

Northwest Arkansas Community College

Bentonville, Arkansas

**Basic Financial Statements
and Other Reports**

June 30, 2011

LEGISLATIVE JOINT AUDITING COMMITTEE



NORTHWEST ARKANSAS COMMUNITY COLLEGE
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Senate Chair
Rep. Tim Summers
House Chair
Sen. David Wyatt
Senate Vice Chair
Rep. Toni Bradford
House 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, 2011, 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. The prior year partial comparative information has been derived from the College's 2010 financial statements and, in our report dated July 19, 2011, we expressed unqualified opinions on the respective financial statements of the business-type activities and the discretely presented component unit. We did not audit the financial statements, including the prior year partial comparative information, of the 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, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The financial statements include partial prior year comparative information. Such information does not include all of the information required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the College's financial statements for the year ended June 30, 2010, from which such partial information was derived.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 29, 2012 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the 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

A handwritten signature in cursive script that reads "Roger A. Norman".

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

Little Rock, Arkansas
May 29, 2012
EDHE19811

Sen. Bill Pritchard
Senate Chair
Rep. Tim Summers
House Chair
Sen. David Wyatt
Senate Vice Chair
Rep. Toni Bradford
House 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, 2011, which collectively comprise the College's basic financial statements and have issued our report thereon dated May 29, 2012. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the 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

Management of the College is responsible for establishing and maintaining effective 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.

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 College's financial statements will not be prevented, or detected and corrected on a timely basis.

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

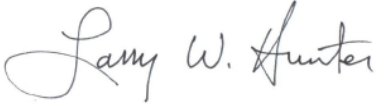
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 May 29, 2012.

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

DIVISION OF LEGISLATIVE AUDIT

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

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
May 29, 2012

Sen. Bill Pritchard
Senate Chair
Rep. Tim Summers
House Chair
Sen. David Wyatt
Senate Vice Chair
Rep. Toni Bradford
House Vice Chair

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

In March and April 2011, the College made duplicate payments to the Internal Revenue Service (IRS) totaling \$47,398. Subsequently, the College was assessed a late filing penalty of \$26,460 for not making timely tax deposits for the February and March 2011 payrolls. As a result of the above transactions, the College received a net refund of \$20,938 on June 15, 2011 from the IRS.

In addition, on July 7, 2011, the College paid a late filing penalty of \$2,375 assessed by the Arkansas Department of Finance and Administration for not making timely tax deposits for the September 2010 payrolls.

STUDENT ENROLLMENT DATA - In accordance with Ark. Code Ann. § 6-60-209, we performed tests of the student enrollment data for the year ended June 30, 2011, 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>2010</u>	<u>Fall Term</u> <u>2010</u>	<u>Spring Term</u> <u>2011</u>	<u>Summer I Term</u> <u>2011</u>
Student Headcount	1,426	9,458	9,184	2,716
Student Semester Credit Hours	5,708	78,964	75,886	12,724

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

DIVISION OF LEGISLATIVE AUDIT

Handwritten signature of Larry W. Hunter in cursive.

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
May 29, 2012

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, 2011 with comparative financial data for the fiscal year ended June 30, 2010.

The financial statements are designed to provide readers with a broad overview of finances and operations of Northwest Arkansas Community College. The College 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 College. 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, 2011 were \$71,659,692 compared to \$58,251,559 on June 30, 2010, as reported in the asset section of the Statement of Net Assets. Total assets are comprised of current assets in the amount of \$14,522,577, and noncurrent assets of \$57,137,115 for fiscal year 2011, compared to \$15,435,617 and \$42,815,942, respectively, for the 2010 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, capital assets net of related depreciation, deposits with bond trustee and deferred bond issuance costs.

The liability section reports total liabilities of Northwest Arkansas Community College at June 30, 2011 of \$36,882,145 and \$23,842,837 at June 30, 2010. Current liabilities are obligations of the College that reasonably expect to be liquidated within the next twelve months. Northwest Arkansas Community College's current liabilities in the amount \$2,556,298 at June 30, 2011, consisted of accounts payable and accrued liabilities, the current portion of bonds and notes payable, and the current portion of compensated absences compared to \$2,403,196 at June 30, 2010.

Noncurrent liabilities are long-term obligations of the College that are payable at some date beyond the following fiscal year. Noncurrent liabilities of \$34,325,847 at June 30, 2011, were comprised of the long-term portion bonds and notes payable and compensated absences payable as well as the liability for post retirement benefits compared to \$21,439,641 at June 30, 2010. During the fiscal year ended June 30, 2011, additional bonds in the amount of \$14,500,000 were issued to finance the Center for Health Professions building which is expected to be completed in 2013.

In the net asset 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 College'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. By far the largest portion of Northwest Arkansas Community College's net assets is reflected in the amount invested in capital assets.

NORTHWEST ARKANSAS COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a condensed Statement of Net Assets:

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
<u>ASSETS:</u>		
Current Assets	\$ 14,522,577	\$ 15,435,617
Noncurrent Assets	57,137,115	42,815,942
	<hr/>	<hr/>
TOTAL ASSETS	\$ 71,659,692	\$ 58,251,559
	<hr/> <hr/>	<hr/> <hr/>
<u>LIABILITIES:</u>		
Current Liabilities	\$ 2,556,298	\$ 2,403,196
Noncurrent Liabilities	34,325,847	21,439,641
	<hr/>	<hr/>
TOTAL LIABILITIES	\$ 36,882,145	\$ 23,842,837
	<hr/> <hr/>	<hr/> <hr/>
<u>NET ASSETS:</u>		
Invested in Capital Assets, Net of Related Debt	\$ 18,211,221	\$ 18,094,243
Restricted	8,120,369	8,505,457
Unrestricted	8,445,957	7,809,022
	<hr/>	<hr/>
TOTAL NET ASSETS	\$ 34,777,547	\$ 34,408,722
	<hr/> <hr/>	<hr/> <hr/>

