

**South Arkansas Community College**

**El Dorado, Arkansas**

**Basic Financial Statements  
and Other Reports**

**June 30, 2012**

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LEGISLATIVE JOINT AUDITING COMMITTEE



Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and certain information pertaining to postemployment benefits other than pensions be presented to supplement the basic financial statements. Such information, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements. The Schedule of Selected Information for the Last Five Years (Schedule 1) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

DIVISION OF LEGISLATIVE AUDIT



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

Little Rock, Arkansas  
August 21, 2013  
EDHE19312

Sen. Bryan B. King  
Senate Chair  
Rep. Kim Hammer  
House Chair  
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Rep. John W. Walker  
House 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 the business-type activities and the discretely presented component unit of South Arkansas Community College (College), an institution of higher education of the State of Arkansas, as of and for the year ended June 30, 2012, which collectively comprise the College's basic financial statements and have issued our report thereon dated August 21, 2013. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the South Arkansas Community College Foundation, Inc., as described in our report on the College's financial statements. The financial statements of the South Arkansas Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the South Arkansas Community College Foundation, Inc.

#### Internal Control Over Financial Reporting

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

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

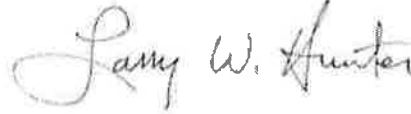
#### Compliance and Other Matters

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

We noted certain matters that we reported to management of the College in a separate letter dated August 21, 2013.

This report is intended solely for the information and use of the Legislative Joint Auditing Committee, the governing board, College management, state executive and oversight management, and other parties as required by Arkansas Code, and is not intended to be and should not be used by anyone other than these specified parties. However, pursuant to 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.

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  
August 21, 2013

Sen. Bryan B. King  
Senate Chair  
Rep. Kim Hammer  
House Chair  
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House 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, 2012, as reported to the State Department of Higher Education, to provide reasonable assurance that the data was properly reported. The enrollment data reported was as follows:

	<u>Summer II Term</u> <u>2011</u>	<u>Fall Term</u> <u>2011</u>	<u>Spring Term</u> <u>2012</u>	<u>Summer I Term</u> <u>2012</u>
Student Headcount	352	1,766	1,744	743
Student Semester Credit Hours	1,430	17,513	17,434	5,219

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.

DIVISION OF LEGISLATIVE AUDIT

Larry W. Hunter, CPA, CFE  
Deputy Legislative Auditor

Little Rock, Arkansas  
August 21, 2013

**SOUTH ARKANSAS COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2012**

**Overview of the Financial Statements and Financial Analysis**

South Arkansas Community College ("the College") is pleased to present its Annual Financial Report for the fiscal year

South Arkansas Community College was established by a vote of the citizens of Union County on March 31, 1992.

**Statement of Net Assets**

The Statement of Net Assets presents the assets, liabilities and net assets of the College. The purpose of the statement

Net assets are divided into three major categories:

*Invested in capital assets, net of debt:* capital assets, net of accumulated depreciation and outstanding principal

*Restricted net assets:* Divided into two categories, nonexpendable and expendable

*Restricted net assets - non-expendable:* net assets subject to externally-imposed stipulations that they be

*Restricted net assets - expendable:* net assets whose use by the College is subject to externally-imposed

*Unrestricted net assets:* net assets that are not subject to externally imposed stipulations but can be used at the

	June 30, 2012	June 30, 2011
<b>ASSETS</b>		
Current assets	\$ 8,670,311	\$ 8,613,896
Capital assets, net	19,655,065	18,986,004
Other assets	190,040	208,555
Total Assets	<u>\$ 28,515,416</u>	<u>\$ 27,808,455</u>
<b>LIABILITIES</b>		
Current liabilities	\$ 816,798	\$ 889,632
Noncurrent liabilities	4,190,517	4,151,791
Total Liabilities	<u>5,007,315</u>	<u>5,041,423</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	16,039,670	15,251,699
Restricted		
Non-Expendable	146,186	38,000
Expendable	792,231	858,105
Unrestricted	6,530,014	6,619,228
Total Net Assets	<u>\$ 23,508,101</u>	<u>\$ 22,767,032</u>

The College's total assets increased \$706,961, total liabilities decreased \$34,108, and net assets increased \$741,069. Invested in capital assets, net of related debt within the Net Assets section increased by \$787,971 primarily due to renovations completed to Ben E. Whitfield classroom building during fiscal year 2012 and other asset additions net of depreciation and debt service.

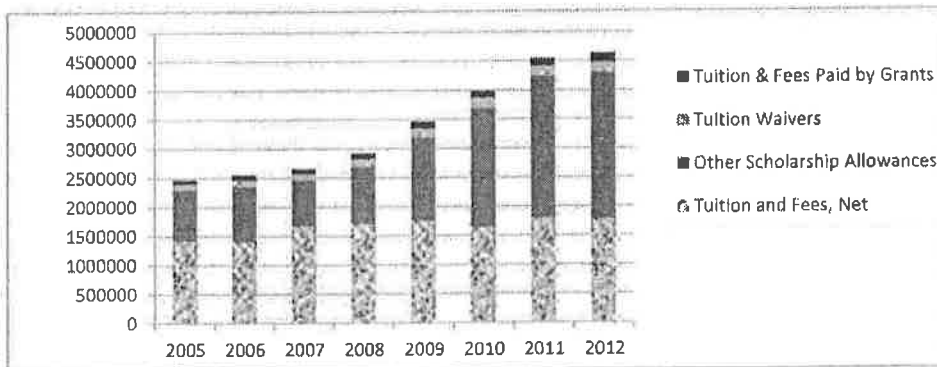
**Statement of Revenues, Expenses, and Changes in Net Assets**

The purpose of this statement is to present revenues earned and expenses paid by the College, both operating and non-operating, and any other revenues, expenses, gains and losses. The operating income (loss) is of little significance for the College since the GASB requires a significant portion of revenues (state appropriations, gifts, and some grants and contracts) to be reported as non-operating.

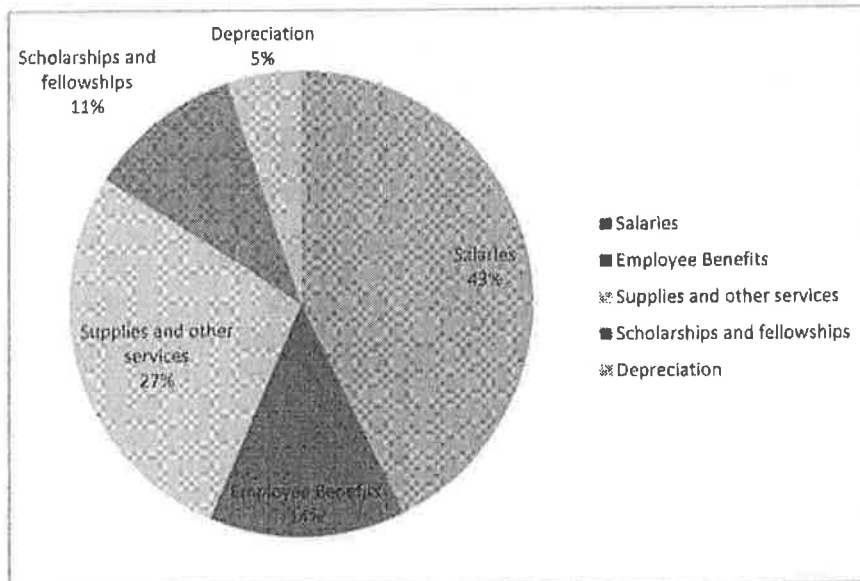
**Statement of Revenues, Expenses, and Changes in Net Assets (Continued)**

