

Henderson State University

Arkadelphia, Arkansas

**Basic Financial Statements
and Other Reports**

June 30, 2019

LEGISLATIVE JOINT AUDITING COMMITTEE



HENDERSON STATE UNIVERSITY
TABLE OF CONTENTS
JUNE 30, 2019

Independent Auditor's Report
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*
Management Letter
Management's Discussion and Analysis (Unaudited)

BASIC FINANCIAL STATEMENTS

	<u>Exhibit</u>
Comparative Statement of Net Position	A
Henderson State University Foundation, Inc. – Statement of Financial Position	A-1
Comparative Statement of Revenues, Expenses, and Changes in Net Position	B
Henderson State University Foundation, Inc. – Statement of Activities	B-1
Comparative Statement of Cash Flows	C
Notes to Financial Statements	

REQUIRED SUPPLEMENTARY INFORMATION

Other Postemployment Benefits Other Than Pensions (OPEB) (Unaudited)
Schedule of the University's Proportionate Share of the Net Pension Liability – Pension Plans (Unaudited)
Schedule of the University's Contributions – Pension Plans (Unaudited)

OTHER INFORMATION

	<u>Schedule</u>
Schedule of Selected Information for the Last Five Years (Unaudited)	1

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

Henderson State University
Legislative Joint Auditing Committee

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Henderson State 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 Henderson State University Foundation, Inc., which represents 100% of the assets and revenues of the discretely presented component unit. 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 Henderson State University Foundation, Inc., is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Henderson State University Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

In our opinion, based on our audit and the report 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 discretely presented component unit 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.

Emphasis of Matter

As discussed in Notes 22 and 23 to the financial statements, on November 21, 2019, the University's Board of Trustees voted unanimously to execute a merger agreement with the Arkansas State University System. Our opinion is not modified with respect to this matter.

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 discretely presented component unit in our report dated November 20, 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 7-14, 67-69, and 70-71 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 January 10, 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
January 10, 2020
EDHE10019

Arkansas

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



Rep. Richard Womack
House Chair
Rep. DeAnn Vaughn
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

Henderson State 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 discretely presented component unit of Henderson State 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 January 10, 2020. Our report includes a reference to other auditors who audited the financial statements of the Henderson State University Foundation, Inc., as described in our report on the University's financial statements. The financial statements of the Henderson State University Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described below in the Audit Findings section of this report, we did identify certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

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. We consider the deficiency described below in the Audit Findings section of this report as item 1 to be a material weakness.

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. We consider the deficiency described below in the Audit Findings section of this report as item 2 to be a significant deficiency.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the University in a separate letter dated January 10, 2020.

AUDIT FINDINGS

Material Weakness

1. Financial statements should be presented fairly in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The University's internal control system did not detect or prevent material misstatements in the financial statements. Key errors in the Comparative Statement of Net Position included:
 - Due to recording errors, net pension liability was overstated by \$530,482, deferred inflows related to pensions were understated by \$364,383, and deferred outflows related to pensions were overstated by \$685,035. The net effect of these errors to the University's unrestricted net position was an overstatement of \$518,936.
 - Due to recording errors, cash and accounts payable were understated by \$196,422.

The financial statements, for the above misstatements, were corrected by University personnel during the audit. A similar finding was reported in the previous audit.

We recommend the University review internal controls to ensure the accuracy of financial statements.

Management Response: The University concurs with the finding. Additional review procedures of financial statements will be implemented. Ms. Rita Fleming has been hired as the new Vice President for Finance and Administration and assumed her position officially on December 3, 2019. The University appreciates the opportunity to correct the statements.

Significant Deficiency

2. We examined the University's policies and procedures regarding enrolling students with account balances and collection on current students' accounts. The University's policy, although not written, was to allow students with a current balance of less than \$4,800 to register for the upcoming semester and to automatically enroll students in an installment plan each semester. During our examination of 10 student accounts, we noted the following exceptions:
 - 8 of 10 students tested were allowed to enroll with a balance that exceeded the University's policy.
 - 5 of 10 students tested did not make any payments during the fall but were allowed to re-enroll in the spring and/or summer semester.

Additionally, we examined 10 delinquent student accounts to determine compliance with the University's policies and procedures and state regulations regarding collection of outstanding debt and noted the following exceptions:

- For 8 of the 10 student accounts tested, the University was not diligently and actively pursuing collection of the outstanding balances, in noncompliance with University policy and Ark. Code Ann. § 19-2-305.

A similar finding was reported in the previous audit.

We recommend the University review its policies and procedures on student accounts to ensure their adequacy, including the maximum outstanding balance allowed by students. We also recommend the University establish controls to ensure compliance with these policies and procedures as well as Ark. Code Ann. § 19-2-305.

Management Response: The University concurs with the finding. Management developed a plan in August of 2019 to address the student accounts issue. This was of critical importance to collect old debts and prevent future students from accruing such debts. The board of trustees approved policies, which are reflective of industry best practices, for both current students and future students.

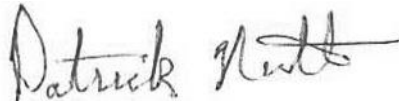
University's Response to Findings

The University's response to the findings identified in our audit, excluding the management letter finding, is described previously. The University's response was not subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

ARKANSAS LEGISLATIVE AUDIT

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

Patrick Nutt, CPA
Deputy Legislative Auditor

Little Rock, Arkansas
January 10, 2020

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

MANAGEMENT LETTER

Henderson State University
Legislative Joint Auditing Committee

We would like to communicate the following item that came to our attention during this audit. The purpose of such comment is to provide constructive feedback and guidance, in an effort to assist management to maintain a satisfactory level of compliance with the state constitution, laws and regulations, and to improve internal control. This matter was discussed previously with University officials during the course of our audit fieldwork and at the exit conference.

At the conclusion of this audit, Arkansas Legislative Audit is in the process of reviewing the student financial aid program of the University. We will issue a report concerning the program at the completion of the review.

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 Term</u>	<u>Fall Term</u>	<u>Spring Term</u>	<u>Summer I Term</u>
	<u>2018</u>	<u>2018</u>	<u>2019</u>	<u>2019</u>
Student Headcount	870	3,959	3,581	956
Student Semester Credit Hours	4,029	49,509	44,171	4,277

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
January 10, 2020

Henderson State University

Management's Discussion and Analysis (Unaudited)

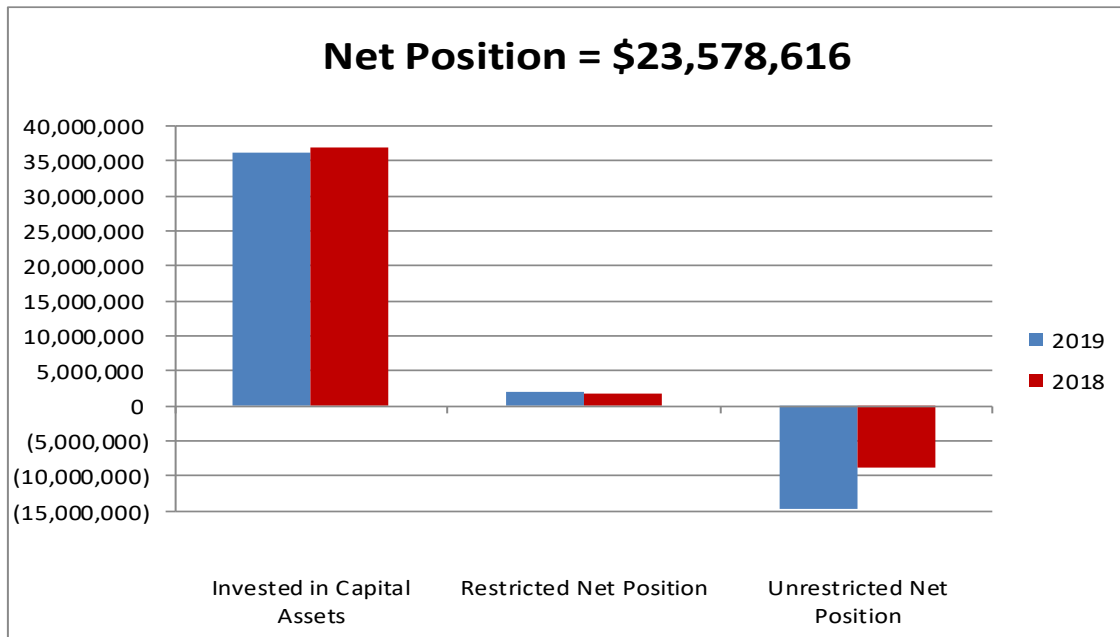
Overview of the Financial Statements and Financial Analysis

Henderson State University proudly presents its financial statements for fiscal year 2019 with comparative data presented for fiscal year 2018. The discussion and analysis of the University's financial statements which follows provides an overview of its financial activities for the current year. Discussion presented covers the Statements of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows.

Statement of Net Position

The Statement of Net Position presents the Assets (current and noncurrent), Deferred Outflow of Resources, Liabilities (current and noncurrent), Deferred Inflows of Resources, and Net Position (assets plus deferred outflows minus liabilities and deferred inflows) as of the end of the fiscal year. The purpose of the Statement of Net Position is to present to the readers of the financial statements a fiscal snapshot of Henderson State University. The difference between current and non-current assets is discussed in the footnotes to the financial statements.

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 in the bonds of the University. The Statement of Net Position provides a picture of the net position, the net asset balances remaining after deducting liabilities, of the Institution and the availability of assets to pay expenditures of the Institution.



Net Position is divided into three major categories. Net investment in Capital Assets provides information on the Institution's equity in property, plant and equipment owned by the Institution, after deducting outstanding debt related to the investment. Restricted Net Positions is divided into two categories: Nonexpendable and Expendable. The corpus of the nonexpendable restricted resources is only available for specific purposes. Expendable restricted net position is available for expenditures 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.

Henderson State University

Management's Discussion and Analysis (Unaudited)

Statement of Net Position (Continued)

Total Assets of the Institution decreased by \$1,261,955. A review of the Statement of Net Position will reveal that there are many offsetting variances, but the decrease was primarily due to a decrease in cash and deposits with trustee as of June 30, 2019. The University has experienced decreased liquidity over the past few years as student accounts receivable increased.

Total liabilities for the year increased by \$3,763,667. This net increase was primarily due to the increase in accounts payable of \$7,420,913 and a decline in long-term debt as of June 30, 2019.

Comparative Statement of Net Position		
June 30, 2019		
	2019	2018
Assets:		
Current Assets	\$ 8,048,792	\$ 9,139,236
Capital Assets, net	100,487,711	99,891,642
Other Assets	1,498,147	2,265,727
Total Assets	110,034,650	111,296,605
Deferred Outflow of Resources	2,328,462	2,786,842
Liabilities:		
Current Liabilities	14,355,117	7,347,945
Non-Current Liabilities	71,809,691	75,053,196
Total Liabilities	86,164,808	82,401,141
Deferred Inflow of Resources	2,619,688	1,977,420
Net Position:		
Invested in Capital Assets, Net of Debt	36,182,823	36,906,853
Restricted-Expendable	1,853,318	1,588,923
Restricted-Nonexpendable	141,556	123,471
Unrestricted	(14,599,081)	(8,914,361)
Total Net Position	\$ 23,578,616	\$ 29,704,886

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 and the expenses paid by the Institution, both operating and non-operating, and any other revenues, expenses, gains or losses received or spent by the Institution.

Henderson State University

Management's Discussion and Analysis (Unaudited)

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

Operating revenues are received for providing goods and services to the various customers and constituencies of the Institution. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the Institution. Non-operating revenues are revenues received for which good or services are not provided. The Governmental Accounting 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.

