

**Henderson State University**

**Arkadelphia, Arkansas**

**Basic Financial Statements  
and Other Reports**

**June 30, 2013**

LEGISLATIVE JOINT AUDITING COMMITTEE

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HENDERSON STATE UNIVERSITY  
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# 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

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Henderson State University (University), an institution of higher education of the State of Arkansas, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

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

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

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

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Henderson State University Foundation, Inc., which represent 100% of the assets and revenues of the discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Henderson State University Foundation, Inc., is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Henderson State University Foundation, Inc., were not audited in accordance with *Government Auditing Standards*.

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

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

#### ***Opinions***

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the University as of June 30, 2013, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 21 to the financial statements, the University restated certain prior year (2012) amounts on the Comparative Statement of Net Position, the Comparative Statement of Revenues, Expenses, and Changes in Net Position, and the Comparative Statement of Cash Flows. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### *Prior Year Comparative Information*

We have previously audited the University's 2012 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the business-type activities and the discretely presented component unit in our report dated August 9, 2013. In our opinion, the comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and certain information pertaining to postemployment benefits other than pensions on pages 6-12 and 48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The Schedule of Selected Information for the Last Five Years (Schedule 1) is presented for purposes of additional analysis and is not a required part of the basic financial statements. 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.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2014 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

DIVISION OF LEGISLATIVE AUDIT



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

Little Rock, Arkansas  
June 26, 2014  
EDHE10013

Sen. Bryan B. King  
Senate Chair  
Rep. Kim Hammer  
House Chair  
Sen. Linda Chesterfield  
Senate Vice Chair  
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House Vice Chair

# Arkansas



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

## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

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

### INDEPENDENT AUDITOR'S REPORT

Henderson State University  
Legislative Joint Auditing Committee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the 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, 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated June 26, 2014. Our report includes a reference to other auditors who audited the financial statements of the Henderson State University Foundation, Inc., as described in our report on the University's financial statements. The financial statements of the Henderson State University Foundation, Inc., were not audited in accordance with *Government Auditing Standards*.

#### Internal Control Over Financial Reporting

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

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

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

#### Compliance and Other Matters

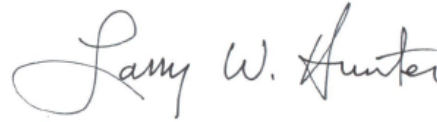
As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of the state constitution, state laws and regulations, contracts, and grant agreements, noncompliance with which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

We noted certain matters that we reported to management of the University in a separate letter dated June 26, 2014.

**Purpose of this Report**

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

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  
June 26, 2014

Sen. Bryan B. King  
Senate Chair  
Rep. Kim Hammer  
House Chair  
Sen. Linda Chesterfield  
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# Arkansas



Roger A. Norman, JD, CPA, CFE  
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, 2013, 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> 2012	<u>Fall Term</u> 2012	<u>Spring Term</u> 2013	<u>Summer I Term</u> 2013
Student Headcount	923	3,773	3,421	782
Student Semester Credit Hours	5,028	49,694	45,665	3,427

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  
June 26, 2014

# 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 2013 with comparative data presented for fiscal year 2012. The emphasis of discussion concerning these statements will be for the current year data. There are three financial statements presented: The Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows.

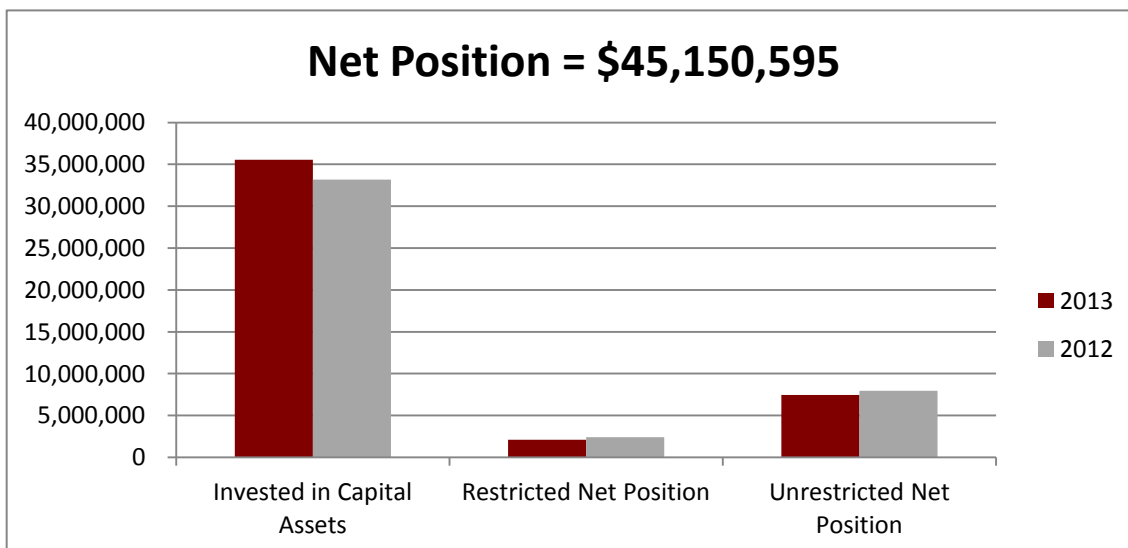
The discussion and analysis of the University's financial statements provides an overview of its financial activities for the year.

### Statement of Net Position

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

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

Net Position is divided into three major categories. Net Investment in Capital Assets, provides information on the Institution's equity in property, plant, and equipment owned by the Institution. Restricted Net Position is 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 Position is available to the Institution for any lawful purpose of the Institution.





# Henderson State University

## Statement of Net Position (Continued)

Comparative Statement of Net Position			
June 30, 2013			
	2013	2012	
<b>Assets:</b>			
Current Assets	\$ 17,233,273	\$ 14,713,262	
Capital Assets, net	65,917,120	62,586,599	
Other Assets	3,014,976	6,034,834	
<b>Total Assets</b>	<b>86,165,369</b>	<b>83,334,695</b>	
<b>Liabilities:</b>			
Current Liabilities	5,230,312	4,186,637	
Non-Current Liabilities	35,784,462	35,569,804	
<b>Total Liabilities</b>	<b>41,014,774</b>	<b>39,756,441</b>	
<b>Net Position:</b>			
Net Investment in Capital Assets	35,561,369	33,196,543	
Restricted-Expendable	1,941,153	2,242,590	
Restricted-Nonexpendable	179,043	179,159	
Unrestricted	7,469,030	7,959,962	
<b>Total Net Position</b>	<b>\$ 45,150,595</b>	<b>\$ 43,578,254</b>	

Total Assets of the Institution increased by \$2,830,674. A review of the Statement of Net Position will reveal that there are many offsetting variances, but the increase was primarily due to an increase in Capital Assets of \$3,330,521.

Total liabilities for the year increased by \$1,258,333. This net increase was primarily due to the increase in Long Term Debt of \$434,821 as well as an increase in Other Post-Employment Benefits of \$ 238,349, an increase in Accounts Payable of \$292,012 and an increase of \$212,328 in Deferred Revenues.

