Henderson State University

Arkadelphia, Arkansas

Basic Financial Statements and Other Reports

June 30, 2016

LEGISLATIVE JOINT AUDITING COMMITTEE

HENDERSON STATE UNIVERSITY
TABLE OF CONTENTS
JUNE 30, 2016

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

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

REQUIRED SUPPLEMENTARY INFORMATION

Postemployment Benefits Other Than Pensions

Schedule of the University’s Proportionate Share of the Net Pension Liability

Schedule of University Contributions

OTHER INFORMATION

	Schedule
Schedule of Selected Information for the Last Five Years (Unaudited)	1

Arkansas

Sen. Jimmy Hickey, Jr.
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Sen. Lance Eads
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Rep. Richard Womack
House Chair
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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, 2016, 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 represent 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, 2016, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 2 and 4 to the financial statements, the University implemented Governmental Accounting Standards Board (GASB) Statement no. 72, *Fair Value Measurement and Application*, during the year ended June 30, 2016. No restatement of the University's beginning net position was required due to the adoption of this Statement. Our opinion is not modified with respect to this matter.

Other Matters

Prior Year Comparative Information

We have previously audited the University's 2015 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 July 27, 2016. In our opinion, the comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, certain information pertaining to postemployment benefits other than pensions, and certain information pertaining to pensions on pages 6 through 13, 52, and 53 through 54 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 June 6, 2017 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

ARKANSAS LEGISLATIVE AUDIT

Roger Norman

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

Little Rock, Arkansas
June 6, 2017
EDHE10016

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 financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component 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, 2016, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated June 6, 2017. Our report includes a reference to other auditors who audited the financial statements of the Henderson State University Foundation, Inc., as described in our report on the University's financial statements. The financial statements of the Henderson State University Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the University in a separate letter dated June 6, 2017.

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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

Larry W. Hunter

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
June 6, 2017

Arkansas

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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, 2016, as reported to the State Department of Higher Education, to provide reasonable assurance that the data was properly reported. The enrollment data reported was as follows:

	Summer II Term 2015	Fall Term 2015	Spring Term 2016	Summer I Term 2016
Student Headcount	764	3,529	3,274	843
Student Semester Credit Hours	3,074	46,109	42,777	3,683

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

Larry W. Hunter

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
June 6, 2017

Management's Discussion and Analysis (Unaudited)

Overview of the Financial Statements and Financial Analysis

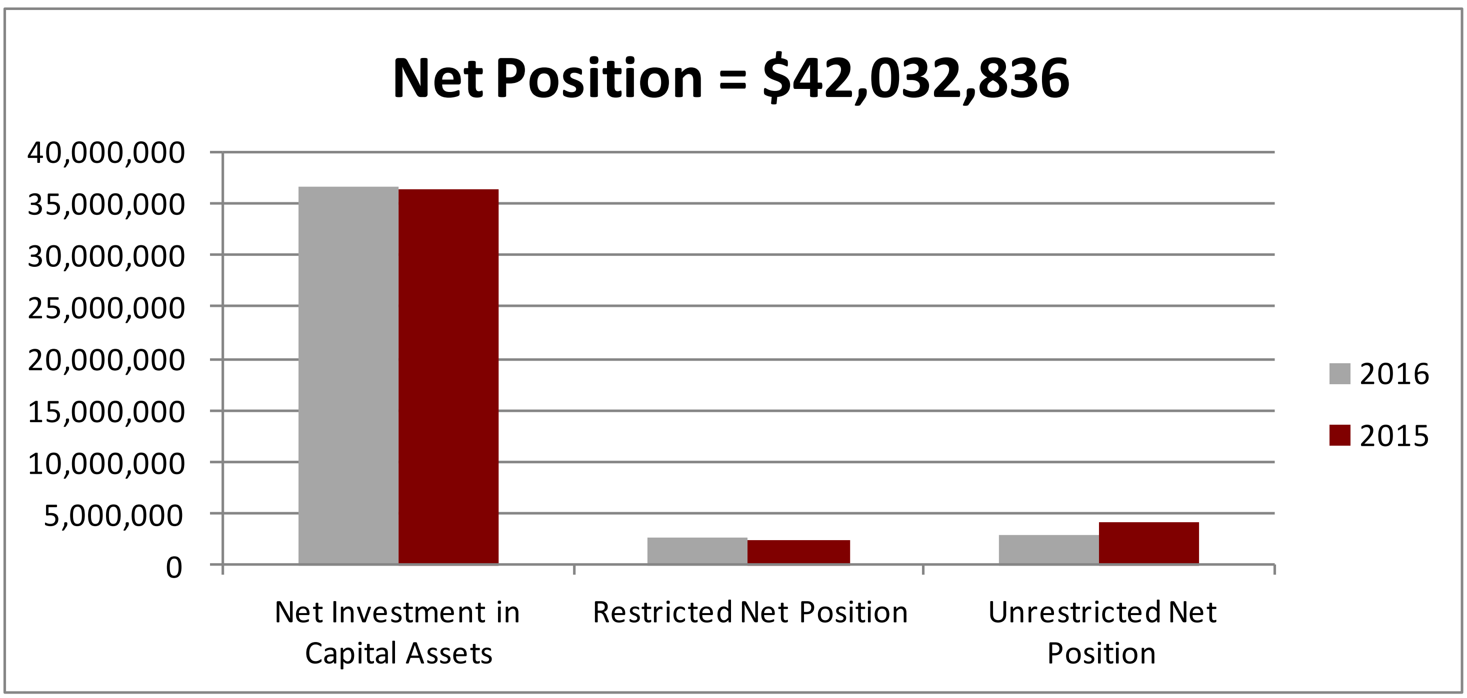
Henderson State University proudly presents its financial statements for fiscal year 2016 with comparative data presented for fiscal year 2015. The emphasis of discussion concerning these statements will be for the current year data. There are three financial statements presented: The Statements of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows.

The discussion and analysis of the University's financial statements provides an overview of its financial activities for the year.

Statement of Net Position

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

Readers of the Statement of Net Position are able to determine the assets available to continue the operations of the Institution and how much the Institution owes vendors, lending institutions, and investors in the bonds of the University. The Statement of Net Position provides a picture of the Net Position of the Institution and the availability of assets for expenditure by the Institution.



Net Position is divided into three major categories. Net investment in Capital Assets provides information on the Institution's equity in property, plant, and equipment owned by the Institution. Restricted Net Positions is divided into two categories: Nonexpendable and Expendable. The corpus of the nonexpendable restricted resources is only available for specific purposes. Expendable restricted net position is available for expenditures by the Institution but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. Unrestricted Net Position is available to the Institution for any lawful purpose of the Institution.

Comparative Statement of Net Position June 30, 2016	2016	2015
Assets:		
Current Assets	$ 18,551,443	$ 19,878,276
Capital Assets, net	105,416,477	87,407,550
Other Assets	4,491,514	26,902,539
Total Assets	128,459,434	134,188,365
Deferred Outflow of Resources	1,881,372	1,339,002
Liabilities:		
Current Liabilities	7,883,689	9,523,145
Non-Current Liabilities	78,976,511	81,039,103
Total Liabilities	86,860,200	90,562,248
Deferred Inflow of Resources	1,447,770	2,063,038
Net Position:		
Net Investment in Capital Assets	36,492,114	36,432,730
Restricted-Expendable	2,516,554	2,164,252
Restricted-Nonexpendable	156,645	161,513
Unrestricted	2,867,523	4,143,586
Total Net Position	$ 42,032,836	$ 42,902,081

Total Assets of the Institution decreased by $5,728,931. A review of the Statement of Net Position will reveal that there are many offsetting variances, but the decrease was primarily due to a decrease in cash and deposits with trustee as of June 30, 2016 as construction projects were paid.

The $22,411,025 decline in other assets resulted primarily from a decline in deposit with trustees.

Total liabilities for the year decreased by $3,702,048. This net decrease was primarily due to the decrease in accounts payable of $2,753,474 as of June 30, 2016.

Statement of Revenues, Expenses, and Changes in Net Position

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

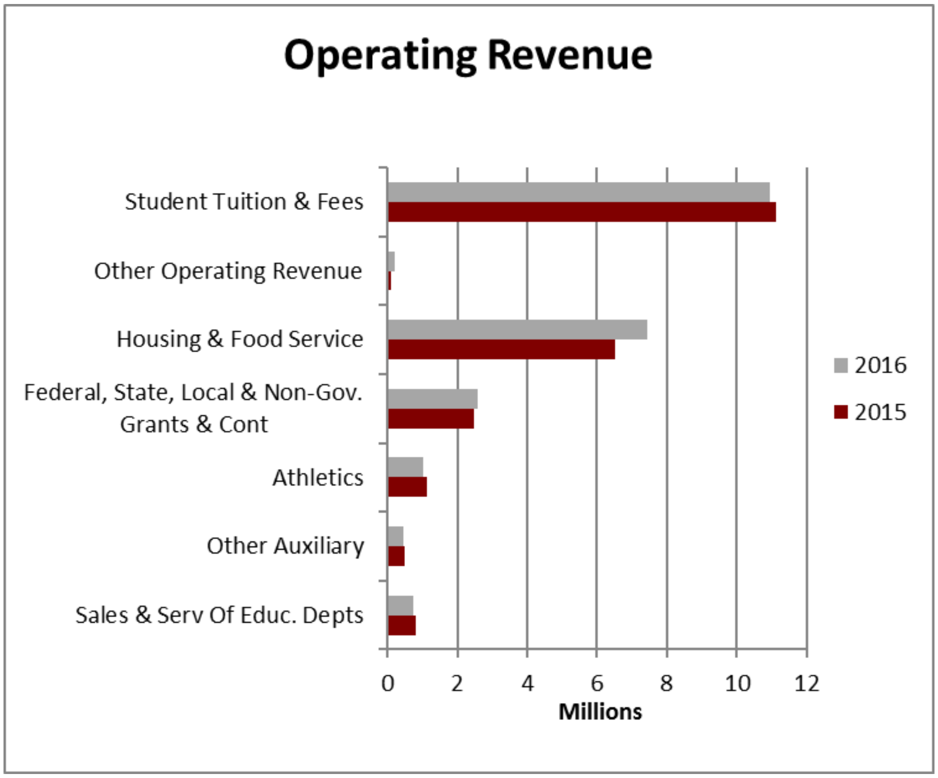
Operating revenues are received for providing goods and services to the various customers and constituencies of the Institution. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the Institution.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

