

Northwest Arkansas Community College

Bentonville, Arkansas

**Basic Financial Statements
and Other Reports**

June 30, 2005

LEGISLATIVE JOINT AUDITING COMMITTEE



NORTHWEST ARKANSAS COMMUNITY COLLEGE
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Senate Co-Chair
Rep. Tommy G. Roebuck
House Co-Chair
Sen. Randy Laverly
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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, 2005 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 aggregate 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 opinion.

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 aggregate discretely presented component unit as of June 30, 2005 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 15, 2006 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, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

DIVISION OF LEGISLATIVE AUDIT

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

Charles L. Robinson, CPA, CFE
Legislative Auditor

Little Rock, Arkansas
February 15, 2006
EDHE19805

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



Charles L. Robinson, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

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

Northwest Arkansas Community College
Legislative Joint Auditing Committee

We have audited the financial statements of Northwest Arkansas Community College, an Institution of Higher Education of the State of Arkansas, as of and for the year ended June 30, 2005, and have issued our report thereon dated February 15, 2006, which included a reference to the report of 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. The financial statements of Northwest Arkansas Community College Foundation, Inc., were not audited in accordance with *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 an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Institution's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are disclosed below in the Audit Findings section of this letter.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider the finding below to be a material weakness.

Compliance and Other Matters

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 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 or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain additional matters that we reported in a separate management letter dated February 15, 2006.

AUDIT FINDINGS

Reportable Condition(s)

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

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

DIVISION OF LEGISLATIVE AUDIT

William R. Baum

William R. Baum, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
February 15, 2006

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



Charles L. Robinson, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT MANAGEMENT LETTER

Northwest Arkansas Community College
Legislative Joint Auditing Committee

As a management service, we would like to bring to your attention the following other items that came to our attention during this audit. The purpose of such comments is to provide constructive feedback and guidance, in an effort to assist management to maintain a satisfactory level of compliance with the state constitution, laws and regulations and achieve adequate internal controls. These matters were discussed previously with institution officials during the course of our audit fieldwork and at the exit conference.

1. The Institution had no written policies addressing computer processing controls such as required annual vacations, loss-of-record insurance coverage, backup of data files, record retention, disaster-recovery plan, confidentiality of information, and documentation of processing procedures and responsibilities. We recommend that management establish and monitor compliance with written policies to address these issues.
2. Our analysis of allowance for doubtful accounts revealed certain historical trends that indicate collection procedures were ineffective and the allowance for doubtful accounts was too low. A five-year trend analysis of tuition and student fees receivable revealed the following:
 - a. Student related accounts receivable amounts collected within six months after the end of each fiscal year decreased 22% over the five-year period
 - b. Student related accounts receivable balances increased 211% while the corresponding gross tuition and fee revenues increased by only 75% over the five-year period

Based on these trends, management should explore ways to improve the collection of student accounts receivable.

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, 2005, 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> 2004	<u>Spring Term</u> 2005
Student Headcount	5,674	5,641
Student Semester Credit Hours	45,357	42,959

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

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

DIVISION OF LEGISLATIVE AUDIT

William R. Baum

William R. Baum, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
February 15, 2006

NORTHWEST ARKANSAS COMMUNITY COLLEGE

Management's Discussion and Analysis

Overview of the Financial Statements and Financial Analysis

Northwest Arkansas Community College presents its financial statements for the fiscal year ended June 30, 2005, with comparative financial data for the fiscal year ended June 30, 2004.

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

Statement of Net Assets

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

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

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

Northwest Arkansas Community College's total assets at June 30, 2005 were \$48,114,586 compared to \$33,103,395 on June 30, 2004, as reported in the asset section of the *Statement of Net Assets*. Total assets are comprised of current assets in the amount of \$7,519,140, and noncurrent assets of \$40,595,446 for fiscal year 2005, compared to \$7,374,625 and \$25,728,770 respectively for the 2004 fiscal year. Current assets are cash and other assets expected to be converted into cash or consumed in the subsequent fiscal year. Noncurrent assets consist of restricted cash and capital assets net of related depreciation.

