

Northwest Arkansas Community College

Bentonville, Arkansas

**Basic Financial Statements
and Other Reports**

June 30, 2012

LEGISLATIVE JOINT AUDITING COMMITTEE



NORTHWEST ARKANSAS COMMUNITY COLLEGE
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Senate Chair
Rep. Kim Hammer
House Chair
Sen. Linda Chesterfield
Senate Vice Chair
Rep. John W. Walker
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, 2012, 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 2011 financial statements and, in our report dated May 29, 2012, 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 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, 2012, 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, 2011, from which such partial information was derived.

As discussed in Note 13 to the financial statements, the College restated certain prior year (2011) amounts at the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. These restatements pertained to certain equipment that had been expensed that should have been capitalized. Additionally, the Statement of Cash Flows was restated to reflect cash inflows and outflows of the Direct Lending program.

In accordance with Government Auditing Standards, we have also issued our report dated September 10, 2013 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and certain information pertaining to postemployment benefits other than pensions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in black ink, appearing to read "Roger A. Norman". The signature is fluid and cursive, written over a white background.

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

Little Rock, Arkansas
September 10, 2013
EDHE19812

Sen. Bryan B. King
Senate Chair
Rep. Kim Hammer
House Chair
Sen. Linda Chesterfield
Senate Vice Chair
Rep. John W. Walker
House Vice Chair

Arkansas



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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, 2012, which collectively comprise the College's basic financial statements and have issued our report thereon dated September 10, 2013. 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* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Northwest Arkansas Community College Foundation, Inc.

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 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 previously.

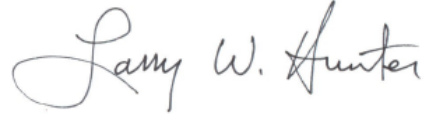
Compliance and Other Matters

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 September 10, 2013.

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
September 10, 2013

Sen. Bryan B. King
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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. In December 2011, the College overpaid withholding taxes to the Internal Revenue Service totaling \$4,614 and was assessed a late filing penalty of \$425 for not making tax deposits in a timely manner. Subsequently, the College was assessed an additional late filing penalty by the Internal Revenue Service of \$5,103 for the March 2012 quarterly filing period. A similar finding was reported in the previous audit.
2. The following information system control weaknesses were discovered during an information system audit of the Banner Payroll and Students Accounts Receivable modules completed Summer 2013.

Application security access should be restricted to what is required to perform job functions.

Programmers (web and application) were identified that had inappropriate update access to the Banner application and databases. This includes the ability of programming personnel to update and move programming changes into the production system.

Failure to properly assign access permission increases the risk of accidental or intentional unauthorized transactions or data manipulation.

We recommend that management review and revise security accounts to eliminate programming staff's update access to the production system and also implementing a "gate keeper" (either non-programming staff or automated software) that will be utilized when moving programming changes into production.

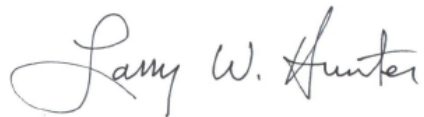
STUDENT ENROLLMENT DATA - In accordance with Ark. Code Ann. § 6-60-209, we performed tests of the student enrollment data for the year ended June 30, 2012, as reported to the State Department of Higher Education, to provide reasonable assurance that the data was properly reported. The enrollment data reported was as follows:

	<u>Summer II Term</u>	<u>Fall Term</u>	<u>Spring Term</u>	<u>Summer I Term</u>
	<u>2011</u>	<u>2011</u>	<u>2012</u>	<u>2012</u>
Student Headcount	1,446	8,666	8,221	2,498
Student Semester Credit Hours	5,662	79,801	74,726	11,429

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

A handwritten signature in cursive script that reads "Larry W. Hunter". The signature is written in black ink and is positioned above the printed name and title.

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
September 10, 2013

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, 2012 with comparative financial data for the fiscal year ended June 30, 2011.

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, 2012 were \$72,673,302 compared to \$71,996,146 on June 30, 2011 as reported in the asset section of the Statement of Net Assets. Total assets are comprised of current assets in the amount of \$14,280,426, and noncurrent assets of \$58,392,876 for fiscal year 2012, compared to \$14,531,505 and \$57,464,641, respectively, for the 2011 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, 2012 of \$38,739,509 and \$36,882,145 at June 30, 2011. 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 of \$5,220,745 at June 30, 2012, consisted of accounts payable and accrued liabilities, the current portion of bonds payable, and the current portion of compensated absences compared to \$2,556,298 at June 30, 2011.

Noncurrent liabilities are long-term obligations of the College that are payable at some date beyond the following fiscal year. Noncurrent liabilities of \$33,518,764 at June 30, 2012, were comprised of the long-term portion of bonds payable and compensated absences payable as well as the liability for postretirement benefits compared to \$34,325,847 at June 30, 2011. 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 was occupied in the Spring of 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.

