

Northwest Arkansas Community College

Bentonville, Arkansas

**Annual Financial Report
Independent Auditor's Report
and Other Reports
June 30, 2004**

LEGISLATIVE JOINT AUDITING COMMITTEE



NORTHWEST ARKANSAS COMMUNITY COLLEGE
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Senate Co-Chair
Rep. Tommy G. Roebuck
House Co-Chair
Sen. Randy Laverty
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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 basic financial statements of Northwest Arkansas Community College (Institution), an Institution of Higher Education of the State of Arkansas, as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the Institution's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of 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 related 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 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 Northwest Arkansas Community College and of its discretely presented component unit as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof 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 23, 2005 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 that reads "Charles L. Robinson".

Charles L. Robinson, CPA, CFE
Legislative Auditor

Little Rock, Arkansas
February 23, 2005
EDHE19804

Sen. Henry "Hank" Wilkins, IV
Senate Co-Chair
Rep. Tommy G. Roebuck
House Co-Chair
Sen. Randy Laverly
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

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, 2004, and have issued our report thereon dated February 23, 2005, which included a reference to the report of other auditors. 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. The financial statements of Northwest Arkansas Community College Foundation, Inc., were not audited in accordance with *Government Auditing Standards*.

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 control over the payroll and cashiering functions because of insufficient segregation of duties.

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, 2004, 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 2003</u>	<u>Spring Term 2004</u>
Student Headcount	5,374	4,601
Student Semester Credit Hours	41,384	37,073

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 are 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 23, 2005

NORTHWEST ARKANSAS COMMUNITY COLLEGE

Management's Discussion and Analysis

Overview of the Financial Statements and Financial Analysis

Northwest Arkansas Community College presents its financial statements as of and for the fiscal year ended June 30, 2004, with comparative financial data as of and for the fiscal year ended June 30, 2003.

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

Statement of Net Assets

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

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

Northwest Arkansas Community College's total assets at June 30, 2004 were \$33,103,395 compared to \$31,420,213 on June 30, 2003, as reported in the asset section of the *Statement of Net Assets*. Total assets are comprised of current assets in the amount of \$7,374,625, and non-current assets of \$25,728,770 for fiscal year 2004, compared to \$6,487,656 and \$24,932,557 respectively for the 2003 fiscal year. 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 at June 30, 2004 of \$11,095,270, and \$11,960,088 at June 30, 2003. 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 \$1,432,775 at June 30, 2004, consisted of accounts payable and accrued liabilities, student deposits and credits (deferred tuition), the current portion of compensated absences payable, and the current portion of notes payable and bonds payable compared to \$2,149,518 at June 30, 2003.

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 \$9,662,495 at June 30, 2004, were comprised of the long-term portion of compensated absences payable, notes payable, and bonds payable compared to \$9,810,570 at June 30, 2003. During the year, the Institution secured a five-year \$191,683 note payable to finance the purchase of a document imaging system that interfaces with the college's Banner administrative system.

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:

<u>ASSETS:</u>	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Current Assets	\$ 7,374,625	\$ 6,487,656
Non-current Assets	25,728,770	24,932,557
	<hr/>	<hr/>
TOTAL ASSETS	\$ 33,103,395	\$ 31,420,213
	<hr/> <hr/>	<hr/> <hr/>
<u>LIABILITIES:</u>		
Current Liabilities	\$ 1,432,775	\$ 2,149,518
Non-current Liabilities	9,662,495	9,810,570
	<hr/>	<hr/>
TOTAL LIABILITIES	\$ 11,095,270	\$ 11,960,088
	<hr/> <hr/>	<hr/> <hr/>
<u>NET ASSETS:</u>		
Invested in capital assets, net of related debt	\$ 14,206,950	\$ 14,067,409
Restricted	4,272,614	3,468,666
Unrestricted	3,528,561	1,924,050
	<hr/>	<hr/>
TOTAL NET ASSETS	\$ 22,008,125	\$ 19,460,125
	<hr/> <hr/>	<hr/> <hr/>

Capital net assets increased to \$14,206,950 in 2004, with the capitalization of the Shewmaker Center for Workforce Technology building and the acquisition of office and classroom furniture, fixtures, and equipment. The balance in Construction in Progress at fiscal year end decreased significantly due to the transfer of construction costs associated with the Shewmaker Center for Workforce Technology building to capitalized buildings.

