Northwest Arkansas Community College

Bentonville, Arkansas

Basic Financial Statements
and Other Reports
June 30, 2007

LEGISLATIVE JOINT AUDITING COMMITTEE

NORTHWEST ARKANSAS COMMUNITY COLLEGE
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JUNE 30, 2007

BASIC FINANCIAL STATEMENTS

Arkansas

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

LEGISLATIVE JOINT AUDITING COMMITTEE
DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Northwest Arkansas Community College
Legislative Joint Auditing Committee

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Northwest Arkansas Community College (College), an institution of higher education of the State of Arkansas, as of and for the year ended June 30, 2007, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Northwest Arkansas Community College Foundation, Inc., which represent 100% of the assets, net assets, and revenues of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Northwest Arkansas Community College Foundation, Inc., is based on the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of Northwest Arkansas Community College as of June 30, 2007, 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 March 24, 2008 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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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, JD, CPA, CFE
Legislative Auditor

Little Rock, Arkansas
March 24, 2008
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Arkansas

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

LEGISLATIVE JOINT AUDITING COMMITTEE
DIVISION OF LEGISLATIVE AUDIT

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

Northwest Arkansas Community College
Legislative Joint Auditing Committee

We have audited the financial statements of the business-type activities and the discretely presented component unit of Northwest Arkansas Community College (College), an institution of higher education of the State of Arkansas, as of and for the year ended June 30, 2007, which collectively comprise the College's basic financial statements and have issued our report thereon dated March 24, 2008. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Northwest Arkansas Community College Foundation, Inc., as described in our report on the College's financial statements. The financial statements of the Northwest Arkansas Community College Foundation, Inc., were not audited in accordance with *Government Auditing Standards*.

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

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the College's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the College's financial statements that is more than inconsequential will not be prevented or detected by the College's internal control. We consider the deficiency described below in the Audit Findings section of this report to be a significant deficiency in internal control over financial reporting.

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the College in a separate letter dated March 24, 2008.

AUDIT FINDINGS

Significant Deficiency

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

> Management Response: During fiscal year 2006-07, the Accounts Receivable Supervisor reviewed all cashier activity daily. However, he did not document his review by signing the nightly CRON document. The College has implemented the practice of using a stamp to document the review of daily cashier reports by the Accounts Receivable Supervisor. The stamp will appear at the beginning and end of the daily cashier CRON report. In addition, the AR Supervisor will review and initial all "Cashier adjustments" appearing on the report. It is current practice for the AR Supervisor to approve cashier adjustment at the time the student is being served at the customer service counter.
>
> In addition to documenting compensating and mitigating internal control practices as stated above, Business Services will perform a study of SCT Banner Accounts Receivable access controls for the purpose of improving segregation of duties. We will explore options that currently include the use of "Fine Grain Access" for limiting access to select screen fields and designing a cashier position with less ability to perform adjustments, while maintaining timely student customer services.

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

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

DIVISION OF LEGISLATIVE AUDIT

Larry W. Hunter

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
March 24, 2008

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Arkansas

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

LEGISLATIVE JOINT AUDITING COMMITTEE
DIVISION OF LEGISLATIVE AUDIT

MANAGEMENT LETTER

Northwest Arkansas Community College
Legislative Joint Auditing Committee

As a management service, we would like to communicate the following item that came to our attention during this audit. The purpose of such comment is to provide constructive feedback and guidance, in an effort to assist management to maintain a satisfactory level of compliance with the state constitution, laws and regulations and achieve adequate internal controls. This matter was discussed previously with College 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. A follow-up audit, completed on March 3, 2008, was performed to update the status of the outstanding issues. The College has made progress in correcting these weaknesses over the past year; however, one issue is still outstanding:

> 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.

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, 2007, as reported to the State Department of Higher Education, to provide reasonable assurance that the data was properly reported. The enrollment data reported for the fall and spring terms was as follows:

	Fall Term 2006	Spring Term 2007
Student Headcount	6,200	6,112
Student Semester Credit Hours	49,169	47,682

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

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

DIVISION OF LEGISLATIVE AUDIT

Larry W. Hunter

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
March 24, 2008

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, 2007, with comparative financial data for the fiscal year ended June 30, 2006.

