

ARKANSAS DEPARTMENT OF HIGHER EDUCATION

Annual Financial Report

June 30, 2014

LEGISLATIVE JOINT AUDITING COMMITTEE



ARKANSAS DEPARTMENT OF HIGHER EDUCATION
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Arkansas

Sen. Jimmy Hickey, Jr.
Senate Chair
Sen. Linda Chesterfield
Senate Vice Chair



Rep. Mary Broadaway
House Chair
Rep. Sue Scott
House Vice Chair

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

LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Arkansas Department of Higher Education
Legislative Joint Auditing Committee

Report on the Financial Statements

We have audited the accompanying financial statements of the major fund of the Arkansas Department of Higher Education, a department of Arkansas state government, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Arkansas Department of Higher Education's departmental 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 an opinion on these financial statements based on our audit. 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.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the major fund of the Arkansas Department of Higher Education as of June 30, 2014, the changes in financial position thereof, and budgetary comparison for the general fund for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As indicated above, the financial statements of the Arkansas Department of Higher Education are intended to present the financial position, changes in financial position, and budgetary comparisons of only that portion of the major fund of the State that is attributable to the transactions of the Arkansas Department of Higher Education. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2014, changes in its financial position, and budgetary comparisons for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

The Governmental Accounting Standards Board requires that a Management's Discussion and Analysis be presented to supplement government-wide financial statements. However, as discussed in the "Emphasis of Matter" paragraph above, the financial statements of the Arkansas Department of Higher Education are only for the specific transactions and activity of the Agency and not for the State as a whole. Therefore, the Management's Discussion and Analysis is not required to be presented for the Arkansas Department of Higher Education individually. Our opinion on the departmental financial statements is not affected by the omission of this information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Arkansas Department of Higher Education's departmental financial statements. The Schedule of Selected Information is presented for purposes of additional analysis and is not a required part of the departmental financial statements.

The Schedule of Selected Information has not been subjected to the auditing procedures applied in the audit of the departmental financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 26, 2015, on our consideration of the Arkansas Department of Higher Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 Arkansas Department of Higher Education's internal control over financial reporting and compliance.

ARKANSAS LEGISLATIVE AUDIT



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

Little Rock, Arkansas
August 26, 2015
SA1870014

Arkansas

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Senate Chair
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House Vice Chair

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Legislative Auditor

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

Arkansas Department of Higher Education
Legislative Joint Auditing Committee

We have audited, 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, the financial statements of the major fund of the Arkansas Department of Higher Education (the "Agency"), a department of Arkansas state government, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Arkansas Department of Higher Education's departmental financial statements and have issued our report thereon dated August 26, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency'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 opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses that we consider to be significant deficiencies. See finding 2014-1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, 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*.

SCHEDULE OF FINDINGS AND RESPONSES

2014-1 Agencies are required to record amounts due for student loans in accordance with Ark. Code Ann. § 19-2-304. The Agency oversees several state-funded student loan programs. Students who receive the loans may be eligible to have the loans forgiven if they meet certain criteria; students not meeting the criteria are placed in repayment status. The Agency is required to maintain student loan subsidiary ledgers to track changes to total loan balances throughout the year. These subsidiary ledgers are then used to adjust loans receivables balances in AASIS during the fiscal year-end closing process.

Review of 120 individual student loan files revealed the following deficiencies in accounts receivable:

- 11 instances in which students' loan balances did not match the subsidiary ledgers by a net difference of \$21,593, with balances anywhere from \$11,050 overstated to \$12,252 understated.
- 2 instances totaling \$61,893 in which loans should have been placed into repayment status and collection pursued as a result of recipients not meeting the loan requirements.
- 41 instances totaling \$411,633 in which student loan files could not be located.

We recommend the Agency review the subsidiary ledgers to ensure receivables are properly recorded and procedures are developed to ensure student loan files are regularly monitored.

Management personnel responded: ADHE assigned full-time staff to correct the deficiency in the financial aid loan program. AASIS and the subsidiary ledgers are balanced monthly, and the subsidiary ledgers are also balanced monthly with our servicing agent, Campus Partners. ADHE has been working diligently on these issues, producing over \$770,000 in loans that were forgiven due to students meeting teaching requirements and payments of over \$30,000 from students who did not meet the teaching requirements.

