

Northwest Arkansas Community College

Bentonville, Arkansas

**Basic Financial Statements
and Other Reports**

June 30, 2009

LEGISLATIVE JOINT AUDITING COMMITTEE



NORTHWEST ARKANSAS COMMUNITY COLLEGE
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Sen. Bobby L. Glover
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Rep. Johnny Hoyt
House Co-Chair
Sen. Bill Pritchard
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House Co-Vice Chair

Arkansas



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

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Northwest Arkansas Community College
Legislative Joint Auditing Committee

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Northwest Arkansas Community College (College), an institution of higher education of the State of Arkansas, as of and for the year ended June 30, 2009, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Northwest Arkansas Community College Foundation, Inc., which represent 100% of the assets, net assets, and revenues of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Northwest Arkansas Community College Foundation, Inc., is based on the report of the other auditors.

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

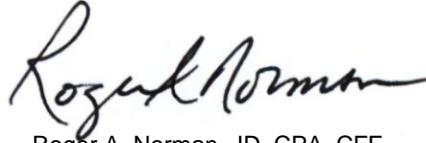
In our opinion, based on our audit and the report of other auditors, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of Northwest Arkansas Community College as of June 30, 2009, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2010 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements. The Schedule of Selected Information for the Last Five Years (Schedule 1) is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Selected Information for the Last Five Years (Schedule 1) has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in black ink, appearing to read "Roger A. Norman". The signature is fluid and cursive, with the first name "Roger" being the most prominent.

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

Little Rock, Arkansas
March 9, 2010
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Sen. Bobby L. Glover
Senate Co-Chair
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Roger A. Norman, JD, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

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

Northwest Arkansas Community College
Legislative Joint Auditing Committee

We have audited the financial statements of the business-type activities and the discretely presented component unit of Northwest Arkansas Community College (College), an institution of higher education of the State of Arkansas, as of and for the year ended June 30, 2009, which collectively comprise the College's basic financial statements and have issued our report thereon dated March 9, 2010. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Northwest Arkansas Community College Foundation, Inc., as described in our report on the College's financial statements. The financial statements of the Northwest Arkansas Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the College in a separate letter dated March 9, 2010.

AUDIT FINDINGS

Material Weakness

The College's internal control system did not prevent or detect material errors in the financial statements and accounting records. The financial statements were subsequently corrected by adjusting entries during audit fieldwork. A similar finding was reported in the previous audit. Significant errors included understatement of accounts receivable in the amount of \$328,787, overstatement of construction in progress in the amount of \$435,396, and a \$1,000,000 error on the Statement of Cash Flows pertaining to the amount of the operating loss.

Management Response: The following measures are being initiated to improve our system of supervision, review, and control procedures over financial accounting and reporting:

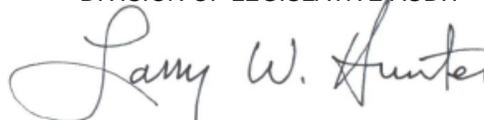
1. An interim Director of Accounting has been appointed. This experienced CPA with in-depth knowledge of financial accounting and reporting will emphasize developing and implementing internal accounting review and control procedures.
2. An expanded search is in progress to fill the redesigned position of Vice President for Finance. The individual selected will assume overall responsibility for financial activities and financial statements, including supervision, review, and approval.
3. The personnel are a priority. Structural changes such as optimal organization design and commitment to increase the number of personnel will combine with a strong emphasis on internal controls, training, and cross-training to develop more proficient and capable staff.

We believe the above steps that are under way will result in more accurate financial reporting for current year and beyond.

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

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

DIVISION OF LEGISLATIVE AUDIT



Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
March 9, 2010

Sen. Bobby L. Glover
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LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

MANAGEMENT LETTER

Northwest Arkansas Community College
Legislative Joint Auditing Committee

STUDENT ENROLLMENT DATA - In accordance with Arkansas Code Annotated § 6-60-209, we performed tests of the student enrollment data for the year ended June 30, 2009, as reported to the State Department of Higher Education, to provide reasonable assurance that the data was properly reported. The enrollment data reported was as follows:

	<u>Summer II Term</u> 2008	<u>Fall Term</u> 2008	<u>Spring Term</u> 2009	<u>Summer I Term</u> 2009
Student Headcount	1,072	7,764	7,912	2,392
Student Semester Credit Hours	4,151	63,246	63,519	11,062

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

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

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in cursive script that reads "Larry W. Hunter".

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
March 9, 2010

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, 2009 with comparative financial data for the fiscal year ended June 30, 2008.

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, 2009 were \$54,962,008 compared to \$52,753,370 on June 30, 2008, as reported in the asset section of the Statement of Net Assets. Total assets are comprised of current assets in the amount of \$11,668,969, and noncurrent assets of \$43,293,039 for fiscal year 2009, compared to \$10,237,136 and \$42,516,234 respectively for the 2008 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, 2009, of \$24,107,769 and \$25,867,763 at June 30, 2008. Current liabilities are obligations of the Institution that can reasonably be expected to be liquidated within the next twelve months. Northwest Arkansas Community College's current liabilities in the amount of \$2,229,540 at June 30, 2009, consisted of accounts payable and accrued liabilities, the current portion of compensated absences payable, and the current portion of notes payable and bonds payable compared to \$3,405,974 at June 30, 2008.

