

**Henderson State University**

**Arkadelphia, Arkansas**

**Basic Financial Statements  
and Other Reports**

**June 30, 2020**

LEGISLATIVE JOINT AUDITING COMMITTEE

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HENDERSON STATE UNIVERSITY  
TABLE OF CONTENTS  
JUNE 30, 2020

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. – Statements of Financial Position	A-1
Comparative Statement of Revenues, Expenses, and Changes in Net Position	B
Henderson State University Foundation, Inc. – Statements 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)  
Notes to Required Supplementary Information – Pensions (Unaudited)

OTHER INFORMATION

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

# Arkansas

**Sen. Ronald Caldwell**  
Senate Chair  
**Sen. Gary Stubblefield**  
Senate Vice Chair



**Rep. Richard Womack**  
House Chair  
**Rep. Nelda Speaks**  
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, 2020, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

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

#### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the 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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

#### ***Opinions***

In our opinion, based on our audit and the 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, 2020, and the respective changes in financial position, and where applicable, cash flows thereof for the year ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 23 to the financial statements, the University has experienced financial difficulties due to a continuation of negative operating performance. The University merged with the Arkansas State University System effective February 1, 2020 and retained the name of Henderson State University. Our opinion is not modified with respect to this matter.

**Other Matters**

*Prior Year Comparative Information*

We have previously audited the University’s 2019 financial statements, and we expressed unmodified opinions on the respective financial statements of the business-type activities and the discretely presented component unit in our report dated January 10, 2020. In our opinion, the comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis, certain information pertaining to postemployment benefits other than pensions, and certain information pertaining to pensions on pages 7-15, 66-68, and 69-70 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 August 19, 2021 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  
August 19, 2021  
EDHE10020

# Arkansas

**Sen. Ronald Caldwell**  
Senate Chair  
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Senate Vice Chair



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Legislative Auditor

## LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

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

### INDEPENDENT AUDITOR'S REPORT

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, 2020, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated August 19, 2021. 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

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 material weaknesses and significant deficiencies.

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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted a certain matter that we reported to management of the University in a separate letter dated August 19, 2021.

## 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 included:

#### Statement of Net Position

- Cash was overstated by \$1,291,720 and deposits with trustee was understated by \$1,865,041 due to a misclassification.
- Accounts payable was understated by a net amount of \$476,271 due to errors in accruals.
- Capital assets were understated by \$308,931.

#### Statement of Revenues, Expenses, and Changes in Net Position

- Prior period adjustments were overstated by \$308,931 due to an error in calculating construction in progress.
- Supplies and other services was overstated by a net amount of \$90,119 due to misclassification of interest and fees on long term debt.
- Interest and fees on long term debt was understated by a net amount of \$5,314 due to errors in accruals and misclassifications.
- Investment income was understated by \$1,618 due to unrecorded interest.

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

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 and variance analysis will be established as a result of the University's inclusion in the ASU System Consolidated Financial Statements for the fiscal year ending June 30, 2021. New staff responsible for preparing financial statements are in place, and the University will insure staff receives additional training on financial statement preparation to ensure proper classification.

### Significant Deficiency

2. Our examination of bank reconciliations revealed the following:
  - The University's February 2020 operating bank account was unreconciled by \$35,087.
  - The University did not perform monthly bank account reconciliations for the operating bank account from March 2020 through May 2020.
  - The June 30, 2020 bank reconciliations for 5 bank accounts included reconciling items totaling \$112,882 that had not been corrected through adjustments to the general ledger. Of this amount, \$95,547 was identified by audit staff and corrected by University personnel during the audit, and \$17,335 remained uncorrected.

We recommend that the University prepare monthly bank reconciliations and investigate all variances.

Management Response: The University concurs with the finding. Due to staff turnover and retirements, the University was not able to complete bank reconciliations in a timely manner. The University will insure staff maintain bank reconciliations in a timely manner.


### **University's Response to Findings**

The University's response to the findings identified in our audit 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



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

Little Rock, Arkansas  
August 19, 2021

# Arkansas



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## LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

### MANAGEMENT LETTER

Henderson State University  
Legislative Joint Auditing Committee

STUDENT ENROLLMENT DATA – In accordance with Ark. Code Ann. § 6-60-209, we performed tests of the student enrollment data for the year ended June 30, 2020, as reported to the Arkansas Division of Higher Education, to provide reasonable assurance that the data was properly reported. The enrollment data reported was as follows:

	<u>Summer II Term</u> <u>2019</u>	<u>Fall Term</u> <u>2019</u>	<u>Spring Term</u> <u>2020</u>	<u>Summer I Term</u> <u>2020</u>
Student Headcount	791	4,027	3,591	882
Student Semester Credit Hours	3,357	49,773	43,651	4,198

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 Roger A. Norman in cursive.

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

Little Rock, Arkansas  
August 19, 2021



# **Henderson State University**

## **Management's Discussion and Analysis (Unaudited)**

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### **Financial Statements Presentation**

This section of the Henderson State University (University) annual financial report presents discussion and analysis of the University's financial performance during the fiscal year ended June 30, 2020. This discussion and analysis section is prepared by the University's financial administrators and is intended to provide information on the financial activities of the University that is relevant and understandable. Information is also provided on the financial position of Henderson State University as of June 30, 2019, as further explanation of the results of the year's financial activities.

The statements have been prepared using the format specified in the Governmental Accounting Standards Board (GASB) Statements no. 34 and 35. GASB Statement no. 34 does not require the presentation of comparative information from the previous fiscal year, but does require a discussion of any significant changes in the University's financial position or the results of its operations. Discussion presented covers the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows.

### **Statement of Net Position**

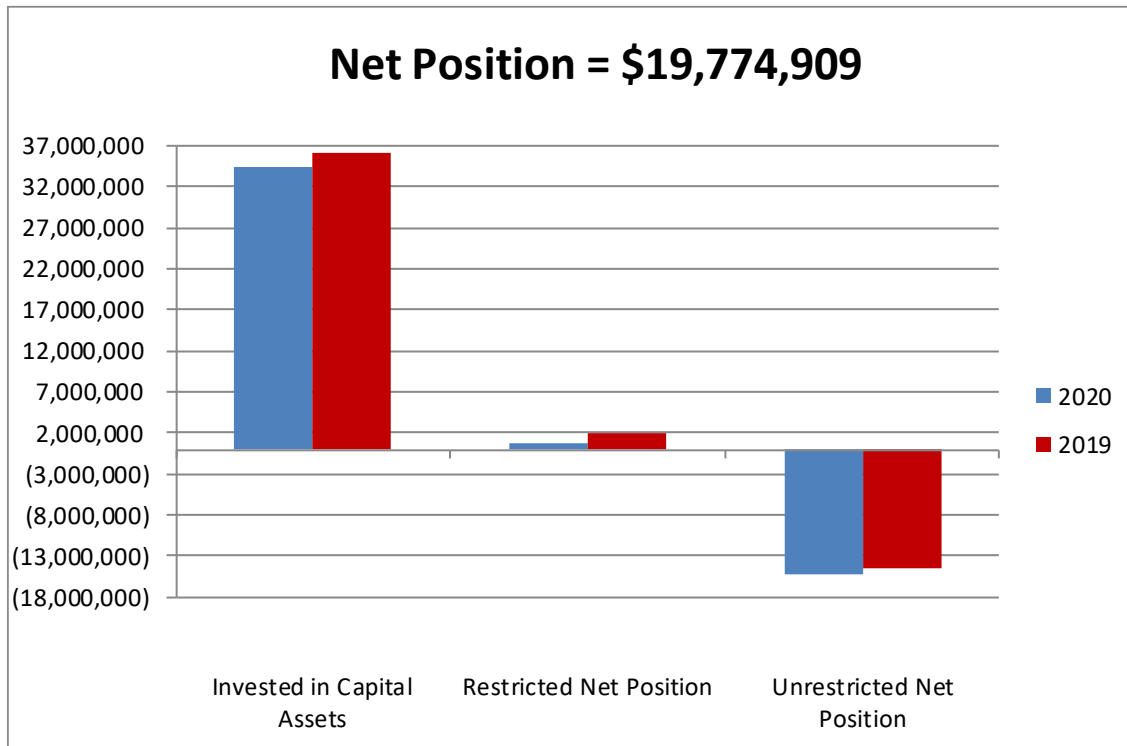
The Statement of Net Position presents the financial position of the University; a benchmark from which to analyze the financial stability of the University. The purpose of the Statement of Net Position is to give the readers of the financial statements a snapshot of the University's assets, liabilities, deferred inflows, deferred outflows and net position (assets and deferred outflows minus liabilities and deferred inflows) as of June 30, 2020, the last day of the fiscal year. Assets and liabilities are presented in two categories: current and noncurrent.

Readers of the Statement of Net Position are able to determine the assets available to continue the operations of the University and how much the University 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 University and the availability of assets to pay expenditures of the University.

# Henderson State University

## Management's Discussion and Analysis (Unaudited)

### Statement of Net Position (Continued)



Net Position is divided into three major categories - Net investment in Capital Assets, Restricted and Unrestricted. Net investment in Capital Assets is the University's equity in property, plant and equipment owned by the University, after deducting outstanding debt related to the investment. Restricted Net Position is divided into two categories: Nonexpendable and Expendable. The Nonexpendable category is only available for specific purposes. Expendable is available for expenditures by the University, 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 University for expenditures on any lawful purpose of the University.

Total Assets and deferred outflows of the University increased by \$12,330,959. This increase was due to an increase in cash and an increase in capital assets. The increase in cash was due in large part to the establishment of a debt reserve fund to ensure adequate cash reserves for debt payments due during the current year, as well as cash held by the trustee for the energy savings project with Johnson Controls, Inc. In addition the University received \$1.8 million in CARES funds from the federal stimulus in spring of 2020. The increase in capital assets is due to the completion of the renovations to Smith Hall performed in the summer of 2019.

Total liabilities and deferred inflows for the year increased by \$16,134,666. This, primarily, was due to a \$3 million decrease in accounts payable and accrued liabilities and a \$19 million increase in long-term debt as of June 30, 2020. Net Position decreased by \$4 million. A condensed Statement of Net Position is shown below.

