Northwest Arkansas Community College

Bentonville, Arkansas

Annual Financial Report
Independent Auditor's Report
and Other Reports
June 30, 2002

LEGISLATIVE JOINT AUDITING COMMITTEE

NORTHWEST ARKANSAS COMMUNITY COLLEGE
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Arkansas

Charles L. Robinson, 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 statement of net assets of the Northwest Arkansas Community College (Institution), an Institution of Higher Education of the State of Arkansas, as of June 30, 2002 and the related statement of revenues, expenses and changes in net assets and statement of cash flows for the year then ended as listed in the table of contents. These financial statements are the responsibility of the Institution's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Northwest Arkansas Community College as of June 30, 2002 and changes in its net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 2 to the financial statements, the Institution changed its accounting policy related to financial statement presentation to comply with the provisions of Statement No. 34 of the Governmental Accounting Standards Board. The primary accounting changes, other than presentation, were the adoption of depreciation of capital assets and the recognition of summer semester revenues.

Management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2003 on our consideration of the Institution's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying financial information listed as supporting schedules in the table of contents, including the schedule of Expenditures of Federal Awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements of the Institution. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

DIVISION OF LEGISLATIVE AUDIT

Charles L. Robinson, CPA, CFE
Legislative Auditor

Little Rock, Arkansas
January 17, 2003
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Arkansas

Charles L. Robinson, CPA, CFE
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LEGISLATIVE JOINT AUDITING COMMITTEE
DIVISION OF LEGISLATIVE AUDIT

COMBINED REPORT(S) ON COMPLIANCE, INTERNAL CONTROLS AND OTHER MATTERS

Northwest Arkansas Community College
Legislative Joint Auditing Committee

The underlying purpose of this letter is to convey certain observations and recommendations regarding state and federal compliance and internal control in conjunction with our audit of the Northwest Arkansas Community College (Institution). This letter reflects various requirements and pronouncements of the American Institute of Certified Public Accountants (AICPA), the United States General Accounting Office (GAO), the United States Office of Management and Budget (OMB), the Single Audit Act of 1984 and the Single Audit Act Amendments of 1996. Section I of this letter is designed to satisfy certain requirements for compliance and internal control over financial reporting, whereas, Section II is designed to satisfy certain requirements for compliance requirements applicable to each major federal award program and internal control over compliance in accordance with OMB Circular A-133.

SECTION I: REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of the Northwest Arkansas Community College, an Institution of Higher Education of the State of Arkansas, as of and for the year ended June 30, 2002, and have issued our report thereon dated January 17, 2003. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

<u>Compliance</u>

As part of obtaining reasonable assurance about whether the Institution's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of the state constitution, state and federal laws and regulations, and federal contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

<u>Internal Control Over Financial Reporting</u>

In planning and performing our audit, we considered the Institution's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that

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would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. Other matters involving compliance and/or internal control were reported to the Institution management in a separate letter.

SECTION II: REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Compliance

We have audited the compliance of the Institution with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. The Institution's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of Federal Award Programs - Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Institution's management. Our responsibility is to express an opinion on the Institution compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Institution's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Institution's compliance with those requirements.

In our opinion, the Institution complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.

Internal Control Over Compliance

The management of the Institution is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Institution's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

GENERAL COMMENTS

RELATED ORGANIZATION - There is in existence a nonprofit entity with significant financial resources which is related to the Northwest Arkansas Community College, but whose accounts are appropriately not recorded in the accounting system of the Institution. This related nonprofit entity was established, ostensibly, for the benefit of the Institution. One entity such as that described above, of which we have knowledge, is the Northwest Arkansas Community College Foundation, Inc.

Activities surrounding the above named organization, included but not limited to the following, have not been independently evaluated by the appropriate bodies outside of the Institution:

A. The holding of Officer, Director, and quasi-employee positions of related nonprofit entity by employees and/or directors of the Institution.

B. Review of expenditures by related nonprofit entity by appropriate personnel.

C. Lack of written agreement formalizing the relationship between related nonprofit entity and the Institution.

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, 2002, as reported to the State Department of Higher Education, to provide reasonable assurance that the data was properly reported. Our testing was limited to the fall and spring terms of the year. The enrollment data reported was as follows:

	Fall Term	Spring Term
Student Headcount	4,292	4,073
Student Semester Credit Hours	34,325	32,215

During our review, nothing came to our attention that would cause us to believe that the student enrollment data was not substantially correct.