Comparative Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2016

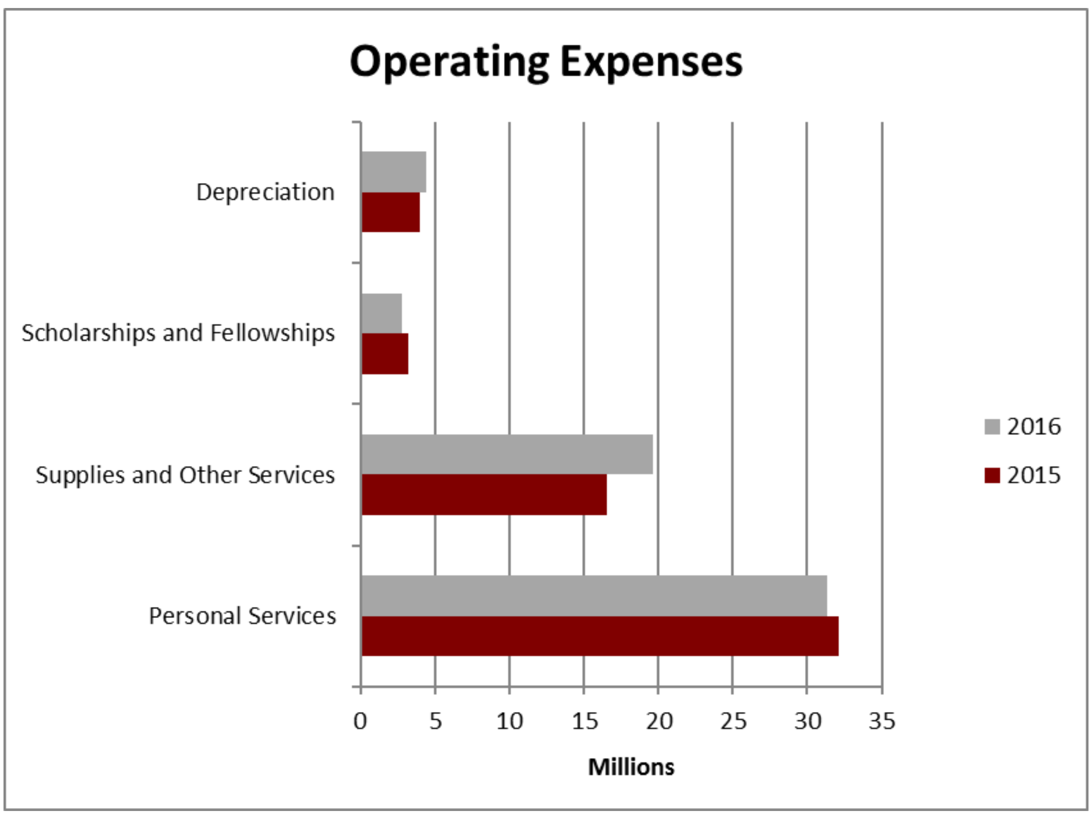
	2016	2015
Operating Revenues	$ 23,402,299	$ 22,662,431
Operating Expenses	58,274,209	55,912,750
Operating Loss	(34,871,910)	(33,250,319)
Non-Operating Revenues less Expenses	32,977,010	33,018,934
Income (Loss) Before Other Rev., Exp., Gains or Losses	(1,894,900)	(231,385)
Other Revenues, Expenses, Gains or Losses	1,025,655	324,136
Increases (Decreases) in Net Assets	(869,245)	92,751
Net Position at Beginning of Year	42,902,081	48,881,339
Adjustment for Pension Liability due to GASB 68		(6,072,009)
Net Position at Beginning of Year, as Restated	42,902,081	42,809,330
Net Position at End of Year	$ 42,032,836	$ 42,902,081

The Statement of Revenues, Expenses, and Changes in Net Position reflect a decrease in net position at the end of the year of $869,245. Highlights of the information presented on the statement are as follows:

- Student tuition and fees, net of scholarship allowances, decreased by $178,339 due to increases in scholarship allowances.
- Personal services expenses decreased by $788,424. This decrease is attributed to a decrease in salaries and benefits with the outsourcing of the facilities management function.
- Supplies and other services increased by $3,079,499. This increase is due to repairs to facilities, increased operating cost of new residence life facilities, and the payment to vendor for facilities outsourcing.
- Scholarship expenses decreased by $398,178 due to an increase in scholarship allowance applied to tuition, fees, and room and board.
- Capital Gifts, Capital Appropriations and Capital Grants increased by $1,006,971.



Operating Revenue
Student Tuition & Fees
Other Operating Revenue
Housing & Food Service
Federal, State, Local & Non-Gov. Grants & Cont
Athletics
Other Auxiliary
Sales & Serv Of Educ. Depts
0
2
4
6
8
10
12
Millions
2016
2015



Operating Expenses
Depreciation
Scholarships and Fellowships
Supplies and Other Services
Personal Services
0
5
10
15
20
25
30
35
Millions
2016
2015

Statement of Cash Flows

The Statement of Cash Flows presents detailed information about the cash activity of the Institution during the year. The statement is divided into the following five sections:

Comparative Statement of Cash Flow For the Fiscal Year Ended June 30, 2016	2016	2015
Cash Provided (used) by:		
Operating Activities	$ (31,025,810)	$ (30,956,247)
Non-capital Financing Activities	34,302,303	34,286,434
Investing Activities	12,803	149,259
Capital and Related Financing Activities	(6,316,928)	(4,509,724)
Net Change in Cash	(3,027,632)	(1,030,278)
Cash, Beginning of Year	14,156,541	15,186,819
Cash, End of year	$ 11,128,909	$ 14,156,541

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

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

Capital Assets and Debt Administration

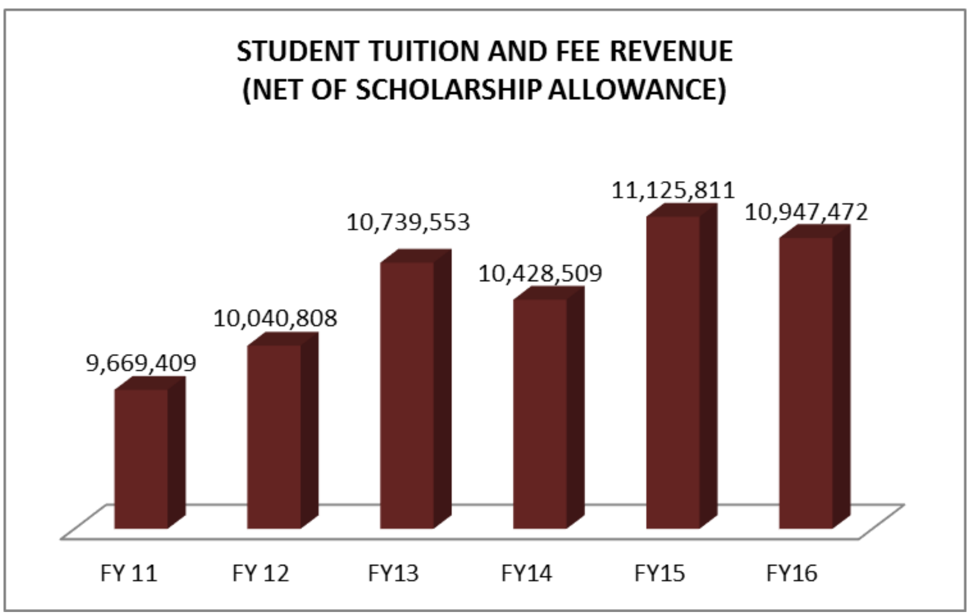
The University made an investment in the following additions or improvements in fiscal year 2016.

		Amount
Land	$	310,660
Construction in Progress		20,859,409
Improvements & Infrastructure (includes $5,075,560 of completed construction in progress)		5,160,583
Equipment (includes $13,460 transferred from construction in progress)		202,443
Library Holdings		500,515
Buildings (includes $23,601,754 of completed construction in progress)		24,313,236
Total	$	51,346,846

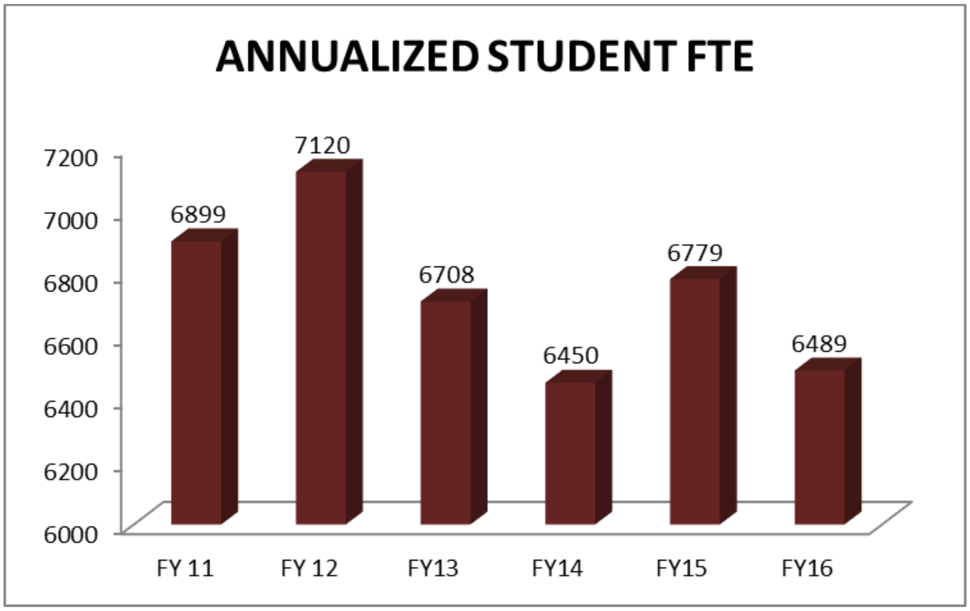
The University’s long term debt (current and noncurrent) decreased from $73,472,406 to $71,895,517, a $1,576,889 net decrease as a result of principal payment on long term debt and a refunding of a bond issue.