# Henderson State University

## Management's Discussion and Analysis (Unaudited)

### Statement of Net Position (Continued)

Comparative Statement of Net Position		
June 30, 2020		
	2020	2019
<b>Assets:</b>		
Current Assets	\$ 13,091,825	\$ 8,048,792
Capital Assets, net	107,210,686	100,487,711
Other Assets	2,480,977	1,498,147
<b>Total Assets</b>	<b>122,783,488</b>	<b>110,034,650</b>
Deferred Outflow of Resources	1,910,583	2,328,462
<b>Liabilities:</b>		
Current Liabilities	11,734,091	14,355,117
Non-Current Liabilities	91,233,879	71,809,691
<b>Total Liabilities</b>	<b>102,967,970</b>	<b>86,164,808</b>
Deferred Inflow of Resources	1,951,192	2,619,688
<b>Net Position:</b>		
Invested in Capital Assets, Net of Debt	34,372,244	36,182,823
Restricted-Expendable	740,647	1,853,318
Restricted-Nonexpendable	-	141,556
Unrestricted	(15,337,982)	(14,599,081)
<b>Total Net Position</b>	<b>\$ 19,774,909</b>	<b>\$ 23,578,616</b>

### Statement of Revenues, Expenses and Changes in Net Position

The net position, as presented on the Statement of Net Position, is based in part on the financial activities that occurred during the fiscal year presented in the Statement of Revenues, Expenses and Changes in Net Position. This statement's purpose is to present the revenues generated and received by the University, both operating and nonoperating, the expenses incurred by the University, both operating and nonoperating, and all other financial gains or losses experienced by the University during the fiscal year ended June 30, 2020.

# 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 University. 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 University. Non-operating revenues are revenues received for which goods or services are not provided. The Governmental Accounting Standards Board (GASB) considers state appropriations as nonoperating revenues because the revenue is provided by the legislature to the University without the legislature directly receiving commensurate goods and services. A condensed Comparative Statement of Revenues, Expenses and Changes in Net Position is presented below.

Comparative Statement of Revenues, Expenses and Changes in Net Position		
For the Fiscal Year Ended June 30, 2020		
	2020	2019
Operating Revenues	\$ 23,057,001	\$ 24,243,909
Operating Expenses	61,978,278	64,037,276
Operating Loss	(38,921,277)	(39,793,367)
Non-Operating Revenues less Expenses	35,533,672	32,664,611
Income (Loss) Before Other Rev., Exp., Gains or Losses	(3,387,605)	(7,128,756)
Other Revenues, Expenses, Gains or Losses	(416,102)	1,002,486
Increases (Decreases) in Net Position	(3,803,707)	(6,126,270)
Net Position at the Beginning of Year	23,578,616	29,704,886
Net Position at End of Year	\$ 19,774,909	\$ 23,578,616

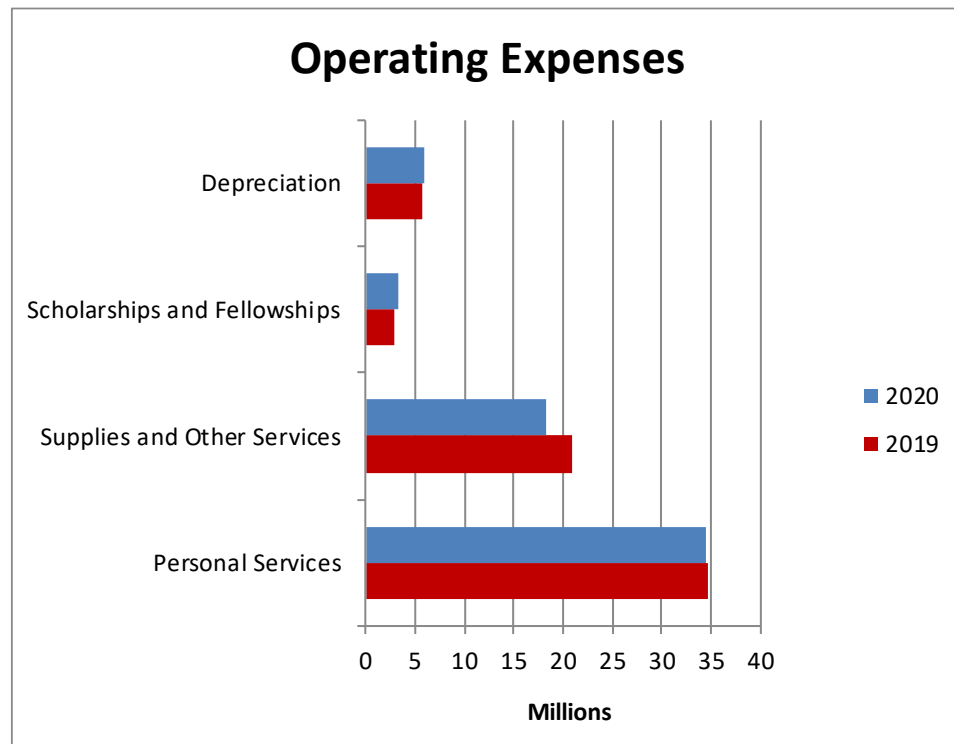
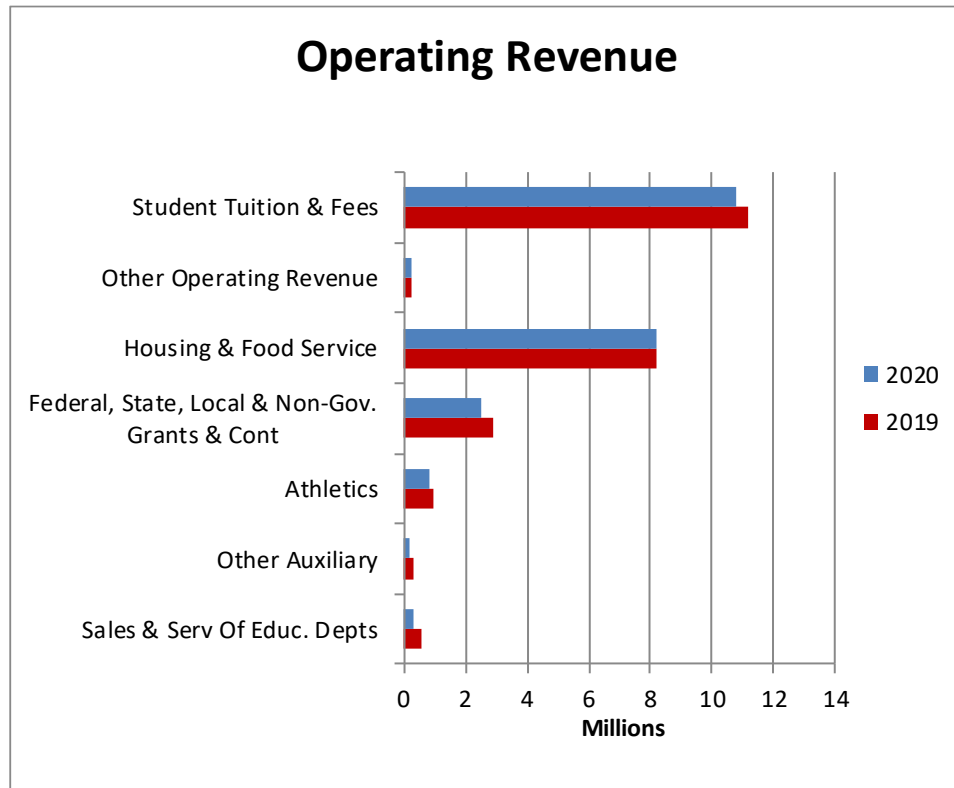
The loss for fiscal year 2019-20 of \$3.8 million is reflected as a decrease in net assets at end of year. The fiscal year 2019-20 loss decreased over the fiscal year 2018-19 loss by \$2.3 million due to changes made to the fiscal year 2019-20 budget with a 3% salary decrease for faculty and nonclassified staff, along with a reduction from 10% to 6% in the University's TIAA retirement match, a 50% reduction in supplies and reductions in travel and many other expenditure lines.

# Henderson State University

## Management's Discussion and Analysis (Unaudited)

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### 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 University's financial activities from the perspective of their effect on cash. Shown below is a condensed Comparative Statement of Cash Flows. The statement is presented in five components. The first presents cash inflows and outflows resulting from the University's normal operating activities. The second component presents cash flows from noncapital financing activities; that is, cash received from or spent for activities that do not result from normal operations, capital financing or investing. The third component presents cash flows resulting from investing activities such as purchases and liquidations of investments and interest, gains and losses generated by those activities. The fourth component presents cash inflows and outflows resulting from capital and related financing activities such as debt issuance, lease agreements, capital appropriations, grants or gifts. Although not reflected in the condensed Comparative Statement of Cash Flows shown below there is a fifth component that is a reconciliation of the net operating revenues (expenses) for the fiscal year as reported on the Statement of Revenues, Expenses and Changes in Net Position to the net cash provided (used) by operating activities as presented in component one of the Statement of Cash Flows.

Cash at June 30, 2020 increased by \$4.8 million dollars due to the \$1.8 million received from the CARES grant of federal stimulus funds, and the establishment of a dedicated debt service reserve fund for current year debt obligations, as well as cash held by the trustee for the energy savings project with Johnson Controls, Inc.