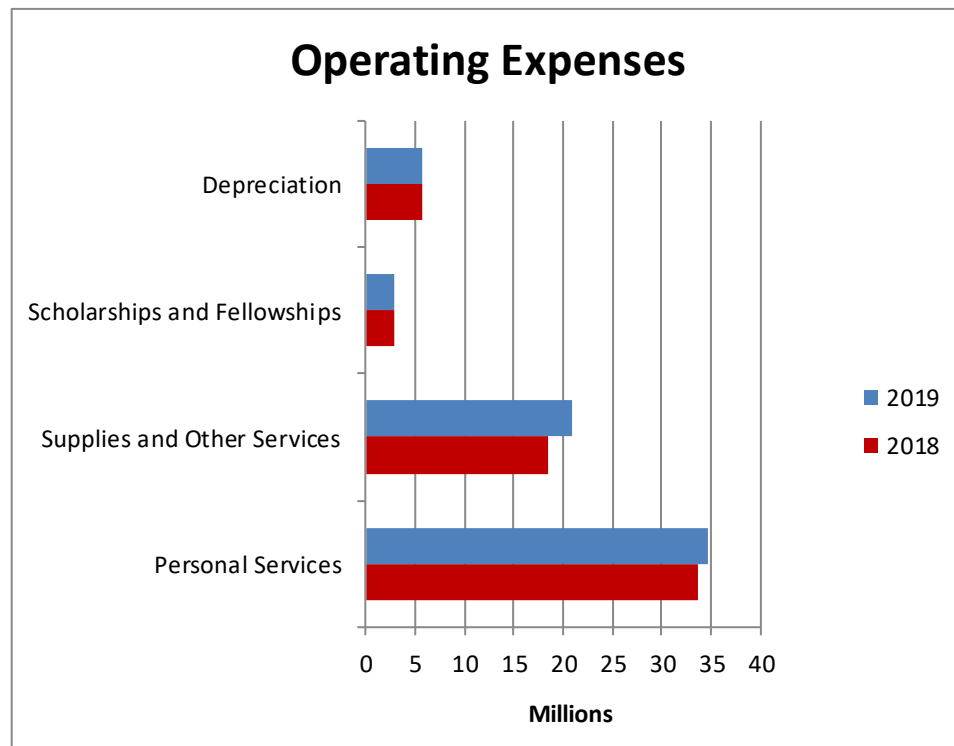
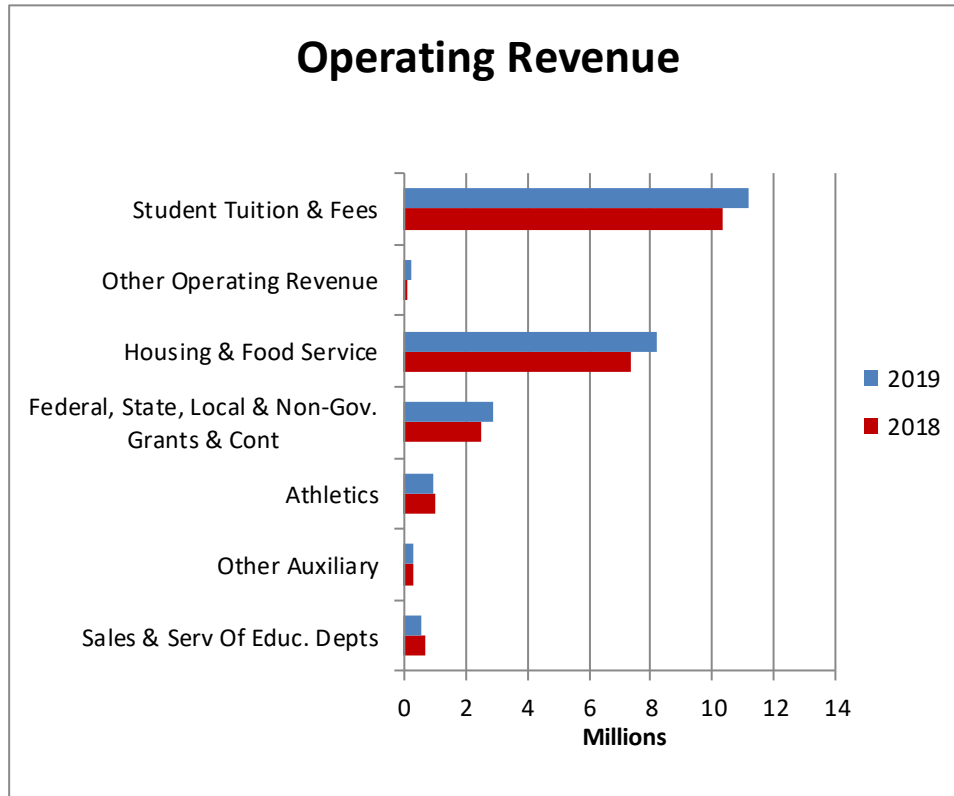
Comparative Statement of Revenues, Expenses and Changes in Net Position For the Fiscal Year Ended June 30, 2019		
	2019	2018
Operating Revenues	\$ 24,243,909	\$ 22,329,271
Operating Expenses	64,037,276	60,868,202
Operating Loss	(39,793,367)	(38,538,931)
Non-Operating Revenues less Expenses	32,664,611	30,970,720
Income (Loss) Before Other Rev., Exp., Gains or Losses	(7,128,756)	(7,568,211)
Other Revenues, Expenses, Gains or Losses	1,002,486	1,071,447
Increases (Decreases) in Net Position	(6,126,270)	(6,496,764)
Net Position as Originally Reported	29,704,886	40,797,026
Adjustment due to GASB 75	-	(2,820,580)
Restatement for Allowance for Doubtful Accounts	-	(1,774,796)
Restated Beginning Net Position	29,704,886	36,201,650
Net Position at End of Year	\$ 23,578,616	\$ 29,704,886

The Statement of Revenues, Expenses and Changes in Net Position reflect a decrease in net position at the end of the year of \$6,126,270. Highlights of the information presented on the statement are as follows:

- ❖ Personal Services increased by \$873,704
- ❖ Total operating expenses increased by approximately \$3.1 million dollars due to expenditures for deferred maintenance for the university's facilities.
- ❖ Tuition and fee revenues along with Housing and Food Service and Athletic revenue was adjusted for \$892,846 to record allowance for doubtful accounts for the University.

Henderson State University
Management's Discussion and Analysis (Unaudited)

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



Henderson State University

Management's Discussion and Analysis (Unaudited)

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 the following sections:

Comparative Statement of Cash Flow For the Fiscal Year Ended June 30, 2019			
		2019	2018
Cash Provided (used) by:			
Operating Activities	\$	(30,819,100)	\$ (33,378,255)
Non-capital Financing Activities		34,191,481	32,654,024
Investing Activities		811,885	69,592
Capital and Related Financing Activities		(5,157,238)	(6,450,761)
<hr/>			
Net Change in Cash		(972,972)	(7,105,400)
<hr/>			
Cash, Beginning of Year		1,968,077	9,073,477
Cash, End of year	\$	995,105	\$ 1,968,077
<hr/>			

- ❖ Operating Cash Flows provides detail of the operating cash flows and the net cash used by operating activities for the Institution.
- ❖ Non-Capital Financing activities reflect cash received and spent for non-operating financing activities.
- ❖ Cash flows from investing activities indicate the purchases, proceeds and interest received from investing activities.
- ❖ Capital and related financing activities provide specific information on the cash used for the acquisition and construction of capital and related items.

The last section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues and Expenses and Changes in Net Position.

Henderson State University

Management's Discussion and Analysis (Unaudited)

Capital Assets and Debt Administration

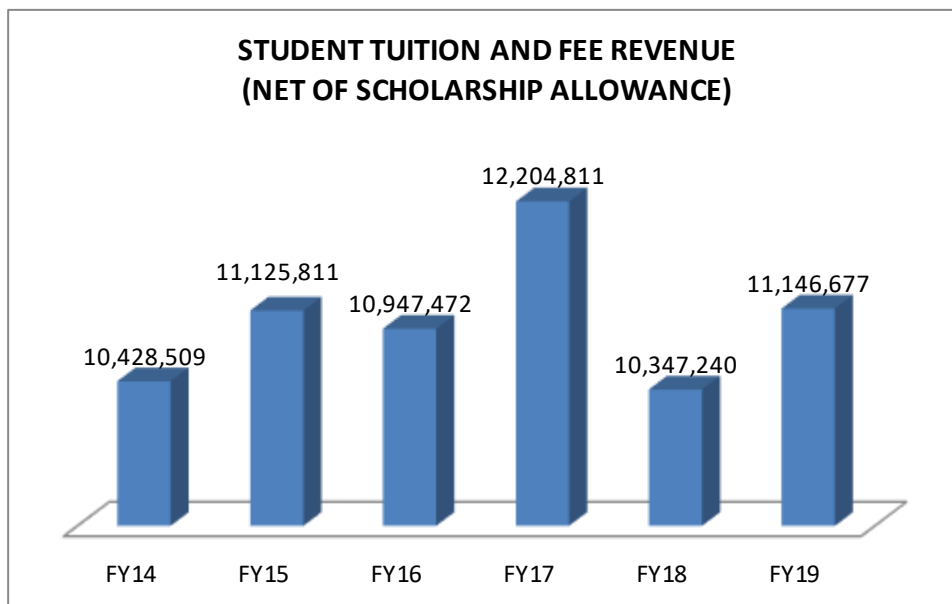
The University made an investment in the following capital additions or improvements in fiscal year 2019:

Investment in Capital Assets For the Fiscal Year Ended June 30, 2019		Amount
Land		\$ -
Construction in Progress		4,968,174
Improvements & Infrastructure		-
Equipment		572,759
Library Holdings		535,450
Buildings (includes \$158,133 of completed construction in progress)		301,125
Total		\$ 6,377,508

The University's long term debt (current and noncurrent) decreased from \$65,187,059 to \$62,538,018 a \$2,649,041 net decrease as a result of principal payment on long term debt.

Economic Outlook

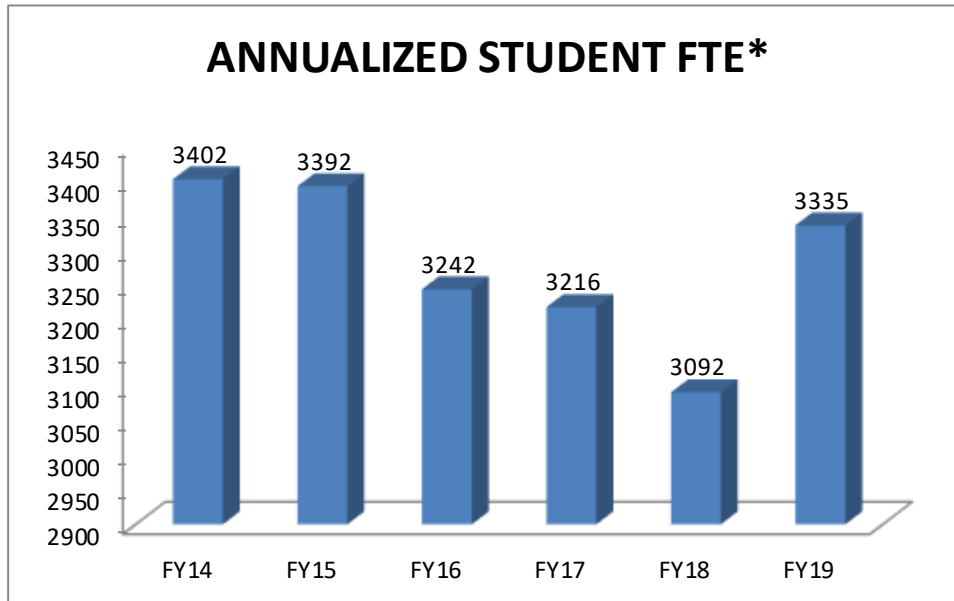
The following charts illustrate the current trends in Tuition, Annualized Student FTE and State Funding for Annualized Student FTE.



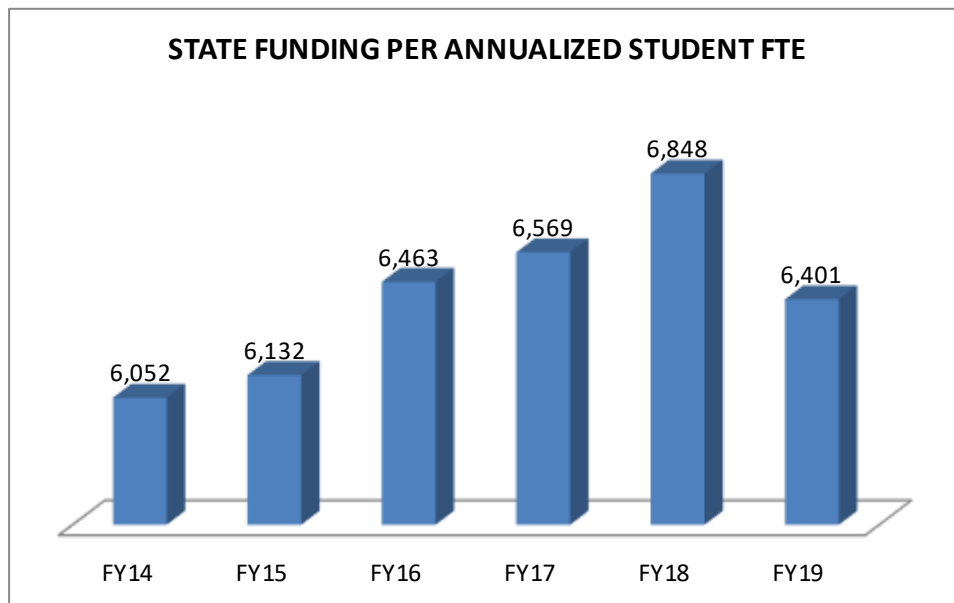
Henderson State University

Management's Discussion and Analysis (Unaudited)

Economic Outlook (Continued)



*The Annualized Student FTE was calculated using a different formula than the formula used in prior year reports.