These reports are intended for the information and use of the Legislative Joint Auditing Committee, state executive and oversight management, Institution management, the federal awarding agencies and pass-through entities and are not intended to be and should not be used by anyone other than these specific parties. However, these reports are a matter of public record, and distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT

William R. Baum

William R. Baum, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
January 17, 2003

Management's Discussion and Analysis

Using the Annual Report

This annual report consists of a series of financial statements prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments and GASB Statement No. 35 Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities.* These financial statements differ in both the form and the accounting principles utilized, from prior financial statements presented.

Overview of the Financial Statements and Financial Analysis

Northwest Arkansas Community College (the Institution) presents its financial statements for the fiscal year ended June 30, 2002. The Institution has elected not to restate its 2001 financial statements in the GASB financial statement presentation format. In the future years, as prior-year information is available, a comparative analysis of financial data will be provided.

The financial statements are designed to provide readers with a broad overview of finances and operations of the Institution. The Institution reports its activity as a business-type activity using the full accrual basis of accounting. The emphasis of discussions about the financial statements will be on current year data. The annual financial report of the Institution includes the following three financial statements presented with notes to the financial statements: the *Statement of Net Assets*; the *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 the Institution'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 Institution 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 the Institution. The Statement of Net Assets presents end-of-year data concerning Assets (current and non-current), Liabilities (current and non-current), and Net Assets (Assets minus Liabilities).

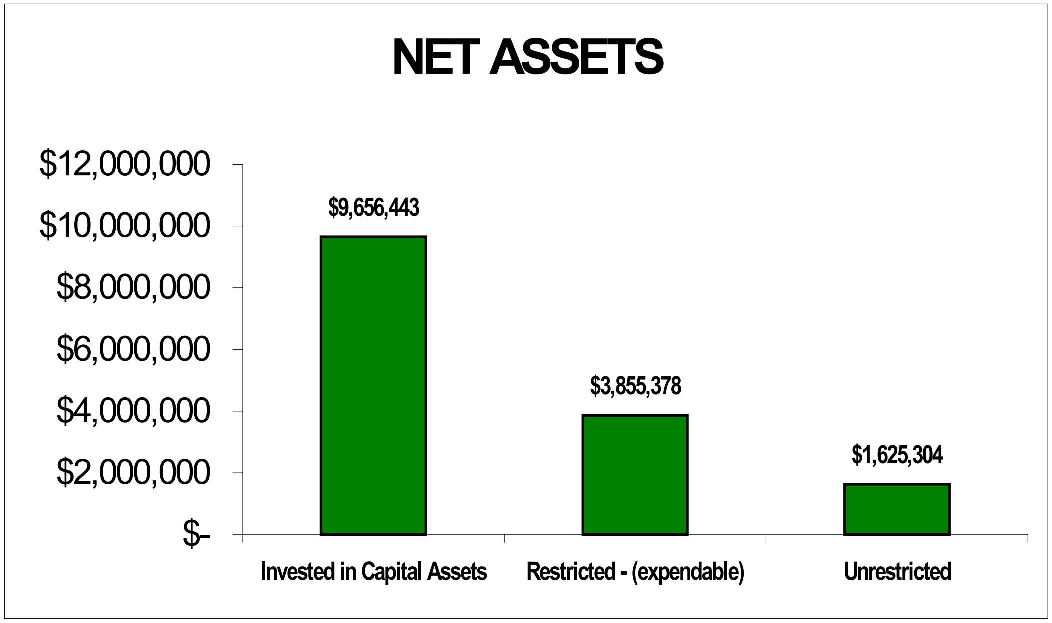
The Statement of Net Assets reports the assets available to continue the operations of the Institution. Readers of the Statement of Net Assets are able to determine the amount of liabilities owed to vendors, and lending institutions. The Net Assets section of the Statement presents the net assets (assets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

The Institution's total assets at June 30, 2002 were $26,255,711 as reported in the asset section of the Statement of Net Assets. Total assets are comprised of current assets in the amount of $4,817,701, and non-current assets of $21,438,010. Current assets are cash and other assets expected to be converted into cash or consumed in the subsequent fiscal year. Non-current assets consist of restricted cash and capital assets net of related depreciation.

The liability section reports total liabilities of the Institution at June 30, 2002 of $11,118,586. Current liabilities are obligations of the Institution that reasonably expect to be liquidated within the next twelve months. The Institution's current liabilities in the amount of $1,761,177 consisted of accounts payable and accrued liabilities, student deposits and credits (deferred tuition), the current portion of compensated absences payable, and the current portion of bonds payable.

