

Henderson State University

Arkadelphia, Arkansas

**Basic Financial Statements
and Other Reports**

June 30, 2014

LEGISLATIVE JOINT AUDITING COMMITTEE



HENDERSON STATE UNIVERSITY
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Arkansas

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

LEGISLATIVE JOINT AUDITING COMMITTEE **ARKANSAS LEGISLATIVE AUDIT** **INDEPENDENT AUDITOR'S REPORT**

Henderson State University
Legislative Joint Auditing Committee

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Henderson State University (University), an institution of higher education of the State of Arkansas, as of and for the year ended June 30, 2014, 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, 2014, 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 2013 financial statements have been restated due to the adoption of Governmental Accounting Standards Board Statement no. 65, *Items Previously Reported as Assets and Liabilities*, and to correct certain transactions. Our opinion is not modified with respect to this matter.

Other Matters

Prior Year Comparative Information

We have previously audited the University's 2013 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 June 26, 2014. In our opinion, the comparative information presented herein as of and for the year ended June 30, 2013, 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 46 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 August 27, 2015 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

ARKANSAS LEGISLATIVE AUDIT



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

Little Rock, Arkansas
August 27, 2015
EDHE10014

Arkansas

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LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

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

INDEPENDENT AUDITOR'S REPORT

Henderson State University
Legislative Joint Auditing Committee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the business-type activities and the 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, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated August 27, 2015. 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

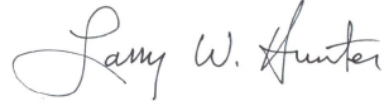
As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of the state constitution, state laws and regulations, contracts, and grant agreements, noncompliance with which 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 August 27, 2015.

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.

ARKANSAS LEGISLATIVE AUDIT

A handwritten signature in cursive script that reads "Larry W. Hunter".

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
August 27, 2015

Arkansas



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LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

MANAGEMENT LETTER

Henderson State University
Legislative Joint Auditing Committee

STUDENT ENROLLMENT DATA - In accordance with Ark. Code Ann. § 6-60-209, we performed tests of the student enrollment data for the year ended June 30, 2014, 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> <u>2013</u>	<u>Fall Term</u> <u>2013</u>	<u>Spring Term</u> <u>2014</u>	<u>Summer I Term</u> <u>2014</u>
Student Headcount	931	3,582	3,283	766
Student Semester Credit Hours	5,266	47,803	43,534	3,350

During our review, nothing came to our attention that would cause us to believe that the student enrollment data was not substantially correct.

This letter is intended solely for the information and use of the Legislative Joint Auditing Committee, the governing board, University management, state executive and oversight management, and other parties as required by Arkansas Code, and is not intended to be and should not be used by anyone other than these specified parties. However, pursuant to Ark. Code Ann. § 10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

ARKANSAS LEGISLATIVE AUDIT

A handwritten signature in cursive script that reads "Larry W. Hunter".

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
August 27, 2015

HENDERSON STATE UNIVERSITY

Management's Discussion and Analysis

Overview of the Financial Statements and Financial Analysis

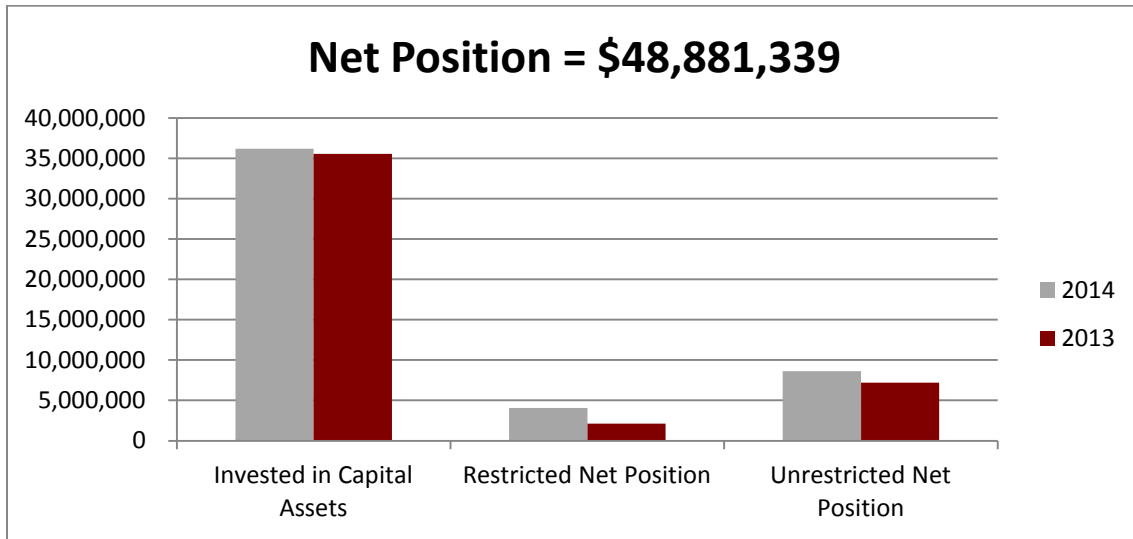
Henderson State University proudly presents its financial statements for fiscal year 2014 with comparative data presented for fiscal year 2013. The emphasis of discussion concerning these statements will be for the current year data. There are three financial statements presented: The Statements of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows.

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

Statement of Net Position

The Statement of Net Position presents the Assets (current and 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 expenditures by the Institution but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. Unrestricted Net Position is available to the Institution for any lawful purpose of the Institution.

HENDERSON STATE UNIVERSITY

Statement of Net Position		
June 30, 2014		
	2014	2013
Assets:		
Current Assets	\$ 19,091,588	\$ 17,202,247
Capital Assets, net	66,001,969	65,917,120
Other Assets	4,513,382	2,761,290
Total Assets	89,606,939	85,880,657
Deferred Outflow of Resources	200,839	230,966
Liabilities:		
Current Liabilities	6,168,899	5,260,440
Non-Current Liabilities	34,757,540	35,985,300
Total Liabilities	40,926,439	41,245,740
Net Position:		
Net Investment in Capital Assets	36,185,999	35,561,369
Restricted-Expendable	3,895,690	1,941,153
Restricted-Nonexpendable	168,456	179,043
Unrestricted	8,631,194	7,184,318
Total Net Position	\$ 48,881,339	\$ 44,865,883

Total Assets of the Institution increased by \$3,726,282. 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 of \$1,951,678 from noncurrent cash and cash equivalents due to receipt of capital appropriations for construction projects not expended as of June 30, 2014 and \$1,872,654 in current cash resulting from an increase in operating income.

Total liabilities for the year decreased by \$319,301. This net decrease was primarily due to the decrease in Long Term Debt of \$1,420,229 as well as an increase in Other Postemployment Benefits of \$214,792, an increase in Accounts Payable of \$738,425, and an increase of \$188,820 in Unearned revenue.

Statement of Revenues, Expenses, and Changes in Net Position

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

Operating revenues are received for providing goods and services to the various customers and constituencies of the Institution. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the Institution. Non-operating revenues are revenues received for which goods 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.

