

Henderson State University

Arkadelphia, Arkansas

**Basic Financial Statements
and Other Reports**

June 30, 2010

LEGISLATIVE JOINT AUDITING COMMITTEE



HENDERSON STATE UNIVERSITY
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Sen. Bobby L. Glover
Senate Co-Chair
Rep. Johnny Hoyt
House Co-Chair
Sen. Bill Pritchard
Senate Co-Vice Chair
Rep. Beverly Pyle
House Co-Vice Chair

Arkansas



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

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Henderson State University
Legislative Joint Auditing Committee

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Henderson State University (University), an institution of higher education of the State of Arkansas, as of and for the year ended June 30, 2010, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the University's 2009 financial statements and, in our report dated November 8, 2009, we expressed unqualified opinions on the respective financial statements of the business-type activities and the discretely presented component unit. We did not audit the financial statements, including the prior year partial comparative information, of the Henderson State University Foundation, Inc., which represent 100% of the assets, net assets, and revenues of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Henderson State University Foundation, Inc., is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Henderson State University Foundation, Inc., were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of Henderson State University as of June 30, 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The financial statements include partial prior year comparative information. Such information does not include all of the information required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 2009, from which such partial information was derived.

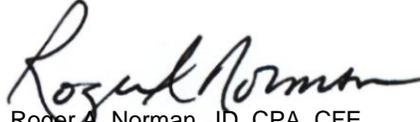
As discussed in Note 19 to the financial statements, the University changed the timing of the recognition of revenues from certain sources which were previously deferred until expended.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2010 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The Schedule of Selected Information for the Last Five Years (Schedule 1) is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Selected Information for the Last Five Years (Schedule 1) has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in black ink, appearing to read "Roger A. Norman". The signature is fluid and cursive, with a large initial "R".

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

Little Rock, Arkansas
November 8, 2010
EDHE10010

Sen. Bobby L. Glover
Senate Co-Chair
Rep. Johnny Hoyt
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Sen. Bill Pritchard
Senate Co-Vice Chair
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House Co-Vice Chair

Arkansas



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

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

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

Henderson State University
Legislative Joint Auditing Committee

We have audited the financial statements of the business-type activities and the discretely presented component unit of Henderson State University (University), an institution of higher education of the State of Arkansas, as of and for the year ended June 30, 2010, which collectively comprise the University's basic financial statements and have issued our report thereon dated November 8, 2010. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Henderson State University Foundation, Inc., as described in our report on the University's financial statements. The financial statements of the Henderson State University Foundation, Inc., were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

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

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

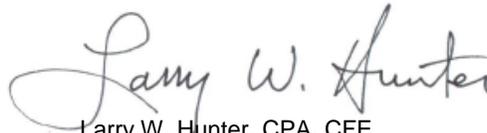
Compliance and Other Matters

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

We noted certain matters that we reported to management of the University in a separate letter dated November 8, 2010.

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

DIVISION OF LEGISLATIVE AUDIT

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

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
November 8, 2010

Sen. Bobby L. Glover
Senate Co-Chair
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Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

MANAGEMENT LETTER

Henderson State University
Legislative Joint Auditing Committee

STUDENT ENROLLMENT DATA - In accordance with Ark. Code Ann. § 6-60-209, we performed tests of the student enrollment data for the year ended June 30, 2010, 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>2009</u>	<u>Fall Term</u> <u>2009</u>	<u>Spring Term</u> <u>2010</u>	<u>Summer I Term</u> <u>2010</u>
Student Headcount	1127	3579	3285	971
Student Semester Credit Hours	7076	45860	42572	4409

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

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

DIVISION OF LEGISLATIVE AUDIT

Handwritten signature of Larry W. Hunter in cursive.

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
November 8, 2010

Management's Discussion and Analysis

Overview of the Financial Statements and Financial Analysis

Henderson State University proudly presents its financial statements for fiscal year 2010 with comparative data presented for fiscal year 2009. The emphasis of discussion concerning these statements will be for the current year data. There are three financial statements presented: The Statements of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows.

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

Statement of Net Assets

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

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

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

Henderson State University

Comparative Statement of Net Assets			
June 30, 2010			
	2010	▼	2009
Assets:			
Current Assets	\$ 9,258,098		\$ 7,771,422
Capital Assets, net	62,030,658		64,134,985
Other Assets	3,481,203		3,794,215
Total Assets	74,769,959		75,700,622
Liabilities:			
Current Liabilities	2,911,318		5,753,889
Non-Current Liabilities	35,835,282		37,180,801
Total Liabilities	38,746,600		42,934,690
Net Assets:			
Invested in Capital Assets, Net of Debt	27,968,302		28,516,946
Restricted-Expendable	3,434,526		1,677,569
Restricted-Nonexpendable	175,378		258,060
Unrestricted	4,445,153		2,313,357
Total Net Assets	\$ 36,023,359		\$ 32,765,932

Total Assets of the institution decreased by \$930,663. A review of the Statement of Net Assets will reveal that there are many offsetting variances, but the decrease was primarily due to a decrease in Capital Assets Net of Accumulated Depreciation of \$2,104,327 and an increase in current assets of \$1,486,676.

Total liabilities for the year decreased by \$4,188,090. This decrease was primarily due to the decrease in deferred revenues of \$1,798,601; the decrease in other current liabilities of \$1,043,970; a decrease of long-term debt liabilities of \$1,192,238 and a decrease in other non-current liabilities of \$153,281.

Statement of Revenues, Expenses and Changes in Net Assets

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

Operating revenues are received for providing goods and services to the various customers and constituencies of the institution. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institution. Non-operating revenues are revenues received for which good or services are not provided. For example, the Governmental Accounting Standards Board (GASB) considers state appropriations as non-operating revenues because the

Henderson State University

revenue is provided by the Legislature to the institution without the Legislature directly receiving commensurate goods and services.

Comparative Statement of Revenues, Expenses and Changes in Net Assets For the Fiscal Year Ended June 30, 2010				
	2010		2009	
Operating Revenues	\$	19,784,856	\$	21,417,434
Operating Expenses		48,546,025		48,555,111
Operating Loss		(28,761,169)		(27,137,677)
Non-Operating Revenues less Expenses		29,484,422		26,292,987
Income (Loss) Before Other Rev., Exp., Gains or Losses		723,253		(844,690)
Other Revenues, Expenses, Gains or Losses		667,708		1,670,492
Increases (Decreases) in Net Assets		1,390,961		825,802
Net Assets at Beginning of Year		32,765,732		31,940,130
Adjustment to Prior Year Deferred Revenue		1,866,466		
Net Assets at Beginning of Year, as Restated		34,632,198		
Net Assets at End of Year	\$	36,023,359	\$	32,765,932

The Statement of Revenues, Expenses and Changes in Net Assets reflects an increase in net assets at the end of the year of \$3,257,427 of which \$1,866,466 is due to a prior period adjustment. Highlights of the information presented on the statement are as follows:

