Northwest Arkansas Community College

Bentonville, Arkansas

Basic Financial Statements
and Other Reports
June 30, 2006

LEGISLATIVE JOINT AUDITING COMMITTEE

NORTHWEST ARKANSAS COMMUNITY COLLEGE
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BASIC FINANCIAL STATEMENTS

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 basic financial statements of the Northwest Arkansas Community College (Institution), an Institution of Higher Education of the State of Arkansas, as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the Institution's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Northwest Arkansas Community College Foundation, Inc., which represent 100% of the assets, net assets, and revenues of the aggregate discretely presented component unit(s). 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(s) 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 above present fairly, in all material respects, the respective financial position of the Northwest Arkansas Community College and of its aggregate discretely presented component unit(s) as of June 30, 2006, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 19, 2007 on our consideration of the Institution's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

DIVISION OF LEGISLATIVE AUDIT

Roger A. Norman

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

Little Rock, Arkansas
February 19, 2007
EDHE19806

Arkansas

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 Northwest Arkansas Community College (Institution), an Institution of Higher Education of the State of Arkansas, as of and for the year ended June 30, 2006, and have issued our report thereon dated February 19, 2007. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of Northwest Arkansas Community College Foundation, Inc. as described in our report on the Institution's financial statements. The financial statements of the Northwest Arkansas Community College Foundation, Inc. were not audited in accordance with *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 an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Institution's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are disclosed below in the Audit Findings section of this letter.

A material weakness is a reportable 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 caused by error or fraud in amounts that 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider the finding below to be a material weakness.

<u>Compliance and Other Matters</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, 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 also noted certain additional matters that we reported to management of the Institution in a separate letter dated February 19, 2007.

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AUDIT FINDINGS

Reportable Condition(s)

The Institution had inadequate control over cashiering functions because of insufficient segregation of duties.

These reports are intended solely for the information and use of the Legislative Joint Auditing Committee, the governing board, institution management, state executive and oversight management, and other parties as required by Arkansas Code, and are not intended to be and should not be used by anyone other than these specified parties. However, pursuant to Arkansas Code Annotated §10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT

William R. Baum

William R. Baum, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
February 19, 2007

Sen. Henry "Hank" Wilkins, IV
Senate Co-Chair
Rep. Tommy G. Roebuck
House Co-Chair
Sen. Randy Laverty
Senate Co-Vice Chair
Rep. Sandra Prater
House Co-Vice Chair

Arkansas

Charles L. Robinson, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE
DIVISION OF LEGISLATIVE AUDIT

MANAGEMENT LETTER

Northwest Arkansas Community College
Legislative Joint Auditing Committee

As a management service, we would like to bring to your attention the following other 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 achieve adequate internal controls. These matters were discussed previously with institution officials during the course of our audit fieldwork and at the exit conference.

We performed audit procedures on the information system controls in the BANNER Payroll and Student Accounts Receivable modules for the period September 5, 2006 through December 4, 2006. The following information systems control weaknesses were noted:

A. General Controls

1. Using port scan software, security vulnerabilities were noted. If exploited, unauthorized usage of computing assets could occur.

   We recommend all allocated IP's be reviewed and ports not in use should be filtered or closed to prevent unauthorized access from intruders OUTSIDE the network.

2. There is no formal documented and approved disaster recovery plan. This situation could cause the college to be without computer processing for an extended period of time in the event of a disaster or major interruption and could also place a financial and personnel burden on the resources of the College.

   We recommend that management develop a formal Disaster Recovery Plan for the application. This plan should be written, approved by management and tested on a regular basis. The plan should address how the entity would recover from short or long-term outages, as well as how operations would continue during the recovery effort. A copy of the plan should be stored in a secure off-site location.

B. Application Controls

1. Weak password control parameters existed. These conditions could lead to misuse or theft of college funds.

   We recommend implementing strengthened password and security parameters to decrease the likelihood of unauthorized access to the application.

2. Terminated employee security access is not being removed in a timely manner. This increases the likelihood that an unauthorized person could gain access to the system.

   We recommend that Security Administrator establish a process to ensure that only authorized individuals have the ability to access applications and that terminated employee's accounts be removed in a timely manner.

3. Some users have inappropriate (excessive) access to the application – application users should only have access necessary to perform their job role. Failure to properly assign access permissions increases the risk of accidental or intentional unauthorized transactions or data manipulation.

   We recommend that Administrator review and revise security accounts to restrict access to only what is necessary for users to perform their job functions.

B. Application Controls (Continued)

4. Data integrity controls for the payroll module were inadequate. Sound information system practices dictate that appropriate input edit checks should be in place to prevent erroneous data from entering the system.

   We recommend that the College work with the application's vendor and ensure that the proper data input edit checks are in place.

5. Programming personnel were discovered with both update access to the production system and the ability to move programming changes into the production system. This access to both program logic and application data files violates industry standards and affords the opportunity to process and conceal unauthorized transactions.

   We recommend that the College revoke production update access privileges to programming personnel.