	Year Ended	
	June 30, 2012	June 30, 2011
Operating revenues	\$ 7,156,320	\$ 6,521,772
Operating expenses	18,777,536	18,413,774
Operating Loss	(11,621,216)	(11,892,002)
Non-operating revenues and expenses	12,384,672	12,602,866
Income before other revenues and expenses	763,456	710,864
Other revenues and expenses	(22,387)	316,369
Increase in Net Assets	741,069	1,027,233
Net Assets, beginning of year	22,767,032	21,739,799
Net Assets, end of year	\$ 23,508,101	\$ 22,767,032

Gross tuition and fees increased \$89,110 which is a 1.96% increase over the previous year. The following chart shows the growth of gross tuition and fees since 2005. The growth in 2011/12 is due to an increase in the rates charged for tuition and fees along with an increase in FTE (full-time-equivalent) enrollment of 4.1%.



The following pie chart details the percentage breakdown in the operating expenses for the fiscal year.



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

Increased compensation and benefit costs rose 2% over the previous year, and accounted for 57% of the total operating expense of \$18,777,536. The increase in compensation and benefits results from a merit salary adjustment for the fiscal year, and the accrual of uncompensated annual leave and sick leave for employees. Supplies and other services increased 4.8% which is largely due to the increases in expenses related to the operation of the El Dorado Conference Center. The 13.2% decrease in scholarships is attributable to the decrease in Pell funding for the fiscal year, and a shift towards increased activity in the loan programs. Total PELL awards decreased from \$4,754,120 to \$4,617,961.

**Statement of Cash Flows**

The purpose of the Statement of Cash Flows is to provide information about the cash receipts and disbursements of the College for the year. This statement may aid in the assessment of the College's ability to meet obligations as they become due, the need for external financing, and the ability to generate future cash flow. This statement is prepared using the "direct method" as required by the GASB.

Similar to operating income (loss) on the Statement of Revenues, Expenses, and Changes in Net Assets, net cash provided by operating activities is of little significance to the College because the GASB requires significant sources of cash to be reported as non-operating financing. The net cash provided by the operating activities and non-capital financing activities are important for the College. This positive amount of \$1,954,788 and \$1,219,671 for fiscal years ended June 30, 2012 and June 30, 2011, respectively, indicates that these activities contributed cash and liquidity for the year.

	Year Ended	
	June 30, 2012	June 30, 2011
Cash provided (used) by:		
Operating activities	\$ (10,494,619)	\$ (11,312,757)
Noncapital financing activities	12,449,407	12,532,428
Subtotal	1,954,788	1,219,671
Capital and related financing activities	(1,960,128)	(6,279,477)
Investing activities	52,124	1,024,465
Net change in cash	46,784	(4,035,341)
Cash, beginning of year	5,290,442	9,325,783
Cash, end of year	\$ 5,337,226	\$ 5,290,442

**Capital Assets and Long-Term Debt Activity**

At June 30, 2012, the College had \$19,655,065 of capitalized assets, net of depreciation of \$11,544,610. During the fiscal year the College made the following additions and improvements in capital assets.

Equipment	\$ 172,551
Buildings	760,097
Library Holdings	38,482
Buildings	
Land	234,835
Improvements and Infrastructure	385,210
Intangibles - software	45,294
Construction In Progress	9,429
Total	<u>\$ 1,645,898</u>

More information on capital assets is presented in Note 5.



### ***Capital Assets and Long-Term Debt Activity (Continued)***

The College completed two major renovation projects during the fiscal year. The interior space of the Whitfield Building was renovated updating flooring and classroom space to enhance the learning environment. The Whitfield Streetscape project was completed on the east side of the building updating the parking area, sidewalks, and landscaping to complement the building with the neighboring El Dorado Conference Center. The Computer Technology patio was included in the Streetscape project. Total expenditures for both projects was \$848,759.

The College also purchased real property during the fiscal year west of the main campus along West Cedar street, Summit street, West Block street, and West Wesson street. Total cost expended for the additional lots and houses was \$409,287.

### ***Economic Outlook***

The College's financial position remained stable for fiscal year 2011/12 as evidenced by an increase in net assets of \$741,069. The student headcount for fiscal year 2012 was 1,773 which was .4% lower than fiscal year 2011's headcount of 1,781. Although the College experienced a slight drop in student headcount, the College recorded an increase in student semester credit hours of 4.1% which indicates increasing course loads for our students which provided a slight increase in gross tuition and fees for fiscal year 2012. Enrollment is predicted to be flat for fiscal year 2013, and may decrease in the future as national economic trends recover.

The College is in the second year of a ten year lease with the City of El Dorado to operate and manage the El Dorado Conference Center through fiscal year 2021. The center includes space for the College bookstore, a one-stop Student Services area, food services, and conference facilities. The El Dorado Conference Center has experienced growth in demand and usership during the fiscal year which has added value to the mission of the College.

One of the College's strengths is the diverse stream of revenues which funds its operations. In addition to the state appropriations, the College receives funds from tuition and fees, investment income, grants and contracts, and support from individuals, foundations and corporations. The College plans to continue its strategy of seeking grants and private gifts to supplement scholarships, capital projects, student support, and academic needs of the institution.

**SOUTH ARKANSAS COMMUNITY COLLEGE**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2012**  
*(With Comparative Figures as of June 30, 2011)*

Exhibit A

	2012	2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 5,186,040	\$ 5,122,055
Short-term investments	1,950,925	1,950,925
Accounts receivable (less allowances of \$63,674 and \$69,020)	228,657	281,297
Employee and student loans receivable (less allowance of \$100 and \$100)		400
Property taxes receivable	230,750	217,878
Other receivables	717,962	722,567
Inventories	243,325	202,592
Deposits with trustees	4	3
Prepaid expenses	111,334	115,051
Bond issuance cost	1,128	1,128
<b>Total Current Assets</b>	<u>8,670,125</u>	<u>8,613,896</u>
Noncurrent Assets		
Cash and cash equivalents	151,186	168,387
Endowment investments	10,000	10,000
Capital assets, net of accumulated depreciation of \$11,544,610 and \$11,071,565 (Note 5)	19,655,065	18,986,004
Bond issuance cost (net of accumulated amortization cost of \$3,101 and \$1,974)	29,040	30,168
<b>Total Noncurrent Assets</b>	<u>19,845,291</u>	<u>19,194,559</u>
<b>TOTAL ASSETS</b>	<u>28,515,416</u>	<u>27,808,455</u>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable and accrued liabilities	416,683	432,319
Refunds payable	46,718	70,560
Deferred revenue	161,886	198,071
Bonds and certificate of indebtedness payable - current portion	119,953	118,910
Compensated absences	28,953	30,315
Funds held in trust for others	42,605	39,457
<b>Total Current Liabilities</b>	<u>816,798</u>	<u>889,632</u>
Noncurrent Liabilities		
Accounts payable	92,456	
Bonds and certificate of indebtedness payable	3,495,442	3,615,395
Compensated absences	472,916	424,540
Net other postemployment benefit obligation	129,703	111,856
<b>Total Noncurrent Liabilities</b>	<u>4,190,517</u>	<u>4,151,791</u>
<b>TOTAL LIABILITIES</b>	<u>5,007,315</u>	<u>5,041,423</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	16,039,670	15,251,699
Restricted for:		
Non-expendable		
Endowments	146,186	38,000
Expendable		
Scholarships	21,021	19,050
Loans	2,142	1,984
Capital Projects	4,095	125,782
Debt Service	186,846	101,774
Other	578,127	609,515
Unrestricted	6,530,014	6,619,228
<b>TOTAL NET ASSETS</b>	<u>\$ 23,508,101</u>	<u>\$ 22,767,032</u>