- ❖ Revenue Changes – The financial statement indicates decreased revenues in Tuition and Fees of \$1,205,469; Federal Grants and Contracts of \$230,504; State and Local Grants and Contracts of \$165,253; Non-Governmental Grants and Contracts of \$181,734; Sales and Services of Educational Departments of \$15,708; Bookstore of \$6,084; Garrison Center of \$29,799 and Other Auxiliary Enterprises of \$246,673. There was increased revenue in Athletics of \$130,953 and Housing and Food Services of \$317,693. There was an increase in scholarship allowances which are netted against the Operating Revenues of \$2,957,242.
- ❖ Non-Operating Revenues and (Expenses) increased by \$3,191,435 due primarily to an increase in Federal and State Grants and Contracts of \$2,571,970; ARRA operating funds of \$268,461; Gifts of \$115,193; Investment Income of \$118,736 and other non-operating revenues of \$132,467. Interest and Fees of Long Term Debt decreased by \$343,706 and State and Federal Appropriations decreased by \$359,098.
- ❖ Expense Changes – Personal Services decreased by \$236,211. Supplies and Services increased by \$31,888; Scholarships and Fellowships by \$9,679 and Depreciation by \$185,558.

Henderson State University

This past fiscal year the total revenues increased by \$212,367 and \$1,866,466 from a prior period adjustment. The total expenses decreased by \$352,792. The total of these items added to the previous year's increase in Net Assets, produced an increase in Net Assets of \$3,257,427.

Statement of Cash Flows

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

- ❖ Operating Cash Flows provides detail of the operating cash flows and the net cash used by operating activities for the institution.
- ❖ Non-Capital Financing activities reflect cash received and spent for non-operating financing activities.
- ❖ Cash flows from investing activities indicate the purchases, proceeds and interest received from investing activities.
- ❖ Capital and related financing activities provide specific information on the cash used for the acquisition and construction of capital and related items.
- ❖ The last section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues and Expenses and Changes in Net Assets.

Comparative Statement of Cash Flow For the Fiscal Year Ended June 30, 2010			
		2010	2009
Cash Provided (used) by:			
Operating Activities	\$	(26,349,772)	\$ (23,010,421)
Non-capital Financing Activities		30,214,343	27,789,786
Investing Activities		(256,541)	3,934,585
Capital and Related Financing Activities		(4,041,492)	(9,702,010)
Net Change in Cash		(433,462)	(988,060)
Cash, Beginning of Year		5,376,609	6,364,669
Cash, End of year	\$	4,943,147	\$ 5,376,609

Henderson State University

Capital Assets and Debt Administration

The University made an investment in the following additions or improvements in fiscal year 2010.

	Amount
Land	\$ 90,787
Construction in Progress	79,731
Improvements & Infrastructure	109,927
Equipment	208,868
Library Holdings	471,556
Buildings	385,755
Total	\$ 1,346,624

The University's long term debt (current and noncurrent) decreased from \$35,618,039 to \$34,243,937 a \$1,374,102 net decrease.

Economic Outlook

During fiscal year 2010, Henderson State University saw a decrease in General Revenue in the amount of \$630,494 or 3.04% and an increase in General Improvement Funds of \$271,396. Based on the reduction in State funding above and the uncertainty of the State's economic condition, Henderson State University chose not to budget the total General Revenue forecast by the State of Arkansas for fiscal year 2011. Tuition and Fees were budgeted based on the actual SSCH (Student Semester Credit Hour) produced in fiscal year 2010. In addition to the conservative budget approach used, Henderson State University continues to look at reprogramming efforts that will address critical funding issues required to support critical academic initiatives.

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

HENDERSON STATE UNIVERSITY
COMPARATIVE STATEMENT OF NET ASSETS
JUNE 30, 2010

EXHIBIT A

	2010	2009
ASSETS:		
Current Assets:		
Cash and Cash Equivalents	\$ 4,607,065	\$ 4,370,633
Short Term Investments	836,743	711,580
Student Accounts Receivable	2,177,562	1,468,460
Accrued Interest Receivable	5,321	6,402
Inventories	165,620	180,739
Notes and Student Loans Receivable	205,804	195,924
Other Receivables	552,292	407,144
Deposits with Trustee	420,000	180,000
Prepaid Expenses	271,038	250,540
Bond Issuance Cost	16,653	
Total Current Assets	9,258,098	7,771,422
Non-Current Assets:		
Cash and Cash Equivalents	336,082	1,005,976
Investments	1,785,384	1,446,466
Notes and Student Loans Receivable	1,248,121	1,341,773
Capital Assets, Net of Accumulated Depreciation (\$49,970,494 and \$46,590,200 respectively)	62,030,658	64,134,985
Bond Issuance Cost, Net of Accumulated Amortization Cost of \$8,326 in 2010	111,616	
Total Non-Current Assets	65,511,861	67,929,200
Total Assets	74,769,959	75,700,622
LIABILITIES:		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	334,588	988,294
Deferred Revenues and Deposits	158,032	1,956,633
Funds Held in Trust for Others	520,443	496,155
Employee Retirement	64,440	65,702
Early Retirement	212,818	425,636
Compensated Absences Payable	122,379	117,341
Long-term Debt	1,522,264	1,704,128
Discount on Bonds	(3,309)	
Deferral of Debt Defeasance	(20,337)	
Total Current Liabilities	2,911,318	5,753,889

HENDERSON STATE UNIVERSITY
 COMPARATIVE STATEMENT OF NET ASSETS
 JUNE 30, 2010

EXHIBIT A

	2010	2009
LIABILITIES: (Continued)		
Non-Current Liabilities:		
Refundable Advance	\$ 1,427,200	\$ 1,427,200
Employee Retirement	231,442	279,460
Early Retirement		212,819
Other Postemployment Benefits	608,805	393,867
Compensated Absences Payable	1,004,097	953,544
Long-term Debt	32,721,673	33,913,911
Discount on Bonds Net of Accumulated Amortization of \$1,657 in 2010	(22,379)	
Deferral of Debt Defeasance, Net of Accumulated Amortization of \$10,167	(135,556)	
Total Non-Current Liabilities	35,835,282	37,180,801
Total Liabilities	38,746,600	42,934,690
NET ASSETS:		
Invested in Capital Assets, Net of Related Debt	27,968,302	28,516,946
Restricted for:		
Expendable:		
Scholarship and Fellowships	117,325	73,972
Grants and Contracts	1,336,723	40,037
Loans	48,914	48,920
Debt Service	1,823,519	1,498,594
Other	87,172	6,046
Deferred Compensation	20,873	10,000
Nonexpendable:		
Loans	175,378	258,060
Unrestricted:		
Net Assets	4,445,153	2,313,357
Total Net Assets	\$ 36,023,359	\$ 32,765,932

