

Southeast Arkansas College

Pine Bluff, Arkansas

**Basic Financial Statements
and Other Reports**

June 30, 2023

LEGISLATIVE JOINT AUDITING COMMITTEE



SOUTHEAST ARKANSAS COLLEGE
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Arkansas

Sen. David Wallace
Senate Chair
Sen. John Payton
Senate Vice Chair



Rep. Jimmy Gazaway
House Chair
Rep. Richard Womack
House Vice Chair

Kevin William White, CPA, JD
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Southeast Arkansas College
Legislative Joint Auditing Committee

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Southeast Arkansas College (College), an institution of higher education of the State of Arkansas, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the College as of June 30, 2023, and the changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the College and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the College's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the College's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Comparative Information

We have previously audited the College's 2022 financial statements, and we expressed an unmodified opinion on the financial statements in our report dated October 26, 2023 . In our opinion, the comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and certain information pertaining to pensions on pages 7-11 and 41-42 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

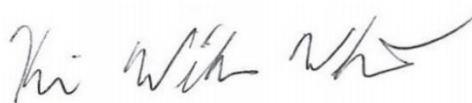
Management is responsible for the other information included in the annual report. The other information comprises the Schedule of Selected Information for the Last Five Years (Schedule 1) but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 2, 2025 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 solely 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 effectiveness of the College's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

ARKANSAS LEGISLATIVE AUDIT

A handwritten signature in black ink, appearing to read "Kevin White" with a stylized flourish at the end.

Kevin William White, CPA, JD
Legislative Auditor

Little Rock, Arkansas
January 2, 2025
EDHE69123

Arkansas

Sen. David Wallace
Senate Chair
Sen. John Payton
Senate Vice Chair



Rep. Jimmy Gazaway
House Chair
Rep. Richard Womack
House Vice Chair

Kevin William White, CPA, JD
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS 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

INDEPENDENT AUDITOR'S REPORT

Southeast Arkansas College
Legislative Joint Auditing Committee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Southeast Arkansas College (College), an institution of higher education of the State of Arkansas, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated January 2, 2025.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters


As part of obtaining reasonable assurance about whether the College's financial statements are free from 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 financial statements. 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 a certain matter that we reported to management of the College in a separate letter dated January 2, 2025.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

ARKANSAS LEGISLATIVE AUDIT

A handwritten signature in black ink that reads "Matt Fink". The signature is written in a cursive, slightly slanted style.

Matt Fink, CPA
Deputy Legislative Auditor

Little Rock, Arkansas
January 2, 2025

Arkansas



Sen. David Wallace
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Kevin William White, CPA, JD
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

MANAGEMENT LETTER

Southeast Arkansas College
Legislative Joint Auditing Committee

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, 2023, as reported to the Arkansas Division of Higher Education, to provide reasonable assurance that the data was properly reported. The enrollment data reported was as follows:

| | <u>Fall Term</u> | <u>Spring Term</u> | <u>Summer I Term</u> |
|----------------------------------|------------------|--------------------|----------------------|
| | <u>2022</u> | <u>2023</u> | <u>2023</u> |
| Student Headcount | 898 | 778 | 455 |
| Student Semester Credit Hours | 6,942 | 6,317 | 2,595 |

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 Ark. Code Ann. § 10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

ARKANSAS LEGISLATIVE AUDIT

Handwritten signature of Matt Fink in cursive.

Matt Fink, CPA
Deputy Legislative Auditor

Little Rock, Arkansas
January 2, 2025

Southeast Arkansas College Management's Discussion and Analysis (Unaudited)

The June 30, 2023, Financial Statements, along with the fiscal year 2022 prior year data, presented for comparative purposes, of Southeast Arkansas College ("College") are provided as management's discussion and analysis of the College's financial activity. Because the intent of this section is to focus on the current year's activities, results of operations, the operating environment, and other currently known facts, it should be read in conjunction with the basic financial statements including the notes. The College is responsible for the completeness and fairness of these statements.

Overview of the Financial Statements and Financial Analysis

These financial statements were prepared in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Colleges and Universities*. This statement was released in November 1999 and resulted in a new reporting model significantly different from the fund accounting model use in preparing financial statements prior to its release.

Pension plan expenses and liabilities are subject to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*.

Short-term investments are subject to GASB Statement No. 72, *Fair Value Measurement and Application*.

Other Post-Employment Benefits ("OPEB") are subject to GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Lease accounting and reporting are subject to GASB Statement No. 87, *Leases*.

Subscription-based software arrangements are subject to GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*.

These financial statements report the current year's results in a business-type activity ("BTA") format. This closely resembles financial statements issued by corporate entities.

There are three financial statements presented: Statement of Net Position; Statement of Revenues, Expenses and Changes in Net Position; and Statement of Cash Flows.

Following this management's discussion and analysis are the basic financial statements and the notes. This discussion and analysis of the financial statements of Southeast Arkansas College provides an overview of its financial activities for the year.

Statement of Net Position

The Statement of Net Position presents the assets, liabilities, and net position of the College as of the end of the fiscal year. The Statement of Net Position is a point-of-time financial statement. The purpose of the Statement of Net Position is to present the readers of the financial statements a fiscal snapshot of Southeast Arkansas College. The Statement of Net Position presents end-of-year data concerning assets (current, deferred and noncurrent), liabilities (current, deferred and noncurrent), and net position (assets minus liabilities).

Southeast Arkansas College

Management's Discussion and Analysis (Unaudited)

Statement of Net Position (Continued)

Net Position is divided into three major categories. The first category, Investment in Capital Assets, provides the College's equity in property, plant, equipment, and intangible assets owned by the College. The next category is Restricted Net Position. Expendable Restricted Net Position is available for expenditures by the College but must be spent for purposes as determined by external entities that have placed time or purpose restrictions on the use of the assets. Nonexpendable Net Position is subject to externally imposed stipulations that it be held for a specified time before it can be spent. The final category is Unrestricted Net Position which is available for the College for any lawful purpose of the College.

Statement of Net Position (Summarized)

| | <u>June 30, 2023</u> | <u>June 30, 2022</u> |
|---|----------------------|----------------------|
| Assets | | |
| Current assets | 6,877,852 | 10,714,596 |
| Endowment assets | 603,898 | 593,174 |
| Funds on deposit with bond trustee | 3,579,179 | - |
| Noncurrent lease receivable | 153,966 | 170,231 |
| Capital assets | <u>21,509,641</u> | <u>13,562,051</u> |
| Total assets | 32,724,536 | 25,040,052 |
| | | |
| Deferred outflows (pensions/OPEB) | <u>3,394,329</u> | <u>2,967,337</u> |
| Total assets and deferred outflows | <u>36,118,865</u> | <u>28,007,389</u> |
| | | |
| Liabilities | | |
| Current liabilities | 1,770,794 | 967,777 |
| Noncurrent liabilities | <u>15,986,776</u> | <u>7,106,917</u> |
| Total liabilities | 17,757,570 | 8,074,694 |
| | | |
| Deferred Inflows (pensions/OPEB/leases) | <u>3,159,542</u> | <u>6,955,637</u> |
| Total liabilities and deferred inflows | <u>20,917,112</u> | <u>15,030,331</u> |
| | | |
| Net Position | | |
| Invested in capital assets | 21,509,641 | 13,562,051 |
| Restricted - expendable | | 3,064,403 |
| Restricted - non-expendable | 543,357 | 593,206 |
| Unrestricted | <u>(6,851,245)</u> | <u>(4,242,602)</u> |
| Total net position | <u>15,201,753</u> | <u>12,977,058</u> |

Southeast Arkansas College

Management's Discussion and Analysis (Unaudited)

Statement of Net Position (Continued)

Total assets and deferred outflows increased by \$8,111,476. Total current assets decreased by \$3,836,744, which was made up of a decrease in cash and cash equivalents of \$2,222,830, a decrease in short-term investments of \$2,024,836, a decrease in net accounts receivable of \$63,551, a decrease in the current portion of lease receivable of \$507, an increase in other receivables of \$475,826, and a decrease in prepaid expenses of \$846. Total noncurrent assets increased by \$11,521,228, comprised of an increase in endowment assets of \$10,724, the addition of bond deposits with trustee of \$3,579,179, a decrease in the noncurrent portion of leases receivable of \$16,265, and an increase in net capital assets of \$7,947,590. Total deferred outflows increased by \$426,992, including a decrease in deferred outflows for OPEB of \$472,871, and an increase in deferred outflows for pensions of \$899,863. The asset category of deferred outflows related to pensions and OPEB is related to reporting requirements of GASB Statements No. 68, and 75, respectively, and will be further detailed in the Notes to the Financial Statements.

Total liabilities and deferred inflows increased by \$5,886,781. Total current liabilities increased by \$803,017, comprised of an increase in accounts payable and accrued liabilities of \$779,428, an increase in the current portion of leases payable of \$1,053, the addition of the current portion of bond discount of \$10,240, an increase of \$17,658 in the current portion of compensated absences, a decrease of \$29,928 in the current portion of OPEB liability, a decrease in unearned revenue of \$14,954, and an increase in the current portion of long-term debt related to bonds of \$60,000. Total noncurrent liabilities increased by \$8,879,859, made up of a decrease in the noncurrent portion of compensated absences of \$78,957, a decrease of the noncurrent portion of leases payable of \$26,898, the addition of the noncurrent portion of bond discount of \$199,673, an increase of \$4,069,558 in net pension liability, a decrease of \$334,171 in the noncurrent portion of OPEB liability, and an addition of \$5,450,000 in bonds payable. Total deferred inflows decreased by \$3,796,095, including a decrease in deferred inflows on leases of \$16,772, a decrease in deferred inflows in OPEB of \$491,380, and a decrease in the deferred inflows for pensions of \$3,287,943. The liability category of deferred inflows related to pension, OPEB, and leases is related to reporting requirements of GASB Statements No. 68, 75, and 87, respectively, and will be further detailed in the Notes to the Financial Statements.

The increase of \$2,224,695 in total net position is a result of the aggregated changes discussed above.

Statement of Revenues, Expenses and Changes in Net Position

An increase of \$2,224,695 in total net position is based on the activity in the Statement of Revenues, Expenses and Changes in Net Position. The purpose of the statement is to present the revenue received by the College, both operating and nonoperating, and the expenses paid by the College, operating and nonoperating, and any other revenues, gains and losses received, spent, or incurred by the College.

