

South Arkansas Community College

El Dorado, Arkansas

**Basic Financial Statements
and Other Reports**

June 30, 2006

LEGISLATIVE JOINT AUDITING COMMITTEE



SOUTH ARKANSAS COMMUNITY COLLEGE
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Senate Co-Chair
Rep. J R Rogers
House Co-Chair
Sen. Bobby L. Glover
Senate Co-Vice Chair
Rep. Johnny Hoyt
House Co-Vice Chair

Arkansas



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

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

South Arkansas Community College
Legislative Joint Auditing Committee

We have audited the accompanying basic financial statements of South Arkansas Community College (Institution), an Institution of Higher Education of the State of Arkansas, as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the Institution's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South Arkansas Community College as of June 30, 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2007 on our consideration of the Institution's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

DIVISION OF LEGISLATIVE AUDIT

Handwritten signature of Roger A. Norman in cursive.

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

Little Rock, Arkansas
March 8, 2007
EDHE19306

Sen. Randy Lavery
Senate Co-Chair
Rep. J R Rogers
House Co-Chair
Sen. Bobby L. Glover
Senate Co-Vice Chair
Rep. Johnny Hoyt
House Co-Vice Chair

Arkansas



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

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

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

South Arkansas Community College
Legislative Joint Auditing Committee

We have audited the financial statements of South Arkansas Community College, an Institution of Higher Education of the State of Arkansas, as of and for the year ended June 30, 2006, and have issued our report thereon dated March 8, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Institution's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

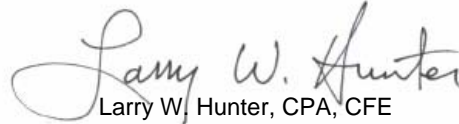
Compliance and Other Matters

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

We also noted certain additional matters that we reported in a separate management letter dated March 8, 2007.

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

DIVISION OF LEGISLATIVE AUDIT

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

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
March 8, 2007

Sen. Randy Laverly
Senate Co-Chair
Rep. J R Rogers
House Co-Chair
Sen. Bobby L. Glover
Senate Co-Vice Chair
Rep. Johnny Hoyt
House Co-Vice Chair

Arkansas



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

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

MANAGEMENT LETTER

South Arkansas Community 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, 2006, as reported to the State Department of Higher Education, to provide reasonable assurance that the data was properly reported. Our testing was limited to the fall and spring terms of the year. The enrollment data reported was as follows:

	<u>Fall Term</u> <u>2005</u>	<u>Spring Term</u> <u>2006</u>
Student Headcount	1,341	1,342
Student Semester Credit Hours	12,809	12,923

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

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

DIVISION OF LEGISLATIVE AUDIT

Handwritten signature of Larry W. Hunter in cursive.

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
March 8, 2007



**SOUTH ARKANSAS COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006
(WITH COMPARATIVE DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2005)**

The Management's Discussion and Analysis provides an overview of the financial position and results of activities of South Arkansas Community College for the year ended June 30, 2006, with comparative information for the year ended June 30, 2005. The Financial Report of the College is prepared following the financial statement model as developed and required by the Government Accounting Standards Board (GASB). GASB is the governing body over financial statements for public higher education and all state and local governments. The objectives of the reporting format is to enhance the understanding and usefulness of the external financial reports to all users of the statements including creditors, legislative and oversight bodies.

OVERVIEW OF THE FINANCIAL REPORT

In addition to the Management's Discussion and Analysis section, the Financial Report includes a Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, the Statement of Cash Flows, and the Notes to the Financial Statements. The South Arkansas Community College Office of Fiscal Affairs prepared the Financial Report.

FISCAL YEAR 2005-2006 HIGHLIGHTS

The following events or activities of significance occurred during the fiscal year ended June 30, 2006.

- The renovation of the roof on the Billy McGehee Classroom building on the east campus was completed at a total cost of \$732,836.06.
- The College completed Phase III and Phase IV of the Administration Building at a total cost of \$788,002 of which \$755,000 was funded by grants from The Arkansas Natural and Resources Council.
- At the March 2006 Board of Trustee meeting, the board approved the first phase of the master facility plan for the west campus – relocating the parking lots, creating a commons area in the middle of the campus, and creating an entrance to the college with new signage. \$1.9 million was authorized for the project.
- In June 2006, the College elected to use current year excess revenues to payoff the 6.37% interest loan from the Arkansas Department of Higher Education College Savings Bond Program Community/Technical College Revolving Loan Fund. This resulted in interest savings of \$21,295.
- The accreditation self-study was a major emphasis throughout the year which involved faculty, staff, students and trustees. Drafts and revisions to the Self-Study report continued through July 2006, with the final document being sent to the Higher Learning Commission Team on August 4, 2006. The HLC site visit is scheduled for October 2-4, 2006.



SOUTH ARKANSAS COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006
(WITH COMPARATIVE DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2005)

STATEMENT OF NET ASSETS

The Statement of Net Assets presents the assets, liabilities, and net assets (equity) of the College using the accrual basis of accounting as of June 30, 2006, with comparative information as of June 30, 2005. Net Assets is one indicator of the financial condition of the College and changes in the net assets that occur over time indicate improvements or deterioration in the College's financial condition.

Net assets are divided into three major categories. The first category, Invested in Capital Assets (net of debt and accumulated depreciation), provides the College's equity in property, plant and equipment owned by the institution. The next asset category is Restricted Net Assets, which is divided into two categories, nonexpendable and expendable. Nonexpendable net assets are those that are required to be retained in perpetuity. Expendable restricted net assets are available for expenditure by the institution but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is Unrestricted Net Assets. Unrestricted net assets are generally available to the College for any lawful purpose of the institution.

Readers of the Statement of Net Assets can determine answers to the following key questions as of June 30, 2006:

- ♦ Did the College have sufficient assets available to meet its existing obligations and continue operation?
- ♦ How much did the College owe to external parties including vendors and lending institutions?
- ♦ What resources did the College have available to make future investments and expenditures?

