# Johnson County Community College

Financial Report
June 30, 2012

## Contents

McGladrey

**Independent Auditor's Report**

To the Board of Trustees
Johnson County Community College
Overland Park, Kansas

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of Johnson County Community College (College) as of and for the years ended June 30, 2012 and 2011, which collectively comprise Johnson County Community College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Johnson County Community College's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion. The financial statements of the Johnson County Community College Foundation were not audited in accordance with Government Auditing Standards. 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 audits 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 the business-type activities and discretely presented component unit of Johnson County Community College as of June 30, 2012 and 2011, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our reports for the years ended June 30, 2012 and 2011 dated November 5, 2012 and November 8, 2011, respectively, on our consideration of Johnson County Community College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of these reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 17 and schedule of funding progress on page 57 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements. The accompanying supplemental schedule of comparison of budgetary expenditures with appropriations, as listed in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements by us, and accordingly, we do not express an opinion or provide any assurance on it.

McGladrey LLP

Kansas City, Missouri
November 5, 2012

## Introduction

This section of Johnson County Community College's (the College) annual financial report presents a discussion and analysis of the financial performance of the College during the fiscal year ended June 30, 2012, and comparative data for the fiscal years ended June 30, 2011 and 2010. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with them. Management is responsible for the objectivity and integrity of the accompanying financial statements and notes, and this discussion and analysis.

Management is also responsible for maintaining the College's system of internal control which includes careful selection and development of employees, proper division and duties, and written accounting and operation policies and procedures. Although there are inherent limitations to the effectiveness of any system of accounting controls, management believes the College's system provides reasonable, but not absolute, assurance that assets are safeguarded from unauthorized use or disposition, and the accounting records are sufficiently reliable to permit the preparation of financial statements that conform in all material respects with generally accepted accounting principles.

The College prepared the financial statements in accordance with Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. GASB Statement No. 35 establishes standards for external financial reporting for public colleges and universities and requires that the financial statements be presented to focus on the College as a whole.

As defined by generally accepted accounting principles established by GASB, the financial reporting entity consists of the College, as well as its discretely presented component unit, the Johnson County Community College Foundation.

## Using This Annual Report

One of the most important questions asked about the College's finances is whether the College as a whole is better off or worse off as a result of the year's activities. The statement of net assets; the statement of revenues, expenses and changes in net assets; and the statement of cash flows provide information on the College as a whole and present an end of fiscal year view of the College's finances. These statements present financial information in a form similar to that used by private corporations. Over time, increases or decreases in net assets (the difference between assets and liabilities) are one indicator of the improvement or erosion of the College's financial health when considered with non-financial facts such as enrollment levels and the condition of the facilities. In addition to these three basic financial statements, this report contains notes to the financial statements, required supplementary information and an other supplementary schedule as appropriate.

## Financial Highlights for Fiscal Year Ended June 30, 2012

The College's financial position remained strong at June 30, 2012, with total assets of $252.7 million and liabilities of $52.3 million compared to $268.5 million and $59.6 million, respectively, at June 30, 2011. Net assets, which represent the residual interest in the College's assets after liabilities are deducted, were $200.4 million at June 30, 2012. This is a 4.1% decrease from last fiscal year's net assets of $208.9 million.

Financial operations were in accordance with the budget plan approved by the College's Board of Trustees. Operating revenues were $70.9 million and operating expenses were $181.9 million, resulting in a loss from operations of $111.0 million. This loss may create confusion because operating gain or loss as defined by GASB Statement No. 34 does not present a complete picture of College operations until combined with nonoperating revenues. Nonoperating revenues, including the state operating grant and county property taxes, net of nonoperating expenses, were $102.5 million, which, when combined with the loss from operations, resulted in an overall decrease in net assets of $8.5 million compared to a $5.0 million decrease for the year ended June 30, 2011.

## Financial Highlights for Fiscal Year Ended June 30, 2011

The College's financial position remained strong at June 30, 2011, with total assets of $268.5 million and liabilities of $59.6 million compared to $278.1 million and $64.2 million, respectively, at June 30, 2010. Net assets, which represent the residual interest in the College's assets after liabilities are deducted, were $208.9 million at June 30, 2011. This is a 2.3% decrease from last fiscal year's net assets of $213.9 million.

Operating revenues were $68.6 million and operating expenses were $178.2 million, resulting in a loss from operations of $109.6 million. Nonoperating revenues, net of nonoperating expenses, were $104.6 million, which, when combined with other revenue sources and the loss from operations, resulted in an overall decrease in net assets of $5.0 million.

## The Statement of Net Assets

The Statement of Net Assets presents the financial position of the College at the end of the fiscal year and includes all assets and liabilities of the College. The difference between total assets and total liabilities – net assets – is one indicator of the current financial condition of the College, while the change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year. Assets and liabilities are generally measured using current values or historical costs.

From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the College. They are also able to determine how much the College owes vendors and lending institutions. Finally, the Statement of Net Assets provides a picture of the net assets and their availability for expenditure by the College.

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the College's equity in capital assets – the property, plant and equipment owned by the College. The next category is restricted net assets, which is divided into two categories, expendable and nonexpendable. Expendable restricted net assets are available for expenditure by the College but must be spent for purposes as specified by donors and/or external entities that have placed purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted net assets are available for use by the College for any legal purpose.

**Condensed Statements of Net Assets**
**June 30, 2012, 2011 and 2010**
*(Dollars in Millions)*

| | 2012 | 2011 | Increase (Decrease) 2012-2011 | 2010 | Increase (Decrease) 2011-2010 |
|---|---|---|---|---|---|
| Assets: | | | | | |
| Current assets | $ 107.7 | $ 117.7 | $ (10.0) | $ 122.9 | $ (5.2) |
| Capital assets, net | 142.3 | 144.8 | (2.5) | 138.2 | 6.6 |
| Other noncurrent assets | 2.7 | 6.0 | (3.3) | 17.0 | (11.0) |
| **Total assets** | $ 252.7 | $ 268.5 | $ (15.8) | $ 278.1 | $ (9.6) |
| Liabilities: | | | | | |
| Current liabilities | $ 13.6 | $ 15.5 | $ (1.9) | $ 14.3 | $ 1.2 |
| Noncurrent liabilities | 38.7 | 44.1 | (5.4) | 49.9 | (5.8) |
| **Total liabilities** | $ 52.3 | $ 59.6 | $ (7.3) | $ 64.2 | $ (4.6) |
| Net assets: | | | | | |
| Invested in capital assets, net of related debt | $ 105.9 | $ 104.4 | $ 1.5 | $ 102.8 | $ 1.6 |
| Restricted, expendable | 20.8 | 20.4 | 0.4 | 21.5 | (1.1) |
| Unrestricted | 73.7 | 84.1 | (10.4) | 89.6 | (5.5) |
| **Total net assets** | $ 200.4 | $ 208.9 | $ (8.5) | $ 213.9 | $ (5.0) |

Significant assets consist of cash and cash equivalents, short-term investments, accounts receivable and capital assets. Significant liabilities include accounts payable and accrued liabilities, long-term bonded debt, compensated absences and deferred revenue.

**Fiscal Year 2012 Compared to Fiscal Year 2011**

Current assets, which consist primarily of cash, short-term investments and receivables, totaled $107.7 million at June 30, 2012, a decrease of $10.0 million from June 30, 2011. Total current assets at June 30, 2012 cover current liabilities 7.9 times, an indicator of excellent liquidity. Net assets invested in capital assets, net of related debt, which represents 52.8% of total net assets at June 30, 2012, represents the assets' historical costs, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

Expendable restricted net assets are subject to externally imposed restrictions governing their use. This category of net assets includes property tax revenues collected for capital outlay and special assessments and funds received from federal, state, local and private entities which can be spent only in accordance with restrictions imposed by external parties. The College has no nonexpendable restricted net assets at June 30, 2012 and 2011.

Unrestricted net assets are not subject to externally imposed stipulations and are available to the College for any lawful purpose.

## Fiscal Year 2011 Compared to Fiscal Year 2010

Current assets, which consist primarily of cash, short-term investments and receivables, totaled $117.7 million at June 30, 2011, a decrease of $5.2 million from June 30, 2010. Total current assets at June 30, 2011 cover current liabilities 7.6 times, an indicator of excellent liquidity. Net assets invested in capital assets, net of related debt, which represents 50.0% of total net assets at June 30, 2011, represents the assets' historical costs, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

Expendable restricted net assets are subject to externally imposed restrictions governing their use. This category of net assets includes property tax revenues collected for capital outlay and special assessments and funds received from federal, state, local and private entities which can be spent only in accordance with restrictions imposed by external parties. The College has no nonexpendable restricted net assets at June 30, 2011 and 2010.

Unrestricted net assets are not subject to externally imposed stipulations and are available to the College for any lawful purpose.

## The Statement of Revenues, Expenses and Changes in Net Assets

Changes in total net assets presented on the statement of net assets result from the activity presented in the statement of revenues, expenses and changes in net assets. The purpose of the statement is to present the revenues earned by the College, both operating and nonoperating, and the expenses incurred by the College, operating and nonoperating, and any other revenues, expenses, gains and losses earned or incurred by the College. Under the accrual basis of accounting, all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Generally speaking, operating revenues are received for providing goods and services to the students and various constituencies of the College. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues, and to carry on the mission of the College. Nonoperating revenues are revenues earned for which goods and services are not provided. For example, the state operating grant and county property tax collections are nonoperating because they represent revenue provided to the College for which no goods or services are provided directly by the College to the state or Johnson County.

One of the College's strengths is its diverse streams of revenue, which allow it the flexibility to weather difficult economic times. The statements on the following page provide an illustration of revenues by source (both operating and nonoperating), which were used to fund the College's operating activities for the years ended June 30, 2012, 2011 and 2010.

**Condensed Statements of Revenues, Expenses and Changes in Net Assets**
**Years Ended June 30, 2012, 2011 and 2010**
*(Dollars in Millions)*

| | 2012 | 2011 | Increase (Decrease) 2012-2011 | 2010 | Increase (Decrease) 2011-2010 |
|---|---|---|---|---|---|
| Operating revenues | $ 70.9 | $ 68.6 | $ 2.3 | $ 63.2 | $ 5.4 |
| Operating expenses | 181.9 | 178.2 | 3.7 | 174.3 | 3.9 |
| Operating loss | (111.0) | (109.6) | (1.4) | (111.1) | 1.5 |
| Nonoperating revenues, net | 102.5 | 104.6 | (2.1) | 107.5 | (2.9) |
| (Decrease) in net assets | (8.5) | (5.0) | (3.5) | (3.6) | (1.4) |
| Net assets, beginning of year | 208.9 | 213.9 | (5.0) | 217.5 | (3.6) |
| Net assets, end of year | $ 200.4 | $ 208.9 | $ (8.5) | $ 213.9 | $ (5.0) |
| **Total revenues** | $ 175.4 | $ 174.9 | $ 0.5 | $ 172.3 | $ 2.6 |
| **Total expenses** | $ 183.9 | $ 179.9 | $ 4.0 | $ 175.9 | $ 4.0 |

The following table of revenues by source (both operating and nonoperating) shows revenues used to fund the College's operating activities for the years ended June 30, 2012, 2011 and 2010.

