

**Northwest Arkansas Community College**

**Bentonville, Arkansas**

**Basic Financial Statements  
and Other Reports**

**June 30, 2008**

LEGISLATIVE JOINT AUDITING COMMITTEE

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NORTHWEST ARKANSAS COMMUNITY COLLEGE  
TABLE OF CONTENTS  
JUNE 30, 2008

Independent Auditor's Report  
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*  
Management Letter  
Management's Discussion and Analysis

BASIC FINANCIAL STATEMENTS

	<u>Exhibit</u>
Comparative Statement of Net Assets	A
Northwest Arkansas Community College Foundation, Inc. - Statement of Financial Position	A-1
Comparative Statement of Revenues, Expenses and Changes in Net Assets	B
Northwest Arkansas Community College Foundation, Inc. - Statement of Activities	B-1
Comparative Statement of Cash Flows - Direct Method	C
Notes to Financial Statements	

SUPPLEMENTARY INFORMATION

	<u>Schedule</u>
Schedule of Selected Information for the Last Five Years (Unaudited)	1

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

# Arkansas



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

## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

### INDEPENDENT AUDITOR'S REPORT

Northwest Arkansas Community College  
Legislative Joint Auditing Committee

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Northwest Arkansas Community College (College), an institution of higher education of the State of Arkansas, as of and for the year ended June 30, 2008, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Northwest Arkansas Community College Foundation, Inc., which represent 100% of the assets, net assets, and revenues of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Northwest Arkansas Community College Foundation, Inc., is based on the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of Northwest Arkansas Community College as of June 30, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

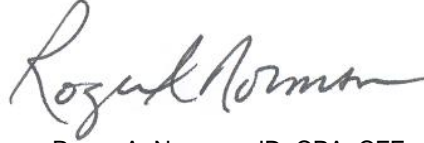
As discussed in Note 13 to the financial statements, the College adopted Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* on July 1, 2007. GASB Statement No. 45 requires the recognition of other postemployment benefit costs at the time the related services are rendered to the employer instead of recognition on a pay-as-you-go basis, and additional related disclosures.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2009 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

DIVISION OF LEGISLATIVE AUDIT

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

Little Rock, Arkansas  
March 11, 2009  
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Sen. Bobby L. Glover  
Senate Co-Chair  
Rep. Johnny Hoyt  
House Co-Chair  
Sen. Bill Pritchard  
Senate Co-Vice Chair  
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House Co-Vice Chair

# Arkansas



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

## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

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

Northwest Arkansas Community College  
Legislative Joint Auditing Committee

We have audited the financial statements of the business-type activities and the discretely presented component unit of Northwest Arkansas Community College (College), an institution of higher education of the State of Arkansas, as of and for the year ended June 30, 2008, which collectively comprise the College's basic financial statements and have issued our report thereon dated March 11, 2009. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Northwest Arkansas Community College Foundation, Inc., as described in our report on the College's financial statements. The financial statements of the Northwest Arkansas Community College Foundation, Inc., were not audited in accordance with *Government Auditing Standards*.

#### Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the College's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the College's financial statements that is more than inconsequential will not be prevented or detected by the College's internal control. We consider the deficiencies described below in the Audit Findings section of this report as items 1 and 2 to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the College's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 1 and 2 to be material weaknesses.

#### Compliance and Other Matters

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

We noted certain matters that we reported to management of the College in a separate letter dated March 11, 2009.

### AUDIT FINDINGS

#### Significant Deficiencies

1. Financial accounting duties should be distributed among appropriate employees to enhance the design of the internal control process to ensure the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles. The College, because of cost/benefit implications, has not segregated financial accounting duties to sufficiently reduce the risk that a material misstatement of the financial statements due to fraud or error will not be prevented or detected. The College also failed to document compensating controls designed to mitigate the segregation issue. To achieve effective internal control over financial reporting, accounting duties should be distributed among appropriate employees or effective compensating controls, which alleviate the control weakness, should be designed, implemented, and documented.

Management Response: The NWACC IT department is creating an exception report that will be run nightly. It will show all adjustments made to student accounts and which cashier made the adjustments. It will be reviewed each morning and signed by the supervisor. This will allow the A/R supervisor to identify any anomalies (should there be any) and take appropriate action promptly.

2. The College's internal control system did not prevent or detect material errors in the financial statements and accounting records. Significant errors (as listed by financial statement) included the following:

Statement of Net Assets	\$443,888
Statement of Revenues, Expenses and Changes in Net Assets	\$1,884,926
Statement of Cash Flows	\$2,546,100

Key errors included misclassifications totaling \$1,882,638 and errors in reporting deposits with trustees on the Statement of Cash Flows in the amount of \$1,561,865.

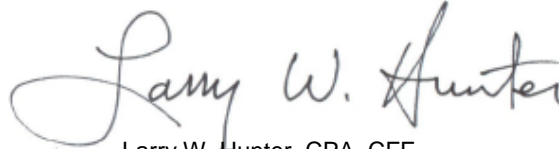
The accounting errors were corrected by adjusting entries during audit fieldwork.

Management Response: We will create a layered review process, using existing staff members. We will have staff members who verify backup worksheets, journal entries, sum, review, and tie the statements. NWACC will provide extra help or consultants to assist if needed. We will use the recommended method of creating the cash-flow statement. We are currently working on a total revision of the Chart of Accounts, which will assist in preventing misclassifications.

The College's response to the findings identified in our audit, excluding the management letter findings, is described above. We did not audit the College's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Legislative Joint Auditing Committee, the governing board, College 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 Arkansas Code Annotated § 10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in black ink that reads "Larry W. Hunter". The signature is written in a cursive style with a large, looping initial "L".

Larry W. Hunter, CPA, CFE  
Deputy Legislative Auditor

Little Rock, Arkansas  
March 11, 2009

Sen. Bobby L. Glover  
Senate Co-Chair  
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House Co-Chair  
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# Arkansas



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

## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

### MANAGEMENT LETTER

Northwest Arkansas Community College  
Legislative Joint Auditing Committee

We would like to communicate the following items that came to our attention during this audit. The purpose of such comments 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. These matters were discussed previously with College officials during the course of our audit fieldwork and at the exit conference.

1. As reported in the previous audit, there is no formal documented and approved disaster recovery plan. This situation could cause the College to be without computer processing for an extended period of time in the event of a disaster or major interruption and could also place a financial and personnel burden on the resources of the College.
2. We performed audit procedures on the information system controls in the BANNER General Ledger Module for the period November 18, 2008 through March 12, 2009. Numerous terminated employees were identified with access to the system. This increases the risk that an unauthorized person could gain access to the system.

