

South Arkansas Community College

El Dorado, Arkansas

**Annual Financial Report
Independent Auditor's Report
and Other Reports**

June 30, 2004

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, 2004 as listed in the table of contents. These financial statements are the responsibility of the Institution's management. Our responsibility is to express opinions 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, 2004 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 June 16, 2005 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
June 16, 2005
EDHE19304

Sen. Henry "Hank" Wilkins, IV
Senate Co-Chair
Rep. Tommy G. Roebuck
House Co-Chair
Sen. Randy Laverty
Senate Co-Vice Chair
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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, 2004, and have issued our report thereon dated June 16, 2005. 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, 2004, 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>
	<u>2003</u>	<u>2004</u>
Student Headcount	1,181	1,258
Student Semester		
Credit Hours	10,849	12,118

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
June 16, 2005

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, 2004, with comparative information for the year ended June 30, 2003. The enclosed Financial Report reflects the third year the College has reported using 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.

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, 2004, with comparative information as of June 30, 2003. 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.

Net Assets attributable to the Union County millage were reclassified from Restricted for Capital Outlay to Unrestricted. The amounts attributable to millage at June 30, 2004 and 2003, were \$686,429 and \$948,572 respectively.

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

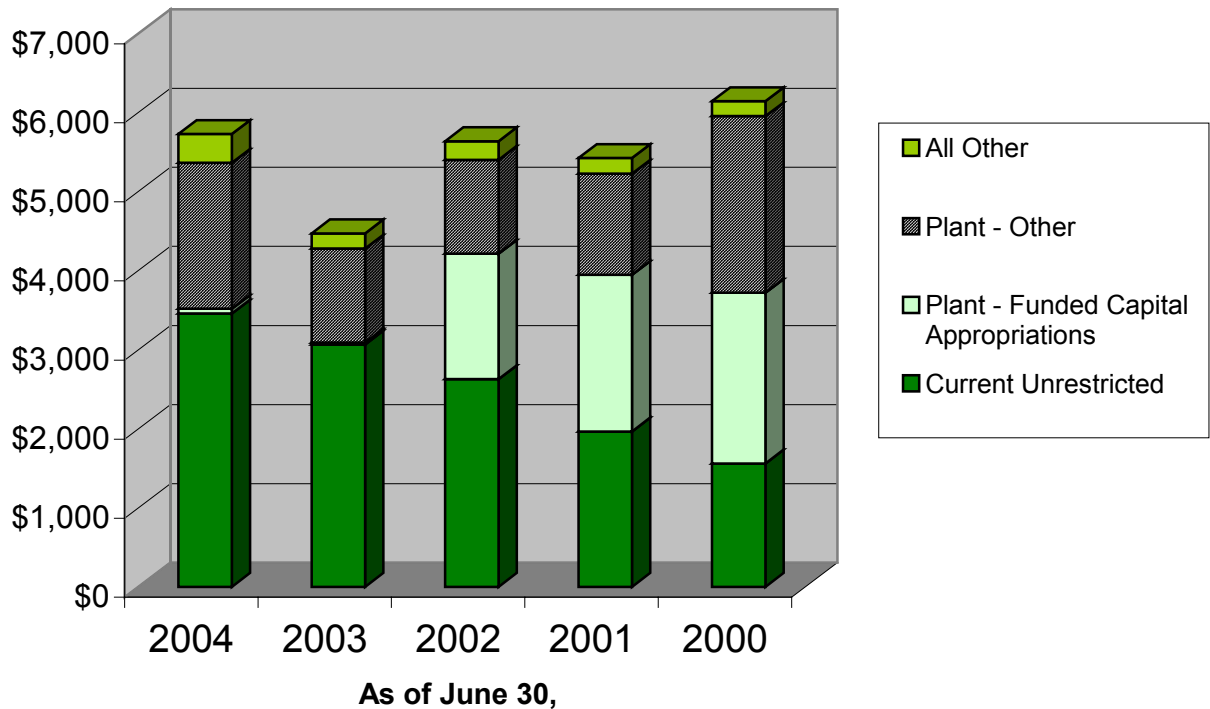
Net Assets		
	<u>2004</u>	<u>2003</u>
Assets:		
Current Assets	\$ 6,352,203	\$ 5,005,394
Capital Assets, Net	10,689,892	10,309,158
Other Non-current Assets	<u>57,609</u>	<u>33,509</u>
Total Assets	<u>17,099,704</u>	<u>15,348,061</u>
Liabilities:		
Current Liabilities	437,292	230,263
Non-current Liabilities	<u>1,022,164</u>	<u>341,317</u>
Total Liabilities	<u>1,459,456</u>	<u>571,580</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debts	9,816,867	10,149,886
Restricted	1,085,544	1,162,268
Unrestricted	<u>4,737,837</u>	<u>3,464,327</u>
Total Net Assets	<u>\$ 15,640,248</u>	<u>\$ 14,776,481</u>