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

Statement of Net Assets

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

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

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

Northwest Arkansas Community College's total assets at June 30, 2007, were $48,747,614 compared to $49,223,041 on June 30, 2006, as reported in the asset section of the *Statement of Net Assets*. Total assets are comprised of current assets in the amount of $7,747,712, and noncurrent assets of $40,999,902 for fiscal year 2007, compared to $15,878,866 and $33,344,175 respectively for the 2006 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, 2007, of $26,072,169 and $28,112,174 at June 30, 2006. 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 of $2,876,776 at June 30, 2007, 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 $4,139,641 at June 30, 2006.

Noncurrent liabilities are long-term obligations of the Institution that are payable at some date beyond the following fiscal year. Noncurrent liabilities of $23,195,393 at June 30, 2007, were comprised of long-term portion compensated absences payable, notes payable, and bonds payable compared to $23,972,533 at June 30, 2006. No new financing was incurred during the fiscal year.

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, 2007	June 30, 2006
ASSETS:		
Current Assets	$ 7,747,712	$ 15,878,866
Noncurrent Assets	40,999,902	33,344,175
TOTAL ASSETS	**$ 48,747,614**	**$ 49,223,041**
LIABILITIES:		
Current Liabilities	$ 2,876,776	$ 4,139,641
Noncurrent Liabilities	23,195,393	23,972,533
TOTAL LIABILITIES	**$ 26,072,169**	**$ 28,112,174**
NET ASSETS:		
Invested in capital assets, net of related debt	$ 16,715,608	$ 14,419,672
Restricted	4,859,219	4,817,326
Unrestricted	1,100,618	1,873,869
TOTAL NET ASSETS	**$ 22,675,445**	**$ 21,110,867**

Unrestricted net assets decreased due to the reduction in the unrestricted fund balance during the year resulting from the operations of the Northwest Arkansas Regional Technology Center and the Arkansas Aviation Technology Center.

Summary of amounts Invested in Capital Assets, net of related debt as of June 30, 2007 and 2006 is as follows:

	June 30, 2007	June 30, 2006
Capital Assets not Depreciated	$ 2,116,672	$ 9,989,423
Other Capital Assets	45,129,303	27,231,438
Total Capital Assets	47,245,975	37,220,861
Less: Accumulated Depreciation	(8,243,664)	(7,043,230)
Capital Assets, net	$ 39,002,311	$ 30,177,631
Less: Related Debt	(22,315,000)	(22,910,000)
Plus: Unspent Portion of Bond Proceeds	28,297	7,152,041
Capital Assets, net of related debt	$ 16,715,608	$ 14,419,672

The Institution also records compensated absences as part of noncurrent 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 nonoperating revenue since goods and services are not provided in exchange for the revenue. Nonoperating revenues and expenses are considered to be “nonexchange” transactions.

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

- Total tuition and fee revenues increased for fiscal year 2007 to $9,834,663 compared to $8,964,911 in the previous fiscal year. Additional tuition and fee revenue was reported due to increased enrollment, the addition of an infrastructure fee, and revenues from operations of the Regional Technology Center and the Aviation Technology Center.

- Tuition and fees are reported net of scholarship discount and allowance of $2,034,805 in 2007 and $1,736,810 in 2006.

- Total operating expenses increased from $28,634,696 in 2006 to $31,336,834 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 increased utility and other fixed costs associated with the opening of the new Student Center and parking deck facilities.

- State appropriation of general revenue and educational excellence funds received during the fiscal year increased 11.2% from $7,993,578 in fiscal year 2006 to $8,885,893 in fiscal year 2007.