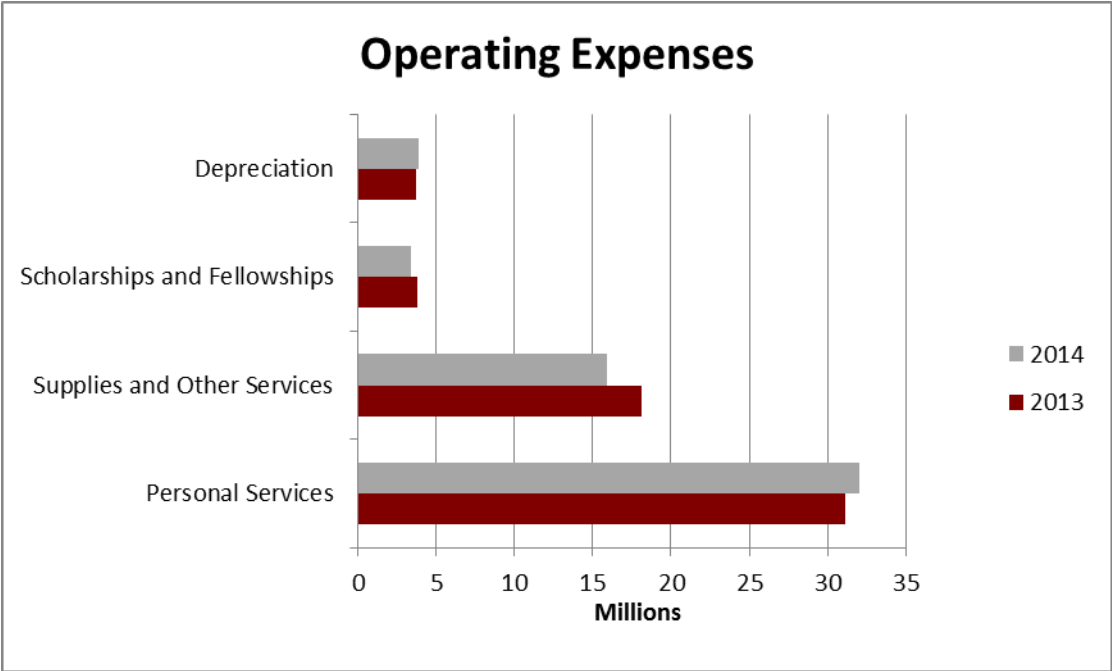
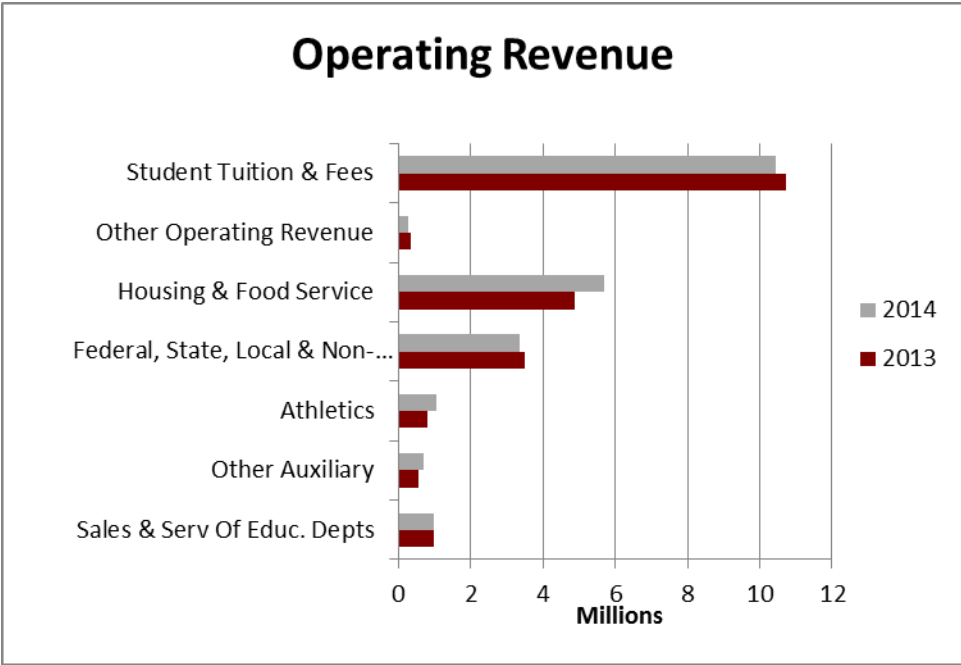
HENDERSON STATE UNIVERSITY

Comparative Statement of Revenues, Expenses, and Changes in Net Position For the Fiscal Year Ended June 30, 2014		
	2014	2013
Operating Revenues	\$ 22,454,109	\$ 21,739,690
Operating Expenses	55,170,305	56,768,875
Operating Loss	(32,716,196)	(35,029,185)
Non-Operating Revenues less Expenses	33,628,442	34,374,981
Income (Loss) Before Other Rev., Exp., Gains or Losses	912,246	(654,204)
Other Revenues, Expenses, Gains or Losses	3,103,210	2,257,571
Increases (Decreases) in Net Assets	4,015,456	1,603,367
Net Position at Beginning of Year	44,865,883	43,578,254
Adjustment due to GASB 65 (Note 21)		(315,738)
Net Position at Beginning of Year, as Restated	44,865,883	43,262,516
Net Position at End of Year	\$ 48,881,339	\$ 44,865,883

The Statement of Revenues, Expenses, and Changes in Net Position reflect an increase in net position at the end of the year of \$4,015,456. Highlights of the information presented on the statement are as follows:

- ❖ Student tuition and fees, net of scholarship allowances, decreased by \$311,044. This decrease is primarily attributable to an increase in scholarship allowances for FY14 and a decrease in enrollment.
- ❖ Auxiliary Enterprises realized a net increase in revenue of \$1,219,549 due to increased housing and meal plan rates.
- ❖ Non-Operating Federal and state grants and contracts decreased by \$784,660. This decrease was primarily due to the reduced amount each student could receive in Arkansas Challenge Scholarship.
- ❖ State of Arkansas non-operating appropriations increased by \$30,025 due to an increase in Education Excellence Trust Fund of \$22,082 and funds received due to contiguous county waivers of \$7,943.
- ❖ Personal services expenses increased by \$892,662. This increase is due to a 2.5% salary increase for Non-Classified Staff and Faculty and a 2% increase for classified staff for the 2013-2014 fiscal year.
- ❖ Supplies and other services decreased by \$2,273,335. This decrease is due to campus repair, replacements, and renovations for the energy savings project the previous year.
- ❖ Scholarship expenses decreased by \$382,926 due to the reduced amount each student could receive from the Arkansas Challenge Scholarship.
- ❖ Capital Appropriations increased 3,230,000 for construction and renovations of the Garrison Center, Community Education Center at Hot Springs, and Proctor Hall.

HENDERSON STATE UNIVERSITY



HENDERSON STATE UNIVERSITY

Statement of Cash Flows

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

Comparative Statement of Cash Flow For the Fiscal Year Ended June 30, 2014		
	2014	2013
Cash Provided (used) by:		
Operating Activities	\$ (27,781,054)	\$ (28,906,620)
Non-capital Financing Activities	34,192,776	34,943,213
Investing Activities	150,190	244,930
Capital and Related Financing Activities	(2,737,580)	(7,109,128)
Net Change in Cash	3,824,332	(827,605)
Cash, Beginning of Year	11,362,487	12,190,092
Cash, End of year	\$ 15,186,819	\$ 11,362,487

- ❖ 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.

HENDERSON STATE UNIVERSITY

Capital Assets and Debt Administration

The University made an investment in the following additions or improvements in fiscal year 2014.

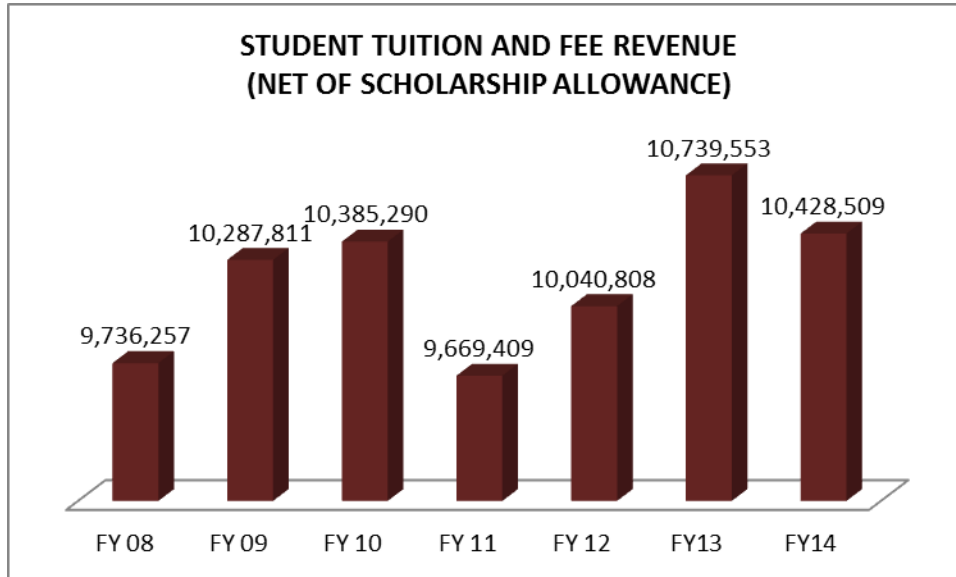
	Amount
Land	\$ -
Construction in Progress	2,598,596
Improvements & Infrastructure	172,455
Equipment (includes \$73,441 classified as construction in progress in prior year)	340,477
Library Holdings	524,486
Buildings (includes \$1,033,015 of completed construction in progress)	1,466,943
Total	\$ 5,102,957

The University's long term debt (current and noncurrent) decreased from \$34,694,689 to \$33,274,460 a \$1,420,229 net decrease.