6. Files sent from the Student Accounts Receivable were sent with no control totals. Without control totals on files sent, there is no way the receiving party can establish data assurance (i.e. they received a complete and accurate file).

   We recommend that the College send record count/control totals with all outgoing files.

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, 2006, 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 2005	Spring Term 2006
Student Headcount	5,885	5,680
Student Semester Credit Hours	46,855	45,117

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 solely for the information and use of the Legislative Joint Auditing Committee, the governing board, institution management, state executive and oversight management, and other parties as required by Arkansas Code, and are not intended to be and should not be used by anyone other than these specified parties. However, pursuant to Arkansas Code Annotated §10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT

William R. Baum

William R. Baum, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
February 19, 2007

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, 2006 with comparative financial data for the fiscal year ended June 30, 2005.

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

Statement of Net Assets

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

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

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

Northwest Arkansas Community College's total assets at June 30, 2006 were $49,223,041 compared to $48,114,586 on June 30, 2005, as reported in the asset section of the *Statement of Net Assets*. Total assets are comprised of current assets in the amount of $15,878,866 and noncurrent assets of $33,344,175 for fiscal year 2006, compared to $7,519,140 and $40,595,446 respectively for the 2005 fiscal year. Current assets are cash and other assets expected to be converted into cash or consumed in the subsequent fiscal year. Noncurrent assets consist of restricted cash and capital assets net of related depreciation.

The liability section reports total liabilities of Northwest Arkansas Community College at June 30, 2006 of $28,112,174, and $26,582,276 at June 30, 2005. Current liabilities are obligations of the Institution that reasonably expect to be liquidated within the next twelve months. Northwest Arkansas Community College's current liabilities in the amount $4,139,641 at June 30, 2006, consisted of accounts payable and accrued liabilities, student deposits and credits (deferred tuition), the current portion of compensated absences payable, and the current portion of notes payable and bonds payable compared to $2,287,662 at June 30, 2005.

Noncurrent liabilities are long-term obligations of the Institution that are payable at some date beyond the following fiscal year. Noncurrent liabilities of $23,972,533 at June 30, 2006, were comprised of long-term portion compensated absences payable, notes payable, and bonds payable compared to $24,294,614 at June 30, 2005. During the year, the Institution secured five-year note payable in the amount of $248,621 to finance the purchase of an Oracle site license, a software operating system used to support the Institution's SCT Banner Information ERP system.

Statement of Net Assets (Continued)

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. The second category is "Restricted" net assets, which consists of expendable resources that are available for expenditure by the college, but must be spent for purposes as determined by donor(s) and/or external entities that have placed purpose and/or time restrictions on the use of the assets. The third category is "Unrestricted" net assets, which are available to be used by the college for any lawful purpose of the institution. By far the largest portion of Northwest Arkansas Community College's net assets is reflected in the amount invested in capital assets.

The following is a condensed Statement of Net Assets:

	June 30, 2006	June 30, 2005
ASSETS:		
Current Assets	$ 15,878,866	$ 7,519,140
Non-current Assets	33,344,175	40,595,446
TOTAL ASSETS	**$ 49,223,041**	**$ 48,114,586**
LIABILITIES:		
Current Liabilities	$ 4,139,641	$ 2,287,662
Non-current Liabilities	23,972,533	24,294,614
TOTAL LIABILITIES	**$ 28,112,174**	**$ 26,582,276**
NET ASSETS:		
Invested in capital assets, net of related debt	$ 14,419,672	$ 14,140,107
Restricted	4,817,326	4,504,388
Unrestricted	1,873,869	2,887,815
TOTAL NET ASSETS	**$ 21,110,867**	**$ 21,532,310**

Unrestricted net assets decreased due to the reduction in the unrestricted fund balance during the year resulting from taking over the operations of the Northwest Arkansas Regional Technology Center from the Fayetteville Public School System on July 1, 2005.

Summary of amounts Invested in Capital Assets, net of related debt as of June 30, 2006 and 2005 is as follows:

	June 30, 2006	June 30, 2005
Capital Assets not Depreciated	$ 9,989,423	$ 3,570,132
Other Capital Assets	27,231,438	25,326,860
Total Capital Assets	37,220,861	28,896,992
Less: Accumulated Depreciation	(7,043,230)	(5,596,239)
Capital Assets, net	$ 30,177,631	$ 23,300,753
Less: Related Debt	(22,910,000)	(23,485,000)
Plus: Unspent Portion of Bond Proceeds	7,152,041	14,324,354
Capital Assets, net of related debt	$ 14,419,672	$ 14,140,107

The college also obtained financing in the amount of $248,621 for the purchase of an Oracle site license, a software operating system for the college's Banner Information System. The Institution also records compensated absences as part of non-current liabilities for employees having 50 days (400 hours) or more of accrued sick leave that the Institution is required to pay the employee upon retirement or employee's beneficiary upon death of the employee.