- Total local property tax millage (3 mills) revenue reported in the fiscal year was $6,091,535 compared to $4,992,429 in 2006. 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, 2007	June 30, 2006
Total Operating Revenues	$ 10,489,411	$ 9,599,921
Total Operating Expenses	31,336,834	28,634,696
Total Operating (Loss)	**(20,847,423)**	**(19,034,775)**
Total NonOperating Revenue/(Expenses) and Other Changes	22,412,001	18,613,332
Net Increase (Decrease) in Net Assets	**1,564,578**	**(421,443)**
Net Assets:		
Beginning of year	21,110,867	21,532,310
End of year	$ 22,675,445	$ 21,110,867

Statement of Cash Flows

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

A summary of the cash flows for fiscal year 2007 and 2006 is as follows:

Cash provided (used) by:	June 30, 2007	June 30, 2006
Operating Activities	($ 18,802,293)	($ 17,022,483)
Noncapital Financing Activities	20,236,737	16,233,297
Capital Related Financing Activities	(1,298,896)	(350,852)
Investing Activities	43,964	48,927
Net Change in Cash	179,512	(1,091,111)
Cash – Beginning of Year	4,991,421	6,082,532
Cash – End of Year	$ 5,170,933	$ 4,991,421

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%
2006-07	5,732	4.8%	5,756	8.0%	1,753	842	2,595	12.7%

The Institution's non-duplicated student headcount increased by 5.8% from 8,217 students in 2006 to 8,695 students in 2007. Management is currently anticipating a seven percent annual increase in enrollment for 2008. 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 2008 fiscal year in order to provide additional classes in its service area and to meet the growing demands and needs of students. In 2008, 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 along with offering technical classes at a Gentry location. 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 plans to review and update 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.

Factors Impacting Future Periods (Continued)

In January 2007, the College completed construction and opened the new Student Center Plaza 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. During 2007, the College entered into an agreement to acquire the NARTI oncology complex directly across the street to expand the Nursing program when it is vacated. The College and the NWACC Foundation launched a capital campaign and reached over fifty percent of the $16M goal to be used to fund the purchase and renovation of the NARTI complex and construction of an Entrepreneurial Center. There is every reason to believe the potential exists for continued growth and expansion of the College in the foreseeable future.

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 fact that the Institution remains under-funded at 69% of formula. The need for additional State funding will become critical as enrollment continues to grow and the College expands its facilities. Local property tax funding has continued to increase although the growth is expected to slow down due to the decline in the housing market along with increased foreclosures and delinquent real estate tax payments.

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

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NORTHWEST ARKANSAS COMMUNITY COLLEGE
COMPARATIVE STATEMENT OF NET ASSETS
JUNE 30, 2007

Exhibit A

	June 30, 2007	June 30, 2006
ASSETS		
Current Assets		
Cash and cash equivalents	$ 3,173,342	$ 1,824,877
Accounts receivable (less allowances of $601,474 and $568,709)	564,601	643,967
Property taxes receivable	3,776,131	3,849,218
Inventories	27,460	26,884
Deposits with trustees	163,307	9,298,310
Prepaid expenses	38,875	231,689
Other assets	3,996	3,921
Total Current Assets	7,747,712	15,878,866
Noncurrent Assets		
Restricted cash and cash equivalents	1,997,591	3,166,544
Capital assets (net of accumulated depreciation of $8,243,664 and $7,043,230)	39,002,311	30,177,631
Total Noncurrent Assets	40,999,902	33,344,175
TOTAL ASSETS	48,747,614	49,223,041
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	1,997,798	3,282,680
Bonds and notes payable - current portion	815,103	795,084
Compensated absences - current portion	63,875	61,877
Total Current Liabilities	2,876,776	4,139,641
Noncurrent Liabilities		
Bonds and notes payable	21,981,762	22,796,865
Compensated absences	1,213,631	1,175,668
Total Noncurrent Liabilities	23,195,393	23,972,533
TOTAL LIABILITIES	26,072,169	28,112,174
NET ASSETS		
Invested in capital assets, net of related debt	16,715,608	14,419,672
Restricted for		
Expendable		
Scholarships and fellowships	13,411	14,327
Debt service	4,754,845	4,711,873
Instructional departments uses	90,963	91,126
Unrestricted	1,100,618	1,873,869
TOTAL NET ASSETS	$ 22,675,445	$ 21,110,867