The liability section reports total liabilities of Northwest Arkansas Community College at June 30, 2005, of \$26,582,276, and \$11,095,270 at June 30, 2004. 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 \$2,287,662 at June 30, 2005, 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 \$1,432,775 at June 30, 2004.

Noncurrent liabilities are long-term obligations of the Institution that are payable at some date beyond the following fiscal year. Noncurrent liabilities of \$24,294,614 at June 30, 2005, were comprised of long-term portion compensated absences payable, notes payable, and bonds payable compared to \$9,662,495 at June 30, 2004. During the year, the Institution secured a five-year \$461,592 note payable to finance the purchase of Luminis, a network portal and e-mail system that interfaces with the college's Banner administrative information system. The college also refinanced the 2000 and 2002 bond issues and issued additional bonds to finance the construction of the Student Center Plaza in the amount of \$23,485,000.

Statement of Net Assets (Continued)

In the net asset section of the *Statement of Net Assets*, there are three main categories of net assets. The first category is, "Invested in Capital Assets, net of related debt," which provides the Institution's equity in property, plant and equipment. The second category is "Restricted" net assets, which consists of expendable resources that are available for expenditure by the College, but must be spent for purposes as determined by donor(s) and/or external entities that have placed purpose and/or time restrictions on the use of the assets. The third category is "Unrestricted" net assets, which are available to be used by the college for any lawful purpose of the Institution. By far the largest portion of Northwest Arkansas Community College's net assets is reflected in the amount invested in capital assets.

The following is a condensed Statement of Net Assets:

ASSETS:	June 30, 2005	June 30, 2004
Current Assets	\$ 7,519,140	\$ 7,374,625
Noncurrent Assets	40,595,446	25,728,770
	<hr/>	<hr/>
TOTAL ASSETS	\$ 48,114,586	\$ 33,103,395
	<hr/>	<hr/>
LIABILITIES:		
Current Liabilities	\$ 2,287,662	\$ 1,432,775
Noncurrent Liabilities	24,294,614	9,662,495
	<hr/>	<hr/>
TOTAL LIABILITIES	\$ 26,582,276	\$ 11,095,270
	<hr/>	<hr/>
NET ASSETS:		
Invested in capital assets, net of related debt	\$ 14,268,463	\$ 14,206,950
Restricted	4,376,032	4,272,614
Unrestricted	2,887,815	3,528,561
	<hr/>	<hr/>
TOTAL NET ASSETS	\$ 21,532,310	\$ 22,008,125
	<hr/>	<hr/>

Unrestricted net assets decreased due to the recording of accrued liability for the pending settlement payment of the Benton county taxpayer litigation in the amount of \$603,342.

Summary of amounts Invested in Capital Assets, net of related debt as of June 30, 2005, and 2004 is as follows:

	June 30, 2005	June 30, 2004
Capital Assets <u>not</u> Depreciated	\$ 3,570,132	\$ 3,291,067
Other Capital Assets	25,326,860	24,588,839
	<hr/>	<hr/>
Total Capital Assets	28,896,992	27,879,906
Less: Accumulated Depreciation	(5,596,239)	(4,607,956)
	<hr/>	<hr/>
Capital Assets, net	\$ 23,300,753	\$ 23,271,950
Less: Related Debt	(23,485,000)	(9,065,000)
Plus: Unspent Portion of Bond Proceeds	14,452,710	
	<hr/>	<hr/>
Capital Assets, net of related debt	\$ 14,268,463	\$ 14,206,950
	<hr/>	<hr/>

Non-current liabilities increased due to the refinancing of the 2000 and 2002 bond issues totaling \$8,670,000 and issuance of bonds in 2005 totaling \$23,485,000. The remaining bond proceeds were deposited into a trustee account for the construction of the Student Center Plaza. The College also obtained notes payable financing in the amount of \$461,592 for the purchase of the SCT Luminis web portal and e-mail system that interfaces with the College's Banner Information System. The Institution also records compensated absences as part of noncurrent liabilities for employees having 50 days (400 hours) or more of accrued sick leave that the Institution is required to pay the employee upon retirement or employee's beneficiary upon death of the employee.