Summary of amounts Invested in Capital Assets, Net of Related Debt as of June 30, 2011 and 2010 are as follows:

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Capital Assets not Depreciated	\$ 2,624,816	\$ 2,099,323
Other Capital Assets	51,205,728	49,984,231
	<hr/>	<hr/>
Total Capital Assets	53,830,544	52,083,554
Less: Accumulated Depreciation	(15,324,213)	(13,564,311)
	<hr/>	<hr/>
Capital Assets, Net	38,506,331	38,519,243
Less: Related Debt	(20,295,110)	(20,425,000)
	<hr/>	<hr/>
Capital Assets, Net of Related Debt	\$ 18,211,221	\$ 18,094,243
	<hr/> <hr/>	<hr/> <hr/>

The College 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 as well as the liability for post retirement benefits.

NORTHWEST ARKANSAS COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS

Statement of Revenues, Expenses, and 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 College, and the operating and nonoperating expenses paid by the College, along with any other revenues, expenses, and gains/losses received or spent by the College.

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 College. 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 Legislature does not receive commensurate goods or services for these revenues. Local property tax millage and investment income received are 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 decreased for fiscal year 2011 to \$11,136,778 compared to \$12,268,400 in the previous fiscal year.
- ◆ Tuition and fees are reported net of scholarship discount and allowance of \$10,407,364 in 2011 and \$7,267,370 in 2010.
- ◆ Total operating expenses increased to \$50,669,290 in 2011 from \$43,359,333 in 2010 due to the increase in labor and fringe benefit expenses, student scholarship expense, operational supplies and services purchased.
- ◆ State appropriation of general revenue and educational excellence funds received during the fiscal year increased to \$10,701,253 in fiscal year 2011 from \$10,507,933 in fiscal year 2010. This represents is an increase of 1.8%.
- ◆ Total local property tax millage (2.6 mills) revenue reported in the fiscal year was \$8,570,766 compared to \$9,907,169 in 2010. Two thirds of the mills of the revenue were used for operations of the College, while one third mill was restricted for debt retirement. This decrease was primarily the result of an adjustment in the prior year estimated realization rate for collections on assessed valuations and taxes to be realized.

NORTHWEST ARKANSAS COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Condensed Statement of Revenues, Expenses, and Changes in Net Assets

	June 30, 2011	June 30, 2010
Total Operating Revenues	\$ 11,738,313	\$ 12,794,527
Total Operating Expenses	50,669,290	43,359,333
Total Operating Loss	(38,930,977)	(30,564,806)
Total Nonoperating Revenue/(Expenses) and Other Changes	39,299,802	34,119,289
Increase in Net Assets	368,825	3,554,483
Net Assets:		
Beginning of year	34,408,722	30,854,239
End of year	\$ 34,777,547	\$ 34,408,722

Statement of Cash Flows – Direct Method

The final statement presented by Northwest Arkansas Community College is the Statement of Cash Flows – Direct Method. The Statement of Cash Flows is prepared using the direct method and presents detailed information about the cash activity of the College 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, noninvesting, 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 \$10,117,221. An additional amount of \$14,636,620 is held by bond trustees.

A summary of the cash flows for fiscal year 2011 and 2010 is as follows:

	June 30, 2011	June 30, 2010
Cash provided (used) by:		
Operating Activities	\$ (37,892,822)	\$ (28,931,482)
Noncapital Financing Activities	38,039,965	29,364,136
Capital and Related Financing Activities	(1,772,821)	2,349,317
Investing Activities	8,698	7,763
Net Change in Cash	(1,616,980)	2,789,734
Cash – Beginning of Year	11,734,201	8,944,467
Cash – End of Year	\$ 10,117,221	\$ 11,734,201

**NORTHWEST ARKANSAS COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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
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%
2008-09	7,216	11.5%	7,244	9.9%	2,392	1,359	3,751	18.2%
2009-10	8,006	10.9%	8,066	11.3%	2,586	1,426	4,012	7.0%
2010-11	8,365	4.5%	8,176	1.4%	2,716	1,446	4,162	3.7%

The College's non-duplicated student headcount increased 3.2% in 2011 to 12,190 students from 11,812 students in 2010. Management is currently anticipating a much slower growth rate than it has experienced in the recent past. Our expected growth rate will be closer to 1% this year, and similar growth in the next 1-3 years is anticipated. The economic outlook in the region is improving, and this will slow the trend of double digit growth.

Factors Impacting Future Periods

The continued maturation of Northwest Arkansas Community College is closely related to the growth of the student population in the local public school systems. The College continues its tradition of a quality and affordable educational experience.

The College 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 NWACC courses. The College entered into two new bond agreements in December 2010. These bonds were issued in two series and total an aggregate of \$14,500,000 and the proceeds of these bonds will be utilized to design, construct and equip a new Health Professions Building on land presently owned by the College. Estimated completion date of this building is late 2012. The College also 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 July 2011, a new leadership organizational structure was implemented that created two senior vice president level positions, one directing the academic organization and the other directing all the non-academic responsibilities. Plans are continuing for the remodeling of the former NARTI/Oncology Building that will soon become the home of the Southern region National Child Protection Training Center. We will continue to make plans to utilize the building by expanding programs vital to the communities and region.

NORTHWEST ARKANSAS COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

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 College remains under-funded relative to peer institutions. The need for additional state funding will become critical as enrollment continues to flatten and the College explores options to expand 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.