Noncurrent liabilities are long-term obligations of the Institution that are payable at some date beyond the following fiscal year. Noncurrent liabilities of \$21,878,229 at June 30, 2009, were comprised of the long-term portion of compensated absences payable, notes payable, and bonds payable compared to \$22,461,789 at June 30, 2008. No new financing was incurred during the fiscal year.

In the net assets section of the Statement of Net Assets, there are three main categories of net assets. The first category is, "Invested in Capital Assets, Net of Related Debt," which provides the Institution's equity in property, plant and equipment. The second category is "Restricted Net Assets", which consists of expendable resources that are available for expenditure by the 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, 2009</u>	<u>June 30, 2008</u>
Current Assets	\$ 11,668,969	\$ 10,237,136
Noncurrent Assets	43,293,039	42,516,234
	<hr/>	<hr/>
TOTAL ASSETS	\$ 54,962,008	\$ 52,753,370
	<hr/>	<hr/>
<u>LIABILITIES:</u>		
Current Liabilities	\$ 2,229,540	\$ 3,405,974
Noncurrent Liabilities	21,878,229	22,461,789
	<hr/>	<hr/>
TOTAL LIABILITIES	\$ 24,107,769	\$ 25,867,763
	<hr/>	<hr/>
<u>NET ASSETS:</u>		
Invested in capital assets, net of related debt	\$ 18,781,687	\$ 17,974,949
Restricted	6,756,848	6,050,570
Unrestricted	5,315,704	2,860,088
	<hr/>	<hr/>
TOTAL NET ASSETS	\$ 30,854,239	\$ 26,885,607
	<hr/>	<hr/>

Summary of amounts Invested in Capital Assets, net of related debt as of June 30, 2009, and 2008 are as follows:

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Capital Assets not Depreciated	\$ 6,007,735	\$ 4,352,704
Other Capital Assets	45,641,248	45,353,025
	<hr/>	<hr/>
Total Capital Assets	\$ 51,648,983	\$ 49,705,729
Less: Accumulated Depreciation	(11,792,296)	(10,025,780)
	<hr/>	<hr/>
Capital Assets, net	\$ 39,856,687	\$ 39,679,949
Less: Related Debt	(21,075,000)	(21,705,000)
	<hr/>	<hr/>
Capital Assets, net of related debt	\$ 18,781,687	\$ 17,974,949
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The Institution also records compensated absences as part of noncurrent liabilities for amounts owed to employees upon retirement or employee's beneficiary upon death of the employee.

Statement of Revenues, Expenses and Changes in Net Assets

Changes in total net assets as reported on the Statement of Net Assets are 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 2009 to \$12,204,743 compared to \$10,847,498 in the previous fiscal year. Additional tuition and fee revenue was reported due to increased enrollment and 9% tuition rate increase.
- ◆ Tuition and fees are reported net of scholarship discount and allowance of \$4,498,417 in 2009 and \$2,527,535 in 2008.
- ◆ Total operating expenses increased to \$37,297,032 in 2009 from \$34,335,118 in 2008 due to the increase in labor and fringe benefit expenses, student scholarship expense, and operational supplies and services purchased.
- ◆ State appropriation of general revenue and educational excellence funds received during the fiscal year decreased to \$10,559,562 in fiscal year 2009 from \$10,751,932 in fiscal year 2008. This represents a reduction of 1.8%.
- ◆ Total local property tax millage (2.6 mills) revenue reported in the fiscal year was \$7,773,984 compared to \$7,236,620 in 2008. Two thirds of the mills of the revenue were used for operations of the College, while one third mill was restricted for debt retirement.

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

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Total Operating Revenues	\$ 12,654,806	\$ 11,319,376
Total Operating Expenses	37,297,032	34,335,118
Total Operating (Loss)	(24,642,226)	(23,015,742)
Total Nonoperating Revenue/(Expenses) and Other Changes	28,610,858	27,225,904
Net Increase in Net Assets	3,968,632	4,210,162
Net Assets:		
Beginning of year	26,885,607	22,675,445
End of year	<u>\$ 30,854,239</u>	<u>\$ 26,885,607</u>

Statement of Cash Flows – Direct Method

The final statement presented by Northwest Arkansas Community College is the Statement of Cash Flows – Direct Method. The Statement of Cash Flows is prepared using the direct method and presents detailed information about the cash activity of the Institution during the year. The statement is divided into five parts. The first section deals with operating cash flows and shows the net cash used by the operating activities of the College. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes. The third section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section deals with cash flows from investing activities. The fifth section reconciles the net cash used in the operating income or loss reflected on the Statement of Revenues, Expenses and Changes in Net Assets. Cash and cash equivalents at the end of the year are \$8,944,467. An additional amount of \$314,877 is held by bond trustees.

A summary of the cash flows for fiscal year 2009 and 2008 is as follows:

Cash provided (used) by:	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Operating activities	(\$ 23,362,049)	(\$ 21,334,470)
Noncapital financing activities	24,721,553	23,574,043
Capital and related financing activities	(485,546)	530,856
Investing activities	72,160	56,987
Net change in cash	946,118	2,827,416
Cash – beginning of year	7,998,349	5,170,933
Cash – end of year	<u>\$ 8,944,467</u>	<u>\$ 7,998,349</u>

Enrollment

As a result of rapid economic development of the NWA region, student enrollment over the past years has steadily increased at Northwest Arkansas Community College as shown in the following enrollment statistics.