Statement of Revenues, Expenses & Changes in Net Assets

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

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

Nonoperating revenues are revenues received for which goods and services are not provided in return for the revenue. State appropriation funds provided by the State Legislature to the college are reported as nonoperating revenue because the Legislature does not receive commensurate goods or services for these revenues. Local property tax millage and investment income received is also reported as non-operating revenue since goods and services are not provided in exchange for the revenue. Nonoperating 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 fiscal year 2006 to $8,964,912 compared to $7,412,875 in the previous fiscal year. Additional tuition and fee revenue was reported due to the College taking over the operations of the Regional Technology Center from the Fayetteville Public School System on July 1, 2005, and acquiring the operations of the Arkansas Aviation Technology Center on January 1, 2006.

- Tuition and fees are reported net of scholarship discount and allowance of $1,736,810 in 2006 and $1,470,090 in 2005.

- Total operating expenses increased from $23,251,360 in 2005 to $28,634,696 due to the increase in labor and fringe benefit expenses, student scholarship expense, operational supplies and services purchased, and depreciation expense of buildings, furniture, fixtures, and equipment. Operating expenses increased due to the College taking over the operations of the Regional Technology Center from the Fayetteville Public School System on July 1, 2005, and acquiring the operations of the Arkansas Aviation Technology Center on January 1, 2006.

- State appropriation of general revenue and educational excellence funds received during the fiscal year increased 9.6% from $7,292,366 in fiscal year 2005 to $7,993,578 in fiscal year 2006.

- Total local property tax millage (3 mills) revenue reported in the fiscal year was $4,992,429 compared to $4,838,708 in 2005. Two mills of the revenue were used for operations of the college, while one mill was restricted for debt retirement.

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

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

Condensed Statement of Revenues, Expenses & Changes in Net Assets

	June 30, 2006	June 30, 2005
Total Operating Revenues	$ 9,861,394	$ 7,906,878
Total Operating Expenses	28,634,696	23,251,360
Total Operating Income (Loss)	**(18,773,302)**	**(15,344,482)**
Total Non-Operating Revenue/(Expenses) and Other Changes	18,732,392	14,868,667
Net Increase (Decrease) in Net Assets	**(40,910)**	**(475,815)**
Net Assets:		
Beginning of year	21,151,777	22,008,125
End of year	$ 21,110,867,	$ 21,532,310

Statement of Cash Flows

The final statement presented by Northwest Arkansas Community College is the *Statement of Cash Flows*. The Statement of Cash Flows is prepared using the direct method and presents detailed information about the cash activity of the Institution during the year. The statement is divided into five parts. The first section deals with operating cash flows and shows the net cash used by the operating activities of the college. The second section reflects cash flows from non-capital financing activities. This section reflects the cash received and spent for non-operating, non-investing, and non-capital financing purposes. The third section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section deals with cash flows from investing activities. The fifth section reconciles the net cash used in the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

A summary of the cash flows for fiscal year 2006 and 2005 is as follows:

Cash provided (used) by:	June 30, 2006	June 30, 2005
Operating Activities	($ 16,761,010)	($ 14,144,586)
Non-capital Financing Activities	15,971,824	14,860,408
Capital Related Financing Activities	(350,852)	(641,575)
Investing Activities	48,927	46,436
Net Change in Cash	(1,091,111)	120,683
Cash – Beginning of Year	6,082,532	5,961,849
Cash – End of Year	$ 4,991,421	$ 6,082,532

Enrollment

Student enrollment over the past seven years has steadily increased at Northwest Arkansas Community College as shown in the following enrollment statistics.

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

The Institution's non-duplicated student headcount increased by 5.5% from 7,792 in 2005 to 8,217 in 2006. Management is currently anticipating a seven percent annual increase in enrollment for 2007. One factor contributing to this growth in students is a significant increase in the number of high school graduates attending NWACC immediately following high school graduation.

Factors Impacting Future Periods

The continued growth of Northwest Arkansas Community College is closely related to the rapid growth of the student population in the local public school systems. Other factors contributing to the college's growth include the rapid economic development of the area, low unemployment, and the demand for educated employees in the local workforce.

The college will expand the number of classes offered at its satellite campus in Washington County within the 2007 fiscal year in order to provide additional classes in its service area and to meet the growing demands and needs of students. On July 1, 2005, the college took over the operations of the Fayetteville West Campus from the Fayetteville Public School System and will offer technical and vocational classes along with concurrent college credit classes to area high school students. In 2007, the college plans to recruit and increase the number of students attending technical and vocational classes at the Regional Technology Center from area high schools. In addition to expanding class schedule of personal enrichment and non-credit classes offered to Bella Vista residents at the "Highlands Crossing" campus, the college added two additional classrooms for credit classes for students in western Benton County and southwestern Missouri counties. The Institution will continue to expand its distance learning program to provide students with other learning opportunities along with entering into "partnerships" with four-year institutions to ensure successful transfer of classes.