Operating revenues are received for providing goods and services to various customers and constituencies of the College. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues and to carry out the mission of the College.

Nonoperating revenues are revenues received for which goods and services are not provided. For example, state appropriations are nonoperating because they are provided by the Arkansas Legislature to the College without the Legislature directly receiving commensurate goods and services for those revenues.

Southeast Arkansas College Management's Discussion and Analysis (Unaudited)

Statement of Revenues, Expenses and Changes in Net Position (Continued)

Statement of Revenues, Expenses and Changes in Net Position (Summarized)

| | <u>June 30, 2023</u> | <u>June 30, 2022</u> |
|---|----------------------|----------------------|
| Operating revenues | | |
| Tuition and fees | 1,665,122 | 1,821,825 |
| Federal grants and contracts | 1,381,530 | 1,012,225 |
| State and local grants and contracts | 1,455,586 | 1,575,531 |
| Other operating revenues | 116,168 | 222,310 |
| Total operating revenues | <u>4,618,406</u> | <u>4,631,891</u> |
| Operating expenses | | |
| Compensation and benefits | 8,912,773 | 7,007,229 |
| Scholarships and fellowships | 2,704,902 | 4,870,158 |
| Supplies and other services | 4,390,517 | 3,693,360 |
| Depreciation | 1,149,833 | 1,163,516 |
| Total operating expenses | <u>17,158,025</u> | <u>16,734,263</u> |
| Operating income (loss) | (12,539,619) | (12,102,372) |
| Nonoperating revenues | 14,792,393 | 16,972,067 |
| Income before other revenues, expenses, gains or losses | 2,252,774 | 4,869,695 |
| Prior year and other revenue items | (28,079) | 23,894 |
| Change in net position | <u>2,224,695</u> | <u>4,893,589</u> |
| Net position - beginning of year | <u>12,977,058</u> | <u>8,083,469</u> |
| Net position - end of year | <u>15,201,753</u> | <u>12,977,058</u> |

Total operating revenues decreased \$13,485. This was made up of a decrease in tuition and fees of \$156,703, an increase in federal grants and contracts of \$369,305, a decrease in state and local grants and contracts of \$119,945, and a decrease in other operating revenue of \$106,142.

Total operating expenses increased by \$423,762. Included in this is an increase in compensation and benefits of \$1,905,544, a decrease in scholarships and fellowships of \$2,165,256, an increase in supplies and other services of \$697,156 and a decrease in depreciation of \$13,682.

Total nonoperating revenues and expenses decreased by \$2,179,674. This was comprised of a decrease in state appropriations of \$31,831, an increase in federal grants and contracts of \$1,037,099, a decrease in state and local grants of \$3,100,303, an increase in loss on disposal of capital assets of \$60,079, an increase in interest expense on leases of \$5,407, the addition of bond interest expense of \$135,128, the addition of bond issue costs of \$73,965, an increase in investment income of \$195,060, and the addition of bond discount amortization \$5,120. There was also a decrease in prior-year adjustments of \$51,973.

Southeast Arkansas College Management's Discussion and Analysis (Unaudited)

Statement of Cash Flows

The final financial statement presented is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the College during the year by reporting the major sources and uses of cash. The Statement of Cash Flows illustrates the results of operations on a cash basis. It also contains a reconciliation of the difference between the operation income/(loss) shown on the Statement of Revenues, Expenses and Changes in Net Position and net cash provided/(used) by operating activities shown on the Statement of Cash Flows. The consistently largest reconciling items are depreciation expense and recorded noncash transactions related to pension and OPEB liabilities. Depreciation expense recognizes the consumption of a capital asset but there is no actual cash outflow in the year it is recognized. Pension and OPEB liabilities are expenses, assets, liabilities, and deferrals related to the future of these particular benefit plans that are based on actuarial projections and do not have any cash inflows or outflows during the reporting period beyond the payroll matching amount expensed on a per-payroll basis. The reconciliation items are the result of timing differences between the recognition of the revenue or expense for accrual purposes and the time when cash is received or disbursed.

The Statement of Cash Flows classifies cash into four categories: cash flows from operating activities; cash flows from noncapital financial activities; cash flows from capital and related financing activities; and cash flows from investing activities.

Capital Assets

In October 2021 the Board of Directors voted to adopt a measure to plan, finance and build a new Student Center and a Student Residence Hall. This project will be funded by a combination of private donations, capital reserves, and a partnership with a third-party partner to secure either public or private financing of approximately \$20 million, secured by revenues generated by the properties after completion. To this end, funds of approximately \$2 million have been expended relative to the Student Center project which is currently on hold. For the Student Residence Hall project, now referred to as Student Housing, the property located at 6811 South Hazel Street was identified as a starting point, since it is located directly across the street from the Seabook facility that will be the center of athletic programs. P3 SEARK Student Housing, LLC, a non-SEARK corporate entity, purchased the property at 6811 South Hazel Street with funds received from the College in the amount of \$993,054 as earnest money for the property once it has been purchased, renovated, and updated for use as Student Housing. The College also paid an additional \$2 million dollars to P3 SEARK Student Housing, LLC for the the rights to purchase the completed facility at a point in the future for the consideration of \$10. Further details of this transaction and the relevant contractual obligations will be discussed in the Notes to the Financial Statements.

Economic Outlook

The College is moving forward strategically to rebuild enrollment following the COVID-19 pandemic and its effects on the College in particular, and institutions of higher education across the nation, in general. With the upcoming addition of intercollegiate athletics programs, student housing, and modifications in program offerings, the College is optimistic about the growth potential for increased enrollment and retention. At this time, state appropriation funding is expected to be relatively flat. Continued monitoring of operating and capital expenditures will be important to maintaining adequate cash reserves. The continuing fluctuations in OPEB and net pension liabilities, both of which are noncash long-term estimated liabilities, will continue to have significant effects on net position (both positive and negative) that do not truly reflect the current financial standing of the College.

Southeast Arkansas College
Comparative Statement of Net Position
For the Year Ended June 30, 2023

Exhibit A

| | | | June 30, 2023 | June 30, 2022 |
|--|------|------------|----------------------|----------------------|
| Assets | | | | |
| Current assets | | | | |
| Cash and cash equivalents | | | \$ 3,103,866 | \$ 5,326,696 |
| Short-term investments | | | 2,775,982 | 4,800,818 |
| Accounts receivable (less allowance of | 2023 | 48,745 | 115,520 | |
| | 2022 | 85,485 | | 179,071 |
| Lease receivable - current | | | 16,265 | 16,772 |
| Other receivables | | | 866,144 | 390,318 |
| Prepaid expenses | | | 75 | 921 |
| Total current assets | | | 6,877,852 | 10,714,596 |
| Noncurrent assets | | | | |
| Restricted cash and cash equivalents | | | 436 | 436 |
| Restricted investments, endowments | | | 603,462 | 592,738 |
| Deposits with trustee, bonds | | | 3,579,179 | |
| Lease Receivable - Noncurrent | | | 153,966 | 170,231 |
| Capital assets (net of accumulated depreciation of | 2023 | 22,037,972 | 21,509,641 | |
| | 2022 | 20,888,138 | | 13,562,051 |
| Total noncurrent assets | | | 25,846,684 | 14,325,456 |
| Deferred outflows | | | | |
| Deferred outflows - OPEB | | | 671,392 | 1,144,263 |
| Deferred outflows - pensions | | | 2,722,937 | 1,823,074 |
| Total deferred outflows | | | 3,394,329 | 2,967,337 |
| Total assets and deferred outflows | | | 36,118,865 | 28,007,389 |
| Liabilities | | | | |
| Current liabilities (amounts due within one year) | | | | |
| Accounts payable and accrued liabilities | | | 1,472,098 | 692,670 |
| Leases payable | | | 26,899 | 25,846 |
| Current portion of bond discount | | | (10,240) | - |
| Bonds payable | | | 60,000 | - |
| Compensated absences | | | 54,901 | 37,243 |
| Other post-employment benefits (OPEB) | | | 158,310 | 188,238 |
| Unearned revenue | | | 7,001 | 21,955 |
| Funds held in trust for others | | | 1,825 | 1,825 |
| Total current liabilities | | | 1,770,794 | 967,777 |
| Noncurrent liabilities | | | | |
| Compensated absences | | | 290,538 | 369,495 |
| Leases payable | | | 84,879 | 111,777 |
| Noncurrent portion of bond discount | | | (199,673) | - |
| Bonds payable | | | 5,450,000 | - |
| Net pension liability | | | 6,598,626 | 2,529,068 |
| Other post-employment benefits (OPEB) | | | 3,762,406 | 4,096,577 |
| Total noncurrent liabilities | | | 15,986,776 | 7,106,917 |
| Deferred inflows | | | | |
| Deferred inflows - Leases | | | 170,231 | 187,003 |
| Deferred inflows - OPEB | | | 2,340,467 | 2,831,847 |
| Deferred inflows - pensions | | | 648,844 | 3,936,787 |
| Total deferred inflows | | | 3,159,542 | 6,955,637 |
| Total liabilities and deferred inflows | | | 20,917,112 | 15,030,331 |

Southeast Arkansas College
Comparative Statement of Net Position
For the Year Ended June 30, 2023

Exhibit A

| | June 30, 2023 | June 30, 2022 |
|---------------------------------|----------------------|----------------------|
| Net position | | |
| Invested in capital assets | \$ 21,509,641 | \$ 13,562,051 |
| Restricted for expendable other | | 3,064,403 |
| Restricted for endowment fund | 543,357 | 593,206 |
| Unrestricted | (6,851,245) | (4,242,602) |
| Total net position | \$ 15,201,753 | \$ 12,977,058 |

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

Southeast Arkansas College
Comparative Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2023