Headcount Enrollment

Year	Fall Headcount	Fall to Fall % Change	Spring Headcount	Spr to Spr % Change	Summer I Headcount	Summer II Headcount	Total Summer	Total Summer % Change
1997-98	3,240	12.9%	3,425	20.1%	1,088	644	1,732	80.8%
1998-99	3,542	9.3%	3,507	2.4%	947	567	1,514	-12.6%
1999-00	3,923	10.8%	3,725	6.2%	932	679	1,611	6.4%
2000-01	4,058	3.4%	3,809	2.3%	1,066	552	1,618	0.4%
2001-02	4,292	5.8%	4,073	6.9%	1,117	569	1,686	4.2%
2002-03	4,731	10.2%	4,435	8.9%	1,220	654	1,874	11.2%
2003-04	4,915	3.9%	4,061	3.7%	1,209	625	1,834	-1.6%
2004-05	5,266	7.1%	5,172	12.4%	1,381	762	2,134	16.8%
2005-06	5,467	3.8%	5,330	3.1%	1,550	753	2,303	7.5%
2006-07	5,732	4.8%	5,756	8.0%	1,753	842	2,595	12.7%
2007-08	6,470	12.9%	6,594	14.6%	2,101	1,072	3,173	22.3%
2008-09	7,216	11.5%	7,244	9.9%	2,392	1,359	3,751	18.2%

The Institution's non-duplicated student headcount increased by 10.0% to 10,826 students in 2009 from 9,839 students in 2008. Management is currently anticipating a ten percent annual increase in enrollment for 2010. The trend of high school graduates attending NWACC immediately following high school graduation continues to be the major factor in enrollment growth. Another major factor contributing to this growth is the increased number of unemployed people who are going to back to community colleges for additional education and training for changing careers due to the current economic downfall.

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. While the nation's mortgage crisis with some lending Institutions has had an effect on the region's financial Institutions and commercial and residential building, the long future economic forecast remains stable.

The College and the NWACC Foundation are nearing completion of the \$16m Capital Campaign launched two years ago with approximately \$800,000 remaining. Campaign funds are being used to support the construction of the Global Business Development Center, student scholarships, and the Nursing Program. There is every reason to believe the potential exists for continued growth and expansion of the College in the foreseeable future. In September of 2008, the College began construction of its new Global Business Development Center, a 40,000 sq. ft. facility at the Bentonville Campus that will add new instructional classrooms and labs. The College will continue working toward maximum utilization of all existing instructional delivery locations and maximum efficiency with its scheduling of classes. In addition, the College will continue expanding its distance learning capabilities to allow more students to utilize these learning opportunities to meet the growing demands and needs of students.

During the past year the College updated its Master Plan to reflect the current and future projected enrollments for the region. The Master Plan includes additional facilities at the Bentonville Campus and possible expansion in Washington County with a new facility to meet the rapidly growing number of Washington County residents enrolling in NWACC courses. The College will continue to expand its distance learning program to provide students with other learning opportunities along with entering into "partnerships" with four-year Institutions to ensure successful transfer of classes.

The President has also updated the College's organizational model and developed plans for adding new employees at all levels of the organization to better serve the increasing number of students. In 2010, the College will develop plans for occupying the NARTI/Highlands Oncology complex which is directly across the street and is owned by the NWACC Foundation. We will make plans to utilize the building by expanding programs vital to the communities and region.

State and local funding directly impacts Northwest Arkansas Community College's growth. Funding from the State of Arkansas remains problematic due to fact that the Institution remains under-funded. The need for additional state funding will become critical as enrollment continues to grow, and the College explores options to expand its facilities. Revenues from the local property tax remain stable although the decline in the housing market, challenges facing financial Institutions, increased foreclosures and delinquent real estate tax payments have slowed the overall rate of growth.

Economic Outlook

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

In the coming year, College Administration will continue its efforts 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. We are optimistic that the current fiscal year will be as successful as the past fiscal year. 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. Rodney Showalter, Ed.D.
Vice President for Finance and Administration

NORTHWEST ARKANSAS COMMUNITY COLLEGE
COMPARATIVE STATEMENT OF NET ASSETS
JUNE 30 2009

Exhibit A

	JUNE 30	
	2009	2008
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 5,508,115	\$ 5,162,064
Accounts receivable (less allowances of \$588,919 and \$596,648)	1,337,949	1,007,148
Property taxes receivable, net	4,314,971	3,803,757
Inventories	22,984	22,290
Deposits with trustees	314,877	179,634
Prepaid expenses	166,077	58,247
Other assets	3,996	3,996
Total Current Assets	11,668,969	10,237,136
Noncurrent Assets		
Restricted cash and cash equivalents	3,436,352	2,836,285
Capital assets (net of accumulated depreciation of \$11,792,296 and \$10,025,780)	39,856,687	39,679,949
Total Noncurrent Assets	43,293,039	42,516,234
TOTAL ASSETS	54,962,008	52,753,370
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	1,454,008	2,544,014
Bonds and notes payable - current portion	701,904	800,570
Compensated absences - current portion	73,628	61,390
Total Current Liabilities	2,229,540	3,405,974
Noncurrent Liabilities		
Bonds and notes payable	20,479,288	21,181,192
Compensated absences payable	1,398,941	1,280,597
Total Noncurrent Liabilities	21,878,229	22,461,789
TOTAL LIABILITIES	24,107,769	25,867,763
NET ASSETS		
Invested in capital assets, net of related debt	18,781,687	17,974,949
Restricted for		
Expendable		
Scholarships and fellowships	1,712	1,762
Instructional departments uses	145,464	129,438
Capital projects	50,704	258,023
Debt service	6,558,968	5,661,347
Unrestricted	5,315,704	2,860,088
TOTAL NET ASSETS	\$ 30,854,239	\$ 26,885,607