**Revenues by Source**
**Years Ended June 30, 2012, 2011 and 2010**
*(Dollars in Millions)*

| | 2012 | 2011 | Increase (Decrease) 2012-2011 | 2010 | Increase (Decrease) 2011-2010 |
|---|---|---|---|---|---|
| Operating revenues: | | | | | |
| Student tuition and fees | $ 35.8 | $ 35.1 | $ 0.7 | $ 32.9 | $ 2.2 |
| Gifts, grants and contracts | 19.7 | 18.1 | 1.6 | 14.4 | 3.7 |
| Auxiliary enterprise revenue | 11.2 | 11.2 | - | 11.7 | (0.5) |
| Other operating revenues | 4.2 | 4.2 | - | 4.2 | - |
| **Total operating revenues** | $ 70.9 | $ 68.6 | $ 2.3 | $ 63.2 | $ 5.4 |
| Nonoperating revenues (expenses): | | | | | |
| County property taxes | $ 72.9 | $ 72.9 | $ - | $ 76.2 | $ (3.3) |
| State aid | 29.1 | 28.6 | 0.5 | 28.3 | 0.3 |
| Gifts, grants and contracts | 2.5 | 4.6 | (2.1) | 4.3 | 0.3 |
| Investment income | - | 0.2 | (0.2) | 0.3 | (0.1) |
| Interest on capital asset debt | (2.0) | (1.7) | (0.3) | (1.6) | (0.1) |
| **Total nonoperating revenues, net** | $ 102.5 | $ 104.6 | $ (2.1) | $ 107.5 | $ (2.9) |

Operating expenses can be displayed in two formats, natural (object) classification and functional classification. Both formats are presented in the following tables for the years ended June 30, 2012, 2011 and 2010.

**Operating Expenses by Natural Classification**
**Years Ended June 30, 2012, 2011 and 2010**
*(Dollars in Millions)*

| | 2012 | 2011 | Increase (Decrease) 2012-2011 | 2010 | Increase (Decrease) 2011-2010 |
|---|---|---|---|---|---|
| Operating expenses: | | | | | |
| Salaries and benefits | $ 120.5 | $ 118.2 | $ 2.3 | $ 117.5 | $ 0.7 |
| Supplies, services and other | 37.0 | 35.9 | 1.1 | 36.0 | (0.1) |
| Scholarships and financial aid | 14.6 | 14.1 | 0.5 | 11.1 | 3.0 |
| Depreciation | 9.8 | 10.0 | (0.2) | 9.7 | 0.3 |
| **Total operating expenses** | $ 181.9 | $ 178.2 | $ 3.7 | $ 174.3 | $ 3.9 |

**Operating Expenses by Functional Classification**
**Years Ended June 30, 2012, 2011 and 2010**
*(Dollars in Millions)*

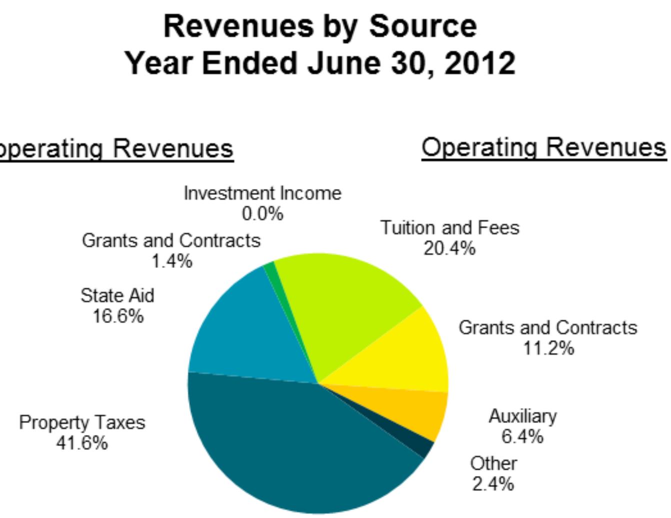
| | 2012 | 2011 | Increase (Decrease) 2012-2011 | 2010 | Increase (Decrease) 2011-2010 |
|---|---|---|---|---|---|
| Operating expenses: | | | | | |
| Instruction | $ 62.9 | $ 61.9 | $ 1.0 | $ 61.0 | $ 0.9 |
| Community services | 1.1 | 0.9 | 0.2 | 0.8 | 0.1 |
| Academic support | 24.7 | 23.8 | 0.9 | 24.1 | (0.3) |
| Student services | 15.4 | 15.1 | 0.3 | 14.9 | 0.2 |
| Institutional support | 27.2 | 26.3 | 0.9 | 26.1 | 0.2 |
| Student financial aid | 14.4 | 13.9 | 0.5 | 11.0 | 2.9 |
| Plant and maintenance | 12.4 | 11.9 | 0.5 | 12.4 | (0.5) |
| Auxiliary | 14.0 | 14.4 | (0.4) | 14.3 | 0.1 |
| Depreciation | 9.8 | 10.0 | (0.2) | 9.7 | 0.3 |
| **Total operating expenses** | $ 181.9 | $ 178.2 | $ 3.7 | $ 174.3 | $ 3.9 |

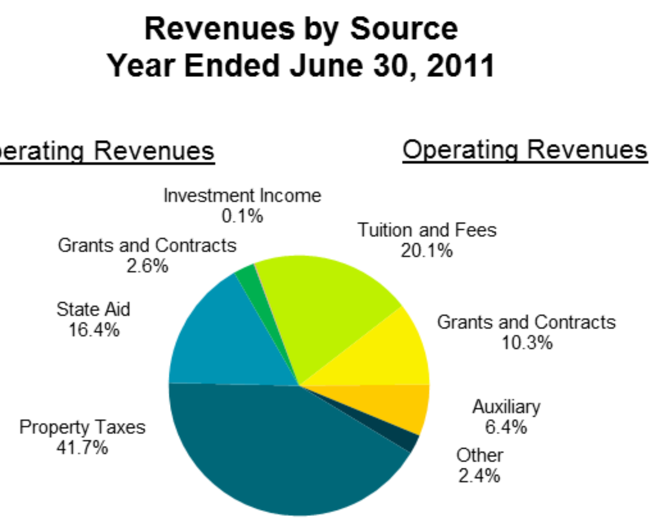
**<u>Fiscal Year 2012 Compared to Fiscal Year 2011</u>**

The statement of revenues, expenses and changes in net assets reflects a decrease in net assets of $8.5 million during the year ended June 30, 2012, compared to a decrease of $5.0 million during fiscal year 2011. Some highlights of the information provided in these statements follow.

**Revenues**

The following graphic illustrations of revenues by source (both operating and nonoperating) represent revenues used to fund the College's operating activities for the years ended June 30, 2012 and 2011.



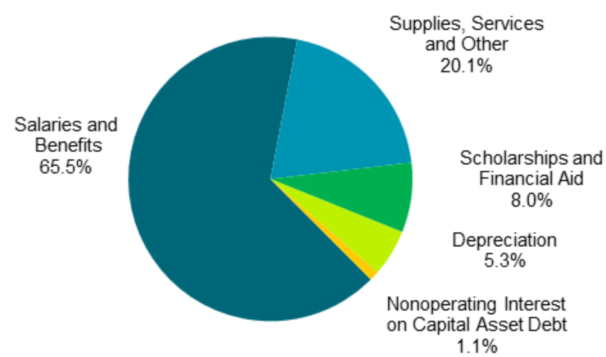




County property taxes and state aid comprise 58.2% of the College's revenue for the year ended June 30, 2012, compared to 58.1% for the year ended June 30, 2011. The next largest revenue source was net tuition and fees, comprising 20.4% of revenue for the year ended June 30, 2012, compared to 20.1% for the year ended June 30, 2011.

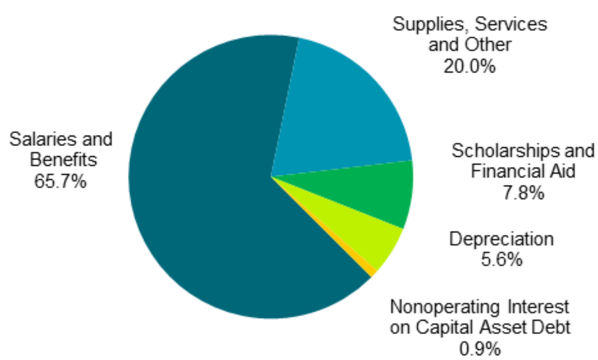
## Expenses

Expenses are displayed in both formats, natural (object) classification and functional classification, in the following graphic illustrations for the years ended June 30, 2012 and 2011.

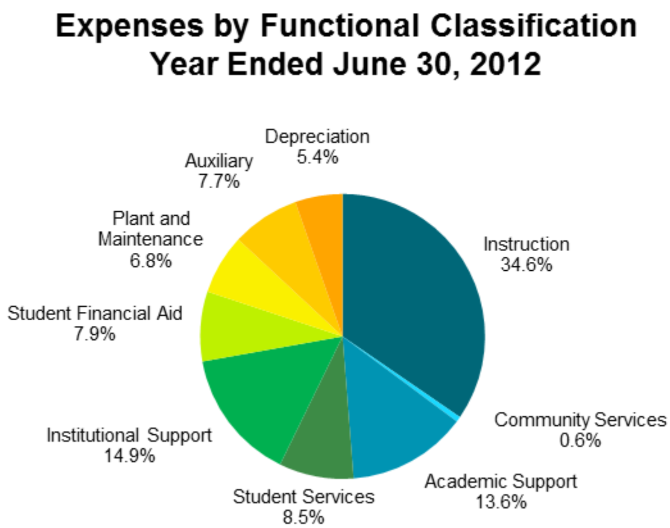
**Expenses by Natural Classification**
**Year Ended June 30, 2012**

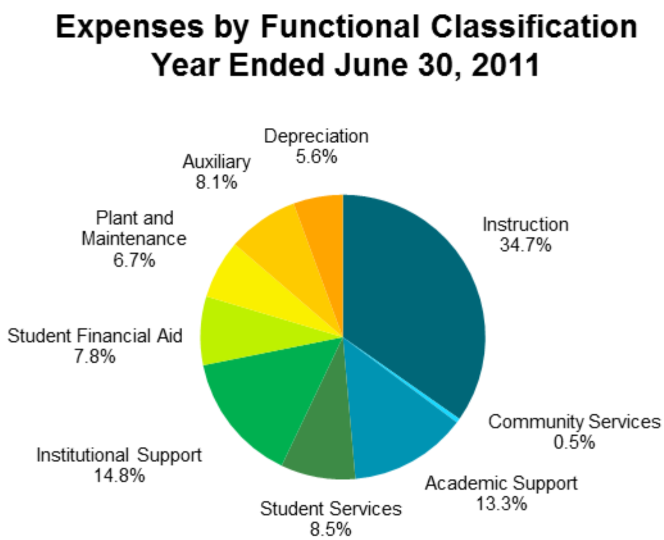



**Expenses by Natural Classification**
**Year Ended June 30, 2011**




Salaries and benefits comprise 65.5% of expenses by natural classification for the year ended June 30, 2012, compared to 65.7% for the year ended June 30, 2011. Supplies, services and other expenses represent 20.1% of total expenses for the year ended June 30, 2012, compared to 20.0% for the year ended June 30, 2011. Scholarships and financial aid, depreciation and interest on capital asset debt represent the remaining 14.4% of expenses for the year ended June 30, 2012, compared to 14.3% for the year ended June 30, 2011.




