release No. 59062 and maintained by the MSRB for purposes of the Rule.

“Financial Obligation” means a (i) debt obligation, (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation, or (iii) guarantee of (i) or (ii). The term Financial Obligation does not include municipal securities as to which a final official statement has been otherwise provided to the MSRB consistent with Rule 15c2-12.

“Fiscal Year” means any period of 12 consecutive months adopted by the Board as its fiscal year for financial reporting purposes.

“GAAP” means generally accepted accounting principles.

“GASB” means the Governmental Accounting Standards Board.

“Listed Event” means any of the following events with respect to the Bonds:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults, if material;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;

- (vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notice of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;
- (vii) modifications to rights of security holders, if material;
- (viii) bond calls (other than mandatory sinking fund redemptions, if any), if material, and tender offers;
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the securities, if material;
- (xi) rating changes;
- (xii) bankruptcy, insolvency, receivership, or similar event of the obligated person;
- (xiii) the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action, or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
- (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material;
- (xv) incurrence of a financial obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the obligated person, any of which affect security holders, if material; and
- (xvi) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the obligated person, any of which reflect financial difficulties.

“Listed Event Notice” means notice of a Listed Event.

“MSRB” means the Municipal Securities Rulemaking Board established in accordance with the provisions of Section 15B(b)(1) of the 1934 Act, or any successor thereto for purposes of the Rule.

“Obligated Person” means the Board.

“Official Statement” means the Board’s Official Statement, dated September 29, 2020 , relating to the Series 2020 Bonds, as the same may be amended or supplemented.

“Participating Underwriters” means the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Report Date” means 180 days after the end of each of the Board’s Fiscal Year.

“SAU” or the “University” means the Magnolia, Arkansas campus of the Board.

“State” means the State of Arkansas.

Section 2. Purpose of this Agreement; Obligated Persons; Agreement to Constitute Contract.

(a) This Agreement is being executed and delivered by the Board and the Trustee for the benefit of the Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with, and constitutes the written undertaking for the Beneficial Owners required by, the Rule.

(b) The Board is an “obligated person” within the meaning of the Rule (and is the only “obligated person” within the meaning of the Rule for whom financial information or operating data is presented in

the Official Statement), and agrees to provide Annual Report, and Listed Event Notices as provided in this Agreement.

(c) In consideration of the purchase and acceptance of any and all of the Bonds by those who shall hold the same or shall own beneficial ownership interests therein from time to time, this Agreement shall be deemed to be and shall constitute a contract among the Board, the Trustee, and the Beneficial Owners from time to time of the Bonds; and the covenants and agreements set forth in this Agreement to be performed on behalf of the Board and the Trustee shall be for the benefit of the Beneficial Owners of any and all of the Bonds.

Section 3. Provision of Annual Reports.

(a) The Board shall, or shall cause the Dissemination Agent to, on or before each Report Date, commencing with the Fiscal Year ended 2020, to the MSRB through EMMA or any similar system acceptable to the SEC an Annual Report which is consistent with the requirements of this Agreement. Not later than fifteen (15) business days prior to said the Report Date, the Board shall provide the Annual Report to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent). Annual Reports may be submitted as single documents or as separate documents comprising a package, and may cross-reference other information; provided that the annual financial statements of the Board may be submitted separately from the balance of the Annual Report and later than the Report Date if they are not available by that date but shall be submitted within 60 days after receipt by the Board. The Annual Report shall be filed in electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB. Should the Board establish a customized EMMA issuer page, and Annual Reports and audited financial statements be posted accordingly within the time-period set forth above, the Board shall be deemed to have complied with this paragraph.

Section 4. Content of Annual Reports.

The Annual Report shall contain or include by reference the following:

- (a) Information of the type set forth in the Official Statement under the captions **SECURITY FOR THE BONDS, Student Fee Revenues** and **SOUTHERN ARKANSAS UNIVERSITY Enrollment** as set forth in the form of certificate in Exhibit A.
- (b) The annual audited financial statements of the Board and, if issued, the audited financial statements of SAU each prepared in accordance with governmental accounting standards and applicable state law.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues with respect to which the Board is an Obligated Person which have been submitted to the MSRB's internet website and filed with the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The Board shall clearly identify each other document so included by reference.

The Dissemination Agent shall file a report to be maintained by the Board certifying that the Annual Report has been provided pursuant to this Agreement and stating the date it was provided. If the Board is not serving as Dissemination Agent, and if the Dissemination Agent does not receive the Annual Report, the Dissemination Agent shall, without further direction or instruction from the Board, provide in a timely manner to the MSRB notice of any failure by the Board to provide to the Dissemination Agent Annual Report on or before the Report Date.

Section 5. Reporting of Listed Events.

(a) If a Listed Event occurs the Board shall provide, or shall cause to be provided by the Trustee, a Listed Event Notice, in a timely manner not in excess of 10 Business Days after the occurrence of such Listed Event, to the MSRB, through its continuing disclosure service portal provided through EMMA at <http://www.msrb.emma.org> or any other similar system that is acceptable to the SEC. Each notice of the occurrence of a Listed Event shall be captioned “Notice of Listed Event” and shall be filed in electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB

(b) Notwithstanding the foregoing, notice of Listed Events described in subsections (viii) and (ix) of the definition of “Listed Event” need not be given any earlier than the notice (if any) of the underlying event is given to the Bondholders of affected Bonds pursuant to the Indenture.

Section 6. Termination of Reporting Obligation. The obligations of the Board under this Agreement with respect to the Series 2020 Bonds shall terminate upon the legal defeasance, prior redemption or payment in full of all the Series 2020 Bonds. If such termination occurs prior to the final maturity of the Bonds, the Board shall give notice of such termination or substitution in the same manner as for a Listed Event.

Section 7. Dissemination Agent.

(a) The Board may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Agreement, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Board pursuant to this Agreement. If at any time there is not any other designated Dissemination Agent, the Trustee shall be the Dissemination Agent. The Board hereby designates the Trustee as the initial Dissemination Agent.

(b) Unless otherwise required by law and subject to technical and economic feasibility, the Board and the Dissemination Agent shall employ such methods of information transmission as shall be requested or recommended by the designated recipients of the Board’s information.

Section 7. Amendment; Waiver. Notwithstanding any other provision of this Agreement, the Board may amend this Agreement, and any provision of this Agreement may be waived by the parties hereto, if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule, provided that the Board shall have provided notice of such delivery and of the amendment to the MSRB. Any such amendment shall satisfy, unless otherwise permitted by the Rule, the following conditions:

(a) The amendment may only be made in connection with a change in circumstances that arises from a change in legal reimbursements, change in law, or change in the identity, nature, or status of the obligated person or type of business conducted;

(b) This Agreement, as amended, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment does not materially impair the interests of the Beneficial Owners, as determined by a nationally recognized bond counsel, or by approving vote of Bondholders pursuant to the terms of the Indenture at the time of the amendment.

The initial Annual Report after the amendment shall explain, in narrative form, the reasons for the amendment and the effect of the change, if any, in the type of operating data or financial information being provided.

Section 8. Additional Information. Nothing in this Agreement shall be deemed to prevent the Board from disseminating any other information, using the means of dissemination set forth in this Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Agreement. If the Board chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Agreement, the Board shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 9. Default. In the event of a failure of the Board or the Dissemination Agent to comply with any provision of this Agreement, any Beneficial Owner may seek mandate or specific performance by court order to cause the Board to comply with its obligations under this Agreement. A default under this Agreement shall not be deemed an Event of Default under the Indenture, and the rights and remedies provided by the Indenture upon the occurrence of an “Event of Default” shall not apply to any such failure. The Board shall not be liable for any breach of its obligations under this Section unless such breach is the result of willful or reckless actions or omissions. The sole remedy under this Agreement in the event of any failure of the Board or the Dissemination Agent to comply with this Agreement shall be an action to compel performance and the Board, its members, officers and employees shall incur no liability under this Agreement by reason of any act or failure to act hereunder. Without limiting the generality of the foregoing, neither the commencement nor the successful completion of an action to compel performance under this Section shall entitle any person to attorney’s fees, financial damages of any sort or any other relief other than an order or injunction compelling performance.

Section 10. Duties, Immunities, and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Agreement, and the Board agrees to indemnify and save the Dissemination Agent, its officers, directors, employees, and agents harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys’ fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent’s negligence or willful misconduct. The obligations of the Board under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 11. Beneficiaries. This Agreement shall inure solely to the benefit of the Board and the Beneficial Owners from time to time of the Bonds or any interest therein, and shall create no rights in any other person or entity.

Section 12. Interpretation. It being the intention of the parties that there be full and complete compliance with the Rule, this Agreement shall be construed in accordance with the written interpretative guidance and no-action letters published from time to time by the SEC and its staff with respect to the Rule.

Section 13. Counterparts. This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 14. Choice of Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Arkansas, provided that to the extent this Agreement addresses matters of federal securities laws, including the Rule, this Agreement shall be construed in accordance with such federal securities laws and official interpretations thereof.

Section 15. Notices. Any notices or communications to or among any of the parties to this Agreement may be given as follows:

To the Board: Southern Arkansas University
100 E University St
Magnolia, AR 71753-5000
Attention: Vice President for Finance

To the Trustee: Farmers Bank & Trust Company
200 E Main St
Magnolia, AR 71753
Attn: Corporate Trust Office

Any person may, by written notice to the other persons listed above, designate a different address or telephone number to which subsequent notices or communications should be sent.

IN WITNESS WHEREOF, the undersigned parties have executed this Continuing Disclosure Agreement as of the day and year first written above.

**BOARD OF TRUSTEES OF SOUTHERN
ARKANSAS UNIVERSITY, Issuer**

By: _____
Dr. Trey Berry President

FARMERS BANK & TRUST COMPANY,
Trustee

By: _____
Jackie D. Tarlton, Vice President of
Trust & Asset Management

[Trustee Signature Page to Continuing Disclosure Agreement]

Exhibit A to Continuing Disclosure Agreement

Annual Report

	FYE 6-30-20__
Statistics:	Count Enrollment
Second Summer	
Fall	
Spring	
First Summer	
Student tuition and mandatory fees (Semester)	\$_____ per semester
Student tuition and mandatory fees (Summer)	\$_____ per semester
Student Tuition and Fee Revenue, Net	\$_____
Room and Board Rates (Semester)	\$_____ per semester
Room and Board Rates (Summer)	\$_____ per semester
Auxiliary Enterprises Revenues	\$_____
Auxiliary Enterprises Expenditures	\$_____
Housing System Revenues	\$_____
Housing System Expenditures	\$_____

APPENDIX D

BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to documents relating to the Bonds. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notice be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Board as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Trustee or Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, Trustee, Board, or Paying Agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Board, Trustee, or Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to Board or Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

Board may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

The information in this Appendix D concerning DTC and DTC's book-entry system has been obtained from sources that Board believes to be reliable, but Board takes no responsibility for the accuracy thereof.

[The balance of this page left blank intentionally.]

APPENDIX E
SOUTHERN ARKANSAS UNIVERSITY
FISCAL YEAR 2019 AUDITED FINANCIAL REPORT
AND
FISCAL YEAR 2020 UNAUDITED FINANCIAL REPORT

[Attached]

Southern Arkansas University

Magnolia, Arkansas

**Basic Financial Statements
and Other Reports**

June 30, 2019

LEGISLATIVE JOINT AUDITING COMMITTEE



SOUTHERN ARKANSAS UNIVERSITY
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Arkansas

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



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

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

LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Southern Arkansas University
Legislative Joint Auditing Committee

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Southern Arkansas University Foundation, Inc. or the Southern Arkansas University Alumni Association, Inc., which represents 100% of the assets and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Southern Arkansas University Foundation, Inc. and the Southern Arkansas University Alumni Association, Inc., is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Southern Arkansas University Foundation, Inc., and the Southern Arkansas University Alumni Association, Inc. were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

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

Other Matters

Prior Year Comparative Information

We have previously audited the University's 2018 financial statements, and we expressed unmodified opinions on the respective financial statements of the business-type activities and the aggregate discretely presented component units in our report dated June 27, 2019. In our opinion, the comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, certain information pertaining to postemployment benefits other than pensions, and certain information pertaining to pensions on pages 6-15, 57, and 58-59 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The Schedule of Selected Information for the Last Five Years (Schedule 1) is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Selected Information for the Last Five Years has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2020 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

ARKANSAS LEGISLATIVE AUDIT



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

Little Rock, Arkansas
September 11, 2020
EDHE10519

Arkansas

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



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

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

LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

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

Southern Arkansas University
Legislative Joint Auditing Committee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component units of Southern Arkansas University (University), an institution of higher education of the State of Arkansas, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated September 11, 2020. Our report includes a reference to other auditors who audited the financial statements of the Southern Arkansas University Foundation, Inc. and the Southern Arkansas University Alumni Association, Inc., as described in our report on the University's financial statements. The financial statements of the Southern Arkansas University Foundation, Inc. and the Southern Arkansas University Alumni Association, Inc. were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

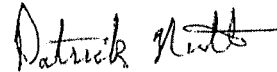
As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of the state constitution, state laws and regulations, contracts, and grant agreements, noncompliance with which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

We noted a certain matter that we reported to management of the University in a separate letter dated September 11, 2020.

Purpose of this Report

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

ARKANSAS LEGISLATIVE AUDIT



Patrick Nutt, CPA
Deputy Legislative Auditor

Little Rock, Arkansas
September 11, 2020

Arkansas

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



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

LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

MANAGEMENT LETTER

Southern Arkansas University
Legislative Joint Auditing Committee

STUDENT ENROLLMENT DATA – In accordance with Ark. Code Ann. § 6-60-209, we performed tests of the student enrollment data for the year ended June 30, 2019, as reported to the State Department of Higher Education, to provide reasonable assurance that the data was properly reported. The enrollment data reported was as follows:

	<u>Summer II</u> <u>Term</u> <u>2018</u>	<u>Fall Term</u> <u>2018</u>	<u>Spring Term</u> <u>2019</u>	<u>Summer I</u> <u>Term</u> <u>2019</u>
Student Headcount	1,032	4,468	4,081	1,289
Student Semester Credit Hours	3,828	54,393	48,839	5,422

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

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

ARKANSAS LEGISLATIVE AUDIT

Handwritten signature of Patrick Nutt in black ink.

Patrick Nutt, CPA
Deputy Legislative Auditor

Little Rock, Arkansas
September 11, 2020

SOUTHERN ARKANSAS UNIVERSITY

Management's Discussion and Analysis

Overview of the Financial Statements and Financial Analysis

Southern Arkansas University is pleased to present its financial statements for the fiscal year ended June 30, 2019, with fiscal year ended June 30, 2018 data presented for comparative purposes. This discussion and analysis of the University's financial statements provides an overview of its financial activities for the year ended June 30, 2019, as required by GASB. There are three financial statements presented: Statement of Net Position; the Statement of Revenue, Expenses, and Changes in Net Position; and the Statement of Cash Flows.

Statement of Net Position

The Statement of Net Position presents the assets, deferred resources, liabilities, and net position of the University as of June 30, 2019. This statement presents to the readers a fiscal snapshot of the year-end balances that were a result of the transactions posted during the fiscal year from July 1, 2018 through June 30, 2019.

This statement also serves as a starting point for transactions that will occur for the next fiscal period. The assets and liabilities are broken down into current and non-current sections to provide information relative to the time required in converting non-cash assets to cash or cash equivalents or that may require the use of cash. The deferred resources indicate the amortized debt defeasance, pension resources, and other post-employment benefits. The net position is the difference between assets, deferred resources, and liabilities. The readers of the *Statement of Net Position* are able to determine the assets available to continue the operations of the institution and how much the institution owes vendors, lending institutions and investors for the bonds of the University.

Net Position is divided in three major categories. *Invested in capital assets, net of related debt*, provides the institution's equity in property, plant and equipment owned by the institution. *Restricted net position*, which is divided into two categories, nonexpendable and expendable. The corpus of the nonexpendable restricted resources is only available for investment purposes. Expendable restricted assets are available for expenditure by the institution but must be spent for purposes as determined by donors and /or external entities that have placed time or purpose restrictions on the use of the assets. *Unrestricted net position* is available to the institution for any lawful purpose of the institution.