During the fiscal year, the Institution reviewed and updated its five year strategic plan outlining the major initiatives that will guide the direction and operations of the college in the next five years as it strives to become a nationally recognized institution of higher learning. In addition, the Institution began implementing its five year master facilities plan that outlines the plans for development of college property and construction of buildings on the campus within the next ten years. In August of 2006, the college and its Foundation completed construction and opened a five story, 800 space parking deck to provide students with adequate parking facilities. Construction of the 80,000+ sq foot Student Center Plaza will be completed in January of 2007 providing students with a new campus bookstore, food court, cyber-café, student lounge and game rooms, along with a "one-stop-shop" student enrollment management services, testing center along with classrooms and faculty offices. There is every reason to believe the potential exists for continued growth and expansion of the college in the foreseeable future.

Factors Impacting Future Periods *(Continued)*

State and local funding directly impacts Northwest Arkansas Community College's growth. Funding from the State of Arkansas is somewhat problematic at this time due to uncertainty in state revenue projections. However, local property tax funding is increasing and student enrollment continues to increase.

Economic Outlook

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

In the coming year, college Administration plans to increase and diversify funding resources by developing and implementing plans to secure outside funding from grants, partnerships and alliances, and fund-raising activities

Northwest Arkansas Community College's overall financial position is strong. The College is optimistic that the current fiscal year will be as successful as the past fiscal year. College 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.

Debi Buckley, JD
Vice President For Finance and Administration

Exhibit A

NORTHWEST ARKANSAS COMMUNITY COLLEGE

COMPARATIVE STATEMENT OF NET ASSETS

JUNE 30, 2006

	June 30, 2006	June 30, 2005
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 1,824,877	$ 3,282,031
Accounts Receivable (less allowances of $568,709 and $560,682)	643,967	885,594
Property Taxes Receivable	3,849,218	3,134,457
Inventories	26,884	29,980
Deposits with Bond Trustee	9,298,310	152,728
Prepaid Expenses	231,689	30,429
Other Assets	3,921	3,921
Total Current Assets	15,878,866	7,519,140
Noncurrent Assets		
Restricted Cash and Cash Equivalents	3,166,544	2,800,501
Deposits with Trustee		14,494,192
Capital Assets (net of accumulated depreciation of $7,043,230 and $5,596,239)	30,177,631	23,300,753
Total Noncurrent Assets	33,344,175	40,595,446
TOTAL ASSETS	49,223,041	48,114,586
LIABILITIES		
Current Liabilities		
Accounts Payable and Accrued Liabilities	3,282,680	1,506,964
Bonds and Notes Payable - Current Portion	795,084	730,630
Compensated Absences - Current Portion	61,877	50,068
Total Current Liabilities	4,139,641	2,287,662
Noncurrent Liabilities		
Bonds and Notes Payable	22,796,865	23,343,328
Compensated Absences	1,175,668	951,286
Total Noncurrent Liabilities	23,972,533	24,294,614
TOTAL LIABILITIES	28,112,174	26,582,276
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	14,419,672	14,140,107
Restricted for		
Expendable		
Scholarships and Fellowships	14,327	13,752
Instructional Departments Uses	91,126	54,675
Debt Service	4,711,873	4,435,961
Unrestricted	1,873,869	2,887,815
TOTAL NET ASSETS	$ 21,110,867	$ 21,532,310

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

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NORTHWEST ARKANSAS COMMUNITY COLLEGE FOUNDATION, INC. Exhibit A-1

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2006 AND 2005

	2006	2005
ASSETS		
Cash and cash equivalents	$ 2,058,059	$ 1,427,829
Assets held in reserve	3,284,968	8,101,704
Accounts receivable	662	
Contributions receivable	584,417	55,000
Loans receivable	750	425
Investments	762,111	682,955
Property and equipment, net	7,350,410	2,260
Bond issuance costs	155,796	148,296
Total Assets	$ 14,197,173	$ 10,418,469
LIABILITIES		
Accounts payable and other liabilities	$ 2,069,063	
Bonds payable	8,250,000	$ 8,250,000
Total Liabilities	10,319,063	8,250,000
NET ASSETS		
Unrestricted	1,369,881	760,760
Temporarily restricted	1,840,416	1,291,121
Permanently restricted	667,813	116,588
Total Net Assets	3,878,110	2,168,469
Total Liabilities and Net Assets	$ 14,197,173	$ 10,418,469