Statement of Revenues, Expenses & Changes in Net Assets

Changes in total net assets as reported on the Statement of Net Assets is based on the activity presented on the *Statement of Revenues, Expenses, and Changes in Net Assets*. The purpose of this statement is to report the operating and nonoperating revenues received by the Institution, and the operating and nonoperating expenses paid by the Institution, along with any other revenues, expenses, and gains/losses received or spent by the Institution.

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

Nonoperating revenues are revenues received for which goods and services are not provided in return for the revenue. State appropriation funds provided by the State Legislature to the College are reported as nonoperating revenue because the Legislature does not receive commensurate goods or services for these revenues. Local property tax millage and investment income received is also reported as nonoperating revenue since goods and services are not provided in exchange for the revenue. Nonoperating revenues and expenses are considered to be "nonexchange" transactions.

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

- ◆ Total tuition and fee revenues increased for fiscal year 2005 to \$7,412,875 compared to \$6,676,159 in the previous fiscal year.
- ◆ Tuition and fees are reported net of scholarship discount and allowance of \$1,470,090 in 2005 and \$1,249,250 in 2004.
- ◆ Total operating expenses increased from \$20,674,978 in 2004 to \$23,251,360 due to the increase in labor and fringe benefit expenses, student scholarship expense, operational supplies and services purchased, and depreciation expense of buildings, furniture, fixtures, and equipment.
- ◆ State appropriation of general revenue and educational excellence funds received during the fiscal year increased 2.2% from \$7,133,837 in fiscal year 2004 to \$7,292,366 in fiscal year 2005.
- ◆ Total local property tax millage (3 mills) revenue reported in the fiscal year was \$4,838,708 compared to \$4,207,802 in 2004. Two mills of the revenue were used for operations of the college, while one mill was restricted for debt retirement.

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

	Fiscal Year Ended <u>June 30, 2005</u>	Fiscal Year Ended <u>June 30, 2004</u>
Total Operating Revenues	\$ 7,906,878	\$ 7,228,963
Total Operating Expenses	23,251,360	20,674,978
Total Operating (Loss)	(15,344,482)	(13,446,015)
Total NonOperating Revenue/(Expenses) and Other Changes	14,868,667	15,994,015
Net Increase (Decrease) in Net Assets	(475,815)	2,548,000
Net Assets:		
Beginning of year	22,008,125	19,460,125
End of year	\$ 21,532,310	\$ 22,008,125

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 college. The second section reflects cash flows from non-capital financing activities. This section reflects the cash received and spent for non-operating, non-investing, and non-capital financing purposes. The third section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section deals with cash flows from investing activities. The fifth section reconciles the net cash used in the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

A summary of the cash flows for fiscal year 2005 and 2004 is as follows:

Cash provided (used) by:	Fiscal Year Ended	
	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Operating Activities	(\$ 14,144,586)	(\$ 12,731,144)
Noncapital Financing Activities	14,860,408	15,209,399
Capital and Related Financing Activities	(641,575)	(885,432)
Investing Activities	46,436	39,847
Net Change in Cash	120,683	1,632,670
Cash – Beginning of Year	5,961,849	4,329,179
Cash – End of Year	<u>\$6,082,532</u>	<u>\$ 5,961,849</u>

Enrollment

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

Headcount Enrollment

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

The Institution's non-duplicated student headcount increased by 8.5% from 7,183 in 2004 to 7,792 in 2005. Management is currently anticipating a five to seven percent annual increase in enrollment for 2006. One factor contributing to this growth in students is a significant increase in the number of high school graduates attending NWACC immediately following high school graduation.

Factors Impacting Future Periods

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

The College will be expanding its satellite campus in Washington County within the 2006 fiscal year in order to provide additional classes in its service area and to meet the growing demands and needs of students. Effective July 1, 2005, the College took over the operations of the Fayetteville West Campus from the Fayetteville Public School System and will offer technical and vocational classes along with concurrent college credit classes to area high school students. An expanded class schedule of personal enrichment and non-credit classes will be offered to Bella Vista residents at "Highlands Crossing" campus. 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 reviewed and updated its 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 began implementing its five year master facilities plan that outlines the plans for development of college property and construction of buildings on the campus within the next five years. Plans have been completed for the construction of the Student Center Plaza and Parking Deck with construction expected to be completed in fiscal year 2007. 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.