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

NORTHWEST ARKANSAS COMMUNITY COLLEGE FOUNDATION, INC.
 STATEMENT OF FINANCIAL POSITION
 JUNE 30, 2009 AND 2008

Exhibit A-1

	JUNE 30	
	2009	2008
ASSETS		
Cash and cash equivalents	\$ 2,940,271	\$ 7,436,531
Assets held in reserve	368,539	302,896
Pledges receivable	2,319,828	2,035,503
Other receivables	86,260	
Deposits		100,000
Interest receivable	1,555	15,087
Loans receivable	477	600
Investments	1,063,385	1,272,632
Prepaid expenses	990	86,535
Property and equipment, net	14,024,666	8,865,904
Land held for sale	212,500	212,500
Bond issuance costs	131,880	140,080
	<u>\$ 21,150,351</u>	<u>\$ 20,468,268</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and other liabilities	\$ 61,777	\$ 43,292
Accrued Interest	43,618	25,126
Deferred rental income	10,288	
Bonds payable	7,850,000	8,050,000
	<u>7,965,683</u>	<u>8,118,418</u>
NET ASSETS		
Unrestricted	4,785,177	2,463,291
Temporarily restricted	7,592,402	9,079,945
Permanently restricted	807,089	806,614
	<u>13,184,668</u>	<u>12,349,850</u>
Total Liabilities and Net Assets	<u>\$ 21,150,351</u>	<u>\$ 20,468,268</u>

NORTHWEST ARKANSAS COMMUNITY COLLEGE
 COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2009

Exhibit B

	Year Ended June 30	
	2009	2008
OPERATING REVENUES		
Student tuition and fees (net of scholarship allowance of \$4,498,417 and \$2,527,535)	\$ 12,204,743	\$ 10,847,498
Other operating revenues	450,063	471,878
TOTAL OPERATING REVENUES	12,654,806	11,319,376
OPERATING EXPENSES		
Personal services	26,246,525	24,191,874
Scholarships and fellowships	2,270,143	2,249,769
Supplies and services	7,003,687	6,072,915
Depreciation expense	1,776,677	1,820,560
TOTAL OPERATING EXPENSES	37,297,032	34,335,118
OPERATING (LOSS)	(24,642,226)	(23,015,742)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	10,559,562	10,751,932
Federal grants	7,151,742	5,773,683
State grants	1,818,857	1,987,117
Property taxes	7,773,984	7,236,620
Nongovernmental grants and contracts	495,175	315,684
Investment income	75,206	73,173
Interest on capital asset-related debt	(953,594)	(981,121)
Other nonoperating revenues	112,504	196,025
NET NONOPERATING REVENUES	27,033,436	25,353,113
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS OR (LOSSES)	2,391,210	2,337,371
OTHER REVENUES, EXPENSES, GAINS OR (LOSSES)		
Capital appropriations	22,961	1,114,340
Bond proceeds from Act 1282 of 2005	2,544,359	1,450,551
Contractual payment to component unit	(735,266)	(662,638)
(Loss) on disposal of capital assets	(254,632)	(29,462)
INCREASE IN NET ASSETS	3,968,632	4,210,162
NET ASSETS - BEGINNING OF YEAR	26,885,607	22,675,445
NET ASSETS - END OF YEAR	\$ 30,854,239	\$ 26,885,607

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

NORTHWEST ARKANSAS COMMUNITY COLLEGE FOUNDATION, INC.
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

Exhibit B-1

	2009			2008
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total (Summarized)
REVENUES AND SUPPORT				
Special events				
Special event revenue	\$ 67,780			\$ 88,010
Less cost of direct benefit to donors	21,745			20,818
Total special events	46,035			67,192
Contributions	19,180	\$ 1,803,047	\$ 475	1,726,873
Investment income	(114,837)			114,434
Parking fees	735,266			663,082
Miscellaneous income	135,371			6,078
Net assets released from restrictions:				
Satisfaction of donor restrictions	3,290,590	(3,290,590)		
Total support and revenues	<u>4,111,605</u>	<u>(1,487,543)</u>	<u>475</u>	<u>2,577,659</u>
EXPENSES				
Program	1,595,788			512,501
Management and general	118,951			1,035,091
Fundraising	74,980			76,779
Total expenses	<u>1,789,719</u>			<u>1,624,371</u>
CHANGE IN NET ASSETS	2,321,886	(1,487,543)	475	953,288
NET ASSETS, BEGINNING OF YEAR	<u>2,463,291</u>	<u>9,079,945</u>	<u>806,614</u>	<u>11,396,562</u>
NET ASSETS, END OF YEAR	<u>\$ 4,785,177</u>	<u>\$ 7,592,402</u>	<u>\$ 807,089</u>	<u>\$ 12,349,850</u>