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Exhibit B

NORTHWEST ARKANSAS COMMUNITY COLLEGE

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2006

	Year Ended June 30, 2006	Year Ended June 30, 2005
OPERATING REVENUES		
Tuition and Fees (Net of scholarship allowance of $1,736,810 and $1,470,090)	$ 8,964,911	$ 7,412,875
Nongovernmental Grants and Contracts	261,473	236,308
Other Operating Revenues	635,010	257,695
TOTAL OPERATING REVENUES	9,861,394	7,906,878
OPERATING EXPENSES		
Personal Services	20,015,596	16,172,825
Scholarships and Fellowships	1,701,035	1,549,937
Supplies and Services	5,766,060	4,474,235
Depreciation	1,152,005	1,054,363
TOTAL OPERATING EXPENSES	28,634,696	23,251,360
OPERATING (LOSS)	(18,773,302)	(15,344,482)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations	7,993,578	7,292,366
Federal Grants and Contracts	3,529,729	3,127,579
State Grants and Contracts	2,267,692	1,413,632
Property Taxes	4,992,429	4,838,708
Gifts	132,922	132,778
Investment Income	580,057	91,172
Interest on Capital Asset - Related Debt	(1,074,294)	(461,164)
Other Expenses	(249,746)	(461,592)
NET NONOPERATING REVENUES	18,172,367	15,973,479
INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS OR (LOSSES)	(600,935)	628,997
OTHER REVENUES, EXPENSES, GAINS OR (LOSSES)		
Capital Appropriations	189,915	67,106
Net Bond Issuance Costs		(565,669)
Proceeds From Acquisition of Educational Programs	397,757	
Loss on Disposal of Capital Assets	(27,647)	(2,907)
Litigation Settlement		(603,342)
Correction of Prior Period Depreciation	(380,533)	
(DECREASE) IN NET ASSETS	(421,443)	(475,815)
NET ASSETS - BEGINNING OF YEAR	21,532,310	22,008,125
NET ASSETS - END OF YEAR	$ 21,110,867	$ 21,532,310

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

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NORTHWEST ARKANSAS COMMUNITY COLLEGE FOUNDATION, INC.
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

Exhibit B-1

	2006				2005
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total (Summarized)
REVENUES AND SUPPORT					
Special events					
Special event revenue	$ 141,654			$ 141,654	$ 83,395
Less cost of direct benefit to donors	45,959			45,959	27,136
Total special events	95,695			95,695	56,259
Contributions	268,891	$ 834,417	$ 551,225	1,654,533	1,215,531
Investment income	73,324			73,324	61,058
Parking fees	500,300			500,300	
Miscellaneous income	65			65	64
Net assets released from restrictions:					
Satisfaction of donor restrictions	285,122	(285,122)			
Total support and revenues	1,223,397	549,295	551,225	2,323,917	1,332,912
EXPENSES					
Program	354,404			354,404	472,362
Management and general	235,604			235,604	255,199
Fundraising	24,268			24,268	45,136
Total expenses	614,276			614,276	772,697
CHANGE IN NET ASSETS	609,121	549,295	551,225	1,709,641	560,215
NET ASSETS, BEGINNING OF YEAR	760,760	1,291,121	116,588	2,168,469	1,608,254
NET ASSETS, END OF YEAR	$ 1,369,881	$ 1,840,416	$ 667,813	$ 3,878,110	$ 2,168,469

Exhibit C

NORTHWEST ARKANSAS COMMUNITY COLLEGE
COMPARATIVE STATEMENT OF CASH FLOWS - DIRECT METHOD
FOR THE YEAR ENDED JUNE 30, 2006

	Year Ended June 30, 2006	2005
Cash Flows from Operating Activities		
Proceeds from Tuition and Fees	$ 9,523,212	$ 7,351,407
Proceeds from Grants and Contracts	214,560	223,613
Other Receipts (payments)	635,010	257,695
Payments to Employees	(15,327,950)	(12,518,844)
Payments for Benefits	(4,149,694)	(3,445,541)
Payments to Suppliers	(5,955,113)	(4,462,979)
Payments for Scholarships and Fellowships	(1,701,035)	(1,549,937)
Net Cash (used) by Operating Activities	(16,761,010)	(14,144,586)
Cash Flows from Noncapital Financing Activities		
State Appropriations	7,993,578	7,292,366
Proceeds From Grants and Contracts	5,128,397	4,469,471
Private Gifts and Grants	96,251	132,778
Litigation Settlement	(416,705)	
Millage Revenue	3,170,303	2,965,793
Net Cash provided by Noncapital Financing Activities	15,971,824	14,860,408
Cash Flows from Capital and Related Financing Activities		
Proceeds From Acquisition of Educational Programs	200,000	
Capital Appropriations	189,915	67,106
Property Taxes Allocated for Debt Retirement	1,585,152	1,412,227
Purchases of Capital Assets	(593,768)	(1,226,547)
Deposits with Trustee	(1,557,361)	(806,774)
Principal Payments on Capital Debt and Leases	(155,630)	(78,317)
Interest Paid on Capital Debt	(19,160)	(9,270)
Net Cash (used) by Capital and Related Financing Activities	(350,852)	(641,575)
Cash Flows from Investing Activities		
Interest on Investments	48,927	46,436
Net Increase (Decrease) in Cash	(1,091,111)	120,683
Cash and Cash Equivalents - Beginning of Year	6,082,532	5,961,849
Cash and Cash Equivalents - End of Year	$ 4,991,421	$ 6,082,532

Exhibit C

NORTHWEST ARKANSAS COMMUNITY COLLEGE
COMPARATIVE STATEMENT OF CASH FLOWS - DIRECT METHOD
FOR THE YEAR ENDED JUNE 30, 2006