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, 2007 AND 2006

	2007	2006
ASSETS		
Cash and cash equivalents	$ 4,592,165	$ 2,058,059
Assets held in reserve	250,363	3,284,968
Pledges receivable	4,105,338	584,417
Deposits	100,000	
Loans receivable	250	1,412
Investments	1,388,415	762,111
Prepaid expenses	88,197	
Property and equipment, net	8,904,465	7,350,410
Bond issuance costs	148,280	155,796
Total Assets	$ 19,577,473	$ 14,197,173
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and other liabilities	$ 6,577	$ 2,045,308
Accrued Interest	24,334	23,755
Bonds payable	8,150,000	8,250,000
Total Liabilities	8,180,911	10,319,063
NET ASSETS		
Unrestricted	1,911,432	1,369,881
Temporarily restricted	8,703,573	1,840,416
Permanently restricted	781,557	667,813
Total Net Assets	11,396,562	3,878,110
Total Liabilities and Net Assets	$ 19,577,473	$ 14,197,173

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NORTHWEST ARKANSAS COMMUNITY COLLEGE

Exhibit B

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2007

	Year Ended June 30,	
	2007	2006
OPERATING REVENUES		
Student tuition and fees (net of scholarship allowances of $2,034,805 and $1,736,810)	$ 9,834,663	$ 8,964,911
Other operating revenues	654,748	635,010
TOTAL OPERATING REVENUES	10,489,411	9,599,921
OPERATING EXPENSES		
Personal services	21,169,760	20,015,596
Scholarships and fellowships	1,901,547	1,701,035
Supplies and services	7,004,958	5,766,060
Depreciation	1,260,569	1,152,005
TOTAL OPERATING EXPENSES	31,336,834	28,634,696
OPERATING (LOSS)	(20,847,423)	(19,034,775)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	8,885,893	7,993,578
Property taxes	6,091,535	4,992,429
Federal grants	4,569,342	3,529,729
State grants	2,385,358	2,267,692
Nongovernmental grants and contracts	246,099	261,473
Gifts	1,405,592	132,922
Investment income	219,579	580,057
Interest on capital asset - related debt	(715,409)	(1,074,294)
Other expenses		(249,746)
NET NONOPERATING REVENUES	23,087,989	18,433,840
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	2,240,566	(600,935)
OTHER REVENUES, EXPENSES, GAINS OR (LOSSES)		
Loss on disposal of capital assets	(19,041)	(27,647)
Capital appropriations		189,915
Proceeds from acquisition of educational programs		397,757
Correction of prior period depreciation		(380,533)
Contractual payment to component unit	(656,947)	
INCREASE (DECREASE) IN NET ASSETS	1,564,578	(421,443)
NET ASSETS - BEGINNING OF YEAR	21,110,867	21,532,310
NET ASSETS - END OF YEAR	$ 22,675,445	$ 21,110,867

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, 2007 AND 2006

Exhibit B-1

	2007				2006
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total (Summarized)
REVENUES AND SUPPORT					
Special events					
Special event revenue	$ 137,194			$ 137,194	$ 141,654
Less cost of direct benefit to donors	55,968			55,968	45,959
Total special events	81,226			81,226	95,695
Contributions	120,802	$ 8,704,753	$ 113,744	8,939,299	1,654,533
Investment income	491,640			491,640	73,324
Parking fees	581,474			581,474	500,300
Miscellaneous income	19,879			19,879	65
Net assets released from restrictions:					
Satisfaction of donor restrictions	1,841,596	(1,841,596)			
Total support and revenues	3,136,617	6,863,157	113,744	10,113,518	2,323,917
EXPENSES					
Program	1,606,671			1,606,671	354,404
Management and general	903,232			903,232	235,604
Fundraising	85,163			85,163	24,268
Total expenses	2,595,066			2,595,066	614,276
CHANGE IN NET ASSETS	541,551	6,863,157	113,744	7,518,452	1,709,641
NET ASSETS, BEGINNING OF YEAR	1,369,881	1,840,416	667,813	3,878,110	2,168,469
NET ASSETS, END OF YEAR	$ 1,911,432	$ 8,703,573	$ 781,557	$ 11,396,562	$ 3,878,110