During 2018-2019, the University experienced a significant reduction in cash flow that lead to the University requesting an advance of \$6,000,000 on our general revenue appropriation from the state of Arkansas and budget reductions in fiscal year 2020 with plans for further budgeting adjustments for fiscal year 2021. Additionally, Moody's Investors Service reviewed an initial bond rating for a \$33 million bond issue, as A3; outlook stable. In June 2018, Moody's issued a credit opinion which held the University's A3 rating with a negative outlook. After the approval of the advance from the state, on July 2, 2019, Moody's issued a credit opinion which downgraded the University's rating to Baa2 with a negative outlook citing decreased liquidity down 85% since 2014.

Henderson State University

Management's Discussion and Analysis (Unaudited)

Economic Outlook (Continued)

On July 25, 2019, Moody's confirmed the rating of Baa2 rating for the University based on the signing of a Memorandum of Understanding (MOU) with Arkansas State University System to provide assistance to the University, combined with the \$6 million advance from State of Arkansas. The Baa2 rating incorporates the University reduced liquidity, weak operating performance and challenges collecting tuition and fees from enrolled students despite generally stable enrollment. As further discussed in Note 22 to the financial statements, certain factors were present that created an uncertainty about the University's ability to continue as a going concern.

The University will also be undergoing a leadership transition with the July 19, 2019 resignation of President, Glen Jones.

Henderson State University is perceived as important within the state's educational framework as a regional low cost provider of higher education in Southwest Arkansas.

Lecia Franklin
Interim Vice President for Finance & Administration

Henderson State University
Comparative Statement of Net Position
June 30, 2019

	2019	2018
ASSETS:		
Current Assets:		
Cash and Cash Equivalents	\$ 907,878	\$ 1,807,025
Short Term Investments	174,512	636,840
Student Accounts Receivable	5,242,813	4,471,241
Accrued Interest Receivable		371
Inventories	27,475	137,338
Notes and Student Loans Receivable	125,965	113,011
Other Receivables	779,227	781,990
Deposits with Trustee	746,217	1,144,517
Unamortized Bond Insurance	44,705	46,903
Total Current Assets	8,048,792	9,139,236
Non-Current Assets:		
Cash and Cash Equivalents	87,227	161,052
Investments	74,405	340,944
Notes and Student Loans Receivable	681,479	824,471
Other Receivables	100,000	131,164
Deposits with Trustee	555,036	808,096
Capital Assets, Net of Accumulated		
Depreciation (\$86,583,393 and \$81,476,793)	100,487,711	99,891,642
Total Non-Current Assets	101,985,858	102,157,369
Total Assets	110,034,650	111,296,605
Deferred Outflows of Resources:		
Deferral of Pension Liability	1,983,068	2,402,862
Deferral of Debt Defeasance, Net of Accumulated		
Amortization (\$311,272 and \$272,686)	345,394	383,980
Total Outflows of Resources	2,328,462	2,786,842

Henderson State University
Comparative Statement of Net Position
June 30, 2019

	2019	2018
LIABILITIES:		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 9,507,975	\$ 2,087,062
Funds Held in Trust for Others	1,019,936	753,563
Unearned Revenue	471,353	496,174
Employee Retirement	45,576	49,592
Other Postemployment Benefits	144,314	195,360
Compensated Absences Payable	148,918	167,765
Long-term Debt	2,984,545	3,564,041
Discount on Bonds	(2,784)	(2,784)
Deferral of Bond Premium	35,284	37,172
Total Current Liabilities	14,355,117	7,347,945
Non-Current Liabilities:		
Refundable Advance	892,430	892,430
Employee Retirement	26,924	34,892
Other Postemployment Benefits	4,127,144	4,738,551
Compensated Absences Payable	948,732	766,173
Long-term Debt	59,553,473	61,623,018
Pension Liability	5,703,882	6,408,527
Discount on Bonds Net of Accumulated Amortization (\$5,898 and \$3,114)	(41,022)	(43,807)
Bond Premium-Deferred, Net of Accumulated Amortization (\$181,204 and \$144,032)	598,128	633,412
Total Non-Current Liabilities	71,809,691	75,053,196
Total Liabilities	86,164,808	82,401,141
Deferred Inflows of Resources:		
Deferral of Pension Liability	1,537,578	1,405,863
Deferral of OPEB Liability	1,082,110	571,557
Total Inflows of Resources	2,619,688	1,977,420

Henderson State University
Comparative Statement of Net Position
June 30, 2019

	2019	2018
NET POSITION:		
Invested in Capital Assets, Net of		
Related Debt	\$ 36,182,823	\$ 36,906,853
Restricted for:		
Expendable:		
Scholarship and Fellowships	53,109	229,027
Capital Projects	100,135	46,599
Grants and Contracts	1,446,614	425,027
Loans	20,053	58,917
Debt Service	225,000	810,001
Other	8,407	19,352
Nonexpendable:		
Loans	141,556	123,471
Unrestricted:		
Net Position	(14,599,081)	(8,914,361)
Total Net Position	\$ 23,578,616	\$ 29,704,886

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

Henderson State University Foundation, Inc.
Statement of Financial Position
June 30, 2019

	2019
ASSETS	
Cash and cash equivalents	\$ 2,055,958
Accrued interest receivable	1,443
Contributions receivable, net	704,571
Investments	18,248,970
Prepaid expenses	7,667
TOTAL ASSETS	\$ 21,018,609
 LIABILITIES AND NET ASSETS	
Liabilities	\$ 0
Net Assets	
Without donor restrictions	207,079
With donor restrictions	20,811,530
Total Net Assets	\$ 21,018,609
TOTAL LIABILITIES AND NET ASSETS	\$ 21,018,609

Henderson State University
Comparative Statement of Revenues, Expenses, and Changes in Net Position
For The Year Ended June 30, 2019

	2019	2018
OPERATING REVENUE:		
Student Tuition and Fees (net of scholarship allowances of \$16,736,081 and \$15,009,570)	\$ 11,146,677	\$ 10,347,240
Federal Grants and Contracts	2,112,719	1,954,411
State and Local Grants and Contracts	674,138	474,542
Non-Governmental Grants and Contracts	75,478	106,108
Sales and Services of Educational Departments	563,862	690,778
Athletics (net of scholarship allowances of \$832,557 and \$665,129)	949,320	996,106
Housing and Food Service (net of scholarship allowances of \$3,795,685 and \$3,333,896)	8,192,432	7,367,047
Bookstore	124,854	106,292
Garrison Center	15,883	14,619
Other Auxiliary Enterprises	159,629	158,026
Other Operating Revenues	228,917	114,102
TOTAL OPERATING REVENUES	24,243,909	22,329,271
OPERATING EXPENSES:		
Personal Services	34,623,236	33,749,532
Supplies and Other Services	20,820,738	18,463,880
Scholarships and Fellowships	2,813,327	2,864,734
Depreciation	5,779,975	5,790,056
TOTAL OPERATING EXPENSES	64,037,276	60,868,202
OPERATING INCOME (LOSS)	(39,793,367)	(38,538,931)
NON-OPERATING REVENUES (EXPENSES)		
State and Federal Appropriations	21,448,315	21,264,532
Federal and State Grants and Contracts	12,312,041	11,609,671
Gifts	843,068	354,106
Investment Income	105,982	78,464
Interest and Fees on Long Term Debt	(2,246,169)	(2,386,466)
Bond Issuance Cost		(150,537)
Bond Insurance Cost	(2,199)	(2,199)
Other	203,573	203,149
Net Non-operating Revenues	32,664,611	30,970,720

Henderson State University
Comparative Statement of Revenues, Expenses, and Changes in Net Position
For The Year Ended June 30, 2019

	2019	2018
Income Before Other Revenues, Expenses, Gains/Losses	\$ (7,128,756)	\$ (7,568,211)
Capital Gifts	322,879	383,498
Capital Grants and Contracts	1,100,000	1,100,000
Payments of Mandatory Fees to Agency Funds	(467,498)	(439,680)
Loss on Disposal of Assets	(1,464)	
Insurance Proceeds on Capital Assets	48,569	3,037
Adjustments to Prior Year Revenues and Expenses	24,592	24,592
INCREASE (DECREASE) IN NET POSITION	(6,126,270)	(6,496,764)
NET POSITION- BEGINNING OF YEAR AS ORIGINALLY REPORTED	29,704,886	40,797,026
Restatement of prior year balance - GASB 75 (Note 22)		(2,820,580)
Restatement of prior year balance - Other (Note 22)		(1,774,796)
NET POSITION- BEGINNING OF YEAR RESTATED	29,704,886	36,201,650
NET POSITION-END OF YEAR	\$ 23,578,616	\$ 29,704,886

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

Henderson State University Foundation, Inc.
Statement of Activities
For the Year Ended June 30, 2019

	2019
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS	
Support and Revenue without Donor Restrictions	
Grants	\$ 1,657
Net assets released from restrictions	2,011,287
Total Unrestricted Support, Revenue and Gains	2,012,944
 Expenses	
Program services	1,855,126
General and administrative supporting services	139,170
Total Expenses	1,994,296
Increase in Net Assets Without Donor Restrictions	18,648
 CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS	
Contributions	2,484,090
Investment return, net	1,144,321
Net assets released from restrictions	(2,011,287)
Increase in Net Assets With Donor Restrictions	1,617,124
INCREASE IN TOTAL NET ASSETS	1,635,772
NET ASSETS, BEGINNING OF YEAR	19,382,837
NET ASSETS, END OF YEAR	\$ 21,018,609

Henderson State University
Comparative Statement of Cash Flows
For the Year Ended June 30, 2019

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and Fees (Net of Scholarships)	\$ 10,752,480	\$ 10,288,673
Research Grants and Contracts	2,900,729	2,231,890
Collection of Loans and Interest to Students (includes Perkins and interest income)	146,538	119,986
Auxiliary Enterprises		
Athletics	949,320	917,939
Housing and Food Service	7,812,286	6,910,399
Bookstore	124,670	138,980
Student Union	15,883	14,619
Other Auxiliary Enterprises	137,580	172,272
Other Receipts	752,370	807,618
Payments to Suppliers	(17,346,821)	(18,295,658)
Payments to Employees	(26,921,472)	(25,887,797)
Payments of Employee Benefits	(7,427,494)	(7,725,932)
Loans issued to Students (includes Perkins)	(16,500)	(52,602)
Scholarships and Fellowships	(2,698,669)	(3,018,642)
Net Cash Provided (Used) by Operating Activities	<u>(30,819,100)</u>	<u>(33,378,255)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations	21,448,315	21,264,532
Federal and State Grants and Contracts	12,312,041	11,609,671
Loans to Students-Direct Loans & Private (Inflows)	15,857,230	15,164,771
Agency Funds (Net of Outflows)	266,373	87,105
Loans to Students-Direct Loans & Private (Outflows)	(15,857,230)	(15,164,771)
Payments of Mandatory Fees to Agency Funds	(467,498)	(439,680)
Gifts and Grants	843,067	354,106
Principal paid on non-capital loan	(160,299)	(155,510)
Interest paid on non-capital loan	(50,518)	(50,518)
Refund of federal perkins contributions		(39,453)
Other		23,771
Net Cash Provided (Used) by Noncapital Financing Activities	<u>34,191,481</u>	<u>32,654,024</u>

Henderson State University
Comparative Statement of Cash Flows
June 30, 2019

	2019	2018
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisitions and Construction of Capital Assets	\$ (2,503,417)	\$ (2,142,380)
Proceeds from Bond Issue	1,000,000	
Capital Grants and Contracts	1,193,309	1,377,361
Insurance Proceeds on Capital Assets	48,570	3,037
Principal Paid on Non-Bonded Debt	(603,741)	(583,562)
Interest and Fees Paid on Non-Bonded Debt	(581,854)	(580,968)
Payment to Trustee for Principal	(2,145,612)	(2,780,000)
Payment to Trustee for Interest and Fees	(1,564,493)	(1,744,249)
Net Cash Provided (Used) by Capital and Related Financing Activities	(5,157,238)	(6,450,761)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales and Maturities of Investments	768,487	135,131
Interest on Investments (net of fees)	99,205	60,970
Purchase of Investments	(55,807)	(126,509)
Net Cash Provided (Used) by Investing Activities	811,885	69,592
Net Increase (Decrease) in Cash	(972,972)	(7,105,400)
Cash - Beginning of Year	1,968,077	9,073,477
Cash - Ending of Year	\$ 995,105	\$ 1,968,077

Henderson State University
Comparative Statement of Cash Flows
June 30, 2019

	2019	2018
Reconciliation of Net Operating Loss to Net Cash Provided (Used) by Operating Activities		
Operating Income (Loss)	\$ (39,793,367)	\$ (38,538,931)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense	5,779,975	5,790,056
Receivables, Net	(830,953)	(1,022,707)
Inventories	109,864	(3,941)
Other Assets		262
Loans Receivable	130,038	67,385
Accounts Payable	3,963,472	140,687
Unearned Revenue	(24,821)	555
Employee Retirement	(11,983)	(18,365)
Compensated Absences	163,711	(126,848)
OPEB	(151,900)	422,636
Net Pension Liability	(153,136)	(89,044)
Net Cash Provided (Used) by Operating Activities	\$ (30,819,100)	\$ (33,378,255)
NONCASH TRANSACTIONS		
Donated Capital Assets	\$ 322,879	\$ 383,498
Loss on Capital Assets	(1,646)	(1,265)
Increase (decrease) in Fair Value of Investments	13,202	11,293
Discount on Bonds	(2,784)	(3,588)
Premium of Bonds	37,172	37,172
Deferral of Debt Defeasance	(38,585)	(66,347)
Bond Proceeds Deposited into Current Refunding Fund		(10,519,635)
Proceeds from Refunding Bonds Issued		10,320,000
Bond Issuance Cost Paid from Bond Proceeds		(150,537)
Payment from bond trustee for early extinguishment of debt	154,388	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

Henderson State University
Notes to Financial Statements
June 30, 2019

NOTE 1: Reporting Entity

Henderson State University (University) was founded in 1890 as a co-educational liberal arts college and was related to the Methodist church until 1929, when the Arkansas General Assembly enacted legislation (Act 46) to “establish a standard teachers’ college at Arkadelphia” and the Institution, known as Henderson-Brown College, was transferred to the State of Arkansas.