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

HENDERSON STATE UNIVERSITY FOUNDATION, INC.
STATEMENT OF NET ASSETS
JUNE 30, 2010
WITH COMPARATIVE FIGURES AT JUNE 30, 2009

EXHIBIT A-1

	2010	2009
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 2,078,048	\$ 2,185,905
Investment Securities (FMV)	10,004,788	8,961,274
Accrued Interest Receivable	46,435	54,255
TOTAL CURRENT ASSETS	12,129,271	11,201,434
PROPERTY AND EQUIPMENT:		
Smith-Garner House	150,593	150,593
Janek Property, 1227 Wilson Street	67,000	
Foundation Furnishings	7,264	7,264
	224,857	157,857
Less Accumulated Depreciation	(47,776)	(43,916)
TOTAL PROPERTY AND EQUIPMENT	177,081	113,941
OTHER ASSETS:		
Belvedere Resort Rights	7,500	7,500
TOTAL ASSETS	\$ 12,313,852	\$ 11,322,875
NET ASSETS:		
Unrestricted Net Assets:		
General Operations	\$ 229	\$ 3,355
Investment Income - Unallocated	535,629	748,230
Net Appreciation (Depreciation) on Investments	(681,351)	(1,133,366)
Total Unrestricted Net Assets	(145,493)	(381,781)
Temporarily Restricted Net Assets:		
Restricted Net Assets	2,226,546	2,040,088
Budgeted Project Net Assets	857,809	659,206
Property and Equipment Net Assets	184,581	121,441
Total Temporarily Restricted Net Assets	3,268,936	2,820,735
Permanently Restricted Net Assets	9,190,409	8,883,921
TOTAL NET ASSETS	\$ 12,313,852	\$ 11,322,875

HENDERSON STATE UNIVERSITY
 COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND
 CHANGES IN NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2010

EXHIBIT B

	2010	2009
OPERATING REVENUE:		
Student Tuition and Fees (net of scholarship allowances of \$12,280,884 and \$9,622,625, respectively)	\$ 9,082,342	\$ 10,287,811
Federal Grants and Contracts	1,726,264	1,956,768
State and Local Grants and Contracts	1,190,278	1,355,531
Non-Governmental Grants and Contracts	126,123	307,857
Sales and Services of Educational Departments	534,536	550,244
Athletics	1,314,285	1,183,332
Housing and Food Service (net of scholarship allowances of \$2,341,057 and \$2,308,473, respectively)	3,894,640	3,576,947
Bookstore	78,294	84,378
Garrison Center (net of scholarship allowances of \$47,784 and \$51,541, respectively)	146,010	175,809
Other Auxiliary Enterprises (net of scholarship allowances of \$484,053 and \$213,897, respectively)	1,692,084	1,938,757
	19,784,856	21,417,434
TOTAL OPERATING REVENUES		
OPERATING EXPENSES:		
Personal Services	28,789,749	29,025,960
Supplies and Other Services	13,098,738	13,066,850
Scholarships and Fellowships	3,243,748	3,234,069
Depreciation	3,413,790	3,228,232
	48,546,025	48,555,111
TOTAL OPERATING EXPENSES		
OPERATING INCOME (LOSS)	(28,761,169)	(27,137,677)
NON-OPERATING REVENUES (EXPENSES)		
State and Federal Appropriations	20,431,249	20,790,347
Federal and State Grants and Contracts	8,893,912	6,321,942
American Reinvestment and Recovery Act (ESF)	268,461	
Gifts	226,948	111,755
Investment Income	260,198	141,462
Interest and Fees on Long Term Debt	(1,241,257)	(1,584,963)
Other	644,911	512,444
	29,484,422	26,292,987
Net Non-operating Revenues	29,484,422	26,292,987

HENDERSON STATE UNIVERSITY
 COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND
 CHANGES IN NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2010

EXHIBIT B

	2010	2009
Income Before Other Revenues, Expenses, Gains/Losses	\$ 723,253	\$ (844,690)
Bond Proceeds from Act 1282 of 2005	581,558	1,470,128
American Reinvestment and Recovery Act (GSF)	77,485	
Adjustments to Prior Year Revenues and Expenses	8,665	200,364
INCREASE (DECREASE) IN NET ASSETS	1,390,961	825,802
NET ASSETS-BEG. OF YEAR AS ORIGINALLY REPORTED	32,765,932	31,940,130
Adjustment for Prior Year Deferred Revenue	1,866,466	
NET ASSETS-BEGINNING OF YEAR RE-STATED	34,632,398	31,940,130
NET ASSETS-END OF YEAR	\$ 36,023,359	\$ 32,765,932

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

HENDERSON STATE UNIVERSITY FOUNDATION, INC.
 STATEMENT OF REVENUES, EXPENSES AND
 CHANGES IN NET ASSETS
 JUNE 30, 2010
 WITH COMPARATIVE FIGURES AT JUNE 30, 2009

EXHIBIT B-1

	2010	2009
SUPPORT AND REVENUES:		
Contributions	\$ 1,370,418	\$ 1,224,881
Interest and Dividend Income	294,066	353,806
Gain on Sale of Investment	13,160	(88,200)
Unrealized Loss on Investments	452,015	(528,956)
TOTAL SUPPORT AND REVENUES	2,129,659	961,531
EXPENSES:		
Program Services:		
Scholarship awards	402,329	397,037
Awards and Gifts	537,781	261,088
Athletics	118,835	129,280
Cupp Chair	6,000	6,000
Total Program Services	1,064,945	793,405
Supporting Services:		
General Administration	73,737	72,925
TOTAL EXPENSES	1,138,682	866,330
CHANGE IN NET ASSETS	990,977	95,201
NET ASSETS AS OF BEGINNING OF YEAR	11,322,875	11,227,674
NET ASSETS AS OF END OF YEAR	\$ 12,313,852	\$ 11,322,875

HENDERSON STATE UNIVERSITY
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010