Expenses by function indicate 34.6% is attributable to instruction for the year ended June 30, 2012, compared to 34.7% for the year ended June 30, 2011. The percentages for the remaining expenses by functional area range from 14.9% for institutional support to 0.6% for community services for the year ended June 30, 2012, compared to 14.8% for institutional support to 0.5% for community services for the year ended June 30, 2011.

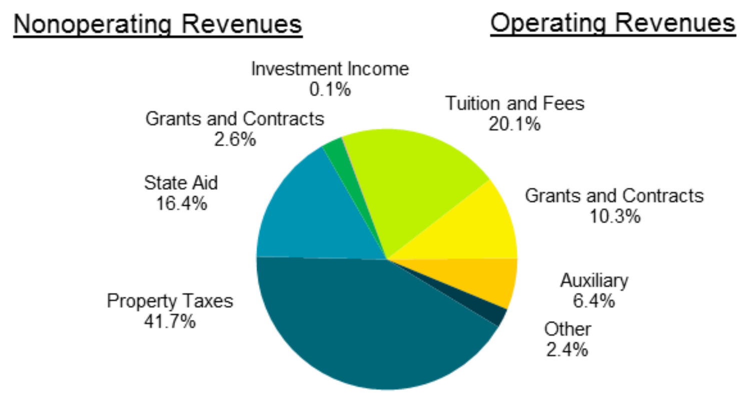
## Fiscal Year 2011 Compared to Fiscal Year 2010

The statement of revenues, expenses and changes in net assets reflects a decrease in net assets of $5.0 million during the year ended June 30, 2011, compared to a decrease of $3.6 million during fiscal year 2010. Some highlights of the information provided in these statements follow.

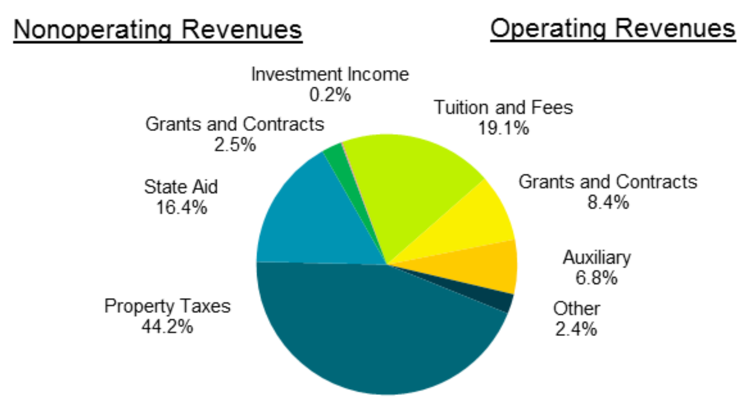
### Revenues

The following graphic illustrations of revenues by source (both operating and nonoperating) represent revenues used to fund the College's operating activities for the years ended June 30, 2011 and 2010.

**Revenues by Source**
**Year Ended June 30, 2011**




**Revenues by Source**
**Year Ended June 30, 2010**

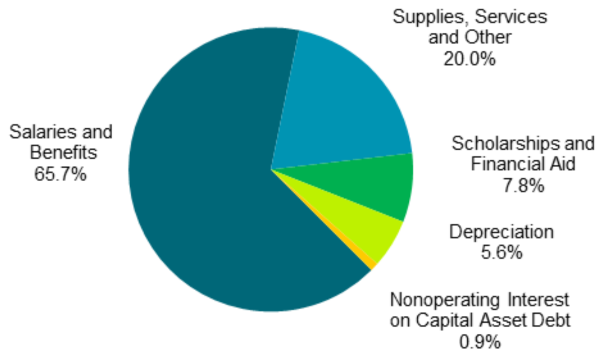



County property taxes and state aid comprise 58.1% of the College's revenue for the year ended June 30, 2011, compared to 60.6% for the year ended June 30, 2010. The next largest revenue source was net tuition and fees, comprising 20.1% of revenue for the year ended June 30, 2011, compared to 19.1% for the year ended June 30, 2010.

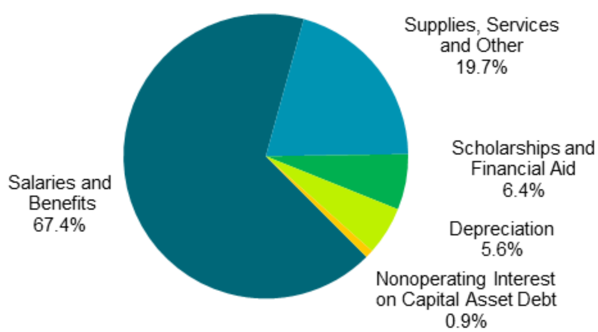
## Expenses

Expenses are displayed in both formats, natural (object) classification and functional classification, in the following graphic illustrations for the years ended June 30, 2011 and 2010.

**Expenses by Natural Classification**
**Year Ended June 30, 2011**

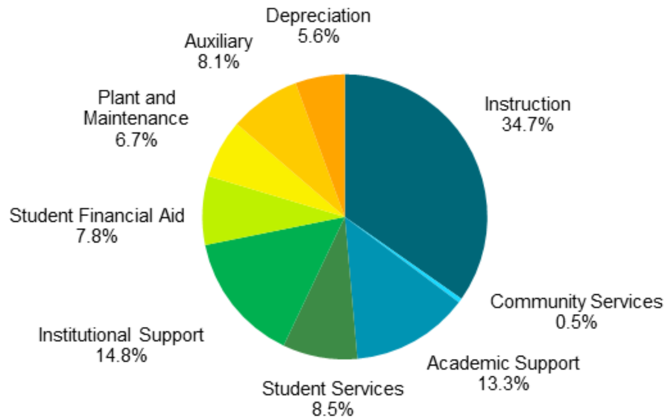



**Expenses by Natural Classification**
**Year Ended June 30, 2010**

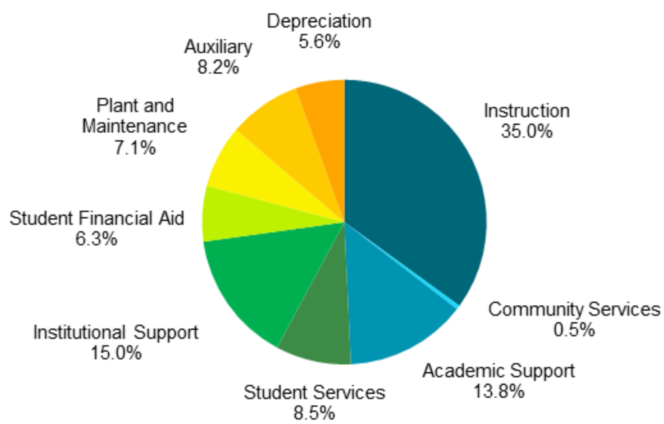



Salaries and benefits comprise 65.7% of expenses by natural classification for the year ended June 30, 2011, compared to 67.4% for the year ended June 30, 2010. Supplies, services and other expenses represent 20.0% of total expenses for the year ended June 30, 2011, compared to 19.7% for the year ended June 30, 2010. Scholarships and financial aid, depreciation and interest on capital asset debt represent the remaining 14.3% of expenses for the year ended June 30, 2011, compared to 12.9% for the year ended June 30, 2010.

**Expenses by Functional Classification**
**Year Ended June 30, 2011**




**Expenses by Functional Classification**
**Year Ended June 30, 2010**




Expenses by function indicate 34.7% is attributable to instruction for the year ended June 30, 2011, compared to 35.0% for the year ended June 30, 2010. The percentages for the remaining expenses by functional area range from 14.8% for institutional support to 0.5% for community services for the year ended June 30, 2011, compared to 15.0% for institutional support to 0.5% for community services for the year ended June 30, 2010.

## The Statement of Cash Flows

The statement of cash flows provides information about cash receipts and cash payments during the year. This statement also assists users in assessing the College's ability to generate net cash flows, its ability to meet its obligations as they come due, and its need for external financing.

The statement of cash flows is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the College. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, noninvesting and noncapital financing purposes. The third section deals with cash flows from capital and related financing activities. This section deals with the cash used in the acquisition, construction and financing of capital and related items. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds and interest received from investing activities. The fifth section reconciles the net cash used by operating activities to the operating loss reflected on the statement of revenues, expenses and changes in net assets.

**Condensed Statements of Cash Flows**
**Years Ended June 30, 2012, 2011 and 2010**
*(Dollars in Millions)*

| | 2012 | 2011 | Increase (Decrease) 2012-2011 | 2010 | Increase (Decrease) 2011-2010 |
|---|---|---|---|---|---|
| Cash provided by (used in): | | | | | |
| Operating activities | $ (101.5) | $ (97.7) | $ (3.8) | $ (102.6) | $ 4.9 |
| Noncapital financing activities | 105.1 | 105.8 | (0.7) | 109.3 | (3.5) |
| Capital and related financing activities | (16.5) | (19.8) | 3.3 | 6.5 | (26.3) |
| Investing activities | 3.4 | 9.6 | (6.2) | (13.8) | 23.4 |
| Net change in cash | (9.5) | (2.1) | (7.4) | (0.6) | (1.5) |
| Cash, beginning of year | 110.0 | 112.1 | (2.1) | 112.7 | (0.6) |
| Cash, end of year | $ 100.5 | $ 110.0 | $ (9.5) | $ 112.1 | $ (2.1) |

## Fiscal Year 2012 Compared to Fiscal Year 2011

Significant sources of cash included property tax revenues, the state operating grant, tuition and fees, and proceeds from bonds. Significant uses of cash were for payments to suppliers, payments to employees including benefits, payments for scholarships, capital assets and principal and interest payments on bonds payable and capital leases.

The cash position of the College decreased by $9.5 million for the fiscal year ended June 30, 2012, compared to a decrease of $2.1 million for the fiscal year ended June 30, 2011. The decrease in cash at June 30, 2012, resulted from the prepayment of Series 2004 Certificates of Participation in the amount of $2.9 million and the planned spend down of cash balances during the fiscal year ended June 30, 2012.