Economic Outlook

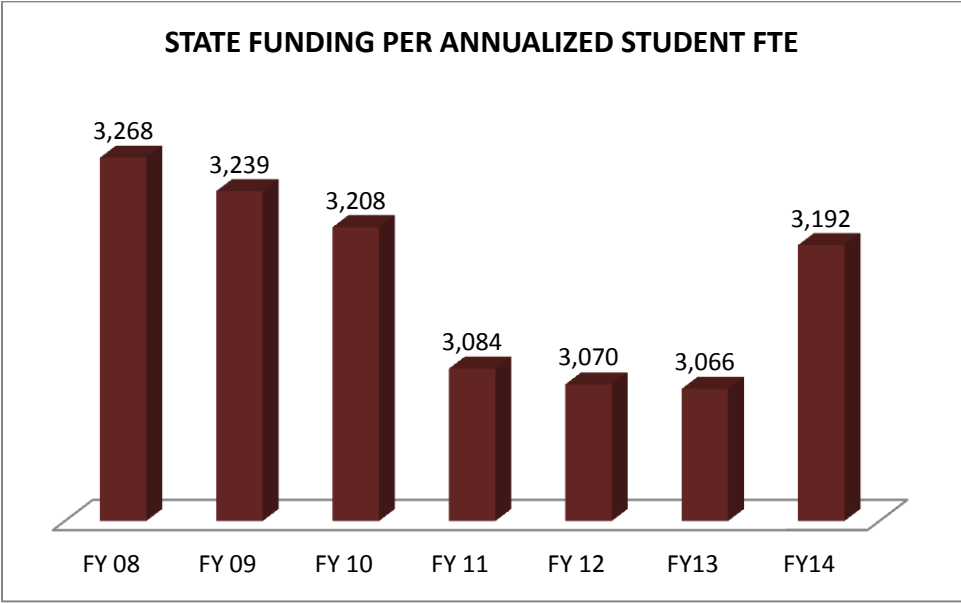
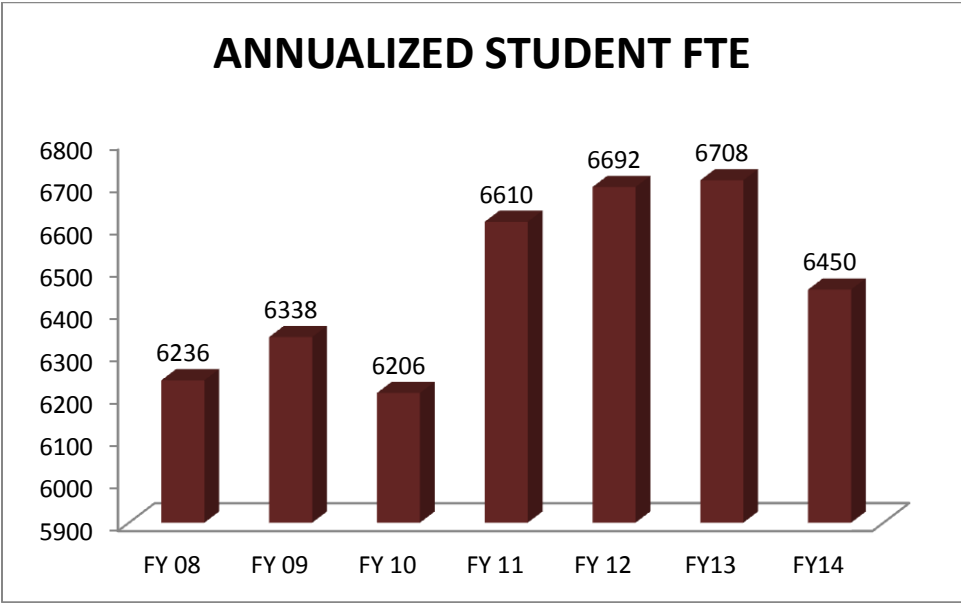
Cash reserves, fund balances and ratio analysis show positive trends and are consistent with growth in net assets.

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



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

HENDERSON STATE UNIVERSITY



The University's overall financial position is strong. Even with small increases in enrollment, our innovative academic programs and proactive budget management policies make us optimistic for the University's operations during Fiscal Year 14-15.

As always, we will manage our resources and make adjustments as necessary to assure the continued financial integrity of the University.

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

HENDERSON STATE UNIVERSITY
COMPARATIVE STATEMENT OF NET POSITION
JUNE 30, 2014

Exhibit A

	2014	Restated 2013
ASSETS:		
Current Assets:		
Cash and Cash Equivalents	\$ 13,135,160	\$ 11,262,506
Short Term Investments	914,503	745,763
Student Accounts Receivable, Net	3,095,787	2,916,327
Accrued Interest Receivable	1,189	1,695
Inventories	155,620	182,627
Notes and Student Loans Receivable	215,365	188,499
Other Receivables	474,878	285,504
Deposits with Trustee	1,072,864	1,073,499
Prepaid Expenses	26,222	545,827
Total Current Assets	19,091,588	17,202,247
Non-Current Assets:		
Cash and Cash Equivalents	2,051,659	99,981
Investments	89,000	241,000
Notes and Student Loans Receivable	949,646	996,918
Deposits with Trustee	1,423,077	1,423,391
Capital Assets, Net of Accumulated Depreciation (\$63,499,043 and \$59,946,720, respectively)	66,001,969	65,917,120
Total Non-Current Assets	70,515,351	68,678,410
Total Assets	89,606,939	85,880,657
DEFERRED OUTFLOW OF RESOURCES:		
Deferred amount on bond refundings	200,839	230,966
LIABILITIES:		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	2,351,092	1,612,667
Funds Held in Trust for Others	634,573	569,770
Unearned Revenue	686,852	498,032
Employee Retirement	59,231	59,904
Compensated Absences Payable	114,567	102,048
Long-term Debt	2,323,981	2,419,416
Discount on Bonds	(5,172)	(5,172)
Deferral of Bond Premium	3,775	3,775
Total Current Liabilities	6,168,899	5,260,440

HENDERSON STATE UNIVERSITY
COMPARATIVE STATEMENT OF NET POSITION
JUNE 30, 2014

Exhibit A

	2014	Restated 2013
Non-Current Liabilities:		
Refundable Advance	\$ 1,222,596	\$ 1,265,160
Employee Retirement	115,165	136,934
Other Postemployment Benefits	1,520,125	1,305,333
Compensated Absences Payable	979,982	1,034,804
Long-term Debt	30,950,479	32,275,273
Discount on Bonds Net of Accumulated Amortization (\$18,907 and \$13,735, respectively)	(47,794)	(52,966)
Bond Premium-Deferred, Net of Accumulated Amortization (\$10,381 and \$6,606, respectively)	16,987	20,762
Total Non-Current Liabilities	34,757,540	35,985,300
Total Liabilities	40,926,439	41,245,740
NET POSITION:		
Net Investment in Capital Assets	36,185,999	35,561,369
Restricted for:		
Expendable:		
Scholarship and Fellowships	226,192	211,123
Capital Projects	2,051,659	
Grants and Contracts	777,759	904,446
Loans	48,890	48,889
Debt Service	790,000	775,000
Other	1,190	1,695
Nonexpendable:		
Loans	168,456	179,043
Unrestricted	8,631,194	7,184,318
Total Net Position	\$ 48,881,339	\$ 44,865,883

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

HENDERSON STATE UNIVERSITY FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2014 AND 2013

Exhibit A-1

	2014	2013
ASSETS:		
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 2,300,692	\$ 4,058,914
Investment Securities (FMV)	13,665,740	10,547,475
Accrued Interest Receivable	6,516	11,949
TOTAL CURRENT ASSETS	15,972,948	14,618,338
PROPERTY AND EQUIPMENT:		
Smith-Garner House	150,593	150,593
Gibbs House	76,500	
Foundation Furnishings	7,264	7,264
	234,357	157,857
Less Accumulated Depreciation	(64,261)	(59,359)
TOTAL PROPERTY AND EQUIPMENT	170,096	98,498
OTHER ASSETS:		
Belvedere Resort Rights	7,500	7,500
TOTAL ASSETS	16,150,544	14,724,336
LIABILITIES:		
Accounts Payable	23,911	
NET ASSETS:		
Unrestricted Net Assets	2,545,655	1,477,631
Temporarily Restricted Net Assets	2,995,330	2,502,135
Permanently Restricted Net Assets	10,585,648	10,744,570
TOTAL NET ASSETS	16,126,633	14,724,336
TOTAL LIABILITIES AND NET ASSETS	\$ 16,150,544	\$ 14,724,336

