EXHIBIT C1.a

Henderson State University

Arkadelphia, Arkansas

Basic Financial Statements
and Other Reports

June 30, 2018

LEGISLATIVE JOINT AUDITING COMMITTEE

HENDERSON STATE UNIVERSITY
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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, 2018, 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 represents 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 judgement, 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, 2018, and the respective changes in financial position, and where applicable, cash flows thereof for the year ended in accordance with accounting principles generally accepted in the United States of America.

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Emphasis of Matter

As discussed in Notes 15 and 22 to the financial statements, the University implemented Governmental Accounting Standards Board (GASB) Statement no. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, during the year ended June 30, 2018. A restatement of the University's beginning net position was required due to the adoption of this Statement. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, certain information pertaining to postemployment benefits other than pensions, and certain information pertaining to pensions on pages 7-14, 65-67, and 68-69 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.

The Schedule of Selected Information for the Last Five Years 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 November 20, 2019 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 solely 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 the effectiveness of the University's 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 Norman

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

Little Rock, Arkansas
November 20, 2019
EDHE10018

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 the 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, 2018, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated November 20, 2019. 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described below in the Audit Findings section of this report, we did identify certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

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. We consider the deficiency described below in the Audit Findings section of this report as item 1 to be a material weakness.

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. We consider the deficiency described below in the Audit Findings section of this report as item 2 to be a significant deficiency.

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 November 20, 2019.

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AUDIT FINDINGS

Material Weakness

1. Financial statements should be presented fairly in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The University's internal control system did not detect or prevent material misstatements in the financial statements. Key errors in the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position included:

   Statement of Net Position

   - Allowance for doubtful accounts on student accounts receivable was understated $2,309,445 which resulted in net student accounts receivable to be overstated by that same amount.
   - Accounts payable was understated by $183,775 due to unrecorded accruals.
   - Deferral of debt defeasance, which is related to refunded bond issues, was understated by a net amount of $78,381 due to a calculation error.

   Statement of Revenues, Expenses, and Changes in Net Position

   - Due to the understatement of the allowance for doubtful accounts on student accounts receivable and the misclassification of sales and services of educational departments revenue of $170,463, student tuition and fees revenue was overstated by $474,016, athletics auxiliary revenue was overstated by $31,055, housing and food services auxiliary revenue was overstated by $200,042, and a restatement for a prior period adjustment in the amount of $1,774,796 was not recorded.
   - Supplies and other services was overstated by a net amount of $117,723 due to misclassifications and unrecorded accounts payable.
   - Bond issuance costs was understated by $150,337 due to misclassifications.
   - Interest and fees on long-term debt was understated by a net amount of $72,578 due to misclassifications and unrecorded accounts payable.

   Financial statements, for the above misstatements, were corrected by University personnel during the audit.

   We recommend the University review internal controls to ensure the accuracy of financial statements.

   Management Response: The University concurs with the finding. Additional review procedures of financial statements will be implemented. Ms. Rita Fleming has been hired as the new Vice President for Finance and Administration and will assume her position officially on December 3, 2019. The University appreciates the opportunity to correct the statements.

Significant Deficiency

2. We examined the University's policies and procedures regarding enrolling students with account balances and collection on current students' accounts. The University's policy, although not written, was to allow students with a current balance of less than $4,800 to register for the upcoming semester and to automatically enroll students in an installment plan each semester. During our examination of 26 student accounts, we noted the following exceptions:

    - 17 of 26 students tested were allowed to enroll with a balance that exceeded the University's policy.
    - 17 of 26 students tested did not make any payments during the fall but were allowed to re-enroll in the spring and/or summer semester.

    Additionally, we examined 12 delinquent student accounts to determine compliance with the University's policies and procedures and state regulations regarding collection of outstanding debt and noted the following exceptions:

    - For 8 of the 12 student accounts tested, the University was not diligently and actively pursuing collection of the outstanding balances, in noncompliance with University policy and Ark. Code Ann. § 19-2-305.
    - 3 of the students tested were allowed to enroll with a balance that exceeded the University's policy.

    We recommend the University review its policies and procedures on student accounts to ensure their adequacy, including the maximum outstanding balance allowed by students. We also recommend the University establish controls to ensure compliance with these policies and procedures as well as Ark. Code Ann. § 19-2-305.

    Management Response: The University concurs with the finding. Similar results are expected from the FY 2019 audit. Management developed a plan in August 2019 to address the student accounts issue. This was of critical importance to collect old debts and prevent future students from accruing such debts. The Board of Trustees approved policies for both current students and future students.

University's Response to Findings

The University's response to the findings identified in our audit, excluding the management letter finding, is described previously. The University's response was not subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 results 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

Patrick Nutt

Patrick Nutt, CPA
Deputy Legislative Auditor

Little Rock, Arkansas
November 20, 2019

Arkansas

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Sen. Eddie Cheatham
Senate Vice Chair

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

LEGISLATIVE JOINT AUDITING COMMITTEE
ARKANSAS LEGISLATIVE AUDIT

MANAGEMENT LETTER

Henderson State University
Legislative Joint Auditing Committee

We would like to communicate the following item that came to our attention during this audit. The purpose of such comment is to provide constructive feedback and guidance, in an effort to assist management to maintain a satisfactory level of compliance with the state constitution, laws and regulations, and to improve internal control. This matter was discussed previously with University officials during the course of our audit fieldwork and at the exit conference.

At the conclusion of this audit, Arkansas Legislative Audit is in the process of reviewing the student financial aid program of the University. We will issue a report concerning the program at the completion of the review.

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, 2018, 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:

	Summer II Term 2017	Fall Term 2017	Spring Term 2018	Summer I Term 2018
Student Headcount	804	3,336	3,074	818
Student Semester Credit Hours	3,354	43,519	40,448	3,677

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

Patrick Nutt

Patrick Nutt, CPA
Deputy Legislative Auditor

Little Rock, Arkansas
November 20, 2019

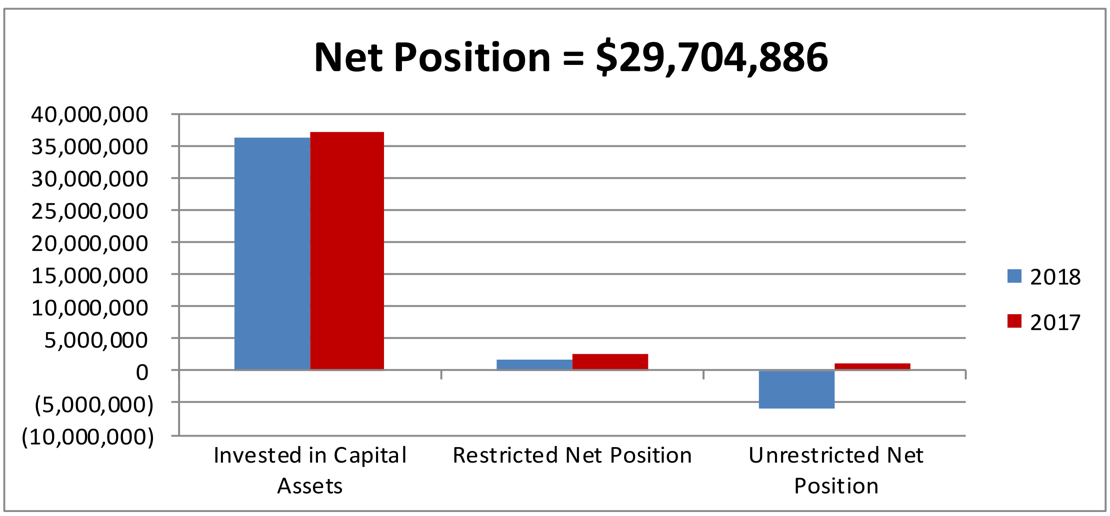
Overview of the Financial Statements and Financial Analysis

Henderson State University proudly presents its financial statements for fiscal year 2018. The discussion and analysis of the University's financial statements which follows provides an overview of its financial activities for the current year. Discussion presented covers the Statements of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows.

Statement of Net Position

The Statement of Net Position presents the Assets (current and noncurrent), Deferred Outflow of Resources, Liabilities (current and noncurrent), Deferred Inflows of Resources, and Net Position (assets plus deferred outflows minus liabilities and deferred inflows) 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, the net asset balances remaining after deducting liabilities, of the Institution and the availability of assets to pay expenditures of 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, after deducting outstanding debt related to the investment. Restricted Net Positions is divided into two categories: Nonexpendable and Expendable. The corpus of the nonexpendable restricted resources is only available for specific purposes. Expendable restricted net position is 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.

Comparative Statement of Net Position June 30, 2018	2018	2017
Assets:		
Current Assets	$ 9,139,236	$ 18,882,945
Capital Assets, net	99,891,642	103,163,295
Other Assets	2,265,727	2,967,300
Total Assets	111,296,605	125,013,540
Deferred Outflow of Resources	2,786,842	2,572,331
Liabilities:		
Current Liabilities	7,347,945	8,978,478
Non-Current Liabilities	75,053,196	76,402,431
Total Liabilities	82,401,141	85,380,909
Deferred Inflow of Resources	1,977,420	1,407,936
Net Position:		
Invested in Capital Assets, Net of Debt	36,906,853	37,022,956
Restricted-Expendable	1,588,923	2,445,254
Restricted-Nonexpendable	123,471	116,686
Unrestricted	(8,914,361)	1,212,130
Total Net Position	$ 29,704,886	$ 40,797,026

Total Assets of the Institution decreased by $13,716,935. A review of the Statement of Net Position will reveal that there are many offsetting variances, but the decrease was primarily due to a decrease in cash as of June 30, 2018 as operating costs exceeded revenues.

Total liabilities for the year decreased by $2,979,768. This net decrease was primarily due to the decrease in accounts payable and a decline in long-term debt as of June 30, 2018.

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.