	Year Ended June 30, 2006	2005
Reconciliation of Net Operating Loss to Net Cash (Used) by Operating Activities		
Operating (Loss)	$ (18,773,302)	$ (15,344,482)
Adjustments to reconcile net (loss) to net cash (used) by operating activities		
Depreciation Expense	1,152,005	1,054,363
Changes in Assets and Liabilities:		
Receivables, net	410,023	(48,074)
Inventories	3,095	6,559
Other Assets	(201,260)	1,528
Accounts Payable	412,238	59,048
Compensated Absences	236,191	126,472
Net cash (used) by operating activities	$ (16,761,010)	$ (14,144,586)
NONCASH TRANSACTIONS		
Bonds issued		$ 23,485,000
Net bond issuance costs		565,669
Note payable issued	$ 248,621	
Other purchases, non-cash		461,592
Litigation settlement		603,342
Donated assets	197,757	

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

NOTE 1: Summary of Significant Accounting Policies

Reporting Entity

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

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

Financial Statement Presentation

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

Component Units

In May 2002, GASB issued Statement No. 39, "Determining Whether Certain Organizations Are Component Units" which amends GASB Statement No. 14 to provide additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with a primary government. Under the statement, which became effective with the fiscal year ending June 30, 2004, the financial activities of qualifying foundations are to be included in the financial statements of the primary government, through discrete presentations. There is one qualifying foundation for the Northwest Arkansas Community College: the Northwest Arkansas Community College Foundation, Inc.

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

During the year ended June 30, 2006, the Foundation distributed $353,176 to the Institution for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the administration office at One College Drive, Bentonville, AR 72712.

NOTE 1: Summary of Significant Accounting Policies (Continued)

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.

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

Capital Assets and Depreciation

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

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

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

Operating and Nonoperating Revenues

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

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

Cash Equivalents

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

Accounts Receivable

Accounts receivable consist 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 $568,709 at June 30, 2006, and $560,682 at June 30, 2005.

NOTE 1: Summary of Significant Accounting Policies (Continued)

Accounts Receivable (Continued)

A summary of accounts receivable balances at June 30, 2006, is as follows:

	Gross	Allowance	Net
Student accounts receivable	$ 770,934	$ 568,709	$ 202,225
Accounts receivable other governments	275,934		275,934
Other accounts receivable	165,808		165,808
Totals	$ 1,212,676	$ 568,709	$ 643,967

Inventories

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

Noncurrent Cash and Cash Equivalents

Cash that is externally restricted to make debt service payments, maintain sinking or reserve funds, 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, 2006, is as follows:

Trade payables	$ 78,982
Construction contracts payable	1,748,411
Accrued payroll	321,554
Payroll related liabilities	573,366
Deferred revenues	230,070
Interest payable	138,831
Litigation settlement	186,637
Other payables	4,829
Totals	$ 3,282,680

Restricted/Unrestricted Resources

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

Deferred Revenues

Deferred revenues include amounts received for tuition and fees and certain auxiliary activities 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.

NOTE 1: Summary of Significant Accounting Policies (Continued)

Compensated Absences Payable

Compensated absences payable represents the Institution's liability (salaries plus applicable salary related costs) for unused annual leave as of June 30, 2006, and June 30, 2005. Unused vacation and sick leave for eligible employees is included in the compensated absences payable calculation as follows:

Accumulated vacation days are required to be used annually, with a maximum 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.

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.

Property Taxes

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

Use of Estimates in the Preparation of Financial Statements

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

NOTE 2: Public Fund Deposits

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

	Carrying Amount	Bank Balance
Insured (FDIC)	$ 287,566	$ 300,000
Collateralized:		
Uninsured and collateral held by the pledging bank or pledging bank's trust department in the Institution's name	4,231,689	4,727,637
Total Deposits	$ 4,519,255	$ 5,027,637

The above deposits do not include cash on deposit in the state treasury or cash on hand in the amounts of $467,416 and $4,750 for the year ended June 30, 2006, respectively.

NOTE 2: Public Fund Deposits (Continued)

Deposits With Trustee

As of June 30, 2006, the Institution had the following investments reported as deposits with trustees:

Investment Type	Fair Value
External Investment Pool	$ 9,298,310

Credit Risk

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

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

Interest Rate Risk

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

NOTE 3: Income Taxes

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

NOTE 4: Capital Assets

Following are the changes in capital assets for the year ended June 30, 2006:

	Balance July 1, 2005	Additions	Transfers	Retirements	Balance June 30, 2006
Nondepreciable capital assets:					
Land	$ 2,041,390				$ 2,041,390
Construction-in-progress	299,968	$ 7,967,051	$ (318,986)		7,948,033
Total nondepreciable capital assets	$ 2,341,358	$ 7,967,051	$ (318,986)	$ 0	$ 9,989,423

NOTE 4: Capital Assets (Continued)