Loans are reviewed each time there is activity, and the loan status is changed accordingly. ADHE has been able to find many files that were in different locations and bring them to a central location. This activity will continue until all files are centrally located. If older files are not complete, ADHE will work with borrowers and others to get copies or execute a new agreement. ADHE has implemented procedures to regularly review subsidiary ledgers to ensure receivables are properly recorded and student loan files are regularly monitored.

Agency's Response to Findings

The Agency's response to the finding identified in our audit is described above. The Agency's response was not subjected to the auditing 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. 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



Jon Moore, CPA, CFE, CFF
Deputy Legislative Auditor

Little Rock, Arkansas
August 26, 2015

ARKANSAS DEPARTMENT OF HIGHER EDUCATION
BALANCE SHEET – GOVERNMENTAL FUND
JUNE 30, 2014

Exhibit A

	General Fund
ASSETS	
Cash and cash equivalents	\$ 17,762,150
Investments	48,730
Due from other state agencies	27,992,196
Federal receivables	38,105
Loans receivable, net:	
Emergency Secondary Education Loans	31,052
Paul Douglas Congressional Teachers Scholarship Loans	84,817
Minority Teachers Scholarship Program Loans	295,194
Minority Masters Fellows Program Loans	736,204
State Teacher Assistance Resource Program Loans	2,680,617
Teacher Opportunity Program Loans	265,133
Dental Program Loans	4,804,878
Optometry	376,000
Prepaid expenses	183,249
TOTAL ASSETS	\$ 55,298,325
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	
Liabilities:	
Accounts payables	\$ 46,474
Accrued payroll	70,335
Due to other state agencies	1,070,362
Total Liabilities	1,187,171
Deferred inflows of resources	
Related to revenues	181
Fund Balance:	
Nonspendable:	
Loans	9,273,895
Prepaid items	183,249
Restricted:	
Debt service	47,670
Lottery	28,877,488
Committed:	
Program requirements	14,284,231
Other	20,278
Assigned:	
Program requirements	49,631
Unassigned	1,374,531
Total Fund Balance	54,110,973
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 55,298,325

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

ARKANSAS DEPARTMENT OF HIGHER EDUCATION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2014

Exhibit B

	General Fund
REVENUES	
Federal grants and reimbursements	\$ 2,183,038
Grants and reimbursements	3,122,777
Interest income	75,645
Rents, royalties, and leases	379,429
Fee income	242,826
TOTAL REVENUES	6,003,715
EXPENDITURES	
Personal services - payroll	2,615,051
Employee benefits - matching	813,454
Communication and transportation of commodities	297,501
Printing and advertising	108,965
Repairing and servicing	111,411
Utilities and rent	540,360
Travel and subsistence	118,236
Professional services	569,880
Insurance and bonds	5,430
Other expenses and services	1,212,119
Commodities, materials, and supplies	147,343
Assistance, grants, and aids	144,452,915
Refunds, taxes and claims	1,250
Capital outlay	22,985
TOTAL EXPENDITURES	151,016,900
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(145,013,185)
OTHER FINANCING SOURCES (USES)	
Interagency transfers:	
General revenue allocation	40,348,194
Arkansas Lottery Commission	81,488,844
Federal grants and reimbursements from other state agencies	7,746,197
General improvement funding	3,555,000
Educational Excellence Trust Fund	13,154,524
Assistance, grants, and aids to other state entities	(9,102,099)
Excess general revenue subsequently transferred to	
General Revenue Allotment Reserve Fund (GAD)	(17,441)
Other	(366,857)
Prior-year refunds to expenditures	355,052
Prior-year warrants outlawed and cancelled	15,269
TOTAL OTHER FINANCING SOURCES (USES)	137,176,683
NET CHANGE IN FUND BALANCE	(7,836,502)
FUND BALANCE - JULY 1	61,947,475
FUND BALANCE - JUNE 30	\$ 54,110,973

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

ARKANSAS DEPARTMENT OF HIGHER EDUCATION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2014