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

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

Dr. Linda Dayton
Interim Chief Financial Officer

NORTHWEST ARKANSAS COMMUNITY COLLEGE
COMPARATIVE STATEMENT OF NET ASSETS
JUNE 30, 2005

Exhibit A

	June 30,	
	2005	2004
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 3,282,031	\$ 3,505,029
Accounts receivable (less allowances of \$560,682 and \$378,073)	885,594	760,086
Property taxes receivable	3,134,457	2,678,693
Inventories	29,980	36,539
Deposits with trustee	152,728	358,400
Prepaid expenses	30,429	31,957
Other assets	3,921	3,921
Total Current Assets	7,519,140	7,374,625
Noncurrent Assets		
Restricted cash and cash equivalents	2,800,501	2,456,820
Deposits with trustee	14,494,192	
Capital assets (net of accumulated depreciation of \$5,596,239 and \$4,607,956)	23,300,753	23,271,950
Total Noncurrent Assets	40,595,446	25,728,770
TOTAL ASSETS	\$ 48,114,586	\$ 33,103,395
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 1,506,964	\$ 949,705
Bonds and notes payable - current portion	730,630	439,326
Compensated absences - current portion	50,068	43,744
Total Current Liabilities	2,287,662	1,432,775
Noncurrent Liabilities		
Bonds and notes payable	23,343,328	8,831,357
Compensated absences	951,286	831,138
Total Noncurrent Liabilities	24,294,614	9,662,495
TOTAL LIABILITIES	26,582,276	11,095,270
NET ASSETS		
Invested in capital assets, net of related debt	14,140,107	14,206,950
Restricted for		
Expendable		
Scholarships and fellowships	13,752	12,981
Instructional department uses	54,675	75,797
Debt service	4,435,961	4,079,489
Other		104,347
Unrestricted	2,887,815	3,528,561
TOTAL NET ASSETS	\$ 21,532,310	\$ 22,008,125

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

NORTHWEST ARKANSAS COMMUNITY COLLEGE FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2005 AND 2004

Exhibit A-1

	2005	2004
ASSETS		
Cash and cash equivalents	\$ 1,427,829	\$ 766,429
Assets held in reserve	8,101,704	
Contributions receivable	55,000	128,161
Loans receivable	425	2,706
Investments	682,955	709,383
Property and equipment, net	2,260	3,823
Bond issuance costs	148,296	
Total Assets	\$ 10,418,469	\$ 1,610,502
LIABILITIES		
Accounts payable and other liabilities		\$ 2,248
Bonds payable	\$ 8,250,000	
Total Liabilities	8,250,000	2,248
NET ASSETS		
Unrestricted	760,760	812,658
Temporarily restricted	1,291,121	683,800
Permanently restricted	116,588	111,796
Total Net Assets	2,168,469	1,608,254
Total Liabilities and Net Assets	\$ 10,418,469	\$ 1,610,502

NORTHWEST ARKANSAS COMMUNITY COLLEGE
 COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2005

Exhibit B

	Year Ended June 30,	
	2005	2004
OPERATING REVENUES		
Student tuition and fees (net of scholarship allowances of \$1,470,090 and \$1,249,250)	\$ 7,412,875	\$ 6,676,159
Nongovernmental grants and contracts	236,308	236,039
Other operating revenues	257,695	316,765
TOTAL OPERATING REVENUES	7,906,878	7,228,963
OPERATING EXPENSES		
Personal services	16,172,825	13,954,348
Scholarships and fellowships	1,549,937	1,392,604
Supplies and services	4,474,235	4,449,595
Depreciation	1,054,363	878,431
TOTAL OPERATING EXPENSES	23,251,360	20,674,978
OPERATING (LOSS)	(15,344,482)	(13,446,015)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	7,292,366	7,133,837
Federal grants	3,127,579	2,589,010
State grants	1,413,632	1,463,422
Property taxes	4,838,708	4,207,802
Gifts	132,778	769,777
Investment income	91,172	43,032
Interest on capital asset - related debt	(461,164)	(432,559)
Other expense	(461,592)	
NET NONOPERATING REVENUES	15,973,479	15,774,321
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	628,997	2,328,306
OTHER REVENUES, EXPENSES, GAINS OR (LOSSES)		
Capital appropriations	67,106	229,130
Net bond issuance costs	(565,669)	
Loss on disposal of capital assets	(2,907)	(9,436)
Litigation settlement	(603,342)	
INCREASE (DECREASE) IN NET ASSETS	(475,815)	2,548,000
NET ASSETS - BEGINNING OF YEAR	22,008,125	19,460,125
NET ASSETS - END OF YEAR	\$ 21,532,310	\$ 22,008,125