SOUTHERN ARKANSAS UNIVERSITY

Management's Discussion and Analysis

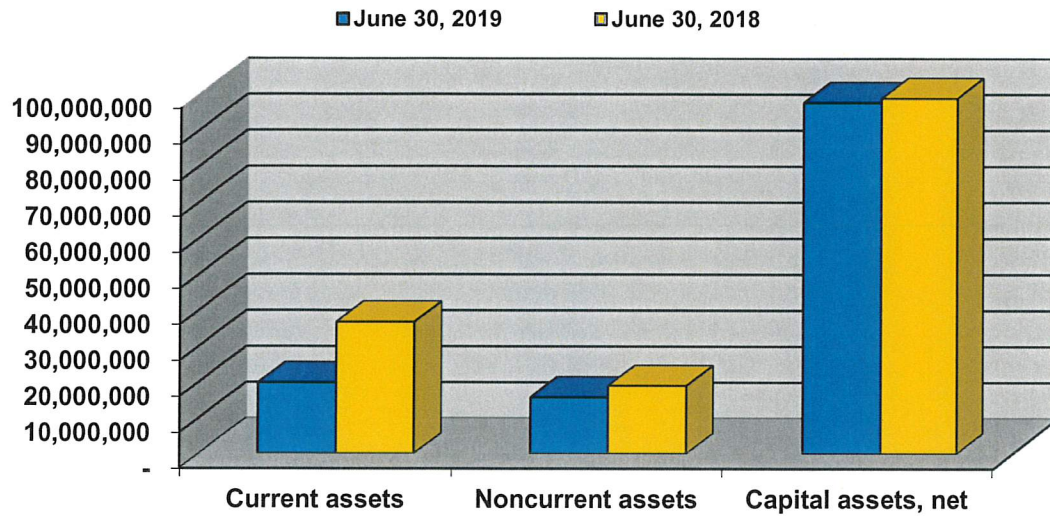
Statement of Net Position

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Assets:		
Current assets	\$ 19,726,478	\$ 36,611,564
Noncurrent assets	15,657,210	18,864,725
Capital assets, net	<u>97,520,752</u>	<u>98,660,514</u>
Total Assets	<u>132,904,440</u>	<u>154,136,803</u>
Deferred Outflows of Resources:		
Pensions and OPEB	2,542,093	2,622,495
Deferral on debt defeasance	<u>573,283</u>	<u>536,409</u>
Total Deferred Outflows of Resources	<u>3,115,376</u>	<u>3,158,904</u>
Liabilities:		
Current liabilities	10,244,842	26,754,584
Noncurrent liabilities	<u>78,216,099</u>	<u>79,881,564</u>
Total Liabilities	<u>88,460,941</u>	<u>106,636,148</u>
Deferred Inflows of Resources:		
Pensions and OPEB	<u>1,575,178</u>	<u>1,011,955</u>
Total Deferred Inflows of Resources	<u>1,575,178</u>	<u>1,011,955</u>
Net Position:		
Invested in capital assets, net	33,261,434	36,468,765
Restricted-nonexpendable	4,843,797	5,160,275
Restricted-expendable	672,271	899,653
Unrestricted	<u>7,206,195</u>	<u>7,118,911</u>
Total Net Position	<u>\$ 45,983,697</u>	<u>\$ 49,647,604</u>

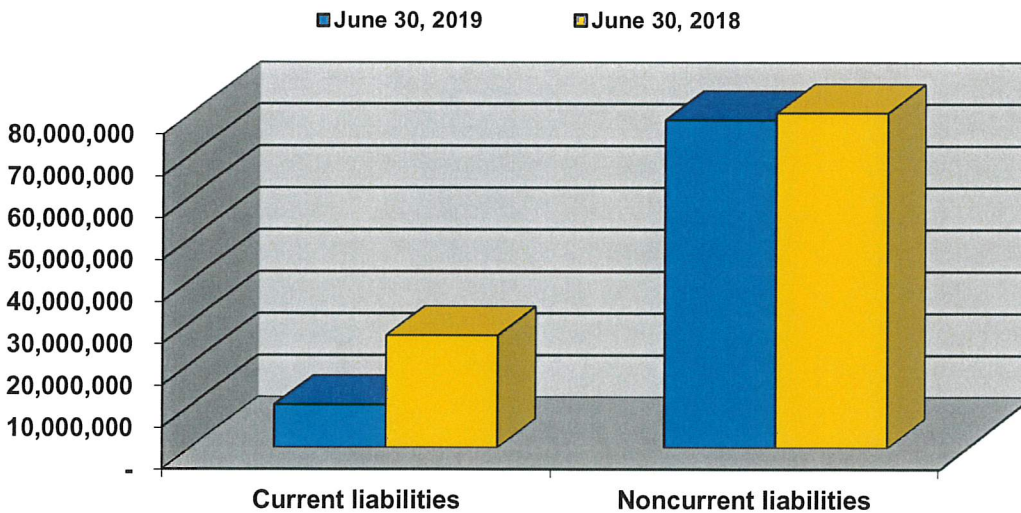
SOUTHERN ARKANSAS UNIVERSITY

Management's Discussion and Analysis

Assets



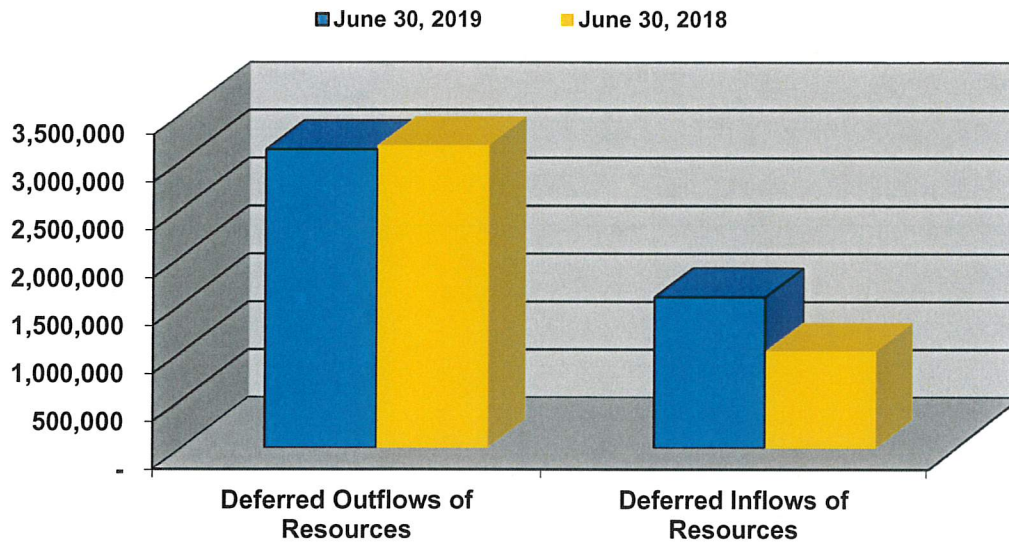
Liabilities



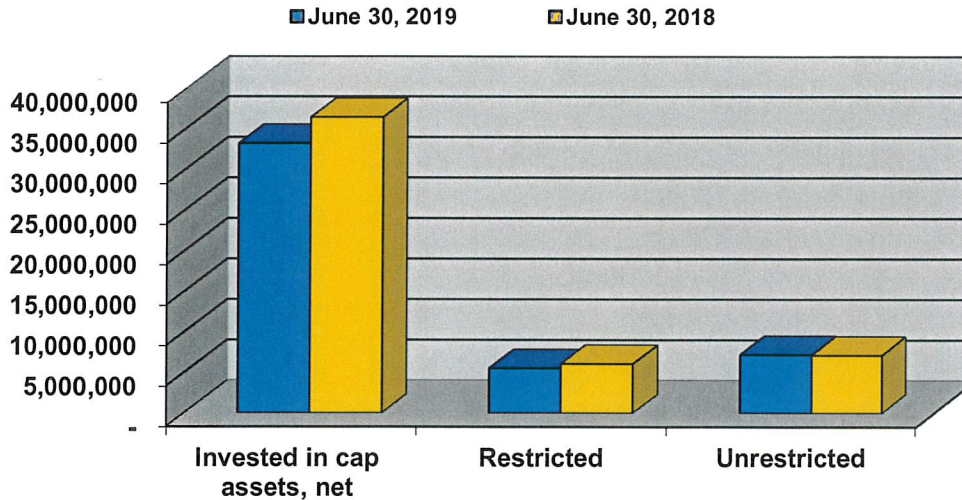
SOUTHERN ARKANSAS UNIVERSITY

Management's Discussion and Analysis

Deferred Resources



Net Position



A review of the *Statement of Net Position* will reveal that the total assets of the University decreased by \$21,232,363. The 2018 series capital improvement and refunding bonds were dated June 12, 2018, but in the absence of an escrow agreement, did not defease the old debt until July 2018. As a result, the prior year's increase is being offset by the \$20,851,339 decrease in deposits with trustee the current fiscal year.

SOUTHERN ARKANSAS UNIVERSITY

Management's Discussion and Analysis

Statement of Net Position (Continued)

The university showed an increase in accounts receivable of \$975,142 at the fiscal year end. Of this amount, a \$427,775 increase is due from Tuition, Fees, and Room & Board Receivables and \$809,457 is due from Federal Student Aid. The remaining decrease of \$262,090 is due to the timing of various other receipts. Current and noncurrent cash and cash equivalents decreased by \$565,279. The increase in capital assets of \$3,752,030 was offset by its related depreciation which increased by 4,891,792. Gains in endowment investments resulted in an increase of \$216,740 and changes in prepaid expenses resulted in an increase of \$208,467. The changes in other asset categories, current and noncurrent, show a net decrease of \$76,332.

Total deferred outflows of resources decreased by \$43,528. Outflows related to pensions decreased by \$587,887. Outflows related to debt defeasance increased by \$36,874. Outflows related to other post-employment benefits increased \$507,485.

Total liabilities decreased by \$18,175,207. Current debt payable decreased by \$17,778,653 as a significant portion was defeased in July 2018 from the university's series 2018 refunding bonds. In addition, long-term debt decreased by \$1,321,899 as payments were made and refunding savings were realized. The net OPEB liability increased by \$614,730, and the net pension liability decreased by \$1,006,659, both as a result of current year actuarial values. Unearned revenue increased by \$799,363, primarily due to the timing of tuition, fee, room, and board charges applied. Foundation funds reported in deposits held in custody for others contributed to the increase of \$265,236. Accounts payable increased by \$111,663 due to the timing of payments related to salaries and benefits. The changes in other liability categories, current and noncurrent, show a net increase of \$141,012 which is the result of changes in compensated absences payable, bond discount and refundable advances.

Total deferred inflows of resources increased by \$563,223. Outflows related to pensions increased by \$508,990 and outflows related to other post-employment benefits increased by \$54,233. Both items reflect the change in actuarial values from the prior year.

The decrease in total assets of \$21,232,363 and the decrease in deferred outflows of resources of \$43,528 are combined with the decrease in total liabilities of \$18,175,207 and the increase in deferred inflows of resources of \$563,223 to reflect an overall decrease in total net position of \$3,663,907.

Statement of Revenues, Expenses, and Changes in Net Position

The changes in total net position as presented on the *Statement of Net Position* are based on the activity presented in the *Statement of Revenues, Expenses, and Changes in Net Position*. The purpose of the statement is to present the revenues received by the institution, both operating and non-operating, and the expenses paid by the institution, operating and non-operating, and any other revenue, expenses, gains and losses received or spent by the institution.

The operating revenues are generally received for providing goods and services to the various customers and constituencies of the institution. Operating expenses are those expenses paid to acquire or produce goods and services in return for the operating revenues, and to carry out the mission of the institution. Non-operating revenues are revenues received for which goods and services are not provided. For example, the Governmental Accounting and Standards Board (GASB) considers state appropriations as non-operating revenues because the revenue is provided by the legislature to the institution without the legislature directly receiving commensurate goods and services.

SOUTHERN ARKANSAS UNIVERSITY

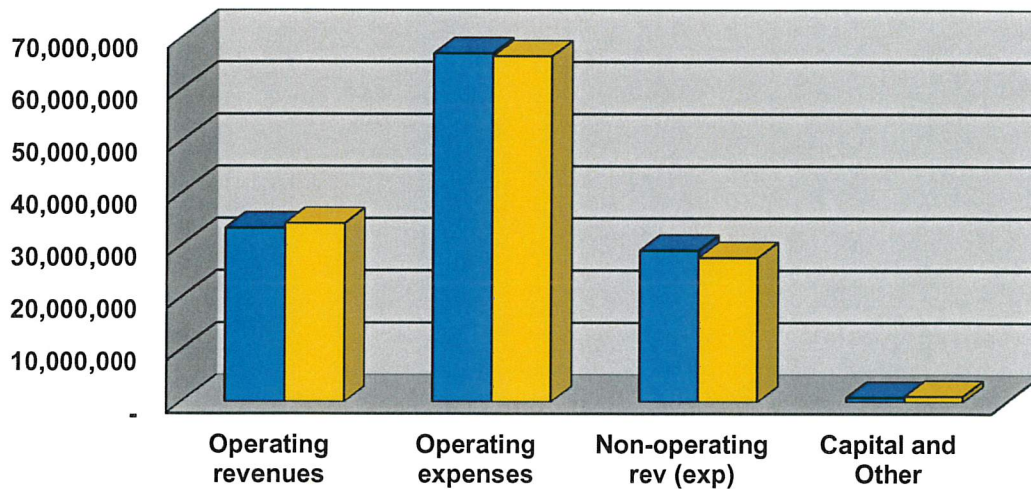
Management's Discussion and Analysis

Statement of Revenues, Expenses, and Changes in Net Position

	<u>For the Year Ended</u>	
	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Operating revenues	\$ 33,270,354	\$ 34,164,691
Operating expenses	<u>66,791,811</u>	<u>66,210,444</u>
Operating loss	(33,521,457)	(32,045,753)
Non-operating revenues (expenses)	<u>28,974,010</u>	<u>27,581,045</u>
Income (loss) before other revenues, expenses, gains or losses	(4,547,447)	(4,464,708)
Capital appropriations	428,331	247,127
Capital gifts and grants	404,568	768,321
Donated assets	<u>50,641</u>	<u>70,000</u>
Net increase (decrease) in net position	(3,663,907)	(3,379,260)
Net position at beginning of year, as restated	<u>49,647,604</u>	<u>53,026,864</u>
Net position at end of year	<u>\$ 45,983,697</u>	<u>\$ 49,647,604</u>

Revenues and Expenses

■ June 30, 2019 ■ June 30, 2018



SOUTHERN ARKANSAS UNIVERSITY

Management's Discussion and Analysis

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

A review of the *Statement of Revenues, Expenses, and Changes in Net Position* will reveal the effects of revenues and expenses on the net position at the end of the year. Highlighted information presented on the statement is as follows:

- ♦ While gross tuition and fees increased slightly, the offsetting scholarship allowances showed a larger increase resulting in a net decrease of \$1,763,966. The current fiscal year served to levelize the international graduate enrollment which was entirely offset by increases in tuition and fees from undergraduate enrollment. However, the change in demographics resulted in more students eligible for university scholarship allowances.
- ♦ Auxiliary housing and food service, net of scholarship allowances, increased by \$855,302 due to the rising number of students in residence halls and a slight increase in room and board rates.
- ♦ Other operating revenues increased by \$14,327.
- ♦ Expenditures for personal services increased by \$1,087,432. A 2% one-time salary adjustment was awarded to both classified and non-classified employees. In addition, increases were found in Instructional categories due to accreditation requirements and a new program. Other increases were found in OPEB, pensions, health and counseling services, and their related fringe benefits.
- ♦ Supplies and other services decreased by \$479,740 as a result of streamlining operations and the one time nature of various transfers.
- ♦ Scholarships and fellowships decreased by \$234,515 as larger scholarship amounts were reflected as tuition, fee, housing, food service scholarship allowances.
- ♦ Depreciation/amortization increased by \$208,190 due to the completion of additional capital projects.
- ♦ State appropriations increased with predominately one-time funds of \$524,225 from the performance-based funding model for higher education.
- ♦ Total federal grants increased by \$303,598 due to an increase in Pell funds received. Total state grants increased by \$290,873 with more Academic Challenge funds received.
- ♦ Investment income increased by \$191,385, primarily due to interest earned on university endowments and cash on hand.
- ♦ Bond issuance costs decreased by \$320,343 which is reflective of the refunding bond issued in the prior fiscal year. Capital interest expense increased by \$82,343 as scheduled payments were made.
- ♦ Other non-operating revenues/expenses decreased by \$126,517 with the current year adjustment of Perkins Refundable Advance. Remaining categories of non-operating revenues net of expenditures showed a decrease of \$32,557.
- ♦ Capital appropriations increased by \$181,204 and capital gifts and grants decreased by \$363,753, both due to the one time nature of general improvement funds awarded over the comparative fiscal years.
- ♦ Donated assets reported for the fiscal year resulted in a decrease of \$19,359.

Statement of Cash Flows

The Statement of Cash Flows presents detailed information about the cash activity of the institution during the year. The statement is divided into five sections. *Operating Cash Flows* provides detail of the operating cash flows and the net cash used by operating activities of the institution. *Non-capital financing activities* reflect cash received and spent for non-operating financing activities. *Capital and related financing activities* provide specific information on the cash used for the acquisition and construction of capital and related items. *Cash flows from investing activities* indicate the purchases, proceeds, and interest received from investing activities. The last section reconciles the net cash used to the operating income or loss reflected on the *Statement of Revenues, Expenses, and Changes in Net Position*.