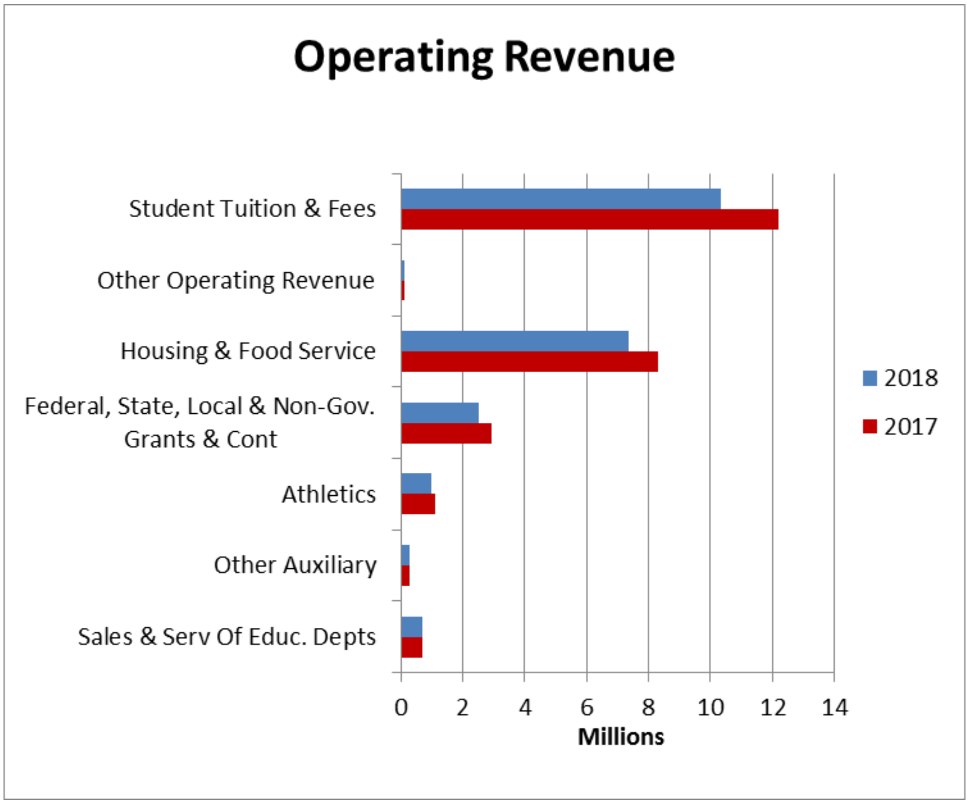
Operating revenues are received for providing goods and services to the various customers and constituencies of the Institution. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the Institution. Non-operating revenues are revenues received for which good or services are not provided. 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.

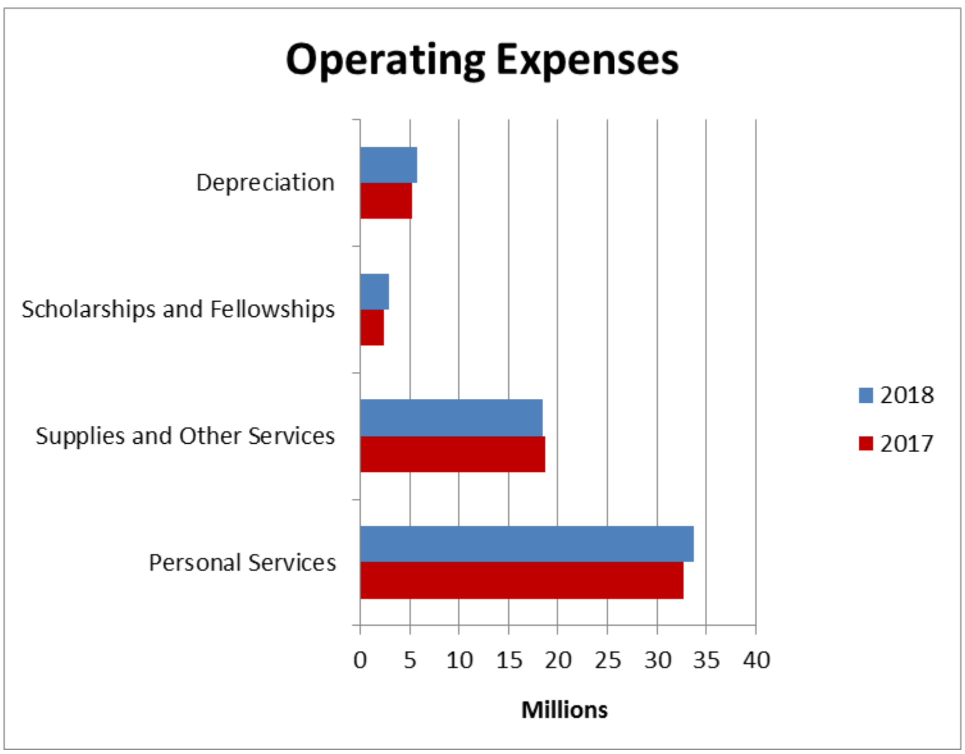
Comparative Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2018

	2018	2017
Operating Revenues	$ 22,329,271	$ 25,635,420
Operating Expenses	60,868,202	59,057,157
Operating Loss	(38,538,931)	(33,421,737)
Non-Operating Revenues less Expenses	30,970,720	30,584,913
Income (Loss) Before Other Rev., Exp., Gains or Losses	(7,568,211)	(2,836,824)
Other Revenues, Expenses, Gains or Losses	1,071,447	1,601,014
Increases (Decreases) in Net Assets	(6,496,764)	(1,235,810)
Net Assets as Originally Reported	40,797,026	42,032,836
Adjustment due to GASB 75	(2,820,580)	
Restatement for Allownace for Doubtful Accounts	(1,774,796)	
Restated Beginning Net Position	36,201,650	
Net Assets at End of Year	$ 29,704,886	$ 40,797,026

The Statement of Revenues, Expenses and Changes in Net Position reflect a decrease in net position at the end of the year of $11,092,140. Highlights of the information presented on the statement are as follows:

- Student tuition and fees, net of scholarship allowances, decreased by $1.9 million.
- Revenue from housing and dining services decreased by approximately $930,000.
- Total operating expenses increased by approximately $2 million primarily due to an increase in personal services.


Operating Revenue
Student Tuition & Fees
Other Operating Revenue
Housing & Food Service
Federal, State, Local & Non-Gov. Grants & Cont
Athletics
Other Auxiliary
Sales & Serv Of Educ. Depts
0
2
4
6
8
10
12
14
Millions
2018
2017


Operating Expenses
Depreciation
Scholarships and Fellowships
Supplies and Other Services
Personal Services
0
5
10
15
20
25
30
35
40
Millions
2018
2017

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 sections:

Comparative Statement of Cash Flow For the Fiscal Year Ended June 30, 2018		2018		2017
Cash Provided (used) by:				
Operating Activities	$	(33,378,255)	$	(28,599,356)
Non-capital Financing Activities		32,654,024		32,109,579
Investing Activities		69,592		89,287
Capital and Related Financing Activities		(6,450,761)		(5,654,942)
Net Change in Cash		(7,105,400)		(2,055,432)
Cash, Beginning of Year		9,073,477		11,128,909
Cash, End of year	$	1,968,077	$	9,073,477

- 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, Expenses, and Changes in Net Position.

Capital Assets and Debt Administration

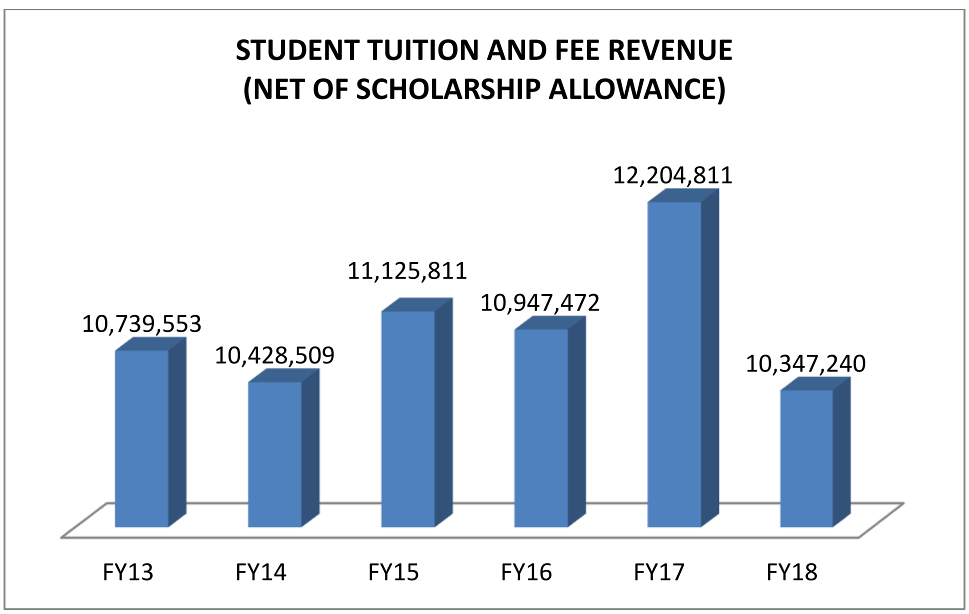
The University made an investment in the following capital additions or improvements in fiscal year 2018:

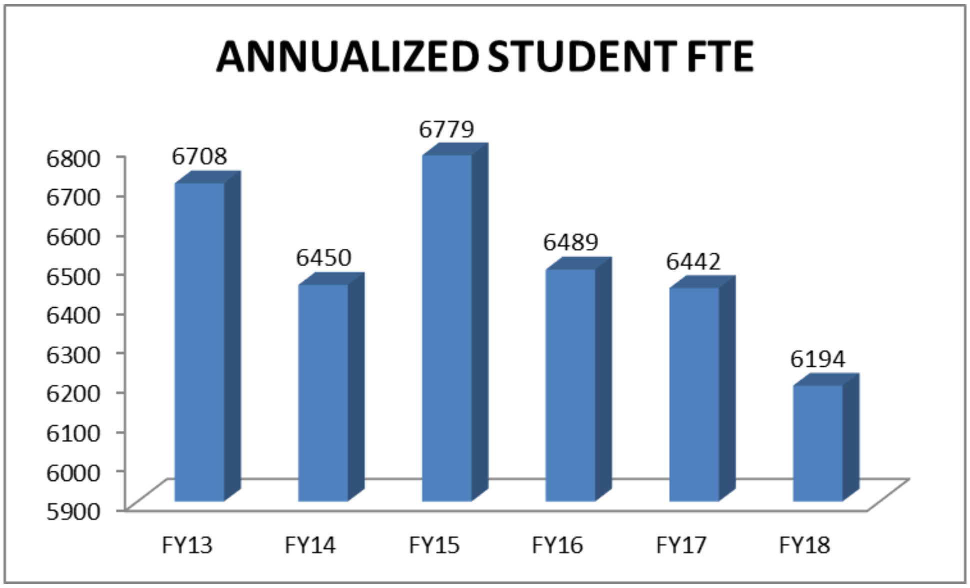
Investment in Capital Assets For the Fiscal Year Ended June 30, 2018	Amount
Land	$ -
Construction in Progress	1,242,573
Improvements & Infrastructure	50,431
Equipment	128,993
Library Holdings	510,550
Buildings (includes $158,133 of completed construction in progress)	584,591
Total	$ 2,517,138

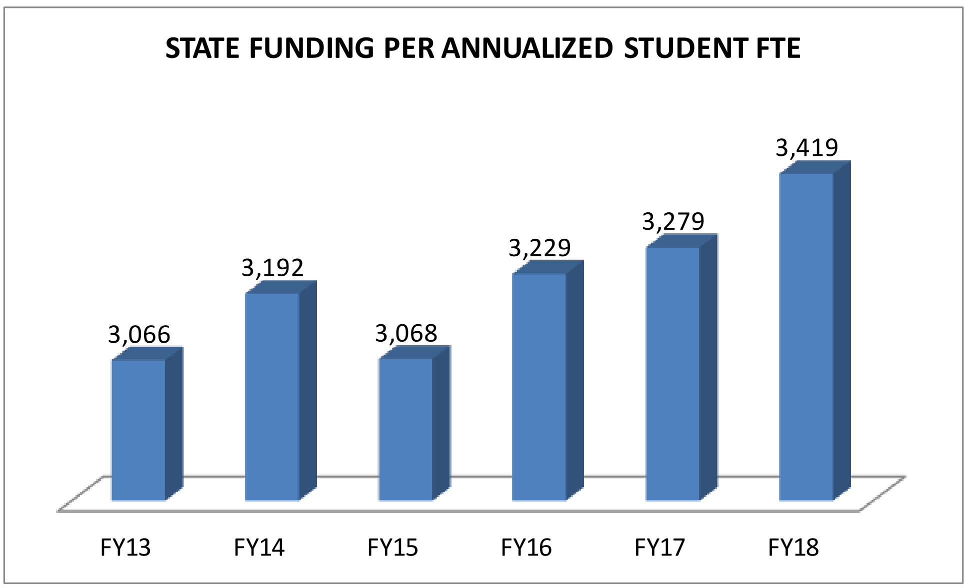
The University's long term debt (current and noncurrent) decreased from $68,826,131 to $65,187,059, a $3,639,072 net decrease as a result of principal payment on long term debt.