EXHIBIT C

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and Fees (Net of Scholarships)	\$ 8,621,012	\$ 10,011,078
Research Grants and Contracts	3,110,530	3,759,561
Collection of Loans and Interest to Students (includes Perkins and interest income)	228,435	192,092
Auxiliary Enterprises		
Athletics	1,314,285	1,183,332
Housing and Food Service	3,894,640	3,576,947
Bookstore	78,294	84,378
Student Union	146,010	175,809
Other Auxiliary Enterprises	1,692,084	1,938,757
Other Receipts	535,617	550,244
Payments to Suppliers	(13,637,411)	(12,960,391)
Payments to Employees	(22,629,862)	(21,956,068)
Payments of Employee Benefits	(6,314,994)	(6,170,611)
Loans issued to Students (includes Perkins)	(144,664)	(161,480)
Scholarships and Fellowships	(3,243,748)	(3,234,069)
Net Cash Provided (Used) by Operating Activities	(26,349,772)	(23,010,421)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations	20,431,249	20,790,347
Federal and State Grants and Contracts	8,893,912	6,321,942
FFEL Loans (Incoming)	15,502,660	15,299,678
Agency Funds (Net of Outflows)	24,288	120,132
FFEL Loans (Outgoing)	(15,502,660)	(15,299,678)
American Reinvestment and Recovery Act-ESF	268,461	
Other	596,433	557,365
Net Cash Provided (Used) by Noncapital Financing Activities	30,214,343	27,789,786
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Bond Proceeds from Act 1282 of 2005	188,688	1,470,128
Acquisitions and Construction of Capital Assets	(1,257,633)	(8,052,725)
American Reinvestment and Recovery Act-GSF	77,485	
Principal Paid on Capital Debt and Leases	(1,944,128)	(1,638,864)
Interest and Paying Agents Fees Paid on Capital Debt	(1,341,517)	(1,592,304)
Capital Gift and Grants	226,948	111,755
Prior Period Adjustments	8,665	
Net Cash Provided (Used) by Capital and Related Financing Activities	(4,041,492)	(9,702,010)

HENDERSON STATE UNIVERSITY
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010

EXHIBIT C

	2010	2009
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales and Maturities of Investments	\$ 375,667	\$ 3,981,377
Interest on Investments (net of fees)	207,540	144,448
Purchase of Investments	(839,748)	(191,240)
Net Cash Provided (Used) by Investing Activities	(256,541)	3,934,585
Net Increase (Decrease) in Cash	(433,462)	(988,060)
Cash - Beginning of Year	5,376,609	6,364,669
Cash - Ending of Year	\$ 4,943,147	\$ 5,376,609
Reconciliation of Net Operating Revenues to Net Cash Provided by Operating Activities		
Operating Income (Loss)	\$ (28,761,169)	\$ (27,137,677)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense	3,413,790	3,228,232
Change in Assets and Liabilities		
Receivables, Net	(460,249)	(276,733)
Inventories	15,119	34,325
Other Assets	(20,498)	(52,102)
Loans Receivable	83,772	30,612
Accounts Payable	(533,294)	94,307
Deferred Revenue	67,865	234,709
Compensated Absences	55,591	54,022
Other Liabilities	(210,699)	779,884
Net Cash Provided (Used) by Operating Activities	\$ (26,349,772)	\$ (23,010,421)
NONCASH TRANSACTIONS		
Donated Equipment	\$ 88,991	
Proceeds of Refunding Bonds	8,770,000	
Bond Proceeds to Refunding Bond Agent	(8,107,797)	
Bond Issuance Cost Paid from Bond Proceeds	(133,248)	
Bond Discounts on Bonds	(27,345)	
Accrued Interest on Bonds	21,292	
Bond Proceeds Deposited to Debt Service Reserve Funds	(501,610)	
Debt Service Reserve Funds to Refunding Bond Agent	(498,263)	
Value on Trade-in of Equipment		\$ 746

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

Henderson State University
Notes to the Financial Statements
June 30, 2010

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.

NOTE 2: Summary of Significant Accounting Policies

Financial Statement Presentation

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

Basis of Accounting

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

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

Capital Assets and Depreciation

Land, buildings, improvements and infrastructure, equipment, library holdings, and construction in progress are reported at cost or estimated historical cost if actual data is not available. Donated capital assets are reported at fair market value when received. The University follows the State guidelines for equipment capitalization. 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 of intangible assets will be determined at the time of capitalization.

Henderson State University
Notes to the Financial Statements
June 30, 2010

Operating and Nonoperating Revenues

Revenues are reported in compliance with GASB Statement No. 34.

Cash Equivalents

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

Accounts Receivable

Accounts Receivable consists of tuition and fee charges to students and auxiliary enterprises provided to students, faculty and staff. Accounts Receivable also includes amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts.

Investments

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

Inventories

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

Noncurrent Cash and Investments

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

Deferred Revenues

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

Compensated Absences Payable

Employees accrue and accumulate annual and sick leave in accordance with policies established by the Board of Trustees. Ten month faculty accrue sick leave at a rate of 240 hours per year. Non-classified and classified employees accrue annual leave at a variable rate (from 8 to 15 hours per month) depending upon the number of years employed in state government. Under the University's policy, an employee may carry accrued leave forward from one fiscal year to another, up to a maximum of 240 hours (30 working days). Employees who terminate their employment are entitled to payment for all accumulated annual leave, up to the maximum allowed. The University accrues the dollar value of annual leave benefits which are payable upon retirement, termination, or death of its employees. This liability has been projected to be \$917,146 at June 30, 2010. 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

Henderson State University
Notes to the Financial Statements
June 30, 2010

of its classified employees. This liability is projected to be \$169,978 at June 30, 2010. 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 \$39,352 at June 30, 2010.

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.

Component Units

In May 2002, GASB issued Statement No. 39, *Determining Whether Certain Organizations are Component Units*, which amends GASB No. 14 to provide additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with a primary government. Under the standard, which became effective with the fiscal year ended June 30, 2004, the financial activities of qualifying foundations are to be included in the financial statements of the primary government, through discrete presentations. There is one qualifying foundation for Henderson State University, the Henderson State University Foundation, Inc. Although the University does not control the timing or amount of receipts from this Foundation, the majority of resources, or income thereon, which the Foundation holds and invests is restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements.

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.

Restricted/Unrestricted Resources

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

Henderson State University
Notes to the Financial Statements
June 30, 2010

NOTE 3: Public Fund Deposits and Investments

Cash Deposits

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

Cash Deposits:	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 2,015,168	\$ 2,009,376
Collateralized:		
Collateral held by the pledging bank or pledging bank's trust department in the University's name	3,577,591	3,828,133
Collateral held by the pledging bank or pledging bank's trust department not in the University's name	1,253,767	1,253,767
Total Deposits	\$ 6,846,526	\$ 7,091,276

The above deposits do not include cash on deposit in state treasury or cash on hand in the amounts of \$246,625 and \$23,860 at June 30, 2010, respectively. The above total deposits include certificates of deposit of \$1,227,351 reported as investments and classified as nonparticipating contracts. The above deposits also include money market accounts of \$951,293, pertaining to the University's bonded debt, which are reported as investments.

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, 2010, \$1,253,767 of the University's bank balance of \$7,091,276 was exposed to custodial credit risk as follows:

Custodial Credit Risk - Deposits	Carrying Amount	Bank Balance
Collateral held by the pledging bank or pledging bank's trust department not in the University's name	\$ 1,253,767	\$ 1,253,767

Henderson State University
Notes to the Financial Statements
June 30, 2010

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. As of June 30, 2010, the underlying securities for cash of \$4,780 were held by the counterparty, not in the University's name.

Credit Risk

The University's open-end mutual funds of \$423,048 were not rated; corporate bonds of \$20,435 were rated with a Moody's rating of A3 and a S&P rating of A. The open-end mutual funds and corporate bonds are reported as investments.