NORTHWEST ARKANSAS COMMUNITY COLLEGE
 COMPARATIVE STATEMENT OF CASH FLOWS - DIRECT METHOD
 FOR THE YEAR ENDED JUNE 30, 2009

Exhibit C

	Year Ended June 30,	
	2009	2008
Cash Flows from Operating Activities		
Proceeds from student tuition and fees	\$ 12,158,712	\$ 10,678,323
Other receipts	414,578	455,433
Payments to employees	(20,218,570)	(18,709,190)
Payments for employee benefits	(6,195,111)	(5,246,545)
Payments to suppliers	(7,251,515)	(6,262,722)
Payments for scholarships and fellowships	(2,270,143)	(2,249,769)
Net cash (used) by operating activities	(23,362,049)	(21,334,470)
Cash Flows from Noncapital Financing Activities		
State appropriations	10,559,562	10,751,932
Proceeds from grants and contracts	9,311,220	7,818,480
Property taxes	4,849,074	4,805,997
Other revenues	1,697	197,634
Net cash provided by noncapital financing activities	24,721,553	23,574,043
Cash Flows from Capital And Related Financing Activities		
Capital appropriations	22,961	1,114,340
Bond proceeds from Act 1282 of 2005	2,449,984	1,450,551
Property taxes allocated for debt retirement	2,410,887	2,402,998
Deposits with trustees	(1,711,947)	(1,594,377)
Purchases of capital assets	(2,742,585)	(1,954,377)
Contractual payment to component unit	(735,266)	(662,638)
Principal payments on capital debt	(170,570)	(205,103)
Other	2,267	
Interest paid on capital debt	(11,277)	(20,538)
Net cash provided (used) by capital and related financing activities	(485,546)	530,856
Cash Flows from Investing Activities		
Interest on investments	72,160	56,987
Net increase in cash	946,118	2,827,416
Cash and cash equivalents - beginning of year	7,998,349	5,170,933
Cash and cash equivalents - end of year	\$ 8,944,467	\$ 7,998,349
Reconciliation of Net Operating (Loss) to Net Cash (Used) by Operating Activities:		
Operating (loss)	\$ (24,642,226)	\$ (23,015,742)
Adjustments to reconcile net (loss) to net cash (used) by operating activities:		
Depreciation expense	1,776,677	1,820,560
Changes in assets and liabilities:		
Receivables, net	(107,751)	(185,824)
Inventories	(694)	5,170
Prepaid expenses	(107,831)	(19,372)
Accounts payable	(410,806)	(3,743)
Compensated absences	130,582	64,481
Net cash (used) by operating activities	\$ (23,362,049)	\$ (21,334,470)
NONCASH TRANSACTIONS		
Donated assets	\$47,593	\$57,063
Principal paid on capital debt by trustees	630,000	610,000
Interest paid on capital debt by trustees	949,750	968,050
Interest earned on deposits by trustees	3,046	16,185

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

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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 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 ended June 30, 2004, the financial activities of qualifying foundations are to be included in the financial statements of the primary government, through discrete presentations. There is one qualifying foundation for the Northwest Arkansas Community College: the Northwest Arkansas Community College Foundation, Inc.

Northwest Arkansas Community College Foundation, Inc., (the Foundation) is a legally separate, tax-exempt component unit of the 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 is 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, 2009, the Foundation distributed \$755,143 to the Institution for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the administration office at One College Drive, Bentonville, AR 72712.

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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.

The College has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The College has elected not to apply FASB pronouncements issued after the applicable date.

Capital Assets and Depreciation

Land, buildings, improvements and infrastructure, equipment, library holdings, archives and collections, 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 and land improvements, 3 to 8 years for office and classroom furniture, fixtures and equipment, 5 years for motor vehicles, 15 years for archives and collections and 10 years for library holdings.

Operating and Nonoperating Revenues

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

Nonoperating Revenues – Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, federal grants and other revenue sources that are defined as 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 and Cash Equivalents

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

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1: Summary of Significant Accounting Policies (Continued)

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 grants and contracts. Accounts receivable are recorded net of the estimated allowance for doubtful accounts in the amount of \$588,919 at June 30, 2009, and \$596,648 at June 30, 2008.

A summary of accounts receivable balances at June 30, 2009, is as follows:

	Gross	Allowance	Net
Student Accounts Receivable	\$ 999,755	\$ 588,919	\$ 410,836
Accounts Receivable – other governments	596,572		596,572
Other Accounts Receivable	330,541		330,541
	<hr/>		
Totals	\$ 1,926,868	\$ 588,919	\$ 1,337,949

Inventories

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

Noncurrent Cash and Cash Equivalents

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

Accounts Payable and Accrued Liabilities

A summary of accounts payable and accrued liabilities at June 30, 2009, is as follows:

Trade payables	\$ 180,135
Accrued payroll	607,948
Payroll related liabilities	289,771
Due to State of Arkansas	23,069
Interest payable	116,555
Deferred revenues	233,825
Other	2,705
	<hr/>
Totals	\$ 1,454,008

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.

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1: Summary of Significant Accounting Policies (Continued)

Deferred Revenues

Deferred revenues include amounts received for tuition and fees prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also included 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, 2009. Unused vacation and sick leave for eligible employees are included in the compensated absences payable calculation as follows.

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

Noncurrent Liabilities

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

Property Taxes

Property taxes are levied in November based on the 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.

