

Henderson State University

Arkadelphia, Arkansas

**Basic Financial Statements
and Other Reports**

June 30, 2011

LEGISLATIVE JOINT AUDITING COMMITTEE



HENDERSON STATE UNIVERSITY
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Senate Chair
Rep. Tim Summers
House Chair
Sen. David Wyatt
Senate Vice Chair
Rep. Toni Bradford
House Vice Chair

Arkansas



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

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Henderson State University
Legislative Joint Auditing Committee

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, 2011, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the University's 2010 financial statements and, in our report dated November 8, 2010, we expressed unqualified opinions on the respective financial statements of the business-type activities and the discretely presented component unit. We did not audit the financial statements, including the prior year partial comparative information, of the Henderson State University Foundation, Inc., which represent 100% of the assets, net assets, and revenues of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Henderson State University Foundation, Inc., is based 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 of material misstatement. The financial statements of the Henderson State University Foundation, Inc. were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of Henderson State University as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The financial statements include partial prior year comparative information. Such information does not include all of the information required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 2010, from which such partial information was derived.

As discussed in Notes 19, 20, and 21 to the financial statements, the University restated certain prior year (2010) amounts on the Comparative Statement of Net Assets, the Comparative Statement of Revenues, Expenses, and Changes in Net Assets, and the Comparative Statement of Cash Flows for presentation purposes. In accordance with *Government Auditing Standards*, we have also issued our report dated July 9, 2012 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* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and certain information pertaining to postemployment benefits other than pensions are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 (Schedule 1) has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in cursive script that reads "Roger A. Norman".

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

Little Rock, Arkansas
July 9, 2012
EDHE10011

Sen. Bill Pritchard
Senate Chair
Rep. Tim Summers
House Chair
Sen. David Wyatt
Senate Vice Chair
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House Vice Chair

Arkansas



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

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF 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*

Henderson State University
Legislative Joint Auditing Committee

We have audited the financial statements of the business-type activities and the discretely presented component unit of Henderson State University (University), an institution of higher education of the State of Arkansas, as of and for the year ended June 30, 2011, which collectively comprise the University's basic financial statements and have issued our report thereon dated July 9, 2012. Our report includes a reference to 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. Other auditors 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

Management of the University is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

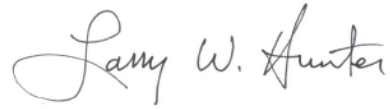
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of 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 July 9, 2012.

This report 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.

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in cursive script that reads "Larry W. Hunter". The signature is written in black ink and is positioned above the printed name and title.

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
July 9, 2012

Sen. Bill Pritchard
Senate Chair
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Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF 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, 2011, as reported to the State Department of Higher Education, to provide reasonable assurance that the data was properly reported. The enrollment data reported was as follows:

	<u>Summer II Term</u> 2010	<u>Fall Term</u> 2010	<u>Spring Term</u> 2011	<u>Summer I Term</u> 2011
Student Headcount	1,071	3,713	3,462	948
Student Semester Credit Hours	5,997	49,005	45,998	4,230

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.

DIVISION OF LEGISLATIVE AUDIT

Handwritten signature of Larry W. Hunter in cursive.

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
July 9, 2012

Henderson State University

Management's Discussion and Analysis

Overview of the Financial Statements and Financial Analysis

Henderson State University proudly presents its financial statements for fiscal year 2011 with comparative data presented for fiscal year 2010. The emphasis of discussion concerning these statements will be for the current year data. There are three financial statements presented: The Statements of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows.

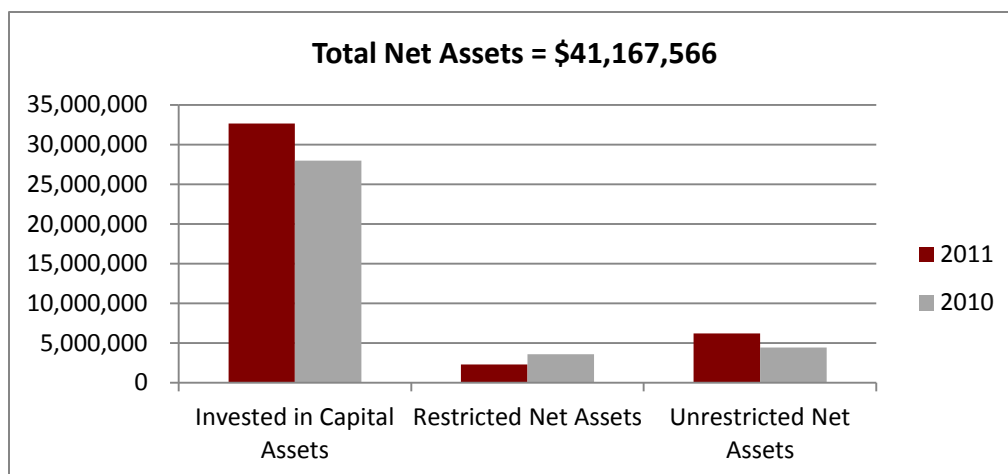
The discussion and analysis of the University's financial statements provides an overview of its financial activities for the year.

Statement of Net Assets

The Statement of Net Assets presents the Assets (current and noncurrent), Liabilities (current and noncurrent) and Net Assets (assets minus liabilities) as of the end of the fiscal year. The purpose of the Statement of Net Assets 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 Assets 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 Assets provides a picture of the Net Assets (Assets minus Liabilities) and their availability for expenditure by the institution.

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



Henderson State University

Statement of Net Assets (Continued)

Statement of Net Assets			
June 30, 2011			
	2011	2010	
Assets:			
Current Assets	\$ 12,877,930	\$ 9,584,371	
Capital Assets, net	63,815,865	62,030,658	
Other Assets	3,454,596	3,481,203	
Total Assets	80,148,391	75,096,232	
Liabilities:			
Current Liabilities	4,434,682	3,237,591	
Non-Current Liabilities	34,546,143	35,835,282	
Total Liabilities	38,980,825	39,072,873	
Net Assets:			
Invested in Capital Assets, Net of Debt	32,632,248	27,968,302	
Restricted-Expendable	2,112,363	3,434,526	
Restricted-Nonexpendable	188,292	175,378	
Unrestricted	6,234,663	4,445,153	
Total Net Assets	\$ 41,167,566	\$ 36,023,359	

Total Assets of the institution increased by \$5,052,159. A review of the Statement of Net Assets will reveal that there are many offsetting variances, but the increase was primarily due to an increase in Cash and Cash Equivalents of \$2,099,824 and an increase in Capital Assets Net of Accumulated Depreciation of \$1,785,207. Other increases to Other Receivables, Deposits with Trustee and Prepaid Expenses of \$497,966, \$326,977 and \$192,476 also contributed to the overall increase.

Total liabilities for the year decreased by \$92,048. This net decrease was primarily due to the decrease in Early Retirement of \$212,818, a decrease in Long Term Debt of \$997,331 as well as an increase in Accounts Payable of \$928,855 and an increase in Other Postemployment Benefits of \$235,813.

Statement of Revenues, Expenses and Changes in Net Assets

The changes in total net assets, as presented on the Statement of Net Assets, are based on the activity presented in the Statement of Revenues, Expenses and Changes in Net Assets. 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.

