

South Arkansas Community College

El Dorado, Arkansas

**Basic Financial Statements
and Other Reports**

June 30, 2005

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. Sandra Prater
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 basic financial statements of South Arkansas Community College (Institution), an Institution of Higher Education of the State of Arkansas, as of and for the year ended June 30, 2005 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 and the report(s) of other auditors provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of South Arkansas Community College as of June 30, 2005 and the changes in its net assets and cash flows thereof 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 April 7, 2006 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 cursive script, appearing to read "Charles L. Robinson".

Charles L. Robinson, CPA, CFE
Legislative Auditor

Little Rock, Arkansas
April 7, 2006
EDHE19305

Sen. Henry "Hank" Wilkins, IV
Senate Co-Chair
Rep. Tommy G. Roebuck
House Co-Chair
Sen. Randy Laverty
Senate Co-Vice Chair
Rep. Sandra Prater
House Co-Vice Chair

Arkansas



Charles L. Robinson, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

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

South Arkansas Community College
Legislative Joint Auditing Committee

We have audited the financial statements of South Arkansas Community College, an Institution of Higher Education of the State of Arkansas, as of and for the year ended June 30, 2005, and have issued our report thereon dated April 7, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

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

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

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in cursive script that reads "William R. Baum".

William R. Baum, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
April 7, 2006

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



Charles L. Robinson, 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, 2005, 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>2004</u>	<u>Spring Term</u> <u>2005</u>
Student Headcount	1,357	1,380
Student Semester Credit Hours	12,663	12,920

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

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

DIVISION OF LEGISLATIVE AUDIT

William R. Baum

William R. Baum, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
April 7, 2006



**SOUTH ARKANSAS COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005
(WITH COMPARATIVE DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2004)**

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, 2005, with comparative information for the year ended June 30, 2004. The Financial Report of the College is prepared following the financial statement model as developed and required by the Government Accounting Standards Board (GASB). GASB is the governing body over financial statements for public higher education and all state and local governments. The objectives of the reporting format is to enhance the understanding and usefulness of the external financial reports to all users of the statements including creditors, legislative and oversight bodies.

OVERVIEW OF THE FINANCIAL REPORT

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

FISCAL YEAR 2004-2005 HIGHLIGHTS

The following events or activities of significance occurred during the fiscal year ended June 30, 2005.

- On May 27, 2005, the College awarded a contract in the amount of \$629,795 for the renovation of the roof on the Billy McGehee Classroom building on the east campus.
- The College expended \$237,646 for maintenance projects on east and west campuses including painting, replacing floor tile, and electrical modifications
- The College received a \$400,000 grant from The Arkansas Natural and Resources Council for Phase III of the Administration Building renovation. At their May 4, 2005, meeting, the College was granted an extension until June 30, 2006. Also at this meeting, the College's 2005-2006 request for an additional \$355,000 for Phase IV was approved. At June 30, 2005, the architect had finished the design and development work and ran the advertisement requesting bids. In August 2006, two contracts were awarded and work was begun.
- In October 2004, Dr. Kathy Matlock resigned as President of South Arkansas Community College and Dr. Terry Puckett was hired as Interim President. On April 12, 2005, the Board met in a special called business meeting and voted to hire Dr. Alan Rasco as President. Dr. Rasco began his duties on May 31, 2005.



GYM AND ADMINISTRATION BUILDINGS
WEST CAMPUS



**SOUTH ARKANSAS COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005
(WITH COMPARATIVE DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2004)**

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, 2005, with comparative information as of June 30, 2004. Net Assets is one indicator of the financial condition of the College and changes in the net assets that occur over time indicate improvements or deterioration in the College's financial condition.

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

Readers of the Statement of Net Assets can determine answers to the following key questions as of June 30, 2005:

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

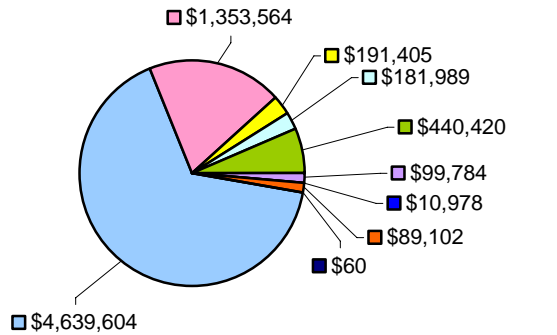


**SOUTH ARKANSAS COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005
(WITH COMPARATIVE DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2004)**

Condensed Statement of Net Assets

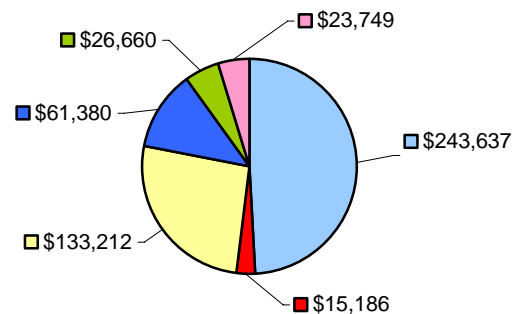
	<u>2005</u>	<u>2004</u>	<u>Change</u>
Assets:			
Current Assets	\$ 7,006,906	\$ 6,352,203	10.31%
Capital Assets, Net	10,448,377	10,689,892	-2.26%
Other Non-current Assets	75,918	57,609	31.78%
Total Assets	<u>17,531,201</u>	<u>17,099,704</u>	2.52%
Liabilities:			
Current Liabilities	503,824	437,292	15.21%
Non-current Liabilities	949,603	1,022,164	-7.10%
Total Liabilities	<u>1,453,427</u>	<u>1,459,456</u>	-0.41%
Net Assets:			
Invested in Capital Assets, Net of Debt Restricted	9,634,818	9,816,867	-1.85%
Unrestricted	5,476,135	4,737,837	15.58%
Total Net Assets	<u>\$ 16,077,774</u>	<u>\$ 15,640,248</u>	2.80%

Current Assets



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

Current Liabilities



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



**SOUTH ARKANSAS COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005
(WITH COMPARATIVE DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2004)**

The College's current assets increased by \$654,703 or 10.31% during the fiscal year ended June 30, 2005, while its net capital assets decreased by \$241,515 or 2.26%. The increases and decreases to capital assets are shown in the notes to the financial statements. Overall, the College's total assets increased from \$17,099,704 at June 30, 2004, to \$17,531,201 at June 30, 2005, an increase of 2.52%.