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 2: Public Fund Deposits

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

	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 815,159	\$ 837,922
Collateralized:		
The collateral is held by the College and bank's agent in a trilateral agreement in the College's name	6,236,409	7,019,748
Total Deposits	\$ 7,051,568	\$ 7,857,670

The above deposits do not include cash held on deposit in the state treasury or cash on hand maintained by the College in the amounts of \$1,887,687 and \$5,212 at June 30, 2009, respectively.

Deposit with Trustees

As of June 30, 2009, the College had the following investments reported as deposits with trustees:

Investment type: External investment pool Fair value: \$314,877

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 and 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. The portfolio of the external investment pool in which the College participates is wholly comprised of short-term U.S. treasury obligations. Consequently, any potential interest rate risk associated with this external investment pool would be minimal. The College does not have a policy designed to manage interest rate risk.

NOTE 3: Income Taxes

The 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, 2009

NOTE 4: Capital Assets

The following are the changes in capital assets for the year ended June 30, 2009:

	Balance July 1, 2008	Additions	Transfers	Retirements	Balance June 30, 2009
Nondepreciable capital assets:					
Land	\$ 2,041,390				\$ 2,041,390
Construction in progress	2,311,314	\$ 1,810,054	\$ (155,023)		3,966,345
Total nondepreciable capital assets	4,352,704	1,810,054	(155,023)		6,007,735
Other capital assets:					
Land improvements	1,330,246				1,330,246
Improvements and infrastructure	372,291				372,291
Buildings	39,016,382		155,023	\$ (213,340)	38,958,065
Equipment	3,229,602	354,435		(7,772)	3,576,265
Archives and collections	30,595	7,000			37,595
Library holdings	1,373,909	36,558		(43,681)	1,366,786
Total other capital assets	45,353,025	397,993	155,023	(264,793)	45,641,248
Less accumulated depreciation for:					
Land improvements	(620,108)	(88,683)			(708,791)
Buildings	(5,732,893)	(1,298,602)		3,887	(7,027,608)
Improvements and infrastructure	(170,527)	(24,820)			(195,347)
Equipment	(2,370,318)	(299,421)		6,274	(2,663,465)
Archives and collections	(16,318)	(2,273)			(18,591)
Library holdings	(1,115,616)	(62,878)			(1,178,494)
Total accumulated depreciation	(10,025,780)	(1,776,677)		10,161	(11,792,296)
Other capital assets, net	\$35,327,245	\$ (1,378,684)	\$ 155,023	\$(254,632)	\$33,848,952
Capital asset summary:					
Nondepreciable capital assets	\$4,352,704	\$1,810,054	\$(155,023)		\$6,007,735
Other capital assets, at cost	45,353,025	397,993	155,023	\$(264,793)	45,641,248
Total cost of capital assets	49,705,729	2,208,047		(264,793)	51,648,983
Less: accumulated depreciation	(10,025,780)	(1,776,677)		10,161	(11,792,296)
Capital assets, net	\$ 39,679,949	\$ 431,370		\$ (254,632)	\$39,856,687

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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 & Issued</u>	<u>Debt Outstanding June 30, 2009</u>	<u>Maturities to June 30, 2009</u>
11-2003	10-2008	4.1%	\$ 191,683		\$ 191,683
12-2004	07-2008	4.44%	461,592		461,592
05-2005	05-2030	3 to 5%	23,485,000	\$ 21,075,000	2,410,000
06-2006	06-2011	4.5%	248,621	106,192	142,429
Totals			\$ 24,386,896	\$ 21,181,192	\$ 3,205,704

The changes in long-term debt for the fiscal year ended June 30, 2009 is as follows:

	<u>Balance at July 1, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2009</u>	<u>Amounts due Within one year</u>
Bonds	\$ 21,705,000		\$ (630,000)	\$ 21,075,000	\$ 650,000
Notes Payable	276,762		(170,570)	106,192	51,904
Compensated Absences	1,341,987	\$ 988,736	(858,154)	1,472,569	73,628
Totals	\$ 23,323,749	\$ 988,736	\$ (1,658,724)	\$ 22,653,761	\$ 775,532

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

<u>Year Ended June 30,</u>	<u>Bond Principal</u>	<u>Note Principal</u>	<u>Total Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2010	\$ 650,000	\$ 51,904	\$ 701,904	\$ 934,567	\$ 1,636,471
2011	670,000	54,288	724,288	911,058	1,635,346
2012	700,000		700,000	882,075	1,582,075
2013	715,000		715,000	858,450	1,573,450
2014	750,000		750,000	829,925	1,579,925
2015 – 2019	4,200,000		4,200,000	3,700,450	7,900,450
2020 – 2024	5,250,000		5,250,000	2,655,281	7,905,281
2025 – 2029	6,625,000		6,625,000	1,280,000	7,905,000
2030	1,515,000		1,515,000	68,175	1,583,175
Totals	\$ 21,075,000	\$ 106,192	\$ 21,181,192	\$ 12,119,981	\$ 33,301,173

NORTHWEST ARKANSAS COMMUNITY COLLEGE
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2009

NOTE 6: Commitments

The Institution was contractually obligated for the following amounts at June 30, 2009:

A. Construction Contract

<u>Project Name</u>	<u>Estimated Completion Date</u>	<u>Contract Balance remaining on June 30, 2009</u>
Global Business Development Center	06-30-2010	\$ 31,916

The NWACC Foundation, Inc. by the terms of a ground lease agreement dated as of July 1, 2008, is obligated to construct and complete the Global Business Development Center on behalf of the College.

