

Henderson State University

Arkadelphia, Arkansas

**Basic Financial Statements
and Other Reports**

June 30, 2012

LEGISLATIVE JOINT AUDITING COMMITTEE



HENDERSON STATE UNIVERSITY
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Senate Chair
Rep. Kim Hammer
House Chair
Sen. Linda Chesterfield
Senate Vice Chair
Rep. John W. Walker
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, 2012, 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 2011 financial statements and, in our report dated July 9, 2012, 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, 2012, 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, 2011, from which such partial information was derived.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 9, 2013 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.

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

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. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in cursive script, appearing to read "Roger A. Norman".

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

Little Rock, Arkansas
August 9, 2013
EDHE10012

Sen. Bryan B. King
Senate Chair
Rep. Kim Hammer
House Chair
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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, 2012, which collectively comprise the University's basic financial statements and have issued our report thereon dated August 9, 2013. 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* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Henderson State University Foundation, Inc.

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 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 previously.

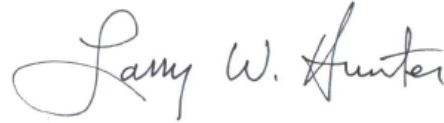
Compliance and Other Matters

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 August 9, 2013.

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".

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
August 9, 2013

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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, 2012, 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> 2011	<u>Fall Term</u> 2011	<u>Spring Term</u> 2012	<u>Summer I Term</u> 2012
Student Headcount	1,106	3,778	3,459	841
Student Semester Credit Hours	6,137	49,657	45,755	3,695

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
August 9, 2013

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 2012 with comparative data presented for fiscal year 2011. 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.

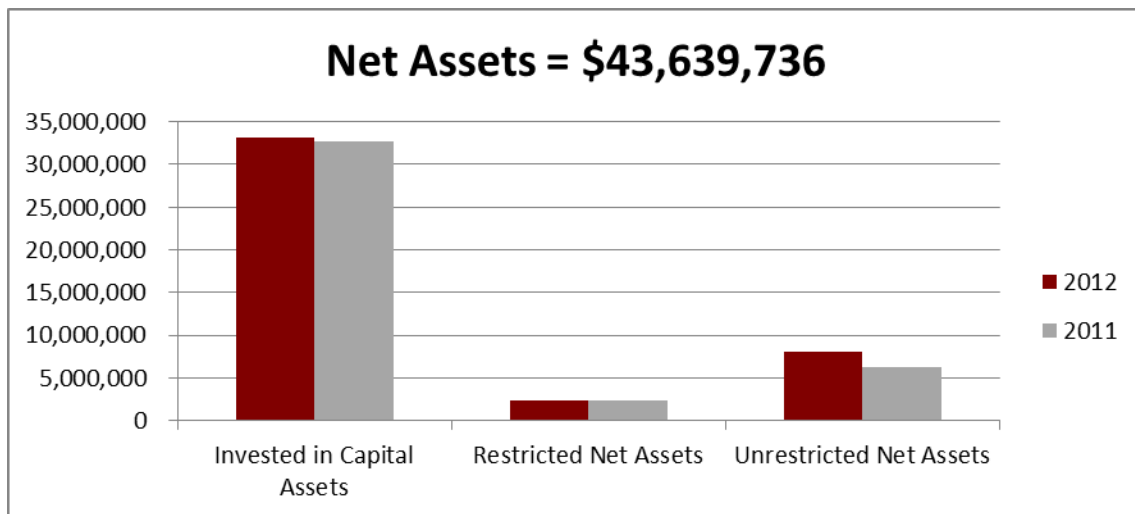
The discussion and analysis of the University's financial statements provides an overview of its financial activities for the year.

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 notes to 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, 2012			
	2012	2011	
Assets:			
Current Assets	\$ 14,713,262	\$ 12,877,930	
Capital Assets, net	62,586,599	63,815,865	
Other Assets	6,034,834	3,454,596	
Total Assets	83,334,695	80,148,391	
Liabilities:			
Current Liabilities	4,125,155	4,434,682	
Non-Current Liabilities	35,569,804	34,546,143	
Total Liabilities	39,694,959	38,980,825	
Net Assets:			
Invested in Capital Assets, Net of Debt	33,196,543	32,632,248	
Restricted-Expendable	2,242,590	2,112,363	
Restricted-Nonexpendable	179,159	188,292	
Unrestricted	8,021,444	6,234,663	
Total Net Assets	\$ 43,639,736	\$ 41,167,566	

Total Assets of the Institution increased by \$3,186,304. 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 Current and Non-Current Cash and Cash Equivalents of \$5,147,121.

Total liabilities for the year increased by \$714,134. This net increase was primarily due to the increase in Long Term Debt of \$1,013,262 as well as an increase in Other Postemployment Benefits of \$222,366.

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)

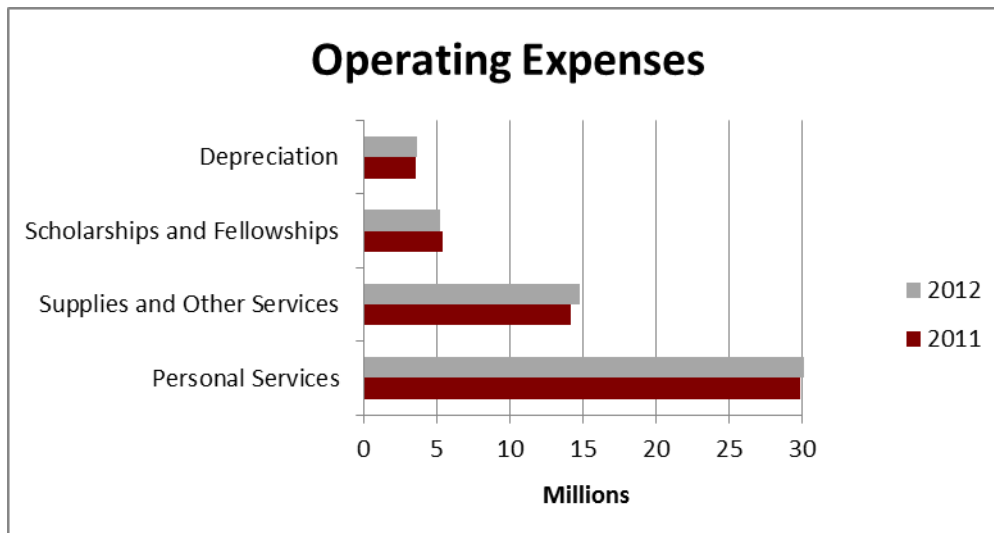
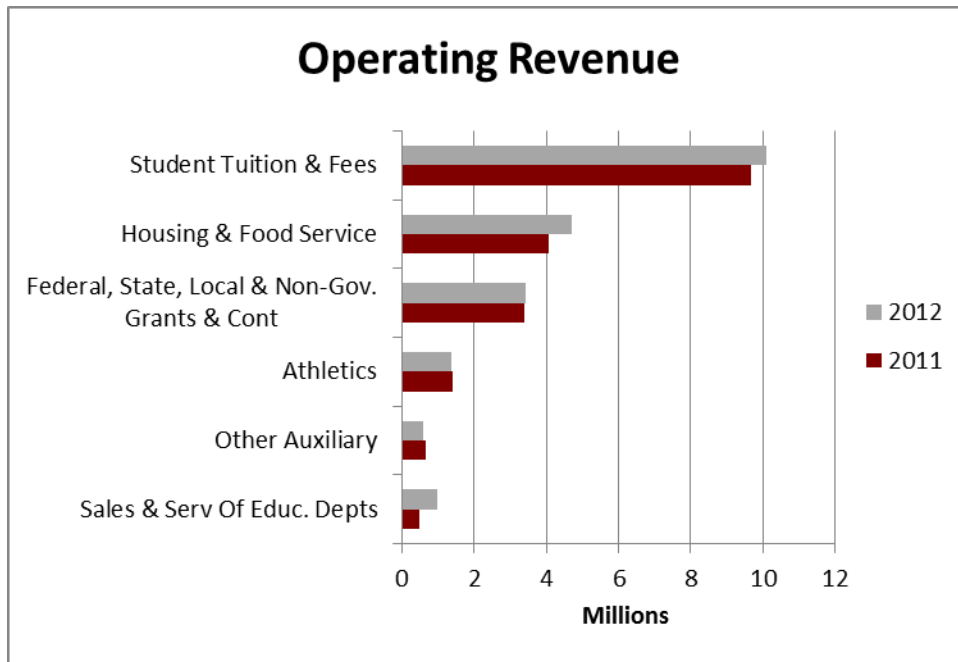
Comparative Statement of Revenues, Expenses and Changes in Net Assets For the Fiscal Year Ended June 30, 2012		
	2012	2011
Operating Revenues	\$ 21,178,555	\$ 19,717,034
Operating Expenses	54,224,914	52,814,878
Operating Loss	(33,046,359)	(33,097,844)
Non-Operating Revenues less Expenses	34,883,971	36,575,249
Income (Loss) Before Other Rev., Exp., Gains or Losses	1,837,612	3,477,405
Other Revenues, Expenses, Gains or Losses	634,558	1,666,802
Increases (Decreases) in Net Assets	2,472,170	5,144,207
Net Assets at Beginning of Year	41,167,566	36,023,359
Net Assets at End of Year	\$ 43,639,736	\$ 41,167,566