The College's total liabilities decreased from \$1,459,456 at June 30, 2004, to \$1,453,427 at June 30, 2005, a decrease of \$6,029 or 0.41% while its total net assets increased \$437,526 or 2.80% from \$15,640,248 to \$16,077,774 during the period.

Cash, cash equivalents, and investments as of June 30, 2005 and 2004, are shown below. Current short-term investments consist of certificates of deposit with an original maturity date of 91 days to one year. Non-current cash and cash equivalents are funds externally restricted for capital projects and endowment principal not invested.

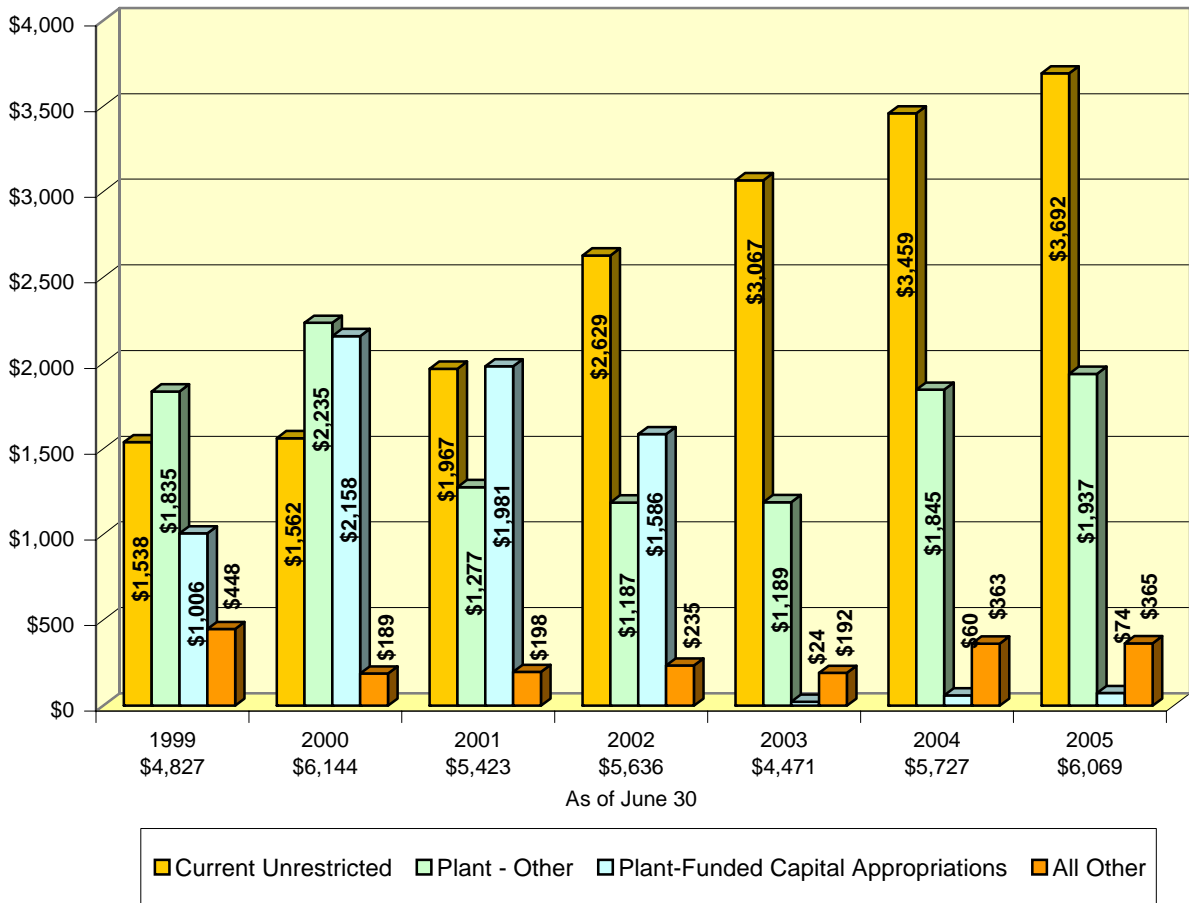
Cash, Cash Equivalents, and Investments

	<u>2005</u>	<u>2004</u>
Current Cash and Cash Equivalents	\$ 4,639,604	\$ 5,315,388
Current Short Term Investments	1,353,564	353,564
Non-current Cash and Cash Equivalents	75,917	57,609
Total	<u>\$ 6,069,085</u>	<u>\$ 5,726,561</u>

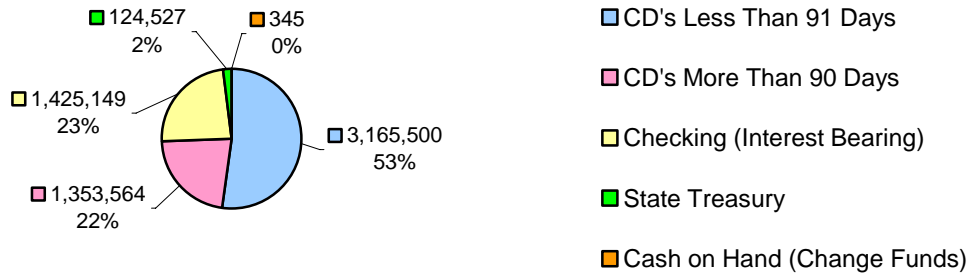


**SOUTH ARKANSAS COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005
(WITH COMPARATIVE DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2004)**

Cash, Cash Equivalents & Investments Components
(In Thousands)



**Cash, Cash Equivalents & Investments by Type of Account
At June 30, 2005**





SOUTH ARKANSAS COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005
(WITH COMPARATIVE DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2004)

Statement of Revenues, Expenses and Changes in Net Assets

The total net assets as presented on the Statement of Net Assets are based in part on the financial activities that occurred during the fiscal year as presented in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement's purpose is to present the revenues generated and received by the College and the expenses incurred, both operating and non-operating, and all other financial gains or losses experienced by the College during the fiscal year ended June 30, 2005.