Statement of Net Assets (Continued)

The following is a condensed Statement of Net Assets:

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
ASSETS:		
Current Assets	\$ 14,280,426	\$ 14,531,505
Noncurrent Assets	<u>58,392,876</u>	<u>57,464,641</u>
TOTAL ASSETS	<u>72,673,302</u>	<u>71,996,146</u>
LIABILITIES:		
Current Liabilities	5,220,745	2,556,298
Noncurrent Liabilities	<u>33,518,764</u>	<u>34,325,847</u>
TOTAL LIABILITIES	<u>38,739,509</u>	<u>36,882,145</u>
NET ASSETS:		
Invested in Capital Assets, Net of Related Debt	18,938,055	19,014,852
Restricted	6,974,872	6,711,537
Unrestricted	<u>8,020,866</u>	<u>9,387,612</u>
TOTAL NET ASSETS	<u>\$ 33,933,793</u>	<u>\$ 35,114,001</u>

Summary of amounts Invested in Capital Assets, Net of Related Debt as of June 30, 2012 and 2011 are as follows:

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Capital Assets not Depreciated	\$ 11,662,962	\$ 2,624,816
Other Capital Assets	<u>51,887,865</u>	<u>51,542,182</u>
Total Capital Assets	63,550,827	54,166,998
Less: Accumulated Depreciation	<u>(17,178,575)</u>	<u>(15,324,213)</u>
Capital Assets, Net	46,372,252	38,842,785
Less: Related Debt	<u>(27,434,197)</u>	<u>(19,827,933)</u>
Capital Assets, Net of Related Debt	<u>\$ 18,938,055</u>	<u>\$ 19,014,852</u>

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 postretirement benefits.

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.

Statement of Revenues, Expenses, and Changes in Net Assets (Continued)

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 operating revenues decreased for fiscal year 2012 to \$11,449,283 compared to \$11,738,313 in the previous fiscal year. This decrease of 2.46% or \$289,030 is due mainly to an increase of \$872,879 in scholarship allowances partially offset by increased gross student tuition and fees of \$513,841.
- ◆ Tuition and fees are reported net of scholarship discount and allowances of \$11,280,243 in 2012 and \$10,407,364, in 2011. The year over year increase of \$872,879 is due to an increase in scholarship utilization.
- ◆ Total operating expenses increased to \$50,820,009 in 2012 from \$50,332,836 in 2011. This represents an increase of 0.97% or \$487,173. The main drivers are increased personal services costs of \$1,663,342 and depreciation expense of \$68,890, partially offset by reduced spending for scholarships of \$377,700 and decreased cost of supplies and services of \$867,359.
- ◆ State appropriation of general revenue and educational excellence funds received during the fiscal year increased to \$11,057,375 in fiscal year 2012 from \$10,701,253 in fiscal year 2011. This represents an increase of 3.3%.
- ◆ Total local property tax millage (2.6 mills) revenue reported in the fiscal year was \$8,319,777 compared to \$8,570,766 in 2011. 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, and Changes in Net Assets

	June 30, 2012	June 30, 2011
Total Operating Revenues	\$ 11,449,283	\$ 11,738,313
Total Operating Expenses	50,820,009	50,332,836
Total Operating Loss	(39,370,726)	(38,594,523)
Total Nonoperating Revenue/(Expenses) and Other Changes	38,190,518	39,299,802
Increase in Net Assets	(1,180,208)	705,279
Net Assets:		
Beginning of year	35,114,001	34,408,722
End of year	\$ 33,933,793	\$ 35,114,001

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 to 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 \$9,254,080. An additional amount of \$7,910,444 is held by bond trustees.

A summary of the cash flows for fiscal year 2012 and 2011 is as follows:

	June 30, 2012	June 30, 2011
Cash provided (used) by:		
Operating Activities	\$ (36,735,103)	\$ (37,556,368)
Noncapital Financing Activities	37,292,356	38,039,965
Capital and Related Financing Activities	(1,426,832)	(2,109,275)
Investing Activities	6,438	8,698
Net Change in Cash	(863,141)	(1,616,980)
Cash – Beginning of Year	10,117,221	11,734,201
Cash – End of Year	\$ 9,254,080	\$ 10,117,221

Enrollment

As a result of rapid economic development of the NWA region, student enrollment over the past has steadily increased at Northwest Arkansas Community College but this growth has slowed over the last two years 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%
2011-12	8,528	1.9%	8,090	-1.1%	2,499	1,296	3,795	-8.8%

The College served over 18,900 credit and non-credit students during the 2012 fiscal year and the College's non-duplicated credit student headcount increased 0.68% in 2012 to 12,273 students from 12,190 students in 2011. Management is currently anticipating a flat or declining enrollment for the next 1-3 years.

Factors Impacting Future Periods

The College strives to continue 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 totaled \$14,500,000. The proceeds of these bonds were utilized to design, construct and equip a new Health Professions Building on land presently owned by the College. The building was occupied in January of 2013. The remodeling of the former NARTI/Oncology Building that will become the home of the Southern Region National Child Protection Training Center is beginning in the Spring of 2013. NWACC will continue to make plans to utilize both buildings by expanding programs vital to the communities and region.