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

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

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

# Henderson State University

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

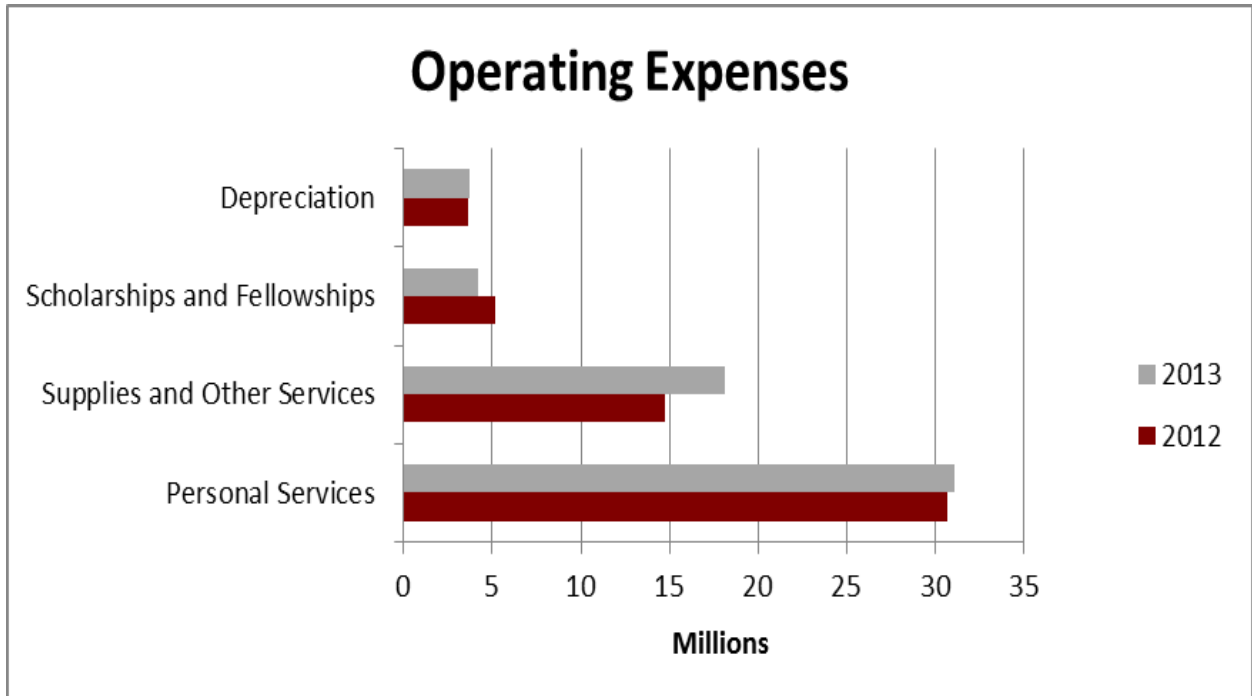
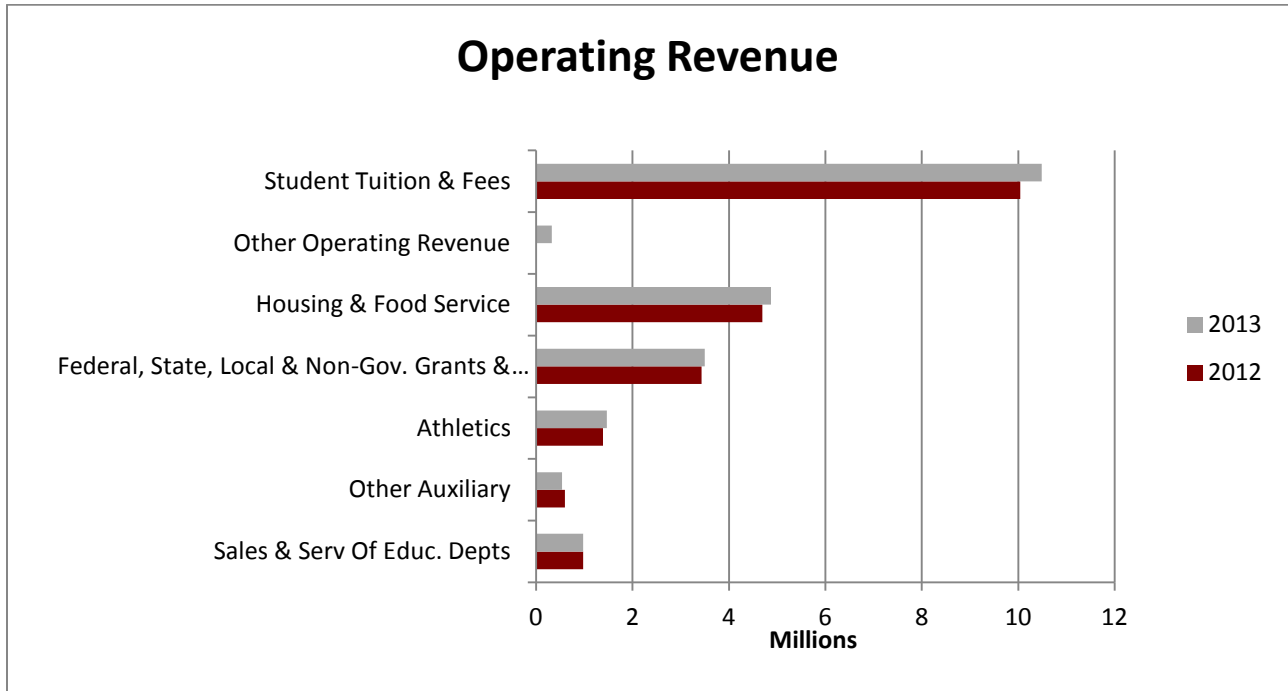
Comparative Statement of Revenues, Expenses and Changes in Net Position For the Fiscal Year Ended June 30, 2013		
	2013	2012
Operating Revenues	\$ 22,163,734	\$ 21,117,073
Operating Expenses	57,192,919	54,224,914
Operating Loss	(35,029,185)	(33,107,841)
Non-Operating Revenues less Expenses	34,343,955	34,883,971
Income (Loss) Before Other Rev., Exp., Gains or Losses	(685,230)	1,776,130
Other Revenues, Expenses, Gains or Losses	2,257,571	634,558
Increases (Decreases) in Net Position	1,572,341	2,410,688
Net Position at Beginning of Year	43,639,736	41,167,566
Adjustment to Prior Year Deferred Revenue	(61,482)	-
Net Position at Beginning of Year, as Restated	43,578,254	41,167,566
Net Position at End of Year	\$ 45,150,595	\$ 43,578,254

The Statement of Revenues, Expenses, and Changes in Net Position reflect an increase in net position at the end of the year of \$1,572,341. Highlights of the information presented on the statement are as follows:

- ❖ Student tuition and fees, net of scholarship allowances, increased by \$448,720. This increase is primarily attributable to an increase in tuition for FY13.
- ❖ Auxiliary Enterprises realized a net increase in revenue of \$207,230 due to increased housing and meal plan rates.
- ❖ Non-Operating Federal and state grants and contracts decreased by \$551,065. This decrease was primarily due to students not receiving an additional Pell Grant for the summer 2012 that they were able to receive in the summer 2011.
- ❖ State of Arkansas non-operating appropriations increased by \$22,662 due to a decrease in State Appropriations of \$30,484 and an increase in Education Excellence Trust Fund of \$53,146.
- ❖ Personal services expenses increased by \$449,355. This increase is due to a 3% salary increase for Non-Classified Staff and Faculty for the 2012-2013 fiscal year.
- ❖ Supplies and other services increased by \$3,369,341. This increase is due primarily to the cost associated with campus repair, replacements, and renovations related to an energy savings project.
- ❖ Scholarship expenses decreased by \$970,893 due to lowering of student retention of scholarships and fewer freshman students.
- ❖ Capital Gifts increased 2,623,229 due to a financial commitment of 2,500,000 from Aramark.

# Henderson State University

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



# Henderson State University

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## 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 Position.

Comparative Statement of Cash Flow For the Fiscal Year Ended June 30, 2013		
	2013	2012
Cash Provided (used) by:		
Operating Activities	\$ (28,906,620)	\$ (28,971,167)
Non-capital Financing Activities	34,943,213	35,393,854
Investing Activities	244,930	96,544
Capital and Related Financing Activities	(7,109,128)	(1,372,110)
Net Change in Cash	(827,605)	5,147,121
Cash, Beginning of Year	12,190,092	7,042,971
Cash, End of year	\$ 11,362,487	\$ 12,190,092

# Henderson State University

## Capital Assets and Debt Administration

The University made an investment in the following additions or improvements in fiscal year 2013:

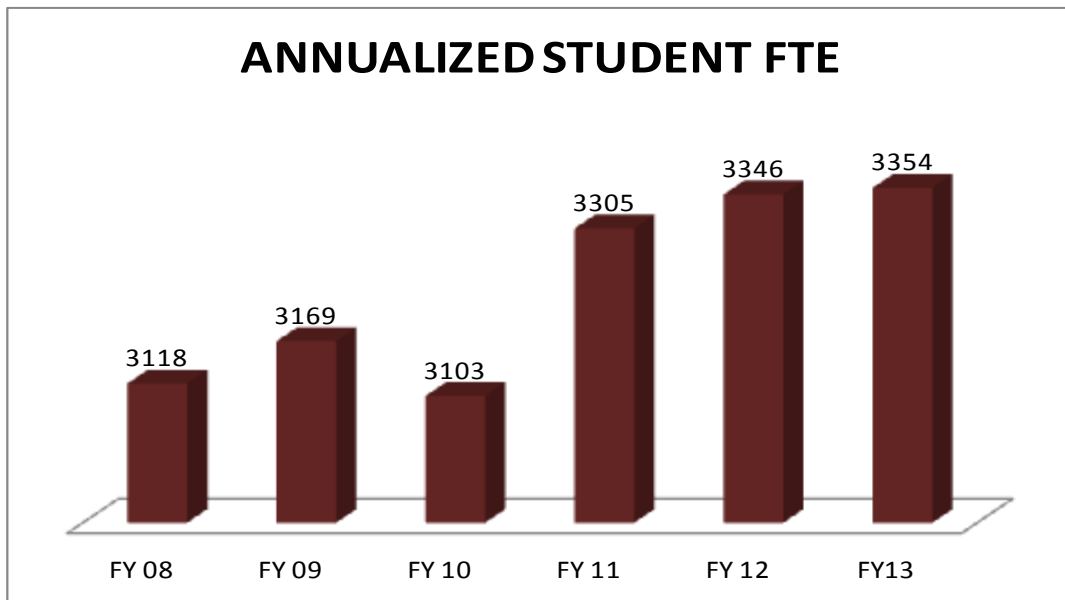
	Amount
Land	\$ 113,430
Construction in Progress	5,328,466
Improvements & Infrastructure	110,820
Equipment (includes \$26,266 classified as construction in progress in prior year)	410,234
Library Holdings	544,906
Buildings (includes \$5,606,794 of completed construction in progress)	6,185,360
<b>Total</b>	<b>\$ 12,693,216</b>

The University's long term debt (current and noncurrent) increased from \$34,259,868 to \$34,694,689 a \$434,821 net increase.