Economic Outlook

The following charts illustrate the current trends in Tuition, Annualized Student FTE and State Funding for Annualized Student FTE.







Though the Arkansas economy is strong, with low unemployment, competition for state general revenue funding is heightened due to the significant needs across state government, including higher education. As a result, significant additional operating funds are not anticipated in the 2019 fiscal year. The Arkansas Department of Higher Education, under Governor Asa Hutchinson's direction, has developed an outcomes-based funding model to replace the existing enrollment driven model that has been in place for some time. The results are expected to provide evidence of student outcomes that will drive future funding opportunities. The University is in the midst of re-designing budgeting practices to align with this outcomes-based philosophy. Through the outcomes-based model, the University anticipates a small increase in state funding in the fiscal year beginning July 1, 2018.

In October 2014, Moody's Investors Service assigned an initial bond rating for a $33 million bond issue, as A3; outlook stable. In June 2018, Moody's issued a credit opinion which held the University's A3 rating with a negative outlook.

The University's strategic plan, Beyond the Horizon, was adopted in 2014 and calls for significant investments in the following priority areas:

- Growing enrollment, improving student life, and increasing retention to graduation
- Enhancing academic programs
- Enhancing the quality of life and the ability to recruit and retain a highly qualified and motivated faculty and staff
- Improving the physical environment and infrastructure
- Expanding and diversifying revenues
- Enhancing Henderson's regional, state, and national profile

Successful attainment of the goals contained within the plan, and ultimately the success of Henderson State students, is dependent on providing adequate support for the priorities of the plan. To provide this support, the University has undertaken a budget prioritization and resource allocation design process during fiscal year 2018, with a goal of re-allocating operating budget priorities in the 2019 fiscal year and forward. This process will align the University with the expected outcomes-based funding model at the state level and will provide improved accountability for the resources provided.

Ms. Lecia Franklin
Interim Vice President for Finance & Administration

Henderson State University
Statement of Net Position
June 30, 2018

		2018
ASSETS:		
Current Assets:		
Cash and Cash Equivalents	$	1,807,025
Short Term Investments		636,840
Student Accounts Receivable		4,471,241
Accrued Interest Receivable		371
Inventories		137,338
Notes and Student Loans Receivable		113,011
Other Receivables		781,990
Deposits with Trustee		1,144,517
Unamortized Bond Insurance		46,903
Total Current Assets		9,139,236
Non-Current Assets:		
Cash and Cash Equivalents		161,052
Investments		340,944
Notes and Student Loans Receivable		824,471
Other Receivables		131,164
Deposits with Trustee		808,096
Capital Assets, Net of Accumulated Depreciation ($81,476,793)		99,891,642
Total Non-Current Assets		102,157,369
Total Assets		111,296,605
Deferred Outflows of Resources:		
Deferral of Pension Liability		2,402,862
Deferral of Debt Defeasance, Net of Accumulated Amortization ($272,686)		383,980
Total Outflows of Resources		2,786,842

Henderson State University
Statement of Net Position
June 30, 2018

		2018
LIABILITIES:		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	$	2,087,062
Funds Held in Trust for Others		753,563
Unearned Revenue		496,174
Employee Retirement		49,592
Other Postemployment Benefits		195,360
Compensated Absences Payable		167,765
Long-term Debt		3,564,041
Discount on Bonds		(2,784)
Deferral of Bond Premium		37,172
Total Current Liabilities		7,347,945
Non-Current Liabilities:		
Refundable Advance		892,430
Employee Retirement		34,892
Other Postemployment Benefits		4,738,551
Compensated Absences Payable		766,173
Long-term Debt		61,623,018
Pension Liability		6,408,527
Discount on Bonds Net of Accumulated Amortization Amortization ($3,114)		(43,807)
Bond Premium-Deferred, Net of Accumulated Amortization ($144,032)		633,412
Total Non-Current Liabilities		75,053,196
Total Liabilities		82,401,141
Deferred Inflows of Resources:		
Deferral of Pension Liability		1,405,863
Deferral of OPEB Liability		571,557
Total Inflows of Resources		1,977,420

Henderson State University
Statement of Net Position
June 30, 2018

		2018
NET POSITION:		
Invested in Capital Assets, Net of		
Related Debt	$	36,906,853
Restricted for:		
Expendable:		
Scholarship and Fellowships		229,027
Capital Projects		46,599
Grants and Contracts		425,027
Loans		58,917
Debt Service		810,001
Other		19,352
Nonexpendable:		
Loans		123,471
Unrestricted:		
Net Position		(8,914,361)
Total Net Position	$	29,704,886

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

Exhibit A-1

Henderson State University Foundation, Inc.
Statements of Financial Position
June 30, 2018 and June 30, 2017

	2018	2017
ASSETS		
Cash and cash equivalents	$ 2,337,173	$ 2,562,920
Accrued interest receivable	1,509	
Receivables for securities sold	1,345	20,213
Contributions receivable, net	570,611	119,318
Investments	16,672,859	14,988,709
Prepaid expenses	11,500	15,334
TOTAL ASSETS	$ 19,594,997	$ 17,706,494
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	$ 166,667	$ 178,637
Payable for securites purchased	45,493	
Total Liabilities	212,160	178,637
Net Assets		
Unrestricted	188,431	161,979
Temporarily restricted	7,697,341	6,216,908
Permanently restricted	11,497,065	11,148,970
Total Net Assets	$ 19,382,837	$ 17,527,857
TOTAL LIABILITIES AND NET ASSETS	$ 19,594,997	$ 17,706,494

Henderson State University
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2018

		2018
OPERATING REVENUE:		
Student Tuition and Fees (net of scholarship allowances of $15,009,570)	$	10,347,240
Federal Grants and Contracts		1,954,411
State and Local Grants and Contracts		474,542
Non-Governmental Grants and Contracts		106,108
Sales and Services of Educational Departments		690,778
Athletics (net of scholarship allowances of $665,129)		996,106
Housing and Food Service (net of scholarship allowances of $3,333,896)		7,367,047
Bookstore		106,292
Garrison Center		14,619
Other Auxiliary Enterprises		158,026
Other Operating Revenues		114,102
TOTAL OPERATING REVENUES		22,329,271
OPERATING EXPENSES:		
Personal Services		33,749,532
Supplies and Other Services		18,463,880
Scholarships and Fellowships		2,864,734
Depreciation		5,790,056
TOTAL OPERATING EXPENSES		60,868,202
OPERATING INCOME (LOSS)		(38,538,931)
NON-OPERATING REVENUES (EXPENSES)		
State and Federal Appropriations		21,264,532
Federal and State Grants and Contracts		11,609,671
Gifts		354,106
Investment Income		78,464
Interest and Fees on Long Term Debt		(2,386,466)
Bond Issuance Cost		(150,537)
Bond Insurance Cost		(2,199)
Other		203,149
Net Non-operating Revenues		30,970,720

Henderson State University
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2018

		2018
Income Before Other Revenues, Expenses, Gains/Losses	$	(7,568,211)
Capital Gifts		383,498
Capital Grants and Contracts		1,100,000
Payments of Mandatory Fees to Agency Funds		(439,680)
Insurance Proceeds on Capital Assets		3,037
Adjustments to Prior Year Revenues and Expenses		24,592
INCREASE (DECREASE) IN NET POSITION		(6,496,764)
NET POSITION- BEG OF YEAR AS ORIGINALLY REPORTED		40,797,026
Restatement of prior year balance - GASB 75 (Note 22)		(2,820,580)
Restatement of prior year balance - Other (Note 22)		(1,774,796)
NET POSITION- BEGINNING OF YEAR RESTATED		36,201,650
NET POSITION- END OF YEAR	$	29,704,886

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

Henderson State University Foundation, Inc.
Statements of Activities
For the Years Ended June 30, 2018 and June 30, 2017

	2018	2017
CHANGES IN UNRESTRICTED NET ASSETS		
Unrestricted Support, Revenue and Gains		
Grants	$ 1,094	$ 29,404
Interest and dividends	80	26
Net assets released from restrictions	1,498,729	1,769,225
Total Unrestricted Support, Revenue and Gains	1,499,903	1,798,655
Expenses		
Program services	1,357,866	1,644,729
Supporting services		
General and administrative	115,585	130,311
Total Expenses	1,473,451	1,775,040
Increase in Unrestricted Net Assets	26,452	23,615
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	1,937,581	1,313,368
Interest and dividends	299,761	570,620
Net depreciation in fair value of investments	741,820	937,329
Net assets released from restrictions	(1,498,729)	(1,769,225)
Increase in temporarily restriced net assets	1,480,433	1,052,092
CHANGES IN PERMANENTLY RESTRICED NET ASSETS		
Contributions	345,855	584,069
Interest and dividends	2,240	4,302
(Decrease) Increase in Permanently Restricted Net Assets	348,095	588,371
(DECREASE) INCREASE IN TOTAL NET ASSETS	1,854,980	1,664,078
NET ASSETS, BEGINNING OF YEAR (AS RESTATED)	17,527,857	15,863,779
NET ASSETS, END OF YEAR	$ 19,382,837	$ 17,527,857

Exhibit C

Henderson State University
Statement of Cash Flows
For the Year Ended June 30, 2018

		2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and Fees (Net of Scholarships)	$	10,288,673
Research Grants and Contracts		2,231,890
Collection of Loans and Interest to Students		
(includes Perkins and interest income)		119,986
Auxiliary Enterprises		
Athletics		917,939
Housing and Food Service		6,910,399
Bookstore		138,980
Student Union		14,619
Other Auxiliary Enterprises		172,272
Other Receipts		807,618
Payments to Suppliers		(18,295,658)
Payments to Employees		(25,887,797)
Payments of Employee Benefits		(7,725,932)
Loans issued to Students (includes Perkins)		(52,602)
Scholarships and Fellowships		(3,018,642)
Net Cash Provided (Used) by Operating Activities		(33,378,255)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations		21,264,532
Federal and State Grants and Contracts		11,609,671
Loans to Students-Direct Loans & Private (Inflows)		15,164,771
Agency Funds (Net of Outflows)		87,105
Loans to Students-Direct Loans & Private (Outflows)		(15,164,771)
Payments of Mandatory Fees to Agency Funds		(439,680)
Gifts and Grants		354,106
Principal paid on non-capital loan		(155,510)
Interest paid on non-capital loan		(50,518)
Refund of federal perkins contributions		(39,453)
Other		23,771
Net Cash Provided (Used) by Noncapital Financing Activities		32,654,024