Henderson State University

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

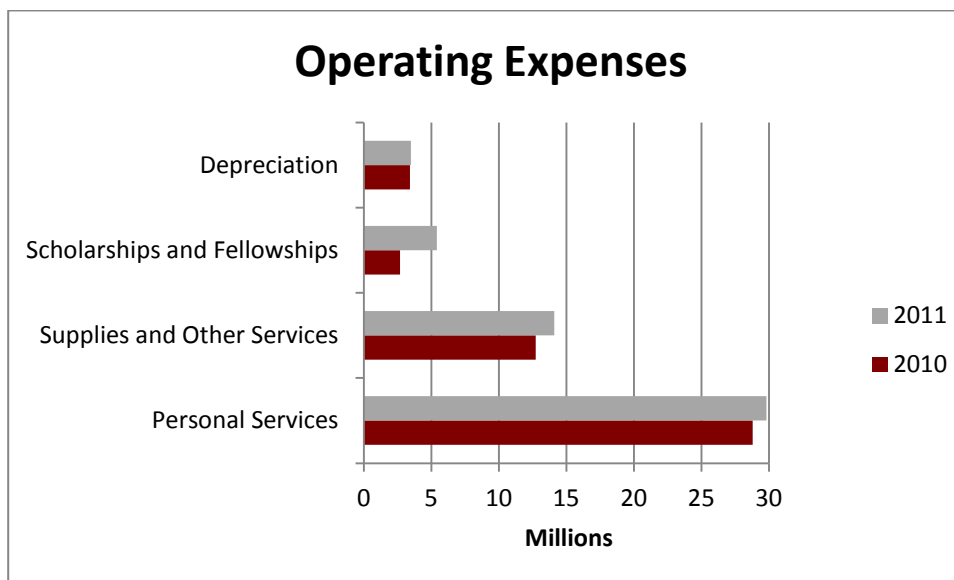
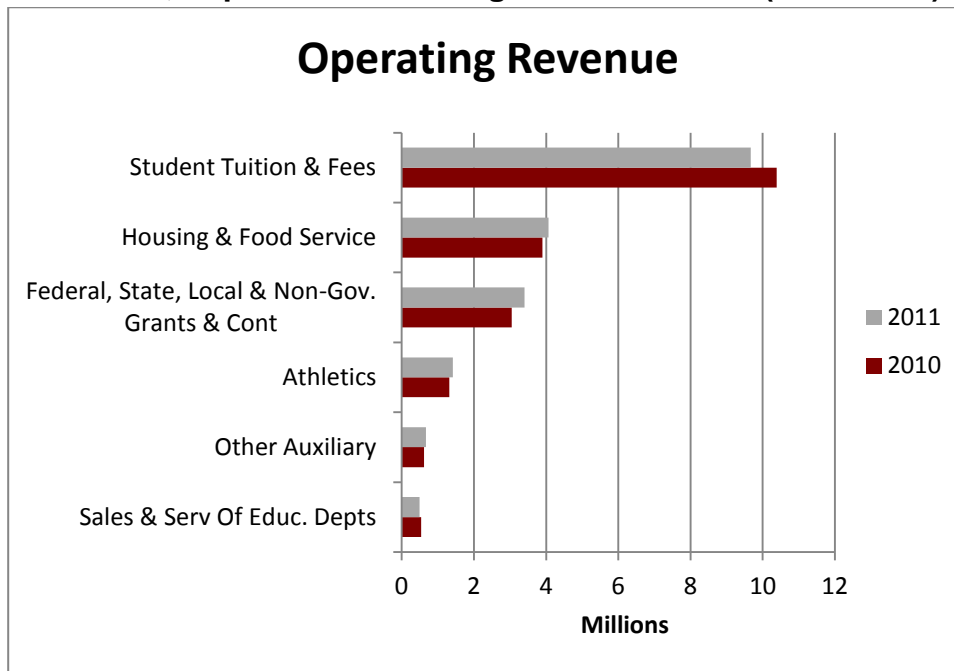
Comparative Statement of Revenues, Expenses and Changes in Net Assets For the Fiscal Year Ended June 30, 2011		
	2011	2010
Operating Revenues	\$ 19,717,034	\$ 19,784,856
Operating Expenses	52,814,878	47,606,120
Operating Loss	(33,097,844)	(27,821,264)
Non-Operating Revenues less Expenses	36,575,249	28,923,897
Income (Loss) Before Other Rev., Exp., Gains or Losses	3,477,405	1,102,633
Other Revenues, Expenses, Gains or Losses	1,666,802	288,328
Increases (Decreases) in Net Assets	5,144,207	1,390,961
Net Assets at Beginning of Year	36,023,359	32,765,932
Adjustment to Prior Year Deferred Revenue	-	1,866,466
Net Assets at Beginning of Year, as Restated	36,023,359	34,632,398
Net Assets at End of Year	\$ 41,167,566	\$ 36,023,359

The Statement of Revenues, Expenses and Changes in Net Assets reflect an increase in net assets at the end of the year of \$5,144,207. Highlights of the information presented on the statement are as follows:

- ❖ Student tuition and fees, net of scholarship allowances, decreased by \$715,881. This decrease is primarily attributable to an increase in scholarship allowance of \$3,108,326 due to the implementation of the Arkansas Academic Challenge Scholarship funded by the Arkansas lottery along with an increase in freshman enrollment.
- ❖ Auxiliary Enterprises realized a net increase of \$331,118 due to increased enrollment which impacted revenue in housing and food service as well as athletic tuition.
- ❖ Federal, state and non-governmental grants, non-operating revenue increased by \$6,162,712. This increase was primarily due to the increase in maximum Pell awards as well as the Arkansas Academic Challenge scholarships funded by the Arkansas Lottery.
- ❖ State of Arkansas non-operating appropriations increased by \$559,799 due to an increase in non-formula appropriations as well as a slight increase in general revenue.
- ❖ Personal services expenses increased by \$1,035,365. This increase primarily reflects an increase given to state employees when the state lifted the salary freeze in December of 2010 along with associated fringe benefits.
- ❖ Supplies and other services increased by \$1,379,592. This increase is due primarily to the rising cost of normal operations and the cost associated with campus repair and replacements.
- ❖ Scholarship expenses increased by \$2,720,607 due to Arkansas Academic Challenge scholarships as well as an increase in minimum Pell grant amounts.
- ❖ American Reinvestment & Recovery Act (GSF) increased by \$1,884,216 as the renovations of Womack Hall and Foster Hall continued throughout the year.

Henderson State University

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



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:

- ❖ 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.

Henderson State University

Statement of Cash Flows (Continued)

- ❖ Capital and related financing activities provide specific information on the cash used for the acquisition and construction of capital and related items.
- ❖ The last section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues and Expenses and Changes in Net Assets

Comparative Statement of Cash Flow For the Fiscal Year Ended June 30, 2011		
	2011	2010
Cash Provided (used) by:		
Operating Activities	\$ (29,493,902)	\$ (25,224,232)
Non-capital Financing Activities	36,087,708	29,027,115
Investing Activities	440,502	(256,541)
Capital and Related Financing Activities	(4,934,484)	(3,979,804)
Net Change in Cash	2,099,824	(433,462)
Cash, Beginning of Year	4,943,147	5,376,609
Cash, End of year	\$ 7,042,971	\$ 4,943,147

Capital Assets and Debt Administration

The University made an investment in the following additions or improvements in fiscal year 2011.

	Amount
Land	\$ 4,120
Construction in Progress	1,961,701
Improvements	1,027,924
Infrastructure	595,948
Equipment	461,270
Library Holdings	497,013
Buildings	739,954
Total	\$ 5,287,930

The University's long term debt (current and noncurrent) decreased from \$34,243,937 to \$33,246,606, a \$997,331 net decrease.

Economic Outlook

The University experienced a slight increase in state appropriations during the fiscal year 2011. In fiscal year 2012, the state revenue forecast is expected to remain relatively unchanged due to the current national and state economic climate. The University expects to see growth in undergraduate enrollment with flat graduate enrollment. The University has taken the stance of conservative budgeting for the fiscal year 2012 to allow for possible downturns in enrollment as well as possible decreases in state revenue. The University is not aware of any facts, decisions or conditions that are expected to have a significant effect on the financial position or results of operations during the fiscal year beyond those already discussed.

The University's overall financial position remains sound and should remain sound in the future. The University has made and continues to make significant investments in physical plant facilities. The University has also received various academic accreditations which, coupled with recruitment should continue to produce additional revenue and allow the University to continue its role as Arkansas' Public Liberal Arts University. The University will continue to monitor conditions related to internal and external issues and be prepared for opportunities that may become available.