Exhibit C

	General Fund			Variance With Final Budget Positive (Negative)
	Budgeted Amount		Actual	
	Original	Final		
REVENUES				
Federal grants and reimbursements	\$ 3,815,258	\$ 3,815,258	\$ 2,183,038	\$ (1,632,220)
Grants and reimbursements	1,945,000	1,945,000	3,122,777	1,177,777
Interest income			75,645	75,645
Rents, royalties, and leases	2,500,000	2,500,000	379,429	(2,120,571)
Fee income	150,000	150,000	242,826	92,826
TOTAL REVENUES	8,410,258	8,410,258	6,003,715	(2,406,543)
EXPENDITURES				
Regular salaries	3,298,594	3,187,917	2,616,457	571,460
Extra help	48,000	33,000		33,000
Operating expenses	3,435,681	3,841,963	1,386,280	2,455,683
Personal services matching	979,740	941,549	812,048	129,501
Grants and aids	43,881,702	69,553,512	50,762,141	18,791,371
Lottery scholarships			92,774,702	(92,774,702)
Special maintenance	15,300,000	15,422,628		15,422,628
Conference fees and travel	193,890	115,470	27,361	88,109
Professional fees and services	2,919,310	2,770,250	569,880	2,200,370
Capital outlay	165,000	85,000	22,985	62,015
Refunds and reimbursements	355,000	567,287		567,287
Loans	1,377,370	1,432,370	1,092,370	340,000
Scholarships	1,420,000	1,755,000	952,676	802,324
Academic Challenge scholarship program	44,697,492	22,509,828		22,509,828
Governor's Scholars program	20,201,770	7,017,356		7,017,356
Student undergraduate research fellowship	150,000			
Web-based applications	1,300,000			
TOTAL EXPENDITURES	139,723,549	129,233,130	151,016,900	(21,783,770)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(131,313,291)	(120,822,872)	(145,013,185)	(24,190,313)
OTHER FINANCING SOURCES (USES)				
Interagency transfers:				
General revenue allocation	38,788,194	38,788,194	40,348,194	1,560,000
Arkansas Lottery Commission	600,000	600,000	81,488,844	80,888,844
Federal grants and reimbursements from other state agencies	11,425,024	11,425,024	7,746,197	(3,678,827)
Educational Excellence Trust Fund	12,942,065	12,942,065	13,154,524	212,459
General improvement funding			3,555,000	3,555,000
Assistance, grants, and aids to other state entities			(9,102,099)	(9,102,099)
Excess general revenue subsequently transferred to General Revenue Allotment Reserve Fund (GAD)			(17,441)	(17,441)
Other			(366,857)	(366,857)
Prior-year refunds to expenditures			355,052	355,052
Prior-year warrants outlawed and cancelled			15,269	15,269
TOTAL OTHER FINANCING SOURCES (USES)	63,755,283	63,755,283	137,176,683	73,421,400
NET CHANGE IN FUND BALANCES	(67,558,008)	(57,067,589)	(7,836,502)	49,231,087
FUND BALANCES - JULY 1	61,947,475	61,947,475	61,947,475	
FUND BALANCES - JUNE 30	\$ (5,610,533)	\$ 4,879,886	\$ 54,110,973	\$ 49,231,087

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

ARKANSAS DEPARTMENT OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1: Summary of Significant Accounting Policies

A. Reporting Entity/History

Act 38 of 1971, as amended, established the Arkansas Department of Higher Education as a department of Arkansas state government to provide greater coordination of financing the higher education program of the State, certifying new educational programs and new institutions of higher learning, and administering certain student financial aid programs.

Act 1114 of 1998 created the Arkansas Higher Education Coordinating Board and transferred to it all the powers, duties, and functions of the State Board of Higher Education, effective May 1, 1998. The Arkansas Higher Education Coordinating Board consists of 12 members appointed by the Governor. Board members serve without compensation but may receive reimbursement for performing official duties at the rate established for state employees by state travel regulations in accordance with Ark. Code Ann. §§ 25-16-901, 25-16-908.

B. Basis of Presentation – Fund Accounting

The accounting system is organized and operated on a fund basis. A *fund* is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances and changes therein, which are segregated for purposes of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The following types of funds, if applicable to this Agency, are recognized in the accompanying financial statements.

Governmental Funds

General Fund – General Fund is the general operating fund and is used to report all financial resources, except those required to be accounted for in another fund.

C. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized and reported in the financial statements. Financial statements for governmental funds are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available. "Available" means collectible within the current period or soon enough thereafter to pay current liabilities (i.e., 45 days). Expenditures are generally recognized under the modified accrual basis when the related fund liability is incurred. Federal grants and entitlements are recognized as revenues when received, with the unearned, unexpended balance recognized as unearned revenue for financial statement presentation purposes, except for federal grants that are reimbursable at the time of the program expenditure, which are recognized as revenues when earned.

