

South Arkansas Community College

El Dorado, Arkansas

**Annual Financial Report
Independent Auditor's Report
and Other Reports
June 30, 2003**

LEGISLATIVE JOINT AUDITING COMMITTEE



SOUTH ARKANSAS COMMUNITY COLLEGE
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Sen. Henry "Hank" Wilkins, IV
Senate Co-Chair
Rep. Tommy G. Roebuck
House Co-Chair
Sen. Randy Laverty
Senate Co-Vice Chair
Rep. David Evans
House Co-Vice Chair

Arkansas



Charles L. Robinson, 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 statement of net assets of South Arkansas Community College (Institution), an Institution of Higher Education of the State of Arkansas, as of June 30, 2003 and the related statement of revenues, expenditures and changes in net assets and statement of cash flows for the year then ended 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, 2003 and changes in its net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2003 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

DIVISION OF LEGISLATIVE AUDIT

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

Charles L. Robinson, CPA, CFE
Legislative Auditor

Little Rock, Arkansas
March 15, 2003
EDHE19303

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



Charles L. Robinson, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

COMBINED REPORT(S) ON COMPLIANCE, INTERNAL CONTROLS AND OTHER MATTERS

South Arkansas Community College
Legislative Joint Auditing Committee

The underlying purpose of this letter is to convey certain observations and recommendations regarding state and federal compliance and internal control in conjunction with our audit of South Arkansas Community College (Institution). This letter reflects various requirements and pronouncements of the American Institute of Certified Public Accountants (AICPA), the United States General Accounting Office (GAO), and the United States Office of Management and Budget (OMB).

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, 2003, and have issued our report thereon dated March 15, 2003. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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 federal 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Institution's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance 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 over financial reporting that might be material weaknesses. A material weakness is a 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 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.

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, 2003, 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>Spring Term</u>
Student Headcount	1,285	1,210
Student Semester Credit Hours	11,020	10,984

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 for the information and use of the Legislative Joint Auditing Committee, state executive and oversight management and Institution management, and is not intended to be and should not be used by anyone other than these specific parties. However, this report is a matter of public record and its distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT



William R. Baum, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
March 15, 2003

SOUTH ARKANSAS COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2003, with comparative information for the year ended June 30, 2002. The enclosed Financial Report reflects the second year the College has reported in the new 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 new 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.

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, 2003, with comparative information as of June 30, 2002. 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 is 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.

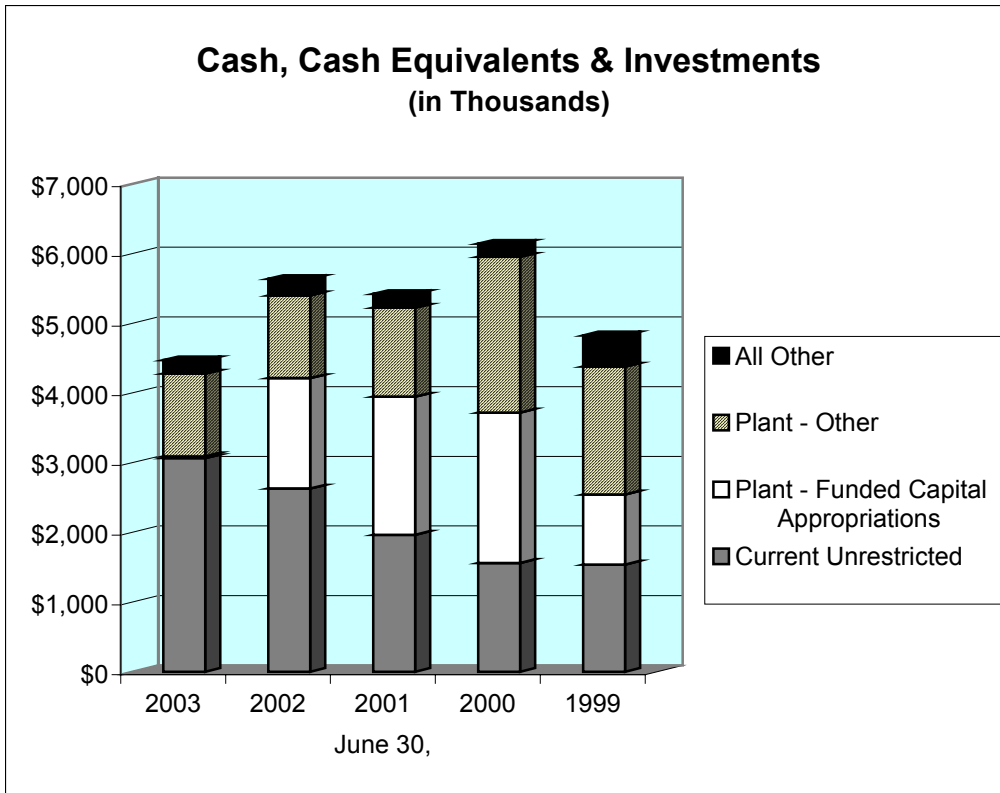
The following summary presents the College's assets, liabilities and net assets as of June 30:

Net Assets		
	<u>2003</u>	<u>2002</u>
Assets:		
Current Assets	\$ 5,005,394	\$ 4,662,811
Capital Assets, Net	10,309,158	8,855,578
Other Non-current Assets	<u>33,509</u>	<u>1,581,897</u>
Total Assets	<u>15,348,061</u>	<u>15,100,286</u>
Liabilities:		
Current Liabilities	230,263	250,984
Non-current Liabilities	<u>341,317</u>	<u>378,065</u>
Total Liabilities	<u>571,580</u>	<u>629,049</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debts	10,149,886	8,682,556
Restricted	1,162,268	2,998,727
Unrestricted	<u>3,464,327</u>	<u>2,789,954</u>
Total Net Assets	<u>\$ 14,776,481</u>	<u>\$ 14,471,237</u>

Cash, cash equivalents, and investments as of June 30, 2003 and 2002, are shown below. Current short-term investments consist of certificates of deposit with an original maturity of greater than 90 days. Non-current cash and cash equivalents are funds externally restricted for capital projects and endowment principal not invested.

Cash, Cash Equivalents, and Investments		
	<u>2003</u>	<u>2002</u>
Current Cash and Cash Equivalents	\$3,764,282	\$ 3,029,025
Current Short-term Investments	673,564	1,025,500
Noncurrent Cash and Cash Equivalents	33,508	1,523,890
Endowment Investments	<u> </u>	<u>58,000</u>
Total	<u>\$4,471,354</u>	<u>\$5,636,415</u>

Total cash, cash equivalents and investments are displayed in the graph on the next page.



Highlights- (Statements of Net Assets)

- Net Assets increase by \$305,244 as reflected on the Statement of Revenues, Expenses and Changes in Net Assets.
- Workforce Development Center (WDC) Construction caused the following actions as reflected on the Statement of Net Assets:
 - Total Cash, cash equivalents, and investments decreased primarily due to expenditures on the WDC.
 - Capital Assets increased during the fiscal year primarily due to \$1,593,698 in expenditures to the Workforce Development Center construction in progress.
 - Non-current Assets decreased primarily due to \$1,524,308 of state treasury funds (non-current cash) disbursed during the year for the WDC facility.
- Total current cash and cash equivalents increased and current short-term investments decreased due to the fiscal management of maintaining the cash in short-term (less than 90 days) amounts due to the uncertainty of the market conditions of the interest rates.
- Endowment Investments decreased by \$48,000 as a result of the transfer of monies to the South Arkansas Community College Foundation, Inc. The Division of Legislative Audit and the Arkansas Office of the Attorney General provided guidance for this transfer.

Statement of Revenues, Expenses and Changes in Net Assets

This statement presents operating, non-operating revenues and expenses, and other revenues, expenses, gains or losses for the years ended June 30. Revenues and expenses are recognized when earned or incurred regardless when cash is received or disbursed. The changes in net assets are also presented on the statement as a result of the activity noted within.

Revenues, Expenses and Changes in Net Assets		
	<u>2003</u>	<u>2002</u>
Operating Revenues	\$ 4,360,261	\$ 3,719,611
Operating Expenses	<u>10,074,145</u>	<u>9,307,126</u>
Operating Loss	(5,713,884)	(5,587,515)
Non-operating Revenues & Expenses (Net)	<u>5,944,337</u>	<u>6,166,417</u>
Income Before Other Revenues, Expenses, Gains or Losses	230,453	578,902
Other Revenues, Expenses, Gains or Losses	<u>74,791</u>	<u>398,792</u>
Increase in Net Assets	<u>\$ 305,244</u>	<u>\$ 977,694</u>

As presented above, the statement reflects a positive change with an increase in net assets at the end of the 2003 fiscal year. Highlights and detail information are shown below pertaining to the Statement of Revenues, Expenses, and Changes in Net Assets.

Revenues and expenses to conduct the mission of the institution are reported under the operating category as summarized below.

Operating Revenues and Expenses		
	<u>2003</u>	<u>2002</u>
Tuition and Fees (Net of Scholarship Allowances of \$483,033 and \$452,603)	\$ 1,190,779	\$ 1,134,941
Federal Grants and Contracts	1,848,009	1,522,029
State and Local Grants and Contracts	892,495	712,376
Non-Governmental Grants and Contracts	811	5,560
Sales and Services	12,267	9,160
Auxiliary (Net of Scholarships Allowances of \$119,186 and \$143,826)	406,254	321,560

Operating Revenues and Expenses (continued)		
Other Operating Revenue	9,646	13,985
Total Operating Revenue	<u>4,360,261</u>	<u>3,719,611</u>
Salaries	4,964,615	4,932,231
Employee Benefits	1,521,171	1,474,826
Supplies and Services	2,290,902	1,875,476
Scholarships	718,302	491,660
Depreciation	579,155	532,933
Total Operating Expenses	<u>10,074,145</u>	<u>9,307,126</u>
Operating Income (Loss)	\$ <u>(5,713,884)</u>	\$ <u>(5,587,515)</u>

Non-operating revenues are those received for which goods and services are not provided. State funded appropriations and millage levied within the county are required to be reported as non-operating revenues.

