

Northwest Arkansas Community College

Bentonville, Arkansas

**Annual Financial Report
Independent Auditor's Report
and Other Reports
June 30, 2003**



NORTHWEST ARKANSAS COMMUNITY COLLEGE
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JUNE 30, 2003

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

Arkansas



Charles L. Robinson, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Northwest Arkansas Community College
Legislative Joint Auditing Committee

We have audited the accompanying statement of net assets of Northwest Arkansas Community College (Institution), an Institution of Higher Education of the State of Arkansas, as of June 30, 2003 and the related statement of revenues, expenditures and changes in net assets and statement of cash flows for the year then ended as listed in the table of contents. These financial statements are the responsibility of the Institution's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northwest Arkansas Community College as of June 30, 2003 and changes in its net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 18, 2004 on our consideration of the Institution's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in blue ink, appearing to read "Charles L. Robinson".

Charles L. Robinson, CPA, CFE
Legislative Auditor

Little Rock, Arkansas
February 18, 2004
EDHE19803

Sen. Henry "Hank" Wilkins, IV
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Charles L. Robinson, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

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

Northwest Arkansas Community College
Legislative Joint Auditing Committee

The underlying purpose of this letter is to convey certain observations and recommendations regarding state and federal compliance and internal control in conjunction with our audit of Northwest Arkansas Community College (Institution). This letter reflects various requirements and pronouncements of the American Institute of Certified Public Accountants (AICPA), the United States General Accounting Office (GAO), and the United States Office of Management and Budget (OMB).

We have audited the financial statements of Northwest Arkansas Community College, an Institution of Higher Education of the State of Arkansas, as of and for the year ended June 30, 2003, and have issued our report thereon dated February 18, 2004. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Institution's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. 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 record, process, summarize 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 condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that 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. Other matters involving compliance and/or internal control were reported to the Institution management in a separate letter.

AUDIT FINDINGS

Reportable Condition(s)

The Institution had inadequate controls over certain transactions because of insufficient segregation of duties.

GENERAL COMMENTS

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

Activities surrounding such organizations as those described above, including but not limited to the following, have not been evaluated by the appropriate bodies outside of the Institution.

- A. The holding of Officer, Director and quasi-employee positions of the related nonprofit entity by employees and/or directors of the Institution.
- B. Review of expenditures by the related nonprofit entity by appropriate personnel.
- C. Lack of a written agreement formalizing the relationship between the related nonprofit entity and the Institution.

STUDENT ENROLLMENT DATA – In accordance with Ark. Code Ann. 6-60-209, we performed tests of the student enrollment data for the year ended June 30, 2003, 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:

	<u>Fall Term</u>	<u>Spring Term</u>
Student Headcount	5,207	4,435
Student Semester Credit Hours	39,463	35,468

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

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

DIVISION OF LEGISLATIVE AUDIT

William R. Baum

William R. Baum, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
February 18, 2004

NORTHWEST ARKANSAS COMMUNITY COLLEGE

Management's Discussion and Analysis

Overview of the Financial Statements and Financial Analysis

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 Institution includes the following three financial statements presented with notes to the financial statements: the *Statement of Revenues, Expenses and Changes in Net Assets*; the *Statement of Net Assets*; and the *Statement of Cash Flows*.

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 Institution is improving or deteriorating.

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

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

Northwest Arkansas Community College's total assets were \$31,420,213, as reported in the asset section of the *Statement of Net Assets*. Total assets are comprised of current assets in the amount of \$6,487,656, and non-current assets of \$24,932,557. Current assets are cash and other assets expected to be converted into cash or consumed in the subsequent fiscal year. Non-current assets consist of restricted cash and capital assets net of related depreciation.

The liability section reports total liabilities of Northwest Arkansas Community College of \$11,960,088. 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 \$2,149,518, 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.