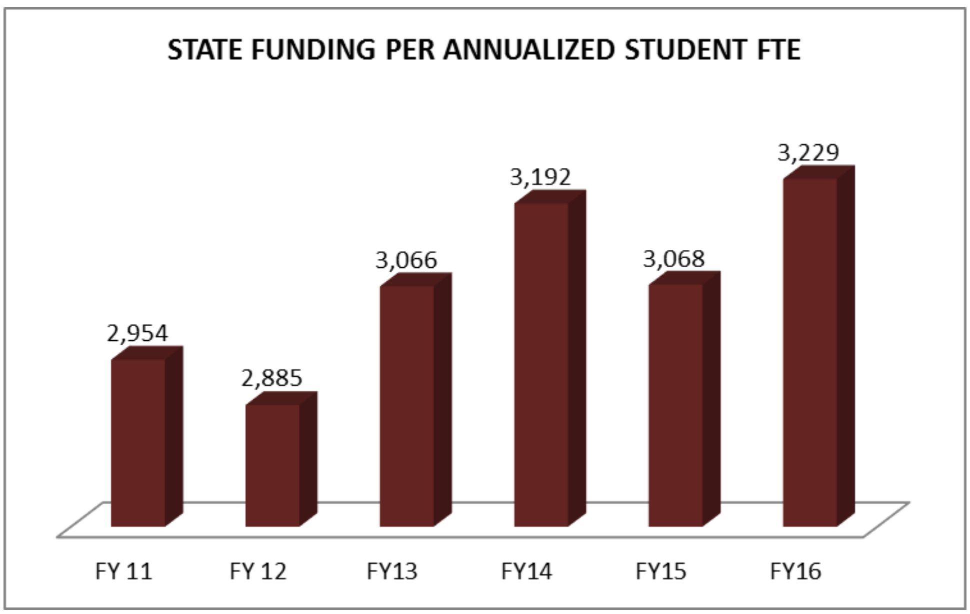
Economic Outlook

Cash reserves, fund balances, and ratio analysis show positive trends. The following charts illustrate the current trends in Tuition, Annualized Student FTE, and State Funding for Annualized Student FTE.



* Decrease in Tuition and Fee Revenue net of Scholarship Allowances in FY 11 is due to a change in accounting for scholarship allowances for Auxiliary Enterprises.





The University's overall financial position is strong even though a decline in Annualized Student FTE has occurred over the last five fiscal years.

Though the Arkansas economy is strong, with low unemployment and increasing state revenues, competition for state general revenue funding is heightened due to the significant needs across state government, including higher education. As a result, additional operating funds are not anticipated in the 2018 fiscal year. The Arkansas Department of Higher Education, under Governor Asa Hutchinson's direction, is developing an outcomes-based funding model to replace the existing enrollment driven model that has been in place for some time. The results are expected to provide evidence of student outcomes that will drive future funding opportunities.

HENDERSON STATE UNIVERSITY

In October 2014, Moody's Investors Service assigned an initial bond rating for a $33 million bond issue, as A3; outlook stable. There has been no subsequent change in bond rating.

The University's strategic plan, Beyond the Horizon, was adopted in 2014 and calls for significant investments in the following priority areas:

- Growing enrollment, improving student life, and increasing retention to graduation
- Enhancing academic programs
- Enhancing the quality of life and the ability to recruit and retain a highly qualified and motivated faculty and staff
- Improving the physical environment and infrastructure
- Expanding and diversifying revenues
- Enhancing Henderson's regional, state, and national profile

Successful attainment of the goals contained within the plan, and ultimately the success of Henderson State students, is dependent on providing adequate support for the priorities of the plan. To provide this support, the University will undertake a budget prioritization and resource allocation process during fiscal year 2017, with a goal of re-allocating operating budget priorities in the 2018 fiscal year. This process will align the University with the expected outcomes-based funding model at the state level.

Mr. Bobby G. Jones, CPA (Inactive)
Vice President for Finance and Administration, Retired

HENDERSON STATE UNIVERSITY
COMPARATIVE STATEMENT OF NET POSITION
JUNE 30, 2016

Exhibit A

	2016	2015
ASSETS:		
Current Assets:		
Cash and Cash Equivalents	$ 10,466,102	$ 13,161,630
Short Term Investments	709,704	842,925
Student Accounts Receivable, Net	4,313,842	3,697,754
Accrued Interest Receivable	425	2,624
Inventories	119,690	151,798
Notes and Student Loans Receivable	161,561	186,002
Other Receivables	1,044,090	1,345,827
Deposits with Trustee	1,664,002	436,217
Prepaid Expenses	20,726	
Unamortized Bond Insurance	51,301	53,499
Total Current Assets	18,551,443	19,878,276
Non-Current Assets:		
Cash and Cash Equivalents	662,807	994,911
Investments	255,023	89,000
Notes and Student Loans Receivable	890,318	999,714
Deposits with Trustee	2,683,366	24,818,914
Capital Assets, Net of Accumulated Depreciation ($70,937,369 and $ 67,114,460, respectively)	105,416,477	87,407,550
Total Non-Current Assets	109,907,991	114,310,089
Total Assets	128,459,434	134,188,365
Deferred Outflow of Resources:		
Deferral of Pension Liability	1,455,690	1,094,588
Deferral of Debt Defeasance, Net of Accumulated Amortization ($141,734 and $146,328, respectively)	425,682	244,414
Total Outflow of Resources	1,881,372	1,339,002
LIABILITIES:		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	3,272,436	6,025,910
Funds Held in Trust for Others	741,230	670,038
Unearned Revenue	556,025	688,906
Employee Retirement	57,774	59,162
Compensated Absences Payable	151,997	127,947
Long-term Debt	3,069,386	1,916,888
Discount on Bonds	(2,331)	(2,330)
Deferral of Bond Premium	37,172	36,624
Total Current Liabilities	7,883,689	9,523,145
Non-Current Liabilities:		
Refundable Advance	1,136,862	1,172,201
Employee Retirement	70,919	89,760
Other Postemployment Benefits	1,839,562	1,717,215
Compensated Absences Payable	857,569	1,000,533
Long-term Debt	68,826,131	71,555,518
Pension Liability	5,573,032	4,805,086
Discount on Bonds Net of Accumulated Amortization ($10,783 and $ 31,892, respectively)	(35,320)	(37,651)
Bond Premium-Deferred, Net of Accumulated Amortization ($69,688 and $32,789, respectively)	707,756	736,441
Total Non-Current Liabilities	78,976,511	81,039,103
Total Liabilities	86,860,200	90,562,248
Deferred Inflow of Resources:		
Deferral of Pension Liability	1,447,770	2,063,038

HENDERSON STATE UNIVERSITY
COMPARATIVE STATEMENT OF NET POSITION
JUNE 30, 2016

Exhibit A

	2016	2015
NET POSITION:		
Net Investment in Capital Assets	$ 36,492,114	$ 36,432,730
Restricted for:		
Expendable:		
Scholarships and Fellowships	234,150	221,401
Capital Projects	662,807	994,111
Grants and Contracts	710,708	615,547
Loans	48,889	48,890
Debt Service	860,000	255,000
Other		29,303
Nonexpendable:		
Loans	156,645	161,513
Unrestricted:		
Net Position	2,867,523	4,143,586
Total Net Position	$ 42,032,836	$ 42,902,081

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

HENDERSON STATE UNIVERSITY FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015

Exhibit A-1

	2016	2015
ASSETS		
Cash and cash equivalents	$ 2,715,577	$ 2,936,004
Certificates of deposit		300,000
Accrued interest receivable	1,001	4,524
Contributions receivable, net	189,152	155,385
Investments	12,938,882	13,106,171
Prepaid expenses	19,167	
Property and equipment, net		90,776
TOTAL ASSETS	$ 15,863,779	$ 16,592,860
LIABILITIES AND NET ASSETS		
Total Liabilities	$ 0	$ 0
Net Assets		
Unrestricted	138,364	104,258
Temporarily restricted	5,164,816	5,482,847
Permanently restricted	10,560,599	11,005,755
Total Net Assets	15,863,779	16,592,860
TOTAL LIABILITIES AND NET ASSETS	$ 15,863,779	$ 16,592,860

HENDERSON STATE UNIVERSITY

Exhibit B

COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

FOR THE YEAR ENDED JUNE 30, 2016

	2016	2015
OPERATING REVENUE:		
Student Tuition and Fees (net of scholarship allowances of $16,775,502 and $16,107,473, respectively)	$ 10,947,472	$ 11,125,811
Federal Grants and Contracts	1,779,239	1,643,735
State and Local Grants and Contracts	731,012	785,019
Non-Governmental Grants and Contracts	59,228	61,270
Sales and Services of Educational Departments	750,265	819,334
Athletics (net of scholarship allowances of $661,412 and $654,738, respectively)	1,018,923	1,138,075
Housing and Food Service (net of scholarship allowances of $3,054,808 and $2,518,976, respectively)	7,453,552	6,507,035
Bookstore	99,572	109,385
Garrison Center	20,165	8,803
Other Auxiliary Enterprises	333,465	366,049
Other Operating Revenues	209,406	97,915
TOTAL OPERATING REVENUES	23,402,299	22,662,431
OPERATING EXPENSES:		
Personal Services	31,355,739	32,144,163
Supplies and Other Services	19,655,216	16,575,717
Scholarships and Fellowships	2,813,262	3,211,440
Depreciation	4,449,992	3,981,430
TOTAL OPERATING EXPENSES	58,274,209	55,912,750
OPERATING INCOME (LOSS)	(34,871,910)	(33,250,319)
NON-OPERATING REVENUES (EXPENSES)		
State and Federal Appropriations	21,043,436	21,020,861
Federal and State Grants and Contracts	12,580,000	13,046,821
Gifts	1,232,744	801,105
Investment Income	49,983	99,845
Interest and Fees on Long Term Debt	(2,053,823)	(1,265,216)
Bond Issuance Cost	(106,482)	(722,972)
Bond Insurance Cost	(2,199)	(1,466)
Other	233,351	39,956
Net Non-operating Revenues	32,977,010	33,018,934