Exhibit B

| | | | <u>June 30, 2023</u> | <u>June 30, 2022</u> |
|---|------|-----------|----------------------|----------------------|
| Revenues | | | | |
| Operating revenues | | | | |
| Student tuition and fees (net of scholarship allowance and waivers of | 2023 | 1,473,720 | \$ 1,665,122 | |
| | 2022 | 1,240,700 | | \$ 1,821,825 |
| Federal grants and contracts | | | 1,381,530 | 1,012,225 |
| State and local grants and contracts | | | 1,455,586 | 1,575,531 |
| Other operating revenues | | | 116,168 | 222,310 |
| Total operating revenues | | | <u>4,618,406</u> | <u>4,631,891</u> |
| Expenses | | | | |
| Operating expenses | | | | |
| Compensation and benefits | | | 8,912,773 | 7,007,229 |
| Scholarships and fellowships | | | 2,704,902 | 4,870,158 |
| Supplies and other services | | | 4,390,516 | 3,693,360 |
| Depreciation | | | 1,149,834 | 1,163,516 |
| Total operating expenses | | | <u>17,158,025</u> | <u>16,734,263</u> |
| Operating income (loss) | | | <u>(12,539,619)</u> | <u>(12,102,372)</u> |
| Nonoperating revenues (expenses) | | | | |
| State appropriations | | | 7,330,157 | 7,361,988 |
| Federal grants and contracts (non-exchange) | | | 7,351,679 | 6,314,580 |
| State and local grants and contracts (non-exchange) | | | 141,453 | 3,241,756 |
| Gain (Loss) on disposal of capital assets | | | (16,674) | 43,405 |
| Interest on capital asset-related debt | | | (135,128) | - |
| Interest expense on leases | | | (5,407) | - |
| Bond issue costs | | | (73,965) | - |
| Amortization of bond discount | | | (5,120) | - |
| Investment income | | | 205,398 | 10,338 |
| Net nonoperating revenues | | | <u>14,792,393</u> | <u>16,972,067</u> |
| Income before other revenues, expenses, gains or losses | | | <u>2,252,774</u> | <u>4,869,695</u> |
| Other revenues and changes in net position | | | | |
| Adjustments to prior year revenues and expenses | | | (28,079) | 23,894 |
| Total other revenues and changes in net position | | | <u>(28,079)</u> | <u>23,894</u> |
| Change in net position | | | <u>2,224,695</u> | <u>4,893,589</u> |
| Net position | | | | |
| Net position - beginning of year | | | 12,977,058 | 8,083,469 |
| Net position - end of year | | | <u>\$ 15,201,753</u> | <u>\$ 12,977,058</u> |

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

Southeast Arkansas College
Comparative Statement of Cash Flows
For the Year Ended June 30, 2023

Exhibit C

| | June 30, 2023 | June 30, 2022 |
|--|----------------------|----------------------|
| Cash flows from operating activities | | |
| Tuition and fees | \$ 1,770,122 | \$ 1,887,602 |
| Grants and contracts | 2,902,466 | 2,692,431 |
| Other receipts (payments) | 5,581 | 90,235 |
| Payments to suppliers | (4,325,244) | (3,646,635) |
| Payments to employees | (7,188,438) | (7,427,807) |
| Payments for employee benefits | (2,261,261) | (2,281,441) |
| Scholarships and fellowships | (2,704,902) | (4,870,158) |
| Net cash provided (used) by operating activities | (11,801,676) | (13,555,773) |
| Cash flows from non-capital financing activities | | |
| State appropriations | 7,330,157 | 7,361,988 |
| Grants and contracts (non-exchange) | 7,119,219 | 9,561,912 |
| Loans to students - direct and private loans (inflows) | 1,380,329 | 1,213,089 |
| Loans to students - direct and private loans (outflows) | (1,376,639) | (1,213,089) |
| Prior year adjustments | (28,079) | 23,894 |
| Net cash provided (used) by non-capital financing activities | 14,424,987 | 16,947,794 |
| Cash flows from capital and related financing activities | | |
| Purchases of capital assets | (6,870,507) | (562,286) |
| Leases | (25,845) | |
| Interest expense | (5,407) | |
| Gain/(Loss) of disposal of capital assets | (16,674) | 43,405 |
| Net cash provided (used) by capital and related financing activities | (6,918,433) | (518,881) |
| Cash flows from investing activities | | |
| Proceeds from the sales and maturities of investments | 7,113,556 | 8,467,995 |
| Interest on investments | 165,494 | 10,338 |
| Purchases of investments | (5,206,758) | (8,719,272) |
| Net cash provided (used) by investing activities | 2,072,292 | (240,939) |
| Net increase (decrease) in cash | (2,222,830) | 2,632,201 |
| Cash and cash equivalents - beginning of year | 5,327,132 | 2,694,931 |
| Cash and cash equivalents - end of year | \$ 3,104,302 | \$ 5,327,132 |
| Reconciliation of net operating revenues (expenses) to net cash provided (used) by operating activities | | |
| Operating income (loss) | \$ (12,539,619) | \$ (12,102,372) |
| Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities | | |
| Depreciation expense | 1,149,834 | 1,163,516 |
| Change in assets and liabilities | | |
| Accounts receivable | 63,551 | 20,716 |
| Lease receivable | 16,772 | |
| Other receivables | (62,009) | (27,400) |
| Prepaid expenses | 846 | (286) |
| Accounts payable and accrued liabilities | 146,059 | 78,184 |
| GASB 75 OPEB items | (382,609) | (2,079,678) |
| GASB 68 pension items | (118,248) | (612,999) |
| Unearned revenue | (14,954) | 13,888 |
| Compensated absences | (61,299) | (9,342) |
| Net cash provided (used) by operating activities | \$ (11,801,676) | \$ (13,555,773) |
| Noncash Transactions | | |
| Interest earned on deposits with bond trustee | 89,628 | |
| Construction payments from bond proceeds | (1,608,468) | |
| Proceeds and net discount from improvement bonds on deposit with trustee | 5,294,967 | |
| Issuance costs on improvement bonds paid from funds on deposit with trustee | (72,664) | |
| Interest payments on improvement bonds paid from funds on deposit with trustee | (124,284) | |
| Ending balance of funds on deposit with bond trustee | 3,579,179 | |

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

Southeast Arkansas College
Notes to the Financial Statements
June 30, 2023

NOTE 1: REPORTING ENTITY

Southeast Arkansas College (“College”) operates under the policies and supervision of a local Board of Trustees (“Board”) composed of seven members appointed by the Governor of the State of Arkansas. The Board is responsible for the provision of services to meet the two-year postsecondary educational needs of those citizens located within the service area of the College.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

Under the provisions of the Governmental Accounting Standards Board (“GASB”) standards, the College is permitted to report as a special-purpose government engaged in business-type activities (“BTA”). BTA reporting requires the College to present only the basic financial statements and required supplementary information (“RSI”) for a proprietary fund. This includes a Management’s Discussion and Analysis; a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; a Statement of Cash Flows; Notes to the Financial Statements; and applicable RSI. Fund financial statements are not required for BTA reporting.

Basis of Accounting

The required basic financial statements described above are prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

Capital Assets and Depreciation

Capital assets are recorded at cost at the date of acquisition, or acquisition value at the date of donation in the case of gifts. The College follows the Arkansas Department of Finance and Administration guidelines for the capitalization of equipment and intangible assets. The College’s current policy for equipment includes all items with a unit cost of \$5,000 or more. Intangible assets’ threshold for capitalization is \$5,000 for each piece of software and/or user license.

Depreciation is computed using the straight-line method over the estimated useful life of the asset, generally 15-30 years for buildings, 5-30 years for infrastructure and land improvements, 9 years for library holdings, 3-5 years for computer equipment, 5-6 years for vehicles, 5-11 years for other equipment and 6-9 years for intangible assets.

Southeast Arkansas College
Notes to the Financial Statements
June 30, 2023

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash Equivalents

For the purpose of the Statement of Cash Flows, the College considers all highly liquid investments with an original maturity date of three months or less as cash equivalents.

Accounts Receivable

Accounts receivable consist of tuition and fee charges to students. Accounts receivable also includes amounts due from the federal government, state and local governments, or private sources in connection with reimbursement of allowable expenditures made pursuant to the College's grants and contracts.

Investments

Investments consist of certificates of deposit ("CD") classified as nonparticipating contracts. The CD investments that were purchased directly from the issuing bank are reported at cost in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The CD investments that were purchased through a brokerage are reported at the lower of cost or market in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*.

Classification of Revenues

The College reports its revenues as either operating or nonoperating revenues in compliance with GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

Major categories of operating revenues are student tuition and fees, net of scholarship discounts and tuition waivers; and federal, state, and local grants and contracts from exchange transactions.

Major categories of nonoperating revenues are state appropriations; federal, state, and local grants and contracts from nonexchange transactions; and investment income.

Unearned Revenues

Unearned revenues include amounts received for tuition and fees prior to the end of the fiscal year but related to the subsequent accounting period.

Leases

The College reports leases in compliance with GASB Statement No. 87, *Leases*.

Southeast Arkansas College
Notes to the Financial Statements
June 30, 2023

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences Payable

Employees accrue and accumulate annual and sick leave in accordance with policies established by the Board of Trustees. Full-time classified and non-classified College employees accrue annual leave at variable rates (from 8 to 15 hours per month) dependent upon the number of years of full-time employment in state government. Under the College's policy, an employee may carry accrued annual leave forward from one calendar year to another up to a maximum of 240 hours. Employees who terminate their employment are entitled to payment for all accumulated annual and compensatory leave up to the maximum allowed. The College accrues the monetary value of accrued leave benefits in the financial statements. The College also accrues sick leave on employees eligible for retirement who have accrued more than 400 hours of sick leave on an established pro rata basis. The total liability for accumulated annual, compensatory, and eligible sick leave has been projected to be \$345,439 on June 30, 2023.

Noncurrent Liabilities

Noncurrent liabilities include estimated amounts for accrued compensated absences, bonds payable, leases payable, other postemployment benefit ("OPEB") liability, and net pension liability.

Restricted/Unrestricted Resources

The College's policy for applying expenses that can be paid from either restricted or unrestricted resources is delegated to the grant coordinators. General practice is to first apply the expense to restricted resources as allowed then to unrestricted resources.

NOTE 3: PUBLIC FUND DEPOSITS AND INVESTMENTS

Arkansas Code Annotated ("ACA") § 19-4-805 authorizes institutions of higher learning the right to determine the depositories and nature of investments of any of their cash funds which are not currently needed for operating purposes. In making such determinations, the College seeks to obtain the highest possible rate of return with the lowest associated risk of loss for such investments.