Cash, cash equivalents, and investments as of June 30, 2004 and 2003, 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>2004</u>	<u>2003</u>
Current Cash and Cash Equivalents	\$ 5,315,388	\$ 3,764,282
Current Short-term Investments	353,564	673,564
Noncurrent Cash and Cash Equivalents	<u>57,609</u>	<u>33,508</u>
Total	<u>\$ 5,726,561</u>	<u>\$ 4,471,354</u>

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

Cash, Cash Equivalents & Investments (In Thousands)



Highlights- (Statements of Net Assets)

- Net Assets increased by \$863,117 as reflected on the Statement of Revenues, Expenses and Changes in Net Assets and by \$650 as a result of the addition of the beginning net assets of the Arkansas Heavy Equipment Operator Training Academy.
- Current cash and cash equivalents increased due to the \$750,000 loan proceeds which are being held in short term certificates of deposit until the renovations to the Billy McGehee Classroom Building are started.
- Current short-term investments decreased and current cash and cash equivalents increased due to the maturity of a two year certificate of deposit in the amount of \$320,000 that was reinvested in a short-term certificate with a maturity of less than 91 days.
- Capital Assets increased primarily due to the completion of the gym renovation project and the purchase of a parcel of real estate adjacent to the west campus.
- Other Receivables increased mainly due to an increase in PELL funds due from grantor in the amount of \$109,650 and from an increase in Bookstore credit memos outstanding of \$36,586.

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 of 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>2004</u>	<u>2003</u>
Operating Revenues	\$ 4,725,337	\$ 4,360,261
Operating Expenses	<u>10,643,702</u>	<u>10,074,145</u>
Operating Loss	(5,918,365)	(5,713,884)
Non-operating Revenues & Expenses (Net)	<u>6,299,196</u>	<u>5,944,337</u>
Income Before Other Revenues, Expenses, Gains or Losses	380,831	230,453
Other Revenues, Expenses, Gains or Losses	<u>482,286</u>	<u>74,791</u>
Increase in Net Assets	<u>\$ 863,117</u>	<u>\$ 305,244</u>

As presented above, the statement reflects a positive change with an increase in net assets at the end of the 2004 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>2004</u>	<u>2003</u>
Tuition and Fees (Net of Scholarship Allowances of \$675,914 and \$483,033)	\$ 1,457,767	\$ 1,190,779
Federal Grants and Contracts	2,095,341	1,848,009
State and Local Grants and Contracts	762,868	892,495
Non-Governmental Grants and Contracts	2,327	811
Sales and Services	27,295	12,267
Auxiliary (Net of Scholarships Allowances of \$232,337 and \$119,186)	362,539	406,254
Other Operating Revenue	<u>17,200</u>	<u>9,646</u>
Total Operating Revenue	4,725,337	4,360,261