NORTHWEST ARKANSAS COMMUNITY COLLEGE
COMPARATIVE STATEMENT OF NET ASSETS
JUNE 30, 2011

Exhibit A

	June 30,	
	2011	2010
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 5,941,311	\$ 7,437,502
Accounts receivable (less allowances of \$680,151 and \$715,127)	2,249,886	1,679,742
Property taxes receivable	5,692,082	5,702,774
Inventories	20,918	21,733
Deposits with bond trustee	396,009	314,832
Prepaid expenses	222,371	279,034
Total Current Assets	14,522,577	15,435,617
Noncurrent Assets:		
Restricted cash and cash equivalents	4,175,910	4,296,699
Deposits with bond trustee	14,240,611	
Capital assets (net of accumulated depreciation of \$15,324,213 and \$13,564,311)	38,506,331	38,519,243
Deferred bond issue costs	214,263	
Total Noncurrent Assets	57,137,115	42,815,942
TOTAL ASSETS	\$ 71,659,692	\$ 58,251,559
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 1,641,265	\$ 1,595,721
Bonds and notes payable - current portion	870,000	724,288
Compensated absences - current portion	45,033	83,187
Total Current Liabilities	2,556,298	2,403,196
Noncurrent Liabilities:		
Bonds and notes payable	33,315,000	19,755,000
Compensated absences payable	855,623	1,580,549
Liability for post retirement benefits	155,224	104,092
Total Noncurrent Liabilities	34,325,847	21,439,641
TOTAL LIABILITIES	\$ 36,882,145	\$ 23,842,837
NET ASSETS		
Invested in capital assets, net of related debt	\$ 18,211,221	\$ 18,094,243
Restricted for:		
Expendable		
Instructional departments uses	386,728	121,320
Capital projects	50,322	484,352
Debt service	7,683,319	7,899,785
Unrestricted	8,445,957	7,809,022
TOTAL NET ASSETS	\$ 34,777,547	\$ 34,408,722

The accompanying notes are an integral part of the financial statement.

NORTHWEST ARKANSAS COMMUNITY COLLEGE FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2011 AND 2010

Exhibit A-1

	JUNE 30,	
	2011	2010
ASSETS		
Cash and cash equivalents	\$ 2,011,725	\$ 1,925,802
Pledges receivable, net of allowance for uncollectible pledges of \$80,000	1,076,076	1,493,671
Other receivables	1,462	2,506
Related party receivable		32,500
Investments	1,541,315	1,170,632
Prepaid expenses	973	
Assets held in reserve	473,928	559,053
Property and equipment, net	19,134,075	19,460,829
Land held for sale	212,500	212,500
Bond issuance costs, net	113,468	121,078
	\$ 24,565,522	\$ 24,978,571
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and other liabilities	\$ 10,706	\$ 85,890
Accrued interest	23,469	24,845
Deferred rental income	10,347	10,032
Note payable	2,502,785	2,879,077
Bonds payable	7,385,000	7,740,000
	9,932,307	10,739,844
Net Assets:		
Unrestricted	10,272,781	9,994,878
Temporarily restricted	3,445,395	3,434,135
Permanently restricted	915,039	809,714
	14,633,215	14,238,727
TOTAL NET ASSETS	14,633,215	14,238,727
TOTAL LIABILITIES AND NET ASSETS	\$ 24,565,522	\$ 24,978,571

NORTHWEST ARKANSAS COMMUNITY COLLEGE
 COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2011

Exhibit B

	Year Ended June 30,	
	2011	2010
OPERATING REVENUES		
Student tuition and fees (net of scholarship allowances of \$10,407,364 and \$7,267,370)	\$ 11,136,778	\$ 12,268,400
Other operating revenues	601,535	526,127
TOTAL OPERATING REVENUES	11,738,313	12,794,527
OPERATING EXPENSES		
Personal services	32,331,303	29,133,319
Scholarships and fellowships	5,275,750	4,810,395
Supplies and services	11,144,611	7,640,230
Depreciation expense	1,917,626	1,775,389
TOTAL OPERATING EXPENSES	50,669,290	43,359,333
OPERATING LOSS	(38,930,977)	(30,564,806)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	10,701,253	10,507,933
Federal grants	17,931,679	12,514,114
State grants	3,678,284	2,234,007
Property taxes	8,570,766	9,907,169
Nongovernmental grants and contracts	384,784	210,999
Investment income	8,698	7,905
Interest on capital asset related debt	(1,306,996)	(931,829)
Other nonoperating revenues (expenses)	200	130,459
NET NONOPERATING REVENUES	39,968,668	34,580,757
INCOME BEFORE REVENUES, EXPENSES, GAINS OR (LOSSES)	1,037,691	4,015,951
OTHER REVENUES, EXPENSES, GAINS OR (LOSSES)		
Capital appropriations	151,250	453,750
Bond proceeds from Act 1282 of 2005		5,090
Contractual payment to component unit	(791,220)	(875,523)
Loss on disposal of capital assets	(28,896)	(44,785)
INCREASE IN NET ASSETS	368,825	3,554,483
NET ASSETS - BEGINNING OF YEAR	34,408,722	30,854,239
NET ASSETS - END OF YEAR	\$ 34,777,547	\$ 34,408,722

The accompanying notes are an integral part of the financial statement.