The Statement of Revenues, Expenses, and Changes in Net Assets reflect an increase in net assets at the end of the year of \$2,472,170. Highlights of the information presented on the statement are as follows:

- ❖ Student tuition and fees, net of scholarship allowances, increased by \$432,419. This increase is primarily attributable to an increase in tuition for FY12.
- ❖ Auxiliary Enterprises realized a net increase in revenue of \$516,733 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 \$338,621. This increase was primarily due to the increase in students receiving Pell Grants and Arkansas Academic Challenge Scholarships.
- ❖ State of Arkansas non-operating appropriations decreased by \$237,679 due to the absence of State General Improvement Funds and Rural Entrepreneurial Endowment.
- ❖ Personal services expenses increased by \$835,875. This increase primarily reflects an increase in teaching salaries for adjunct and overload pay and a corresponding increase in fringe benefits due to increased enrollment.
- ❖ Supplies and other services increased by \$673,705. This increase is due primarily to the rising cost of normal operations and the cost associated with campus repair, replacements, and renovations.
- ❖ Scholarship expenses decreased by \$221,993 due to lowering of student retention of scholarships.
- ❖ American Reinvestment & Recovery Act (GSF) decreased by \$1,093,722 as the renovations of Womack Hall and Foster Hall continued throughout the year and were completed.

Henderson State University

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



Henderson State University

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.
- ❖ 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, 2012		
	2012	2011
Cash Provided (used) by:		
Operating Activities	\$ (28,971,167)	\$ (29,493,902)
Non-capital Financing Activities	35,393,854	36,087,708
Investing Activities	96,544	440,502
Capital and Related Financing Activities	(1,372,110)	(4,934,484)
Net Change in Cash	5,147,121	2,099,824
Cash, Beginning of Year	7,042,971	4,943,147
Cash, End of year	\$ 12,190,092	\$ 7,042,971

Henderson State University

Capital Assets and Debt Administration

The University made an investment in the following additions or improvements in fiscal year 2012.

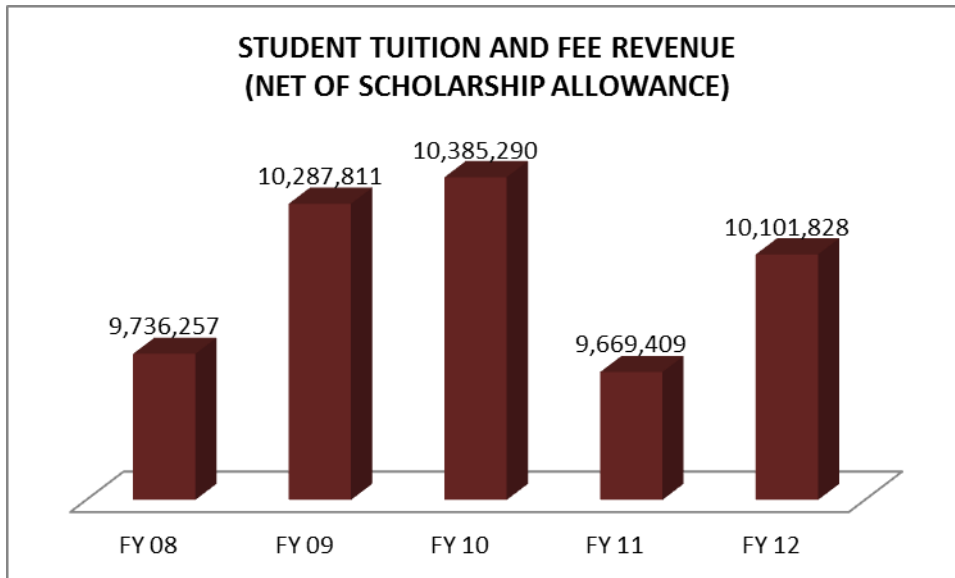
	Amount
Land	\$ 14,316
Construction in Progress	1,387,484
Improvements & Infrastructure	31,000
Equipment	195,887
Library Holdings	558,284
Buildings (includes \$3,042,210 of completed construction in progress)	3,235,406
Total	\$ 5,422,377

The University's long term debt (current and noncurrent) increased from \$33,246,606 to \$34,259,868, a \$1,013,262 net increase.

Economic Outlook

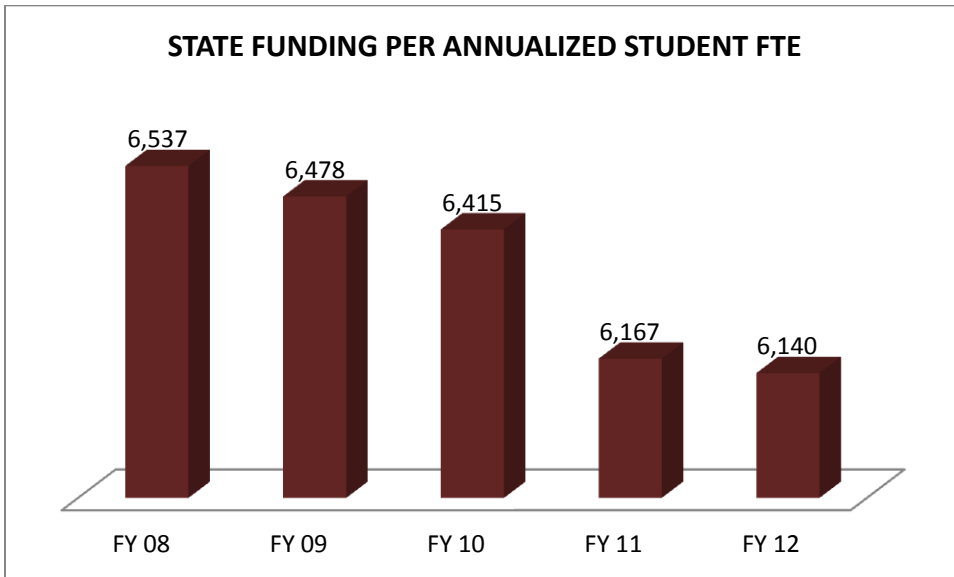
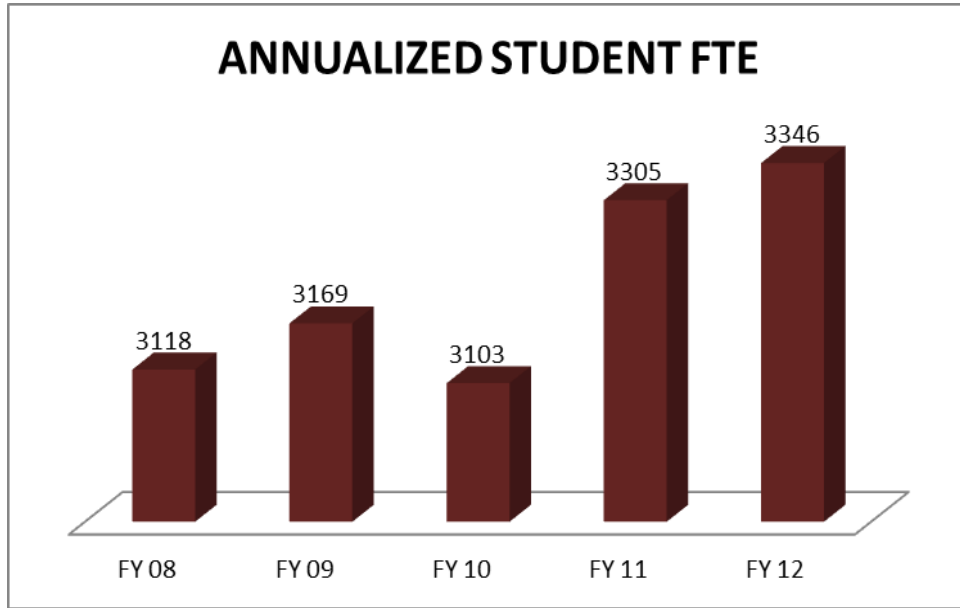
Cash reserves, fund balances and ratio analysis show positive trends and are consistent with growth in net assets.