Comparative Statement of Cash Flow For the Fiscal Year Ended June 30, 2020		
	2020	2019
Cash Provided (used) by:		
Operating Activities	\$ (32,431,266)	\$ (30,819,100)
Non-capital Financing Activities	43,191,414	34,191,481
Investing Activities	325,998	811,885
Capital and Related Financing Activities	(6,204,326)	(5,157,238)
Net Change in Cash	4,881,820	(972,972)
Cash, Beginning of Year	995,105	1,968,077
Cash, End of year	\$ 5,876,925	\$ 995,105

# Henderson State University

## Management's Discussion and Analysis (Unaudited)

### Capital Assets and Debt Administration

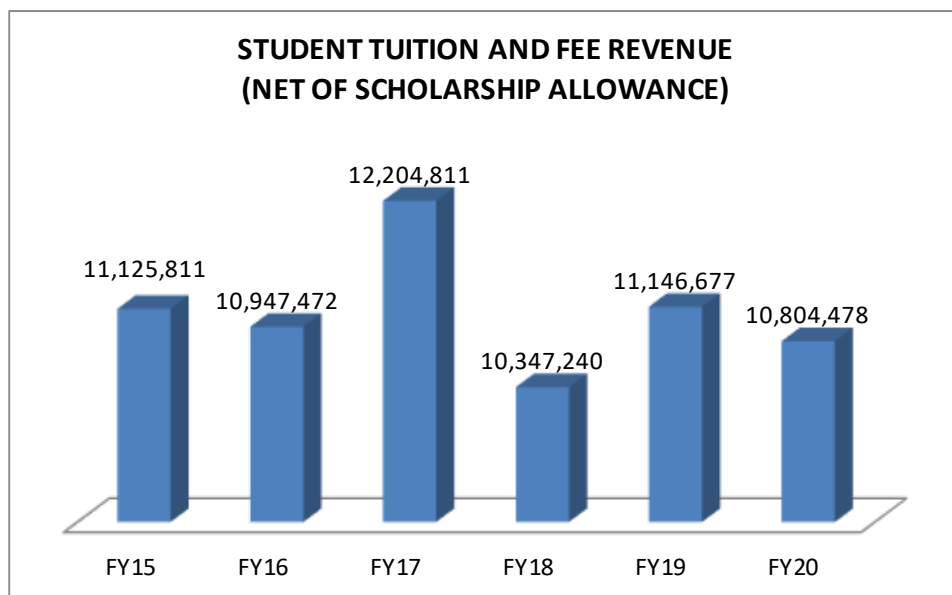
The University made an investment in the following capital additions or improvements in fiscal year 2019-20.

Investment in Capital Assets For the Fiscal Year Ended June 30, 2020	
	Amount
Land	\$ -
Construction in Progress	11,694,565
Improvements & Infrastructure	-
Equipment	124,374
Library Holdings	516,378
Buildings (includes \$6,085,281 of completed construction in progress)	6,307,415
<b>Total</b>	<b>\$ 18,642,732</b>

The University's long term debt (current and noncurrent) increased by \$19 million from \$62.5 million to \$81.5 million as a result of the addition of a \$6 million loan from the State Budget Stabilization Trust Fund and the \$16 million Johnson Controls Inc. ESCO Project offset by \$3 million in long term debt payments.

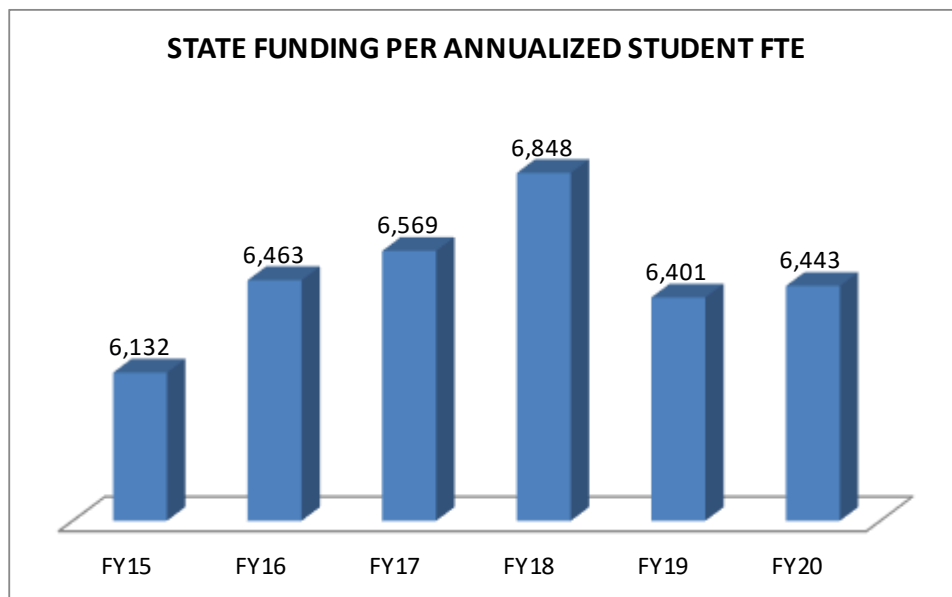
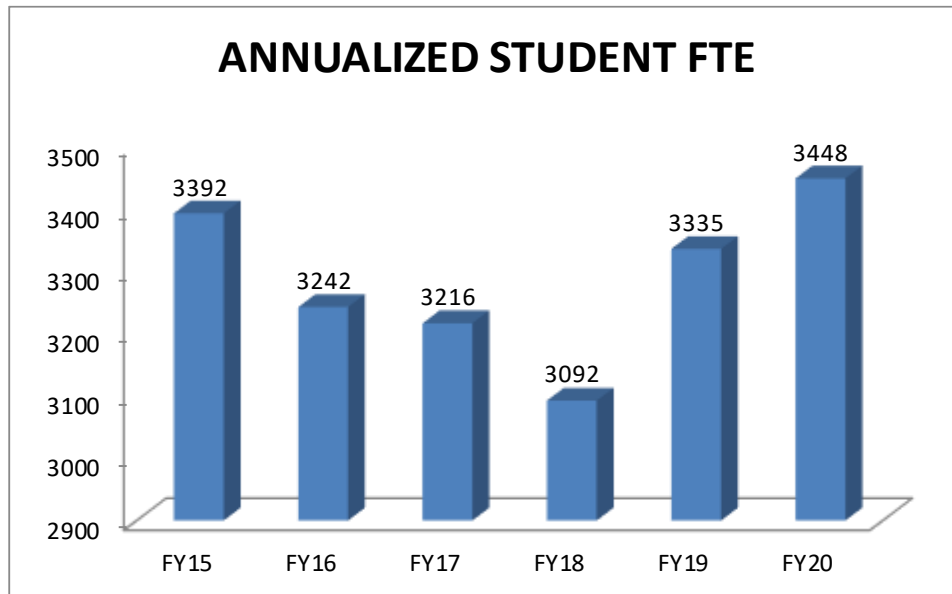
### Economic Outlook

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)



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

At the state level, the economy is stable, and revenues are tracking above forecast levels. Arkansas continues to conservatively manage its financial resources; as a result, state appropriations to the University have remained static with no expectation of appreciable increases in the near term. Public higher education will continue to compete with other state agencies and priorities for appropriate levels of funding.



# Henderson State University

## Management's Discussion and Analysis (Unaudited)

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### **Economic Outlook (Continued)**

During fiscal year 2018-19, the University experienced a significant reduction in revenue and cash flow that lead to the university requesting an advance of \$6 million from the state of Arkansas against the University's general revenue appropriation. This budget shortfall also led to the implementation of budget reductions in fiscal year 2019-20, with plans for further budget reductions in fiscal year 2020-21.

On July 2, 2019, citing decreased liquidity, Moody's issued a credit opinion downgrading the University's rating to Baa2 with a negative outlook. The Baa2 rating incorporated the University's reduced liquidity, weak operating performance and challenges collecting tuition and fees from enrolled students. On July 25, 2019 Moody's confirmed the rating of Baa2 rating for the University. This confirmation was based on the signing of a Memorandum of Understanding (MOU) with Arkansas State University (ASU) System to provide assistance to the University, combined with receipt of the \$6 million advance from State of Arkansas.

After the execution of the MOU, discussions began related to a merger of Henderson into the ASU System. On February 14, 2020, Moody's issued an update to the credit analysis stabilizing the Baa2, negative outlook and said that Moody's considers it to be credit positive for the University to join the ASU System. On November 5, 2020, the Higher Learning Commission approved a Change of Control application and the continuation of the University's accreditation as a future member of the ASU System.

The University has undergone a leadership transition in the position of President. Dr. Glen Jones resigned on July 19, 2019 and Elaine Kneebone was appointed Acting President. On July 27, 2020, Dr. James Borsig assumed the position of President on an interim basis through a contract with The Registry, a higher education placement agency. In January 2021, the position of President will transition to Chancellor with the legislative approval at the beginning of the 2021 General Assembly of the merger of Henderson State University with the Arkansas State University System.

Rita Fleming  
Vice President for Finance & Administration

**Henderson State University**  
**Comparative Statement of Net Position**  
**June 30, 2020**

**Exhibit A**

	2020	2019
<b>ASSETS:</b>		
<b>Current Assets:</b>		
Cash and Cash Equivalents	\$ 5,854,272	\$ 907,878
Short Term Investments		174,512
Student Accounts Receivable	4,962,556	5,242,813
Inventories	15,927	27,475
Notes and Student Loans Receivable	134,222	125,965
Other Receivables	654,327	779,227
Deposits with Trustee	1,428,015	746,217
Unamortized Bond Insurance	42,506	44,705
Total Current Assets	13,091,825	8,048,792
<b>Non-Current Assets:</b>		
Cash and Cash Equivalents	22,653	87,227
Investments		74,405
Notes and Student Loans Receivable	558,206	681,479
Other Receivables	143,464	100,000
Deposits with Trustee	1,756,654	555,036
Capital Assets, Net of Accumulated		
Depreciation (\$91,855,082 and \$86,583,393)	107,210,686	100,487,711
Total Non-Current Assets	109,691,663	101,985,858
Total Assets	122,783,488	110,034,650
<b>Deferred Outflows of Resources:</b>		
Deferral of Pension Liability	1,529,524	1,983,068
Deferral of OPEB Liability	62,945	
Deferral of Debt Defeasance, Net of Accumulated		
Amortization (\$137,899 and \$311,272)	318,114	345,394
Total Outflows of Resources	1,910,583	2,328,462

**Henderson State University**  
**Comparative Statement of Net Position**  
**June 30, 2020**

**Exhibit A**

	2020	2019
<b>LIABILITIES:</b>		
<b>Current Liabilities:</b>		
Accounts Payable and Accrued Liabilities	\$ 5,986,200	\$ 9,507,975
Funds Held in Trust for Others	1,285,413	1,019,936
Unearned Revenue	776,234	471,353
Employee Retirement	38,729	45,576
Other Postemployment Benefits	110,585	144,314
Compensated Absences Payable	155,914	148,918
Long-term Debt	3,344,611	2,984,545
Discount on Bonds	(2,784)	(2,784)
Deferral of Bond Premium	39,189	35,284
Total Current Liabilities	11,734,091	14,355,117
<b>Non-Current Liabilities:</b>		
Refundable Advance	814,876	892,430
Employee Retirement	26,380	26,924
Other Postemployment Benefits	4,316,640	4,127,144
Compensated Absences Payable	1,063,656	948,732
Long-term Debt	78,205,268	59,553,473
Pension Liability	6,174,372	5,703,882
Discount on Bonds Net of Accumulated Amortization (\$8,682 and \$5,898)	(38,238)	(41,022)
Bond and Note Payable Premium-Deferred, Net of Accumulated Amortization (\$216,488 and \$181,204)	670,925	598,128
Total Non-Current Liabilities	91,233,879	71,809,691
Total Liabilities	102,967,970	86,164,808
<b>Deferred Inflows of Resources:</b>		
Deferral of Pension Liability	944,413	1,537,578
Deferral of OPEB Liability	1,006,779	1,082,110
Total Inflows of Resources	1,951,192	2,619,688