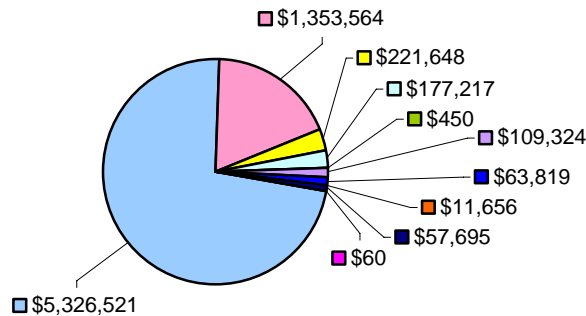
Condensed Statement of Net Assets

	2006	2005	Change
Assets:			
Current Assets	\$ 7,321,954	\$ 7,006,906	4.50%
Capital Assets, Net	11,431,717	10,448,377	9.41%
Other Non-current Assets	439,192	75,918	478.51%
Total Assets	<u>19,192,863</u>	<u>17,531,201</u>	9.48%
Liabilities:			
Current Liabilities	361,821	503,824	-28.19%
Noncurrent Liabilities	806,702	949,603	-15.05%
Total Liabilities	<u>1,168,523</u>	<u>1,453,427</u>	-19.60%
Net Assets:			
Invested in Capital Assets, Net of Debt	10,791,987	9,634,818	12.01%
Restricted	818,930	966,821	-15.30%
Unrestricted	6,413,423	5,476,135	17.12%
Total Net Assets	<u>\$ 18,024,340</u>	<u>\$ 16,077,774</u>	12.11%



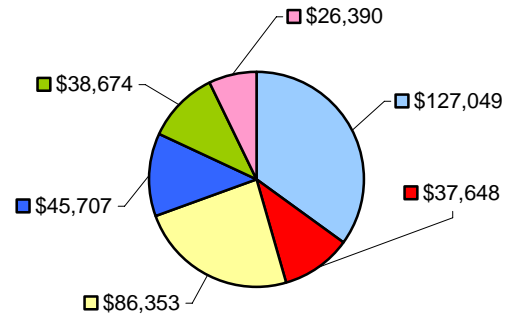
**SOUTH ARKANSAS COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006
(WITH COMPARATIVE DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2005)**

Current Assets



- Cash and Cash Equivalents
- Short-Term Investments
- Accounts Receivable (Less Allowance of \$45,587)
- Property Taxes Receivable
- Employee & Student Loan Receivable(net)
- Other Receivables
- Inventories
- Deposits with Trustees
- Prepaid Expenses
- Other Assets

Current Liabilities



- Accounts Payable and Accrued Liabilities
- Refunds Payable
- Deferred Revenue
- Notes Payable, Current Portion
- Compensated Absences, Current Portion
- Funds Held in Trust for Others

The College's current assets increased by \$315,048 or 4.50% during the fiscal year ended June 30, 2006, and its net capital assets increased by \$983,340 or 9.41%. The increases and decreases to capital assets are shown in the notes to the financial statements. Overall, the College's total assets increased from \$17,531,201 at June 30, 2005, to \$19,192,863 at June 30, 2006, an increase of 9.48%.

The College's total liabilities decreased from \$1,453,427 at June 30, 2005, to \$1,168,523 at June 30, 2006, a decrease of \$284,904 or 19.60% while its total net assets increased \$1,946,566 or 12.11% from \$16,077,774 to \$18,024,340 during the period.

Cash, cash equivalents, and investments as of June 30, 2006 and 2005, are shown below. Current short-term investments consist of certificates of deposit with an original maturity date of 91 days to one year. Non-current cash and cash equivalents are funds externally restricted for capital projects and endowment principal not invested.

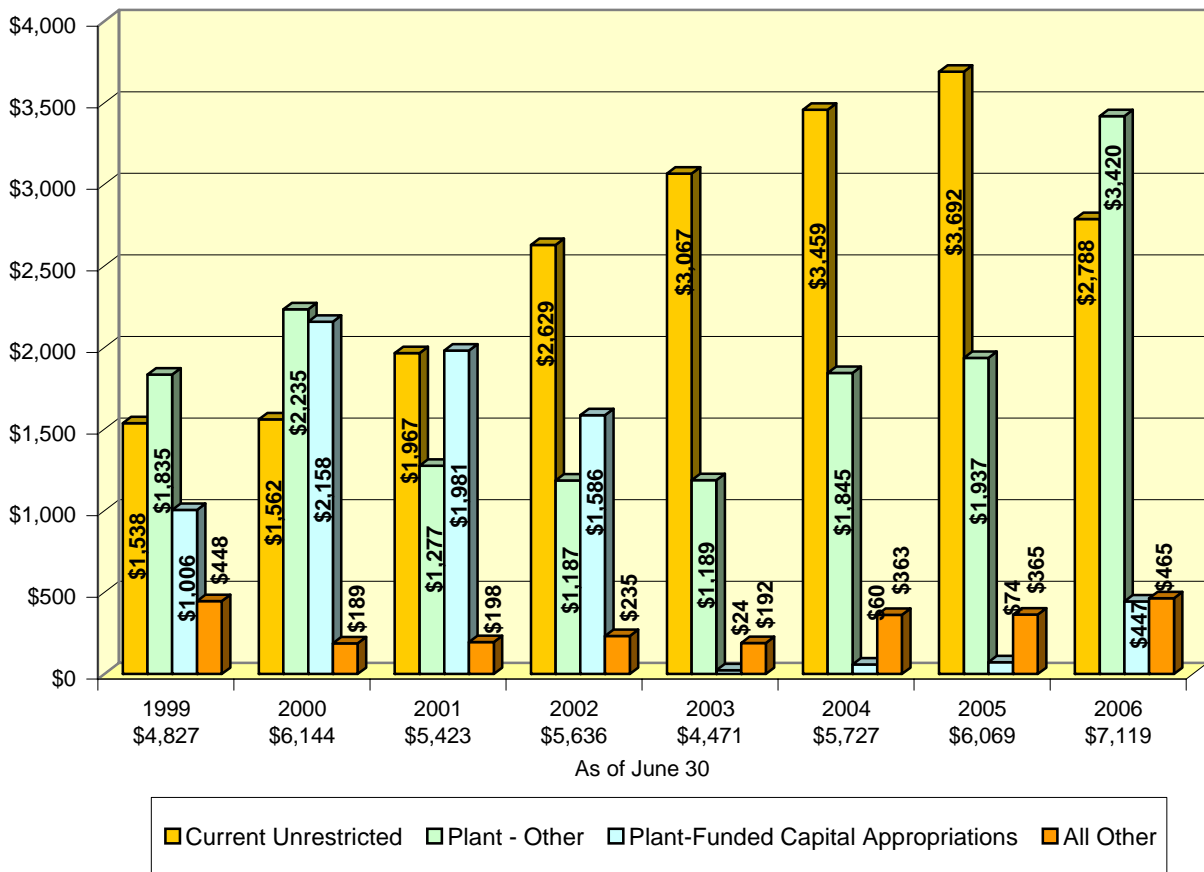
Cash, Cash Equivalents, and Investments

	2006	2005
Current Cash and Cash Equivalents	\$ 5,326,521	\$ 4,639,604
Current Short Term Investments	1,353,564	1,353,564
Non-current Cash and Cash Equivalents	439,190	75,917
Total	\$ 7,119,275	\$ 6,069,085

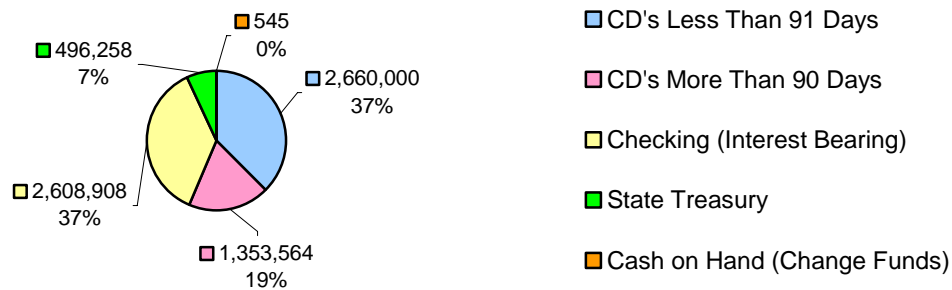


**SOUTH ARKANSAS COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006
(WITH COMPARATIVE DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2005)**