**STUDENT ENROLLMENT DATA** - In accordance with Arkansas Code Annotated § 6-60-209, we performed tests of the student enrollment data for the year ended June 30, 2008, as reported to the State Department of Higher Education, to provide reasonable assurance that the data was properly reported. The enrollment data reported was as follows:

	<u>Summer II Term</u> <u>2007</u>	<u>Fall Term</u> <u>2007</u>	<u>Spring Term</u> <u>2008</u>	<u>Summer I Term</u> <u>2008</u>
Student Headcount	842	7,090	7,155	2,085
Student Semester Credit Hours	3,248	55,957	56,212	9,323

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, College 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 Arkansas Code Annotated § 10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT

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

Larry W. Hunter, CPA, CFE  
Deputy Legislative Auditor

Little Rock, Arkansas  
March 11, 2009



# ***NORTHWEST ARKANSAS COMMUNITY COLLEGE***

## **Management's Discussion and Analysis**

### ***Overview of the Financial Statements and Financial Analysis***

Northwest Arkansas Community College presents its financial statements for the fiscal year ended June 30, 2008, with comparative financial data for the fiscal year ended June 30, 2007.

The financial statements are designed to provide readers with a broad overview of finances and operations of Northwest Arkansas Community College. The Institution reports its activity as a business-type activity using the full accrual basis of accounting. The emphasis of discussions about the financial statements will be on current year data. The annual financial report of the College includes the following three financial statements presented with notes to the financial statements: Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows – Direct Method.

### ***Statement of Net Assets***

The Statement of Net Assets presents information on all of Northwest Arkansas Community College's assets and liabilities, with the difference between assets and liabilities being reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the College is improving or deteriorating.

The purpose of the Statement of Net Assets is to present to the readers of the financial statements a fiscal "snapshot" of Northwest Arkansas Community College. The Statement of Net Assets presents end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and net assets (assets minus liabilities).

The Statement of Net Assets reports the assets available to continue the operations of the Institution. Readers of the Statement of Net Assets are able to determine the amount of liabilities owed to vendors and lending institutions. The net assets section of the statement presents the net assets (assets minus liabilities) and their availability for expenditure by the College.

Northwest Arkansas Community College's total assets at June 30, 2008, were \$52,753,370 compared to \$48,747,614 on June 30, 2007, as reported in the assets section of the Statement of Net Assets. Total assets are comprised of current assets in the amount of \$10,237,136, and noncurrent assets of \$42,516,234 for fiscal year 2008, compared to \$7,747,712 and \$40,999,902, respectively, for the 2007 fiscal year. Current assets are cash and other assets expected to be converted into cash or consumed in the subsequent fiscal year. Noncurrent assets consist of restricted cash and capital assets net of related depreciation.

The liabilities section reports total liabilities of Northwest Arkansas Community College at June 30, 2008, of \$25,867,763 and \$26,072,169 at June 30, 2007. Current liabilities are obligations of the Institution that reasonably expect to be liquidated within the next twelve months. Northwest Arkansas Community College's current liabilities in the amount \$3,405,974 at June 30, 2008, consisted of accounts payable and accrued liabilities, student deposits and credits (deferred tuition), the current portion of compensated absences payable, and the current portion of notes payable and bonds payable compared to \$2,876,776 at June 30, 2007.

Noncurrent liabilities are long-term obligations of the Institution that are payable at some date beyond the following fiscal year. Noncurrent liabilities of \$22,461,789 at June 30, 2008, were comprised of long-term portions of compensated absences payable, notes payable, and bonds payable compared to \$23,195,393 at June 30, 2007. No new financing was incurred during the fiscal year.

In the net assets section of the Statement of Net Assets, there are three main categories of net assets. The first category is, "invested in capital assets, net of related debt," which provides the Institution's equity in property, plant and equipment. The second category is "restricted" net assets, which consists of expendable resources that are available for expenditure by the College, but must be spent for purposes as determined by donor(s) and/or external entities that have placed purpose and/or time restrictions on the use of the assets. The third category is "unrestricted" net assets, which are available to be used by the College for any lawful purpose of the Institution. By far the largest portion of Northwest Arkansas Community College's net assets is reflected in the amount invested in capital assets.

The following is a condensed Statement of Net Assets:

<b><u>ASSETS:</u></b>	<b><u>June 30, 2008</u></b>	<b><u>June 30, 2007</u></b>
Current Assets	\$ 10,237,136	\$ 7,747,712
Noncurrent Assets	42,516,234	40,999,902
	<hr/>	<hr/>
TOTAL ASSETS	<b>\$ 52,753,370</b>	<b>\$ 48,747,614</b>
	<hr/>	<hr/>
<b><u>LIABILITIES:</u></b>		
Current Liabilities	\$ 3,405,974	\$ 2,876,776
Noncurrent Liabilities	22,461,789	23,195,393
	<hr/>	<hr/>
TOTAL LIABILITIES	<b>\$ 25,867,763</b>	<b>\$26,072,169</b>
	<hr/>	<hr/>
<b><u>NET ASSETS:</u></b>		
Invested in capital assets, net of related debt	\$17,974,949	\$ 16,715,608
Restricted	6,050,570	4,859,219
Unrestricted	2,860,088	1,100,618
	<hr/>	<hr/>
TOTAL NET ASSETS	<b>\$ 26,885,607</b>	<b>\$22,675,445</b>
	<hr/>	<hr/>

Summary of amounts Invested in capital assets, net of related debt as of June 30, 2008, and 2007 are as follows:

	<b><u>June 30, 2008</u></b>	<b><u>June 30, 2007</u></b>
Capital Assets <u>not</u> Depreciated	\$ 4,352,704	\$ 2,116,672
Other Capital Assets	45,353,025	45,129,303
	<hr/>	<hr/>
Total Capital Assets	49,705,729	47,245,974
Less: Accumulated Depreciation	( 10,025,780)	( 8,243,664)
	<hr/>	<hr/>
Capital Assets, net	\$ 39,679,949	\$ 39,002,311
Less: Related Debt	(21,705,000)	(22,315,000)
Plus: Unspent Portion of Bond & Appropriation Proceeds		28,297
	<hr/>	<hr/>
Capital Assets, net of related debt	<b>\$17,974,949</b>	<b>\$ 16,715,608</b>
	<hr/>	<hr/>

The Institution also records compensated absences as part of noncurrent liabilities for amounts owed to employees upon retirement or employee's beneficiary upon death of the employee.

### ***Statement of Revenues, Expenses & Changes in Net Assets***

Changes in total net assets as reported on the Statement of Net Assets are based on the activity presented on the Statement of Revenues, Expenses and Changes in Net Assets. The purpose of this statement is to report the operating and nonoperating revenues received by the Institution, and the operating and nonoperating expenses paid by the Institution, along with any other revenues, expenses, and gains/losses received or spent by the Institution.

In general, operating revenues are received in return for providing goods and services to customers and constituencies of the College. Operating expenses are those expenses paid to acquire or produce the goods and services provided in exchange for operating revenues, and to carry out the mission and operations of the Institution. Operating revenues and expenses are considered to be "exchange" transactions.