**Henderson State University**  
**Comparative Statement of Net Position**  
**June 30, 2020**

**Exhibit A**

	2020	2019
NET POSITION:		
Invested in Capital Assets, Net of		
Related Debt	\$ 34,372,244	\$ 36,182,823
Restricted for:		
Expendable:		
Scholarship and Fellowships		53,109
Capital Projects	143,601	100,135
Grants and Contracts	319,308	1,446,614
Loans	47,738	20,053
Debt Service	230,000	225,000
Other		8,407
Nonexpendable:		
Loans		141,556
Unrestricted:		
Net Position	(15,337,982)	(14,599,081)
Total Net Position	\$ 19,774,909	\$ 23,578,616

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

**Henderson State University Foundation, Inc.**  
**Statements of Financial Position**  
**June 30, 2020 and 2019**

**Exhibit A-1**

	2020	2019
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,817,059	\$ 2,055,958
Accrued interest receivable	276	1,443
Other receivable	44,278	
Contributions receivable, net	926,654	704,571
Investments	19,135,763	18,248,970
Works of art	480,778	
Construction in progress	79,418	
Prepaid expenses	3,834	7,667
<b>TOTAL ASSETS</b>	<b>\$ 22,488,060</b>	<b>\$ 21,018,609</b>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>Net Assets</b>		
Without donor restrictions	223,197	207,079
With donor restrictions	22,264,863	20,811,530
<b>Total Net Assets</b>	<b>\$ 22,488,060</b>	<b>\$ 21,018,609</b>
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 22,488,060</b>	<b>\$ 21,018,609</b>

**Henderson State University** **Exhibit B**  
**Comparative Statement of Revenues, Expenses, and Changes in Net Position**  
**For The Year Ended June 30, 2020**

	2020	2019
<b>OPERATING REVENUE:</b>		
Student Tuition and Fees (net of scholarship allowances of \$17,809,059 and \$16,736,081)	\$ 10,804,478	\$ 11,146,677
Federal Grants and Contracts	2,159,273	2,112,719
State and Local Grants and Contracts	299,481	674,138
Non-Governmental Grants and Contracts	44,921	75,478
Sales and Services of Educational Departments	303,917	563,862
Athletics (net of scholarship allowances of \$845,375 and \$832,557)	849,076	949,320
Housing and Food Service (net of scholarship allowances of \$3,612,526 and \$3,795,685)	8,176,343	8,192,432
Bookstore	120,843	124,854
Garrison Center	2,843	15,883
Other Auxiliary Enterprises	74,103	159,629
Other Operating Revenues	221,723	228,917
<b>TOTAL OPERATING REVENUES</b>	<b>23,057,001</b>	<b>24,243,909</b>
<b>OPERATING EXPENSES:</b>		
Personal Services	34,479,629	34,623,236
Supplies and Other Services	18,337,947	20,820,738
Scholarships and Fellowships	3,326,509	2,813,327
Depreciation	5,834,193	5,779,975
<b>TOTAL OPERATING EXPENSES</b>	<b>61,978,278</b>	<b>64,037,276</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(38,921,277)</b>	<b>(39,793,367)</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
State and Federal Appropriations	21,587,337	21,448,315
Federal and State Grants and Contracts	15,277,065	12,312,041
Gifts	804,923	843,068
Investment Income	150,434	105,982
Interest and Fees on Long Term Debt	(2,459,912)	(2,246,169)
Debt Issuance Cost	(28,200)	
Bond Insurance Cost	(2,199)	(2,199)
Other	204,224	203,573
<b>Net Non-operating Revenues</b>	<b>35,533,672</b>	<b>32,664,611</b>

**Henderson State University** **Exhibit B**  
**Comparative Statement of Revenues, Expenses, and Changes in Net Position**  
**For The Year Ended June 30, 2020**

	2020	2019
Income Before Other Revenues, Expenses, Gains/Losses	\$ (3,387,605)	\$ (7,128,756)
Capital Gifts		322,879
Capital Grants and Contracts		1,100,000
Bond Call Date Incentive Payment	25,000	
Payments of Mandatory Fees to Agency Funds	(459,982)	(467,498)
Loss on Disposal of Assets	(284)	(1,464)
Insurance Proceeds on Capital Assets	19,164	48,569
INCREASE (DECREASE) IN NET POSITION	(3,803,707)	(6,126,270)
NET POSITION- BEGINNING OF YEAR	23,578,616	29,704,886
NET POSITION-END OF YEAR	\$ 19,774,909	\$ 23,578,616

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

**Henderson State University Foundation, Inc.**  
**Statements of Activities**  
**For the Year Ended June 30, 2020 and 2019**

**Exhibit B-1**

	2020	2019
<b>CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>		
<b>Support and Revenue without Donor Restrictions</b>		
Contributions	\$ 1,233	
Investment Return	3,894	\$ 1,657
Net assets released from restrictions	2,141,158	2,011,287
<b>Total Support and Revenue without Donor Restrictions</b>	2,146,285	2,012,944
 <b>Expenses</b>		
Program services	1,958,867	1,855,126
General and administrative supporting services	171,300	139,170
<b>Total Expenses</b>	2,130,167	1,994,296
<b>Increase in Net Assets Without Donor Restrictions</b>	16,118	18,648
 <b>CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS</b>		
Contributions	2,976,269	2,484,090
Investment return, net	618,222	1,144,321
Net assets released from restrictions	(2,141,158)	(2,011,287)
<b>Increase in Net Assets With Donor Restrictions</b>	1,453,333	1,617,124
<b>INCREASE IN TOTAL NET ASSETS</b>	1,469,451	1,635,772
<b>NET ASSETS, BEGINNING OF YEAR</b>	21,018,609	19,382,837
<b>NET ASSETS, END OF YEAR</b>	\$ 22,488,060	\$ 21,018,609



**Henderson State University**  
**Comparative Statement of Cash Flows**  
**For the Year Ended June 30, 2020**

**Exhibit C**

	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Tuition and Fees (Net of Scholarships)	\$ 10,822,028	\$ 10,752,480
Research Grants and Contracts	3,450,919	2,900,729
Collection of Loans and Interest to Students (includes Perkins and interest income)	115,016	146,538
Auxiliary Enterprises		
Athletics	849,076	949,320
Housing and Food Service	8,141,897	7,812,286
Bookstore	78,612	124,670
Student Union	2,843	15,883
Other Auxiliary Enterprises	77,106	137,580
Other Receipts	692,762	752,370
Payments to Suppliers	(19,224,895)	(17,346,821)
Payments to Employees	(26,495,375)	(26,921,472)
Payments of Employee Benefits	(7,377,685)	(7,427,494)
Loans issued to Students (includes Perkins)		(16,500)
Scholarships and Fellowships	(3,563,570)	(2,698,669)
Net Cash Provided (Used) by Operating Activities	(32,431,266)	(30,819,100)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State Appropriations	21,587,337	21,448,315
Federal and State Grants and Contracts	15,277,065	12,312,041
Loans to Students-Direct Loans & Private (Inflows)	15,826,393	15,857,230
Agency Funds (Net of Outflows)	265,477	266,373
Loans to Students-Direct Loans & Private (Outflows)	(15,826,393)	(15,857,230)
Proceeds From Notes Payable	6,000,000	
Payments of Mandatory Fees to Agency Funds	(459,982)	(467,498)
Gifts and Grants	804,923	843,067
Principal paid on non-capital loan	(165,237)	(160,299)
Interest paid on non-capital loan	(40,615)	(50,518)
Refund of federal perkins contributions	(77,554)	
Net Cash Provided (Used) by Noncapital Financing Activities	43,191,414	34,191,481

**Henderson State University**  
**Comparative Statement of Cash Flows**  
**For the Year Ended June 30, 2020**

**Exhibit C**

	2020	2019
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisitions and Construction of Capital Assets	\$ (1,253,773)	\$ (2,503,417)
Proceeds from Bond Issue		1,000,000
Capital Grants and Contracts	(34,939)	1,193,309
Insurance Proceeds on Capital Assets	19,163	48,570
Principal Paid on Non-Bonded Debt	(624,309)	(603,741)
Interest and Fees Paid on Non-Bonded Debt	(851,660)	(581,854)
Payment to Trustee for Principal	(2,200,000)	(2,145,612)
Payment to Trustee for Interest and Fees	(1,283,808)	(1,564,493)
Bond Call Date Incentive Payment	25,000	
Net Cash Provided (Used) by Capital and Related Financing Activities	(6,204,326)	(5,157,238)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from Sales and Maturities of Investments	248,918	768,487
Interest on Investments (net of fees)	77,080	99,205
Purchase of Investments		(55,807)
Net Cash Provided (Used) by Investing Activities	325,998	811,885
Net Increase (Decrease) in Cash	4,881,820	(972,972)
Cash - Beginning of Year	995,105	1,968,077
Cash - Ending of Year	\$ 5,876,925	\$ 995,105

**Henderson State University**  
**Comparative Statement of Cash Flows**  
**For the Year Ended June 30, 2020**

**Exhibit C**

	2020	2019
Reconciliation of Net Operating Loss to Net Cash Provided (Used) by Operating Activities		
Operating Income (Loss)	\$ (38,921,277)	\$ (39,793,367)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense	5,834,193	5,779,975
Receivables, Net	498,744	(830,953)
Inventories	11,547	109,864
Loans Receivable	115,016	130,038
Accounts Payable	(737,260)	3,963,472
Unearned Revenue	304,881	(24,821)
Employee Retirement	(7,391)	(11,983)
Compensated Absences	121,920	163,711
OPEB	17,491	(151,900)
Net Pension Liability	330,870	(153,136)
Net Cash Provided (Used) by Operating Activities	\$ (32,431,266)	\$ (30,819,100)
<b>NONCASH TRANSACTIONS</b>		
Donated Capital Assets		\$ 322,879
Loss on Capital Assets	\$ (287)	(1,646)
Increase (decrease) in Fair Value of Investments		13,202
Discount on Bonds	(2,784)	(2,784)
Premium of Bonds	37,172	37,172
Deferral of Debt Defeasance	(35,284)	(38,585)
Capital Assets purchases paid by trustee	(14,280,666)	
Note payable proceeds paid to trustee	16,112,254	
Debt issuance costs paid by trustee	(28,200)	
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, 2020**

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**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, 2020, the Foundation transferred property, equipment and funds of \$830,118 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 12<sup>th</sup> Street, Arkadelphia, AR 71923.