**Cash, Cash Equivalents & Investments Components
(In Thousands)**



**Cash, Cash Equivalents & Investments by Type of Account
At June 30, 2006**





**SOUTH ARKANSAS COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006
(WITH COMPARATIVE DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2005)**

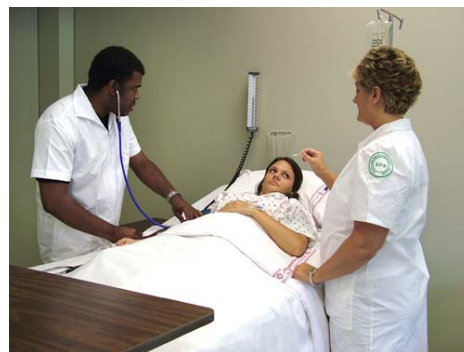
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The total net assets as presented on the Statement of Net Assets are based in part on the financial activities that occurred during the fiscal year as presented in the Statement of Revenues, Expenses and Changes in Net Assets. This statement's purpose is to present the revenues generated and received by the College and the expenses incurred, both operating and non-operating, and all other financial gains or losses experienced by the College during the fiscal year ended June 30, 2006.

Generally, revenues from operations are received in exchange for the College providing services or products to students and other constituencies. Operating expenses are those costs paid or incurred in providing those services or products, or in carrying out the mission of the College. Non-operating revenues are financial inflows to the College resulting from nonexchange transactions; that is, the College does not provide a specific service or product in exchange for them. For example, appropriations from the state are considered non-operating revenue because the legislature does not receive a direct and commensurate benefit from the College in exchange for providing the appropriation. Revenues and expenses are recognized when earned or incurred regardless of when cash is received or disbursed.

Condensed Statement of Revenues, Expenses and Changes in Net Assets

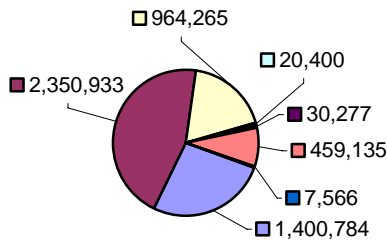
	2006	2005	Change
Operating Revenues	\$ 5,233,360	\$ 5,191,745	0.80%
Operating Expenses	11,280,149	11,272,701	0.07%
Operating Loss	(6,046,789)	(6,080,956)	-0.56%
Non-operating Revenues & Expenses (Net)	6,800,318	6,396,685	6.31%
Income Before Other Revenues, Expenses, Gains or Losses	753,529	315,729	138.66%
Other Revenues, Expenses, Gains and Losses	1,193,037	121,797	879.53%
Increase in Net Assets	1,946,566	437,526	344.90%
Net Assets, Beginning of Year	16,077,774	15,640,248	
Net Assets, End of Year	<u>\$ 18,024,340</u>	<u>\$ 16,077,774</u>	





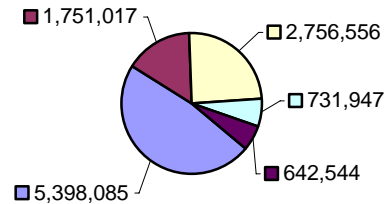
**SOUTH ARKANSAS COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006
(WITH COMPARATIVE DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2005)**

**Operating Revenues
Total \$5,233,360**



- Tuition and Fees, Net
- Federal Grants and Contracts
- State and Local Grants and Contracts
- Non-governmental Grants and Contracts
- Sales and Services
- Auxiliary, Net
- Other Operating Revenues

**Operating Expenses
Total \$11,280,149**

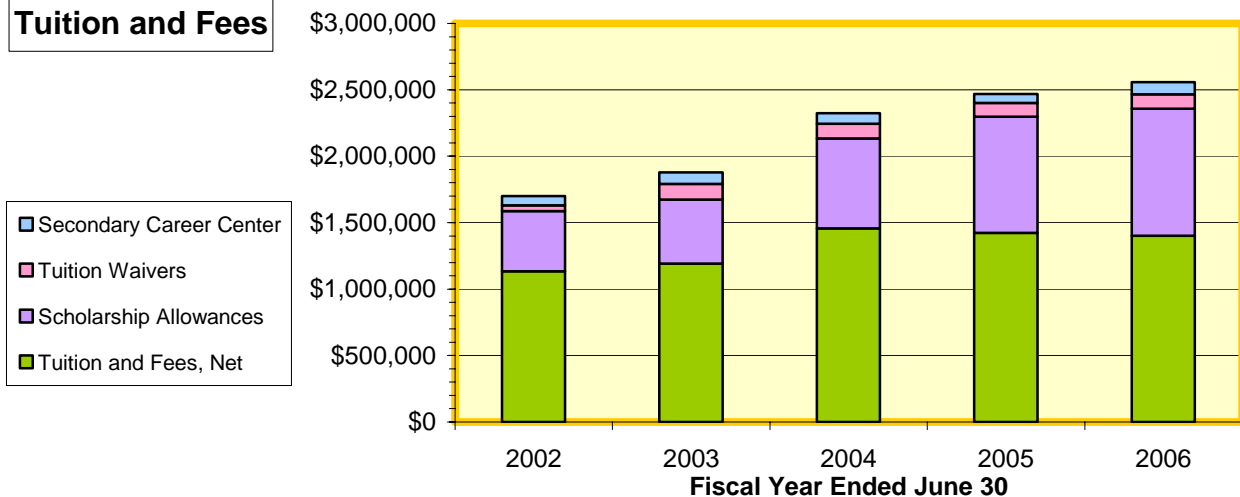


- Salaries
- Employee Benefits
- Supplies and Services
- Scholarships
- Depreciation

The Statement of Revenues, Expenses and Changes in Net Assets for the fiscal year ended June 30, 2006, reflects an increase in the net assets of the College of \$1,946,566 compared with an increase of \$437,526 for the year ended June 30, 2005. Highlights from the information presented in the Statement of Revenues, Expenses and Changes in Net Assets for the fiscal year ended June 30, 2006 include the following:

- ◆ Tuition and fees, shown net of institutional waivers, Secondary Career Center tuition, and scholarship allowances, amounted to \$1,400,784 or 26.77% of total operating revenues.

Tuition and Fees



- ◆ Personal services (Salaries and Benefits) expenses totaled \$7,149,102 or 63.38% of total operating expenses.