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, 2010

NOTE 5: Capital Assets

Following are the changes in capital assets for the year ended June 30, 2010:

Capital Assets:	Balance as of July 1, 2009	Additions	Retirements	Balance as of June 30, 2010
Capital assets not being depreciated				
Land	\$ 1,253,842	\$ 90,787		\$ 1,344,629
Construction in progress		79,731		* 79,731
Total capital assets not being depr.	<u>\$ 1,253,842</u>	<u>\$ 170,518</u>		<u>\$ 1,424,360</u>
Other capital assets				
Improvements	\$ 2,841,330	\$ 29,269		\$ 2,870,599
Infrastructure	2,628,595	80,658		2,709,253
Buildings	87,302,219	385,755		87,687,974
Equipment	6,623,916	208,868	\$ (34,297)	6,798,487
Library materials	10,075,283	471,556	(36,360)	10,510,479
Total other capital assets	109,471,343	1,176,106	(70,657)	110,576,792
Less accumulated depreciation for:				
Improvements	(1,806,075)	(70,794)		(1,876,869)
Infrastructure	(1,981,722)	(84,965)		(2,066,687)
Buildings	(32,217,683)	(2,447,658)		(34,665,341)
Equipment	(3,689,041)	(454,314)	33,496	(4,109,859)
Library materials	(6,895,679)	(356,059)		(7,251,738)
Total accumulated depreciation	(46,590,200)	(3,413,790)	33,496	(49,970,494)
Total other capital assets	<u>\$ 62,881,143</u>	<u>\$ (2,237,684)</u>	<u>\$ (37,161)</u>	<u>\$ 60,606,298</u>
Capital Asset Summary:				
Capital assets not being depreciated	\$ 1,253,842	\$ 170,518		\$ 1,424,360
Other capital assets, at cost	109,471,343	1,176,106	\$ (70,657)	110,576,792
Total cost of capital assets	110,725,185	1,346,624	(70,657)	112,001,152
Less accumulated depreciation	(46,590,200)	(3,413,790)	33,496	(49,970,494)
Capital Assets, net of depreciation	<u>\$ 64,134,985</u>	<u>\$ (2,067,166)</u>	<u>\$ (37,161)</u>	<u>\$ 62,030,658</u>

* Comprised of architect fees for a future capital project.

Henderson State University
Notes to the Financial Statements
June 30, 2010

NOTE 6: Long-Term Liabilities

Debt payments on bonds amounted to \$2,615,140 for the fiscal year ended June 30, 2010. The amount of \$330,245 was expended for debt payments on major capital leases.

A summary of long-term debt is as follows:

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized and Issued	Debt Outstanding June 30, 2010	Maturities to June 30, 2010
4/4/2006	1/1/2020	4.03%	\$ 2,940,000	\$ 2,125,000	\$ 815,000
4/4/2006	1/1/2020	4.03%	1,930,000	1,460,000	470,000
7/15/2005	9/1/2035	4.00-4.80%	9,500,000	8,950,000	550,000
1/1/2006	9/1/2035	3.40-4.85%	4,500,000	4,240,000	260,000
10/1/2007	1/1/2032	4.00-4.60%	7,975,000	7,565,000	410,000
12/1/2009	6/30/2027	2.00-4.3%	6,715,000	6,715,000	
12/1/2009	6/30/2019	2.00-3.375%	1,540,000	1,540,000	
12/1/2009	6/30/2017	2.65-5.15%	515,000	515,000	
8/24/2004	8/1/2014	2.05%	445,000	233,778	211,222
2/6/2007	2/6/2014	4.04%	340,939	190,544	150,395
2/6/2007	2/6/2014	4.04%	340,939	190,544	150,395
3/26/2007	3/26/2014	3.84%	156,245	88,895	67,350
4/25/2007	4/25/2014	3.89%	156,240	90,785	65,455
5/15/2007	5/15/2014	3.93%	156,240	92,671	63,569
7/3/2007	6/29/2014	4.10%	206,769	125,346	81,423
8/9/2007	8/9/2014	3.93%	193,274	121,374	71,900
			\$ 37,610,646	\$ 34,243,937	\$ 3,366,709

Henderson State University
Notes to the Financial Statements
June 30, 2010

The changes in long-term liabilities are as follows:

	Balance as of July 1, 2009	Additions	Reductions	Balance as of June 30, 2010	Amounts due within one year
Bonds Payable	\$ 34,200,000	\$ 8,770,000	\$ 9,860,000 *	\$ 33,110,000	\$ 1,255,000
Discount on Bonds		(27,345)	(1,657)	(25,688)	(3,309)
Deferral on Debt Defeasance		(166,060)	(10,167)	(155,893)	(20,337)
Capital Lease Payable	1,418,039		284,102	1,133,937	267,264
Comp Absences Pay.	1,070,885	892,972	837,381	1,126,476	122,379
Early Retirement Pay.	638,455		425,637	212,818	212,818
Employee Retire Pay.	345,162		49,280	295,882	64,440
OPEB Payable	393,867	214,938		608,805	
	\$ 38,066,408	\$ 9,684,505	\$ 11,444,576	\$ 36,306,337	\$ 1,898,255

* Includes \$8,440,000 early retirement of debt - see Note 21.

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

Year Ended June 30, 2010	Principal	Interest	Total
2011	\$ 1,522,264	\$ 1,379,977	\$ 2,902,241
2012	1,892,216	1,303,060	3,195,276
2013	1,937,554	1,242,724	3,180,278
2014	1,967,986	1,180,408	3,148,394
2015	1,823,917	1,119,429	2,943,346
2016-2020	8,535,000	4,611,728	13,146,728
2021-2025	5,360,000	3,266,483	8,626,483
2026-2030	5,675,000	2,005,957	7,680,957
2031-2035	4,685,000	732,427	5,417,427
2036	845,000	20,349	865,349
	\$ 34,243,937	\$ 16,862,542	\$ 51,106,479

Henderson State University
Notes to the Financial Statements
June 30, 2010

NOTE 7: Capital Leases

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

Type of Asset	Asset Amount
ADHE/Ross Property	\$ 445,000
Piper 1 Aircraft	361,872
Piper 2 Aircraft	361,872
Maule 3 Aircraft	165,702
Maule 4 Aircraft	165,697
Maule 5 Aircraft	165,697
Maule 6 Aircraft	165,498
Maule 7 Aircraft	165,498
	\$ 1,996,836

The following is a schedule of future minimum lease payments under capital leases, together with the present value of the net minimum lease payments as of June 30, 2010:

Fiscal Year Ending June 30,	Amount
2011	\$ 303,910
2012	303,910
2013	303,910
2014	253,820
2015	54,915
Total Minimum Lease Payments	1,220,465
Less: Amount Representing Interest	86,528
Total Present Value of Net Minimum Lease Payments	\$ 1,133,937

Henderson State University
Notes to the Financial Statements
June 30, 2010

NOTE 8: Commitments

The University was contractually obligated for the following at June 30, 2010:

Operating Leases

The University is currently leasing 43 copiers. Lease terms range from 1 to 4 years. The University is also leasing 660 computers. Computer lease terms range from 1 to 3 years. The University has no ownership of these items at the end of the lease agreement.