NORTHWEST ARKANSAS COMMUNITY COLLEGE FOUNDATION, INC.
STATEMENT OF ACTIVITIES
YEARS ENDED JUNE 30, 2011 AND 2010

Exhibit B-1

	2011			2010 Total (Summarized)	
	Unrestricted	Temporarily Restricted	Permanently Restricted		Total
REVENUES AND SUPPORT					
Special Events:					
Special event revenue	\$ 64,964			\$ 64,964	\$ 71,613
Less cost of direct benefit to donors	21,387			21,387	20,823
TOTAL SPECIAL EVENTS	43,577			43,577	50,790
Contributions	210,801	\$ 580,367	\$ 105,325	896,493	1,605,961
Investment income, net	269,902			269,902	149,442
Parking fees	853,824			853,824	812,919
Rental income	587,636			587,636	320,537
Net assets released from restrictions:					
Satisfaction of donor restrictions	569,107	(569,107)			
TOTAL SUPPORT AND REVENUES	2,534,847	11,260	105,325	2,651,432	2,939,649
EXPENSES					
Program expenses	2,072,401			2,072,401	1,661,634
Management and general	98,058			98,058	154,559
Fundraising	86,485			86,485	69,397
TOTAL EXPENSES	2,256,944			2,256,944	1,885,590
CHANGE IN NET ASSETS	277,903	11,260	105,325	394,488	1,054,059
NET ASSETS, BEGINNING OF YEAR	9,994,878	3,434,135	809,714	14,238,727	13,184,668
NET ASSETS, END OF YEAR	\$ 10,272,781	\$ 3,445,395	\$ 915,039	\$ 14,633,215	\$ 14,238,727

NORTHWEST ARKANSAS COMMUNITY COLLEGE
COMPARATIVE STATEMENT OF CASH FLOWS - DIRECT METHOD
FOR THE YEAR ENDED JUNE 30, 2011

Exhibit C

	Year Ended June 30,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Proceeds from student tuition and fees	\$ 10,636,870	\$ 12,220,749
Other receipts	605,887	428,356
Payments to employees	(25,142,909)	(22,294,127)
Payments for employee benefits	(7,423,957)	(6,896,434)
Payments to suppliers	(11,292,963)	(7,579,631)
Payments for scholarships and fellowships	(5,275,750)	(4,810,395)
	(37,892,822)	(28,931,482)
NET CASH USED BY OPERATING ACTIVITIES		
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	10,701,253	10,507,933
Proceeds from grants and contracts	21,229,391	14,688,835
Property taxes	5,724,537	3,766,136
Nongovernmental grants and contracts	384,784	401,232
	38,039,965	29,364,136
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES		
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	151,250	453,750
Bond proceeds from Act 1282 of 2005		99,466
Property taxes allocated for debt retirement	2,856,921	4,756,040
Payments to trustees for bond principal	(740,000)	(650,000)
Payments to trustees for bond interest	(1,254,814)	(930,663)
Purchases of capital assets	(1,933,410)	(448,131)
Contractual payments to component unit	(791,220)	(875,523)
Principal payments on capital debt (note)	(54,288)	(51,904)
Interest paid on capital debt (note)	(7,260)	(3,718)
	(1,772,821)	2,349,317
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	8,698	7,763
	(1,616,980)	2,789,734
NET INCREASE (DECREASE) IN CASH		
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	11,734,201	8,944,467
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 10,117,221	\$ 11,734,201
RECONCILIATION OF NET OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating loss	\$ (38,930,977)	\$ (30,564,806)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense	1,917,626	1,775,389
Changes in assets and liabilities:		
Receivables, net	(189,570)	(497,135)
Inventories	815	1,251
Prepaid expenses	56,662	(112,957)
Other assets		3,996
Accounts payable	(35,430)	167,521
Compensated absences	(763,080)	191,167
Liability for post retirement benefits	51,132	104,092
	\$ (37,892,822)	\$ (28,931,482)
NET CASH USED BY OPERATING ACTIVITIES		
NONCASH TRANSACTIONS		
Proceeds of bond issue deposited with trustee	\$14,239,965	
Bond issuance costs and underwriter's discount paid directly from bond proceeds	260,035	
Amortized bond issuance costs, net	1,280	
Accrued interest deposited with trustee	44,493	
Bond escrow deposited with trustee	100	
Subsidy for 2010B series bonds deposited with trustee	55,805	
Donated assets		\$ 34,599
Interest paid on capital debt by trustees	19,751	187
Interest earned on deposits by trustees	204	142
Loss on disposal of capital assets	28,696	44,785

The accompanying notes are an integral part of the financial statement.

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1: Summary of Significant Accounting Policies

Reporting Entity

Northwest Arkansas Community College (the College) 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 College is an agency of the State of Arkansas and its governing body is the Board of Trustees comprised of nine members.

The College's financial statements reflect all funds and accounts directly under the control of the College. 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 College'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 College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Board of the Foundation is self-perpetuating and consists of graduates and friends of the College. Although the College 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 is restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the College, the Foundation is considered a component unit of the College and is discretely presented in the College's financial statements.

During the year ended June 30, 2011, the Foundation distributed \$157,765 to the College 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.

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1: Summary of Significant Accounting Policies (Continued)

Basis of Accounting

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

The College has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The College has elected not to apply FASB pronouncements issued after the applicable date.

Capital Assets and Depreciation

Land, land improvements, 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 College follows the State guidelines for equipment capitalization.

The College 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, 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 nonoperating revenues by GASB Statement 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 and Cash Equivalents

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

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1: Summary of Significant Accounting Policies (Continued)

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 College's grants and contracts. Accounts receivable are recorded net of the estimated allowance for doubtful accounts in the amount of \$680,151 at June 30, 2011 and \$715,127 at June 30, 2010.