	Balance July 1, 2005	Additions	Transfers	Retirements	Balance June 30, 2006
Other capital assets:					
Land improvements	$ 1,228,774			$ (14,119)	$ 1,214,655
Improvements and infrastructure	372,291				372,291
Buildings	21,407,387	$ 58,318	$ 318,986		21,784,691
Equipment	2,302,619	292,642		(91,160)	2,504,101
Archives and collections	30,595				30,595
Library holdings	1,213,968	125,291		(14,154)	1,325,105
Total other capital assets	26,555,634	476,251	318,986	(119,433)	27,231,438
Less accumulated depreciation for:					
Land improvements	(380,533)	(70,483)			(451,016)
Improvements and infrastructure	(92,955)	(27,933)			(120,888)
Buildings	(2,993,007)	(713,184)			(3,706,191)
Equipment	(1,622,113)	(254,526)		85,547	(1,791,092)
Archives and collections	(10,199)	(2,040)			(12,239)
Library holdings	(877,965)	(83,839)			(961,804)
Total accumulated depreciation	(5,976,772)	(1,152,005)		85,547	(7,043,230)
Other capital assets, net	$ 20,578,862	$ (675,754)	$ 318,986	$ (33,886)	$ 20,188,208
Capital Asset Summary:					
Nondepreciable capital assets	$ 2,341,358	$ 7,967,051	$ (318,986)		$ 9,989,423
Other capital assets, at cost	26,555,634	476,251	318,986	$ (119,433)	27,231,438
Total cost of capital assets	28,896,992	8,443,302	0	(119,433)	37,220,861
Less accumulated depreciation	(5,976,772)	(1,152,005)		85,547	(7,043,230)
Capital Assets, net	$ 22,920,220	$ 7,291,297	$ 0	$ (33,886)	$ 30,177,631

NOTE 5: Long-Term Debt

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, 2006	Maturities To June 30, 2006
6/2003	6/2008	5%	$ 45,000	$ 19,378	$ 25,622
11/2003	10/2008	4.1%	191,683	95,387	96,296
12/2004	7/2008	4.44%	461,592	318,563	143,029
5/2005	5/2030	3.% to 5.%	23,485,000	22,910,000	575,000
6/2006	6/2011	4.5%	248,621	248,621	
Totals			$ 24,431,896	$ 23,591,949	$ 839,947

The changes in long-term debt are as follows:

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Amounts Due Within One Year
Bonds	$ 23,485,000		$ (575,000)	$ 22,910,000	$ 595,000
Notes Payable	588,958	$ 248,621	(155,630)	681,949	200,084
Compensated Absences	1,001,354	277,082	(40,891)	1,237,545	61,877
Totals	$ 25,075,312	$ 525,703	$ (771,521)	$ 24,829,494	$ 856,961

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

Year ended June 30,	Principal	Interest	Total
2007	$ 795,084	$ 1,016,116	$ 1,811,200
2008	815,103	988,588	1,803,691
2009	800,570	961,028	1,761,598
2010	701,904	934,567	1,636,471
2011	724,288	911,057	1,635,345
2012-2016	3,745,000	4,147,831	7,892,831
2017-2021	4,570,000	3,337,481	7,907,481
2022-2026	5,775,000	2,124,844	7,899,844
2027-2030	5,665,000	664,200	6,329,200
Totals	$ 23,591,949	$ 15,085,712	$ 38,677,661

NOTE 6: Commitments

The Institution was contractually obligated for the following at June 30, 2006:

A. Construction Contracts

Project Name	Estimated Completion Date	Contract Balance
Student Center Plaza	January 31, 2007	$ 7,703,149

B. Operating Leases

Noncapital leases with initial or remaining noncancellable lease terms in excess of 1 year:

The following represents future minimum rental payments (aggregate at June 30, 2006.) The leases are comprised of five (5) facility rentals, various office and computer lab equipment leases.

Year Ended June 30,	Amount
2007	$ 518,666
2008	534,483
2009	253,870
2010	183,967
2011	17,752

NOTE 7: Retirement Plans

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

Plan Description. The Institution participates in TIAA/CREF, a defined contribution plan. The plan is a 403(b) program as defined by Internal Revenue Service Code of 1986 as amended, and is administered by. TIAA/CREF 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, 2006 were $855,019 and $329,940, respectively, and $705,508 and $414,011, for the year ended June 30, 2005.

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.

NOTE 7: Retirement Plans (Continued)

Arkansas Teacher Retirement System (Continued)

Funding Policy. ATRS has contributory and non-contributory plans. Contributory members are required by law to contribute 6% of their salaries. Each participating employer is required by law to contribute at a rate established the by Arkansas General Assembly. The current employer rate is 14%. The Institution's contributions to ATRS for the years ended June 30, 2006, 2005 and 2004 were $482,664, $310,047 and $242,500, 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 5% 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 12.54% of annual covered payroll. The Institution's contributions to APERS for the years ended June 30, 2006, 2005 and 2004 were $104,296, $99,020, and $95,332, respectively, equal to the required contributions for each year.