The University is a four-year institution of higher education. The governing body is the Board of Trustees comprised of seven members appointed by the Governor of the State.

Component Units

In May 2002, 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 the fiscal year ended June 30, 2004, the financial activities of qualifying foundations are to be included in the financial statements of the primary government, through discrete presentations. There is one qualifying foundation for Henderson State University, the Henderson State University Foundation, Inc. Although the University does not control the timing or amount of receipts from this Foundation, the majority of resources, or income thereon, which the Foundation holds and invests is restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University’s financial statements. During the year ended June 30, 2019, the Foundation transferred property, equipment and funds of \$891,637 to the University for proper accountability and academic support.

The Henderson State University Foundation, Inc. is a separate nonprofit organization, which operates for charitable educational purposes, including administering and investing gifts and other amounts received directly or indirectly for the benefit of Henderson State University. The Board of Directors of the Foundation is made up of twelve (12) members including two (2) members who are also members of Henderson State University Board of Trustees, and two (2) Ex-officio members who are also employees of the University. Complete financial statements for the Foundation can be obtained from the administrative office at 324 North 12th Street, Arkadelphia, AR 71923.

Henderson State University
Notes to Financial Statements
June 30, 2019

NOTE 2: Summary of Significant Accounting Policies

Financial Statement Presentation

In June 1999, the Governmental Accounting Standards Board (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 this in November 1999. The financial statement presentation required by GASB Statements No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the University’s assets, deferred outflows, liabilities, deferred inflows, net position, revenues, expenses, changes in net position, cash flows, and replaces the fund-group perspective previously required.

Basis of Accounting

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

Capital Assets and Depreciation

Land, buildings, improvements and infrastructure, equipment, library holdings, and construction in progress are reported at cost or estimated historical cost if actual data is not available. Donated capital assets are reported at acquisition value, as required by GASB Statement No. 72, when received. The University’s capitalization policy for equipment is to record, as assets, any items with a unit cost of more than \$5,000 and an estimated useful life greater than one year. Improvements to buildings, infrastructure, and land that significantly increase the value or extend the useful life of the asset are capitalized. Routine repairs and maintenance are charged to operating expense when incurred. Capitalization thresholds for intangible assets are \$1,000,000 for internally developed software and \$100,000 for all other applicable categories.

Depreciation is computed using the straight-line method over the estimated lives of the assets, generally 15 to 30 years for buildings, 15 to 20 years for infrastructure and land improvements, 10-15 years for library books, and 3 to 7 years for equipment. Estimated lives for intangible assets will be determined at the time of capitalization.

Operating and Nonoperating Revenues

Revenues of the University are classified as either operating or nonoperating according to the following criteria:

Operating Revenues: Operating revenues result from activities that have characteristics of exchange transactions: this is, the University receives payment in exchange for providing services or products to students or other constituencies. Student tuition and fees, net of scholarship discounts and allowances, sales and services of auxiliary operations, net of scholarship discounts and allowances, and federal, state, local and private grants are the main categories of operating revenues for the University.

Henderson State University
Notes to Financial Statements
June 30, 2019

NOTE 2: Summary of Significant Accounting Policies (Continued)

Nonoperating Revenues: Nonoperating revenues are those revenues that result from nonexchange transactions or from activities specifically defined as nonoperating by the GASB. Examples of nonoperating revenues include state appropriations, certain grants and contracts, sales and use taxes, property taxes and investment income. State appropriations from the state are considered nonoperating under the definitions set forth by the GASB because the University does not provide a direct and commensurate benefit to the legislature in exchange for them.

Cash Equivalents

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

Accounts Receivable

Accounts Receivable consists of tuition and fee charges to students and auxiliary enterprises provided to students, faculty and staff. Accounts Receivable also includes amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. In 2018 the University recognized the total allowance for uncollectable accounts in their financial statements.

Investments

Investments, other than nonnegotiable certificates of deposits, are stated at fair value. Fair value is market value if a market price or quote is readily available. Carrying amounts of investments are adjusted for increases or decreases in value. Gains and losses on investment transactions are accounted for in the funds which owned such assets.

Deposits with Trustees

Deposits with trustees include principal, interest and paying agents fees made in advance of the due date and forwarded to the bond trustee. In addition, deposits with trustees include cash and investments held in debt service reserve accounts.

Notes Receivable

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

Inventories

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

Henderson State University
Notes to Financial Statements
June 30, 2019

NOTE 2: Summary of Significant Accounting Policies (Continued)

Noncurrent Cash and Investments

Cash and investments that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other nonrecurring assets, are classified as noncurrent assets in the Statement of Net Position.

Deferred Outflows of Resources

Deferred outflows include the deferred gains or losses on debt financing (debt refunding) and certain transactions related to pensions.

Deferred Inflows of Resources

Deferred inflows of resources represent an increase of net position that applies to future periods. Therefore, these items will not be recognized as revenue until a future period.

Pensions

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

Compensated Absences Payable

Employees accrue and accumulate annual and sick leave in accordance with policies established by the Board of Trustees. Ten month faculty accrue sick leave at a rate of 240 hours per year. Non-classified and classified employees accrue annual leave 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 University accrues the dollar value of annual leave benefits which are payable upon retirement, termination, or death of its employees. This liability has been projected to be \$1,007,063 at June 30, 2019. Classified employees with at least 50 days of accumulated sick leave are entitled to payment of accumulated leave. The University accrues the dollar value of sick leave benefits which are payable upon retirement or death of its classified employees. This liability is projected to be \$87,825 at June 30, 2019. On June 10, 2011, the Board of Trustees voted to not compensate non-classified employees and faculty for unpaid sick leave until further research has been conducted. This vote was in response to ACT 337 of the 88th General Assembly Regular Session, 2011, amended Arkansas Code 21-4-505, to grant discretion to state-supported institutions of higher education on whether or not to compensate all employees for unpaid sick leave upon retirement. The University accrues compensatory time at time and one half of the hours worked over 8 hours per day for classified employees. The liability is projected to be \$2,762 at June 30, 2019.

Henderson State University
Notes to Financial Statements
June 30, 2019

NOTE 2: Summary of Significant Accounting Policies (Continued)

Employee Retirement

Accrual was discontinued under Henderson State University's self-managed retirement program as of June 30, 1979. Employees of record on or before April 5, 1973 are eligible for benefits. As a result of this action the University calculated what the financial obligation would be for the life of this plan. Annual adjustments are made to record termination of obligation.

Noncurrent Liabilities

Noncurrent liabilities include (1) principal amounts of revenue bonds payable, notes payable, and installment contract obligations with contractual maturities greater than one year; and (2) estimated amounts for accrued compensated absences; (3) other postemployment benefits; (4) net pension liability; and other liabilities that will not be paid within the next fiscal year.

Refundable Federal Advances:

For reporting purposes, the University has shown the federal portion of the Perkins Loan Program fund balance as a noncurrent liability on the Statement of Net Position. In the event of the cessation of the program, this amount is refundable to the Federal government.

Net Position

The University's net position is classified as follows:

Invested in Capital Assets, Net of Related Debt: This classification represents the University's total investment in capital assets, net of outstanding debt obligations related to those assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included in this category.

Restricted Net Position: Within this classification there are two categories of net position:

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

Restricted, nonexpendable: Nonexpendable restricted net position consist of endowment and similar type funds for which donors or other external parties have stipulated that the principal or corpus is to be maintained inviolate and in perpetuity and invested only for the purpose of producing income which may either be expended in accordance with the donors' or external parties' stipulations or added to the principal.

Unrestricted Net Position: Unrestricted net position represents resources of the University that are unrelated to capital items and not externally restricted. These resources may be expended at the discretion of the University's governing board in the educational and general operations of the University and in furtherance of its mission.

Henderson State University
Notes to Financial Statements
June 30, 2019

NOTE 2: Summary of Significant Accounting Policies (Continued)

Scholarship Discounts and Allowances

Student tuition and fees, and certain other revenues received 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 University's stated charges and the amount actually paid by students and/or third parties making payments of behalf of the students. Under this approach, scholarships awarded by the University are considered as reductions in tuition and fee revenues rather than as expenses. Additionally, certain governmental grants, such as Pell grants, and payments from other federal, state or nongovernmental programs, are required to be recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are applied tuition, fees, and other student charges, the University has reported a corresponding scholarship discount or allowance.

Restricted/Unrestricted Resources:

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

Capitalization of Interest:

Interest costs incurred are no longer capitalized during the period of construction. The University early implemented GASB Statement no. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, during fiscal year 2019. This statement is effective for reporting periods beginning after December 15, 2019. However, earlier application was encouraged.

New Accounting Pronouncements

The GASB issued the following statements: Statement No. 84, effective for reporting periods beginning after December 15, 2018, *Fiduciary Activities*, addresses identification and reporting for fiduciary activities. Management has not yet determined the effects of these statements on the University's financial statements. Statement No. 87, effective for reporting periods beginning after December 15, 2019, *Leases*, addresses accounting and reporting for leases by governments. Management has not yet determined the effects of these statements on the University's financial statements.

Henderson State University
Notes to Financial Statements
June 30, 2019

NOTE 3: Public Fund Deposits and Investments

Cash Deposits:

The University's cash deposits are carried at cost and year end balances are shown below:

Cash Deposits:	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 948,977	\$ 977,973
Collateralized:		
Collateral held by the pledging bank or pledging bank's trust department in the University's name	621,828	1,228,405
Total Deposits	\$ 1,570,805	\$ 2,206,378

The above deposits do not include cash of \$5,719 which was maintained in a money market fund administered by a third party and insured by the Securities Investor Protection Corporation (SIPC) along with cash on hand in the amount of \$23,860 at June 30, 2019. The above total deposits include \$331,612 of cash that is reported as deposits with trustee and \$273,667 in certificates of deposits reported as deposits with trustee classified as participating contracts.

Custodial Credit Risk – Deposits:

Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University does not have a deposit policy for custodial credit risk. As of June 30, 2019, none of the University's bank balance of \$2,206,378 was exposed to custodial credit risk.

Custodial Credit Risk – Investments:

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University does not have an investment policy for custodial credit risk.

Henderson State University
Notes to Financial Statements
June 30, 2019

NOTE 3: Public Fund Deposits and Investments (Continued)

The following table contains information on the credit risk disclosure for investments:

Type of Investment	Market Value (Not Rated)
Open ended Mutual Funds	\$ 206,192
Equity Exchange Traded Funds (ETF)	42,725
	\$ 248,917

Concentration of Credit Risk:

The University does not limit the amount of operating funds invested in any one issuer.

Deposit with Trustees:

At June 30, 2019, the University's deposits with trustees of \$1,301,253, excluding \$331,612 in cash and \$273,667 in negotiable certificates of deposit, were invested as follows:

Federated Treasury Obligations Fund of \$282,536 The fund was rated AAAM by Standard and Poor's and Aaamf by Moody's Investors Service and consisted of short-term repurchase agreements and U.S. Treasuries. The effective average maturity was approximately 38 days.

Federated Government Obligations Fund of \$413,438. The fund was rated AAAM by Standard and Poor's, Aaamf by Moody's Investors Service, and consisted of short-term repurchase agreements, government agencies notes and U.S. Treasuries. The effective average maturity was approximately 41 days.

The deposits with trustees consisted of funds obligated as debt reserves for the University's bond issues, and amounts being held to retire future debt requirements.