HENDERSON STATE UNIVERSITY

Exhibit B

COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

FOR THE YEAR ENDED JUNE 30, 2016

	2016	2015
Income Before Other Revenues, Expenses, Gains/Losses	$ (1,894,900)	$ (231,385)
Capital Appropriations	312,500	
Capital Gifts	582,999	302,568
Capital Grants	747,000	332,960
Payments of Mandatory Fees to Agency Funds	(362,440)	(361,360)
Loss on Disposal of Assets	(186,040)	
Adjustments to Prior Year Revenues and Expenses	(68,364)	49,968
INCREASE (DECREASE) IN NET POSITION	(869,245)	92,751
NET POSITION- BEG. OF YEAR AS ORIGINALLY REPORTED	42,902,081	48,881,339
Adjustment due to GASB 68		(6,072,009)
NET POSITION- BEGINNING OF YEAR RESTATED	42,902,081	42,809,330
NET POSITION- END OF YEAR	$ 42,032,836	$ 42,902,081

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

HENDERSON STATE UNIVERSITY FOUNDATION, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

Exhibit B-1

	2016	2015
CHANGES IN UNRESTRICTED NET ASSETS		
Unrestricted Support, Revenue and Gains		
Grants	$ 385,775	$ 385,774
Gain on sale of property and equipment	58,210	
Net assets released from restrictions	2,656,187	1,283,118
Total Unrestricted Support, Revenue and Gains	3,100,172	1,668,892
Expenses		
Program services	2,869,749	1,522,422
Supporting services		
General and administrative	196,317	118,438
Fundraising		7,476
Total Expenses	3,066,066	1,648,336
Increase in Unrestricted Net Assets	34,106	20,556
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	1,196,977	1,351,048
Interest and dividends	767,339	603,658
Net depreciation in fair value of investments	(545,143)	(390,644)
Net assets released from restrictions	(1,737,204)	(1,283,118)
Increase in temporarily restriced net assets	(318,031)	280,944
CHANGES IN PERMANENTLY RESTRICED NET ASSETS		
Contributions	473,827	164,726
Net assets released from restrictions	(918,983)	
(Decrease) Increase in Permanently Restricted Net Assets	(445,156)	164,726
(DECREASE) INCREASE IN TOTAL NET ASSETS	(729,081)	466,226
NET ASSETS, BEGINNING OF YEAR (AS RESTATED)	16,592,860	16,126,634
NET ASSETS, END OF YEAR	$ 15,863,779	$ 16,592,860

HENDERSON STATE UNIVERSITY
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016

Exhibit C

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and Fees (Net of Scholarships)	$ 10,197,984	$ 10,526,286
Research Grants and Contracts	2,902,958	2,300,154
Collection of Loans and Interest to Students		
(includes Perkins and interest income)	153,332	136,422
Auxiliary Enterprises		
Athletics	1,018,923	1,138,075
Housing and Food Service	7,453,552	6,507,035
Bookstore	99,572	109,385
Student Union	20,165	8,804
Other Auxiliary Enterprises	346,018	379,639
Other Receipts	888,773	943,876
Payments to Suppliers	(19,723,255)	(17,127,961)
Payments to Employees	(24,403,374)	(24,755,869)
Payments of Employee Benefits	(7,140,643)	(7,731,479)
Loans issued to Students (includes Perkins)	(19,494)	(157,127)
Scholarships and Fellowships	(2,820,321)	(3,233,487)
Net Cash Provided (Used) by Operating Activities	(31,025,810)	(30,956,247)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations	21,043,436	21,020,861
Federal and State Grants and Contracts	12,580,000	12,946,821
Loans to Students-Direct Loans & Private (Inflows)	17,186,380	17,432,295
Agency Funds (Net of Outflows)	71,191	35,465
Loans to Students-Direct Loans & Private (Outflows)	(17,186,380)	(17,432,295)
Payments of Mandatory Fees to Agency Funds	(362,440)	(361,360)
Gifts and Grants	1,232,744	801,105
Principal paid on non-capital loan	(146,356)	(141,982)
Interest paid on non-capital loan	(59,943)	(64,445)
Other	(56,329)	49,969
Net Cash Provided (Used) by Noncapital Financing Activities	34,302,303	34,286,434
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Appropriations	312,500	
Proceeds from Short Term Borrowing		6,170,644
Acquisitions and Construction of Capital Assets	(2,743,716)	(10,501,976)
Capital Grants	747,000	332,960
Principal Paid on Non-Bonded Debt	(115,533)	(301,999)
Interest and Fees Paid on Non-Bonded Debt	(286,256)	(203,641)
Payment to Trustee for Principal	(2,260,000)	(1,917,240)
Payment to Trustee for Interest and Fees	(1,970,923)	(856,811)
Reimbursement of Expenses from Trustee		2,768,339
Net Cash Provided (Used) by Capital and Related Financing Activities	(6,316,928)	(4,509,724)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales and Maturities of Investments	394,299	216,130
Interest on Investments (net of fees)	53,633	53,129
Purchase of Investments	(435,129)	(120,000)
Net Cash Provided (Used) by Investing Activities	12,803	149,259
Net Increase (Decrease) in Cash	(3,027,632)	(1,030,278)
Cash - Beginning of Year	14,156,541	15,186,819
Cash - Ending of Year	$ 11,128,909	$ 14,156,541

HENDERSON STATE UNIVERSITY
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016

Exhibit C

		2016		2015
Reconcilation of Net Operating Loss to Net Cash Provided (Used) by				
Operating Activities				
Operating Income (Loss)	$	(34,871,910)	$	(33,250,319)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided				
(Used) by Operating Activities:				
Depreciation Expense		4,449,992		3,981,430
Receivables, Net		(334,220)		(1,353,047)
Inventories		32,108		3,822
Other Assets		(20,726)		26,221
Loans Receivable		133,838		(20,705)
Accounts Payable		(56,792)		(252,777)
Deferred Revenue		(132,881)		2,054
Employee Retirement		(20,230)		(25,474)
Compensated Absences		(118,913)		33,931
OPEB		122,348		197,090
Net Pension Liability		(208,424)		(298,473)
Net Cash Provided (Used) by Operating Activities	$	(31,025,810)	$	(30,956,247)
NONCASH TRANSACTIONS				
Donated Capital Assets	$	582,999	$	302,568
Loss on Capital Assets		(197,153)		(23,277)
Increase (decrease) in Fair Value of Investments		(66,888)		(40,837)
Discount on Bonds		(2,330)		(12,985)
Premium of Bonds		8,761		774,711
Deferral of Debt Defeasance		(58,111)		(43,575)
Installment Contract Proceeds Paid to Trustee				10,136,926
Capital Assets Acquired from Construction Bond Proceeds		(21,336,434)		(10,145,089)
Investment Income from Bond Proceeds				18,699
Debt Service Reserve Funds to Refunding Bond Agent		(270,306)		(927,313)
Purchase of Investments				(42,870)
Accrued Interest on Bonds Issued				92,331
Bond Proceeds Deposited into Debt Service Reserve		(273,206)		(189,000)
Insurance on Bonds paid from proceeds				(53,499)
Bond Proceeds Paid to Refunding Bond Agent		(6,094,073)		(3,542,243)
Proceeds from Construction Bonds Issued				33,000,000
Proceeds from Refunding Bonds Issued		6,465,000		3,780,000
Bond Issuance Cost Paid from Bond Proceeds		(106,482)		(595,126)
Repayment of Short-term Loan Paid by Bond Trustee				(6,170,644)
Repayment of Short-term Interest Paid by Bond Trustee				(28,335)

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

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 amended 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, 2016, the Foundation transferred property, equipment, and funds of $1,621,743 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 the Henderson State University Board of Trustees, and two (2) Ex-officio members who are also employees of the University. Complete financial statements for the Foundation can be obtained from the administrative office at 324 North 12th Street, Arkadelphia, AR 71923.

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, as amended, 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.

NOTE 2: Summary of Significant Accounting Policies (Continued)

Capital Assets and Depreciation
Land, buildings, improvements and infrastructure, equipment, library holdings, and construction in progress are reported at cost or estimated historical cost if actual data is not available. Donated capital assets are reported at acquisition value, as required by GASB Statement 72, when received. The University's capitalization policy for equipment is to record, as assets, any items with a unit cost of more than $5,000 and an estimated useful life greater than one year. Improvements to buildings, infrastructure, and land that significantly increase the value or extend the useful life of the asset are capitalized. Routine repairs and maintenance are charged to operating expense when incurred. Capitalization thresholds for intangible assets are $1,000,000 for internally developed software and $100,000 for all other applicable categories.

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

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

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

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

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

Accounts Receivable
Accounts Receivable consists of tuition and fee charges to students and auxiliary enterprises provided to students, faculty, and staff. Accounts receivable also includes amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Prior to fiscal year 2012, the University used the direct write off method for uncollectible student accounts but, in fiscal year 2012, due to a change in policy, recorded an allowance for uncollectible accounts. The University intends to incrementally increase the allowance, up to 25% of doubtful accounts, until it is equal to those accounts that are deemed uncollectible.

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.

NOTE 2: Summary of Significant Accounting Policies (Continued)

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

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

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 relate to pension transactions that apply to future periods. Therefore, these items will not be recognized as revenue until a future period.