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

Condensed Statement of Revenues, Expenses and Changes in Net Assets

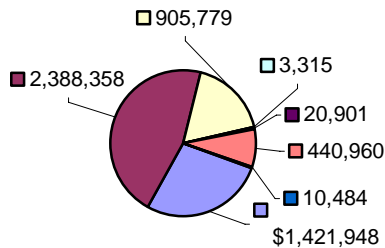
	2005	2004	Change
Operating Revenues	\$ 5,191,745	\$ 4,725,337	9.87%
Operating Expenses	11,272,701	10,643,702	5.91%
Operating Loss	(6,080,956)	(5,918,365)	2.75%
Non-operating Revenues & Expenses (Net)	6,396,685	6,299,196	1.55%
Income Before Other Revenues, Expenses, Gains or Losses	315,729	380,831	-17.09%
Other Revenues, Expenses, Gains and Losses	121,797	482,286	-74.75%
Increase in Net Assets	437,526	863,117	-49.31%
Net Assets, Beginning of Year	15,640,248	14,776,481	
Net Assets Transferred In (Out)			
AR Heavy Equip. Operator Training Academy	650	650	
Net Assets, End of Year	<u>\$ 16,077,774</u>	<u>\$ 15,640,248</u>	



**SOUTH ARKANSAS COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005
(WITH COMPARATIVE DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2004)**

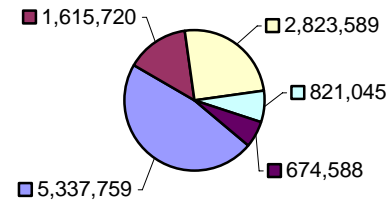


**Operating Revenues
Total \$5,191,745**



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

**Operating Expenses
Total \$11,272,701**



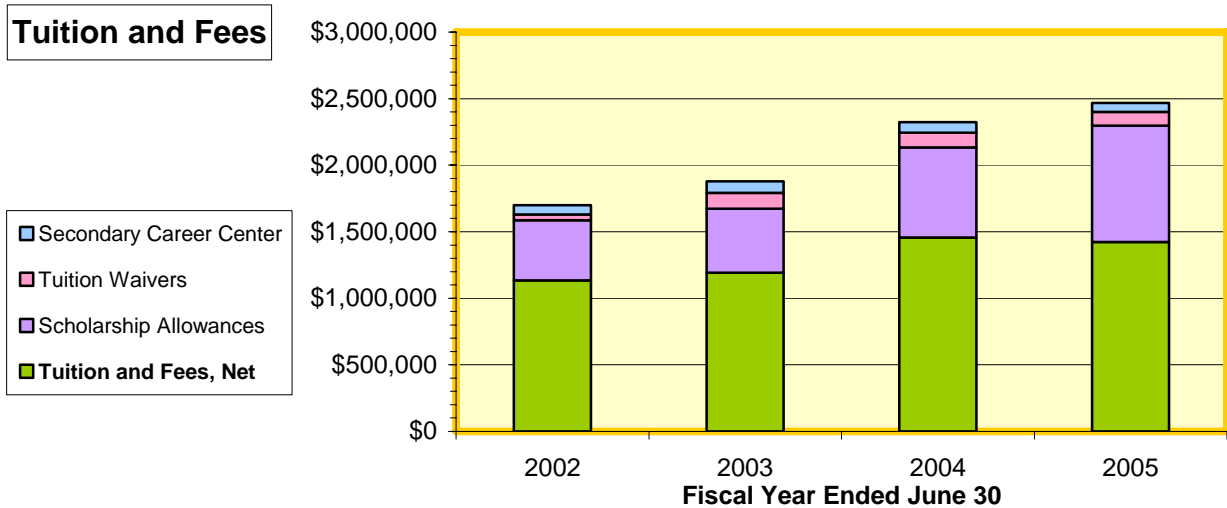
- Salaries
- Employee Benefits
- Supplies and Services
- Scholarships
- Depreciation

The Statement of Revenues, Expenses, and Changes in Net Assets for the fiscal year ended June 30, 2005, reflects an increase in the net assets of the College of \$437,526 compared with an increase of \$863,117 for the year ended June 30, 2004. Highlights from the information presented in the Statement of Revenues, Expenses, and Changes in Net Assets for the fiscal year ended June 30, 2005 include the following:

- ◆ Tuition and fees, shown net of institutional waivers, Secondary Career Center tuition, and scholarship allowances, amounted to \$1,421,948 or 27.39% of total operating revenues.



**SOUTH ARKANSAS COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005
(WITH COMPARATIVE DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2004)**



- ◆ Personal services (Salaries and Benefits) expenses totaled \$6,953,479 or 61.68% of total operating expenses.
- ◆ Scholarships expenses totaled \$821,045 or 7.28% of total operating expenses.
- ◆ The College's loss from operations amounted to \$6,080,956. State Appropriations which are classified as non-operating revenues amounted to \$6,035,520. Non-operating revenues and expenses are shown below.