Non-current liabilities are long-term obligations of the Institution that are payable at some date beyond the following fiscal year. Non-current liabilities of $9,357,409 are comprised of long-term portion compensated absences payable and bonds payable at June 30, 2002.

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 Institution's equity in property, plant and equipment owned by the Institution. The second category is "Restricted Net Assets," which consists of expendable resources that are available for expenditure by the Institution, 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," that are available to be used by the Institution for any lawful purpose of the Institution. By far the largest portion of the Institution's net assets (63.8 percent) is reflected in the amount of invested in capital assets.



The total amount invested in capital assets increased for the fiscal year end as noted below. The major increase in the total amount of capital assets was due to the completion and capitalization of the north expansion to the central education center and the north parking lot, along with the acquisition of office and classroom furniture, fixtures, and equipment. The balance in Construction in Progress at fiscal year end increased due to construction costs associated with the central education center west end expansion project, which is scheduled for completion in December of 2002, and the Shewmaker Center for Workforce Technologies building scheduled for completion in July, 2003. The decrease in the total net amount of capital assets at July 1, 2001, was due to the recording of accumulated depreciation for prior years through June 30, 2001 in the amount of $3,903,108; and the write-off of assets due to the change in the capitalization threshold from $500 to $2,500 in the amount of $504,802, net of accumulated depreciation.

Total liabilities increased reflecting an increase in current liabilities due to the recording of construction payables as of June 30, 2002, while non-current liabilities decreased due to the payment on capital debt of $280,000.

Statement of Revenues, Expenses & Changes in Net Assets

Changes in total net assets as reported on the Statement of Net Assets is 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 non-operating revenues received by the Institution, and the operating and non-operating expenses paid by the Institution, along with any other revenues, expenses, and gains/losses received or spent by the Institution.

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

Non-operating revenues are revenues received for which goods and services are not provided in return for the revenues. State appropriation funds provided by the State Legislature to the Institution are reported as non-operating 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 non-operating revenues since goods and services are not provided in exchange for the revenues. Non-operating revenues and expenses are considered to be non-exchange transactions.

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

Total tuition and fee revenues increased for the fiscal year to $5,615,301 compared to $5,090,291 in the previous fiscal year. This is a reflection of a 3.2% increase in enrollment from 6,174 students in 2000-2001 to 6,372 students in 2001-2002, and an increase in the tuition cost per credit hour. A significant change in the reporting of tuition and fee revenue occurred as a result of implementing GASB 35. Total tuition and fee revenue of $5,615,301 is reported net of scholarship discounts and allowances in the amount of $935,020 for the current fiscal year as shown below.

- The implementation of GASB 35 also required the reporting of depreciation expense on all depreciated assets. Depreciation expense in the amount of $ 673,931 was reported during the current fiscal year.

- State appropriations of general revenue and educational excellence funds received during the fiscal year increased 7.6% from $5,732,980 in fiscal year 2001 to $6,169,781 in fiscal year 2002, despite reductions in state funding during the year.

- Total local property tax revenue reported in the fiscal year was $3,400,577. Two mills of the revenue in the amount of $2,257,563 was used for operations of the Institution, while one mill of the tax revenue amounting to $1,143,014 was restricted for debt retirement.

- Cumulative effects of a change in accounting principles were reported due to the recording of accumulated depreciation on depreciable assets through July 1, 2001, in the amount of $3,903,108.

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

Condensed Statement of Revenues, Expenses & Changes in Net Assets
For year ended June 30, 2002

Total Operating Revenues	$ 7,798,462
Total Operating Expenses	17,558,830
Total Operating Loss	(9,760,368)
Total Non-Operating Revenue/(Expenses) and Other Changes	9,961,778
Net Increase in Net Assets	201,410
Net Assets:	
Beginning of year, restated	14,935,715
End of year	$15,137,125

Statement of Cash Flows

The final statement presented by the Institution is the Statement of Cash Flows. The Statement of Cash Flows is prepared using the direct method and presents detailed information about the cash activity of the Institution during the year. The statement is divided into five parts. A summary of the cash flows for fiscal year 2002 is as follows:

Cash provided (used) by:	
Operating Activities	($ 9,098,705)
Non-capital Financing Activities	8,992,131
Capital And Related Financing Activities	(2,244,485)
Investing Activities	228,850
Net Change in Cash	(2,122,209)
Cash – Beginning of Year	8,816,464
Cash – End of Year	$ 6,694,255

Enrollment

Student enrollment over the past five years has steadily increased the Institution as shown in the following enrollment statistics.