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

Compensated Absences Payable
Employees accrue and accumulate annual and sick leave in accordance with policies established by the Board of Trustees. Ten month faculty accrue sick leave at a rate of 240 hours per year. Non-classified and classified employees accrue annual leave at a variable rate (from 8 to 15 hours per month) depending upon the number of years employed in state government. Under the University's policy, an employee may carry accrued leave forward from one fiscal year to another, up to a maximum of 240 hours (30 working days). Employees who terminate their employment are entitled to payment for all accumulated annual leave, up to the maximum allowed. The University accrues the dollar value of annual leave benefits which are payable upon retirement, termination, or death of its employees. This liability has been projected to be $916,315 at June 30, 2016. Classified employees with at least 50 days of accumulated sick leave are entitled to payment of accumulated leave. The University accrues the dollar value of sick leave benefits which are payable upon retirement or death of its classified employees. This liability is projected to be $92,497 at June 30, 2016. On June 10, 2011, the Board of Trustees voted to not compensate non-classified employees and faculty for unpaid sick leave until further research has been conducted. This vote was in response to ACT 337 of the 88th General Assembly Regular Session, 2011, amended Ark. Code Ann. § 21-4-505, to grant discretion to state-supported institutions of higher education on whether or not to compensate all employees for unpaid sick leave upon retirement. The University accrues compensatory time at time and one half of the hours worked over 8 hours per day for classified employees. The liability is projected to be $754 at June 30, 2016.

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.

NOTE 2: Summary of Significant Accounting Policies (Continued)

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

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

Net Position
The University's net position is classified as follows:

Net Investment in Capital Assets: 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 consists 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 of behalf of the students. Under this approach, scholarships awarded by the University are considered as reductions in tuition and fee revenues rather than as expenses. Additionally, certain governmental grants, such as Pell grants, and payments from other federal, state, or nongovernmental programs, are required to be recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are applied 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.

NOTE 2: Summary of Significant Accounting Policies (Continued)

Capitalization of Interest:
The University capitalizes interest involving qualifying assets if material. The amount of interest cost to be capitalized is interest cost on borrowings netted against any interest earned on temporary investments of the proceeds of the borrowings from the date of the borrowing until the specified qualifying assets acquired with those borrowings are ready for their intended use. The total amount of interest cost incurred (gross of amortizations of premiums and discounts) and the net amount thereof that has been capitalized was $2,633,570 and $639,620 respectively, for the fiscal year ended June 30, 2016.

New Accounting Pronouncements
The GASB issued the following statements which became effective for the fiscal year ended June 30, 2016: Statement no. 72, *Fair Value Measurement and Application,* addresses accounting and reporting issues related to fair value measurements and provides guidance for disclosures related to all fair value measurements. Management has added additional disclosures, discussed in note 4, as a result of implementing Statement 72. Statement no. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,* addresses accounting and financial reporting for defined benefit pensions plans that are not within the scope of Statement no. 68. No defined benefit pension plans were identified that were impacted by this statement. Statement no. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,* identifies a hierarchy of generally accepted accounting principles (GAAP) within the context of governmental financial reporting. Management has determined this statement has no effect on current reporting and disclosures. Statement no. 79, *Certain External Investment Pools and Pool Participants,* established criteria for an external investment pool to qualify for making an election to measure all of its investments at amortized cost for the financial reporting purposes. Management elected to report investments in the external investment pool at fair value, thus this statement has no effect on financial reporting and disclosures.

The GASB issued the following statements which become effective for the fiscal years ending June 30, 2017, and June 30, 2018, respectively: Statement no. 74, *Financial Reporting for Postemployment Benefit Plans other than Pension Plans* and Statement no. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions.* Management has not yet determined the effects of these statements on the University's financial statements.

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)	$ 613,102	$ 613,092
Collateralized:		
Collateral held by the pledging bank or pledging bank's trust department in the University's name	10,604,432	10,743,289
Total Deposits	$ 11,217,534	$ 11,356,381

NOTE 3: Public Fund Deposits and Investments (Continued)

The above deposits do not include cash of $14,044 which was maintained in a money market fund administered by a third party and insured by the Securities Investor Protection Corporation (SIPC) along with funds on deposit with state treasury and cash on hand in the amounts of $312,500 and $23,860 at June 30, 2016, respectively. The above total deposits include $29 of cash that is reported as deposit with trustee and negotiable certificates of deposit of $89,000 reported as investments and $350,000 in certificates of deposits reported as deposits with trustee classified as nonparticipating contracts.

Custodial Credit Risk – Deposits:
Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University does not have a deposit policy for custodial credit risk. As of June 30, 2016, none of the University's bank balance of $11,356,381 was exposed to custodial credit risk.

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

Credit Risk
The University's open-end mutual funds of $709,704 and exchange traded funds (ETF) of $166,023 were not rated. The open-end mutual funds and exchange traded funds (ETF) are reported as investments.

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

Deposit with Trustees:
At June 30, 2016, the University's deposits with trustees of $4,347,368 excluding $29 cash and $350,000 in non-negotiable certificate of deposits were invested as follows:

Federated Treasury Obligations Fund of $1,541,998. The fund was rated AAAm by Standard and Poor's and Aaamf by Moody's Investors Service and consisted of short-term repurchase agreements and U.S. Treasuries. The effective average maturity was approximately 38 days.

Federated Government Obligations Fund of $2,049,020. The fund was rated AAAm by Standard and Poor's and Aaamf by Moody's Investors Service, and consisted of short-term repurchase agreements, government agencies notes, and U.S. Treasuries. The effective average maturity was approximately 41 days.

State and Local Government Securities (SLGS) of $406,321.

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:

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

NOTE 4: Fair Value Measurement: (Continued)

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

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

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

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

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

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

The following table sets forth, by level within the valuation, hierarchy, University invested funds, including amounts reported as deposits with bond trustees on the Statement of Net Position at June 30, 2016:

		Fair Value Measurements Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level	6/30/2016			
Debt Securities:				
U.S. Treasury Securities	$ 406,321		$ 406,321	
Negotiable Certificates of Deposit	89,000	$ 89,000		
Private Equity Funds	875,727	709,704	166,023	
Total Investments at Fair Value	$ 1,371,048	$ 798,704	$ 572,344	

NOTE 4: Fair Value Measurement: (Continued)

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

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

Security Description	Fair Value
Government Agencies[1]	866,735
Repurchase Agreements[2]	1,098,275
U.S. Treasury[1]	84,010
Total Investments Measured at the NAV	$ 2,049,020

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

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

Security Description	Fair Value
Repurchase Agreements[2]	826,511
U.S. Treasury[1]	715,487
Total Investments Measured at the NAV	$ 1,541,998

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.

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 there 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.

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, 2016:

Capital Assets:	Balance as of July 1, 2015	Additions	Transfers	Retirements	Balance as of June 30, 2016
Capital assets not being depreciated					
Land	$ 1,664,894	$ 310,660			$ 1,975,554
Construction in progress	17,443,410	20,859,409	$ (28,690,774)	$ (11,113)	9,600,932
Total capital assets not being depr.	$ 19,108,304	$ 21,170,069	$ (28,690,774)	(11,113)	$ 11,576,486
Other capital assets					
Improvements	$ 3,947,513	$ 51,456	$ 5,075,560	$ (143,117)	$ 8,931,412
Infrastructure	3,570,486	33,567			3,604,053
Buildings	107,908,054	711,482	23,601,754	(224,952)	131,996,338
Equipment	7,402,608	188,983	13,460	(53,489)	7,551,562
Library materials	12,585,045	500,515		(391,565)	12,693,995
Total other capital assets	135,413,706	1,486,003	28,690,774	(813,123)	164,777,360
Less accumulated depreciation for:					
Improvements	(2,433,507)	(113,974)		$ 111,601	(2,435,880)
Infrastructure	(2,575,688)	(102,752)			(2,678,440)
Buildings	(47,819,321)	(3,333,210)		82,558	(51,069,973)
Equipment	(5,429,905)	(467,338)		41,359	(5,855,884)
Library materials	(8,856,039)	(432,718)		391,565	(8,897,192)
Total accumulated depreciation	(67,114,460)	(4,449,992)	-	627,083	(70,937,369)
Total other capital assets, net	$ 68,299,246	$ (2,963,989)	$ 28,690,774	$ (186,040)	$ 93,839,991
Capital Asset Summary:					
Capital assets not being depreciated	$ 19,108,304	$ 21,170,069	$ (28,690,774)	$ (11,113)	$ 11,576,486
Other capital assets, at cost	135,413,706	1,486,003	28,690,774	(813,123)	164,777,360
Total cost of capital assets	154,522,010	22,656,072	-	(824,236)	176,353,846
Less accumulated depreciation	(67,114,460)	(4,449,992)		627,083	(70,937,369)
Capital Assets, net of depreciation	$ 87,407,550	$ 18,206,080	$ -	$ (197,153)	$ 105,416,477

NOTE 7: Long-Term Liabilities

Debt payments on bonds amounted to $3,641,652 for the fiscal year ended June 30, 2016. The amount of $602,936 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, 2016	Maturities to June 30, 2016
12/1/2009	7/1/2018	2.00-3.375%	$ 1,540,000	$ 565,000	$ 975,000
12/1/2009	7/1/2016	2.65-5.15%	515,000	85,000	430,000
10/1/2011	1/1/2020	2.0-2.75%	1,960,000	735,000	1,225,000
10/1/2011	1/1/2020	2.0-2.75%	1,370,000	665,000	705,000
8/31/2011	8/30/2036	5.74%	2,750,000	2,573,863	176,137
5/15/2012	6/30/2036	1.0-4.125%	4,165,000	3,640,000	525,000
5/1/2012	9/1/2035	1.0-4.125%	8,535,000	7,690,000	845,000
11/1/2014	11/1/2039	2-5%	33,000,000	32,725,000	275,000
6/1/2015	7/1/2026	1-3.2%	3,780,000	3,780,000	
6/30/2015	6/1/2035	4.12%	10,136,926	10,136,926	
7/23/2012	7/23/2026	3.08%	2,366,268	1,940,190	426,078
2/14/2014	2/14/2028	4.98%	1,100,000	894,538	205,462
2/3/2016	1/1/2032	2-3%	6,465,000	6,465,000	
			$ 77,683,194	$ 71,895,517	$ 5,787,677

NOTE 7: Long-Term Liabilities (Continued)

The changes in long-term liabilities are as follows:

	Balance as of July 1, 2015	Additions	Reductions	Balance as of June 30, 2016	Amounts due within one year
Bonds Payable	$ 57,665,000	$ 6,465,000	$ 7,780,000 *	$ 56,350,000	$ 2,580,000
Notes Payable	13,720,860		115,533	13,605,327	338,523
Installment Contract	2,086,546		146,356	1,940,190	150,863
Discount on Bonds	(39,981)		(2,330)	(37,651)	(2,331)
Premium on Bonds	773,065	8,761	36,898	744,928	37,172
Comp Absences Pay.	1,128,480	831,477	950,391	1,009,566	151,997
Employee Retire Pay.	148,922	34,959	55,188	128,693	57,774
	$ 75,482,892	$ 7,340,197	$ 9,082,036	$ 73,741,053	$ 3,313,998

*includes $6,125,000 of early debt retirement. See Note 21.