## Fiscal Year 2011 Compared to Fiscal Year 2010

Significant sources of cash included property tax revenues, the state operating grant, tuition and fees, and proceeds from maturities of investments. Significant uses of cash were for payments to suppliers and vendors, payments to employees including benefits, payments for scholarships, capital assets and purchases of investments.

The cash position of the College decreased by $2.1 million for the fiscal year ended June 30, 2011, compared to a decrease of $0.6 million for the fiscal year ended June 30, 2010. The decrease in cash at June 30, 2011, resulted from planned spend down of cash balances during the fiscal year ended June 30, 2011.

## Capital Assets and Long-Term Debt

Capital assets are reflected in the following table for the years ended June 30, 2012, 2011 and 2010.

**Capital Assets**
**Years Ended June 30, 2012, 2011 and 2010**
*(Dollars in Millions)*

| | 2012 | 2011 | Increase (Decrease) 2012-2011 | 2010 | Increase (Decrease) 2011-2010 |
|---|---|---|---|---|---|
| Capital assets | | | | | |
| Land | $ 1.0 | $ 1.0 | $ - | $ 1.0 | $ - |
| Construction in progress | 2.1 | 12.8 | (10.7) | 2.3 | 10.5 |
| Works of art | 3.2 | 3.2 | - | 3.0 | 0.2 |
| Land improvements | 35.7 | 35.2 | 0.5 | 34.9 | 0.3 |
| Buildings and improvements | 177.2 | 162.4 | 14.8 | 159.8 | 2.6 |
| Equipment | 29.8 | 28.9 | 0.9 | 27.6 | 1.3 |
| Rental Textbooks | 1.1 | 0.6 | 0.5 | - | 0.6 |
| Total | 250.1 | 244.1 | 6.0 | 228.6 | 15.5 |
| Less accumulated depreciation | 107.8 | 99.3 | 8.5 | 90.4 | 8.9 |
| Net capital assets | $ 142.3 | $ 144.8 | $ (2.5) | $ 138.2 | $ 6.6 |

Additional information concerning capital assets is provided in Note 3 to the financial statements.

## Fiscal Year 2012 Compared to Fiscal Year 2011

As of June 30, 2012, the College had recorded $250.1 million invested in capital assets, $107.8 million in accumulated depreciation and $142.3 million in net capital assets. Various equipment purchases and disposals during the year resulted in the addition of $0.9 million invested in this category of assets.

## Fiscal Year 2011 Compared to Fiscal Year 2010

As of June 30, 2011, the College had recorded $244.1 million invested in capital assets, $99.3 million in accumulated depreciation and $144.8 million in net capital assets. Various equipment purchases and disposals during the year resulted in the addition of $1.3 million invested in this category of assets.

**Long-Term Debt**
**Years Ended June 30, 2012, 2011 and 2010**
*(Dollars in Millions)*

| | 2012 | 2011 | Increase (Decrease) 2012-2011 | 2010 | Increase (Decrease) 2011-2010 |
|---|---|---|---|---|---|
| Long-term debt: | | | | | |
| Revenue bonds | $ 22.2 | $ 22.4 | $ (0.2) | $ 23.3 | $ (0.9) |
| Certificates of participation | 12.4 | 18.1 | (5.7) | 20.7 | (2.6) |
| Loan obligations | 3.3 | 4.0 | (0.7) | 5.5 | (1.5) |
| **Total long-term debt** | $ 37.9 | $ 44.5 | $ (6.6) | $ 49.5 | $ (5.0) |

During fiscal year 2012, the College prepaid the Series 2004 Certificates of Participation in the amount of $2.9 million. Additional information concerning long-term debt is provided in Note 4 to the financial statements.

## Economic Outlook

Tuition and fee rates increase by $3 per credit hour for fiscal year 2013.

Assessed valuation of property in Johnson County is expected to stay the same at $7.5 billion for fiscal year 2013. The College's Board of Trustees maintained the tax levy at 8.776 mills for fiscal year 2013. The combination of these two factors is expected to result in a similar level of property tax revenues during fiscal year 2013.

The State of Kansas is expected to increase state funding to community colleges by $8 million for fiscal year 2013. As a result the College expects a $1.1 million increase in state funding.

College management believes the College is well positioned to maintain its strong financial condition and to continue providing excellent service to its students and other constituents. The College's financial position, as evidenced by its strong cash balance and Aaa bond ratings, provides a high degree of flexibility in obtaining funds on competitive terms. Management will continue to maintain a close watch over its resources and expenses to ensure its ability to plan and react to future internal and external issues and to ensure that the College maintains its strong financial condition.

## Request for Information

These financial statements and discussions are designed to provide a general overview of the College's finances for all those with an interest in the entity's finances. Questions concerning any information provided in this report should be addressed to Robert Prater, Associate Vice President, Finance/Comptroller, 12345 College Blvd., Overland Park, Kansas 66210-1299.

**Johnson County Community College**

**Statements of Net Assets**
**June 30, 2012 and 2011**

| | **2012** | 2011 |
|---|---|---|
| **Assets** | | |
| Current Assets: | | |
| Cash and cash equivalents | **$ 100,489,091** | $ 109,960,698 |
| Accounts receivable, net of uncollectible accounts | | |
| 2012 $3,228,699; 2011 $3,174,502 | **5,535,065** | 5,206,805 |
| Student loans receivable | **132,116** | 139,492 |
| Loan receivable | **-** | 768,856 |
| Inventories | **1,517,475** | 1,625,985 |
| **Total current assets** | **107,673,747** | 117,701,836 |
| Noncurrent Assets: | | |
| Restricted short-term investments | **1,426,394** | 4,770,926 |
| Student loans, net of allowance for uncollectible loans | | |
| 2012 and 2011 $62,079 | **1,125,876** | 1,226,196 |
| Capital assets not being depreciated | **6,359,179** | 16,995,380 |
| Capital assets being depreciated | **243,784,753** | 227,128,677 |
| Less accumulated depreciation | **(107,828,548)** | (99,257,273) |
| Other | **120,623** | - |
| **Total noncurrent assets** | **144,988,277** | 150,863,906 |
| **Total assets** | **252,662,024** | 268,565,742 |
| **Liabilities** | | |
| Current Liabilities: | | |
| Accounts payable | **3,599,166** | 3,203,108 |
| Accrued salaries | **2,766,935** | 2,833,528 |
| Accrued compensated absences | **499,668** | 458,208 |
| Other accrued liabilities | **307,434** | 1,521,915 |
| Deferred student tuition and fee revenue | **2,751,029** | 2,599,870 |
| Deposits held in custody for others | **543,809** | 570,459 |
| Current portion of revenue bonds payable | **1,001,565** | 910,000 |
| Current portion of certificates of participation | **1,440,000** | 2,795,000 |
| Current portion of loan obligation | **661,673** | 661,673 |
| **Total current liabilities** | **13,571,279** | 15,553,761 |
| Noncurrent Liabilities: | | |
| Accrued compensated absences | **3,069,389** | 2,814,703 |
| Revenue bonds payable | **21,273,469** | 21,555,000 |
| Certificates of participation | **10,945,000** | 15,265,000 |
| Loan obligation | **2,646,690** | 3,308,363 |
| OPEB obligations | **793,302** | 1,147,761 |
| **Total noncurrent liabilities** | **38,727,850** | 44,090,827 |
| **Total liabilities** | **52,299,129** | 59,644,588 |
| **Net Assets:** | | |
| Invested in capital assets, net of related debt | **105,894,003** | 104,444,205 |
| Restricted, expendable for: | | |
| Capital projects | **14,758,184** | 14,730,114 |
| Bonds | **1,567,965** | 1,380,597 |
| Loan funds and other | **4,490,715** | 4,229,800 |
| Unrestricted | **73,652,028** | 84,136,438 |
| **Total net assets** | **$ 200,362,895** | $ 208,921,154 |

See Notes to Financial Statements.

**Johnson County Community College**

**Johnson County Community College Foundation - Component Unit**
**Statements of Financial Position**
**June 30, 2012 and 2011**

| | | 2012 | | 2011 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | **$** | **3,235,682** | $ | 1,582,423 |
| Contributions receivable, net | | **991,765** | | 1,481,856 |
| Grant receivable | | **-** | | 27,000 |
| Other receivables | | **14,000** | | 5,250 |
| Investments | | **19,116,534** | | 20,037,380 |
| Accrued interest receivable | | **70,211** | | 67,585 |
| Campus artwork | | **2,793,703** | | 2,593,287 |
| Prepaid expenses | | **-** | | 14,500 |
| Cash surrender value of life insurance | | **9,970** | | 9,354 |
| | **$** | **26,231,865** | $ | 25,818,635 |

| | | | | |
|---|---|---|---|---|
| **Liabilities and Net Assets** | | | | |
| Liabilities, payables | **$** | **118,139** | $ | 48,132 |
| Net Assets: | | | | |
| Unrestricted, undesignated | | **1,455,062** | | 1,473,783 |
| Unrestricted, designated for scholarships and program support | | **1,104,590** | | 883,784 |
| Temporarily restricted | | **7,553,631** | | 7,654,864 |
| Permanently restricted | | **16,000,443** | | 15,758,072 |
| **Total net assets** | | **26,113,726** | | 25,770,503 |
| | **$** | **26,231,865** | $ | 25,818,635 |

See Notes to Financial Statements.

**Johnson County Community College**

**Statements of Revenues, Expenses and Changes in Net Assets**
**Years Ended June 30, 2012 and 2011**

| | **2012** | 2011 |
|---|---|---|
| Operating revenues: | | |
| Student tuition and fees, net of scholarship allowances | | |
| 2012 $4,276,465; 2011 $3,721,135 | **$ 35,839,858** | $ 35,078,306 |
| Federal grants | **17,570,904** | 16,442,427 |
| State grants and contracts | **474,690** | 561,581 |
| Private gifts, grants and contracts | **1,519,767** | 888,328 |
| Local grants and contracts | **78,378** | 159,208 |
| Auxiliary enterprise revenue | **11,246,448** | 11,250,728 |
| Other operating revenue | **4,181,862** | 4,241,719 |
| **Total operating revenues** | **70,911,907** | 68,622,297 |
| Operating expenses: | | |
| Salaries | **86,892,575** | 84,919,492 |
| Benefits | **33,645,895** | 33,318,343 |
| Contractual services | **8,820,653** | 8,740,577 |
| Supplies and other operating expenses | **17,799,983** | 19,043,544 |
| Utilities | **3,226,046** | 2,840,087 |
| Repairs and maintenance to plant | **7,128,509** | 5,308,333 |
| Scholarship and financial aid | **14,602,955** | 14,158,626 |
| Depreciation | **9,842,890** | 9,930,578 |
| **Total operating expenses** | **181,959,506** | 178,259,580 |
| **Operating loss** | **(111,047,599)** | (109,637,283) |
| Nonoperating revenues (expenses): | | |
| County property taxes | **72,972,976** | 72,867,126 |
| State aid | **29,096,309** | 28,628,357 |
| Federal grants and contracts | **2,391,542** | 3,790,921 |
| Private gifts and contracts restricted for debt service | **101,111** | 816,796 |
| Investment income | **87,148** | 168,009 |
| Interest on student loans receivable | **21,427** | 20,825 |
| Other nonoperating revenues (expenses) | **(146,170)** | 3,727 |
| Interest on capital asset debt | **(2,035,003)** | (1,687,928) |
| **Total nonoperating revenues, net** | **102,489,340** | 104,607,833 |
| **(Decrease) in net assets** | **(8,558,259)** | (5,029,450) |
| Net assets: | | |
| Beginning | **208,921,154** | 213,950,604 |
| Ending | **$ 200,362,895** | $ 208,921,154 |

See Notes to Financial Statements.