- (1) Future minimum rental payments (aggregate) at June 30, 2010 totals \$578,003.
- (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
2011	\$ 335,673
2012	204,186
2013	38,144
Total Future Minimum Rental Payments (3 years)	\$ 578,003

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, 2010 were \$1,484,012 and \$1,250,157, respectively.

Henderson State University
Notes to the Financial Statements
June 30, 2010

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 fourteen percent of covered salaries, the maximum allowed by State law. The University's contributions to ATRS for the years ended June 30, 2010, 2009 and 2008 were \$374,835, \$287,796 and \$254,878, 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 11.00% of covered salaries. The University's contributions to APERS for the years ended June 30, 2010, 2009 and 2008 were \$336,424, \$328,296 and \$373,347, respectively, equal to the required contributions for each year.

Henderson State University
Notes to the Financial Statements
June 30, 2010

NOTE 10: Natural Classifications with Functional Classifications

The University's operating expenses by functional classifications were as follows:

	Personal Services	Scholarships & Fellowships	Supplies & Services	Depreciation	Total
Instruction	\$ 15,337,988		\$ 929,928		\$ 16,267,916
Research	205,759		69,089		274,848
Public Service	336,474		95,688		432,162
Academic Support	1,669,709		1,503,079		3,172,788
Student Services	2,848,559		654,662		3,503,221
Institutional Support	3,814,125		2,508,105		6,322,230
Schol. & Fellow.		\$ 1,945,728			1,945,728
Oper. & Maint.	1,864,513		1,973,487		3,838,000
Aux. Enterprises	2,712,622	1,298,020	5,225,379		9,236,021
Depreciation				\$ 3,413,790	3,413,790
Other			139,321		139,321
	\$ 28,789,749	\$ 3,243,748	\$ 13,098,738	\$ 3,413,790	\$ 48,546,025

NOTE 11: Related Party Transactions

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

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

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

Henderson State University
Notes to the Financial Statements
June 30, 2010

NOTE 12: Compensated Absences

Changes in Compensated Absences Payable are as follows:

Changes in Compensated Absences Payable:	Amount
Annual Leave as of June 30, 2009	\$ 718,310
Earned Leave	525,748
Lost Leave over 240 hours	(42,751)
Annual Leave Used	(437,019)
Annual Leave as of June 30, 2010	\$ 764,288

Employees with a sick leave balance of 50 days or more are eligible for payment for leave upon retirement or death. As of June 30, 2010 the University's liability for employees with sufficient leave balances was \$141,632.

Employees with a compensatory time balance are eligible for payment for leave upon termination, retirement or death. As of June 30, 2010 the University's liability for employees with compensatory leave balances was \$32,793.

The above figures do not include estimated fringe benefits on accrued leave in the amount of \$187,763 for 2009/2010.

NOTE 13: Employee Retirement

Changes in Employee Retirement:	Amount
Employee Retirement as of June 30, 2009	\$ 345,162
Amount Paid Out During 2009/2010	(49,280)
Employee Retirement as of June 30, 2010	\$ 295,882

Henderson State University
Notes to the Financial Statements
June 30, 2010

NOTE 14: Disaggregation of Receivable and Payable Balances

Accounts Receivable Consists of the Following:	Amount
Student Tuition and Fees	\$ 2,177,562
Auxiliary Enterprises	29,904
Other Receivables	27,099
Federal	97,277
State	403,333
Notes and Loans Receivable	1,453,925
Total Accounts Receivable	\$ 4,189,100

Accounts Payable Consists of the Following:	Amount
Vendors	\$ 176,589
Other Payables	142,221
State	15,778
Total Accounts Payable	\$ 334,588

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.

Henderson State University
Notes to the Financial Statements
June 30, 2010

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 \$108,612 for fiscal year 2010, compared to \$129,647 for fiscal year 2009. The University paid the total premiums for life insurance benefits for eligible retirees, ages 55 to 65, directly to MetLife in the amount of \$1,737 for fiscal year 2010, compared to \$1,972 for fiscal year 2009. This represents a total of \$110,349 paid by the University for the employer portion of the OPEB for fiscal year 2010, compared to \$131,619 for fiscal year 2009.

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 81.2% or \$108,612 of the postretirement healthcare premiums, totaling \$133,740 for the fiscal year ended June 30, 2010. Last year, the University funded approximately 80.9% or \$129,647 of the postretirement healthcare premiums, totaling \$160,339 for the fiscal year ended June 30, 2009. The retirees are responsible for funding approximately 18.8% of the healthcare premiums compared to 19.1% 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 \$1,737 in postretirement life insurance benefits for the fiscal year ended June 30, 2010 and \$1,972 in postretirement life insurance benefits for the fiscal year ended June 30, 2009. 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 \$214,938 in retiree healthcare and life insurance expense during fiscal year 2010, compared to \$206,804 during fiscal year 2009.

Henderson State University
Notes to the Financial Statements
June 30, 2010

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

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

Henderson State University
Notes to the Financial Statements
June 30, 2010

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

Cost Element	Fiscal Year Ending June 30, 2010		Fiscal Year Ending June 30, 2009	
	Amount	% of Payroll ¹	Amount	% of Payroll ¹
1. Unfunded actuarial accrued liability	\$ 2,741,329	14.63%	\$ 2,809,086	15.40%
<u>Annual Required Contribution (ARC)</u>				
2. Normal Cost	\$ 193,705		\$ 189,494	
3. Amortization of the unfunded actuarial accrued liability over 30 years using open amortization	139,861		143,317	
4. Amortization of beginning of year accrual			9,544	
5. Annual Required Contribution (ARC = 2 + 3 + 4)	<u>\$ 333,566</u>	1.78%	<u>\$ 342,355</u>	1.88%
<u>Annual OPEB Cost (Expense)</u>				
6. Normal Cost	\$ 193,705		\$ 189,494	
7. Amortization of the unfunded actuarial accrued liability over 30 year using open amortization	139,861		143,317	
8. Amortization of the beginning of year accrual	(20,095)			
9. Interest on beginning of year accrual	11,816		5,612	
10. Annual OPEB cost (6 + 7+ 8 + 9)	<u>\$ 325,287</u>	1.74%	<u>\$ 338,423</u>	1.86%
<u>End of year Accrual (Net OPEB Obligation)</u>				
11. Beginning of year accrual	\$ 393,867		\$ 187,063	
12. Annual OPEB cost	325,287		338,423	
13. Employer contribution (benefit payments) ²	110,349		131,619	
14. End of year accrual (11 + 12 - 13)	<u>\$ 608,805</u>	3.25%	<u>\$ 393,867</u>	2.16%

¹ Annual payroll for the 502 plan participants as of July 1, 2009 is \$18,741,934 and for the 449 plan participants as of July 1, 2008 is \$18,239,672.