The following charts illustrate the current trends in tuition, FTE and State Funding per FTE:



Henderson State University

Economic Outlook (Continued)



The University is not aware of any currently known facts, decisions, or conditions that are expected to have a significant effect on the current financial position or results of operations during the fiscal year beyond those that have already been discussed, or that may be discussed in this portion of the report.

A tuition increase and a slight increase in FTE provided additional revenue and stable State funding provided revenue for operations of the University.

In accordance with Act 323 of 2009 the University has capped educational and general scholarship expenditures to meet the requirement to be at no more than 20% of tuition and fee income prior to the 2014 deadline.

Henderson State University

The University is very conservative in its budgeting process and revenue forecast and has attempted to provide contingencies to allow for a decrease in enrollment or a decrease in state funding which can be used to cover any shortfall of tuition and fees or state funding. Due to insufficient State funding and forecast tuition and fee revenues, a salary increase was not budgeted for employees during fiscal year 2012.

The University is committed to building reserves to allow for a stable fiscal environment and to systematically improve facilities to allow for steady growth.

Ms. Lecia Franklin
Interim Vice President for Finance and Administration

HENDERSON STATE UNIVERSITY
COMPARATIVE STATEMENT OF NET ASSETS
JUNE 30, 2012

EXHIBIT A

	2012	2011
ASSETS:		
Current Assets:		
Cash and Cash Equivalents	\$ 9,364,528	\$ 6,706,625
Short Term Investments	563,092	625,584
Student Accounts Receivable, Net	2,530,768	2,522,134
Accrued Interest Receivable	2,639	4,498
Inventories	192,609	183,231
Notes and Student Loans Receivable	208,604	201,240
Other Receivables	191,750	1,050,258
Deposits with Trustee	1,117,310	1,104,194
Prepaid Expenses	510,936	463,514
Bond Issuance Cost	31,026	16,652
Total Current Assets	14,713,262	12,877,930
Non-Current Assets:		
Cash and Cash Equivalents	2,825,564	336,346
Investments	461,366	397,461
Notes and Student Loans Receivable	1,030,774	1,162,126
Deposits with Trustee	1,432,418	1,463,699
Capital Assets, Net of Accumulated Depreciation (\$56,442,306 and \$53,354,181, respectively)	62,586,599	63,815,865
Bond Issuance Cost, Net of Accumulated Amortization Cost (\$48,182 and \$24,978, respectively)	284,712	94,964
Total Non-Current Assets	68,621,433	67,270,461
Total Assets	83,334,695	80,148,391
LIABILITIES:		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	1,320,655	1,589,716
Deferred Revenues and Deposits	224,222	227,212
Funds Held in Trust for Others	526,408	496,091
Employee Retirement	61,668	57,075
Compensated Absences Payable	92,280	71,503
Long-term Debt	1,931,447	2,016,738
Discount on Bonds	(5,172)	(3,315)
Deferral of Debt Defeasance	(30,128)	(20,338)
Deferral of Bond Premium	3,775	
Total Current Liabilities	4,125,155	4,434,682

HENDERSON STATE UNIVERSITY
COMPARATIVE STATEMENT OF NET ASSETS
JUNE 30, 2012

EXHIBIT A

	2012	2011
Non-Current Liabilities:		
Refundable Advance	\$ 1,297,430	\$ 1,366,560
Employee Retirement	159,522	192,470
Other Postemployment Benefits	1,066,984	844,618
Compensated Absences Payable	982,014	1,046,899
Long-term Debt	32,328,421	31,229,868
Discount on Bonds Net of Accumulated Amortization ((\$8,563 and \$4,974, respectively))	(58,138)	(19,056)
Deferral of Debt Defeasance, Net of Accumulated Amortization (\$55,945 and \$30,506, respectively)	(230,966)	(115,216)
Bond Premium-Deferred, Net of Accumulated Amortization (\$2,831 and \$-0-, respectively)	24,537	
Total Non-Current Liabilities	35,569,804	34,546,143
Total Liabilities	39,694,959	38,980,825
 NET ASSETS:		
Invested in Capital Assets, Net of Related Debt	33,196,543	32,632,248
Restricted for:		
Expendable:		
Scholarship and Fellowships	168,169	158,939
Grants and Contracts	1,279,667	1,164,518
Loans	48,910	48,906
Debt Service	745,000	740,000
Other	844	
Nonexpendable:		
Loans	179,159	188,292
Unrestricted:		
Net Assets	8,021,444	6,234,663
Total Net Assets	\$ 43,639,736	\$ 41,167,566

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

HENDERSON STATE UNIVERSITY FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2012 AND 2011

EXHIBIT A-1

ASSETS:

	2012	2011
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 3,770,019	\$ 1,366,065
Investment Securities (FMV)	9,446,742	11,222,609
Accounts Receivable	26,258	
Accrued Interest Receivable	37,005	41,512
TOTAL CURRENT ASSETS	13,280,024	12,630,186
 PROPERTY AND EQUIPMENT:		
Smith-Garner House	150,593	150,593
Foundation Furnishings	7,264	7,264
	157,857	157,857
Less Accumulated Depreciation	(55,498)	(51,637)
TOTAL PROPERTY AND EQUIPMENT	102,359	106,220
 OTHER ASSETS:		
Belvedere Resort Rights	7,500	7,500
 TOTAL ASSETS	 13,389,883	 12,743,906

LIABILITIES:	0	0
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NET ASSETS:

Unrestricted Net Assets:		
General Operations	221	221
Investment Income - Unallocated	966,218	714,882
Net Appreciation (Depreciation) on Investments	53,867	47,895
Total Unrestricted Net Assets	1,020,306	762,998
 Temporarily Restricted Net Assets:		
Restricted Net Total Net Assets	1,647,743	1,698,551
Budgeted Project Net Assets	764,873	760,548
Property and Equipment Net Assets	109,859	113,720
Total Temporarily Restricted Net Assets	2,522,475	2,572,819
 Permanently Restricted Net Assets	 9,847,102	 9,408,089
TOTAL NET ASSETS	\$ 13,389,883	\$ 12,743,906

HENDERSON STATE UNIVERSITY
 COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND
 CHANGES IN NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2012