**Johnson County Community College**

**Johnson County Community College Foundation - Component Unit**
**Statement of Activities**
**Year Ended June 30, 2012**

| | 2012 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Support and revenue: | | | | |
| Gifts and contributions | $ 132,630 | $ 2,501,102 | $ 242,371 | $ 2,876,103 |
| Contributed services | 503,684 | - | - | 503,684 |
| Dividend and interest income | 1,439 | 550,747 | - | 552,186 |
| Net realized and unrealized (losses) on investments | (2,788) | (488,072) | - | (490,860) |
| Net assets released from restrictions | 2,665,010 | (2,665,010) | - | - |
| Change in donor designation | - | - | - | - |
| **Total support and revenue** | 3,299,975 | (101,233) | 242,371 | 3,441,113 |
| Expenses: | | | | |
| Program expenses: | | | | |
| Scholarship programs | 798,362 | - | - | 798,362 |
| Foundation programming | 75,698 | - | - | 75,698 |
| Performing arts programs | 374,199 | - | - | 374,199 |
| Visual arts programs | 58,982 | - | - | 58,982 |
| Capital project programs | 168,311 | - | - | 168,311 |
| Educational program support | 793,933 | - | - | 793,933 |
| | 2,269,485 | - | - | 2,269,485 |
| Supporting services: | | | | |
| Fund raising | 621,582 | - | - | 621,582 |
| Management and general | 206,823 | - | - | 206,823 |
| | 828,405 | - | - | 828,405 |
| **Total expenses** | 3,097,890 | - | - | 3,097,890 |
| **Increase (decrease) in net assets** | 202,085 | (101,233) | 242,371 | 343,223 |
| Net assets: | | | | |
| Beginning | 2,357,567 | 7,654,864 | 15,758,072 | 25,770,503 |
| Ending | $ 2,559,652 | $ 7,553,631 | $ 16,000,443 | $ 26,113,726 |

See Notes to Financial Statements.

**Johnson County Community College**

**Johnson County Community College Foundation - Component Unit**
**Statement of Activities**
**Year Ended June 30, 2011**

| | 2011 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Support and revenue: | | | | |
| Gifts and contributions | $ 58,123 | $ 2,433,184 | $ 219,408 | $ 2,710,715 |
| Contributed services | 411,307 | - | - | 411,307 |
| Dividend and interest income | 5,381 | 526,658 | - | 532,039 |
| Net realized and unrealized gains on investments | 826,675 | 1,985,938 | - | 2,812,613 |
| Net assets released from restrictions | 2,320,143 | (2,320,143) | - | - |
| Change in donor designation | - | 60,471 | (60,471) | - |
| **Total support and revenue** | 3,621,629 | 2,686,108 | 158,937 | 6,466,674 |
| Expenses: | | | | |
| Program expenses: | | | | |
| Scholarship programs | 911,489 | - | - | 911,489 |
| Foundation programming | 73,229 | - | - | 73,229 |
| Performing arts programs | 358,873 | - | - | 358,873 |
| Visual arts programs | 84,248 | - | - | 84,248 |
| Capital project programs | 322,852 | - | - | 322,852 |
| Educational program support | 453,180 | - | - | 453,180 |
| | 2,203,871 | - | - | 2,203,871 |
| Supporting services: | | | | |
| Fund raising | 500,400 | - | - | 500,400 |
| Management and general | 175,868 | - | - | 175,868 |
| | 676,268 | - | - | 676,268 |
| **Total expenses** | 2,880,139 | - | - | 2,880,139 |
| **Increase in net assets** | 741,490 | 2,686,108 | 158,937 | 3,586,535 |
| Net assets: | | | | |
| Beginning | 1,616,077 | 4,968,756 | 15,599,135 | 22,183,968 |
| Ending | $ 2,357,567 | $ 7,654,864 | $ 15,758,072 | $ 25,770,503 |

See Notes to Financial Statements.

**Johnson County Community College**

**Statements of Cash Flows**
**Years Ended June 30, 2012 and 2011**

| | **2012** | 2011 |
|---|---|---|
| Cash Flows from Operating Activities: | | |
| Student tuition and fees | **$ 37,106,291** | $ 34,518,441 |
| Payments to suppliers | **(18,399,280)** | (16,841,577) |
| Payments to employees | **(87,017,481)** | (85,462,316) |
| Payments for scholarships and financial aid | **(14,602,955)** | (14,158,626) |
| Payments for employee benefits | **(33,675,363)** | (33,310,812) |
| Payments for utilities | **(3,282,180)** | (2,867,005) |
| Payments for auxiliary services, net of charges | **(3,903,866)** | (3,723,239) |
| Grants and contracts | **19,365,193** | 19,603,872 |
| Other receipts, net | **2,944,432** | 4,534,091 |
| **Net cash (used in) operating activities** | **(101,465,209)** | (97,707,171) |
| Cash Flows from Noncapital Financing Activities: | | |
| County property taxes | **73,372,462** | 72,977,919 |
| State aid | **29,096,309** | 28,628,357 |
| Grants and contracts | **2,594,705** | 4,081,774 |
| Funds held for (returned to) others | **(7,540)** | 102,084 |
| **Net cash provided by noncapital financing activities** | **105,055,936** | 105,790,134 |
| Cash Flows from Capital and Related Financing Activities: | | |
| Purchases of capital assets | **(8,660,511)** | (16,442,074) |
| Proceeds from the sale of capital assets | **121,087** | 3,727 |
| Proceeds from bonds, net of bond issue costs and premiums of $68,436 | **9,868,436** | - |
| Proceeds from loan receivable | **768,856** | 2,018,505 |
| Principal paid on bonds payable | **(10,186,565)** | (880,000) |
| Principal paid on certificates of participation | **(5,675,000)** | (2,615,000) |
| Principal paid on loan obligations | **(661,673)** | (166,322) |
| Interest paid on bonds payable | **(1,463,934)** | (1,016,599) |
| Interest paid on certificates of participation | **(626,951)** | (691,169) |
| **Net cash (used in) capital and related financing activities** | **(16,516,255)** | (19,788,932) |
| Cash Flows from Investing Activities: | | |
| Proceeds from sale and maturities of investments | **3,344,532** | 9,405,526 |
| Interest on investments | **109,389** | 198,967 |
| **Net cash provided by investing activities** | **3,453,921** | 9,604,493 |
| **(Decrease) in cash and cash equivalents** | **(9,471,607)** | (2,101,476) |
| Cash and cash equivalents: | | |
| Beginning | **109,960,698** | 112,062,174 |
| Ending | **$ 100,489,091** | $ 109,960,698 |

**(Continued)**

**Johnson County Community College**

**Statements of Cash Flows (Continued)**
**Years Ended June 30, 2012 and 2011**

| | **2012** | 2011 |
|---|---|---|
| Reconciliation of Operating (Loss) to Net Cash (Used in) | | |
| Operating Activities: | | |
| Operating (loss) | **$ (111,047,599)** | $ (109,637,283) |
| Adjustments to reconcile operating (loss) to net | | |
| cash (used in) operating activities: | | |
| Depreciation expense | **9,842,890** | 9,930,578 |
| Changes in assets and liabilities: | | |
| Accounts receivable, net | **(722,916)** | 1,436,852 |
| Inventories | **108,510** | 346,889 |
| Accounts payable | **359,612** | 758,941 |
| Accrued salaries | **(66,593)** | 51,199 |
| Accrued compensated absences | **296,146** | 115,668 |
| Other accrued liabilities | **(31,959)** | (1,375) |
| Deferred student tuition and fee revenue | **100,774** | 53,946 |
| Other deferred revenue | **50,385** | (52,895) |
| Postemployment benefit obligation | **(354,459)** | (709,691) |
| **Net cash (used in) operating activities** | **$ (101,465,209)** | $ (97,707,171) |
| | | |
| Schedule of Noncash Capital and Related Items: | | |
| Loan receivable and loan obligation | **$ -** | $ 768,856 |
| Forgiveness of debt on loan obligation | **-** | 528,500 |
| Accounts payable and other liabilities related to | | |
| capital asset acquisitions | **1,101,764** | 200,475 |

See Notes to Financial Statements.

## Note 1. Organization and Summary of Significant Accounting Policies

The Johnson County Community College District (College) includes all of Johnson County, Kansas, which is located immediately west of Kansas City, Missouri, and immediately south of Kansas City, Kansas. The College was organized and established in 1967 under the provisions of then Section 72-6901 et seq. of Kansas Statutes Annotated (now K.S.A. 71-201 et seq.). The College is governed by a Board of Trustees of seven members, all being elected at large. The College is a public two-year community college offering a comprehensive curriculum with liberal arts and sciences, as well as vocational and technical programs for credit and noncredit students from Johnson County and surrounding communities.

The accounting policies of the College conform to accounting principles generally accepted in the United States of America as applicable to colleges and universities. The College reports are based on applicable Governmental Accounting Standards Board (GASB) pronouncements as well as applicable Financial Accounting Standards Board (FASB) guidance issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The following is a summary of the more significant policies.

**Reporting entity:**

As defined by accounting principles generally accepted in the United States of America established by GASB, the financial reporting entity consists of the College, as well as its discretely presented component unit, the Johnson County Community College Foundation (the Foundation).

**Discretely presented component unit:**

The Foundation is considered to be a related organization to the College. The Foundation is a legally separate, tax-exempt organization that acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. Two members of the College’s Board of Trustees also serve on the 35-member board of directors of the Foundation. The other five members of the College’s Board of Trustees serve as members of the Foundation. In addition, the directors of the Foundation approve the election of the additional Foundation members, not to exceed 250 members. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon that the Foundation holds and invests, are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the College, the Foundation is considered a component unit of the College and is discretely presented in the College’s financial statements. During the years ended June 30, 2012 and 2011, the College received direct contributions from the Foundation of $2,025,476 and $2,301,734, respectively. Contributions are included in the statement of revenues, expenses and changes in net assets in the private gifts, grants and contracts line in both the operating and nonoperating revenues sections and the other operating revenue line.