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 the successful transfer of classes.

Last year it was announced that the President of the College would retire in June of 2013 after serving for ten years. A new President has been selected and will begin July 2013. It is unknown whether the current organizational structure will change significantly under new leadership.

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 becomes even more critical as enrollment continues to flatten. 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. Potential legislation could impact future funding; however, that information is currently not available.

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 stable. We hope that the next biennium will bring sufficient funding to support all College operations. 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, 2012

Exhibit A

	June 30,	
	2012	2011
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 4,790,614	\$ 5,941,311
Accounts receivable (less allowances of \$814,668 and \$680,151)	3,184,791	2,249,886
Interest receivable	15,313	
Property taxes receivable	5,410,620	5,692,082
Inventories	18,791	20,918
Deposits with bond trustee	549,694	396,009
Prepaid expenses	301,675	222,371
Deferred bond issue costs	8,928	8,928
Total Current Assets	14,280,426	14,531,505
Noncurrent Assets:		
Restricted cash and cash equivalents	4,463,466	4,175,910
Deposits with bond trustee	7,360,750	14,240,611
Capital assets (net of accumulated depreciation of \$17,178,575 and \$15,324,213)	46,372,252	38,842,785
Deferred bond issue costs	196,408	205,335
Total Noncurrent Assets	58,392,876	57,464,641
TOTAL ASSETS	\$ 72,673,302	\$ 71,996,146
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 4,274,040	\$ 1,641,265
Bonds payable - current portion	900,000	870,000
Compensated absences - current portion	46,705	45,033
Total Current Liabilities	5,220,745	2,556,298
Noncurrent Liabilities:		
Bonds payable	32,415,000	33,315,000
Compensated absences payable	887,405	855,623
Liability for postretirement benefits	216,359	155,224
Total Noncurrent Liabilities	33,518,764	34,325,847
TOTAL LIABILITIES	\$ 38,739,509	\$ 36,882,145
NET ASSETS		
Invested in capital assets, net of related debt	\$ 18,938,055	\$ 19,014,852
Restricted for:		
Expendable		
Instructional departments uses	349,374	386,728
Capital projects		50,322
Debt service	6,625,498	6,274,487
Unrestricted	8,020,866	9,387,612
TOTAL NET ASSETS	\$ 33,933,793	\$ 35,114,001

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

NORTHWEST ARKANSAS COMMUNITY COLLEGE FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2012 AND 2011

Exhibit A-1

	JUNE 30,	
	2012	2011
ASSETS		
Cash and cash equivalents	\$ 2,015,622	\$ 2,011,725
Pledges receivable, net of allowance for uncollectible pledges of \$0 and \$80,000, respectively	624,591	1,076,076
Loans and other receivables	3,904	1,462
Investments	1,551,309	1,541,315
Prepaid expenses	960	973
Assets held in reserve	545,291	473,928
Property and equipment, net	18,628,235	19,134,075
Land held for sale	212,500	212,500
Bond issuance costs, net	105,858	113,468
	\$ 23,688,270	\$ 24,565,522
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and other liabilities	\$ 27,338	\$ 10,706
Accrued interest	22,925	23,469
Deferred rental income		10,347
Note payable	1,379,095	2,502,785
Bonds payable	7,030,000	7,385,000
	8,459,358	9,932,307
Net Assets:		
Unrestricted	12,273,904	10,272,781
Temporarily restricted	2,019,119	3,445,395
Permanently restricted	935,889	915,039
	15,228,912	14,633,215
TOTAL NET ASSETS	15,228,912	14,633,215
TOTAL LIABILITIES AND NET ASSETS	\$ 23,688,270	\$ 24,565,522

NORTHWEST ARKANSAS COMMUNITY COLLEGE
 COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2012

Exhibit B

	Year Ended June 30,	
	2012	2011
OPERATING REVENUES		
Student tuition and fees (net of scholarship allowances of \$11,280,243 and \$10,407,364)	\$ 10,777,740	\$ 11,136,778
Other operating revenues	671,543	601,535
TOTAL OPERATING REVENUES	11,449,283	11,738,313
OPERATING EXPENSES		
Personal services	33,994,645	32,331,303
Scholarships and fellowships	4,898,050	5,275,750
Supplies and services	9,940,798	10,808,157
Depreciation expense	1,986,516	1,917,626
TOTAL OPERATING EXPENSES	50,820,009	50,332,836
OPERATING LOSS	(39,370,726)	(38,594,523)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	11,057,375	10,701,253
Federal grants	17,981,376	17,931,679
State grants	3,042,799	3,678,284
Property taxes	8,319,777	8,570,766
Nongovernmental grants and contracts	130,721	384,784
Investment income	7,912	8,698
Interest on capital asset related debt	(1,541,740)	(1,361,521)
Federal interest subsidy - Build America Bonds	138,130	55,805
Amortization of bond issuance costs	(8,928)	(1,280)
Other nonoperating revenues	200	200
NET NONOPERATING REVENUES	39,127,422	39,968,668
INCOME (LOSS) BEFORE REVENUES, EXPENSES, GAINS OR (LOSSES)	(243,304)	1,374,145
OTHER REVENUES, (EXPENSES), GAINS OR (LOSSES)		
Capital appropriations		151,250
Contractual payment to component unit	(858,996)	(791,220)
Loss on disposal of capital assets	(77,908)	(28,896)
INCREASE (DECREASE) IN NET ASSETS	(1,180,208)	705,279
NET ASSETS - BEGINNING OF YEAR	35,114,001	34,408,722
NET ASSETS - END OF YEAR	\$ 33,933,793	\$ 35,114,001