EXHIBIT B

	<u>2012</u>	<u>2011</u>
OPERATING REVENUE:		
Student Tuition and Fees (net of scholarship allowances of \$16,436,628 and \$15,921,047, respectively)	\$ 10,101,828	\$ 9,669,409
Federal Grants and Contracts	1,613,252	1,832,292
State and Local Grants and Contracts	1,577,858	1,348,537
Non-Governmental Grants and Contracts	239,518	220,507
Sales and Services of Educational Departments	975,883	492,806
Athletics	1,385,311	1,418,348
Housing and Food Service (net of scholarship allowances of \$2,858,712 and \$2,891,121, respectively)	4,689,982	4,067,525
Bookstore	123,376	112,083
Garrison Center	9,160	11,533
Other Auxiliary Enterprises	462,387	543,994
TOTAL OPERATING REVENUES	<u>21,178,555</u>	<u>19,717,034</u>
OPERATING EXPENSES:		
Personal Services	30,660,989	29,825,114
Supplies and Other Services	14,772,655	14,098,950
Scholarships and Fellowships	5,181,837	5,403,830
Depreciation	3,609,433	3,486,984
TOTAL OPERATING EXPENSES	<u>54,224,914</u>	<u>52,814,878</u>
OPERATING INCOME (LOSS)	<u>(33,046,359)</u>	<u>(33,097,844)</u>
NON-OPERATING REVENUES (EXPENSES)		
State Appropriations	20,753,369	20,991,048
Federal and State Grants and Contracts	14,834,720	14,496,099
American Reinvestment and Recovery Act (ESF)		227,552
Gifts	231,231	1,435,295
Investment Income	116,364	304,930
Interest and Fees on Long Term Debt	(1,097,639)	(1,392,329)
Other	45,926	512,654
Net Non-operating Revenues	<u>34,883,971</u>	<u>36,575,249</u>
Income Before Other Revenues, Expenses, Gains/Losses	1,837,612	3,477,405
Bond Proceeds from Act 1282 of 2005		81,644
Payments of Mandatory Fees to Agency Funds	(393,240)	(399,900)
Insurance Proceeds on Capital Assets	155,517	
American Reinvestment & Recovery Act (GSF)	867,929	1,961,701
Adjustments to Prior Year Revenues and Expenses	4,352	23,357
INCREASE (DECREASE) IN NET ASSETS	2,472,170	5,144,207
NET ASSETS- BEGINNING OF YEAR	<u>41,167,566</u>	<u>36,023,359</u>
NET ASSETS-END OF YEAR	<u>\$ 43,639,736</u>	<u>\$ 41,167,566</u>

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

HENDERSON STATE UNIVERSITY FOUNDATION
 STATEMENTS OF ACTIVITIES
 FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

EXHIBIT B-1

	UNRESTRICTED	TEMORARILY RESTRICTED	PERMANENTLY RESTRICTED	2012	2011
SUPPORT AND REVENUES:					
Contributions		\$ 673,694	\$ 439,014	\$ 1,112,708	\$ 1,121,217
Interest and Dividend Income	\$ 281,644			281,644	298,242
Gain on Sale of Investment	44,452			44,452	(65,446)
Unrealized Loss on Investments	5,972			5,972	729,246
Net Assets Released from Restrictions	724,039	(724,039)			
TOTAL SUPPORT AND REVENUES	<u>1,056,107</u>	<u>(50,345)</u>	<u>439,014</u>	<u>1,444,776</u>	<u>2,083,259</u>
EXPENSES:					
Program Services:					
Scholarship awards	328,998			328,998	350,573
Awards and Gifts	194,118			194,118	951,876
Athletics	200,922			200,922	276,033
Total Program Services	<u>724,038</u>			<u>724,038</u>	<u>1,578,482</u>
Supporting Services:					
General Administration	74,761			74,761	74,723
TOTAL EXPENSES	<u>798,799</u>			<u>798,799</u>	<u>1,653,205</u>
CHANGE IN NET ASSETS	<u>257,308</u>	<u>(50,345)</u>	<u>439,014</u>	<u>645,977</u>	<u>430,054</u>
NET ASSETS AS OF BEGINNING OF YEAR	762,998	2,572,819	9,408,089	12,743,906	12,313,852
NET ASSETS AS OF END OF YEAR	<u>\$ 1,020,306</u>	<u>\$ 2,522,474</u>	<u>\$ 9,847,103</u>	<u>\$ 13,389,883</u>	<u>\$ 12,743,906</u>

HENDERSON STATE UNIVERSITY
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012

EXHIBIT C

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and Fees (Net of Scholarships)	\$ 9,835,684	\$ 9,347,671
Research Grants and Contracts	3,324,794	3,417,336
Collection of Loans and Interest to Students (includes Perkins and interest income)	240,374	193,498
Auxiliary Enterprises		
Athletics	1,385,311	1,418,348
Housing and Food Service	4,689,982	4,067,525
Bookstore	123,376	156,191
Student Union	9,160	11,533
Other Auxiliary Enterprises	470,905	537,260
Other Receipts	998,113	527,664
Payments to Suppliers	(14,282,905)	(13,871,905)
Payments to Employees	(23,483,893)	(23,161,689)
Payments of Employee Benefits	(6,998,838)	(6,648,504)
Loans issued to Students (includes Perkins)	(101,393)	(85,000)
Scholarships and Fellowships	(5,181,837)	(5,403,830)
Net Cash Provided (Used) by Operating Activities	(28,971,167)	(29,493,902)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations	20,753,369	20,991,048
Federal and State Grants and Contracts	14,834,720	14,496,099
Loans to Students-Direct Loans & Private (Inflows)	18,295,962	18,204,470
Agency Funds (Net of Outflows)	30,317	(24,352)
Loans to Students-Direct Loans & Private (Outflows)	(18,295,962)	(18,204,470)
American Reinvestment and Recovery Act-ESF		227,552
Payments of Mandatory Fees to Agency Funds	(393,240)	(399,900)
Gifts and Grants	168,688	417,783
Camps		379,478
Net Cash Provided (Used) by Noncapital Financing Activities	35,393,854	36,087,708
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Non-bonded Capital Debt	2,750,000	
Bond Proceeds from Act 1282 of 2005		467,399
Acquisitions and Construction of Capital Assets	(2,687,206)	(3,347,961)
American Reinvestment and Recovery Act-GSF	1,791,440	1,038,190
Principal Paid on Non-bonded Debt	(401,738)	(267,264)
Interest and Fees Paid on Non-bonded Debt	(45,119)	(36,778)
Payment to Trustee for Principal	(1,515,000)	(1,575,000)
Payment to Trustee for Interest and Fees	(1,222,355)	(1,236,427)
Payment to bond trustee for refunding	(204,266)	
Insurance Proceeds on Capital Assets	155,517	
Prior Period Adjustments	6,617	23,357
Net Cash Provided (Used) by Capital and Related Financing Activities	(1,372,110)	(4,934,484)

HENDERSON STATE UNIVERSITY
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012