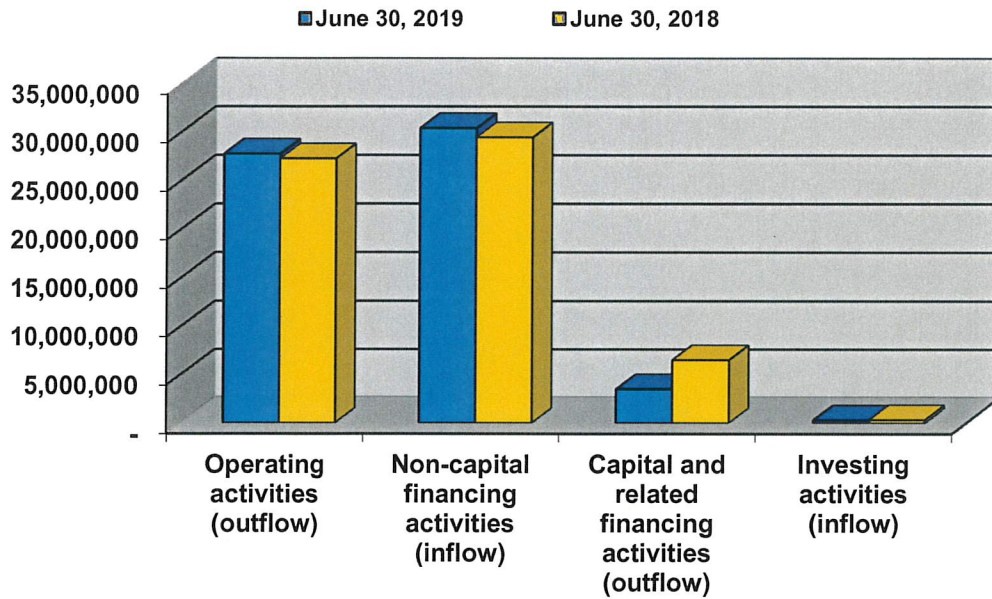
SOUTHERN ARKANSAS UNIVERSITY

Management's Discussion and Analysis

Statement of Cash Flows

	<u>For the Year Ended</u>	
	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Cash provided (used) by:		
Operating activities	\$ (27,761,118)	\$ (27,273,750)
Non-capital financing activities	30,404,759	29,457,773
Capital and related financing activities	(3,508,288)	(6,521,365)
Investing activities	<u>299,368</u>	<u>331,827</u>
Net change in cash	(565,279)	(4,005,515)
Cash, beginning of year	<u>16,639,892</u>	<u>20,645,407</u>
Cash, end of year	<u>\$ 16,074,613</u>	<u>\$ 16,639,892</u>

Cash Flows



SOUTHERN ARKANSAS UNIVERSITY

Management's Discussion and Analysis

Capital Assets and Debt Administration

The University had \$97,520,752 invested in capital assets, net of accumulated depreciation of \$73,522,447 at June 30, 2019. Depreciation expense totals \$4,961,246 for the current fiscal year. Details of these assets, net of accumulated depreciation, are shown below.

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Land and mineral rights	\$ 2,033,244	\$ 2,033,244
Construction in progress	1,640,414	1,523,558
Infrastructure and other improvements	17,207,259	17,495,202
Buildings	73,592,539	74,278,263
Equipment	1,138,900	1,325,604
Livestock	78,025	81,271
Library holdings	1,527,059	1,602,481
Intangible assets	<u>303,312</u>	<u>320,891</u>
Total	<u>\$97,520,752</u>	<u>\$98,660,514</u>

Major capital additions for the year include expenditures for the President's Event Facility, Agriculture Shop, and Alexander House in the amounts of \$617,743, \$289,780, and \$267,688, respectively.

The University had a total of \$70,606,304 in bonds, lease-purchases, notes, and loans payable at June 30, 2019. Principal payments on debt during the year totaled \$2,150,552 and interest and other charges totaled \$2,305,734. Additional information concerning the University's Capital Assets and Debt Administration is presented in Notes 9, 12, 13, 14, 15, 16, and 17 to the Financial Statements.

Economic Outlook

The University experienced a significant increase in one-time funding from state appropriations during the fiscal year. The elements of the performance-based funding model continues to be areas of focus for the university in attempts to address the needs outlined by the state. Preliminary calculations indicate that the model will add a comparable amount of one-time revenue to the university for the fiscal year 2019-20.

The current fiscal year served to stabilize the decline in international graduate enrollment which stemmed from global visa and political concerns. Offsetting this trend, the undergraduate population increased for an overall increase in gross tuition and fee revenue. However, the demographic shift toward scholarship eligible students resulted in a significantly larger scholarship allowance. The university will also continue to monitor and make appropriate forecasting adjustments to account for the ongoing decline in the state's college-age population and college-going rates.

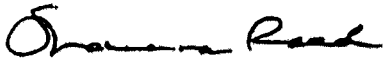
On March 11, 2020, the Governor of Arkansas issued Executive Order 20-03 declaring an emergency and ordered the Arkansas Department of Health to take action to prevent the spread of coronavirus disease 2019 (COVID-19). The extent of the impact of COVID-19 on our financial statements for future reporting periods will depend on certain developments, including the duration and speed of the outbreak and revenue collections – all of which are uncertain and cannot be predicted. The financial impact of COVID-19 to Southern Arkansas University is uncertain as of the audit report date.

SOUTHERN ARKANSAS UNIVERSITY

Management's Discussion and Analysis

Economic Outlook (Continued)

The University's overall financial position remains stable. The University continues to concentrate its efforts into student success, student retention, and creating a stable environment in challenging times. Additional efforts to build reserves will also prove beneficial in the coming years. The University continues to strive for excellence in its role as a comprehensive, regional university. In doing so, innovative academic programs are tailored to occupations with high regional demand that best suit our student population. Our small campus, excellent facilities, and quality education continues to be marketed to attract students from a broader region. The University's continuous quality improvement efforts serve to strengthen and streamline services both in the academic areas, as well as with institutional support. The \$22 million Love and Loyalty capital fundraising campaign seeks to infuse resources into academic areas, student scholarship support, and securing the future of the university.



Shawana Reed
Vice President for Finance

SOUTHERN ARKANSAS UNIVERSITY
COMPARATIVE STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2019

Exhibit A

	For the Year Ended	
	June 30, 2019	June 30, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 11,629,075	\$ 11,157,875
Deposits with Trustee		18,514,958
Accounts receivable, net of allowances of \$288,715 in 2019 and \$240,091 in 2018	7,172,312	6,197,170
Notes and student loans receivable, net	48,431	66,412
Inventories	137,006	137,888
Prepaid expenses	563,498	355,031
Prepaid bond insurance, net	176,156	182,230
Total current assets	<u>19,726,478</u>	<u>36,611,564</u>
Noncurrent assets:		
Cash and cash equivalents	4,445,538	5,482,017
Endowment investments	4,249,558	4,032,818
Deposits with Trustee	6,347,337	8,683,718
Accrued interest receivable	5,038	15,991
Notes and student loans receivable, net	609,739	650,181
Capital Assets, net of accumulated depreciation of \$73,522,447 in 2019 and \$68,630,655 in 2018	97,520,752	98,660,514
Total noncurrent assets	<u>113,177,962</u>	<u>117,525,239</u>
Total assets	<u>132,904,440</u>	<u>154,136,803</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pensions	2,034,608	2,622,495
Deferral on debt defeasance, net of accumulated amortization costs of \$150,084 in 2019 and \$109,354 in 2018	573,283	536,409
Other post employment benefits	507,485	
	<u>3,115,376</u>	<u>3,158,904</u>
LIABILITIES		
Current liabilities: (Amount due within 1 year)		
Accounts payable and accrued liabilities	2,184,524	2,067,510
Bonds, certificates of indebtedness, notes and leases payable	2,561,861	20,340,514
Bonds, certificates of indebtedness, notes and leases interest payable	564,367	517,317
Compensated absences payable	91,009	99,373
Unearned revenue	2,440,289	1,640,926
Other post employment benefits (OPEB)	60,480	54,432
Deposits/assets held in custody for others	2,349,744	2,084,508
Bond discount	(11,390)	(53,954)
Bond premium	3,958	3,958
Total current liabilities	<u>10,244,842</u>	<u>26,754,584</u>
Noncurrent liabilities: (Amounts due in more than 1 year)		
Accounts payable and accrued liabilities	383,288	388,639
Bonds, certificates of indebtedness, notes and leases payable	68,044,443	69,366,342
Compensated absences payable	1,093,594	1,076,307
Refundable Advances	310,320	275,276
Other post employment benefits (OPEB)	2,488,855	1,880,173
Bond discount, net of accumulated amortization costs of \$45,727 in 2019 and \$43,547 in 2018	(231,388)	(242,777)
Bond premium	110,815	114,773
Net Pension Liability	6,016,172	7,022,831
Total noncurrent liabilities	<u>78,216,099</u>	<u>79,881,564</u>
Total liabilities	<u>88,460,941</u>	<u>106,636,148</u>

**SOUTHERN ARKANSAS UNIVERSITY
COMPARATIVE STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2019**

Exhibit A

	For the Year Ended	
	June 30, 2019	June 30, 2018
DEFERRED INFLOWS OF RESOURCES		
Other post employment benefits	\$ 415,172	\$ 360,939
Pensions	1,160,006	651,016
	<u>1,575,178</u>	<u>1,011,955</u>
NET POSITION		
Invested in capital assets, net of related debt	33,261,434	36,468,765
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	255,922	476,921
Endowments and other	4,180,873	4,253,845
Loans	407,002	429,509
Expendable:		
Capital projects	191,213	410,179
Debt Service	23,819	
Other	457,239	489,474
Unrestricted	7,206,195	7,118,911
Total net assets	<u>\$ 45,983,697</u>	<u>\$ 49,647,604</u>

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

SOUTHERN ARKANSAS UNIVERSITY FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2018 and 2017

Exhibit A-1

ASSETS	2018	2017
Cash and Cash Equivalents	\$ 2,294,043	\$ 1,943,723
Accrued Investment Earnings	110,250	127,305
Unconditional Promises to Give	1,939,964	1,955,056
Prepaid Expenses	6,373	6,373
Investments	34,972,143	37,662,078
Total Assets	\$ 39,322,773	\$ 41,694,535
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts Payable	\$ 1,064,349	\$ 1,206,982
Annuities Payable	42,975	10,514
Total Liabilities	\$ 1,107,324	1,217,496
 Net Assets		
Without Donor Restrictions	521,560	487,276
With Donor Restrictions	37,693,889	39,989,763
Total Net Assets	38,215,449	40,477,039
Total Liabilities and Net Assets	\$ 39,322,773	\$ 41,694,535

SOUTHERN ARKANSAS UNIVERSITY ALUMNI ASSOCIATION, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2019

Exhibit A-2

ASSETS

	<u>2019</u>
<u>Current Assets</u>	
Cash on Hand in Banks	\$ 13,384
Total Current Assets	<u>13,384</u>
<u>Restricted Assets</u>	
Cash on Hand and Equivalents	3,364,894
Total Restricted Assets	<u>3,364,894</u>
<u>Property</u>	
Buildings, Magnolia & Columbia Hall	14,649,741
Accumulated Depreciation	(1,363,240)
Construction in Progress	5,838,031
Total Property	<u>19,124,532</u>
<u>Other Assets</u>	
Bond Discount	341,098
Total Other Assets	<u>341,098</u>
Total Assets	<u>\$ 22,843,908</u>

LIABILITIES AND DEFERRED RESOURCES

<u>Current Liabilities</u>	
Accrued Interest Payable, Bond and Notes Payable	\$ 85,204
Notes Payable-Current	193,863
Bonds Payable-Current	370,000
Total Current Liabilities	<u>649,067</u>
<u>Non-Current Liabilities</u>	
Bonds Payable-Net of Current Portion	24,125,000
Bond Premiums	148,279
Total Non-Current Liabilities	<u>24,273,279</u>
Total Liabilities	<u>24,922,346</u>
<u>Net Position</u>	
With Donor Restrictions	3,364,894
Without Donor Restrictions	(5,443,332)
Total Net Position	<u>(2,078,438)</u>
Total Liabilities and Net Position	<u>\$ 22,843,908</u>

SOUTHERN ARKANSAS UNIVERSITY
COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2019

Exhibit B

	For the Year Ended	
	June 30, 2019	June 30, 2018
REVENUES		
Operating Revenues:		
Student tuition and fees (net of scholarship allowances of \$17,378,653 in 2019 and \$15,502,961 in 2018)	\$ 16,859,810	\$ 18,623,776
Federal grants and contracts	2,652,681	2,688,494
State and local grants and contracts	626,805	551,653
Non-governmental grants and contracts	2,304,116	2,287,995
Sales and services of educational departments	283,770	261,587
Auxiliary enterprises:		
Athletics	87,065	128,210
Housing and food service (net of scholarship allowances of \$3,519,142 in 2019 and \$3,281,278 in 2018)	9,332,995	8,477,693
Bookstore	256,192	198,589
Health services	7,300	3,938
Student activities	11,791	16,055
Other	186,376	184,995
Other operating revenues	661,453	741,706
Total operating revenues	<u>33,270,354</u>	<u>34,164,691</u>
EXPENSES		
Operating expenses:		
Personal services	37,890,658	36,803,226
Supplies and other services	20,904,233	21,383,973
Scholarships and fellowships	3,035,674	3,270,189
Depreciation/amortization	4,961,246	4,753,056
Total operating expenses	<u>66,791,811</u>	<u>66,210,444</u>
Operating income (loss)	<u>(33,521,457)</u>	<u>(32,045,753)</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	17,478,029	16,953,804
Federal grants	8,659,637	8,356,039
State grants	3,760,607	3,469,734
Non-governmental gifts and grants	873,134	929,295
Investment income (net of investment expense of \$62,260 in 2019 and \$54,770 in 2018)	723,998	532,613
Interest on capital (asset related debt)	(2,519,885)	(2,437,542)
Gain/(Loss) on disposal of net assets	87,771	61,305
Other nonoperating revenues (expenses)	(41,118)	85,399
Amortization of bond discount and deferral on debt defeasance	(52,121)	(49,259)
Amortization of bond premium	3,958	
Bond issuance cost		(320,343)
Net nonoperating revenues	<u>28,974,010</u>	<u>27,581,045</u>
Income before other revenues, expenses, gains/losses	(4,547,447)	(4,464,708)
Capital appropriations	428,331	247,127
Capital gifts and grants	404,568	768,321
Donated assets	50,641	70,000
Net increase (decrease) in net position	<u>(3,663,907)</u>	<u>(3,379,260)</u>
NET POSITION		
Net position -- beginning of year (as previously reported)	49,647,604	53,460,201
Restatement -- Other post employment benefits		(433,337)
Net position -- beginning of year (as restated)	<u>49,647,604</u>	<u>53,026,864</u>
Net position - end of year	<u>\$ 45,983,697</u>	<u>\$ 49,647,604</u>

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

SOUTHERN ARKANSAS UNIVERSITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES
For the year ended December 31, 2018

Exhibit B-1

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Contributions	\$ 48,045	\$ 2,679,983	\$ 2,728,028
Contributions -Services	203,081		203,081
Contributions -In kind		54,867	54,867
Investment Income (Loss)		(2,437,790)	(2,437,790)
Net Assets Released from Restrictions	2,592,934	(2,592,934)	
Total Revenue and Support	2,844,060	(2,295,874)	548,186
Expenses			
Grants and Allocations	2,412,909		2,412,909
Annuities	9,188		9,188
Awards and Promotions	64,564		64,564
Conferences, Meetings, and Lectures	38,486		38,486
Bad Debts			
General and Administrative	284,629		284,629
Total Expenses	2,809,776		2,809,776
Increase (Decrease) in Net Assets	34,284	(2,295,874)	(2,261,590)
Net Assets at the Beginning of the Year	487,276	39,989,763	40,477,039
Net Assets at the End of the Year	\$ 521,560	\$ 37,693,889	\$ 38,215,449

SOUTHERN ARKANSAS UNIVERSITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES
For the year ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Contributions	\$ 70,993	\$ 3,133,170	\$ 3,204,163
Contributions -Services	132,929		132,929
Contributions -In kind		748,731	748,731
Investment Income (Loss)		5,308,133	5,308,133
Net Assets Released from Restrictions	3,296,522	(3,296,522)	
Total Revenue and Support	3,500,444	5,893,512	9,393,956
Expenses			
Grants and Allocations	3,088,105		3,088,105
Annuities	2,260		2,260
Awards and Promotions	67,164		67,164
Conferences, Meetings, and Lectures	38,414		38,414
Bad Debts	32,425		32,425
General and Administrative	204,924		204,924
Total Expenses	3,433,292		3,433,292
Increase (Decrease) in Net Assets	67,152	5,893,512	5,960,664
Net Assets at the Beginning of the Year	420,124	34,096,251	34,516,375
Net Assets at the End of the Year	\$ 487,276	\$ 39,989,763	\$ 40,477,039

SOUTHERN ARKANSAS UNIVERSITY ALUMNI ASSOCIATION, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION
June 30, 2019