B. Operating Leases

The following represents future minimum rental payments (aggregate at June 30, 2009). The leases are comprised of six facility rentals, various office and computer lab equipment leases.

Future minimum rental payments (aggregate at June 30, 2009): \$2,309,637

Future minimum rental payments for the succeeding fiscal years:

<u>Year Ended June 30</u>	<u>Amount</u>
2010	\$884,486
2011	533,123
2012	434,835
2013	229,745
2014	<u>227,448</u>
Total	<u>\$2,309,637</u>

Rental payments for the operating leases described above were approximately \$685,859 for the year ended June 30, 2009.

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 7: Employee 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 Code Annotated 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 members and 10% of earnings for contributory members. The Institution's and participants' contributions for the year ended June 30, 2009, were \$1,093,956 and \$642,670, respectively.

Arkansas Teacher Retirement System

Plan Description – The Institution contributes to the Arkansas Teacher Retirement Systems (ATRS), a cost-sharing multiple-employer defined benefit pension plan for employees who do not elect a qualified alternative retirement plan. ATRS, administered by a Board of Trustees, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Teachers Retirement System issued a publicly available financial report that includes financial statements and required supplementary information for ATRS. That report may be obtained by writing to Arkansas Teachers 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 determined by the Board of Trustees, based on the annual valuation. The current employer rate is 14% of covered salaries, the maximum allowed by State law. The Institution's contributions to ATRS for the years ended June 30, 2009, 2008, and 2007, were \$585,310, \$521,656, and \$501,382, 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, administered by a Board of Trustees, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit 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. The 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, 2009

NOTE 7: Employee 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 5% of their salaries. Each participating employer is required by law to contribute at a rate determined by the Board of Trustees, based on the annual actuarial valuation. The current employer rate is 11.01% of annual covered payroll. The Institution's contributions to APERS for the years ended June 30, 2009, 2008, and 2007, were \$104,821, \$118,159, and \$109,051, 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	\$ 14,661,558		\$ 1,335,052		\$ 15,996,610
Academic support	2,643,714		1,719,983		4,363,697
Student services	2,767,934		454,123		3,222,057
Institutional support/research	4,356,646		1,344,162		5,700,808
Scholarship and fellowships		\$ 2,270,143			2,270,143
Operations and maintenance of plant	1,816,673		2,150,367		3,967,040
Depreciation				\$ 1,776,677	1,776,677
Total	<u>\$ 26,246,525</u>	<u>\$ 2,270,143</u>	<u>\$ 7,003,687</u>	<u>\$ 1,776,677</u>	<u>\$ 37,297,032</u>

NOTE 9: Debt Refunding

On May 15, 2005, the Institution issued capital improvement and refunding bonds of \$23,485,000 with interest rates from 3 to 5 percent. A portion of the bond proceeds was delivered to Metropolitan National Bank (now Regions) to provide for all future debt service payments on bonds dated November 1, 2000 and October 1, 2002, with interest rates of 4.8 to 5.9 and 1.5 to 3.6 percent, respectively. As a result, the 2000 and 2002 series bonds are considered defeased and the liability for these bonds has been removed from long-term debt. The final call date of the 2000 series bonds is November 15, 2010. As of June 30, 2009, the escrow fund established to provide the retirement of the bonds being refunded had a balance of \$5,370,639. The final payment on the 2002 bonds was November 15, 2007, and the remaining principal amount of the outstanding 2000 bonds considered defeased is \$5,225,000.

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 10: New Accounting Pronouncements

In June, 2007, GASB issued Statement No. 51 *Accounting and Financial Reporting for Intangible Assets*, which becomes effective with the fiscal year ending June 30, 2010. The Statement provides guidance for the recognition of intangible assets. In November, 2007, GASB issued Statement No. 52 *Land and Other Real Estate Held as Investments by Endowments*, which becomes effective with the fiscal year June 30, 2009. The Statement establishes consistent standards for the reporting of land and real estate held as investments by essentially similar entities. In June, 2008, GASB issued Statement No. 53 *Accounting and Financial Reporting for Derivative Instruments*, which becomes effective with the fiscal year ending June 30, 2010. The Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by governments. The Institution does not yet have endowment or similar funds, thus Statement No. 52 is not applicable. Statement Nos. 51 and 53 do not become effective until the fiscal year ending June 30, 2010, and the applicability of these statements to the Institution will be examined during that period.

NOTE 11: Related Party Transactions

In May 2005, the Board of Trustees of the College authorized the imposition and use of infrastructure fees to aid the Northwest Arkansas Community College Foundation, Inc. (the Foundation), in the financing of a college parking facility. The Foundation executed an \$8,250,000 note payable with the Public Facilities Board, which then issued bonds to provide financing to build the facility. In 2009, the College collected and disbursed \$735,266 in infrastructure fees to the Foundation for bond payments.

During the 2008 fiscal year, the Foundation entered into an agreement to purchase the NARTI Oncology facility located next door to the College to house the expansion of the nursing program when the building is vacated. Foundation capital campaign funds will be used to facilitate the purchase and remodeling of the NARTI facility. As of June 30, 2009, the purchase of the building is complete.