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

**SOUTH ARKANSAS COMMUNITY  
COLLEGE FOUNDATION, INC.**

Exhibit A-1

**Statement of Financial Position  
June 30, 2012**

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**ASSETS**

**Current Assets**

Cash and cash equivalents	\$ 810,212
Pledges receivable, current portion	57,858
Accrued interest receivable	240
Prepaid expenses	2,962
Investments	<u>1,009,932</u>

**Total Current Assets** 1,881,204

**Fixed Assets, at cost**

Computer software	6,365
Property and equipment	<u>99,548</u>
	105,913
Less: accumulated depreciation and amortization	<u>(85,873)</u>

**Total Fixed Assets** 20,040

**Other Assets**

Antique furniture	2,410
Pledges receivable	<u>6,712</u>

**Total Other Assets** 9,122

**Total Assets** \$ 1,910,366

**LIABILITIES AND NET ASSETS**

**Current Liabilities**

Accounts payable	\$ 1,027
Scholarships payable	10,080
Refundable advances	<u>11,425</u>

**Total Current Liabilities** 22,532

**Net Assets**

Unrestricted	1,258,483
Unrestricted - Board designated	30,000
Temporarily restricted	<u>599,351</u>

**Total Net Assets** 1,887,834

**Total Liabilities and Net Assets** \$ 1,910,366

**SOUTH ARKANSAS COMMUNITY COLLEGE**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED JUNE 30, 2012**  
*(With Comparative Figures for the year ended June 30, 2011)*

Exhibit B

	<u>2012</u>	<u>2011</u>
<b>OPERATING REVENUES</b>		
Student tuition and fees (net of scholarship allowances of \$2,856,551 and \$2,746,823)	\$ 1,776,102	\$ 1,796,720
Federal grants and contracts	3,072,608	2,684,011
State and local grants and contracts	1,198,807	1,207,028
Sales and services of educational departments	76,852	59,082
Auxiliary enterprises:		
Vending	11,502	9,731
Bookstore (net of scholarship allowances of \$796,429 and \$647,493)	593,095	490,692
Convention Center	418,316	241,400
Other operating revenues	9,038	33,108
<b>TOTAL OPERATING REVENUES</b>	<u>7,156,320</u>	<u>6,521,772</u>
<b>OPERATING EXPENSES</b>		
Salaries	8,022,205	7,869,280
Employee benefits	2,591,600	2,539,392
Supplies and other services	5,169,283	4,930,272
Scholarships and fellowships	2,019,098	2,326,568
Depreciation	975,350	748,262
<b>TOTAL OPERATING EXPENSES</b>	<u>18,777,536</u>	<u>18,413,774</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(11,621,216)</u>	<u>(11,892,002)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
State appropriations	6,971,881	6,988,577
Federal Grants and Contracts	4,617,961	4,754,120
County millage	315,819	317,156
Gifts	575,857	485,243
Interest income	52,219	71,978
Interest and other cost (on capital asset related debt)	(159,910)	(14,098)
Disposal of capital assets (net of accumulated depreciation of \$502,303 and \$160,704)	10,845	(110)
<b>NET NON-OPERATING REVENUES (EXPENSES)</b>	<u>12,384,672</u>	<u>12,602,866</u>
<b>INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES</b>	<u>763,456</u>	<u>710,864</u>
Other revenues, expenses, gains and losses		
Capital grants and gifts		316,369
Return of State appropriations	(22,387)	
<b>TOTAL OTHER REVENUES, EXPENSES, GAINS AND LOSSES</b>	<u>(22,387)</u>	<u>316,369</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	741,069	1,027,233
<b>NET ASSETS - BEGINNING OF YEAR</b>	<u>22,767,032</u>	<u>21,739,799</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 23,508,101</u>	<u>\$ 22,767,032</u>

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

**SOUTH ARKANSAS COMMUNITY  
COLLEGE FOUNDATION, INC.**

Exhibit B-1

**Statement of Activities  
June 30, 2012**

	Unrestricted	Temporarily Restricted	Total
<b>Revenues, Gains and Other Support</b>			
General contributions	\$ 277,791	\$ 79,149	\$ 356,940
Endowed contributions	44,073	14,262	58,335
Capital Campaign		9,806	9,806
Special Events	48,421	26,295	74,716
Investment income (loss)	10,117	4,795	14,912
Rent income	1,752		1,752
Net assets released due to satisfaction of program restrictions	<u>108,984</u>	<u>(108,984)</u>	
<b>Total revenues, gains and other support</b>	<u>491,138</u>	<u>25,323</u>	<u>516,461</u>
<b>Expenses</b>			
Program services			
Scholarships	68,644		68,644
Grants and awards	<u>62,474</u>		<u>62,474</u>
<b>Total program services</b>	<u>131,118</u>		<u>131,118</u>
Supporting services			
Management and general	38,567		38,567
Fund raising	<u>28,263</u>		<u>28,263</u>
<b>Total supporting services</b>	<u>66,830</u>		<u>66,830</u>
<b>Total expenses</b>	<u>197,948</u>		<u>197,948</u>
<b>Change in Net Assets</b>	293,190	25,323	318,513
<b>Net Assets - Beginning of Year</b>	<u>995,293</u>	<u>574,028</u>	<u>1,569,321</u>
<b>Net Assets - End of Year</b>	<u>\$ 1,288,483</u>	<u>\$ 599,351</u>	<u>\$ 1,887,834</u>

**SOUTH ARKANSAS COMMUNITY COLLEGE**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2012**  
*(With Comparative Figures for the year ended June 30, 2011)*