Exhibit B-2

	<u>2019</u>
<u>Operating Revenues</u>	
Rentals-Resident Halls	\$ 918,309
Contributions - Other	1,072
Contributions - Debt Service	215,800
Contributions - Other Services	164,525
Contributions - Alumni Association Notes Payable	152,261
Dues - Alumni Association	5,545
Total Operating Revenues	<u>1,457,512</u>
<u>Operating Expenses</u>	
Salaries, Wages and Fringe Benefits	255,180
Supplies and Services - Residence Halls	20,663
Accounting and Professional	19,053
Utilities and Insurance	182,259
Interest on Bonds	582,720
Interest on Note Payment	18,630
Amortization o Bond Issuance Costs	203,534
Amortization of Bond Discount	11,563
Debt Service Fee	9,776
Depreciation	488,325
Total Operating Expenses	<u>1,791,703</u>
Operating Income or (Loss)	<u>(334,191)</u>
<u>Non-Operating Revenues (Expenses)</u>	
Interest Income	10,849
Bond Premium Amortization	5,392
Total Non-Operating Revenues (Expenses)	<u>16,241</u>
Net Income or (Loss)	<u>(317,950)</u>
Net Position Beginning of the Year	<u>(1,760,488)</u>
Net Position End of the Year	<u><u>\$ (2,078,438)</u></u>

SOUTHERN ARKANSAS UNIVERSITY
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019

Exhibit C

	For the Year Ended	
	June 30, 2019	June 30, 2018
CASH FLOWS FROM OPERATING ACTIVITIES		
INFLOWS:		
Tuition and fees (net of scholarships)	\$ 16,460,999	\$ 17,517,744
Federal grants and contracts	2,365,494	2,757,197
State grants and contracts	671,033	469,894
Non-governmental grants and contracts	2,498,514	2,090,688
Sales and services of educational departments	283,770	261,587
Collection of loans and interest to students	66,886	59,017
Auxiliary enterprise revenues:		
Athletics	87,065	128,210
Housing and food service (net of scholarships)	9,127,002	8,283,229
Bookstore	260,313	189,400
Health services	7,300	3,938
Student activities	11,791	16,055
Other	186,376	187,495
Other receipts	903,784	512,805
OUTFLOWS:		
Payments to suppliers	(20,988,113)	(20,539,466)
Payments to employees	(29,024,722)	(28,804,155)
Payments of employee benefits	(7,600,987)	(6,942,239)
Scholarships and fellowships	(3,077,623)	(3,287,671)
Loans issued to students		(177,478)
Net cash provided (used) by operating activities	(27,761,118)	(27,273,750)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
INFLOWS:		
State appropriations	17,478,029	16,953,804
Federal grants	7,932,396	7,832,722
State grants	3,760,607	3,598,757
Non-governmental gifts and grants	868,202	930,964
Direct lending and plus funds(inflows)	21,976,001	20,797,211
Direct lending and plus funds(outflows)	(21,976,001)	(20,797,211)
Other agency funds (net of outflows)	365,525	139,211
Other nonoperating income (Perkins loan program)		2,315
Net cash flows provided by noncapital financing activities	30,404,759	29,457,773
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
INFLOWS:		
Distributions from trustee	2,612,690	2,948,993
Capital appropriations	428,331	247,127
Capital gifts and grants	404,568	768,321
Proceeds from sale of capital assets	91,018	79,808
OUTFLOWS:		
Purchases of capital assets	(2,588,609)	(5,679,169)
Payments to trustees for principal	(1,330,000)	(1,850,000)
Principal paid on non-bonded debt	(820,552)	(660,319)
Payments to trustees for interest and paying agent fees	(2,203,893)	(2,330,815)
Interest and paying agent fees on non-bonded debt	(101,841)	(45,311)
Net cash used by capital and related financing activities	(3,508,288)	(6,521,365)

SOUTHERN ARKANSAS UNIVERSITY
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019

Exhibit C

	For the Year Ended	
	June 30, 2019	June 30, 2018
CASH FLOWS FROM INVESTING ACTIVITIES		
INFLOWS:		
Proceeds from the sales and maturities of investments	\$ 304,367	\$ 1,336,845
Investment income (net of fees)	499,307	381,168
OUTFLOWS:		
Purchase of investments	(504,306)	(1,386,186)
Net cash provided (used) by investing activities	299,368	331,827
Net increase (decrease) in cash	(565,279)	(4,005,515)
Cash and cash equivalents -- beginning of year	16,639,892	20,645,407
Cash and cash equivalents -- end of year	<u>\$ 16,074,613</u>	<u>\$ 16,639,892</u>
Reconciliation of net operating revenues (expenses)		
to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (33,521,457)	\$ (32,045,753)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	4,961,246	4,753,056
Change in assets and liabilities:		
Receivables, net	(247,902)	(691,934)
Inventories	882	(1,256)
Prepaid expenses	(208,467)	69,886
Other assets	58,423	(33,062)
Accounts payable	231,531	580,416
Unearned revenue	804,296	(60,338)
Deposits/assets held in custody for others	(100,290)	27,600
Compensated absences	8,924	151,002
Other post employment benefits	161,478	115,455
Pensions	90,218	(138,822)
Net cash provided (used) by operating activities	<u>\$ (27,761,118)</u>	<u>\$ (27,273,750)</u>
NONCASH TRANSACTIONS		
Buildings/Equipment -- donated	\$ 50,641	\$ 70,000
Net unrealized gain (loss) on investments	51,417	87,812
Capital assets acquired by incurring capital lease obligations		369,451
Value of traded in equipment		7,000
Proceeds of bond/loan issues	1,400,000	24,725,000
Purchases of capital assets paid by trustee	(1,300,000)	
Refunding bond proceeds to trustee		(18,027,434)
Bond proceeds to trustee for construction fund	(100,000)	(6,250,000)
Bond issuance costs		(320,343)
Bond premiums/discounts		81,632
Remaining proceeds deposited with trustee		(26,625)
Bond Insurance Premium/Surety Premium		(182,230)
Distribution from trustee to satisfy bond refunding	(18,027,434)	
Debt service reserve funds to refunding bond agent	(485,397)	

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

SOUTHERN ARKANSAS UNIVERSITY FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2018 and 2017

Exhibit C-1

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities		
Change in net assets	\$ (2,261,590)	\$ 5,960,664
Adjustments to reconcile change in net assets to net cash from operating activities:		
In kind contributions	(54,867)	(748,731)
Contributions restricted for long term investment	(1,212,050)	(1,959,103)
Net realized/unrealized (gain) loss on investments	3,274,159	(5,308,133)
Changes in:		
Unconditional promises to give	15,092	(765,178)
Accounts payable	(142,633)	218,375
Net Cash Used by Operating Activities	<u>(381,889)</u>	<u>(2,602,106)</u>
Cash Flows from Investing Activities		
Purchase of investments	(3,242,281)	(7,110,040)
Proceeds from sale of investments	2,766,252	7,751,723
Net Cash Used by Investing Activities	<u>(476,029)</u>	<u>641,683</u>
Cash Flows from Financing Activities		
Proceeds from contributions restricted for long term investments	1,212,050	1,959,103
Payments of annuity obligations	(3,812)	(2,260)
Net Cash Provided by Financing Activities	<u>1,208,238</u>	<u>1,956,843</u>
Net Change in Cash	350,320	(3,580)
Cash, beginning of the year	<u>1,943,723</u>	<u>1,947,303</u>
Cash, end of the year	<u><u>\$ 2,294,043</u></u>	<u><u>\$ 1,943,723</u></u>

SOUTHERN ARKANSAS UNIVERSITY ALUMNI ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2019

Exhibit C-2

Operating Cash Flow Provided from Operating Activities:

Rental Student Housing	\$ 918,309
Dues	5,545
Contributions - Other	1,072
Contributions - Debt Service	215,800
Contributions - Salaries and Fringe Benefits	164,525
Contributions - Notes and Interest Payments	152,261
Salaries and Wages	(255,180)
Supplies	(20,663)
Professional and Accounting	(19,053)
Utilities and Maintenance	(182,259)
Net Cash Provided (Used) by Operating Activities	<u>980,357</u>

Cash Flows from Financing Activities

Proceeds from Bond Issues	8,842,339
Purchase of Capital Assets	(5,838,031)
Payment to Trustee for Principal Payment on Bonds	(325,000)
Payment to Trustee for Payment of Interest and Fees	(715,357)
Payment to Trustee for Issuance Cost	(203,534)
Net Cash Provided (Used) by Activities	<u>1,760,417</u>

Cash Flows from Investing Activities

Interest Earned on Restricted Funds	<u>10,850</u>
Net Cash Provided (Used) by Investing Activities	<u>10,850</u>

Net Increase in Cash and Cash Equivalents	2,751,624
Cash and Cash Equivalents Beginning of the Year	<u>626,653</u>
Cash and Cash Equivalents End of the Year	<u><u>\$ 3,378,277</u></u>

**SOUTHERN ARKANSAS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1: REPORTING ENTITY

Southern Arkansas University

Southern Arkansas University, formerly State Agricultural and Mechanical College, was established by an act of the Arkansas Legislature in 1909 as a district agricultural school for Southwest Arkansas. Southern Arkansas University is an institution of higher education of the State of Arkansas.

The Vice President for Academic Affairs administers the Academic program of Southern Arkansas University. The program includes the following four (4) colleges: College of Business Administration, College of Education, College of Liberal and Performing Arts, and the College of Science and Engineering, plus the School of Graduate Studies.

Southern Arkansas University is fully accredited by the Higher Learning Commission (HLC); the Council for the Accreditation of Educator Preparation (CAEP); AACSB International; the National Association of Schools of Music (NASM); the Accreditation Commission for Education in Nursing, Inc. (ACEN); Commissions on Accreditation of Athletic Training Education (CAATE); the National Alliance of Concurrent Enrollment Partnerships (NACEP); and the Council on Social Work Education (CSWE).

Southern Arkansas University is one of two campuses of the Southern Arkansas University system. A five (5) member Board of Trustees governs the Southern Arkansas University system. The Governor appoints board members.

Component Units

In May 2002, the Governmental Accounting Standards Board (GASB) issued Statement No. 39, *Determining Whether Certain Organizations are Component Units*, which amends GASB No. 14 to provide additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with a primary government. Under the standard, which became effective with fiscal year ended June 30, 2004, a component unit must be a legally separate tax-exempt entity whose economic resources are held for the direct benefit of the University. Discrete presentation of the University's component units are contained in its financial presentation.

The Southern Arkansas University Foundation, Inc. (Foundation) is considered a component unit of the University. The Foundation is a 501(c)3 not for profit corporation that primarily acts as a fund-raising organization to supplement the resources that are available to the University and its programs. During the year ended June 30, 2019, the Foundation made earnings distributions of \$1,269,139 to the University for both restricted and unrestricted purposes.

The Southern Arkansas University Alumni Association, Inc. (Association) is considered a component unit of the University. The Association is a 501(c)3 not for profit corporation that primarily seeks to foster the ongoing support of the University's alumni and friends. In October 2015 and July 2018, the Alumni Association initiated housing projects for the benefit of the University wherein bonds were issued by the Housing Facility's Board of Magnolia, Arkansas. During the year ended June 30, 2019, the University's housing project made revenue transfers of \$954,700 for debt service obligations and pledges to continue payments in the event of a revenue shortfall. The manage and maintain agreement designates the University responsible for all other operational and managerial expenses related to the residence halls. In exchange for the arrangement, the University will pay the Association \$25,000 a year for five years, for a total of \$125,000, plus actual expenses for accountant services relating to the Student Housing Project and any other direct expenses.

Financial Statement Presentation

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities* followed in November 1999. As an institution of higher education of the State of Arkansas, Southern Arkansas University was required to implement GASB Statement No. 35 at the same time the State of Arkansas implemented GASB Statement No. 34, which was the year ended June 30, 2002. The financial statement presentation required by GASB Statements No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the University's assets, liabilities, net position, revenues, expenses, changes in net position, cash flows, and replaces the fund-group perspective previously required. In July 2011, the GASB amended these reporting requirements with Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The amended statement provides the standards for the presentation of deferred outflows and inflows of resources as items distinct from asset or liabilities within the Statement of Net Position.

SOUTHERN ARKANSAS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

Cash Equivalents

The University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Additionally, funds maintained by the State of Arkansas on behalf of the University are considered to be cash equivalents.

Investments

The University accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the Statement of Revenues, Expenses, and Changes in Net Position. Effective fiscal year 2016, GASB no. 72 revised the definition of investments and as a result, funds commonly held in U.S. Treasury Bills and other government obligations are recorded at fair market value.

Accounts Receivable

Accounts receivable consists primarily of charges due the University from various educational activities, student fees and room and board. Accounts receivable also includes unreimbursed expenses relating to grants and contracts with federal, state and private agencies and reimbursements not received. Beginning in the fiscal year ended June 30, 2013, accounts receivable are recorded net of estimated uncollectible amounts. Previously, the University utilized the direct write-off method for uncollectible student accounts.

Inventories

Inventories are valued at cost with cost being generally determined on a first-in, first-out basis.

Noncurrent Cash and Investments

Cash and investments that are externally restricted to make debt service payments, maintain sinking or reserve funds, purchase capital or other noncurrent assets are classified as noncurrent assets in the Statement of Net Position. Cash, cash equivalents, and investments relating to University endowments are also reflected as noncurrent assets in the Statement of Net Position.

Deposits with Trustee

Deposits with trustees include cash and investments held in debt service reserve and capital project accounts.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. Livestock is recorded at estimated fair value. Equipment recorded prior to July 1, 2011 includes all items with a unit cost of \$2,500 or more. Equipment recorded after that date adheres to the \$5,000 capitalization threshold to be in accordance with state guidelines. All capitalized items have an estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. The University also received donated assets in the amount of \$50,641 reflected on the Statement of Revenues, Expenses, and Changes in Net Position. Intangible assets include the University trademark, web domain, and internally developed computer software.

SOUTHERN ARKANSAS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

Depreciation is computed using the straight-line method over the estimated useful lives of the assets in accordance with the following schedule:

<u>Classification</u>	<u>Estimated Life</u>
Computer equipment	3-5 years
Motor vehicles	5-6 years
Other office equipment	5-7 years
Buses	5-10 years
Equipment (non-office)	7-10 years
Office furnishings	7-10 years
Library holdings	10-15 years
Infrastructure and other improvements	15-20 years
Houses	15-25 years
Intangible assets	15-25 years
Buildings and improvements	15-30 years

No depreciation is recorded for livestock, construction in progress, land or land improvements, and certain intangible assets. Additionally, no salvage or residual value is used in the depreciation computation.

Unearned Revenues

Unearned revenues include amounts received for tuition and fees, certain auxiliary activities, Southern Arkansas University Foundation, Inc. distributions, and various grants prior to the end of the fiscal year, but are related to the subsequent accounting period. Unearned revenues also include amounts received from grant and contract sponsors that have not yet been earned.

Encumbrances

Encumbrances are defined as commitments related to unperformed contracts for goods or services. Southern Arkansas University does not record encumbrances in its accounting system and none are recorded in the accompanying financial statements.

Compensated Absences Payable

Employees accrue and accumulate annual leave in accordance with policies established by the Board of Trustees. Full-time, non-classified, University employees accrue leave at a variable rate (from 12 to 15 hours per month), classified employees at a variable rate (from 8 to 15 hours per month), depending upon the number of years employed in state government. Under the University's policy, an employee may carry accrued leave forward from one fiscal 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. The amount accrued is calculated using an average of the actual amount expended in the preceding five fiscal years.

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 § 21-4-501. 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 sixty 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.

SOUTHERN ARKANSAS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences Payable (Continued)

The University accrues the dollar value of leave benefits which are payable upon retirement, termination, or death of its employees. The projected amount of this liability considered to be payable within one year at June 30, 2019 is \$91,009. This amount was calculated using an average of the actual amount expended in the preceding five fiscal years. The projected amount considered to be payable in excess of one year is \$1,093,594 at June 30, 2019. Certain employees who leave University employment are not paid for accrued sick leave.

Noncurrent Liabilities

Noncurrent liabilities include (1) principal amounts of revenue bonds payable, certificates of indebtedness payable, notes payable and capital leases payable with contractual maturities greater than one year, (2) estimated amounts for accrued compensated absences, described above, that will not be paid within the next fiscal year, (3) other postemployment benefits, and (4) net pension liability, and (5) refundable advances associated with the Federal Perkins Loan program.

Net Position

The University's net position is classified as follows:

- 1) *Net investment in capital assets* – This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.
- 2) *Restricted net position – nonexpendable* – Nonexpendable restricted net position consists of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.
- 3) *Restricted net position – expendable* – Restricted expendable net position includes resources in which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.
- 4) *Unrestricted net position* – Unrestricted net position represents resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the University, and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty, and staff.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the University's normal policy is to first apply the expense towards unrestricted resources, and then towards restricted resources.

Classification of Revenues

The University has classified its revenues as either operating or nonoperating revenues according to the following criteria in compliance with GASB Statement No. 34:

- 1) *Operating revenues* – Operating revenues include activities that have the characteristics of exchange transactions, such as (a) student tuition and fees, net of scholarship discounts and allowances, (b) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (c) most federal, state and local grants and contracts and non-government grants and contracts, and (d) sales and services of educational departments.
- 2) *Nonoperating revenues* – Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts, grants and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, such as state appropriations and investment income.