EXHIBIT C

	2012	2011
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales and Maturities of Investments	\$ 96,544	\$ 334,400
Interest on Investments (net of fees)	96,544	305,753
Purchase of Investments		(199,651)
	96,544	440,502
Net Cash Provided (Used) by Investing Activities	96,544	440,502
Net Increase (Decrease) in Cash	5,147,121	2,099,824
Cash - Beginning of Year	7,042,971	4,943,147
Cash - Ending of Year	\$ 12,190,092	\$ 7,042,971
Reconciliation of Net Operating Loss to Net Cash Provided (Used) by Operating Activities		
Operating Income (Loss)	\$ (33,046,359)	\$ (33,097,844)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense	3,609,433	3,486,984
Other Miscellaneous Operating Receipts		27,148
Change in Assets and Liabilities		
Receivables, Net	(73,247)	(311,896)
Inventories	(9,378)	(17,611)
Other Assets	(47,422)	(192,476)
Loans Receivable	123,988	90,559
Accounts Payable	296,550	437,133
Deferred Revenue	(2,990)	69,180
Compensated Absences	(44,108)	(8,074)
Other Liabilities	222,366	22,995
	(28,971,167)	(29,493,902)
Net Cash Provided (Used) by Operating Activities	\$ (28,971,167)	\$ (29,493,902)
NONCASH TRANSACTIONS		
Donated Capital Assets	\$ 62,542	\$ 1,017,513
Proceeds of Refunding Bonds	16,030,000	
Bond Proceeds to Refunding Bond Agent	(15,121,695)	
Bond Issuance Cost	(242,720)	
Discount on Bonds	(47,762)	
Premium of Bonds	31,637	
Deferral of Debt Defeasance	(150,979)	
Bond proceeds deposited to debt service reserve	(649,460)	
Debt service reserve funds to refunding bond agent	(680,018)	
Accrued interest	6,789	
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 Financial Statements

June 30, 2012

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, the Governmental Accounting Standards Board (GASB) issued Statement no. 39, *Determining Whether Certain Organizations are Component Units*, which amends GASB no. 14 to provide additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with a primary government. Under the standard, which became effective with 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, 2012, the Foundation transferred property, equipment, and funds of \$74,887 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.



Henderson State University

Notes to Financial Statements

June 30, 2012

NOTE 2: Summary of Significant Accounting Policies

Financial Statement Presentation

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement no. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. GASB Statement no. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*, followed this in November 1999. The financial statement presentation required by GASB Statements no. 34 and no. 35 provides a comprehensive, entity-wide perspective of the University’s assets, 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.

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 \$5,000 (effective July 1, 2011, the capitalization threshold for equipment was \$2,500 in previous year) 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.

Henderson State University
Notes to Financial Statements
June 30, 2012

NOTE 2: Summary of Significant Accounting Policies (Continued)

Operating and Nonoperating Revenues (Continued)

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

Cash Equivalents

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

Accounts Receivable

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

Investments

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

Deposits with Trustees

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

Notes Receivable

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

Inventories

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

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.

Henderson State University
Notes to Financial Statements
June 30, 2012

NOTE 2: Summary of Significant Accounting Policies (Continued)

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 \$908,538 at June 30, 2012. 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 \$153,285 at June 30, 2012. 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 \$12,471 at June 30, 2012.

Employee Retirement

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

Noncurrent Liabilities

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

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.

Henderson State University

Notes to Financial Statements

June 30, 2012

NOTE 2: Summary of Significant Accounting Policies (Continued)

Net Assets (Continued)

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 state 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 tuition, fees, and other student charges, the University has reported a corresponding scholarship discount or allowance.

Restricted/Unrestricted Resources

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

Capitalization of Interest

The University capitalizes interest involving qualifying assets if material. The amount of interest cost to be capitalized is interest cost on borrowings netted against any interest earned on temporary investments of the proceeds of the borrowings from the date of the borrowing until the specified qualifying assets acquired with those borrowings are ready for their intended use.

Henderson State University
Notes to Financial Statements
June 30, 2012

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)	\$ 4,697,253	\$ 4,669,703
Collateralized:		
Collateral held by the pledging bank or pledging bank's trust department in the University's name	8,573,965	8,915,765
Total Deposits	\$ 13,271,218	\$ 13,585,468

The above deposits do not include cash on deposit in state treasury or cash on hand in the amounts of zero and \$23,860 at June 30, 2012, respectively. The above total deposits include \$470,674 of cash that is reported as deposits with trustees and certificates of deposit of \$634,312 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, 2012, none of the University's bank balance of \$13,585,468 was exposed to custodial credit risk.

Custodial Credit Risk – Investments

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University does not have an investment policy for custodial credit risk. The University's open-ended mutual funds of \$660,458 were not subject to custodial credit risk.

Credit Risk

The University's open-end mutual funds of \$660,458 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 fund invested in any one issuer.

Deposit with Trustees

At June 30, 2012, the University's deposits with trustees of \$1,808,742 excluding non-negotiable certificates of deposits of \$270,312 and \$470,674 in cash were invested as follows:

Henderson State University

Notes to Financial Statements

June 30, 2012

NOTE 3: Public Fund Deposits and Investments (Continued)

Deposit with Trustees (Continued)

Federated Treasury Obligations Fund of \$1,646,959. 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 49 days.

Federated Government Obligations Fund of \$161,783. 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 49 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 Financial Statements

June 30, 2012

NOTE 5: Capital Assets

Following are the changes in capital assets for the year ended June 30, 2012:

Capital Assets:	Balance as of July 1, 2011	Additions	Transfers	Retirements	Balance as of June 30, 2012
Capital assets not being depreciated					
Land	\$ 1,348,749	\$ 14,316			\$ 1,363,065
Construction in progress	2,041,432	1,387,484	\$ (3,042,210)		386,706
Total capital assets not being depr.	\$ 3,390,181	\$ 1,401,800	\$ (3,042,210)		\$ 1,749,771
Other capital assets					
Improvements	\$ 3,898,523				\$ 3,898,523
Infrastructure	3,305,201	\$ 31,000			3,336,201
Buildings	88,427,928	193,196	\$ 3,042,210		91,663,334
Equipment	7,155,511	195,887		\$ (490,588)	6,860,810
Library materials	10,992,702	558,284		(30,720)	11,520,266
Total other capital assets	113,779,865	978,367	3,042,210	(521,308)	117,279,134
Less accumulated depreciation for:					
Improvements	(1,949,253)	(119,839)			(2,069,092)
Infrastructure	(2,185,482)	(97,468)			(2,282,950)
Buildings	(37,123,829)	(2,482,008)			(39,605,837)
Equipment	(4,477,485)	(497,937)		\$ 490,588	(4,484,834)
Library materials	(7,618,132)	(412,181)		30,720	(7,999,593)
Total accumulated depreciation	(53,354,181)	(3,609,433)		521,308	(56,442,306)
Total other capital assets, net	\$ 60,425,684	\$ (2,631,066)	\$ 3,042,210	\$ -	\$ 60,836,828
Capital Asset Summary:					
Capital assets not being depreciated	\$ 3,390,181	\$ 1,401,800	\$ (3,042,210)		\$ 1,749,771
Other capital assets, at cost	113,779,865	978,367	3,042,210	\$ (521,308)	117,279,134
Total cost of capital assets	117,170,046	2,380,167	-	(521,308)	119,028,905
Less accumulated depreciation	(53,354,181)	(3,609,433)		521,308	(56,442,306)
Capital Assets, net of depreciation	\$ 63,815,865	\$ (1,229,266)	-	\$ -	\$ 62,586,599



Henderson State University

Notes to Financial Statements

June 30, 2012

NOTE 6: Long-Term Liabilities

Debt payments on bonds amounted to \$2,547,689 for the fiscal year ended June 30, 2012. The amount of \$442,406 was expended for debt payments on major capital leases and notes payable.