Ms. Lecia Franklin
Interim Vice President for Finance and Administration

HENDERSON STATE UNIVERSITY
COMPARATIVE STATEMENT OF NET ASSETS
JUNE 30, 2011

EXHIBIT A

	2011	2010
ASSETS:		
Current Assets:		
Cash and Cash Equivalents	\$ 6,706,625	\$ 4,607,065
Short Term Investments	625,584	803,866
Student Accounts Receivable	2,522,134	2,177,562
Accrued Interest Receivable	4,498	5,321
Inventories	183,231	165,620
Notes and Student Loans Receivable	201,240	205,804
Other Receivables	1,050,258	552,292
Deposits with Trustee	1,104,194	779,150
Prepaid Expenses	463,514	271,038
Bond Issuance Cost	16,652	16,653
Total Current Assets	12,877,930	9,584,371
Non-Current Assets:		
Cash and Cash Equivalents	336,346	336,082
Investments	397,461	323,618
Notes and Student Loans Receivable	1,162,126	1,248,121
Deposits with Trustee	1,463,699	1,461,766
Capital Assets, Net of Accumulated Depreciation (\$53,354,181 and \$49,970,494 respectively)	63,815,865	62,030,658
Bond Issuance Cost, Net of Accumulated Amortization Cost (\$24,978 and \$8,326 respectively)	94,964	111,616
Total Non-Current Assets	67,270,461	65,511,861
Total Assets	80,148,391	75,096,232
LIABILITIES:		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	1,589,716	660,861
Deferred Revenues and Deposits	227,212	158,032
Funds Held in Trust for Others	496,091	520,443
Employee Retirement	57,075	64,440
Early Retirement		212,818
Compensated Absences Payable	71,503	122,379
Long-term Debt	2,016,738	1,522,264
Discount on Bonds	(3,315)	(3,309)
Deferral of Debt Defeasance	(20,338)	(20,337)
Total Current Liabilities	4,434,682	3,237,591

HENDERSON STATE UNIVERSITY
 COMPARATIVE STATEMENT OF NET ASSETS
 JUNE 30, 2011

EXHIBIT A

	2011	2010
Non-Current Liabilities:		
Refundable Advance	\$ 1,366,560	\$ 1,427,200
Employee Retirement	192,470	231,442
Other Postemployment Benefits	844,618	608,805
Compensated Absences Payable	1,046,899	1,004,097
Long-term Debt	31,229,868	32,721,673
Discount on Bonds Net of Accumulated Amortization (\$4,974 and \$1,657 respectively)	(19,056)	(22,379)
Deferral of Debt Defeasance, Net of Accumulated Amortization (\$30,506 and \$10,167 respectively)	<u>(115,216)</u>	<u>(135,556)</u>
Total Non-Current Liabilities	<u>34,546,143</u>	<u>35,835,282</u>
Total Liabilities	<u>38,980,825</u>	<u>39,072,873</u>
 NET ASSETS:		
Invested in Capital Assets, Net of Related Debt	32,632,248	27,968,302
Restricted for:		
Expendable:		
Scholarship and Fellowships	158,939	117,325
Grants and Contracts	1,164,518	1,336,723
Loans	48,906	48,914
Debt Service	740,000	1,823,519
Other		87,172
Deferred Compensation		20,873
Nonexpendable:		
Loans	188,292	175,378
Unrestricted:		
Net Assets	<u>6,234,663</u>	<u>4,445,153</u>
Total Net Assets	<u>\$ 41,167,566</u>	<u>\$ 36,023,359</u>

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

HENDERSON STATE UNIVERSITY FOUNDATION, INC.
 STATEMENTS OF FINANCIAL POSITION
 JUNE 30, 2011 AND 2010

EXHIBIT A-1

ASSETS:

	2011	2010
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 1,366,065	\$ 2,078,048
Investment Securities (FMV)	11,222,609	10,004,788
Accrued Interest Receivable	41,512	46,435
TOTAL CURRENT ASSETS	12,630,186	12,129,271
PROPERTY AND EQUIPMENT:		
Smith-Garner House	150,593	150,593
Janek Property, 1227 Wilson Street		67,000
Foundation Furnishings	7,264	7,264
	157,857	224,857
Less Accumulated Depreciation	(51,637)	(47,776)
TOTAL PROPERTY AND EQUIPMENT	106,220	177,081
OTHER ASSETS:		
Belvedere Resort Rights	7,500	7,500
TOTAL ASSETS	\$ 12,743,906	\$ 12,313,852

LIABILITIES AND STOCKHOLDERS' EQUITY:

	2011	2010
CURRENT LIABILITIES:		
Accounts Payable	\$ 0	\$ 0
TOTAL LIABILITIES	0	0
NET ASSETS:		
Unrestricted Net Assets:		
General Operations	221	229
Investment Income - Unallocated	714,882	535,629
Net Appreciation (Depreciation) on Investments	47,895	(681,351)
Total Unrestricted Net Assets	762,998	(145,493)
Temporarily Restricted Net Assets:		
Restricted Net A Total Net Assets	1,698,551	2,226,546
Budgeted Project Net Assets	760,548	857,809
Property and Equipment Net Assets	113,720	184,581
Total Temporarily Restricted Net Assets	2,572,819	3,268,936
Permanently Restricted Net Assets	9,408,089	9,190,409
TOTAL NET ASSETS	\$ 12,743,906	\$ 12,313,852

HENDERSON STATE UNIVERSITY
 COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND
 CHANGES IN NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2011

EXHIBIT B

	2011	2010
OPERATING REVENUE:		
Student Tuition and Fees (net of scholarship allowances of \$15,921,047 and \$12,812,721, respectively)	\$ 9,669,409	\$ 10,385,290
Federal Grants and Contracts	1,832,292	1,726,264
State and Local Grants and Contracts	1,348,537	1,190,278
Non-Governmental Grants and Contracts	220,507	126,123
Sales and Services of Educational Departments	492,806	534,536
Athletics	1,418,348	1,314,285
Housing and Food Service (net of scholarship allowances of \$2,891,121 and \$2,341,057, respectively)	4,067,525	3,894,640
Bookstore	112,083	78,294
Garrison Center	11,533	9,178
Other Auxiliary Enterprises	543,994	525,968
TOTAL OPERATING REVENUES	19,717,034	19,784,856
OPERATING EXPENSES:		
Personal Services	29,825,114	28,789,749
Supplies and Other Services	14,098,950	12,719,358
Scholarships and Fellowships	5,403,830	2,683,223
Depreciation	3,486,984	3,413,790
TOTAL OPERATING EXPENSES	52,814,878	47,606,120
OPERATING INCOME (LOSS)	(33,097,844)	(27,821,264)
NON-OPERATING REVENUES (EXPENSES)		
State Appropriations	20,991,048	20,431,249
Federal and State Grants and Contracts	14,496,099	8,333,387
American Reinvestment and Recovery Act (ESF)	227,552	268,461
Gifts	1,435,295	226,948
Investment Income	304,930	260,198
Interest and Fees on Long Term Debt	(1,392,329)	(1,241,257)
Other	512,654	644,911
Net Non-operating Revenues	36,575,249	28,923,897

HENDERSON STATE UNIVERSITY
 COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND
 CHANGES IN NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2011

EXHIBIT B

	2011	2010
Income Before Other Revenues, Expenses, Gains/Losses	\$ 3,477,405	\$ 1,102,633
Bond Proceeds from Act 1282 of 2005	81,644	581,558
Payments of Mandatory Fees to Agency Funds	(399,900)	(379,380)
American Reinvestment and Recovery Act (GSF)	1,961,701	77,485
Adjustments to Prior Year Revenues and Expenses	23,357	8,665
INCREASE (DECREASE) IN NET ASSETS	5,144,207	1,390,961
NET ASSETS- BEG. OF YEAR AS ORIGINALLY REPORTED	36,023,359	32,765,932
Adjustment for Prior Year Deferred Revenue		1,866,466
NET ASSETS- BEGINNING OF YEAR RE-STATED	36,023,359	34,632,398
NET ASSETS-END OF YEAR	\$ 41,167,566	\$ 36,023,359