Non-current liabilities are long-term obligations of the Institution that are payable at some date beyond the following fiscal year. Non-current liabilities of \$9,810,570, were comprised of long-term portion compensated absences payable, notes payable, and bonds. During the year, the Institution refinanced and retired the 1992 bond issue to take advantage of lower interest rates. The Institution also secured a five year, \$45,000 note payable to upgrade and expand the Institution's telephone system.

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

The following is a condensed Statement of Net Assets:

<u>ASSETS</u>	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Current assets	\$ 6,487,656	\$ 4,817,701
Noncurrent assets	24,932,557	21,438,010
TOTAL ASSETS	<u>\$ 31,420,213</u>	<u>\$ 26,255,711</u>
<u>LIABILITIES</u>		
Current liabilities	\$ 2,149,518	\$ 1,761,177
Noncurrent liabilities	9,810,570	9,357,409
TOTAL LIABILITIES	<u>\$ 11,960,088</u>	<u>\$ 11,118,586</u>
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	\$ 14,067,409	\$ 9,656,443
Restricted	3,468,666	3,855,378
Unrestricted	1,924,050	1,625,304
TOTAL NET ASSETS	<u>\$ 19,460,125</u>	<u>\$ 15,137,125</u>

Capital net assets increased by \$4,410,966 in 2003 compared to 2002 due mainly to the capitalization of the Walker Addition to the central education facility along with acquisition of office and classroom furniture, fixtures, and equipment. The balance in Construction in Progress at fiscal year end increased due to construction costs associated with the Shewmaker Center for Workforce Technology building scheduled for completion in September, 2003.

Summary of amounts Invested in Capital Assets, net of related debt as of June 30, 2003 and 2002 is as follows:

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Capital Assets <u>not</u> Depreciated	\$ 7,832,475	\$ 4,800,883
Other Capital Assets	19,197,331	14,824,102
Total Capital Assets	27,029,806	19,624,985
Less: Accumulated Depreciation	(4,011,928)	(3,319,994)
Capital Assets, net	23,017,878	16,304,991
Less: Related Debt	(8,950,469)	(6,648,548)
Capital Assets, net of related debt	<u>\$ 14,067,409</u>	<u>\$ 9,656,443</u>

Total liabilities increased reflecting an increase in current liabilities due to the recording of construction payables as of June 30, 2003. Non-current liabilities increased due to the recording of accrued sick leave in compensated absences 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 non-operating revenues received by the Institution, and the operating and non-operating expenses paid by the Institution, along with any other revenues, expenses, and gains/losses received or spent by the Institution.

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

Non-operating revenues are revenues received for which goods and services are not provided in return for the revenue. State appropriated funds provided by the State Legislature to the Institution are reported as non-operating revenue because the Legislature does not receive commensurate goods or services for these revenues. Local property tax millage and investment income received is also reported as non-operating revenue since goods and services are not provided in exchange for the revenue. Non-operating revenues and expenses are considered to be “non-exchange” transactions.

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

- ◆ Total tuition and fee revenues net of scholarship allowance of \$1,060,663 increased for fiscal year 2003 to \$5,965,271 compared to \$4,680,281 in the previous fiscal year.
- ◆ Other operating revenues including non-government grants and contracts totaled \$380,616.
- ◆ State appropriation of general revenue and educational excellence funds received during the fiscal year was \$6,526,299. Capital appropriations for the year amounted to \$28,096.
- ◆ Total local property tax revenue reported was \$3,533,476. Two-thirds of the revenue was used for operations of the Institution, while one-third was restricted for debt retirement.
- ◆ The total amount of gifts received during the year increased significantly due to capital gifts restricted to the construction of the Walker Addition to the central education facility and the Shewmaker Center for Workforce Technology in the amount of \$3,576,542.
- ◆ Other non-operating revenues were Federal and State grants and investment income totaling \$3,572,133 and \$58,018, respectively.
- ◆ Operating expenses of \$18,677,446 consisting of personal services of \$13,082,549, scholarships and fellowships of \$1,273,498, supplies and services of \$3,561,068 and depreciation of \$760,331.
- ◆ Other non-operating expenses consisted of interest and fees of long-term debt of \$438,152, including accrued interest payable of \$53,342, loss on disposal of fixed assets of \$23,670 and bond issue cost of \$178,183.