Summary of amounts Invested in Capital Assets, net of related debt as of June 30, 2004, and 2003 is as follows:

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Capital Assets not Depreciated	\$ 3,291,067	\$ 7,832,475
Other Capital Assets	24,588,839	19,197,331
	<hr/>	<hr/>
Total Capital Assets	27,879,906	27,029,806
Less: Accumulated Depreciation	(4,607,956)	(4,011,928)
	<hr/>	<hr/>
Capital Assets, net	\$ 23,271,950	\$ 23,017,878
Less: Related Debt	(9,065,000)	(8,950,469)
	<hr/>	<hr/>
Capital Assets, net of related debt	\$ 14,206,950	\$ 14,067,409
	<hr/> <hr/>	<hr/> <hr/>

Total liabilities decreased for fiscal year 2004 as compared to 2003 due to the reduction in trade payables for the year and a reduction in the recording of construction payables with the completion of the Shewmaker building during the year. Non-current liabilities decreased due to the payment of principal on bonds and notes payable. The Institution also records compensated absences as part of non-current liabilities for employees having 50 days (400 hours) or more of accrued sick leave that the Institution is required to pay the employee upon retirement or employee's beneficiary upon death of the employee.

Statement of Revenues, Expenses & Changes in Net Assets

Changes in total net assets as reported on the Statement of Net Assets is based on the activity presented on the *Statement of Revenues, Expenses, and Changes in Net Assets*. The purpose of this statement is to report the operating and 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 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.

Non-operating 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 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 increased for fiscal year 2004 to \$6,676,159 compared to \$5,965,271 in the previous fiscal year.
- ◆ Tuition and fees are reported net of scholarship discount and allowance of \$1,249,250 in 2004 and \$1,060,663 in 2003.
- ◆ Total operating expenses increased from \$18,677,446 in 2003 to \$20,647,978 due to the development expenses associated with the start-up of “My Education Connection” distance learning program tailored for Wal-Mart associates throughout the United States. In addition the Institution expanded its service area by opening a satellite campus in adjoining Washington County.
- ◆ State appropriation of general revenue and educational excellence funds received during the fiscal year increased 9.3% from \$6,526,299 in fiscal year 2003 to \$7,133,837 in fiscal year 2004.
- ◆ Total local property tax millage (3 mills) revenue reported in the fiscal year was \$4,207,802 compared to \$3,533,476 in 2003. Two mills of the revenue are used for operations of the college, while one mill of the tax is restricted for debt retirement.
- ◆ The college received a gift of software with a fair value of \$200,000 and other capital donations from the Northwest Arkansas Community College Foundation, Inc., related to completion of the construction of the Shewmaker Center for Workforce Technology building.

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

Condensed Statement of Revenues, Expenses & Changes in Net Assets

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Total Operating Revenues	\$ 7,228,963	\$ 6,345,887
Total Operating Expenses	20,674,978	18,677,446
Total Operating Income (Loss)	(13,446,015)	(12,331,559)
Total Non-Operating Revenue/(Expenses) and Other Changes	15,994,015	16,654,559
Net Increase in Net Assets	2,548,000	4,323,000
Net Assets:		
Beginning of year	19,460,125	15,137,125
End of year	\$ 22,008,125	\$ 19,460,125

Statement of Cash Flows

The final statement presented by Northwest Arkansas Community College is the *Statement of Cash Flows*. The statement is prepared using the direct method and presents detailed information about the cash activity of the institution during the year. The statement is divided into five parts. The first section deals with operating cash flows and shows the net cash used by the operating activities of the college. The second section reflects cash flows from non-capital financing activities. This section reflects the cash received and spent for non-operating, non-investing, and non-capital financing purposes. The third section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section provides information on cash flows from investing activities. The last 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 2004 and 2003 is as follows:

Cash provided (used) by:	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Operating Activities	(\$ 12,731,144)	(\$ 11,904,529)
Non-capital Financing Activities	15,209,399	12,366,877
Capital Related Financing Activities	(885,432)	(2,840,578)
Investing Activities	39,847	13,154
Net Change in Cash	1,632,670	(2,365,076)
Cash – Beginning of Year	4,329,179	6,694,255
Cash – End of Year	\$ 5,961,849	\$ 4,329,179

Enrollment

Student enrollment over the past six 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%

The Institution's non-duplicated student headcount increased by 2.5% from 7,011 in 2003 to 7,183 in 2004. Management is currently anticipating a seven percent annual increase in enrollment for 2005. 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 is considering expanding its satellite campus in Washington County within the next fiscal year in order to provide additional classes in its service area and to meet the growing demands and needs of students. In addition the college will open the "Highlands Crossing" campus in September 2004, offering personal enrichment and non-credit classes to residents in the Bella Vista area. Along with entering into "partnerships" with four-year institutions to ensure successful transfer of classes, the institution will be expanding its distance learning program to provide students with other learning opportunities.

During the fiscal year, the Institution completed a five-year strategic plan outlining nine 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 completed a five-year master facilities plan outlining the plans for development of college property and construction of buildings on the campus within the next five years. Therefore, 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 uncertainty in state revenue projections. However, local property tax funding is increasing and student enrollment continues to increase.

Economic Outlook

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

During the fiscal year 2004, Northwest Arkansas Community College submitted grant applications for Title III, TRIO, and Office of Domestic Preparedness (ODP) federal grants along with applying for other private grant funding. In the coming year, an emphasis will be placed on increasing the fundraising activities of the Northwest Arkansas Community College Foundation Inc. to increase financial support for the institution.

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.

Dr. Linda Dayton
Interim Chief Financial Officer

NORTHWEST ARKANSAS COMMUNITY COLLEGE
COMPARATIVE STATEMENT OF NET ASSETS
JUNE 30, 2004

Exhibit A

	June 30,	
	2004	2003
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 3,505,029	\$ 2,414,500
Accounts receivable, net	760,086	974,469
Property taxes receivable, net	2,678,693	2,688,777
Inventories	36,539	41,675
Deposits with trustee	358,400	347,461
Prepaid expenses	31,957	19,524
Other assets	3,921	1,250
Total Current Assets	7,374,625	6,487,656
Noncurrent Assets:		
Restricted cash and cash equivalents	2,456,820	1,914,679
Capital assets, net of accumulated depreciation	23,271,950	23,017,878
Total Noncurrent Assets	25,728,770	24,932,557
TOTAL ASSETS	33,103,395	31,420,213
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued liabilities	949,705	1,719,109
Bonds and notes payable - current portion	439,326	393,109
Compensated absences - current portion	43,744	37,300
Total Current Liabilities	1,432,775	2,149,518
Noncurrent Liabilities:		
Bonds and notes payable	8,831,357	9,101,891
Compensated absences	831,138	708,679
Total Noncurrent Liabilities	9,662,495	9,810,570
TOTAL LIABILITIES	11,095,270	11,960,088
NET ASSETS		
Invested in capital assets, net of related debt	14,206,950	14,067,409
Restricted for		
Expendable		
Scholarships and fellowships	12,981	88,380
Instructional department uses	75,797	
Debt service	4,079,489	3,380,286
Other	104,347	
Unrestricted	3,528,561	1,924,050
TOTAL NET ASSETS	\$ 22,008,125	\$ 19,460,125