Henderson State University
Statement of Cash Flows
For the Year Ended June 30, 2018

		2018
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisitions and Construction of Capital Assets	$	(2,142,380)
Capital Grants and Contracts		1,377,361
Insurance Proceeds on Capital Assets		3,037
Principal Paid on Non-Bonded Debt		(583,562)
Interest and Fees Paid on Non-Bonded Debt		(580,968)
Payment to Trustee for Principal		(2,780,000)
Payment to Trustee for Interest and Fees		(1,744,249)
Net Cash Provided (Used) by Capital and Related Financing Activities		(6,450,761)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales and Maturities of Investments		135,131
Interest on Investments (net of fees)		60,970
Purchase of Investments		(126,509)
Net Cash Provided (Used) by Investing Activities		69,592
Net Increase (Decrease) in Cash		(7,105,400)
Cash - Beginning of Year		9,073,477
Cash - Ending of Year	$	1,968,077

Henderson State University
Statement of Cash Flows
For the Year Ended June 30, 2018

		2018
Reconcilation of Net Operating Loss to Net Cash Provided (Used) by Operating Activities		
Operating Income (Loss)	$	(38,538,931)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense		5,790,056
Receivables, Net		(1,022,707)
Inventories		(3,941)
Other Assets		262
Loans Receivable		67,385
Accounts Payable		140,687
Deferred Revenue		555
Employee Retirement		(18,365)
Compensated Absences		(126,848)
OPEB		422,636
Net Pension Liability		(89,044)
Net Cash Provided (Used) by Operating Activities	$	(33,378,255)
NONCASH TRANSACTIONS		
Donated Capital Assets	$	383,498
Loss on Capital Assets		(1,265)
Increase (decrease) in Fair Value of Investments		11,293
Discount on Bonds		(3,588)
Premium of Bonds		37,172
Deferral of Debt Defeasance		(66,347)
Bond Proceeds Deposited into Current Refunding Fund		(10,519,635)
Proceeds from Refunding Bonds Issued		10,320,000
Bond Issuance Cost Paid from Bond Proceeds		(150,537)

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

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 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, 2018, the Foundation transferred property, equipment and funds of $588,030 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 twelve (12) members including two (2) members who are also members of Henderson State University Board of Trustees, and two (2) Ex-officio 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, deferred outflows, liabilities, deferred inflows, net position, revenues, expenses, changes in net position, cash flows, and replaces the fund-group perspective previously required.

Basis of Accounting

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

Capital Assets and Depreciation

Land, buildings, improvements and infrastructure, equipment, library holdings, and construction in progress are reported at cost or estimated historical cost if actual data is not available. Donated capital assets are reported at acquisition value, as required by GASB Statement No. 72, 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.

NOTE 2: Summary of Significant Accounting Policies (Continued)

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

Cash Equivalents

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

Accounts Receivable

Accounts Receivable consists of tuition and fee charges to students and auxiliary enterprises provided to students, faculty and staff. Accounts Receivable also includes amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. In 2018 the University recognized the total allowance for uncollectable accounts in their financial statements.

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. The Federal government reimburses the University for amounts cancelled under these provisions.

Inventories

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

NOTE 2: Summary of Significant Accounting Policies (Continued)

Noncurrent Cash and Investments

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

Deferred Outflows of Resources

Deferred outflows include the deferred gains or losses on debt financing (debt refunding) and certain transactions related to pensions.

Deferred Inflows of Resources

Deferred inflows of resources represent an increase of net position that applies to future periods. Therefore, these items will not be recognized as revenue until a future period.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Arkansas Public Employees Retirement System and the Arkansas Teacher Retirement System (the respective Systems) and additions to/deductions from the respective Systems', fiduciary net position have been determined on the same basis as they are reported by the respective Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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 $876,953 at June 30, 2018. 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 $55,127 at June 30, 2018. 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 $1,858 at June 30, 2018.

NOTE 2: Summary of Significant Accounting Policies (Continued)

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 installment contract obligations with contractual maturities greater than one year; and (2) estimated amounts for accrued compensated absences; (3) other postemployment benefits; (4) net pension liability; and other liabilities that will not be paid within the next fiscal year.

Refundable Federal Advances:

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:

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

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

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

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

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

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 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 fiscal year ended June 30, 2018 there was no interest cost incurred (gross of amortizations of premiums and discounts) that has been capitalized.

New Accounting Pronouncements

The GASB issued the following statements: Statement No. 84, effective fiscal years ending after December 15, 2018, *Fiduciary Activities*, addresses identification and reporting for fiduciary activities. Management has not yet determined the effects of these statements on the University's financial statements. Statement No. 87, effective for periods beginning after December 15, 2019, *Leases*, addresses accounting and reporting for leases by governments. Management has not yet determined the effects of these statements on the University's financial statements. Statement No. 89, effective fiscal years ending after December 15, 2019, *Accounting for Interest Cost Incurred before the End of a Construction Period* to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplify accounting for certain interest costs. Management has not yet determined the effects of these statements on the University's financial statements.

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)	$ 584,415	$ 584,415
Collateralized:		
Collateral held by the pledging bank or pledging bank's trust department in the University's name	1,657,297	2,007,769
Total Deposits	$ 2,241,712	$ 2,592,184

The above deposits do not include cash of $60,462 which was maintained in a money market fund administered by a third party and insured by the Securities Investor Protection Corporation (SIPC) along with cash on hand in the amounts of $23,860 at June 30, 2018. The above total deposits include $113,107 of cash that is reported as deposit with trustee and $244,850 in certificates of deposits reported as deposits with trustee classified as participating 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, 2018, none of the University's bank balance of $2,592,184 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.

NOTE 3: Public Fund Deposits and Investments (Continued)

The following table contains information on the credit risk disclosure for investments:

Type of Investment	Market Value (Not Rated)
Open ended Mutual Funds	$ 668,520
Equity Exchange Traded Funds (ETF)	236,490
Bond Exchange Traded Funds (ETF)	72,774
	$ 977,784

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, 2018, the University's deposits with trustees of $1,952,613 excluding $113,107 cash and $244,850 in negotiable certificate of deposits were invested as follows:

Federated Treasury Obligations Fund of $1,389,847. The fund was rated AAAm by Standard and Poor's and Aaamf by Moody's Investors Service and consisted of short-term repurchase agreements and U.S. Treasuries. The effective average maturity was approximately 38 days.

Federated Government Obligations Fund of $204,809. The fund was rated AAAm by Standard and Poor's, Aaamf by Moody's Investors Service, and consisted of short-term repurchase agreements, government agencies notes and U.S. Treasuries. The effective average maturity was approximately 41 days.

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

NOTE 4: Fair Value Measurement:

In February 2015, GASB issue Statement No. 72 *Fair Value Measurement and Application.* The statement established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

An individual investment's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the University. The University considers observable data to be market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by multiple independent sources that are actively involved in the relevant market. The categorization of an investment within the hierarchy is based upon the pricing transparency of that investment and does not necessarily correspond to the University's perceived risk of that investment.

The three levels of the fair value hierarchy are as follows:

Level 1 Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the University has the ability to access at the measurement date. Publicly traded equity securities and mutual funds are the primary investments included in Level 1 and are valued at the individual security's closing market price.

Level 2 Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. Observable inputs are those that reflect the assumptions market participants would use in pricing the asset developed based on the market data obtained from independent sources. These types of sources would include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in inactive markets, models or other valuation methodologies. Level 2 investments include U.S. and international government debt securities valued at market corroborated prices and certain equity and fixed income investments in commingled investment vehicles reported at net asset value derived from the market prices of security holdings.

Level 3 Inputs that are unobservable. Unobserved inputs are those that reflect the University's own Assumptions about assumptions that market participants would use in pricing the asset developed based on the best information available. These types of sources would include investment manager pricing for private equities, hedge funds, and certain limited partnerships. Limited partner interests in private equity and other partnerships and hedge fund investments are included in Level 3 and are valued using the individual investment manager's reported estimates of fair value developed in accordance with reasonable valuation policies.

NOTE 4: Fair Value Measurement (Continued):

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth, by level within the valuation, hierarchy, University invested funds, including amounts reported as deposits with bond trustees on the Statement of Net Position at June 30, 2018:

		Fair Value Measurements Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level	6/30/2018			
Debt Securities:				
Negotiable Certificates of Deposit	244,850	$ 244,850		
Private Equity Funds	977,784	668,520	309,264	
Total Investments at Fair Value	$ 1,222,634	$ 913,370	$ 309,264	

The Federated Government Obligations Fund

This fund operates as a "government money market fund" as defined in or interpreted under Rule 2a-7 under the Investment Company Act of 1940, as amended. Under normal conditions, this fund will invest its assets so that at least 80% of its net assets are invested in government securities and/or repurchase agreements that are collateralized fully by government securities.

Investments Measured at the NAV

Calculation of Net Asset Value – The Fund attempts to stabilize the NAV of its Shares at $1.00 by valuing the portfolio securities using the amortized cost method. In addition, for regulatory purposes, the Fund calculates a market-based NAV per Share on a periodic basis. The Fund cannot guarantee that its NAV will always remain at $1.00 per Share. The Fund does not charge a front-end sales charge. Shares can be purchased, redeemed or exchanged any day the NYSE is open.

Security Description	Fair Value
Government Agencies[1]	85,815
Repurchase Agreements[2]	99,947
U.S. Treasury[1]	19,047
Total Investments Measured at the NAV	$ 204,809

NOTE 4: Fair Value Measurement (Continued):

The Federated Treasury Obligations Fund

This fund operates as a "government money market fund" as defined in or interpreted under Rule 2a-7 under the Investment Company Act of 1940, as amended. Under normal conditions, this fund will invest its assets so that at least 80% of its net assets are invested in government securities and/or repurchase agreements that are collateralized fully by government securities.

Investments Measured at the NAV

Calculation of Net Asset Value – The Fund attempts to stabilize the NAV of its Shares at $1.00 by valuing the portfolio securities using the amortized cost method. In addition, for regulatory purposes, the Fund calculates a market-based NAV per Share on a periodic basis. The Fund cannot guarantee that its NAV will always remain at $1.00 per Share. The Fund does not charge a front-end sales charge. Shares can be purchased, redeemed or exchanged any day the NYSE is open.

Security Description	Fair Value
Repurchase Agreements[2]	851,976
U.S. Treasury[1]	537,871
Total Investments Measured at the NAV	$1,389,847

1. *Government Agencies and U.S. Treasury – Fixed-Income Securities*. Fixed-income securities pay interest, dividends or distributions at a specified rate. The rate may be a fixed percentage of the principal or may be adjusted periodically. In addition, the issuer of a fixed-income security must repay the principal amount of the security, normally within a specified time. Fixed-income securities provide more regular income than equity securities. However, the returns on fixed-income securities are limited and normally do not increase the issuer's earnings. This limits the potential appreciation of fixed –income securities as compared to equity securities.