**Henderson State University**  
**Notes to Financial Statements**  
**June 30, 2020**

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**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 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, 2020**

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**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 predominately 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. Receivables are presented net of any estimated uncollectable amounts in accordance with generally accepted accounting principles.

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 of 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, 2020**

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**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 Inflow 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

Employee vacation, sick leave and compensatory time earned, but not paid, and related matching costs are recorded as a liability and expense on the University's financial statements as required by general accepted accounting principles. An estimate is made to allocate this liability between its current and noncurrent components.

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 capital lease obligations with contractual maturities greater than one year; and (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year.

**Henderson State University**  
**Notes to Financial Statements**  
**June 30, 2020**

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**NOTE 2: Summary of Significant Accounting Policies (Continued)**

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.

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 on 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 to 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.



**Henderson State University**  
**Notes to Financial Statements**  
**June 30, 2020**

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**NOTE 2: Summary of Significant Accounting Policies (Continued)**

Capitalization of Interest:

The University elected early implementation of GASB 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, during fiscal year 2019. Interest cost incurred are no longer capitalized during the period of construction. This statement is effective for reporting periods beginning after December 15, 2019.

New Accounting Pronouncements

In May 2020, the GASB issued Statement no. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. This Statement postpones the following Statements that are relevant to the University due to the COVID-19 pandemic: Statement no. 84, *Fiduciary Activities*, Statement no. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, and Statement no. 87, *Leases*.

**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)	\$ 2,423,330	\$ 2,423,330
Collateralized:		
Collateral held by the pledging bank or pledging bank's trust department in the University's name	5,600,568	5,678,613
<b>Total Deposits</b>	<b>\$ 8,023,898</b>	<b>\$ 8,101,943</b>

The above deposits do not include cash on hand in the amounts of \$23,500 and cash in State Treasury of \$46,994. The above total deposits include \$2,217,467 of cash that is reported as deposits with trustee at June 30, 2020.

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, 2020, none of the University's bank balance of \$8,101,943 was exposed to custodial credit risk.

**Henderson State University**  
**Notes to Financial Statements**  
**June 30, 2020**

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**NOTE 3: Public Fund Deposits and Investments: (Continued)**

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. As of June 30, 2020, the University had no short term or long-term investments.

Deposit with Trustees:

At June 30, 2020, the University's deposits with trustees of \$3,184,669, excluding \$2,217,467 in cash, were invested as follows:

Federated Hermes Treasury Obligations Fund of \$445,916. 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 44 days.

Federated Hermes Government Obligations Fund of \$521,286. 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 40 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.

**NOTE 4: Fair Value Measurement**

The Federated Hermes 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.

**Henderson State University**  
**Notes to Financial Statements**  
**June 30, 2020**

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NOTE 4: Fair Value Measurement (Continued)

<u>Security Description</u>	<u>Fair Value</u>
Government Agencies <sup>[1]</sup>	\$ 159,513
Repurchase Agreements <sup>[2]</sup>	157,950
U.S. Treasury <sup>[1]</sup>	<u>203,823</u>
Total Investments Measured at the NAV	<u>\$ 521,286</u>

The Federated Hermes 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 <sup>[2]</sup>	\$ 168,110
U.S. Treasury <sup>[1]</sup>	<u>277,806</u>
Total Investments Measured at the NAV	<u>\$ 445,916</u>

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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.

**Henderson State University**  
**Notes to Financial Statements**  
**June 30, 2020**

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**NOTE 4: Fair Value Measurement (Continued)**

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

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

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

Government Securities – are issued or guaranteed by a federal agency or instrumentality acting under federal authority. Some government securities, including those issued by 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, 2020**

**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, 2020:

Capital Assets:	Balance as of July 1, 2019	Additions	Transfers	Retirements	Balance as of June 30, 2020
Capital assets not being depreciated					
Land	\$ 1,975,554				\$ 1,975,554
Construction in progress	4,973,968	\$ 11,694,565	\$ (6,085,281)		10,583,252
Total capital assets not being depr.	\$ 6,949,522	\$ 11,694,565	\$ (6,085,281)	-	\$ 12,558,806
Other capital assets					
Improvements	\$ 9,054,027				\$ 9,054,027
Infrastructure	13,990,166				13,990,166
Buildings	135,477,123	\$ 222,134	\$ 6,085,281		141,784,538
Equipment	7,628,139	124,374		\$ (559,598)	7,192,915
Library materials	13,972,127	516,378		(3,189)	14,485,316
Total other capital assets	180,121,582	862,886	6,085,281	(562,787)	186,506,962
Less accumulated depreciation for:					
Improvements	(3,532,284)	(363,178)			(3,895,462)
Infrastructure	(4,017,549)	(584,708)			(4,602,257)
Buildings	(62,933,698)	(4,035,679)			(66,969,377)
Equipment	(6,153,212)	(349,598)		559,315	(5,943,495)
Library materials	(9,946,650)	(501,030)		3,189	(10,444,491)
Total accumulated depreciation	(86,583,393)	(5,834,193)	-	562,504	(91,855,082)
Total other capital assets, net	\$ 93,538,189	\$ (4,971,307)	\$ 6,085,281	\$ (283)	\$ 94,651,880
Capital Asset Summary:					
Capital assets not being depreciated	\$ 6,949,522	\$ 11,694,565	\$ (6,085,281)		\$ 12,558,806
Other capital assets, at cost	180,121,582	862,886	6,085,281	\$ (562,787)	186,506,962
Total cost of capital assets	187,071,104	12,557,451	-	(562,787)	199,065,768
Less accumulated depreciation	(86,583,393)	(5,834,193)		562,504	(91,855,082)
Capital Assets, net of depreciation	\$ 100,487,711	\$ 6,723,258	\$ -	\$ (283)	\$ 107,210,686

**Henderson State University**  
**Notes to Financial Statements**  
**June 30, 2020**

**NOTE 7: Long-Term Liabilities**

Debt payments on bonds amounted to \$3,849,288 for the fiscal year ended June 30, 2020. The amount of \$1,589,161 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, 2020	Maturities to June 30, 2020
11/1/2014	11/1/2039	2-5%	\$ 33,000,000	\$ 29,165,000	\$ 3,835,000
6/1/2015	7/1/2026	1-3.2%	3,780,000	1,750,000	2,030,000
2/3/2016	1/1/2032	2-3%	6,465,000	5,485,000	980,000
9/19/2017	7/15/2035	2.0-3.25%	7,005,000	6,375,000	630,000
10/3/2017	9/1/2035	1.25-3.25%	3,315,000	3,015,000	300,000
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	652,102	447,898
8/31/2011	8/30/2036	5.74%	2,750,000	2,286,453	463,547
6/30/2015	6/1/2035	4.12%	10,136,926	8,516,637	1,620,289
8/20/2019	11/1/2039	3.73%	15,996,406	15,996,406	-
7/1/2019	6/30/2028	0.00%	6,000,000	6,000,000	-
7/23/2012	7/23/2026	3.08%	2,366,268	1,308,281	1,057,987
			\$ 92,914,600	\$ 81,549,879	\$ 11,364,721

**Henderson State University**  
**Notes to Financial Statements**  
**June 30, 2020**

**NOTE 7: Long-Term Liabilities (Continued)**

The changes in long-term liabilities are as follows:

	Balance as of July 1, 2019	Additions	Reductions	Balance as of June 30, 2020	Amounts due within one year
General obligation bonds	\$ 47,985,000		\$ 2,195,000	\$ 45,790,000	\$ 2,085,000
Less bond discount	(43,806)		2,784	(41,022)	2,784
Plus bond premium	633,412		35,284	598,128	33,397
Bonds from direct placement	1,000,000		-	1,000,000	
Total bonds payable	49,574,606		2,233,068	47,347,106	2,121,181
Notes Payable	12,079,500	\$ 21,996,406	624,308	33,451,598	1,089,285
Plus Premium on Notes Payable	-	115,848	3,862	111,986	5,792
Installment Contract	1,473,518	-	165,237	1,308,281	170,326
Comp Absences Pay.	1,097,650	816,742	694,822	1,219,570	155,914
Employee Retire Pay.	72,500	26,063	33,454	65,109	38,729
	\$ 64,297,774	\$ 22,955,059	\$ 3,754,751	\$ 83,503,650	\$ 3,581,227

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	
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	2,390,000	1,269,041			3,659,041
2026-2030	12,240,000	5,176,391			17,416,391
2031-2035	12,195,000	3,030,497			15,225,497
2036-2040	10,210,000	981,281			11,191,281
	\$ 45,790,000	\$ 16,311,568	\$ 1,000,000	\$ 86,298	\$ 63,187,866

**Henderson State University**  
**Notes to Financial Statements**  
**June 30, 2020**

NOTE 7: Long-Term Liabilities (Continued)

Year Ended June 30	Notes Payable		Total
	Principal	Interest	
2021	\$ 1,089,285	\$ 1,218,110	\$ 2,307,395
2022	1,246,051	1,061,983	2,308,034
2023	1,291,011	1,017,679	2,308,690
2024	1,337,352	972,011	2,309,363
2025	1,382,624	920,579	2,303,203
2026-2030	13,349,814	3,695,208	17,045,022
2031-2035	8,175,190	2,095,587	10,270,777
2036-2040	5,580,271	623,459	6,203,730
	\$ 33,451,598	\$ 11,604,616	\$ 45,056,214

Year Ended June 30	Installment Contract		Total
	Principal	Interest	
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	192,300	18,321	210,621
2026-2027	402,550	18,692	421,242
	\$ 1,308,281	\$ 166,066	\$ 1,474,347



**Henderson State University**  
**Notes to Financial Statements**  
**June 30, 2020**

**NOTE 8: Commitments**

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

Project Name	Completion Date	Contract Balance
ESCO Energy Savings Renovations	December 30, 2020	\$ <u>1,600,769</u>

The University entered into an agreement with Johnson Controls to perform energy savings measures on August 20, 2019, this contract will provide various utility and cost savings improvements to the University facilities.