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

Condensed Statement of Revenues, Expenses & Changes in Net Assets

	Year ended	
	June 30, 2003	June 30, 2002
Total Operating Revenues	\$ 6,345,887	\$ 5,014,837
Total Operating Expenses	18,677,446	17,558,830
Total Operating (Loss)	(12,331,559)	(12,543,993)
Total Non-Operating Revenue/(Expenses) and Other Changes	16,654,559	12,745,403
Net Increase in Net Assets	4,323,000	201,410
Net Assets:		
Beginning of year	15,137,125	14,935,715
End of year	\$ 19,460,125	\$ 15,137,125

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 Institution. 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 fourth 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 fifth section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

A summary of the cash flows for fiscal year 2003 and 2002 is as follows:

	Year ended	
	June 30, 2003	June 30, 2002
Cash provided (used) by:		
Operating Activities	(\$ 11,904,529)	(\$ 11,882,330)
Non-capital Financing Activities	12,366,877	11,775,756
Capital Related Financing Activities	(2,840,578)	(2,244,485)
Investing Activities	13,154	228,850
Net Change in Cash	(2,365,076)	(2,122,209)
Cash – Beginning of Year	6,694,255	8,816,464
Cash – End of Year	\$ 4,329,179	\$ 6,694,255

Enrollment

Student enrollment over the past five 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	5,207	21.2%	4,435	8.9%	1,220	654	1,874	11.2%

The Institution's non-duplicated student headcount increased by 10% from 6,372 in 2002 to 7,011 in 2003. Management is currently anticipating a ten percent annual increase in enrollment for 2004. 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 Institution's growth include the rapid economic development of the area, low unemployment, and the demand for educated employees in the local workforce. The Institution is considering establishing a satellite campus in Washington County within the next fiscal year in order to expand its service area and to meet the growing demands and needs of students. Therefore, there is every reason to believe the potential exists for continued growth and expansion of the Institution in the foreseeable future.

State and local funding directly impacts 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 Institution 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.

Northwest Arkansas Community College's overall financial position is strong. The Institution is optimistic that the current fiscal year will be as successful as the past fiscal year. Institution management will need to maintain a close watch over resources and expenditures in order to maintain the ability to manage unknown internal and external issues and needs as they arise.

Stephen W. Pelphrey
Dean of Fiscal Affairs

NORTHWEST ARKANSAS COMMUNITY COLLEGE
COMPARATIVE STATEMENT OF NET ASSETS
JUNE 30, 2003

Exhibit A

	June 30,	
	2003	2002
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,414,500	\$ 1,561,236
Accounts receivable, net	974,469	424,641
Property taxes receivable, net	2,688,777	2,490,696
Inventories	41,675	28,406
Deposits with trustee	347,461	289,687
Prepaid expenses	19,524	21,835
Other assets	1,250	1,200
Total current assets	6,487,656	4,817,701
Noncurrent assets:		
Restricted cash and cash equivalents	1,914,679	5,133,019
Capital assets, net of accumulated depreciation	23,017,878	16,304,991
Total noncurrent assets	24,932,557	21,438,010
TOTAL ASSETS	31,420,213	26,255,711
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	1,719,109	1,434,840
Bonds and notes payable - current portion	393,109	290,000
Compensated absences - current portion	37,300	36,337
Total current liabilities	2,149,518	1,761,177
Noncurrent liabilities:		
Bonds and notes payable	9,101,891	8,990,000
Compensated absences	708,679	367,409
Total noncurrent liabilities	9,810,570	9,357,409
TOTAL LIABILITIES	11,960,088	11,118,586
NET ASSETS		
Invested in capital assets, net of related debt	14,067,409	9,656,443
Restricted for:		
Expendable:		
Scholarships and fellowships	88,380	160,472
Capital projects		389,315
Debt service	3,380,286	3,305,591
Unrestricted	1,924,050	1,625,304
TOTAL NET ASSETS	\$ 19,460,125	\$ 15,137,125