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, 2011 AND 2010

EXHIBIT B-1

	UNRESTRICTED	TEMORARILY RESTRICTED	PERMANENTLY RESTRICTED	2011	2010
SUPPORT AND REVENUES:					
Contributions		\$ 903,537	\$ 217,680	\$ 1,121,217	\$ 1,370,418
Interest and Dividend Income	\$ 298,242			298,242	294,066
Gain on Sale of Investment	(65,446)			(65,446)	13,160
Unrealized Loss on Investments	729,246			729,246	452,015
Net Assets Released from Restrictions	1,599,652	(1,599,652)			
TOTAL SUPPORT AND REVENUES	2,561,694	(696,115)	217,680	2,083,259	2,129,659
EXPENSES:					
Program Services:					
Scholarship awards	350,573			350,573	402,329
Awards and Gifts	951,876			951,876	537,781
Athletics	276,033			276,033	118,835
Cupp Chair					6,000
Total Program Services	1,578,482			1,578,482	1,064,945
Supporting Services:					
General Administration	74,723			74,723	73,737
TOTAL EXPENSES	1,653,205			1,653,205	1,138,682
CHANGE IN NET ASSETS	908,489	(696,115)	217,680	430,054	990,977
NET ASSETS AS OF BEGINNING OF YEAR	(145,491)	3,268,934	9,190,409	12,313,852	11,322,875
NET ASSETS AS OF END OF YEAR	\$ 762,998	\$ 2,572,819	\$ 9,408,089	\$ 12,743,906	\$ 12,313,852

HENDERSON STATE UNIVERSITY
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011

EXHIBIT C

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and Fees (Net of Scholarships)	\$ 9,347,671	\$ 9,923,960
Research Grants and Contracts	3,417,336	3,110,530
Collection of Loans and Interest to Students (includes Perkins and interest income)	193,498	228,435
Auxiliary Enterprises		
Athletics	1,418,348	1,314,285
Housing and Food Service	4,067,525	3,894,640
Bookstore	156,191	78,294
Student Union	11,533	9,178
Other Auxiliary Enterprises	537,260	525,968
Other Receipts	527,664	721,252
Payments to Suppliers	(13,871,905)	(13,258,031)
Payments to Employees	(23,161,689)	(22,629,862)
Payments of Employee Benefits	(6,648,504)	(6,314,994)
Loans issued to Students (includes Perkins)	(85,000)	(144,664)
Scholarships and Fellowships	(5,403,830)	(2,683,223)
Net Cash Provided (Used) by Operating Activities	(29,493,902)	(25,224,232)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations	20,991,048	20,431,249
Federal and State Grants and Contracts	14,496,099	8,333,387
Loans to Students-Direct Loans & Private (Inflows)	18,204,470	16,063,185
Agency Funds (Net of Outflows)	(24,352)	24,288
Loans to Students-Direct Loans & Private (Outflows)	(18,204,470)	(16,063,185)
American Reinvestment and Recovery Act-ESF	227,552	268,461
Payments of Mandatory Fees to Agency Funds	(399,900)	(379,380)
Gifts and Grants	417,783	137,957
Camps	379,478	211,153
Net Cash Provided (Used) by Noncapital Financing Activities	36,087,708	29,027,115
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Bond Proceeds from Act 1282 of 2005	467,399	188,688
Acquisitions and Construction of Capital Assets	(3,347,961)	(1,257,633)
American Reinvestment and Recovery Act-GSF	1,038,190	77,485
Distribution from Trustee		199,645
Principal Paid on Capital Leases	(267,264)	(284,128)
Interest and Fees Paid on Capital Leases	(36,778)	(53,273)
Payment to Trustee for Principal	(1,575,000)	(1,660,000)
Payment to Trustee for Interest and Fees	(1,236,427)	(1,288,244)
Capital Gift and Grants		88,991
Prior Period Adjustments	23,357	8,665
Net Cash Provided (Used) by Capital and Related Financing Activities	(4,934,484)	(3,979,804)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales and Maturities of Investments	334,400	375,667
Interest on Investments (net of fees)	305,753	207,540
Purchase of Investments	(199,651)	(839,748)
Net Cash Provided (Used) by Investing Activities	440,502	(256,541)
Net Increase (Decrease) in Cash	2,099,824	(433,462)
Cash - Beginning of Year	4,943,147	5,376,609
Cash - Ending of Year	\$ 7,042,971	\$ 4,943,147

HENDERSON STATE UNIVERSITY
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011

EXHIBIT C

	2011	2010
Reconciliation of Net Operating Loss to Net Cash Provided (Used) by Operating Activities		
Operating Income (Loss)	\$ (33,097,844)	\$ (27,821,264)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense	3,486,984	3,413,790
Other Miscellaneous Operating Receipts	27,148	185,635
Change in Assets and Liabilities		
Receivables, Net	(311,896)	(460,249)
Inventories	(17,611)	15,119
Other Assets	(192,476)	(20,498)
Loans Receivable	90,559	83,772
Accounts Payable	437,133	(533,294)
Deferred Revenue	69,180	67,865
Compensated Absences	(8,074)	55,591
Other Liabilities	22,995	(210,699)
Net Cash Provided (Used) by Operating Activities	\$ (29,493,902)	\$ (25,224,232)
 NONCASH TRANSACTIONS		
Donated Capital Assets	\$ 1,017,513	\$ 88,991
Proceeds of Refunding Bonds		8,770,000
Bond Proceeds to Refunding Bond Agent		(8,107,797)
Bond Issuance Cost Paid from Bond Proceeds		(133,248)
Bond Discounts on Bonds		(27,345)
Accrued Interest on Bonds		21,292
Bond Proceeds Deposited to Debt Service Reserve Funds		(501,610)
Debt Service Reserve Funds to Refunding Bond Agent		(498,263)
Capital Assets Acquired by Incurring Capital Lease Obligations	524,932	

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

Henderson State University

Notes to the Financial Statements

June 30, 2011

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, GASB issued Statement no. 39, *Determining Whether Certain Organizations are Component Units*, which amends GASB no. 14 to provide additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with a primary government. Under the standard, which became effective with the fiscal year ended June 30, 2004, the financial activities of qualifying foundations are to be included in the financial statements of the primary government, through discrete presentations. There is one qualifying foundation for Henderson State University, the Henderson State University Foundation, Inc. Although the University does not control the timing or amount of receipts from this Foundation, the majority of resources, or income thereon, which the Foundation holds and invests is restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University’s financial statements. During the year ended June 30, 2011, the Foundation transferred property, equipment and funds of \$1,294,524 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 fifteen (15) members including two (2) members who are also members of Henderson State University Board of Trustees, and three (3) 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 no. 34 and no. 35 provides a comprehensive, entity-wide perspective of the University’s assets, liabilities, net assets, revenues, expenses, changes in net assets, 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.

Henderson State University
Notes to the Financial Statements
June 30, 2011

NOTE 2: Summary of Significant Accounting Policies (Continued)

Basis of Accounting (Continued)

The University has elected not to apply Financial Accounting Standards Board (FASB) statements and interpretations issued since November 30, 1989, unless they are adopted by the GASB.

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 fair market value when received. The University's capitalization policy for equipment is to record, as assets, any items with a unit cost of more than \$2,500 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: that 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, 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.

Investments

Investments 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.

Henderson State University
Notes to the Financial Statements
June 30, 2011

NOTE 2: Summary of Significant Accounting Policies (Continued)

Deposits with Trustees

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

Notes Receivable

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

Inventories

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

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 Assets.

Deferred Revenues

Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

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 \$921,825 at June 30, 2011. 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 \$145,495 at June 30, 2011. On June 10, 2011, the Board of Trustees voted to not compensate non-classified employees and faculty for unpaid sick leave until further research has been conducted. This vote was in response to ACT 337 of the 88th General Assembly Regular Session, 2011, amended Arkansas Code 21-4-505, to grant discretion to state-supported institutions of higher education on whether or not to compensate all employees for unpaid sick leave upon retirement. The University accrues compensatory time at time and one half of the hours worked over 8 hours per day for classified employees. The liability is projected to be \$51,082 at June 30, 2011.

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.

Henderson State University
Notes to the Financial Statements
June 30, 2011

NOTE 2: Summary of Significant Accounting Policies (Continued)

Noncurrent Liabilities

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

Refundable Advance

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 Assets. In the event of the cessation of the program this amount is refundable to the Federal government.

Net Assets

The University's net assets are classified as follows:

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

Restricted Net Assets: Within this classification there are two categories of net assets:

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

Unrestricted Net Assets: Unrestricted net assets represent 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 Assets. Scholarship discounts and allowances are the difference between the University's stated rates and changes 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.