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, 2005 AND 2004

Exhibit B-1

	2005			2004 Total (Summarized)
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUES AND SUPPORT				
Special events				
Special event revenue	\$ 83,395			\$ 49,203
Less cost of direct benefit to donors	27,136			11,178
Total special events	56,259			38,025
Contributions	16,058	\$ 1,194,681	\$ 4,792	489,856
Investment income	61,058			98,907
Loss on sale of assets				(636)
Miscellaneous income	64			899
Net assets released from restrictions:				
Satisfaction of donor restrictions	587,360	(587,360)		
Total support and revenues	720,799	607,321	4,792	627,051
EXPENSES				
Program	472,362			824,306
Management and general	255,199			138,593
Fundraising	45,136			36,296
Total expenses	772,697			999,195
CHANGE IN NET ASSETS	(51,898)	607,321	4,792	(372,144)
NET ASSETS, BEGINNING OF YEAR	812,658	683,800	111,796	1,980,398
NET ASSETS, END OF YEAR	\$ 760,760	\$ 1,291,121	\$ 116,588	\$ 1,608,254

NORTHWEST ARKANSAS COMMUNITY COLLEGE
 COMPARATIVE STATEMENT OF CASH FLOWS - DIRECT METHOD
 FOR THE YEAR ENDED JUNE 30, 2005

Exhibit C

	Year Ended June 30,	
	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	\$ 7,351,407	\$ 6,530,832
Grants and contracts	223,613	215,982
Other receipts	257,695	316,765
Payments to employees	(12,518,844)	(10,863,873)
Payments for employee benefits	(3,445,541)	(3,073,913)
Payments to suppliers	(4,462,979)	(4,464,333)
Scholarships and fellowships	(1,549,937)	(1,392,604)
Net cash used by operating activities	(14,144,586)	(12,731,144)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	7,292,366	7,133,837
Proceeds from grants and contracts	4,469,471	4,040,072
Private gifts and grants	132,778	1,142,352
Property taxes	2,965,793	2,893,138
Net cash provided by noncapital financing activities	14,860,408	15,209,399
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt		
Capital appropriations	67,106	229,130
Property taxes allocated for debt retirement	1,412,227	1,448,542
Purchases of capital assets	(1,226,547)	(1,705,889)
Deposits with trustee	(806,774)	(818,082)
Principal paid on capital debt and leases	(78,317)	(31,000)
Interest paid on capital debt and leases	(9,270)	(8,133)
Net cash used by capital and related financing activities	(641,575)	(885,432)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments (net of fees)	46,436	39,847
Net cash provided by investing activities	46,436	39,847
Net increase in cash and cash equivalents	120,683	1,632,670
Cash and cash equivalents - beginning of year	5,961,849	4,329,179
Cash and cash equivalents - end of year	\$ 6,082,532	\$ 5,961,849

NORTHWEST ARKANSAS COMMUNITY COLLEGE
 COMPARATIVE STATEMENT OF CASH FLOWS - DIRECT METHOD
 FOR THE YEAR ENDED JUNE 30, 2005

Exhibit C

	Year Ended June 30,	
	2005	2004
Reconciliation of net operating (expenses) to net cash (used) by operating activities:		
Operating (loss)	\$ (15,344,482)	\$ (13,446,015)
Adjustments to reconcile net (loss) to net cash (used) by operating activities:		
Depreciation expense	1,054,363	878,431
Change in assets and liabilities:		
Receivables, net	(48,074)	(154,432)
Inventories	6,559	5,136
Other assets	1,528	(15,104)
Accounts payable	59,048	(6,688)
Deferred revenue		(20,095)
Compensated absences	126,472	128,903
Other liabilities		(101,280)
Net cash (used) by operating activities	\$ (14,144,586)	\$ (12,731,144)
NONCASH TRANSACTIONS		
Bonds issued *	\$ 23,485,000	
Net bond issuance costs*	565,669	
Note payable issued		
Equipment additions, non-cash		25,099
Other purchases, non-cash	461,592	162,663
Donated capital additions		19,146
Litigation settlement	603,342	