Exhibit C

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Tuition and fees	\$ 1,806,295	\$ 1,727,437
Grants and contracts	4,440,984	3,588,654
Sales and services of educational activities	75,759	59,538
Collection of student and employee loans including interest	7,261	5,893
Auxiliary enterprise revenues		
Vending	11,502	9,731
Bookstore	593,042	485,819
Convention Center	418,318	228,329
Other receipts	9,038	27,915
Payments to employees	(8,013,421)	(7,869,930)
Payments of employee benefits	(2,379,515)	(2,484,690)
Payments to suppliers	(5,437,923)	(4,758,638)
Loans issued to students and employees	(6,861)	(6,247)
Scholarships	(2,019,098)	(2,326,568)
Net cash provided (used) by operating activities	<u>(10,494,619)</u>	<u>(11,312,757)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
State appropriations	6,949,494	6,988,577
Federal grants and gifts received	4,617,961	4,754,120
Loans to Students - Direct Loans & Private (Inflows)	5,075,893	3,885,853
County millage	302,947	296,770
Gifts	575,857	485,243
Agency funds - net	3,148	7,718
Loans to Students - Direct Loans & Private (Outflows)	(5,075,893)	(3,885,853)
Net cash provided (used) by non-capital financing activities	<u>12,449,407</u>	<u>12,532,428</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital grants and gifts		316,369
Proceeds from sale of capital assets	11,863	406
Purchase of capital assets	(1,693,471)	(6,315,421)
Principal paid on certificate of indebtedness	(50,614)	(49,592)
Interest and fees paid on certificate of indebtedness	(7,974)	(8,996)
Principal paid on capital debt	(70,000)	(70,000)
Interest and service fees paid on capital debt	(149,932)	(152,243)
Net cash provided (used) by capital and related financing activities	<u>(1,960,128)</u>	<u>(6,279,477)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	52,124	74,465
Proceeds from sales and maturities of investments		950,000
Net cash provided (used) by investing activities	<u>52,124</u>	<u>1,024,465</u>
Net increase (decrease) in cash and cash equivalents	46,784	(4,035,341)
Cash and cash equivalents-beginning of year	<u>5,290,442</u>	<u>9,325,783</u>
Cash and cash equivalents-end of year	<u>\$ 5,337,226</u>	<u>\$ 5,290,442</u>

**SOUTH ARKANSAS COMMUNITY COLLEGE**  
**COMPARATIVE STATEMENT OF CASH FLOWS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2012**  
*(With Comparative Figures for the year ended June 30, 2011)*

	<u>2012</u>	<u>2011</u>
<b>Reconciliation of net operating revenues (expenses)</b>		
<b>to net cash provided (used) by operating activities:</b>		
Operating income (loss)	\$ (11,621,216)	\$ (11,892,002)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation	975,350	748,262
Changes in assets and liabilities:		
(Increase) Decrease in accounts receivables, net	50,718	(115,554)
(Increase) Decrease in employee and student loans receivable, net	400	(354)
(Increase) Decrease in other receivables	7,090	(341,841)
(Increase) Decrease in inventories	(40,733)	18,816
(Increase) Decrease in prepaid expenses	3,717	691
Increase (Decrease) in accounts payable and accrued liabilities net of payables for capital assets (\$0 and \$726,844)	125,222	130,947
Increase (Decrease) in refunds payable	(23,842)	53,708
Increase (Decrease) in deferred revenue	(36,185)	30,448
Increase (Decrease) in compensated absences	47,013	25,256
Increase (Decrease) in OPEB obligation	17,847	28,866
<b>Net cash provided (used) by operating activities</b>	<u>\$ (10,494,619)</u>	<u>\$ (11,312,757)</u>

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

**SOUTH ARKANSAS COMMUNITY  
COLLEGE FOUNDATION, INC.**

Exhibit C-1

**Statement of Cash Flows**  
**June 30, 2012**

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**Cash Flows from Operating Activities**

Change in net assets	\$ 318,513
Adjustment to reconcile change in net assets to net cash provided by operating activities:	
Net realized and unrealized gains on investments	(3,028)
Depreciation	5,018
Capital campaign contributions	(9,806)
Decrease in pledge receivables	55,432
Increase in accrued interest receivable	(226)
Decrease in prepaid expenses	360
Decrease in accounts payable	(3,954)
Increase in scholarships payable	261
Increase in refundable advances	2,250
	<hr/>
<b>Net cash provided by operating activities</b>	<b>364,820</b>

**Cash Flows from Investing Activities**

Proceeds from sale of investments	537,269
Purchases in investments	(947,812)
	<hr/>
<b>Net cash used in investing activities</b>	<b>(410,543)</b>

**Cash Flows from Financing Activities**

Contributions for capital campaign	9,806
	<hr/>
<b>Net cash provided by financing activities</b>	<b>9,806</b>

**Net Decrease in Cash** (35,917)

**Cash and Cash Equivalents at  
Beginning of Year** 846,129

**Cash and Cash Equivalents at  
End of Year** \$ 810,212



**SOUTH ARKANSAS COMMUNITY COLLEGE**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2012**

**Note 1: Summary of Significant Accounting Policies**

**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 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 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.

**Component Unit**

The South Arkansas Community College Foundation, Inc. ("the Foundation") is a legally separate, tax-exempt component unit of South Arkansas Community College ("the College"). The Foundation acts primarily as a fund-raising and asset management organization to develop and supplement the resources that are available to the College in support of its mission and programs. The 22 member board is self-perpetuating. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources or income thereon that the Foundation holds and invests are restricted to the activities of the College by donors. Because these restricted resources held by the Foundation may only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College under guidelines established by Governmental Accounting Standards Board (GASB) Statement Number 39, *Determining Whether Certain Organizations are Component Units*. Accordingly, the financial statements of the Foundation are discretely presented in the College's financial statements in accordance with the provisions of GASB Statement Number 39.

During the year ended June 30, 2012, the Foundation transferred the following amounts to the College:

For scholarships	\$ 28,992
For reimbursement of expenses	29,566
Total	<u>\$ 58,558</u>

The College had a receivable from the Foundation on June 30, 2012, in the amount of \$2,997. Complete financial statements for the Foundation may be obtained from the Foundation office at P. O. Box 7010, El Dorado, AR 71731-7010.

The Foundation reports under Financial Accounting Standards Board (FASB) standards. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial statements presented within the College's financial statements.

**Financial Statement Presentation**

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement no. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. GASB Statement no. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, followed this in November 1999. The financial statement presentation required by GASB no. 34 and no. 35 provides a comprehensive, entity-wide perspective of 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.

**SOUTH ARKANSAS COMMUNITY COLLEGE**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2012**

**Note 1: Summary of Significant Accounting Policies(Continued)**

**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.

The College has elected not to apply Financial Accounting Standards Board (FASB) statements and interpretations issued since November 30, 1989, unless they are adopted by the Governmental Accounting Standards Board (GASB).

**Capital Assets and Depreciation**

Land, buildings, improvements and infrastructure, equipment, library holdings, intangibles - software, 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 40 years for buildings, 15 to 20 years for infrastructure and land improvements, 10 years for library holdings, 5 years for vehicles, 3 to 10 years for equipment, and 7 years for intangibles - software.

**Operating and Non-operating Revenues**

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

- 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, and (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 ninety 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.

**SOUTH ARKANSAS COMMUNITY COLLEGE**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2012**

**Note 1: Summary of Significant Accounting Policies(Continued)**

**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 lower cost or market with cost being generally determined on a first-in, first-out basis.

**Non-current Cash and Investments**

Cash and investments that are externally restricted for debt service payments, sinking funds, endowment funds, or reserve funds, or to purchase or construct capital or other nonrecurring assets, are classified as non-current assets in the statement of net assets. Investments consist of certificates of deposit with an original maturity date of greater than ninety days.