Nonoperating revenues are revenues received for which goods and services are not provided in return for the revenue. State appropriation funds provided by the State Legislature to the College are reported as nonoperating revenue because the State Legislature does not receive commensurate goods or services for these revenues. Local property tax millage and investment income received is also reported as nonoperating revenue since goods and services are not provided in exchange for the revenue. Nonoperating revenues and expenses are considered to be "nonexchange" transactions.

Some of the highlights of the information presented on the Statement of Revenues, Expenses and Changes in Net Assets are as follows:

- ◆ Total tuition and fee revenues increased for fiscal year 2008 to \$10,847,498 compared to \$9,834,663 in the previous fiscal year. Additional tuition and fee revenue was reported due to increased enrollment and revenues from operations of the Regional Technology Center and the Aviation Technology Center.
- ◆ Tuition and fees are reported net of scholarship discount and allowance of \$2,527,535 in 2008 and \$2,034,805 in 2007.
- ◆ Total operating expenses increased from \$31,336,834 in 2007 to \$34,335,118 in 2008 due to the increase in labor and fringe benefit expenses, student scholarship expense, and depreciation expense of buildings, furniture, fixtures, and equipment. Operating expenses increased due to increased utility rates and operating costs of the new student center and parking deck facilities.
- ◆ State appropriation of general revenue and educational excellence funds received during the fiscal year increased from \$8,885,893 in fiscal year 2007 to \$10,751,932 in fiscal year 2008.
- ◆ Total local property tax millage (2.6 mills) revenue reported in the fiscal year was \$7,236,620 compared to \$6,091,535 in 2007. Two thirds of the mills of the revenue were used for operations of the college, while one third mill was restricted for debt retirement.

The following is a condensed summary of the change in net assets:

**Condensed Statement of Revenues, Expenses & Changes in Net Assets**

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Total Operating Revenues	\$ 11,319,376	\$ 10,489,411
Total Operating Expenses	34,335,118	31,336,834
<b>Total Operating (Loss)</b>	<b>( 23,015,742)</b>	<b>( 20,847,423)</b>
Total Nonoperating Revenue/(Expenses) and Other Changes	27,225,904	22,412,001
<b>Net Increase (Decrease) in Net Assets</b>	<b>4,210,162</b>	<b>1,564,578</b>
<b>Net Assets:</b>		
Beginning of year	22,675,445	21,110,867
End of year	<u>\$ 26,885,607</u>	<u>\$ 22,675,445</u>

## Statement of Cash Flows

The final statement presented by Northwest Arkansas Community College is the Statement of Cash Flows. The Statement of Cash Flows is prepared using the direct method and presents detailed information about the cash activity of the Institution during the year. The statement is divided into five parts. The first section deals with operating cash flows and shows the net cash used by the operating activities of the College. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, non-investing, and noncapital financing purposes. The third section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section deals with cash flows from investing activities. The fifth section reconciles the net cash used in the operating income or loss reflected on the Statement of Revenues, Expenses and Changes in Net Assets. Cash and cash equivalents at the end of the year are \$7,998,349. An additional amount of \$179,634 is held by bond trustees.

A summary of the cash flows for fiscal year 2008 and 2007 is as follows:

<b>Cash provided (used) by:</b>	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Operating Activities	( \$ 21,334,470)	( \$ 18,802,293)
Noncapital Financing Activities	23,574,043	20,236,737
Capital & Related Financing Activities	530,856	( 1,298,896)
Investing Activities	56,987	43,964
	<hr/>	<hr/>
Net Change in Cash	2,827,416	179,512
Cash – Beginning of Year	5,170,933	4,991,421
	<hr/>	<hr/>
Cash – End of Year	<u>\$ 7,998,349</u>	<u>\$ 5,170,933</u>

## Enrollment

As result of rapid economic development of the NWA region; student enrollment over the past years has steadily increased at Northwest Arkansas Community College as shown in the following enrollment statistics.

### Headcount Enrollment

Year	Fall Headcount	Fall to Fall % Change	Spring Headcount	Spr to Spr % Change	Summer I Headcount	Summer II Headcount	Total Summer	Total Summer % Change
1997-98	3,240	12.9%	3,425	20.1%	1,088	644	1,732	80.8%
1998-99	3,542	9.3%	3,507	2.4%	947	567	1,514	-12.6%
1999-00	3,923	10.8%	3,725	6.2%	932	679	1,611	6.4%
2000-01	4,058	3.4%	3,809	2.3%	1,066	552	1,618	0.4%
2001-02	4,292	5.8%	4,073	6.9%	1,117	569	1,686	4.2%
2002-03	4,731	10.2%	4,435	8.9%	1,220	654	1,874	11.2%
2003-04	4,915	3.9%	4,061	3.7%	1,209	625	1,834	-1.6%
2004-05	5,266	7.1%	5,172	12.4%	1,381	762	2,134	16.8%
2005-06	5,467	3.8%	5,330	3.1%	1,550	753	2,303	7.5%
2006-07	5,732	4.8%	5,756	8.0%	1,753	842	2,595	12.7%
2007-08	6,470	12.9%	6,594	14.6%	2,101	1,072	3,173	22.3%

The Institution's non-duplicated student headcount increased by 13.0% from 8,695 students in 2007 to 9,839 students in 2008. Management is currently anticipating a seven percent annual increase in enrollment for 2009. One factor contributing to this growth in students is a significant increase in the number of high school graduates attending NWACC immediately following high school graduation.

## ***Factors Impacting Future Periods***

The continued growth of Northwest Arkansas Community College is closely related to the rapid growth of the student population in the local public school systems. Other factors contributing to the College's growth include the rapid economic development of the area, low unemployment, and the demand for educated employees in the local workforce. While the nation's mortgage crisis with some lending institutions has had an effect on the region's financial institutions and commercial and residential building, the long future economic forecast remains strong.

The College and the NWACC Foundation are nearing completion of the \$16m Capital Campaign launched two years ago with approximately \$1.33m remaining. Campaign funds will be used to support the construction of the Global Business Development Center, student scholarships, and the nursing Program. There is every reason to believe the potential exists for continued growth and expansion of the College in the foreseeable future. In September of 2008, the College began construction of its new Global Business Development Center, a 40,000 sq. ft. facility at the Bentonville Campus that will add new instructional classrooms and labs. The College will continue working toward maximum utilization of all existing instructional delivery locations and maximum efficiency with its scheduling of classes. In addition, the College will continue expanding its distance learning capabilities to allow more students to utilize these learning opportunities to meet the growing demands and needs of students.