**SOUTHERN ARKANSAS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Scholarship Discounts and Allowances

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

Income Taxes

The University is tax exempt under the Internal Revenue Service Code. It is also exempt from state income taxes under Arkansas law. Accordingly, no provision for income taxes is made in the financial statements.

NOTE 3: PUBLIC FUND DEPOSITS AND INVESTMENTS

The University's depository accounts are listed below. All deposits are carried at cost and the University does not have a deposit policy.

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 4,131,377	\$ 4,131,377
Collateralized:		
Collateral held by the pledging bank or pledging bank's trust department in the University's name	15,519,841	15,131,548
Collateral held by the pledging bank, its trust Department, or other designee not in the University's name	<u>1,732,762</u>	<u>1,732,762</u>
Total Deposits	<u>\$ 21,383,980</u>	<u>\$ 20,995,687</u>

The above deposits do not include cash held on deposit in the state treasury, cash on hand, and cash equivalents in the amounts of \$169,371, \$31,245, and \$104,155 at June 30, 2019, respectively. Cash equivalents primarily consisted of the short-term Goldman Sachs Governmental Money Market account. The above total deposits include cash and certificates of deposit of \$5,614,138 reported as deposits with trustees.

At June 30, 2019, cash and cash equivalents included \$1,701,615 on deposit in a University bank account and held in a custodial capacity for the Southern Arkansas University Foundation, Inc. This amount is offset by a liability of deposits/assets held in custody for others on the Statement of Net Position. The Southern Arkansas University Foundation, Inc. financial statements include the amount which is held by the University in this custodial capacity in its assets and net assets.

SOUTHERN ARKANSAS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 3: PUBLIC FUND DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of failure of a depository financial institution, the University will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The University does not have a deposit policy for custodial credit risk. As of June 30, 2019, \$1,732,762 of the University's bank balance of \$20,995,687 was exposed to custodial credit risk as follows:

Uninsured and collateral held by pledging bank's trust department not in the University's name	<u>\$ 1,732,762</u>
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Goldman Sachs Financial Square Government Money Market Account

The University had \$104,155 invested in the Goldman Sachs Governmental Money Market account at June 30, 2019.

Credit risk – The Goldman Sachs Governmental Money Market account consists of securities issued or guaranteed by the U.S. money market securities such as high-quality commercial paper and other short-term obligations.

Investments measured at Fair Value

The University categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

Level 1: Quoted prices (unadjusted) for identical investments in active markets that a government can access at the measurement date.

Level 2: Inputs-other than quoted prices included within Level 1 – that are observable for an investment, either directly or indirectly.

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

Deposits with Trustee

At June 30, 2019, the University's deposits with trustees of \$6,347,337 consisted of cash of \$3,892,912, Federated Trust for U.S. Treasury Obligations of \$41,698, U.S. Government Agency Obligations of \$691,501, and non-negotiable certificates of deposits of \$1,721,226. These funds are obligated for specific capital improvement projects and debt reserves for the University's bond issues.

<u>Investments by Fair Value Level</u>	<u>6/30/19</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
U.S. Agency Securities	\$691,501	\$691,501		
Total Investments at Fair Value	\$691,501	\$691,501		

Federated Trust for U.S. Treasury Obligations

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

SOUTHERN ARKANSAS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 3: PUBLIC FUND DEPOSITS AND INVESTMENTS (CONTINUED)

Investments Measured at the NAV

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

<u>Security Description</u>	<u>Fair Value</u>
Repurchase Agreements	\$27,521
U.S. Treasury	<u>14,177</u>
Total Investments measured at NAV	\$41,698

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

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

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

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

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

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

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

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

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

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

Repurchase agreements are subject to credit risks.

SOUTHERN ARKANSAS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 3: PUBLIC FUND DEPOSITS AND INVESTMENTS (CONTINUED)

Endowment Investments

At June 30, 2019, the University's endowment investments consisted of mutual equity funds of \$2,857,226, foreign bond of \$137,492, U.S. agencies of \$877,194, negotiable certificate of deposit of \$250,421 and mineral interest of \$127,225.

<u>Investments by Fair Value Level</u>	<u>6/30/19</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
U.S. Agency Securities:				
Maturity:				
Less than 1 year	\$ 49,677	\$ 49,677		
1 to 5 years	497,033	497,033		
6 to 10 years	211,430	211,430		
More than 10 years	119,054	119,054		
Total U.S. Agency Securities	877,194	877,194		
Foreign Bond with a call option	137,492		\$ 137,492	
Negotiable Certificate of Deposit				
Maturity – November 12, 2020	250,421		250,421	
Mineral Interest	127,225			\$ 127,225
Total Investments at Fair Value	\$1,392,332	\$ 877,194	\$ 387,913	\$127,225

<u>Investments at Net Asset Value</u>	<u>6/30/19</u>
Mutual Equity Funds	\$2,857,226

Credit risk – As of June 30, 2019, the U.S. agencies Federal Farm Credit Banks were rated AA+/A-1+ by S&P and Aaa/P-1 by Moody's. The U.S. agencies Federal Home Loan Banks were rated AA+/A-1+ by S&P and Aaa/P-1 by Moody's. The mutual equity funds have an average four-star rating by Morningstar. The investment in mineral interests is unrated.

Interest rate risk – The U.S. agencies had an estimated weighted average maturity of 5.92 years at June 30, 2019. The University does not have an investment policy that would limit operating investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of credit risk – The University does not limit the amount of operating funds invested in any one issuer. Eleven percent of the University's investments were in the Federal Home Loan Bank (FHLB) and eight percent in the Federal Farm Credit Bank (FFCB).

Foreign Currency Risk – The foreign bond investment of \$137,492 was from Quebec Province (Canadian Dollar currency) with a maturity date of August 25, 2021. The foreign bond had a rating of AA- by S&P and Aa2/P-1 by Moody's.

NOTE 4: ACCOUNTS RECEIVABLE

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

Student tuition and fees, net of allowance of \$288,715	\$ 2,147,403
Auxiliary enterprises and other operating activities	1,732,208
Federal, state, and non-governmental grants and contracts	3,146,412
Other	146,289
Total	<u>\$ 7,172,312</u>

SOUTHERN ARKANSAS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 5: INVENTORIES

Inventories consisted of the following at June 30, 2019:

Physical plant	\$ 116,622
Communications center	8,362
Post office	<u>12,022</u>
Total	<u>\$ 137,006</u>

NOTE 6: PREPAID EXPENSES

Prepaid expenses consisted of the following at June 30, 2019:

Service, supplies, and maintenance contracts	\$ 172,302
Scholarships	<u>391,196</u>
Total	<u>\$ 563,498</u>

NOTE 7: NOTES AND STUDENT LOANS RECEIVABLE

Student loans made through the Federal Perkins Loan Program (the Program) comprise substantially all of the loans receivable at June 30, 2019. The Program provides for cancellation of a loan at rates of 10% to 30% per year up to a maximum of 100%, if the participant complies with certain provisions. The federal government reimburses the University for amounts cancelled under these provisions. The student loans receivable has been split to indicate the current amount of \$48,431 and the non-current amount of \$609,739.

As the University determines that loans are uncollectible and not eligible for reimbursement by the federal government, the loans are written off and assigned to the U.S. Department of Education. The University has provided an allowance for uncollectible loans, which, in management's opinion, is sufficient to absorb loans that will ultimately be written off. At June 30, 2019, the allowance for uncollectible loans was approximately \$2,181,685.

NOTE 8: COLLECTIONS

The University has an art collection donated by Dr. Bud Dickson, which is not capitalized. This collection adheres to the University's policy to (a) maintain for public exhibition, education, or research; (b) protect, keep unencumbered, care for, and preserve; and (c) require proceeds from their sale to be used to acquire other collection items. Generally accepted accounting principles permit collections maintained in this manner to be charged to operations, if purchased, rather than be capitalized.

SOUTHERN ARKANSAS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 9: CAPITAL ASSETS

Following are the changes in capital assets for the year ended June 30, 2019:

	Balance July 1, 2018	Additions	Transfers	Deductions	Balance June 30, 2019
Capital assets not being depreciated:					
Land and mineral rights	\$ 2,033,244				\$ 2,033,244
Construction in progress	1,523,558	\$ 2,222,499	\$ (2,105,643)		1,640,414
Livestock for educational purposes	81,271			\$ 3,246	78,025
Intangible—(trademark and web domain)	26,895				26,895
Total capital assets not being depreciated	\$ 3,664,968	2,222,499	\$ (2,105,643)	\$ 3,246	\$ 3,778,578
Other capital assets:					
Infrastructure and other improvements	\$ 24,262,179	\$ 29,722	\$ 468,918		\$ 24,760,819
Buildings	122,902,500	1,300,000	1,636,725		125,839,225
Equipment	6,961,517	137,078			7,098,595
Library holdings	9,019,627	135,431		\$ 69,454	9,085,604
Intangible—(computer software)	480,378				480,378
Total other capital assets	163,626,201	1,602,231	2,105,643	69,454	167,264,621
Less accumulated depreciation / amortization:					
Infrastructure and other improvements	6,766,977	786,583			7,553,560
Buildings	48,624,237	3,622,449			52,246,686
Equipment	5,635,913	323,782			5,959,695
Library holdings	7,417,146	210,853		69,454	7,558,545
Intangible—(computer software)	186,382	17,579			203,961
Total accumulated depreciation / amortization	68,630,655	4,961,246		69,454	73,522,447
Other capital assets, net	\$ 94,995,546	\$ (3,359,015)	\$ 2,105,643		\$ 93,742,174
Capital Assets Summary:					
Capital assets not being depreciated / amortized	\$ 3,664,968	\$ 2,222,499	\$ (2,105,643)	\$ 3,246	\$ 3,778,578
Other capital assets, at cost	163,626,201	1,602,231	2,105,643	69,454	167,264,621
Total cost of capital assets	167,291,169	3,824,730		72,700	171,043,199
Less accumulated depreciation / Amortization	68,630,655	4,961,246		69,454	73,522,447
Capital Assets, net	\$ 98,660,514	\$ (1,136,516)		\$ 3,246	\$ 97,520,752

SOUTHERN ARKANSAS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 10: ACCOUNTS PAYABLE

Accounts payable consisted of the following at June 30, 2019:

Vendors	\$ 550,068
Capital assets / construction	224,823
Salaries and benefits	1,111,992
Health claims	245,141
Annuities	<u>435,788</u>
Total	<u>\$ 2,567,812</u>

NOTE 11: UNEARNED REVENUE

Unearned revenue consisted of the following at June 30, 2019:

Prepaid tuition and fees	\$ 2,362,848
Grants and contracts	<u>77,441</u>
Total	<u>\$ 2,440,289</u>

NOTE 12: LONG-TERM LIABILITIES

The changes in long-term liabilities are as follows:

	<u>Balance July 1, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2019</u>	<u>Current Portion</u>
Bonds payable	\$ 87,740,000		*\$ 19,680,000	\$ 68,060,000	\$1,820,000
Bond discount	(296,731)		(53,953)	(242,778)	(11,390)
Bond premium	118,731		3,958	114,773	3,958
Capital Leases	1,034,948		451,312	583,636	351,664
Certificates of indebtedness	440,758		159,666	281,092	159,666
Notes payable	491,150	\$1,400,000	209,574	1,681,576	230,531
Compensated absences payable	<u>1,175,680</u>	<u>1,306,580</u>	<u>1,297,657</u>	<u>1,184,603</u>	<u>91,009</u>
Total	<u>\$ 90,704,536</u>	<u>\$ 2,706,580</u>	<u>\$ 21,748,214</u>	<u>\$ 71,662,902</u>	<u>\$ 2,645,438</u>

*Includes \$18,350,000 of bonds refunded in the prior year that were defeased in the current year – See Note 30.

SOUTHERN ARKANSAS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 12: LONG-TERM LIABILITIES (CONTINUED)

A summary of long-term debt is as follows:

<u>Date of Issue</u>	<u>Date of Final Maturity (fiscal year)</u>	<u>Rate of Interest</u>	<u>Amount Authorized and Issued</u>	<u>Debt Outstanding June 30, 2019</u>	<u>Maturities to June 30, 2019</u>
03/31/04	2020	4.43%	\$ 1,400,000	\$ 107,990	\$ 1,292,010
01/23/12	2022	0%	574,679	127,175	447,504
01/24/12	2022	0%	903,910	153,917	749,993
03/01/13	2039	2 – 3.875%	6,395,000	5,850,000	545,000
03/01/13	2043	1.5 – 4.1%	850,000	720,000	130,000
07/01/14	2034	1 – 4%	10,000,000	7,970,000	2,030,000
04/01/15	2046	1 – 4.125%	7,500,000	6,685,000	815,000
09/01/15	2020	1.856%	275,561	58,953	216,608
09/01/15	2020	1.856%	198,940	42,561	156,379
02/16/16	2039	1 – 4%	9,135,000	7,980,000	1,155,000
08/01/16	2021	1.848%	333,725	140,358	193,367
11/30/16	2041	1.5-3.625%	6,465,000	6,465,000	
6/01/17	2022	3.55%	552,517	441,808	110,709
3/14/17	2047	2.125-4.25%	8,000,000	7,665,000	335,000
7/01/17	2022	1.178-2.441%	224,049	138,687	85,362
11/01/17	2023	0.174%	145,402	95,087	50,315
6/12/18	2048	3.125-4%	17,050,000	17,050,000	
6/12/18	2048	3.875-4%	7,675,000	7,675,000	
7/27/18	2026	4.25%	1,400,000	1,239,768	160,232
Total			<u>\$ 79,078,783</u>	<u>\$ 70,606,304</u>	<u>\$ 8,472,479</u>

**SOUTHERN ARKANSAS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 12: LONG-TERM LIABILITIES (CONTINUED)

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

Year Ended June 30	<u>Bonds</u>			<u>Direct Borrowings</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 1,820,000	\$ 2,461,240	\$ 4,281,240	\$ 741,861	\$ 84,315	\$ 826,176
2021	1,865,000	2,414,275	4,279,275	506,944	61,977	568,921
2022	1,970,000	2,368,184	4,338,184	336,567	47,719	384,286
2023	2,070,000	2,316,383	4,386,383	263,507	34,924	298,431
2024	2,125,000	2,256,035	4,381,035	262,024	24,050	286,074
2025-2029	11,695,000	10,219,708	21,914,708	435,401	25,692	461,093
2030-2034	13,500,000	8,037,622	21,537,622			
2035-2039	14,645,000	5,340,250	19,985,250			
2040-2044	10,365,000	2,797,928	13,162,928			
2045-2048	8,005,000	767,481	8,772,481			
Totals	<u>\$ 68,060,000</u>	<u>\$ 38,979,106</u>	<u>\$107,039,106</u>	<u>\$ 2,546,304</u>	<u>\$ 278,677</u>	<u>\$ 2,824,981</u>

The retirement of bond issues is secured by a specific pledge of certain gross revenues, surplus revenues and specific fees. Debt service payments on bonds, including fees of \$25,304, amounted to \$3,750,607 for the fiscal year ended June 30, 2019. Debt service payments on capital leases, including fees of \$2,700, amounted to \$483,069 for the fiscal year ended June 30, 2019. Debt service payments on the certificate of indebtedness amounted to \$159,666 for the fiscal year ended June 30, 2019. Debt Service payments on loans/notes payable amounted to \$277,095 for the fiscal year ended June 30, 2019.