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

NORTHWEST ARKANSAS COMMUNITY COLLEGE FOUNDATION, INC.
 STATEMENT OF FINANCIAL POSITION
 JUNE 30, 2004 AND 2003

Exhibit A-1

	2004	2003
ASSETS		
Cash and cash equivalents	\$ 766,429	\$ 649,030
Contributions receivable	128,161	1,066,576
Loans receivable	2,706	3,040
Investments	709,383	635,299
Property and equipment, net	3,823	2,674
Total Assets	\$ 1,610,502	\$ 2,356,619
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and other liabilities	\$ 2,248	\$ 3,646
Accounts payable - other		372,575
Total Liabilities	2,248	376,221
NET ASSETS		
Unrestricted	812,658	338,340
Temporarily restricted	683,800	1,540,136
Permanently restricted	111,796	101,922
Total Net Assets	1,608,254	1,980,398
Total Liabilities and Net Assets	\$ 1,610,502	\$ 2,356,619

NORTHWEST ARKANSAS COMMUNITY COLLEGE
 COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2004

Exhibit B

	Year ended June 30,	
	2004	2003
OPERATING REVENUES		
Student tuition and fees (net of scholarship allowances of \$1,249,250 and \$1,060,663)	\$ 6,676,159	\$ 5,965,271
Non-governmental grants and contracts	236,039	170,304
Other operating revenues	316,765	210,312
Total operating revenues	7,228,963	6,345,887
OPERATING EXPENSES		
Personal services	13,954,348	13,082,549
Scholarships and fellowships	1,392,604	1,273,498
Supplies and services	4,449,595	3,561,068
Depreciation	878,431	760,331
Total operating expenses	20,674,978	18,677,446
Operating loss	(13,446,015)	(12,331,559)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	7,133,837	6,526,299
Federal grants	2,589,010	2,146,211
State grants	1,463,422	1,425,922
Property taxes	4,207,802	3,533,476
Gifts	769,777	3,576,542
Investment income	43,032	58,018
Interest on capital asset - related debt	(432,559)	(438,152)
Net nonoperating revenues	15,774,321	16,828,316
Income before other revenues, expenses, gains or losses	2,328,306	4,496,757
OTHER REVENUES, EXPENSES, GAINS OR (LOSSES)		
Loss on disposal of capital assets	(9,436)	(23,670)
Capital appropriations	229,130	28,096
Net bond issuance costs		(178,183)
INCREASE IN NET ASSETS	2,548,000	4,323,000
NET ASSETS - BEGINNING OF YEAR	19,460,125	15,137,125
NET ASSETS - END OF YEAR	\$ 22,008,125	\$ 19,460,125

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

NORTHWEST ARKANSAS COMMUNITY COLLEGE FOUNDATION, INC.
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

Exhibit B-1

	2004			2003 Total (Summarized)
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUES AND SUPPORT				
Special events:				
Special event revenue	\$ 49,203			\$ 49,203
Less cost of direct benefit to donors	11,178			11,178
Total special events	<u>38,025</u>			<u>38,025</u>
Contributions	174,446	\$ 305,536	\$ 9,874	\$ 489,856
Investment income	25,746			25,746
Realized loss on sale of assets	(636)			(636)
Realized gain on sale of investments	4,036			4,036
Unrealized gain on investments	69,125			69,125
Miscellaneous income	899			899
Net assets released from restrictions	1,161,872	(1,161,872)		
Total support and revenues	<u>1,473,513</u>	<u>(856,336)</u>	<u>9,874</u>	<u>627,051</u>
EXPENSES				
Program	824,306			824,306
Management and general	138,593			138,593
Fundraising	36,296			36,296
Total expenses	<u>999,195</u>			<u>999,195</u>
CHANGE IN NET ASSETS	474,318	(856,336)	9,874	(372,144)
NET ASSETS, BEGINNING OF YEAR	<u>338,340</u>	<u>1,540,136</u>	<u>101,922</u>	<u>1,980,398</u>
NET ASSETS, END OF YEAR	<u>\$ 812,658</u>	<u>\$ 683,800</u>	<u>\$ 111,796</u>	<u>\$ 1,608,254</u>