SOUTH ARKANSAS COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006
(WITH COMPARATIVE DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2005)

- ♦ Scholarships expenses totaled \$731,947 or 6.49% of total operating expenses.
- ♦ The College's loss from operations amounted to \$6,046,789. State Appropriations which are classified as non-operating revenues amounted to \$6,238,669. Non-operating revenues and expenses are shown below.

Non-operating Revenues and Expenses

	2006	2005	Change
State Funded Appropriations	\$ 6,238,669	\$ 6,035,520	3.37%
County Millage	246,487	242,073	1.82%
Gifts	44,996	22,875	96.70%
Interest Income	291,196	153,575	89.61%
Disposal of Capital Assets		(34,126)	-100.00%
Interest on Indebtedness	(21,030)	(23,232)	-9.48%
Net Non-operating Revenues	<u>\$ 6,800,318</u>	<u>\$ 6,396,685</u>	6.31%

- ♦ Total other revenues, expenses, gains and losses amounted to \$1,193,037. Of this amount, \$1,200,278 was derived from capital appropriations which included the following funded appropriations:

Capital Appropriations

	2006	2005
West Campus Expansion	\$ 340,000	
Institutional Improvement	100,000	
Health Science Building Planning	50,000	
Weatherford House Roof & Repairs		\$ 39,095
Administration Building	665,000	90,000
State Motor Vehicle	14,185	10,190
College Savings Bonds	31,093	23,205
	<u>\$ 1,200,278</u>	<u>\$ 162,490</u>



SOUTH ARKANSAS COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006
(WITH COMPARATIVE DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2005)

STATEMENT OF CASH FLOWS

The Statement of Cash Flows provides additional information about the College's financial results by reporting the major sources and uses of cash. The Statement classifies sources and uses into four categories as presented in the comparative summary below:

Condensed Statement of Cash Flows

	<u>2006</u>	<u>2005</u>
Cash provided (used) by:		
Operating activities	\$ (5,073,676)	\$ (5,766,970)
Non-capital financing activities	6,525,850	6,303,723
Capital and related financing activities	(692,417)	(343,001)
Investing activities	<u>290,433</u>	<u>(851,228)</u>
Net change in cash and cash equivalents	1,050,190	(657,476)
Cash and cash equivalents - beginning of year	<u>4,715,521</u>	<u>5,372,997</u>
Cash and cash equivalents - end of year	<u><u>\$ 5,765,711</u></u>	<u><u>\$ 4,715,521</u></u>

Cash flows associated with the College's expendable net assets appear in the operating and non-capital financing categories. Capital financing activities include payments for capital assets, proceeds from long-term debt, and debt repayments. Purchases and sales of investments, and interest earned on bank accounts are reflected as investing activities.

ECONOMIC OUTLOOK

The College's economic outlook is largely dependent upon ongoing financial support from State government. State general revenues are directly connected to the global economy. Fiscal year 2005-2006 continued to see improved interest rates and an improved economy. The College received state general improvement fund appropriations for fiscal year 2005-2006 to be used for west campus expansion and for planning expenses for an allied health and natural science building.

The College also plans to continue its strategy of seeking grants and private gifts to supplement scholarships, capital projects and academic needs of the institution.



SOUTH ARKANSAS COMMUNITY COLLEGE
STATEMENT OF NET ASSETS
JUNE 30, 2006
(With Comparative Figures as of June 30, 2005)

Exhibit A

	<u>2006</u>	<u>2005</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 5,326,521	\$ 4,639,604
Short-term investments	1,353,564	1,353,564
Accounts receivable (less allowances of \$56,295 and \$45,587)	221,648	191,405
Employee and student loans receivable (less allowances of \$50 and \$80)	450	
Property taxes receivable (net of estimated uncollectible amounts)	177,217	181,989
Other receivables	109,324	440,420
Inventories	63,819	99,784
Deposits with trustees (market value)	11,656	10,978
Prepaid expenses	57,695	89,102
Other assets	60	60
Total Current Assets	<u>7,321,954</u>	<u>7,006,906</u>
Noncurrent Assets		
Cash and cash equivalents	439,190	75,917
Accrued interest receivable	2	1
Capital assets, net of accumulated depreciation of \$7,981,318 and \$7,389,725 (Note 6)	11,431,717	10,448,377
Total Noncurrent Assets	<u>11,870,909</u>	<u>10,524,295</u>
TOTAL ASSETS	<u>19,192,863</u>	<u>17,531,201</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	127,049	243,637
Refunds payable	37,648	15,186
Deferred revenue	86,353	133,212
Note payable - current portion	45,707	61,380
Compensated absences	38,674	26,660
Funds held in trust for others	26,390	23,749
Total Current Liabilities	<u>361,821</u>	<u>503,824</u>
Noncurrent Liabilities		
Note payable	594,023	752,179
Compensated absences	212,679	197,424
Total Noncurrent Liabilities	<u>806,702</u>	<u>949,603</u>
TOTAL LIABILITIES	<u>1,168,523</u>	<u>1,453,427</u>
NET ASSETS		
Invested in capital assets, net of related debt	10,791,987	9,634,818
Restricted for:		
Non-expendable		
Scholarships	10,728	11,364
Expendable		
Scholarships	10,475	16,191
Loans	2,017	1,981
Capital projects	456,821	690,167
Other	338,889	247,118
Unrestricted	<u>6,413,423</u>	<u>5,476,135</u>
TOTAL NET ASSETS	<u>\$ 18,024,340</u>	<u>\$ 16,077,774</u>

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



SOUTH ARKANSAS COMMUNITY COLLEGE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2006
(With Comparative Figures for the year ended June 30, 2005)

Exhibit B

	2006	2005
OPERATING REVENUES		
Student tuition and fees (net of scholarship allowances of \$956,071 and \$875,004)	\$ 1,400,784	\$ 1,421,948
Federal grants and contracts	2,350,933	2,388,358
State and local grants and contracts	964,265	905,779
Non-governmental grants and contracts	20,400	3,315
Sales and services of educational departments	30,277	20,901
Auxiliary enterprises:		
Vending	9,831	7,601
Bookstore (net of scholarship allowances of \$282,576 and \$290,548)	449,304	433,359
Other operating revenues	7,566	10,484
TOTAL OPERATING REVENUES	5,233,360	5,191,745
OPERATING EXPENSES		
Salaries	5,398,085	5,337,759
Employee benefits	1,751,017	1,615,720
Supplies and other services	2,756,556	2,823,589
Scholarships and fellowships	731,947	821,045
Depreciation	642,544	674,588
TOTAL OPERATING EXPENSES	11,280,149	11,272,701
OPERATING INCOME (LOSS)	(6,046,789)	(6,080,956)
NON-OPERATING REVENUES (EXPENSES)		
State and Federal appropriations	6,238,669	6,035,520
County millage	246,487	242,073
Gifts	44,996	22,875
Interest income	291,196	153,575
Interest expense (on capital asset related debt)	(21,030)	(23,232)
Disposal of capital assets (net of accumulated depreciation of \$50,951 and \$723,239)		(34,126)
NET OPERATING REVENUES (EXPENSES)	6,800,318	6,396,685
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	753,529	315,729
Capital appropriations	1,200,278	162,490
Additions (Deletions) to permanent and term endowments (Note 15)	(713)	
Scholarship funds transferred to Foundation (Note 15)	(7,284)	
AR Heavy Equipment Training Academy transferred per Act 1010 (Note 14)		(48,223)
Interest earned on endowment funds	78	57
Market value adjustment of deposits with trustees	678	658
Adjustments to prior year revenues & expenses		6,815
TOTAL OTHER REVENUES, EXPENSES, GAINS AND LOSSES	1,193,037	121,797
INCREASE (DECREASE) IN NET ASSETS	1,946,566	437,526
NET ASSETS - BEGINNING OF YEAR	16,077,774	15,640,248
NET ASSETS - END OF YEAR	\$ 18,024,340	\$ 16,077,774