Non-operating Revenues and Expenses		
	2003	2002
State Funded Appropriations	\$ 5,636,519	\$ 5,823,662
County Millage	224,237	240,350
Gifts	22,613	25,836
Interest Income	72,137	88,211
Disposal of Capital Assets	(363)	
Interest on Indebtedness	<u>(10,806)</u>	<u>(11,642)</u>
Net Non-operating Revenues	\$ <u>5,944,337</u>	\$ <u>6,166,417</u>

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

- Student tuition and fees are shown net of institutional waivers, Secondary Career Center tuition, and scholarship allowances.
- Net scholarships increased by \$226,642 primarily due to an increase in Pell grants of \$233,827. However, state academic challenge awards decreased by \$18,750.
- State funded appropriations decrease by \$187,143 resulting from the environment of adverse economic conditions within the State of Arkansas.

- Capital appropriations for the fiscal years ended June 30 included the following funded appropriations:

Capital Appropriations		
	<u>2003</u>	<u>2002</u>
WPA Gym	\$ 60,000	
Administration Building		\$ 755,355
College Savings Bonds	<u>22,114</u>	<u>72,352</u>
	<u>\$ 82,114</u>	<u>\$ 827,707</u>

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:

STATEMENT OF CASH FLOWS		
	<u>2003</u>	<u>2002</u>
Cash provided (used) by:		
Operating activities	\$ (5,072,822)	\$ (5,025,060)
Non-capital financing activities	5,883,252	6,069,618
Capital and related financing activities	(2,042,723)	(920,390)
Investing activities	<u>477,168</u>	<u>(637,972)</u>
Net change in cash and cash equivalents	(755,125)	(513,804)
Cash and cash equivalents - beginning of year	<u>4,552,915</u>	<u>5,066,719</u>
Cash and cash equivalents - end of year	<u>\$ 3,797,790</u>	<u>\$ 4,552,915</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 are reflected as investing activities.

Highlights (Statement of Cash Flows)

- Cash and cash equivalents decreased by \$755,125 for the year ended June 30, 2003, primarily due to major cash disbursements relating to the Workforce Development Center. The following cash and cash equivalents were expended during the year on the WDC:

Cash	\$ 72,364
State Treasury	<u>1,585,693</u>
Total	<u>\$1,658,057</u>

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 and if collections were to decline below projections, this may necessitate the College reducing its operating budget. The Institution anticipates the current fiscal year to be much like the previous year and will maintain a close watch over resources to ensure the College's ability to react to internal and external issues as necessary.

The College also hopes 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
COMPARATIVE STATEMENT OF NET ASSETS
JUNE 30, 2003**

	June 30,	
	2003	2002
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 3,764,282	\$ 3,029,025
Short-term investments	673,564	1,025,500
Accounts receivable (less allowances of \$42,389 and \$46,029)	110,135	83,234
Employee and student loans receivable	176	325
Property taxes receivable (net of estimated uncollectible amounts)	167,189	170,363
Other receivables	71,852	182,000
Inventories	127,757	127,518
Deposits with trustees (market value)	5,111	
Prepaid expenses	85,268	44,786
Other assets	60	60
Total Current Assets	5,005,394	4,662,811
Non-current Assets:		
Cash and cash equivalents	33,508	1,523,890
Endowment investments		58,000
Accrued interest receivable	1	7
Capital assets (net of accumulated depreciation of \$6,869,418 and \$6,495,550) (Note 5)	10,309,158	8,855,578
Total Non-current Assets	10,342,667	10,437,475
TOTAL ASSETS	\$ 15,348,061	\$ 15,100,286
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 44,743	\$ 100,214
Refunds payable	4,625	9,762
Deferred revenue	124,727	98,814
Bonds, notes and leases payable	14,640	13,750
Compensated absences	25,723	9,349
Funds held in trust for others	15,805	19,095
Total Current Liabilities	230,263	250,984
Non-current Liabilities:		
Bonds, notes and leases payable (Note 6)	144,632	159,272
Compensated absences	196,685	218,793
Total Non-current Liabilities	341,317	378,065
TOTAL LIABILITIES	\$ 571,580	\$ 629,049
NET ASSETS		
Invested in capital assets, net of related debt	\$ 10,149,886	\$ 8,682,556
Restricted for:		
Non-expendable:		
Scholarships	11,281	60,809
Expendable:		
Scholarships	14,587	12,895
Loans	1,976	1,940
Capital projects	987,085	2,789,237
Other	147,339	133,846
Unrestricted	3,464,327	2,789,954
TOTAL NET ASSETS	\$ 14,776,481	\$ 14,471,237

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

SOUTH ARKANSAS COMMUNITY COLLEGE
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2003