Henderson State University
Notes to Financial Statements
June 30, 2019

NOTE 4: Fair Value Measurement:

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

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

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

- Level 1 Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the University has the ability to access at the measurement date. Publicly traded equity securities and mutual funds are the primary investments included in Level 1 and are valued at the individual security's closing market price.

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

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

Henderson State University
Notes to Financial Statements
June 30, 2019

NOTE 4: Fair Value Measurement (Continued):

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

The following table sets forth, by level within the valuation, hierarchy, University invested funds, including amounts reported as deposits with bond trustees on the Statement of Net Position at June 30, 2019:

		Fair Value Measurements Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level	6/30/2019			
Debt Securities:				
Negotiable Certificates of Deposit	\$ 273,667	\$ 273,667		
Private Equity Funds	248,917	206,192	\$ 42,725	
Total Investments at Fair Value	\$ 522,584	\$ 479,859	\$ 42,725	

The Federated Government Obligations Fund

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

Investments Measured at the NAV

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

<u>Security Description</u>	<u>Fair Value</u>
Government Agencies ^[1]	\$ 151,318
Repurchase Agreements ^[2]	217,882
U.S. Treasury ^[1]	44,238
Total Investments Measured at the NAV	\$ 413,438

Henderson State University
Notes to Financial Statements
June 30, 2019

NOTE 4: Fair Value Measurement (Continued):

The Federated Treasury Obligations Fund

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

Investments Measured at the NAV

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

<u>Security Description</u>	<u>Fair Value</u>
Repurchase Agreements ^[2]	\$ 169,804
U.S. Treasury ^[1]	112,732
Total Investments Measured at the NAV	<u>\$ 282,536</u>

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

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

Henderson State University
Notes to Financial Statements
June 30, 2019

NOTE 4: Fair Value Measurement (Continued):

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

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

Government Securities – are issued or guaranteed by a federal agency or instrumentality acting under federal authority. Some government securities, including those issued by 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.

Henderson State University
Notes to Financial Statements
June 30, 2019

NOTE 5: Income Taxes

The University is tax exempt under 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 6: Capital Assets

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

Capital Assets:	Balance as of July 1, 2018	Additions	Transfers	Retirements	Balance as of June 30, 2019
Capital assets not being depreciated					
Land	\$ 1,975,554				\$ 1,975,554
Construction in progress	1,242,573	\$ 4,968,174	\$ (1,236,779)		4,973,968
Total capital assets not being depr.	\$ 3,218,127	\$ 4,968,174	\$ (1,236,779)	-	\$ 6,949,522
Other capital assets					
Improvements	\$ 9,054,027				\$ 9,054,027
Infrastructure	13,990,166				13,990,166
Buildings	133,939,219	\$ 301,125	\$ 1,236,779		135,477,123
Equipment	7,691,599	572,759		\$ (636,219)	7,628,139
Library materials	13,475,297	535,450		(38,620)	13,972,127
Total other capital assets	178,150,308	1,409,334	1,236,779	(674,839)	180,121,582
Less accumulated depreciation for:					
Improvements	(3,164,406)	(367,878)			(3,532,284)
Infrastructure	(3,398,943)	(618,606)			(4,017,549)
Buildings	(58,949,283)	(3,984,415)			(62,933,698)
Equipment	(6,444,226)	(343,741)		634,755	(6,153,212)
Library materials	(9,519,935)	(465,335)		38,620	(9,946,650)
Total accumulated depreciation	(81,476,793)	(5,779,975)	-	673,375	(86,583,393)
Total other capital assets, net	\$ 96,673,515	\$ (4,370,641)	\$ 1,236,779	\$ (1,464)	\$ 93,538,189
Capital Asset Summary:					
Capital assets not being depreciated	\$ 3,218,127	\$ 4,968,174	\$ (1,236,779)		\$ 6,949,522
Other capital assets, at cost	178,150,308	1,409,334	1,236,779	\$ (674,839)	180,121,582
Total cost of capital assets	181,368,435	6,377,508	-	(674,839)	187,071,104
Less accumulated depreciation	(81,476,793)	(5,779,975)		673,375	(86,583,393)
Capital Assets, net of depreciation	\$ 99,891,642	\$ 597,533	\$ -	\$ (1,464)	\$ 100,487,711

Henderson State University
Notes to Financial Statements
June 30, 2019

NOTE 7: Long-Term Liabilities

Debt payments on bonds amounted to \$4,510,044 for the fiscal year ended June 30, 2019. The amount of \$1,349,985 was expended for debt payments on major capital leases and notes payable.

A summary of long-term debt is as follows:

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized and Issued	Debt Outstanding June 30, 2019	Maturities to June 30, 2019
10/1/2011	1/1/2020	2.0- 2.75%	\$ 1,370,000	\$ 170,000	\$ 1,200,000
11/1/2014	11/1/2039	2-5%	33,000,000	30,100,000	2,900,000
6/1/2015	7/1/2026	1-3.2%	3,780,000	1,975,000	1,805,000
2/3/2016	1/1/2032	2-3%	6,465,000	5,880,000	585,000
9/19/2017	7/15/2035	2.0-3.25%	7,005,000	6,695,000	310,000
10/3/2017	9/1/2035	1.25-3.25%	3,315,000	3,165,000	150,000
8/14/2018	8/14/2021	4.25%	1,000,000	1,000,000	-
2/14/2014	2/14/2028	4.98%	1,100,000	717,198	382,802
8/31/2011	8/30/2036	5.74%	2,750,000	2,364,237	385,763
6/30/2015	6/1/2035	4.12%	10,136,926	8,998,065	1,138,861
7/23/2012	7/23/2026	3.08%	2,366,268	1,473,518	892,750
			\$ 72,288,194	\$ 62,538,018	\$ 9,750,176

Henderson State University
Notes to Financial Statements
June 30, 2019

NOTE 7: Long-Term Liabilities (Continued)

The changes in long-term liabilities are as follows:

	Balance as of July 1, 2018	Additions	Reductions	Balance as of June 30, 2019	Amounts due within one year
General obligation bonds	\$ 50,870,000		\$ 2,885,000 *	\$ 47,985,000	\$ 2,195,000
Less bond discount	(46,591)		2,785	(43,806)	(2,784)
Plus bond premium	670,584		37,172	633,412	35,284
Bonds from direct placement	-	\$ 1,000,000	-	1,000,000	
Total bonds payable	51,493,993	1,000,000	2,924,957	49,574,606	2,227,500
Notes Payable	12,683,242		603,742	12,079,500	624,309
Installment Contract	1,633,817		160,299	1,473,518	165,236
Comp Absences Pay.	933,938	882,510	718,798	1,097,650	148,918
Employee Retire Pay.	84,484	31,158	43,142	72,500	45,576
	<u>\$ 66,829,474</u>	<u>\$ 1,913,668</u>	<u>\$ 4,450,938</u>	<u>\$ 64,297,774</u>	<u>\$ 3,211,539</u>

*Amount includes \$160,000 early extinguishment of debt. See Note 24.

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

Year Ended June 30	Bonds		Bonds From Direct Placements		Total
	Principal	Interest	Principal	Interest	
2020	\$ 2,195,000	\$ 1,641,300		\$ 48,632	\$ 3,884,932
2021	2,085,000	1,572,170		43,208	3,700,378
2022	2,150,000	1,504,450	\$ 1,000,000	43,090	4,697,540
2023	2,215,000	1,429,485			3,644,485
2024	2,305,000	1,348,253			3,653,253
2025-2029	12,135,000	5,577,313			17,712,313
2030-2034	12,300,000	3,461,491			15,761,491
2035-2039	10,550,000	1,377,406			11,927,406
2040	2,050,000	41,000			2,091,000
	<u>\$ 47,985,000</u>	<u>\$ 17,952,868</u>	<u>\$ 1,000,000</u>	<u>\$ 134,930</u>	<u>\$ 67,072,798</u>

Henderson State University
Notes to Financial Statements
June 30, 2019

NOTE 7: Long-Term Liabilities (Continued)

Year Ended June 30	Notes Payable		Total
	Principal	Interest	
2020	\$ 624,309	\$ 525,244	\$ 1,149,553
2021	646,403	503,768	1,150,171
2022	668,973	481,836	1,150,809
2023	692,408	459,057	1,151,465
2024	716,420	435,718	1,152,138
2025-2029	3,765,849	1,683,710	5,449,559
2030-2034	3,771,830	809,242	4,581,072
2035-2037	1,193,308	82,208	1,275,516
	\$ 12,079,500	\$ 4,980,783	\$ 17,060,283

Year Ended June 30	Installment Contract		Total
	Principal	Interest	
2020	\$ 165,237	\$ 45,384	\$ 210,621
2021	170,326	40,295	210,621
2022	175,572	35,049	210,621
2023	180,979	29,642	210,621
2024	186,554	24,067	210,621
2025-2027	594,850	37,013	631,863
	\$ 1,473,518	\$ 211,450	\$ 1,684,968

Henderson State University
Notes to Financial Statements
June 30, 2019

NOTE 8: Commitments

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

Project Name	Expected Completion Date	Contract Balance
Smith Hall Renovations	August 31, 2019	\$ 1,588,655
Newberry Hall Renovations	October 31, 2020	168,388
ESCO Energy Savings Renovations	August 31, 2020	11,434,079
		\$ 13,191,122

Operating Leases:

The University is currently leasing 46 copiers, building space for the Hot Springs Campus and the Community Education Center, and airport hangers for the aviation program. The University has no ownership of these items at the end of the lease agreement.

- (1) Future minimum rental payments (aggregate) at June 30, 2019 totals \$956,370
- (2) Contingent rental payments are determined on a cost basis.
- (3) Future minimum rental payments for the six (6) succeeding fiscal years:

Fiscal Year Ending June 30,	Amount
2020	\$ 276,589
2021	212,595
2022	171,064
2023	143,390
2024	140,984
2025	11,748
Total Future Minimum Rental Payments (6 years)	\$ 956,370

Rental payments for the current year total \$297,884.

Henderson State University
Notes to Financial Statements
June 30, 2019

NOTE 9: Retirement Plans

Teachers Insurance and Annuity Association (TIAA):

Plan Description: The University participates in TIAA, a defined contribution plan. The plan is a 403(b) program as defined by Internal Revenue Service Code of 1986 as amended, and is administered by TIAA. 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. The plan also offers a variable annuity. Arkansas law authorizes participation in the plan.

Funding Policy: TIAA has contributory and non-contributory plans. Contributory members contribute a minimum of six percent of earnings to the plan. The University contributes ten percent to the plan. Employees may also request deductions for TIAA additional retirement, TIAA Supplemental Retirement Annuities and Fidelity Group. The University's and participants' contributions for the year ended June 30, 2019 were \$1,916,495 and \$1,436,176 respectively.

Arkansas Teacher Retirement System (ATRS):

Plan Description: Benefit provisions are set forth in the Arkansas Code Annotated, Title 24, Chapter 7 and may only be amended by the Arkansas General Assembly. ATRS is a cost-sharing, multiple-employer, defined benefit pension plan administered by the State of Arkansas. The plan was established by the authority of the Arkansas General Assembly with the passage of Act 266 of 1937. The costs of administering the plan are paid out of investment earnings. The general administration and responsibility for the proper operation of the System is vested in the fifteen members of the Board of Trustees of the Arkansas Teacher Retirement System (the Board). Membership includes eleven members who are elected and consist of seven active members of ATRS with at least five years of actual service, three retired members receiving an annuity from ATRS, and one active or retired member from a minority racial or ethnic group. There are also four ex-officio members, including the State Bank Commissioner, the Treasurer of the State, the Auditor of the State and the Commissioner of Education. ATRS issues a publicly available financial report that can be obtained at <https://www.artrs.gov/publications>.

Benefits Provided

ATRS provides retirement, disability and death benefits. Retirement benefits are determined as a percentage of the member's highest 5-year average compensation times the member's years of service. The percentage used is based upon whether a member is contributory or noncontributory as follows:

Contributory	2.15%
Non-Contributory	1.39%

Henderson State University
Notes to Financial Statements
June 30, 2019

NOTE 9: Retirement Plans (Continued)

Arkansas Teacher Retirement System (ATRS): (Continued)

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

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

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

Members are eligible for disability benefits with 5 years of service. Disability benefits are computed as an age and service benefit, based on service and pay at disability. Survivor benefits are payable to qualified survivors upon the death of an active member with 5 years of service. The monthly benefit paid to eligible spouse survivors is computed as if the member had retired and elected the Joint & 100% Survivor option. Minor child survivors receive a percentage of the member's highest salary earned. ATRS also provides a lump sum death benefit for active and retired members with 10 years of actual service. The amount for contributory members will be up to \$10,000 and up to \$6,667 for noncontributory members. A cost-of-living adjustment of 3% of the current benefit is added each year.

Effective July 1, 2011, new employees of the University are no longer eligible to participate in the Arkansas Teacher Retirement System (ATRS). Existing ATRS participants are allowed to continue ATRS participation.