A security's yield measures the annual income earned on a security as a percentage of its price. A security's yield will increase or decrease depending upon whether it costs less (a "discount") or more (a "premium") than the principal amounts. If the issuer may redeem the security before its scheduled maturity, the price and yield on a discount or premium security may change based upon the probability of an early redemption. Securities with higher risks generally have higher yields.

NOTE 4: Fair Value Measurement (Continued):

The following describes the types of fixed-income securities in which the Fund principally invests:

U.S. Treasury Securities – are direct obligations of the federal government of the United States.

Government Securities – are issued or guaranteed by a federal agency or instrumentality acting under federal authority. Some government securities, including those issued by Ginnie Mae, are supported by the full faith and credit of the United States and are guaranteed only as to the timely payment of interest and principal.

Other government securities receive support through federal subsidies, loans or other benefits, but are not backed by the full faith and credit of the United States. For example, the U.S. Treasury is authorized to purchase specified amounts of securities issued by (or otherwise make funds available to) the Federal Home Loan Bank System, Freddie Mac and Fannie Mae in support of such obligations.

Some government agency securities have no explicit financial support, and are supported only by the credit of the applicable agency, instrumentality or corporation. The U.S. government has provided financial support to Freddie Mac and Fannie Mae, but here is no assurance that it will support these or other agencies in the future.

Callable Securities – are certain U.S. Treasury or government securities in which the Fund invests are callable at the option of the issuer. Callable securities are subject to call risks.

2. *Repurchase Agreements.* Repurchase agreements are transactions in which the Fund buys a security from a dealer or bank and agrees to sell the security back at a mutually agreed-upon time and price. The repurchase price exceeds the sale price, reflecting the Fund's return on the transaction. This return is unrelated to the interest rate on the underlying security. The Fund will enter into repurchase agreements only with banks and other recognized financial institutions, such as securities dealers, deemed creditworthy by the Adviser.

The Fund's custodian or subcustodian will take possession of the securities subject to repurchase agreements. The Adviser or subcustodian will monitor the value of the underlying security each day to ensure that the value of the security always equals or exceeds the repurchase price.

Repurchase agreements are subject to credit risks.

NOTE 5: 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.

NOTE 6: Capital Assets

Following are the changes in capital assets for the year ended June 30, 2018:

Capital Assets:	Balance as of July 1, 2017	Additions	Transfers	Retirements	Balance as of June 30, 2018
Capital assets not being depreciated					
Land	$ 1,975,554				$ 1,975,554
Construction in progress	158,133	$ 1,242,573	$ (158,133)		1,242,573
Total capital assets not being depr.	$ 2,133,687	$ 1,242,573	$ (158,133)	-	$ 3,218,127
Other capital assets					
Improvements	$ 9,003,596	$ 50,431			$ 9,054,027
Infrastructure	13,990,166				13,990,166
Buildings	133,196,495	584,591	$ 158,133		133,939,219
Equipment	7,589,042	128,993		$ (26,436)	7,691,599
Library materials	13,166,597	510,550		(201,850)	13,475,297
Total other capital assets	176,945,896	1,274,565	158,133	(228,286)	178,150,308
Less accumulated depreciation for:					
Improvements	(2,799,049)	(365,357)			(3,164,406)
Infrastructure	(2,779,039)	(619,904)			(3,398,943)
Buildings	(54,989,625)	(3,959,658)			(58,949,283)
Equipment	(6,094,067)	(377,860)		27,701	(6,444,226)
Library materials	(9,254,508)	(467,277)		201,850	(9,519,935)
Total accumulated depreciation	(75,916,288)	(5,790,056)	-	229,551	(81,476,793)
Total other capital assets, net	$ 101,029,608	$ (4,515,491)	$ 158,133	$ 1,265	$ 96,673,515
Capital Asset Summary:					
Capital assets not being depreciated	$ 2,133,687	$ 1,242,573	$ (158,133)		$ 3,218,127
Other capital assets, at cost	176,945,896	1,274,565	158,133	$ (228,286)	178,150,308
Total cost of capital assets	179,079,583	2,517,138	-	(228,286)	181,368,435
Less accumulated depreciation	(75,916,288)	(5,790,056)		229,551	(81,476,793)
Capital Assets, net of depreciation	$ 103,163,295	$ (3,272,918)	$ -	$ 1,265	$ 99,891,642

NOTE 7: Long-Term Liabilities

Debt payments on bonds amounted to $4,463,319 for the fiscal year ended June 30, 2018. The amount of $1,352,272 was expended for debt payments on major capital leases and notes payable.

A summary of long-term debt is as follows:

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized and Issued	Debt Outstanding June 30, 2018	Maturities to June 30, 2018
12/1/2009	7/1/2018	2.00-3.375%	$ 1,540,000	$ 195,000	$ 1,345,000
10/1/2011	1/1/2020	2.0- 2.75%	1,960,000	160,000	1,800,000
10/1/2011	1/1/2020	2.0- 2.75%	1,370,000	340,000	1,030,000
8/31/2011	8/30/2036	5.74%	2,750,000	2,438,100	311,900
11/1/2014	11/1/2039	2-5%	33,000,000	31,000,000	2,000,000
6/1/2015	7/1/2026	1-3.2%	3,780,000	2,590,000	1,190,000
6/30/2015	6/1/2035	4.12%	10,136,926	9,465,935	670,991
7/23/2012	7/23/2026	3.08%	2,366,268	1,633,817	732,451
2/14/2014	2/14/2028	4.98%	1,100,000	779,206	320,794
2/3/2016	1/1/2032	2-3%	6,465,000	6,265,000	200,000
9/19/2017	7/15/2035	2.0-3.25%	7,005,000	7,005,000	-
10/3/2017	9/1/2035	1.25-3.25%	3,315,000	3,315,000	-
			$ 87,488,194	$ 65,187,059	$ 22,301,135

NOTE 7: Long-Term Liabilities (Continued)

The changes in long-term liabilities are as follows:

	Balance as of July 1, 2017	Additions	Reductions	Balance as of June 30, 2018	Amounts due within one year
Bonds Payable	$ 53,770,000	$ 10,320,000	$ 13,220,000 *	$ 50,870,000	$ 2,800,000
Notes Payable	13,266,804		583,562	12,683,242	603,741
Installment Contract	1,789,327		155,510	1,633,817	160,300
Discount on Bonds	(35,441)	(49,705)	38,555	(46,591)	(2,784)
Premium on Bonds	707,756		37,172	670,584	37,172
Comp Absences Pay.	1,060,785	818,127	944,974	933,938	167,765
Employee Retire Pay.	102,849	26,803	45,168	84,484	49,592
	$ 70,662,080	$ 11,115,225	$ 15,024,941	$ 66,829,474	$ 3,815,786

*Amount includes $10,465,000 early retirement of debt, see Note 21.

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

Year Ended June 30	Principal	Interest	Total
2019	$ 3,564,041	$ 2,303,471	$ 5,867,512
2020	3,069,545	2,211,928	5,281,473
2021	2,901,729	2,116,233	5,017,962
2022	2,994,545	2,021,335	5,015,880
2023	3,088,387	1,918,184	5,006,571
2024-2028	16,579,925	7,887,297	24,467,222
2029-2033	16,098,865	4,877,790	20,976,655
2034-2038	12,870,021	1,949,933	14,819,954
2039-2040	4,020,000	162,400	4,182,400
	$ 65,187,059	$ 25,448,571	$ 90,635,630

NOTE 8: Commitments

The University was contractually obligated for the following at June 30, 2018:

Project Name	Expected Completion Date	Contract Balance
Caddo Center Renovation	November 23, 2018	$ 431,887
		$ 431,887

Operating Leases:

The University is currently leasing 46 copiers, building space for the Hot Springs Campus, and airport hangers for the aviation program. The University has no ownership of these items at the end of the lease agreement.

(1) Future minimum rental payments (aggregate) at June 30, 2018 totals $1,058,343.
(2) Contingent rental payments are determined on a cost basis.
(3) Future minimum rental payments for the seven (7) succeeding fiscal years:

Fiscal Year Ending June 30,	Amount
2019	$ 234,338
2020	205,761
2021	174,011
2022	150,802
2023	140,698
2024 - 2025	152,733
Total Future Minimum Rental Payments (7 years)	$ 1,058,343

Rental payments for the current year total $261,459.

NOTE 9: Retirement Plans

Teachers Insurance and Annuity Association (TIAA):

Plan Description: The University participates in TIAA, 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. 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. The plan also offers a variable annuity. Arkansas law authorizes participation in the plan.

Funding Policy: TIAA 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 additional retirement, TIAA Supplemental Retirement Annuities and Fidelity Group. The University's and participants' contributions for the year ended June 30, 2018 were $1,870,737 and $1,376,206 respectively.

Arkansas Teacher Retirement System (ATRS):

Plan Description: Benefit provisions are set forth in the Arkansas Code Annotated, Title 24, Chapter 7 and may only be amended by the Arkansas General Assembly. ATRS is a cost-sharing, multiple-employer, defined benefit pension plan administered by the State of Arkansas. The plan was established by the authority of the Arkansas General Assembly with the passage of Act 266 of 1937. The costs of administering the plan are paid out of investment earnings. The general administration and responsibility for the proper operation of the System is vested in the fifteen members of the Board of Trustees of the Arkansas Teacher Retirement System (the Board). Membership includes eleven members who are elected and consist of seven active members of ATRS with at least five years of actual service, three retired members receiving an annuity from ATRS, and one active or retired member from a minority racial or ethnic group. There are also four ex-offico members, including the State Bank Commissioner, the Treasurer of the State, the Auditor of the State and the Commissioner of Education. ATRS issues a publicly available financial report that can be obtained at https://www.artrs.gov/publications.

Benefits Provided
ATRS provides retirement, disability and death benefits. Retirement benefits are determined as a percentage of the member's highest 3-year average compensation times the member's years of service. The percentage used is based upon whether a member is contributory or noncontributory as follows:

Contributory	2.15%
Non-Contributory	1.39%

Members are eligible to retire with a full benefit under the following conditions:

- At age 60 with 5 years of credited service,
- At any age with 28 years of credited service,

NOTE 9: Retirement Plans (Continued)

Members with 25 years of credited service who have not attained age 60 may retire with a reduced benefit.

Members are eligible for disability benefits with 5 years of service. Disability benefits are computed as an age and service benefit, based on service and pay at disability. Survivor benefits are payable to qualified survivors upon the death of an active member with 5 years of service. The monthly benefit paid to eligible spouse survivors is computed as if the member had retired and elected the Joint & 100% Survivor option. Minor child survivors receive a percentage of the member's highest salary earned. ATRS also provides a lump sum death benefit for active and retired members with 10 years of actual service. The amount for contributory members will be up to $10,000 and up to $6,667 for noncontributory members. A cost-of-living adjustment of 3% of the current benefit is added each year.

Effective July 1, 2011, new employees of the University are no longer eligible to participate in the Arkansas Teacher Retirement System (ATRS). Existing ATRS participants are allowed to continue ATRS participation.