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



SOUTH ARKANSAS COMMUNITY COLLEGE
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2006
(With Comparative Figures for the year ended June 30, 2005)

Exhibit C

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 1,355,085	\$ 1,322,402
Grants and contracts	3,721,753	3,032,795
Sales and services of educational activities	28,024	20,646
Collection of student and employee loans including interest	5,328	4,060
Auxiliary enterprise revenues		
Vending	9,831	7,601
Bookstore	421,431	432,796
Other receipts	7,553	10,471
Payments to employees	(5,394,272)	(5,338,554)
Payments of employee benefits	(1,714,861)	(1,626,616)
Payments to suppliers	(2,775,786)	(2,807,479)
Loans issued to students and employees	(5,815)	(4,047)
Scholarships	<u>(731,947)</u>	<u>(821,045)</u>
Net cash provided (used) by operating activities	<u>(5,073,676)</u>	<u>(5,766,970)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
State appropriations	6,238,669	6,035,520
County millage	251,259	241,278
Gifts and grants	40,943	22,875
Agency funds - net	2,976	391
Other	<u>(7,997)</u>	<u>3,659</u>
Net cash provided (used) by non-capital financing activities	<u>6,525,850</u>	<u>6,303,723</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	1,186,173	162,490
Proceeds from sale of capital assets		8,132
Purchase of capital assets	(1,681,682)	(430,479)
Principal paid on capital debt	(173,829)	(59,466)
Interest paid on capital debt	<u>(23,079)</u>	<u>(23,678)</u>
Net cash provided (used) by capital and related financing activities	<u>(692,417)</u>	<u>(343,001)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	290,433	148,772
Purchase of investments		<u>(1,000,000)</u>
Net cash provided (used) by investing activities	<u>290,433</u>	<u>(851,228)</u>
Net increase (decrease) in cash and cash equivalents	1,050,190	(657,476)
Cash and cash equivalents-beginning of year	<u>4,715,521</u>	<u>5,372,997</u>
Cash and cash equivalents-end of year	<u>\$ 5,765,711</u>	<u>\$ 4,715,521</u>

(Continued on next page)



SOUTH ARKANSAS COMMUNITY COLLEGE
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2006
(With Comparative Figures for the year ended June 30, 2005)

Exhibit C

	<u>2006</u>	<u>2005</u>
Reconciliation of net operating revenues (expenses) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (6,046,789)	\$ (6,080,956)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation	642,544	674,588
Prior year adjustment		4,681
Changes in assets and liabilities:		
(Increase) Decrease in Receivables, net	304,962	(275,241)
(Increase) Decrease in Inventories	35,965	848
(Increase) Decrease in Prepaid expenses	31,407	(50,071)
Increase (Decrease) in Accounts payable and accrued liabilities	(22,175)	4,177
Increase (Decrease) in Deferred revenue	(46,859)	(34,372)
Increase (Decrease) in Compensated absences	27,269	(10,624)
Net cash provided (used) by operating activities	<u>\$ (5,073,676)</u>	<u>\$ (5,766,970)</u>

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



**SOUTH ARKANSAS COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

Note 1: Reporting Entity

South Arkansas Community College was established July 1, 1992, under the authority of Act 1244 of 1991. The College operates under the policies and supervision of the Board of Trustees of South Arkansas Community College, a nine (9)-member group. Members of the Board of Trustees are appointed by the Governor of the State and have decision making authority, the power to designate management, and the responsibility to significantly influence operations. The Board is the level of government which has governing responsibility over all activities related to higher education at South Arkansas Community College. The College receives funding from local, state and federal government sources and must comply with requirements of these funding source entities.

Note 2: Summary of Significant Accounting Policies

Financial Statement Presentation

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

Basis of Accounting

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

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

Capital Assets and Depreciation

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

Depreciation is computed using the straight-line method over the estimated lives of the assets, generally 20 to 30 years for buildings, 15 to 20 years for infrastructure and land improvements, 10 years for library holdings, 5 years for vehicles, and 3 to 10 years for equipment.

Operating and Non-operating Revenues

The College has classified its revenue as either operating or non-operating revenue according to the following criteria:



**SOUTH ARKANSAS COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

Note 2: Summary of Significant Accounting Policies (Continued)

Operating and Non-operating Revenues (Continued)

- Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most federal, state and local grants and contracts.
- Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources. These are defined as non-operating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, such as state appropriations and investment income.

Cash Equivalents

For purposes of the statement of cash flows, South Arkansas Community College considers all highly liquid investments with an original maturity of 90 days or less to be cash equivalents (such as certificates of deposit).

Accounts Receivable

Accounts Receivable consists of tuition and fee charges to students and auxiliary enterprises provided to students, faculty and staff. Accounts Receivable also includes amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the College's grant and contracts.

Investments

Investments are stated at cost under the provisions of Statement No. 31 of the Governmental Accounting Standards Board. Investments consist of certificates of deposit classified as nonparticipating contracts.

Inventories

Inventories are valued at cost with cost being generally determined on a first-in, first-out basis.

Noncurrent Cash

Cash that is externally restricted to maintain endowment funds, or to purchase or construct capital assets, are classified as non-current assets in the Statement of Net Assets.

Restricted/Unrestricted Resources

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



**SOUTH ARKANSAS COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

Note 2: Summary of Significant Accounting Policies (Continued)

Deferred Revenues

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

Compensated Absences Payable

Accrued compensated absences payable reflect accumulated compensatory, holiday and annual leave and required employer contributions at June 30, 2006 for full-time employees. Accumulated unpaid annual leave and holidays are accrued at the employee's current hourly rate of pay up to a maximum of 240 hours.

Act 971 of 2005, allowed compensation for unused sick leave at retirement or death. Accrued compensated absences payable – sick leave reflects accumulated sick leave and required employer contributions at June 30, 2006, for classified employees. The amount is based on a percentage of the number of hours accumulated, and the employee's current daily rate of pay not to exceed \$7,500 paid to the employee or beneficiary of an employee.