A summary of long-term debt is as follows:

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized and Issued	Debt Outstanding June 30, 2012	Maturities to June 30, 2012
10/1/2007	1/1/2032	4.00-4.60%	7,975,000	7,125,000	850,000
12/1/2009	7/1/2026	2.00-4.3%	6,715,000	5,980,000	735,000
12/1/2009	7/1/2018	2.00-3.375%	1,540,000	1,245,000	295,000
12/1/2009	7/1/2016	2.65-5.15%	515,000	385,000	130,000
10/1/2011	1/1/2020	2.0- 2.75%	1,960,000	1,800,000	160,000
10/1/2011	1/1/2020	2.0- 2.75%	1,370,000	1,285,000	85,000
8/31/2011	8/30/2036	5.74%	2,750,000	2,750,000	-
5/15/2012	9/1/2035	1.0- 4.125%	4,165,000	4,165,000	-
5/1/2012	7/15/2035	1.0- 4.125%	8,535,000	8,535,000	-
8/24/2004	8/1/2014	2.05%	445,000	143,103	301,897
2/6/2007	2/6/2014	4.04%	340,939	90,110	250,829
2/6/2007	2/6/2014	4.04%	340,939	90,110	250,829
3/26/2007	3/26/2014	3.84%	156,245	43,078	113,167
4/25/2007	4/25/2014	3.89%	156,240	45,105	111,135
5/15/2007	5/15/2014	3.93%	156,240	47,129	109,111
7/3/2007	6/29/2014	4.10%	206,769	65,237	141,532
8/9/2007	8/9/2014	3.93%	193,274	65,586	127,688
8/1/2010	8/1/2014	3.51%	524,932	400,410	124,522
			\$ 38,045,578	\$ 34,259,868	\$ 3,785,710



Henderson State University
Notes to Financial Statements
June 30, 2012

NOTE 6: Long-Term Liabilities (Continued)

The changes in long-term liabilities are as follows:

	Balance as of July 1, 2011	Additions	Reductions	Balance as of June 30, 2012	Amounts due within one year
Bonds Payable	\$ 31,855,000	\$ 16,030,000	\$ 17,365,000	\$ 30,520,000	\$ 1,515,000
Notes Payable *	188,901	2,750,000	45,798	2,893,103	46,736
Capital Lease Payable	1,202,705		355,940	846,765	369,711
Discount on Bonds	(22,371)	(44,528)	(3,589)	(63,310)	(5,172)
Deferral on Debt Defeasance	(135,554)	(150,979)	(25,439)	(261,094)	(30,128)
Premium on Bonds	-	31,143	2,831	28,312	3,775
Comp Absences Pay.	1,118,402	1,020,824	1,064,932	1,074,294	92,280
Employee Retire Pay.	249,545		28,355	221,190	61,668
OPEB Payable	844,618	222,366		1,066,984	
Refundable Advance	1,366,560		69,130	1,297,430	
	<u>\$ 36,667,806</u>	<u>\$ 19,858,826</u>	<u>\$ 18,902,958</u>	<u>\$ 37,623,674</u>	<u>\$ 2,053,870</u>

*The notes payable beginning balance of \$188,901 was reported in the capital lease payable balance at June 30, 2011.

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

Year Ended June 30, 2012	Principal	Interest	Total
2013	\$ 1,931,447	\$ 1,054,612	\$ 2,986,059
2014	2,281,676	1,150,191	3,431,867
2015	2,130,945	1,094,025	3,224,970
2016	1,996,937	1,035,993	3,032,930
2017	2,050,962	978,508	3,029,470
2018-2022	7,451,637	4,083,280	11,534,917
2023-2027	6,419,696	2,931,831	9,351,527
2028-2032	6,149,471	1,639,059	7,788,530
2033-2037	3,847,097	406,510	4,253,607
	<u>\$ 34,259,868</u>	<u>\$ 14,374,009</u>	<u>\$ 48,633,877</u>

Henderson State University
Notes to Financial Statements
June 30, 2012

NOTE 7: Capital Leases

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

Type of Asset	Asset Amount	Accumulated Depreciation	Net
Piper 1 Aircraft	361,872	120,624	241,248
Piper 2 Aircraft	361,872	120,624	241,248
Maule 3 Aircraft	165,702	55,234	110,468
Maule 4 Aircraft	165,697	55,232	110,465
Maule 5 Aircraft	165,697	55,232	110,465
Maule 6 Aircraft	165,498	55,166	110,332
Maule 7 Aircraft	165,498	55,166	110,332
Telephone System	579,182	57,918	521,264
	\$ 2,131,018	\$ 575,196	\$ 1,555,822

The following is a schedule of future minimum lease payments, together with the present value of the net minimum lease as of June 30, 2012:

Fiscal Year Ending June 30,	Amount
2013	\$ 397,187
2014	347,098
2015	148,192
Total Minimum Lease Payments	892,477
Less: Amount Representing Interest	45,712
Total Present Value of Net Minimum Lease Payments	\$ 846,765

NOTE 8: Commitments

The University was contractually obligated for the following at June 30, 2012:

Project Name	Completion Date	Contract Balance
Dining Facility Construction	May 27, 2013	\$ 4,722,832
Energy Savings Contract	June 1, 2013	2,576,889

Henderson State University
Notes to Financial Statements
June 30, 2012

NOTE 8: Commitments (Continued)

The Energy Savings Contract listed above was contingent upon the University receiving financing which was obtained in July 2012. See Note 20.

Operating Leases

The University is currently leasing 46 copiers. Lease terms range from 1 to 4 years. The University is also leasing 752 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, 2012 totals \$672,261.
- (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
2013	\$ 374,567
2014	207,780
2015	89,914
Total Future Minimum Rental Payments (3 years)	\$ 672,261

Rental payments for the fiscal year ended June 30, 2012 totaled \$374,090.

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, 2012 were \$1,579,108 and \$1,283,974, respectively.

Henderson State University
Notes to Financial Statements
June 30, 2012

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, 2012, 2011, and 2010 were \$310,272, \$321,335 and \$374,835, 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 13.47% of covered salaries. The University's contributions to APERS for the years ended June 30, 2012, 2011, and 2010 were \$435,086, \$369,493 and \$336,424, respectively, equal to the required contributions for each year.

Henderson State University
Notes to Financial Statements
June 30, 2012

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	\$ 16,194,534		\$ 1,108,687		\$ 17,303,221
Research	311,104		92,215		403,319
Public Service	573,198		572,914		1,146,112
Academic Support	2,549,435		1,041,290		3,590,725
Student Services	2,024,649		335,211		2,359,860
Institutional Support	4,158,514		2,858,092		7,016,606
Schol. & Fellow.		\$ 5,181,837			5,181,837
Oper. & Maint.	2,029,418		2,298,197		4,327,615
Aux. Enterprises	2,761,146		6,168,533		8,929,679
Depreciation				\$ 3,609,433	3,609,433
Other	58,991		297,516		356,507
	\$ 30,660,989	\$ 5,181,837	\$ 14,772,655	\$ 3,609,433	\$ 54,224,914

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 also chairman of The Ross Foundation.

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, Inc. 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 Financial Statements
June 30, 2012

NOTE 12: Compensated Absences

Changes in Compensated Absences Payable are as follows:

Changes in Compensated Absences Payable:	Amount
Annual Leave as of June 30, 2011	\$ 768,188
Earned Leave	712,749
Lost Leave over 240 hours	(140,711)
Annual Leave Used	(583,111)
Annual Leave as of June 30, 2012	\$ 757,115

Employees with a sick leave balance of 50 days or more are eligible for payment for leave upon retirement. As of June 30, 2012 the University's liability for employees with sufficient leave balances was \$127,738.

Employees with a compensatory time balance are eligible for payment for leave upon termination, retirement or death. As of June 30, 2012 the University's liability for employees with compensatory leave balances was \$10,392.

The above figures do not include estimated fringe benefits on accrued leave in the amount of \$179,049 for fiscal year 2012.

NOTE 13: Employee Retirement

Changes in Employee Retirement:	Amount
Employee Retirement as of June 30, 2011	\$ 249,545
Amount Paid Out During 2011/2012	(28,355)
Employee Retirement as of June 30, 2012	\$ 221,190

Henderson State University
Notes to Financial Statements
June 30, 2012

NOTE 14: Disaggregation of Receivable and Payable Balances

Accounts Receivable Consists of the Following:	Amount
Student Tuition and Fees, net of allowance of \$250,000	\$ 2,530,768
Auxiliary Enterprises	32,565
Other Receivables	84,914
Federal	68,664
State	8,246
Notes and Loans Receivable	1,239,378
Total Accounts Receivable	\$ 3,964,535

Accounts Payable Consists of the Following:	Amount
Vendors	\$ 838,763
Other Payables	1,518
State	83,615
Interest & Fees Payable	396,759
Total Accounts Payable	\$ 1,320,655

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 Financial Statements
June 30, 2012

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 \$90,520 for fiscal year 2012, compared to \$91,079 for fiscal year 2011. The University paid the total premiums for life insurance benefits for eligible retirees, ages 55 to 65, directly to MetLife in the amount of \$1,565 for fiscal year 2012, compared to \$1,538 for fiscal year 2011. This represents a total of \$92,085 paid by the University for the employer portion of the OPEB for fiscal year 2012, compared to \$92,617 for fiscal year 2011.