Operating Revenues and Expenses (continued)		
Salaries	5,184,510	4,964,615
Employee Benefits	1,519,144	1,521,171
Supplies and Services	2,644,590	2,290,902
Scholarships	667,799	718,302
Depreciation	<u>627,659</u>	<u>579,155</u>
Total Operating Expenses	<u>10,643,702</u>	<u>10,074,145</u>
Operating Income (Loss)	\$ <u><u>(5,918,365)</u></u>	\$ <u><u>(5,713,884)</u></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		
	<u>2004</u>	<u>2003</u>
State Funded Appropriations	\$ 5,941,951	\$ 5,636,519
County Millage	236,731	224,237
Gifts	77,232	22,613
Interest Income	64,850	72,137
Disposal of Capital Assets	2,558	(363)
Interest on Indebtedness	<u>(24,126)</u>	<u>(10,806)</u>
Net Non-operating Revenues	\$ <u><u>6,299,196</u></u>	\$ <u><u>5,944,337</u></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.
- Although net scholarships decreased by \$50,503, total scholarships increased by \$255,529 due to an increase in Pell grants of \$262,526.
- State funded appropriations increased by \$305,432 resulting from the improvement of economic conditions within the State of Arkansas.

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

Capital Appropriations		
	<u>2004</u>	<u>2003</u>
WPA Gym	\$ 372,000	\$ 60,000
Weatherford House Roof & Repairs	46,303	
College Savings Bonds	<u>64,310</u>	<u>22,114</u>
	<u>\$ 482,613</u>	<u>\$ 82,114</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>2004</u>	<u>2003</u>
Cash provided (used) by:		
Operating activities	\$ (5,265,374)	\$ (5,072,822)
Non-capital financing activities	6,258,617	5,883,252
Capital and related financing activities	202,006	(2,042,723)
Investing activities	<u>379,958</u>	<u>477,168</u>
Net change in cash and cash equivalents	1,575,207	(755,125)
Cash and cash equivalents - beginning of year	<u>3,797,790</u>	<u>4,552,915</u>
Cash and cash equivalents - end of year	<u>\$ 5,372,997</u>	<u>\$ 3,797,790</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 increased by \$1,575,207 for the year ended June 30, 2004, primarily due to:
 - Loan proceeds in the amount of \$750,000 held in certificates of deposit with maturities of 90 days or less.
 - Maturity of short-term investment (\$320,000 CD) reinvested in a certificate of deposit with a maturity of less than 91 days.
 - Excess Unrestricted Educational Current Fund and Auxiliary Fund revenues over expenditures of \$410,074 and Restricted Educational Current Funds of \$117,347.

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. If collections were to decline below projections, the College may be required to reduce 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, 2004**

Exhibit A

	June 30,	
	2004	2003
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 5,315,388	\$ 3,764,282
Short-term investments	353,564	673,564
Accounts receivable (less allowances of \$39,588 and \$42,389)	128,999	110,135
Employee and student loans receivable	80	176
Property taxes receivable (net of estimated uncollectible amounts)	181,194	167,189
Other receivables	222,935	71,852
Inventories	100,632	127,757
Deposits with trustees (market value)	10,320	5,111
Prepaid expenses	39,031	85,268
Other assets	60	60
Total Current Assets	6,352,203	5,005,394
Noncurrent Assets:		
Cash and cash equivalents	57,609	33,508
Accrued interest receivable		1
Capital assets, net of accumulated depreciation of \$7,438,376 and \$6,869,418 (Note 6)	10,689,892	10,309,158
Total Noncurrent Assets	10,747,501	10,342,667
TOTAL ASSETS	17,099,704	15,348,061
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued liabilities	130,383	44,743
Refunds payable	30,109	4,625
Deferred revenue	167,584	124,727
Note payable	59,467	14,640
Compensated absences	26,102	25,723
Funds held in trust for others	23,647	15,805
Total Current Liabilities	437,292	230,263
Noncurrent Liabilities:		
Notes payable	813,558	144,632
Compensated absences	208,606	196,685
Total Noncurrent Liabilities	1,022,164	341,317
TOTAL LIABILITIES	1,459,456	571,580
NET ASSETS		
Invested in capital assets, net of related debt	9,816,867	10,149,886
Restricted for:		
Nonexpendable:		
Scholarships	11,306	11,281
Expendable:		
Scholarships	14,028	14,587
Loans	2,007	1,976
Capital projects	793,090	987,085
Other	265,113	147,339
Unrestricted	4,737,837	3,464,327
TOTAL NET ASSETS	\$ 15,640,248	\$ 14,776,481