**SOUTHERN ARKANSAS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 13: BONDS PAYABLE AND PLEDGED REVENUES

A. Bonds payable consisted of the following at June 30, 2019:

Student Fee Secured Refunding Bonds, Series 2013 A, issued in the original amount of \$6,395,000 and maturing in varying amounts to December 1, 2038, with variable interest rate from 2% to 3.875%.	\$ 5,850,000
Student Fee Secured Capital Improvement Bonds, Series 2013 B, issued in the original amount of \$850,000 and maturing in varying amounts to September 1, 2042, with variable interest rates from 1.5% to 4.1%.	720,000
Auxiliary Enterprises Revenue Secured Capital Improvements Bonds, Series 2014, issued in the original amount of \$10,000,000 and maturing in varying amounts to June 1, 2034, with variable interest rates from 1% to 4%.	7,970,000
Student Fee Secured Refunding Bonds, Series 2015, issued in the original amount of \$7,500,000 and maturing in varying amounts to December 1, 2045, with variable interest rates from 1% to 4.125%.	6,685,000
Auxiliary Enterprises Revenue Secured Refunding Bonds, Series 2016 A, issued in the original amount of \$9,135,000 and maturing in varying amounts to June 1, 2039, with variable interest rates from 1% to 4%.	7,980,000
Student Fee Secured Refunding Bonds, Series 2016 B, issued in the original amount of \$6,465,000 and maturing in varying amounts to October 01, 2040, with variable interest rates from 1.5% to 3.625%	6,465,000
Auxiliary Enterprises Revenue Secured Capital Improvements Bonds, Series 2017, issued in the original amount of \$8,000,000 and maturing in varying amounts to March 1, 2047, with variable interest rates from 2.125% to 4.25%	7,665,000
Student Fee Secured Capital Improvement and Refunding Bonds, Series 2018 A, issued in the original amount of \$17,050,000 and maturing in varying amounts to March 01, 2048, with variable interest rates from 3% to 4%	17,050,000
Auxiliary Enterprises Revenue Secured Capital Improvements and Refunding Bonds, Series 2018 B, issued in the original amount of \$7,675,000 and maturing in varying amounts to March 01, 2048, with variable interest rates from 3.875% to 4%	7,675,000
	<u>\$ 68,060,000</u>

SOUTHERN ARKANSAS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 13: BONDS PAYABLE AND PLEDGED REVENUES (CONTINUED)

B. Pledged Revenues consisted of the following at June 30, 2019:

Debt Issue	Maturity Date	Purpose of Debt	Remaining Principal + Interest	FY 19 Principal + Interest	Revenue Source	FY 19 Revenue	% of Rev Pledged in FY19
2013A Series	2039	Bond Refunding 2008 Issue	8,257,191	417,923	Student Fees	34,238,463	1.22%
2013B Series	2043	Watson Athletic Center Improvements	1,105,088	46,766	Student Fees	34,238,463	.14%
2014 Series	2034	University Village Apartments	10,573,623	704,151	Auxiliary Enterprises Revenue	13,400,861	5.25%
2015 Series	2046	Engineering Building	10,117,528	458,183	Student Fees	34,238,463	1.34%
2016A Series	2039	Bond Refunding 2010	11,350,386	564,106	Auxiliary Enterprises Revenue	13,400,861	4.21%
2016B Series	2040	Bond Refunding 2011	9,128,147	197,049	Student Fees	34,238,463	.58%
2017 Series	2047	Eichenberger/ Burns-Harsh Halls	12,930,375	461,481	Auxiliary Enterprises Revenue	13,400,861	3.44%
2018A Series	2048	Cross Hall, Band Hall and Bond Refunding 2007	28,865,338	599,813	Student Fees	34,238,463	1.75%
2018B Series	2048	Residence Hall Repairs and Bond Refunding 2005B, 2012, 2013C	14,711,431	275,831	Auxiliary Enterprises Revenue	13,400,861	2.06%

SOUTHERN ARKANSAS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 14: CAPITAL LEASES

Capital leases consisted of the following at June 30, 2019:

<u>Class of Property</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Value</u>
Heating System Improvements (First SW Leasing Co)	\$ 1,485,492	\$ 1,053,606	\$ 431,886
Residence Hall Infrastructure (Dell)	275,561	70,421	205,140
VOIP Conversion (Dell)	198,940	50,840	148,100
Residence Hall Cameras	333,725	64,891	268,834
Equip/Disk Space (Dell)	224,049	29,873	194,176
Residence Hall WIFI/Expand/Firewalls (Dell)	145,402	16,156	129,246
	<u>\$ 2,663,169</u>	<u>\$ 1,285,787</u>	<u>\$ 1,377,382</u>

	<u>June 30, 2019</u>
Total Minimum Lease Payments	\$ 610,354
Less: Amount Representing Interest	26,718
Total Present Value of Net Minimum Lease Payments	<u>\$ 583,636</u>

NOTE 15: NOTES PAYABLE

Notes payable consisted of the following at June 30, 2019:

Loan payable to Farmers Bank and trust for the purchase of the University Court Apartments, in the total amount of \$552,517 with varying payments and an interest rate of 3.55%	\$ 441,808
Loan payable to Farmers Bank and trust for the purchase of the Mulerider Pointe Apartments, in the total amount of \$1,400,000 with varying payments and an interest rate of 4.25%	<u>1,239,768</u>
	<u>\$ 1,681,576</u>

NOTE 16: CERTIFICATES OF INDEBTEDNESS PAYABLE

Certificates of indebtedness payable consisted of the following at June 30, 2019:

Certificate of indebtedness to Arkansas Building Authority for various campus improvements for the total amount of \$999,990. Of this amount, \$903,910 has been issued to date with no additional funds issued during the fiscal year. Semi-annual payments are \$50,000 and no interest is being paid	\$ 153,917
Certificate of indebtedness to Arkansas Building Authority for various campus improvements for the total amount of \$596,673. Of this amount, \$574,679 has been issued to date with no additional funds issued during the fiscal year. Semi-annual payments are \$29,834 and no interest is being paid	<u>127,175</u>
	<u>\$ 281,092</u>

SOUTHERN ARKANSAS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 17: COMMITMENTS

The University was contractually obligated for the following at June 30, 2019:

A. Construction Contracts

<u>Project Name</u>	<u>Estimated Completion Date</u>	<u>Contract Balance</u>
Alexander House Polk Stanley Wilcox	December 2019	\$ 7,182
Band Hall Expansion Jackson Brown Palculict	June 2020	50,869
Baseball Development Facility Geo Surfaces	August 2019	233,210
Cooling Towers Performance Services	April 2020	735,734
Education Building (Architect) Jackson Brown Palculict	June 2020	101,042
Ozmer Farmstead House Scott's Plumbing	December 2019	56,438
Tennis, Golf Hut Jackson Brown Palculict	June 2020	13,390
Total		<u>\$ 1,197,865</u>

B. Operating Leases – Non-capital

Dell 007 – Cyberscience agreement ending June 1, 2020:

Rental payments for the current year total \$22,579. Future rental payments total \$22,579.

Future minimum rental payments for the future fiscal year:

<u>Year Ended June 30,</u>	<u>Amount</u>
2020	<u>\$ 22,579</u>

NOTE 18: RETIREMENT PLANS

Alternative Retirement Program

Plan description: The Alternative Retirement Program, a defined contribution plan, includes Teachers Insurance Annuity Association – College Retirement Equities Fund (TIAA-CREF) and Fidelity Investments. The program includes a 403(b) Retirement Annuity program (RA), a 403(b) Supplemental Retirement Annuity program (SRA), and 457(b) program as defined by Internal Revenue Service Code of 1986 as amended, and is administered by TIAA-CREF and Fidelity Investments. TIAA is an insurance company offering participants a traditional annuity with guaranteed principal and a specific interest rate plus the opportunity for additional growth through dividends. CREF is an investment company which offers a variable annuity. Arkansas Code Annotated authorizes participation in the plan.

Funding Policy: The Optional Retirement Programs are contributory. Members in the 403(b) RA programs select a contribution level of 4, 5, 6, 7, or 8% of earnings to the plan and Southern Arkansas University follows a matching schedule, which ranges from 6% to 10% for contributory members. Southern Arkansas University's and participants' contributions for the year ended June 30, 2019 were \$1,722,765 and \$1,429,163, respectively. Southern Arkansas University does not contribute to the 403(b) SRA or the 457(b) program.

SOUTHERN ARKANSAS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 18: RETIREMENT PLANS (CONTINUED)

Arkansas Teacher Retirement System

Plan Description: Southern Arkansas University contributes to the Arkansas Teacher Retirement System (ATRS), a cost-sharing multiple-employer defined benefit pension plan. ATRS is only available to current employees who elected this option prior to July 1, 2012 and to new employees who were members with their previous employer. ATRS, administered by a Board of Trustees, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and can be amended only by the Arkansas General Assembly. The pension plan's fiduciary net position has been determined on the same basis as reported by ATRS. The Arkansas Teacher Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for ATRS. That report may be obtained by writing to Arkansas Teacher Retirement System, 1400 West Third Street, Little Rock, Arkansas 72201 or by calling 1-800-666-2877.

Benefits Provided: Members are considered vested with 5 or more years of service and are eligible for full retirement benefits at age 60. Upon reaching eligibility for retirement, members receive lifetime, monthly annuity benefits from ATRS based on age and service. Such annuity benefits are calculated with years of service multiplied by the 3 highest years of salary, adjusted by the appropriate multiplier for contributory/ noncontributory plans. Early retirees receive a reduced annuity. Disability benefits are awarded to members with 5 actual years of service and are calculated using the aforementioned age and service formula. Lump sum death benefits are awarded to the qualified survivor(s) of active or retired members with 10 actual years of service. Other survivor benefits are awarded to the qualified survivors(s) of active members with 5 actual years of service. A cost of living adjustment is payable annually on July 1 to retirees, certain survivors, and beneficiaries who received monthly benefits for the previous 12 months.

Funding Policy: ATRS has contributory and non-contributory plans. Contributory members are required by State law to contribute 6% of their salaries. Each participating employer is required by State law to contribute at a rate established by the Board of Trustees, based on the annual actuarial valuation. The current employer rate is 14%, the maximum allowed by State law. Southern Arkansas University's contributions to ATRS for the years ended June 30, 2019, 2018, and 2017 were \$371,293, \$424,495, and \$402,121, respectively, equal to the required contributions for each year.

Pensions Liability, Expense, and Deferred Resources: For the year ended June 30, 2019, Southern Arkansas University recorded .1001% as its proportionate share of the total ATRS pension liability, which totaled \$3,641,944. The pension liability was determined by an actuarial valuation as measured on June 30, 2018.

The University's proportion of the net pension liability was based on current contributions of all participating employers. For the year ended June 30, 2019, the University recognized pension expense of \$433,598 and deferred resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 36,536	\$ 74,173
Net difference between projected and actual investment earnings on pension plan investments		623,439
Changes of Assumption	872,362	
Changes in University's proportion and differences between the University's contributions and proportionate share of the University's contributions	152,994	65,043
Contributions subsequent to the measurement date	371,293	
Total	<u>\$ 1,433,185</u>	<u>\$ 762,655</u>

SOUTHERN ARKANSAS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 18: RETIREMENT PLANS (CONTINUED)

Arkansas Teacher Retirement System (Continued)

\$371,293 reported as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2020	\$ 228,957
2021	139,004
2022	(83,985)
2023	7,136
2024	8,125
Thereafter	0

Actuarial Assumptions: A summary of the actuarial methods and assumptions used in determining the total pension liability as of June 30, 2018 are as follows:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, closed
Remaining Amortization Period	28 years
Wage Inflation	2.75%
Salary Increases	2.75% to 7.75% including inflation
Investment Rate of Return	7.50%
Mortality Table	Based on the RP-2014 mortality table for males and females adjusted using projection scale MP-2017 from 2006
Asset Valuation Method	4-year closed period; 20% corridor
Post-Retirement Cost-of-Living Increases	3% Simple
Retirement Age	Actuarial 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 expenses 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 for each major asset class included in the pension plan's target asset allocation as of June 30, 2018, are summarized in the following table:

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

SOUTHERN ARKANSAS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 18: RETIREMENT PLANS (CONTINUED)

Arkansas Teacher Retirement System (Continued)

Single Discount Rate: A single discount rate of 7.5% 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 7.5%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be 14% of payroll. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate share of the Net Pension Liability to Changes in the Discount Rate: The following presents the University's proportionate share of the net pension liability using the discount rate of 7.5%, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate:

	1.0% Decrease 6.5%	Current Discount 7.5%	1.0% Increase 8.5%
Net Pension Liability	\$ 6,246,426	\$ 3,641,944	\$ 1,482,069

Pension Plan Fiduciary Net Position:

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

Arkansas Public Employees Retirement System

Plan description: Southern Arkansas University contributes to the Arkansas Public Employees Retirement System (APERS), a cost-sharing multiple-employer defined benefit pension plan. APERS is only available to current employees who elected this option prior to July 1, 2012 and to new employees who were members with their previous employer. APERS, administered by a Board of Trustees, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and can be amended only by the Arkansas General Assembly. The pension plan's fiduciary net position has been determined on the same basis as reported by APERS. The Arkansas Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for APERS. That report may be obtained by writing to Arkansas Public Employees Retirement System, One Union National Plaza, 124 W. Capitol, Suite 400, Little Rock, Arkansas 72201 or by calling 1-800-682-7377.

Benefits Provided: Members are considered eligible for full retirement benefits under the following conditions: (1) at age 65 with 5 years of service, (2) at any age with 28 years of actual service, or (3) at age 60 with 20 years of actual service (prior to July 1, 2005). Upon reaching eligibility for retirement, members receive lifetime, monthly annuity benefits from APERS based on age and service. Such annuity benefits are calculated with years of service multiplied by the 3 highest years of salary, adjusted by the appropriate multiplier for contributory/ noncontributory plans. Early retirees receive a reduced annuity. Disability benefits are awarded to members with 5 years of service and are computed based on service and pay at disability. Death benefits are paid to a surviving spouse as if the member had 5 years of service and the monthly benefit is computed as if the member had retired and elected the Joint & 75% Survivor option. A cost of living adjustment of 3% of the current benefit is added each year.

Funding Policy: APERS has contributory and non-contributory plans. Contributory members are required by State law to contribute 5% of their salaries. Each participating employer is required by State law to contribute at a rate established by the Board of Trustees, based on the annual actuarial valuation. The current statutory employer rate is 15.32% of annual covered payroll. Southern Arkansas University's contributions to APERS for the years ended June 30, 2019, 2018, and 2017 were \$288,364, \$297,352, and \$298,235, respectively, equal to the required contributions for each year.

SOUTHERN ARKANSAS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 18: RETIREMENT PLANS (CONTINUED)

Arkansas Public Employees Retirement System (Continued)

Pensions Liability, Expense, and Deferred Resources: For the year ended June 30, 2019, Southern Arkansas University recorded .1076% as its proportionate share of the total APERS pension liability, which totaled \$2,374,228. The pension liability was determined by an actuarial valuation as measured on June 30, 2018. The University's proportion of the net pension liability was based on current contributions of all participating employers. For the year ended June 30, 2019, the University recognized pension expense of \$316,277 and total deferred resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 37,759	\$ 24,924
Changes in assumption	270,138	146,827
Changes in University's proportion and differences between the University's contributions and proportionate share of the University's contributions	5,162	165,521
Net difference between projected and actual investment earnings on pension plan investments		60,079
Contributions subsequent to the measurement date	288,364	
Total	\$ 601,423	\$ 397,351

\$288,364 reported as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2020	\$ 107,198
2021	20,671
2022	(155,709)
2023	(56,452)
Thereafter	0

SOUTHERN ARKANSAS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 18: RETIREMENT PLANS (CONTINUED)

Arkansas Public Employees Retirement System (Continued)

Actuarial Assumptions: A summary of the actuarial methods and assumptions used in determining the total pension liability as of June 30, 2018 are as follows:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level of Percent of Payroll, closed
Wage Inflation	3.25%
Post-Retirement Cost-of-Living Increases	3% Annual Compounded Increase
Salary Increases	3.25% to 9.85% including inflation
Investment Rate of Return	7.15%
Mortality	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
Asset Valuation Method	Phase-in of differences between actual and assumed market rates of return
Average Service Life of All Members	4.1233

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2018, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	37.0%	5.97%
International Equity	24.0%	6.07%
Real Assets	16.0%	4.59%
Absolute Return	5.0%	3.15%
Domestic fixed	18.0%	0.83%
Total	100%	

Assumption Changes: Economic assumptions were updated in the June 30, 2018, valuation to a 7.15% investment return assumption and a 3.25% wage inflation assumption.

Single 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.

**SOUTHERN ARKANSAS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 18: RETIREMENT PLANS (CONTINUED)

Arkansas Public Employees Retirement System (Continued)

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 proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate:

	1.0% Decrease 6.15%	Current Discount 7.15%	1.0% Increase 8.15%
Net Pension Liability	\$ 3,881,744	\$ 2,374,228	\$ 1,130,648

Pension Plan Fiduciary Net Position:

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

NOTE 19: SELF INSURANCE PROGRAM

Southern Arkansas University has established a benefit health plan established by Blue Advantage for employees and their eligible dependents. At June 30, 2019, approximately 800 active employees, their dependents and retirees were participating in the program. For employee, employee/spouse, employee/children, and family plans, the University pays approximately 98%, 75%, 78%, and 75%, respectively, based on a tiered salary chart. The University pays 98% for retiree plans until the retiree is eligible for Medicare.

<u>Unpaid Claims Liability</u>	<u>FY 2019</u>
Unpaid Claims, 07-01-18	\$ 215,152
Incurred claims during current year	1,824,026
Current year claims paid	1,610,860
Prior year claims paid	215,152
Total payments	1,826,012
Unpaid Claims, 06-30-19	213,166
15% margin assumption	31,975
Estimated Claims, 06-30-19	\$ 245,141

The health claims liability is calculated in accordance with the Development (or Lag) Method outlined in Actuarial Standard of Practice No. 5, using the historical pattern of claim payments as the continued assumption. The liability also assumes a 15% explicit margin above a best estimate liability. Based on Blue Advantage calculations, the University estimates its medical claims liability to be \$245,141.

The University purchases specific reinsurance to reduce its exposure to large claims. IAT was chosen as the reinsurance carrier. Under the specific arrangement, the reinsurance carrier pays for claims for covered members that exceed the \$150,000 specified deductible and the \$50,000 aggregate specific deductible.