HENDERSON STATE UNIVERSITY
COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014

Exhibit B

	2014	Restated 2013
OPERATING REVENUES:		
Student Tuition and Fees (net of scholarship allowances of \$16,333,235 and \$16,244,814, respectively)	\$ 10,428,509	\$ 10,739,553
Federal Grants and Contracts	1,649,014	1,713,240
State and Local Grants and Contracts	1,480,065	1,654,781
Non-Governmental Grants and Contracts	219,000	126,878
Sales and Services of Educational Departments	980,112	977,905
Athletics (net of scholarship allowances of \$611,789 and 674,069, respectively)	1,043,801	790,340
Housing and Food Service (net of scholarship allowances of \$2,274,845 and \$2,811,835, respectively)	5,697,762	4,873,116
Bookstore	114,049	129,861
Garrison Center	4,350	9,560
Other Auxiliary Enterprises	562,502	400,038
Other Operating Revenues	274,945	324,418
TOTAL OPERATING REVENUES	22,454,109	21,739,690
OPERATING EXPENSES:		
Personal Services	32,003,006	31,110,344
Supplies and Other Services	15,868,661	18,141,996
Scholarships and Fellowships	3,403,974	3,786,900
Depreciation	3,894,664	3,729,635
TOTAL OPERATING EXPENSES	55,170,305	56,768,875
OPERATING INCOME (LOSS)	(32,716,196)	(35,029,185)
NON-OPERATING REVENUES (EXPENSES)		
State Appropriations	20,806,056	20,776,031
Federal and State Grants and Contracts	13,498,995	14,283,655
Gifts	389,357	224,059
Investment Income	170,467	206,292
Interest and Fees on Long Term Debt	(1,262,009)	(1,149,820)
Other	25,576	34,764
Net Non-operating Revenues	33,628,442	34,374,981

HENDERSON STATE UNIVERSITY
COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014

Exhibit B

	<u>2014</u>	<u>Restated 2013</u>
Income Before Other Revenues, Expenses, Gains/Losses	\$ 912,246	\$ (654,204)
Capital Gifts	48,500	2,623,229
Capital Grants	157,764	
Capital Appropriations	3,230,000	
Payments of Mandatory Fees to Agency Funds	(361,200)	(385,380)
Insurance Proceeds on Capital Assets	19,121	
Adjustments to Prior Year Revenues and Expenses	<u>9,025</u>	<u>19,722</u>
INCREASE (DECREASE) IN NET POSITION	<u>4,015,456</u>	<u>1,603,367</u>
NET POSITION- BEG. OF YEAR AS ORIGINALLY REPORTED	44,865,883	43,578,254
Adjustment due to GASB 65 (Note 21)		<u>(315,738)</u>
NET POSITION- BEGINNING OF YEAR RESTATED	<u>44,865,883</u>	<u>43,262,516</u>
NET POSITION-END OF YEAR	<u><u>\$ 48,881,339</u></u>	<u><u>\$ 44,865,883</u></u>

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

HENDERSON STATE UNIVERSITY FOUNDATION, INC.
STATEMENTS OF ACTIVITIES
FOR YEARS ENDED JUNE 30, 2014 AND 2013

Exhibit B-1

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL 2014
SUPPORT AND REVENUES:				
Contributions		\$ 889,047	\$ 453,771	\$ 1,342,818
Interest and Dividend Income	\$ 394,731			394,731
Gain on Sale of Investment	161,014			161,014
Unrealized Gain on Investments	739,877			739,877
Net Assets Released from Restrictions	1,007,504	(395,852)	(611,652)	
TOTAL SUPPORT AND REVENUES	2,303,126	493,195	(157,881)	2,638,440
EXPENSES:				
Program Services:				
Scholarship Awards	315,493			315,493
Awards and Gifts	504,105			504,105
Athletics	283,695			283,695
Total Program Services	1,103,293			1,103,293
Supporting Services:				
General Administration	131,809		1,041	132,850
TOTAL EXPENSES	1,235,102		1,041	1,236,143
CHANGE IN NET ASSETS	1,068,024	493,195	(158,922)	1,402,297
NET ASSETS AS OF BEGINNING OF YEAR	1,477,631	2,502,135	10,744,570	14,724,336
NET ASSETS AS OF END OF YEAR	\$ 2,545,655	\$ 2,995,330	\$ 10,585,648	\$ 16,126,633
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL 2013
SUPPORT AND REVENUES:				
Contributions		\$ 838,043	\$ 897,467	\$ 1,735,510
Interest and Dividend Income	\$ 282,818			282,818
Gain (Loss) on Sale of Investment	(6,710)			(6,710)
Unrealized Gain on Investments	344,011			344,011
Net Assets Released from Restrictions	858,383	(858,383)		
TOTAL SUPPORT AND REVENUES	1,478,502	(20,340)	897,467	2,355,629
EXPENSES:				
Program Services:				
Scholarship Awards	376,865			376,865
Awards and Gifts	371,265			371,265
Athletics	199,192			199,192
Total Program Services	947,322			947,322
Supporting Services:				
General Administration	73,855			73,855
TOTAL EXPENSES	1,021,177			1,021,177
CHANGE IN NET ASSETS	457,325	(20,340)	897,467	1,334,452
NET ASSETS AS OF BEGINNING OF YEAR	1,020,306	2,522,475	9,847,103	13,389,884
NET ASSETS AS OF END OF YEAR	\$ 1,477,631	\$ 2,502,135	\$ 10,744,570	\$ 14,724,336

**HENDERSON STATE UNIVERSITY
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014**

Exhibit C

	2014	Restated 2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and Fees (Net of Scholarships)	\$ 10,159,099	\$ 10,270,969
Grants and Contracts	3,175,049	3,477,339
Collection of Loans and Interest to Students (includes Perkins and interest income)	280,570	215,196
Auxiliary Enterprises		
Athletics	1,043,801	790,340
Housing and Food Service	5,680,489	4,875,437
Bookstore	114,049	129,861
Student Union	4,350	9,560
Other Auxiliary Enterprises	557,819	383,863
Other Receipts	1,255,057	1,372,155
Payments to Suppliers	(15,071,446)	(15,732,009)
Payments to Employees	(24,312,113)	(23,746,493)
Payments of Employee Benefits	(7,047,785)	(7,071,023)
Loans issued to Students (includes Perkins)	(237,688)	(94,915)
Scholarships and Fellowships	(3,382,305)	(3,786,900)
Net Cash Provided (Used) by Operating Activities	(27,781,054)	(28,906,620)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations	20,806,056	20,776,031
Federal and State Grants and Contracts	13,498,995	14,283,654
Loans to Students-Direct Loans & Private (Inflows)	17,417,165	18,082,823
Agency Funds (Net of Outflows)	64,803	43,361
Loans to Students-Direct Loans & Private (Outflows)	(17,417,165)	(18,082,823)
Payments of Mandatory Fees to Agency Funds	(361,200)	(385,380)
Gifts and Grants	389,357	224,060
Principal Paid on Non-Capital Debt	(546,538)	
Interest Paid on Non-Capital Debt	(76,520)	
Proceeds from Non-Capital Debt	408,798	
Refund of Prior Year Nonoperating Expense	9,025	1,487
Net Cash Provided (Used) by Noncapital Financing Activities	34,192,776	34,943,213
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Capital Debt	1,100,000	
Capital Appropriations	3,230,000	
Proceeds from Short Term Borrowing	1,000,000	
Acquisitions and Construction of Capital Assets	(3,703,269)	(6,658,416)
Capital Grants	157,764	
Repayment of Short Term Notes	(1,000,000)	
Principal Paid on Non-Bonded Debt	(537,489)	(416,447)
Interest and Fees Paid on Non-Bonded Debt	(175,926)	(151,887)
Payment to Trustee for Principal	(1,860,000)	(1,545,000)
Payment to Trustee for Interest and Fees	(967,781)	(837,378)
Capital Gift and Grants		2,500,000
Insurance Proceeds	19,121	
Net Cash Provided (Used) by Capital and Related Financing Activities	(2,737,580)	(7,109,128)