Funding Policy: Contribution requirements are set forth in Arkansas Code Annotated, Title 24, Chapter 7. The contributions are expected to be sufficient to finance the costs of benefits earned by members during the year and make a level payment that, if paid annually over a reasonable period of future years, will fully cover the funded costs of benefit commitments for services previously rendered. ATRS has contributory and noncontributory plans. The contributory plan has been in effect since the beginning of ATRS. The noncontributory plan became available July 1, 1986. Act 81 of 1999, effective July 1, 1999, requires all new members to be contributory and allowed active members as of July 1, 1999, until July 1, 2000, to make an irrevocable choice to be contributory or noncontributory. Act 93 of 2007 allows any noncontributory member to make an irrevocable election to become contributory on July 1 of each fiscal year. Employers are required to contribute at a rate established by the Board of Trustees of ATRS based on an actuary's determination of a rate required to fund the plan. The University contributed 14.00% of applicable compensation for the fiscal year ended June 30, 2019. The University's contributions to ATRS for the years ended June 30, 2019, 2018 and 2017 were \$112,325, \$132,225 and \$143,722 respectively, equal to the required contributions for each year.

Henderson State University
Notes to Financial Statements
June 30, 2019

NOTE 9: Retirement Plans (Continued)

Arkansas Teacher Retirement System (ATRS): (Continued)

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

At June 30, 2019, the University reported a liability of \$1,138,664 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The University's proportion of the net pension liability was based on the University's share of contributions to the pension plan relative to the total contributions of all participating employers. At June 30, 2018, the University's proportion was 0.0313 percent.

For the year ended June 30, 2019, the University recognized a reduction in pension expense of \$164,732. At June 30, 2019, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Difference between expected and actual experience	\$ 11,423	\$ (23,190)
Changes in assumptions	272,746	
Net difference between projected and actual earnings on pension plan investments		(194,920)
Changes in proportion and differences between employer contribution and share of contributions		(717,690)
University contributions subsequent to measurement date	112,325	
Total	\$ 396,494	\$ (935,800)

Henderson State University
Notes to Financial Statements
June 30, 2019

NOTE 9: Retirement Plans (Continued)

Arkansas Teacher Retirement System (ATRS): (Continued)

\$112,325 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 the pension expense in the financial statements as follows:

Year ended June 30:	
2020	(228,219)
2021	(208,670)
2022	(152,229)
2023	(53,529)
Thereafter	(8,984)

Actuarial Assumptions

The total pension liability in the June 30, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, closed
Remaining Amortization Period	28 years
Asset Valuation Method	4-year closed period; 20% corridor
Wage Inflation	2.75%
Salary Increases	2.75 - 7.75%
Investment Rate of Return	7.50% compounded annually
Mortality Table	RP-2014 Healthy Annuitant, Disabled Annuitant and Employee Mortality Tables were used for males and females. Mortality rates adjusted using projection scale MP-2017 from 2006
	Scaling Factor
Table	Males Females
Healthy Annuitant	101% 91%
Disabled Annuitant	99% 107%
Employee Mortality	94% 84%

Henderson State University
Notes to Financial Statements
June 30, 2019

NOTE 9: Retirement Plans (Continued)

Arkansas Teacher Retirement System (ATRS): (Continued)

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Total Equity	55.00%	4.9%
Fixed Income	15.00%	1.2%
Alternatives	5.00%	4.3%
Real Assets	15.00%	4.2%
Private Equity	10.00%	6.0%
Cash Equivalents	0.00%	0.3%
Total	100.00%	

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 net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

Sensitivity of Discount Rate		
1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
\$ 1,952,963	\$ 1,138,664	\$ 463,373

Henderson State University
Notes to Financial Statements
June 30, 2019

NOTE 9: Retirement Plans (Continued)

Arkansas Teacher Retirement System (ATRS): (Continued)

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: APERS is a cost sharing multiple-employer, defined benefit plan administered by the State of Arkansas. The plan was established by the authority of the Arkansas General Assembly with the passage of Act 177 of 1957. The costs of administering the plan are paid out of investment earnings. The general administration and responsibility for the proper operation of the System is vested in the nine members of the Board of Trustees of the Arkansas Public Employees Retirement System (the Board). Membership includes three state and three non-state employees, all appointed by the Governor, and three ex-officio trustees, including the Auditor of the State, the Treasurer of the State and the Director of the Department of Finance and Administration. APERS issues a publicly available financial report that can be obtained at <http://www.apers.org/annualreports>.

Benefits Provided

Benefit provisions are set forth in Arkansas Code Annotated, Title 24, Chapters 5 and 6 and may only be amended by the Arkansas General Assembly. APERS provides retirement, disability, and death benefits. Retirement benefits are determined as a percentage of the member's highest 3-year average compensation times the member's years of service. The percentage used is based upon whether a member is contributory or noncontributory as follows:

Contributory, prior to 7/1/2005	2.07%
Contributory, on or after 7/1/2005	2.03%
Non-Contributory	1.72%

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

- At age 65 with 5 years of service,
- At any age with 28 years of actual service,
- At age 60 with 20 years of actual service if under the old contributory plan (prior to July 1, 2005)

Members may retire with a reduced benefit at age 55 with at least 5 years of actual service, or at any age with 25 years of service.

Henderson State University
Notes to Financial Statements
June 30, 2019

NOTE 9: Retirement Plans (Continued)

Arkansas Public Employees Retirement System: (Continued)

Members are eligible for disability benefits with 5 years of service. Disability benefits are computed as an age and service benefit, 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 a 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.

Effective July 1, 2018, new employees of the University are no longer eligible to participate in the Arkansas Public Employees Retirement System (APERS). Existing APERS participants are allowed to continue APERS participation.

Funding Policy: Contribution requirements are set forth in Arkansas Code Annotated, Title 24, Chapter 4. The contributions are expected to be sufficient to finance the cost of benefits earned by members during the year and make a level payment that if paid annually cover a reasonable period of future years, will fully cover the unfunded costs of benefits commitments for services previously rendered. Members who began service prior to July 1, 2005 are not required to make contributions to APERS. Members who began service on or after July 1, 2005 are required to contribute 5% of their salary. Employers are required to contribute at a rate established by the Board of Trustees of APERS based on an actuary's determination of a rate required to fund the plan. The University contributed 15.32% of covered salaries. The University's contributions to APERS for the years ended June 30, 2019, 2018 and 2017 were \$644,938, \$563,113 and \$508,077, respectively, equal to the required contributions for each year.

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

At June 30, 2019, the University reported a liability of \$4,565,218 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The University's proportion of the pension liability was based on the University's share of contributions to the pension plan relative to the total contributions of all participating employers. At June 30, 2018, the University's proportion was 0.2070 percent.

For the year ended June 30, 2019, the University recognized pension expense of \$768,859. At June 30, 2019, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Henderson State University
Notes to Financial Statements
June 30, 2019

NOTE 9: Retirement Plans (Continued)

Arkansas Public Employees Retirement System: (Continued)

	Deferred Outflow of Resources	Deferred Inflow of Resources
Difference between expected and actual experience	\$ 72,604	\$ (47,924)
Changes in assumptions	519,427	(282,323)
Net difference between projected and actual earnings on pension plan investments		(115,521)
Changes in proportion and differences between employer contribution and share of contributions	349,605	(156,010)
University contributions subsequent to measurement date	644,938	
Total	\$ 1,586,574	\$ (601,778)

\$644,938 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 in the financial statement as follows:

Year ended June 30:	
2020	362,834
2021	208,857
2022	(140,261)
2023	(91,572)
Thereafter	0

Henderson State University
Notes to Financial Statements
June 30, 2019

NOTE 9: Retirement Plans (Continued)

Arkansas Public Employees Retirement System: (Continued)

Actuarial Assumptions

The total pension liability in the June 30, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Cost Method	Entry Age Normal
Discount Rate	7.15%
Inflation Rate	3.25%
Salary Increases	3.25% - 9.85%
Investment Rate of Return*	7.15%
Mortality Rate Table	RP-2014 weighted generational mortality tables for healthy annuitant, disability, or employee death in service, as applicable. The tables applied credibility adjustments of 135% for males and 125% for females and were adjusted for fully generational mortality improvements using Scale MP-2017.
*Net of investments and administrative expenses	

All other actuarial assumptions used in the June 30, 2018, valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2017, and were applied to all prior periods included in the measurement.

The long-term expected rate of return on pensions plan investments was determined using a building-block method in which best-estimate ranges of expected future real estate rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for the 10-year period from 2018-2027 were based upon capital market assumptions provided by the plan's investment consultant. For each major asset class included in the plan's target asset allocation as of June 30, 2018, these best estimates are summarized in the following table.

Henderson State University
Notes to Financial Statements
June 30, 2019

NOTE 9: Retirement Plans (Continued)

Arkansas Public Employees Retirement System: (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Broad Domestic Equity	37.00%	5.97%
International Equity	24.00%	6.07%
Real Assets	16.00%	4.59%
Absolute return	5.00%	3.15%
Domestic Fixed	18.00%	0.83%
Total	100.00%	

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 rates. 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 7.15%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.15%) or 1-percentage-point higher (8.15%) than the current rate:

Sensitivity of Discount Rate		
1% Decrease (6.15%)	Discount Rate (7.15%)	1% Increase (8.15%)
\$ 7,463,904	\$ 4,565,218	\$ 2,174,035

Pension Plan Fiduciary Net Position

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

Henderson State University
Notes to Financial Statements
June 30, 2019

NOTE 10: Natural Classifications with Functional Classifications

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

	Personal Services	Scholarships & Fellowships	Supplies & Services	Depreciation	Total
Instruction	\$ 13,760,835		\$ 1,169,547		\$ 14,930,382
Research	24,151		132,461		156,612
Public Service	374,458		110,158		484,616
Academic Support	4,795,578		1,176,129		5,971,707
Student Services	5,374,157		931,419		6,305,576
Institutional Support	6,503,711		3,693,615		10,197,326
Schol. & Fellow.		\$ 2,813,327			2,813,327
Oper. & Maint.			5,995,864		5,995,864
Aux. Enterprises	3,790,346		7,611,545		11,401,891
Depreciation				\$ 5,779,975	5,779,975
	<u>\$ 34,623,236</u>	<u>\$ 2,813,327</u>	<u>\$ 20,820,738</u>	<u>\$ 5,779,975</u>	<u>\$ 64,037,276</u>

NOTE 11: Related Party Transactions

Mr. Ross Whipple is a member of the Board of Trustees of Henderson State University and the Henderson State University Foundation Board. Mr. Whipple is a director on the Board of the Bank of the Ozarks, which currently hold bank deposits for the University.

Mr. Johnny Hudson is a member of the Board of Trustees of Henderson State University and the Henderson State University Foundation Board.

Ms. Megan Tollett is a member of the Board of Trustees of Henderson State University. Ms. Tollett is an employee of Impact Management Group; the University had a contractual relationship with Impact Management Group through June 30, 2019.

Dr. Glendell Jones Jr. was the former President of Henderson State University. Dr. Jones is Chair of the Board of Southern Bancorp, Inc. and owns less than 1% of the outstanding common shares of the corporation. The University has assets invested with Southern Bancorp of Arkansas.

Henderson State University
Notes to Financial Statements
June 30, 2019

NOTE 12: Compensated Absences

Changes in Compensated Absences Payable are as follows:

Changes in Compensated Absences Payable:	Amount
Annual Leave as of June 30, 2018	\$ 729,574
Earned Leave	755,573
Lost Leave over 240 hours	(87,556)
Annual Leave Used	(526,887)
Annual Leave as of June 30, 2019	\$ 870,704

Employees with a sick leave balance of 50 days or more are eligible for payment for leave upon retirement. As of June 30, 2019 the University's liability for employees with sufficient leave balances was \$78,723.

Employees with a compensatory time balance are eligible for payment for leave upon termination, retirement or death. As of June 30, 2019 the University's liability for employees with compensatory leave balances was \$2,391.

The above figures do not include estimated fringe benefits on accrued leave in the amount of \$145,832 as of June 30, 2019.