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

Year Ended June 30, 2016	Principal	Interest	Total
2017	$ 3,069,386	$ 2,531,953	$ 5,601,339
2018	3,494,072	2,469,840	5,963,912
2019	3,549,041	2,377,281	5,926,322
2020	3,054,545	2,285,321	5,339,866
2021	2,886,729	2,190,793	5,077,522
2022-2026	15,960,270	9,392,283	25,352,553
2027-2031	16,357,836	6,360,078	22,717,914
2032-2036	15,592,474	3,158,756	18,751,230
2037-2040	7,931,164	637,517	8,568,681
	$ 71,895,517	$ 31,403,822	$ 103,299,339

NOTE 8: Commitments

The University was contractually obligated for the following at June 30, 2016:

Project Name	Expected Completion Date	Contract Balance
ESCO Phase II- 2015-2016	January 18, 2017	$ 1,305,966

Operating Leases:

The University is currently leasing 30 copiers. The University has no ownership of these items at the end of the lease agreement.

(1) Future minimum rental payments (aggregate) at June 30, 2016 totals $237,965.
(2) Contingent rental payments are determined on a cost basis.
(3) Future minimum rental payments for the three (3) succeeding fiscal years:

Fiscal Year Ending June 30,	Amount
2017	$ 116,399
2018	84,472
2019	37,094
Total Future Minimum Rental Payments (3 years)	$ 237,965

Rental payments for the current year total $131,092.

NOTE 9: Retirement Plans

Teachers Insurance and Annuity Association (TIAA):

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

Funding Policy: TIAA has contributory and non-contributory plans. Contributory members contribute a minimum of six percent of earnings to the plan. The University contributes ten percent to the plan. Employees may also request deductions for TIAA additional retirement, TIAA Supplemental Retirement Annuities, and Fidelity Group. The University's and participants' contributions for the year ended June 30, 2016 were $1,756,685 and $1,363,814, respectively.

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-offico 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 as follows:

Contributory	2.15%
Non-Contributory	1.39%

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

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

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

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

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

Funding Policy: Contribution requirements are set forth in Arkansas Code Annotated, Title 24, Chapter 7. The contributions are expected to be sufficient to finance the costs of benefits earned by members during the year and make a level payment that, if paid annually over a reasonable period of future years, will fully cover the funded costs of benefit commitments for services previously rendered. ATRS has contributory and noncontributory plans. The contributory plan has been in effect since the beginning of ATRS. The noncontributory plan became available July 1, 1986. Act 81 of 1999, effective July 1, 1999, requires all new members to be contributory and allowed active members as of July 1, 1999, until July 1, 2000, to make an irrevocable choice to be contributory or noncontributory. Act 93 of 2007 allows any noncontributory member to make an irrevocable election to become contributory on July 1 of each fiscal year. Employers are required to contribute at a rate established by the Board of Trustees of ATRS based on an actuary's determination of a rate required to fund the plan. The University contributed 14.00% of applicable compensation for the fiscal year ended June 30, 2016 and the employees contributed 6.00%. The University's contributions to ATRS for the years ended June 30, 2016, 2015, and 2014 were $178,208, $212,798, and $263,468, 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, 2016, the University reported a liability of $1,701,814 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2015, the University's proportion was 0.052 percent.

NOTE 9: Retirement Plans (Continued)

For the year ended June 30, 2016, the University recognized a reduction in pension expense of $52,351. At June 30, 2016, 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	$ 53,175	$ 34,869
Changes in assumptions		
Net difference between projected and actual earnings on pension plan investments		217,292
Changes in proportion and differences between employer contribution and share of contributions		749,748
University contributions subsequent to measurment date	178,208	
Total	$ 231,383	$ 1,001,909

$178,208 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, 2017. 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:	
2017	$ (249,557)
2018	(249,557)
2019	(249,557)
2020	(99,080)
2021	(100,983)
Thereafter	0

Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

NOTE 9: Retirement Plans (Continued)

Actuarial Cost Method	Entry Age Normal
Amoritzation Method	Level Percentage of Payroll, closed
Remaining Amortization Period	30 years
Asset Valuation Method	4-year smoothed market; 20% corridor
Wage Inflation	3.25%
Salary Increases	3.25-9.10%, including inflation
Investment Rate of Return	8%
Post-Retirement Cost-of-Living Increases	3% Simple
Mortality Table	RP-2000 Mortality table for males and females, projected 25 years using Projection Scale AA, (95% for men and 87% for women)
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2011 valuation pursuant to an experience study for the period July 1, 2005-June 30, 2010

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, 2015 are summarized below:

NOTE 9: Retirement Plans (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	50.00%	4.70%
Fixed Income	20.00%	0.90%
Alternatives	5.00%	4.40%
Real Assets	15.00%	4.30%
Private Equity	10.00%	6.50%
Cash Equivalents	0.00%	0.10%
	100.00%	

Discount Rate
A single discount rate of 8.0% 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 8.0%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be 14% of payroll. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate
The following presents the University's proportionate share of the net pension liability using the discount rate of 8%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

Sensitivity of Discount Rate		
1% Decrease (7.0%)	Discount Rate (8.0%)	1% Increase (9.0%)
$ 2,826,311	$ 1,701,814	$ 759,188

Pension Plan Fiduciary Net Position
Detailed information about the pension plan's net position is available in the separately issued ATRS financial report.

Arkansas Public Employees Retirement System:

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

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

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

NOTE 9: Retirement Plans (Continued)

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.

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 14.50% of covered salaries. The University's contributions to APERS for the years ended June 30, 2016, 2015, and 2014 were $480,373, $548,803, and $519,494, 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, 2016, the University reported a liability of $3,871,218 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 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, 2015, the University's proportion was 0.210 percent.

For the year ended June 30, 2016, the University recognized pension expense of $502,508. At June 30, 2016, 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		$ 253,791
Changes in assumptions	$ 571,309	
Net difference between projected and actual earnings on pension plan investments		192,070
Changes in proportion and differences between employer contribution and share of contributions	172,625	
University contributions subsequent to measurment date	480,373	
Total	$ 1,224,307	$ 445,861

NOTE 9: Retirement Plans (Continued)

$480,373 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, 2017. 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:	
2017	$ 39,302
2018	39,302
2019	3,986
2020	215,483
Thereafter	0

Actuarial Assumptions
The total pension liability in the June 30, 2015, 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	7.50%
Inflation Rate	2.50%.
Salary Increases	3.95% - 9.85%
Investment Rate of Return*	7.50%
Mortality Rate Table	RP-2000 Combined Healthy, projected to 2020 using projection scale BB, set forward 2 years for males and 1 year for females
*Net of investment and administrative expenses	

All other actuarial assumptions used in the June 30, 2015, valuation were based on the results of an actuarial experience study for the period from 7/01/2007-6/30/2012, 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 2015-2024 were based upon capital market assumptions provided by the plan's investment consultant. For each major asset class included in the plan's target asset allocation as of June 30, 2015, these best estimates are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Broad Domestic Equity	42.00%	6.82%
International Equity	25.00%	6.88%
Real Assets	12.00%	3.07%
Absolute return	5.00%	3.35%
Domestic Fixed	16.00%	0.83%
	100.00%	

NOTE 9: Retirement Plans (Continued)

Discount Rate

A single discount rate of 7.50% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.50%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be 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 7.5%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

Sensitivity of Discount Rate		
1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
$ 6,376,895	$ 3,871,218	$ 1,787,376

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	$ 17,868,168		$ 1,447,548		$ 19,315,716
Research	20,087		66,805		86,892
Public Service	375,320		77,776		453,096
Academic Support	1,716,395		2,194,809		3,911,204
Student Services	3,675,572		780,132		4,455,704
Institutional Support	4,796,556		3,245,700		8,042,256
Schol. & Fellow.		$ 2,813,262			2,813,262
Oper. & Maint.	183,310		4,329,486		4,512,796
Aux. Enterprises	2,665,214		7,364,104		10,029,318
Depreciation				$ 4,449,992	4,449,992
Other	55,117		148,857		203,974
	$ 31,355,739	$ 2,813,262	$ 19,655,216	$ 4,449,992	$ 58,274,209

NOTE 11: Related Party Transactions

Mr. Ross Whipple is a member of the Board of Trustees of Henderson State University and the Henderson State University Foundation Board. Mr. Ross Whipple is the Managing Partner of Horizon Capital Management and is a director on the Board of the Bank of the Ozarks. The University has assets invested with Bank of the Ozarks.

Dr. Glendell Jones Jr. is President of Henderson State University. Dr. Jones is Chair of the Board of Southern Bancorp, Inc., a board member of Arkadelphia Regional Economic Development Alliance, and a board member of Baptist Health. Dr. Jones does not directly or indirectly own stock, have stock options, warrants, or any vestiges of equity in Southern Bancorp Inc. The University has assets invested with Southern Bancorp of Arkansas.