## Economic Outlook

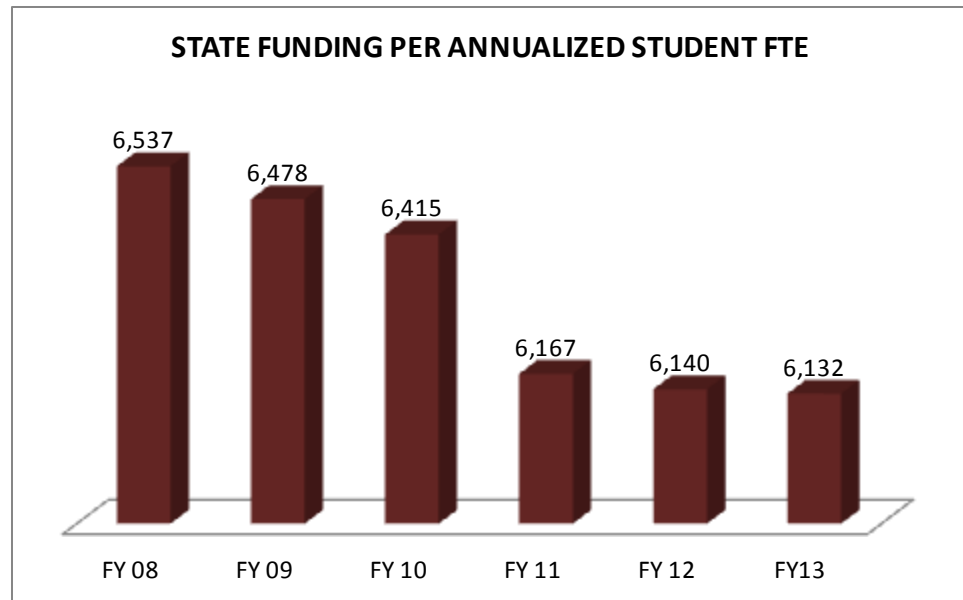
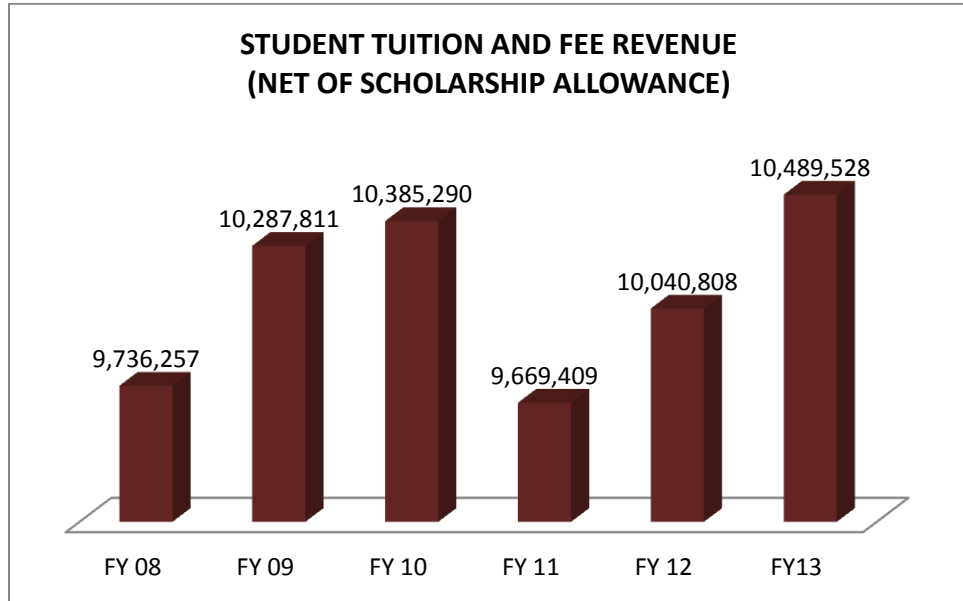
Cash reserves, fund balances, and ratio analysis show positive trends and are consistent with growth in net assets.

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



# Henderson State University

## Economic Outlook (Continued)



During the first four months of the current fiscal year, 2014, Arkansas' state gross general revenue increased by 77.5 million over the same period in fiscal year 2013. With this trend, the state funding for fiscal year 2014 should not be reduced.

At this time Henderson is not aware of any currently known facts, decisions or conditions that would have a significant effect on the current financial position or results of operations during fiscal year 2014.

Mr. Bobby G. Jones  
Vice President for Finance and Administration

**HENDERSON STATE UNIVERSITY**  
**COMPARATIVE STATEMENT OF NET POSITION**  
**JUNE 30, 2013**

Exhibit A

	2013	2012
<b>ASSETS:</b>		
<b>Current Assets:</b>		
Cash and Cash Equivalents	\$ 11,262,506	\$ 9,364,528
Short Term Investments	745,763	563,092
Student Accounts Receivable, Net	2,916,327	2,530,768
Accrued Interest Receivable	1,695	2,639
Inventories	182,627	192,609
Notes and Student Loans Receivable	188,499	208,604
Other Receivables	285,504	191,750
Deposits with Trustee	1,073,499	1,117,310
Prepaid Expenses	545,827	510,936
Bond Issuance Cost	31,026	31,026
Total Current Assets	17,233,273	14,713,262
<b>Non-Current Assets:</b>		
Cash and Cash Equivalents	99,981	2,825,564
Investments	241,000	461,366
Notes and Student Loans Receivable	996,918	1,030,774
Deposits with Trustee	1,423,391	1,432,418
Capital Assets, Net of Accumulated Depreciation (\$59,946,720 and \$56,442,306, respectively)	65,917,120	62,586,599
Bond Issuance Cost, Net of Accumulated Amortization Cost (\$79,208 and \$48,182, respectively)	253,686	284,712
Total Non-Current Assets	68,932,096	68,621,433
Total Assets	86,165,369	83,334,695
<b>LIABILITIES:</b>		
<b>Current Liabilities:</b>		
Accounts Payable and Accrued Liabilities	1,612,667	1,320,655
Deferred Revenues and Deposits	498,032	285,704
Funds Held in Trust for Others	569,770	526,408
Employee Retirement	59,904	61,668
Compensated Absences Payable	102,048	92,280
Long-term Debt	2,419,416	1,931,447
Discount on Bonds	(5,172)	(5,172)
Deferral of Debt Defeasance	(30,128)	(30,128)
Deferral of Bond Premium	3,775	3,775
Total Current Liabilities	5,230,312	4,186,637

**HENDERSON STATE UNIVERSITY**  
**COMPARATIVE STATEMENT OF NET POSITION**  
**JUNE 30, 2013**

Exhibit A

	2013	2012
Non-Current Liabilities:		
Refundable Advance	\$ 1,265,160	\$ 1,297,430
Employee Retirement	136,934	159,522
Other Postemployment Benefits	1,305,333	1,066,984
Compensated Absences Payable	1,034,804	982,014
Long-term Debt	32,275,273	32,328,421
Discount on Bonds Net of Accumulated Amortization (\$13,735 and \$8,563, respectively)	(52,966)	(58,138)
Deferral of Debt Defeasance, Net of Accumulated Amortization (\$86,073 and \$55,945, respectively)	(200,838)	(230,966)
Bond Premium-Deferred, Net of Accumulated Amortization (\$6,606 and \$2,831, respectively)	20,762	24,537
Total Non-Current Liabilities	35,784,462	35,569,804
Total Liabilities	41,014,774	39,756,441
 NET POSITION:		
Net Investment in Capital Assets	35,561,369	33,196,543
Restricted for:		
Expendable:		
Scholarships and Fellowships	211,123	168,169
Grants and Contracts	904,446	1,279,667
Loans	48,889	48,910
Debt Service	775,000	745,000
Other	1,695	844
Nonexpendable:		
Loans	179,043	179,159
Unrestricted	7,469,030	7,959,962
Total Net Position	\$ 45,150,595	\$ 43,578,254