*Proceeds deposited directly with trustee

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

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1: Summary of Significant Accounting Policies

Reporting Entity

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

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

Financial Statement Presentation

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

Component Units

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

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

During the year ended June 30, 2005, the Foundation distributed \$471,312 to the Institution 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, 2005

NOTE 1: Summary of Significant Accounting Policies (Continued)

Basis of Accounting

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

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

Capital Assets and Depreciation

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

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

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

Operating and Nonoperating Revenues

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

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

Cash Equivalents

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

Accounts Receivable

Accounts receivable consist of tuition and fee charges to students and services provided to students, faculty and staff. Accounts receivable also includes amounts due from the Federal government, state and local governments, or private sources in connection with reimbursement of allowable expenditures made pursuant to the Institution's grant and contracts. Accounts receivable are recorded net of the estimated allowance for doubtful accounts in the amount of \$560,682 at June 30, 2005, and \$378,073 at June 30, 2004.

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1: Summary of Significant Accounting Policies (Continued)

A summary of accounts receivable balances at June 30, 2005, is as follows:

	Gross	Allowance	Net
Student accounts receivable	\$ 1,198,423	\$ 560,682	\$ 637,741
Accounts receivable other governments	175,217		175,217
Other accounts receivable	72,636		72,636
Totals	\$ 1,446,276	\$ 560,682	\$ 885,594

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, to purchase or construct capital or other nonrecurring assets, or for other restricted programs is classified as noncurrent assets in the statement of net assets.

Accounts Payable and Accrued Liabilities

A summary of accounts payable and accrued liabilities at June 30, 2005, is as follows:

Trade payables	\$ 63,697
Construction contract payables	14,103
Accrued payroll	266,495
Payroll related liabilities	332,277
Deferred revenues	124,320
Interest payable	86,697
Litigation settlement	603,342
Other payables	16,033
Totals	\$ 1,506,964

Restricted/Unrestricted Resources

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

Deferred Revenues

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

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1: Summary of Significant Accounting Policies (Continued)

Compensated Absences Payable

Compensated absences payable represents the Institution's liability (salaries plus applicable salary related costs) for unused annual leave as of June 30, 2005, and June 30 2004. Unused vacation for eligible employees is included in the compensated absences payable calculation as follows:

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

Noncurrent Liabilities

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

Property Taxes

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

Use of Estimates in the Preparation of Financial Statements

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

NOTE 2: Public Fund Deposits 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
Collateralized:		
Uninsured and collateralized with securities held by the pledging bank or pledging bank's trust department not in the Institution's name	5,308,349	5,743,052
Total Deposits	\$ 5,608,349	\$ 6,043,052

The above deposits do not include cash on deposit in the state treasury or cash on hand in the amounts of \$469,683 and \$4,500 for the year ended June 30, 2005.

NORTHWEST ARKANSAS COMMUNITY COLLEGE
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2005

NOTE 2: Public Fund Deposits and Investments (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Institution's deposits may not be returned to it. The Institution does not have a deposit policy for custodial credit risk. As of June 30, 2005, \$5,743,052 of the Institution's bank balance of \$6,043,052 was exposed to custodial credit risk as follows:

Uninsured and collateral held by the pledging bank or pledging bank's trust department not in the Institution's name was \$5,743,052.