During the past year, the College updated its Master Plan to reflect the current and future projected enrollments for the region. The Master Plan includes additional facilities at the Bentonville Campus and possible expansion in Washington County with a new facility to meet the rapidly growing number of Washington County residents enrolling in Northwest Arkansas Community College courses. The College will continue to expand its distance learning program to provide students with other learning opportunities along with entering into "partnerships" with four-year institutions to ensure successful transfer of classes.

The President has also updated the College's organizational model and developed plans for adding new employees at all levels of the organization to better serve the increasing number of students. In 2009, the College will assume ownership of the NARTI oncology complex directly across the street and will make plans to utilize the building by expanding programs vital to the community such as the Nursing and Allied Health programs.

State and local funding directly impacts Northwest Arkansas Community College's growth. Funding from the State of Arkansas remains problematic due to fact that the Institution remains under-funded at 65% of formula. The need for additional state funding will become critical as enrollment continues to grow and the College expands its facilities. Revenues from the local property tax remain stable although the decline in the housing market, challenges facing financial institutions, increased foreclosures and delinquent real estate tax payments have slowed the overall rate of growth.

## ***Economic Outlook***

As the College begins the next fiscal year, management is not aware of any currently known facts, decisions, or conditions that are expected to have a significant effect on the financial position or results of operations during this fiscal year beyond those unknown variables having a global impact on virtually all types of business operations.

In the coming year, college administration will continue its efforts to increase and diversify funding resources by developing and implementing plans to secure outside funding from grants, partnerships and alliances, and fund-raising activities.

Northwest Arkansas Community College's overall financial position is strong. We are optimistic that the current fiscal year will be as successful as the past fiscal year. Management will need to maintain a close watch over resources and expenditures in order to maintain the ability to manage unknown internal and external issues and needs as they arise.

Dr. Rodney Showalter, Ph. D  
Vice President for Finance and Administration

NORTHWEST ARKANSAS COMMUNITY COLLEGE  
COMPARATIVE STATEMENT OF NET ASSETS  
JUNE 30, 2008

Exhibit A

	JUNE 30,	
	2008	2007
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 5,162,064	\$ 3,173,342
Accounts receivable (less allowances of \$596,648 and \$601,474 )	1,007,148	564,601
Property taxes receivable, net	3,803,757	3,776,131
Inventories	22,290	27,460
Deposits with trustees	179,634	163,307
Prepaid expenses	58,247	38,875
Other assets	3,996	3,996
Total Current Assets	10,237,136	7,747,712
Noncurrent Assets		
Restricted cash and cash equivalents	2,836,285	1,997,591
Capital assets (net of accumulated depreciation of \$10,025,780 and \$8,243,664 )	39,679,949	39,002,311
Total Noncurrent Assets	42,516,234	40,999,902
TOTAL ASSETS	52,753,370	48,747,614
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable and accrued liabilities	2,544,014	1,997,798
Bonds and notes payable - current portion	800,570	815,103
Compensated absences - current portion	61,390	63,875
Total Current Liabilities	3,405,974	2,876,776
Noncurrent Liabilities		
Bonds and notes payable	21,181,192	21,981,762
Compensated absences payable	1,280,597	1,213,631
Total Noncurrent Liabilities	22,461,789	23,195,393
TOTAL LIABILITIES	25,867,763	26,072,169
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	17,974,949	16,715,608
Restricted for		
Expendable		
Scholarships and fellowships	1,762	13,411
Instructional departments uses	129,438	90,963
Capital projects	258,023	
Debt service	5,661,347	4,754,845
Unrestricted	2,860,088	1,100,618
TOTAL NET ASSETS	\$ 26,885,607	\$ 22,675,445

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

NORTHWEST ARKANSAS COMMUNITY COLLEGE FOUNDATION, INC.  
STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2008 AND 2007

Exhibit A-1

	JUNE 30,	
	2008	2007
<b>ASSETS</b>		
Cash and cash equivalents	\$ 7,436,531	\$ 4,592,165
Assets held in reserve	302,896	250,363
Pledges receivable	2,035,503	4,105,338
Deposits	100,000	100,000
Interest receivable	15,087	
Loans receivable	600	250
Investments	1,272,632	1,388,415
Prepaid expenses	86,535	88,197
Property and equipment, net	8,865,904	8,904,465
Land held for sale	212,500	
Bond issuance costs	140,080	148,280
	<u>\$ 20,468,268</u>	<u>\$ 19,577,473</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and other liabilities	\$ 43,292	\$ 6,577
Accrued Interest	25,126	24,334
Bonds payable	8,050,000	8,150,000
	<u>8,118,418</u>	<u>8,180,911</u>
<b>NET ASSETS</b>		
Unrestricted	2,463,291	1,911,432
Temporarily restricted	9,079,945	8,703,573
Permanently restricted	806,614	781,557
	<u>12,349,850</u>	<u>11,396,562</u>
Total Net Assets	<u>\$ 12,349,850</u>	<u>\$ 11,396,562</u>
Total Liabilities and Net Assets	<u>\$ 20,468,268</u>	<u>\$ 19,577,473</u>

NORTHWEST ARKANSAS COMMUNITY COLLEGE  
 COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 FOR THE YEAR ENDED JUNE 30, 2008

Exhibit B

	Year Ended June 30	
	2008	2007
<b>OPERATING REVENUES</b>		
Student tuition and fees (net of scholarship allowance of \$2,527,535 and \$2,034,805)	\$ 10,847,498	\$ 9,834,663
Other operating revenues	471,878	654,748
	<u>11,319,376</u>	<u>10,489,411</u>
<b>OPERATING EXPENSES</b>		
Personal services	24,191,874	21,169,760
Scholarships and fellowships	2,249,769	1,901,547
Supplies and services	6,072,915	7,004,958
Depreciation expense	1,820,560	1,260,569
	<u>34,335,118</u>	<u>31,336,834</u>
	<u>(23,015,742)</u>	<u>(20,847,423)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	10,751,932	8,885,893
Federal grants	5,773,683	4,569,342
State grants	1,987,117	2,385,358
Property taxes	7,236,620	6,091,535
Nongovernmental grants and contracts	315,684	246,099
Gifts	188,594	1,405,592
Investment income	73,173	219,579
Interest on capital asset - related debt	(981,121)	(715,409)
Other nonoperating revenues	7,431	
	<u>25,353,113</u>	<u>23,087,989</u>
	<u>2,337,371</u>	<u>2,240,566</u>
<b>OTHER REVENUES, EXPENSES, GAINS OR (LOSSES)</b>		
Capital appropriations	1,114,340	
Bond proceeds from Act 1282 of 2005	1,450,551	
Contractual payment to component unit	(662,638)	(656,947)
(Loss) on disposal of capital assets	(29,462)	(19,041)
	<u>4,210,162</u>	<u>1,564,578</u>
	<u>22,675,445</u>	<u>21,110,867</u>
	<u>\$ 26,885,607</u>	<u>\$ 22,675,445</u>