**Restricted/Unrestricted Resources**

The College does not have a 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.

**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 – other than sick leave reflects accumulated compensatory, holiday and annual leave and required employer contributions at June 30, 2012 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 1288 of 2005, allowed compensation for unused sick leave at retirement or death to two year college classified employees. Act 220 of 2009 extended compensation for unused sick leave to non-classified employees. Accrued compensated absences payable – sick leave reflects accumulated sick leave and required employer contributions at June 30, 2012, for full-time classified and non-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.

**Non-current Liabilities**

Non-current liabilities include: (1) principal amounts of debt payable with contractual maturities greater than one year; (2) estimated amounts for accrued compensated absences and related matching costs that will not be paid within the next fiscal year; and (3) other postemployment benefits payable (Note 8).

**SOUTH ARKANSAS COMMUNITY COLLEGE**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2012**

**Note 1: Summary of Significant Accounting Policies(Continued)**

**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 15th 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, and the 60 and over waiver. Pell, Supplemental Education Opportunity Grant (SEOG) and other grants and scholarships are recorded as 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.

**Note 2: 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)	\$ 250,004	\$ 250,004
Collateralized:		
Collateral held by the pledging bank or pledging bank's trust department in the College's name	7,031,994	6,780,360
Total Deposits	<u>\$ 7,281,998</u>	<u>\$ 7,030,364</u>

The above deposits do not include cash on deposit in the state treasury in the amount of \$15,002 or cash on hand in the amount of \$1,155 for change funds as of June 30, 2012. The above total deposits include certificates of deposit of \$1,960,925 as of June 30, 2012, reported as investments and classified as nonparticipating contracts and deposits with trustees of \$4.

**Note 3: Disaggregation of Receivable and Payable Balances**

The accounts receivable of \$228,657 at June 30, 2012, consisted of student accounts receivable of \$292,331, which was reduced by an allowance for doubtful accounts of \$63,674.

Other receivables of \$717,962 at June 30, 2012, consisted of:

Reimbursement from federal and state agencies for grants and contracts	\$ 489,633
Vendor refunds	211,220
Conference Center receivable	12,269
Accrued interest receivable	1,345
Due from Foundation	2,997
Due from employees and employee organization	498
Total	<u>\$ 717,962</u>

**SOUTH ARKANSAS COMMUNITY COLLEGE**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2012**

**Note 3: Disaggregation of Receivable and Payable Balances (Continued)**

The accounts payable and accrued liabilities of \$509,139 at June 30, 2012, consisted of:

	<u>Current</u>	<u>Non-Current</u>
Due to vendors	\$ 197,376	\$ 92,456
Salaries and benefits	171,980	
Accrued interest payable	38,091	
Unclaimed property payable to the state	9,236	
	<u>\$ 416,683</u>	<u>\$ 92,456</u>

**Note 4: 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 5: Capital Assets**

Following are the changes in capital assets for the year ended June 30, 2012:

	<u>Balance June 30, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2012</u>
<b>Capital assets not being depreciated:</b>				
Land	\$ 1,272,499	\$ 234,835		\$ 1,507,334
Construction-in-progress	9,121,592	9,429	\$ 9,121,592	9,429
Total capital assets not depreciated	<u>\$ 10,394,091</u>	<u>\$ 244,264</u>	<u>\$ 9,121,592</u>	<u>\$ 1,516,763</u>
<b>Other capital assets:</b>				
Improvements and infrastructure	\$ 449,045	\$ 407,079		\$ 856,124
Buildings	15,411,162	9,859,820		25,270,982
Equipment	2,764,483	172,551	\$ 216,380	2,720,654
Library holdings	868,948	38,482	287,412	620,018
Intangibles - software	169,840	45,294		215,134
Total other capital assets	<u>19,663,478</u>	<u>10,523,226</u>	<u>503,792</u>	<u>29,682,912</u>
Less accumulated depreciation for:				
Improvements and infrastructure	364,163	14,133		378,296
Buildings	7,789,200	677,469		8,466,669
Equipment	2,159,761	216,299	214,892	2,161,168
Library holdings	632,010	57,241	287,411	401,840
Intangibles - software	126,431	10,206		136,637
Total accumulated depreciation	<u>11,071,565</u>	<u>975,348</u>	<u>502,303</u>	<u>11,544,610</u>
Other capital assets, net	<u>\$ 8,591,913</u>	<u>\$ 9,547,878</u>	<u>\$ 1,489</u>	<u>\$ 18,138,302</u>
<b>Capital asset summary:</b>				
Capital assets not being depreciated	\$ 10,394,091	\$ 244,264	\$ 9,121,592	\$ 1,516,763
Other capital assets at cost	19,663,478	10,523,226	503,792	29,682,912
Total cost of capital assets	30,057,569	10,767,490	9,625,384	31,199,675
Less accumulated depreciation	11,071,565	975,348	502,303	11,544,610
Capital assets, net	<u>\$ 18,986,004</u>	<u>\$ 9,792,142</u>	<u>\$ 9,123,081</u>	<u>\$ 19,655,065</u>

**SOUTH ARKANSAS COMMUNITY COLLEGE**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2012**

**Note 6: Long-term Liabilities**

The retirement of the 2009 bond issue is secured by a pledge of millage receipts. Debt service payments on existing bonds amounted to \$217,443 for the fiscal year ended June 30, 2012. Debt service payments on the certificate of indebtedness amounted to \$58,588 for the fiscal year ended June 30, 2012.

<u>Date of Issue</u>	<u>Date of Final Maturity</u>	<u>Rate of Interest</u>	<u>Amount Authorized and Issued</u>	<u>Debt Outstanding June 30, 2012</u>	<u>Principal Payments Made Thru June 30, 2012</u>
10/28/2003	10/1/2018	2.05%	\$ 750,000	\$ 350,969	\$ 399,031
10/1/2009	4/1/2039	3.25 - 5%	3,590,000	3,310,000	280,000
<b>Totals</b>			<b>\$ 4,340,000</b>	<b>\$ 3,660,969</b>	<b>\$ 679,031</b>

Changes in long-term liabilities are as follows:

	<u>Balance July 1, 2011</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance June 30, 2012</u>	<u>Principal due within one year</u>
Certificate of indebtedness payable (2003)	\$ 401,583		\$ 50,614	\$ 350,969	\$ 51,657
General obligation bonds payable (2009)	3,380,000		70,000	3,310,000	70,000
Discount on bonds	(47,278)		(1,704)	(45,574)	(1,704)
Compensated absences payable - other than sick leave	322,081	\$ 305,308	261,850	365,539	20,774
Compensated absences payable - sick leave	132,774	30,394	26,838	136,330	8,179
<b>Totals</b>	<b>\$ 4,189,160</b>	<b>\$ 335,702</b>	<b>\$ 407,598</b>	<b>\$ 4,117,264</b>	<b>\$ 148,906</b>

**SOUTH ARKANSAS COMMUNITY COLLEGE**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2012**

**Note 6: Long-term Liabilities (Continued)**

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

Year Ended June 30	Principal	Interest	Total
2013	\$ 121,656	\$ 152,099 *	\$ 273,755
2014	127,721	148,760	276,481
2015	128,807	145,236	274,043
2016	134,916	141,690	276,606
2017	136,047	137,958	274,005
2018-2021	531,822	637,451	1,169,273
2023-2026	545,000	546,312	1,091,312
2028-2031	680,000	412,972	1,092,972
2033-2036	855,000	232,156	1,087,156
2038-2039	400,000	30,250	430,250
<b>Total</b>	<b>\$ 3,660,969</b>	<b>\$ 2,584,884</b>	<b>\$ 6,245,853</b>

\* Includes interest payable of \$38,091 recorded as a current liability at June 30, 2012.