NORTHWEST ARKANSAS COMMUNITY COLLEGE

Exhibit C

COMPARATIVE STATEMENT OF CASH FLOWS - DIRECT METHOD

FOR THE YEAR ENDED JUNE 30, 2007

	Year Ended June 30, 2007	2006
CASH FLOW FROM OPERATING ACTIVITIES		
Student tuition and fees	$ 9,854,990	$ 9,523,212
Other receipts	645,450	588,097
Payments to employees	(16,426,398)	(15,327,950)
Payments for employee benefits	(4,574,679)	(4,149,694)
Payments to suppliers	(6,400,109)	(5,955,113)
Scholarships and fellowships	(1,901,547)	(1,701,035)
Net cash provided (used) by operating activities	(18,802,293)	(17,022,483)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	8,885,893	7,993,578
Grants and contracts	6,875,896	5,389,870
Private gifts and grants	152,569	96,251
Property taxes	4,322,379	3,170,303
Litigation settlement		(416,705)
Net cash provided (used) by noncapital financing activities	20,236,737	16,233,297
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from acquisition of educational programs	38,905	200,000
Capital appropriations		189,915
Capital gift and grants	1,250,000	
Property taxes allocated for debt retirement	2,160,046	1,585,152
Deposits with trustees	(1,561,201)	(1,557,361)
Purchases of capital assets	(2,299,399)	(593,768)
Pledge to Foundation	(656,947)	
Principal paid on capital debt	(200,084)	(155,630)
Interest paid on capital debt	(30,216)	(19,160)
Net cash provided (used) by capital and related financing activities	(1,298,896)	(350,852)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	43,964	48,927
Net increase (decrease) in cash and cash equivalents	179,512	(1,091,111)
Cash and cash equivalents - beginning of year	4,991,421	6,082,532
Cash and cash equivalents - end of year	$ 5,170,933	$ 4,991,421

NORTHWEST ARKANSAS COMMUNITY COLLEGE

COMPARATIVE STATEMENT OF CASH FLOWS - DIRECT METHOD

FOR THE YEAR ENDED JUNE 30, 2007

Exhibit C

	Year Ended June 30, 2007	2006
Reconciliation of net operating (loss) to net cash provdied (used) by operating activities:		
Operating (loss)	$ (20,847,423)	$ (19,034,775)
Adjustments to reconcile net (loss) to net cash (used) by operating activities:		
Depreciation expense	1,260,569	1,152,005
Change in assets and liabilities:		
Receivables, net	30,311	410,023
Inventories	(576)	3,095
Other assets	193,055	(201,260)
Accounts payable	521,810	412,238
Compensated absences	39,961	236,191
Net cash (used) by operating activities	$ (18,802,293)	$ (17,022,483)
NONCASH TRANSACTIONS		
Notes payable issued		$ 248,621
Donated assets	$ 54,975	197,757
Capital assets purchased by trustees	7,421,764	5,861,816
Principal paid on capital debt by trustees	595,000	575,000
Interest paid on capital debt by trustees	985,900	1,003,150

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

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

Component Units

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

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

During the year ended June 30, 2007, the Foundation distributed $1,591,668 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the administration office at One College Drive, Bentonville, AR 72712.

Financial Statement Presentation

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

Basis of Accounting

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

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

NOTE 1: Summary of Significant Accounting Policies (Continued)

Capital Assets and Depreciation

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

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

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

Operating and Nonoperating Revenues

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

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

Cash Equivalents

For purposes of the statement of cash flows, the College 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 College's grant and contracts. Accounts receivable are recorded net of the estimated allowance for doubtful accounts in the amount of $601,474 at June 30, 2007 and $568,709 at June 30, 2006.