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



NORTHWEST ARKANSAS COMMUNITY COLLEGE FOUNDATION, INC.  
STATEMENT OF ACTIVITIES  
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

Exhibit B-1

	2008			2007 Total (Summarized)
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>REVENUES AND SUPPORT</b>				
Special events				
Special event revenue	\$ 88,010			\$ 137,194
Less cost of direct benefit to donors	20,818			55,968
Total special events	67,192			81,226
Contributions	23,583	\$ 1,678,233	\$ 25,057	1,726,873
Investment income	114,434			491,640
Parking fees	663,082			581,474
Miscellaneous income	6,078			19,879
Net assets released from restrictions:				
Satisfaction of donor restrictions	1,301,861	(1,301,861)		
Total support and revenues	<u>2,176,230</u>	<u>376,372</u>	<u>25,057</u>	<u>2,577,659</u>
				<u>10,113,518</u>
<b>EXPENSES</b>				
Program	512,501			1,606,671
Management and general	1,035,091			903,232
Fundraising	76,779			85,163
Total expenses	<u>1,624,371</u>			<u>2,595,066</u>
CHANGE IN NET ASSETS	551,859	376,372	25,057	7,518,452
NET ASSETS, BEGINNING OF YEAR	<u>1,911,432</u>	<u>8,703,573</u>	<u>781,557</u>	<u>11,396,562</u>
NET ASSETS, END OF YEAR	<u>\$ 2,463,291</u>	<u>\$ 9,079,945</u>	<u>\$ 806,614</u>	<u>\$ 11,396,562</u>

NORTHWEST ARKANSAS COMMUNITY COLLEGE  
 COMPARATIVE STATEMENT OF CASH FLOWS - DIRECT METHOD  
 FOR THE YEAR ENDED JUNE 30, 2008

Exhibit C

	Year Ended June 30,	
	2008	2007
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Student tuition and fees	\$ 10,678,323	\$ 9,854,990
Other receipts	455,433	645,450
Payments to employees	(18,709,190)	(16,426,398)
Payments for employee benefits	(5,246,545)	(4,574,679)
Payments to suppliers	(6,262,722)	(6,400,109)
Scholarships and fellowships	(2,249,769)	(1,901,547)
Net cash provided (used) by operating activities	(21,334,470)	(18,802,293)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	10,751,932	8,885,893
Grants and contracts	7,818,480	6,875,896
Private gifts and grants	190,203	152,569
Property taxes	4,805,997	4,322,379
Other	7,431	
Net cash provided (used) by noncapital financing activities	23,574,043	20,236,737
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from acquisition of educational programs		38,905
Capital appropriations	1,114,340	
Bond proceeds from Act 1282 of 2005	1,450,551	
Capital gift and grants		1,250,000
Property taxes allocated for debt retirement	2,402,998	2,160,046
Deposits with trustees	(1,594,377)	(1,561,201)
Purchases of capital assets	(1,954,377)	(2,299,399)
Contractual payment to component unit	(662,638)	(656,947)
Principal paid on capital debt	(205,103)	(200,084)
Interest paid on capital debt	(20,538)	(30,216)
Net cash provided (used) by capital and related financing activities	530,856	(1,298,896)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on investments	56,987	43,964
Net increase in cash and cash equivalents	2,827,416	179,512
Cash and cash equivalents - beginning of year	5,170,933	4,991,421
Cash and cash equivalents - end of year	\$ 7,998,349	\$ 5,170,933

NORTHWEST ARKANSAS COMMUNITY COLLEGE  
 COMPARATIVE STATEMENT OF CASH FLOWS - DIRECT METHOD  
 FOR THE YEAR ENDED JUNE 30, 2008

Exhibit C

Reconciliation of net operating (loss)  
 to net cash provided (used) by operating activities:

Operating (loss)	\$ (23,015,742)	\$ (20,847,423)
Adjustments to reconcile net (loss) to net cash (used) by operating activities:		
Depreciation expense	1,820,560	1,260,569
Change in assets and liabilities:		
Receivables, net	(185,824)	30,311
Inventories	5,170	(576)
Other assets	(19,372)	193,055
Accounts payable	(3,743)	521,810
Compensated absences	64,481	39,961
	<u>\$ (21,334,470)</u>	<u>\$ (18,802,293)</u>
Net cash (used) by operating activities	<u>\$ (21,334,470)</u>	<u>\$ (18,802,293)</u>

NONCASH TRANSACTIONS

Donated assets	\$ 57,063	\$ 54,975
Capital assets purchased by trustees		7,421,764
Principal paid on capital debt by trustees	610,000	595,000
Interest paid on capital debt by trustees	968,050	985,900
Interest earned on deposits by trustees	16,185	

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

NORTHWEST ARKANSAS COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

NOTE 1: Summary of Significant Accounting Policies

Reporting Entity

Northwest Arkansas Community College (the Institution) is a comprehensive, public institution of higher education that serves the local, state, national, and international communities and provides varied and abundant learning opportunities to advance fundamental knowledge. The Institution is an agency of the State of Arkansas and its governing body is the Board of Trustees comprised of nine members.

The Institution's financial statements reflect all funds and accounts directly under the control of the Institution. Northwest Arkansas Community College began fiscal operations on January 30, 1990, and began offering classes in the 1990-91 school year.

Financial Statement Presentation

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

Component Units

In May 2002, GASB issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units* which amends GASB Statement No. 14 to provide additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with a primary government. Under the statement, 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 the Northwest Arkansas Community College: the Northwest Arkansas Community College Foundation, Inc.

Northwest Arkansas Community College Foundation, Inc., (the Foundation) is a legally separate, tax-exempt component unit of the Institution. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the Institution in support of its programs. The Board of the Foundation is self-perpetuating and consists of graduates and friends of the Institution. Although the Institution does not control the timing or the amount of receipts from the Foundation, the majority of the resources, or income thereon that the Foundation holds and invests, are restricted to the activities of the Institution by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the Institution, the Foundation is considered a component unit of the Institution and is discretely present in the Institution's financial statements.

During the year ended June 30, 2008, the Foundation distributed \$507,666 to the Institution for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the administration office at One College Drive, Bentonville, AR 72712.

Basis of Accounting

For financial reporting purposes, the Institution is considered a special-purpose government engaged only in business-type activities. Accordingly, the Institution'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.

NORTHWEST ARKANSAS COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

NOTE 1: Summary of Significant Accounting Policies (Continued)

Basis of Accounting (Continued)

All Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, are applied, except for those that conflict with or contradict the GASB.

Capital Assets and Depreciation

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

The Institution 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 those borrowings from the date of borrowing until the specified qualifying assets acquired with those borrowings are ready for their intended use.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 30 years for buildings and building improvements, 15 years for infrastructure and land improvements, 3 to 8 years for office and classroom furniture, fixtures and equipment, 5 years for motor vehicles, 15 years for archives and collections and 10 years for library holdings.