Southeast Arkansas College
Notes to the Financial Statements
June 30, 2023

NOTE 3: PUBLIC FUND DEPOSITS AND INVESTMENTS (CONTINUED)

Cash deposits are carried at cost. The College's cash deposits at June 30, 2023, are shown below:

| | Carrying Value | Bank Balance |
|--|-----------------------|---------------------|
| Insured (FDIC) | \$ 2,838,540 | \$ 2,838,540 |
| Uninsured/Non-collateralized | | |
| Collateralized | | |
| Collateral held by other bank in pledging bank's name | 3,579,179 | 3,579,179 |
| Collateral held by the pledging bank in the college's name | 3,644,256 | 4,799,013 |
| Totals | \$ 10,061,975 | \$ 11,216,732 |

The above deposits do not include cash on hand maintained by the College in the amount of \$300 petty cash fund and \$650 business office change fund. The above deposits include \$1,693,000 in brokered CDs and \$1,686,444 in directly purchased CDs reported as investments (\$2,775,982 in current assets and \$603,462 in endowments), and \$3,579,179 in bond funds on deposit with the bond trustee.

Custodial credit risk

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. The College does not have a deposit policy for custodial credit risk. At June 30, 2023, \$3,579,179 of the College's bank balance of \$11,216,732 was exposed to custodial credit risk as follows: \$3,579,179 was uninsured and collateral held by the pledging bank's custodial agent not in the College's name.

NOTE 4: TITLE III GRANT PROGRAM ENDOWMENT FUND CAMPAIGN

The Title III Grant Program included \$240,000 designated for the College to establish an endowment scholarship. The College matched this amount dollar-for-dollar with non-federal contributions thereby abiding by all U.S. Department of Education rules and regulations pertinent to endowment funds.

Southeast Arkansas College
Notes to the Financial Statements
June 30, 2023

**NOTE 4: TITLE III GRANT PROGRAM ENDOWMENT FUND CAMPAIGN
(CONTINUED)**

Title III endowment funds will be used for student scholarships and equipment purchases. For the year ended June 30, 2023, endowment funds were deposited in an interest-bearing account and certificates of deposit. Contributions, matching, and investment income are as follows:

| Year Ending Date | Interest | Contribution | Matching | Total | Expendable Interest (50%) |
|------------------------|------------|--------------|------------|------------|---------------------------------|
| 06/30/08 | \$ 317 | \$ 166,393 | \$ 166,393 | \$ 333,103 | \$ 159 |
| 06/30/09 | 13,838 | 74,205 | 73,607 | 161,650 | 6,919 |
| 06/30/10 | 19,479 | 52 | | 19,531 | 9,740 |
| 06/30/11 | 13,185 | | | 13,185 | 6,593 |
| 06/30/12 | 10,292 | | | 10,292 | 5,146 |
| 06/30/13 | 6,635 | | | 6,635 | 3,318 |
| 06/30/14 | 5,162 | | | 5,162 | 2,581 |
| 06/30/15 | 3,604 | | | 3,604 | 1,802 |
| 06/30/16 | 2,902 | | | 2,902 | 1,451 |
| 06/30/17 | 3,682 | | | 3,682 | 1,841 |
| 06/30/18 | 6,584 | | | 6,584 | 3,292 |
| 06/30/19 | 9,610 | | | 9,610 | 4,805 |
| 06/30/20 | 10,823 | | | 10,823 | 5,412 |
| 06/30/21 | 5,488 | | | 5,488 | 2,744 |
| 06/30/22 | 908 | | | 908 | 454 |
| 06/30/23 | 10,738 | | | 10,738 | 5,369 |
| | \$ 123,247 | \$ 240,650 | \$ 240,000 | \$ 603,897 | \$ 61,626 |

The College's spending policy aligns with the dictates set forth in the Department of Education's Endowment Grant Program. The College must invest and may not spend the endowment corpus for the 20-year grant period. At the conclusion of the grant period, the College may use the endowment fund corpus and all endowment fund income for any educational purposes. During the 20-year grant period, the College may spend up to 50% of the endowment fund income prior to the date of maturity. Allowable expenditures include costs necessary to operate the College, costs to administer and manage the endowment fund and costs associated with buying and selling securities.

For purposes of calculating the amount that may be expended, endowment fund income is determined by subtracting the total value of the endowment from the endowment corpus and the aggregate amount of previously withdrawn endowment income.

State law allows a governing board to expend a portion of the net appreciation on the fair value of assets over the historical dollar value of the fund unless the applicable gift document states otherwise. State law stipulates that such expenses are to be for the purpose for which the endowment funds were established.

Southeast Arkansas College
Notes to the Financial Statements
June 30, 2023

NOTE 5: INCOME TAXES

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

NOTE 6: EMPLOYMENT RETIREMENT BENEFITS

A. Alternate Retirement Plan

Plan Description: The College contributes to the Alternate Retirement Plan, a defined contribution plan. The plan is a 403(b) Program as defined by the Internal Revenue Service Code of 1986, as amended, and is administered by Corebridge Financial Services (formerly Variable Annuity Life Insurance Company (“VALIC”). The administrator provides insurance policies and annuity contracts, which become the property of the participant when issued. Act 480 of 1983 provides alternative retirement plans, as approved by the Arkansas State Board of Career Education, for the staff members of the vocational-technical schools. The vocational-technical schools that became technical colleges on July 1, 1991, were permitted to continue in the Alternative Retirement Plans.

Funding Policy: The participants’ contributions are tax-sheltered and amount to a minimum of 6% of compensation for full-time staff selecting the Alternate Retirement Plan as their primary retirement plan. The College’s contribution rate is 10% of compensation for these plan participants. Participants become vested in the College’s contributions to the plan after one year of full-time employment.

The participants’ and College’s contributions for the year ended June 30, 2023, were \$65,216 and \$85,045, respectively.

B. Teachers Insurance and Annuity Association (“TIAA”)

Plan Description: The College participates in TIAA, a defined contribution plan under Section 403(b) of the Internal Revenue Service Code of 1986, as amended. The plan is administered by TIAA. TIAA is a financial services organization offering participants a traditional annuity with a lifetime income. TIAA guarantees principal and a specified interest rate plus the opportunity for additional growth through dividends. TIAA also offers a variable annuity. As with all variable annuities, returns from TIAA will fluctuate since they are based on the market performance of the investment funding that annuity. The plan is authorized by Arkansas state law.

Southeast Arkansas College
Notes to the Financial Statements
June 30, 2023

NOTE 6: EMPLOYMENT RETIREMENT BENEFITS (CONTINUED)

B. Teachers Insurance and Annuity Association (“TIAA”) (Continued)

Funding Policy: The participant’s contributions of a minimum of 6% of earnings are mandatory and tax-sheltered for full-time employees selecting TIAA as their primary retirement plan. The College contributes 10% of earnings for these employees. Participants become vested in the College’s contributions after one year of full-time employment. The participants’ and College’s contributions for the year ended June 30, 2023, were \$44,982 and \$56,971, respectively.

C. Arkansas Teachers Retirement System (“ATRS”)

Summary of Significant Accounting Policies: For purposes of measuring net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position of ATRS and additions to and deductions from ATRS fiduciary net position have been determined on the same basis as reported by ATRS. For this purpose, benefits payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The following disclosures are in the same general format and are derived from the Schedules of Employer Allocations and Pension Amounts by Employer FY2022, and ATRS Annual Actuarial Valuation reports. These documents can be viewed on the ATRS website at <https://artts.gov/publications>.

Plan Description: ATRS is a cost-sharing, multiple-employer defined benefit pension plan that covers employees of schools and education-related agencies. Members are eligible for full retirement benefits at age 60 with five or more years of actual and reciprocal service or at any age with 28 or more years of credited service. Members with 25 years of actual and reciprocal service who have not attained age 60 may receive an annuity reduced by 10/12 of 1% multiplied by the number of months by which the early retirement precedes the earlier of (1) completion of 28 years of credited service or (2) attainment of age 60. The normal retirement benefit, paid monthly, is determined based on (1) the member’s final average salary (“FAS”) (effective July 1, 2018, computed using the average of the annual salaries paid during the period 5 year of credited service producing the highest annual average) and (2) the number of years of service. For active members as of June 30, 2018, a benchmark 3-year FAS was established as a minimum FAS.

ATRS has contributory and noncontributory plans. The contributory plan has been in effect since the beginning of ATRS. The noncontributory plan became available July 1, 1986. Acts 81 and 97 of 1999, effective July 1, 1999, require all new members under contract for 181 or more days to be contributory. Act 93 of 2007 allows an active noncontributory member to make an irrevocable election to become contributory on July 1 of each fiscal year.

Southeast Arkansas College
Notes to the Financial Statements
June 30, 2023

NOTE 6: EMPLOYMENT RETIREMENT BENEFITS (CONTINUED)

C. Arkansas Teachers Retirement System (“ATRS”) (Continued)

Plan Description (Continued)

A cost-of-living adjustment (“COLA”) is payable on July 1 of each year to retirees, certain survivors, and annuity beneficiaries who received monthly benefits for the previous 12 months. The COLA is calculated by multiplying 100% of the member’s base retirement annuity by 3%. Act 780 of 2017 allows the Board of Trustees to evaluate any future COLA adjustments on an annual basis to determine if a simple or compound COLA increase will be given based on the financial condition of the system.

Act 1096 of 1995 created a teacher deferred retirement option plan (“T-DROP”) for members with 30 or more years of service credit. Effective September 1, 2003, Act 992 of 2003 requires employers to make contributions on behalf of all members participating in T-DROP at rates established by the Board of Trustees. Member contributions and accumulation of service credit will cease once a member enters T-DROP. During participation in T-DROP, ATRS will credit the member account with plan deposits and interest. The plan deposits will be calculated beginning with the member’s plan benefit reduced by 1% for each year of credited service. The Board of Trustees may authorize early participation in T-DROP for members with at least 28 years but less than 30 years of credited service. The plan deposit for early participation will be calculated the same as the regular T-DROP deposit with a further reduction of at least 0.5% but not more than 1% for each month of credited service under 30 years. The T-DROP account accrues interest at a variable rate that is set annually by the ATRS Board of Trustees. T-DROP deposits into member accounts cease at the completion of 10 years of participation in the program; however, a member may continue employment and will continue to receive interest on the account balance at the 10-year plus interest rate that is also set annually by the Board of Trustees. When T-DROP participation ceases, the member may receive the T-DROP distribution as a lump-sum payment or an annuity or may roll it over into another tax-deferred account. A member may also elect to defer all or part of the distribution to a T-DROP cash balance account held by ATRS.