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, 2004

Exhibit B

	Year Ended June 30,	
	2004	2003
OPERATING REVENUES		
Student tuition and fees (net of scholarship allowances of \$675,914 and \$483,033)	\$ 1,457,767	\$ 1,190,779
Federal grants and contracts	2,095,341	1,848,009
State and local grants and contracts	762,868	892,495
Non-governmental grants and contracts	2,327	811
Sales and services of educational departments	27,295	12,267
Auxiliary enterprises:		
Vending	7,783	7,515
Bookstore (net of scholarship allowances of \$232,337 and \$119,186)	354,756	398,739
Other operating revenues	17,200	9,646
TOTAL OPERATING REVENUES	4,725,337	4,360,261
OPERATING EXPENSES		
Salaries	5,184,510	4,964,615
Employee benefits	1,519,144	1,521,171
Supplies and other services	2,644,590	2,290,902
Scholarships and fellowships	667,799	718,302
Depreciation	627,659	579,155
TOTAL OPERATING EXPENSES	10,643,702	10,074,145
OPERATING INCOME (LOSS)	(5,918,365)	(5,713,884)
NONOPERATING REVENUES (EXPENSES)		
State and federal appropriations	5,941,951	5,636,519
County millage	236,731	224,237
Gifts	77,232	22,613
Interest income	64,850	72,137
Interest expense (on capital asset related debt)	(24,126)	(10,806)
Disposal of capital assets (net of accumulated depreciation of \$58,701 and \$164,912)	2,558	(363)
TOTAL NONOPERATING REVENUES (EXPENSES)	6,299,196	5,944,337
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	380,831	230,453
Other revenues, expenses, gains and losses		
Capital appropriations	482,613	82,114
Additions (Deletions) to permanent and term endowments		(49,962)
Interest earned on endowment funds	26	126
Market value adjustment of deposits with trustees	209	111
Adjustments to prior year revenues and expenses	(562)	42,402
TOTAL OTHER REVENUES, EXPENSES, GAINS AND LOSSES	482,286	74,791
INCREASE (DECREASE) IN NET ASSETS	863,117	305,244
NET ASSETS - BEGINNING OF YEAR	14,776,481	14,471,237
Beginning Net Assets: AR Heavy Equipment Training Academy (Note 14)	650	
NET ASSETS - END OF YEAR	\$ 15,640,248	\$ 14,776,481

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, 2004**

Exhibit C

	Year Ended June 30,	
	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 1,515,317	\$ 1,178,337
Grants and contracts	2,729,191	2,854,428
Sales and services of educational activities	27,298	12,267
Collection of student and employee loans including interest	5,697	2,629
Auxiliary enterprise revenues:		
Vending	7,783	7,515
Bookstore	345,881	393,636
Other receipts	17,183	9,357
Payments to employees	(5,180,838)	(4,975,923)
Payments of employee benefits	(1,518,594)	(1,524,406)
Payments to suppliers	(2,554,006)	(2,309,893)
Loans issued to students and employees	(5,583)	(2,467)
Scholarships	(654,703)	(718,302)
Net cash provided by operating activities	<u>(5,265,374)</u>	<u>(5,072,822)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
State appropriations	5,941,951	5,636,519
County millage	222,727	227,411
Gifts and grants	76,535	22,613
Agency funds - net	7,122	(3,291)
Other	10,282	
Net cash provided by non-capital financing activities	<u>6,258,617</u>	<u>5,883,252</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	482,613	82,114
Loan proceeds	750,000	
Proceeds from sale of capital assets	2,558	2,542
Purchase of capital assets	(978,565)	(2,052,861)
Disposition of endowment assets		(49,962)
Principal paid on capital debt	(36,247)	(13,750)
Interest paid on capital debt	(18,353)	(10,806)
Net cash provided by capital and related financing activities	<u>202,006</u>	<u>(2,042,723)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	64,958	72,232
Proceeds from sales and maturities of investments	320,000	1,063,500
Purchase of investments		(653,564)
Deposit with trustee	(5,000)	(5,000)
Net cash provided by investing activities	<u>379,958</u>	<u>477,168</u>
Net increase (decrease) in cash and cash equivalents	1,575,207	(755,125)
Cash and cash equivalents - beginning of year	<u>3,797,790</u>	<u>4,552,915</u>
Cash and cash equivalents - end of year	<u>\$ 5,372,997</u>	<u>\$ 3,797,790</u>