Dr. Lewis A. Shepherd Jr., Vice President for Student and External Affairs, is a member of the Arkansas State Police Commission, a position appointed by the Governor of the State of Arkansas.

Ms. Deborah Nolan is a member of the Board of Trustees of Henderson State University and the Henderson State University Foundation Board.

Mr. O. Brown Hardman is a member of the Board of Trustees of Henderson State University. On April 13, 2016, the University purchased two pieces of property (516 N. 13th Street and 522 N. 13th Street in Arkadelphia, AR) from Mr. Hardman for $71,000 and $57,000, respectively.

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

NOTE 12: Compensated Absences

Changes in Compensated Absences Payable are as follows:

Changes in Compensated Absences Payable:	Amount
Annual Leave as of June 30, 2015	$ 845,335
Earned Leave	696,237
Lost Leave over 240 hours	(56,999)
Annual Leave Used	(687,450)
Annual Leave as of June 30, 2016	$ 797,123

Employees with a sick leave balance of 50 days or more are eligible for payment for leave upon retirement. As of June 30, 2016, the University's liability for employees with sufficient leave balances was $84,442.
Employees with a compensatory time balance are eligible for payment for leave upon termination, retirement, or death. As of June 30, 2016 the University's liability for employees with compensatory leave balances was $729.

The above figures do not include estimated fringe benefits on accrued leave in the amount of $127,272 as of June 30, 2016.

NOTE 13: Employee Retirement

Changes in Employee Retirement:	Amount
Employee Retirement as of June 30, 2015	$ 148,922
Annual Revaluation	34,959
Amount Paid Out During 2015/2016	(55,188)
Employee Retirement as of June 30, 2016	$ 128,693

NOTE 14: Disaggregation of Receivable and Payable Balances

Accounts Receivable Consists of the Following:	Amount
Student Tuition and Fees, net of allowance of $1,352,196	$ 4,313,842
Auxiliary Enterprises	635,409
Other Receivables	146,882
Federal	98,186
State	164,038
Notes and Loans Receivable	1,051,879
Total Accounts Receivable	$ 6,410,236

Accounts Payable Consists of the Following:	Amount
Vendors	$ 1,034,270
Salary & Fringe Benefit Payable	223,276
Other Payables	1,319,636
State	27,535
Interest & Fees Payable	667,719
Total Accounts Payable	$ 3,272,436

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 are offered through Health Advantage of Arkansas Blue Cross and Blue Shield. Our health insurance plan is the Blue Choice Open Access Plan 302. Life insurance benefits are offered through MetLife. Retiree life insurance is determined by multiplying the salary upon retirement by 65% and rounding to the next nearest thousand, with a maximum of $20,000 in coverage. University members are eligible to retire at age 55 if their age plus years of continuous University service equals at least 70. Medical coverage ceases when the retiree becomes Medicare eligible (currently age 65). At that time, any covered dependents are eligible to pay for their own coverage through COBRA for up to 36 months. The University pays the premiums for life insurance until the retiree reaches age 65. At age 65, the retiree has the option of continuing until age 70 by assuming the cost of the monthly premiums.

Eligible retired employees participating in the Health Advantage health care benefits and/or the MetLife life insurance benefits pay their premiums directly to the University. The University pays the total premium directly to Health Advantage for the health care benefits and is reimbursed by the retirees for the retirees' portion of the premium. The University paid the employer portion of the health care premiums directly to Health advantage in the amount of $137,242 for fiscal year 2016, compared to $113,428 for fiscal year 2015. The University paid the total premiums for life insurance benefits for eligible retirees, ages 55 to 65, directly to MetLife in the amount of $1,524 for fiscal year 2016, compared to $1,600 for fiscal year 2015. This represents a total of $138,766 paid by the University for the employer portion of the OPEB for fiscal year 2016, compared to $115,028 for fiscal year 2015.

The University adopted GASB Statement no. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* during fiscal year 2008. 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 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 76.5% or $137,242 of the postretirement healthcare premiums, totaling $179,367 for the fiscal year ended June 30, 2016. Last year, the University funded approximately 81% or $113,428 of the postretirement healthcare premiums, totaling $140,015 for the fiscal year ended June 30, 2015. The retirees are responsible for funding approximately 23.5% of the healthcare premiums compared to 19% 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 $1,524 in postretirement life insurance benefits for the fiscal year ended June 30, 2016 and $1,600 in postretirement life insurance benefits for the fiscal year ended June 30, 2015. At age 65, the retiree has the option of continuing life insurance coverage until age 70 by assuming the cost of the monthly premiums.

In accordance with GASB Statement no. 45, the University accrued an additional $122,347 in retiree healthcare and life insurance expense during fiscal year 2016, compared to $197,090 during fiscal year 2015.

The Plan does not issue a stand-alone financial report. For inquiries relating to either Plan, please contact Dr. Brett A. Powell, 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.

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

Determination of Annual Required Contribution (ARC) and End of Year Accrual:

Cost Element	Fiscal Year Ending June 30, 2016 Amount	% of Payroll [1]	Fiscal Year Ending June 30, 2015 Amount	% of Payroll [1]
1. Unfunded actuarial accrued liability	$ 2,762,594	13.96%	$ 2,820,804	13.42%
Annual Required Contribution (ARC)				
2. Normal Cost	$ 156,263		$ 200,155	
3. Amortization of the unfunded actuarial accrued liability over 30 years using open amortization	140,945		143,915	
4. Amortization of beginning of year accrual				
5. Annual Required Contribution (ARC = 2 + 3+4)	$ 297,208	1.50%	$ 344,070	1.64%
Annual OPEB Cost (Expense)				
6. Normal Cost	$ 156,263		$ 200,155	
7. Amortization of the unfunded acruarial accrued liability over 30 year using open amortization	140,945		143,915	
8. Amortization of beginning of year accrual	(87,611)		(77,556)	
9. Interest on beginning of year accrual	51,516		45,604	
10. Annual OPEB cost (6+7+8+9)	$ 261,113	1.32%	$ 312,118	1.48%
End of year Accrual (Net OPEB Obligation)				
11. Beginning of year accrual	$ 1,717,215		$ 1,520,125	
12. Annual OPEB cost	261,113		312,118	
13. Employer contribution (benefit payments)[2]	138,766		115,028	
14. End of year accrual (11 + 12 - 13)	$ 1,839,562	9.30%	$ 1,717,215	8.17%

[1] Annual payroll for the 406 plan participants as of July 1, 2015 is $19,788,162 and for the 481 plan participants as of July 1, 2014 is $21,019,124.

[2] Actual contributions paid in fiscal year 2016 of $180,891 less participant contributions of $42,125, and in fiscal year 2015 of $141,614 less participant contributions of $26,586. The employer contributed 53.14% of annual OPEB cost during fiscal year 2016, compared to 36.85% in fiscal year 2015.

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

Schedule of Employer Contributions:

Fiscal Year Ended	Annual OPEB Cost	Actual Contributions[3]	Percentage Contributed
June 30, 2016	$ 261,113	$ 138,766	53.14%
June 30, 2015	$ 312,118	$ 115,028	36.85%
June 30, 2014	$ 307,957	$ 93,165	30.25%

[3] Since there is no funding; these are actual benefit payments of $180,891 less retiree contributions of $42,125 for 2016 and $141,614 less retiree contributions of $26,586 for 2015 and $113,147 less retiree contributions of $19,982 for 2014.

Schedule of Funding Progress:

The schedule of funding progress presents multi-year information comparing the actuarial value of plan assets to the actuarial accrued liability.

Fiscal Year Ended	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll[4] (c)	UAAL as a Percentage Of Covered Payroll[4] [(b)-(a)/(c)]
June 30, 2016	$	$ 2,762,594	$ 2,762,594	0.00%	$ 19,788,162	13.96%
June 30, 2015	$	$ 2,820,804	$ 2,820,804	0.00%	$ 21,019,124	13.42%
June 30, 2014	$	$ 2,765,013	$ 2,765,013	0.00%	$ 20,978,431	13.18%

[4] Estimated payroll as of July 1, 2015, July 1, 2014, and July 1, 2013 includes only plan participants.

Note: The annual OPEB cost of $261,113 for fiscal year 2016 and accrual of $1,839,562 as of June 30, 2016, are based on a current decision not to fund in a segregated GASB qualified trust; $312,118 and $1,717,215 respectively, in the fiscal year 2015; and $307,957 and $1,520,125, respectively, in the fiscal year 2014.

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

Three-Year Schedule of Percentage of OPEB Cost Contributed:

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
June 30, 2016	$ 261,113	53.14%	$ 1,839,562
June 30, 2015	$ 312,118	36.85%	$ 1,717,215
June 30, 2014	$ 307,957	30.25%	$ 1,520,125

Summary of Key Actuarial Methods and Assumptions:
Methods:

Valuation Year:	July 1, 2014 – June 30, 2015, rolled forward
Actuarial Cost Method:	Projected Unit Credit, level dollar
Amortization Method:	30 years, level dollar open amortization[5]
Asset Valuation Method:	N/A

[5]Open amortization means a fresh-start each year for the cumulative unrecognized amount.

Assumptions:

Discount Rate:	3.0%
Inflation Rate:	2.5%
Projected Payroll Growth Rate	N/A
Health Care Cost Trend Rate For Medical & Prescription Drugs	Trend rates are not used after 2008 because the University has frozen employer contributions to the plan at fiscal 2007 levels.

General Overview of the Valuation Methodology:

The estimation of the retiree healthcare benefit obligation is generally based on per participant contributions developed from recent periods for which claims experience is available. The University provided actual per-participant premiums for 2008. The amounts contributed by the University will not increase in future years beyond the limits set in 2008.

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

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

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

Valuation Year: July 1, 2014 – June 30, 2015, rolled forward

Date of Census Data: January, 2015

Actuarial Cost Method: Projected Unit Credit actuarial cost method; Unfunded Actuarial Liability (UAL) amortized on a level dollar basis over 30 years.