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

NORTHWEST ARKANSAS COMMUNITY COLLEGE FOUNDATION, INC.
STATEMENT OF ACTIVITIES
YEARS ENDED JUNE 30, 2012 AND 2011

Exhibit B-1

	2012			2011 Total (Summarized)	
	Unrestricted	Temporarily Restricted	Permanently Restricted		Total
REVENUES AND SUPPORT					
Special Events:					
Special event revenue	\$ 76,350			\$ 76,350	\$ 64,964
Less cost of direct benefit to donors	22,118			22,118	21,387
TOTAL SPECIAL EVENTS	54,232			54,232	43,577
Contributions	108,465	\$ 1,044,369	\$ 20,850	1,173,684	896,493
Investment income, net	37,494			37,494	269,902
Parking fees	858,996			858,996	853,824
Rental income	335,577			335,577	587,636
Net assets released from restrictions:					
Satisfaction of donor restrictions	2,470,645	(2,470,645)			
TOTAL SUPPORT AND REVENUES	3,865,409	(1,426,276)	20,850	2,459,983	2,651,432
EXPENSES					
Program expenses	1,508,794			1,508,794	2,072,401
Management and general	274,476			274,476	98,058
Fundraising	81,016			81,016	86,485
TOTAL EXPENSES	1,864,286			1,864,286	2,256,944
CHANGE IN NET ASSETS	2,001,123	(1,426,276)	20,850	595,697	394,488
NET ASSETS, BEGINNING OF YEAR	10,272,781	3,445,395	915,039	14,633,215	14,238,727
NET ASSETS, END OF YEAR	\$ 12,273,904	\$ 2,019,119	\$ 935,889	\$ 15,228,912	\$ 14,633,215

NORTHWEST ARKANSAS COMMUNITY COLLEGE
COMPARATIVE STATEMENT OF CASH FLOWS - DIRECT METHOD
FOR THE YEAR ENDED JUNE 30, 2012

Exhibit C

	Year Ended June 30,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Proceeds from student tuition and fees	\$ 10,533,418	\$ 10,636,870
Other receipts	640,502	605,887
Payments to employees	(26,414,584)	(25,142,909)
Payments for employee benefits	(7,576,661)	(7,423,957)
Payments to suppliers	(9,019,728)	(10,956,509)
Payments for scholarships and fellowships	<u>(4,898,050)</u>	<u>(5,275,750)</u>
 NET CASH USED BY OPERATING ACTIVITIES	 <u>(36,735,103)</u>	 <u>(37,556,368)</u>
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	11,057,375	10,701,253
Proceeds from grants and contracts	20,276,280	21,229,391
Property taxes	5,827,980	5,724,537
Nongovernmental grants and contracts	130,721	384,784
Direct lending loan receipts	23,870,087	20,422,616
Direct lending loan payments	<u>(23,870,087)</u>	<u>(20,422,616)</u>
 NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	 <u>37,292,356</u>	 <u>38,039,965</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations		151,250
Property taxes allocated for debt retirement	2,773,259	2,856,921
Payments to trustees for bond principal	(870,000)	(740,000)
Payments to trustees for bond interest	(1,680,844)	(1,254,814)
Payments to trustee, other	(34,751)	
Purchases of capital assets	(7,636,608)	(2,269,864)
Contractual payments to component unit	(858,996)	(791,220)
Cash received from trustee for construction costs	6,881,108	
Principal payments on capital debt (note)		(54,288)
Interest paid on capital debt (note)		<u>(7,260)</u>
 NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	 <u>(1,426,832)</u>	 <u>(2,109,275)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	<u>6,438</u>	<u>8,698</u>
 NET DECREASE IN CASH	 (863,141)	 (1,616,980)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>10,117,221</u>	<u>11,734,201</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 9,254,080</u>	<u>\$ 10,117,221</u>
 RECONCILIATION OF NET OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating loss	\$ (39,370,726)	\$ (38,594,523)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense	1,986,516	1,917,626
Changes in assets and liabilities:		
Receivables, net	(286,220)	(189,570)
Inventories	2,127	815
Prepaid expenses	(88,231)	56,662
Accounts payable	926,842	(35,430)
Compensated absences	33,454	(763,080)
Liability for postretirement benefits	<u>61,135</u>	<u>51,132</u>
 NET CASH USED BY OPERATING ACTIVITIES	 <u>\$ (36,735,103)</u>	 <u>\$ (37,556,368)</u>