Non-operating Revenues and Expenses

	2005	2004	Change
State Funded Appropriations	\$ 6,035,520	\$ 5,941,951	1.57%
County Millage	242,073	236,731	2.26%
Gifts	22,875	77,232	-70.38%
Interest Income	153,575	64,850	136.82%
Disposal of Capital Assets	(34,126)	2,558	-1434.09%
Interest on Indebtedness	(23,232)	(24,126)	-3.71%
Net Non-operating Revenues	\$ 6,396,685	\$ 6,299,196	1.55%

- ◆ Total other revenues amounted to \$170,020. Of this amount, \$162,490 was derived from capital appropriations which included the following funded appropriations:



**SOUTH ARKANSAS COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005
(WITH COMPARATIVE DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2004)**

Capital Appropriations

	<u>2005</u>	<u>2004</u>
WPA Gym		\$ 372,000
Weatherford House Roof & Repairs	\$ 39,095	46,303
Administration Building	90,000	
State Motor Vehicle	10,190	
College Savings Bonds	23,205	64,310
	<u>\$ 162,490</u>	<u>\$ 482,613</u>





**SOUTH ARKANSAS COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005
(WITH COMPARATIVE DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2004)**

STATEMENT OF CASH FLOWS

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

Condensed Statement of Cash Flows

	<u>2005</u>	<u>2004</u>
Cash provided (used) by:		
Operating activities	\$ (5,766,970)	\$ (5,265,374)
Non-capital financing activities	6,303,723	6,258,617
Capital and related financing activities	(343,001)	202,006
Investing activities	<u>(851,228)</u>	<u>379,958</u>
Net change in cash and cash equivalents	(657,476)	1,575,207
Cash and cash equivalents - beginning of year	<u>5,372,997</u>	<u>3,797,790</u>
Cash and cash equivalents - end of year	<u>\$ 4,715,521</u>	<u>\$ 5,372,997</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. \$1,000,000 was invested in certificates of deposit with maturity dates of 91 days to 12 months.

ECONOMIC OUTLOOK

The College's economic outlook is largely dependent upon ongoing financial support from State government. State general revenues are directly connected to the global economy. Fiscal year 2004-2005 saw improved interest rates and an improved economy. During the 2005 legislative session, the College received state general improvement fund appropriations for fiscal year 2005-2006 to be used for west campus expansion and for planning expenses for an allied health building.

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



SOUTH ARKANSAS COMMUNITY COLLEGE
COMPARATIVE STATEMENT OF NET ASSETS
JUNE 30, 2005
(With Comparative Figures as of June 30, 2004)

Exhibit A

	<u>2005</u>	<u>2004</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,639,604	\$ 5,315,388
Short-term investments	1,353,564	353,564
Accounts receivable (less allowances of \$45,587 and \$39,588)	191,405	128,999
Employee and student loans receivable (less allowance of \$80 and \$0)		80
Property taxes receivable (net of estimated uncollectible amounts)	181,989	181,194
Other receivables	440,420	222,935
Inventories	99,784	100,632
Deposits with trustees (market value)	10,978	10,320
Prepaid expenses	89,102	39,031
Other assets	60	60
Total Current Assets	<u>7,006,906</u>	<u>6,352,203</u>
Noncurrent Assets		
Cash and cash equivalents	75,917	57,609
Accrued interest receivable	1	
Capital assets, net of accumulated depreciation of \$7,389,725 and \$7,438,376 (Note 6)	10,448,377	10,689,892
Total Noncurrent Assets	<u>10,524,295</u>	<u>10,747,501</u>
TOTAL ASSETS	<u>17,531,201</u>	<u>17,099,704</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	243,637	130,383
Refunds payable	15,186	30,109
Deferred revenue	133,212	167,584
Note payable - current portion	61,380	59,467
Compensated absences	26,660	26,102
Funds held in trust for others	23,749	23,647
Total Current Liabilities	<u>503,824</u>	<u>437,292</u>
Noncurrent Liabilities		
Notes payable	752,179	813,558
Compensated absences	197,424	208,606
Total Noncurrent Liabilities	<u>949,603</u>	<u>1,022,164</u>
TOTAL LIABILITIES	<u>1,453,427</u>	<u>1,459,456</u>
NET ASSETS		
Invested in capital assets, net of related debt	9,634,818	9,816,867
Restricted for:		
Non-expendable		
Scholarships	11,364	11,306
Expendable		
Scholarships	16,191	14,028
Loans	1,981	2,007
Capital Projects	690,167	793,090
Other	247,118	265,113
Unrestricted	5,476,135	4,737,837
TOTAL NET ASSETS	<u>\$ 16,077,774</u>	<u>\$ 15,640,248</u>

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



SOUTH ARKANSAS COMMUNITY COLLEGE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2005
(With Comparative Figures for the year ended June 30, 2004)