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



**HENDERSON STATE UNIVERSITY FOUNDATION, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2013 AND 2012**

Exhibit A-1

ASSETS:	2013	2012
<b>CURRENT ASSETS:</b>		
Cash and Cash Equivalents	\$ 4,058,914	\$ 3,770,019
Investment Securities (FMV)	10,547,475	9,446,742
Accounts Receivable		26,258
Accrued Interest Receivable	11,949	37,005
<b>TOTAL CURRENT ASSETS</b>	<b>14,618,338</b>	<b>13,280,024</b>
 <b>PROPERTY AND EQUIPMENT:</b>		
Smith-Garner House	150,593	150,593
Foundation Furnishings	7,264	7,264
	157,857	157,857
Less Accumulated Depreciation	(59,359)	(55,498)
<b>TOTAL PROPERTY AND EQUIPMENT</b>	<b>98,498</b>	<b>102,359</b>
 <b>OTHER ASSETS:</b>		
Belvedere Resort Rights	7,500	7,500
<b>TOTAL ASSETS</b>	<b>14,724,336</b>	<b>13,389,883</b>
 <b>LIABILITIES:</b>		
	<b>0</b>	<b>0</b>
 <b>NET ASSETS:</b>		
Unrestricted Net Assets:		
General Operations	221	221
Investment Income - Unallocated	1,079,532	966,218
Net Appreciation (Depreciation) on Investments	397,878	53,867
<b>Total Unrestricted Net Assets</b>	<b>1,477,631</b>	<b>1,020,306</b>
 Temporarily Restricted Net Assets:		
Restricted Net Assets	1,542,703	1,647,743
Budgeted Project Net Assets	853,434	764,873
Property and Equipment Net Assets	105,998	109,859
<b>Total Temporarily Restricted Net Assets</b>	<b>2,502,135</b>	<b>2,522,475</b>
Permanently Restricted Net Assets	10,744,570	9,847,102
<b>TOTAL NET ASSETS</b>	<b>\$ 14,724,336</b>	<b>\$ 13,389,883</b>

**HENDERSON STATE UNIVERSITY**  
**COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND**  
**CHANGES IN NET POSITION**  
**FOR THE YEAR ENDED JUNE 30, 2013**

Exhibit B

	<u>2013</u>	<u>2012</u>
OPERATING REVENUES:		
Student Tuition and Fees (net of scholarship allowances of \$16,375,194 and \$16,436,628, respectively)	\$ 10,489,528	\$ 10,040,808
Federal Grants and Contracts	1,713,240	1,613,252
State and Local Grants and Contracts	1,654,781	1,577,858
Non-Governmental Grants and Contracts	126,878	239,518
Sales and Services of Educational Departments	977,905	975,883
Auxiliary		
Athletics	1,464,409	1,385,311
Housing and Food Service (net of scholarship allowances of \$2,811,835 and \$2,858,712, respectively)	4,873,116	4,689,520
Bookstore	129,861	123,376
Garrison Center	9,560	9,160
Other Auxiliary Enterprises	400,038	462,387
Other Operating Revenues	<u>324,418</u>	
 TOTAL OPERATING REVENUES	 <u>22,163,734</u>	 <u>21,117,073</u>
 OPERATING EXPENSES:		
Personal Services	31,110,344	30,660,989
Supplies and Other Services	18,141,996	14,772,655
Scholarships and Fellowships	4,210,944	5,181,837
Depreciation	<u>3,729,635</u>	<u>3,609,433</u>
 TOTAL OPERATING EXPENSES	 <u>57,192,919</u>	 <u>54,224,914</u>
 OPERATING INCOME (LOSS)	 <u>(35,029,185)</u>	 <u>(33,107,841)</u>
 NON-OPERATING REVENUES (EXPENSES)		
State Appropriations	20,776,031	20,753,369
Federal and State Grants and Contracts	14,283,655	14,834,720
Gifts	224,059	231,231
Investment Income	206,292	116,364
Interest and Fees on Long Term Debt	(1,149,820)	(1,097,639)
Other	<u>3,738</u>	<u>45,926</u>
 Net Non-operating Revenues	 <u>34,343,955</u>	 <u>34,883,971</u>
 Income Before Other Revenues, Expenses, Gains/Losses	 (685,230)	 1,776,130
 Capital Gifts	2,623,229	
Payments of Mandatory Fees to Agency Funds	(385,380)	(393,240)
Insurance Proceeds on Capital Assets		155,517
American Reinvestment and Recovery Act (GSF)		867,929
Adjustments to Prior Year Revenues and Expenses	<u>19,722</u>	<u>4,352</u>
 INCREASE (DECREASE) IN NET POSITION	 1,572,341	 2,410,688
 NET POSITION - BEGINNING OF YEAR AS ORIGINALLY REPORTED	 <u>43,639,736</u>	 <u>41,167,566</u>
 Adjustment for Prior Year Deferred Revenue	 <u>(61,482)</u>	
 NET POSITION - BEGINNING OF YEAR RESTATED	 <u>43,578,254</u>	 <u>41,167,566</u>
 NET POSITION - END OF YEAR	 <u>\$ 45,150,595</u>	 <u>\$ 43,578,254</u>

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

**HENDERSON STATE UNIVERSITY FOUNDATION, INC.**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

Exhibit B-1

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL 2013</u>	<u>TOTAL 2012</u>
<b>SUPPORT AND REVENUES:</b>					
Contributions		\$ 838,043	\$ 897,467	\$ 1,735,510	\$ 1,112,708
Interest and Dividend Income	\$ 282,818			282,818	281,644
Gain on Sale of Investment	(6,710)			(6,710)	44,452
Unrealized Loss on Investments	344,011			344,011	5,972
Net Assets Released from Restrictions	858,383	(858,383)			
<b>TOTAL SUPPORT AND REVENUES</b>	<u>1,478,502</u>	<u>(20,340)</u>	<u>897,467</u>	<u>2,355,629</u>	<u>1,444,776</u>
<b>EXPENSES:</b>					
Program Services:					
Scholarship awards	376,865			376,865	328,998
Awards and Gifts	371,265			371,265	194,118
Athletics	199,192			199,192	200,922
Total Program Services	<u>947,322</u>			<u>947,322</u>	<u>724,038</u>
Supporting Services:					
General Administration	73,855			73,855	74,761
<b>TOTAL EXPENSES</b>	<u>1,021,177</u>			<u>1,021,177</u>	<u>798,799</u>
<b>CHANGE IN NET ASSETS</b>	457,325	(20,340)	897,467	1,334,452	645,977
<b>NET ASSETS AS OF BEGINNING OF YEAR</b>	<u>1,020,306</u>	<u>2,522,475</u>	<u>9,847,103</u>	<u>13,389,884</u>	<u>12,743,906</u>
<b>NET ASSETS AS OF END OF YEAR</b>	<u>\$ 1,477,631</u>	<u>\$ 2,502,135</u>	<u>\$ 10,744,570</u>	<u>\$ 14,724,336</u>	<u>\$ 13,389,883</u>