Deposits with Trustee

As of June 30, 2005, the Institution had the following investments reported as deposits with trustee:

Investment Type	Fair Value
External Investment Pool	\$ 14,646,920

Credit Risk

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

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

Interest Rate Risk

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

NOTE 3: Income Taxes

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

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 4: Capital Assets

Following are the changes in capital assets for the year ended June 30, 2005:

	Balance July 1, 2004	Additions	Transfers	Retirements	Balance June 30, 2005
Nondepreciable capital assets:					
Land and improvements	\$ 2,955,356		\$ 314,808		\$ 3,270,164
Construction-in-progress	335,711	\$ 641,957	(677,700)		299,968
Total nondepreciable capital assets	<u>\$ 3,291,067</u>	<u>\$ 641,957</u>	<u>\$ (362,892)</u>		<u>\$ 3,570,132</u>
Other capital assets:					
Improvements and infrastructure	\$ 372,291				\$ 372,291
Buildings	20,995,683	\$ 48,812	\$ 362,892		21,407,387
Equipment	2,013,945	356,903		\$ (68,229)	2,302,619
Archives and collections	30,595				30,595
Library materials	1,176,325	51,398		(13,755)	1,213,968
Total other capital assets	<u>24,588,839</u>	<u>457,113</u>	<u>362,892</u>	<u>(81,984)</u>	<u>25,326,860</u>
Less accumulated depreciation for:					
Improvements and infrastructure	(65,022)	(27,933)			(92,955)
Buildings	(2,292,733)	(700,274)			(2,993,007)
Equipment	(1,443,711)	(244,482)		66,080	(1,622,113)
Archives and collections	(8,159)	(2,040)			(10,199)
Library materials	(798,331)	(79,634)			(877,965)
Total accumulated depreciation	<u>(4,607,956)</u>	<u>(1,054,363)</u>		<u>66,080</u>	<u>(5,596,239)</u>
Other capital assets, net	<u>\$ 19,980,883</u>	<u>\$ (597,250)</u>	<u>\$ 362,892</u>	<u>\$ (15,904)</u>	<u>\$ 19,730,621</u>
Capital Asset Summary:					
Nondepreciable capital assets	\$ 3,291,067	\$ 641,957	\$ (362,892)		\$ 3,570,132
Other capital assets, at cost	24,588,839	457,113	362,892	\$ (81,984)	25,326,860
Total cost of capital assets	27,879,906	1,099,070		(81,984)	28,896,992
Less accumulated depreciation	<u>(4,607,956)</u>	<u>(1,054,363)</u>		<u>66,080</u>	<u>(5,596,239)</u>
Capital Assets, net	<u>\$ 23,271,950</u>	<u>\$ 44,707</u>	<u>\$ 0</u>	<u>\$ (15,904)</u>	<u>\$ 23,300,753</u>

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 5: Long-Term Liabilities

A summary of long-term liabilities is as follows:

<u>Date of Issue</u>	<u>Date of Final Maturity</u>	<u>Rate of Interest</u>	<u>Amount Authorized and Issued</u>	<u>Debt Outstanding June 30, 2005</u>	<u>Maturities To June 30, 2005</u>
5/2005	5/2030	3.8-5.0%	\$ 23,485,000	\$ 23,485,000	
12/2004	7/2008	4.44%	461,592	427,601	\$ 33,991
6/2003	6/2008	5%	45,000	28,356	16,644
11/2003	10/2008	4.1%	191,682	133,001	58,681
Totals			<u>\$ 24,183,274</u>	<u>\$ 24,073,958</u>	<u>\$ 109,316</u>

The changes in long-term liabilities are as follows:

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Reductions*</u>	<u>Balance June 30, 2005</u>	<u>Amounts Due Within One Year</u>
Bonds	\$ 9,065,000	\$ 23,485,000	\$ 9,065,000	\$ 23,485,000	\$ 575,000
Notes	205,683	461,592	78,317	588,958	155,630
Compensated absences	874,882	167,639	41,167	1,001,354	50,068
Totals	<u>\$ 10,145,565</u>	<u>\$ 24,114,231</u>	<u>\$ 9,184,484</u>	<u>\$ 25,075,312</u>	<u>\$ 780,698</u>

*Includes defeased bond debt of \$8,670,000 - see Note 9.