Henderson State University
Notes to the Financial Statements
June 30, 2011

NOTE 2: Summary of Significant Accounting Policies (Continued)

Restricted/Unrestricted Resources

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

NOTE 3: Public Fund Deposits and Investments

Cash Deposits

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

Cash Deposits:	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 2,824,039	\$ 2,710,490
Insured (SIPC)	31,992	31,992
Collateralized:		
Collateral held by the pledging bank or pledging bank's trust department in the University's name	5,423,212	5,632,068
Uninsured/Uncollateralized	296	296
Total Deposits	\$ 8,279,539	\$ 8,374,846

The above deposits do not include cash on deposit in state treasury or cash on hand in the amounts of \$0 and \$23,860 at June 30, 2011, respectively. The above total deposits include certificates of deposit of \$1,260,428 reported as investments and deposits with trustees and 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, 2011, \$296 of the University's bank balance of \$8,374,846 was exposed to custodial credit risk as follows:

Custodial Credit Risk - Deposits	Carrying Amount	Bank Balance
Uninsured/Uncollateralized	\$ 296	\$ 296

Henderson State University
Notes to the Financial Statements
June 30, 2011

NOTE 3: Public Fund Deposits and Investments (Continued)

Custodial Credit Risk – Investments

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University does not have an investment policy for custodial credit risk. The University's open-ended mutual funds of \$577,045 were not subject to custodial credit risk.

Credit Risk

The University's open-end mutual funds of \$577,045 were not rated. The open-end mutual funds 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, 2011, the University's deposits with trustees of \$1,753,465, excluding nonnegotiable certificates of deposits of \$814,428, were invested as follows:

Federated Treasury Obligations Fund of \$1,373,619. The fund was rated AAAM by Standard and Poor's and Aaa by Moody's Investors Service and consisted of short-term repurchase agreements and U.S. Treasuries. The effective average maturity was approximately 36 days.

Federated Trust for U.S. Treasury Obligations of \$144,630. The fund was rated AAAM by Standard and Poor's and Aaa by Moody's Investors Service and consisted of short-term repurchase agreements and U.S. Treasuries. The effective average maturity was approximately 33 days.

Federated Government Obligations Fund of \$235,216. The fund was rated AAAM by Standard and Poor's, Aaa by Moody's Investors Service, and AAA by Fitch and consisted of short-term repurchase agreements, government agencies notes and U.S. Treasuries. The effective average maturity was approximately 44 days.

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

NOTE 4: 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.

Henderson State University
Notes to the Financial Statements
June 30, 2011

NOTE 5: Capital Assets

Following are the changes in capital assets for the year ended June 30, 2011:

Capital Assets:	Balance as of July 1, 2010	Additions	Retirements	Balance as of June 30, 2011
Capital assets not being depreciated				
Land	\$ 1,344,629	\$ 4,120		\$ 1,348,749
Construction in progress	79,731	1,961,701		2,041,432
Total capital assets not being depr.	<u>\$ 1,424,360</u>	<u>\$ 1,965,821</u>		<u>\$ 3,390,181</u>
Other capital assets				
Improvements	\$ 2,870,599	\$ 1,027,924		\$ 3,898,523
Infrastructure	2,709,253	595,948		3,305,201
Buildings	87,687,974	739,954		88,427,928
Equipment	6,798,487	461,270	\$ (104,246)	7,155,511
Library materials	10,510,479	497,013	(14,790)	10,992,702
Total other capital assets	110,576,792	3,322,109	(119,036)	113,779,865
Less accumulated depreciation for:				
Improvements	(1,876,869)	(72,384)		(1,949,253)
Infrastructure	(2,066,687)	(118,795)		(2,185,482)
Buildings	(34,665,341)	(2,458,488)		(37,123,829)
Equipment	(4,109,859)	(470,923)	103,297	(4,477,485)
Library materials	(7,251,738)	(366,394)		(7,618,132)
Total accumulated depreciation	(49,970,494)	(3,486,984)	103,297	(53,354,181)
Total other capital assets	<u>\$ 60,606,298</u>	<u>\$ (164,875)</u>	<u>\$ (15,739)</u>	<u>\$ 60,425,684</u>
Capital Asset Summary:				
Capital assets not being depreciated	\$ 1,424,360	\$ 1,965,821		\$ 3,390,181
Other capital assets, at cost	110,576,792	3,322,109	\$ (119,036)	113,779,865
Total cost of capital assets	112,001,152	5,287,930	(119,036)	117,170,046
Less accumulated depreciation	(49,970,494)	(3,486,984)	103,297	(53,354,181)
Capital Assets, net of depreciation	<u>\$ 62,030,658</u>	<u>\$ 1,800,946</u>	<u>\$ (15,739)</u>	<u>\$ 63,815,865</u>

Henderson State University
Notes to the Financial Statements
June 30, 2011

NOTE 6: Long-Term Liabilities

Debt payments on bonds amounted to \$2,594,883 for the fiscal year ended June 30, 2011. The amount of \$319,710 was expended for debt payments on major capital leases.

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, 2011	Maturities to June 30, 2011
4/4/2006	1/1/2020	4.03%	\$ 2,940,000	\$ 1,915,000	\$ 1,025,000
4/4/2006	1/1/2020	4.03%	1,930,000	1,335,000	595,000
7/15/2005	9/1/2035	4.00-4.80%	9,500,000	8,755,000	745,000
1/1/2006	9/1/2035	3.40-4.85%	4,500,000	4,150,000	350,000
10/1/2007	1/1/2032	4.00-4.60%	7,975,000	7,350,000	625,000
12/1/2009	7/1/2026	2.00-4.3%	6,715,000	6,490,000	225,000
12/1/2009	7/1/2018	2.00-3.375%	1,540,000	1,410,000	130,000
12/1/2009	7/1/2016	2.65-5.15%	515,000	450,000	65,000
8/24/2004	8/1/2014	2.05%	445,000	188,900	256,100
2/6/2007	2/6/2014	4.04%	340,939	141,340	199,599
2/6/2007	2/6/2014	4.04%	340,939	141,340	199,599
3/26/2007	3/26/2014	3.84%	156,245	66,426	89,819
4/25/2007	4/25/2014	3.89%	156,240	68,388	87,852
5/15/2007	5/15/2014	3.93%	156,240	70,347	85,893
7/3/2007	6/29/2014	4.10%	206,769	95,906	110,863
8/9/2007	8/9/2014	3.93%	193,274	94,027	99,247
8/1/2010	8/1/2014	3.51%	524,932	524,932	-
			<u>\$ 38,135,578</u>	<u>\$ 33,246,606</u>	<u>\$ 4,888,972</u>

Henderson State University
Notes to the Financial Statements
June 30, 2011

NOTE 6: Long-Term Liabilities (Continued)

The changes in long-term liabilities are as follows:

	Balance as of July 1, 2010	Additions	Reductions	Balance as of June 30, 2011	Amounts due within one year
Bonds Payable	\$ 33,110,000		\$ 1,255,000	\$ 31,855,000	\$ 1,615,000
Discount on Bonds	(25,688)		(3,317)	(22,371)	(3,315)
Deferral on Debt Defeasance	(155,893)		(20,339)	(135,554)	(20,338)
Capital Lease Payable	1,133,937	\$ 524,932	267,263	1,391,606	401,738
Comp Absences Pay.	1,126,476	770,259	778,333	1,118,402	71,503
Early Retirement Pay	212,818		212,818		
Employee Retire Pay.	295,882		46,337	249,545	57,075
OPEB Payable	608,805	235,813		844,618	
	<u>\$ 36,306,337</u>	<u>\$ 1,531,004</u>	<u>\$ 2,536,095</u>	<u>\$ 35,301,246</u>	<u>\$ 2,121,663</u>

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

Year Ended June 30, 2011	Principal	Interest	Total
2012	\$ 2,016,738	\$ 1,321,485	\$ 3,338,223
2013	2,066,447	1,256,778	3,323,225
2014	2,101,403	1,189,939	3,291,342
2015	1,962,018	1,124,276	3,086,294
2016	1,835,000	1,057,134	2,892,134
2017-2021	7,685,000	4,297,688	11,982,688
2022-2026	5,590,000	3,029,737	8,619,737
2027-2031	5,625,000	1,747,447	7,372,447
2032-2036	4,365,000	504,939	4,869,939
	<u>\$ 33,246,606</u>	<u>\$ 15,529,423</u>	<u>\$ 48,776,029</u>