**HENDERSON STATE UNIVERSITY**  
**COMPARATIVE STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2013**

Exhibit C

	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Tuition and Fees (Net of Scholarships)	\$ 10,020,944	\$ 9,835,684
Research Grants and Contracts	3,477,339	3,324,794
Collection of Loans and Interest to Students (includes Perkins and interest income)	215,196	240,374
Auxiliary Enterprises		
Athletics	1,464,409	1,385,311
Housing and Food Service	4,875,437	4,689,982
Bookstore	129,861	123,376
Student Union	9,560	9,160
Other Auxiliary Enterprises	383,863	470,905
Other Receipts	1,372,155	998,113
Payments to Suppliers	(15,732,009)	(14,282,905)
Payments to Employees	(23,746,493)	(23,483,893)
Payments of Employee Benefits	(7,071,023)	(6,998,838)
Loans issued to Students (includes Perkins)	(94,915)	(101,393)
Scholarships and Fellowships	(4,210,944)	(5,181,837)
Net Cash Provided (Used) by Operating Activities	(28,906,620)	(28,971,167)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State Appropriations	20,776,031	20,753,369
Federal and State Grants and Contracts	14,283,654	14,834,720
Loans to Students-Direct Loans & Private (Inflows)	18,082,823	18,295,962
Agency Funds (Net of Outflows)	43,361	30,317
Loans to Students-Direct Loans & Private (Outflows)	(18,082,823)	(18,295,962)
Payments of Mandatory Fees to Agency Funds	(385,380)	(393,240)
Gifts and Grants	224,060	168,688
Refund of prior year nonoperating expense	1,487	
Net Cash Provided (Used) by Noncapital Financing Activities	34,943,213	35,393,854
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from Non-Bonded Capital Debt		2,750,000
Acquisitions and Construction of Capital Assets	(6,658,416)	(2,687,206)
American Reinvestment and Recovery Act-GSF		1,791,440
Principal Paid on Non-Bonded Debt	(416,447)	(401,738)
Interest and Fees Paid on Non-Bonded Debt	(151,887)	(45,119)
Payment to Trustee for Principal	(1,545,000)	(1,515,000)
Payment to Trustee for Interest and Fees	(837,378)	(1,222,355)
Capital Gift and Grants	2,500,000	
Payment to Bond Trustee for Refunding		(204,266)
Insurance Proceeds on Capital Assets		155,517
Prior Period Adjustments		6,617
Net Cash Provided (Used) by Capital and Related Financing Activities	(7,109,128)	(1,372,110)

**HENDERSON STATE UNIVERSITY**  
**COMPARATIVE STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2013**

Exhibit C

	2013	2012
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from Sales and Maturities of Investments	\$ 127,614	
Interest on Investments (net of fees)	117,316	\$ 96,544
Net Cash Provided (Used) by Investing Activities	244,930	96,544
Net Increase (Decrease) in Cash	(827,605)	5,147,121
Cash - Beginning of Year	12,190,092	7,042,971
Cash - Ending of Year	\$ 11,362,487	\$ 12,190,092
 <b>Reconciliation of Net Operating Loss to Net Cash Provided (Used) by Operating Activities</b>		
Operating Income (Loss)	\$ (35,029,185)	\$ (33,107,841)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense	3,729,635	3,609,433
Operating expenses paid directly by trustee	2,366,268	
Change in Assets and Liabilities		
Receivables, Net	(379,312)	(73,247)
Inventories	9,982	(9,378)
Other Assets	(34,891)	(47,422)
Loans Receivable	72,197	123,988
Accounts Payable	(130,196)	296,550
Deferred Revenue	212,328	58,492
Employee Retirement	(24,352)	
Compensated Absences	62,557	(44,108)
Other Liabilities	238,349	222,366
Net Cash Provided (Used) by Operating Activities	\$ (28,906,620)	\$ (28,971,167)
 <b>NONCASH TRANSACTIONS</b>		
Donated Capital Assets	\$ 23,229	\$ 62,542
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
Installment Contract Proceeds Paid to Trustee	2,366,268	
Operating Expenses Paid Directly by Trustee	(2,366,268)	

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

# Henderson State University

## Notes to the Financial Statements

### June 30, 2013

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#### NOTE 1: Reporting Entity

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

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

#### Component Units

In May 2002, 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, 2013, the Foundation transferred property, equipment and funds of \$132,467 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 12<sup>th</sup> Street, Arkadelphia, AR 71923.



# Henderson State University

## Notes to the Financial Statements

### June 30, 2013

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#### NOTE 2: Summary of Significant Accounting Policies

##### Financial Statement Presentation

In June 1999, 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 position, revenues, expenses, changes in net position, cash flows, and replaces the fund-group perspective previously required.

##### Basis of Accounting

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

##### Capital Assets and Depreciation

Land, buildings, improvements and infrastructure, equipment, library holdings, and construction in progress are reported at cost or estimated historical cost if actual data is not available. Donated capital assets are reported at 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 and an estimated useful life greater than one year. Improvements to buildings, infrastructure, and land that significantly increase the value or extend the useful life of the asset are capitalized. Routine repairs and maintenance are charged to operating expense when incurred. Capitalization thresholds for intangible assets are \$1,000,000 for internally developed software and \$100,000 for all other applicable categories

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

##### Operating and Nonoperating Revenues

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

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

# Henderson State University

## Notes to the Financial Statements

June 30, 2013

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### 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. Prior to fiscal year 2012, the University used the direct write off method for uncollectible student accounts but, in fiscal year 2012, due to a change in policy, recorded an allowance for uncollectible accounts. The University intends to incrementally increase the allowance, up to 25% of doubtful accounts, until it is equal to those accounts that are deemed uncollectible.

#### Investments

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

#### Deposits with Trustees

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

#### Notes Receivable

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

#### Inventories

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



# Henderson State University

## Notes to the Financial Statements

June 30, 2013

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

#### Noncurrent Cash and Investments

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

#### Deferred 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 \$1,000,439 at June 30, 2013. 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 \$129,395 at June 30, 2013. 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 88<sup>th</sup> 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 \$7,018 at June 30, 2013.

#### Employee Retirement

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

#### Noncurrent Liabilities

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

**Henderson State University**  
**Notes to the Financial Statements**  
**June 30, 2013**

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NOTE 2: Summary of Significant Accounting Policies (Continued)

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

Net Position

The University's net position is classified as follows:

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

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

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

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

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

Scholarship Discounts and Allowances

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

Restricted/Unrestricted Resources

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

# Henderson State University

## Notes to the Financial Statements

June 30, 2013

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

#### Capitalization of Interest

The University capitalizes interest involving qualifying assets if material. The amount of interest cost to be capitalized is interest cost on borrowings netted against any interest earned on temporary investments of the proceeds of the borrowings from the date of the borrowing until the specified qualifying assets acquired with those borrowings are ready for their intended use. The total amount of interest cost incurred (gross of amortizations of premiums and discounts) and the net amount thereof that has been capitalized was \$1,260,403 and \$160,627, respectively, for the fiscal year ended June 30, 2013.

### 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:

<u>Cash Deposits:</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 1,356,137	\$ 1,360,640
Collateralized:		
Collateral held by the pledging bank or pledging bank's trust department in the University's name	10,553,935	11,104,874
Total Deposits	\$ 11,910,072	\$ 12,465,514

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, 2013, respectively. The above total deposits include \$635 of cash that is reported as deposits with trustees and certificates of deposit of \$570,810 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, 2013, none of the University's bank balance of \$12,465,514 was exposed to custodial credit risk.

# Henderson State University

## Notes to the Financial Statements

June 30, 2013

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

#### Custodial Credit Risk – Investments

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University does not have an investment policy for custodial credit risk. The University's open-ended mutual funds of \$685,763 were not subject to custodial credit risk.

#### Credit Risk

The University's open-end mutual funds of \$685,763 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, 2013, the University's deposits with trustees of \$2,226,445 excluding non-negotiable certificates of deposits of \$269,810 and \$635 in cash were invested as follows:

Federated Treasury Obligations Fund of \$1,665,052. The fund was rated AAAM by Standard and Poor's and Aaa-mf by Moody's Investors Service and consisted of short-term repurchase agreements and U.S. Treasuries. The effective average maturity was approximately 52 days.

Federated Government Obligations Fund of \$155,071. The fund was rated AAAM by Standard and Poor's, Aaa-mf by Moody's Investors Service, and AAAMmf by Fitch and consisted of short-term repurchase agreements, government agencies notes, and U.S. Treasuries. The effective average maturity was approximately 53 days.

State and Local Government Securities (SLGS) of \$406,322.

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

### NOTE 4: Income Taxes

The University is tax exempt under Internal Revenue Service code. It is also exempt from state income taxes under Arkansas law. Accordingly, no provision for income taxes is made in the financial statements.