**Note 7: Bonds Payable and Pledged Revenues**

A. Bonds payable consisted of the following at June 30, 2012:

Union County Community College District General Obligation Bonds (South Arkansas Community College), Series 2009, issued in the original amount of \$3,590,000 and maturing in varying amounts to April 1, 2039, with variable interest rates from 3.25% to 5% \$3,310,000

B. Pledged Revenues consisted of the following at June 30, 2012:

Bond Issue	Maturity Date	Purpose of Debt	Remaining Prin + Interest	FY 2012 Prin + Interest	Revenue Source	FY 2012 Revenue	% of Rev Pledged in FY 12
2009	2039	Construction-Health Science Building	\$ 5,869,454	\$ 217,443	County Millage	\$ 315,819	68.9%

**Note 8: Commitments**

The College was contractually obligated on the following at June 30, 2012:

A. Construction Contract

Project Name	Estimated Completion Date	Contract Balance
On-call professional service		
On call Architect Contract	June 30, 2013	\$ 101,651
<b>Total Construction Obligations</b>		<b>\$ 101,651</b>

**SOUTH ARKANSAS COMMUNITY COLLEGE**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2012**

**Note 8: Commitments (Continued)**

B. Operating Leases (Noncapital leases with initial or remaining non-cancelable lease terms in excess of 1 year)

	2013	2014	Total
Copier Leases - 36 mo term	\$ 23,699	\$ 10,449	\$ 34,148

Rental payments for operating leases with initial terms in excess of one year, for the year ended June 30, 2012, were \$52,681.

**Note 9: Other Postemployment Benefits**

The College adopted GASB Statement no. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, during the fiscal year 2008. This statement requires governmental entities to recognize and match other postretirement benefit costs with related services received and also to provide information regarding the actuarially calculated liability and funding level of the benefits associated with past services.

Plan Description: The College's defined benefit postemployment healthcare plan, provides health insurance benefits to eligible retired College employees. The plan is affiliated with the Arkansas Higher Education Consortium (AHEC), an agent multiple-employer postemployment healthcare plan administered by J.P. Farley. The College has the authority to amend or cancel the benefit provisions of the plan. An employee must retire directly from active employment. If they are age 55 and have at least 15 years full-time service, they can continue their medical insurance coverage, until they are eligible for Medicare. The College pays a percentage of the premium, based on the person's age plus service when they retire. If age plus service equals 70, the percentage is 25%. For 71, the percentage is 30%, in 5% increments, up to 100% when the person's age plus service equals 85.

The Plan does not issue a stand-alone financial report. For inquiries relating to the Plan, please contact the Office of Human Resources, South Arkansas Community College, P. O. Box 7010, El Dorado, Arkansas 71731-7010.

Funding Policy: The authority under which the obligations to contribute to the plan of the plan members, the College, and other contributing entities is established or may be amended is the College Board of Trustees. The required employee and employer contribution rates of active plan members were an average of \$98 and \$377, respectively.

**Reconciliation of Net Other Post-Employment Benefits Obligation (Net OPEB)**

1. Actuarially Required Contribution	\$44,722
2. Interest on Net OPEB Obligation	5,872
3. Adjustment to (1)	<u>-7,485</u>
4. Annual OPEB Cost (1) + (2) - (3)	43,109
5. Actual Contribution Made	<u>25,262</u>
6. Increase in Net OPEB Obligation (4) - (5)	17,847
7. Net OPEB Obligation Beginning of Year	<u>111,856</u>
8. Net OPEB Obligation End of Year	<u>\$129,703</u>



**SOUTH ARKANSAS COMMUNITY COLLEGE**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2012**

**Note 9: Other Post Employment Benefits (Continued)**

The College's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the current fiscal year and the preceding fiscal years, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2012	\$ 43,109	58.6%	\$ 129,703
6/30/2011	40,951	29.5%	111,856
6/30/2010	41,315	30.4%	82,990

Funded Status and Funding Progress: The funded status of the plan as of June 30, 2012, was as follows:

Actuarial accrued liability (AAL)	\$ 292,085
Actuarial value of plan assets	0
Unfunded actuarial accrued liability (UAAL)	\$ 292,085
Funded ratio (actuarial value of plan assets/AAL)	0 %
Covered payroll	\$ 8,022,205
UAAL as a percentage of covered payroll	3.6 %

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2011, actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 5.25 percent discount rate and an annual healthcare cost trend rate of 10 percent initially, 9 percent the second year, 8 percent the third year with the rate decreasing by 0.5 percent each year to an ultimate rate of 5 percent in the ninth year. The College's unfunded actuarial accrued liability is being amortized using the level dollar method. The remaining amortization period at July 1, 2011, was thirty years.

Detailed information pertaining to actuarial methods and assumptions are presented as required supplemental information.

**SOUTH ARKANSAS COMMUNITY COLLEGE**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2012**

**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 participant's contributions for the year ended June 30, 2012 were \$340,916 and \$286,116 and for the year ended June 30, 2011, were \$326,788 and \$240,227, 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 certain employees. ATRS, administered by a Board of Trustees, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit 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 State law to contribute at the rate determined by the Board of Trustee, based on the annual actuarial valuation. The employer rate is 14% of covered salaries, the maximum allowed by state law. The College's contributions to ATRS for the year ended June 30, 2012, 2011, and 2010 were \$383,893, \$421,539, and \$369,999, 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, administered by a Board of Trustees, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for APERS. That report may be obtained by writing to Arkansas Public Employees Retirement System, 124 W. Capitol, Suite 400, Little Rock, AR 72201 or by calling 1-800-682-7377.

**SOUTH ARKANSAS COMMUNITY COLLEGE**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2012**

**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. Since July 1, 2005, all new participants have been required to contribute 5% and current participants had until December 31, 2005, to elect to change from non-contributory to contributory. Each participating employer is required by State law to contribute at a rate determined by the Board of Trustees, based on the annual actuarial valuation. The FY 2011-2012 employer rate for higher education entities was 13.47% of covered salaries. The College's contributions to APERS for the years ended June 30, 2012, 2011, and 2010, were \$130,008, \$99,331, and \$89,358, respectively, equal to the required contributions for each year.