In September of 2008, construction began on the new Global Business Development Center, a 40,000 square foot facility at the Bentonville Campus that will add new instructional classrooms and labs. The Foundation is providing funding for the construction.

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 12: Risk Management

The Institution maintains insurance coverage for a wide variety of risks. The coverages are outlined in the following table:

<u>Items Insured</u>	<u>Coverage</u>	<u>Contributions</u>	<u>Administrator</u>
General Liability Excess Liability	\$1m, \$3m aggregate \$3m aggregate \$100,000 deductible each incident	N/A N/A	United Educators Insurance
Directors/Officers/Employees Professional Liability	\$1m per policy period \$25,000 deductible	N/A	RSUI Indemnity Company (New insurance carrier effective 9/1/09 is ACE American Ins. Co.)
Automobile Policy	\$500,000 limit \$500/\$1,000 deductible	N/A	Arkansas Multi-Agency Insurance Trust Fund
Buildings and Contents	100% replacement value \$10,000 deductible	N/A	Arkansas Multi-Agency Insurance Trust Fund
Inland Marine	Per artwork schedule	N/A	as above
Blanket Fidelity Bond	Actual loss up to \$250,000 \$1,000 deductible	N/A	Arkansas Fidelity Bond Trust Fund
Health Professions Professional Liability	\$1m, \$5m aggregate	N/A	Health Care Providers Insurance Assn - part of C.N.A.
Upward Bound Accident	Comprehensive Accident Policy	N/A	StarNet Insurance Company
Workers Compensation	Reimbursement of medical expense and loss of salary due to job-related injury or illness	The administrator is reimbursed quarterly	Arkansas Public Employees Claim System
Life Insurance Program	N/A	N/A first \$20,000	Lincoln Life Insurance
Health Care Program	N/A	Employee contributes a portion	Arkansas Blue Cross/Blue Shield: Delta Dental of Arkansas

NORTHWEST ARKANSAS COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 12: Risk Management (Continued)

The Institution participates in the Arkansas Fidelity Bond Trust Fund administered by the Governmental Bonding Board. Coverage is provided for actual losses incurred as a result of fraudulent or dishonest acts by state employees or officials. There is a limit of \$250,000 and a \$1,000 deductible for each loss. The Department of Finance and Administration withholds the amounts for the premiums from the Institution's state treasury funds.

The Institution participates in the Arkansas Multi-Agency Property Insurance Trust Fund Program administered by the Risk Management Division of the Arkansas Insurance Department. The program's general objectives are to formulate, develop and administer on behalf of members, a program of insurance to obtain lower costs for property coverage and to develop a comprehensive loss control program. The fund uses a reinsurance policy to reduce exposure to large losses on insured events. The Institution pays an annual premium for this coverage.

The Institution participates in the Arkansas Multi-Agency Vehicle Insurance Trust Fund Program administered by the Risk Management Division of the Arkansas Insurance Department. The general objective of the program is to allow members a means of insuring vehicles. The fund uses a reinsurance policy to reduce exposure to large losses on insured events. The Institution pays an annual premium for this coverage.

The Institution maintains workers compensation coverage through the State of Arkansas program. Arkansas Code Annotated § 11-9-305. Annual premiums are based on a formula calculated by the Arkansas Department of Finance and Administration.

Settled claims have not exceeded the commercial insurance coverage in any of the past three fiscal years. There were no significant reductions in insurance coverage from the prior year in the major categories of risk.

NOTE 13: Other Postemployment Benefits (OPEB) Liability

GASB Statement No. 45 became effective for FY 2008. The Institution offers employees who retire directly from active employment and meet the "Rule of 70" (age plus service is 70 or greater, with at least 10 years of service), to continue insurance coverage. The retiree pays the entire premium, at the same rate as active employees.

Under GASB Statement No. 45, this creates an "implicit subsidy", which is the difference between the higher rate that a retiree would otherwise pay and the lower rate of the active group. While the College is "pay as you go", collecting and submitting the retiree premiums each month along with active employee premiums, GASB Statement No. 45 requires an actuarial calculation. For the fiscal year ended June 30, 2009, the Institution had nine retiree participants. The actuarial calculation was made and determined to result in an OPEB obligation that was immaterial to the financial statements taken as a whole. Therefore, no additional disclosures are presented.

NORTHWEST ARKANSAS COMMUNITY COLLEGE
 SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS
 FOR THE YEAR ENDED JUNE 30, 2009
 (Unaudited)

Schedule 1

	Year Ended June 30,				
	2009	2008	2007	2006	2005
Total Assets	\$ 54,962,008	\$ 52,753,370	\$ 48,747,614	\$ 49,223,041	\$ 48,114,586
Total Liabilities	24,107,769	25,867,763	26,072,169	28,112,174	26,582,276
Total Net Assets	30,854,239	26,885,607	22,675,445	21,110,867	21,532,310
Total Operating Revenues	12,654,806	11,319,376	10,489,411	9,861,394	7,906,878
Total Operating Expenses	37,297,032	34,335,118	31,336,834	28,634,696	23,251,360
Total Net Non-Operating Revenues	27,033,436	25,353,113	23,087,989	18,172,367	15,973,479
Total Other Revenues, Expenses, Gains or Losses	1,577,422	1,872,791	(675,988)	179,492	(1,104,812)