Exhibit B

	<u>2005</u>	<u>2004</u>
OPERATING REVENUES		
Student tuition and fees (net of scholarship allowances of \$875,004 and \$675,914)	\$ 1,421,948	\$ 1,457,767
Federal grants and contracts	2,388,358	2,095,341
State and local grants and contracts	905,779	762,868
Non-governmental grants and contracts	3,315	2,327
Sales and services of educational departments	20,901	27,295
Auxiliary enterprises:		
Vending	7,601	7,783
Bookstore (net of scholarship allowances of \$290,548 and \$232,337)	433,359	354,756
Other operating revenues	10,484	17,200
TOTAL OPERATING REVENUES	<u>5,191,745</u>	<u>4,725,337</u>
OPERATING EXPENSES		
Salaries	5,337,759	5,184,510
Employee benefits	1,615,720	1,519,144
Supplies and other services	2,823,589	2,644,590
Scholarships and fellowships	821,045	667,799
Depreciation	674,588	627,659
TOTAL OPERATING EXPENSES	<u>11,272,701</u>	<u>10,643,702</u>
OPERATING INCOME (LOSS)	<u>(6,080,956)</u>	<u>(5,918,365)</u>
NON-OPERATING REVENUES (EXPENSES)		
State and Federal appropriations	6,035,520	5,941,951
County millage	242,073	236,731
Gifts	22,875	77,232
Interest income	153,575	64,850
Interest expense (on capital asset related debt)	(23,232)	(24,126)
Disposal of capital assets (net of accumulated depreciation of \$723,239 and \$58,701)	(34,126)	2,558
NET NON-OPERATING REVENUES (EXPENSES)	<u>6,396,685</u>	<u>6,299,196</u>
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	<u>315,729</u>	<u>380,831</u>
Other revenues, expenses, gains and losses		
Capital appropriations	162,490	482,613
AR Heavy Equipment Training Academy transferred per Act 1010 (Note 14)	(48,223)	
Interest earned on endowment funds	57	26
Market value adjustment of deposits with trustees	658	209
Adjustments to prior year revenues & expenses	6,815	(562)
TOTAL OTHER REVENUES, EXPENSES, GAINS AND LOSSES	<u>121,797</u>	<u>482,286</u>
INCREASE (DECREASE) IN NET ASSETS	437,526	863,117
NET ASSETS - BEGINNING OF YEAR	15,640,248	14,776,481
AR Heavy Equipment Training Academy		650
NET ASSETS - END OF YEAR	<u>\$ 16,077,774</u>	<u>\$ 15,640,248</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, 2005
(With Comparative Figures for the year ended June 30, 2004)

Exhibit C

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 1,322,402	\$ 1,515,317
Grants and contracts	3,032,795	2,729,191
Sales and services of educational activities	20,646	27,298
Collection of student and employee loans including interest	4,060	5,697
Auxiliary enterprise revenues		
Vending	7,601	7,783
Bookstore	432,796	345,881
Other receipts	10,471	17,183
Payments to employees	(5,338,554)	(5,180,838)
Payments of employee benefits	(1,626,616)	(1,518,594)
Payments to suppliers	(2,807,479)	(2,554,006)
Loans issued to students and employees	(4,047)	(5,583)
Scholarships	(821,045)	(654,703)
Net cash provided by operating activities	<u>(5,766,970)</u>	<u>(5,265,374)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
State appropriations	6,035,520	5,941,951
County millage	241,278	222,727
Gifts and grants	22,875	76,535
Agency funds - net	391	7,122
Other	3,659	10,282
Net cash provided by non-capital financing activities	<u>6,303,723</u>	<u>6,258,617</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	162,490	482,613
Loan proceeds		750,000
Proceeds from sale of capital assets	8,132	2,558
Purchase of capital assets	(430,479)	(978,565)
Principal paid on capital debt	(59,466)	(36,246)
Interest paid on capital debt	(23,678)	(18,354)
Net cash provided by capital and related financing activities	<u>(343,001)</u>	<u>202,006</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	148,772	64,958
Proceeds from sales and maturities of investments		320,000
Purchase of investments	(1,000,000)	
Deposit with trustee		(5,000)
Net cash provided by investing activities	<u>(851,228)</u>	<u>379,958</u>
Net increase (decrease) in cash and cash equivalents	(657,476)	1,575,207
Cash and cash equivalents-beginning of year	<u>5,372,997</u>	<u>3,797,790</u>
Cash and cash equivalents-end of year	<u>\$ 4,715,521</u>	<u>\$ 5,372,997</u>

(Continued on next page)



SOUTH ARKANSAS COMMUNITY COLLEGE
COMPARATIVE STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005
(With Comparative Figures for the year ended June 30, 2004)

Exhibit C

	<u>2005</u>	<u>2004</u>
Reconciliation of net operating revenues (expenses)		
to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (6,080,956)	\$ (5,918,365)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation	674,588	627,659
Prior year adjustment	4,681	(562)
AHEOTA receivables and payables, net June 30, 2005 and July 1, 2003		(9,632)
Changes in assets and liabilities:		
(Increase) Decrease in Receivables, net	(275,241)	(168,515)
(Increase) Decrease in Inventories	848	27,124
(Increase) Decrease in Prepaid expenses	(50,071)	46,237
Increase (Decrease) in Accounts payable and accrued liabilities	4,177	75,524
Increase (Decrease) in Deferred revenue	(34,372)	42,857
Increase (Decrease) in Compensated absences	(10,624)	12,299
Net cash provided (used) by operating activities	<u>\$ (5,766,970)</u>	<u>\$ (5,265,374)</u>

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



**SOUTH ARKANSAS COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

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 to 20 years for infrastructure and land improvements, 10 years for library holdings, 5 years for vehicles, and 3 to 10 years for equipment.

Operating and Non-operating Revenues

The 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
FOR THE YEAR ENDED JUNE 30, 2005**

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 90 days or less to be cash equivalents (such as certificates of deposit).

Accounts Receivable

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

Investments

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

Inventories

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

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 of 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
FOR THE YEAR ENDED JUNE 30, 2005**

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, 2005 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.

Scholarship Discounts and Allowances

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

Note 3: Public Fund Deposits and Investments

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

	<u>June 30, 2005</u>		<u>June 30, 2004</u>	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Insured (FDIC)	\$100,000	\$100,000	\$125,128	\$139,714
Collateralized:				
Collateral held by the pledging bank or pledging bank's trust department in the College's name	5,407,988	5,407,988	5,508,084	5,639,704
Uninsured and uncollateralized	436,225	595,350		
Total deposits	<u>\$5,944,213</u>	<u>\$6,103,338</u>	<u>\$5,633,212</u>	<u>\$5,779,418</u>



**SOUTH ARKANSAS COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

Note 3: Public Fund Deposits and Investments - continued

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 \$124,527 and \$345, respectively, as of June 30, 2005, and \$93,004 and \$345, respectively, for the year ended June 30, 2004. The above total deposits include certificates of deposit of \$1,353,564 as of June 30, 2005, and \$353,564 as of June 30, 2004, reported as investments and classified as nonparticipating contracts.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. It is the College's policy to require full collateralization above the Federal Deposit Insurance Corporation (FDIC) insurance limits. As of June 30, 2005, \$595,350 of the College's bank balance of \$6,103,338 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	<u>\$ 595,350</u>
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Deposits with Trustee

At June 30, 2005, the College's deposits with trustee of \$10,978 were invested in a TIAA/CREF account owned by the College. The funds were invested in TIAA Real Estate - \$3,105; CREF Bond Market - \$2,741.94; and CREF Money Market - \$5,130.57. These funds were set aside in a Sec. 457 Deferred Compensation Plan. The college retains ownership of the funds until the fulfillment of the conditions set out in the Plan.