Noncurrent Liabilities

Noncurrent liabilities include: (1) principal amount of a note payable with contractual maturities greater than one year and (2) estimated amounts for accrued compensated absences and related matching costs that will not be paid within the next fiscal year.

Property Taxes

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

Scholarship Discounts and Allowances

Tuition and fee revenues are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses and Changes in Net Assets. Scholarship discounts are the difference between the stated charge for goods and services provided by the College and the amount that is paid by the students and/or third parties. Scholarship discounts include the step-up scholarship, the out-of-state waiver, the 60 and over waiver and the concurrent enrollment waiver. Pell, Supplemental Education Opportunity Grant (SEOG) and other grants and scholarships are recorded as operating revenues in the Statement of Revenues, Expenses, and Changes in Net Assets. The portion of students' scholarships used to satisfy tuition and fees and other charges, is recorded as scholarship allowances.



**SOUTH ARKANSAS COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

Note 3: Public Fund Deposits and Investments

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

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 100,000	\$ 100,000
Collateralized:		
Collateral held by the pledging bank or pledging bank's trust department in the College's name	<u>6,522,472</u>	<u>6,851,038</u>
Total Deposits	<u>\$ 6,622,472</u>	<u>\$ 6,951,038</u>

The above deposits do not include cash on deposit in the state treasury or cash on hand (change funds, etc.) maintained by the College in the amounts of \$496,258 and \$545, respectively, as of June 30, 2006. The above total deposits include certificates of deposit of \$1,353,564 as of June 30, 2006, reported as investments and classified as nonparticipating contracts.

Deposits with Trustee

At June 30, 2006, the College's deposits with trustee of \$11,656 were invested in TIAA/CREF account owned by the College. The funds were invested in TIAA Real Estate - \$3,610; CREF Bond Market - \$2,715; and CREF Money Market - \$5,331. These funds were set aside in a Sec. 457 Deferred Compensation Plan. The College retains ownership of the funds until the fulfillment of the conditions set out in the Plan.

Credit risk - The Real Estate and Bond Market funds have a 3 star, 3-year average rating by Morningstar, Inc. The Money Market funds are not rated.

Note 4: Disaggregation of Receivable and Payable Balances

The accounts receivable of \$221,648 at June 30, 2006, consisted of student accounts receivable of \$275,435, which was reduced by an allowance for doubtful accounts of \$56,295 and the remaining balance of \$2,508 represented amounts due for miscellaneous charges.

Other receivables of \$109,324 at June 30, 2006, consisted of interest receivable of \$7,459, reimbursements of \$57,841 from federal and state agencies for grants and contracts and the remaining balance of \$44,024 represented amounts due for miscellaneous charges and vendor refunds.

The accounts payable and accrued liabilities of \$127,049 at June 30, 2006 consisted of \$48,148 due to vendors and \$25,275 for salaries and benefits, accrued interest payable of \$3,279, unclaimed property payable to the state of \$599, and \$49,748 state treasury funds received June 30, 2005 for Arkansas Heavy Equipment Operator Training Academy due to University of Arkansas at Monticello.



SOUTH ARKANSAS COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

Note 5: Income Taxes

South Arkansas Community College is tax exempt 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: Capital Assets

Following are the changes in capital assets for the year ended June 30, 2006:

	Balance June 30, 2005	Additions	Transfers	Retirements	Balance June 30, 2006
Capital assets not being depreciated					
Land	\$ 734,466	\$ 112,766			\$ 847,232
Construction-in-progress	199,393	1,330,545	\$ (1,520,838)		9,100
Total capital assets not depreciated	<u>\$ 933,859</u>	<u>\$1,443,311</u>	<u>\$ (1,520,838)</u>		<u>\$ 856,332</u>
Other capital assets					
Improvements and infrastructure	\$ 394,853				\$ 394,853
Buildings	13,648,078		\$ 1,520,838		15,168,916
Equipment	2,060,552	\$ 131,467		\$ 15,089	2,176,930
Library holdings	800,760	51,106		35,862	816,004
Total other capital assets	<u>16,904,243</u>	<u>182,573</u>	<u>1,520,838</u>	<u>50,951</u>	<u>18,556,703</u>
Less accumulated depreciation for:					
Improvements and infrastructure	308,294	7,970			316,264
Buildings	5,011,703	432,112			5,443,815
Equipment	1,754,308	125,695		15,089	1,864,914
Library holdings	315,420	76,767		35,862	356,325
Total accumulated depreciation	<u>7,389,725</u>	<u>642,544</u>		<u>50,951</u>	<u>7,981,318</u>
Other capital assets, net	<u>\$ 9,514,518</u>	<u>\$ (459,971)</u>	<u>\$ 1,520,838</u>	<u>\$ 0</u>	<u>\$ 10,575,385</u>
Capital asset summary:					
Capital assets not being depreciated	\$ 933,859	\$1,443,311	\$ (1,520,838)		\$ 856,332
Other capital assets at cost	16,904,243	182,573	1,520,838	\$ 50,951	18,556,703
Total cost of capital assets	17,838,102	1,625,884	0	50,951	19,413,035
Less accumulated depreciation	7,389,725	642,544		50,951	7,981,318
Capital assets, net	<u>\$ 10,448,377</u>	<u>\$ 983,340</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 11,431,717</u>



**SOUTH ARKANSAS COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

Note 7: Long-term Liabilities

COLLEGE SAVINGS BOND LOAN

The College, in 1996, obtained a \$235,000 loan from the Arkansas Department of Higher Education College Savings Bond Program Community/Technical College Revolving Loan Fund. The funds (obtained in three draws) were used in the construction and furnishing of a new library building, renovation of the old library for classroom space, renovation of a classroom to provide a microbiology laboratory, and various other projects such as construction of ramps and door openers to comply with the Americans with Disabilities Act. The loan is secured by a pledge of tuition and fee revenue.

Debt payments on bonds amounted to \$129,045 for the fiscal year ended June 30, 2006. Debt service interest payments totaled \$9,275 for the fiscal year ended June 30, 2006. In June 2006, the College elected to payoff the loan.

In October 2003, the College obtained a \$750,000 loan from the Arkansas Development Finance Authority and the Arkansas Higher Education Coordination Board. These funds are to be used for renovations to the Billy McGehee Classroom Building. The loan is secured by a pledge of tuition and fee revenue.

Debt payments on bonds amounted to \$44,784 for the fiscal year ended June 30, 2006. Debt service interest payments totaled \$13,804 for the fiscal year ended June 30, 2006.