² Actual contributions paid in fiscal year 2010 of \$135,477 less participant contributions of \$25,128; \$162,311 and \$30,692 respectively, in fiscal year 2009. Employer contributed 33.92% of annual OPEB cost during fiscal year 2010, compared to 38.9% during fiscal year 2009.

Henderson State University
Notes to the Financial Statements
June 30, 2010

Schedule of Employer Contributions:

Fiscal Year Ended	Annual OPEB Cost	Actual Contributions ³	Percentage Contributed
June 30, 2010	\$ 325,287	\$ 110,349	33.92%
June 30, 2009	\$ 338,423	\$ 131,619	38.90%
June 30, 2008	\$ 311,331	\$ 124,268	39.90%

³Since there is no funding; these are actual benefit payments of \$135,477 less retiree contributions of \$25,128 for 2010 and \$162,311 less retiree contributions of \$30,692 for 2009 and \$133,136 less retiree contributions of \$8,868 for 2008.

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, 2010	\$	\$ 2,741,329	\$ 2,741,329	0.00%	\$ 18,741,934	14.63%
June 30, 2009	\$	\$ 2,809,086	\$ 2,809,086	0.00%	\$ 18,239,672	15.40%
June 30, 2008	\$	\$ 2,667,953	\$ 2,667,953	0.00%	\$ 18,186,600	14.67%

⁴Estimated payroll as of July 1, 2009, July 1, 2008, and July 1, 2007 includes only plan participants.

Note: The annual OPEB cost of \$325,287 for fiscal year 2010 and accrual of \$608,805 as of June 30, 2010, are based on a current decision not to fund in a segregated GASB qualified trust; \$338,423 and \$393,867, respectively, in the fiscal year 2009; and \$311,331 and \$187,063, respectively, in the fiscal year 2008.

Henderson State University
Notes to the Financial Statements
June 30, 2010

Three-Year Schedule of Percentage of OPEB Cost Contributed:

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 325,287	33.92%	\$ 608,805
June 30, 2009	\$ 338,423	38.90%	\$ 393,867
June 30, 2008	\$ 311,331	39.90%	\$ 187,063

Summary of Key Actuarial Methods and Assumptions:

Methods:

Valuation Year: July 1, 2009 – June 30, 2010

Actuarial Cost Method: Projected Unit Credit, level dollar

Amortization Method: 30 years, level dollar open amortization⁵

Asset Valuation Method: N/A

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

Assumptions:

Discount Rate: 3.0%

Projected Payroll Growth Rate: N/A

Health Care Cost Trend Rate For Medical & Prescription Drugs: Trend rates are not used after 2008 because the University has frozen employer contributions to the plan at fiscal 2007 levels.

General Overview of the Valuation Methodology:

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

Henderson State University
Notes to the Financial Statements
June 30, 2010

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, 2009 – June 30, 2010

Date of Census Data: June 30, 2010

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

Retiree Premiums:

Retiree Premiums	Employee Cost	Employer Cost	Total
Health Insurance (Monthly Rate)			
Single	\$	\$ 319.44	\$ 319.44
Family	\$ 325.87	\$ 319.44	\$ 645.31
Life Insurance			
Basic	\$	\$.26 per \$1000	

Discount Rate: 3.00% per annum

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

Mortality: The IRS Combines Static Mortality Table is used

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

Henderson State University

Notes to the Financial Statements

June 30, 2010

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, 2010

Sample Withdrawal and Disability Rates:

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

Age	Terminate Rate (Male)	Terminate Rate (Female)
25	46.0%	48.4%
30	43.4%	46.6%
35	36.4%	38.8%
40	30.0%	27.4%
45	24.5%	21.2%
50	19.0%	18.8%
55	15.7%	16.2%
60	15.0%	15.0%
65	15.0%	15.0%
70	15.0%	15.0%
75	0.0%	0.0%
80	0.0%	0.0%

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

NOTE 16: Impact of Recently Issued Accounting Standards

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

Henderson State University
Notes to the Financial Statements
June 30, 2010

NOTE 17: Pledged Revenues

The University has pledged future student housing revenue net of specified operating expenses to repay \$17,470,000 in student housing revenue bonds issued in 2005, 2006 and 2009, a total of four bond issues. Proceeds from the bonds provided financing for the construction and renovation of University student housing and the refunding of existing student housing debt issues. The bonds are payable solely from student housing net revenues and are payable to maturity dates ranging from 2019 to 2036. Annual principal and interest payments on the bonds currently require 61% of net revenues. The total principal and interest remaining to be paid on the bonds is \$26,227,517. Principal and interest paid for the current year and total customer net revenues were \$ 1,194,680 and \$1,955,365, respectively.

The University has pledged future student recreation center revenue net of specified operating expenses to repay \$7,975,000 in student recreation center revenue bonds issued in 2007. Proceeds from the bonds provided financing for the construction of the student recreation center. The bonds are payable solely from the student recreation center fee revenues and are payable through 2032. Annual principal and interest payments on the bonds currently require 98% of net revenues. The total principal and interest remaining to be paid on the bonds is \$11,997,333. Principal and interest paid for the current year and total customer net revenues were \$499,709 and \$510,568, respectively.

The University has pledged future other auxiliary revenue net of specified operating expenses to repay \$515,000 in other auxiliary revenue bonds issued in 2009. Proceeds from the bonds provided financing for the capital repairs renovation and maintenance of other auxiliary services and the refunding of other auxiliary services bond issues. The bonds are payable solely from other auxiliary revenues and are payable through 2017. Annual principal and interest payments on the bonds currently require 24% of net revenues. The total principal and interest remaining to be paid on the bonds is \$604,260. Principal and interest paid for the current year and total customer net revenues were \$77,973 and \$325,705, respectively.

The University has pledged future student tuition and fees to repay \$9,655,000 in refunding bonds issued in 2006 and 2009 to refund capital improvement bonds for various capital projects. The bonds are payable solely from student tuition and fees and are payable to maturity dates of 2020 and 2027. Annual principal and interest payments on the bonds currently require 1.9% of gross revenues. The total principal and interest remaining to be paid on the bonds is \$11,056,904. Principal and interest paid for the current year and gross student tuition and fees were \$400,942 and \$21,363,226, 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.

Henderson State University
Notes to the Financial Statements
June 30, 2010

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

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

The University carries commercial insurance related to the operation and maintenance of University owned aircraft as well as airport liability coverage. The University pays an annual premium for this coverage. The University participates in the Arkansas Fidelity Bond Trust Fund administered by the Governmental Bonding Board. This program provides coverage for actual losses sustained by its members through fraudulent or dishonest acts committed by officials or employees. Each loss is limited to \$250,000 with a \$1,000 deductible. The Department of Finance and Administration withholds the premium from the University's State Treasury funds.