Disability retirement benefits are payable to members who are vested and demonstrate total and permanent incapacity to perform the duties of their position while in active employment. The disability annuity is computed in the same manner as the age and service annuity.

Survivor benefits are payable to qualified survivors upon the death of an active, vested member. Eligible spouse survivors receive a survivor annuity that is based on the member’s years of service credit prior to their death, and minor child survivors receive a percentage of the member’s highest salary earned. ATRS also provides a lump sum death benefit for active and retired members with 10 or more years of credited service. The amount for contributory members will be up to \$10,000 and up to \$6,667 for noncontributory members. The amount will be prorated for members who have both contributory and noncontributory service, however, members with 15 or more years of contributory service will receive the full \$10,000.

Southeast Arkansas College
Notes to the Financial Statements
June 30, 2023

NOTE 6: EMPLOYMENT RETIREMENT BENEFITS (CONTINUED)

C. Arkansas Teachers Retirement System (“ATRS”) (Continued)

Contributions: The College’s funding policy provides for periodic employer contributions at statutorily established rates based on annual actuarial valuations. The employer contribution rate was 14.75% for the fiscal year ending June 30, 2022, and was 15.00% for the fiscal year ending June 30, 2023. Contributory members were required to contribute 6.75% of gross wages to ATRS during the fiscal year ending June 30, 2022, and 7.00% during the fiscal year ending June 30, 2023. Employee contributions are refundable if ATRS-covered employment terminates before a monthly benefit is payable. Employee contributions remaining on deposit with ATRS for a period of one or more years earn interest credits which are included in the refund.

ATRS Fiduciary Net Position: Detailed information about ATRS’s fiduciary net position is available in the separately issued ATRS Annual Report at <https://www.artrs.gov/publications>.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources to Pensions: The collective Net Pension Liability of \$5,278,430,954 was measured as of June 30, 2022, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. Each employer’s proportionate share of contributions to the pension plan relative to the total contributions of all participating employers. As reported by ATRS, the College’s percentage was approximately 0.0451%. By this calculation, the College’s portion of Net Pension Liability reported June 30, 2022, was \$2,377,904 ($\$5,278,430,954 \times 0.0451\%$). When compared to the College’s portion of Net Pension Liability reported June 30, 2021, (\$1,365,731), this resulted in an increase in Net Pension Liability of \$1,012,173 (~+74.11%).

Southeast Arkansas College
Notes to the Financial Statements
June 30, 2023

NOTE 6: EMPLOYMENT RETIREMENT BENEFITS (CONTINUED)

C. Arkansas Teachers Retirement System (“ATRS”) (Continued)

For the year ended June 30, 2023, the College recognized pension expense of (\$135,603) relative to ATRS. Deferred outflows of resources and deferred inflows of resources related to ATRS pension for the College are as follows:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|--|
| Changes of Assumptions | \$246,731 | |
| Difference Between Expected and Actual Experience | 45,833 | \$5,119 |
| Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments | 348,037 | |
| Changes in Proportion and Differences Between Employer Contributions and Share of Contributions | | 592,766 |
| Contributions Made Subsequent to the Measurement Date | 233,320 | |
| Total | \$873,921 | \$597,885 |

College contributions after the measurement date of \$233,320 are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the year ended June 30, 2024. Other amounts reported as deferred inflows or outflows of resources related to pensions will be recognized in pension expense as follows:

| 2024 | 2025 | 2026 | 2027 |
|-------------|-------------|-------------|-------------|
| (\$34,391) | (32,053) | (136,785) | 245,945 |

Actuarial Assumptions: The total pension liability, net pension liability, and certain sensitivity information was determined by an actuarial valuation as of June 30, 2022. The significant assumptions used in the valuation and adopted by the ATRS Board of Trustees were as follows:

- The *price inflation* assumption is 2.50% although no specific Price Inflation is needed for this valuation. It is assumed that the 3% COLA will always be paid.
- The *investment return rate* used in the valuation was 7.25% per year, compounded annually (net after administrative expenses). This rate was first used for the *June 30, 2021*, valuation. The assumed real rate of return over price inflation is 4.75%.
- The *wage inflation* assumption is 2.75%. This consists of 2.50% related to pure price inflation and 0.25% related to general economic improvements. This assumption was first used for the *June 30, 2017*, valuation.

Southeast Arkansas College
Notes to the Financial Statements
June 30, 2023

NOTE 6: EMPLOYMENT RETIREMENT BENEFITS (CONTINUED)

C. Arkansas Teachers Retirement System (“ATRS”) (Continued)

Actuarial Assumptions (Continued)

- **Pay increase** assumptions for individual active members are shown in detail on the ATRS website. Part of the assumption for each service year is for a merit and/or seniority increase, and the other 2.75% recognizes wage inflation. These rates were first used for the **June 30, 2021**, valuation.
- The Active Member Group (Active, T-DROP, RTW) size is assumed to remain constant at its present level.
- **Total active member payroll** is assumed to increase 2.75% per year, which is the portion of the individual pay increase assumptions attributable to wage inflation. This rate was first used for the **June 30, 2017**, valuation.
- The **mortality tables** used were the Pub-2010 General Healthy Retired, General Disables Retiree and General Employee Mortality amount weighted tables for males and females. Mortality rates were adjusted for future mortality improvements using projection scale MP-2020 from 2010. These tables were first used for the **June 30, 2021**, valuation.
- The **entry age actuarial cost method of valuation** was used in determining accrued liabilities and normal cost. T-DROP members are treated as active members. Normal costs run from the date of entry to the date of retirement.

Investment Rate of Return: The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The best estimates of geometric real rates of return were adopted by the plan’s trustees after considering input from the plan’s investment consultant and actuary.

For each major asset class that is included in the pension plan’s target asset allocation as of June 30, 2022, these best estimates are summarized in the following table:

| <u>Asset Allocation</u> | <u>Target</u> | <u>Long-Term Expected Real Rate of Return</u> |
|-------------------------|---------------|---|
| Total equity | 53.0% | 5.3% |
| Fixed income | 15.0% | 1.3% |
| Alternatives | 5.0% | 4.8% |
| Real assets | 15.0% | 4.0% |
| Private equity | 12.0% | 7.6% |
| Cash equivalents | 0.0% | 0.5% |
| | <u>100.0%</u> | |

Southeast Arkansas College
Notes to the Financial Statements
June 30, 2023

NOTE 6: EMPLOYMENT RETIREMENT BENEFITS (CONTINUED)

C. Arkansas Teachers Retirement System (“ATRS”) (Continued)

Single Discount Rate: A single discount rate of 7.25% was used to measure the total pension liability based on the expected rate of return on pension plan investments. The current member and employer contribution rates are 7% and 15% of active member payroll, respectively. The projection of cash flows used to determine this single discount rate assumed that member and employer contributions will be made in accordance with this schedule. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the plan’s net pension liability, calculated using a single discount rate of 7.25%, as well as what the plan’s net pension liability would be if it were calculated using a single discount rate that is 1% lower or 1% higher.

| | 1% Decrease 6.25% | Current Rate 7.25% | 1% Increase 8.25% |
|-----------------------|------------------------------------|-------------------------------------|------------------------------------|
| Net Pension Liability | \$3,780,100 | 2,377,904 | 1,214,591 |

D. Arkansas Public Employees Retirement System (“APERS”)

Summary of Significant Accounting Policies: For purposes of measuring net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, pension expense, information about the fiduciary net position of APERS and additions to and deductions from APERS fiduciary net position have been determined on the same basis as reported by APERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The following disclosures are in the same general format and derived from the 2022 APERS Financial Report, 2022 APERS GASB 68 Employer Schedules, and 2022 APERS Actuarial Valuation Report located on the APERS website at <https://www.apers.org/publications>.

Plan Description: APERS is a cost-sharing, multiple-employer, defined benefit pension plan established by the authority of the Arkansas General Assembly with the passage of Act 177 of 1957. Its purpose is to provide retirement benefits for eligible employees and elected officials of state and governmental entities in Arkansas. The laws governing the operations of APERS are set forth in Arkansas Code Annotated (“A.C.A.”), Title 24, Chapter 4, with related laws in Chapter 2 and Chapter 7.

Southeast Arkansas College
Notes to the Financial Statements
June 30, 2023

NOTE 6: EMPLOYMENT RETIREMENT BENEFITS (CONTINUED)

D. Arkansas Public Employees Retirement System (“APERS”) (Continued)

Plan Description (Continued)

The general administration and responsibility for the proper operation of the system is vested in the thirteen-member Board of Trustees of the Arkansas Public Employees Retirement System (the “Board”). Membership includes five state and five non-state employees, all appointed by the Governor, and three ex-officio trustees, including the Auditor of State, Treasurer of State, and the Director of the Department of Finance and Administration.

Benefit provisions are established by state law and may be amended only by the Arkansas General Assembly. Members are eligible for full benefits under the following conditions:

- At age 65 with five years of actual service,
- At any age with 28 years of actual service,
- At age 60 with 20 years of actual service if under the old contributory plan (prior to July 1, 2005), or
- At age 55 with 35 years of credited service for local elected officials.

The normal retirement benefit amount, paid monthly, is determined by the member’s final average compensation and years of service. A member may retire with a reduced benefit at age 55 with at least five years of actual service or at any age with 25 years of actual service. APERS also provides for disability and survivor benefits.

Employee Contributions: The system was established as a contributory plan in which member-employees also contributed a portion of their salaries to the system. However, with the passage of Act 793 of 1977, existing members and previous members were offered the opportunity to choose to become non-contributory members. Anyone who joined the system subsequent to January 1, 1978, and had previously been a member was automatically enrolled as a non-contributory member.

Act 2084 of 2005 directed APERS to establish a new contributory plan effective July 1, 2005. It required that all covered employees first hired on or after July 1, 2005, contribute 5% of their salary into the system. Employees hired before June 30, 2005, who were in the non-contributory plan were given the option to join the new contributory plan by December 31, 2005. Non-contributory members who did not join the new contributory plan by that deadline remain non-contributory members.

Act 365 of 2021, which took effect July 1, 2022, raises the contribution rate from 5.00% to 5.25% for contributory members for fiscal year 2023. This rate will continue to increase by 0.25% each July 1 until it reaches 7%.