A summary of accounts receivable balances at June 30, 2007, is as follows:

	Gross	Allowance	Net
Student accounts receivable	$ 754,394	$ 601,474	$ 152,920
Accounts receivable - other governments	270,125		270,125
Other accounts receivable	141,556		141,556
Totals	$ 1,166,075	$ 601,474	$ 564,601

NOTE 1: Summary of Significant Accounting Policies (Continued)

Inventories

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

Noncurrent Cash and Cash Equivalents

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

Accounts Payable and Accrued Liabilities

A summary of accounts payable and accrued liabilities at June 30, 2007, is as follows:

Trade payables	$ 634,903
Construction contracts payable	38,109
Accrued payroll	411,369
Payroll related items	612,694
Deferred revenues	169,267
Interest payable	131,456
Totals	$ 1,997,798

Restricted/Unrestricted Resources

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

Deferred Revenues

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

Compensated Absences Payable

Compensated absences payable represents the College's liability (salaries plus applicable salary related costs) for unused leave as of June 30, 2007 and June 30, 2006. Unused vacation leave for eligible employees is included in the compensated absences payable calculation as follows:

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

Noncurrent Liabilities

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

NOTE 1: Summary of Significant Accounting Policies (Continued)

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 College's cash deposits at year-end are shown below:

	Carrying Amount	Bank Balance
Insured (FDIC)	$ 284,702	$ 300,000
Collateralized:		
Collateral held by the pledging bank or pledging bank's trust department in the College's name	4,839,529	5,353,661
Total Deposits	$ 5,124,231	$ 5,653,661

The above deposits do not include cash on deposit in the state treasury or cash on hand in the amounts of $41,852 and $4,850 for the year ended June 30, 2007, respectively.

Deposits with Trustee

As of June 30, 2007, the College had the following investments reported as deposits with trustees:

Investment Type	Fair Value
External Investment Pool	$ 163,307

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.

NOTE 2: Public Fund Deposits (Continued)

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 College 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 College does not have a policy designed to manage interest rate risk.

NOTE 3: Income Taxes

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

NOTE 4: Capital Assets

Following are the changes in capital assets for the year ended June 30, 2007:

	Balance July 1, 2006	Additions	Transfers	Retirements	Balance June 30, 2007
Nondepreciable capital assets:					
Land	$ 2,041,390				$ 2,041,390
Construction in progress	7,948,033	$ 9,413,711	$ (17,242,918)	$ (43,544)	75,282
Total nondepreciable capital assets	$ 9,989,423	$ 9,413,711	$ (17,242,918)	$ (43,544)	$ 2,116,672
Other capital assets:					
Land improvements	$ 1,214,655	$ 102,536			$ 1,317,191
Improvements and infrastructure	372,291				372,291
Buildings	21,784,691		$ 17,242,918		39,027,609
Equipment	2,504,101	576,027		$ (69,224)	3,010,904
Archives and collections	30,595				30,595
Library holdings	1,325,105	56,277		(10,669)	1,370,713
Total other capital assets	27,231,438	734,840	17,242,918	(79,893)	45,129,303
Less accumulated depreciation for:					
Land improvements	451,016	80,977			531,993
Improvements and infrastructure	120,888	24,819			145,707
Buildings	3,706,191	726,156			4,432,347
Equipment	1,791,092	346,411		(60,135)	2,077,368
Archives and collections	12,239	2,040			14,279
Library holdings	961,804	80,166			1,041,970
Total accumulated depreciation	7,043,230	1,260,569		(60,135)	8,243,664
Other capital assets, net	$ 20,188,208	$ (525,729)	$ 17,242,918	$ (19,758)	$ 36,885,639

NOTE 4: Capital Assets (Continued)