Summary of employer contributions:

Retirement Plan	Institutional Contributions for the Years Ended June 30,		
	2012	2011	2010
Alternate Retirement Plan	\$ 340,916	\$ 326,788	\$ 321,782
AR Public Employees Retirement	130,008	99,331	89,358
AR Teachers Retirement	383,893	421,539	369,999
<b>Total</b>	<b>\$ 854,817</b>	<b>\$ 847,658</b>	<b>\$ 781,139</b>

**Note 11: Natural Classifications with Functional Classifications**

The operating expenses by functional classification were as follows:

	For the Year Ended June 30, 2012					
	Salaries	Fringe Benefits	Supplies & Services	Scholarships	Depreciation	Total
Instruction	\$ 4,574,796	\$ 1,384,726	\$ 1,008,336			\$ 6,967,858
Public Service	171,831	57,725	79,259			308,815
Academic Support	126,884	44,640	62,798			234,322
Student Support	1,126,276	371,973	492,102			1,990,351
Institutional Support	1,362,423	470,442	875,936			2,708,801
M & O	544,624	226,956	1,150,374			1,921,954
Scholarships				\$ 2,019,098		2,019,098
Depreciation					\$ 975,350	975,350
Subtotal	7,906,834	2,556,462	3,668,805	2,019,098	975,350	17,126,549
Auxiliary	115,371	35,138	1,500,478			1,650,987
<b>Total</b>	<b>\$ 8,022,205</b>	<b>\$ 2,591,600</b>	<b>\$ 5,169,283</b>	<b>\$ 2,019,098</b>	<b>\$ 975,350</b>	<b>\$ 18,777,536</b>

Total scholarships for fiscal year 11-12 were \$5,672,078; however, \$3,652,980 was reported as scholarship allowances on the Statement of Revenues, Expenditures, and Changes in Net Assets.

**SOUTH ARKANSAS COMMUNITY COLLEGE**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2012**

**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.

	<u>Student Loan Fund</u>	<u>Employee Loan Fund</u>	<u>Total</u>
Cash in Bank	<u>\$ 706</u>	<u>\$ 1,536</u>	<u>\$ 2,242</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 20 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: Donor-Restricted Endowment**

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, 2012	\$ 147,724
Less: Non-Expendable Portion of True Endowments	<u>146,186</u>
Donor-Restricted Endowments Available for Expenditure	<u>\$ 1,538</u>

Arkansas Code Annotated § 28-69-804 states "Subject to the intent of a donor expressed in the gift instrument, an institution may appropriate for expenditure or accumulate so much of an endowment fund as the institution determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established. Unless stated otherwise in the gift instrument, the assets in an endowment fund are donor-restricted assets until appropriated for expenditure by the institution."

The College follows the Federal regulations relating to the Title III Endowment Fund.

**SOUTH ARKANSAS COMMUNITY COLLEGE**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2012**

**Note 15: 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 participates in the Arkansas Fidelity Bond Trust Fund administered by the Government Bonding Board. The fund provides coverage of actual losses incurred as a result of fraudulent or dishonest acts committed by state officials or employees. Each loss is limited to \$250,000 with a \$2,500 deductible. The Department of Finance and Administration withholds the premium from the College's state treasury funds.

The College participates in the Arkansas Multi-Agency Insurance Trust Fund (AMAIT) for insurance coverage for property and vehicles. In its administrative capacity, AMAIT is responsible for monitoring, negotiating, and settling claims that have been filed against its members. The College pays annual premiums for buildings, contents, and vehicles.

The College also participates in the Arkansas Employees Claims Division – Worker's Compensation Program under the Arkansas Department of Insurance. The program is responsible for obtaining and administering workers' compensation insurance coverage for its members, as well as obtaining reinsurance coverage for those claims that exceed the standard policy limits. In its administrative capacity, the Division is responsible for monitoring, negotiating, and settling claims that have been filed on behalf of and against the College. The College contributes quarterly to this program.

The College carries professional liability insurance to protect the trustees of the College. The limits of liability for each claim shall be not less than \$1,000,000 with a \$10,000 deductible. An annual premium is paid for this coverage.

The College carries commercial liability insurance for students participating in the Allied Health Professions instruction while in a clinical setting. The College pays an annual premium for this coverage, offset by a portion of the premium paid as a fee by these respective students.

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

**Note 16: Convention Center/Student Services Building**

On February 22, 2010, the College entered into a lease and operating agreement with the City of El Dorado, Arkansas on a Convention Center/Student Services Building. The College is responsible for general and operating expenses of the Conference Center facility. If such expenses for the building, less gross revenues from the conference center, exceed \$300,000, the City will also reimburse the College half of the amount over \$300,000. The City will also reimburse the College for one half of the salary and related expenses of the employee designated to market and manage the conference center. The lease is for ten years with four, ten year renewal terms.

**Note 17: Title III Program Endowment Fund Campaign**

The Title III Grant Program included \$341,000 designated for the College to establish an endowment fund for expenditures related to educational purposes. The College has the opportunity to receive the funding if nonfederal contributions can be used to match the federal funding dollar-for-dollar during the five year Title III Grant period.

**SOUTH ARKANSAS COMMUNITY COLLEGE**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2012**

**Note 17: Title III Program Endowment Fund Campaign (Continued)**

Title III endowment funds can be used for educational purposes. For the year ended June 30, 2012, endowment funds were deposited in an interest-bearing account. Contributions, matching, and investment income are as follows:

	<u>6/30/2012</u>	<u>6/30/2011</u>	<u>Total</u>
Interest		\$ 391	\$ 391
Contribution	\$ 79,991	28,000	107,991
Matching	28,000		28,000
Total	<u>\$ 107,991</u>	<u>\$ 28,391</u>	<u>\$ 136,382</u>
Expendable Interest 50%		<u>\$ 196</u>	<u>\$ 196</u>

The College's spending policy is:

As 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 endowment fund corpus and all of the 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 expenditure. Allowable expenditures include costs necessary to operate the Institution, 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 fund from the endowment fund corpus and the aggregate amount of the previously withdrawn endowment fund income.

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

**SOUTH ARKANSAS COMMUNITY COLLEGE  
REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2012**

**OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

**Determination of Annual Required Contribution (ARC) and End of Year Accrual**

Cost Element	Fiscal Year Ended Amount	June 30, 2012 % of Payroll <sup>1</sup>
1    Unfunded actuarial accrued liability at July 1, 2011	\$    292,085	3.7%
 Annual Required Contribution (ARC)		
2    Normal Cost	\$    23,921	
3    Amortization of the unfunded actuarial accrued liability (UAAL) over 30 years	18,570	
4    Interest	2,231	
5    Annual Required Contribution (ARC = 2 + 3 + 4)	<u>\$    44,722</u>	0.6%
 Annual OPEB Cost (Expense)		
6    ARC	\$    44,722	
7    Interest on beginning of year CAFR accrual	5,872	
8    Amortization of beginning of year CAFR accrual	7,485	
9    Fiscal 2008 OPEB cost (6 + 7 - 8)	<u>\$    43,109</u>	0.5%
 End of Year Accrual (Net OPEB Obligation)		
10   Beginning of year accrual	\$    111,856	
10a   Actuarial adjustment	0	
11   Annual OPEB Cost	43,109	
12   Employer contribuion (benefit payments) <sup>2</sup>	<u>25,262</u>	
13   End of year accrual (10 + 10a + 11 - 12)	<u>\$    129,703</u>	1.8%

<sup>1</sup> Annual payroll for the plan participants as of July 1, 2012 is \$8,022,205.