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

NORTHWEST ARKANSAS COMMUNITY COLLEGE
 COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2003

Exhibit B

	Year Ended June 30,	
	2003	2002
OPERATING REVENUES:		
Student tuition and fees (net of scholarship allowances of \$1,060,663 and \$935,020)	\$ 5,965,271	\$ 4,680,281
Non-governmental grants and contracts	170,304	130,824
Other operating revenues	210,312	203,732
Total operating revenues	6,345,887	5,014,837
OPERATING EXPENSES:		
Personal services	13,082,549	12,699,862
Scholarships and fellowships	1,273,498	3,918,984
Supplies and services	3,561,068	266,053
Depreciation	760,331	673,931
Total operating expenses	18,677,446	17,558,830
Operating loss	(12,331,559)	(12,543,993)
NONOPERATING REVENUES (EXPENSES):		
State appropriations	6,526,299	6,169,781
Federal grants	2,146,211	1,716,621
State grants	1,425,922	1,067,004
Property taxes	3,533,476	3,400,577
Gifts	3,576,542	20,000
Investment income	58,018	228,850
Other revenue		510,244
Interest on capital asset - related debt	(438,152)	(535,940)
Net nonoperating revenue	16,828,316	12,577,137
Income before other revenues, expenses, gains or losses	4,496,757	33,144
OTHER REVENUES, EXPENSES, GAIN OR (LOSSES):		
Loss on disposal of capital assets	(23,670)	(6,044)
Net bond issue costs	(178,183)	
Write-off of assets due to changes in capitalization level		(504,802)
Capital appropriations	28,096	679,112
INCREASE (DECREASE) IN NET ASSETS	4,323,000	201,410
NET ASSETS - BEGINNING OF YEAR - AS ORIGINALLY REPORTED	15,137,125	18,838,823
Cumulative effects of changes in accounting principles		(3,903,108)
NET ASSETS - BEGINNING OF YEAR	15,137,125	14,935,715
NET ASSETS - END OF YEAR	\$ 19,460,125	\$ 15,137,125

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

NORTHWEST ARKANSAS COMMUNITY COLLEGE
 COMPARATIVE STATEMENT OF CASH FLOWS - DIRECT METHOD
 FOR THE YEAR ENDED JUNE 30, 2003

Exhibit C

	Year Ended June 30,	
	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	\$ 5,743,602	\$ 4,725,590
Grants and contracts	195,009	130,824
Other receipts	210,312	203,732
Payments to employees	(10,166,285)	(9,593,066)
Payments for employee benefits	(2,536,759)	(3,091,285)
Payments to suppliers	(4,076,910)	(3,044,961)
Scholarships and fellowships	(1,273,498)	(1,213,164)
Net cash used by operating activities	(11,904,529)	(11,882,330)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	6,526,299	6,169,781
Proceeds from grants and contracts	3,572,133	2,783,625
Private gifts and grants	43,909	20,000
Property taxes	2,224,536	2,802,350
Net cash provided by noncapital financing activities	12,366,877	11,775,756
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt	4,065,000	
Proceeds from note payable	45,000	
Capital appropriations	28,096	679,112
Capital gift and grants	3,160,058	30,030
Property taxes allocated for debt retirement	1,114,613	1,395,829
Purchases of capital assets	(7,132,199)	(3,621,152)
Deposit with trustee	336,847	87,636
Net bond issue costs	(178,183)	
Principal paid on capital debt	(3,895,000)	(280,000)
Interest paid on capital debt	(384,810)	(535,940)
Net cash used by capital and related financing activities	(2,840,578)	(2,244,485)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments (net of fees)	13,154	228,850
Net (decrease) in cash and cash equivalents	(2,365,076)	(2,122,209)
Cash and cash equivalents - beginning of year	6,694,255	8,816,464
Cash and cash equivalents - end of year	\$ 4,329,179	\$ 6,694,255