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

Note 4: Disaggregation of Receivable and Payable Balances

The accounts receivable of \$191,405 at June 30, 2005, consisted of student's accounts receivable of \$236,337, which was reduced by an allowance for doubtful accounts of \$45,587 and the remaining balance of \$655 represented amounts due for miscellaneous charges.

Other receivables of \$440,420 at June 30, 2005, consisted of interest receivable of \$6,618, reimbursements of \$421,706 from federal and state agencies for grants and contracts and the remaining balance of \$12,096 represented amounts due for miscellaneous charges and vendor refunds.

The accounts payable and accrued liabilities of \$243,637 at June 30, 2005 consisted of \$175,083 due to vendors and \$13,479 for salaries and benefits, accrued interest payable of \$5,327, and \$49,748 state treasury funds received June 30, 2005 for Arkansas Heavy Equipment Operator Training Academy due to University of Arkansas at Monticello.

Note 5: Income Taxes

South Arkansas Community College is tax exempt under the Internal Revenue Service Code. It is also exempt from state income taxes under Arkansas law. Accordingly, no provision for income taxes is made in the financial statements.



SOUTH ARKANSAS COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Note 6: Capital Assets

Following are the changes in capital assets for the year ended June 30, 2005:

Land	\$ 663,528	\$ 70,938			\$ 734,466
Construction-in-progress	52,634	245,131	\$ (94,469)	\$ 3,903	199,393
Total capital assets not depreciated	<u>\$ 716,162</u>	<u>\$ 316,069</u>	<u>\$ (94,469)</u>	<u>\$ 3,903</u>	<u>\$ 933,859</u>

Other capital assets

Improvements and infrastructure	\$ 387,414	\$ 7,439			\$ 394,853
Buildings	13,601,421		\$ 94,469	\$ 47,812	13,648,078
Equipment	2,067,871	89,536		96,855	2,060,552
Library holdings	1,355,400	62,286		616,926	800,760
Total other capital assets	<u>17,412,106</u>	<u>159,261</u>	<u>94,469</u>	<u>761,593</u>	<u>16,904,243</u>

Less accumulated depreciation for:

Improvements and infrastructure	288,478	19,816			308,294
Buildings	4,589,702	434,087		12,086	5,011,703
Equipment	1,704,513	144,022		94,227	1,754,308
Library holdings	855,683	76,663		616,926	315,420
Total accumulated depreciation	<u>7,438,376</u>	<u>674,588</u>		<u>723,239</u>	<u>7,389,725</u>

Other capital assets, net	<u>\$ 9,973,730</u>	<u>\$ (515,327)</u>	<u>\$ 94,469</u>	<u>\$ 38,354</u>	<u>\$ 9,514,518</u>
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Capital asset summary:

Capital assets not being depreciated	\$ 716,162	\$ 316,069	\$ (94,469)	\$ 3,903	\$ 933,859
Other capital assets at cost	17,412,106	159,261	94,469	761,593	16,904,243
Total cost of capital assets	<u>18,128,268</u>	<u>475,330</u>		<u>765,496</u>	<u>17,838,102</u>
Less accumulated depreciation	<u>7,438,376</u>	<u>674,588</u>		<u>723,239</u>	<u>7,389,725</u>
Capital assets, net	<u>\$ 10,689,892</u>	<u>\$ (199,258)</u>	<u>\$ 0</u>	<u>\$ 42,257</u>	<u>\$ 10,448,377</u>



**SOUTH ARKANSAS COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

Note 7: Long-term Liabilities

COLLEGE SAVINGS BOND LOAN

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

Debt payments on bonds amounted to \$15,587 for the fiscal year ended June 30, 2005. Debt service interest payments totaled \$8,969 for the fiscal year ended June 30, 2005.

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

Debt payments on bonds amounted to \$43,879 for the fiscal year ended June 30, 2005. Debt service interest payments totaled \$14,708 for the fiscal year ended June 30, 2005.

<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, 2005</u>	<u>Principal Payments Made Thru June 30, 2005</u>
4/9/1996	10/10/2011	6.37%	\$235,000	\$129,045	\$105,955
10/28/2003	10/1/2018	2.05%	750,000	684,514	65,486
			<u>\$985,000</u>	<u>\$813,559</u>	<u>\$171,441</u>

Changes in long-term liabilities are as follows:

	<u>Balance July 1, 2004</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance June 30, 2005</u>	<u>Principal due within one year</u>
College savings bonds loan payable (1996)	\$ 144,632		\$ 15,587	\$ 129,045	\$ 16,596
College savings bonds loan payable (2003)	728,393		43,879	684,514	44,784
Compensated absences payable	234,708	\$ 208,805	219,429	224,084	26,660
	<u>\$ 1,107,733</u>	<u>\$ 208,805</u>	<u>\$ 278,895</u>	<u>\$ 1,037,643</u>	<u>\$ 88,040</u>



SOUTH ARKANSAS COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Total long-term debt principal and interest scheduled payments for the 1996 loan are as follows:

Year Ended June 30	Principal	Interest	Total
2006	\$ 16,596	\$ 7,960	\$ 24,556
2007	17,670	6,886	24,556
2008	18,814	5,742	24,556
2009	20,031	4,525	24,556
2010	21,327	3,229	24,556
2011-2012	34,607	2,227	36,834
Total	<u>\$ 129,045</u>	<u>\$ 30,569</u>	<u>\$ 159,614</u>