**Henderson State University**  
**Notes to the Financial Statements**  
**June 30, 2013**



**NOTE 5: Capital Assets**

Following are the changes in capital assets for the year ended June 30, 2013:

Capital Assets:	Balance as of July 1, 2012	Additions	Transfers	Retirements	Balance as of June 30, 2013
Capital assets not being depreciated					
Land	\$ 1,363,065	\$ 113,430			\$ 1,476,495
Construction in progress	386,706	5,328,466	\$ (5,633,060)		82,112
Total capital assets not being depr.	\$ 1,749,771	\$ 5,441,896	\$ (5,633,060)		\$ 1,558,607
Other capital assets					
Improvements	\$ 3,898,523				\$ 3,898,523
Infrastructure	3,336,201	\$ 110,820			3,447,021
Buildings	91,663,334	578,566	\$ 5,606,794		97,848,694
Equipment	6,860,810	383,968	26,266	\$ (122,150)	7,148,894
Library materials	11,520,266	544,906		(103,071)	11,962,101
Total other capital assets	117,279,134	1,618,260	5,633,060	(225,221)	124,305,233
Less accumulated depreciation for:					
Improvements	(2,069,092)	(119,839)			(2,188,931)
Infrastructure	(2,282,950)	(95,207)			(2,378,157)
Buildings	(39,605,837)	(2,594,822)			(42,200,659)
Equipment	(4,484,834)	(477,917)		122,150	(4,840,601)
Library materials	(7,999,593)	(441,850)		103,071	(8,338,372)
Total accumulated depreciation	(56,442,306)	(3,729,635)		225,221	(59,946,720)
Total other capital assets, net	\$ 60,836,828	\$ (2,111,375)	\$ 5,633,060	\$ 0	\$ 64,358,513
Capital Asset Summary:					
Capital assets not being depreciated	\$ 1,749,771	\$ 5,441,896			\$ 1,558,607
Other capital assets, at cost	117,279,134	1,618,260		\$ (225,221)	124,305,233
Total cost of capital assets	119,028,905	7,060,156		(225,221)	125,863,840
Less accumulated depreciation	(56,442,306)	(3,729,635)		225,221	(59,946,720)
Capital Assets, net of depreciation	\$ 62,586,599	\$ 3,330,521	\$ 0	\$ 0	\$ 65,917,120



**Henderson State University**  
**Notes to the Financial Statements**  
**June 30, 2013**

**NOTE 6: Long-Term Liabilities**

Debt payments on bonds amounted to \$2,519,458 for the fiscal year ended June 30, 2013. The amount of \$702,392 was expended for debt payments on major capital leases, installment contracts, 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, 2013	Maturities to June 30, 2013
10/1/2007	1/1/2032	4.00-4.60%	\$ 7,975,000	\$ 6,890,000	\$ 1,085,000
12/1/2009	7/1/2026	2.00-4.3%	6,715,000	5,465,000	1,250,000
12/1/2009	7/1/2018	2.00-3.375%	1,540,000	1,085,000	455,000
12/1/2009	7/1/2016	2.65-5.15%	515,000	315,000	200,000
10/1/2011	1/1/2020	2.0- 2.75%	1,960,000	1,545,000	415,000
10/1/2011	1/1/2020	2.0- 2.75%	1,370,000	1,135,000	235,000
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	4,035,000	130,000
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	96,367	348,633
2/6/2007	2/6/2014	4.04%	340,939	36,772	304,167
2/6/2007	2/6/2014	4.04%	340,939	36,772	304,167
3/26/2007	3/26/2014	3.84%	156,245	18,816	137,429
4/25/2007	4/25/2014	3.89%	156,240	20,900	135,340
5/15/2007	5/15/2014	3.93%	156,240	22,983	133,257
7/3/2007	6/29/2014	4.10%	206,769	33,286	173,483
8/9/2007	8/9/2014	3.93%	193,274	36,008	157,266
8/1/2010	8/1/2014	3.51%	524,932	271,517	253,415
7/23/2012	7/23/2026	3.08%	2,366,268	2,366,268	
			<b>\$ 40,411,846</b>	<b>\$ 34,694,689</b>	<b>\$ 5,717,157</b>



# Henderson State University

## Notes to the Financial Statements

June 30, 2013

### NOTE 6: Long-Term Liabilities (Continued)

The changes in long-term liabilities are as follows:

	Balance as of July 1, 2012	Additions	Reductions	Balance as of June 30, 2013	Amounts due within one year
Bonds Payable	\$ 30,520,000		\$ 1,515,000	\$ 29,005,000	\$ 1,845,000
Notes Payable	2,893,103		46,736	2,846,367	102,967
Capital Lease Payable	846,765		369,711	477,054	333,709
Installment Contract		\$ 2,366,268		2,366,268	137,740
Discount on Bonds	(63,310)		(5,172)	(58,138)	(5,172)
Deferral on Debt Defeasance	(261,094)		(30,128)	(230,966)	(30,128)
Premium on Bonds	28,312		3,775	24,537	3,775
Comp Absences Pay.	1,074,294	911,540	848,982	1,136,852	102,048
Employee Retire Pay.	221,190	35,000	59,352	196,838	59,904
	\$ 35,259,260	* \$ 3,312,808	\$ 2,808,256	\$ 35,763,812	\$ 2,549,843

\*Beginning balance was decreased by the amount of the OPEB Liability and Refundable Advance which was previously reported in the above changes in long-term liabilities.

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

Year Ended June 30, 2013	Principal	Interest	Total
2014	\$ 2,419,416	\$ 1,223,072	\$ 3,642,488
2015	2,272,928	1,162,664	3,435,592
2016	2,143,292	1,100,259	3,243,551
2017	2,201,825	1,038,266	3,240,091
2018	2,175,310	975,359	3,150,669
2019-2023	7,466,842	4,047,549	11,514,391
2024-2028	7,151,090	2,739,811	9,890,901
2029-2033	5,869,851	1,368,168	7,238,019
2034-2037	2,994,135	246,676	3,240,811
	\$ 34,694,689	\$ 13,901,824	\$ 48,596,513

# Henderson State University

## Notes to the Financial Statements

June 30, 2013

### NOTE 7: Capital Leases

The University has acquired certain capital assets under various capital leases and notes payable:

Type of Asset	Asset Amount	Accumulated Depreciation	Net
Piper 1 Aircraft	\$ 361,872	\$ 144,749	\$ 217,123
Piper 2 Aircraft	361,872	144,749	217,123
Maule 3 Aircraft	165,702	66,281	99,421
Maule 4 Aircraft	165,697	66,279	99,418
Maule 5 Aircraft	165,697	66,278	99,419
Maule 6 Aircraft	165,498	66,199	99,299
Maule 7 Aircraft	165,498	66,199	99,299
Telephone System	579,182	86,877	492,305
	<u>\$ 2,131,018</u>	<u>\$ 707,611</u>	<u>\$ 1,423,407</u>

The following is a schedule of future minimum lease payments, together with the present value of the net minimum lease as of June 30, 2013:

Fiscal Year Ending June 30,	Amount
2014	\$ 347,097
2015	148,193
Total Minimum Lease Payments	495,290
Less: Amount Representing Interest	18,236
Total Present Value of Net Minimum Lease Payments	<u>\$ 477,054</u>



# Henderson State University

## Notes to the Financial Statements

June 30, 2013

### NOTE 8: Commitments

The University was contractually obligated for the following at June 30, 2013:

Project Name	Completion Date	Contract Balance
Reddie Café Renovation	October 1, 2013	\$ 690,104

### Operating Leases

The University is currently leasing 45 copiers. Lease terms range from 1 to 4 years. The University is also leasing 324 computers. Computer lease term is 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, 2013 totals \$339,741.
- (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
2014	\$ 220,180
2015	88,065
2016	31,496
Total Future Minimum Rental Payments (3 years)	\$ 339,741

Rental payments for the fiscal year ended June 30, 2013 totaled \$279,673.

### 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.

# Henderson State University

## Notes to the Financial Statements

June 30, 2013

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### NOTE 9: Retirement Plans (Continued)

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

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, 2013 were \$1,597,785 and \$1,344,002, respectively.

#### 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, 2013, 2012, and 2011 were \$283,569, \$310,272 and \$321,335, 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.

# Henderson State University

## Notes to the Financial Statements

June 30, 2013

### NOTE 9: Retirement Plans (Continued)

#### Arkansas Public Employees Retirement System (Continued)

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 14.24% of covered salaries. The University's contributions to APERS for the years ended June 30, 2013, 2012, and 2011 were \$491,685, \$435,086, and \$369,493, respectively, equal to the required contributions for each year.

### 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	\$ 16,410,073		\$ 979,655		\$ 17,389,728
Research	28,655		79,952		108,607
Public Service	379,373		48,001		427,374
Academic Support	1,759,724		1,515,247		3,274,971
Student Services	3,557,929		610,053		4,167,982
Institutional Support	4,037,548		3,247,944		7,285,492
Schol. & Fellow.		\$ 4,210,944			4,210,944
Oper. & Maint.	1,968,022		2,538,275		4,506,297
Aux. Enterprises	2,909,669		6,526,077		9,435,746
Depreciation				\$ 3,729,635	3,729,635
Other	59,351		2,596,792		2,656,143
	<u>\$ 31,110,344</u>	<u>\$ 4,210,944</u>	<u>\$ 18,141,996</u>	<u>\$ 3,729,635</u>	<u>\$ 57,192,919</u>

### NOTE 11: Related Party Transactions

Mr. Ross Whipple is a member of the Board of Trustees of Henderson State University. Mr. Ross Whipple is Chairman of Directors of Summit Bancorp, Inc. and owns, directly and indirectly, common stock in Summit Bancorp, Inc. The University has assets invested with Summit Bank. Mr. Ross Whipple is Chairman of The Ross Foundation.