NOTE 13: Employee Retirement

Changes in Employee Retirement:	Amount
Employee Retirement as of June 30, 2018	\$ 84,484
Annual Revaluation	31,158
Amount Paid Out During 2018/2019	(43,142)
Employee Retirement as of June 30, 2019	\$ 72,500

Henderson State University
Notes to Financial Statements
June 30, 2019

NOTE 14: Disaggregation of Receivable and Payable Balances

Accounts Receivable Consists of the Following:	Amount
Student Tuition and Fees, net of allowance of \$3,401,821	\$ 3,233,593
Housing and Food Service, net of allowance of \$1,322,931	2,009,220
Auxiliary Enterprises	30,605
Notes and Loans Receivable	807,444
Federal	292,160
State	185,222
Other Receivables	371,240
Total Accounts Receivable	\$ 6,929,484

Accounts Payable Consists of the Following:	Amount
Vendors	\$ 7,733,750
Salary & Fringe Benefit Payable	552,310
Health Claims Payable	187,333
Other Payables	274,603
State	160,743
Interest & Fees Payable	599,236
Total Accounts Payable	\$ 9,507,975

Henderson State University
Notes to Financial Statements
June 30, 2019

NOTE 15: Other Postemployment Benefits (OPEB)

The University offers postemployment health care benefits and basic life insurance benefits to all employees who officially retire from the University and meet certain age and service related requirements. Health care benefits were offered through a self-funded plan administered by UMR United Healthcare beginning January 1, 2018. Life insurance benefits are offered through MetLife. Retiree life insurance is determined by multiplying the salary upon retirement by 65% and rounding to the next nearest thousand, with a maximum of \$20,000 in coverage. University members are eligible to retire at age 55 if their age plus years of continuous University service equals at least 70. Medical coverage ceases when the retiree becomes Medicare eligible (currently age 65). At that time, any covered dependents are eligible to pay for their own coverage through COBRA for up to 36 months. The University pays the premiums for life insurance until the retiree reaches age 65. At age 65, the retiree has the option of continuing until age 70 by assuming the cost of the monthly premiums.

Eligible retired employees participating in University health care benefit and/or life insurance benefits pay their premiums directly to the University. Premiums for University paid health care and retirees' portion of the premium are transferred into an agency account for reimbursement of UMR United Healthcare. The University portion of the retiree health care premiums amounted to \$143,404 for fiscal year 2019, compared to \$148,410 for fiscal year 2018. The University paid the total premiums for life insurance benefits for eligible retirees, ages 55 to 65, directly to MetLife in the amount of \$910 for fiscal year 2019, compared to \$904 for fiscal year 2018. This represents a total of \$144,314 paid by the University for the employer portion of the OPEB for fiscal year 2019, compared to \$149,314 for fiscal year 2018.

The University adopted GASB Statement No. 74/75, *Accounting and Financial Reporting by for Postemployment Benefits Other than Pensions* during fiscal year 2018. This statement requires governmental entities to recognize and match other postretirement benefit costs with related services received and also to provide information regarding the actuarially calculated liability and funding level of the benefits associated with past services. The Health Care Plan is considered a single-employer plan and consists of hospital benefits, major medical benefits, and a prescription drug program for retirees and their eligible dependents until the retiree becomes Medicare eligible (currently age 65). The Life Insurance Plan is considered a single-employer plan and consists of basic life insurance coverage up to a maximum of \$20,000 for retirees between the ages of 55 and 65. The authority under which either the OPEB 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 obligations of the plan members or employer to contribute to either plan are brought forth by the Fringe Benefits Committee and approved by the President and reported to the Board of Trustees.

Henderson State University
Notes to Financial Statements
June 30, 2019

NOTE 15: Other Postemployment Benefits (OPEB) (Continued)

Participants included in the actuarial valuation include retirees, eligible dependents, and active employees who may be eligible to participate in the Plan upon retirement. Expenditures for postretirement health care benefits are recognized monthly and financed on a pay-as-you-go basis. The University funds approximately 77% or \$143,404 of the postretirement healthcare premiums, totaling \$185,753 for the fiscal year ended June 30, 2019. Last year, the University funded approximately 79% or \$149,314 of the postretirement healthcare premiums, totaling \$187,771 for the fiscal year ended June 30, 2018. The retirees are responsible for funding approximately 23% of the healthcare premiums compared to 21% last year.

Expenditures for postretirement life insurance benefits are recognized monthly and financed on a pay-as-you-go basis. The University funds 100% of the postretirement life insurance premiums for participating retirees, ages 55 to 65. The University paid \$910 in postretirement life insurance benefits for the fiscal year ended June 30, 2019 and \$904 in postretirement life insurance benefits for the fiscal year ended June 30, 2018. At age 65, the retiree has the option of continuing life insurance coverage until age 70 by assuming the cost of the monthly premiums.

For the year ended June 30, 2019, the University recognized OPEB Expense of \$56,562. At June 30, 2019, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Difference between expected and actual experience		\$ (966,131)
Changes in assumptions		(115,979)
Net difference between projected and actual earnings on OPEB		
Total	\$ -	\$ (1,082,110)

Henderson State University
Notes to Financial Statements
June 30, 2019

NOTE 15: Other Postemployment Benefits (OPEB) (Continued)

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

Year ended June 30:	
2020	172,795
2021	172,795
2022	172,795
2023	172,795
Thereafter	390,930

The Plan does not issue a stand-alone financial report. For inquiries relating to either Plan, please contact Ms. Lecia Franklin, Interim Vice President for Finance and Administration, 1100 Henderson Street, P.O. Box 7804, Arkadelphia, AR 71999-0001.

The required schedule of funding progress contained in the Required Supplemental Information immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Employees Covered by Benefit Terms	
At June 30, 2019, the following employees were covered by the benefit terms:	
Inactive employees or beneficiaries currently receiving benefit payment	22
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	251
	273

Henderson State University
Notes to Financial Statements
June 30, 2019

NOTE 15: Other Postemployment Benefits (OPEB) (Continued)

Total OPEB Liability

Henderson State University's total OPEB liability of \$4,271,458 was measured as of June 30, 2019, and was determined by an actuarial valuation as of June 30, 2019. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Schedule of Changes Total OPEB Liability		
		2019
Service Cost	\$	408,676
Interest Cost		142,755
Difference Between Expected and Actual Experience		(611,793)
Changes in Assumptions		(135,703)
Benefit Changes		(322,074)
Benefit Payments		(144,314)
Net Change		(662,453)
Beginning of Year - Total OPEB Liability	\$	4,933,911
End of Year - Total OPEB Liability	\$	4,271,458

Henderson State University
Notes to Financial Statements
June 30, 2019

NOTE 15: Other Postemployment Benefits (OPEB) (Continued)

Actuarial Assumptions

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

Actuarial Cost Method	Entry Age Normal
Discount Rate	3.50%
Inflation Rate	2.50%
Mortality	RP-2014 Mortality Table with Improvement Scale MP-2018
Marriage Assumptions	3 year spousal age difference with females assumed 3 years younger than males. Spousal age is assumed for active employee or retiree where age is not given.

Medical Trend Rate	<u>Year</u>	<u>Medical Trend Rate</u>
	1	8.0%
	2	7.0%
	3	6.0%
	4	5.0%
	5 and after	4.0%

A 4.0% annual trend rate is assumed for life insurance premiums paid by the University.

Assumed Utilization 90% of eligible future retirees are assumed to elect plan benefits.

Active Participation Rate Active members are assumed to elect the same retiree medical coverage as they elected while active.

Termination (Sample Rates-annual per 1,000)

Age	Male	Female
25	46.0	47.0
30	43.4	46.6
35	36.4	38.8
40	30.0	27.4
45	24.5	21.2
50	19.0	18.8
55	15.7	16.2
60 and thereafter	15.0	15.0

Henderson State University
Notes to Financial Statements
June 30, 2019

NOTE 15: Other Postemployment Benefits (OPEB) (Continued)

Retirement Rates Percentage of eligible members at age shown who retire during the year.

Age	Percentage	
	0-27 years	28 years and after
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 & older	100%	100%

Changes in Assumptions

The discount rate has been increased to reflect the movement in interest rates. Also, the mortality table improvement scale was changed from MP-2017 to MP-2018.

Plan Benefit Provisions

Post-Employment Benefit Eligibility

Active employees are eligible to receive retiree medical coverage upon retirement at age 55 with at least 70 points. Medical coverage ceases at members' age 65, Life Insurance coverage can continue until members' age 65, depending on classification. Only employees hired before July 1, 2015 are eligible to receive University-subsidized health and life insurance benefits upon retirement.

Medical Costs

The current total member monthly premium paid by the employer is \$440 for the individual plan and \$463 for the individual plus spouse coverage (for 2019). Retirees pay the balance of the premiums as determined for active employees. The retiree medical plan is self-funded rather than fully insured.

Life Insurance Costs

HSU's annual costs are 14 cents for each member's \$1,000 of coverage. Coverage is limited to \$20,000 and there is no university cost post-age 65.

Henderson State University
Notes to Financial Statements
June 30, 2019

NOTE 15: Other Postemployment Benefits (OPEB) (Continued)

Changes in Benefit Provisions

In this year's valuation, we have recognized the exclusion of employees hired on or after July 1, 2015 from plan benefits.

Measurement Date

The measurement date for the valuation was 06/30/2019.

Membership Data

Number of active participants*	251
Average age	53.3
Average service	14.6

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability using the discount rate of 3.5%, as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.5%) or 1-percentage-point higher (4.5%) than the current rate:

Sensitivity of Discount Rate Total OPEB Liability		
1% Decrease (2.5%)	Discount Rate (3.5%)	1% Increase (4.5%)
\$ 4,548,354	\$ 4,271,458	\$ 4,016,092

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the total OPEB liability using the healthcare cost trend rate of 8% decreasing to 4%, as well as what the total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower (7% decreasing to 3%) or 1-percentage-point higher (9% decreasing to 5%) than the current rate:

Sensitivity of Healthcare Cost Trend Rate Total OPEB Liability		
1% Decrease (7.0% decreasing to 3.0%)	Discount Rate (8.0% decreasing to 4.0%)	1% Increase (9.0% decreasing to 5.0%)
\$ 3,958,741	\$ 4,271,458	\$ 4,627,692

Henderson State University
Notes to Financial Statements
June 30, 2019

NOTE 16: 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 17: Pledged Revenues

The University has pledged future student recreation center revenue to repay \$6,465,000 in student recreation center refunding bonds issued in 2016. Proceeds from the Series 2007 bonds provided financing for the construction of the student recreation center which was refunded in 2016. The bonds are payable solely from the student recreation center fee revenues and are payable through 2032. Annual principal and interest payments on the bonds currently require 59.62% of gross revenues. The total principal and interest remaining to be paid on the bonds is \$7,055,078. Principal and interest paid for the current year and total customer gross revenues were \$459,341 and \$770,455 respectively.

The University has pledged future other auxiliary revenue to repay \$47,230,000 in other auxiliary revenue bonds issued in 2009, 2011, 2014, 2017 and 2018. Proceeds from the bonds provided financing for the capital repairs renovation and maintenance of other auxiliary services and the refunding of other auxiliary services bond issues and student housing debt issues. The bonds are payable solely from auxiliary revenues and are payable to maturity with dates ranging from 2020 through 2039. Annual principal and interest payments on the bonds currently require 24.47% of gross revenues. The total principal and interest remaining to be paid on the bonds is \$57,754,743. Principal and interest paid for the current year and total customer gross revenues were \$3,245,796 and \$13,265,438 respectively.

The University has pledged future student tuition and fees to repay \$5,740,000 in refunding bonds issued in 2011 and 2015 to refund capital improvement bonds for various capital projects. The bonds are payable solely from student tuition and fees and are payable to maturity dates of 2020 and 2027. Annual principal and interest payments on the bonds currently require 2.89% of gross revenues. The total principal and interest remaining to be paid on the bonds is \$2,214,346. Principal and interest paid for the current year and gross student tuition and fees were \$804,907 and \$27,882,759 respectively.

NOTE 18: 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 directors or officers covering legal judgments and settlements. The University pays an annual premium for this coverage.

Henderson State University
Notes to Financial Statements
June 30, 2019

NOTE 18: Risk Management (Continued)

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 contributes quarterly to this program.

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 carries commercial insurance related to the operation and maintenance of University owned aircraft. The operation of the airport was turned back over to the City of Arkadelphia in May of 2016. The University pays an annual premium for this coverage.

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. The Department of Finance and Administration withholds the premium from the University's State Treasury funds.

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

The University is self-funded for insurance for student athletes up to the NCAA catastrophic deductible of \$90,000. The University requires student athletes to obtain insurance which covers competitive sports and the University covers the deductible and co-pays for the student athlete that meets the NCAA requirement.

The University provides temporary short term insurance for some athletes through Blue Cross and Blue Shield.

The University secures cyber data liability insurance coverage through participation in the Arkansas Multi-Agency Insurance Trust Fund administered by the Risk Management Division of the Arkansas Insurance Department. The general objective of the program is to allow participating agencies an affordable means of insuring their cyber data liability exposure. The University pays an annual premium for this coverage and has a \$25,000 per occurrence deductible applicable only to the hardware "bricking" coverage of the policy. The insurance plan provides a limited self-funded risk retention plan, but procures an excess liability policy to reduce its exposure to large losses.