	<u>Year ended June 30,</u>	
	<u>2003</u>	<u>2002</u>
OPERATING REVENUES		
Student tuition and fees (net of scholarship allowances of \$483,033 and \$452,603)	\$ 1,190,779	\$ 1,134,941
Federal grants and contracts	1,848,009	1,522,029
State and local grants and contracts	892,495	712,376
Non-governmental grants and contracts	811	5,560
Sales and services of educational departments	12,267	9,160
Auxiliary enterprises:		
Vending	7,515	8,029
Bookstore (net of scholarship allowances of \$119,186 and \$143,826)	398,739	313,531
Other operating revenues	9,646	13,985
TOTAL OPERATING REVENUES	<u>4,360,261</u>	<u>3,719,611</u>
OPERATING EXPENSES		
Salaries	4,964,615	4,932,231
Employee benefits	1,521,171	1,474,826
Supplies and other services	2,290,902	1,875,476
Scholarships and fellowships	718,302	491,660
Depreciation	579,155	532,933
TOTAL OPERATING EXPENSES	<u>10,074,145</u>	<u>9,307,126</u>
OPERATING INCOME (LOSS)	<u>(5,713,884)</u>	<u>(5,587,515)</u>
NON-OPERATING REVENUES (EXPENSES)		
State appropriations	5,636,519	5,823,662
County millage	224,237	240,350
Gifts	22,613	25,836
Interest income	72,137	88,211
Interest expense (on capital asset related debt)	(10,806)	(11,642)
Disposal of capital assets (net of accumulated depreciation of \$164,912 and \$32,033)	(363)	
NET NON-OPERATING REVENUES (EXPENSES)	<u>5,944,337</u>	<u>6,166,417</u>
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	<u>230,453</u>	<u>578,902</u>
Other revenues, expenses, gains and losses		
Write-off of capital assets due to change in capitalization levels		(433,191)
Capital appropriations	82,114	827,707
Additions (deletions) to permanent and term endowments (Note 14)	(49,962)	6,100
Interest earned on endowment funds	126	390
Market value adjustment of deposits with trustees	111	
Adjustments to prior year revenues and expenses	42,402	(2,214)
TOTAL OTHER REVENUES, EXPENSES, GAINS AND LOSSES	<u>74,791</u>	<u>398,792</u>
INCREASE (DECREASE) IN NET ASSETS	<u>305,244</u>	<u>977,694</u>
NET ASSETS - BEGINNING OF YEAR - AS ORIGINALLY REPORTED	14,471,237	20,543,680
Cumulative effects of changes in accounting principles:		(7,050,137)
NET ASSETS - BEGINNING OF YEAR - RESTATED	<u>14,471,237</u>	<u>13,493,543</u>
NET ASSETS - END OF YEAR	<u>\$ 14,776,481</u>	<u>\$ 14,471,237</u>

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

**SOUTH ARKANSAS COMMUNITY COLLEGE
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2003**

Exhibit C

	Year ended June 30,	
	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 1,178,337	\$ 1,165,810
Grants and contracts	2,854,065	2,183,765
Sales and services of educational activities	12,267	8,917
Collection of student and employee loans including interest	2,629	3,632
Auxiliary enterprise revenues:		
Vending	7,515	8,029
Bookstore	393,636	312,172
Other receipts	9,357	13,862
Payments to employees	(4,975,923)	(4,933,390)
Payments of employee benefits	(1,524,406)	(1,433,580)
Payments to suppliers	(2,309,530)	(1,859,173)
Loans issued to students and employees	(2,467)	(3,094)
Scholarships	(718,302)	(491,660)
Other payments		(350)
Net cash provided by operating activities	(5,072,822)	(5,025,060)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
State appropriations	5,636,519	5,823,662
County millage	227,411	214,522
Gifts and grants	22,613	31,936
Agency funds - net	(3,291)	1,712
Other		(2,214)
Net cash provided by non-capital financing activities	5,883,252	6,069,618
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	82,114	827,706
Proceeds from sale of capital assets	2,542	
Purchase of capital assets	(2,052,861)	(1,723,540)
Disposition of endowment assets	(49,962)	
Principal paid on capital debt	(13,750)	(12,914)
Interest paid on capital debt	(10,806)	(11,642)
Net cash provided by capital and related financing activities	(2,042,723)	(920,390)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	72,232	89,028
Proceeds from sales and maturities of investments	1,063,500	397,500
Purchase of investments	(653,564)	(1,124,500)
Deposit with trustee	(5,000)	
Net cash provided by investing activities	477,168	(637,972)
Net increase (decrease) in cash and cash equivalents	(755,125)	(513,804)
Cash and cash equivalents-beginning of year	4,552,915	5,066,719
Cash and cash equivalents-end of year	\$ 3,797,790	\$ 4,552,915

**SOUTH ARKANSAS COMMUNITY COLLEGE
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2003**

Exhibit C

	Year ended June 30,	
	2003	2002
Reconciliation of net operating revenues (expenses) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (5,713,884)	\$ (5,587,515)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation	579,155	532,933
Prior year adjustment	(396)	
Changes in assets and liabilities:		
Receivables, net	78,301	(26,435)
Inventories	(238)	28,566
Prepaid expenses	(40,482)	32,354
Accounts payable and accrued liabilities	4,543	(58,184)
Deferred revenue	25,913	17,109
Compensated absences	(5,734)	36,112
Net cash used by operating activities	\$ (5,072,822)	\$ (5,025,060)

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

**SOUTH ARKANSAS COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

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. 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 years for infrastructure and land improvements, 10 years for library holdings, 5 years for vehicles, and 3 to 7 years for equipment.

Operating and Non-operating Revenues

The Institution 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
JUNE 30, 2003**

Note 2: Summary of Significant Accounting Policies - 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 three months 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.

Non-current Cash and Investments

Cash and investments that are externally restricted to make debt service payments, maintain sinking, endowment, 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 greater than 90 days.

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.

**SOUTH ARKANSAS COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

Note 2: Summary of Significant Accounting Policies – continued

Compensated Absences Payable

Accrued compensated absences payable reflect accumulated compensatory, holiday and annual leave and required employer contributions at June 30, 2003 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.

Non-current Liabilities

Non-current liabilities include: (1) principal amounts of revenue bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year; (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year; and (3) other liabilities that, although payable within one year, are to be paid from funds that are classified as non-current assets.