A summary of accounts receivable balances at June 30, 2011, is as follows:

	Gross	Allowance	Net
Student accounts receivable	\$ 1,679,907	\$ 680,151	\$ 999,756
Accounts receivable – other government	1,010,955		1,010,955
Other accounts receivable	239,175		239,175
Totals	<u>\$ 2,930,037</u>	<u>\$ 680,151</u>	<u>\$ 2,249,886</u>

Inventories

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

Noncurrent Cash

Cash that is externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other nonrecurring assets 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, 2011, is as follows:

Trades payable	\$ 170,218
Accrued payroll	767,289
Payroll related liabilities	166,421
Due to State of Arkansas	60,231
Interest payable	194,792
Deferred revenue	282,314
Total	<u>\$ 1,641,265</u>

Restricted/Unrestricted Resources

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

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1: Summary of Significant Accounting Policies (Continued)

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 included amounts received from grant and contract sponsors that have not yet been earned.

Compensated Absences Payable

Compensated absences payable represents the College's liability (salaries plus applicable salary related costs) for unused annual leave as of June 30, 2011. Unused vacation and sick leave for eligible employees are included in the compensated absences payable calculation.

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; (2) estimated amounts for accrued compensated absences that will not be paid within the next fiscal year; and (3) the liability for postemployment benefits. An estimate is made to allocate the compensated absences liability between the current and noncurrent components.

Property Taxes

Property taxes are levied in November based on the property assessment made between January 1 and May 31, and are enforceable liens 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 15 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 expenditures during the reporting period. Actual results could differ from those estimates.

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 2: Public Fund Deposits

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

	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 915,054	\$ 944,320
Collateralized:		
The collateral is held by the College and bank's agent in a trilateral agreement in the College's name	8,802,724	9,853,232
 Total Deposits	 \$ 9,717,778	 \$ 10,797,552

The above deposits do not include cash held on deposit in the state treasury or cash on hand maintained by the College in the amounts of \$391,334 and \$8,109 at June 30, 2011, respectively.

Deposit with Trustees

As of June 30, 2011, the College had the following investments reported as deposits with trustees:

Investment type: Short-term U.S. Treasury obligations (external investment pool). Fair value: \$14,636,620

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 short-term debt securities (external investment pool) were rated Aaa by Moody's Investors Service and AAAM by Standard and 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. The portfolio of the external investment pool in which the College participates 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 College does not have a policy designed to manage interest rate risk.

NOTE 3: Income Taxes

The College 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, 2011

NOTE 4: Capital Assets

The following are the changes in capital assets for the year ended June 30, 2011:

	Balance July 1, 2010	Additions	Transfers	Retirements	Balance June 30, 2011
Nondepreciable capital assets:					
Land	\$ 2,041,390				\$ 2,041,390
Construction in progress	20,338	\$ 1,020,750	\$ (502,257)		538,831
Archives and collections	37,595	7,000			44,595
Total nondepreciable capital assets	<u>2,099,323</u>	<u>1,027,750</u>	<u>(502,257)</u>		<u>2,624,816</u>
Other capital assets:					
Land improvements	1,344,637	9,117			1,353,754
Improvements and infrastructure	372,291				372,291
Buildings	43,133,305		502,257		43,635,562
Equipment	3,781,496	868,241		\$ (179,231)	4,470,506
Library holdings	1,352,502	28,302		(7,189)	1,373,615
Total other capital assets	<u>49,984,231</u>	<u>905,660</u>	<u>502,257</u>	<u>(186,420)</u>	<u>51,205,728</u>
Less accumulated depreciation for:					
Land improvements	(797,474)	(89,946)			(887,420)
Buildings	(8,326,210)	(1,437,778)			(9,763,988)
Improvements and infrastructure	(220,166)	(24,819)			(244,985)
Equipment and archives and collections	(2,990,280)	(323,945)		157,724	(3,156,501)
Library holdings	(1,230,181)	(41,138)			(1,271,319)
Total accumulated depreciation	<u>(13,564,311)</u>	<u>(1,917,626)</u>		<u>157,724</u>	<u>(15,324,213)</u>
Other capital assets, net	<u>\$ 36,419,920</u>	<u>\$ (1,011,966)</u>	<u>\$ 502,257</u>	<u>\$ (28,696)</u>	<u>\$ 35,881,515</u>
Capital asset summary:					
Nondepreciable capital assets	\$ 2,099,323	\$ 1,027,750	\$ (502,257)		\$ 2,624,816
Other capital assets, at cost	49,984,231	905,660	502,257	\$ (186,420)	51,205,728
Total cost of capital assets	52,083,554	1,933,410		(186,420)	53,830,544
Less: accumulated depreciation	(13,564,311)	(1,917,626)		157,724	(15,324,213)
Capital assets, net	<u>\$ 38,519,243</u>	<u>\$ 15,784</u>	<u>\$ 0</u>	<u>\$ (28,696)</u>	<u>\$ 38,506,331</u>

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 5: Long-Term Liabilities

A summary of long-term liabilities is as follows:

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized & Issued	Debt Outstanding June 30, 2011	Maturities to June 30, 2011
5-2005	5-2030	3% to 5%	\$ 23,485,000	\$ 19,755,000	\$ 3,730,000
12-2010	5-2035	3% to 5.25%	9,500,000	9,430,000	70,000
12-2010	5-2035	*4.55%	5,000,000	5,000,000	
Totals			<u>\$ 37,985,000</u>	<u>\$ 34,185,000</u>	<u>\$ 3,800,000</u>

*Face interest rate of 7% less Build America Bonds Federal Interest Subsidy of 2.45% results in a net interest rate of 4.55%

The change in long-term debt for the fiscal year ended June 30, 2011 is as follows:

	Balance at July 1, 2010	Additions	Reductions	Balance at June 30, 2011	Amounts due within one year
Bonds	\$ 20,425,000	\$ 14,500,000	\$ (740,000)	\$ 34,185,000	\$ 870,000
Notes payable	54,288		(54,288)		
Compensated absences	868,048 *	1,144,439	(1,111,831)	900,656	45,033
OPEB liability	104,092	51,132		155,224	
Totals	<u>\$ 21,451,428</u>	<u>\$ 15,695,571</u>	<u>\$ (1,906,119)</u>	<u>\$ 35,240,880</u>	<u>\$ 915,033</u>

*includes reduction of \$795,688 resulting from change in accounting policy (See Note 13)

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

Year Ended June 30,	Bond Principal	Interest	Total Payments	Interest Subsidy	Net Payments
2012	\$ 870,000	\$ 1,680,844	\$ 2,550,844	\$ (122,500)	\$ 2,428,344
2013	900,000	1,652,119	2,552,119	(122,500)	2,429,619
2014	940,000	1,618,044	2,558,044	(122,500)	2,435,544
2015	970,000	1,585,156	2,555,156	(122,500)	2,432,656
2016	1,005,000	1,551,213	2,556,213	(122,500)	2,433,713
2017-2021	5,620,000	7,096,575	12,716,575	(612,500)	12,104,075
2022-2026	7,005,000	5,664,706	12,669,706	(612,500)	12,057,206
2027-2031	8,700,000	3,881,700	12,581,700	(612,500)	11,969,200
2032-2035	8,175,000	1,279,600	9,454,600	(256,025)	9,198,575
Totals	<u>\$ 34,185,000</u>	<u>\$ 26,009,957</u>	<u>\$ 60,194,957</u>	<u>\$ (2,706,025)</u>	<u>\$ 57,488,932</u>

NORTHWEST ARKANSAS COMMUNITY COLLEGE
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2011

NOTE 6: Pledged Revenues

Ad Valorem Tax and Learning Support Fee - Series 2005 Bonds

The College has pledged one-third of the continuing ad valorem tax mills and the gross revenues derived from the imposition of the student activity fee known as the Learning Support Fee to repay the \$23,485,000 Capital Improvement and Refunding Bonds, Series 2005. The proceeds from the bonds will be applied toward all or part of the following projects: construction of new student center; refunding the College's outstanding \$5,435,000 General Obligation Limited Tax Improvement bonds, Series 2000; and refunding the College's outstanding \$4,065,000 General Obligation Limited Tax Improvement Bonds, Series 2002. Total principal and interest remaining on the bonds are \$19,755,000 and \$10,274,357, respectively, payable through May 15, 2030. For the current year, principal and interest paid were \$670,000 and \$909,725, respectively. One-third of the property taxes received by the College and the Learning Support fees for the year totaled \$2,856,922 (gross amount \$8,570,766) and \$1,132,039, respectively. The percentage of ad valorem tax and learning support fees pledged for the year ended June 30, 2011 was 39.6%.

Ad Valorem Tax and Learning Support Fee - Series 2010A and Series 2010B Bonds

The College has pledged one-third of the continuing ad valorem tax mills and the gross revenues derived from the imposition of the student activity fee known as the Learning Support Fee to repay the \$9,500,000 Capital Improvement Bonds, Series 2010A and the \$5,000,000 Capital Improvement Bonds, Series 2010B. Proceeds from the bonds will be applied toward the construction of a new health sciences building. Total principal and interest remaining on the Series 2010A and Series 2010B bonds are \$14,430,000 and \$15,735,600, respectively, payable through May 15, 2035. For the current year, principal and interest paid were \$70,000 and \$364,840, respectively. One-third of the property taxes received by the College and the Learning Support fees for the year totaled \$2,856,922 (gross amount \$8,570,766) and \$1,132,039, respectively. The percentage of ad valorem tax and learning support fees pledged for the year ended June 30, 2011 was 10.9%.

NOTE 7: Commitments

The College was contractually obligated for the following amounts at June 30, 2011:

A. Construction Contract

<u>Project Name</u>	<u>Estimated Completion Date</u>	<u>Contract Balance Remaining at June 30, 2011</u>
Center for Health Professions	Spring 2013	<u>\$ 12,819,619</u>

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 7: Commitments (Continued)

B. Operating Leases

The following represents future minimum rental payments (aggregate at June 30, 2011). The leases are comprised of nine facility rentals, various office and computer lab equipment leases.

Future minimum rental payments (aggregate at June 30, 2011): \$3,369,070

Future minimum rental payments for the succeeding fiscal years:

Year Ended June 30,	Amount
2012	\$1,167,948
2013	936,164
2014	899,596
2015	365,362
Total	\$3,369,070

Rental payments for the operating leases described above were approximately \$1,297,380 for the year ended June 30, 2011.

NOTE 8: Employee Retirement Plans

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

Plan Description – The College 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 principle and a specific interest rate plus the opportunity for additional growth through dividends. CREF is an investment company which offers a variable annuity. Arkansas Code Annotated authorizes participation in the plan.

Funding Policy – TIAA/CREF has contributory and non-contributory plans. Contributory members contribute 4% earnings to the plan. The College contributes 6% of earnings for non-contributory members and 10% of earnings for contributory members. The College's and participant's contributions for the year ended June 30, 2011 were \$1,305,065 and \$485,661, respectively.

Arkansas Teacher Retirement System

Plan Description – The College contributes to the Arkansas Teacher Retirement Systems (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 Teachers Retirement System issued a publicly available financial report that included financial statements and required supplementary information for ATRS. That report may be obtained by writing to Arkansas Teachers Retirement System, 1400 West Third Street, Little Rock, Arkansas 72201 or by calling 1-800-666-2877.