**HENDERSON STATE UNIVERSITY
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014**

Exhibit C

	2014	Restated 2013
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales and Maturities of Investments	\$ 413,132	\$ 127,614
Interest on Investments (net of fees)	68,666	117,316
Purchase of Investments	(331,608)	
	150,190	244,930
Net Cash Provided (Used) by Investing Activities	150,190	244,930
Net Increase (Decrease) in Cash	3,824,332	(827,605)
Cash - Beginning of Year	11,362,487	12,190,092
Cash - Ending of Year	\$ 15,186,819	\$ 11,362,487
Reconciliation of Net Operating Loss to Net Cash Provided (Used) by Operating Activities		
Operating Income (Loss)	\$ (32,716,196)	\$ (35,029,185)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense	3,894,664	3,729,635
Other Miscellaneous Operating Receipts		2,366,268
Change in Assets and Liabilities		
Receivables, Net	(368,834)	(379,312)
Inventories	27,007	9,982
Other Assets	519,605	(34,891)
Loans Receivable	20,406	72,197
Accounts Payable	503,427	(130,196)
Unearned Revenue	188,820	212,328
Employee Retirement	(22,442)	(24,352)
Compensated Absences	(42,303)	62,557
Other Liabilities	214,792	238,349
Net Cash Provided (Used) by Operating Activities	\$ (27,781,054)	\$ (28,906,620)
NONCASH TRANSACTIONS		
Donated Capital Assets	\$ 48,500	\$ 23,229
Loss on Capital Assets	16,988	
Increase (decrease) in Fair Value of Investments	99,256	
Amortization of Discount on Bonds	(5,172)	
Amortization of Premium of Bonds	3,775	
Amortization of Deferral of Debt Defeasance	(30,128)	
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, 2014

NOTE 1: Reporting Entity

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

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

Component Units

In May 2002, Governmental Accounting Standards Board, (GASB) issued Statement no. 39, *Determining Whether Certain Organizations are Component Units*, which amends GASB Statement 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, 2014, the Foundation transferred property, equipment, and funds of \$237,394 to the University for proper accountability and academic support.

The Henderson State University Foundation, Inc. is a separate nonprofit organization, which operates for charitable educational purposes, including administering and investing gifts and other amounts received directly or indirectly for the benefit of Henderson State University. The Board of Directors of the Foundation is made up of fifteen (15) members including two (2) members who are also members of Henderson State University Board of Trustees, and three (3) members who are also employees of the University. Complete financial statements for the Foundation can be obtained from the administrative office at 324 North 12th Street, Arkadelphia, AR 71923.



NOTE 2: Summary of Significant Accounting Policies

Financial Statement Presentation

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

Henderson State University

Notes to the Financial Statements

June 30, 2014

NOTE 2: Summary of Significant Accounting Policies (Continued)

Capital Assets and Depreciation

Land, buildings, improvements and infrastructure, equipment, library holdings, and construction in progress are reported at cost or estimated historical cost if actual data is not available. Donated capital assets are reported at 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.

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

Cash Equivalents

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

Accounts Receivable

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

Investments

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

Deposits with Trustees

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

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.

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, 2014

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.

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 \$957,827 at June 30, 2014. 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 \$131,837 at June 30, 2014. On June 10, 2011, the Board of Trustees voted to not compensate non-classified employees and faculty for unpaid sick leave until further research has been conducted. This vote was in response to ACT 337 of the 88th General Assembly Regular Session, 2011, amended Arkansas Code 21-4-505, to grant discretion to state-supported institutions of higher education on whether or not to compensate all employees for unpaid sick leave upon retirement. The University accrues compensatory time at time and one half of the hours worked over 8 hours per day for classified employees. The liability is projected to be \$4,885 at June 30, 2014.

Employee Retirement

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

Noncurrent Liabilities

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

Refundable Advance

For reporting purposes, the University has shown the federal portion of the Perkins Loan Program fund balance as a noncurrent liability on the Statement of Net 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 includes resources for which the University is legally or contractually obligated to spend only in accordance with restrictions imposed by external parties.

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

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

Henderson State University
Notes to the Financial Statements
June 30, 2014

NOTE 2: Summary of Significant Accounting Policies (Continued)

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.

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 \$1,216,338 and \$0; respectively, for the fiscal year ended June 30, 2014.

New Accounting Pronouncements

The GASB issued Statement no. 65 *Items Previously Reported as Assets and Liabilities*, which became effective with the fiscal year ended June 30, 2014. The Statement provides guidance to either (a) properly classify certain assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize some assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). In accordance with Statement no. 65, the University made several adjustments which are discussed in detail in Note 21.

The GASB also issued three other statements which became effective for the fiscal year ended June 30, 2014; Statement no. 66, *Technical Corrections-2012, an amendment of GASB Statements no. 10 and no. 62*, which resolves conflicting guidance contained in previously issued GASB pronouncements; Statement no. 67, *Financial Reporting for Pension Plans- an amendment of GASB Statement no. 25*, that addresses financial reporting by state and local governmental pension plans; and Statement no. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, that specifies reporting requirements for governments that either extend or receive nonexchange financial guarantees. Management has determined that Statements 66, 67, and 70 have no effect on current reporting or disclosures.

The GASB issued the following three statements which become effective for the fiscal year ending June 30, 2015: Statement no 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement no. 27*, Statement no. 69, *Government Combinations and Disposals of Government Operations*, and Statement no. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date- an Amendment of GASB Statement no. 68*. Management has not yet determined the effects of these statements on the University's financial statements.

Henderson State University
Notes to the Financial Statements
June 30, 2014

NOTE 3: Public Fund Deposits and Investments

Cash Deposits

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

Cash Deposits:	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 837,430	\$ 838,904
Collateralized:		
Collateral held by the pledging bank or pledging bank's trust department in the University's name	14,484,468	14,269,683
Total Deposits	\$ 15,321,898	\$ 15,108,587

The above deposits do not include cash of \$65,340 which was maintained in a money market fund administered by a third party, and insured by the Securities Investor Protection Corporation (SIPC) along with funds on deposit in state treasury and cash on hand in the amounts of \$1,724 and \$25,860 at June 30, 2014, respectively. The above total deposits include \$3 of cash that is reported as deposits with trustee and certificates of deposit of \$228,000 reported as investments 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, 2014, none of the University's bank balance of \$15,108,587 was exposed to custodial credit risk.

Custodial Credit Risk – Investments

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University does not have an investment policy for custodial credit risk. The University's open-ended mutual funds of \$775,503 were not subject to custodial credit risk.

Credit Risk

The University's open-end mutual funds of \$775,503 were not rated. The open-end mutual funds are reported as investments.

Concentration of Credit Risk

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

Deposit with Trustees

At June 30, 2014, the University's deposits with trustees of \$2,495,938 excluding \$3 in cash were invested as follows:

Federated Treasury Obligations Fund of \$1,683,468. 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 40 days.

Federated Government Obligations Fund of \$421,148. 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 51 days.

Henderson State University
Notes to the Financial Statements
June 30, 2014

NOTE 3: Public Fund Deposits and Investments (Continued)

Deposit with Trustees (Continued)

State and Local Government Securities (SLGS) of \$391,322.