NORTHWEST ARKANSAS COMMUNITY COLLEGE
 COMPARATIVE STATEMENT OF CASH FLOWS - DIRECT METHOD
 FOR THE YEAR ENDED JUNE 30, 2004

Exhibit C

	Year ended June 30,	
	2004	2003
CASH FLOW FROM OPERATING ACTIVITIES		
Student tuition and fees	\$ 6,530,832	\$ 5,743,602
Grants and contracts	215,982	195,009
Other receipts	316,765	210,312
Payments to employees	(10,863,873)	(10,166,285)
Payments for employee benefits	(3,073,913)	(2,536,759)
Payments to suppliers	(4,464,333)	(4,076,910)
Scholarships and fellowships	(1,392,604)	(1,273,498)
Net cash used by operating activities	(12,731,144)	(11,904,529)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	7,133,837	6,526,299
Proceeds from grants and contracts	4,040,072	3,572,133
Private gifts and grants	1,142,352	43,909
Property taxes	2,893,138	2,224,536
Net cash provided by noncapital financing activities	15,209,399	12,366,877
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt		4,065,000
Proceeds from note payable		45,000
Capital appropriations	229,130	28,096
Capital gifts and grants		3,160,058
Property taxes allocated for debt retirement	1,448,542	1,114,613
Purchases of capital assets	(1,705,889)	(7,132,199)
Deposit with trustee	(818,082)	336,847
Net bond issuance costs		(178,183)
Principal paid on capital debt and leases	(31,000)	(3,895,000)
Interest paid on capital debt and leases	(8,133)	(384,810)
Net cash used by capital and related financing activities	(885,432)	(2,840,578)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments (net of fees)	39,847	13,154
Net increase (decrease) in cash and cash equivalents	1,632,670	(2,365,076)
Cash and cash equivalents - beginning of year	4,329,179	6,694,255
Cash and cash equivalents - end of year	\$ 5,961,849	\$ 4,329,179

NORTHWEST ARKANSAS COMMUNITY COLLEGE
 COMPARATIVE STATEMENT OF CASH FLOWS - DIRECT METHOD
 FOR THE YEAR ENDED JUNE 30, 2004

Exhibit C

	Year ended June 30,	
	2004	2003
Reconciliation of net operating loss to net cash used by operating activities:		
Operating loss	\$ (13,446,015)	\$ (12,331,559)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	878,431	760,331
Change in assets and liabilities:		
Receivables, net	(154,432)	(181,006)
Inventories	5,136	(13,269)
Other assets	(15,104)	2,262
Accounts payable	(6,688)	(508,743)
Deferred revenue	(20,095)	(12,050)
Compensated absences	128,903	342,233
Other liabilities	(101,280)	37,272
Net cash used by operating activities	\$ (12,731,144)	\$ (11,904,529)
 NONCASH TRANSACTIONS		
Note payable issued	\$ 191,683	
Equipment additions-non cash	25,099	
Other purchases-non cash	162,663	
Donated capital additions	19,146	\$ 28,206

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

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

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. Northwest Arkansas Community College 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.

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 2: Summary of Significant Accounting Policies (Continued)

Capital Assets and Depreciation (Continued)

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 30 years for buildings and building improvements, 15 years for infrastructure, 3 to 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.

Non-Operating Revenues – Non-operating revenues include activities that have the characteristics of non-exchange 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. The Institution elected to report certain federal and state grants received for student financial assistance and other purposes as non-operating revenues instead of operating revenues for the years ended June 30, 2004, and June 30, 2003.

Cash Equivalents

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

Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and services provided to students, faculty and staff. Accounts receivable also includes amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the Institution's grant and contracts. Accounts receivable are recorded net of the estimated allowance for doubtful accounts in the amount of \$378,073 at June 30, 2004 and \$206,820 at June 30, 2003.