D. Cash and Cash Equivalents

Cash and cash equivalents include demand accounts, imprest accounts, cash on hand, cash in State Treasury, all certificates of deposit with maturities at purchase of 90 days or less, and all short-term instruments with maturities at purchase of 90 days or less. All short-term investments are stated at fair value.

ARKANSAS DEPARTMENT OF HIGHER EDUCATION
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2014

NOTE 1: Summary of Significant Accounting Policies (Continued)

E. Capital Assets

Capital assets purchased and in the custody of this Agency were recorded as expenditures at the time of purchase. Assets with costs exceeding \$5,000 and an estimated useful life exceeding one year are reported at historical cost, including ancillary costs (such as professional fees and costs, freight costs, preparation or setup costs, and installation costs). Infrastructure or public domain fixed assets (such as roads, bridges, tunnels, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems) are also capitalized. Gifts or contributions are generally recorded in the accounts at fair market value at the time received. In accordance with current accounting principles generally accepted in the United States of America, general capital assets and depreciation are reported in the State's "Government-Wide" financial statements but are not reported in the governmental fund financial statements. Depreciation is reported for proprietary fund capital assets based on a straight-line method, with no salvage value. Estimated useful lives generally assigned are as follows:

<u>Assets:</u>	<u>Years</u>
Equipment	5-20
Buildings and building improvements	20-50
Infrastructure	10-30
Land improvements	10-40
Intangibles	4-99
Other capital assets	4-20

Capital asset activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental activities:				
Equipment	\$ 327,579	\$ 22,985	\$ 6,435	\$ 344,129
Leasehold improvements	316,785			316,785
Intangibles	18,332			18,332
Total governmental activities	\$ 662,696	\$ 22,985	\$ 6,435	\$ 679,246

F. Deposits and Investments

State Board of Finance Policies

Ark. Code Ann. § 19-4-805 requires that agencies holding monies not deposited in the State Treasury, other than the institutions of higher learning, abide by the recommendations of the State Board of Finance. The State Board of Finance promulgated cash management, collateralization, and investments policies and procedures, effective July 14, 2012, as referenced in the Financial Management Guide issued by the Department of Finance and Administration for use by all state agencies.

The stated goal of state cash management is the protection of principal, while maximizing investment income and minimizing non-interest earning balances. Deposits are to be made within the borders of the State of Arkansas and must qualify for Federal Deposit Insurance Corporation (FDIC) deposit insurance coverage. Policy requires a minimum of four bids to be sought on interest-bearing deposits in order to obtain the highest rate possible.

Policy states that funds are to be in transactional and non-transactional accounts as defined in the Financial Management Guide. Funds in excess of immediate expenditure requirements (excluding minimum balances) should not remain in non-interest bearing accounts.

ARKANSAS DEPARTMENT OF HIGHER EDUCATION
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2014

NOTE 1: Summary of Significant Accounting Policies (Continued)

F. Deposits and Investments (Continued)

State Board of Finance Policies (Continued)

State Board of Finance policy states that cash funds may only be invested in accounts and investments authorized under Ark. Code Ann. §§ 19-3-510, -518. All noncash investments must be held in safekeeping by a bank or financial institution. In addition, all cash funds on deposit with a bank or financial institution that exceed FDIC deposit insurance coverage must be collateralized. Collateral pledged must be held by an unaffiliated third-party custodian in an amount at least equal to 105% of the cash funds on deposit.

Deposits

Deposits are carried at cost and consist of cash in bank and cash in State Treasury totaling \$2,643,864 and \$15,118,286, respectively. State Treasury Management Law governs the management of funds held in the State Treasury, and the Treasurer of State is responsible for ensuring these funds are adequately insured and collateralized.

Custodial Credit Risk – Custodial credit risk for deposits is the risk that, in the event of the failure of a depository institution, the Agency will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Agency has adopted the State Board of Finance Policy requiring the use of depository insurance and collateralization procedures to manage the risk that deposits may not be returned. As of June 30, 2014, none of the Agency's bank balance of \$2,643,864 was exposed to custodial credit risk.