Operating Leases:

The University has leases for land, office space, classroom space, copiers ranging from 1 to 10 years, 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, 2020 totals \$1,820,849.
- (2) Contingent rental payments are determined on a cost basis.
- (3) Future minimum rental payments for the ten (10) succeeding fiscal years:

Fiscal Year Ending June 30,	Amount
2021	\$ 269,967
2022	231,940
2023	197,526
2024	171,156
2025	160,430
2026-2030	789,830
<b>Total Future Minimum Rental Payments (1-10 years)</b>	<b>\$ 1,820,849</b>

Rental payments for the current year total \$307,692.

**Henderson State University**  
**Notes to Financial Statements**  
**June 30, 2020**

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**NOTE 8: Commitments (Continued)**

The University entered into two sublease agreements dated June 15, 2020 for office space. The future sublease revenue is summarized in the table below:

Fiscal Year Ending June 30,	Amount
2021	\$ 148,302
2022	154,591
2023	156,521
2024	158,451
2025	160,430
2026-2030	789,830
<b>Total Future Sublease Revenue (1-10 years)</b>	<b>\$ 1,568,125</b>

Sublease revenues for the current year total \$0.

**NOTE 9: Retirement Plans**

Teachers Insurance and Annuity Association/College Retirement Equities Fund (TIAA/CREF):

Plan Description: The University participates in TIAA/CREF, a defined contribution plan. The plan is a 403(b) program as defined by Internal Revenue Service Code of 1986 as amended, and is administered by TIAA/CREF. TIAA is an insurance company offering participants a traditional annuity with guaranteed principal and a specific interest rate plus the opportunity for additional growth through dividends. CREF is an investment company which offers a variable annuity. Arkansas law authorizes participation in the plan.

Funding Policy: TIAA/CREF 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/CREF additional retirement, TIAA/CREF Supplemental Retirement Annuities and Fidelity Group. The University's and participants' contributions for the year ended June 30, 2020 were \$1,452,325 and \$1,495,719 respectively.

**Henderson State University**  
**Notes to Financial Statements**  
**June 30, 2020**

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**NOTE 9: Retirement Plans (Continued)**

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 3-year average compensation times the member's years of service. The percentage used is based upon whether a member is contributory or noncontributory.

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.

**Henderson State University**  
**Notes to Financial Statements**  
**June 30, 2020**

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NOTE 9: Retirement Plans (Continued)

Arkansas Teacher Retirement System (ATRS) (Continued)

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 14.25% of applicable compensation for the fiscal year ended June 30, 2020. The University's contributions to ATRS for the years ended June 30, 2020, 2019 and 2018 were \$89,336, \$112,325 and \$132,225 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, 2020, the University reported a liability of \$1,084,865 for its proportionate share of the new pension liability. The net pension liability was measured as of June 30, 2019, 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, 2019, the University's proportion was 0.0260 percent.

For the year ended June 30, 2020, the University recognized a reduction in pension expense of \$129,270. At June 30, 2020, the University reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

**Henderson State University**  
**Notes to Financial Statements**  
**June 30, 2020**

NOTE 9: Retirement Plans (Continued)

Arkansas Teacher Retirement System (ATRS) (Continued)

	Deferred Outflow of Resources	Deferred Inflow of Resources
Difference between expected and actual experience	\$ 29,125	\$ (11,352)
Changes in assumptions	161,245	
Net difference between projected and actual earnings on pension plan investments		(76,424)
Changes in proportion and differences between employer contribution and share of contributions		(566,449)
University contributions subsequent to measurement date	89,336	
<b>Total</b>	<b>\$ 279,706</b>	<b>\$ (654,225)</b>

On the previous table, \$89,336 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, 2021. 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:	
2021	(222,799)
2022	(153,522)
2023	(60,302)
2024	(16,589)
Thereafter	(10,643)

**Henderson State University**  
**Notes to Financial Statements**  
**June 30, 2020**

NOTE 9: Retirement Plans (Continued)

Arkansas Teacher Retirement System (ATRS) (Continued)

Actuarial Assumptions

The total pension 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
Amoritzation 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% including inflation
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, 2020**

**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, 2019 are summarized below:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Total Equity	53.00%	5.1%
Fixed Income	15.00%	1.4%
Alternatives	5.00%	4.2%
Real Assets	15.00%	5.0%
Private Equity	12.00%	6.3%
Cash Equivalents	0.00%	0.6%
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 14.25% 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 (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

Sensitivity of Discount Rate		
1%	Discount	1%
Decrease	Rate	Increase
(6.5%)	(7.5%)	(8.5%)
1,783,617	1,084,865	505,354

**Henderson State University**  
**Notes to Financial Statements**  
**June 30, 2020**

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**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 157 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.

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.

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.



**Henderson State University**  
**Notes to Financial Statements**  
**June 30, 2020**

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NOTE 9: Retirement Plans (Continued)

Arkansas Public Employees Retirement System (APERS) (Continued)

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, 2020, 2019 and 2018 were \$560,164, \$644,938 and \$563,113 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, 2020, the University reported a liability of \$5,089,507 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019 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, 2019, the University's proportion was 0.2110 percent.

For the year ended June 30, 2020, the University recognized pension expense increase of \$1,109,619. At June 30, 2020, 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, 2020**

NOTE 9: Retirement Plans (Continued)

Arkansas Public Employees Retirement System (APERS) (Continued)

	Deferred Outflow of Resources	Deferred Inflow of Resources
Difference between expected and actual experience	\$ 138,515	\$ (7,562)
Changes in assumptions	276,244	(195,649)
Net difference between projected and actual earnings on pension plan investments		(38,657)
Changes in proportion and differences between employer contribution and share of contributions	274,895	(48,320)
University contributions subsequent to measurement date	560,164	
<b>Total</b>	<b>\$ 1,249,818</b>	<b>\$ (290,188)</b>

In the previous chart, \$560,164 reported as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date will be recognized as pension expense 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:	
2021	329,191
2022	(27,194)
2023	23,983
2024	73,486

**Henderson State University**  
**Notes to Financial Statements**  
**June 30, 2020**

NOTE 9: Retirement Plans (Continued)

Arkansas Public Employees Retirement System (APERS) (Continued)

Actuarial Assumptions

The total pension 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	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, 2019, 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 2019-2028 were based upon capital market assumptions provided by the plan's investment consultant.

**Henderson State University**  
**Notes to Financial Statements**  
**June 30, 2020**

**NOTE 9: Retirement Plans (Continued)**

Arkansas Public Employees Retirement System (APERS) (Continued)

For each major asset class included in the plan's target asset allocation as of June 30, 2019, these best estimates are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Broad Domestic Equity	37.00%	6.20%
International Equity	24.00%	6.33%
Real Assets	16.00%	3.32%
Absolute return	5.00%	3.56%
Domestic Fixed	18.00%	1.54%
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%)
\$ 8,157,209	\$ 5,089,507	\$ 2,558,512

**Henderson State University**  
**Notes to Financial Statements**  
**June 30, 2020**

**NOTE 9: Retirement Plans (Continued)**

Arkansas Public Employees Retirement System (APERS) (Continued)

Pension Plan Fiduciary Net Position

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

**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	\$ 13,377,039		\$ 850,139		\$ 14,227,178
Research	9,670		19,332		29,002
Public Service	214,926		60,663		275,589
Academic Support	8,535,897		607,018		9,142,915
Student Services	4,104,781		1,259,782		5,364,563
Institutional Support	5,051,168		2,129,003		7,180,171
Schol. & Fellow.		\$ 3,326,509 *			3,326,509
Oper. & Maint.			5,749,064		5,749,064
Aux. Enterprises	3,186,148		7,662,946		10,849,094
Depreciation				\$ 5,834,193	5,834,193
	\$ 34,479,629	\$ 3,326,509	\$ 18,337,947	\$ 5,834,193	\$ 61,978,278

\*Includes \$ 1,584,450 of CARES-HEERF direct payments to students.

**NOTE 11: Related Party Transactions**

Dr. Glendell Jones, Jr. was the former President of Henderson State University who resigned from the position on July 19, 2019. 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.

Mr. Johnny Hudson was a member of the Board of Trustees of Henderson State University and serves on the Henderson State University Foundation Board.

**Henderson State University**  
**Notes to Financial Statements**  
**June 30, 2020**

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**NOTE 11: Related Party Transactions (Continued)**

Mr. Ross Whipple was a member of the Board of Trustees of Henderson State University and is a Director on the Board of the Bank of the Ozarks, the University has assets invested in Bank of the Ozarks.

Ms. Megan Tollett was a member of the Board of Trustees of Henderson State University and is an employee of Impact Management Group, a public affairs, government relations and public relations firm. The University procured services by the firm during the 2019-2020 fiscal year.

**NOTE 12: Compensated Absences**

Changes in Compensated Absences Payable are as follows:

Changes in Compensated Absences Payable:	Amount
Annual Leave as of June 30, 2019	\$ 870,704
Earned Leave	700,285
Lost Leave over 240 hours	(98,091)
Annual Leave Used	(478,134)
Annual Leave as of June 30, 2020	\$ 994,764

The figures in the above table do not include estimated fringe benefits on accrued leave in the amount of \$123,001 as of June 30, 2020.

Employees with a sick leave balance of 50 days or more are eligible for payment for leave upon retirement. As of June 30, 2020 the University's liability for employees with sufficient leave balances was \$94,983.

Employees with a compensatory time balance are eligible for payment for leave upon termination, retirement or death. As of June 30, 2020 the University's liability for employees with compensatory leave balances was \$6,822.