Henderson State University
Notes to Financial Statements
June 30, 2019

NOTE 19: Financial Commitment from Food Service Vendor

On June 7, 2017, the University agreed to a contract with Sodexo Operations, LLC (Sodexo) to provide meals to students and catering services to the University, effective June 17, 2017. The contract includes a financial investment of \$2,350,000 which will be amortized on a straight-line basis over 10 years. Upon termination of this agreement by either Sodexo or the University prior to the complete amortization of the financial agreement, the University would be required to reimburse Sodexo 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 \$1,880,000.

NOTE 20: Self Insurance Program

On January 1, 2018 the University established a benefit health plan through United Healthcare administered by UMR for employees and their eligible dependents. At June 30, 2019, approximately 754 active employees, their dependents and retirees were participating in the program. For employee, employee/children, employee/spouse, family plan and dually employed family plan the University pays approximately 88%, 65%, 51%, 50% and 86% respectively. The university pay 88% of retiree plans until the retiree is eligible for Medicare.

Unpaid Claims Liability	FY 2019
Unpaid Claims 07-01-2018	\$ 201,618
Incurred Claims during current Year	2,345,246
Current Year Claims Paid	2,182,478
Prior Year Claims Paid	201,488
Total Payment	2,383,966
Unpaid Claims 6-30-2019	162,898
15% margin assumption	24,435
Estimated Claims 6-30-19	\$ 187,333

The health and prescription 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 United Healthcare reports, the University estimates its medical and prescription claims liability to be \$187,333.

The University purchases specific reinsurance to reduce its exposure to large claims. Guardian Stop Loss was chosen as the reinsurance carrier. Under the specific arrangement the reinsurance carrier pays for claims for covered members that exceed the \$100,000 specified deductible. In addition, the University purchases aggregate reinsurance coverage for aggregate claims exceeding \$2,409,831.

Henderson State University
Notes to Financial Statements
June 30, 2019

NOTE 21: Bond Issuance

On August 14, 2018, the University issued bonds in the amount of \$ 1,000,000 in order to fund renovations on Smith Hall. The debt service on these bonds will be supported by auxiliary revenues.

NOTE 22: Deficit Net Position / Going Concern

The University's unrestricted net position at June 30, 2019, as reported on the Statement of Net Position, was a deficit amount of \$14,599,081. Included in this deficit was the effect of the net pension liability and related deferred inflows/outflows of \$5,258,392 and the other postemployment benefits liability and related deferred inflows of \$5,353,568. Excluding the above liabilities and related deferrals, the deficit unrestricted net position was \$3,987,121.

In addition, the University's cash and cash equivalents decreased from \$9,073,477 at June 30, 2017 to \$995,105 at June 30, 2019. The deficit net position and decrease in cash and cash equivalents were largely driven by inadequately addressed negative operating performance since the 2015-2016 fiscal year and escalating student accounts receivable. Deferred maintenance expenses in recent years have exhausted reserves and created a significant liquidity problem for the University. To alleviate cash flow issues, the Arkansas Division of Higher Education approved a \$6 million advance from the State of Arkansas' Budget Stabilization Trust Fund for the University in July 2019. The terms of the advance from the State of Arkansas stated that repayment was to be made by end of the 2020 fiscal year.

Moody's Investor Service downgraded the University's rating to Baa2 from A3 negative on July 2, 2019. The rating was subject to review for further downgrade. On July 25, 2019, Moody's confirmed the Baa2 rating based upon the execution of a Memorandum of Understanding with Arkansas State University System (A1 stable) to provide operational and administrative support assistance, combined with the advance from the State of Arkansas.

These factors create an uncertainty about the University's ability to continue as a going concern. The Board of Trustees of the University and University management have implemented the following corrective actions:

- The University implemented a \$3.5 million budget reduction for 2019-2020 including a 3 percent reduction for professional staff and faculty salaries, effective January 1, 2020, as well as a 4 percent reduction to TIAA-CREF retirement match contributions that was effective November 1, 2019. Additional cuts include a 50 percent reduction to supplies and services budgets, a hiring freeze, and travel restrictions.
- The HSU Board of Trustees voted unanimously on November 21, 2019, to execute a merger agreement with the Arkansas State University System (System). The merger has an estimated effective date of January 1, 2021. The System has been providing assistance for operational and administrative support under the terms of a Memorandum of Understanding effective August 1, 2019.

The University has determined that repayment of the advance of the \$6 million advance will not be feasible by the end of the 2020 fiscal year. Discussions with state officials to extend the repayment terms for the advance are currently in process.

The ability of the University to continue as a going concern is dependent upon this plan's success. The financial statements do not include any of the adjustments that might be necessary if the University is unable to continue as a going concern.

Henderson State University
Notes to Financial Statements
June 30, 2019

NOTE 23: Subsequent Events

On July 11, 2019, the University received a \$6,000,000 advance from the State of Arkansas's Budget Stabilization Trust Fund for the continued operation of the University. The original terms of the advance is for the advanced amount to be repaid as cash balances are available to the University with a full repayment by June 30, 2020; however, as of the report date, discussions with State officials to extend the repayment terms are in process.

On August 20, 2019, the University entered into a note payable in the amount of \$15,996,406 with First Security Finance, Inc. for various utility and cost saving improvements and renovations to Smith and Newberry Halls.

The University's Chief Financial Officer resigned on May 31, 2019. Rita Fleming, who has more than three decades of experience in Higher Education, was hired as Vice President of Finance and Administration, effective December 1, 2019.

Glen Jones resigned as University President on July 19, 2019. Jones remains on sabbatical through July 31, 2020. The HSU Board of Trustees appointed Elaine Kneebone, General Counsel, as acting President.

The Board approved a Memorandum of Understanding, effective August 1, 2019, with the Arkansas State University System (System) to provide financial, internal audit, information technology, institutional research and legal support services from July to December 31, 2019. On November 21, 2019, the Board voted to execute a merger agreement with the System. The merger has an estimated effective date of January 1, 2021.

Chemicals were spilled in a Reynolds Science Center laboratory in October 2019. The University is currently working with state agencies and contractors to remediate the building. Costs related to this remediation are not currently finalized.

NOTE 24: Early Extinguishment of Debt

On January 1, 2019, the 2011 Student Revenue Fee Bonds were paid off prior to their scheduled maturity of January 1, 2020. University cash of \$9,912 and debt service reserves of \$154,388 were used to pay the outstanding principal amount of \$160,000 and interest and fees of \$4,300.

Henderson State University
Required Supplementary Information (Unaudited)
June 30, 2019

OTHER POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Schedule of Changes Total OPEB Liability				
		2018		2019
Service Cost	\$	425,068	\$	408,676
Interest Cost		146,882		142,755
Difference Between Expected and Actual Experience		(568,658)		(611,793)
Changes in Assumptions		(2,899)		(135,703)
Benefit Changes		-		(322,074)
Benefit Payments		(149,314)		(144,314)
Net Change		(148,921)		(662,453)
Beginning of Year-Total OPEB Liability	\$	5,082,832	\$	4,933,911
End of Year - Total OPEB Liability	\$	4,933,911	\$	4,271,458
University's covered-employee payroll		20,613,947		13,712,574
Total OPEB Liability as a percentage of covered-employee payroll		23.93%		31.15%

Notes to Schedule:

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

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

Henderson State University
Required Supplementary Information (Unaudited)
June 30, 2019

Notes to Schedule (Continued):

Changes in Assumptions:

Retirement Rates Percentage of eligible members at age shown who retire during the year.

Age	Percentage	
	0-27 years	28 years and after
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 & older	100%	100%

Changes in Assumptions

The discount rate has been increased to reflect the movement in interest rates. Also, the mortality table improvement scale was changed from MP-2017 to MP-2018.

Henderson State University
Required Supplementary Information (Unaudited)
June 30, 2019

Notes to Schedule (Continued):

Plan Benefit Provisions

Post-Employment Benefit Eligibility

Active employees are eligible to receive retiree medical coverage upon retirement at age 55 with at least 70 points. Medical coverage ceases at members' age 65, Life Insurance coverage can continue until members' age 65, depending on classification. Only employees hired before July 1, 2015 are eligible to receive University-subsidized health and life insurance benefits upon retirement.

Medical Costs

The current total member monthly premium paid by the employer is \$440 for the individual plan and \$463 for the individual plus spouse coverage (for 2019). Retirees pay the balance of the premiums as determined for active employees. The retiree medical plan is self-funded rather than fully insured.

Life Insurance Costs

HSU's annual costs are 14 cents for each member's \$1,000 of coverage. Coverage is limited to \$20,000 and there is no university cost post-age 65.

Changes in Benefit Provisions

In this year's valuation, we have recognized the exclusion of employees hired on or after July 1, 2015 from plan benefits.

Measurement Date

The measurement date for the valuation was 06/30/2019.

Membership Data

Number of active participants*	251
Average age	53.3
Average service	14.6
Number of retired participants	22
Average Age	61.8

* Only includes employees who were hired prior to July 1, 2015.

Henderson State University
Required Supplementary Information (Unaudited)
June 30, 2019

NET PENSION LIABILITY:

Employee Benefits

Henderson State University's Proportionate Share of the Net Pension Liability Arkansas Teacher Retirement System					
	2015*	2016*	2017*	2018*	2019*
Plan Net Pension Liability- End of Year	\$ 2,625,006,279	\$ 3,256,909,830	\$ 4,411,442,759	4,203,863,874	3,638,962,119
University's proportion (percentage) of net pension liability (asset)	0.0760%	0.0520%	0.0434%	0.0345%	0.0313%
University's proportionate share of net pension liability	1,993,959	1,701,814	1,916,598	1,450,212	1,138,664
University's covered payroll	2,196,473	1,522,661	1,278,135	1,030,257	948,760
University's proportionate share of net pension liability as a percentage of the employer's covered payroll	90.78%	111.77%	149.95%	140.76%	120.02%
Plan fiduciary net position as a percentage of the total pension liability	84.98%	82.20%	76.75%	79.48%	82.78%
*The amounts presented were determined as of June 30 of the previous year.					

Henderson State University Schedule of Contributions Arkansas Teacher Retirement System					
	2015	2016	2017	2018	2019
Contractually required contribution	\$ 212,798	\$ 178,208	\$ 143,722	\$ 132,225	\$ 112,325
Contributions in relation to the contractually required contribution	212,798	178,208	143,722	132,225	112,325
contribution deficiency (excess)	-	-	-	-	
University's covered payroll	1,522,661	1,278,135	1,030,257	948,760	793,039
Contributions as a percentage of covered payroll	14%	14%	14%	14%	14%

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

Henderson State University
Required Supplementary Information (Unaudited)
June 30, 2019

NET PENSION LIABILITY: (Continued)

Henderson State University's Proportionate Share of the Net Pension Liability Arkansas Public Employees Retirement System						
	2015*	2016*	2017*	2018*	2019*	
Plan Net Pension Liability- End of Year	\$ 1,418,912,236	\$ 1,841,733,371	\$ 2,391,348,072	\$ 2,584,140,480	\$ 2,205,935,041	
University's proportion (percentage) of net pension liability (asset)	0.1981%	0.2102%	0.1835%	0.1919%	0.2070%	
University's proportionate share of net pension liability	2,811,127	3,871,218	4,387,292	4,958,315	4,565,218	
University's covered payroll	3,502,800	3,729,152	3,317,293	3,444,590	3,894,151	
University's proportionate share of net pension liability as a percentage of the employer's covered payroll	80.25%	103.81%	132.26%	143.94%	117.23%	
Plan fiduciary net position as a percentage of the total pension liability	84.15%	80.39%	75.50%	75.65%	79.59%	
*The amounts presented were determined as of June 30 of the previous year.						

Henderson State University Schedule of Contributions Arkansas Public Employees Retirement						
	2015	2016	2017	2018	2019	
Statutorily required contribution	\$ 548,803	\$ 480,373	\$ 508,077	\$ 563,113	\$ 644,938	
Contributions in relation to the contractually required contribution	548,803	480,373	508,077	563,113	644,938	
contribution deficiency (excess)	-	-	-	-	-	
University's covered payroll	3,729,152	3,317,293	3,444,590	3,894,151	4,232,139	
Contributions as a percentage of covered payroll	14.72%	14.48%	14.75%	14.46%	15.24%	

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

HENDERSON STATE 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	\$ 112,363,112	\$ 114,083,447	\$ 127,585,871	\$ 130,340,806	\$ 135,527,367
Total Liabilities and Deferred Inflows	88,784,496	84,378,561	86,788,845	88,307,970	92,625,286
Total Net Position	23,578,616	29,704,886	40,797,026	42,032,836	42,902,081
Total Operating Revenues	24,243,909	22,329,271	25,635,420	23,402,299	22,662,431
Total Operating Expenses	64,037,276	60,868,202	59,057,157	58,274,209	55,912,750
Total Net Non-Operating Revenues	32,664,611	30,970,720	30,584,913	32,977,010	33,018,934
Total Other Revenues, Expenses, Gains or Losses	1,002,486	1,071,447	1,601,014	1,025,655	324,136