Headcount Enrollment

Year	Fall Headcount	Fall to Fall % Change	Spring Headcount	Spr to Spr % Change	Summer I Headcount	Summer II Headcount	Total Summer	Total Summer % Change
1997-98	3,240	12.9%	3,425	20.1%	1,088	644	1,732	80.8%
1998-99	3,542	9.3%	3,507	2.4%	947	567	1,514	-12.6%
1999-00	3,923	10.8%	3,725	6.2%	932	679	1,611	6.4%
2000-01	4,058	3.4%	3,809	2.3%	1,066	552	1,618	0.4%
2001-02	4,292	5.8%	4,073	6.9%	1,117	569	1,686	4.2%

The Institution currently anticipates a four percent annual increase in enrollment. One factor contributing to this growth in students is a 3% increase in the number of high school graduates attending NWACC immediately following high school graduation.

Factors Impacting Future Periods

The continued growth of the Institution is closely related to the rapid growth of the student population in the local public school systems. Other factors contributing to the Institution's growth include the rapid economic development of the area, low unemployment, and the demand for educated employees in the local workforce. Therefore, there is every reason to believe the potential exists for continued growth and expansion of the Institution in the foreseeable future.

State and local funding directly impacts the Institution's growth. Funding from the State of Arkansas is somewhat problematic at this time due to shortfalls in state revenue projections. However, local property tax funding is increasing. In addition, student enrollment continues to increase despite tuition rate increases. The net effect of these factors may not be significant.

Economic Outlook

The Institution 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.

The Institution's overall financial position is strong. Even with reductions in state funding, the Institution was able to generate an increase in Net Assets. The Institution anticipates that the current fiscal year will be similar to the past fiscal year. Institution 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.

Stephen W. Pelphrey
Dean of Fiscal Affairs

NORTHWEST ARKANSAS COMMUNITY COLLEGE

STATEMENT OF NET ASSETS

JUNE 30, 2002

Exhibit A

ASSETS		
Current assets		
Cash and cash equivalents	$	1,561,236
Accounts receivable, net		424,641
Property taxes receivable, net		2,490,696
Inventories		28,406
Deposits with trustee		289,687
Prepaid expenses		21,835
Other assets		1,200
Total current assets		4,817,701
Noncurrent assets		
Restricted cash and cash equivalents		5,133,019
Capital assets (net of accumulated depreciation of $3,319,994)		16,304,991
Total noncurrent assets		21,438,010
TOTAL ASSETS		26,255,711
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities		1,434,840
Long-term liabilities-current portion		326,337
Total current liabilities		1,761,177
Noncurrent liabilities		
Long-term liabilities		9,357,409
TOTAL LIABILITIES		11,118,586
NET ASSETS		
Invested in capital assets, net of related debt		9,656,443
Restricted for		
Expendable		
Scholarships and fellowships		160,472
Capital projects		389,315
Debt service		3,305,591
Unrestricted		1,625,304
TOTAL NET ASSETS	$	15,137,125

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

NORTHWEST ARKANSAS COMMUNITY COLLEGE

Exhibit B

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2002

OPERATING REVENUES	
Student tuition and fees (net of scholarship allowances of $935,020)	$ 4,680,281
Federal grants and contracts	1,716,621
State and local grants and contracts	1,067,004
Non-governmental grants and contracts	130,824
Other operating revenues	203,732
Total operating revenues	7,798,462
OPERATING EXPENSES	
Personal services	12,699,862
Supplies and services	3,918,984
Scholarships and fellowships	266,053
Depreciation	673,931
Total operating expenses	17,558,830
Operating income (loss)	(9,760,368)
NON-OPERATING REVENUES (EXPENSES)	
State appropriations	6,169,781
Property taxes	3,400,577
Gifts	20,000
Investment income	228,850
Interest on capital asset - related debt	(535,940)
Other revenue	510,244
Net non-operating revenues (expenses)	9,793,512
Income before other revenues, expenses, gains or losses	33,144
OTHER REVENUES, EXPENSES, GAINS OR (LOSSES)	
Write-off of assets due to change in capitalization level	(504,802)
Capital appropriations	679,112
Loss on disposal of capital assets	(6,044)
INCREASE (DECREASE) IN NET ASSETS	201,410
NET ASSETS - BEGINNING OF YEAR - AS ORIGINALLY REPORTED	18,838,823
Cumulative effects of changes in accounting principles	(3,903,108)
NET ASSETS - BEGINNING OF YEAR - RESTATED	14,935,715
NET ASSETS - END OF YEAR	$ 15,137,125