<u>Date of Issue</u>	<u>Date of Final Maturity</u>	<u>Rate of Interest</u>	<u>Total Loan Amount</u>	<u>Debt Outstanding June 30, 2006</u>	<u>Principal Payments Made Thru June 30, 2006</u>
4/9/1996	10/10/2011	6.37%	\$ 235,000		\$ 235,000
10/28/2003	10/1/2018	2.05%	750,000	\$ 639,730	110,270
			<u>\$ 985,000</u>	<u>\$ 639,730</u>	<u>\$ 345,270</u>

Changes in long-term liabilities are as follows:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2006</u>	<u>Amounts Due Within One Year</u>
College savings bonds loan payable (1996)	\$ 129,045		\$ 129,045		
College savings bonds loan payable (2003)	684,514		44,784	\$ 639,730	\$ 45,707
Compensated absences payable - Other than Sick Leave	224,084	\$ 179,313	169,478	233,919	29,484
Compensated absences payable - Sick Leave		17,434		17,434	9,190
	<u>\$ 1,037,643</u>	<u>\$ 196,747</u>	<u>\$ 343,307</u>	<u>\$ 891,083</u>	<u>\$ 84,381</u>



**SOUTH ARKANSAS COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

Note 7: Long-term Liabilities (Continued)

Long-term debt principal and interest scheduled payments for the 2003 loan are as follows:

Year Ended June 30	Principal	Interest	Total
2007	\$ 45,707	\$ 12,881	\$ 58,588
2008	46,648	11,940	58,588
2009	47,609	10,979	58,588
2010	48,591	9,997	58,588
2011	49,592	8,996	58,588
2012-2016	263,714	29,226	292,940
2017-2019	137,869	4,179	142,048
Totals	<u>\$ 639,730</u>	<u>\$ 88,198</u>	<u>\$ 727,928</u>

Note 8: Commitments

The College was contractually obligated on the following at June 30, 2006.

Operating leases for copiers

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>Total</u>
Scheduled Payments	<u>\$ 18,452</u>	<u>\$ 7,924</u>	<u>\$ 427</u>	<u>\$ 26,803</u>

Note 9: Contingent Liabilities

Health Care Plans

The College has entered into a participation contract, for medical and dental benefits, with the Arkansas Higher Education Insurance Consortium. The College is subject to withdrawal penalties, should the institution withdraw from the contract without complying with the notification provisions.

Post Retirement Benefits

The College allows an individual to continue health insurance benefits after leaving College employment. An employee must have fifteen (15) years of full-time service and be at least fifty-five (55) years old. However, coverage shall cease when the employee becomes eligible for Medicare. The benefit varies from 25% when a terminating employee has a factor of 70 (age 55 plus 15 years of full-time service) to 100% after the factor reaches 85 (age plus years of full-time service).



SOUTH ARKANSAS COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

Note 9: Contingent Liabilities (Continued)

The College is paying the above benefits for individuals that are retired from the institution as listed below.

As of June 30, 2006		
<u>Retirees</u>	<u>Percent Eligible Factor</u>	<u>Potential Liability until age 65</u>
3	100%	\$ 15,729
1	45%	3,443
		<u>\$ 19,172</u>

The following presents the contingent liability for individuals that are currently employed and have not accessed the benefit.

As of June 30, 2006		
<u>Potential Retirees</u>	<u>Percent Eligible Factor</u>	<u>Potential Liability until age 65</u>
7	100%	\$ 152,181
2	95%	73,521
1	75%	34,763
1	70%	17,800
2	45%	42,765
1	40%	13,680
1	35%	15,908
		<u>\$ 350,618</u>

The above amounts are computed using the cost of current (July, 2006) insurance premiums. No values are included for inflation.

An individual that has accrued this benefit may continue to provide coverage of a spouse or other dependent at the former employee's expense until the spouse reaches age 65 or the dependent ceases to be eligible for coverage. This policy became effective for individuals retiring on or after December 31, 1998. Persons who retired before December 31, 1998, are eligible to continue with the same benefits in effect at the time they retired.



**SOUTH ARKANSAS COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

Note 10: Retirement Plans

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

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

Funding Policy. TIAA/CREF offers contributory plans and members may contribute 6 – 8% of their gross earnings to the plan. The College contributes 10% of employees' earnings for contributory members. (A few employees were grandfathered in who continued to contribute 4-5% with the College contributing 6-8 %.) Additionally, employees may elect to participate in supplemental retirement plans funded totally by the individual. The College's and participants' contributions for the year ended June 30, 2006, were \$292,327 and \$213,072, respectively.

Arkansas Teacher Retirement System

Plan Description. South Arkansas Community College contributes to the Arkansas Teacher Retirement System (ATRS), a cost sharing multiple-employer defined benefit pension plan for employees who do not elect a qualified alternative retirement plan. ATRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit and contribution provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Teacher Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for ATRS. That report may be obtained by writing to Arkansas Teacher Retirement System, 1400 West Third Street, Little Rock, AR 72201 or by calling 1-800-666-2877.

Funding Policy. ATRS has contributory and noncontributory plans. Contributory members are required by law to contribute 6% of their salaries. Each participating employer is required by law to contribute at the rate established by the Arkansas General Assembly. The employer rate was 14% from July 1, 2005 to June 30, 2006. The College's contributions to ATRS for the year ended June 30, 2006, 2005, and 2004 were \$152,780, \$132,323, and \$112,762, respectively, equal to the required contributions for each year.

Arkansas Public Employees Retirement System

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



SOUTH ARKANSAS COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

Note 10: Retirement Plans (Continued)

Arkansas Public Employees Retirement System (Continued)

Funding Policy. APERS has contributory (not available to new enrollees until July 1, 2005) and non-contributory plans. Through June 30, 2004, the College had only non-contributory participants. Beginning July 1, 2005, all new participants will be required to contribute 5% and current participants have until December 31, 2005, to elect to change from non-contributory to contributory. Each participating employer is required by law to contribute at a rate established by the Arkansas General Assembly. The statutory employer rate for the fiscal year ended June 30, 2005, was 11.09% (10% prior to July 1, 2004) of annual covered payroll. The employer rate increases to 12.54% effective July 1, 2005. The College's contributions to APERS for the years ended June 30, 2006, 2005, and 2004, were \$89,686, \$78,571, and \$69,418, respectively, equal to the required contributions for each year.

Summary of employer contributions:

<u>Retirement Plan</u>	Institutional Contributions for the Years Ended June 30,		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Alternate Retirement Plan	\$ 292,327	\$ 287,816	\$ 281,403
AR Public Employees Retirement	89,686	78,571	69,418
AR Teachers Retirement	<u>152,780</u>	<u>132,323</u>	<u>112,762</u>
Totals	<u>\$ 534,793</u>	<u>\$ 498,710</u>	<u>\$ 463,583</u>

Note 11: Natural Classifications with Functional Classifications

The operating expenses by functional classification were as follows:

	For the Year Ended June 30, 2006					<u>Total</u>
	<u>Salaries</u>	<u>Fringe Benefits</u>	<u>Supplies and Services</u>	<u>Scholarships</u>	<u>Depreciation</u>	
Instruction	\$ 3,073,766	\$ 954,191	\$ 783,972			\$ 4,811,929
Public Service	123,560	39,290	13,022			175,872
Academic Support	345,334	39,517	221,637			606,488
Student Support	400,229	136,189	112,560			648,978
Institutional Support	1,067,853	416,226	329,077			1,813,156
M & O	348,584	143,622	703,851			1,196,057
Scholarships				\$ 731,947		731,947
Depreciation					\$ 642,544	642,544
Subtotal	<u>5,359,326</u>	<u>1,729,035</u>	<u>2,164,119</u>	<u>731,947</u>	<u>642,544</u>	<u>10,626,971</u>
Auxiliary	<u>38,759</u>	<u>21,982</u>	<u>592,437</u>			<u>653,178</u>
Totals	<u>\$ 5,398,085</u>	<u>\$ 1,751,017</u>	<u>\$ 2,756,556</u>	<u>\$ 731,947</u>	<u>\$ 642,544</u>	<u>\$ 11,280,149</u>



**SOUTH ARKANSAS COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

Note 11: Natural Classifications with Functional Classifications (Continued)

Total scholarships for fiscal year 05-06 were \$1,970,594; however, \$1,238,647 was reported as scholarship allowances on the Statement of Revenues, Expenditures and Changes in Net Assets.