# Henderson State University

## Notes to the Financial Statements

June 30, 2013

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

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

Dr. Glendell Jones Jr. is President of Henderson State University. Dr. Jones is Chair of the Board of Southern Bancorp, Inc., a board member of Arkadelphia Regional Economic Development Alliance, and Chair of the Board of Arkansas Science and Technology Authority. The University has assets invested with Southern Bancorp of Arkansas.

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.

### NOTE 12: Compensated Absences

Changes in Compensated Absences Payable are as follows:

Changes in Compensated Absences Payable:	Amount
Annual Leave as of June 30, 2012	\$ 757,115
Earned Leave	691,986
Lost Leave over 240 hours	(77,515)
Annual Leave Used	(537,887)
Annual Leave as of June 30, 2013	\$ 833,699

Employees with a sick leave balance of 50 days or more are eligible for payment for leave upon retirement. As of June 30, 2013 the University's liability for employees with sufficient leave balances was \$107,829.

Employees with a compensatory time balance are eligible for payment for leave upon termination, retirement or death. As of June 30, 2013 the University's liability for employees with compensatory leave balances was \$5,849.

The above figures do not include estimated fringe benefits on accrued leave in the amount of \$189,475 for 2012/2013.

# Henderson State University

## Notes to the Financial Statements

June 30, 2013

NOTE 13: Employee Retirement

Changes in Employee Retirement:	Amount
Employee Retirement as of June 30, 2012	\$ 221,190
Annual Revaluation	35,000
Amount Paid Out During 2012/2013	(59,352)
Employee Retirement as of June 30, 2013	\$ 196,838

NOTE 14: Disaggregation of Receivable and Payable Balances

Accounts Receivable Consists of the Following:	Amount
Student Tuition and Fees, net of allowance of \$500,000	\$ 2,916,327
Auxiliary Enterprises	49,585
Other Receivables	44,812
Federal	79,379
State	113,423
Notes and Loans Receivable	1,185,417
<b>Total Accounts Receivable</b>	<b>\$ 4,388,943</b>

Accounts Payable Consists of the Following:	Amount
Vendors	\$ 759,909
Other Payables	177,808
State	71,660
Interest & Fees Payable	603,290
<b>Total Accounts Payable</b>	<b>\$ 1,612,667</b>

# Henderson State University

## Notes to the Financial Statements

June 30, 2013

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

The University offers postemployment health care benefits and basic life insurance benefits to all employees who officially retire from the University and meet certain age and service related requirements. Health care benefits are offered through Health Advantage of Arkansas Blue Cross and Blue Shield. Our health insurance plan is the Blue Choice Open Access Plan 302. Life insurance benefits are offered through MetLife. Retiree life insurance is determined by multiplying the salary upon retirement by 65% and rounding to the next nearest thousand, with a maximum of \$20,000 in coverage. University members are eligible to retire at age 55 if their age plus years of continuous University service equals at least 70. Medical coverage ceases when the retiree becomes Medicare eligible (currently age 65). At that time, any covered dependents are eligible to pay for their own coverage through COBRA for up to 36 months. The University pays the premiums for life insurance until the retiree reaches age 65. At age 65, the retiree has the option of continuing until age 70 by assuming the cost of the monthly premiums. Eligible retired employees participating in the Health Advantage health care benefits and/or the MetLife life insurance benefits pay their premiums directly to the University. The University pays the total premium directly to Health Advantage for the health care benefits and is reimbursed by the retirees for the retirees' portion of the premium. The University paid the employer portion of the health care premiums directly to Health advantage in the amount of \$78,357 for fiscal year 2013, compared to \$90,520 for fiscal year 2012. The University paid the total premiums for life insurance benefits for eligible retirees, ages 55 to 65, directly to MetLife in the amount of \$1,345 for fiscal year 2013, compared to \$1,565 for fiscal year 2012. This represents a total of \$79,702 paid by the University for the employer portion of the OPEB for fiscal year 2013, compared to \$92,085 for fiscal year 2012.

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 82% or \$78,357 of the postretirement healthcare premiums, totaling \$95,084 for the fiscal year ended June 30, 2013. Last year, the University funded approximately 84% or \$90,520 of the postretirement healthcare premiums, totaling \$107,585 for the fiscal year ended June 30, 2012. The retirees are responsible for funding approximately 18% of the healthcare premiums compared to 16% last year.

# Henderson State University

## Notes to the Financial Statements

June 30, 2013

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

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 \$1,345 in postretirement life insurance benefits for the fiscal year ended June 30, 2013 and \$1,565 in postretirement life insurance benefits for the fiscal year ended June 30, 2012. 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 \$238,349 in retiree healthcare and life insurance expense during fiscal year 2013, compared to \$222,366 during fiscal year 2012.

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.

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



# Henderson State University

## Notes to the Financial Statements

June 30, 2013

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

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

Cost Element	Fiscal Year Ending June 30, 2013		Fiscal Year Ending June 30, 2012	
	Amount	% of Payroll <sup>1</sup>	Amount	% of Payroll <sup>1</sup>
1. Unfunded actuarial accrued liability	\$ 2,799,751	13.80%	\$ 2,750,389	13.82%
<u>Annual Required Contribution (ARC)</u>				
2. Normal Cost	\$ 197,637		\$ 191,881	
3. Amortization of the unfunded actuarial accrued liability over 30 years using open amortization	142,841		140,323	
4. Amortization of beginning of year accrual				
5. Annual Required Contribution (ARC = 2 + 3+4)	<u>\$ 340,478</u>	1.68%	<u>\$ 332,204</u>	1.67%
<u>Annual OPEB Cost (Expense)</u>				
6. Normal Cost	\$ 197,637		\$ 191,881	
7. Amortization of the unfunded actuarial accrued liability over 30 year using open amortization	142,841		140,323	
8. Amortization of beginning of year accrual	(54,437)		(43,092)	
9. Interest on beginning of year accrual	32,010		25,339	
10. Annual OPEB cost (6+7+8+9)	<u>\$ 318,051</u>	1.57%	<u>\$ 314,451</u>	1.58%
<u>End of year Accrual (Net OPEB Obligation)</u>				
11. Beginning of year accrual	\$ 1,066,984		\$ 844,618	
12. Annual OPEB cost	318,051		314,451	
13. Employer contribution (benefit payments) <sup>2</sup>	79,702		92,085	
14. End of year accrual (11 + 12 - 13)	<u>\$ 1,305,333</u>	6.43%	<u>\$ 1,066,984</u>	5.36%

<sup>1</sup> Annual payroll for the 498 plan participants as of July 1, 2012 is \$20,292,040 and for the 485 plan participants as of July 1, 2011 is \$19,895,646.

<sup>2</sup> Actual contributions paid in fiscal year 2013 of \$96,430 less participant contributions of \$16,728, \$109,150 and \$17,065, respectively, in fiscal year 2012. Employer contributed 25.06% of annual OPEB cost during fiscal year 2013, compared to 29.28% during fiscal year 2012.



# Henderson State University

## Notes to the Financial Statements

June 30, 2013

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

**Schedule of Employer Contributions:**

Fiscal Year Ended	Annual OPEB Cost	Actual Contributions <sup>3</sup>	Percentage Contributed
June 30, 2013	\$ 318,051	\$ 79,702	25.06%
June 30, 2012	314,451	92,085	29.28%
June 30, 2011	328,430	92,617	28.20%

<sup>3</sup>Since there is no funding; these are actual benefit payments of \$96,430 less retiree contributions of \$16,728 for 2013 and \$109,150 less retiree contributions of \$17,065 for 2012 and \$111,296 less retiree contributions of \$18,679 for 2011.

**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 <sup>4</sup> (c)	UAAL as a Percentage Of Covered Payroll <sup>4</sup> [(b)-(a)/(c)]
June 30, 2013	\$ 0	\$ 2,799,751	\$ 2,799,751	0.00%	\$ 20,292,040	13.80%
June 30, 2012	0	2,750,389	2,750,339	0.00%	19,895,646	13.82%
June 30, 2011	0	2,777,596	2,777,596	0.00%	18,741,934	14.82%

<sup>4</sup>Estimated payroll as of July 1, 2012, July 1, 2011, and July 1, 2010 includes only plan participants.