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

NORTHWEST ARKANSAS COMMUNITY COLLEGE
STATEMENT OF CASH FLOWS - DIRECT METHOD
FOR THE YEAR ENDED JUNE 30, 2002

Exhibit C

CASH FLOWS FROM OPERATING ACTIVITIES	
Student tuition and fees	$ 4,725,590
Grants and contracts	2,858,950
Other receipts	203,732
Payments to employees	(9,593,066)
Payments for employee benefits	(3,091,285)
Payments to suppliers	(2,989,462)
Scholarships and fellowships	(1,213,164)
Net cash used by operating activities	(9,098,705)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State appropriations	6,169,781
Private gifts and grants	20,000
Other	2,802,350
Net cash provided by noncapital financing activities	8,992,131
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Property taxes allocated for debt retirement	1,395,829
Capital appropriations	679,112
Capital gifts and grants	30,030
Deposit with trustee	87,636
Purchases of capital assets	(3,621,152)
Principal paid on capital debt	(280,000)
Interest paid on capital debt	(535,940)
Net cash used by capital and related financing activities	(2,244,485)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	228,850
Net cash provided by investing activities	228,850
Net increase (decrease) in cash and cash equivalents	(2,122,209)
Cash and cash equivalents - beginning of year	8,816,464
Cash and cash equivalents - end of year	$ 6,694,255
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating income (loss)	$ (9,760,368)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:	
Depreciation expense	673,931
Changes in assets and liabilities:	
Receivables, net	(54,118)
Inventories	(78)
Other assets	3,830
Accounts payable	18,202
Deferred revenue	(64,064)
Compensated absences	76,032
Other liabilities	7,928
Net cash provided (used) by operating activities	$ (9,098,705)

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

NOTE 1: Reporting Entity

Northwest Arkansas Community College (the Institution) is a comprehensive, public institution of higher education that serves the local, state, national, and international communities and provides varied and abundant learning opportunities to advance fundamental knowledge. The Institution is an agency of the State of Arkansas, and its governing body is the board of trustees comprised of nine (9) members.

The Institution's financial statements reflect all funds and accounts directly under the control of the Institution. There are no component units. The Institution began fiscal operations on January 30, 1990 and began offering classes in the 1990-91 school year.

NOTE 2: Summary of Significant Accounting Policies

Financial Statement Presentation

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

Basis of Accounting

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

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

Capital Assets and Depreciation

Capital assets are reported at cost or estimated historical cost if actual data is not available. Donated capital assets are reported at fair market value when received. The Institution follows the State guidelines for equipment capitalization. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

The Institution capitalizes interest involving qualifying assets, if material. The amount of interest cost to be capitalized is interest cost on borrowings netted against any interest earned on temporary investments of the proceeds of those borrowings from the date of borrowing until the specified qualifying assets acquired with those borrowings are ready for their intended use.

NOTE 2: Summary of Significant Accounting Policies (Continued)

Capital Assets and Depreciation (Continued)

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, 3 to 7 years for office and classroom equipment, 7 to 10 years for office and classroom furniture and fixtures, 5 to 6 years for motor vehicles, 10 to 15 years for archives and collections, and 10 years for library holdings.

Operating and Nonoperating Revenues

Operating Revenues – Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) most Federal, state and local, and non-governmental grants and contracts, and (3) sales and services of educational departments.

Non-Operating Revenues – Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as (1) state appropriations for general revenue and the educational excellence trust fund, (2) millage revenue that is designated for operations and debt retirement, (3) gifts and contributions, (4) investment income, and (5) other revenues that are defined as non-operating revenues by GASB No. 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that use proprietary fund accounting.

Cash Equivalents

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

Accounts Receivable

Accounts Receivable consists of tuition and fee charges to students and services provided to students, faculty and staff. Accounts Receivable also includes amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the Institution's grant and contracts. Accounts receivable are recorded net of the estimated allowance for doubtful accounts in the amount of $183,354 at June 30, 2002.

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.

NOTE 2: 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 include amounts received from grant and contract sponsors that have not yet been earned.

Compensated Absences Payable

Compensated absences payable represents the Institution's liability (salaries plus applicable salary related costs) for unused annual leave as of June 30, 2002. Unused leave for eligible employees is included in the compensated absences payable calculation as follows:

1. Accumulated vacation days are required to be used annually, with a maximum carry-over 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.
2. Upon retirement or death, any employee, or beneficiary of any employee of the Institution shall receive compensation for accumulated unused leave.