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

NORTHWEST ARKANSAS COMMUNITY COLLEGE
 COMPARATIVE STATEMENT OF CASH FLOWS - DIRECT METHOD
 FOR THE YEAR ENDED JUNE 30, 2012

Exhibit C

	Year Ended June 30,	
	2012	2011
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	\$ 8,927	1,280
Accrued interest deposited with trustee		44,493
Bond escrow deposited with trustee		100
Subsidy for 2010B series bonds deposited with trustee	122,817	55,805
Donated assets	99,210	
Interest paid on capital debt by trustees		19,751
Interest earned on deposits by trustees	1,304	204
Loss on disposal of capital assets	77,908	28,696

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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 institution of higher education 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, 2012, the Foundation distributed \$43,762 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.

New Accounting Pronouncements

In June 2011, GASB issued Statement no. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* – an amendment of GASB Statement no. 53, which became effective with the fiscal year ended June 30, 2012. Management has determined that the requirements of the Statement have no effect on current reporting and disclosures.

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1: Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncements (Continued)

GASB issued the following four statements which become effective with the fiscal year ending June 30, 2013: Statement no. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addresses partnerships with private and other public entities; Statement no. 61, *The Financial Reporting Entity: Omnibus* – an amendment of no. 14 and no. 34, which modifies certain requirements for inclusion of component units in the financial reporting entity; Statement no. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which incorporates pre-November 30, 1989 pronouncements into GASB's authoritative language from FASB, APB and AICPA; and Statement no. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which redefines some assets and liabilities. Management has not yet determined the effects on the College's financial statements when these statements are implemented.

GASB issued the following three statements which become effective with the fiscal year ending June 30, 2014: Statement no. 65, *Items Previously Reported as Assets and Liabilities*, Statement no. 66, *Technical Corrections – 2012* – an amendment of GASB Statements no. 10 and no. 62, and Statement no. 67, *Financial Reporting for Pension Plans* – an amendment of GASB Statement no. 25. GASB issued Statement no. 68, *Accounting and Financial Reporting for Pensions* – an amendment of GASB Statement no. 27, which becomes effective for the fiscal year ending June 30, 2015. Management has not yet determined the effects on the College's financial statements when these statements are implemented.

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.

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1: Summary of Significant Accounting Policies (Continued)

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.

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 \$814,668 at June 30, 2012 and \$680,151 at June 30, 2011.

A summary of accounts receivable balances at June 30, 2012, is as follows:

	Gross	Allowance	Net
Student accounts receivable	\$ 2,069,603	\$ 814,668	\$ 1,254,935
Accounts receivable – other government	1,685,198		1,685,198
Other accounts receivable	244,658		244,658
Totals	<u>\$ 3,999,459</u>	<u>\$ 814,668</u>	<u>\$ 3,184,791</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, 2012, is as follows:

Trades payable	\$ 244,645
Accrued payroll	754,250
Payroll related liabilities	152,730
Due to State of Arkansas	35,551
Interest payable	206,515
Deferred revenue	293,171
Construction Costs Payable	1,694,210
PACE Grant payable to Colleges	892,968
Total	<u>\$ 4,274,040</u>

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1: Summary of Significant Accounting Policies (Continued)

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.

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, 2012. 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.

NOTE 2: Public Fund Deposits

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

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 595,831	\$ 600,291
Collateralized:		
The collateral is held by the College and bank's agent in a trilateral agreement in the College's name	8,269,927	9,477,483
 Total Deposits	<u>\$ 8,865,758</u>	<u>\$ 10,077,774</u>

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 \$382,529 and \$5,793 at June 30, 2012, respectively.

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 2: Public Fund Deposits (Continued)

Deposit with Trustees

As of June 30, 2012, the College had the following investments reported as deposits with trustees:

Investment type: Short-term U.S. Treasury obligations (external investment pool). Fair value: \$7,910,444

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 Aaamf 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 section 501(a). 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, 2012

NOTE 4: Capital Assets

The following are the changes in capital assets for the year ended June 30, 2012:

	Balance July 1, 2011	Additions	Retirements	Balance June 30, 2012
Nondepreciable capital assets:				
Land	\$ 2,041,390			\$ 2,041,390
Construction in progress	538,831	\$ 9,029,646		9,568,477
Archives and collections	44,595	8,500		53,095
Total nondepreciable capital assets	<u>2,624,816</u>	<u>9,038,146</u>		<u>11,662,962</u>
Other capital assets:				
Land improvements	1,353,754			1,353,754
Improvements and infrastructure	372,291			372,291
Buildings	43,635,562			43,635,562
Equipment	4,806,960 *	528,532	\$ (144,157)	5,191,335
Library holdings	1,373,615	32,536	(71,228)	1,334,923
Total other capital assets	<u>51,542,182</u>	<u>561,068</u>	<u>(215,385)</u>	<u>51,887,865</u>
Less accumulated depreciation for:				
Land improvements	(887,420)	(65,288)		(952,708)
Buildings	(9,763,988)	(1,437,777)		(11,201,765)
Improvements and infrastructure	(244,985)	(24,819)		(269,804)
Equipment and archives and collections	(3,156,501)	(429,338)	132,154	(3,453,685)
Library holdings	(1,271,319)	(29,294)		(1,300,613)
Total accumulated depreciation	<u>(15,324,213)</u>	<u>(1,986,516)</u>	<u>132,154</u>	<u>(17,178,575)</u>
Other capital assets, net	<u>\$ 36,217,969</u>	<u>\$ (1,425,448)</u>	<u>\$ (83,231)</u>	<u>\$ 34,709,290</u>
Capital asset summary:				
Nondepreciable capital assets	\$ 2,624,816	\$ 9,038,146		\$ 11,662,962
Other capital assets, at cost	51,542,182	561,068	\$ (215,385)	51,887,865
Total cost of capital assets	54,166,998	9,599,214	(215,385)	63,550,827
Less: accumulated depreciation	(15,324,213)	(1,986,516)	132,154	(17,178,575)
Capital assets, net	<u>\$ 38,842,785</u>	<u>* \$ 7,612,698</u>	<u>\$ (83,231)</u>	<u>\$ 46,372,252</u>

*Beginning balance increased by \$336,454 for a prior year adjustment. See Note 13.

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, 2012	Maturities to June 30, 2012
5-2005	5-2030	3% to 5%	\$ 23,485,000	\$ 19,055,000	\$ 4,430,000
12-2010	5-2035	3% to 5.25%	9,500,000	9,260,000	240,000
12-2010	5-2035	*4.55%	5,000,000	5,000,000	
Totals			<u>\$ 37,985,000</u>	<u>\$ 33,315,000</u>	<u>\$ 4,670,000</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%

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 5: Long-Term Liabilities (Continued)

The change in long-term liabilities for the fiscal year ended June 30, 2012 is as follows:

	Balance at July 1, 2011	Additions	Reductions	Balance at June 30, 2012	Amounts due within one year
Bonds	\$ 34,185,000		\$ (870,000)	\$ 33,315,000	\$ 900,000
Compensated absences	900,656	\$ 733,909	(700,455)	934,110	46,705
OPEB liability	155,224	61,135		216,359	
Totals	<u>\$ 35,240,880</u>	<u>\$ 795,044</u>	<u>\$ (1,570,455)</u>	<u>\$ 34,465,469</u>	<u>\$ 946,705</u>

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
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	1,035,000	1,512,024	2,547,024	(122,500)	2,424,524
2018-2022	5,855,000	6,845,700	12,700,700	(612,500)	12,088,200
2023-2027	7,335,000	5,336,731	12,671,731	(612,500)	12,059,231
2028-2032	9,010,000	3,449,287	12,459,287	(590,205)	11,869,082
2033-2035	6,265,000	778,837	7,043,837	(155,820)	6,888,017
Totals	<u>\$ 33,315,000</u>	<u>\$ 24,329,111</u>	<u>\$ 57,644,111</u>	<u>\$ (2,583,525)</u>	<u>\$ 55,060,586</u>

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; 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 \$19,055,000 and \$9,392,281, respectively, payable through May 15, 2030. For the current year, principal and interest paid were \$700,000 and \$882,075, respectively. One-third of the property taxes received by the College and the Learning Support fees for the year totaled \$2,773,259 (gross amount \$8,319,777) and \$1,285,435, respectively. The percentage of ad valorem tax and learning support fees pledged for the year ended June 30, 2012 was 39%.

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 \$14,260,000 and \$14,936,830, respectively, payable through May 15, 2035. For the current year, principal and interest paid were \$170,000 and \$798,769, respectively. One-third of the property taxes received by the College and the Learning Support fees for the year totaled \$2,773,259 (gross amount \$8,319,777) and \$1,285,435, respectively. The percentage of ad valorem tax and learning support fees pledged for the year ended June 30, 2012 was 23.9%.

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 6: Pledged Revenues (Continued)

Parking Fee - Series 2010 Bonds

The College has pledged revenues derived from the imposition of Parking Fees to repay the \$7,740,000 College Parking Facility Revenue Refunding Bonds, Series 2010 issued by the Public Facilities Board of Benton County, Arkansas. The original Series 2005 bond proceeds financed the construction of an 800-space college parking facility located on the campus of Northwest Arkansas Community College. Total principal remaining on the variable market rate Series 2010 bonds is \$7,030,000 payable through 2026. The fees collected and disbursed for the year totaled \$858,996. The parking facility and related bonded indebtedness, respectively, are an asset and liability of the Northwest Arkansas Community College Foundation, Inc. The only involvement the College has in these items is the revenue pledge and payments as discussed above.