Henderson State University
Notes to the Financial Statements
June 30, 2011

NOTE 7: Capital Leases

The University has acquired certain capital assets under various capital leases:

Type of Asset	Asset Amount	Accumulated Depreciation	Net
ADHE/Ross Property	\$ 445,000	\$ 103,833	\$ 341,167
Piper 1 Aircraft	361,872	96,499	265,373
Piper 2 Aircraft	361,872	96,499	265,373
Maule 3 Aircraft	165,702	44,187	121,515
Maule 4 Aircraft	165,697	44,186	121,511
Maule 5 Aircraft	165,697	44,186	121,511
Maule 6 Aircraft	165,498	44,133	121,365
Maule 7 Aircraft	165,498	44,133	121,365
Telephone System	579,182	28,959	550,223
	<u>\$ 2,576,018</u>	<u>\$ 546,615</u>	<u>\$ 2,029,403</u>

The following is a schedule of future minimum lease payments under capital leases, together with the present value of the net minimum lease payments as of June 30, 2011:

Fiscal Year Ending June 30,	Amount
2012	\$ 446,857
2013	446,857
2014	396,767
2015	197,863
Total Minimum Lease Payments	1,488,344
Less: Amount Representing Interest	96,738
Total Present Value of Net Minimum Lease Payments	<u>\$ 1,391,606</u>

Henderson State University
Notes to the Financial Statements
June 30, 2011

NOTE 8: Commitments

The University was contractually obligated for the following at June 30, 2011:

Project Name	Completion Date	Contract Balance
Technology Center-(Foster/Womack Renovation)	September 21, 2011	\$ 948,301

Operating Leases

The University is currently leasing 44 copiers. Lease terms range from 1 to 4 years. The University is also leasing 792 computers. Computer lease terms range from 1 to 3 years. The University has no ownership of these items at the end of the lease agreement.

- (1) Future minimum rental payments (aggregate) at June 30, 2011 totals \$559,474.
- (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
2012	\$ 374,090
2013	180,138
2014	5,246
Total Future Minimum Rental Payments (3 years)	\$ 559,474

NOTE 9: Retirement Plans

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

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

Funding Policy: TIAA/CREF has contributory and non-contributory plans. Contributory members contribute a minimum of six percent of earnings to the plan. The University contributes ten percent to the plan. Employees may also request deductions for TIAA/CREF additional retirement, TIAA/CREF Supplemental Retirement Annuities and Fidelity Group. The University's and participants' contributions for the year ended June 30, 2011 were \$1,565,188 and \$1,284,438, respectively.

Henderson State University
Notes to the Financial Statements
June 30, 2011

NOTE 9: Retirement Plans (Continued)

Arkansas Teacher Retirement System

Plan Description: The University contributes to the Arkansas Teacher Retirement System (ATRS), a cost-sharing multiple-employer defined benefit pension plan for employees who do not elect a qualified alternative retirement plan. ATRS, administered by a Board of Trustees, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Teacher Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for ATRS. That report may be obtained by writing to Arkansas Teacher Retirement System, 1400 West Third Street, Little Rock, Arkansas 72201 or by calling 1-800-666-2877.

Funding Policy: ATRS has contributory and non-contributory plans. Contributory members are required by State law to contribute six percent of their salaries. Each participating employer is required by State law to contribute at a rate established by the Board of Trustees, based on the annual actuarial valuation. The current employer rate is 14% of covered salaries, the maximum allowed by State law. The University's contributions to ATRS for the years ended June 30, 2011, 2010 and 2009 were \$321,335, \$374,835 and \$287,796, respectively, equal to the required contributions for each year.

Arkansas Public Employees Retirement System

Plan Description: The University contributes to the Arkansas Public Employees Retirement System (APERS), a cost-sharing multiple-employer defined benefit pension plan. Employees may elect coverage under APERS as a qualified retirement system. APERS, administered by a Board of Trustees, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for APERS. That report may be obtained by writing to Arkansas Public Employees Retirement System, 124 W. Capitol, Suite 400, Little Rock, Arkansas 72201 or by calling 1-800-682-7377.

Funding Policy: APERS has contributory and noncontributory plans. Contributory members are required by State law to contribute five percent of their salaries. Each participating employer is required by State law to contribute at a rate established by the Board of Trustees, based on the annual actuarial valuation. The current employer rate for higher education entities is 12.46% of covered salaries. The University's contributions to APERS for the years ended June 30, 2011, 2010 and 2009 were \$369,493, \$336,424 and \$328,296, respectively, equal to the required contributions for each year.

Henderson State University
Notes to the Financial Statements
June 30, 2011

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	\$ 15,809,977		\$ 1,002,466		\$ 16,812,443
Research	219,047		153,509		372,556
Public Service	341,731		82,417		424,148
Academic Support	1,556,320		1,229,145		2,785,465
Student Services	3,170,256		682,103		3,852,359
Institutional Support	4,057,779		2,733,744		6,791,523
Schol. & Fellow.		\$ 5,403,830			5,403,830
Oper. & Maint.	1,914,346		2,159,311		4,073,657
Aux. Enterprises	2,755,658		5,548,571		8,304,229
Depreciation				\$ 3,486,984	3,486,984
Other			507,684		507,684
	<u>\$ 29,825,114</u>	<u>\$ 5,403,830</u>	<u>\$ 14,098,950</u>	<u>\$ 3,486,984</u>	<u>\$ 52,814,878</u>

NOTE 11: Related Party Transactions

Mr. Ross Whipple is a member of the Board of Trustees of Henderson State University. Mr. Ross Whipple is Chairman of Directors of Summit Bancorp, Inc. and owns, directly and indirectly, common stock in Summit Bancorp, Inc. The University has assets invested with Summit Bank. Mr. Ross Whipple is Chairman of The Ross Foundation. The Ross Foundation donated \$50,000 to the University to be used in the Arkadelphia College Preparatory Academy

Mr. William G. "Bill" Wright is a member of the Board of Trustees of Henderson State University. Mr. Bill Wright is CEO and Chairman of Southern Bancorp Bank of Arkansas. Mr. Bill Wright does not directly or indirectly own stock in Southern Bancorp Bank of Arkansas. The University has assets invested with Southern Bancorp of Arkansas. Mr. Bill Wright is also a member of the Southwest Arkansas Technology Learning Center Board and Henderson State University Foundation Board of Directors.

Dr. Lewis A. Shepherd Jr., Vice President for External Programs is a member of the Arkadelphia Community Advisory Board for Summit Bank and owns directly common stock in Summit Bancorp, Inc. Dr. Shepherd is also a member of the Arkansas State Police Commission, a position appointed by the Governor of the State of Arkansas.

Henderson State University
Notes to the Financial Statements
June 30, 2011

NOTE 12: Compensated Absences

Changes in Compensated Absences Payable are as follows:

Changes in Compensated Absences Payable:	Amount
Annual Leave as of June 30, 2010	\$ 764,288
Earned Leave	697,957
Lost Leave over 240 hours	(156,388)
Annual Leave Used	(537,669)
Annual Leave as of June 30, 2011	\$ 768,188

Employees with a sick leave balance of 50 days or more are eligible for payment for leave upon retirement. As of June 30, 2011 the University's liability for employees with sufficient leave balances was \$121,245.

Employees with a compensatory time balance are eligible for payment for leave upon termination, retirement or death. As of June 30, 2011 the University's liability for employees with compensatory leave balances was \$42,569.

The above figures do not include estimated fringe benefits on accrued leave in the amount of \$186,400 for 2010/2011.