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 84% or \$90,520 of the postretirement healthcare premiums, totaling \$107,585 for the fiscal year ended June 30, 2012. Last year, the University funded approximately 83% or \$91,079 of the postretirement healthcare premiums, totaling \$109,758 for the fiscal year ended June 30, 2011. The retirees are responsible for funding approximately 16% of the healthcare premiums compared to 17% 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 \$1,565 in postretirement life insurance benefits for the fiscal year ended June 30, 2012 and \$1,538 in postretirement life insurance benefits for the fiscal year ended June 30, 2011. 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 \$222,366 in retiree healthcare and life insurance expense during fiscal year 2012, compared to \$235,813 during fiscal year 2011.

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

Henderson State University
Notes to Financial Statements
June 30, 2012

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

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



Henderson State University
Notes to Financial Statements
June 30, 2012

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, 2012		Fiscal Year Ending June 30, 2011	
	Amount	% of Payroll ¹	Amount	% of Payroll ¹
1. Unfunded actuarial accrued liability	\$ 2,750,389	13.82%	\$ 2,777,596	14.82%
<u>Annual Required Contribution (ARC)</u>				
2. Normal Cost	\$ 191,881		\$ 199,516	
3. Amortization of the unfunded actuarial accrued liability over 30 years using open amortization	140,323		141,711	
4. Amortization of beginning of year accrual				
5. Annual Required Contribution (ARC = 2 + 3+4)	\$ 332,204	1.67%	\$ 341,227	1.82%
<u>Annual OPEB Cost (Expense)</u>				
6. Normal Cost	\$ 191,881		\$ 199,516	
7. Amortization of the unfunded actuarial accrued liability over 30 year using open amortization	140,323		141,711	
8. Amortization of beginning of year accrual	(43,092)		(31,061)	
9. Interest on beginning of year accrual	25,339		18,264	
10. Annual OPEB cost (6+7+8+9)	\$ 314,451	1.58%	\$ 328,430	1.75%
<u>End of year Accrual (Net OPEB Obligation)</u>				
11. Beginning of year accrual	\$ 844,618		\$ 608,805	
12. Annual OPEB cost	314,451		328,430	
13. Employer contribution (benefit payments) ²	92,085		92,617	
14. End of year accrual (11 + 12 - 13)	\$ 1,066,984	5.36%	\$ 844,618	4.51%

¹ Annual payroll for the 498 plan participants as of July 1, 2011 is \$19,895,646 and for the 485 plan participants as of July 1, 2010 is \$18,741,934. The estimated payroll amounts as of July 1, 2010 and July 1, 2009 were restated from previously reported amounts.

² Actual contributions paid in fiscal year 2012 of \$109,150 less participant contributions of \$17,065; \$111,296 and \$18,679, respectively, in fiscal year 2011. Employer contributed 29.28% of annual OPEB cost during fiscal year 2012, compared to 28.20% during fiscal year 2011.

Henderson State University
Notes to Financial Statements
June 30, 2012

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

Schedule of Employer Contributions:

Fiscal Year Ended	Annual OPEB Cost	Actual Contributions ³	Percentage Contributed
June 30, 2012	\$ 314,451	\$ 92,085	29.28%
June 30, 2011	\$ 328,430	\$ 92,617	28.20%
June 30, 2010	\$ 325,287	\$ 110,349	33.92%

³Since there is no funding; these are actual benefit payments of \$109,150 less retiree contributions of \$17,065 for 2012 and \$111,296 less retiree contributions of \$18,679 for 2011 and \$135,477 less retiree contributions of \$25,158 for 2010.

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, 2012	\$	\$ 2,750,389	\$ 2,750,389	0.00%	\$ 19,895,646	13.82%
June 30, 2011	\$	\$ 2,777,596	\$ 2,777,596	0.00%	\$ 18,741,934	14.82%
June 30, 2010	\$	\$ 2,741,329	\$ 2,741,329	0.00%	\$ 18,239,672	15.03%

⁴Estimated payroll as of July 1, 2011, July 1, 2010, and July 1, 2009 includes only plan participants. The estimated payroll amounts as of July 1, 2010 and July 1, 2009 were restated from previously reported amounts.

Note: The annual OPEB cost of \$314,451 for fiscal year 2012 and accrual of \$1,066,984 as of June 30, 2012, are based on a current decision not to fund in a segregated GASB qualified trust; \$328,430 and \$844,618, respectively, in the fiscal year 2011; and \$325,287 and \$608,805, respectively, in the fiscal year 2010.

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, 2012	\$ 314,451	29.28%	\$ 1,066,984
June 30, 2011	\$ 328,430	28.20%	\$ 844,618
June 30, 2010	\$ 325,287	33.92%	\$ 608,805

Henderson State University
Notes to Financial Statements
June 30, 2012

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

Summary of Key Actuarial Methods and Assumptions:

Methods:

Valuation Year:	July 1, 2011 – June 30, 2012
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.

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, 2011 – June 30, 2012
Date of Census Data:	January, 2012
Actuarial Cost Method:	Projected Unit Credit actuarial cost method; Unfunded Actuarial Liability (UAL) amortized on a level dollar basis over 30 years.

Henderson State University
Notes to Financial Statements
June 30, 2012

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

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.

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 Financial Statements
June 30, 2012

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.



Henderson State University
Notes to Financial Statements
June 30, 2012

NOTE 16: Pollution Remediation Obligations

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

NOTE 17: Pledged Revenues

The University has pledged future student housing revenue to repay \$15,610,000 in student housing revenue bonds issued in 2009, 2011, and 2012, a total of four bond issues. Proceeds from the bonds provided financing for refunding of existing student housing debt issues. The bonds are payable solely from student housing gross revenues and are payable to maturity dates ranging from fiscal year 2019 to 2036. Annual principal and interest payments on the bonds currently require 24.6% of gross revenues. The total principal and interest remaining to be paid on the bonds is \$21,665,502. Principal and interest paid for the current year and total customer gross revenues were \$1,040,261 and \$4,228,899, respectively.

The University has pledged future student recreation center revenue 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 fiscal year 2032. Annual principal and interest payments on the bonds currently require 65.8% of gross revenues. The total principal and interest remaining to be paid on the bonds is \$10,908,403. Principal and interest paid for the current year and total customer gross revenues were \$540,665 and \$821,465, respectively.

The University has pledged future other auxiliary revenue 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 fiscal year 2017. Annual principal and interest payments on the bonds currently require 1.6% of gross revenues. The total principal and interest remaining to be paid on the bonds is \$433,376. Principal and interest paid for the current year and total customer gross revenues were \$82,448 and \$5,086,892, respectively.

The University has pledged future student tuition and fees to repay \$8,675,000 in refunding bonds issued in 2009 and 2011 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 ranging from fiscal years 2020 to 2027. Annual principal and interest payments on the bonds currently require 3.3% of gross revenues. The total principal and interest remaining to be paid on the bonds is \$9,300,782. Principal and interest paid for the current year and gross student tuition and fees were \$884,315 and \$26,538,456, respectively.

Previous financial statements notes reported pledged revenues at net amounts in error.

NOTE 18: Risk Management

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

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

Henderson State University
Notes to Financial Statements
June 30, 2012

NOTE 18: Risk Management (Continued)

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

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

The University carries commercial insurance related to the operation and maintenance of University owned aircraft 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 \$2,500 deductible. The Department of Finance and Administration withholds the premium from the University's State Treasury funds.