Southeast Arkansas College
Notes to the Financial Statements
June 30, 2023

NOTE 6: EMPLOYMENT RETIREMENT BENEFITS (CONTINUED)

D. Arkansas Public Employees Retirement System (“APERS”) (Continued)

Employee Contributions (Continued)

A member’s employee contributions are refundable if the member terminates APERS-covered employment before a monthly benefit is payable. Employee contributions remaining on deposit with APERS earn interest (at the annual rate of 2%), which is included in any refund of contributions.

Employer Contributions: All participating employers are required to contribute a portion of their eligible employees’ salaries to the system. The Board establishes the provisions for these employer contributions based on the rates the independent actuary determines are necessary to fund the system.

APERS Fiduciary Net Position: Detailed information about APERS’s fiduciary net position is available in the separately issued APERS Financial Report available at <https://www.apers.org/publications>.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: The collective Net Pension Liability of \$2,696,383,462 was measured as of June 30, 2022, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. Each employer’s proportion of the Net Pension Liability was based on the employer’s share of contributions to the pension plan relative to the total contributions of all participating employers. As reported by APERS, the College’s percentage of contributions was 0.15653270%. By this calculation, the College’s portion of Net Pension Liability reported June 30, 2022, was \$4,220,722 ($\$2,696,383,462 \times 0.15653270\%$, approximately). When compared to the College’s portion of Net Pension Liability report June 30, 2021, (\$1,163,337), this resulted in an increase in Net Pension Liability of \$3,057,385 (~+262.81%).

Southeast Arkansas College
Notes to the Financial Statements
June 30, 2023

NOTE 6: EMPLOYMENT RETIREMENT BENEFITS (CONTINUED)

D. Arkansas Public Employees Retirement System (“APERS”) (Continued)

For the year ended June 30, 2023, the College recognized pension expense of \$711,822 relative to APERS. Deferred outflows of resources and deferred inflows of resources related to APERS for the College are as follows:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|--|
| Difference Between Expected and Actual Experience | \$101,311 | \$50,959 |
| Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments | 890,368 | |
| Changes in Proportion and Differences Between Employer Contributions and Share of Contributions | 373,281 | |
| Contributions Made Subsequent to the Measurement Date | 484,056 | |
| Total | \$1,849,016 | \$50,959 |

College contributions after the measurement date of \$484,056 are reported as deferred outflows of resources and will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

| 2024 | 2025 | 2026 | 2027 |
|-------------|-------------|-------------|-------------|
| \$403,329 | 258,464 | 31,275 | 620,933 |

Actuarial Assumptions: The investment return rate used in making the valuation was 7.15% per year, compounded annually (net after investment expenses). This rate of return is not the assumed real rate of return. The real rate of return is the portion of investment return which is more than the wage inflation rate. Considering the assumed wage inflation rate of 3.25%, the 7.15% investment return rate translates to an assumed net real rate of return of 3.90%. The wage inflation assumption was first used for the June 30, 2015, valuation. The investment return assumption was first used for the June 30, 2017, valuation.

Part of the assumption for each age is for a merit and/or seniority increase, and the other 3.25% recognizes wage inflation. The wage inflation assumption consists of 2.50% for price inflation and 0.75% for real wage growth. The assumptions were first used for the June 30, 2018, valuation.

Southeast Arkansas College
Notes to the Financial Statements
June 30, 2023

NOTE 6: EMPLOYMENT RETIREMENT BENEFITS (CONTINUED)

D. Arkansas Public Employees Retirement System (“APERS”) (Continued)

Actuarial Assumptions (Continued)

Total active member payroll is assumed to increase 3.25% a year, which is the portion of the individual pay increase assumptions attributable to wage inflation. This assumption was first used for the June 30, 2015, valuation.

The number of active members is assumed to continue at the present number.

The mortality tables used to measure retired life mortality were the RP-2006 Healthy Annuitant benefit weighted generational mortality tables for males and females. The disability post-retirement mortality tables used were the RP-2006 Disabled Retiree benefit weighted generational mortality tables for males and females. The death-in-service mortality tables used were the RP-2006 Employee benefit weighted generational mortality tables for males and females. Mortality rates are multiplied by 135% for males and 125% for females and are adjusted for fully generational mortality improvements using Scale MP-2017. This assumption was first used for the June 30, 2018, valuation.

The individual entry-age normal actuarial cost method of the valuation was used in determining liabilities and normal cost.

Differences in the past between assumed experience and actual experience (actuarial gains and losses) become part of actuarial accrued liabilities.

Discount Rate: A single discount rate of 7.15% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.15%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate.

Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Southeast Arkansas College
Notes to the Financial Statements
June 30, 2023

NOTE 6: EMPLOYMENT RETIREMENT BENEFITS (CONTINUED)

D. Arkansas Public Employees Retirement System (“APERS”) (Continued)

Discount Rate (Continued)

For each major asset class that is included in the plan’s current asset allocation as of June 30, 2022, these best estimates are summarized in the following table:

| Asset | Target Allocation | Long-Term Expected Real Rate of Return |
|-----------------------|----------------------|---|
| Broad domestic equity | 37.00% | 6.22% |
| International equity | 24.00% | 6.69% |
| Real assets | 16.00% | 4.81% |
| Absolute return | 5.00% | 3.05% |
| Domestic fixed | 18.00% | 0.57% |
| | 100.00% | |

Sensitivity of the Net Pension Liability: Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the plan’s net pension liability calculated using a single discount rate of 7.15%, as well as what the plan’s net pension liability would be if it were calculated using a single discount rate that is 1-percentage-point lower or 1-percentage-point higher:

| | 1% Decrease 6.15% | Current Rate 7.15% | 1% Increase 8.15% |
|-----------------------|------------------------------------|-------------------------------------|------------------------------------|
| Net Pension Liability | \$6,710,177 | 4,220,722 | 2,165,454 |

Southeast Arkansas College
Notes to the Financial Statements
June 30, 2023

NOTE 7: CAPITAL ASSETS

Following are the changes in capital assets for the year ended June 30, 2023:

| | 06/30/22 | | | 06/30/23 |
|---|----------------------|---------------------|--------------------|----------------------|
| | Balance | Additions | Retirements | Balance |
| <i>Capital assets not being depreciated</i> | | | | |
| Land | \$ 1,930,009 | \$ - | \$ - | \$ 1,930,009 |
| Construction in progress | 401,203 | 9,027,266 | 249,045 | 9,179,424 |
| Total not being depreciated | <u>2,331,212</u> | <u>9,027,266</u> | <u>249,045</u> | <u>11,109,433</u> |
| <i>Capital assets being depreciated</i> | | | | |
| Buildings | 25,303,535 | - | - | 25,303,535 |
| Equipment | 4,385,189 | 288,287 | 78,815 | 4,594,661 |
| Infrastructure and other improvements | 979,693 | - | - | 979,693 |
| Intangible assets - software | 885,163 | 109,731 | - | 994,894 |
| Leased Assets | 139,731 | - | - | 139,731 |
| Library holdings | 425,666 | - | - | 425,666 |
| Total being depreciated | <u>32,118,977</u> | <u>398,018</u> | <u>78,815</u> | <u>32,438,180</u> |
| <i>Less accumulated depreciation</i> | | | | |
| Buildings | 15,356,047 | 833,528 | - | 16,189,575 |
| Equipment | 3,442,339 | 214,664 | - | 3,657,003 |
| Infrastructure and other improvements | 814,393 | 29,917 | - | 844,310 |
| Intangible assets - software | 850,697 | 42,853 | - | 893,550 |
| Leased Assets | 2,329 | 27,946 | - | 30,275 |
| Library holdings | 422,333 | 926 | - | 423,259 |
| Total accumulated depreciation | <u>20,888,138</u> | <u>1,149,834</u> | <u>-</u> | <u>22,037,972</u> |
| Total capital assets depreciated, net | <u>11,230,839</u> | <u>(751,816)</u> | <u>78,815</u> | <u>10,400,208</u> |
| Capital assets, net | <u>\$ 13,562,051</u> | <u>\$ 8,275,450</u> | <u>\$ 327,860</u> | <u>\$ 21,509,641</u> |

Southeast Arkansas College
Notes to the Financial Statements
June 30, 2023

NOTE 8: LEASES

GASB Statement No. 87 – *Leases* requires that most leases over 12 months in length be treated as financing for reporting purposes. For leases receivable, the College is required to report a lease receivable in assets, deferred inflow in liabilities, both recorded as the net present value of the projected cash flow. For leases payable, the College reports a leased asset that is amortized over the term of the lease and a lease payable in liabilities.

Lease Receivable: The College entered a 10-year lease arrangement with PeopleShores for the Workforce Development building beginning in 2022 and ending in 2032. The monthly lease payment is \$2,000. There is no stated interest rate so an inferred rate of 4.75% (the federal reserve rate at the inception of the lease) was used to calculate the net present value of the lease.

| | Lease Receivable | Cash | Interest Income @ 4.75% | Lease Receivable Balance |
|----------|---------------------|------------|-------------------------------|--------------------------------|
| 06/01/22 | \$ 187,003 | | | \$ 187,003 |
| 06/30/22 | 187,003 | \$ 2,000 | \$ 740 | 185,743 |
| 06/30/23 | 185,743 | 24,000 | 8,488 | 170,231 |
| 06/30/24 | 170,231 | 24,000 | 7,735 | 153,966 |
| 06/30/25 | 153,966 | 24,000 | 6,945 | 136,911 |
| 06/30/26 | 136,911 | 24,000 | 6,117 | 119,028 |
| 06/30/27 | 119,028 | 24,000 | 5,250 | 100,278 |
| 06/30/28 | 100,278 | 24,000 | 4,339 | 80,617 |
| 06/30/29 | 80,617 | 24,000 | 3,384 | 60,001 |
| 06/30/30 | 60,001 | 24,000 | 2,384 | 38,385 |
| 06/30/31 | 38,385 | 24,000 | 1,334 | 15,719 |
| 02/01/32 | 15,719 | 16,000 | 281 | 0 |
| | | \$ 234,000 | \$ 46,997 | |

Lease Payable: The College entered a 5-year lease with AAA for copiers for the campus beginning in 2022 and ending 2027. The monthly lease payment is \$2,573.35. There is no stated interest rate so an inferred rate of 4% (the federal reserve rate at the inception of the lease) was used to calculate the net present value of the lease.