Note: The annual OPEB cost of \$318,051 for fiscal year 2013 and accrual of \$1,305,333 as of June 30, 2013, are based on a current decision not to fund in a segregated GASB qualified trust; \$314,451 and \$1,066,984, respectively, in the fiscal year 2012; and \$328,430 and \$844,618, respectively, in the fiscal year 2011.

# Henderson State University

## Notes to the Financial Statements

June 30, 2013

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

### Three-Year Schedule of Percentage of OPEB Cost Contributed:

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
June 30, 2013	\$ 318,051	25.06%	\$ 1,305,333
June 30, 2012	314,451	29.28%	1,066,984
June 30, 2011	328,430	28.20%	844,618

### Summary of Key Actuarial Methods and Assumptions:

#### Methods:

Valuation Year: July 1, 2011 – June 30, 2012, rolled forward

Actuarial Cost Method: Projected Unit Credit, level dollar

Amortization Method: 30 years, level dollar open amortization<sup>5</sup>

Asset Valuation Method: N/A

<sup>5</sup>Open 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.

# Henderson State University

## Notes to the Financial Statements

June 30, 2013

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

#### General Overview of the Valuation Methodology (Continued):

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, rolled forward

**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.

#### Retiree Premiums:

Retiree Premiums	Employee Cost	Employer Cost	Total
Health Insurance (Monthly Rate)			
Single	\$ 0	\$ 343.85	\$ 343.85
Family	325.87	368.76	694.63
Life Insurance			
Basic	\$ 0	\$ .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 Combined Static Mortality Table is used.

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

# Henderson State University

## Notes to the Financial Statements

June 30, 2013

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

**Retirement Rates:**

Employees are assumed to retire according to the following schedule:

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



# Henderson State University

## Notes to the Financial Statements

June 30, 2013

**NOTE 15: Other Post Employment 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 the Financial Statements**  
**June 30, 2013**

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**NOTE 16: Pollution Remediation Obligations**

In 2006, GASB issued Statement no. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB Statement no. 49 establishes standards for accounting and financial reporting for pollution remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. Management has determined to begin recognizing a liability at the time that an obligating event exists. 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 through 2019 to 2036. Annual principal and interest payments on the bonds currently require 20.7% of gross revenues. The total principal and interest remaining to be paid on the bonds is \$20,870,360. Principal and interest paid for the current year and total customer gross revenues were \$905,423 and \$4,374,838, 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 2032. Annual principal and interest payments on the bonds currently require 67% of gross revenues. The total principal and interest remaining to be paid on the bonds is \$10,362,238. Principal and interest paid for the current year and total customer gross revenues were \$541,465 and \$807,762, 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 2017. Annual principal and interest payments on the bonds currently require 1.7% of gross revenues. The total principal and interest remaining to be paid on the bonds is \$347,146. Principal and interest paid for the current year and total customer gross revenues were \$85,025 and \$5,072,645, 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 of 2020 and 2027. Annual principal and interest payments on the bonds currently require 3.7% of gross revenues. The total principal and interest remaining to be paid on the bonds is \$8,309,260. Principal and interest paid for the current year and gross student tuition and fees were \$987,545 and \$26,864,722, respectively.



# Henderson State University

## Notes to the Financial Statements

June 30, 2013

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### NOTE 18: Risk Management

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

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

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

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

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

# Henderson State University

## Notes to the Financial Statements

June 30, 2013

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### NOTE 19: Financial Commitment from Food Service Vendor

On July 1, 2010, the University entered into a 10 year contract with Aramark Educational Services, LLC (Aramark) to provide meals to students and catering services to the University. In consideration of the University's agreement to continue services for this time period, Aramark agreed to make a financial commitment to the University in the amount of \$2,500,000 to be used towards construction of a new dining facility. Aramark's financial commitment along with a \$2,750,000 financing agreement the University entered into with Arvest Bank on August 31, 2011 allowed construction to commence with a completion date of May 27, 2013. The financial commitment from Aramark shall be amortized on a straight-line basis over a period of twenty (20) years. Upon termination of this agreement by either Aramark or the University prior to the complete amortization of the financial agreement, the University would be required to reimburse Aramark for the unamortized balance on the date of termination or expiration of the contract. The balance of the financial commitment to the University as of June 30, 2013 is \$2,440,972.





# Henderson State University

## Notes to the Financial Statements

June 30, 2013

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### NOTE 20: Subsequent Events

On July 19, 2013, the University entered into a loan in the amount of \$408,798 with Summit Bank for the purchase of computers. On April 25, 2014 this loan was repaid in full.

On December 23, 2013, the University and Goslee Construction, Corp., entered into a construction contract for the renovation of the HSU Day Gym, located in the Garrison Center, for use as a banquet facility for university functions in the amount of \$948,000.

On July 8, 2013, the University entered into an agreement with Aramark Educational Services, LLC, to begin renovations and purchasing of equipment for the addition of Chick-fil-A and Starbucks as on-campus retail venues. It was agreed that Aramark would provide a short term loan of \$1,000,000 without interest to be re-paid no later than March 1, 2014. The University obtained a loan of \$1,100,000 from MassMutual Asset Finance LLC on February 14, 2014 and re-payment of the short term loan was made on February 17, 2014.

On April 25, 2014, the University and Summit Properties-Landmark, LLC entered into a 10 year lease agreement to begin on August 1, 2014 for the lease of office and classroom space at the Landmark Building in Hot Springs, AR. Lease payments in the amount of \$127,775 will be paid for the first two years and increase approximately 2.5% every two years thereafter.

### NOTE 21: Restatement of Financial Statements

The beginning net position in the Comparative Statement of Revenues, Expenses and Changes in Net Position was restated from \$43,639,736 to \$43,578,254 due to revenue of \$61,482 from Student Tuition and Fees and Auxiliary Enterprises-Housing and Food Service which had not been deferred correctly at June 30, 2012. The above two revenue classifications for the year ended June 30, 2012 were restated for the above correction.

On the Comparative Statement of Net Position, deferred revenues and deposits at June 30, 2012 was increased by \$61,482 and unrestricted net position was decreased by \$61,482 to reflect the correction as discussed above.

On the Comparative Statement of Cash Flows under the Reconciliation of Net Operating Loss to Net Cash Provided (Used) by Operating Activities for the year ended June 30, 2012, the amounts for operating income (loss) and changes in the deferred revenue account were adjusted to reflect the above discussed correction.

**Henderson State University**  
**Required Supplementary Information**  
**June 30, 2013**

**POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**

**Schedule of Employer Contributions:**

Fiscal Year Ended	Annual OPEB Cost	Actual Contributions <sup>3</sup>	Percentage Contributed
June 30, 2013	\$ 318,051	\$ 79,702	25.06%
June 30, 2012	314,451	92,085	29.28%
June 30, 2011	328,430	92,617	28.20%

<sup>3</sup>Since there is no funding; these are actual benefit payments of \$96,430 less retiree contributions of \$16,728 for 2013 and \$109,150 less retiree contributions of \$17,065 for 2012 and \$111,296 less retiree contributions of \$18,679 for 2011.

**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 <sup>4</sup> (c)	UAAL as a Percentage Of Covered Payroll <sup>4</sup> [(b)-(a)/(c)]
June 30, 2013	\$ 0	\$ 2,799,751	\$ 2,799,751	0.00%	\$ 20,292,040	13.80%
June 30, 2012	0	2,750,389	2,750,389	0.00%	19,895,646	13.82%
June 30, 2011	0	2,777,596	2,777,596	0.00%	18,741,934	14.82%

<sup>4</sup>Estimated payroll as of July 1, 2012, July 1, 2011, and July 1, 2010 includes only plan participants.



HENDERSON STATE UNIVERSITY  
SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS  
FOR THE YEAR ENDED JUNE 30, 2013  
(Unaudited)

Schedule 1

	Year Ended June 30,				
	2013	2012	2011	2010	2009
Total Assets	\$ 86,165,369	\$ 83,334,695	\$ 80,148,391	\$ 75,096,232	\$ 75,700,622
Total Liabilities	41,014,774	39,756,441	38,980,825	39,072,873	42,934,690
Total Net Assets	45,150,595	43,578,254	41,167,566	36,023,359	32,765,932
Total Operating Revenues	22,163,734	21,117,073	19,717,034	19,784,856	21,417,434
Total Operating Expenses	57,192,919	54,224,914	52,814,878	47,606,120	48,555,111
Total Net Non-Operating Revenues	34,343,955	34,883,971	36,575,249	28,923,897	26,292,987
Total Other Revenues, Expenses, Gains or Losses	2,257,571	634,558	1,666,802	288,328	1,670,492