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

<u>Year ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 730,630	\$ 1,022,160	\$ 1,752,790
2007	749,724	1,005,856	1,755,580
2008	767,658	980,412	1,748,070
2009	750,946	955,032	1,705,978
2010	650,000	930,850	1,580,850
2011-2015	3,610,000	4,282,912	7,892,912
2016-2020	4,375,000	3,528,669	7,903,669
2021-2025	5,510,000	2,392,781	7,902,781
2026-2030	6,930,000	979,719	7,909,719
Totals	<u>\$ 24,073,958</u>	<u>\$ 16,078,391</u>	<u>\$ 40,152,349</u>

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 6: Commitments

The Institution was contractually obligated for the following at June 30, 2005:

A. Construction Contracts

Project Name	Estimated Completion Date	Contract Balance
Student Center Plaza	November 30, 2006	\$ 23,000,000

B. Operating Leases

The leases are comprised of rentals of five (5) facilities and various office equipment leases.

The following represents future minimum rental payments (aggregate at June 30, 2005):

Year Ended June 30,	Amount
2006	\$ 305,684
2007	123,431
2008	113,868
2009	26,570

NOTE 7: Retirement Plans

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

Plan Description. The Institution participates in TIAA/CREF, a defined contribution plan. The plan is a 403(b) program as defined by Internal Revenue Service Code of 1986 as amended, and is administered by TIAA/CREF. 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, 2005 were \$705,508 and \$414,011, 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 14%. The Institution's contributions to ATRS for the years ended June 30, 2005, 2004 and 2003 were \$310,047, \$242,500 and \$183,095, respectively, equal to the required contributions for each year.

NORTHWEST ARKANSAS COMMUNITY COLLEGE
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2005

NOTE 7: Retirement Plans (Continued)

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 11.09% of annual covered payroll. The Institution's contributions to APERS for the years ended June 30, 2005, 2004 and 2003 were \$99,020, \$95,332 and \$78,248, respectively, equal to the required contributions for each year.

NOTE 8: Natural Classifications by Function

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

	Personal Services	Scholarships and Fellowships	Supplies and Services	Depreciation	Total
Instruction	\$ 9,336,932		\$ 933,966		\$ 10,270,898
Academic support	703,797		84,879		788,676
Student services	1,722,421		192,090		1,914,511
Institutional support	3,780,791		1,833,474		5,614,265
Scholarships and fellowships	157,348	\$ 1,549,937			1,707,285
Operations and maintenance of plant	471,536		1,429,826		1,901,362
Depreciation				\$ 1,054,363	1,054,363
Totals	<u>\$ 16,172,825</u>	<u>\$ 1,549,937</u>	<u>\$ 4,474,235</u>	<u>\$ 1,054,363</u>	<u>\$ 23,251,360</u>

NOTE 9: Advance Refunding of Debt and Bond Issues

On May 15, 2005, the Institution issued capital improvement and refunding bonds of \$23,485,000 with interest rates from 3.0 to 5.0 percent. Bond proceeds of \$8,920,768 were delivered to Metropolitan National Bank to provide to all future debt service payments on \$8,670,000 of outstanding bonds, dated November 1, 2000 and October 1, 2002 with interest rates of 4.8 to 5.9 and 1.5 to 3.6 percent, respectively. As a result, the 2000 and 2002 series bonds are considered defeased and the liability for these bonds has been removed from the long-term debt. The 2000 and 2002 series bonds will be called on November 15, 2010, and November 15, 2007, respectively. The balance of the escrow deposit fund was \$9,149,226 as of June 30, 2005. The remaining proceeds of \$14,452,710 and \$25,079 (after payment of \$86,443 net bond issuance costs) were delivered to the Construction Fund and the Bond Fund, respectively. These deposits are being held by Trustees.

The Institution paid \$565,669 in refinancing and bond issuance costs (including \$479,226 in refinancing costs and \$86,443 in net bond issuance costs) during the fiscal year ended June 30, 2005.

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 10: Other Commitments

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

NOTE 11: Litigation Settlement

During the fiscal year ended June 30, 2005, the Institution agreed to the settlement of long-standing litigation involving a suit by certain taxpayers in Benton County, Arkansas, which taxpayers alleged the Institution collected 1998 property taxes in excess of the maximum allowed by Amendment 59 of the Arkansas Constitution. As of June 30, 2005, the amount of \$603,342 was set aside for refunds to the plaintiffs.