**SOUTH ARKANSAS COMMUNITY COLLEGE
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004**

Exhibit C

	Year Ended June 30,	
	2004	2003
Reconciliation of net operating revenues (expenses) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (5,918,365)	\$ (5,713,884)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation	627,659	579,155
Prior year adjustment	(562)	(396)
AHEOTA receivables and payables, net July 1, 2003	(9,632)	
Changes in assets and liabilities:		
Receivables, net	(168,515)	78,301
Inventories	27,124	(238)
Prepaid expenses	46,237	(40,482)
Accounts payable and accrued liabilities	75,524	4,543
Deferred revenue	42,857	25,913
Compensated absences	12,299	(5,734)
	\$ (5,265,374)	\$ (5,072,822)
Net cash used by operating activities	\$ (5,265,374)	\$ (5,072,822)

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

SOUTH ARKANSAS COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

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.

**SOUTH ARKANSAS COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

Note 2: Summary of Significant Accounting Policies (Continued)

Operating and Non-operating Revenues

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

Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (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.

**SOUTH ARKANSAS COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

Note 2: Summary of Significant Accounting Policies (Continued)

Deferred Revenues

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

Compensated Absences Payable

Accrued compensated absences payable reflect accumulated compensatory, holiday and annual leave and required employer contributions at June 30, 2004 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 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, 2004**

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, 2004		June 30, 2003	
	Book	Bank	Book	Bank
Insured (FDIC)	\$ 125,128	\$ 139,714	\$ 100,000	\$ 100,000
Uninsured, Collateralized	5,154,520	5,286,140	3,661,286	3,669,845
Total Deposits	<u>\$5,279,648</u>	<u>\$5,425,854</u>	<u>\$3,761,286</u>	<u>\$3,769,845</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 \$93,004 and \$345, respectively, as of June 30, 2004, and \$36,159 and \$345, respectively, for the year ended June 30, 2003.

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, 2004			Book Amount	Market Value
	Category				
	1	2	3		
Certificates of deposit	<u>\$ 353,564</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$353,564</u>	<u>\$ 353,564</u>

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>

Note 4: Disaggregation of Receivable and Payable Balances

The accounts receivable of \$128,999 at June 30, 2004, consisted of student's accounts receivable of \$167,847, which was reduced by an allowance for doubtful accounts of \$39,588 and the remaining balance of \$740 represented amounts due for miscellaneous charges.

**SOUTH ARKANSAS COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

Note 4: Disaggregation of Receivable and Payable Balances (Continued)

Other receivables of \$222,935 at June 30, 2004, consisted of interest receivable of \$1,758, reimbursements of \$172,525 from federal and state agencies for grants and contracts and the remaining balance of \$48,652 represented amounts due for miscellaneous charges and vendor refunds.

The accounts payable and accrued liabilities of \$130,383 at June 30, 2004 consisted of \$111,742 due to vendors and \$12,869 for salaries and benefits and accrued interest payable of \$5,772.

Note 5: Income Taxes

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

Note 6: Capital Assets

Following are the changes in capital assets for the year ended June 30, 2004:

	Balance June 30, 2003	Additions	Retirements	Balance June 30, 2004
Capital assets not being depreciated				
Land	\$ 612,296	\$ 51,232		\$ 663,528
Construction-in-progress	2,105,902	52,634	\$ 2,105,902	52,634
Total capital assets not depreciated	<u>\$ 2,718,198</u>	<u>\$ 103,866</u>	<u>\$ 2,105,902</u>	<u>\$ 716,162</u>
Other capital assets				
Improvements and infrastructure	\$ 387,414			\$ 387,414
Buildings	10,724,803	\$ 2,876,618		13,601,421
Equipment	2,010,822	69,745	\$ 12,696	2,067,871
Library holdings	1,337,339	64,066	46,005	1,355,400
Total other capital assets	<u>14,460,378</u>	<u>3,010,429</u>	<u>58,701</u>	<u>17,412,106</u>
Less accumulated depreciation for:				
Improvements and infrastructure	266,542	21,936		288,478
Buildings	4,209,908	379,794		4,589,702
Equipment	1,563,077	154,132	12,696	1,704,513
Library holdings	829,891	71,797	46,005	855,683
Total accumulated depreciation	<u>6,869,418</u>	<u>627,659</u>	<u>58,701</u>	<u>7,438,376</u>
Other capital assets, net	<u>\$ 7,590,960</u>	<u>\$ 2,382,770</u>	<u>\$ 0</u>	<u>\$ 9,973,730</u>

**SOUTH ARKANSAS COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

Note 6: Capital Assets (Continued)

	Balance June 30, 2003	Additions	Retirements	Balance June 30, 2004
Capital asset summary				
Capital assets not being depreciated	\$ 2,718,198	\$ 103,866	\$ 2,105,902	\$ 716,162
Other capital assets at cost	14,460,378	3,010,429	58,701	17,412,106
Total cost of capital assets	17,178,576	3,114,295	2,164,603	18,128,268
Less accumulated depreciation	6,869,418	627,659	58,701	7,438,376
 Capital assets, net	 <u>\$ 10,309,158</u>	 <u>\$ 2,486,636</u>	 <u>\$ 2,105,902</u>	 <u>\$ 10,689,892</u>

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 \$14,640 for the fiscal year ended June 30, 2004. Debt service interest payments totaled \$9,916 for the fiscal year ended June 30, 2004.

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 \$21,606 for the fiscal year ended June 30, 2004. Debt service interest payments totaled \$7,688 for the fiscal year ended June 30, 2004.

Date of Issue	Date of Final Maturity	Rate of Interest	Total Loan Amount	Debt Outstanding June 30, 2004	Payments Made Through June 30,
4/9/1996	10/10/2011	6.37%	\$ 235,000	\$ 144,632	\$ 90,368
10/28/2003	10/1/2018	2.05%	750,000	728,393	21,607
Totals			<u>\$ 985,000</u>	<u>\$ 873,025</u>	<u>\$ 111,975</u>

**SOUTH ARKANSAS COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

Note 7: Long-Term Liabilities (Continued)

Changes in long-term liabilities are as follows:

	Balance July 1, 2003	Issued	Retired	Balance June 30, 2004	Principal Due Within One Year
College savings bonds loan payable (1996)	\$ 159,272		\$ 14,640	\$ 144,632	\$ 15,587
College savings bonds loan payable (2003)		\$ 750,000	21,607	728,393	43,880
Compensated absences payable	222,408	213,966	201,666	234,708	26,102
Totals	<u>\$ 381,680</u>	<u>\$ 963,966</u>	<u>\$ 237,913</u>	<u>\$ 1,107,733</u>	<u>\$ 85,569</u>

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

Year Ended June 30,	Principal	Interest	Total
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	20,031	4,525	24,556
2010-2012	55,934	5,456	61,390
Totals	<u>\$ 144,632</u>	<u>\$ 39,538</u>	<u>\$ 184,170</u>

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

Year Ended June 30,	Principal	Interest	Total
2005	\$ 43,880	\$ 14,708	\$ 58,588
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
2010-2019	499,765	52,398	552,163
Totals	<u>\$ 728,393</u>	<u>\$ 116,710</u>	<u>\$ 845,103</u>

**SOUTH ARKANSAS COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

Note 8: Commitments

The College was contractually obligated on the following projects at June 30, 2004:

Weatherford House Roof Repair

Estimated Completion Date – Fall 2004

	<u>Cost</u>	<u>Expended</u>	<u>Balance</u>
Construction contract	\$ 75,975	\$ 29,211	\$ 46,764
Architect contract	<u>11,665</u>	<u>9,867</u>	<u>1,798</u>
Totals	<u>\$ 88,525</u>	<u>\$ 39,963</u>	<u>\$ 48,562</u>

The College is evaluating interior renovations, however, no construction contracts had been awarded as of June 30, 2004.