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, 2014

NOTE 5: Capital Assets

Following are the changes in capital assets for the year ended June 30, 2014:

Capital Assets:	Balance as of July 1, 2013	Additions	Transfers	Retirements	Balance as of June 30, 2014
Capital assets not being depreciated					
Land	\$ 1,476,495				\$ 1,476,495
Construction in progress	82,112	\$ 2,598,596	\$ (1,106,456)		1,574,252
Total capital assets not being depr.	\$ 1,558,607	\$ 2,598,596	\$ (1,106,456)		\$ 3,050,747
Other capital assets					
Improvements	\$ 3,898,523	\$ 48,990			\$ 3,947,513
Infrastructure	3,447,021	123,465			3,570,486
Buildings	97,848,694	433,928	\$ 1,033,015		99,315,637
Equipment	7,148,894	267,036	73,441	\$ (257,019)	7,232,352
Library materials	11,962,101	524,486		(102,310)	12,384,277
Total other capital assets	124,305,233	1,397,905	1,106,456	(359,329)	126,450,265
Less accumulated depreciation for:					
Improvements	(2,188,931)	(122,288)			(2,311,219)
Infrastructure	(2,378,157)	(96,457)			(2,474,614)
Buildings	(42,200,659)	(2,775,839)			(44,976,498)
Equipment	(4,840,601)	(449,898)		240,031	(5,050,468)
Library materials	(8,338,372)	(450,182)		102,310	(8,686,244)
Total accumulated depreciation	(59,946,720)	(3,894,664)		342,341	(63,499,043)
Total other capital assets, net	\$ 64,358,513	\$ (2,496,759)	\$ 1,106,456	\$ (16,988)	\$ 62,951,222
Capital Asset Summary:					
Capital assets not being depreciated	\$ 1,558,607	\$ 2,598,596	\$ (1,106,456)		\$ 3,050,747
Other capital assets, at cost	124,305,233	1,397,905	1,106,456	\$ (359,329)	126,450,265
Total cost of capital assets	125,863,840	3,996,501	0	(359,329)	129,501,012
Less accumulated depreciation	(59,946,720)	(3,894,664)		342,341	(63,499,043)
Capital Assets, net of depreciation	\$ 65,917,120	\$ 101,837	\$ 0	\$ (16,988)	\$ 66,001,969

Henderson State University
Notes to the Financial Statements
June 30, 2014

NOTE 6: Long-Term Liabilities

Debt payments on bonds amounted to \$2,800,037 for the fiscal year ended June 30, 2014. The amount of \$1,345,318 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, 2014	Maturities to June 30, 2014
10/1/2007	1/1/2032	4.00-4.60%	7,975,000	6,645,000	1,330,000
12/1/2009	7/1/2026	2.00-4.3%	6,715,000	4,935,000	1,780,000
12/1/2009	7/1/2018	2.00-3.375%	1,540,000	915,000	625,000
12/1/2009	7/1/2016	2.65-5.15%	515,000	240,000	275,000
10/1/2011	1/1/2020	2.0- 2.75%	1,960,000	1,280,000	680,000
10/1/2011	1/1/2020	2.0- 2.75%	1,370,000	980,000	390,000
8/31/2011	8/30/2036	5.74%	2,750,000	2,694,728	55,272
5/15/2012	9/1/2035	1.0- 4.125%	4,165,000	3,905,000	260,000
5/1/2012	7/15/2035	1.0- 4.125%	8,535,000	8,260,000	275,000
8/24/2004	8/1/2014	2.05%	445,000	48,672	396,328
8/9/2007	8/9/2014	3.93%	193,274	5,245	188,029
8/1/2010	8/1/2014	3.51%	524,932	138,100	386,832
7/23/2012	7/23/2026	3.08%	2,366,268	2,228,528	137,740
2/14/2014	2/14/2028	4.98%	1,100,000	999,187	100,813
			\$ 40,154,474	\$ 33,274,460	\$ 6,880,014

The changes in long-term liabilities are as follows:

	Balance as of July 1, 2013	Additions	Reductions	Balance as of June 30, 2014	Amounts due within one year
Bonds Payable	\$ 29,005,000		\$ 1,845,000	\$ 27,160,000	\$ 1,880,000
Notes Payable	2,846,367	\$ 1,100,000	203,780	3,742,587	158,653
Capital Lease Payable	477,054		333,709	143,345	143,345
Installment Contract	2,366,268	408,798	546,538	2,228,528	141,983
Discount on Bonds	(58,138)		(5,172)	(52,966)	(5,172)
Premium on Bonds	24,537		3,775	20,762	3,775
Comp Absences Pay.	1,136,852	1,004,784	1,047,087	1,094,549	114,567
Employee Retire Pay.	196,838	36,910	59,352	174,396	59,231
	* \$ 35,994,778	\$ 2,550,492	\$ 4,034,069	\$ 34,511,201	\$ 2,496,382

*Beginning balance was increased \$230,966 for the Deferral on Debt Defeasance which was previously reported in the above changes in long-term liabilities.

Henderson State University
Notes to the Financial Statements
June 30, 2014

NOTE 6: Long-Term Liabilities (Continued)

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

Year Ended June 30, 2014	Principal	Interest	Total
2015	\$ 2,323,981	\$ 1,212,423	\$ 3,536,404
2016	2,196,888	1,147,476	3,344,364
2017	2,258,090	1,082,814	3,340,904
2018	2,234,377	1,017,106	3,251,483
2019	2,081,171	948,657	3,029,828
2020-2024	7,226,447	3,944,903	11,171,350
2025-2029	7,264,493	2,504,457	9,768,950
2030-2034	5,587,326	1,107,701	6,695,027
2035-2037	2,101,687	125,407	2,227,094
	\$ 33,274,460	\$ 13,090,944	\$ 46,365,404

NOTE 7: Capital Leases

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

Type of Asset	Asset Amount	Accumulated Depreciation	Net
Maule 7 Aircraft	\$ 165,498	\$ 77,325	\$ 88,173
Telephone System	579,182	115,836	463,346
	\$ 744,680	\$ 193,161	\$ 551,519

Henderson State University
Notes to the Financial Statements
June 30, 2014

NOTE 7: Capital Leases (Continued)

The following is a schedule of future minimum lease payments, together with the present value of the net minimum lease as of June 30, 2014:

Fiscal Year Ending June 30,	Amount
2015	\$ 148,218
Total Minimum Lease Payments	148,218
Less: Amount Representing Interest	4,873
Total Present Value of Net Minimum Lease Payments	\$ 143,345

NOTE 8: Commitments

The University was contractually obligated for the following at June 30, 2014:

Project Name	Completion Date	Contract Balance
Proctor Hall ANCRC Phase I	March 23, 2015	\$ 11,213
Garrison Center Day Gym Renovation	July 1, 2014	121,284
Garrison Center Public Space Renovation	August 1, 2014	104,160
Auxiliary Locker Room	July 21, 2014	32,625
		\$ 269,282

Operating Leases

The University is currently leasing 44 copiers. The University has no ownership of these items at the end of the lease agreement.

- (1) Future minimum rental payments (aggregate) at June 30, 2014 totals \$179,396.
- (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
2015	\$ 99,628
2016	48,309
2017	31,459
Total Future Minimum Rental Payments (3 years)	\$ 179,396

Rental payments for the current year total \$107,627.

Henderson State University

Notes to the Financial Statements

June 30, 2014

NOTE 9: Retirement Plans

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

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

Funding Policy: TIAA/CREF has contributory and non-contributory plans. Contributory members contribute a minimum of six percent of earnings to the plan. The University contributes ten percent to the plan. Employees may also request deductions for TIAA/CREF additional retirement, TIAA/CREF Supplemental Retirement Annuities, and Fidelity Group. The University's and participants' contributions for the year ended June 30, 2014 were \$1,669,851 and \$1,344,909, 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, 2014, 2013, and 2012 were \$263,468, \$283,569, and \$310,272, respectively, equal to the required contributions for each year.

Arkansas Public Employees Retirement System:

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

Funding Policy: APERS has contributory and noncontributory plans. Contributory members are required by State law to contribute five percent of their salaries. Each participating employer is required by State law to contribute at a rate established by the Board of Trustees, based on the annual actuarial valuation. The current employer rate for higher education entities is 14.88% of covered salaries. The University's contributions to APERS for the years ended June 30, 2014, 2013, and 2012 were \$519,494, \$491,685 and \$435,086, respectively, equal to the required contributions for each year.

Henderson State University
Notes to the Financial Statements
June 30, 2014

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	\$ 16,966,493		\$ 1,147,620		\$ 18,114,113
Research	20,519		76,860		97,379
Public Service	503,324		79,483		582,807
Academic Support	1,758,967		1,400,705		3,159,672
Student Services	3,473,944		492,244		3,966,188
Institutional Support	4,311,981		3,647,528		7,959,509
Schol. & Fellow.		\$ 3,403,974			3,403,974
Oper. & Maint.	2,017,890		2,300,805		4,318,695
Aux. Enterprises	2,890,537		6,456,278		9,346,815
Depreciation				\$ 3,894,664	3,894,664
Other	59,351		267,138		326,489
	<u>\$ 32,003,006</u>	<u>\$ 3,403,974</u>	<u>\$ 15,868,661</u>	<u>\$ 3,894,664</u>	<u>\$ 55,170,305</u>

NOTE 11: Related Party Transactions

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

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 president of the CCIC and member of the Community Education Center Advisory Board.