NOTE 20: OTHER POST EMPLOYMENT BENEFITS (OPEB)

The University offers post-employment health care and life insurance benefits to all employees who officially retire from the University and meet certain age- and service-related requirements. Health care benefits are offered through Southern Arkansas University's partially self-funded health plan which is administered by Blue Advantage Administrators of Arkansas acting as the third-party administrator. Eligibility for benefits begins upon retirement at or after age 55 with at least 10 years of service. Participants who retire between the ages of 55 and 61 with fewer than 15 years of service or fewer than 75 "points" (age plus years of service) will receive access to group rates only (SAU does not pay for the coverage). For participants who retire after age 55 with 15 years of service and 75 "points", SAU pays for the coverage at the same rates as eligible active employees. For participants who retire at or after age 62 with 10 years of service, SAU pays for the coverage at the same rates as eligible active employees. Medical coverage ceases at members' age 65 or Medicare Eligibility.

**SOUTHERN ARKANSAS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 20: OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued)

For eligible retired employees who retired prior to July 1, 2014, the University pays the premium cost for employee only coverage. In addition, the University pays the first \$250 towards coverage for dependents. The retiree pays the remaining cost of dependent coverage, to the extent that it exceeds \$250. For eligible retired employees who will retire after June 30, 2014, Southern Arkansas University pays a maximum of \$504 of the premium cost for employee only or dependent coverage. For fiscal year 2019, the University paid retiree health coverage cost directly to the health insurance fund in the amount of \$30,462.

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

Inactive employees or beneficiaries currently receiving benefit payment	13
Inactive employees entitled to but not yet receiving benefit payments	0
Active employees	<u>394</u>
	407

Expenditures for postretirement health care benefits are recognized monthly and financed on a pay-as-you-go basis. The University funds approximately 85% of the postretirement healthcare premiums, which totaled \$39,146 for the fiscal year ended June 30, 2019. The retirees are responsible for funding the remaining 15% of the healthcare premiums.

The Plan is considered a single-employer plan and consists of hospital benefits, major medical benefits, life insurance benefits and a prescription drug program. The health care benefits cover medical and hospitalization costs for retirees and their dependents. If the retiree is eligible for Medicare, University coverage is secondary. The authority under which the Plan's benefit provisions are established or amended is the University President. Recommendations for modifications are brought to the President by the Fringe Benefits Committee. Any amendments to the plan are brought to the President by the Fringe Benefits Committee and approved by the President.

The Plan does not issue a stand-alone financial report. For inquiries relating to the Plan, please contact Southern Arkansas University Office of Financial Services, 100 East University MSC 9403, Magnolia AR 71753. The required schedule of funding progress contained in the Required Supplemental Information immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Schedule of Net OPEB Liability:

Total OPEB liability (TOL) at 06/30/2019	\$2,549,335
Net position at end of year	<u>0</u>
Net OPEB liability (NOL) at 06/30/2019	\$2,549,335

Net position as a percentage of TOL 0%

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

Sensitivities:

The following shows TOL and NOL using the current discount rate of 3.5%, as well as what the plan's TOL and NOL would be if it were calculated using a discount rate that is 1% lower and 1% higher than the current assumed rate:

	1% Lower Rate	Current Rate	1% Higher Rate
TOL	\$2,780,013	\$2,549,335	\$2,341,896
Net position	<u>0</u>	<u>0</u>	<u>0</u>
NOL at 06/30/2019	\$2,780,013	\$2,549,335	\$2,341,896

The following shows TOL and NOL using the healthcare cost trend rates, as well as what the plan's TOL and NOL would be if it were calculated using trend rates that are 1% lower and 1% higher than the current assumed rates:

	1% Lower Rate	Current Rate	1% Higher Rate
TOL	\$2,284,599	\$2,549,335	\$2,865,044
Net position	<u>0</u>	<u>0</u>	<u>0</u>
NOL at 06/30/2019	\$2,284,599	\$2,549,335	\$2,865,044

SOUTHERN ARKANSAS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 20: OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued)

Additional Disclosure Information:

TOL at 06/30/2018	\$1,934,605
Service cost	155,767
Interest on TOL	55,816
Difference between expected and actual experience, inclusive of any benefit changes and assumptions	433,609
Employer contributions	(30,462)
TOL at 06/30/2019	<u>2,549,335</u>

At June 30, 2019, the University has deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actuarial experience	\$ (310,739)	\$507,485
Changes in assumption	(104,433)	0
Net difference between projected and actual earnings on OPEB assets	0	0
Total	<u>\$(415,172)</u>	<u>\$507,485</u>

The University reported no additional deferred outflows of resources resulting from contributions subsequent to the measurement date, but chose a measurement date that coincides with the fiscal year end of June 30, 2019. Other amounts reported at June 30, 2019 for deferred outflows/(inflows) of resources will be recognized in OPEB expense in the future fiscal years as noted below:

FYE	Balance
2020	5,457
2021	5,457
2022	5,457
2023	5,457
Thereafter	70,485

OPEB Expense:

OPEB Expense for the fiscal year ending June 30, 2019

1. Service cost (one-year cost for active participants)	\$155,767
2. Interest on TOL = 3.0% x 1,934,605 – 1.5% x \$148,159	55,816
3. Expected return on net position	N/A
4. Amortization of Inflows	(33,018)
5. Amortization of outflows	38,475
6. OPEB expense (sum of above items)	<u>\$217,040</u>

Note that the OPEB expense for this year (implementation year under GASB 74/75) should also include recognition of the Total OPEB Liability ("TOL") shown above.

General Overview of the Valuation Methodology

The estimation of the retiree healthcare benefit obligation is generally based on per participant contributions developed from recent periods for which claims experience is available. The University provided actual per-participant premiums for 2019.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the Plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

**SOUTHERN ARKANSAS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 20: OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued)

Actuarial calculations reflect a long-term perspective. Actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

Valuation Year	July 1, 2018 – June 30, 2019		
Date of Census Data	June 30, 2019		
Discount Rate	3.5%		
Inflation Rate	2.5%		
Mortality Rate	RP-2014 Mortality Table with Improvement Scale MP-2018		
Inflation (Trend Rates)	7% in year 1, and then decreasing by one-half percentage point per year to an ultimate of 4.0% in year 7 and thereafter.		
Assumed Utilization	50% of eligible future retirees are assumed to elect plan benefits		
Spouse Age Difference	Husbands are assumed to be three years older than wives for current and future retirees who are married.		
Participation Rates	Active employees are assumed to elect the same postretirement health insurance coverage upon retirement.		
Actuarial Cost Method	Liabilities and normal costs under GASB 74/75 shown in this report have been computed using the Entry Age Normal actuarial cost method		
Retiree Premiums			
Health (monthly rate)	Employee Cost	Employer Cost	Total
Employee	\$ 0	\$ 504.00	\$ 504.00
Life Insurance Premiums			
Life (monthly rate)	Employee Cost	Employer Cost	Total
Employee	Based on age	\$ 0	Based on age
Administrative Expenses			
The per capita costs for fiscal year beginning July 1, 2018 include \$34.90 per contract per month.			

**SOUTHERN ARKANSAS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 20: OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued)

Retirement Rates

Employees are assumed to retire according to the following schedule:

Age	Retirement Rate (less than 28 years of service)	Retirement Rate (28 or more years of service)
48 – 49	0%	50%
50	2%	13%
51	2%	10%
52	3%	9%
53-54	4%	9%
55	6%	9%
56	9%	12%
57	9%	10%
58	9%	11%
59	9%	14%
60-61	100%	14%
62	100%	28%
63 - 64	100%	17%
65	100%	27%
66 - 74	100%	30%
75 and older	100%	100%

Sample Withdrawal and Disability Rates

Employees are assumed to terminate or become disabled according to the following schedule (number per 1000 members):

Age	Terminate Rate (Male)	Terminate Rate (Female)
25	46.0	48.4
30	39.4	44.0
35	32.0	31.0
40	27.0	22.0
45	20.8	20.0
50	16.2	17.0
55	15.0	15.0
60	15.0	15.0
65	15.0	15.0
70	15.0	15.0

NOTE 21: RELATED ORGANIZATIONS

Southern Arkansas University is one of two campuses of the Southern Arkansas University system. The financial statements do not include the assets, liabilities, net position, and changes in net position, relating to the Southern Arkansas University Tech campus.

SOUTHERN ARKANSAS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 22: OTHER OBLIGATIONS

The University contracts with Aramark Educational Services, LLC (Aramark) to provide meals to students and catering services to the University. In October 2016, Aramark made a financial commitment to the University in the amount of \$2,150,000 to be used towards the expansion of the existing dining facility, which was substantially complete in August 2017. The financial commitment from Aramark shall be amortized on a straight-line basis over a period of 15 years. Upon termination of this agreement by either Aramark or the University prior to the complete amortization of the financial agreement, the University would be required to reimburse Aramark for the unamortized balance on the date of termination or expiration of the contract. The balance of the financial commitment to the University as of June 30, 2019 is \$1,739,685.

NOTE 23: PRIVATIZED HOUSING AGREEMENT

The University entered into a privatized housing arrangement containing a ground lease agreement with the SAU Alumni Association in October 2015 and expanded in July 2018. The Housing Facilities Board of Magnolia, Arkansas issued bonds to fund the construction of the projects. The obligation for payment of the bonds was based on the revenue generated by the projects. The University entered into a manage and maintain agreement with the Alumni Association. The University is responsible under the agreement to pay any expenses of the project if there was a revenue shortfall. These types of expenses included utilities, maintenance, management costs, etc.

NOTE 24: CLASSIFICATION OF EXPENDITURES

The University has utilized the natural classifications of expenses rather than the functional classification of expenses as allowed by GASB Statements No. 34 and No. 35. A comparison of the two classifications is as follows for the year ended June 30, 2019:

	Personal Services	Scholarships and Fellowships	Supplies and Other Services	Depreciation	Total
Instruction	\$ 17,863,859		\$ 1,749,884		\$ 19,613,743
Research	229,058		140,898		369,956
Public Service	2,487,356		276,730		2,764,086
Academic Support	2,478,192		1,893,020		4,371,212
Student Services	4,506,475		1,860,407		6,366,882
Institutional Support	5,031,640		1,457,092		6,488,732
Operation and Maintenance of Plant	1,597,810		5,205,602		6,803,412
Scholarships and Fellowships		\$ 3,035,674			3,035,674
Auxiliary Enterprises	3,696,268		8,293,349		11,989,617
Other			27,251		27,251
Depreciation				\$ 4,961,246	4,961,246
	<u>\$ 37,890,658</u>	<u>\$ 3,035,674</u>	<u>\$ 20,904,233</u>	<u>\$ 4,961,246</u>	<u>\$ 66,791,811</u>

SOUTHERN ARKANSAS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 25: ENDOWMENT FUNDS

The University has donor-restricted endowments funds. Investment income on the amount endowed is restricted for scholarships and other purposes. Endowment funds are maintained as cash or cash equivalents and investments. Investments reported at fair value include U. S. Government obligations, mutual bond funds, mutual equity funds, and other managed investments. The endowment net position at June 30, 2019 were \$4,436,795 and reported as restricted-nonexpendable.

State law allows a governing board to expend a portion of the net appreciation in the fair value of the assets over the historic dollar value of the fund unless the applicable gift document states otherwise. State law stipulates that such expenses are to be for the purpose for which the endowment funds were established.

It is the University's policy for annual expenses from the endowment funds to be limited to the actual income generated by the endowment fund assets, unless the gift document states otherwise.

NOTE 26: RISK MANAGEMENT

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The University carries commercial insurance for board liability and student athletes. Settled claims have not exceeded this commercial coverage in any of the past three (3) fiscal years. There were no significant reductions in insurance coverage from the prior year in the major categories of risk.

The University participates in the Arkansas Public Employees Claims Division – Workers' Compensation Program under the Arkansas Department of Insurance. The program is responsible for obtaining and administering workers' compensation insurance coverage for its members, as well as obtaining reinsurance coverage for those claims that exceed the standard policy limits. In its administrative capacity, the Division is responsible for monitoring, negotiating and settling claims that have been filed on behalf of and against the University. The University usually contributes annually to this program.

Additionally, the University participates in the Arkansas Multi-Agency Insurance Trust (AMAIT) for insurance coverage for property and vehicles. In its administrative capacity, AMAIT is responsible for monitoring, negotiating and settling claims that have been filed against its members. The University pays annual premiums for buildings, contents, and vehicles.

The University participates in the Arkansas Fidelity Bond Trust Fund administered by the Governmental Bonding Board. This program provides coverage for actual losses sustained by its members through fraudulent or dishonest acts committed by officials or employees. Each loss is limited to \$300,000 with a \$2,500 deductible. Premiums for coverage are paid by the Chief Fiscal Officer of the State of Arkansas from funds withheld from the University's funds.

NOTE 27: POLLUTION REMEDIATION OBLIGATIONS

In 2006, GASB issued Statement no. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB Statement no. 49 establishes standards for accounting and financial reporting for pollution remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. Management has determined to begin recognizing a liability at the time that an obligating event exists. At this time no obligation exists.

NOTE 28: LAND AND OTHER REAL ESTATE HELD AS INVESTMENTS BY ENDOWMENTS

In 2007, GASB issued Statement no. 52, *Land and Other Real Estate Held as Investments by Endowments*. GASB Statement no. 52 establishes consistent standards for the reporting of land and real estate held as investments by essentially similar entities. At this time the University has no real estate or land held as investments.

NOTE 29: RELATED PARTY TRANSACTIONS

Mr. Monty Harrington is a member of the Board of Trustees of Southern Arkansas University. Mr. Harrington is President of Farmers Bank & Trust in which the University has a majority of its deposits.

SOUTHERN ARKANSAS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 30: DEBT REFUNDINGS

On July 13, 2018, the University, using proceeds from the \$17,050,000 student fee secured capital improvement and refunding bonds dated June 12, 2018, with interest rates of 3% to 4% , called for redemption \$11,235,000 of outstanding bonds dated December 1, 2007, with interest rates of 4% to 4.75%. Proceeds of \$11,295,885 and debt service reserves of \$571 were used to refund the bonds and to pay current interest.

On July 13, 2018, using proceeds from the \$7,675,000 auxiliary enterprise revenue secured capital improvement and refunding bonds dated June 12, 2018, with interest rates of 3.875% to 4%, called for redemption \$870,000 of and \$4,430,000 of outstanding bonds dated March 1, 2005 and September 1, 2012, with interest rates of 3.25% to 4.6% and 1% to 4%, respectively. Proceeds of \$5,000,767 and debt service reserves of \$367,716 were used to refund the bonds and pay current interest.

On September 1, 2018, the University, using proceeds from the \$7,675,000 auxiliary enterprise revenue secured capital improvement and refunding bonds dated June 12, 2018, with interest rates of 3.875% to 4%, called for redemption \$1,815,000 of outstanding bonds dated March 1, 2013, with interest rates of 1% to 4.1%. Proceeds of \$1,730,782 and debt service reserves of \$117,110 were used to refund the bonds and pay current interest.

The refunding of the above bond issues resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$77,605, reported as a deferred outflow at the Comparative Statement of Net Position.

NOTE 31: SUBSEQUENT EVENTS

On September 26, 2019, the University Board of Trustees issued Student Fee Secured Refunding Bonds in the amount of \$5,600,000 to refinance the Series 2013A bond issue and Auxiliary Enterprises Secured Refunding Bonds in the amount of \$7,010,000 to refinance the Series 2014 bond issue. No new funds were created.

On March 11, 2020, the Governor of Arkansas issued Executive Order 20-03 declaring an emergency and ordered the Arkansas Department of Health to take action to prevent the spread of coronavirus disease 2019 (COVID-19). The extent of the impact of COVID-19 on our financial statements for future reporting periods will depend on certain developments, including the duration and speed of the outbreak and revenue collections – all of which are uncertain and cannot be predicted. The financial impact of COVID-19 to Southern Arkansas University is uncertain as of the audit report date.

As of the date of this report, the University has issued refunds totaling \$1,096,278 related to closures of housing and food service facilities. Additional refunds have not been determined as of the date of this report.

The University applied for and was allocated \$4,025,613 in relief from the Higher Education Emergency Relief Fund as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act passed by Congress in March 2020. At least half of these funds must be provided as emergency financial aid grants to students. Additional CARES funds totaling \$197,915 were allocated to the University in August 2020. Final uses of these funds have not been determined as of the date of this report.

SOUTHERN ARKANSAS UNIVERSITY
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
JUNE 30, 2019

OTHER POST EMPLOYMENT BENEFITS (OPEB) – Schedule of Changes in Total OPEB Liability (TOL)

TOL:	2019	2018
Service cost	\$155,767	\$159,527
Interest cost	55,816	59,843
Difference between expected and actual experience	545,960	(359,729)
Changes in assumption	(112,351)	(1,210)
Benefit changes		
Benefit payments	(30,462)	(16,197)
Net change	(614,730)	(157,766)
Beginning of year TOL	1,934,605	2,092,371
End of year TOL = (a)	\$2,549,335	\$1,934,605

Net Position:		
Employer contributions		
Net investment income		
Benefit payments		
Administrative expenses		
Other		
Net change	0	0
Beginning of year net position	0	0
End of year net position = (b)	0	0
TOL = (a) – (b)	\$2,549,335	\$1,934,605
Net position as a percentage of TOL	0.0%	0.0%
Actual contributions paid into plan trust	0	0
Covered employee payroll	\$24,821,770	\$23,815,457
Net OPEB Liability as % of covered payroll	10.27%	8.12%

*The amounts presented were determined as of June 30, 2019.