Funding Policy: Contribution requirements are set forth in Arkansas Code Annotated, Title 24, Chapter 7. The contributions are expected to be sufficient to finance the costs of benefits earned by members during the year and make a level payment that, if paid annually over a reasonable period of future years, will fully cover the funded costs of benefit commitments for services previously rendered. ATRS has contributory and noncontributory plans. The contributory plan has been in effect since the beginning of ATRS. The noncontributory plan became available July 1, 1986. Act 81 of 1999, effective July 1, 1999, requires all new members to be contributory and allowed active members as of July 1, 1999, until July 1, 2000, to make an irrevocable choice to be contributory or noncontributory. Act 93 of 2007 allows any noncontributory member to make an irrevocable election to become contributory on July 1 of each fiscal year. Employers are required to contribute at a rate established by the Board of Trustees of ATRS based on an actuary's determination of a rate required to fund the plan. The University contributed 14.00% of applicable compensation for the fiscal year ended June 30, 2018. The University's contributions to ATRS for the years ended June 30, 2018, 2017 and 2016 were $132,225, $143,722 and $178,208 respectively, equal to the required contributions for each year.

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions

At June 30, 2018, the University reported a liability of $1,450,212 for its proportionate share of the new pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The University's proportion of the net pension liability was based on the University's share of contributions to the pension plan relative to the total contributions of all participating employers. At June 30, 2017, the University's proportion was 0.0345 percent.

For the year ended June 30, 2018, the University recognized a reduction in pension expense of $236,303. At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

NOTE 9: Retirement Plans (Continued)

	Deferred Outflow of Resources	Deferred Inflow of Resources
Difference between expected and actual experience	$ 20,098	$ (35,549)
Changes in assumptions	387,506	
Net difference between projected and actual earnings on pension plan investments		(102,433)
Changes in proportion and differences between employer contribution and share of contributions		(906,662)
University contributions subsequent to measurment date	132,225	
Total	$ 539,829	$ (1,044,644)

$132,225 reported as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in the pension expense in the financial statements as follows:

Year ended June 30:	
2019	(256,511)
2020	(157,165)
2021	(140,897)
2022	(92,247)
Thereafter	9,780

NOTE 9: Retirement Plans (Continued)

Actuarial Assumptions

The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Cost Method	Entry Age Normal
Amoritzation Method	Level Percentage of Payroll, closed
Remaining Amortization Period	29 years
Asset Valuation Method	4-year closed period; 20% corridor
Wage Inflation	2.75%
Salary Increases	2.75 - 7.75% including inflation
Investment Rate of Return	7.5%
Post-Retirement Cost-of_Living Increases	3% Simple
Mortality Table	RP-2014 Healthy Annuitant, Disabled Annuitant and Employee Mortality Tables were used for males and females. Mortality rates adjusted using projection scale MP-2017 from 2006
Retirement Age	Experience -based table of rates that are specific to the type of eligibility condition. Last updated for the 2011 valuation pursuant to an experience study for the period July 1, 2005-June 30, 2010

NOTE 9: Retirement Plans (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return of each major asset class included in the System's target asset allocation as of June 30, 2017 are summarized below:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Total Equity	50.00%	5.00%
Fixed Income	20.00%	1.20%
Alternatives	5.00%	4.80%
Real Assets	15.00%	3.70%
Private Equity	10.00%	6.50%
Cash Equivalents	0.00%	0.30%
	100.00%	

Discount Rate

A single discount rate of 7.5% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.5%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be 14% of payroll. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the University's proportionate share of the net pension liability using the discount rate of 7.5%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

Sensitivity of Discount Rate		
1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
$ 2,322,887	$ 1,450,212	$ 726,761

NOTE 9: Retirement Plans (Continued)

Pension Plan Fiduciary Net Position
Detailed information about the pension plan's net position is available in the separately issued ATRS financial report.

Arkansas Public Employees Retirement System:

Plan Description: APERS is a cost sharing multiple-employer, defined benefit plan administered by the State of Arkansas. The plan was established by the authority of the Arkansas General Assembly with the passage of Act 177 of 1957. The costs of administering the plan are paid out of investment earnings. The general administration and responsibility for the proper operation of the System is vested in the nine members of the Board of Trustees of the Arkansas Public Employees Retirement System (the Board). Membership includes three state and three non-state employees, all appointed by the Governor, and three ex-officio trustees, including the Auditor of the State, the Treasurer of the State and the Director of the Department of Finance and Administration. APERS issues a publicly available financial report that can be obtained at http://www.apers.org/annualreports.

Benefits Provided
Benefit provisions are set forth in Arkansas Code Annotated, Title 24, Chapters 5 and 6 and may only be amended by the Arkansas General Assembly. APERS provides retirement, disability, and death benefits. Retirement benefits are determined as a percentage of the member's highest 3-year average compensation times the member's years of service. The percentage used is based upon whether a member is contributory or noncontributory as follows:

Contributory, prior to 7/1/2005	2.07%
Contributory, on or after 7/1/2005	2.03%
Non-Contributory	1.72%

Members are eligible to retire with a full benefit under the following conditions:

- At age 65 with 5 years of service,
- At any age with 28 years of actual service,
- At age 60 with 20 years of actual service if under the old contributory plan (prior to July 1, 2005)

Members may retire with a reduced benefit at age 55 with at least 5 years of actual service, or at any age with 25 years of service.

Members are eligible for disability benefits with 5 years of service. Disability benefits are computed as an age and service benefit, based on service and pay at disability. Death benefits are paid to a surviving spouse as if the member had 5 years of service and a monthly benefit is computed as if the member had retired and elected the Joint & 75% Survivor option. A cost-of-living adjustment of 3% of the current benefit is added each year.

Effective July 1, 2018, new employees of the University are no longer eligible to participate in the Arkansas Public Employees Retirement System (APERS). Existing APERS participants are allowed to continue APERS participation.

NOTE 9: Retirement Plans (Continued)

Funding Policy: Contribution requirements are set forth in Arkansas Code Annotated, Title 24, Chapter 4. The contributions are expected to be sufficient to finance the cost of benefits earned by members during the year and make a level payment that if paid annually cover a reasonable period of future years, will fully cover the unfunded costs of benefits commitments for services previously rendered. Members who began service prior to July 1, 2005 are not required to make contributions to APERS. Members who began service on or after July 1, 2005 are required to contribute 5% of their salary. Employers are required to contribute at a rate established by the Board of Trustees of APERS based on an actuary's determination of a rate required to fund the plan. The University contributed 14.75% of covered salaries. The University's contributions to APERS for the years ended June 30, 2018, 2017 and 2016 were $563,113, $508,077 and $480,373, respectively, equal to the required contributions for each year.

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions

At June 30, 2018, the University reported a liability of $4,958,315 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The University's proportion of the pension liability was based on the University's share of contributions to the pension plan relative to the total contributions of all participating employers. At June 30, 2017, the University's proportion was 0.19187 percent.

For the year ended June 30, 2018, the University recognized pension expense of $842,597. At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

NOTE 9: Retirement Plans (Continued)

	Deferred Outflow of Resources	Deferred Inflow of Resources
Difference between expected and actual	$ 96,119	
experience		$ (97,519)
Changes in assumptions	797,785	
Net difference between projected and	207,768	
actual earnings on pension plan investments		
Changes in proportion and differences between		
employer contribution and share of contributions	198,248	(263,700)
University contributions subsequent to		
measurment date	563,113	
Total	$ 1,863,033	$ (361,219)

$563,113 reported as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the financial statement as follows:

Year ended June 30:	
2019	241,852
2020	433,230
2021	292,708
2022	(29,089)
Thereafter	0

NOTE 9: Retirement Plans (Continued)

Actuarial Assumptions

The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Cost Method	Entry Age Normal
Discount Rate	7.15%
Inflation Rate	3.25%.
Salary Increases	3.25% - 9.825%
Investment Rate of Return*	7.15%
Mortality Rate Table	RP-2000 Combined Healthy, projected to 2020 using projection scale BB, set forward 2 years for males and 1 year for females
*Net of investments and administrative expenses	

All other actuarial assumptions used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the period from 7/01/2007-6/30/2012, and were applied to all prior periods included in the measurement.

The long-term expected rate of return on pensions plan investments was determined using a building-block method in which best-estimate ranges of expected future real estate rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for the 10-year period from 2017-2026 were based upon capital market assumptions provided by the plan's investment consultant. For each major asset class included in the plan's target asset allocation as of June 30, 2017, these best estimates are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Broad Domestic Equity	37.00%	5.97%
International Equity	24.00%	6.54%
Real Assets	16.00%	4.59%
Absolute return	5.00%	3.15%
Domestic Fixed	18.00%	0.83%
	100.00%	

NOTE 9: Retirement Plans (Continued)

Discount Rate

A single discount rate of 7.15% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.15%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the University's proportionate share of the net pension liability using the discount rate of 7.15%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.15%) or 1-percentage-point higher (8.15%) than the current rate:

Sensitivity of Discount Rate		
1%	Discount	1%
Decrease	Rate	Increase
(6.15%)	(7.15%)	(8.15%)
$ 7,550,874	$ 4,958,315	$ 2,805,594

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's net position is available in the separately issued APERS financial report.

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	$ 13,156,500		$ 519,733		$ 13,676,233
Research	22,474		74,470		96,944
Public Service	464,131		88,675		552,806
Academic Support	7,897,472		1,563,250		9,460,722
Student Services	4,460,142		893,205		5,353,347
Institutional Support	4,818,835		3,057,966		7,876,801
Schol. & Fellow.		$ 2,864,734			2,864,734
Oper. & Maint.	31,312		5,343,435		5,374,747
Aux. Enterprises	2,898,666		6,875,635		9,774,301
Depreciation				$ 5,790,056	5,790,056
Other			47,511		47,511
	$ 33,749,532	$ 2,864,734	$ 18,463,880	$ 5,790,056	$ 60,868,202

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. Whipple is a director on the Board of the Bank of the Ozarks, which currently hold bank deposits for the University.

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

Mr. James Barnes is a member of the Board of Trustees of Henderson State University. Mr. Barnes is an owner and officer of BBA Solutions. The University has contractual relationships with BBA Solutions for the delivery of services in the university bookstore and post office.

Mr. Johnny Hudson is a member of the Board of Trustees of Henderson State University and the Henderson State University Foundation Board.

Dr. Glendell Jones Jr. is the former President of Henderson State University. Dr. Jones is Chair of the Board of Southern Bancorp, Inc. and owns less than 1% of the outstanding common shares of the corporation. The University has assets invested with Southern Bancorp of Arkansas.

NOTE 12: Compensated Absences

Changes in Compensated Absences Payable are as follows:

Changes in Compensated Absences Payable:	Amount
Annual Leave as of June 30, 2017	$ 820,140
Earned Leave	697,705
Lost Leave over 240 hours	(286,286)
Annual Leave Used	(501,985)
Annual Leave as of June 30, 2018	$ 729,574

Employees with a sick leave balance of 50 days or more are eligible for payment for leave upon retirement. As of June 30, 2018 the University's liability for employees with sufficient leave balances was $47,669.