A summary of accounts receivable balances at June 30, 2004, is as follows:

	<u>Gross</u>	<u>Allowance</u>	<u>Net</u>
Student accounts receivable	\$ 953,431	\$ 378,073	\$ 575,358
Accounts receivable - other governments	92,423		92,423
Other accounts receivable	<u>92,305</u>		<u>92,305</u>
Totals	<u>\$ 1,138,159</u>	<u>\$ 378,073</u>	<u>\$ 760,086</u>

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 2: Summary of Significant Accounting Policies (Continued)

Inventories

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

Noncurrent Cash

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

Accounts Payable and Accrued Liabilities

A summary of accounts payable and accrued liabilities at June 30, 2004, is as follows:

Trade payables	\$ 72,907
Construction contract payables	154,261
Accrued payroll	239,422
Payroll related liabilities	278,053
Deferred revenues	146,742
Interest payable	52,440
Other payables	<u>5,880</u>
Totals	<u>\$ 949,705</u>

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, 2004, and June 30 2003. Unused annual leave for eligible employees is included in the compensated absences payable calculation as follows:

Accumulated annual leave is required to be used annually, with a maximum carry-over of 240 hours. In the event of termination or retirement, employees are paid for accumulated unused annual leave up to a maximum of 240 hours.

Noncurrent Liabilities

Noncurrent liabilities include (1) principal amounts of revenue 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.

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 2: Summary of Significant Accounting Policies (Continued)

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.

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 \$693,548.

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.

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 3: Public Fund Deposits

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

	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 300,000	\$ 300,000
Uninsured, Collateralized	4,824,661	5,261,829
Total Deposits	\$ 5,124,661	\$ 5,561,829

The above deposits do not include cash on deposit in the state treasury or cash on hand in the amounts of \$832,688 and \$4,500 at June 30, 2004, respectively.

NOTE 4: Income Taxes

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

NOTE 5: Capital Assets

Following are the changes in capital assets for the year ended June 30, 2004:

	Balance July 1, 2003	Additions	Transfers	Retirements	Balance June 30, 2004
Capital assets not being depreciated:					
Land and improvements	\$ 2,938,533	\$ 16,823			\$ 2,955,356
Construction-in-progress	4,893,942	791,137	\$ (5,349,368)		335,711
Total capital assets not being depreciated	\$ 7,832,475	\$ 807,960	\$ (5,349,368)		\$ 3,291,067
Other capital assets:					
Improvements and infrastructure	\$ 372,291				\$ 372,291
Buildings	15,646,315		\$ 5,349,368		20,995,683
Equipment	2,029,883	\$ 271,269		\$ (287,207)	2,013,945
Archives and collections	30,595				30,595
Library materials	1,118,247	62,710		(4,632)	1,176,325
Total other capital assets	19,197,331	333,979	5,349,368	(291,839)	24,588,839
Less accumulated depreciation for:					
Improvements and infrastructure	(38,928)	(26,094)			(65,022)
Buildings	(1,771,585)	(521,148)			(2,292,733)
Equipment	(1,476,632)	(249,482)		282,403	(1,443,711)
Archives and collections	(6,119)	(2,040)			(8,159)
Library materials	(718,664)	(79,667)			(798,331)
Total accumulated depreciation	(4,011,928)	(878,431)		282,403	(4,607,956)
Other capital assets, net	\$ 15,185,403	\$ (544,452)	\$ 5,349,368	\$ (9,436)	\$ 19,980,883

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 5: Capital Assets (Continued)

	Balance July 1, 2003	Additions	Transfers	Retirements	Balance June 30, 2004
Capital Asset Summary:					
Capital assets not being depreciated	\$ 7,832,475	\$ 807,960	\$ (5,349,368)		\$ 3,291,067
Other capital assets, at cost	19,197,331	333,979	5,349,368	\$ (291,839)	24,588,839
Total cost of capital assets	27,029,806	1,141,939		(291,839)	27,879,906
Less accumulated depreciation	(4,011,928)	(878,431)		282,403	(4,607,956)
Capital Assets, net	<u>\$ 23,017,878</u>	<u>\$ 263,508</u>	<u>\$ 0</u>	<u>\$ (9,436)</u>	<u>\$ 23,271,950</u>