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

Dr. Lewis A. Shepherd Jr., Vice President for Student and External Affairs, is a member of the Arkansas State Police Commission, a position appointed by the Governor of the State of Arkansas. Dr. Shepherd is also a member of the Mosaic Templars Museum and Cultural Center, a position appointed by the Speaker of the House.

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

Henderson State University
Notes to the Financial Statements
June 30, 2014

NOTE 12: Compensated Absences

Changes in Compensated Absences Payable are as follows:

Changes in Compensated Absences Payable:	Amount
Annual Leave as of June 30, 2013	\$ 833,699
Earned Leave	781,953
Lost Leave over 240 hours	(230,260)
Annual Leave Used	(587,203)
Annual Leave as of June 30, 2014	\$ 798,189

Employees with a sick leave balance of 50 days or more are eligible for payment for leave upon retirement. As of June 30, 2014 the University's liability for employees with sufficient leave balances was \$109,864.

Employees with a compensatory time balance are eligible for payment for leave upon termination, retirement or death. As of June 30, 2014 the University's liability for employees with compensatory leave balances was \$4,071.

The above figures do not include estimated fringe benefits on accrued leave in the amount of \$182,425 for 2013/2014.

NOTE 13: Employee Retirement

Changes in Employee Retirement:	Amount
Employee Retirement as of June 30, 2013	\$ 196,838
Annual Revaluation	36,910
Amount Paid Out During 2013/2014	(59,352)
Employee Retirement as of June 30, 2014	\$ 174,396

Henderson State University
Notes to the Financial Statements
June 30, 2014

NOTE 14: Disaggregation of Receivable and Payable Balances

Accounts Receivable Consists of the Following:	Amount
Student Tuition and Fees, net of allowance of \$750,000	\$ 3,095,787
Auxiliary Enterprises	66,858
Other Receivables	103,376
Federal	96,038
State	209,795
Notes and Loans Receivable	1,165,011
Total Accounts Receivable	\$ 4,736,865

Accounts Payable Consists of the Following:	Amount
Vendors	\$ 1,091,949
Salary & Fringe Benefit Payable	175,163
Other Payables	410,462
State	79,859
Interest & Fees Payable	593,659
Total Accounts Payable	\$ 2,351,092

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 \$91,961 for fiscal year 2014, compared to \$78,357 for fiscal year 2013. The University paid the total premiums for life insurance benefits for eligible retirees, ages 55 to 65, directly to MetLife in the amount of \$1,204 for fiscal year 2014,

Henderson State University

Notes to the Financial Statements

June 30, 2014

compared to \$1,345 for fiscal year 2013. This represents a total of \$93,165 paid by the University for the employer portion of the OPEB for fiscal year 2014, compared to \$79,702 for fiscal year 2013.

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

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 \$91,961 of the postretirement healthcare premiums, totaling \$111,943 for the fiscal year ended June 30, 2014. Last year, the University funded approximately 82% or \$78,357 of the postretirement healthcare premiums, totaling \$95,084 for the fiscal year ended June 30, 2013. The retirees are responsible for funding approximately 18% of the healthcare premiums compared to 18% last year.

Expenditures for postretirement life insurance benefits are recognized monthly and financed on a pay-as-you-go basis. The University funds 100% of the postretirement life insurance premiums for participating retirees, ages 55 to 65. The University paid \$1,204 in postretirement life insurance benefits for the fiscal year ended June 30, 2014 and \$1,345 in postretirement life insurance benefits for the fiscal year ended June 30, 2013. 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 \$214,792 in retiree healthcare and life insurance expense during fiscal year 2014, compared to \$238,349 during fiscal year 2013.

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 Supplementary 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, 2014

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, 2014		Fiscal Year Ending June 30, 2013	
	Amount	% of Payroll ¹	Amount	% of Payroll ¹
1. Unfunded actuarial accrued liability	\$ 2,765,013	13.18%	\$ 2,799,751	13.80%
<u>Annual Required Contribution (ARC)</u>				
2. Normal Cost	\$ 194,325		\$ 197,637	
3. Amortization of the unfunded actuarial accrued liability over 30 years using open amortization	141,069		142,841	
4. Amortization of beginning of year accrual				
5. Annual Required Contribution (ARC = 2 + 3+4)	\$ 335,394	1.60%	\$ 340,478	1.68%
<u>Annual OPEB Cost (Expense)</u>				
6. Normal Cost	\$ 194,325		\$ 197,637	
7. Amortization of the unfunded actuarial accrued liability over 30 year using open amortization	141,069		142,841	
8. Amortization of beginning of year accrual	(66,597)		(54,437)	
9. Interest on beginning of year accrual	39,160		32,010	
10. Annual OPEB cost (6+7+8+9)	\$ 307,957	1.47%	\$ 318,051	1.57%
<u>End of year Accrual (Net OPEB Obligation)</u>				
11. Beginning of year accrual	\$ 1,305,333		\$ 1,066,984	
12. Annual OPEB cost	307,957		318,051	
13. Employer contribution (benefit payments) ²	93,165		79,702	
14. End of year accrual (11 + 12 - 13)	\$ 1,520,125	7.25%	\$ 1,305,333	6.43%

¹ Annual payroll for the 492 plan participants as of July 1, 2013 is \$20,978,431 and for the 498 plan participants as of July 1, 2012 is \$20,292,040.

² Actual contributions paid in fiscal year 2014 of \$113,147 less participant contributions of \$19,982, \$96,430 and \$16,728 respectively, in fiscal year 2013. Employer contributed 30.25% of annual OPEB cost during fiscal year 2014, compared to 25.06% during fiscal year 2013.

Henderson State University
Notes to the Financial Statements
June 30, 2014

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

Schedule of Employer Contributions

Fiscal Year Ended	Annual OPEB Cost	Actual Contributions ³	Percentage Contributed
June 30, 2014	\$ 307,957	\$ 93,165	30.25%
June 30, 2013	318,051	79,702	25.06%
June 30, 2012	314,451	92,085	29.28%

³Since there is no funding; these are actual benefit payments of \$113,147 less retiree contributions of \$19,982 for 2014 and \$96,430 less retiree contributions of \$16,728 for 2013 and \$109,150 less retiree contributions of \$17,065 for 2012.

Schedule of Funding Progress

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

Fiscal Year Ended	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll ⁴ (c)	UAAL as a Percentage Of Covered Payroll ⁴ [(b)-(a)/(c)]
June 30, 2014	\$ 0	\$ 2,765,013	\$ 2,765,013	0.00%	\$ 20,978,431	13.18%
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%

⁴Estimated payroll as of July 1, 2013, July 1, 2012, and July 1, 2011 includes only plan participants.

Note: The annual OPEB cost of \$307,957 for fiscal year 2014 and accrual of \$1,520,125 as of June 30, 2014, are based on a current decision not to fund in a segregated GASB qualified trust; \$318,051 and \$1,305,333, respectively, in the fiscal year 2013; and \$314,451 and \$1,066,984, respectively, in the fiscal year 2012.

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, 2014	\$ 307,957	30.25%	\$ 1,520,125
June 30, 2013	318,051	25.06%	1,305,333
June 30, 2012	314,451	29.28%	1,066,984

Henderson State University

Notes to the Financial Statements

June 30, 2014

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

Summary of Key Actuarial Methods and Assumptions

Methods

Valuation Year:	July 1, 2013 – June 30, 2014
Actuarial Cost Method:	Projected Unit Credit, level dollar
Amortization Method:	30 years, level dollar open amortization ⁵
Asset Valuation Method:	N/A

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

Assumptions

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

General Overview of the Valuation Methodology

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

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

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, 2013 – June 30, 2014
Date of Census Data:	January, 2014
Actuarial Cost Method:	Projected Unit Credit actuarial cost method; Unfunded Actuarial Liability (UAL) amortized on a level dollar basis over 30 years.

Henderson State University
Notes to the Financial Statements
June 30, 2014

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

Retiree Premiums

Retiree Premiums	Employee Cost	Employer Cost	Total
Health Insurance (Monthly Rate)			
Single	\$ 0	\$ 348.49	\$ 348.49
Family	317.18	386.86	704.04
Life Insurance			
Basic	\$ 0	\$.26 per \$1000	

Discount Rate: 3.00% per annum

Inflation Rate: 2.5% per annum

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

Mortality: The IRS 2013 Combines Static Mortality Table is used

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

Henderson State University
Notes to the Financial Statements
June 30, 2014

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, 2014

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	47
30	43	47
35	36	39
40	30	27
45	25	21
50	19	19
55	16	16
60	15	15
65	15	15
70	15	15
75	0	0
80	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, 2014

NOTE 16: Pollution Remediation Obligations

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

NOTE 17: Pledged Revenues

The University has pledged future student recreation center revenue to repay \$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 67.7% of gross revenues. The total principal and interest remaining to be paid on the bonds is \$9,815,473. Principal and interest paid for the current year and total customer gross revenues were \$541,865 and \$800,845, respectively.