NOTE 13: Employee Retirement

Changes in Employee Retirement:	Amount
Employee Retirement as of June 30, 2010	\$ 295,882
Amount Paid Out During 2010/2011	(46,337)
Employee Retirement as of June 30, 2011	\$ 249,545

Henderson State University
Notes to the Financial Statements
June 30, 2011

NOTE 14: Disaggregation of Receivable and Payable Balances

Accounts Receivable Consists of the Following:	Amount
Student Tuition and Fees	\$ 2,522,134
Auxiliary Enterprises	36,638
Other Receivables	46,109
Federal	47,298
State	924,711
Notes and Loans Receivable	1,363,366
Total Accounts Receivable	\$ 4,940,256

Accounts Payable Consists of the Following:	Amount
Vendors	\$ 956,519
Other Payables	582,522
State	50,675
Total Accounts Payable	\$ 1,589,716

NOTE 15: Other Postemployment Benefits (OPEB)

The University offers postemployment health care benefits and basic life insurance benefits to all employees who officially retire from the University and meet certain age and service related requirements. Health care benefits 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.

Henderson State University
Notes to the Financial Statements
June 30, 2011

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

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 \$91,079 for fiscal year 2011, compared to \$108,612 for fiscal year 2010. The University paid the total premiums for life insurance benefits for eligible retirees, ages 55 to 65, directly to MetLife in the amount of \$1,538 for fiscal year 2011, compared to \$1,737 for fiscal year 2010. This represents a total of \$92,617 paid by the University for the employer portion of the OPEB for fiscal year 2011, compared to \$110,349 for fiscal year 2010.

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 83% or \$91,079 of the postretirement healthcare premiums, totaling \$109,758 for the fiscal year ended June 30, 2011. Last year, the University funded approximately 81.2% or 108,612 of the postretirement healthcare premiums, totaling \$133,740 for the fiscal year ended June 30, 2010. The retirees are responsible for funding approximately 17% of the healthcare premiums compared to 18.8% 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 \$1,538 in postretirement life insurance benefits for the fiscal year ended June 30, 2011 and \$1,737 in postretirement life insurance benefits for the fiscal year ended June 30, 2010. 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 \$235,813 in retiree healthcare and life insurance expense during fiscal year 2011, compared to \$214,938 during fiscal year 2010.

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

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

Henderson State University
Notes to the Financial Statements
June 30, 2011

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

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

Cost Element	Fiscal Year Ending June 30, 2011		Fiscal Year Ending June 30, 2010	
	Amount	% of Payroll ¹	Amount	% of Payroll ¹
1. Unfunded actuarial accrued liability	\$ 2,777,596	13.96%	\$ 2,741,329	14.63%
<u>Annual Required Contribution (ARC)</u>				
2. Normal Cost	199,516		193,705	
3. Amortization of the unfunded actuarial accrued liability over 30 years using open amortization	141,711		139,861	
4. Amortization of beginning of year accrual				
5. Annual Required Contribution (ARC = 2 + 3+4)	<u>\$ 341,227</u>	1.72%	<u>\$ 333,566</u>	1.78%
<u>Annual OPEB Cost (Expense)</u>				
6. Normal Cost	\$ 199,516		\$ 193,705	
7. Amortization of the unfunded actuarial accrued liability over 30 year using open amortization	141,711		139,861	
8. Amortization of beginning of year accrual	(31,061)		(20,095)	
9. Interest on beginning of year accrual	18,264		11,816	
10. Annual OPEB cost (6+7-8+9)	<u>\$ 328,430</u>	1.65%	<u>\$ 325,287</u>	1.74%
<u>End of year Accrual (Net OPEB Obligation)</u>				
11. Beginning of year accrual	\$ 608,805		\$ 393,867	
12. Annual OPEB cost	328,430		325,287	
13. Employer contribution (benefit payments) ²	92,617		110,349	
14. End of year accrual (11 +12-13)	<u>\$ 844,618</u>	4.25%	<u>\$ 608,805</u>	3.25%

¹ Annual payroll for the 485 plan participants as of July 1, 2010 is \$19,895,646 and for the 502 plan participants as of July 1, 2009 is \$18,741,934.

² Actual contributions paid in fiscal year 2011 of \$111,296 less participant contributions of \$18,679; \$135,477 and \$25,128 respectively, in fiscal year 2010. Employer contributed 28.20% of annual OPEB cost during fiscal year 2011, compared to 33.92% during fiscal year 2010.

A change in presentation was made to this information in order to present it in the same format as other universities.

Henderson State University
Notes to the Financial Statements
June 30, 2011

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

Schedule of Employer Contributions:

Fiscal Year Ended	Annual OPEB Cost	Actual Contributions ³	Percentage Contributed
June 30, 2011	\$ 328,430	\$ 92,617	28.20%
June 30, 2010	325,287	110,349	33.92%
June 30, 2009	338,423	131,619	38.90%

³Since there is no funding; these are actual benefit payments of \$111,296 less retiree contributions of \$18,679 for 2011 and \$135,477 less retiree contributions of \$25,158 for 2010 and \$162,311 less retiree contributions of \$30,692 for 2009.

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, 2011		\$ 2,777,596	\$ 2,777,596	0.00%	\$ 19,895,646	13.96%
June 30, 2010		2,741,329	2,741,329	0.00%	18,741,934	14.63%
June 30, 2009		2,809,086	2,809,086	0.00%	18,239,672	15.40%

⁴Estimated payroll as of July 1, 2010, July 1, 2009, and July 1, 2008 includes only plan participants.

Note: The annual OPEB cost of \$328,430 for fiscal year 2011 and accrual of \$844,618 as of June 30, 2011, are based on a current decision not to fund in a segregated GASB qualified trust; \$325,287 and \$608,805, respectively, in the fiscal year 2010; and \$338,423 and \$393,867, respectively, in the fiscal year 2009.

Henderson State University
Notes to the Financial Statements
June 30, 2011

NOTE 15: Other Postemployment 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, 2011	\$ 328,430	28.20%	\$ 844,618
June 30, 2010	325,287	33.92%	608,805
June 30, 2009	338,423	38.90%	393,867

Summary of Key Actuarial Methods and Assumptions:

Methods:

Valuation Year:	July 1, 2010 – June 30, 2011
Actuarial Cost Method:	Projected Unit Credit, level dollar
Amortization Method:	30 years, level dollar open amortization ⁵
Asset Valuation Method:	N/A

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

Assumptions:

Discount Rate:	3.0%
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.

Henderson State University
Notes to the Financial Statements
June 30, 2011

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

General Overview of the Valuation Methodology (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, 2010 – June 30, 2011

Date of Census Data: June 30, 2010

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		\$ 343.85	\$ 343.85
Family	\$ 325.87	368.76	694.63
Life Insurance			
Basic		\$.26 per \$1000	

Discount Rate: 3.00% per annum

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

Mortality: The IRS Combines Static Mortality Table is used

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

Henderson State University
Notes to the Financial Statements
June 30, 2011

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

Retirement Rates:

Employees are assumed to retire according to the following schedule:

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

Henderson State University
Notes to the Financial Statements
June 30, 2011

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

Sample Withdrawal and Disability Rates:

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

Age	Terminate Rate (Male)	Terminate Rate (Female)
25	46.0%	48.4%
30	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: Impact of Recently Issued Accounting Standards

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 housing revenue net of specified operating expenses to repay \$17,470,000 in student housing revenue bonds issued in 2005, 2006 and 2009, a total of four bond issues. Proceeds from the bonds provided financing for the construction and renovation of University student housing and the refunding of existing student housing debt issues. The bonds are payable solely from student housing net revenues and are payable to maturity dates ranging from through 2019 to 2036. Annual principal and interest payments on the bonds currently require 58% of net revenues. The total principal and interest remaining to be paid on the bonds is \$24,998,342. Principal and interest paid for the current year and total customer net revenues were \$1,221,494 and \$2,114,669 respectively.

Henderson State University
Notes to the Financial Statements
June 30, 2011

NOTE 17: Pledged Revenues (Continued)

The University has pledged future student recreation center revenue net of specified operating expenses to repay \$7,975,000 in student recreation center revenue bonds issued in 2007. Proceeds from the bonds provided financing for the construction of the student recreation center. 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 100% of net revenues. The total principal and interest remaining to be paid on the bonds is \$11,453,568. Principal and interest paid for the current year and total customer net revenues were \$543,962 and \$543,962 respectively.