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.

Accounting Changes

As a result of the adoption of GASB Statement No. 34, the College was also required to make certain changes in accounting principles, specifically the adoption of depreciation on capital assets and recording certain summer semester revenues between fiscal years rather than the fiscal year in which the semester was predominantly conducted.

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 50 /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
JUNE 30, 2003**

Note 3: Public Fund Deposits and Investments

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

	June 30, 2003		June 30, 2002	
	Book Balance	Bank Balance	Book Balance	Bank Balance
Insured (FDIC)	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000
Uninsured, Collateralized	3,661,286	3,669,845	2,523,138	2,425,101
Total Deposits	<u>\$ 3,761,286</u>	<u>\$ 3,769,845</u>	<u>\$ 2,623,138</u>	<u>\$ 2,525,101</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 \$36,159 and \$345, respectively, as of June 30, 2003, and \$1,929,432 and \$345, respectively, for the year ended June 30, 2002.

Investments are reported at fair value. Fair value for reporting purposes is market value if a market price or quote is readily available. Investments that do not have readily available market prices or quotes are reported at estimated fair value. The Institution's investments at year-end are shown below by category to give an indication of the level of risk assumed. Category 1 includes investments that are insured or registered or for which the securities are held by South Arkansas Community College or its agent in the institution's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Institution's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the Institution's name.

Type of Investment	June 30, 2003			Book Amount	Market Value
	Category				
	1	2	3		
Certificates of deposit	<u>\$ 673,564</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 673,564</u>	<u>\$ 673,564</u>

Type of Investment	June 30, 2002			Book Amount	Market Value
	Category				
	1	2	3		
Certificates of deposit	<u>\$1,083,500</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$1,083,500</u>	<u>\$1,083,500</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.

**SOUTH ARKANSAS COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

Note 5: Capital Assets

Following are the changes in capital assets for the year ended June 30, 2003:

	Balance June 30, 2002	Adjustments	Additions	Retirements	Balance June 30, 2003
Capital assets not being depreciated:					
Land	\$ 578,561		\$ 33,735		\$ 612,296
Construction-in-progress	475,692		1,630,210		2,105,902
Total capital assets not depreciated	<u>\$ 1,054,253</u>		<u>\$ 1,663,945</u>		<u>\$ 2,718,198</u>
Other capital assets:					
Improvements and infrastructure	\$ 324,064		\$ 63,350		\$ 387,414
Buildings	10,646,612		78,191		10,724,803
Equipment	2,061,850	\$ 2,420	114,370	\$ (167,818)	2,010,822
Library holdings	1,264,349		72,990		1,337,339
Total other capital assets	<u>14,296,875</u>	<u>2,420</u>	<u>328,901</u>	<u>(167,818)</u>	<u>14,460,378</u>
Less accumulated depreciation for:					
Improvements and infrastructure	(244,412)		(22,130)		(266,542)
Buildings	(3,917,128)	40,375	(333,155)		(4,209,908)
Equipment	(1,573,285)		(154,704)	164,912	(1,563,077)
Library holdings	(760,725)		(69,166)		(829,891)
Total accumulated depreciation	<u>(6,495,550)</u>	<u>40,375</u>	<u>(579,155)</u>	<u>164,912</u>	<u>(6,869,418)</u>
Other capital assets, net	<u>\$ 7,801,325</u>	<u>\$ 42,795</u>	<u>\$ (250,254)</u>	<u>\$ (2,906)</u>	<u>\$ 7,590,960</u>
Capital asset summary:					
Capital assets not being depreciated	\$ 1,054,253		\$ 1,663,945		\$ 2,718,198
Other capital assets at cost	14,296,875	\$ 2,420	328,901	\$ (167,818)	14,460,378
Total cost of capital assets	15,351,128	2,420	1,992,846	(167,818)	17,178,576
Less accumulated depreciation:	(6,495,550)	40,375	(579,156)	164,912	(6,869,418)
Capital assets, net	<u>\$ 8,855,578</u>	<u>\$ 42,795</u>	<u>\$ 1,413,691</u>	<u>\$ (2,906)</u>	<u>\$ 10,309,158</u>

Note 6: 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.

**SOUTH ARKANSAS COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

Note 6: Long-term Liabilities - continued

Debt payments on bonds amounted to \$13,750 for the fiscal year ended June 30, 2003. Debt service interest payments totaled \$10,806 for the fiscal year ended June 30, 2003.

<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, 2003</u>	<u>Principal Payments Made Thru June 30, 2003</u>
4/9/1996	10/10/2011	6.37%	\$ 235,000	\$ 159,272	\$ 75,728

Changes in long-term liabilities are as follows:

	<u>Balance July 1, 2002</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance June 30, 2003</u>	<u>Principal due within one year</u>
College savings bonds loan payable	\$ 173,022		\$ 13,750	\$ 159,272	\$ 14,640
Compensated absences payable	228,142	\$ 207,916	213,650	222,408	25,723
Totals	<u>\$ 401,164</u>	<u>\$ 207,916</u>	<u>\$ 227,400</u>	<u>\$ 381,680</u>	<u>\$ 40,363</u>