The University has pledged future auxiliary revenue to repay \$16,125,000 in other auxiliary revenue bonds issued in 2009, 2011, and 2012. Proceeds from the bonds provided financing for the capital repairs renovation and maintenance of other auxiliary services and the refunding of other auxiliary services bond issues and student housing debt issues. The bonds are payable solely from auxiliary revenues and are payable to maturity with dates ranging from 2017 through 2037. Annual principal and interest payments on the bonds currently require 13.3% of gross revenues. The total principal and interest remaining to be paid on the bonds is \$19,945,898. Principal and interest paid for the current year and total customer gross revenues were \$1,265,149 and \$9,538,828, 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 \$7,308,287. Principal and interest paid for the current year and gross student tuition and fees were \$993,023 and \$26,761,744, respectively.

NOTE 18: Risk Management

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

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

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

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

Henderson State University
Notes to the Financial Statements
June 30, 2014

NOTE 18: Risk Management (Continued)

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.

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, 2014 is \$2,315,972.

NOTE 20: Short-Term Borrowing

The University entered into an agreement with Aramark to borrow funds for the purpose of renovations of the Garrison Center-Reddie Café. Activity is as follows:

	Balance as of July 1, 2013	Additions	Reductions	Balance as of June 30, 2014
Aramark Short Term Note	\$ 0	\$ 1,000,000	\$ 1,000,000	\$ 0

NOTE 21: Prior Year Restatements

Statement of Net Position

Due to the implementation of GASB Statement no. 65, *Items Previously Reported as Assets and Liabilities*, adjustments have been made to certain June 30, 2013 financial statement amounts. Specifically, current bond issuance costs were reduced by \$31,026 and noncurrent bond issuance costs were reduced by \$253,686. These represented costs that were scheduled to be amortized over the life of the bonds. This decreased total assets and unrestricted net position by \$284,712.

Also, current deferral of debt defeasance was reduced by \$30,128 and noncurrent deferral of debt defeasance was reduced by \$200,838. The total amount of deferral of debt defeasance of \$230,966 was reclassified to a deferred outflow of resources. This did not affect total net position or cash balance.

The net effect of the restatements was a decrease to total net position of \$284,712 at June 30, 2013.

Henderson State University

Notes to the Financial Statements

June 30, 2014

NOTE 21: Prior Year Restatements (Continued)

Statement of Revenues, Expenses, and Changes in Net Position

Changes on the Statement of Net Position described above also affected the Statement of Revenues, Expenses, and Changes in Net Position. Bond issuance costs of \$31,026 that had been amortized in FY 13 and reported in other non-operating expenses were eliminated. Also, beginning net position was reduced by \$315,738 for the prior years' unamortized bond issuance costs.

Additionally, the following reclassifications not related to the implementation of GASB Statement no. 65 were made to the Statement of Revenues, Expenses, and Changes in Net Position.

- In the operating revenues section, \$674,069 of scholarship allowance was reclassified from student tuition and fees to athletics, resulting in an increase of net student tuition and fees and decrease of athletics revenues by the same amount.
- In the operating revenues section, student tuition and fees were increased by \$119,645 and scholarship allowance for student tuition and fees was increased by \$543,689, resulting in a reduction of net student tuition and fees of \$424,044.
- In the operating expenses section, scholarship and fellowships were reduced by \$424,044.

The net effect of the restatements was a decrease to total net position of \$284,712 at June 30, 2013.

Statement of Cash Flows

The following reclassifications were made to the Statement of Cash Flows:

In the cash flows from operating activities section, net tuition and fees increased by \$250,025 due to \$674,069 of scholarship allowance being reclassified from tuition and fees to athletics. Additionally, \$424,044 was removed from net tuition and fees and scholarships and fellowships expense due to transactions being recorded in the incorrect period. There was no effect on the ending cash balance.

NOTE 22: Subsequent Events

On September 26, 2014, the University issued an auxiliary enterprises revenue secured bond to Arvest Bank in the amount of \$6,170,644 for the purpose of purchasing the Whispering Oaks Apartment Complex. The bond was redeemed on November 26, 2014 with proceeds from the bond issue discussed below dated November 1, 2014.

On November 1, 2014, the University issued Auxiliary Enterprise Revenue Secured Bonds in the amount of \$33,000,000. These funds will be used to construct a 240 bed apartment complex, a 300 bed residence hall, and other auxiliary projects, as well as to redeem the auxiliary revenue bond dated September 26, 2014.

On July 21, 2014, the University and JBH Construction Inc., entered into a construction contract for the construction of a 240 unit apartment complex, located on the University campus in the amount of \$9,229,762.

On October 23, 2014, the University and JBH Construction Inc., entered into a construction contract for the construction of a 300 bed residence hall, located on the University campus in the amount of \$10,057,085.

On June 1, 2015, the University issued \$3,780,000 E&G refunding bonds. Proceeds were used to refund outstanding bonds dated December 1, 2009.

On June 30, 2015, Arkansas Development Finance Authority on behalf of Henderson State University, issued \$6,513,437 in qualified Energy Conservation Bonds, Series 2015A with an interest rate of 4.399 percent and \$3,623,489 in Educational Facilities Energy Conservation Bonds, Series 2015B (tax exempt) with an interest rate of 2.75 percent. The proceeds from this issue will be used to finance improvements to University facilities to reduce energy consumption and operating costs.

Henderson State University
Notes to the Financial Statements
June 30, 2014

NOTE 22: Subsequent Events (Continued)

On March 17, 2015, the University entered into an Energy Services Contract with Schneider Electric Buildings America, Inc., in the amount of \$9,671,521 to make improvements to certain University facilities in the form of energy conservation measures needed to reduce energy consumption and/or operating costs.

Effective August 1, 2014, the University and Summit Properties-Landmark, LLC entered into a 10 year lease agreement for 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.

Henderson State University
Required Supplementary Information
June 30, 2014

OTHER POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Schedule of Employer Contributions:

Fiscal Year Ended	Annual OPEB Cost	Actual Contributions ³	Percentage Contributed
June 30, 2014	\$ 307,957	\$ 93,165	30.25%
June 30, 2013	318,051	79,702	25.06%
June 30, 2012	314,451	92,085	29.28%

³Since there is no funding; these are actual benefit payments of \$113,147 less retiree contributions of \$19,982 for 2014 and \$96,430 less retiree contributions of \$16,728 for 2013 and \$109,150 less retiree contributions of \$17,065 for 2012.

Schedule of Funding Progress:

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

Fiscal Year Ended	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll ⁴ (c)	UAAL as a Percentage Of Covered Payroll ⁴ [(b)-(a)/(c)]
June 30, 2014	\$ 0	\$ 2,765,013	\$ 2,765,013	0.00%	\$ 20,978,431	13.18%
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%

⁴Estimated payroll as of July 1, 2013, July 1, 2012, and July 1, 2011 includes only plan participants.

HENDERSON STATE UNIVERSITY
 SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS
 FOR THE YEAR ENDED JUNE 30, 2014
 (Unaudited)

Schedule 1

	Year Ended June 30,				
	2014	2013	2012	2011	2010
Total Assets and Deferred Outflows	\$ 89,807,778	\$ 86,111,623	\$ 83,334,695	\$ 80,148,391	\$ 75,096,232
Total Liabilities and Deferred Inflows	40,926,439	41,245,740	39,756,441	38,980,825	39,072,873
Total Net Position	48,881,339	44,865,883	43,578,254	41,167,566	36,023,359
Total Operating Revenues	22,454,109	21,739,690	21,117,073	19,717,034	19,784,856
Total Operating Expenses	55,170,305	56,768,875	54,224,914	52,814,878	47,606,120
Total Net Non-Operating Revenues	33,628,442	34,374,981	34,883,971	36,575,249	28,923,897
Total Other Revenues, Expenses, Gains or Losses	3,103,210	2,257,571	634,558	1,666,802	288,328