| | Lease Payable | Cash | Interest Expense @ 4% | Lease Payable Balance |
|----------|------------------|------------|-----------------------------|-----------------------------|
| 06/01/22 | \$ 139,731 | | | \$ 139,731 |
| 06/30/22 | 139,731 | \$ 2,573 | \$ 466 | 137,624 |
| 06/30/23 | 137,624 | 30,880 | 5,034 | 111,778 |
| 06/30/24 | 111,778 | 30,880 | 3,981 | 84,879 |
| 06/30/25 | 84,879 | 30,880 | 2,886 | 56,885 |
| 06/30/26 | 56,885 | 30,880 | 1,745 | 27,750 |
| 05/31/27 | 27,750 | 28,308 | 558 | 0 |
| | | \$ 154,401 | \$ 14,670 | |

Southeast Arkansas College
Notes to the Financial Statements
June 30, 2023

NOTE 9: NATURAL CLASSIFICATION BY FUNCTION

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

| | Personal Services | Scholarships and Fellowships | Supplies and Services | Depreciation | Total |
|-------------------------------------|----------------------|------------------------------------|--------------------------|---------------------|---------------------|
| Instruction | \$4,521,696 | | \$ 614,280 | | \$ 5,135,976 |
| Academic support | 906,383 | | 385,021 | | 1,291,404 |
| Student services | 1,459,429 | | 265,953 | | 1,725,382 |
| Institutional support | 1,496,972 | | 1,896,492 | | 3,393,464 |
| Scholarships and fellowships | | \$ 2,704,902 | | | 2,704,902 |
| Operations and maintenance of plant | 528,293 | | 1,228,770 | | 1,757,063 |
| Depreciation | | | | \$ 1,149,834 | 1,149,834 |
| Total | <u>\$8,912,773</u> | <u>\$ 2,704,902</u> | <u>\$ 4,390,516</u> | <u>\$ 1,149,834</u> | <u>\$17,158,025</u> |

NOTE 10: NONCURRENT LIABILITIES OTHER THAN PENSIONS OR LEASES

The changes in long-term liabilities other than pensions or leases are as follows:

Compensated Absences

| | Balance June 30, 2022 | Issued | Retired | Balance June 30, 2023 | Amounts Due Within One Year |
|---------------------------------|-----------------------------|------------------|------------------|-----------------------------|-----------------------------------|
| Compensated absences payable | <u>\$406,738</u> | <u>\$678,931</u> | <u>\$740,230</u> | <u>\$345,439</u> | <u>\$ 54,901</u> |

OPEB Liability: The College participates in the Arkansas State Employee Health Insurance Plan (administered by the Arkansas Department of Finance and Administration Employee Benefits Division), a single-employer defined benefit healthcare plan. As a participant in this plan, the College's OPEB liability of \$3,920,716 represents a pro-rata share approximately 0.3163603% of the statewide liability of \$1,239,319,650, which was actuarially determined in accordance with GASB Statement No. 75. The deferred inflows for OPEB of \$2,340,467 are comprised of: difference in expected and actual experience of \$449,364, changes in assumptions of \$1,471,921, and changes in proportion of \$419,182. The deferred outflows for OPEB of \$671,392 are comprised of: difference in expected and actual experience of \$78,180, changes in assumptions of \$390,216, and changes in proportion of \$202,996.

Required reporting information, including actuarial data of the statewide liability and actuarial assumptions is disclosed in the Arkansas Annual Comprehensive Financial Report for the fiscal year ended June 30, 2023.

Southeast Arkansas College
Notes to the Financial Statements
June 30, 2023

**NOTE 10: NONCURRENT LIABILITIES OTHER THAN PENSIONS OR LEASES
(CONTINUED)**

Bonds Payable:

In fiscal year 2023, the College issued bonds payable to finance the Energy Performance contract. This project includes updating heating and air systems, alarm systems, security systems, camera systems and various other energy-related repair and maintenance projects.

The following is a summary of the issued bonds:

| | Date of Issue | Date of Maturity | Rate of Interest | Amount Authorized and Issued | Debt Outstanding June 30, 2023 | Maturities to June 30, 2023 |
|--|----------------------|-------------------------|-------------------------|-------------------------------------|---------------------------------------|------------------------------------|
| Student Tuition and Fee Revenue Improvement Bonds - Energy Performance Contract - Series 2022 (2022 Bonds Payable) | 12/29/22 | 12/15/30 | 4.250% | 1,145,000 | 1,145,000 | - |
| Student Tuition and Fee Revenue Improvement Bonds - Energy Performance Contract - Series 2022 (2022 Bonds Payable) | 12/29/22 | 12/15/38 | 5.000% | 2,270,000 | 2,270,000 | - |
| Student Tuition and Fee Revenue Improvement Bonds - Energy Performance Contract - Series 2022 (2022 Bonds Payable) | 12/29/22 | 12/15/43 | 5.125% | 2,095,000 | 2,095,000 | - |
| Totals | | | | 5,510,000 | 5,510,000 | - |

The change in long-term debt is as follows:

| | Balance June 30, 2022 | Additions | Reductions | Balance June 30, 2023 | Amounts Due within One Year |
|--------------------|------------------------------|------------------|-------------------|------------------------------|------------------------------------|
| 2022 Bonds Payable | - | 5,510,000 | - | 5,510,000 | 60,000 |

Future principal and interest payments are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|-----------------------------|------------------|------------------|------------------|
| 2024 | 60,000 | 269,531 | 329,531 |
| 2025 | 135,000 | 265,600 | 400,600 |
| 2026 | 145,000 | 259,756 | 404,756 |
| 2027 | 155,000 | 253,488 | 408,488 |
| 2028 | 170,000 | 246,688 | 416,688 |
| 2029-2033 | 1,055,000 | 1,107,975 | 2,162,975 |
| 2034-2038 | 1,515,000 | 801,969 | 2,316,969 |
| 2039-2043 | 2,040,000 | 359,535 | 2,399,535 |
| 2044 | 235,000 | 6,022 | 241,022 |
| Total | 5,510,000 | 3,570,564 | 9,080,564 |

Southeast Arkansas College
Notes to the Financial Statements
June 30, 2023

**NOTE 10: NONCURRENT LIABILITIES OTHER THAN PENSIONS OR LEASES
(CONTINUED)**

Pledged Revenue - The College has pledged future revenues from student tuition and fees payable by all student enrolled for courses at the College to help retire the bond debt issued in 2023 in the amount of \$9,080,564 comprised of \$5,510,000 in principal and \$3,570,564 in interest through fiscal year 2044 (see table above). The purpose of this debt was to finance the Performance Energy Project described under Bonds Payable above. The pledging of these revenue streams is not encumbered each year past the debt service required amount for that fiscal year. The annual principal and interest payments reach their highest level of \$484,597 in fiscal year 2043. For reference, the College had \$1,665,122 in net tuition and fee revenues in FY2023. Fiscal year 2024 principal and interest will be \$329,531 (see above), or 19.8% of FY2023 revenue. Fiscal year 2043 principal and interest will be \$484,597, or 29.1% of FY2023 revenue. No payments from the College's operating funds were expended on these bonds in FY2023. All principal and interest payments from pledged College funds will begin in FY2024.

Southeast Arkansas College

Notes to the Financial Statements

June 30, 2023

NOTE 11: SOUTHEAST ARKANSAS COLLEGE FOUNDATION, INC.

The financial statements do not include assets, liabilities, net assets, and changes in net assets relating to the Southeast Arkansas College Foundation, Inc. (“Foundation”).

The Foundation operates as a non-profit benevolent corporation for charitable purposes. A summary of the Foundation’s financial condition as of June 30, 2023, follows:

| Southeast Arkansas College Foundation | |
|--|--------------------|
| Statement of Income and Expenses | |
| July 1, 2022 - June 30, 2023 | |
| Income | |
| <u>Donations - Restricted</u> | |
| SEARK Employee Contributions | \$ 638 |
| Food Pantry - Other Contributions | 6,440 |
| Privately Funded Scholarships | <u>19,375</u> |
| Total Donations - Restricted | <u>26,453</u> |
| <u>Donations - Unrestricted</u> | |
| SEARK Employee Contributions | 1,078 |
| Fundraising - Fall Festival | 3,252 |
| Literacy Council | 2,500 |
| Donations - Unrestricted - Other | <u>842</u> |
| Total - Donations - Unrestricted | <u>7,672</u> |
| Emergency Student Loans | <u>295</u> |
| Total Income | 34,420 |
| Expenses | |
| Accounting Fees | 1,000 |
| Bank & Investment Fees | 8,018 |
| Emergency Loans | 1,000 |
| Fall Festival | 4,169 |
| Food Pantry | 2,458 |
| Foundation Scholarships | 4,850 |
| Operation Elf | 1,261 |
| Privately Funded Scholarships | 109,675 |
| Literacy Council | 1,531 |
| Pine Bluff Country Club | 946 |
| PO Box Fees | 170 |
| Office Expenses | <u>94</u> |
| Total Expenses | <u>135,172</u> |
| Operating Income | (100,752) |
| Other Income/(Expense) | |
| Interest/Investment Income | (5) |
| Change in Investment Market Value | <u>28,823</u> |
| Total Other | 28,818 |
| Net Increase/(Decrease) | <u>\$ (71,934)</u> |
| Beginning Fund Balance | 407,640 |
| Changes in | |
| Restricted Funds | (86,257) |
| Unrestricted Funds | <u>14,323</u> |
| Ending Fund Balance | 335,706 |
| Restricted Funds | 104,406 |
| Unrestricted Funds | <u>231,300</u> |
| | 335,706 |
| Cash & Investments | 335,706 |

Southeast Arkansas College
Notes to the Financial Statements
June 30, 2023

NOTE 12: DISAGGREGATION OF RECEIVABLES AND PAYABLES

The accounts receivable of \$115,520 consists of \$147,549 of student receivables for tuition and fees, \$16,716 of sponsorship receivables, and (\$48,745) allowance for bad debt.

Other receivables in the amount of \$866,144 were comprised of \$206,158 due from vendors, \$361,608 due from student financial aid sources, \$253,353 due from grants, \$1,750 due from employees, and \$43,275 in accrued interest receivable from various investments and deposits.

Accounts payable and accrued liabilities of \$1,472,098 were comprised of \$1,039,502 due to vendors, \$7,710 due to student financial aid sources, \$21,918 due to grants, \$26,665 due to the student book vendor, and \$376,303 due to employees.

NOTE 13: RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The College obtains building and contents and vehicle insurance coverage through the Arkansas Insurance Department's Risk Management Division.