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

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 14,640	\$ 9,916	\$ 24,556
2005	15,587	8,969	24,556
2006	16,596	7,960	24,556
2007	17,670	6,886	24,556
2008	18,814	5,742	24,556
2009-2012	<u>75,965</u>	<u>9,981</u>	<u>85,946</u>
Totals	<u>\$159,272</u>	<u>\$49,454</u>	<u>\$208,726</u>

Note 7: Commitments

The College was contractually obligated on the following project at June 30, 2003:

Workforce Development Center Building
Estimated Completion Date – Fall 2003

	<u>Cost</u>	<u>Expended</u>	<u>Balance</u>
Construction contract	\$ 2,039,129	\$ 1,877,608	\$ 161,521
Architect contract	132,543	132,543	
Architect reimbursable	4,002	4,002	
Other related costs	55,237	55,237	
Totals	<u>\$ 2,230,911</u>	<u>\$ 2,069,390</u>	<u>\$ 161,521</u>

**SOUTH ARKANSAS COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

Note 7: Commitments - continued

The College was also contractually obligated to the architect on the following project at June 30, 2003. On July 11, 2003, the college entered into an agreement with CWR Construction Company of North Little Rock, Arkansas for the renovation of the 1940 WPA Gym located on the west campus.

WPA Gym Renovation

Estimated Completion Date – December 2003

	<u>Cost</u>	<u>Expended</u>	<u>Balance</u>
Construction contract	\$ 473,409		\$ 473,409
Architect contract	48,200	\$ 36,400	11,800
Other related costs	<u>111</u>	<u>111</u>	
Total	<u>\$ 521,720</u>	<u>\$ 36,511</u>	<u>\$ 485,209</u>

Note 8: Contingent Liabilities

Agreement for Services

The College's full-time benefits eligible faculty and its non-classified personnel are employed with agreements of services for a definite term. In some cases, the College may incur liabilities should these agreements be terminated.

Also, the Board of Trustees of South Arkansas Community College has entered into an Employment Agreement with the President of the College. This may result in the College's paying damages should the Board, under certain conditions, terminate the Agreement with the President.

Legal Matters

On June 10, 2003, a former employee filed a lawsuit against the College in the United States District Court, Western Division of Arkansas, El Dorado, claiming age discrimination. The plaintiff is seeking amounts for damages and attorney's fees. During the preparation of the Financial Statements, the outcome of the lawsuit was uncertain and no accrual was recognized in the accompanying financial statements.

Health Care Plans

The College has entered into a participation contract, for medical and dental benefits, with the Arkansas Higher Education Insurance Consortium. In recent years, the College has been charged additional assessments resulting from the consortium's claims-to-premium ratios. Additionally the College is subject to withdrawal penalties, should the institution withdraw from the contract without complying with the notification provisions.

**SOUTH ARKANSAS COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

Note 8: Contingent Liabilities – continued

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 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 service) to 100% after the factor reaches 85 (age plus years of service).

The College is paying the above benefits for individuals that are no longer employed with the institution as listed below.

As of June 30, 2003			As of June 30, 2002		
Retirees	Percent Eligible Factor	Potential Liability until age 65	Retirees	Percent Eligible Factor	Potential Liability until age 65
2	100%	\$15,888	1	100%	\$15,450
1	85%	3,095	1	85%	6,041
1	45%	9,831	1	45%	10,846
<u>\$28,814</u>			<u>\$32,337</u>		

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

As of June 30, 2003			As of June 30, 2002		
Potential Retirees	Percent Eligible Factor	Potential Liability until age 65	Potential Retirees	Percent Eligible Factor	Potential Liability until age 65
5	100%	\$122,760	3	100%	\$ 48,897
1	95%	28,044	3	95%	81,413
1	90%	20,736	1	85%	24,689
1	80%	29,088	2	80%	49,162
1	75%	20,250	1	65%	17,474
1	65%	24,804	1	55%	21,806
1	50%	14,580	1	40%	12,499
<u>\$260,262</u>			<u>\$255,940</u>		

The above amounts are computed using the cost of current (August 15, 2003) 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
JUNE 30, 2003**

Note 9: Retirement Plans

Teacher's 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 up to 10% of employees' earnings for contributory members. (A few employees were grand fathered 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, 2003, were \$286,520 and \$208,158, respectively and for the year ended June 30, 2002, were \$290,436 and \$210,202, 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 current employer rate is 12% (13% effective July 1, 2003). The College's contributions to ATRS for the years ended June 30, 2003, 2002 and 2001 were \$72,190, \$65,652 and \$76,548, 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
JUNE 30, 2003**

Note 9: Retirement Plans – continued

Arkansas Public Employees Retirement System (Continued)

Funding Policy. APERS has contributory (not currently available to new enrollees) and non-contributory plans. Each participating employer is required by law to contribute at a rate established by the Arkansas General Assembly. The current statutory employer rate is 10% of annual covered payroll. The College's contributions to APERS for the years ended June 30, 2003, 2002 and 2001 were \$79,590, \$73,412 and \$52,380, respectively, equal to the required contributions for each year.

Alternate Retirement Plan – Traveler's Insurance Company

Plan Description. The College contributes to Travelers Insurance Company, a defined contribution plan, established at Oil Belt Vocational School prior to the merger. The plan is a 403(b) program as defined by Internal Revenue Service Code of 1986 as amended, and is administered by Traveler's Insurance Company. The administrator provides insurance policies and annuity contracts and when they are issued they become the property of the participant. Act 480 of 1983 provides alternative retirement plans, as approved by the Arkansas State Board of Workforce Education and Career Opportunities, for the staff members of the vocational-technical schools.