**Henderson State University**  
**Notes to Financial Statements**  
**June 30, 2020**

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NOTE 13: Employee Retirement

Changes in Employee Retirement:	Amount
Employee Retirement as of June 30, 2019	\$ 72,500
Annual Revaluation	26,062
Amount Paid Out During 2019/2020	(33,453)
Employee Retirement as of June 30, 2020	\$ 65,109

NOTE 14: Disaggregation of Receivable and Payable Balances

Accounts Receivable Consists of the Following:	Amount
Student Tuition and Fees, net of allowance of \$4,144,054	\$ 2,909,158
Housing and Food Service, net of allowance of \$1,611,811	2,053,810
Auxiliary Enterprises	64,891
Notes and Loans Receivable	692,428
Federal	111,941
State	30,393
Other Receivables	590,154
Total Accounts Receivable	\$ 6,452,775

**Henderson State University**  
**Notes to Financial Statements**  
**June 30, 2020**

NOTE 14: Disaggregation of Receivable and Payable Balances (Continued)

Accounts Payable Consists of the Following:	Amount
Vendors	\$ 3,900,614
Salary & Fringe Benefit Payable	854,315
Other Payables	300,260
State	139,302
Interest & Fees Payable	791,709
<b>Total Accounts Payable</b>	<b>\$ 5,986,200</b>

NOTE 15: Other Post-Employment 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 through December 2019. Beginning January 1, 2020, the University moved to a fully insured health insurance plan with Arkansas Blue Cross and Blue Shield. 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. The University approved a policy in July 2015 making employees starting after July 1, 2015 not eligible for University subsidized health and life insurance- employees eligible for health and life insurance on July 1, 2015 will be eligible to have subsidized health and life insurance upon meeting the requirements for coverage. University members' 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 \$109,778 for fiscal year 2020, compared to \$143,404 for fiscal year 2019. The University paid the total premiums for life insurance benefits for eligible retirees, ages 55 to 65, directly to MetLife in the amount of \$808 for fiscal year 2020, compared to \$910 for fiscal year 2019. This represents a total of \$110,585 paid by the University for the employer portion of the OPEB for fiscal year 2020, compared to \$144,314 for fiscal year 2019.



**Henderson State University**  
**Notes to Financial Statements**  
**June 30, 2020**

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**NOTE 15: Other Post-Employment Benefits (OPEB) (Continued)**

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.

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 73% or \$109,778 of the postretirement healthcare premiums, totaling \$150,405 for the fiscal year ended June 30, 2020. Last year, the University funded approximately 77% or \$143,404 of the postretirement healthcare premiums, totaling \$185,753 for the fiscal year ended June 30, 2019. The retirees are responsible for funding approximately 27% of the healthcare premiums compared to 23% 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 \$808 in postretirement life insurance benefits for the fiscal year ended June 30, 2020 and \$910 in postretirement life insurance benefits for the fiscal year ended June 30, 2019. At age 65, the retiree has the option of continuing life insurance coverage until age 70 by assuming the cost of the monthly premiums.

**Henderson State University**  
**Notes to Financial Statements**  
**June 30, 2020**

**NOTE 15: Other Post-Employment Benefits (OPEB) (Continued)**

For the year ended June 30, 2020, the University recognized OPEB Expense of \$172,064. At June 30, 2020, 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	\$ 62,945	\$ (813,060)
Changes in assumptions	-	(193,719)
Net difference between projected and actual earnings on OPEB	-	-
<b>Total</b>	<b>\$ 62,945</b>	<b>\$ (1,006,779)</b>

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:	Deferred Outflow of Resources	Deferred Inflow of Resources
2021	12,872	(192,726)
2022	12,872	(192,726)
2023	12,872	(192,726)
2024	12,872	(192,726)
2025	11,457	(177,502)
2026 and beyond	-	(58,373)

The Plan does not issue a stand-alone financial report. For inquiries relating to either Plan, please contact Rita Fleming, 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.

**Henderson State University**  
**Notes to Financial Statements**  
**June 30, 2020**

NOTE 15: Other Post-Employment Benefits (OPEB) (Continued)

Employees Covered by Benefit Terms	
At June 30, 2020, the following employees were covered by the benefit terms:	
Inactive employees or beneficiaries currently receiving benefit payment	22
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	225
	247

Total OPEB Liability

Henderson State University's total OPEB liability of \$4,427,225 was measured as of June 30, 2020, and was determined by an actuarial valuation as of January 1, 2020. The liabilities were rolled forward to the measurement date using standard actuarial techniques. No assets were accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Schedule of Changes Total OPEB Liability		
		<b>2020</b>
Service Cost	\$	205,099
Interest Cost		146,819
Difference Between Expected and Actual Experience		75,817
Changes in Assumptions		(117,395)
Benefit Changes		-
Benefit Payments		(154,573)
Net Change		155,767
Beginning of Year - Total OPEB Liability	\$	4,271,458
End of Year - Total OPEB Liability	\$	4,427,225

**Henderson State University**  
**Notes to Financial Statements**  
**June 30, 2020**

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**NOTE 15: Other Post-Employment Benefits (OPEB) (Continued)**

Actuarial Assumptions

The total OPEB liability in the June 30, 2020, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation date	January 1, 2020
Measurement date	June 30, 2020
Discount rate	3.50% for June 30, 2019 measurement date and fiscal 2020 OPEB expense development  2.21% for June 30, 2020 measurement date
Healthy mortality	Pub-2010 Headcount-Weighted Mortality Tables for General Employees, separately for males and females, and separately for employees and retirees.  Mortality includes a generational projection for future mortality improvements using Scale MP-2019.
Disabled mortality	Not applicable
Disability Incidence	Not applicable
Healthcare cost trend rates	Healthcare costs are assumed to increase each year according to the rates shown below:

<u>Year</u>	<u>Medical Trend Rate</u>
2020	6.00%
2021	5.50%
2022	5.40%
2023-2024	5.30%
2025-2026	5.20%
2027-2028	5.10%
2029-2031	4.90%
2032+	4.80%

Per capita claim costs

Per capita healthcare costs were calculated at age 62 as follows:

<u>Plan</u>	<u>Cost</u>
Traditional POS	\$7,240
HDHP \$2,000	\$7,342
HDHP \$3,000	\$6,677

**Henderson State University**  
**Notes to Financial Statements**  
**June 30, 2020**

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NOTE 15: Other Post-Employment Benefits (OPEB) (Continued)

Aging factors

Claim costs (shown above for age 62) are adjusted to other ages according to the sample rates below:

<u>Age</u>	<u>Factor</u>
55	0.771
60	0.929
64	1.096

Participation

90% of employees are assumed to participate in the retiree medical program.

All employees are assumed to participate in the retiree life insurance program.

Salary growth

1.00% per year through 2022, then 2.50% per year thereafter.

Termination rates

Rates vary by age. Select rates are shown below:

<u>Age</u>	<u>Factor</u>
20	0.046
25	0.046
30	0.043
35	0.036
40	0.033
45	0.025
50	0.019

Retirement rates

Rates of retirement vary by age for eligible employees as shown below:

<u>Age</u>	Service	
	<u>0-27</u>	<u>28+</u>
55	0.06	0.09
56	0.09	0.12
57	0.09	0.10
58	0.09	0.11
59	0.09	0.14
60-61	0.50	0.14
62	0.50	0.28
63-64	0.50	0.17
65	1.00	0.27
66	1.00	0.30
67-74	1.00	0.30
75+	1.00	1.00

**Henderson State University  
Notes to Financial Statements  
June 30, 2020**

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**15: Other Post-Employment Benefits (OPEB) (Continued)**

Spousal assumptions

20% of employees are assumed to be married upon retirement.

Males are assumed to be three years older than females.

Administrative expenses

Administrative expenses by plan are shown below and are expected to grow by 4.80% each year.

Life insurance face amounts were loaded by 10% to reflect expected administrative costs.

<u>Plan</u>	<u>Percentage</u>
Traditional POS	\$902
HDHP \$2,000	\$914
HDHP \$3,000	\$832

Plan Selection

Active employees are assumed to select the medical plans at retirement as follows:

<u>Plan</u>	<u>Percentage</u>
Traditional POS	80%
HDHP \$2,000	15%
HDHP \$3,000	5%

Medicare retirement age

65

Rationale for selected assumptions

The discount rate is based on the Bond Buyer 20-Bond GO Index as of the measurement date.

Mortality rates are based on recent research by the Society of Actuaries since Henderson State University's experience is not credible.

Healthcare trend rates are developed each year consistent with Lockton's near-term expectations and the SOA Getzen Long-Term Healthcare Cost Trend model.

**Henderson State University**  
**Notes to Financial Statements**  
**June 30, 2020**

**NOTE 15: Other Post-Employment Benefits (OPEB) (Continued)**

Changes since prior year

The discount rate was updated to reflect recent high-quality municipal bond rates.

The mortality tables and projection scales were updated based on recent research by the Society of Actuaries.

Healthcare trend rates were updated to reflect anticipated future experience.

Per capita claim costs and administrative expenses were updated to reflect recent fully insured premium rates.

Aging factors were updated consistent with Lockton's standards.

Life insurance face amounts were valued instead of life insurance premiums, and a 10% administrative expense load was added to the life insurance benefit.

Retirement rates were updated to reflect anticipated future experience.

The salary increase assumption was updated based on plan sponsor expectations.

Sensitivity to changes in assumptions

The table below presents the change in the total OPEB liability that would result if the OPEB liability were calculated using a discount rate that is 1% higher and 1% lower, respectively, than the current discount rate, and healthcare trend rates that are 1% higher and 1% lower, respectively, than the current trend rates in all future years.

Fiscal year ending June 30, 2020	1% increase		1% decrease	
<b>Discount rate change</b>				
Total OPEB liability	\$	4,184,461	\$	4,683,459
Change in OPEB liability		(242,764)		256,234
<b>Healthcare trend rate change</b>				
Total OPEB liability	\$	4,836,623	\$	4,069,932
Change in OPEB liability		409,398		(357,293)

**Henderson State University**  
**Notes to Financial Statements**  
**June 30, 2020**

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**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. See Note 24 for additional information.

**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 72.98% of gross revenues. The total principal and interest remaining to be paid on the bonds is \$6,511,395. Principal and interest paid for the current year and total customer gross revenues were \$539,733 and \$739,603 respectively.

The University has pledged future other auxiliary revenue to repay \$44,320,000 in other auxiliary revenue bonds issued in 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 2021 through 2039. Annual principal and interest payments on the bonds currently require 23.52% of gross revenues. The total principal and interest remaining to be paid on the bonds is \$54,740,205. Principal and interest paid for the current year and total customer gross revenues were \$3,042,213 and \$12,934,116 respectively.