NOTE 7: Commitments

The College was contractually obligated for the following amounts at June 30, 2012:

A. Construction Contract

Project Name	Estimated Completion Date	Contract Balance Remaining at June 30, 2012
Center for Health Professions	Spring 2013	\$ 4,023,150
Barnes and Noble Renovation	Fall 2012	172,238
Totals		\$ 4,195,388

B. Operating Leases

The following represents future minimum rental payments (aggregate at June 30, 2012). The leases are comprised of eight facility rentals and various office and computer lab equipment leases.

Future minimum rental payments (aggregate at June 30, 2012): \$2,785,639

Future minimum rental payments for the succeeding fiscal years:

Year Ended June 30,	Amount
2013	\$1,153,483
2014	979,643
2015	493,048
2016	80,680
2017	78,785
Total	\$2,785,639

Rental payments for the operating leases described above were approximately \$1,300,754 for the year ended June 30, 2012.

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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 participants' contributions for the year ended June 30, 2012 were \$1,443,355 and \$530,752, 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.

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, 2012, 2011, and 2010, were \$651,142, \$791,730, and \$698,039, 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 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 statutory employer rate is 13.47% of annual covered payroll. The College's contributions to APERS for the years ended June 30, 2012, 2011, and 2010, were \$193,661, \$162,712, and \$126,791, respectively, equal to the required contributions for each year.

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 9: Operating Expenses by Functional Classification

The College's operating expenses by functional classifications for fiscal year 2012 were as follows:

	Personal Services	Scholarships & Fellowships	Supplies & Services	Depreciation	Total
Instruction	\$ 18,493,245		\$ 2,360,946		\$ 20,854,191
Academic support	3,984,852		1,883,804		5,868,656
Student services	4,027,809		970,144		4,997,953
Institutional support/ research	5,160,143		1,669,030		6,829,173
Scholarships and fellowships	220,319	\$ 4,898,050			5,118,369
Operations and maintenance of plant	2,071,280		3,042,800		5,114,080
Auxiliary funds	36,997		14,074		51,071
Depreciation				\$ 1,986,516	1,986,516
Totals	\$ 33,994,645	\$ 4,898,050	\$ 9,940,798	\$ 1,986,516	\$ 50,820,009

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. In 2012, the College collected and disbursed \$858,996 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 \$300,000 for the fiscal year ended June 30, 2012, provided additional instructional classrooms and labs.

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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 Insurance 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
Mobile Equipment and Artwork	Per artwork schedule	N/A	Arkansas Multi-Agency Insurance Trust Fund
Blanket Fidelity Bond	Actual loss up to \$250,000 \$2,500 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

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 \$2,500 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.

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 11: Risk Management (Continued)

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 \$216,359 in retiree healthcare liability as of June 30, 2012.

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, 2012 the College had one retiree participant.

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

Cost Element

	<u>July 1, 2009</u>	<u>July 1, 2011</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 260,875</u>	<u>\$ 312,345</u>
Annual Required Contribution (ARC)		
Normal Cost	<u>2009-10</u> \$ 33,400	<u>2011-12</u> \$ 42,495
Amortization of the UAAL over 30 Years	17,880	19,859
Interest	<u>3,077</u>	<u>3,274</u>
Annual OPEB Cost	<u>\$ 54,357</u>	<u>\$ 65,628</u>

There were no employer contributions toward the retiree premiums. There were "implicit contributions" in the amount of \$2,255 during the year ended June 30, 2012. This amount was calculated at the rate of \$187.93 as an implicit subsidy based on the July 1, 2011 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, 2011)	\$ 155,224
Annual OPEB Cost (2011-2012 calculated cost)	63,390
Implicit Contributions (12 months coverage at \$187.93 per actuary report)	<u>(2,255)</u>
Net OPEB Obligation June 30, 2012	<u>\$ 216,359</u>

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

The percentage of OPEB cost contributed (\$2,255) to the annual OPEB cost (\$63,390) for the fiscal year ended June 30, 2012 was 3.6%

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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

Reconciliation of Funded Status

	<u>July 1, 2009</u>	<u>July 1, 2011</u>
Actuarial Accrued Liability		
Retirees	\$ 22,476	\$ 7,634
Fully eligible active employees	48,444	83,160
Other active employees	<u>189,955</u>	<u>221,551</u>
Net Actuarial Accrued Liability	\$ 260,875	\$ 312,345
Plan Assets	<u>0</u>	<u>0</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 260,875</u>	<u>\$ 312,345</u>

Summary of Key Actuarial Methods and Assumptions

Valuation Year	July 1, 2011 to June 30, 2012
Actuarial Cost Method	Projected unit credit method, level dollar
Amortization Method	30 years, level dollar open amortization
Discount Rate	5.25%
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.