Retiree Premiums:

Retiree Premiums	Employee Cost	Employer Cost	Total
Health Insurance (Monthly Rate)			
Single	$ 18.44	$ 361.74	$ 380.18
Family	$ 356.34	$ 400.11	$ 756.45
Life Insurance			
Basic	$	$ .14 per $1000	

Discount Rate: 3.00% per annum

Inflation Rate: 2.5% per annum

Spouse Age Difference: Husbands are assumed to be three years older than wives for current and future retirees who are married.

Mortality: RP-2014 Mortality Table with Improvement Scale MP-2015

Participation Rates: Active employees are assumed to elect the same postretirement health insurance coverage upon retirement

Retirement Rates:

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

Employees are assumed to retire according to the following schedule:

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

Sample Withdrawal and Disability Rates:

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

Age	Terminate Rate (Male)	Terminate Rate (Female)
25	46.0%	47.0%
30	43.4%	46.6%
35	36.4%	38.8%
40	30.0%	27.4%
45	24.5%	21.2%
50	19.0%	18.8%
55	15.7%	16.2%
60	15.0%	15.0%
65	15.0%	15.0%
70	15.0%	15.0%
75	0.0%	0.0%
80	0.0%	0.0%

In addition, a select and ultimate assumption provides that total termination in the first year of employment is 32.0%, in the second year is 15.0%, in the third year is 11.0%, in the fourth year is 7.5%, and 5.0% in the fifth year.

NOTE 16: Pollution Remediation Obligations

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

NOTE 17: Pledged Revenues

The University has pledged future student recreation center revenue to repay $6,465,000 in student recreation center refunding bonds issued in 2016. Proceeds from the Series 2007 bonds provided financing for the construction of the student recreation center which was refunded in 2016. The bonds are payable solely from the student recreation center fee revenues and are payable through 2032. Annual principal and interest payments on the bonds currently require 65.35% of gross revenues. The total principal and interest remaining to be paid on the bonds is $8,102,969. Principal and interest paid for the current year and total customer gross revenues were $471,818 and $722,016, respectively.

The University has pledged future other auxiliary revenue to repay $49,125,000 in other auxiliary revenue bonds issued in 2009, 2011, 2012, and 2014. 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 2017 through 2040. Annual principal and interest payments on the bonds currently require 23.78% of gross revenues. The total principal and interest remaining to be paid on the bonds is $67,605,743. Principal and interest paid for the current year and total customer gross revenues were $2,786,921 and $11,720,865, respectively.

The University has pledged future student tuition and fees to repay $5,740,000 in refunding bonds issued in 2011 and 2015 to refund capital improvement bonds for various capital projects. The bonds are payable solely from student tuition and fees and are payable to maturity dates of 2020 and 2026. Annual principal and interest payments on the bonds currently require 1.38% of gross revenues. The total principal and interest remaining to be paid on the bonds is $4,997,099. Principal and interest paid for the current year and gross student tuition and fees were $382,913 and $27,722,974, respectively.

NOTE 18: Risk Management

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

The University carries commercial insurance for directors or officers covering legal judgments and settlements. The University pays an annual premium for this coverage.

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.

NOTE 18: Risk Management (Continued)

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.

NOTE 19: Financial Commitment from Food Service Vendor

On July 1, 2010, the University entered into a 10 year contract with Aramark Educational Services, LLC (Aramark) to provide meals to students and catering services to the University. In consideration of the University's agreement to continue services for this time period Aramark agreed to make a financial commitment to the University in the amount of $2,500,000 to be used towards construction of a new dining facility. Aramark's financial commitment along with a $2,750,000 financing agreement the University entered into with Arvest Bank on August 31, 2011 allowed construction to commence with a completion date of May 27, 2013. The financial commitment from Aramark shall be amortized on a straight-line basis over a period of twenty (20) years. Upon termination of this agreement by either Aramark or the University prior to the complete amortization of the financial agreement, the University would be required to reimburse Aramark for the unamortized balance on the date of termination or expiration of the contract. The balance of the financial commitment to the University as of June 30, 2016 is $2,065,972.

NOTE 20: Subsequent Events

On October 31, 2016, Henderson State University entered into an agreement with Aramark Management Services Limited Partnership to provide facility services beginning July 1, 2015 and continue through June 30, 2021. The University will pay $3,578,000 annually beginning July 1, 2016.

NOTE 21: Debt Refunding

On February 3, 2016, the University issued $6,465,000 in tax exempt refunding bonds with interest rates of 2 to 3 percent to refund $6,125,000 of outstanding bonds dated October 1, 2007 with interest rates of 4 to 4.6 percent. Bond proceeds of $6,094,073 and debt service reserve funds of $270,306 were deposited with the refunding bond agent to refund the Series 2007 bonds. The Series 2007 outstanding bonds will be called for redemption on January 1, 2017. The remaining net bond proceeds of $273,206 (after payment of bond issuance cost of $106,482 and consideration of the premium of $8,761) were deposited into a debt service reserve fund as per the bond indenture. The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $239,380. This difference was reported in the accompanying financial statements as a deferred outflow of resources and will be amortized through the 2032 fiscal year using the straight-line method.

The University refunded the bonds to reduce its total debt service payments over the next 16 years by $618,774 and to obtain an economic gain of $601,284. The outstanding principal of the bonds refunded was $6,125,000 at June 30, 2016. U.S. Government securities of $6,364,279, purchased by the escrow agent, were pledged for the retirement of these bonds.

OTHER POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Schedule of Employer Contributions:

Fiscal Year Ended	Annual OPEB Cost	Actual Contributions[3]	Percentage Contributed
June 30, 2016	$ 261,113	$ 138,766	53.14%
June 30, 2015	$ 312,118	$ 115,028	36.85%
June 30, 2014	$ 307,957	$ 93,165	30.25%

[3]Since there is no funding; these are actual benefit payments of $180,891 less retiree contributions of $42,125 for 2016 and $141,614 less retiree contributions of $26,586 for 2015 and $113,147 less retiree contributions of $19,982 for 2014.

Schedule of Funding Progress:

The schedule of funding progress presents multi-year information comparing the actuarial value of plan assets to the actuarial accrued liability.

Fiscal Year Ended	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll[4] (c)	UAAL as a Percentage Of Covered Payroll[4] [(b)-(a)/(c)]
June 30, 2016	$	$ 2,762,594	$ 2,762,594	0.00%	$ 19,788,162	13.96%
June 30, 2015	$	$ 2,820,804	$ 2,820,804	0.00%	$ 21,019,124	13.42%
June 30, 2014	$	$ 2,765,013	$ 2,765,013	0.00%	$ 20,978,431	13.18%

[4]Estimated payroll as of July 1, 2015, July 1, 2014, and July 1, 2013 includes only plan participants.

NET PENSION LIABILITY:

Employee Benefits

Henderson State University's Proportionate Share of the Net Pension Liability Arkansas Teacher Retirement System				
		2015*		**2016***
Plan Net Pension Liability- End of Year	$	2,625,006,279	$	3,256,909,830
University's proportion (percentage) of net pension liability (asset)		0.0760%		0.052%
University's proportionate share of net pension liability	$	1,993,959	$	1,701,814
University's covered payroll	$	2,196,473	$	1,522,661
University's proportionate share of net pension liability as a percentage of the employer's covered-employee payroll		90.78%		111.77%
Plan fiduciary net position as a percentage of the total pension liability		84.98%		82.20%
*The amounts presented were determined as of June 30 of the previous year.				

Henderson State University's Schedule of Contributions Arkansas Teacher Retirement System				
		2015		**2016**
Contractually required contribution	$	212,798	$	178,208
Contributions in relation to the contractually required contribution		212,798		178,208
contribution deficiency (excess)		-		-
University's covered-employee payroll	$	1,522,661	$	1,278,135
Contributions as a percentage of covered-employee payroll		14%		13.94%

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
June 30, 2016

Henderson State University's Proportionate Share of the Net Pension Liability Arkansas Public Employees Retirement System				
		2015*		2016*
Plan Net Pension Liability- End of Year	$	1,418,912,236	$	1,841,733,371
University's proportion (percentage) of net pension liability (asset)		0.1981%		0.210%
University's proportionate share of net pension liability	$	2,811,127	$	3,781,218
University's covered payroll	$	3,502,800	$	3,729,152
University's proportionate share of net pension liability as a percentage of the employer's covered-employee payroll		80.25%		101.40%
Plan fiduciary net position as a percentage of the total pension liability		84.15%		80.39%
*The amounts presented were determined as of June 30 of the previous year.				

Henderson State University's Schedule of Contributions Arkansas Public Employees Retirement				
		2015		2016
Statutorily required contribution	$	548,803	$	480,373
Contributions in relation to the contractually required contribution		548,803		480,373
contribution deficiency (excess)		-		-
University's covered-employee payroll	$	3,729,152	$	3,317,293
Contributions as a percentage of covered-employee payroll		14.72%		14.48%

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

Schedule 1

HENDERSON STATE UNIVERSITY
SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS
FOR THE YEAR ENDED JUNE 30, 2016
(Unaudited)

	Year Ended June 30,				
	2016	2015	2014	2013	2012
Total Assets and Deferred Outflows	$ 130,340,806	$ 135,527,367	$ 89,807,778	$ 86,111,623	$ 83,334,695
Total Liabilities and Deferred Inflows	88,307,970	92,625,286	40,926,439	41,245,740	39,756,441
Total Net Position	42,032,836	42,902,081	48,881,339	44,865,883	43,578,254
Total Operating Revenues	23,402,299	22,662,431	22,454,109	21,739,690	21,117,073
Total Operating Expenses	58,274,209	55,912,750	55,170,305	56,768,875	54,224,914
Total Net Non-Operating Revenues	32,977,010	33,018,934	33,628,442	34,374,981	34,883,971
Total Other Revenues, Expenses, Gains or Losses	1,025,655	324,136	3,103,210	2,257,571	634,558