	Balance July 1, 2006	Additions	Transfers	Retirements	Balance June 30, 2007
Capital Asset Summary:					
Nondepreciable capital assets	$ 9,989,423	$ 9,413,711	$ (17,242,918)	$ (43,544)	$ 2,116,672
Other capital assets, at cost	27,231,438	734,840	17,242,918	(79,893)	45,129,303
Total cost of capital assets	37,220,861	10,148,551		(123,437)	47,245,975
Less accumulated depreciation	7,043,230	1,260,569		(60,135)	8,243,664
Capital Assets, net	$ 30,177,631	$ 8,887,982	$ 0	$ (63,302)	$ 39,002,311

NOTE 5: Long-Term Liabilities

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, 2007	Maturities To June 30, 2007
06-2003	06-2008	5%	$ 45,000	$ 9,934	$ 35,066
11-2003	10-2008	4.1%	191,683	55,857	135,826
12-2004	07-2008	4.44%	461,592	212,813	248,779
05-2005	05-2030	3 - 5%	23,485,000	22,315,000	1,170,000
06-2006	06-2011	4.5%	248,621	203,261	45,360
Totals			$ 24,431,896	$ 22,796,865	$ 1,635,031

The changes in long-term liabilities are as follows:

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Amounts Due Within One Year
Bonds	$ 22,910,000		$ 595,000	$ 22,315,000	$ 610,000
Notes payable	681,949		200,084	481,865	205,103
Compensated absences	1,237,545	$ 90,382	50,421	1,277,506	63,875
Totals	$ 24,829,494	$ 90,382	$ 845,505	$ 24,074,371	$ 878,978

NOTE 5: Long-Term Liabilities (Continued)

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

Year ended June 30,	Principal	Interest	Total
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	700,000	882,075	1,582,075
2013-2017	3,880,000	4,010,213	7,890,213
2018-2022	4,780,000	3,126,481	7,906,481
2023-2027	6,050,000	1,851,563	7,901,563
2028-2030	4,345,000	404,025	4,749,025
Totals	$ 22,796,865	$ 14,069,597	$ 36,866,462

NOTE 6: Commitments

The College was contractually obligated for the following at June 30, 2007:

A. Construction Contracts

Project Name	Estimated Completion Date	Contract Balance
Burns Hall	12/31/08	$ 201,953

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

NOTE 6: Commitments (Continued)

B. Operating Leases

The leases are comprised of five facility rentals, various office and computer lab equipment leases.

General description of leases and leasing arrangements

(a) Future minimum rental payments (aggregate) at June 30, 2007: $935,503
(b) Future minimum rental payments for the succeeding fiscal years:

Year Ended June 30,	Amount
2008	$ 435,620
2009	281,042
2010	200,669
2011	13,629
2012	4,543

Rental payments for the operating leases described above were approximately $561,929 for the year ended June 30, 2007.

NOTE 7: Retirement Plans

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

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

Funding Policy. TIAA/CREF has contributory and non-contributory plans. Contributory members contribute a minimum of 4% of earnings to the plan. The College contributes 10% of earnings for all applicable employees. The participants' and the College's contributions for the year ended June 30, 2007 were $584,908 and $915,178, respectively.

Arkansas Teacher Retirement System

Plan Description. The College 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 14%. The College's contributions to ATRS for the years ended June 30, 2007, 2006 and 2005 were $501,382, $482,664 and $310,047, respectively, equal to the required contributions for each year.

NOTE 7: Retirement Plans (Continued)

Arkansas Public Employees Retirement System

Plan Description. The College contributes to the Arkansas Public Employees Retirement System (APERS), a cost-sharing multiple-employer defined benefit pension plan. Employees may elect coverage under APERS as a qualified retirement system. APERS 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 College's contributions to APERS for the years ended June 30, 2007, 2006 and 2005 were $109,051, $104,296 and $99,020, respectively, equal to the required contributions for each year.