Noncurrent Liabilities

Noncurrent liabilities include (1) principal amounts of revenue bonds payable, notes payable, and capital lease obligations with contractual maturities greater that one year; (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year; and (3) other liabilities that, although payable within one year, are to be paid from funds that are classified as noncurrent assets.

Net Assets

Invested in Capital Assets, net of Related Debt - This represents the Institution's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of Invested In Capital Assets, net of Related Debt.

Restricted Net Assets – Expendable – Restricted expendable net assets include resources in which the Institution is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Unrestricted Net Assets – Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, millage, and sales and service of educational departments. These resources are used for the transactions relating to the educational and general operations of the Institution, and may be used at the discretion of the governing board to meet current expenses for any purpose.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the Institution's policy is to first apply the expense towards unrestricted resources, and then towards restricted resources.

NOTE 2: Summary of Significant Accounting Policies (Continued)

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the Institution, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, are recorded as operating revenues in the Institution's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the Institution has recorded a scholarship discount and allowance. Scholarship discounts and allowances eliminates the double counting of revenue by the Institution.

Property Taxes

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

Accounting Changes

As a result of the adoption of GASB Statement No. 34, the Institution was also required to make certain changes in accounting principles, specifically the adoption of depreciation on capital assets and recording certain summer semester revenues between fiscal years rather than the fiscal year in which the semester was predominantly conducted.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 3: Public Fund Deposits

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

	Carrying Amount	Bank Balance
Insured (FDIC)	$ 248,043	$ 241,015
Uninsured, Collateralized	5,181,589	5,275,955
Total Deposits	$ 5,429,632	$ 5,516,970

The above deposits do not include cash on deposit in the state treasury or cash on hand in the amounts of $1,260,273 and $4,350 for the year ended June 30, 2002, respectively.

NOTE 4: Income Taxes

The Institution is tax exempt under Internal Revenue Service code. It is also exempt from state income taxes under Arkansas law. Accordingly, no provision for income taxes is made in the financial statements.

NOTE 5: Capital Assets

Following are the changes in capital assets for the year ended June 30, 2002:

	Balance July 1, 2001	Additions	Transfers	Retirements	Balance June 30, 2002
Capital assets not being depreciated					
Land	$ 2,041,390				$ 2,041,390
Land improvements	681,703	$ 4,478	$ 173,762		859,943
Construction-in-progress	758,977	3,621,919	(2,481,346)		1,899,550
Total capital assets not being depreciated	3,482,070	3,626,397	(2,307,584)		4,800,883
Other capital assets					
Improvements and infrastructure	68,772		304,585		373,357
Buildings	9,360,172	39,882	2,002,999	$ (598)	11,402,455
Equipment	3,470,746	265,910		(1,760,943)	1,975,713
Archives and collections	36,945			(6,350)	30,595
Library materials	962,237	86,259		(6,514)	1,041,982
Total other capital assets	13,898,872	392,051	2,307,584	(1,774,405)	14,824,102
Less accumulated depreciation for					
Improvements and infrastructure	(4,514)	(6,634)			(11,148)
Buildings	(1,067,232)	(324,732)		40	(1,391,924)
Equipment	(2,279,128)	(253,404)		1,257,005	(1,275,527)
Archives and collections	(2,040)	(2,039)			(4,079)
Library materials	(550,194)	(87,122)			(637,316)
Total accumulated depreciation	(3,903,108)	(673,931)		1,257,045	(3,319,994)
Other capital assets, net	9,995,764	(281,880)	2,307,584	(517,360)	11,504,108
Capital Asset Summary:					
Capital assets not being depreciated	3,482,070	3,626,397	(2,307,584)		4,800,883
Other capital assets, at cost	13,898,872	392,051	2,307,584	(1,774,405)	14,824,102
Total cost of capital assets	17,380,942	4,018,448		(1,774,405)	19,624,985
Less accumulated depreciation	(3,903,108)	(673,931)		1,257,045	(3,319,994)
Capital Assets, net	$ 13,477,834	$ 3,344,517	$ 0	$ (517,360)	$ 16,304,991

NOTE 6: Long-Term Liabilities

Debt payments on bonds amounted to $816,943 for the fiscal year ended June 30, 2002.