Billy McGehee Classroom Building Roof Renovation

Estimated Completion Date – Unknown

The College initially had an estimated cost of approximately \$750,000 for the renovation of the Billy McGehee Classroom Building. However, due to the increase of the cost of steel, the estimate escalated to \$1.4 million. The College is now reevaluating the project. No construction contract had been awarded for this project as of June 30, 2004.

The College was contractually obligated to the architect on the project at June 30, 2004.

	<u>Cost</u>	<u>Expended</u>	<u>Balance</u>
Architect contract	\$ 51,000	\$ 7,650	\$ 43,350
Architect reimbursable	<u>7,500</u>	<u>15</u>	<u>7,485</u>
Totals	<u>\$ 59,604</u>	<u>\$ 8,769</u>	<u>\$ 50,835</u>

Note 9: 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.

**SOUTH ARKANSAS COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

Note 9: Contingent Liabilities (Continued)

Agreement for Services (Continued)

Also, the Board of Trustees of South Arkansas Community College has entered into an Employment Agreement with the President of the College. The College President resigned as of October 31, 2004. No known contingent liabilities exist under the present contract. However, the Board of Trustees of South Arkansas Community College will enter into a new agreement with the next President which may result in 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. 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.

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, 2004			As of June 30, 2003		
Retirees	Percent Eligible Factor	Potential Liability until age 65	Retirees	Percent Eligible Factor	Potential Liability until age 65
2	100%	\$ 22,680	2	100%	\$ 15,888
1	45%	6,974	1	85%	3,095
			1	45%	9,831
		\$ 29,654			\$ 28,814

**SOUTH ARKANSAS COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

Note 9: Contingent Liabilities (Continued)

Post Retirement Benefits (Continued)

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

As of June 30, 2004			As of June 30, 2003		
Potential Retirees	Percent Eligible Factor	Potential Liability until age 65	Retirees	Percent Eligible Factor	Potential Liability until age 65
6	100%	\$ 136,458	5	100%	\$ 122,760
1	85%	19,921	1	95%	28,044
1	75%	26,366	1	90%	20,736
1	70%	20,110	1	80%	29,088
			1	75%	20,250
			1	65%	24,804
			1	50%	14,580
		\$ 202,855			\$ 260,262

The above amounts are computed using the cost of current (July, 2004) 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.

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, 2004, were \$281,403 and \$239,961, respectively and for the year ended June 30, 2003, were \$286,520 and \$208,158, respectively.

**SOUTH ARKANSAS COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

Note 10: Retirement Plans (Continued)

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 13% (12% prior to July 1, 2003). The College's contributions to ATRS for the years ended June 30, 2004, 2003, and 2002 were \$112,762, \$72,190, and \$65,652, 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.

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, 2004, 2003, and 2002, were \$69,418, \$79,590, and \$73,412, respectively, equal to the required contributions for each year.

**SOUTH ARKANSAS COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

Note 10: Retirement Plans (Continued)

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 years ended June 30, 2004 and 2003. The participants’ and the College’s contributions for the year ended June 30, 2002 were \$3,144 and \$6,288, respectively.

Summary:

	Institutional Contributions for the Years Ended June 30,		
	2004	2003	2002
<u>Retirement Plan</u>			
Alternate Retirement Plan	\$ 281,403	\$ 286,520	\$ 290,436
AR Public Employees' Retirement	69,418	79,590	73,412
AR Teachers' Retirement	112,762	72,190	65,652
Travelers' Retirement Plan			6,288
	\$ 463,583	\$ 438,300	\$ 435,788
Totals			

**SOUTH ARKANSAS COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

Note 11: Natural Classifications with Functional Classifications

The operating expenses by functional classification were as follows:

For the Year Ended June 30, 2004						
	Salaries	Fringe Benefits	Supplies & Services	Scholarships	Depreciation	Total
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	\$ 5,184,510	\$ 1,519,144	\$ 2,644,590	\$ 667,799	\$ 627,659	\$ 10,643,702

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.