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

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

SOUTHERN ARKANSAS UNIVERSITY
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
JUNE 30, 2019

PENSION PLANS – Schedule of the University's Proportionate Share of the Net Pension Liability

Arkansas Teacher Retirement System

	2019*	2018*	2017*	2016*	2015*
Plan net pension liability - End of year	\$3,638,962,119	\$4,203,863,874	\$4,411,442,759	\$3,256,909,830	\$2,625,006,279
Proportion of the net pension liability	0.1001%	0.0969%	0.0958%	0.0935%	0.0993%
Proportionate share of net pension liability	\$3,641,944	\$4,073,808	\$4,225,903	\$3,045,991	\$2,605,513
University covered payroll	\$3,034,541	\$2,864,765	\$2,806,637	\$2,716,298	\$2,852,303
Proportionate share of the net pension liability as a percentage of covered payroll	120.02%	142.20%	150.57%	112.14%	91.35%
Plan fiduciary net position as a percentage of the total pension liability	82.78%	79.48%	76.75%	82.20%	84.98%

Arkansas Public Employee Retirement System

	2019*	2018*	2017*	2016*	2015*
Plan net pension liability - End of year	\$2,205,935,041	\$2,584,140,475	\$2,391,348,072	\$1,841,733,371	\$1,418,912,236
Proportion of the net pension liability	0.1076%	0.1141%	0.1166%	0.1232%	0.1210%
Proportionate share of net pension liability	\$2,374,228	\$2,949,023	\$2,789,190	\$2,268,780	\$1,717,071
University covered payroll	\$2,016,002	\$2,056,796	\$2,113,254	\$2,189,353	\$2,135,931
Proportionate share of the net pension liability as a percentage of covered payroll	117.77%	143.38%	131.99%	103.63%	80.39%
Plan fiduciary net position as a percentage of the total pension liability	79.59%	75.65%	75.50%	80.39%	84.15%

*The amounts presented were determined as of June 30th of the previous year.

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

SOUTHERN ARKANSAS UNIVERSITY
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
JUNE 30, 2019

PENSION PLANS – Schedule of University Contributions

Arkansas Teacher Retirement System					
	2019	2018	2017	2016	2015
Contractually required contribution	\$371,293	\$424,495	\$402,121	\$393,222	\$381,773
Contributions in relation to contractually required contribution	\$371,293	\$424,495	\$402,121	\$393,222	\$381,773
Contribution deficiency (excess)	0	0	0	0	0
University covered payroll	\$2,652,088	\$3,034,541	\$2,864,765	\$2,806,637	\$2,716,298
Contributions as a percentage of covered-employee payroll	14.00%	13.99%	14.04%	14.01%	14.05%

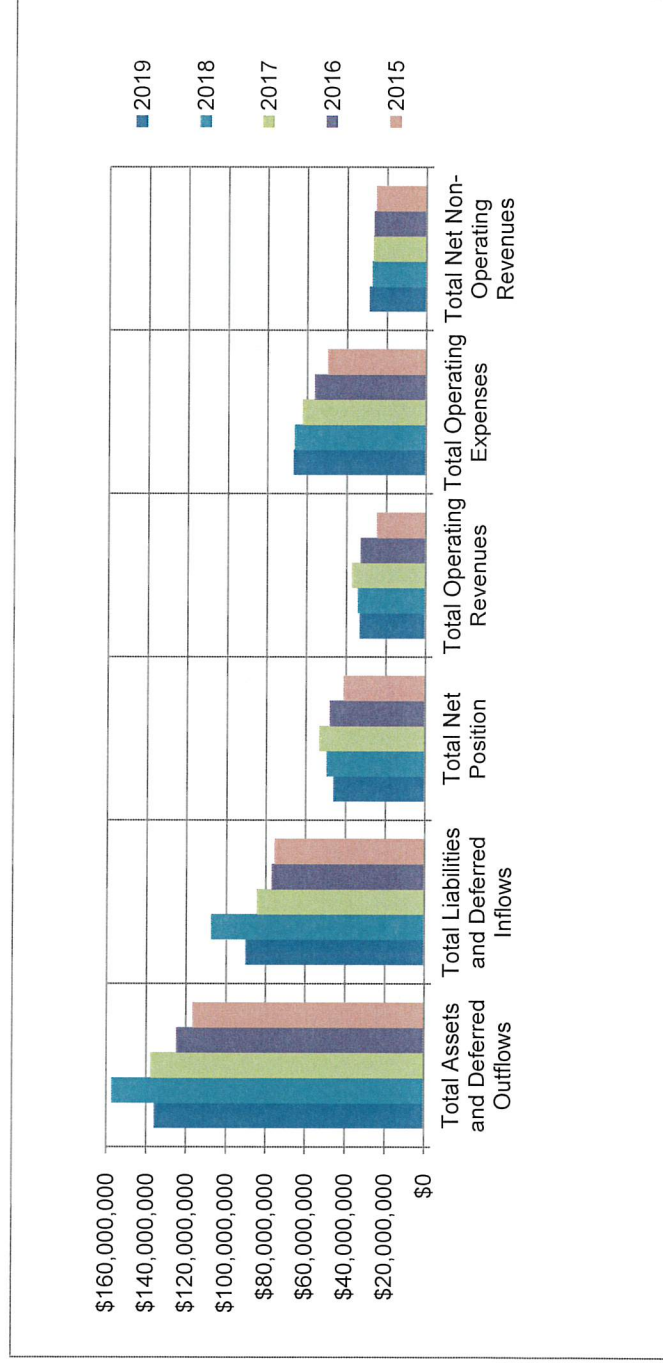
Arkansas Public Employee Retirement System					
	2019	2018	2017	2016	2015
Contractually required contribution	\$288,364	\$297,352	\$298,235	\$307,826	\$322,601
Contributions in relation to contractually required contribution	\$288,364	\$297,352	\$298,235	\$307,826	\$322,601
Contribution deficiency (excess)	0	0	0	0	0
University covered payroll	\$1,882,271	\$2,016,002	\$2,056,796	\$2,113,254	\$2,189,353
Contributions as a percentage of covered-employee payroll	15.32%	14.75%	14.50%	14.57%	14.73%

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

SOUTHERN ARKANSAS UNIVERSITY
SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS
FOR THE YEAR ENDED JUNE 30, 2019
(Unaudited)

Schedule 1

	Year Ended June 30,				
	2019	2018	2017	2016	2015
Total Assets and Deferred Outflows	\$ 136,019,816	\$ 157,295,707	\$ 137,828,789	\$ 124,814,797	\$ 116,604,381
Total Liabilities and Deferred Inflows	90,036,119	107,648,103	84,368,588	76,837,468	75,482,941
Total Net Position	45,983,697	49,647,604	53,460,201	47,977,329	41,121,440
Total Operating Revenues	33,270,354	34,164,691	37,340,307	32,992,335	24,656,091
Total Operating Expenses	66,791,811	66,210,444	62,300,060	56,267,104	49,637,605
Total Net Non-Operating Revenues	28,974,010	27,581,045	26,889,527	26,499,319	25,350,701
Total Other Revenues, Expenses, Gains or Losses	883,540	1,085,448	3,553,098	3,631,339	808,422



**SOUTHERN ARKANSAS UNIVERSITY
STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2020**

EXHIBIT A

	For the Year Ended	
	June 30, 2020	June 30, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 15,455,744	\$ 11,629,075
Deposits with Trustee		
Accounts receivable, net of allowances of \$336,276 in 2020 and \$288,715 in 2019	5,201,879	7,172,312
Notes and student loans receivable, net	47,414	48,431
Inventories	135,366	137,006
Prepaid expenses	365,081	563,498
Prepaid bond insurance, net	239,427	176,156
Total current assets	<u>21,444,911</u>	<u>19,726,478</u>
Noncurrent assets:		
Cash and cash equivalents	6,938,143	4,445,538
Endowment investments	4,096,157	4,249,558
Deposits with Trustee	4,579,248	6,347,337
Accrued interest receivable	1,376	5,038
Notes and student loans receivable, net	538,190	609,739
Capital Assets, net of accumulated depreciation of \$66,259,474 in 2020 and \$73,522,447 in 2019	106,241,272	97,520,752
Total noncurrent assets	<u>122,394,386</u>	<u>113,177,962</u>
Total assets	<u>143,839,297</u>	<u>132,904,440</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pensions	1,547,014	2,034,608
Deferral on debt defeasance, net of accumulated amortization costs of \$148,128 in 2020 and \$150,084 in 2019	784,250	573,283
Other post employment benefits	748,640	507,485
	<u>3,079,904</u>	<u>3,115,376</u>
LIABILITIES		
Current liabilities: (Amount due within 1 year)		
Accounts payable and accrued liabilities	1,546,772	2,184,524
Bonds, certificates of indebtedness, notes and leases payable	1,717,068	2,561,861
Bonds, certificates of indebtedness, notes and leases interest payable	656,929	564,367
Compensated absences payable	91,724	91,009
Other post employment benefits (OPEB)	84,672	60,480
Unearned revenue	3,142,334	2,440,289
Deposits/assets held in custody for others	2,644,214	2,349,744
Bond discount	(6,567)	(11,390)
Bond premium	52,901	3,958
Total current liabilities	<u>9,930,047</u>	<u>10,244,842</u>
Noncurrent liabilities: (Amounts due in more than 1 year)		
Accounts payable and accrued liabilities	419,563	383,288
Bonds, certificates of indebtedness, notes and leases payable	65,787,987	68,044,443
Compensated absences payable	1,171,100	1,093,594
Refundable Advances	329,366	310,320
Other post employment benefits (OPEB)	2,921,219	2,488,855
Bond discount, net of accumulated amortization costs of \$25,096 in 2020 and \$45,727 in 2019	(146,680)	(231,388)
Bond premium, net of accumulated amortization costs of \$32,387 in 2020 and \$3,958 in 2019	805,213	110,815
Net Pension Liability	5,964,643	6,016,172
Total noncurrent liabilities	<u>77,252,411</u>	<u>78,216,099</u>
Total liabilities	<u>87,182,458</u>	<u>88,460,941</u>

**SOUTHERN ARKANSAS UNIVERSITY
STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2020**

	For the Year Ended	
	June 30, 2020	June 30, 2019
DEFERRED INFLOWS OF RESOURCES		
Pensions	1,065,607	1,160,006
Other post employment benefits	569,433	415,172
	<u>1,635,040</u>	<u>1,575,178</u>
NET POSITION		
Invested in capital assets, net of related debt	35,340,257	33,261,434
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	244,109	255,922
Endowments and other	4,018,089	4,180,873
Loans	401,781	407,002
Expendable:		
Capital projects	746,915	191,213
Debt Service	375,523	23,819
Other	5,842,537	457,239
Unrestricted	11,132,492	7,206,195
Total net assets	<u>\$ 58,101,703</u>	<u>\$ 45,983,697</u>

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

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

	For the Year Ended	
	June 30, 2020	June 30, 2019
REVENUES		
Operating Revenues:		
Student tuition and fees (net of scholarship allowances of \$17,297,364 in 2020 and \$17,378,653 in 2019)	\$ 18,689,723	\$ 16,859,810
Federal grants and contracts	2,391,148	2,652,681
State and local grants and contracts	345,546	626,805
Non-governmental grants and contracts	2,249,754	2,304,116
Sales and services of educational departments	197,173	283,770
Auxiliary enterprises:		
Athletics	84,543	87,065
Housing and food service (net of scholarship allowances of \$3,462,244 in 2020 and \$3,519,142 in 2019)	9,891,838	9,332,995
Bookstore	240,310	256,192
Health services	11,017	7,300
Student activities	9,586	11,791
Other	145,940	186,376
Other operating revenues	563,107	661,453
Total operating revenues	<u>34,819,685</u>	<u>33,270,354</u>
EXPENSES		
Operating expenses:		
Personal services	37,958,881	37,890,658
Supplies and other services	21,809,992	20,904,233
Scholarships and fellowships	3,412,957	3,035,674
Depreciation/amortization	3,847,140	4,961,246
Total operating expenses	<u>67,028,970</u>	<u>66,791,811</u>
Operating income (loss)	<u>(32,209,285)</u>	<u>(33,521,457)</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	18,975,426	17,478,029
Federal grants	11,035,396	8,659,637
State grants	3,841,562	3,760,607
Non-governmental gifts and grants	809,933	873,134
Investment income (net of investment expense of \$48,006 in 2020 and \$62,260 in 2019)	180,847	723,998
Interest on capital (asset related debt)	(2,404,576)	(2,519,885)
Gain/(Loss) on disposal of net assets	131,594	87,771
Other nonoperating revenues	(10,064)	(35,044)
Amortization of bond discount and deferral on debt defeasance	(51,184)	(52,121)
Amortization of bond premium	28,429	3,958
Bond issuance cost	(230,187)	(6,074)
Net nonoperating revenues	<u>32,307,176</u>	<u>28,974,010</u>
Income before other revenues, expenses, gains/losses	97,891	(4,547,447)
Capital appropriations	721,320	428,331
Capital gifts and grants	405,412	404,568
Donated assets	5,350	50,641
Net increase (decrease) in net position	<u>1,229,973</u>	<u>(3,663,907)</u>

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

	For the Year Ended	
	June 30, 2020	June 30, 2019
NET POSITION		
Net position -- beginning of year (as previously reported)	45,983,697	49,647,604
Restatement -- Capital Assets	10,888,033	
Net position -- beginning of year (as restated)	56,871,730	49,647,604
	<u>\$ 58,101,703</u>	<u>\$ 45,983,697</u>

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

APPENDIX F

Proposed Opinion of Bond Counsel-Series 2020 Bonds

November 19, 2020

Board of Trustees of Southern Arkansas University
Magnolia, Arkansas

Stephens Inc.
Little Rock, Arkansas

Farmers Bank & Trust Company, as Trustee
Magnolia, Arkansas

Re: \$7,580,000 Board of Trustees of Southern Arkansas University Student Fee
Secured Refunding Bonds Series 2020

Ladies and Gentlemen:

We have acted as bond counsel to the Board of Trustees of Southern Arkansas University (the “Issuer”) in connection with the issuance by the Issuer of \$7,580,000 Student Fee Secured Refunding Bonds, Series 2020 (the “Series 2020 Bonds”). In such capacity, we have examined such law and such certified proceedings and other documents as we have deemed necessary to render this opinion.

The Series 2020 Bonds are issued pursuant to the Constitution and laws of the State of Arkansas, including particularly Arkansas Code Annotated §§ 6-62-301 *et seq.*, and a Trust Indenture dated as of January 1, 1999, as previously supplemented and as supplemented pursuant to the Supplemental Trust Indenture dated as of November 19, 2020 (collectively, the “Indenture”), by and between the Issuer and Farmers Bank & Trust Company, Magnolia, Arkansas, as trustee (the “Trustee”). Under the Indenture, the Issuer has pledged certain revenues (the “Revenues”) for the payment of the principal of and interest on the Series 2020 Bonds when due.

As to questions of fact material to our opinion, we have relied upon the representations of the Issuer contained in the Indenture and in the certified proceedings and other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion that, under existing law:

1. The Issuer is validly existing as a body corporate and politic and public instrumentality of the State of Arkansas with the power to execute and deliver the Indenture, perform the agreements on its part contained therein, and issue the Series 2020 Bonds.
2. The Indenture has been duly executed and delivered by the Issuer and constitutes a valid and binding obligation of the Issuer enforceable upon the Issuer.
3. The Indenture creates a valid lien on the Revenues and other funds pledged by the Indenture for the security of the Series 2020 Bonds and other bonds (if any) to be issued under the Indenture.

4. The Series 2020 Bonds have been duly authorized, executed, and delivered by the Issuer and are valid and binding general obligations of the Issuer, secured by and payable from the Revenues and other funds provided therefor in the Indenture. Neither the general credit nor the taxing power of the State of Arkansas, or any political subdivision thereof, is pledged to the payment of the Series 2020 Bonds. The Issuer has no taxing power.

5. Interest on the Series 2020 Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account in determining adjusted current earnings for purposes of computing the alternative minimum tax imposed on corporations. The opinion set forth in the preceding sentence is subject to the condition that the Issuer comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Series 2020 Bonds in order that interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The Issuer has covenanted to comply with all such requirements. Failure to comply with certain of such requirements could cause interest on the Series 2020 Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Series 2020 Bonds. The Issuer has designated the Series 2020 Bonds as a "qualified tax-exempt obligation" within the meaning of section 265(b)(3) of the Code, and, in the case of certain financial institutions (within the meaning of section 265(b)(3) of the Code), a deduction is allowed for 80% of that portion of such financial institutions' interest expense allocable to interest on the Series 2020 Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Series 2020 Bonds.

6. The Series 2020 Bonds and interest thereon are exempt from all state, county, and municipal taxes in the State of Arkansas.

It is to be understood that the rights of the holders of the Series 2020 Bonds and the enforceability of the Series 2020 Bonds and the Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights generally and by equitable principles, whether considered at law or in equity.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

Rose Law Firm, a Professional Association