The University has pledged future student tuition and fees to repay \$3,780,000 in refunding bonds issued in 2015 to refund capital improvement bonds for various capital projects. The bonds are payable solely from student tuition and fees and are payable through 2027. Annual principal and interest payments on the bonds currently require 0.99% of gross revenues. The total principal and interest remaining to be paid on the bonds is \$1,936,266. Principal and interest paid for the current year and gross student tuition and fees were \$267,343 and \$26,956,088 respectively.



**Henderson State University**  
**Notes to Financial Statements**  
**June 30, 2020**

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**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 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 of Arkansas.

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, 2020**

**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 that 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, 2020 is \$1,645,000.

**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. During fiscal year 2020 the University paid \$2,687,385 in health insurance claims for employees, employee dependents and retirees. On January 1, 2020 the University moved to a fully insured plan with Arkansas Blue Cross Blue Shield for employees, employee dependents and retirees.

Unpaid Claims Liability	FY 2020
Unpaid Claims 07-01-2019	\$ 187,333
Incurred Claims during current Year	2,500,052
Current Year Claims Paid	2,500,052
Prior Year Claims Paid	187,333
Total Payment	2,687,385
Unpaid Claims 6-30-2020	\$ -

**Note 21: Appropriation Advance**

On July 1, 2019, the University received an appropriation advance of \$6,000,000 from the Arkansas Department of Finance and Administration State Budget Stabilization Trust Fund. On April 17, 2020, Act 30 of 2020, was approved, which allowed the advance to become a loan from the Budget Stabilization Trust Fund with repayment to be made by June 30, 2028.

**Henderson State University**  
**Notes to Financial Statements**  
**June 30, 2020**

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**NOTE 22: Deficit Net Position**

The University's unrestricted net position at June 30, 2020, as reported on the Statement of Net Position, was a deficit amount of \$15,337,982. Included in this deficit was the effect of the net pension liability and related deferred inflows/outflows of \$5,589,261 and the other postemployment benefits liability and related deferred inflows/outflows of \$5,371,059. Excluding the above liabilities and related deferrals, the deficit unrestricted net position was \$4,377,662.

**Note 23: Subsequent Events**

On July 27, 2020, the University hired Dr. James Borsig as Interim Chancellor. On September 20, 2020, Dr. James Hunt was hired as Interim Provost and Vice President for Academic Affairs.

In fiscal year 2020, due to the University experiencing financial difficulties from a continuation of negative operating performance, the Henderson State University Board and the Arkansas State University System Board approved an Agreement of Merger and Plan of Transition. In November 2020, the Higher Learning Commission approved the merger of Henderson State University into the Arkansas State University System. On February 1, 2021, Act 18 of the 93<sup>rd</sup> General Assembly was approved completing the merger into the Arkansas State University System.

**Note 24: Capital Asset Impairment**

On October 9, 2019, the Reynolds Science Center was significantly damaged by a chemical spill. The Reynolds Science Center Building was constructed in 1971 at a cost of \$1,806,686. The University completed three additions to the Reynolds Science Center in 1979 for \$16,740, in 2001 for \$7,214,410, and 2017 for \$18,699, which brings the total historical cost of the building to \$9,056,535. The accumulated depreciation remaining on the building is \$6,394,422, making the carrying value \$2,662,113. Due to safety concerns the building was closed. The building, however, was insured when the chemical spill occurred. The University is currently working with all parties involved to determine the cause of the spill and ultimately the liable party. The University incurred costs of \$149,917 for demolition and pollution remediation expenses due to the chemical spill for the fiscal year ending June 30, 2020. The cost of replacement and insurance settlement has not been determined at this time. Due to the unknown amounts, an impairment loss or gain could not be determined for the fiscal year ending June 30, 2020.

**Henderson State University**  
**Required Supplementary Information (Unaudited)**  
**June 30, 2020**

**OTHER POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)**

Schedule of Changes Total OPEB Liability			
	2018	2019	2020
Service Cost	\$ 425,068	\$ 408,676	\$ 205,099
Interest Cost	146,882	142,755	146,819
Difference Between Expected and Actual Experience	(568,658)	(611,793)	75,817
Changes in Assumptions	(2,899)	(135,703)	(117,395)
Benefit Changes	-	(322,074)	-
Benefit Payments	(149,314)	(144,314)	(154,573)
Net Change	(148,921)	(662,453)	155,767
Beginning of Year-Total OPEB Liability	\$ 5,082,832	\$ 4,933,911	\$ 4,271,458
End of Year - Total OPEB Liability	\$ 4,933,911	\$ 4,271,458	\$ 4,427,225
University's covered-employee payroll	20,613,947	13,712,574	13,653,248
Total OPEB Liability as a percentage of covered-employee payroll	23.93%	31.15%	32.43%

**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, 2020**

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**Notes to Schedule: (continued)**

**Changes in Assumptions:**

Retirement rates

Rates of retirement vary by age for eligible employees as shown below:

<u>Age</u>	<u>Service</u>	
	<u>0-27</u>	<u>28+</u>
55	0.06	0.09
56	0.09	0.12
57	0.09	0.10
58	0.09	0.11
59	0.09	0.14
60-61	0.50	0.14
62	0.50	0.28
63-64	0.50	0.17
65	1.00	0.27
66	1.00	0.30
67-74	1.00	0.30
75+	1.00	1.00

Spousal assumptions

20% of employees are assumed to be married upon retirement.

Males are assumed to be three years older than females.

Administrative expenses

Administrative expenses by plan are shown below and are expected to grow by 4.80% each year.

Life insurance face amounts were loaded by 10% to reflect expected administrative costs.

<u>Plan</u>	<u>Percentage</u>
Traditional POS	\$902
HDHP \$2,000	\$914
HDHP \$3,000	\$832

Plan Selection

Active employees are assumed to select the medical plans at retirement as follows:

<u>Plan</u>	<u>Percentage</u>
Traditional POS	80%
HDHP \$2,000	15%
HDHP \$3,000	5%

**Henderson State University**  
**Required Supplementary Information (Unaudited)**  
**June 30, 2020**

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**Notes to Schedule: (continued)**

**Changes in Assumptions (continued):**

Medicare retirement age	65
Rationale for selected assumptions	<p>The discount rate is based on the Bond Buyer 20-Bond GO Index as of the measurement date.</p> <p>Mortality rates are based on recent research by the Society of Actuaries since Henderson State University's experience is not credible.</p> <p>Healthcare trend rates are developed each year consistent with Lockton's near-term expectations and the SOA Getzen Long-Term Healthcare Cost Trend model.</p>
Changes since prior year	<p>The discount rate was updated to reflect recent high-quality municipal bond rates.</p> <p>The mortality tables and projection scales were updated based on recent research by the Society of Actuaries.</p> <p>Healthcare trend rates were updated to reflect anticipated future experience.</p> <p>Per capita claim costs and administrative expenses were updated to reflect recent fully insured premium rates.</p> <p>Aging factors were updated consistent with Lockton's standards.</p> <p>Life insurance face amounts were valued instead of life insurance premiums, and a 10% administrative expense load was added to the life insurance benefit.</p> <p>Retirement rates were updated to reflect anticipated future experience.</p> <p>The salary increase assumption was updated based on plan sponsor expectations.</p>

**Henderson State University**  
**Required Supplementary Information (Unaudited)**  
**June 30, 2020**

**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*	2020*
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	\$ 4,171,365,050
University's proportion (percentage) of net pension liability (asset)	0.0760%	0.0520%	0.0434%	0.0345%	0.0313%	0.2601%
University's proportionate share of net pension liability	1,993,959	1,701,814	1,916,598	1,450,212	1,138,664	1,084,865
University's covered payroll	2,196,473	1,522,661	1,278,135	1,030,257	948,760	793,039
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%	136.80%
Plan fiduciary net position as a percentage of the total pension liability	84.98%	82.20%	76.75%	79.48%	82.78%	80.96%
*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	2020
Contractually required contribution	\$ 212,798	\$ 178,208	\$ 143,722	\$ 132,225	\$ 112,325	\$ 89,335
Contributions in relation to the contractually required contribution	212,798	178,208	143,722	132,225	112,325	89,335
contribution deficiency (excess)	-	-	-	-		
University's covered payroll	1,522,661	1,278,135	1,030,257	948,760	793,039	618,022
Contributions as a percentage of covered payroll	14%	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, 2020**

**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*	2020*
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	\$ 2,412,528,797
University's proportion (percentage) of net pension liability (asset)	0.1981%	0.2102%	0.1835%	0.1919%	0.2070%	0.2110%
University's proportionate share of net pension liability	2,811,127	3,871,218	4,387,292	4,958,315	4,565,218	5,089,507
University's covered payroll	3,502,800	3,729,152	3,317,293	3,444,590	3,894,151	4,232,139
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%	120.26%
Plan fiduciary net position as a percentage of the total pension liability	84.15%	80.39%	75.50%	75.65%	79.59%	78.55%
*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	2020
Statutorily required contribution	\$ 548,803	\$ 480,373	\$ 508,077	\$ 563,113	\$ 644,938	\$ 560,164
Contributions in relation to the contractually required contribution	548,803	480,373	508,077	563,113	644,938	560,164
contribution deficiency (excess)	-	-	-	-	-	-
University's covered payroll	3,729,152	3,317,293	3,444,590	3,894,151	4,232,139	3,490,806
Contributions as a percentage of covered payroll	14.72%	14.48%	14.75%	14.46%	15.24%	16.05%

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, 2020  
 (Unaudited)

Schedule 1

	Year Ended June 30,				
	2020	2019	2018	2017	2016
Total Assets and Deferred Outflows	\$ 124,694,071	\$ 112,363,112	\$ 114,083,447	\$ 127,585,871	\$ 130,340,806
Total Liabilities and Deferred Inflows	104,919,162	88,784,496	84,378,561	86,788,845	88,307,970
Total Net Position	19,774,909	23,578,616	29,704,886	40,797,026	42,032,836
Total Operating Revenues	23,057,001	24,243,909	22,329,271	25,635,420	23,402,299
Total Operating Expenses	61,978,278	64,037,276	60,868,202	59,057,157	58,274,209
Total Net Non-Operating Revenues	35,533,672	32,664,611	30,970,720	30,584,913	32,977,010
Total Other Revenues, Expenses, Gains or Losses	(416,102)	1,002,486	1,071,447	1,601,014	1,025,655