<u>Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>
July 1, 2007	\$0	\$184,617	\$184,617	0.00%
July 1, 2009	0	260,875	260,875	0.00%
July 1, 2011	0	312,345	312,345	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. The covered payroll as of July 1, 2011 was \$26,390,013, yielding a percentage of 1.2% 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, 2009</u>	<u>July 1, 2011</u>
Number of Active Employees	327	375
Number of Retirees Covered Under 65	3	1
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	\$187.93	0.00	\$187.93
Retiree, with Medicare	0.00	0.00	0.00

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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

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.

NOTE 13: Prior Year Restatement

The Comparative Statement of Net Assets has been restated for the year ended June 30, 2011. The College has determined that certain equipment was improperly expensed that should have been capitalized. Capital assets and total net assets each have been increased by a total of \$336,454. The Comparative Statement of Revenues, Expenses, and Changes in Net Assets and the Comparative Statement of Cash Flows – Direct Method has also been restated to reflect this change. The Comparative Statement of Cash Flows – Direct Method was also restated to reflect inflows and outflows pertaining to the Direct Lending program.

NOTE 14: Reclassification of Prior Year Comparative Figures

The College reclassified certain prior year elements on the Comparative Statement of Net Assets and the Comparative Statement of Cash Flows – Direct Method, Cash Flows from Noncapital Financing Activities to conform to the current year's presentation.

NOTE 15: Prior Year Reclassification of Net Assets

The College reclassified \$467,177 to invested in capital assets, net of related debt, \$941,655 to unrestricted net assets, and reduced the restricted for debt service net assets by \$1,408,832 in the prior year column of the Comparative Statement of Net Assets to properly report cash balances by fund deposited in discrete bank accounts for specific purposes. These reclassifications had no effect on total assets and liabilities or on their classifications. There was no effect on the Comparative Statement of Revenues, Expenses, and Changes in Net Assets or the Comparative Statement of Cash Flows – Direct Method.

NORTHWEST ARKANSAS COMMUNITY COLLEGE
 REQUIRED SUPPLEMENTARY INFORMATION
 FOR THE YEAR ENDED JUNE 30, 2012

Other Postemployment Benefits (OPEB)

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

Cost Element

	<u>July 1, 2009</u>	<u>July 1, 2011</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$260,875</u>	<u>\$312,345</u>
Annual Required Contribution (ARC)	<u>2009-10</u>	<u>2011-12</u>
Normal Cost	\$ 33,400	\$ 42,495
Amortization of the UAAL over 30 Years	17,880	19,859
Interest	<u>3,077</u>	<u>3,274</u>
Annual OPEB Cost	<u>\$ 54,357</u>	<u>\$ 65,628</u>

There were no employer contributions toward the retiree premiums. There were "implicit contributions" in the amount of \$2,255 during the year ended June 30, 2012. This amount was calculated at the rate of \$187.93 as an implicit subsidy based on the July 1, 2011 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, 2011)	\$ 155,224
Annual OPEB Cost (2010-2011 calculated cost)	63,390
Implicit Contributions (12 months coverage at \$187.93 per actuary report)	<u>(2,255)</u>
Net OPEB Obligation June 30, 2012	<u>\$ 216,359</u>

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

The percentage of OPEB cost contributed (\$2,255) to the annual OPEB cost (\$63,390) for the fiscal year ended June 30, 2012 was 3.6%

Reconciliation of Funded Status

	<u>July 1, 2009</u>	<u>July 1, 2011</u>
Actuarial Accrued Liability		
Retirees	\$ 22,476	\$ 7,634
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Summary of Key Actuarial Methods and Assumptions

Valuation Year	July 1, 2011 to June 30, 2012
Actuarial Cost Method	Projected unit credit method, level dollar
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Discount Rate	5.25%
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
 REQUIRED SUPPLEMENTARY INFORMATION
 FOR THE YEAR ENDED JUNE 30, 2012

Other Postemployment Benefits (OPEB) (Continued)

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

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Accrued Liability (UAAL)	Funded Ratio
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July 1, 2011	0	312,345	312,345	0.00%

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<u>Participant Data</u>	<u>July 1, 2009</u>	<u>July 1, 2011</u>
Number of Active Employees	327	375
Number of Retirees Covered Under 65	3	1
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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	\$187.93	0.00	\$187.93
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, 2012
 (Unaudited)

Schedule 1

	Year Ended June 30,				
	2012	2011	2010	2009	2008
Total Assets	\$ 72,673,302	\$ 71,996,146	\$ 58,251,559	\$ 54,962,008	\$ 52,753,370
Total Liabilities	38,739,509	36,882,145	23,842,837	24,107,769	25,867,763
Total Net Assets	33,933,793	35,114,001	34,408,722	30,854,239	26,885,607
Total Operating Revenues	11,449,283	11,738,313	12,794,527	12,654,806	11,319,376
Total Operating Expenses	50,820,009	50,332,836	43,359,333	37,297,032	34,335,118
Total Net Non-Operating Revenues	39,127,422	39,968,668	34,580,757	27,033,436	25,353,113
Total Other Revenues, Expenses, Gains or Losses	(936,904)	(668,866)	(461,468)	1,577,422	1,872,791