Investments

Except for certain interest-earning investment contracts and money market investments, investments are reported at fair value based on available quoted market prices. Nonparticipating contracts (certificates of deposit) and participating interest-earning investment contracts that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost. Changes in the fair value of investments are recognized as revenue in the operating statements.

As of June 30, 2014, the Agency has the following investment balances and segmented maturities:

Investment Type	Fair Value	Investment Maturities (In Years)			
		Less than 1	1-5	5-10	More than 10
Federated Treasury Obligations					
money market mutual funds	\$ 48,730	\$ 48,730	\$ 0	\$ 0	\$ 0

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Agency does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The summary shown above indicates that none of the Agency's investment maturities are one year or longer.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Agency has adopted the State Board of Finance Policy that limits investment choices to certificates of deposit, repurchase agreements, treasury bills, treasury notes, and securities issued by the State of Arkansas and its political subdivisions. The Agency's exposure to credit risk as of June 30, 2014, is as follows:

ARKANSAS DEPARTMENT OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1: Summary of Significant Accounting Policies (Continued)

F. Deposits and Investments (Continued)

Investments (Continued)

Rating	Fair Value
AAA	\$ 48,730

G. Interfund Balances and Transfers

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Details of interfund transfers are disclosed in the financial statements.

H. Prepaid Expenses

Prepaid expenses generally represent the cost of consumable supplies on hand or unexpired services at year-end. The cost of these items is included with expenditures at the time of purchase. Prepaid expenses, as reported in the general fund financial statements, are also recorded as a nonspendable component of fund balance indicating that they do not constitute "available, spendable financial resources."

I. Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources represent a decrease of net position that applies to future periods. Thus, these items will not be recognized as an outflow of resources (an expense or expenditures) until a future period.

Deferred inflows of resources represent an increase of net position that applies to future periods. These items will not be recognized as an inflow of resources (revenue) until a future period.

J. Pension Plan

Arkansas Public Employees Retirement System

Plan Description – The Agency contributes to the Arkansas Public Employees Retirement System (APERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the APERS Board of Trustees. APERS provides retirement and disability benefits, annual redetermination of benefit adjustments, and survivor benefits to plan members and beneficiaries. The Constitution of Arkansas, Article 5, vests with the General Assembly the legislative power to enact and amend benefit provisions of APERS as published in Chapters 2, 3, and 4 of Title 24 of the Ark. Code Ann. APERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to Arkansas Public Employees Retirement System, One Union National Plaza, 124 West Capitol, Little Rock, Arkansas, 72201 or by calling 1-501-682-7855.

Funding Policy – Contributory plan members are required to contribute 5% of their annual covered salary. The Agency is required to contribute for all covered state employees at the rate of 14.88% of annual covered payroll. The contribution requirements of plan members are established and may be amended by the Arkansas General Assembly. The contribution requirements of the Agency are established and may be amended by the APERS Board of Trustees. The Agency's contributions to APERS for the years ended June 30, 2014, 2013, and 2012, were \$247,163, \$233,746, and \$210,062, respectively, equal to the required contributions for each year.

ARKANSAS DEPARTMENT OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1: Summary of Significant Accounting Policies (Continued)

J. Pension Plan (Continued)

Arkansas Teacher Retirement System

Plan Description – The Agency contributes to the Arkansas Teacher Retirement System (ATRS), a cost-sharing, multiple-employer defined benefit pension plan administered by the ATRS Board of Trustees. ATRS provides retirement and disability benefits, annual redetermination of benefit adjustments, and survivor benefits to plan members and beneficiaries. The Constitution of Arkansas, Article 5, vests with the Arkansas General Assembly the legislative power to enact and amend benefit provisions of ATRS as published in Chapter 7 of Title 24 of Ark. Code Ann. ATRS issues a publicly-available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to Arkansas Teacher Retirement System, 1400 West Third Street, Little Rock, Arkansas 72201 or by calling 1-800-682-1517.

Funding Policy – Contributory plan members are required to contribute 6% of their annual covered salary. The Agency is required to contribute for all covered state employees at the rate of 14% of annual covered payroll. The contribution requirements of plan members and the Agency are established and may be amended by the Arkansas General Assembly. The Agency's contributions to ATRS for the years ended June 30, 2014, 2013, and 2012 were \$43,488, \$41,737, and \$44,215, respectively, equal to the required contributions for each year.