NORTHWEST ARKANSAS COMMUNITY COLLEGE
 COMPARATIVE STATEMENT OF CASH FLOWS - DIRECT METHOD
 FOR THE YEAR ENDED JUNE 30, 2003

Exhibit C

	Year Ended June 30,	
	2003	2002
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (12,331,559)	\$ (12,543,993)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	760,331	673,931
Change in assets and liabilities:		
Receivables, net	(181,006)	(54,118)
Inventories	(13,269)	(78)
Other assets	2,262	3,830
Accounts payable	(508,743)	18,202
Deferred revenue	(12,050)	(64,064)
Compensated absences	342,233	76,032
Other liabilities	37,272	7,928
	\$ (11,904,529)	\$ (11,882,330)
NONCASH TRANSACTIONS		
Donated capital additions	\$ 28,206	

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

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 1: Reporting Entity

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

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

NOTE 2: Summary of Significant Accounting Policies

Financial Statement Presentation

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

Basis of Accounting

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

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 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.

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 2: Summary of Significant Accounting Policies (Continued)

Operating and Nonoperating Revenues

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

Nonoperating revenues – Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, federal grants and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting, and GASB Statement No. 34, such as state appropriations and investment income. The institution elected to report certain federal and state grants received for student financial assistance and other purposes as nonoperating revenues instead of operating revenues for the year ended June 30, 2003. Comparable amounts were restated for the year ended June 30, 2002.

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 include 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 \$206,820.

Inventories

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

Noncurrent Cash and Investments

Cash and investments that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other nonrecurring assets, are classified as noncurrent assets in the statement of net assets.

Accounts Payable and Accrued Liabilities

The components of the accounts payable and accrued balances are trade payables of \$74,976, construction contracts payable of \$786,100, accrued payroll of \$334,287, payroll related liabilities of \$284,579, deferred revenues of \$166,423, interest payable of \$53,342 and other payables of \$19,402.

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 2: Summary of Significant Accounting Policies (Continued)

Deferred Revenues

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

Compensated Absences Payable

Compensated absences payable represents the Institution's liability (salaries plus applicable salary related costs) for unused annual leave as of June 30, 2003. Unused vacation and sick leave for eligible employees is included in the compensated absences payable calculation as follows:

1. Accumulated vacation days are required to be used annually, with a maximum carry-over of 240 hours. In the event of termination or retirement, all employees are paid for accumulated unused vacation hours up to a maximum of 240 hours.
2. Upon the retirement or death, any employee, or beneficiary of any employee of the Institution shall receive compensation, up to a restricted amount determined by law, for accumulated unused sick leave.

Noncurrent Liabilities

Noncurrent liabilities include (1) principal amounts of bonds payable and notes payable with contractual maturities greater than one year; (2) estimated amounts for accrued compensated absences that will not be paid within the next fiscal year.

Net Assets

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

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

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

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

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 2: Summary of Significant Accounting Policies (Continued)

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the Institution, and the amount that is paid by students and/or third parties making payments on the students' behalf.

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. Property taxes receivable are recorded net of the estimated allowance for doubtful accounts in the amount of \$237,623.

Use of Estimates

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

NOTE 3: Public Fund Deposits and Investments

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

	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 300,000	\$ 300,000
Uninsured, Collateralized	3,730,567	4,393,711
Total Deposits	\$ 4,030,567	\$ 4,693,711

The above deposits do not include cash on deposit in the state treasury or cash on hand in the amounts of \$294,262 and \$4,350 at June 30, 2003, respectively.