NOTE 8: Natural Classifications by Function

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

	Personal Services	Scholarships and Fellowships	Supplies and Services	Depreciation	Total
Instruction	$ 11,939,467		$ 1,289,129		$ 13,228,596
Academic support	1,943,794		627,265		2,571,059
Student services	2,372,734		692,369		3,065,103
Institutional support	3,982,061		2,155,734		6,137,795
Scholarships and fellowships		$ 1,901,547			1,901,547
Operations and maintenance of plant	931,704		2,240,461		3,172,165
Depreciation				$ 1,260,569	1,260,569
Totals	$ 21,169,760	$ 1,901,547	$ 7,004,958	$ 1,260,569	$ 31,336,834

NOTE 9: Debt Refunding

On May 15, 2005, the College issued capital improvement and refunding bonds of $23,485,000 with interest rates of 3 to 5 percent. A portion of the bond proceeds was delivered to Metropolitan National Bank to provide for all future debt service payments on bonds dated November 1, 2000 and October 1, 2002, with interest rates of 4.8 to 5.9 and 1.5 to 3.6 percent, respectively. As a result, the 2000 and 2002 series bonds are considered defeased and the liability for these bonds has been removed from long-term debt. The final call dates of the 2000 and 2002 series bonds are November 15, 2010 and November 15, 2007, respectively. As of June 30, 2007, the escrow fund established to provide for the retirement of the bonds being refunded had a balance of $8,173,897. The remaining principal amount of the outstanding bonds considered defeased was $7,850,000.

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 ended 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, 2007, there have been no prominent or conspicuous events that would indicate impairment of any material capital assets, nor have there been 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 became effective with the fiscal year ended 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). To comply with reporting requirements of GASB No. 45 for the 2008 fiscal year, the College plans to issue a request for proposal for actuarial services to determine the liability amount.

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 ended June 30, 2006. The Statement clarifies the reporting requirements for net assets restricted by enabling legislation. Management has determined that GASB No. 46 is not applicable.

In June 2005, GASB issued Statement No. 47, *Accounting for Termination Benefits*, which became effective with the fiscal year ended June 30, 2006. The Statement established guidance for accounting and reporting of the costs and liabilities associated with termination benefits, such as those associated with early retirement incentives. The College has not extended a large-scale or age-related early retirement offering during the fiscal year ended June 30, 2007. The College 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 College has accrued a liability for these amounts in *Compensated Absences Payable*.

NOTE 11: New Operations and Programs

During the 2007 fiscal year, construction was completed, and the Student Center Plaza opened on January 8, 2007, providing students with a new campus bookstore, food court, cyber-café, student lounge, and game room, along with a “one-stop-shop” student enrollment management services, testing center, classrooms, and faculty offices.

NOTE 12: Related Party Transactions

On May 9, 2005, the Board of Trustees of the College authorized the imposition and use of infrastructure 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 College's property. The Public Facilities Board issued bonds in order to provide financing for the parking facility. The actual pledged tax revenue millage required to aid the Foundation totaled $656,947 and was transferred during the fiscal year ended June 30, 2007. The College also collected and disbursed $581,847 in infrastructure fees to the Foundation during the fiscal year ended June 30, 2007.

During the 2007 fiscal year, the Foundation entered into an agreement to purchase the NARTI Oncology facility located directly across the street from the College to house the expansion of the nursing program when the building is vacated. Foundation capital campaign funds will be used to facilitate the purchase and remodeling of the NARTI facility.

NOTE 13: Correction of Prior Year Errors/Omissions

A. The prior year Comparative Statement of Cash Flows did not disclose the following noncash transactions:

Capital assets purchased by trustees	$5,861,816
Principal paid on capital debt by trustees	$ 575,000
Interest paid on capital debt by trustees	$1,003,150

These amounts have been included in the prior year column of the Comparative Statement of Cash Flows.

B. The prior year Comparative Statement of Revenues, Expenses and Changes in Net Assets reflected nongovernmental grants and contracts in the amount of $261,473 reported as operating revenues. These revenues have been correctly reclassified to nonoperating revenues in the prior year column of the Comparative Statement of Revenues, Expenses and Changes in Net Assets. The prior year Comparative Statement of Cash Flow has also been changed to reflect this correction.