Teachers Insurance and Annuity Association/College Retirement Equities Fund

Plan Description – The Agency participates in the Teachers Insurance Annuity Association/College Retirement Equities Fund (TIAA/CREF), a defined contribution plan. The plan is a 403(b) program as defined by the Internal Revenue Service Code of 1986 as amended, and is administered by TIAA/CREF. TIAA is an insurance company offering participants a traditional annuity with guaranteed principal and a specific interest rate plus the opportunity for additional growth through dividends. CREF is an investment company that offers a variable annuity. Ark. Code Ann. authorizes participation in the plan.

Funding Policy – TIAA/CREF has contributory and non-contributory plans. Contributory members are required to contribute at least 6% of earning to the plan. The Agency contributes 10% of earnings for members. The Agency's contributions for the years ended June 30, 2014, 2013, and 2012 were \$63,376, \$73,986, and \$94,262, respectively, equal to the required contributions for each year.

K. Fund Equity

Fund Balance

In the financial statements, fund balance is reported in one of five classifications, where applicable, based on the constraints imposed on the use of the resources.

The nonspendable fund balance includes amounts that cannot be spent because they are either (a) not in spendable form (e.g., prepaid items, inventories, long-term amount of loans and notes receivables) or (b) legally or contractually required to be maintained intact.

The spendable portion of fund balance, where applicable, comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted fund balance. This classification reflects constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments or (b) by law through constitutional provisions or enabling legislation.

ARKANSAS DEPARTMENT OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1: Summary of Significant Accounting Policies (Continued)

K. Fund Equity (Continued)

Fund Balance (Continued)

Committed fund balance. These amounts can only be used for specific purposes according to constraints imposed by legislation of the General Assembly, the government's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the General Assembly removes or changes the constraint by the same action that imposed the constraint.

Assigned fund balance. This classification reflects amounts constrained by the State's "intent" to be used for specific purposes but are neither restricted nor committed. The General Assembly has the authority to assign amounts to be used for specific purposes by legislation or approved methods of financing.

Unassigned fund balance. This amount is the residual classification for the general fund.

When more than one spendable classification is available for use, it is the State's policy to use the resources in this order: restricted, committed, assigned, and unassigned.

L. Budgetary Data

The State utilizes an annual budgeting process with budget amounts initially derived from the previous fiscal year's funded allocation. In accordance with the appropriations and funding provided by the Legislature, individual state agencies have been charged with the responsibility of administering and managing their programs as authorized by the Legislature. Agencies are also charged with the responsibility of preparing an annual operations plan as a part of the budgetary process for the operation of each of their assigned programs. State law provides for the establishment of a comprehensive financial management system that includes adequate controls over receipts, expenditures, and balances of Agency funds. It is mandated that this system include a modified accrual system, conform with generally accepted governmental accounting principles, and provide a reporting system whereby actual expenditures are compared to expenditures projected in the Agency's annual operation plan.

M. Compensated Absences – Employee Leave

Annual leave is earned by all full-time employees. Upon termination, employees are entitled to receive compensation for their unused accrued annual leave up to 30 days. Liabilities for compensated absences are determined at the end of the year based on current salary rates.

Sick leave is earned by all full-time employees and may be accrued up to 120 days. Compensation up to a maximum of \$7,500 for unused sick leave is payable to employees upon retirement.

Compensated absences are reported in the State's "Government-Wide" financial statements but are not reported as liabilities or expenditures in the governmental funds. However, the compensated absences payable attributable to this Agency's employee annual and sick leave as of June 30, 2014 and 2013, amounted to \$304,134 and \$328,823, respectively. The net changes to compensated absences payable during the year ended June 30, 2014, amounted to (\$24,689).

ARKANSAS DEPARTMENT OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 2: General Obligation Bonds Long-Term Debt

The Constitution of the State does not limit the amount of general obligation bonds that the State may issue; however, no such bonds may be issued unless approved by the voters of the State at a general election or a special election held for that purpose. Principal, interest, and paying agent fees are recorded as debt service expenditures when due. When a bond is issued, the face amount of the debt is recorded as an other financing source, and the bond premium, discount, and/or issuance cost is recognized. Premiums and discounts are recorded as other financing sources and uses, respectively. Issuance costs are recorded as debt service expenditures. In accordance with current accounting principles generally accepted in the United States of America, the liability; deferred premiums, discounts, and/or issuance costs; and amortization of deferred premiums, discounts, and/or issuance costs are reported in the State of Arkansas' Comprehensive Annual Financial Report, the State's "Government-Wide" financial statements, but are not reported in the governmental fund financial statements.