NOTE 4: Income Taxes

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

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 5: Capital Assets

Following are the changes in capital assets for the year ended June 30, 2003:

	Balance July 1, 2002	Additions	Transfers	Retirements	Balance June 30, 2003
Capital assets not being depreciated					
Land and improvements	\$ 2,901,333	\$ 37,200			\$ 2,938,533
Construction-in-progress	1,899,550	7,258,103	\$ (4,244,596)	\$ (19,115)	4,893,942
Total capital assets not being depreciated	\$ 4,800,883	\$ 7,295,303	\$ (4,244,596)	\$ (19,115)	\$ 7,832,475
Other capital assets					
Improvements and infrastructure	\$ 373,357			\$ (1,066)	\$ 372,291
Buildings	11,402,455		\$ 4,244,596	(736)	15,646,315
Equipment	1,975,713	\$ 122,567		(68,397)	2,029,883
Archives and collections	30,595				30,595
Library materials	1,041,982	79,018		(2,753)	1,118,247
Total other capital assets	14,824,102	201,585	4,244,596	(72,952)	19,197,331
Less accumulated depreciation for:					
Improvements and infrastructure	(11,148)	(27,780)			(38,928)
Buildings	(1,391,924)	(379,661)			(1,771,585)
Equipment	(1,275,527)	(269,502)		68,397	(1,476,632)
Archives and collections	(4,079)	(2,040)			(6,119)
Library materials	(637,316)	(81,348)			(718,664)
Total accumulated depreciation	(3,319,994)	(760,331)		68,397	(4,011,928)
Other capital assets, net	\$ 11,504,108	\$ (558,746)	\$ 4,244,596	\$ (4,555)	\$ 15,185,403
Capital Asset Summary:					
Capital assets not being depreciated	\$ 4,800,883	\$ 7,295,303	\$ (4,244,596)	\$ (19,115)	\$ 7,832,475
Other capital assets, at cost	14,824,102	201,585	4,244,596	(72,952)	19,197,331
Total cost of capital assets	19,624,985	7,496,888		(92,067)	27,029,806
Less accumulated depreciation	(3,319,994)	(760,331)		68,397	(4,011,928)
Capital Assets, net	\$ 16,304,991	\$ 6,736,557	\$ 0	\$ (23,670)	\$ 23,017,878

NOTE 6: Long-Term Liabilities

A summary of long-term liabilities is as follows:

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized and Issued	Debt Outstanding June 30, 2003	Maturities To June 30, 2003
11/2000	11/2020	4.8-5.875%	\$ 5,435,000	\$ 5,385,000	\$ 50,000
10/2002	11/2012	1.5-3.6%	4,065,000	4,065,000	
6/2003	6/2008	5%	45,000	45,000	
Totals			\$ 9,545,000	\$ 9,495,000	\$ 50,000

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 6: Long-Term Liabilities (Continued)

The changes in long-term liabilities are as follows:

	Balance July 1, 2002	Issued	Retired	Balance June 30, 2003	Amounts Due Within One Year
Bonds	\$ 9,280,000	\$ 4,065,000	\$ 3,895,000	\$ 9,450,000	\$ 385,000
Notes		45,000		45,000	8,109
Compensated absences	403,746	387,879	45,646	745,979	37,300
Totals	\$ 9,683,746	\$ 4,497,879	\$ 3,940,646	\$ 10,240,979	\$ 430,409

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

Year ended June 30,	Principal	Interest	Total
2004	\$ 393,109	\$ 424,945	\$ 818,054
2005	403,535	416,869	820,404
2006	413,978	407,296	821,274
2007	424,444	396,519	820,963
2008	434,934	384,228	819,162
2009 - 2013	2,335,000	1,695,406	4,030,406
2014 - 2018	2,910,000	1,077,677	3,987,677
2019 - 2023	2,180,000	240,549	2,420,549
Totals	\$ 9,495,000	\$ 5,043,489	\$ 14,538,489

NOTE 7: Commitments

The Institution was contractually obligated for the following at June 30, 2003:

A. Construction Contracts

Project Name	Estimated Completion Date	Contract Balance
Shewmaker Workforce Development Building	10/31/2003	\$ 122,282
Receiving Building	3/31/2004	92,950

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 7: Commitments (Continued)

B. Operating Leases

The following represents future minimum rental payments (aggregate at June 30, 2003). The leases are comprised of four (4) facility rentals, various office and computer lab equipment leases.