For the Year Ended June 30, 2003						
	Salaries	Fringe Benefits	Supplies & Services	Scholarships	Depreciation	Total
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	4,938,970	1,511,692	1,885,685	718,302	579,155	9,633,804
Auxiliary	25,645	9,479	405,217			440,341
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.

**SOUTH ARKANSAS COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

Note 12: Loan Funds

Student/Employee Loan Fund

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

Balances as of:	June 30, 2004			June 30, 2003
	Student Loan Fund	Employee Loan Fund	Total	Total
Cash in Bank	\$ 703	\$ 1,224	\$ 1,927	\$ 1,800
Loans, Net	80		80	176
Fund Balance	\$ 783	\$ 1,224	\$ 2,007	\$ 1,976

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

During the Arkansas 84th General Assembly Legislative Session, the Arkansas Heavy Equipment Operator Training Academy, located in Warren, Arkansas, was placed under the direction of South Arkansas Community College. No general revenue from the State of Arkansas was received: only local income generated by the Academy and one time General Improvement Funds from the State of Arkansas. The College is investigating other possible sources of funding at this time.

**SOUTH ARKANSAS COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

Note 15: Donor-Restricted Endowments

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

Total Endowments at June 30, 2004 and 2003	\$ 11,306	\$ 11,281
Less: Non-Expendable Portion of True Endowments	<u>(11,306)</u>	<u>(11,281)</u>
Donor-Restricted Endowments Available for Expenditures	\$ <u>0</u>	\$ <u>0</u>

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.

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>2004</u>	<u>2003</u>
Funds disbursed to the College for scholarships	\$ 42,483	\$ 17,165
Funds disbursed to the College for reimbursement of expenses	8,101	5,777
Funds disbursed to the College for payment on student accounts	397	4,230
Funds disbursed to the College for student organizations	938	2,025
Funds disbursed to the College for purchase of gift certificate		200
Funds disbursed to the Foundation for transfer of endowment		(49,962)

The College had a receivable from the Foundation on June 30, 2004 in the amount of \$1,304.22 and on June 30, 2003 in the amount of \$444.01 for reimbursement of expenses.

**SOUTH ARKANSAS COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

Note 16: Related Organizations (Continued)

Financial Statements

The financial statements of the Foundation as of, and for the year ended August 31, 2003 and 2002, which have been audited by an independent certified public accountant, are presented in summary form.

Condensed Statement of Financial Position		
	<u>August 31, 2003</u>	<u>August 31, 2002</u>
Assets		
Cash and cash equivalents	\$ 152,620	\$ 149,803
Investments	382,661	111,786
Pledges receivable	5,721	17,149
Accrued Interest	130	30
Computer software, net of amortization		1,768
Total Assets	<u><u>\$ 541,132</u></u>	<u><u>\$ 280,536</u></u>
Liabilities and Net Assets		
Liabilities	<u>\$ 32,653</u>	<u>\$ 25,845</u>
Net Assets		
Unrestricted	206,706	125,232
Unrestricted - Board designated	30,000	31,421
Restricted	271,773	98,038
Total Net Assets	<u><u>508,479</u></u>	<u><u>254,691</u></u>
Total Liabilities and Net Assets	<u><u>\$ 541,132</u></u>	<u><u>\$ 280,536</u></u>
Condensed Statement of Activities		
	<u>For the year ended August 31, 2003</u>	<u>For the year ended August 31, 2003</u>
Income and Other Additions		
Contributions	\$ 294,045	\$ 114,125
Fundraising events	59,834	29,240
Other revenues and additions	18,370	23
Total Income and Other Additions	<u><u>372,249</u></u>	<u><u>143,388</u></u>
Expenditures and Other Deductions		
Program services	70,747	42,789
Supporting services	47,714	40,573
Total Expenditures and Other Deductions	<u><u>118,461</u></u>	<u><u>83,362</u></u>
Increase in Net Assets	<u><u>\$ 253,788</u></u>	<u><u>\$ 60,026</u></u>