General obligation bonds outstanding at June 30, 2014, were as follows:

	Final Maturity Date June 1,	Interest Rates %	Balance
College Savings Bonds:			
1996C Series, G.O. Bonds	2016	5.95 - 6.00	\$ 6,635,668
1997B Series, G.O. Bonds	2017	5.40 - 5.60	7,569,305
1998A Serie, G.O. Bonds	2017	5.20 - 5.35	7,408,555
2005 Series, G.O. Bonds	2016	3.60 - 5.00	9,455,000
Higher Education Bonds			
2007A Series, G.O. Bonds	2023	4.00 - 5.00	90,895,000
2008B Series, G.O. Bonds	2029	4.38 - 4.75	126,825,000
			<u>\$ 248,788,528</u>

Future amounts required to pay principal and interest on general obligation bonds at June 30, 2014, including accrued accreted interest of \$13,035,339 on capital appreciation bonds, were as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 10,086,464	\$ 11,641,315	\$ 21,727,779
2016	8,729,060	11,012,336	19,741,396
2017	6,852,665	10,340,502	17,193,167
2018	14,295,000	9,603,288	23,898,288
2019	15,010,000	8,888,538	23,898,538
2020-24	85,760,000	33,744,125	119,504,125
2025-29	95,020,000	12,459,744	107,479,744
	<u>\$ 235,753,189</u>	<u>\$ 97,689,848</u>	<u>\$ 333,443,037</u>

ARKANSAS DEPARTMENT OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 2: General Obligation Bonds Long-Term Debt (continued)

Details of general obligation bonds outstanding are as follows:

College Savings General Obligation Bonds – Act 683 of 1989, as amended, authorized the State to issue College Savings General Obligation Bonds. All bonds issued under the authority of this Act are direct general obligations of the State and are secured by an irrevocable pledge of the full faith, credit, and resources of the State. The Act limited the total principal amount to approximately \$300 million, with no more than \$100 million being issued in any fiscal biennium unless the General Assembly of the State by law authorizes a greater principal amount thereof to be issued. The College Series bonds were issued to provide funds to finance capital improvements projects at state institutions of higher education. The bonds are payable from the net general revenues of the State and investment earnings on the proceeds of the bonds. No bonds were issued under this Act in the 2014 fiscal year.

Higher Education General Obligation Bond – Act 1282 of 2005 authorized the State to issue Higher Education General Obligation Bonds. All bonds issued under the authority of this Act are direct general obligations of the State and are secured by an irrevocable pledge of the full faith, credit, and resources of the State. The Act limited the total principal amount to approximately \$250 million. However, the total outstanding principal amount of Higher Education General Obligation Bonds issued under Act 1282 of 2005 and the College Savings Bond Act of 1989 shall not have scheduled debt service payments on a combined basis in excess of \$24 million in any one fiscal year. The Higher Education General Obligation Bonds were issued to provide funds to finance technology and facility improvements for state institutions of higher education and to refund certain outstanding bonds. The bonds are payable from the net general revenues of the State and investment earnings on the proceeds of the bonds. No bonds were issued under this Act in the 2014 fiscal year.

ARKANSAS DEPARTMENT OF HIGHER EDUCATION
 SCHEDULE OF SELECTED INFORMATION
 FOR THE FIVE-YEAR PERIOD ENDED JUNE 30, 2014
 (Unaudited)

Schedule 1

	For the Year Ended June 30,				
	2014	2013	2012	2011	2010
General Fund					
Total Assets	\$ 55,298,325	\$ 63,657,510	\$ 91,484,775	\$ 114,832,949	\$ 151,429,580
Total Liabilities	1,187,171	1,710,035	1,032,995	2,731,748	2,861,193
Total Deferred Inflows of Resources	181				
Total Fund Equity	54,110,973	61,947,475	90,451,780	112,101,201	148,568,387
Net Revenues	6,003,715	2,940,195	4,864,312	4,492,486	4,183,428
Total Expenditures	151,016,900	172,269,234	173,577,805	162,490,223	59,613,135
Total Other Financing Sources (Uses)	137,176,683	140,824,734	147,064,072	121,530,551	86,530,109