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### Note 1. Organization and Summary of Significant Accounting Policies (Continued)

The Foundation is reported in separate financial statements because of the difference in its reporting model, as further described below:

The Foundation is a private not-for-profit organization that reports its financial results under FASB standards. Most significant to the Foundation's operations and reporting model are FASB Codification ASC 958, *Not-for-Profit Entities*, and FASB Codification ASC 958-605, *Revenue Recognition - Contributions Received.* As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences; however, significant note disclosures (see Note 10) to the Foundation's financial statements have been incorporated into the College's notes to the financial statements.

Financial statements for the Foundation can be obtained by calling the Foundation at 913-469-3835.

**Measurement focus, basis of accounting and financial statement presentation:**

The College's basic financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The College has classified revenues as either operating or nonoperating revenues. 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, and (3) state and local grants and contracts. Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as state appropriations, federal grants and contracts, investment income and county property taxes.

The College maintains an encumbrance system for tracking outstanding purchase orders and other commitments for material or services not received during the year. Encumbrances at June 30, 2012 and 2011, were $6,073,578 (including construction contracts of $2,168,647) and $7,042,005 (including construction contracts of $2,547,759), respectively, which represent the estimated amount of expenses ultimately to result if unperformed contracts in process at fiscal year-end are completed. Encumbrances outstanding at June 30, 2012 and 2011 do not constitute expenses or liabilities and are not reflected in these basic financial statements.

**Property taxes:**

The County Treasurer is the tax collection agent for all taxing entities within the county. Valuations are established and taxes are assessed on a calendar year basis. Taxes are levied and become a lien on the property on November 1$^{st}$ in the year of assessment and are revenue for the fiscal year the following June 30.

Taxes levied on November 1 become due and payable, generally on the following December 20 and May 10, followed by major distributions to the taxing units on January 20 and June 5. Smaller distributions are made to taxing units in March, September and October each year. Substantially all tax revenues applicable to the proceeding calendar year are received by the College by each June 30. Property taxes are recognized as revenue in the period for which the taxes are levied. The College received approximately 41.6% and 41.7% of its financial support (exclusive of investment income) from property taxes during the years ended June 30, 2012 and 2011, respectively.

## Note 1. Organization and Summary of Significant Accounting Policies (Continued)

The tax rates for the fiscal years ended June 30, 2012 and 2011, per $100 of assessed valuation, are reflected in the following table:

| | 2012 | 2011 |
|---|---|---|
| Fund: | | |
| General | 8.243 | 8.265 |
| Capital outlay | 0.499 | 0.500 |
| Special assessment | 0.034 | 0.034 |
| **Total mill levy** | 8.776 | 8.799 |

**Federal grants and state aid:**

Funds from federal grants are recognized as revenue when eligibility requirements are met. Funds from state aid consist primarily of state grants and payments for the state of Kansas Public Employees Retirement System (KPERS). For state grants, the funds are recognized when eligibility requirements are met. The College recognizes as revenues and expenses, contributions made to KPERS on behalf of the College. (See Note 5.) Federal grants and state aid are reported as nonoperating revenue on the statements of revenues, expenses and changes in net assets.

**Student tuition and fees, net of scholarship allowances:**

Tuition and fee revenue is earned over the length of the course. Deferred revenue represents student tuition and fees received before year-end, which relate to subsequent periods. Student tuition and fee revenues are reported net of scholarship allowances in the statement of revenues, expenses and changes in net assets.

**Scholarship allowances and student aid:**

Certain federal financial aid grants to students are reported as federal appropriations in operating revenue in the financial statements as prescribed by the National Association of College and University of Business Officers (NACUBO). Since certain of these grants (including Pell and Supplement Educational Opportunity Grants) are for the payment of students' tuition and fees, a like amount is reported as scholarship allowance which is reported as an offset to tuition and fees in the financial statements. Federal Work Study grant expenses are reported as operating expenses as students work for compensation. Certain other student aid sources (loans, funds provided to students as awarded by third parties and Federal Direct Lending) are paid directly to the students or credited to the students' account and do not impact revenues or expenses reported in the financial statements.

**Operating and nonoperating activities:**

Operating activities, as reported in the statement of revenues, expenses and changes in net assets, are transactions that result from exchange transactions, such as payments received for providing services and payments made for services or goods received. Federal grant revenue consisting primarily of Pell grants and SEOG grants are reported as operating revenue as these funds replace an equal amount of tuition revenue and/or are directly related to the principal operations of the College. Nonoperating activities include federal grants, state appropriations, property taxes and interest earnings.

## Note 1. Organization and Summary of Significant Accounting Policies (Continued)

**Cash and cash equivalents:**

Cash and cash equivalents include deposits held at banks and all highly liquid instruments purchased with an original maturity of three months or less, plus small amounts of cash maintained for change funds.

**Investments:**

It is the College's policy to invest in obligations of the U.S. Treasury, repurchase agreements, bank certificates of deposit, the Kansas Municipal Investment Pool and other instruments authorized by Kansas statutes. Investments other than certificates of deposit are reported at fair value.

**Accounts receivable:**

Accounts receivable consists primarily of property taxes receivable and enrollment receivables. Accounts receivable are carried at the unpaid balance of the original amount billed to students and student loans receivable are carried at the amount of unpaid principal. Both property tax and enrollment receivables are net of an allowance for doubtful accounts. Management determines the allowance for doubtful accounts by calculating a specific percent reserve on accounts based on historical experience. Property tax and enrollment receivable are written off when deemed uncollectible. Recoveries of property tax and enrollment previously written off are recorded when received.

**Inventories:**

Inventories consist primarily of items held for resale by the bookstore and supply inventories and are stated at the lower of cost (determined on a first-in, first-out basis) or market. The cost is recorded as expenses as the inventories are consumed.

**Capital assets:**

Capital assets include property, plant, equipment, infrastructure assets such as roads and sidewalks, and works of art. Capital assets are defined by the College as assets with an initial unit cost of $5,000 or more with an estimated useful life of four years or more. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

The College has elected not to capitalize its collection of library books. This collection adheres to the College's policy to (a) maintain them for public exhibition, education or research; (b) protect, keep unencumbered, care for, and preserve them; and (c) require proceeds from their sale to be used to acquire other collection items.

Works of art are stated at cost, or if donated, at fair value at the date of the donation. The College does not depreciate artwork, as management believes the value of such has not diminished.

## Note 1. Organization and Summary of Significant Accounting Policies (Continued)

Property, plant and equipment of the College are depreciated using the straight-line method over the following useful lives (see Note 3 for further detail):

| | Years |
|---|---|
| Buildings | 40 |
| Building improvements | 15 |
| Land improvements | 10 |
| Furniture | 10 |
| Equipment | 5 |
| Computer technology | 4 |

**Compensated absences:**

The College records a liability for employees' vacation leave earned, but not taken. Employees are allowed to carry over a limited number of vacation days from year to year. At June 30, 2012 and 2011, the College had recorded a vacation liability of $3,569,057 and $3,272,911, respectively.

Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits that employees have earned, but not yet realized as these benefits do not vest.

**Net assets:**

Net assets are presented in three major categories. The first is invested in capital assets, net of related debt, which represents the College's equity in its property, plant and equipment. Unspent proceeds were $1,426,394 and $4,072,457 as of June 30, 2012 and 2011, respectively. The second is restricted, while the third is unrestricted.

Restricted net assets are funds that are limited in terms of the purpose and time for which the funds can be spent. Restricted net assets are further categorized between expendable and nonexpendable. Restricted expendable net assets are available to be spent by the College after externally imposed stipulations have been fulfilled or after the passage of time. Restricted nonexpendable net assets are endowments for which only the earnings can be spent. The College has no restricted nonexpendable net assets at June 30, 2012 and 2011. Unrestricted net assets are available to the College for any lawful purpose. The College first applies restricted sources when an expense or outlay is incurred for purposes for which both restricted and unrestricted sources are available.

**Use of estimates:**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues, expenses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

## Note 1. Organization and Summary of Significant Accounting Policies (Continued)

**Reclassifications:**

Certain items on the accompanying statement of net assets for the year ended June 30, 2011 have been reclassified to be consistent with classifications for the year ended June 30, 2012. The reclassifications had no effect on net assets.

## Note 2. Deposits, Investments and Risk

**Deposits:**

Deposits, depending on the source of receipts, are pooled, except when legal requirements dictate the use of separate accounts. The carrying amount of the College's deposits at June 30, 2012 and 2011, are reflected in the following table at cost. Actual bank statement balances for total deposits at June 30, 2012 and 2011, were $60,532,929 and $105,060,896, respectively. The difference between carrying amounts and bank balances represents primarily checks which had not cleared the bank and deposits in transit. The deposit balances and cash float from outstanding checks are deposited in interest-bearing accounts.

| | 2012 | 2011 |
|---|---|---|
| Cash | $ 10,268,266 | $ 14,483,141 |
| Certificates of Deposit: | | |
| Bank of Kansas City | 24,000,000 | 8,000,000 |
| Capitol Federal Savings | 25,000,000 | 27,000,000 |
| Commerce Bank | - | 35,000,000 |
| The Private Bank | - | 19,000,000 |
| **Total deposits** | $ 59,268,266 | $ 103,483,141 |

**Custodial credit risk:**

Custodial credit risk is the risk that, in the event of a bank failure, an entity's deposits may not be returned to it. The College's deposit policy for custodial credit risk exceeds the provisions of state law by requiring depository banks to pledge qualified securities with a market value equal to 105% of deposits in excess of FDIC coverage.

The College had no bank balances exposed to custodial credit risk at June 30, 2012 and 2011. State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities of the state of Kansas; bonds of any city, county school district or special road district of the state of Kansas; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

The custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction the College will not be able to recover the value of its investments or collateral securities that are in the possession of another party. Of the investments subject to custodial credit risk, none are considered uncollateralized as the investments are held by a trust department at a bank and registered in the College's name.

## Note 2. Deposits, Investments and Risk (Continued)

**Investments:**

Funds available for investment are pooled to maximize return and minimize administrative cost, except for funds authorized by the College administration to be separately invested or which are separately invested to meet legal requirements. It is the practice of the College that investments ordinarily be held to maturity at which time the par value of the investments will be realized. Short-term investments are investments with an original maturity of one year or less.

Kansas statute K.S.A. 12-1675 authorizes the College to invest in temporary notes, time deposits, open accounts, certificates of deposit, repurchase agreements, United States Treasury bills or notes, and the Kansas Municipal Investment Pool (MIP).

The State of Kansas Pooled Money Investment Board operates the MIP, which is invested in accordance with state statutes. The MIP is available for investment of funds administered by any Kansas municipality. The fair value of the MIP investment is approximately the same as the stated value of the MIP shares at June 30, 2012 and 2011. All funds deposited in the MIP are classified as investments even though some could be withdrawn on a day’s notice.