Employees with a compensatory time balance are eligible for payment for leave upon termination, retirement or death. As of June 30, 2018 the University's liability for employees with compensatory leave balances was $1,656.

The above figures do not include estimated fringe benefits on accrued leave in the amount of $155,039 as of June 30, 2018.

NOTE 13: Employee Retirement

Changes in Employee Retirement:	Amount
Employee Retirement as of June 30, 2017	$ 102,849
Annual Revaluation	26,803
Amount Paid Out During 2017/2018	(45,168)
Employee Retirement as of June 30, 2018	$ 84,484

NOTE 14: Disaggregation of Receivable and Payable Balances

Accounts Receivable Consists of the Following:	Amount
Student Tuition and Fees, net of allowance of $2,759,116	$ 2,851,094
Housing and Food Service, net of allowance of $1,072,989	1,620,147
Auxiliary Enterprises	31,327
Other Receivables	419,279
Federal	233,754
State	229,165
Notes and Loans Receivable	937,482
Total Accounts Receivable	$ 6,322,248

Accounts Payable Consists of the Following:	Amount
Vendors	$ 802,729
Salary & Fringe Benefit Payable	219,345
Health Claims Payable	231,861
Other Payables	86,073
State	54,047
Interest & Fees Payable	693,007
Total Accounts Payable	$ 2,087,062

NOTE 15: Other Postemployment Benefits (OPEB)

The University offers postemployment health care benefits and basic life insurance benefits to all employees who officially retire from the University and meet certain age and service related requirements. Health care benefits were offered through Health Advantage of Arkansas Blue Cross and Blue Shield through December 31, 2017 and through a self-funded plan administered by UMR United Healthcare beginning January 1, 2018. 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 University health care benefit and/or life insurance benefits pay their premiums directly to the University. Premiums for University paid health care and retirees' portion of the premium are transferred into an agency account for reimbursement of UMR United Healthcare. The University portion of the retiree health care premiums amounted of $148,410 for fiscal year 2018, compared to $159,886 for fiscal year 2017. The University paid the total premiums for life insurance benefits for eligible retirees, ages 55 to 65, directly to MetLife in the amount of $904 for fiscal year 2018, compared to $1,125 for fiscal year 2017. This represents a total of $149,314 paid by the University for the employer portion of the OPEB for fiscal year 2018, compared to $161,011 for fiscal year 2017.

The University adopted GASB Statement No. *74/75, Accounting and Financial Reporting by for Postemployment Benefits Other than Pensions* during fiscal year 2018. 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 the OPEB 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.

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

Participants included in the actuarial valuation include retirees, eligible dependents, and active employees who may be eligible to participate in the OPEB 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 79% or $149,314 of the postretirement healthcare premiums, totaling $187,771 for the fiscal year ended June 30, 2018. Last year, the University funded approximately 73.5% or $159,886 of the postretirement healthcare premiums, totaling $217,665 for the fiscal year ended June 30, 2017. The retirees are responsible for funding approximately 21% of the healthcare premiums compared to 26.5% 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 $904 in postretirement life insurance benefits for the fiscal year ended June 30, 2018 and $1,125 in postretirement life insurance benefits for the fiscal year ended June 30, 2017. At age 65, the retiree has the option of continuing life insurance coverage until age 70 by assuming the cost of the monthly premiums.

For the year ended June 30, 2018, the University recognized OPEB Expense of $507,802. At June 30, 2018, the University reported deferred inflows of resources and deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Difference between expected and actual experience		$ (568,658)
Changes in assumptions		(2,899)
Net difference between projected and actual earnings on OPEB		
Total	$ -	$ (571,557)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the OPEB expense in the financial statements as follows:

Year ended June 30:	
2019	$ 64,148
2020	64,148
2021	64,148
2022	64,148
Thereafter	314,965

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

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

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

Employees Covered by Benefit Terms	
At June 30, 2018, the following employees were covered by the benefit terms:	
Inactive employees or beneficiaries currently receiving benefit payment	37
Inactive employees entitled to but not yet receiving benefit payments	0
Active employees	411
	448

Total OPEB Liability

Henderson State University's total OPEB liability of $4,933,911 was measured as of June 30, 2018, and was determined by an actuarial valuation as of June 30, 2018. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Schedule of Changes Total OPEB Liability		
		2018
Service Cost	$	425,068
Interest Cost		146,882
Difference Between Expected and Actual Experience		(568,658)
Changes in Assumptions		(2,899)
Benefit Changes		-
Benefit Payments		(149,314)
Net Change		(148,921)
Beginning of Year - Total OPEB Liability	$	5,082,832
End of Year - Total OPEB Liability	$	4,933,911

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

Actuarial Assumptions

The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Cost Method	Entry Age Normal
Discount Rate	3.00%
Inflation Rate	2.50%
Mortality	RP-2014 Mortality Table with Improvement Scale MP-2017
Marriage Assumptions	3 year spousal age difference with females assumed 3 years younger than males. Spousal age is assumed for active employee or retiree where age is not given.

Medical Trend Rate

Year	Medical Trend Rate
1	8.0%
2	7.0%
3	6.0%
4	5.0%
5 and after	4.0%

A 4.0% annual trend rate is assumed for life insurance premiums paid by the University.

Assumed Utilization	100% of eligible future retirees are assumed to elect plan benefits.
Active Participation Rate	Active members are assumed to elect the same retiree medical coverage as they elected while active.

Termination (Sample Rates-annual per 1,000)

Age	Male	Female
25	46.0	47.0
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 and thereafter	15.0	15.0

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

Retirement Rates Percentage of eligible members at age shown who retire during the year.

	Percentage	
Age	0-27 years	28 years and after
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 & older	100%	100%

Changes in Assumptions — Mortality table improvement scale was changed from MP-2016 to MP-2017

Plan Benefit Provisions

Post-Employment Benefit Eligibility — Active employees are eligible to receive retiree medical coverage upon retirement at age 55 with at least 70 points. Medical coverage ceases at members' age 65, Life Insurance coverage can continue until members' age 80, depending on classification.

Medical Costs — The current total member monthly premium paid by the employer is $440 for the individual plan and $522 for the family coverage (for 2018).

Life Insurance Costs — HSU's annual costs are 14 cents for each membrs' $1,000 of coverage. Coverage is limited to $20,000 and there is no university cost post-age 65.

Changes in Benefit Provisions — The medical premium for the individual plan shown above is approximately 7% lower then 2017.

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

Membership Data

Number of active Participants	411
Average age	47.4
Average service	9.7
Number of retired participants*	37
Average Age	61.8

*Includes retirees and beneficiarie's with medical and/or life insurance coverage during retirement.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability using the discount rate of 3%, as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2%) or 1-percentage-point higher (4%) than the current rate:

Sensitivity of Discount Rate Total OPEB Liability		
1%	Discount	1%
Decrease	Rate	Increase
(2.0%)	(3.0%)	(4.0%)
$ 5,341,810	$ 4,933,911	$ 4,563,219

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the total OPEB liability using the healthcare cost trend rate of 8% decreasing to 4%, as well as what the total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower (7% decreasing to 3%) or 1-percentage-point higher (9% decreasing to 5%) than the current rate:

Sensitivity of Healthcare Cost Trend Rate Total OPEB Liability		
1%	Discount	1%
Decrease	Rate	Increase
(7.0% decreasing to 3.0%)	(8.0% decreasing to 4.0%)	(9.0% decreasing to 5.0%)
$ 4,482,215	$ 4,933,911	$ 5,458,123

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 $6,465,000 in student recreation center refunding bonds issued in 2016. Proceeds from the Series 2007 bonds provided financing for the construction of the student recreation center which was refunded in 2016. 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 48.40% of gross revenues. The total principal and interest remaining to be paid on the bonds is $7,596,460. Principal and interest paid for the current year and total customer gross revenues were $358,383 and $740,493 respectively.

The University has pledged future other auxiliary revenue to repay $46,230,000 in other auxiliary revenue bonds issued in 2009, 2011, 2014 and 2017. 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 2018 through 2039. Annual principal and interest payments on the bonds currently require 23.54% of gross revenues. The total principal and interest remaining to be paid on the bonds is $59,881,460. Principal and interest paid for the current year and total customer gross revenues were $3,136,925 and $14,163,522 respectively.

The University has pledged future student tuition and fees to repay $5,740,000 in refunding bonds issued in 2011 and 2015 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 3.75% of gross revenues. The total principal and interest remaining to be paid on the bonds is $3,052,889. Principal and interest paid for the current year and gross student tuition and fees were $968,011 and $25,830,826 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.

NOTE 18: Risk Management (Continued)

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

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

The University carries commercial insurance related to the operation and maintenance of University owned aircraft. The operation of the airport was turned back over to the City of Arkadelphia in May of 2016. 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 $300,000 with a $2,500 deductible. The Department of Finance and Administration withholds the premium from the University's State Treasury funds.

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 June 7, 2017, the University agreed to a contract with Sodexo Operations, LLC (Sodexo) to provide meals to students and catering services to the University, effective June 17, 2017. The contract includes a financial investment of $2,350,000 which will be amortized on a straight- line basis over 10 years. Upon termination of this agreement by either Sodexo or the University prior to the complete amortization of the financial agreement, the University would be required to reimburse Sodexo 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, 2018 is $2,115,000.

Note 20: Self Insurance Program

On January 1, 2018 the University established a benefit health plan through United Healthcare administered by UMR for employees and their eligible dependents. At June 30, 2018, approximately 757 active employees, their dependents and retirees were participating in the program. For employee, employee/children, employee/spouse, family plan and dually employed family plan the University pays approximately 88%, 65%, 51%, 50% and 86% respectively. The university pay 88% of retiree plans until the retiree is eligible for Medicare.

Unpaid Claims Liability	FY 2018
Unpaid Claims 07-01-2018	$ -
Incurred Claims during current Year	1,133,183
Current Year Claims Paid	931,565
Prior Year Claims Paid	-
Total Payment	931,565
Unpaid Claims 6-30-2018	201,618
15% margin assumption	30,243
Estimated Claims 6-30-18	$ 231,861

The health claims liability is calculated in accordance with the Development (or Lag) Method outlined in Actuarial Standard of Practice No. 5, using the historical pattern of claim payments as the continued assumption. The liability also assumes a 15% explicit margin above a best estimate liability. Based on United Healthcare reports, the University estimates its medical claims liability to be $231,861.

The University purchases specific reinsurance to reduce its exposure to large claims. Guardian Stop Loss was chosen as the reinsurance carrier. Under the specific arrangement the reinsurance carrier pays for claims for covered member than exceed the $100,000 specified deductible. In addition, the university purchases aggregate reinsurance coverage for aggregate claims exceeding $2,582,640.