The University carries commercial general liability insurance related to the maintenance and operation of the Davis-Baker Preschool. 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: Financial Commitment from Food Service Vendor

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

NOTE 20: Subsequent Events

On July 23, 2012, Henderson State University entered into an agreement with All American Investment Group, LLC to finance an energy savings contract in the amount of \$2,366,268 with Schneider Electric for energy savings measures.

Henderson State University
Notes to Financial Statements
June 30, 2012

NOTE 20: Subsequent Events (Continued)

On July 19, 2013, Henderson State University entered into an agreement with Summit Bank to finance the purchase computers and equipment in the amount of \$408,798.

NOTE 21: Refunding of Capital Debt

On October 1, 2011, Henderson State University issued refunding bonds for two issues. The following information is presented on each refunding:

\$1,960,000 Student Fee Secured Refunding Bonds, Series 2011A were issued with interest rates of 2 to 2.75 percent to refund \$1,915,000 of outstanding bonds dated April 4, 2006 with interest rates of 3.85 to 4.20. Bond proceeds of \$1,789,830 and debt service reserve funds of \$150,855 were deposited with the refunding bond agents to refund the above bonds. The 2006 Series outstanding bonds were called for redemption on November 1, 2011. The remaining net bond proceeds of \$153,019 (after payment of bond issuance costs of \$37,180 and addition of the bond premium of \$20,029) were deposited into the debt service reserve fund as per the bond indenture. Accrued interest of \$2,057 was deposited in the debt service fund to be applied to subsequent interest payments. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$25,685. This difference, reported in the accompanying financial statements as a contra-liability, will be amortized through the fiscal year 2020 using the straight-line method. Henderson State University completed the refunding to reduce its total debt service payments over the next nine years by \$105,409 and to obtain an economic gain (difference between the present values of the old and new debt service payments of \$108,000.

\$1,370,000 Auxiliary Enterprise Revenue Secured Refunding Bonds, Series 2011B, were issued with interest rates of 2 to 2.75 percent to refund \$1,335,000 of outstanding bonds dated April 4, 2006 with interest rates of 3.85 to 4.2 percent. Bond proceeds of \$1,265,026 and debt service reserve funds of \$87,986 were deposited with the refunding bond agent to refund the above bonds. The 2006 Series outstanding bonds were called for redemption on November 1, 2011. The remaining net bond proceeds of \$90,119 (after payment of bond issuance cost of \$26,463 and addition of the bond premium of \$11,608) were deposited into the debt service reserve funds as per the bond indenture. Accrued interest of \$1,497 was deposited in the debt service fund to be applied to subsequent interest payments. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$18,012. This difference, reported in the accompanying financial statements as a contra-liability, will be amortized through the fiscal year 2020 using the straight-line method. Henderson State University completed the refunding to reduce its total debt service payments over the next nine years by \$80,058 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$82,234.

Henderson State University
Notes to Financial Statements
June 30, 2012

NOTE 21: Refunding of Capital Debt (Continued)

On May 1, 2012, Henderson State University issued refunding bonds for one issue. The following information is presented on this refunding:

\$8,535,000 Auxiliary Enterprise Revenue Secured Refunding Bonds, Series 2012A, were issued with interest rates of 1 to 4.125 percent to refund \$8,550,000 of outstanding bonds dated July 15, 2005 with interest rates of 3.55 to 4.8 percent. Bond proceeds of \$8,109,366, debt service reserve funds of \$300,268, and \$204,266 of cash contribution from the University were deposited with the refunding bond agent to refund the above bonds. The 2005 Series bonds were called for redemption on May 1, 2012. The remaining net bond proceeds of \$275,993 (after payment of bond issuance cost of \$114,930 and less the bond discount of \$34,711) were deposited into the debt service reserve funds as per the bond indenture. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$63,900. This difference, reported in the accompanying financial statements, as a contra-liability, as a deduction from bonds payable, will be amortized through the fiscal year 2036 using the straight-line method. Henderson State University completed the refunding to reduce its total debt service payments over the next twenty-four years by \$1,210,539 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$782,739.

On May 15, 2012, Henderson State University issued refunding bonds for one issue. The following information is presented on this refunding:

\$4,165,000 Auxiliary Enterprise Revenue Secured Refunding Bonds, Series 2012B, were issued with interest rates of 1 to 4.125 percent to refund \$4,055,000 of outstanding bonds dated January 1, 2006 with interest rates of 3.9 to 4.85 percent. Bond proceeds of \$3,957,473 and debt service reserve funds of \$140,909 were deposited with the refunding bond agent to refund the above bonds. The 2006 Series bonds were called for redemption on May 24, 2012. The remaining net bond proceeds of \$130,329 (after payment of bond issuance cost of \$64,147 and less the bond discount of \$13,051) were deposited into the debt service reserve funds as per the bond indenture. Accrued interest of \$3,235 was deposited in the debt service fund to be applied to subsequent interest payments. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$43,382. This difference, reported in the accompanying financial statements, as a contra-liability, as a deduction from bonds payable, will be amortized through the fiscal year 2036 using the straight-line method. Henderson State University completed the refunding to reduce its total debt service payments over the next twenty-four years by \$646,562 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$424,616.

The total amount of bond issuance costs, premiums, and discounts from the four issues above were \$242,720, \$31,637, and \$47,762, respectively. The amounts recorded as bond issuance costs, premiums, and discounts on the Statement of Net Assets were \$227,326, \$31,143, and \$44,528, respectively; resulting in differences of \$15,394, \$494, and \$3,234, respectively. University Management determined the differences were not material to the financial statements.

Henderson State University
Required Supplementary Information
June 30, 2012

POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Schedule of Employer Contributions:

Fiscal Year Ended	Annual OPEB Cost	Actual Contributions ³	Percentage Contributed
June 30, 2012	\$ 314,451	\$ 92,085	29.28%
June 30, 2011	\$ 328,430	\$ 92,617	28.20%
June 30, 2010	\$ 325,287	\$ 110,349	33.92%

³Since there is no funding; these are actual benefit payments of \$109,150 less retiree contributions of \$17,065 for 2012 and \$111,296 less retiree contributions of \$18,679 for 2011 and \$135,477 less retiree contributions of \$25,158 for 2010.

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, 2012	\$	\$ 2,750,389	\$ 2,750,389	0.00%	\$ 19,895,646	13.82%
June 30, 2011	\$	\$ 2,777,596	\$ 2,777,596	0.00%	\$ 18,741,934	14.82%
June 30, 2010	\$	\$ 2,741,329	\$ 2,741,329	0.00%	\$ 18,239,672	15.03%

⁴Estimated payroll as of July 1, 2011, July 1, 2010, and July 1, 2009 includes only plan participants. The estimated payroll amounts as of July 1, 2010 and July 1, 2009 were restated from previously reported amounts.



HENDERSON STATE UNIVERSITY
SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS
FOR THE YEAR ENDED JUNE 30, 2012
(Unaudited)

Schedule 1

	Year Ended June 30,				
	2012	2011	2010	2009	2008
Total Assets	\$ 83,334,695	\$ 80,148,391	\$ 75,096,232	\$ 75,700,622	\$ 75,232,998
Total Liabilities	39,694,959	38,980,825	39,072,873	42,934,690	43,292,868
Total Net Assets	43,639,736	41,167,566	36,023,359	32,765,932	31,940,130
Total Operating Revenues	21,178,555	19,717,034	19,784,856	21,417,434	20,727,053
Total Operating Expenses	54,224,914	52,814,878	47,606,120	48,555,111	45,967,971
Total Net Non-Operating Revenues	34,883,971	36,575,249	28,923,897	26,292,987	26,046,000
Total Other Revenues, Expenses, Gains or Losses	634,558	1,666,802	288,328	1,670,492	794,381