Operating and Nonoperating Revenues

Operating Revenues – Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, and (2) sales and services of educational departments.

Nonoperating Revenues – Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, federal grants and other revenue sources that are defined as non-operating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, such as state appropriations and investment income.

Cash Equivalents

For purposes of the statement of cash flows, the Institution 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 services 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 Institution's grant and contracts. Accounts receivable are recorded net of the estimated allowance for doubtful accounts in the amount of and \$596,648 at June 30, 2008 and \$601,474 at June 30, 2007.

NORTHWEST ARKANSAS COMMUNITY COLLEGE  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2008

NOTE 1: Summary of Significant Accounting Policies (Continued)

Accounts Receivable (Continued)

A summary of accounts receivable balances at June 30, 2008, is as follows:

	Gross	Allowance	Net
Student accounts receivable	\$ 854,002	\$ 596,648	\$ 257,354
Accounts receivable - other governments	552,288		552,288
Other accounts receivable	197,506		197,506
Totals	\$ 1,603,796	\$ 596,648	\$ 1,007,148

Inventories

Inventories of office supplies, which are immaterial, are valued at cost.

Noncurrent Cash and Cash Equivalents

Cash that is externally restricted to make debt service payments, maintain sinking or reserve funds, to purchase or construct capital or other nonrecurring assets, or for other restricted programs is classified as a noncurrent asset in the statement of net assets.

Accounts Payable and Accrued Liabilities

A summary of accounts payable and accrued liabilities at June 30, 2008, is as follows:

Trade payables	\$ 410,895
Construction contracts payable	613,867
Accrued payroll	563,211
Payroll related liabilities	628,182
Deferred revenues	203,870
Interest payable	123,989
Total	\$ 2,544,014

Restricted/Unrestricted Resources

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

Deferred Revenues

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

NORTHWEST ARKANSAS COMMUNITY COLLEGE  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2008

NOTE 1: Summary of Significant Accounting Policies (Continued)

Compensated Absences Payable

Compensated absences payable represents the Institution's liability (salaries plus applicable salary related costs) for unused annual leave as of June 30, 2008. Unused vacation and sick leave for eligible employees is included in the compensated absences payable calculation as follows:

Accumulated vacation days are required to be used annually, with a maximum carryover of 240 hours. In the event of termination or retirement, all employees are paid for accumulated unused vacation hours up to a maximum of 240 hours.

Noncurrent Liabilities

Noncurrent liabilities include (1) principal amounts of bonds payable and notes payable with contractual maturities greater than one year and (2) estimated amounts for accrued compensated absences that will not be paid within the next fiscal year. An estimate is made to allocate this liability between the current and noncurrent components.

Property Taxes

Property taxes are levied in November based on property assessment made between January 1 and May 31 and are an enforceable lien on January 1 for real property and June 1 for personal property. The tax records are opened on the first business day of March of the year following the levy date and are considered delinquent after October 10 of the same calendar year.

Use of Estimates in the Preparation of Financial Statements:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2: Public Fund Deposits

Cash deposits are carried at cost. The Institution's cash deposits at year-end are shown below:

	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 200,000	\$ 200,000
Collateralized:		
Collateral held by the pledging bank or pledging bank's trust department in the Institution's name	6,931,467	8,375,467
Total Deposits	\$ 7,131,467	\$ 8,575,467

The above deposits do not include cash on deposit in the state treasury or cash on hand in the amounts of \$861,832 and \$5,050 at June 30, 2008, respectively.

NORTHWEST ARKANSAS COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

NOTE 2: Public Fund Deposits (Continued)

Deposits with Trustee

As of June 30, 2008, the Institution had the following investments reported as deposits with trustees:

<u>Investment Type</u>	<u>Fair Value</u>
External Investment Pool	<u>\$ 179,634</u>

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Governments are required to disclose the credit quality ratings of debt securities and external investment pools.

The external investment pool was rated Aaa by Moody's Investors Service and AAAM by Standard & Poor's.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Governments with investments in external investment pools are required to disclose the interest rate risk of such investments, however, the portfolio of the external investment pool, of which the Institution is a participant, is wholly comprised of short-term U.S. Treasury obligations. Consequently, any potential interest rate risk associated with this external investment pool would be minimal. The Institution does not have a policy designed to manage interest rate risk.

NOTE 3: Income Taxes

The Institution 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.



NORTHWEST ARKANSAS COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

NOTE 4: Capital Assets

Following are the changes in capital assets for the year ended June 30, 2008:

	Balance July 1, 2007	Additions	Retirements	Balance June 30, 2008
Nondepreciable capital assets:				
Land	\$ 2,041,390			\$ 2,041,390
Construction in progress	75,282	\$ 2,236,032		2,311,314
Total nondepreciable capital assets	<u>\$ 2,116,672</u>	<u>\$ 2,236,032</u>	<u>\$ 0</u>	<u>\$ 4,352,704</u>
Other capital assets:				
Land improvements	\$ 1,317,191	\$ 13,055		\$ 1,330,246
Improvements and infrastructure	372,291			372,291
Buildings	39,027,610		\$ (11,228)	39,016,382
Equipment	3,010,903	316,833	(98,134)	3,229,602
Archives and collections	30,595			30,595
Library holdings	1,370,713	34,900	(31,704)	1,373,909
Total other capital assets	<u>45,129,303</u>	<u>364,788</u>	<u>(141,066)</u>	<u>45,353,025</u>
Less accumulated depreciation for:				
Land improvements	(531,993)	(88,115)		(620,108)
Improvements and infrastructure	(145,707)	(24,820)		(170,527)
Buildings	(4,432,347)	(1,300,546)		(5,732,893)
Equipment	(2,077,368)	(331,394)	38,444	(2,370,318)
Archives and collections	(14,279)	(2,039)		(16,318)
Library holdings	(1,041,970)	(73,646)		(1,115,616)
Total accumulated depreciation	<u>(8,243,664)</u>	<u>(1,820,560)</u>	<u>38,444</u>	<u>(10,025,780)</u>
Other capital assets, net	<u>\$ 36,885,639</u>	<u>\$ (1,455,772)</u>	<u>\$ (102,622)</u>	<u>\$ 35,327,245</u>
Capital Asset Summary:				
Nondepreciable capital assets	\$ 2,116,672	\$ 2,236,032		\$ 4,352,704
Other capital assets, at cost	45,129,303	364,788	\$ (141,066)	45,353,025
Total cost of capital assets	<u>47,245,975</u>	<u>2,600,820</u>	<u>(141,066)</u>	<u>49,705,729</u>
Less accumulated depreciation	<u>(8,243,664)</u>	<u>(1,820,560)</u>	<u>38,444</u>	<u>(10,025,780)</u>
Capital Assets, net	<u>\$ 39,002,311</u>	<u>\$ 780,260</u>	<u>\$ (102,622)</u>	<u>\$ 39,679,949</u>