Note 12: Loan Funds

Student/Employee Loan Fund

The College maintains two small loan funds that are available for students and employees. The student loan fund originated from an anonymous donation and was part of the funds received in the merger with Oil Belt Technical College, July 1, 1992. Students can request a loan of up to \$50, which is non-interest bearing, in hardship cases. The employee loan fund originated in February 1993 and consists of funds donated by college personnel for the purposes of making loans to employees. Employees can request an interest-bearing loan of up to 80% of earnings, including accrued compensated absences, for the current pay period, and not exceeding \$400. Repayment is made by payroll deduction from the next payroll, although the employee may repay earlier. An employee is also limited to no more than four loans per fiscal year.

Balances as of:	June 30, 2006		
	Student Loan Fund	Employee Loan Fund	Total
Cash in Bank	\$ 646	\$ 921	\$ 1,567
Loans, Net	50	400	450
Fund Balance	<u>\$ 696</u>	<u>\$ 1,321</u>	<u>\$ 2,017</u>

Note 13: South Arkansas Arboretum

The College entered into an agreement with the State of Arkansas Department of Parks and Tourism (DPT) authorizing the College to operate and maintain the South Arkansas Arboretum. The property, on which the Arboretum is located, was leased by the DPT from the El Dorado School District. The operating agreement with the DPT was dated, May 20, 1994, for twenty years with an option to renew the term for an additional five years upon agreed conditions. The College agrees to assume all costs necessary, except utilities, to construct, maintain and operate the Arboretum. The College is allowed to terminate the agreement should the institution be unable to meet its financial obligations as stated in the agreement.

Note 14: Arkansas Heavy Equipment Operator Training Academy

Act 1010 of the Arkansas 85th General Assembly transferred the Arkansas Heavy Equipment Operator Training Academy, located in Warren, Arkansas to the University of Arkansas at Monticello effective on March 18, 2005, the date of its approval by the governor. On June 30, 2005, the College received a disbursement of General Improvement Funds for AHEOTA in the amount of \$49,748. This amount is shown in cash and cash equivalents and also as a payable to UAM.



**SOUTH ARKANSAS COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

Note 15: Donor-Restricted Endowments

The computations, of net appreciation on investments of donor-restricted endowments that are available for authorization for expenditure, are as follows:

Total Endowments at June 30, 2006	\$ 11,411
Less: Non-Expendable Portion of True Endowments	<u>(10,728)</u>
Donor-Restricted Endowments Available for Expenditure	<u><u>\$ 683</u></u>

Arkansas Code 28-69-603 states "The governing board may expend so much of the endowment fund or an aggregation of the endowment fund as the governing body determines to be prudent under the standard established by §28-69-607 for the uses and purposes for which an endowment fund is established."

The College restricts expenditures according to donor requests. The O. B. Clark endowment restricts expenditures to 90% of the earnings on the endowment investment.

The Pro-Med Scholarship Fund and the Margaret Ellis Scholarship Fund were transferred to South Arkansas Community College Foundation at the request of the donors.

	<u>Endowed</u>	<u>Restricted</u>
Pro-Med Scholarship Fund	\$ 713	\$ 202
Margaret Ellis Scholarship		<u>7082</u>
Totals	<u><u>\$ 713</u></u>	<u><u>\$ 7,284</u></u>

Note 16: Related Organizations

South Arkansas Community College Foundation, Inc.

The financial statements of the College do not include balances or activity relating to South Arkansas Community College Foundation, Inc. The Foundation operates as a nonprofit benevolent corporation for charitable educational purposes.

Related Party Transactions

Dollar value of transaction for the year ended June 30, 2006

Funds disbursed to the College for scholarships	\$ 37,078
Funds disbursed to the College for reimbursement of expenses	\$ 11,132
Funds disbursed to the College for payment on student accounts	\$ 3,685
Funds disbursed to the College for student organizations	\$ 228



SOUTH ARKANSAS COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

Note 16: Related Organizations (Continued)

The College had a receivable from the Foundation on June 30, 2006 in the amount of \$4,757 and on June 30, 2005 in the amount of \$1,002 for reimbursement of expenses.

Financial Statements

The financial statements of the Foundation as of June 30, 2006, and for the ten (10) months ended June 30, 2005, which have been audited by an independent certified public accountant, are presented in summary form.

Condensed Statement of Financial Position

	June 30, 2006	June 30, 2005
Assets		
Cash and cash equivalents	\$ 213,034	\$ 103,113
Investments	500,371	504,033
Pledges receivable		8,313
Accrued Interest	878	127
Fixed assets, net of depreciation and amortization	112,076	118,754
Other Assets	2,410	2,410
	<u>828,769</u>	<u>736,750</u>
Total Assets	<u>\$ 828,769</u>	<u>\$ 736,750</u>
Liabilities and Net Assets		
Liabilities	\$ 13,876	\$ 11,359
Net Assets		
Unrestricted	415,615	386,219
Unrestricted - Board designated	42,076	30,000
Restricted	357,202	309,172
Total Net Assets	<u>814,893</u>	<u>725,391</u>
	<u>\$ 828,769</u>	<u>\$ 736,750</u>

Condensed Statement of Activities

	For The Year Ended June 30, 2006	For the 10 Months Ended June 30, 2005
Income and Other Additions		
Contributions	\$ 162,071	\$ 43,194
Fundraising events	59,060	45,737
Other revenues and additions	20,817	28,482
Total Income and Other Additions	<u>241,948</u>	<u>117,413</u>
Expenditures and Other Deductions		
Program services	89,135	45,406
Supporting services	63,311	45,301
Total Expenditures and Other Deductions	<u>152,446</u>	<u>90,707</u>
Increase in Net Assets	<u>\$ 89,502</u>	<u>\$ 26,706</u>



**SOUTH ARKANSAS COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

Note 17: Pending Litigation

A former employee alleges 36 counts of discrimination. The counts include discrimination, gender discrimination, sexual harassment, disability discrimination, civil conspiracy, failure to come to the aid, and retaliation.