A summary of long-term debt is as follows:

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized and Issued	Debt Outstanding June 30, 2002	Maturities To June 30, 2002
10-1992	11-2012	4.25-5.8%	$ 5,635,000	$ 3,870,000	$ 1,765,000
11-2000	11-2020	4.8-5.875%	5,435,000	5,410,000	25,000
Totals			$ 11,070,000	$ 9,280,000	$ 1,790,000

The changes in long-term liabilities are as follows:

	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002	Amounts due within one year
Bonds	$ 9,560,000		$ 280,000	$ 9,280,000	$ 290,000
Compensated Absences	327,713	$ 108,968	32,935	403,746	36,337
Total	$ 9,887,713	$ 108,968	$ 312,935	$ 9,683,746	$ 326,337

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

Year ended June 30,	Principal	Interest	Total
2003	$ 290,000	$ 521,723	$ 811,723
2004	305,000	506,448	811,448
2005	320,000	490,100	810,100
2006	335,000	472,663	807,663
2007	355,000	453,961	808,961
2008-2012	2,095,000	1,936,390	4,031,390
2013-2017	2,750,000	1,240,779	3,990,779
2018-2022	2,830,000	387,676	3,217,676
Totals	$ 9,280,000	$ 6,009,740	$ 15,289,740

NOTE 7: Commitments

The Institution was contractually obligated for the following at June 30, 2002:

A. Construction Contracts

Project Name	Estimated Completion Date	Contract Balance
CEC -West Expansion Project	12-31-2002	$ 2,743,941
Workforce Development Building	7-15-2003	4,470,201
Wellness Center	Unknown	30,000
Security System	Unknown	1,675

B. Operating Leases - The following represents future minimum rental payments (aggregate) at June 30, 2002. The leases are comprised of four (4) facility rentals, various office and computer equipment leases:

Year Ended June 30,	Amount
2003	$ 641,838
2004	422,597
2005	270,485
2006	145,209
2007	81,900
2008 - 2012	6,825
Total	$ 1,568,854

NOTE 8: Retirement Plans

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

Plan Description. The Institution participates in TIAA/CREF, a defined contribution plan. The plan is a 403(b) program as defined by Internal Revenue Service Code of 1986 as amended, and is administered by TIAA/CREF. TIAA is an insurance company offering participants a traditional annuity with guaranteed 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 law authorizes participation in the plan.

Funding Policy. TIAA/CREF has contributory and non-contributory plans. Contributory members contribute 4% of earnings to the plan. The Institution contributes 6% of earnings for non-contributory and 10% for contributory members. The Institution's and participants' contributions for the year ended June 30, 2002 were $544,284 and $206,792, respectively.

NOTE 8: Retirement Plans (Continued)

Arkansas Teacher Retirement System

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

Funding Policy. ATRS has contributory and non-contributory plans. Contributory members are required by law to contribute 6% of their salaries. Each participating employer is required by law to contribute at a rate established the by Arkansas General Assembly. The current employer rate is 12%. The Institution's contributions to ATRS for the years ended June 30, 2002, 2001 and 2000 were $185.051, $197,484 and $166,814, respectively, equal to the required contributions for each year.

Arkansas Public Employees Retirement System

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

Funding Policy. APERS has contributory and non-contributory plans. Contributory members are required by law to contribute 6% of their salaries. Each participating employer is required by law to contribute at a rate established by the Arkansas General Assembly. The current statutory employer rate is 10% of annual covered payroll. The Institution's contributions to APERS for the years ended June 30, 2002, 2001 and 2000 were $97,755, $96,862 and $104,507, respectively, equal to the required contributions for each year.

NOTE 9: Operating expenses by Functional Classifications

The Institution's operating expenses by functional classifications were as follows:

	Personal services	Scholarships & fellowships	Supplies & services	Depreciation	Total
Instruction	$ 7,305,420		$ 923,584		$ 8,229,004
Academic support	907,973		161,579		1,069,552
Student services	1,524,864		166,004		1,690,868
Institutional support	2,613,646		824,555		3,438,201
Scholarships and fellowships		$ 266,053	947,111		1,213,164
Operations and maintenance of plant	347,959		896,151		1,244,110
Depreciation				$ 673,931	673,931
Total	$ 12,699,862	$ 266,053	$ 3,918,984	$ 673,931	$ 17,558,830

NOTE 10: Related Organizations

The financial statements do not include assets, liabilities, fund balances, and changes in fund balances, relating to Northwest Arkansas Community College Foundation, Inc.