NORTHWEST ARKANSAS COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

NOTE 5: Long-Term Liabilities

A summary of long-term debt is as follows:

<u>Date of Issue</u>	<u>Date of Final Maturity</u>	<u>Rate of Interest</u>	<u>Amount Authorized and Issued</u>	<u>Debt Outstanding June 30, 2008</u>	<u>Maturities To June 30, 2008</u>
11-2003	10-2008	4.1%	\$ 191,683	\$ 14,313	\$ 177,370
12-2004	07-2008	4.44%	461,592	106,633	354,959
05-2005	05-2030	3 to 5%	23,485,000	21,705,000	1,780,000
06-2006	06-2011	4.5%	<u>248,621</u>	<u>155,816</u>	<u>92,805</u>
Totals			<u>\$ 24,386,896</u>	<u>\$ 21,981,762</u>	<u>\$ 2,405,134</u>

The changes in long-term liabilities are as follows:

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2008</u>	<u>Amounts Due Within One Year</u>
Bonds	\$ 22,315,000		\$ (610,000)	\$ 21,705,000	\$ 630,000
Notes payable	481,865		(205,103)	276,762	170,570
Compensated absences	<u>1,277,506</u>	<u>\$ 777,093</u>	<u>(712,612)</u>	<u>1,341,987</u>	<u>61,390</u>
Totals	<u>\$ 24,074,371</u>	<u>\$ 777,093</u>	<u>\$ (1,527,715)</u>	<u>\$ 23,323,749</u>	<u>\$ 861,960</u>

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

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 800,570	\$ 961,029	\$ 1,761,599
2010	701,904	934,567	1,636,471
2011	724,288	911,057	1,635,345
2012	700,000	882,075	1,582,075
2013	715,000	858,450	1,573,450
2014-2018	4,035,000	3,862,819	7,897,819
2019-2023	5,010,000	2,896,631	7,906,631
2024-2028	6,330,000	1,572,781	7,902,781
2029-2030	<u>2,965,000</u>	<u>201,600</u>	<u>3,166,600</u>
Totals	<u>\$ 21,981,762</u>	<u>\$ 13,081,009</u>	<u>\$ 35,062,771</u>

NORTHWEST ARKANSAS COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

NOTE 6: Commitments

The Institution was contractually obligated for the following at June 30, 2008:

A. Construction Contracts

<u>Project Name</u>	<u>Estimated Completion Date</u>	<u>Contract Balance</u>
Burns Hall	12/31/2008	<u>\$ 1,697,666</u>

The Institution began the planning for the renovation of Burns Hall to utilize the space vacated by departments moving to the new Student Center building by adding classrooms and offices and expansion of the Library and Learning Lab. Replacement of the damaged roof on Burns Hall with a metal roof is also included in the renovation project. The Burns Hall remodel project will be funded by Higher Education Bonds proceeds. The renovation will be completed in phases starting in July 2007 with completion scheduled by December 2008.

B. Operating Leases

The following represents future minimum rental payments (aggregate at June 30, 2008.) The leases are comprised of six facility rentals, various office and computer lab equipment leases.

Future minimum rental payments (aggregate) at June 30, 2008: \$928,728

Future minimum rental payments for succeeding fiscal years:

<u>Year Ended June 30,</u>	<u>Amount</u>
2009	\$ 614,975
2010	234,788
2011	73,993
2012	4,972

Rental payments for the operating leases described above were approximately \$660,994 for the year ended June 30, 2008.

NOTE 7: Retirement Plans

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

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

**Funding Policy.** TIAA/CREF has contributory and non-contributory plans. Contributory members contribute a minimum of 4% of earnings to the plan. The Institution contributes 10% of earnings for all applicable employees. The participants' and the Institution's contributions for the year ended June 30, 2008, were \$646,293 and \$1,049,745, respectively.

NORTHWEST ARKANSAS COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

NOTE 7: Retirement Plans (Continued)

Arkansas Teacher Retirement System

Plan Description. The Institution contributes to the Arkansas Teacher Retirement System (ATRS), a cost-sharing multiple-employer defined benefit pension plan for employees who do not elect a qualified alternative retirement plan. ATRS, administered by a Board of Trustees, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Teacher Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for ATRS. That report may be obtained by writing to Arkansas Teacher Retirement System, 1400 West Third Street, Little Rock, Arkansas 72201 or by calling 1-800-666-2877.

Funding Policy. ATRS has contributory and non-contributory plans. Contributory members are required by law to contribute 6% of their salaries. Each participating employer is required by law to contribute at a rate determined by the Board of Trustees, based on the annual actuarial valuation. The current employer rate is 14% of covered salaries, the maximum allowed by State law. The Institution's contributions to ATRS for the years ended June 30, 2008, 2007 and 2006 were \$521,656, \$501,382 and \$482,664, respectively, equal to the required contributions for each year.

Arkansas Public Employees Retirement System

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

Funding Policy. APERS has contributory and non-contributory plans. Contributory members are required by law to contribute 5% of their salaries. Each participating employer is required by law to contribute at a rate determined by the Board of Trustees, based on the annual actuarial valuation. The current employer rate is 12.54% of annual covered payroll. The Institution's contributions to APERS for the years ended June 30, 2008, 2007 and 2006 were \$118,159, \$109,051 and \$104,296, respectively, equal to the required contributions for each year.

NOTE 8: Natural Classifications by Function

The Institution's operating expenses by function were as follows:

	Personal Services	Scholarships and Fellowships	Supplies and Services	Depreciation	Total
Instruction	\$ 13,464,932		\$ 1,370,777		\$ 14,835,709
Academic support	2,673,564		1,069,068		3,742,632
Student services	2,690,292		498,166		3,188,458
Institutional support	3,930,870		1,508,137		5,439,007
Scholarships and fellowships		\$ 2,249,769			2,249,769
Operations and maintenance of plant	1,432,216		1,626,767		3,058,983
Depreciation				\$ 1,820,560	1,820,560
<b>Totals</b>	<b>\$ 24,191,874</b>	<b>\$ 2,249,769</b>	<b>\$ 6,072,915</b>	<b>\$ 1,820,560</b>	<b>\$ 34,335,118</b>

NORTHWEST ARKANSAS COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

NOTE 9: Debt Refunding

On May 15, 2005, the Institution issued capital improvement and refunding bonds of \$23,485,000 with interest rates from 3 to 5 percent. A portion of the bond proceeds was delivered to Metropolitan National Bank to provide for all future debt service payments on bonds dated November 1, 2000 and October 1, 2002, with interest rates of 4.8 to 5.9 and 1.5 to 3.6 percent, respectively. As a result, the 2000 and 2002 series bonds are considered defeased, and the liability for these bonds has been removed from long-term debt. The final call dates of the 2000 and 2002 series bonds are November 15, 2010, and November 15, 2007, respectively. As of June 30, 2008, the escrow fund established to provide the retirement of the bonds being refunded had a balance of \$5,493,683. The remaining principal amount of the outstanding bonds considered defeased was \$5,255,000.