Year Ended June 30,	Amount
2004	\$ 469,823
2005	287,806
2006	149,910
2007	81,900
2008	6,825
Total	\$ 996,264

NOTE 8: Retirement Plans

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

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

Funding Policy. TIAA/CREF has contributory and non-contributory plans. Contributory members contribute 4% of earnings to the plan. The Institution contributes 6% of earnings for non-contributory and 10% for contributory members. The Institution's and participants' contributions for the year ended June 30, 2003 were \$571,994 and \$217,096, respectively.

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.

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 8: 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 12%. The Institution's contributions to ATRS for the years ended June 30, 2003, 2002 and 2001 were \$183,095, \$185,051 and \$197,484, respectively, equal to the required contributions for each year.

Arkansas Public Employees Retirement System

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

Funding Policy. APERS has contributory and non-contributory plans. Contributory members are required by law to contribute 6% of their salaries. Each participating employer is required by law to contribute at a rate established by the Arkansas General Assembly. The current statutory employer rate is 10% of annual covered payroll. The Institution's contributions to APERS for the years ended June 30, 2003, 2002 and 2001 were \$78,248, \$97,755 and \$96,862, respectively, equal to the required contributions for each year.

NOTE 9: Operating Expenses by Functional Classifications

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

	Personal Services	Scholarships and Fellowships	Supplies and Services	Depreciation	Total
Instruction	\$ 7,973,106		\$ 699,166		\$ 8,672,272
Academic support	800,415		149,992		950,407
Student services	1,645,586		113,427		1,759,013
Institutional support	2,282,780		1,378,362		3,661,142
Scholarships and fellowships		\$ 1,273,498			1,273,498
Operations and maintenance of plant	380,662		1,220,121		1,600,783
Depreciation				\$ 760,331	760,331
Total	\$ 13,082,549	\$ 1,273,498	\$ 3,561,068	\$ 760,331	\$ 18,677,446

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 10: Related Organizations

The financial statements do not include assets, liabilities, and net assets relating to the Northwest Arkansas Community College Foundation, Inc.

The Foundation operates as a nonprofit benevolent corporation for charitable educational purposes. An unaudited summary of the Foundation's financial condition as of June 30, 2003, follows:

ASSETS	
Cash and investments	\$ 1,284,329
Accounts receivable	3,040
Physical properties	2,674
Other	<u>1,066,576</u>
 TOTAL ASSETS	 <u><u>\$ 2,356,619</u></u>
LIABILITIES AND NET ASSETS	
Accounts payable and accrued expenses	\$ 376,221
Net assets	<u>1,980,398</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$ 2,356,619</u></u>

Major components of the changes in net assets during 2003 consisted of:

Donations	\$ 558,600
Other revenue and additions	<u>83,431</u>
Total	<u>642,031</u>
 Expenditures	 <u>3,915,277</u>
 Net Increase/(Decrease) in Net Assets	 <u><u>\$ (3,273,246)</u></u>

NOTE 11: Refunding of Debt

In October 2002, the Institution issued bonds of \$4,065,000 to refund an issue dated October 1992 with an outstanding balance of \$3,870,000. The Institution received net proceeds of \$411,438 after the required transfers to paying agents including \$178,183 in net bond issue cost.

NOTE 12: Contingencies

The Institution is a party to litigation and other claims in the ordinary course of business. The most important case involved a suit by certain taxpayers in Benton County alleging that a portion of the 1998 property taxes were improperly assessed. A partial refund of those taxes is possible. The outcome of this case was not known as of June 30, 2003.