The Institution operates as a nonprofit benevolent corporation for charitable educational purposes. The Foundation's financial statements were audited by other certified public accountants. A summary of the Foundation's financial condition as of June 30, 2002, follows:

ASSETS	
Cash and investments	$ 3,853,183
Notes receivable	1,340
Contributions receivable	1,397,980
Physical properties	3,884
Other	170
TOTAL ASSETS	$ 5,256,557
LIABILITIES AND NET ASSETS	
Accounts payable and accrued expenses	$ 2,913
Net assets	5,253,644
TOTAL LIABILITIES AND NET ASSETS	$ 5,256,557

NOTE 10: Related Organizations (Continued)

Major components of the changes in net assets during 2002 consisted of:

Donations	$	653,663
Other revenue and additions		55,760
Total		709,423
Expenditures		281,846
Net increase/(decrease) in net assets	$	427,577

NOTE 11: Contingencies/Litigation

The Institution is a party to litigation and other claims in the ordinary course of business. The most important case involved a suit by certain taxpayers in Benton County alleging that a portion of the 1998 property taxes were improperly assessed. A partial refund of those taxes is possible. The outcome of this case was not known as of June 30, 2002.

NOTE 12: Subsequent Events

Subsequent to June 30, 2002, the Institution issued bonds in the amount of $4,065,000 to refinance debt.

NORTHWEST ARKANSAS COMMUNITY COLLEGE
EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2002

Schedule 1

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures
STUDENT FINANCIAL ASSISTANCE CLUSTER			
U. S. Department of Education:			
Federal Supplemental Educational Opportunity Grants (Note 3)	84.007		$ 122,119
Federal Family Education Loans (Note 2)	84.032		1,008,702
Federal Work-Study Program (Note 3)	84.033		116,642
Federal Pell Grant Program	84.063		1,383,450
TOTAL STUDENT FINANCIAL ASSISTANCE CLUSTER			2,630,913
OTHER PROGRAMS			
National Science Foundation:			
Education and Human Resources (Pass-Through Grantor - University of Arkansas, Fayetteville)	47.076	SA0103047	13,372
U. S. Department of Education:			
Adult Education-State Grant Program (Pass-Through Grantor - Arkansas State Department of Workforce Education and Career Opportunities)	84.002	10490	85,683
Vocational Education-Basic Grants to States (Pass-Through Grantor - Arkansas State Department of Workforce Education and Career Opportunities)	84.048	Unavailable	94,431
Tech-Prep Education (Pass-Through Grantor - Bentonville School District No. 6, Bentonville, Arkansas)	84.243	Unavailable	5,022
Total U. S. Department of Education			185,136
TOTAL OTHER PROGRAMS			198,508
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 2,829,421

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1: Basis of Presentation - The accompanying schedule of expenditures of federal awards includes the federal grant activity of Northwest Arkansas Community College and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the presentation of, the basic financial statements.

Note 2: Federal Family Education Loans (CFDA 84.032) - The expenditure amount is equal to the loans disbursed for the fiscal year ended June 30, 2002. Federal Family Education Loans were not recorded on the Institution's general ledger.

Note 3: Institutional Match - The Federal Work-Study Program and the Federal Supplemental Educational Opportunity Grants Program amounts include both federal disbursements and institutional matching of 25% for the fiscal year ended June 30, 2002.

NORTHWEST ARKANSAS COMMUNITY COLLEGE
FEDERAL AWARD PROGRAMS -
FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2002

Schedule 2

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

• Material weakness(es) identified?	☐ yes	☑ no
• Reportable condition(s) identified that are not considered to be material weakness(es)?	☐ yes	☑ none reported

Noncompliance material to financial statements noted?	☐ yes	☑ no

FEDERAL AWARDS

Internal control over major programs:

• Material weakness(es) identified?	☐ yes	☑ no
• Reportable condition(s) identified that are not considered to be material weakness(es)?	☐ yes	☑ none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	☐ yes	☑ no

Identification of major programs:

CFDA Numbers	Name of Federal Programs or Cluster
Various	Student Financial Assistance Cluster

Dollar threshold used to distinguish between Type A and Type B programs $ 300,000

Auditee qualified as low-risk auditee?	☑ yes	☐ no

SECTION II - FINANCIAL STATEMENT FINDINGS

No findings noted.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No findings and questioned costs noted.

NORTHWEST ARKANSAS COMMUNITY COLLEGE
FEDERAL AWARD PROGRAMS -
SUMMARY OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2002

Schedule 3

There were no findings in the prior audit.