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

Year Ended June 30	Principal	Interest	Total
2006	\$ 44,784	\$ 13,804	\$ 58,588
2007	45,707	12,881	58,588
2008	46,648	11,940	58,588
2009	47,609	10,979	58,588
2010	48,591	9,997	58,588
2011-2015	258,390	34,550	292,940
2016-2019	192,785	7,851	200,636
Total	<u>\$ 684,514</u>	<u>\$ 102,002</u>	<u>\$ 786,516</u>

Note 8: Commitments

The College was contractually obligated on the following at June 30, 2005:

A. Construction Contracts

Project Name	Estimated Completion Date	Contract Balance
McGehee Building Roof	October 2005	\$ 572,014.00
Administration Building Renovations	June 30, 2006	11,656.00

B. Operating leases for copiers

	2006	2007	2008	2009	Total
Scheduled Payments	<u>\$ 28,480</u>	<u>\$ 19,124</u>	<u>\$ 15,612</u>	<u>\$ 431</u>	<u>\$ 63,647</u>



**SOUTH ARKANSAS COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

Note 9: Contingent Liabilities

Health Care Plans

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

Post Retirement Benefits

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

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

As of June 30, 2005			As of June 30, 2004		
Retirees	Percent Eligible Factor	Potential Liability until age 65	Retirees	Percent Eligible Factor	Potential Liability until age 65
3	100%	\$30,881	2	100%	\$22,680
1	45%	5,598	1	45%	6,974
\$36,479			\$29,654		

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

As of June 30, 2005			As of June 30, 2004		
Potential Retirees	Percent Eligible Factor	Potential Liability until age 65	Potential Retirees	Percent Eligible Factor	Potential Liability until age 65
5	100%	\$111,134	6	100%	\$136,458
1	95%	20,378	1	85%	19,921
1	85%	32,084	1	75%	26,366
1	70%	20,877	1	70%	20,110
\$184,473			\$202,855		

The above amounts are computed using the cost of current (July, 2005) 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 1, 1998. Persons who retired before December 31, 1998, are eligible to continue with the same benefits in effect at the time they retired.



**SOUTH ARKANSAS COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

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, 2005 were \$287,816 and \$248,112, respectively, and for the year ended June 30, 2004 were \$281,403 and \$239,961, 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 14% (13% from July 1, 2003 to June 30, 2004 and 12% prior to July 1, 2003). The College's contributions to ATRS for the years ended June 30, 2005, 2004 and 2003 were \$132,323, \$112,762 and \$72,190, respectively, equal to the required contributions for each year.

Arkansas Public Employees Retirement System

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



**SOUTH ARKANSAS COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

Note 10: Retirement Plans – continued

Funding Policy. APERS has contributory (not available to new enrollees until July 1, 2005) and non-contributory plans. Through June 30, 2004, the College had only non-contributory participants. Beginning July 1, 2005, all new participants will be required to contribute 5% and current participants have until December 31, 2005, to elect to change from non-contributory to contributory. Each participating employer is required by law to contribute at a rate established by the Arkansas General Assembly. The statutory employer rate for the fiscal year ended June 30, 2005, was 11.09% (10% prior to July 1, 2004) of annual covered payroll. The employer rate increases to 12.54% effective July 1, 2005. The College's contributions to APERS for the years ended June 30, 2005, 2004 and 2003, were \$78,571, \$69,418 and \$79,590, respectively, equal to the required contributions for each year.

Summary of employer contributions:

	Institutional Contributions for the Years Ended June 30,		
<u>Retirement Plan</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Alternate Retirement Plan	\$287,816	\$281,403	\$286,520
AR Public Employees Retirement	78,571	69,418	79,590
AR Teachers Retirement	132,323	112,762	72,190
Total	<u>\$498,710</u>	<u>\$463,583</u>	<u>\$438,300</u>



SOUTH ARKANSAS COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Note 11: Natural Classifications with Functional Classifications

The operating expenses by functional classification were as follows:

	For the Year Ended June 30, 2005					Total
	Salaries	Fringe Benefits	Supplies & Services	Scholarships	Depreciation	
Instruction	\$ 3,119,329	\$ 892,924	\$ 914,310			\$ 4,926,564
Public Service	112,700	41,382	8,564			162,646
Academic Support	285,360	106,142	206,804			598,306
Student Support	384,332	111,631	119,542			615,504
Institutional Support	1,037,226	334,739	294,992			1,666,958
M & O	362,357	117,453	712,471			1,192,281
Scholarships				\$ 821,045		821,045
Depreciation					\$ 674,588	674,588
Subtotal	5,301,305	1,604,271	2,256,684	821,045	674,588	10,657,893
Auxiliary	36,453	11,450	566,905			614,808
Total	<u>\$ 5,337,759</u>	<u>\$ 1,615,721</u>	<u>\$ 2,823,589</u>	<u>\$ 821,045</u>	<u>\$ 674,588</u>	<u>\$ 11,272,701</u>

Total scholarships for fiscal year 04-05 were \$1,986,597; however, \$1,165,552 was reported as scholarship allowances on the statement of revenues, expenditures, and changes in net assets.