Funding Policy. The participants' contributions are tax-sheltered and amount to 6% of compensation. The College's contribution rate is 10%. Participants become vested after one year. There were no participant or college contributions for the year ended June 30, 2003. The participants' and the College's contributions for the year ended June 30, 2002 were \$3,144 and \$6,288, respectively.

<u>Retirement Plan</u>	<u>Institutional Contributions for the Years Ended June 30,</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Alternate Retirement Plan	\$ 286,520	\$ 290,436	\$ 305,275
Arkansas Public Employees Retirement	79,590	73,412	52,380
Arkansas Teacher Retirement	72,190	65,652	76,548
Travelers Retirement Plan	<u> </u>	<u>6,288</u>	<u>8,859</u>
Totals	<u>\$ 438,300</u>	<u>\$ 435,788</u>	<u>\$ 443,062</u>

**SOUTH ARKANSAS COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

Note 10: Natural Classifications with Functional Classifications

The operating expenses by functional classification were as follows:

For the Year Ended June 30, 2003						
	<u>Salaries</u>	<u>Fringe Benefits</u>	<u>Supplies & Services</u>	<u>Scholarships</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 2,902,605	\$ 821,355	\$ 595,616			\$ 4,319,576
Public Service	131,889	44,029	7,371			183,289
Academic Support	303,200	95,262	283,265			681,727
Student Support	417,482	121,118	112,175			650,775
Institutional Support	869,173	292,328	253,565			1,415,066
M & O	314,621	137,600	633,693			1,085,914
Scholarships				\$ 718,302		718,302
Depreciation					\$ 579,155	579,155
Subtotal	<u>4,938,970</u>	<u>1,511,692</u>	<u>1,885,685</u>	<u>718,302</u>	<u>579,155</u>	<u>9,633,804</u>
Auxiliary	<u>25,645</u>	<u>9,479</u>	<u>405,217</u>			<u>440,341</u>
Total	\$ 4,964,615	\$ 1,521,171	\$ 2,290,902	\$ 718,302	\$ 579,155	\$ 10,074,145

Total scholarships for fiscal year 02-03 were \$1,320,521 however, \$602,219 was reported as scholarship allowances on the statement of revenues, expenditures, and changes in net assets.

For the Year Ended June 30, 2002						
	<u>Salaries</u>	<u>Fringe Benefits</u>	<u>Supplies & Services</u>	<u>Scholarships</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 2,954,057	\$ 818,652	\$ 593,434			\$ 4,366,143
Public Service	149,636	43,485	12,734			205,855
Academic Support	288,704	91,893	33,980			414,577
Student Support	398,658	123,103	121,566			643,327
Institutional Support	814,222	272,282	225,253			1,311,757
M & O	303,834	116,048	499,644			919,526
Scholarships				\$ 491,660		491,660
Depreciation					\$ 532,933	532,933
Subtotal	<u>4,909,111</u>	<u>1,465,463</u>	<u>1,486,611</u>	<u>491,660</u>	<u>532,933</u>	<u>8,885,778</u>
Auxiliary	<u>23,120</u>	<u>9,363</u>	<u>388,865</u>			<u>421,348</u>
Total	\$ 4,932,231	\$ 1,474,826	\$ 1,875,476	\$ 491,660	\$ 532,933	\$ 9,307,126

Total scholarships for fiscal year 01-02 were \$1,088,089 of which \$596,429 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, 2003**

Note 11: 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, 2003			June 30, 2002
	Student Loan Fund	Employee Loan Fund	Total	Total
Cash in Bank	\$ 599	\$ 1,201	\$ 1,800	\$ 1,615
Loans, Net	176	0	176	325
Fund Balance	\$ 775	\$ 1,201	\$ 1,976	\$ 1,940

Note 12: 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 13: 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, 2003 and 2002	\$ 11,281	\$ 60,809
Less: Non-Expendable Portion of True Endowments	(11,281)	(60,809)
Donor-Restricted Endowments Available for Expenditures	\$ <u>0</u>	\$ <u>0</u>

**SOUTH ARKANSAS COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

Note 13: Donor-Restricted Endowments - continued

Arkansas Code 28-69-603 states "The governing board may appropriate for expenditure for the uses and purposes for which an endowment fund is established so much of the net appreciation, realized and unrealized, in the fair value of the assets of an endowment fund over the historic dollar value of the fund as is prudent under the standard established by §28-69-607." Historic dollar value is defined as "the aggregate fair value in dollars of (i) an endowment fund at the time it became an endowment fund, (ii) each subsequent donation to the fund at the time it is made, and (iii) each accumulation made pursuant to a direction in the applicable gift instrument at the time the accumulation is added to the fund. The determination of historic dollar value made in good faith by the institution is conclusive."

The College restricts expenditures according to donor requests. The Langston endowment restricts expenditures to 90% of the earnings on the endowment investment, with an additional restriction that the 90% of earnings must be used within the year earned or the following year or be returned to the endowment investment. The O. B. Clark endowment restricts expenditures to 90% of the earnings on the endowment investment. The Pro Med (Rural Metro) endowment provides that 90% of the gift will be expended for scholarships and 10% will be endowed, with the earnings being prorated between the expendable and the endowed.