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 8: Employee Retirement Plans (Continued)

Arkansas Teacher Retirement System (Continued)

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 established by the Board of Trustees, based on the annual actuarial valuation. The current employer rate is 14% of covered salaries, the maximum allowed by State law. The College's contributions to ATRS for the years ended June 30, 2011, 2010, and 2009, were \$791,730, \$698,039, and \$585,310, respectively, equal to the required contributions for each year.

Arkansas Public Employees Retirement System

Plan Description – The College 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. The 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 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 statutory employer rate is 12.46% of annual covered payroll. The College's contributions to APERS for the years ended June 30, 2011, 2010, and 2009, were \$162,712, \$126,791, and \$104,821, respectively, equal to the required contributions for each year.

NOTE 9: Operating Expenses by Functional Classification

The College's operating expenses by functional classifications for fiscal year 2011 were as follows:

	<u>Personal Services</u>	<u>Scholarships & Fellowships</u>	<u>Supplies & Services</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 18,310,767		\$ 2,893,514		\$ 21,204,281
Academic support	3,632,318		2,370,809		6,003,127
Student services	4,090,047		859,394		4,949,441
Institutional support/ research	4,058,662		1,194,229		5,252,891
Scholarships and fellowships	175,917	\$ 5,275,750			5,451,667
Operations and maintenance of plant	2,051,295		3,807,293		5,858,588
Auxiliary funds	12,297		19,372		31,669
Depreciation				\$ 1,917,626	1,917,626
Totals	<u><u>\$ 32,331,303</u></u>	<u><u>\$ 5,275,750</u></u>	<u><u>\$ 11,144,611</u></u>	<u><u>\$ 1,917,626</u></u>	<u><u>\$ 50,669,290</u></u>

NORTHWEST ARKANSAS COMMUNITY COLLEGE
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2011

NOTE 10: Related Party Transactions

In May 2005, the Board of Trustees of the College 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 an \$8,250,000 note payable with the Public Facilities Board, which then issued bonds to provide financing to build the facility. In 2011, the College collected and disbursed \$791,220 in infrastructure fees to the Foundation for bond payments.

The College is leasing the Foundation's Shewmaker Center for Global Development, a 42,000 sq. ft. facility at the Bentonville Campus. This lease, in the amount of \$330,000 for the fiscal year ended June 30, 2011, provided additional instructional classrooms and labs.

NOTE 11: Risk Management

The College maintains insurance coverage for a wide variety of risks. The coverage is outlined in the following table:

<u>Items Insured</u>	<u>Coverage</u>	<u>Contributions</u>	<u>Administrator</u>
General Liability	\$1M, \$3M aggregate	N/A	United Educators
Excess Liability	\$3M aggregate \$100,000 deductible each incident	N/A	Insurance
Directors/Officers/Employees Professional Liability	\$1M per policy period \$25,000 deductible	N/A	ACE American Ins. Co.
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
Mobile Equipment and Artwork	Per artwork schedule	N/A	Arkansas Multi-Agency Insurance Trust Fund
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	Comprehensive Accident Policy	N/A	StarNet Insurance Company
Workers Comp	Reimbursement of medical expense 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, 2011

NOTE 11: Risk Management (Continued)

The College 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 College's state treasury funds.

The College 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 College pays an annual premium for this coverage.

The College 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 College pays an annual premium for this coverage.

The College maintains workers compensation coverage through the State of Arkansas program in accordance with Ark. Code Ann. § 11-9-305. Annual premiums are based on a formula calculated by the Arkansas Department of Finance and Administration.

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

NOTE 12: Other Postemployment Benefits (OPEB) Liability

In June 2004, the Governmental Accounting Standards Board (GASB) issued Statement no. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which became effective for the fiscal year ended June 30, 2008. This statement requires governmental entities to recognize and match other postretirement benefit costs with related services received and also to provide information regarding the actuarially calculated liability and funding level of the benefits associated with past services. As a result of the implementation of this statement, the College accrued \$155,224 in retiree healthcare liability as of June 30, 2011.

The College 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. The plan is considered a single-employer defined benefit plan. The plan does not issue a stand-alone financial report.

Under GASB Statement no. 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 no. 45 requires an actuarial calculation. For the fiscal year ended June 30, 2011, the College had one retiree participant.

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 12: Other Postemployment Benefits (OPEB) Liability (Continued)

Determination of Annual Required Contribution (ARC) and End of Year Net OPEB Obligation

Cost Element

	<u>July 1, 2007</u>	<u>July 1, 2009</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 184,617</u>	<u>\$ 260,875</u>
Annual Required Contribution (ARC)	<u>2007-08</u>	<u>2009-10</u>
Normal Cost	\$ 27,323	\$ 33,400
Amortization of the UAAL over 30 Years	12,653	17,880
Interest	<u>2,399</u>	<u>3,077</u>
Annual OPEB Cost	<u>\$ 42,375</u>	<u>\$ 54,357</u>

There were no employer contributions toward the retiree premiums. There were "implicit contributions" in the amount of \$2,490 during the year ended June 30, 2011. This amount was calculated at the rate of \$207.52 as an implicit subsidy based on the July 1, 2009 actuarial study. No actuarial valuation was done for the fiscal year of June 30, 2011 as the requirements for small plans are for valuations to be done on a bi-annual basis.

End of the Year Accrual (Net OPEB Obligation - June 30, 2010)	\$ 104,092
Annual OPEB Cost (2010-2011 calculated cost)	53,622
Implicit Contributions (12 months coverage at \$207.52 per actuary report)	<u>(2,490)</u>
Net OPEB Obligation June 30, 2011	<u>\$ 155,224</u>

This amount has been recorded as a long-term liability.