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates.

At June 30, 2012 and 2011, the College had the following investments which all mature in less than one year:

| | 2012 | 2011 |
|---|---|---|
| Kansas Municipal Investment Pool – Overnight Pool | $ 6,226,717 | $ 6,477,557 |
| U.S. Treasury Obligation Fund – Commerce Bank | 1,426,394 | 4,770,926 |
| U.S. Treasury Bills | 34,994,108 | - |
| **Total investments** | $ 42,647,219 | $ 11,248,483 |

A summary of deposits and investments at June 30, 2012 and 2011 is as follows:

| | 2012 | 2011 |
|---|---|---|
| Deposits: | | |
| Cash | $ 10,268,266 | $ 14,483,141 |
| Certificates of Deposit | 49,000,000 | 89,000,000 |
| Investments: | | |
| Kansas Municipal Investment Pool | 6,226,717 | 6,477,557 |
| U.S. Treasury Obligation Fund | 1,426,394 | 4,770,926 |
| U.S. Treasury Bills | 34,994,108 | - |
| **Total deposits and investments** | $ 101,915,485 | $ 114,731,624 |

**Note 2. Deposits, Investments and Risk (Continued)**

Deposits and investments are summarized on the Statements of Net Assets at June 30, 2012 and 2011, as follows:

| | 2012 | 2011 |
|---|---|---|
| Cash and cash equivalents: | | |
| Cash | $ 10,268,266 | $ 14,483,141 |
| Kansas Municipal Investment Pool – Overnight Pool | 6,226,717 | 6,477,557 |
| Certificates of Deposit (1 to 91 days) | 49,000,000 | 89,000,000 |
| U.S. Treasury Bills | 34,994,108 | - |
| **Total cash and cash equivalents** | 100,489,091 | 109,960,698 |
| Restricted short-term investments: | | |
| U.S. Treasury Obligation Fund | 1,426,394 | 4,770,926 |
| **Total deposits and investments** | $ 101,915,485 | $ 114,731,624 |

**Credit risk:**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The U.S. Treasuries are not subject to credit risk as they are backed by the full faith and credit of the federal government.

The College's deposits and investments in the Kansas Municipal Investment Pool were rated AAAf/S1+ by Standard & Poor's at June 30, 2012 and 2011. Investments in the U.S. Treasury Obligation Fund were rated AAA and Aaa by Standard & Poor's Ratings Group and Moody's Investors Services, Inc. at June 30, 2012 and 2011.

## Note 3. Capital Assets

The following tables present the changes in the various capital asset categories at June 30, 2012 and 2011:

| | July 1, 2011 Beginning Balance | Additions/ Transfers | Retirements | June 30, 2012 Ending Balance |
|---|---|---|---|---|
| Capital assets not being depreciated: | | | | |
| Land | $ 1,028,265 | $ - | $ - | $ 1,028,265 |
| Construction in progress | 12,834,774 | (10,752,045) | - | 2,082,729 |
| Works of art | 3,132,341 | 119,624 | (3,780) | 3,248,185 |
| **Total assets not being depreciated** | 16,995,380 | (10,632,421) | (3,780) | 6,359,179 |
| Capital assets being depreciated: | | | | |
| Land improvements | 35,219,528 | 475,756 | - | 35,695,284 |
| Buildings and improvements | 162,436,377 | 14,709,557 | - | 177,145,934 |
| Equipment, furniture and computer technology | 28,824,804 | 2,285,298 | (1,298,916) | 29,811,186 |
| Rental textbooks | 647,968 | 720,556 | (236,175) | 1,132,349 |
| **Total assets being depreciated** | 227,128,677 | 18,191,167 | (1,535,091) | 243,784,753 |
| Less accumulated depreciation: | | | | |
| Land improvements | 11,233,294 | 1,015,269 | - | 12,248,563 |
| Buildings and improvements | 65,262,119 | 5,268,640 | - | 70,530,759 |
| Equipment, furniture and computer technology | 22,513,638 | 3,093,249 | (1,235,756) | 24,371,131 |
| Rental textbooks | 248,222 | 465,732 | (35,859) | 678,095 |
| **Total accumulated depreciation** | 99,257,273 | 9,842,890 | (1,271,615) | 107,828,548 |
| **Capital assets, net** | $ 144,866,784 | $ (2,284,144) | $ (267,256) | $ 142,315,384 |

## Note 3. Capital Assets (Continued)

| | July 1, 2010 Beginning Balance | Additions/ Transfers | Retirements | June 30, 2011 Ending Balance |
|---|---|---|---|---|
| Capital assets not being depreciated: | | | | |
| Land | $ 1,028,265 | $ - | $ - | $ 1,028,265 |
| Construction in progress | 2,268,595 | 10,566,179 | - | 12,834,774 |
| Works of art | 2,989,047 | 143,294 | - | 3,132,341 |
| **Total assets not being depreciated** | 6,285,907 | 10,709,473 | - | 16,995,380 |
| Capital assets being depreciated: | | | | |
| Land improvements | 34,891,854 | 327,674 | - | 35,219,528 |
| Buildings and improvements | 159,825,612 | 2,610,765 | - | 162,436,377 |
| Equipment, furniture and computer technology | 27,574,367 | 2,416,263 | (1,165,826) | 28,824,804 |
| Rental textbooks | 44,331 | 847,925 | (244,288) | 647,968 |
| **Total assets being depreciated** | 222,336,164 | 6,202,627 | (1,410,114) | 227,128,677 |
| Less accumulated depreciation: | | | | |
| Land improvements | 10,102,123 | 1,131,171 | - | 11,233,294 |
| Buildings and improvements | 60,017,741 | 5,244,378 | - | 65,262,119 |
| Equipment, furniture and computer technology | 20,344,856 | 3,308,791 | (1,140,009) | 22,513,638 |
| Rental textbooks | 2,538 | 246,238 | (554) | 248,222 |
| **Total accumulated depreciation** | 90,467,258 | 9,930,578 | (1,140,563) | 99,257,273 |
| **Capital assets, net** | $ 138,154,813 | $ 6,981,522 | $ (269,551) | $ 144,866,784 |

The College has capitalized $448,596 and $283,494 in interest related to construction projects for the years ended June 30, 2012 and 2011, respectively.

## Note 4. Long-Term Obligations

Long-term obligations consist of the following categories at June 30, 2012 and 2011:

| Long-Term Obligations | July 1, 2011 Beginning Balance | Additions | Reductions | June 30, 2012 Ending Balance | Amounts Due Within One Year |
|---|---|---|---|---|---|
| Revenue bonds: | | | | | |
| Series 2002 | $ 11,000,000 | $ - | $ (9,395,000) | $ 1,605,000 | $ 170,000 |
| Series 2004 | 4,315,000 | - | (230,000) | 4,085,000 | 230,000 |
| Series 2006 | 7,150,000 | - | (510,000) | 6,640,000 | 545,000 |
| Series 2011 | - | 9,800,000 | (40,000) | 9,760,000 | 45,000 |
| Premium on Series 2011 Bonds | - | 196,599 | (11,565) | 185,034 | 11,565 |
| **Total revenue bonds** | 22,465,000 | 9,996,599 | (10,186,565) | 22,275,034 | 1,001,565 |
| Certificates of participation: | | | | | |
| Series 2004 COP | 4,250,000 | - | (4,250,000) | - | - |
| Series 2009 COP | 13,810,000 | - | (1,425,000) | 12,385,000 | 1,440,000 |
| **Total certificates of participation** | 18,060,000 | - | (5,675,000) | 12,385,000 | 1,440,000 |
| Loan obligation, KBOR PEI | 3,970,036 | - | (661,673) | 3,308,363 | 661,673 |
| Other accrued liabilities: | | | | | |
| Compensated Absences | 3,272,911 | 3,507,193 | (3,211,047) | 3,569,057 | 499,668 |
| Net OPEB Obligation | 1,147,761 | 1,055,541 | (1,410,000) | 793,302 | - |
| **Total other accrued liabilities** | 4,420,672 | 4,562,734 | (4,621,047) | 4,362,359 | 499,668 |
| **Total Long-Term Obligations** | $ 48,915,708 | $ 14,559,333 | $ (21,144,285) | $ 42,330,756 | $ 3,602,906 |

## Note 4. Long-Term Obligations (Continued)

| Long-Term Obligations | July 1, 2010 Beginning Balance | Additions | Reductions | June 30, 2011 Ending Balance | Amounts Due Within One Year |
|---|---|---|---|---|---|
| Revenue bonds: | | | | | |
| Series 2002 | $ 11,160,000 | $ - | $ (160,000) | $ 11,000,000 | $ 170,000 |
| Series 2004 | 4,535,000 | - | (220,000) | 4,315,000 | 230,000 |
| Series 2006 | 7,650,000 | - | (500,000) | 7,150,000 | 510,000 |
| **Total revenue bonds** | 23,345,000 | - | (880,000) | 22,465,000 | 910,000 |
| Certificates of participation: | | | | | |
| Series 2004 COP | 5,575,000 | - | (1,325,000) | 4,250,000 | 1,370,000 |
| Series 2009 COP | 15,100,000 | - | (1,290,000) | 13,810,000 | 1,425,000 |
| **Total certificates of participation** | 20,675,000 | - | (2,615,000) | 18,060,000 | 2,795,000 |
| Loan obligations: | | | | | |
| KBOR PEI | 4,631,709 | - | (661,673) | 3,970,036 | 661,673 |
| Stormwater Project Revolving Loan Fund | 867,413 | - | (867,413) | - | - |
| **Total loan obligations** | 5,499,122 | - | (1,529,086) | 3,970,036 | 661,673 |
| Other accrued liabilities: | | | | | |
| Compensated absences | 3,157,243 | 3,136,154 | (3,020,486) | 3,272,911 | 458,208 |
| Net OPEB obligation | 1,857,452 | 1,178,309 | (1,888,000) | 1,147,761 | - |
| **Total other accrued liabilities** | 5,014,695 | 4,314,463 | (4,908,486) | 4,420,672 | 458,208 |
| **Total Long-Term Obligations** | $ 54,533,817 | $ 4,314,463 | $ (9,932,572) | $ 48,915,708 | $ 4,824,881 |

## Note 4. Long-Term Obligations (Continued)

Revenue bonds payable as of June 30, 2012 and 2011, consist of the following:

| | 2012 | 2011 |
|---|---|---|
| Student Commons and Parking System Revenue Bonds, Series 2002, $12,000,000, 3.5% to 6.0%, due in annual principal payments ranging from $170,000 in November 2011 to $1,645,000 in November 2027; interest is paid semiannually on May 15 and November 15. (A) | $ 1,605,000 | $ 11,000,000 |
| Student Commons and Parking System Revenue Bonds, Series 2004, $6,520,000, 2.625% to 4.3 %, due in annual principal payments ranging from $230,000 in November 2011 to $320,000 in November 2021; interest is paid semiannually on May 15 and November 15. | 4,085,000 | 4,315,000 |
| Student Commons and Parking System Refunding Revenue Bonds, Series 2006, $8,210,000, 3% to 5%, due in annual principal payments ranging from $510,000 in November 2011 to $785,000 in November 2021; interest is paid semiannually on May 15 and November 15. | 6,640,000 | 7,150,000 |
| Student Commons and Parking System Refunding Revenue Bonds, Series 2011, $9,800,000, 2% to 4%, due in annual principal payments ranging from $40,000 in November 2011 to $1,615,000 in November 2027; interest is paid semiannually on May 15 and November 15. (A) | 9,760,000 | - |
| Premium on Series 2011 Revenue Bonds. | 185,034 | - |
| **Total revenue bonds** | 22,275,034 | 22,465,000 |
| Less current portion of revenue bonds payable | 1,001,565 | 910,000 |
| **Noncurrent revenue bonds payable** | $ 21,273,469 | $ 21,555,000 |

(A) The Student Commons and Parking System Refunding Revenue Bonds, Series 2011 were issued to advance refund $9,225,000 of the Student Commons and Parking System Refunding Revenue Bonds, Series 2002 with interest rates at 5%. The College completed the advance refunding to reduce its total debt service payments by $978,112 over the next 17 years to obtain a $751,548 economic gain (difference between present values of the old and new debt service payments).