NOTE 10: New Accounting Pronouncements

In June 2005, GASB issued Statement No. 47, *Accounting for Termination Benefits*, which became effective with the fiscal year ended June 30, 2006. The Statement established guidance for accounting and reporting of the costs and liabilities associated with termination benefits, such as those associated with early retirement incentives. The Institution has not extended a large-scale or age-related early retirement offering during the fiscal year ended June 30, 2008.

In September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, which became effective with the fiscal year ended June 30, 2008. The Statement establishes criteria to determine whether expected cash flows from collecting specific receivables or future revenues for immediate cash payments should be reported as a revenue or liability. The Institution did not record any receivables or revenues that were in this category during 2007 or 2008.

NOTE 11: Related Party Transactions

In May 2005, the Board of Trustees of the Institution authorized the imposition and use of infrastructure fees to aid the Northwest Arkansas Community College Foundation, Inc. (the Foundation), in the financing of a college parking facility. The Foundation executed a \$8,250,000 note payable with the Public Facilities Board, which then issued bonds to provide financing to build the facility. In 2008, the College collected and disbursed \$662,638 in infrastructure fees to the Foundation for bond payments.

During the 2007 fiscal year, the Foundation entered into an agreement to purchase the NARTI Oncology facility to house the expansion of the nursing program when the building is vacated. Foundation capital campaign funds will be used to facilitate the purchase and remodeling of the NARTI facility. As of June 30, 2008, the purchase plan is on schedule.

In September of 2008, construction began on the new Global Business Development Center, a 40,000 sq. ft. facility at the Bentonville Campus that will add new instructional classrooms and labs. The Foundation is providing funding for the construction.

NORTHWEST ARKANSAS COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

NOTE 12: Risk Management

The Institution maintains insurance coverage for a wide variety of risks. The coverages are outlined in the following table:

Items Insured	Coverage	Contributions	Administrator
General Liability Excess Liability	\$1m, \$3m aggregate \$3m aggregate \$100,000 deductible each incident	N/A N/A	United Educators Insurance
Directors/Officers/Employees Professional Liability	\$1m per policy period \$25,000 deductible	N/A	RSUI Indemnity Company
Automobile Policy	\$500,000 limit \$500/\$1,000 deductible	N/A	Arkansas Multi-Agency Insurance Trust Fund
Buildings and Contents	100 % Replacement value \$10,000 deductible	N/A	Arkansas Multi-Agency Insurance Trust Fund
Inland Marine	Per artwork schedule	N/A	as above
Blanket Fidelity Bond	Actual loss up to \$250,000 \$1,000 deductible	N/A	Arkansas Fidelity Bond Trust Fund
Health Professions Professional Liability	\$1m, \$5m aggregate	N/A	Health Care Providers Insurance Assn- part of C.N.A.
Upward Bound Accident Policy	Comprehensive Accident Policy	N/A	StarNet Insurance Company
Workers Compensation	Reimbursement of medical expenses and loss of salary due to job-related injury or illness.	The administrator is reimbursed quarterly	Arkansas Public Employees Claim System
Life Insurance Program	N/A	N/A first \$20,000	Lincoln Life Insurance
Health Care Program	N/A	Employee contributes a portion	Arkansas Blue Cross/Blue Shield: Delta Dental of Arkansas

NORTHWEST ARKANSAS COMMUNITY COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

NOTE 12: Risk Management (Continued)

The Institution participates in the Arkansas Fidelity Bond Trust Fund administered by the Governmental Bonding Board. Coverage is provided for actual losses incurred as a result of fraudulent or dishonest acts by state employees or officials. There is a limit of \$250,000 and a \$1,000 deductible for each loss. The Department of Finance and Administration withholds the amounts for the premiums from the Institution's state treasury funds.

The Institution participates in the Arkansas Multi-Agency Property Insurance Trust Fund Program administered by the Risk Management Division of the Arkansas Insurance Department. The program's general objectives are to formulate, develop and administer on behalf of members, a program of insurance to obtain lower costs for property coverage and to develop a comprehensive loss control program. The fund uses a reinsurance policy to reduce exposure to large losses on insured events. The Institution pays an annual premium for this coverage.

The Institution participates in the Arkansas Multi-Agency Vehicle Insurance Trust Fund Program administered by the Risk Management Division of the Arkansas Insurance Department. The general objective of the program is to allow members a means of insuring vehicles. The fund uses a reinsurance policy to reduce exposure to large losses on insured events. The Institution pays an annual premium for this coverage.

The Institution maintains workers compensation coverage through the State of Arkansas program. Arkansas Code Annotated § 11-9-305. Annual premiums are based on a formula calculated by the Arkansas Department of Finance and Administration.

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

NOTE 13: Other Postemployment Benefits (OPEB) Liability under GASB 45

GASB 45 became effective for fiscal year 2008. The Institution offers employees who retire directly from active employment and meet the "Rule of 70" (age plus service is 70 or greater, with at least 10 years of service), to continue insurance coverage. The retiree pays the entire premium, at the same rate as active employees.

Under GASB 45, this creates an "implicit subsidy", which is the difference between the higher rate that a retiree would otherwise pay and the lower rate of the active group. While the College is "pay as you go", collecting and submitting the retiree premiums each month along with active employee premiums, GASB 45 requires an actuarial calculation. For the fiscal year ended June 30, 2008, the Institution had eight retiree participants. The actuarial calculation was made and determined to result in an OPEB obligation that was immaterial to the financial statements taken as a whole. Therefore, no additional disclosures are presented.

NORTHWEST ARKANSAS COMMUNITY COLLEGE  
SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS  
FOR THE YEAR ENDED JUNE 30, 2008  
(Unaudited)

Schedule 1

	Year Ended June 30,				
	2008	2007	2006	2005	2004
Total Assets	\$ 52,753,370	\$ 48,747,614	\$ 49,223,041	\$ 48,114,586	\$ 33,103,395
Total Liabilities	25,867,763	26,072,169	28,112,174	26,582,276	11,095,270
Total Net Assets	26,885,607	22,675,445	21,110,867	21,532,310	22,008,125
Total Operating Revenues	11,319,376	10,489,411	9,861,394	7,906,878	7,228,963
Total Operating Expenses	34,335,118	31,336,834	28,634,696	23,251,360	20,674,978
Total Net Nonoperating Revenues	25,353,113	23,087,989	18,172,367	15,973,479	15,774,321
Total Other Revenues, Expenses, Gains or Losses	1,872,791	(675,988)	179,492	(1,104,812)	219,694