NOTE 8: Natural Classifications by Function

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

	Personal Services	Scholarships and Fellowships	Supplies and Services	Depreciation	Total
Instruction	$ 11,782,398		$ 1,226,956		$ 13,009,354
Academic support	904,132		75,900		980,032
Student services	2,050,178		288,009		2,338,187
Institutional support	4,596,155		2,682,345		7,278,500
Scholarships and fellowships	151,667	$ 1,701,035			1,852,702
Operations and maintenance of plant	531,066		1,492,850		2,023,916
Depreciation				$ 1,152,005	1,152,005
Totals	$ 20,015,596	$ 1,701,035	$ 5,766,060	$ 1,152,005	$ 28,634,696

NOTE 9: Debt Refunding

On May 15, 2005, the Institution issued capital improvement and refunding bonds of $23,485,000 with interest rates from 3.0 to 5.0 percent. A portion of the bond proceeds were delivered to Metropolitan National Bank to provide to all future debt service payments on bonds, dated November 1, 2000 and October 1, 2002 with interest rates of 4.8 to 5.9 and 1.5 to 3.6 percent, respectively. As a result, the 2000 and 2002 series bonds are considered defeased and the liability for these bonds has been removed from the long-term debt. The final call dates of the 2000 and 2002 series bonds are November 15, 2010, and November 15, 2007, respectively. As of June 30, 2006, the escrow fund established to provide the retirement of the bonds being refunded had a balance of $8,665,096. The remaining principal amount of the outstanding bonds considered defeased was $8,265,000.

NOTE 10: New Accounting Pronouncements

In November 2003, GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries,* which became effective with the fiscal year ending June 30, 2006. The Statement established guidance for accounting and reporting for the impairment of capital assets and for insurance recoveries. For the purposes of this Statement, asset impairment is a significant, unexpected decline in the service utility of a capital asset. The events or changes in circumstances affecting a capital asset that may indicate impairment are prominent – that is, conspicuous or known to College management.

During the fiscal year ended June 30, 2006, there were no prominent or conspicuous events that would indicate impairment of any material capital assets, nor were there any material insurance recoveries during the fiscal year.

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which becomes effective with the fiscal year ending June 30, 2007. The Statement establishes uniform financial reporting standards for Other Postemployment Benefits (OPEB). Management has determined that it does not have any OPEB plans, and the requirements of this Statement are not applicable.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* which becomes effective with the fiscal year ending June 30, 2008. The Statement establishes standards for the measurement, recognition, and display of Other Postemployment Benefits (OPEB).

In December 2004, GASB issued Statement No. 46, Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34, which became effective with the fiscal year ending June 30, 2006. The Statement clarifies the reporting requirements for net assets restricted by enabling legislation. Management has determined that GASB 46 is not applicable in that no new enabling legislation has been inacted that would effect the Institution's net assets.

In June 2005, GASB issued Statement No. 47, *Accounting for Termination Benefits*, which became effective with the fiscal year ending June 30, 2006. The Statement established guidance for accounting and reporting of the costs and liabilities associated with termination benefits, such as those associated with early retirement incentives. The Institution has not extended a large-scale or age-related early retirement offering during the fiscal year ended June 30, 2006. The Institution has, from time to time, negotiated early retirement agreements with faculty which may include the provision of healthcare or other benefits for future periods. The number of early retirement agreements is small and the obligation for future benefits is considered immaterial. Ark. Code Ann. 21-4-501 authorized the compensation for accumulated unused sick leave for certain employees upon retirement. The Institution has accrued a liability for these amounts in *Compensated Absences Payable*.

NOTE 11: New Operations and Educational Programs

Northwest Arkansas Regional Technology Center

Effective July 1, 2005, Northwest Arkansas Community College took over the operations of the Northwest Arkansas Regional Technology Center (formerly known as Fayetteville West Campus) from the Fayetteville Public School System. The Regional Technology Center provides vocational and technical education and concurrent college classes to area public high schools' students. The students attend general education classes at their respective high school and are transported to the Regional Technology Center campus to attend vocational and technical classes. High school students can also attend concurrent college credit classes at the Regional Technology Center to earn college credits while attending high school.

Northwest Arkansas Aviation Technologies Center, Inc.

Effective January 1, 2006, Northwest Arkansas Community College acquired the operations of the Northwest Arkansas Aviation Technologies Center, Inc., a nonprofit corporation located at Drake Field in Fayetteville, Arkansas. The Aviation Technology Center provides classes in aviation air craft and power train systems maintenance that is certified and accredited by the FAA.

NOTE 12: Other Commitments

On the 9th day of May 2005, the Board of Trustees of the Institution authorized the imposition and use of parking fees, as well as, up to $1,000,000 of funds from the pledged tax revenue millage to aid Northwest Arkansas Community College Foundation, Inc., (the Foundation) in the financing of a college parking facility. The Foundation executed an $8,250,000 Series 2005 note payable to the Public Facilities Board of Benton County, Arkansas in order to pay costs and expenses incurred in connection with the acquisition, construction, furnishing and equipping of an 800-space parking facility to be located on the Institution's property. The Public Facilities Board issued bonds in order to provide financing for the parking facility. The pledge for $1,000,000 was transferred to the Foundation in September 2006.

NOTE 13: Change in Accounting Estimate

During the fiscal year ended June 30, 2006, the Institution made an adjustment to the accumulated depreciation totals due to a change in an accounting estimate of depreciating land improvements. The net adjustment made due to the change was an increase in accumulated depreciation of $380,533 at July 1, 2005.