The percentage of OPEB cost contributed (\$2,490) to the annual OPEB cost (\$53,622) for the fiscal year ended June 30, 2011 was 4.6%.

Reconciliation of Funded Status

	<u>July 1, 2007</u>	<u>July 1, 2009</u>
Actuarial Accrued Liability		
Retirees	\$ 13,997	\$ 22,476
Fully eligible active employees	33,724	48,444
Other active employees	<u>136,896</u>	<u>189,955</u>
Net Actuarial Accrued Liability	\$ 184,617	\$ 260,875
Plan Assets	<u>0</u>	<u>0</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 184,617</u>	<u>\$ 260,875</u>

Summary of Key Actuarial Methods and Assumptions

Valuation Year	July 1, 2009 to June 30, 2010
Actuarial Cost Method	Projected unit credit method, level dollar
Amortization Method	30 years, level dollar open amortization
Discount Rate	6%
Healthcare Cost Trend Rate	"Medical inflation" was assumed to be 10.0% next year, 9.0% the second year, 8.0% the third year, with the rate decreasing by 0.50% each year, to an ultimate rate of 5.0% in the ninth year.

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 12: Other Postemployment Benefits (OPEB) Liability (Continued)

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio
July 1, 2007	0	\$184,617	\$184,617	0.00%
July 1, 2009	0	\$260,875	\$260,875	0.00%

The covered payroll as of July 1, 2007 was \$13,831,119, yielding a percentage of 1.3% of UAAL compared to covered payroll. The covered payroll as of July 1, 2009 was \$16,518,535, yielding a percentage of 1.6% of UAAL compared to covered payroll.

Participation: Covers employees who retire directly from active employment. Employees must meet the "Rule of 70" (age plus years of service at least 70) and have at least 10 years of service.

Benefit Provision: Retiree can continue coverage, but must pay the same premium as active employee.

<u>Participant Data</u>	<u>July 1, 2007</u>	<u>July 1, 2009</u>
Number of Active Employees	349	327
Number of Retirees Covered Under 65	8	3
Over 65	0	0

Base Claim Cost: The retiree pays the entire premium. But since health care for a retired group is higher than the average for employees, this results in a subsidy for the retiree.

The following subsidy was assumed:

	<u>Medical</u>	<u>Other</u>	<u>Total</u>
Retiree, no Medicare	\$207.52	0.00	\$207.52
Retiree, with Medicare	0.00	0.00	0.00

General Overview of the Valuation Methodology

The estimation of the retiree healthcare benefit obligation is generally based on per participant contributions developed from recent periods for which claims experience is available.

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

Actuarial calculations reflect a long-term perspective. Actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 13: Change in Accounting Policy for Compensated Absences

Effective July 1, 2010, the College changed its policy regarding the accrual of unused sick leave and related salary costs. The accrual of compensated absences are required only for classified employees in accordance with the regulations of the Office of Personnel Management; therefore, the College elected to eliminate the accrual and potential payment of all nonclassified employees for unused sick leave and related salary costs. This change had the effect of reducing the accrual for compensated absences and related personal service costs by \$795,688 (see Note 5).

NOTE 14: Prior Year Restatement

The College restated certain elements of the prior year column of the Comparative Statement of Cash Flows (cash flows from capital and related financing activities and noncash transactions) to further identify the College's debt transactions with the bond trustee. The College also reclassified those transactions previously identified as other revenues in the cash flows from noncapital financing activities section. These restatements did not change the net increase in cash.

NORTHWEST ARKANSAS COMMUNITY COLLEGE
 REQUIRED SUPPLEMENTARY INFORMATION
 FOR THE YEAR ENDED JUNE 30, 2011

Other Postemployment Benefits (OPEB)

Determination of Annual Required Contribution (ARC) and End of Year Net OPEB Obligation

Cost Element

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NORTHWEST ARKANSAS COMMUNITY COLLEGE
 REQUIRED SUPPLEMENTARY INFORMATION
 FOR THE YEAR ENDED JUNE 30, 2011

Other Postemployment Benefits (OPEB) (Continued)

Determination of Annual Required Contribution (ARC) and End of Year Net OPEB Obligation (Continued)

<u>Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>
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Base Claim Cost: The retiree pays the entire premium. But since health care for a retired group is higher than the average for employees, this results in a subsidy for the retiree.

The following subsidy was assumed:

	<u>Medical</u>	<u>Other</u>	<u>Total</u>
Retiree, no Medicare	\$207.52	0.00	\$207.52
Retiree, with Medicare	0.00	0.00	0.00

NORTHWEST ARKANSAS COMMUNITY COLLEGE
 SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS
 FOR THE YEAR ENDED JUNE 30, 2011
 (Unaudited)

	Year Ended June 30,				
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Total Assets	\$ 71,659,692	\$ 58,251,559	\$ 54,962,008	\$ 52,753,370	\$ 48,747,614
Total Liabilities	36,882,145	23,842,837	24,107,769	25,867,763	26,072,169
Total Net Assets	34,777,547	34,408,722	30,854,239	26,885,607	22,675,445
Total Operating Revenues	11,738,313	12,794,527	12,654,806	11,319,376	10,489,411
Total Operating Expenses	50,669,290	43,359,333	37,297,032	34,335,118	31,336,834
Total Net Nonoperating Revenues	39,968,668	34,580,757	27,033,436	25,353,113	23,087,989
Total Other Revenues, Expenses, Gains or Losses	(668,866)	(461,468)	1,577,422	1,872,791	(675,988)