	For the Year Ended June 30, 2004					Total
	Salaries	Fringe Benefits	Supplies & Services	Scholarships	Depreciation	
Instruction	\$ 3,071,795	\$ 867,523	\$ 935,073			\$ 4,874,391
Public Service	126,100	36,169	15,295			177,564
Academic Support	295,741	87,776	230,597			614,114
Student Support	385,295	108,950	124,636			618,881
Institutional Support	930,728	288,508	251,286			1,470,522
M & O	342,302	120,922	628,951			1,092,175
Scholarships				\$ 667,799		667,799
Depreciation					\$ 627,659	627,659
Subtotal	5,151,961	1,509,848	2,185,838	667,799	627,659	10,143,105
Auxiliary	32,549	9,296	458,752			500,597
Total	<u>\$ 5,184,510</u>	<u>\$ 1,519,144</u>	<u>\$ 2,644,590</u>	<u>\$ 667,799</u>	<u>\$ 627,659</u>	<u>\$ 10,643,702</u>

Total scholarships for fiscal year 03-04 were \$1,576,050; however, \$908,251 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
FOR THE YEAR ENDED JUNE 30, 2005**

Note 12: Loan Funds

Student/Employee Loan Fund

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

Balances as of:	<u>June 30, 2005</u>			<u>June 30, 2004</u>
	<u>Student Loan Fund</u>	<u>Employee Loan Fund</u>	<u>Total</u>	<u>Total</u>
Cash in Bank	\$ 720	\$ 1,261	\$ 1,981	\$ 1,927
Loans, Net				80
Fund Balance	<u>\$ 720</u>	<u>\$ 1,261</u>	<u>\$ 1,981</u>	<u>\$ 2,007</u>

Note 13: South Arkansas Arboretum

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

Note 14: Arkansas Heavy Equipment Operator Training Academy

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



**SOUTH ARKANSAS COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

Note 15: Donor-Restricted Endowments

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

	<u>2005</u>	<u>2004</u>
Total Endowments at June 30,	\$ 11,837	\$ 11,533
Less: Non-Expendable Portion of True Endowments	<u>(11,364)</u>	<u>(11,306)</u>
Donor-Restricted Endowments Available for Expenditure	<u>\$ 473</u>	<u>\$ 227</u>

The Donor-Restricted Endowments Available for Expenditure was inadvertently shown as \$0 in the notes to the financial statements for the year ended June 30, 2004. The Donor-Restricted Endowments Available for Expenditure should have been \$227 as shown in the note above. There was no effect on the financial statements for the year ended June 30, 2004.

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 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.

Subsequent to June 30, 2005, the Pro-Med Endowment was transferred to South Arkansas Community College Foundation at the request of the donor.

Note 16: 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>2005</u>	<u>2004</u>
Funds disbursed to the College for scholarships	\$ 17,223	\$ 42,483
Funds disbursed to the College for reimbursement of expenses	10,444	8,101
Funds disbursed to the College for payment on student accounts		397
Funds disbursed to the College for student organizations		938

The College had a receivable from the Foundation on June 30, 2005 in the amount of \$1,002 and on June 30, 2004 in the amount of \$1,304 for reimbursement of expenses.



SOUTH ARKANSAS COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Note 16: Related Organizations – continued

Financial Statements

The financial statements of the Foundation as of June 30, 2005, and for, the ten (10) months ended June 30, 2005, and the year ended August 31, 2004 and 2003, which have been audited by an independent certified public accountant, are presented in summary form.

Condensed Statement of Financial Position

	<u>June 30, 2005</u>	<u>August 31, 2004</u>	<u>August 31, 2003</u>
Assets			
Cash and cash equivalents	\$ 103,113	\$ 166,322	\$ 152,620
Investments	504,033	408,492	382,661
Pledges receivable	8,313	16,363	5,721
Accrued Interest	127	184	130
Fixed assets, net of depreciation and amortization	118,754	139,633	
Other Assets	2,410	2,410	
Total Assets	<u>736,750</u>	<u>733,404</u>	<u>541,132</u>
Liabilities and Net Assets			
Liabilities	<u>11,359</u>	<u>34,719</u>	<u>32,653</u>
Net Assets			
Unrestricted	386,219	375,689	206,706
Unrestricted - Board designated	30,000	30,000	30,000
Restricted	309,172	292,996	271,773
Total Net Assets	<u>725,391</u>	<u>698,685</u>	<u>508,479</u>
Total Liabilities and Net Assets	<u>\$ 736,750</u>	<u>\$ 733,404</u>	<u>\$ 541,132</u>

Condensed Statement of Activities

	<u>For the 10 months ended June 30, 2005</u>	<u>For the year ended August 31, 2004</u>	<u>For the year ended August 31, 2003</u>
Income and Other Additions			
Contributions	\$ 43,194	\$ 233,690	\$ 294,045
Fundraising events	45,737	34,040	59,834
Other revenues and additions	28,482	27,843	18,370
Total Income and Other Additions	<u>117,413</u>	<u>295,573</u>	<u>372,249</u>
Expenditures and Other Deductions			
Program services	45,406	125,091	70,747
Supporting services	45,301	41,578	47,714
Total Expenditures and Other Deductions	<u>90,707</u>	<u>166,669</u>	<u>118,461</u>
Increase in Net Assets	<u>\$ 26,706</u>	<u>\$ 128,904</u>	<u>\$ 253,788</u>



**SOUTH ARKANSAS COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

Note 17: Carl Perkins Consortium

A consortium was created consisting of the colleges in Arkansas that received less than \$50,000 in Carl Perkins through Arkansas Department of Workforce Education. The college with the greatest share of the funds administers the funds for all of the colleges. That college reports all transactions in their financial statements. South Arkansas Community College's share of the funds was expended as follows:

Professional Development	\$ 1,360
Supplemental Medical Reference Materials for Allied Health	2,326
EMS Programs Resources and Specialty Care Initiative	6,948
Automotive Service Technology Teaching Enhancements	8,597
Computer Tech Teaching Enhancement	2,150
Total	<u><u>\$ 21,381</u></u>

Note 18: Subsequent Events

In August 2005, the College entered into two contracts relating to the renovation of the Administration Building.

	<u>Estimated Completion Date</u>	<u>Amount</u>
Environmental Protection Associates for Lead Base Paint Removal	September 2005	\$ 52,538
Arrow Construction, Inc. for Renovation	June 2006	<u>560,900</u>
Total		<u><u>\$ 613,438</u></u>

Note 19: Pending Litigation

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