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

Settled claims have not exceeded the commercial insurance coverage in any of the past three fiscal years. There were no significant reductions in insurance coverage from the prior year in the major categories of risk.

NOTE 19: Restatement of Net Assets

The beginning net assets in the Statement of Revenues, Expenses and Changes in Net Assets were adjusted to reflect the recognition of revenue from Federal, State and Other Grants and Contracts which were previously deferred until expended in the amount of \$1,866,466.

NOTE 20: Termination Benefits

The University offered a Voluntary Early Retirement Plan on December 31, 2007. This plan was offered to 107 employees who met the following criteria:

1. Employed at least ½ time.
2. Age 55 years or greater
3. Combined age and HSU years of service equal to 70 or greater.

Henderson State University
Notes to the Financial Statements
June 30, 2010

The Voluntary Early Retirement Plan was accepted by 34 employees who received a one time lump sum payment for unused sick and annual leave in January 2008. The benefits listed below will be paid out over 36 months beginning in January 2008:

1. 50% of annual salary.
2. Additional 1% for each year of service.

The University's liability as of June 30, 2010 for employees who accepted the Voluntary Early Retirement Plan was \$212,818 which included \$15,124 for fringe benefits.

NOTE 21: Refunding of Capital Debt

On December 1, 2009, Henderson State University issued refunding bonds for three issues. The following information is presented on each refunding:

\$6,715,000 Student Fee Secured Refunding Bonds, Series 2009, were issued with an interest rate of 2 to 4.3 percent to refund \$3,470,000 of outstanding bonds dated July 1, 2001 with interest rates of 3.15% to 5.375% and \$3,005,000 of outstanding bonds dated July 1, 2003 with interest rates of 1% to 4.05 percent. Bond proceeds of \$6,237,549 and debt service reserve funds of \$353,966 were deposited with the refunding bond agents to refund the above bonds. The 2001 Series and 2003 Series outstanding bonds were called for redemption on January 1, 2010. The remaining net bond proceeds of \$355,073 (after payment of bond issuance costs of \$98,939 and deduction of the bond discount of \$23,439) were deposited into the debt service reserve fund as per the bond indenture. Accrued interest of \$16,388 was deposited in the debt service fund to be applied to subsequent interest payments. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$116,515. This difference, reported in the accompanying financial statements as a contra-liability, will be amortized through the fiscal year 2019 using the straight-line method. Henderson State University completed the refunding to reduce its total debt service payments over the next seventeen years by \$460,020 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$410,915.

\$1,540,000 Auxiliary Enterprise Revenue Secured Refunding Bonds, Series 2009A, were issued with an interest rate of 2 to 3.375 percent to refund \$1,475,000 of outstanding bonds dated July 1, 2004 with interest rates of 1.8 to 4.8 percent. Bond proceeds of \$1,408,060 and debt service reserve funds of \$99,335 were deposited with the refunding bond agent to refund the above bonds. The 2004 Series outstanding bonds were called for redemption on April 1, 2010. The remaining net bond proceeds of \$101,526 (after payment of bond issuance costs of \$26,508 and deduction of the bond discount of \$3,906) were deposited into the debt service reserve fund as per the bond indenture. Accrued interest of \$3,180 was deposited in the debt service fund to be applied to subsequent interest payments. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$32,395. This difference, reported in the accompanying financial statements as a contra-liability, will be amortized through the fiscal year 2019 using the straight-line method. Henderson State University completed the refunding to reduce its total debt service payments over the next nine years by \$84,819 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$67,488.

Henderson State University
Notes to the Financial Statements
June 30, 2010

\$515,000 Auxiliary Enterprise Revenue Secured Refunding Bonds, Series 2009B, were issued with an interest rate of 2.65 to 5.15 percent to refund \$490,000 of outstanding bonds dated July 7, 2001 with an interest rate of 7 percent. Bond proceeds of \$462,188 and debt service reserve funds of \$44,962 were deposited with the refunding bond agent to refund the above bonds. The 2001 Series bonds were called for redemption on January 1, 2010. The remaining net bond proceeds of \$45,011 (after payment of bond issuance costs of \$7,801) were deposited into the debt service reserve fund as per the bond indenture. Accrued interest of \$1,724 was deposited in the debt service fund to be applied to subsequent interest payments. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$17,150. This difference, reported in the accompanying financial statements as a contra-liability, will be amortized through the fiscal year 2017 using the straight-line method. Henderson State University completed the refunding to reduce its total debt service payments over the next seven years by \$34,329 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$31,528.

The total amount of bond issuance costs from the three issues above was \$133,248; however, an amount of \$136,595 was recorded as bond issuance costs on the Statement of Net Assets, a difference of \$3,347. The recorded amount was based on preliminary bond calculations of bond issuance costs. University management determined the difference was not material to the financial statements.

Henderson State University
Required Supplementary Information
June 30, 2010

OTHER POSTEMPLOYMENT BENEFITS

Schedule of Employer Contributions:

Fiscal Year Ended	Annual OPEB Cost	Actual Contributions	Percentage Contributed
June 30, 2010	\$ 325,287	\$ 110,349	33.92%
June 30, 2009	\$ 338,423	\$ 131,619	38.90%
June 30, 2008	\$ 311,331	\$ 124,268	39.90%

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 (c)	UAAL as a Percentage Of Covered Payroll [(b)-(a)/(c)]
June 30, 2010	\$	\$ 2,741,329	\$ 2,741,329	0.00%	\$ 18,741,934	14.63%
June 30, 2009	\$	\$ 2,809,086	\$ 2,809,086	0.00%	\$ 18,239,672	15.40%
June 30, 2008	\$	\$ 2,667,953	\$ 2,667,953	0.00%	\$ 18,186,600	14.67%

HENDERSON STATE UNIVERSITY
 SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS
 FOR THE YEAR ENDED JUNE 30, 2010
 (Unaudited)

Schedule 1

	Year Ended June 30,				
	2010	2009	2008	2007	2006
Total Assets	\$ 74,769,959	\$ 75,700,622	\$ 75,232,998	\$ 66,454,678	\$ 67,092,682
Total Liabilities	38,746,600	42,934,690	43,292,868	36,114,011	35,479,519
Total Net Assets	36,023,359	32,765,932	31,940,130	30,340,667	31,613,163
Total Operating Revenues	19,784,856	21,417,434	20,727,053	17,580,462	15,015,328
Total Operating Expenses	48,546,025	48,555,111	45,967,971	43,246,187	41,722,738
Total Net Non-Operating Revenues	29,484,422	26,292,987	26,046,000	24,186,443	23,614,584
Total Other Revenues, Expenses, Gains or Losses	667,708	1,670,492	794,381	206,786	39,405