The policy for buildings and contents has a \$10,000 deductible and the vehicle policy's deductible is \$500 for comprehensive and \$1,000 for collision. The coverage for buildings and contents is reviewed annually with the insurance company in conjunction with our annual inventory to make sure coverage is accurate and sufficient.

The College does not purchase general liability for claims arising from third-party losses on college property as the College has sovereign immunity against such claims. Claims against the College for such losses are heard before the State Claims Commission. In such cases where the College enters into lease agreements to hold school functions at locations not owned or under long-term lease by the College, general public liability coverage is purchased for such functions.

The College maintains workers' compensation coverage through the State of Arkansas program. Premiums are paid based on a formula calculated by the Arkansas Department of Finance and Administration. The types of benefits and expenditures that are paid include medical expenses, hospital expenses, death benefits and claimant's attorney fees.

The College participates in the State of Arkansas Fidelity Bond Program for claims of employee dishonesty. This program has a limit of \$300,000 recovery per occurrence with a \$2,500 deductible. Premiums are paid annually via a fund transfer from state appropriations to the Arkansas Department of Finance and Administration.

Southeast Arkansas College
Notes to the Financial Statements
June 30, 2023

NOTE 13: RISK MANAGEMENT (CONTINUED)

Settled claims have not exceeded this commercial insurance 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. All records are maintained in Business Services.

NOTE 14: COMMITMENTS

In fiscal year 2023, the College issued \$5,510,000 in general revenue bonds to finance the Performance Energy Contract. This contract is for the refurbishment of various infrastructure pieces, installation of a solar array, upgrade of security and camera systems, campus lighting and upgrades to the HVAC systems. All construction costs related to this project will be covered by the proceeds from the issuance of these bonds. The College's future commitment is debt service on the bonds only.

The College entered into an agreement with P3 SEARK Student Housing, LLC ("P3 LLC") for the purchase, renovation, and operation of the facility located at 6811 South Hazel Street in Pine Bluff. This facility will be used for student housing for up to 168 students. The College paid P3 LLC the sum of \$2,993,054 for the right to purchase the completed facility in ten years for \$10. As of the Fall 2023 semester, P3 LLC has purchased the property and facility and completed most of the renovations and upgrades necessary to make the facility available for occupancy. Two of four wings were opened to students for the Fall 2023 semester. The P3 LLC has entered a debt instrument with Partners Bank in the amount of \$2,239,988 for the construction and the College pledges revenues from the housing to the College for any shortfall in debt service to Partners Bank for this transaction. The College will act as agent for P3 LLC to collect student payments for room charges and will remit those funds to P3 LLC. P3 LLC will reimburse the College for any operational costs paid by the College for the management, operations, and maintenance of the facility. After debt service, P3 LLC will forward 50% of the remaining funds to the College as revenue.

NOTE 15: DEFICIT NET POSITION

The deficit unrestricted net position of \$6,851,245 is primarily the result of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended, and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The following schedule is provided to illustrate these affects:

| | 2023 |
|---|-------------|
| Unrestricted net position - beginning of year | (4,242,602) |
| Change in unrestricted net position | (2,608,643) |
| Unrestricted net position - end of year | (6,851,245) |
| Deferred outflows - Pensions | (2,722,937) |
| Deferred inflows - Pensions | 648,844 |
| Deferred outflows - OPEB | (671,392) |
| Deferred inflows - OPEB | 2,340,467 |
| Net pension liability | 6,598,626 |
| Total OPEB liability | 3,920,716 |
| Adjusted unrestricted net position w/o GASB 68 & 75 | 3,263,079 |

Southeast Arkansas College
Required Supplementary Information (Unaudited)
June 30, 2023

Southeast Arkansas College
Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability
Arkansas Teachers Retirement System
For the Year Ended June 30

| | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|--|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Plan net pension liability | \$ 5,278,430,954 | \$ 2,768,842,672 | \$ 5,660,881,938 | \$ 4,171,365,050 | \$ 3,638,962,119 | \$ 4,203,863,874 | \$ 4,411,442,759 | \$ 3,256,909,830 | \$ 2,625,006,279 |
| SEARK's proportion of the net pension liability | 0.0451% | 0.0493% | 0.0616% | 0.0649% | 0.0705% | 0.0782% | 0.0804% | 0.0788% | 0.0702% |
| SEARK's proportionate share of the net pension liability | 2,377,904 | 1,365,731 | 3,488,130 | 2,705,070 | 2,566,484 | 3,285,885 | 3,545,040 | 2,567,599 | 1,841,880 |
| SEARK's covered-employee payroll | 1,531,747 | 1,607,543 | 1,929,529 | 1,983,693 | 2,138,446 | 2,312,022 | 2,354,373 | 2,289,919 | 2,032,547 |
| SEARK's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 155.24% | 84.96% | 180.78% | 136.37% | 120.02% | 142.12% | 150.57% | 112.13% | 90.62% |
| Plan fiduciary net position as a percentage of the total pension liability | 78.85% | 88.58% | 74.91% | 80.96% | 82.78% | 79.48% | 76.75% | 82.20% | 84.98% |

**Schedule is intended to show information for the last 10 years. SEARK is only required to present those years for which information is available until the full 10-year trend is completed.*

Southeast Arkansas College
Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability
Arkansas Teachers Retirement System
For the Year Ended June 30

| | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Contractually required contributions | \$ 233,320 | \$ 225,933 | \$ 233,088 | \$ 274,957 | \$ 278,140 | \$ 299,383 | \$ 324,355 | \$ 329,612 | \$ 320,589 |
| Contributions in relation to the contractually required contribution | 233,320 | 225,933 | 233,088 | 274,957 | 278,140 | 299,383 | 324,355 | 329,612 | 320,589 |
| Contribution deficiency (excess) | - | - | - | - | - | - | - | - | - |
| SEARK's covered-employee payroll | 1,555,505 | 1,531,747 | 1,607,543 | 1,929,529 | 1,983,693 | 2,138,446 | 2,312,022 | 2,354,373 | 2,289,919 |
| Contributions as a percentage of covered-employee payroll | 15.00% | 14.75% | 14.50% | 14.25% | 14.02% | 14.00% | 14.03% | 14.00% | 14.00% |

**Schedule is intended to show information for the last 10 years. SEARK is only required to present those years for which information is available until the full 10-year trend is completed.*

Southeast Arkansas College
Required Supplementary Information (Unaudited)
June 30, 2023

Southeast Arkansas College
Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability
Arkansas Public Employees Retirement System
For the Year Ended June 30

| | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|--|------------------|----------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Plan net pension liability | \$ 2,696,383,462 | \$ 768,832,293 | \$ 2,863,584,499 | \$ 2,412,528,797 | \$ 2,205,935,052 | \$ 2,584,140,475 | \$ 2,391,348,072 | \$ 1,841,733,371 | \$ 1,418,912,236 |
| SEARK's proportion of the net pension liability | 0.1565% | 0.1513% | 0.1360% | 0.1219% | 0.1052% | 0.0891% | 0.0774% | 0.0596% | 0.0480% |
| SEARK's proportionate share of the net pension liability | 4,220,722 | 1,163,337 | 3,893,736 | 2,940,406 | 2,321,628 | 2,302,493 | 1,850,324 | 1,097,753 | 680,605 |
| SEARK's covered-employee payroll | 3,421,505 | 2,904,772 | 2,666,778 | 2,324,195 | 2,096,118 | 1,589,189 | 1,410,793 | 1,054,455 | 848,061 |
| SEARK's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 123.36% | 40.05% | 146.01% | 126.51% | 110.76% | 144.88% | 131.15% | 104.11% | 80.25% |
| Plan fiduciary net position as a percentage of the total pension liability | 78.31% | 93.57% | 75.38% | 78.55% | 79.59% | 75.65% | 75.50% | 80.39% | 84.15% |

**Schedule is intended to show information for the last 10 years. SEARK is only required to present those years for which information is available until the full 10-year trend is completed.*

Southeast Arkansas College
Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability
Arkansas Public Employees Retirement System
For the Year Ended June 30

| | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Contractually required contributions | \$ 484,056 | \$ 524,175 | \$ 445,011 | \$ 408,551 | \$ 355,313 | \$ 309,181 | \$ 232,666 | \$ 204,565 | \$ 155,638 |
| Contributions in relation to the contractually required contribution | 484,056 | 524,175 | 445,011 | 408,551 | 355,313 | 309,181 | 232,666 | 204,565 | 155,638 |
| Contribution deficiency (excess) | - | - | - | - | - | - | - | - | - |
| SEARK's covered-employee payroll | 3,160,004 | 3,421,505 | 2,904,772 | 2,666,778 | 2,324,195 | 2,096,118 | 1,589,189 | 1,410,793 | 1,054,455 |
| Contributions as a percentage of covered-employee payroll | 15.32% | 15.32% | 15.32% | 15.32% | 15.29% | 14.75% | 14.64% | 14.50% | 14.76% |

**Schedule is intended to show information for the last 10 years. SEARK is only required to present those years for which information is available until the full 10-year trend is completed.*

SOUTHEAST ARKANSAS COLLEGE
 SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS
 FOR THE YEAR ENDED JUNE 30, 2023
 (Unaudited)

Schedule 1

| | Year Ended June 30, | | | | |
|---|---------------------|---------------|---------------|---------------|---------------|
| | 2023 | 2022 | 2021 | 2020 | 2019 |
| Total Assets and Deferred Outflows | \$ 36,118,865 | \$ 28,007,389 | \$ 26,323,092 | \$ 26,578,906 | \$ 26,543,030 |
| Total Liabilities and Deferred Inflows | 20,917,112 | 15,030,331 | 18,239,623 | 16,153,106 | 14,295,228 |
| Total Net Position | 15,201,753 | 12,977,058 | 8,083,469 | 10,425,800 | 12,247,802 |
| Total Operating Revenues | 4,618,406 | 4,631,891 | 3,919,934 | 3,920,585 | 4,044,668 |
| Total Operating Expenses | 17,158,025 | 16,734,263 | 18,657,719 | 18,103,437 | 17,357,542 |
| Total Net Non-Operating Revenues | 14,792,393 | 16,972,067 | 12,422,321 | 12,371,005 | 11,581,961 |
| Total Other Revenues, Expenses, Gains or Losses | (28,079) | 23,894 | (26,867) | (10,155) | 17,288 |