<sup>2</sup> Actual contributions paid in fiscal year 2012 of \$17,222 plus implicit subsidy of \$8,040.

**Schedule of Employer Contributions**

Fiscal Year Ended	Annual OPEB Cost	Actual Contributions <sup>3</sup>	Percentage Contributed
June 30, 2012	\$43,109	\$25,262	58.6%
June 30, 2011	40,951	12,085	29.5%
June 30, 2010	41,315	12,558	30.4%

<sup>3</sup> Since there is no funding, these are actual payments plus implicit subsidy.

**SOUTH ARKANSAS COMMUNITY COLLEGE  
REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2012**

**OTHER POSTEMPLOYMENT BENEFITS (OPEB)  
Schedule of Funding Progress for SACC OPEB**

The schedule of funding progress presents multi-year information comparing the actuarial value of plan assets to the actuarial accrued liability.

(a)	(b)	(c)	(d)	(e)	(f)	(g)
Actuarial Valuation Date	Market Value of Plan Assets	Actuarial Accrued Liability	Unfunded Accrued Liability (UALL) (c) - (b)	Funded Ratio (b) / (c)	Annual Covered Payroll <sup>4</sup>	UAAL as a % of Covered Payroll (d) / (f)
7/1/2012	\$ -	\$ 292,085	\$ 292,085	0.0%	\$8,022,205	3.6%
7/1/2011	\$ -	\$ 276,633	\$ 276,633	0.0%	\$7,869,280	3.5%
7/1/2010	\$ -	\$ 276,633	\$ 276,633	0.0%	\$7,327,521	3.8%
7/1/2009	\$ -	\$ 262,712	\$ 262,712	0.0%	\$6,915,539	3.8%
7/2/2008	\$ -	\$ 262,712	\$ 262,712	0.0%	\$6,368,814	4.1%

<sup>4</sup> Payroll as of July 1, 2012, 2011, 2010, 2009 and 2008, includes only plan participants.

The annual OPEB cost of \$43,109 for fiscal year 2012 and accrual of \$129,703 as of June 30, 2012, are based on a current decision not to fund in a segregated GASB qualified trust.

**Three-Year Schedule of Percentage of OPEB Cost Contributed**

June 30, 2012	\$43,109	58.6%	\$129,703
June 30, 2011	40,951	29.5%	111,856
June 30, 2010	41,315	30.4%	82,990

**General Overview of the Valuation Methodology**

The estimation of the retiree healthcare benefit obligation is generally based on per participant contributions developed from recent periods for which claims experience is available. The College provided actual per-participant premiums for 2012.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the Plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

Actuarial calculations reflect a long-term perspective. Actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.



**SOUTH ARKANSAS COMMUNITY COLLEGE  
 REQUIRED SUPPLEMENTARY INFORMATION  
 FOR THE YEAR ENDED JUNE 30, 2012**

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**OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

**Actuarial Methods and Assumptions**

Valuation year: July 1, 2011 – June 30, 2012

Actuarial Cost Method: Projected Unit Credit

Amortization Method: 30 years, level dollar open amortization  
 Open amortization means a fresh-start each year for the cumulative unrecognized amount.

Discount Rate: 5.25%

Projected Payroll Growth Rate: N/A

Health Care Cost Trend Rate: 10% in fiscal year 2012, 9% in fiscal year 2013, 8% in fiscal year 2014, and then decreasing by one half percentage point per year to an ultimate rate of 5% in fiscal year 2020, and after.

<u>Year</u>	<u>Rate</u>
2012	10.0%
2013	9.0%
2014	8.0%
2015	7.5%
2016	7.0%
2017	6.5%
2018	6.0%
2019	5.5%
2020	5.0%

Base Claim Costs: Most retirees pay the same premium as an active employee. But since health care for a retired group is higher than the average for the employees, this results in a subsidy for the retiree.

The following subsidy was assumed:

	<u>Implicit Subsidy</u>	<u>Maximum Explicit Subsidy*</u>	<u>MAX TOTAL NET</u>	<u>Minimum Retiree Payment</u>
Retiree, no Medicare	\$164.09	\$450.00	\$614.09	\$0.00
Retiree, with Medicare	0.00	0.00	0.00	0.00

\*College pays a percentage of this maximum (individual premium, based on the person's age plus service when they retire.)

**SOUTH ARKANSAS COMMUNITY COLLEGE  
 REQUIRED SUPPLEMENTARY INFORMATION  
 FOR THE YEAR ENDED JUNE 30, 2012**

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**OTHER POSTEMPLOYMENT BENEFITS (OPEB)  
 Actuarial Methods and Assumptions (Continued)**

Base Claim Costs (Continued):

Age plus service	College Pays
70	25%
71	30%
72	35%
73	40%
74	45%
75	50%
76	55%
77	60%
78	65%
79	70%
80	75%
81	80%
82	85%
83	90%
84	95%
85+	100%

Source of Claim Costs: The medical cost for retirees equals the explicit subsidy paid by the College at the beginning of the year. This was increased by the implicit subsidy contained in such rates for a retiree. This subsidy was assumed to be \$164.09 for retirees under age 65 and was developed from retiree claim costs from other public entities in Arkansas.

Administrative Costs: None assumed.

Selection of Coverage: It was assumed that 80% of eligible retirees would select the coverage when they initially retired, and that 0% of them would continue it past age 65.

Data Used: The College provided a census listing which is summarized below:

	<u>July 1, 2011</u>
Number of Active Employees	165
Number of Retirees Covered	
Under 65	3
Over 65	0

Pre-Retirement Mortality: Deaths have been projected on the basis of the 1994 Uninsured Pensioners Mortality Table.

**SOUTH ARKANSAS COMMUNITY COLLEGE  
 REQUIRED SUPPLEMENTARY INFORMATION  
 FOR THE YEAR ENDED JUNE 30, 2012**

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**OTHER POSTEMPLOYMENT BENEFITS (OPEB)  
 Actuarial Methods and Assumptions (Continued)**

Post-Retirement Mortality: The 1994 Uninsured Pensioners Mortality Table was used. The life expectancy according to this table is as follows:

<u>Age</u>	<u>Males</u>	<u>Females</u>
55	25.49 years	29.53 years
65	17.26 years	20.69 years

Voluntary Terminations: Generally the voluntary termination assumption used by the Arkansas Teachers Retirement System were used. Termination at some sample ages are:

<u>Age</u>	<u>Termination Rate Per 100 Members</u>
20	4.60
25	4.84
30	4.40
35	3.10
40	2.20
45	2.00
50	2.00
55	5.00

For those with less than five years of service, a multiple of the above rates was used. The multiples used were:

1st year of service	4.00
2nd year of service	2.50
3rd year of service	2.00
4th year of service	1.50

Expected Retirement Pattern: Employees are assumed to retire according to the following schedule:

<u>Age</u>	<u>Retirement Rate per 100 Members</u>
55 - 59	5.0
60	15.0
61	14.0
62	25.0
63	15.0
64	15.0
65	35.0
66	30.0
67	30.0
68	30.0
69	100.0