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, 2004	Maturities To June 30, 2004
11/2000	11/2020	4.8-5.9%	\$ 5,435,000	\$ 5,360,000	\$ 75,000
10/2002	11/2012	1.5-3.6%	4,065,000	3,705,000	360,000
6/2003	6/2008	5%	45,000	36,891	8,109
11/2003	10/2008	4.1%	191,682	168,792	22,890
Totals			<u>\$ 9,736,682</u>	<u>\$ 9,270,683</u>	<u>\$ 465,999</u>

The changes in long-term liabilities are as follows:

	Balance July 1, 2003	Issued	Retired	Balance June 30, 2004	Amounts Due Within One Year
Bonds	\$ 9,450,000		\$ 385,000	\$ 9,065,000	\$ 395,000
Notes	45,000	\$ 191,683	31,000	205,683	44,326
Compensated absences	745,979	150,459	21,556	874,882	43,744
Totals	<u>\$ 10,240,979</u>	<u>\$ 342,142</u>	<u>\$ 437,556</u>	<u>\$ 10,145,565</u>	<u>\$ 483,070</u>

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 6: Long-Term Liabilities (Continued)

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

Year Ended June 30,	Principal	Interest	Total
2005	\$ 439,326	\$ 424,465	\$ 863,791
2006	451,592	413,068	864,660
2007	463,974	400,375	864,349
2008	476,478	386,070	862,548
2009	454,313	370,781	825,094
2010-2014	2,415,000	1,605,589	4,020,589
2015-2019	3,075,000	905,102	3,980,102
2020-2024	1,495,000	132,308	1,627,308
Totals	<u>\$ 9,270,683</u>	<u>\$ 4,637,758</u>	<u>\$ 13,908,441</u>

NOTE 7: Commitments

The Institution was contractually obligated for the following at June 30, 2004:

A. Construction Contracts

Project Name	Estimated Completion Date	Contract Balance
Receiving Building	September 30, 2004	\$ 31,038
Security System	August 1, 2004	122,992

B. Operating Leases

The leases are comprised of four (4) facility rentals, various office and computer lab equipment leases.

The following represents future minimum rental payments (aggregate at June 30, 2004):

Year Ended June 30,	Amount
2005	\$ 334,790
2006	205,542
2007	108,270
2008	33,195
2009	26,370

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

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, 2004 were \$598,750 and \$332,421, 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.

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 13%. The Institution's contributions to ATRS for the years ended June 30, 2004, 2003 and 2002 were \$242,500, \$183,095 and \$185,051, 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.

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 8: Retirement Plans (Continued)

Arkansas Public Employees Retirement System (Continued)

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, 2004, 2003 and 2002 were \$95,332, \$78,248 and \$97,755, 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	\$ 7,918,712		\$ 988,476		\$ 8,907,188
Academic support	1,036,804		233,442		1,270,246
Student services	1,809,858		170,612		1,980,470
Institutional support	2,766,665		1,641,300		4,407,965
Scholarships and fellowships		\$ 1,392,604			1,392,604
Operations and maintenance of plant	422,309		1,415,765		1,838,074
Depreciation				\$ 878,431	878,431
Totals	<u>\$ 13,954,348</u>	<u>\$ 1,392,604</u>	<u>\$ 4,449,595</u>	<u>\$ 878,431</u>	<u>\$ 20,674,978</u>

NOTE 10: Component Unit

Northwest Arkansas Community College Foundation Inc., (Foundation) is a legally separate, tax-exempt component unit of the Northwest Arkansas Community College (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, 2004, the Foundation distributed \$824,306 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the administrative office at One College Drive, Bentonville, AR 72712.

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 11: 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 potential liability is significant. The outcome of this case was not known as of June 30, 2004.