At the request of the donors, the Langston endowment assets were transferred to South Arkansas Community College Foundation, Inc. Approval and guidance was received from Arkansas Legislative Audit and the Arkansas Office of Attorney General. Of the \$49,962 transferred, \$308 were expendable for scholarships and \$49,654 were nonexpendable endowed funds.

Note 14: Related Organizations

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,	<u>2003</u>	<u>2002</u>
Funds disbursed to the College for scholarships	\$ 17,165	\$ 26,150
Funds disbursed to the College for reimbursement of expenses	5,777	2,332
Funds disbursed to the College for payment on student accounts	4,230	3,337
Funds disbursed to the College for student organizations	2,025	3,300
Funds disbursed to the College for purchase of gift certificate	200	0
Funds disbursed to the Foundation for transfer of endowment	(49,962)	0

The College had a receivable from the Foundation on June 30, 2003 in the amount of \$444.01 and on June 30, 2002 in the amount of \$88.30 for reimbursement of expenses.

Financial Statements

The financial statements of the Foundation as of, and for, the year ended August 31, 2002 and 2001, which have been audited by an independent certified public accountant, are presented in summary form.

**SOUTH ARKANSAS COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

Note 14: Related Organizations - continued

Condensed Statement of Financial Position		
	<u>August 31, 2002</u>	<u>August 31, 2001</u>
Assets		
Cash and cash equivalents	\$ 149,803	\$ 157,631
Investments	111,786	15,314
Pledges receivable	17,149	35,048
Accrued interest	30	221
Computer software, net of amortization	<u>1,768</u>	<u>3,890</u>
Total Assets	<u>\$ 280,536</u>	<u>\$ 212,104</u>
Liabilities and Net Assets		
Liabilities	\$ <u>25,845</u>	\$ <u>17,439</u>
Net Assets		
Unrestricted	125,232	59,017
Unrestricted – Board designated	31,421	33,368
Restricted	<u>98,038</u>	<u>102,280</u>
Net Assets	<u>254,691</u>	<u>194,665</u>
Total Liabilities and Net Assets	<u>\$ 280,536</u>	<u>\$ 212,104</u>

Condensed Statement of Activities		
	<u>For the Year Ended August 31, 2002</u>	<u>For the Year Ended August 31, 2001</u>
Contributions	\$ 114,125	\$ 147,169
Fundraising events	29,240	26,800
Other revenues and additions	<u>23</u>	<u>979</u>
Total Income and Other Additions	<u>143,388</u>	<u>174,948</u>
Program services	42,789	58,645
Supporting services	<u>40,573</u>	<u>20,792</u>
Total Expenditures and Other Deductions	<u>83,362</u>	<u>79,437</u>
Increase in Net Assets	<u>\$ 60,026</u>	<u>\$ 95,511</u>

**SOUTH ARKANSAS COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

Note 15: Disaggregation of Receivable and Payable Balances

The accounts receivable of \$110,135 at June 30, 2003, consisted of student's accounts receivable of \$151,275, which was reduced by an allowance for doubtful accounts of \$42,389 and the remaining balance of \$1,249 represented amounts due for miscellaneous charges.

Other receivables of \$71,852 at June 30, 2003, consisted of interest receivable of \$1,839, reimbursements of \$57,101 from federal and state agencies for grants and contracts and the remaining balance of \$12,912 represented amounts due for miscellaneous charges.

The accounts payable and accrued liabilities of \$44,743 at June 30, 2003 consisted of 33,493 due to vendors and \$11,250 for salaries and benefits.

Note 16: Restatement of June 30, 2002 Financial Statements

The Statement of Net Assets for the year ended June 30, 2002, was restated to reflect classification corrections.

<u>Differences:</u>	<u>From:</u>	<u>To:</u>
\$ 4,236 Receivable from bookstore vendors	Inventories	Other receivables
170,363 Property taxes receivable reflected separately	Other receivables	Property taxes receivable
38,495 Receivable for scholarships	Other receivables	Accounts receivable

The Statement of Revenues, Expenses and Changes in Net Assets for the year ended June 30, 2002, was restated to reflect classification corrections.

<u>Differences:</u>	<u>From:</u>	<u>To:</u>
\$ 26 Arboretum AHTD Federal Grant	State and local grants and contracts	Federal grants and contracts
48 Employee Loan Interest	Non-operating: Interest income	Other operating revenue
1,905 PELL Admin Cost Income	Other operating revenue	Federal grants and contracts
2,575 High School Travel	Other operating revenue	Non-governmental grants and contracts
5,686 Gifts	Non-governmental grants and contracts	Non-operating: Gifts

**SOUTH ARKANSAS COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

Note 16: Restatement of June 30, 2002 Financial Statements - continued

<u>Differences:</u>	<u>From:</u>	<u>To:</u>
\$ 6,928 Reclassification between funds: moved salaries and benefits to supplies	Salaries	Supplies
78,507 Elimination to scholarships-should have been supplies	Scholarships	Supplies
20,000 Funds from Foundation for Scholarship (IPEDS)	Non-governmental grants and contracts	Non-operating: Gifts
150 Funds from South Arkansas Human Resources for scholarships	Non-governmental grants and contracts	Non-operating: Gifts

The Statement of Cash Flows was adjusted for these reclassifications.