The University has pledged future other auxiliary revenue net of specified operating expenses to repay \$515,000 in other auxiliary revenue bonds issued in 2009. 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. The bonds are payable solely from other auxiliary revenues and are payable through 2017. Annual principal and interest payments on the bonds currently require 29% of net revenues. The total principal and interest remaining to be paid on the bonds is \$516,935. Principal and interest paid for the current year and total customer net revenues were \$88,329 and \$308,018 respectively.

The University has pledged future student tuition and fees to repay \$9,655,000 in refunding bonds issued in 2006 and 2009 to refund capital improvement bonds for various capital projects. The bonds are payable solely from student tuition and fees and are payable to maturity dates of 2020 and 2027. Annual principal and interest payments on the bonds currently require 2.9% of gross revenues. The total principal and interest remaining to be paid on the bonds is \$10,318,840. Principal and interest paid for the current year and gross student tuition and fees were \$741,098 and \$25,590,456 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 as well as airport liability coverage. 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 \$250,000 with a \$1,000 deductible. The Department of Finance and Administration withholds the premium from the University's State Treasury funds.

Henderson State University
Notes to the Financial Statements
June 30, 2011

NOTE 18: Risk Management (Continued)

The University carries commercial insurance related to student athletes, trainers, managers and coaches while participating in a scheduled game, official tournament, game or practice session or while traveling directly to or from games or practice sessions. The University pays an annual premium for this coverage.

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.

NOTE 19: Restatement of Statement of Net Assets

For the year ended June 30, 2010, \$1,494,643 was reclassified from Investments to Deposit with Trustee to reclassify amounts held with Bond Trustees. Accounts Payable and Accrued Liabilities and Deposit with Trustee were increased by \$326,273 to include interest payments the University made to the Bond Trustees due on July 1, 2010. This restatement of the 2009-2010 financial statements reflects a change in presentation in order to present it in the same format as other universities.

NOTE 20: Restatement of Statement of Revenues, Expenses and Changes in Net Assets

A separate line for Payments of Mandatory Fees to Agency Funds was added in the amount of \$379,380. This amount was also removed from the operating expenses (Supplies and Other Services). Also, Federal and State Grants and Contracts and Scholarships and Fellowships were restated for 2010 by \$560,525 to move direct loan payments out of revenue and expenditures, respectively. Revenue for Publication Fee, Health fee and Student Activity Fee in the amount of \$1,166,116 was moved from the Other Auxiliary Enterprises line and Garrison Center Fee revenue of \$136,832 was moved from Garrison Center line on the Statement of Revenue, Expenses and Changes in Net Assets into Student Tuition and Fees. Scholarship allowances of \$484,053 and 47,784 were reclassified from Other Auxiliary and Garrison Center, respectively, to Student Tuition and Fees. This restatement of the 2009-2010 financial statements reflects a change in accounting for these fees from Auxiliary Revenue into Student Tuition and Fees. None of these reclassifications affected the 2010 ending net assets balance.

NOTE 21: Restatement of Statement of Cash Flows

A separate line for Payments of Mandatory Fees to Agency Funds was added to the cash flows from noncapital financing activities section in the amount of \$379,380 to accommodate the new line item on the Statement of Revenues, Expenses and Changes in Net Assets. In addition, Payments to Suppliers in the operating activities section was reduced by \$379,380. Also, Loans to Students (Inflows and Outflows) were increased by \$560,525 to reflect moving direct loan payments out of revenue and expenditures on the Statement of Revenues, Expenses and Changes in Net Assets. Scholarships and Fellowships in the operating activities section and Federal and State Grants and Contracts in the noncapital financing activities sections were both decreased by \$560,525 as a result of direct loan transactions. Revenue for Publication Fee, Health fee and Student Activity Fee in the amount of \$1,166,116 was moved from the Other Auxiliary Enterprises line and Garrison Center Fee revenue of \$136,832 was moved from Student Union line on the Statement of Cash Flows into the Tuition and Fees line. This restatement of the 2009-2010 financial statements reflects a change in accounting for these fees from Auxiliary Revenue into Tuition and Fees. Additionally, \$137,957 was reclassified from Capital Gift and Grants in the capital and related financing activities section to Gifts and Grants in the noncapital financing activities section. The University also reclassified \$199,645 from the Other line in the noncapital financing activities section to Distribution from Trustee in the capital and related financing activities section. The University reclassified the balance of \$185,635 from the Other line in the noncapital financing activities section to Other Receipts in the operating activities section. Additionally, the University segregated the debt payments paid to the trustee from the total debt payments. None of these reclassifications affected the 2010 ending cash balance.

Henderson State University
Notes to the Financial Statements
June 30, 2011

NOTE 22: 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 agrees 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. The construction of a new dining facility was contingent upon the University obtaining financing for the remaining expected construction cost (\$2,750,000). This financing was obtained in November 2011. Aramark's financial commitment will be made to the University once construction has commenced (expected June 2012) and shall be amortized on a straight-line basis over a period of twenty (20) years commencing upon the complete expenditure of Aramark's financial commitment. 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.

NOTE 23: Subsequent Events

On August 31, 2011, the University entered into an agreement with Arvest Bank for financing the remaining cost of the Dining Facility in the principal amount of \$2,750,000 with interest not to exceed 5.88% with a term not to exceed 25 years.

On October 1 2011, the University entered into an agreement to issue bonds in the amount of \$1,960,000 and \$1,370,000 in order to refinance the Auxiliary Enterprise Revenue Secured Refunding Bonds, Series 2006 and the Student Fee Secured Refunding Bonds, Series 2006, so that the University could realize present value savings by refunding the bonds.

On May 1, 2012 and May 15, 2012, the University issued bonds in the amount of \$8,535,000 and \$4,165,000 respectively in order to refinance the 2005 and 2006 Auxiliary Enterprises Capital Improvement Bonds, so that the University could realize present value savings by refunding the bonds.

On June 5, 2012, Henderson State University entered into an agreement with Seale's Construction Company, Inc. to construct a New Dining Hall for the amount of \$4,696,000. Construction is to begin on June 11, 2012 and be completed by May 27, 2013.

Henderson State University
Required Supplementary Information
June 30, 2011

OTHER POSTEMPLOYMENT BENEFITS

Schedule of Employer Contributions:

Fiscal Year Ended	Annual OPEB Cost	Actual Contributions ³	Percentage Contributed
June 30, 2011	\$ 328,430	\$ 92,617	28.20%
June 30, 2010	\$ 325,287	\$ 110,349	33.92%
June 30, 2009	\$ 338,423	\$ 131,619	38.90%

³Since there is no funding; these are actual benefit payments of \$111,296 less retiree contributions of \$18,679 for 2011 and \$135,477 less retiree contributions of \$25,158 for 2010 and \$162,311 less retiree contributions of \$30,692 for 2009.

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, 2011	\$	\$ 2,777,596	\$ 2,777,596	0.00%	\$ 19,895,646	13.96%
June 30, 2010	\$	\$ 2,741,329	\$ 2,741,329	0.00%	\$ 18,741,934	14.63%
June 30, 2009	\$	\$ 2,809,086	\$ 2,809,086	0.00%	\$ 18,239,672	15.40%

⁴Estimated payroll as of July 1, 2010, July 1, 2009, and July 1, 2008 includes only plan participants.

HENDERSON STATE UNIVERSITY
 SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS
 FOR THE YEAR ENDED JUNE 30, 2011
 (Unaudited)

Schedule 1

	Year Ended June 30,				
	2011	2010	2009	2008	2007
Total Assets	\$ 80,148,391	\$ 75,096,232	\$ 75,700,622	\$ 75,232,998	\$ 66,454,678
Total Liabilities	38,980,825	39,072,873	42,934,690	43,292,868	36,114,011
Total Net Assets	41,167,566	36,023,359	32,765,932	31,940,130	30,340,667
Total Operating Revenues	19,717,034	19,784,856	21,417,434	20,727,053	17,580,462
Total Operating Expenses	52,814,878	47,606,120	48,555,111	45,967,971	43,246,187
Total Net Non-Operating Revenues	36,575,249	28,923,897	26,292,987	26,046,000	24,186,443
Total Other Revenues, Expenses, Gains or Losses	1,666,802	288,328	1,670,492	794,381	206,786