Note 21: Debt Refunding

On September 19, 2017 the University issued $7,005,000 in tax exempt refunding bond with interest rates of 2.0 to 3.25 percent to refund $7,105,000 of outstanding bonds dated May 1, 2012 with interest rates of 1 to 4.125 percent for the University to realize present value savings. Bond proceeds of $6,871,222 (after consideration of the discount of $32,060) and debt service reserve funds of $277,758 were deposited with the refunding bond agent to refund the Series 2012A bonds. Bond issuance costs of $97,474 were expensed in the current fiscal year. Remaining proceeds of $4,244 were deposited in the bond fund to be used for future debt service payments. The bonds were called for redemption on September 19, 2017. The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $71,270 This difference was reported in the accompanying financial statements as a deferred outflow of resources and will be amortized through the 2036 fiscal year using the straight line method. The University refunded the bonds to reduce its total debt service payments over the next 19 years by $808,244.

On October 3, 2017 the University issued $3,315,000 in tax exempt refunding bond with interest rates of 1.25 to 3.25 percent to refund $3,360,000 of outstanding bonds dated May 15, 2012 with interest rates of 1 to 4.125 percent for the University to realize present value savings. Bond proceeds of $3,239,452 (after consideration of the discount of $17,644) and debt service reserve funds of $130,850 were deposited with the refunding bond agent to refund the Series 2012B bonds. Bond issuance costs of $53,063 were expensed in the current fiscal year. Remaining proceeds of $4,841 were deposited in the bond fund to be used for future debt service payments. The bonds were called for redemption on October 3, 2017. The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $17,979. This difference was reported in the accompanying financial statements as a deferred outflow of resources and will be amortized through the 2036 fiscal year using the straight line method. The University refunded the bonds to reduce its total debt service payments over the next 19 years by $370,291.

NOTE 22: Prior Year Restatements

Statement of Revenues, Expenses and Changes in Net Position

Beginning net position, as reported on the Statement of Revenues, Expenses and Changes in Net Position, was restated due to the implementation of GASB Statement75 Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pension Plans. As a result, Net position - beginning of the year was reduced by $2,820,580 to reflect the net effect of recognizing the University's remaining total OPEB liability and deferred inflows of resources attributed to the year ended June 30, 2017.

Additionally, beginning net position was restated due to the recognition of the full amount of the allowance for doubtful accounts. As a result, Net position- beginning of the year was reduced by $1,774,796 to reflect the recognition of the allowance for doubtful accounts attributed to the year ended June 30, 2017.

NOTE 23: Deficit Net Position

The unrestricted net position reflect a deficit balance of $8,914,361. This is primarily a result of the Net Pension Liability balance of $6,408,527 and Other Post-Employment Benefits balance of $4,933,911.

Note 24: Subsequent Events

On August 4, 2018, the University issued an auxiliary enterprises revenue bond to Southern Bancorp Bank of $1,000,000 for the purpose of renovating Smith Hall.

Effective September 30, 2018 the University terminated its contract with Aramark Educational Services, LLC (Aramark) to provide facility services. The University entered into a contract with Southeast Service Corporation (SSC) on October 1, 2018 to begin providing facility services. The University will pay SSC $3,741,163 per fiscal year, subject to inflationary adjustments. SSC will invest $275,187 in start-up costs, $311,649 in equipment purchases and $800,000 in a one-time bonus. Each investment will be amortized over a 7 year period, beginning on the effective date of the contract.

On July 11, 2019, the University received a $6,000,000 loan from the Arkansas Department of Finance and Administration Budget Stabilization Trust Fund for the continued operation of the institution. The loan is to be repaid as cash balances are available to the University and must be fully repaid by June 30, 2020.

On August 20, 2019, the University entered into a note payable in the amount of $15,996,406 with First Security Finance, Inc. for various utility and cost saving improvements and renovations to Smith and Newberry Halls.

On May 28, 2019, the University and Johnson Controls Inc. entered into a construction contract for various utility and cost saving improvements to Smith Hall in the amount of $12,020,359. On July 22, 2019, a change order was agreed upon to lower the construction contract amount to $11,434,079.

On July 10, 2018, the University and Kinco Constructors, LLC. entered into a construction contract for renovations to Smith Hall in the amount of $346,964. On April 1, 2019, a change order was agreed upon to increase the construction contract amount to $5,582,876.

On February 27 2019, the University and Comfort Systems USA (Arkansas), Inc. entered into a construction contract for boiler replacement at Newberry Hall in the amount of $672,697.

The University's Chief Financial Officer resigned on May 31, 2019. Rita Fleming, who has more than three decades of experience in Higher Education, was hired as Vice President of Finance and Administration, effective December 1, 2019.

Glen Jones resigned as University President on July 19, 2019. Jones remains on sabbatical through July 31, 2020. The HSU Board of Trustees appointed Elaine Kneebone, General Counsel, as acting President.

The Board approved a memorandum of understanding with Arkansas State University to provide financial, internal audit, information technology, institutional research and legal support services from July to December 31, 2019. On October 24, 2019, the board voted to start the process to merge with Arkansas State University System.

Chemicals were spilled in a Reynolds Science Center laboratory in October 2019. The University is currently working with state agencies and contractors to remediate the building. Costs related to this remediation are not currently finalized.

OTHER POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Schedule of Changes Total OPEB Liability		
		2018
Service Cost	$	425,068
Interest Cost		146,882
Difference Between Expected and Actual Experience		(568,658)
Changes in Assumptions		(2,899)
Benefit Changes		-
Benefit Payments		(149,314)
Net Change		(148,921)
Beginning of Year-Total OPEB Liability	$	5,082,832
End of Year - Total OPEB Liability	$	4,933,911
University's covered-employee payroll		20,613,947
Total OPEB Liability as a percentage of covered-employee payroll		23.93%

Notes to Schedule:

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

OTHER POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Notes to Schedule (Continued):

Changes in Assumptions:

Retirement Rates Percentage of eligible members at age shown who retire during the year.

	Percentage	
Age	**0-27 years**	**28 years and after**
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 & older	100%	100%

Changes in Assumptions Mortality table improvement scale was changed from MP-2016 to MP-2017

OTHER POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)
Notes to Schedule (Continued):

Plan Benefit Provisions

Post-Employment Benefit Eligibility	Active employees are eligible to receive retiree medical coverage upon retirement at age 55 with at least 70 points. Medical coverage ceases at members' age 65, Life Insurance coverage can continue until members' age 80, depending on classification.
Medical Costs	The current total member monthly premium paid by the employer is $440 for the individual plan and $522 for the family coverage (for 2018).
Life Insurance Costs	HSU's annual costs are 14 cents for each membrs' $1,000 of coverage. Coverage is limited to $20,000 and there is no university cost post-age 65.
Changes in Benefit Provisions	The medical premium for the individual plan shown above is approximately 7% lower then 2017.

Actuarial Cost Method

Liabilities and normal costs under GASB 74/75 have been computed using the Entry Age Normal actuarial cost method.

Membership Data

Number of active Participants	411
Average age	47.4
Average service	9.7
Number of retired participants*	37
Average Age	61.8

*Includes retirees and beneficiarie's with medical and/or life insurance coverage during retirement.

Changes in Assumptions

Amounts reflect a change in economic assumptions used in the June 30, 2017, valuation. The investment return assumption used was 7.5% and the wage inflation assumption used was 3.25%.

NET PENSION LIABILITY:

Employee Benefits

Henderson State University's Proportionate Share of the Net Pension Liability
Arkansas Teacher Retirement System

	2015*	2016*	2017*	2018*
Plan Net Pension Liability- End of Year	$ 2,625,006,279	$ 3,256,909,830	$ 4,411,442,759	$ 4,203,863,874
University's proportion (percentage) of net pension liability (asset)	0.0760%	0.0520%	0.0434%	0.0345%
University's proportionate share of net pension liability	$ 1,993,959	$ 1,701,814	$ 1,916,598	$ 1,450,212
University's covered payroll	$ 2,196,473	$ 1,522,661	$ 1,278,135	$ 1,030,257
University's proportionate share of net pension liability as a percentage of the employer's covered payroll	90.78%	111.77%	149.95%	140.76%
Plan fiduciary net position as a percentage of the total pension liability	84.98%	82.20%	76.75%	79.48%

*The amounts presented were determined as of June 30 of the previous year.

Note: Schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

Henderson State University's
Schedule of Contributions
Arkansas Teacher Retirement System

	2015	2016	2017	2018
Contractually required contribution	$ 212,798	$ 178,208	$ 143,722	$ 132,225
Contributions in relation to the contractually required contribution	$ 212,798	$ 178,208	$ 143,722	$ 132,225
contribution deficiency (excess)	$ -	$ -	$ -	$ -
University's covered payroll	$ 1,522,661	$ 1,278,135	$ 1,030,257	$ 948,760
Contributions as a percentage of covered payroll	14%	14%	14%	14%

Henderson State University
Required Supplementary Information
June 30, 2018

Henderson State University's Proportionate Share of the Net Pension Liability Arkansas Public Employees Retirement System	2015*	2016*	2017*	2018*
Plan Net Pension Liability- End of Year	$ 1,418,912,236	$ 1,841,733,371	$ 2,391,348,072	$ 2,584,140,480
University's proportion (percentage) of net pension liability (asset)	0.1981%	0.2102%	0.1835%	0.1919%
University's proportionate share of net pension liability	$ 2,811,127	$ 3,871,218	$ 4,387,292	$ 4,958,315
University's covered payroll	$ 3,502,800	$ 3,729,152	$ 3,317,293	$ 3,444,590
University's proportionate share of net pension liability as a percentage of the employer's covered payroll	80.25%	103.81%	132.26%	143.94%
Plan fiduciary net position as a percentage of the total pension liability	84.15%	80.39%	75.50%	75.65%
*The amounts presented were determined as of June 30 of the previous year.				

Henderson State University's Schedule of Contributions Arkansas Public Employees Retirement	2015	2016	2017	2018
Statutorily required contribution	$ 548,803	$ 480,373	$ 508,077	$ 563,113
Contributions in relation to the contractually required contribution	$ 548,803	$ 480,373	$ 508,077	$ 563,113
contribution deficiency (excess)	$ -	$ -	$ -	$ -
University's covered payroll	$ 3,729,152	$ 3,317,293	$ 3,444,590	$ 3,894,151
Contributions as a percentage of covered payroll	14.72%	14.48%	14.75%	14.46%

Note: Schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

Schedule 1

HENDERSON STATE UNIVERSITY
SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS
FOR THE YEAR ENDED JUNE 30, 2018
(Unaudited)

	Year Ended June 30,				
	2018	2017	2016	2015	2014
Total Assets and Deferred Outflows	$ 114,083,447	$ 127,585,871	$ 130,340,806	$ 135,527,367	$ 89,807,778
Total Liabilities and Deferred Inflows	84,378,561	86,788,845	88,307,970	92,625,286	40,926,439
Total Net Position	29,704,886	40,797,026	42,032,836	42,902,081	48,881,339
Total Operating Revenues	22,329,271	25,635,420	23,402,299	22,662,431	22,454,109
Total Operating Expenses	60,868,202	59,057,157	58,274,209	55,912,750	55,170,305
Total Net Non-Operating Revenues	30,970,720	30,584,913	32,977,010	33,018,934	33,628,442
Total Other Revenues, Expenses, Gains or Losses	1,071,447	1,601,014	1,025,655	324,136	3,103,210