Revenue bond rate covenants require the College to operate and maintain the Student Commons and Parking System in a manner which will generate net revenues in an amount not less than 110% of the amount required to meet both principal and interest on all outstanding revenue bonds. (See Note 11.)

## Note 4. Long-Term Obligations (Continued)

Future annual maturities of revenue bonds payable are as follows:

| | Principal | Interest | Total Revenue Bonds |
|---|---|---|---|
| Fiscal year: | | | |
| 2013 | $ 990,000 | $ 843,155 | $ 1,833,155 |
| 2014 | 1,035,000 | 802,679 | 1,837,679 |
| 2015 | 1,075,000 | 757,184 | 1,832,184 |
| 2016 | 1,125,000 | 709,056 | 1,834,056 |
| 2017 | 1,175,000 | 664,065 | 1,839,065 |
| 2018-2022 | 6,570,000 | 2,623,011 | 9,193,011 |
| 2023-2027 | 8,255,000 | 1,230,469 | 9,485,469 |
| 2028-2032 | 1,865,000 | 37,674 | 1,902,674 |
| **Total** | $ 22,090,000 | $ 7,667,293 | $ 29,757,293 |

**Certificates of participation:**

Certificates of participation at June 30, 2012 and 2011, consist of the following:

| | 2012 | 2011 |
|---|---|---|
| Regnier Center for Technology and Business and Nerman Museum of Contemporary Art – Certificates of Participation, Series 2004, $12,125,000 in obligations for facilities (capital cost of $52,924,465 before accumulated depreciation of $6,615,558 and $5,292,447 as of June 30, 2012 and 2011, respectively), 3.00% to 4.00%. Final payment made April 2012. | $ - | $ 4,250,000 |
| Health Science Education Center – Certificates of Participation, Series 2009, $15,100,000 in obligations for facilities (capital cost of $13,320,629 before accumulated depreciation of $333,016 and none as of June 30, 2012 and 2011, 1.10% to 4.55%, aggregate payments of $14,453,570, including interest of $2,068,570, due in semiannual installments ranging from $38,333 to $1,723,334, including interest, through October 2019. Proceeds from this issuance were deposited in a Project Fund which is included in restricted short-term investments. | 12,385,000 | 13,810,000 |
| **Total certificates of participation** | 12,385,000 | 18,060,000 |
| Less current portion of certificates of participation | 1,440,000 | 2,795,000 |
| **Noncurrent certificates of participation** | $ 10,945,000 | $ 15,265,000 |

The College has recorded the cost of the equipment and facilities as assets and the corresponding obligations as liabilities.

**Note 4. Long-Term Obligations (Continued)**

The minimum lease commitments for certificates of participation at June 30, 2012, are as follows:

| | Principal | Interest | Total Capital Leases |
|---|---|---|---|
| Fiscal year: | | | |
| 2013 | $ 1,440,000 | $ 435,830 | $ 1,875,830 |
| 2014 | 1,460,000 | 398,480 | 1,858,480 |
| 2015 | 1,490,000 | 354,185 | 1,844,185 |
| 2016 | 1,520,000 | 303,000 | 1,823,000 |
| 2017 | 1,555,000 | 245,300 | 1,800,300 |
| 2018 - 2020 | 4,920,000 | 331,775 | 5,251,775 |
| **Total certificates of participation** | $ 12,385,000 | $ 2,068,570 | $ 14,453,570 |

The College leases office space under operating lease agreements that expire through fiscal year 2017. Rental expense totaled $583,788 and $746,801 for the years ended June 30, 2012 and 2011, respectively. Minimum rental commitments under these noncancelable operating leases with initial terms of one year or longer at June 30, 2012, are $162,491.

**Loan obligation:**

Loan obligation as of June 30, 2012 and 2011 consist of the following:

| | 2012 | 2011 |
|---|---|---|
| Kansas Board of Regents (KBOR) Postsecondary Educational Institution Loan, $5,293,282, interest free, with payments of $661,673 due December 1 annually. Final principal payments due December 1, 2016. | $ 3,308,363 | $ 3,970,036 |
| Less current portion of the loan obligation | 661,673 | 661,673 |
| **Noncurrent loan obligation** | $ 2,646,690 | $ 3,308,363 |

Future annual maturities of the loan obligation are as follows:

| | Principal | Interest | Total Loan Payable |
|---|---|---|---|
| Fiscal year: | | | |
| 2013 | $ 661,673 | $ - | $ 661,673 |
| 2014 | 661,673 | - | 661,673 |
| 2015 | 661,673 | - | 661,673 |
| 2016 | 661,672 | - | 661,672 |
| 2017 | 661,672 | - | 661,672 |
| **Total loans** | $ 3,308,363 | $ - | $ 3,308,363 |

## Note 4. Long-Term Obligations (Continued)

### Arbitrage rebate liability:

The Tax Reform Act of 1986 placed restrictions on the nonpurpose investment earnings from the proceeds of qualified tax-exempt bonds issued after August 15, 1986. Specifically, the nonpurpose investment earnings on these bonds are limited to the yield on each individual bond issue (based on the initial offering price to the public). Nonpurpose investments earnings in excess of the bond yield limitations are subject to rebate to the federal government. The total arbitrage rebate liability was $5,979 as of June 30, 2012 and 2011.

### Subsequent event:

In October 2012, the College issued refunding revenue bonds for a 15 year term in the amount of $5,135,000 to refund the Series 2002 and Series 2004 revenue bonds. The refunding was undertaken to reduce total debt service over the next 15 years by $1,004,950.

## Note 5. Defined Benefit Pension Plan

### Plan description:

The College participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. KPERS provides retirement benefits, life insurance, disability income benefits and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas Ave., Suite 100, Topeka, Kansas 66603-3803) or by calling (888) 275-5737. The report is also available online by visiting the KPERS home page at www.kpers.org.

### Funding policy:

K.S.A. 74-4919 establishes a two tier benefit structure. Tier 1 members include active members hired before July 1, 2009. The member-employee contribution rate for tier 1 members is 4%. Tier 2 members include those first employed in a KPERS covered position on or after July 1, 2009. The member-employee contribution rate for tier 2 members is 6%. Member-employees' contributions are withheld by their employer and paid to KPERS according to the provisions of Section 414(h) of the Internal Revenue Code. The State of Kansas is required to contribute the remaining amount necessary to achieve the actuarially determined contribution rate. State law sets a limitation on annual increases in the contribution rates. For fiscal year 2012, the State of Kansas contributed 9.77% for the period July 1, 2011 through March 31, 2012 and 8.77% for the period April 1, 2012 through June 30, 2012 of covered payroll. For fiscal year 2011, the State of Kansas contributed 9.17% for the period July 1, 2010 through March 31, 2011 and 8.17% for the period April 1, 2011 through June 30, 2011 of covered payroll. The College's contribution to KPERS for the year ended June 30, 2012, was $12,092,535, which consisted of $8,307,178 from the State of Kansas and $3,785,357 from employees. The College's contributions to KPERS for employees for the years ended June 30, 2011 and 2010 were $11,214,509, which consisted of $7,584,191 from the state of Kansas and $3,630,318 from employees, and $10,368,268, which consisted of $6,860,664 from the state of Kansas and $3,507,604 from employees, respectively, equal to the statutorily required contributions for each year.

## Note 6. Other Postemployment Benefit Plan

The College follows GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* for the accounting related to other postemployment benefit plans. The plan does not issue a separate standalone financial report. This Statement establishes the following measurement and recognition disclosures:

Plan description: The College sponsors a single-employer other post-employment benefit plan that provides medical, prescription drug, dental, and vision benefits to qualifying retirees and their dependents. Employees who qualify for pension benefits under the Kansas Public Employee Retirement System (KPERS) and are enrolled in the College's insurance benefits during the benefit plan year prior to retirement, and retire prior to June 1, 2013 are eligible for benefits. Under KPERS, a participant must be at least age 55 with at least 10 years of service or meet Rule of 85 (age + service >= 85) at any age to be eligible. Also, a retiring employee who waives continuing participation in the College's health plan at the time of retirement is not eligible to participate at a later date. Employees who qualify for a total disability benefit under the KPERS Disability Benefits Program are eligible for benefits. If the disabled employee becomes eligible for Social Security disability, the employee can no longer continue coverage with the College.

All benefits are provided through fully insured arrangements. Along with two dental plans and vision coverage, two medical plan options (PPO and HMO) are available to qualifying retirees. Benefits are the same as those available to active employees. Coverage is available until the retiree qualifies for Medicare. Spouses may continue coverage upon retiree death or attainment of Medicare eligibility age (i.e. age 65) under Cobra for up to 36 months not to exceed the spouse's own age 65. All benefits renew annually starting June 1.

Funding policy: The College establishes and amends contribution requirements. The current funding policy of the College is to fund benefits on a pay-as-you-go basis. This arrangement does not qualify as other post employment benefits (OPEB) plan assets under Governmental Accounting Standards Board (GASB) Statement No. 45 for current GASB reporting. Retirees who retire prior to June 1, 2013 and either meet the Rule of 85 or are age 59 with 15 years of service upon retirement pay no premiums for medical coverage including dependent coverage for up to 10 years or until the retiree attains age 65. Otherwise, retirees and dependents must pay COBRA rates to maintain medical coverage with the College. For dental and vision benefits, retirees and dependents must pay COBRA rates to maintain coverage with the College.

**Note 6. Other Postemployment Benefit Plan (Continued)**

Annual OPEB cost and net OPEB obligation: The College's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the College's annual OPEB cost for the year, the amount actuarially contributed to the plan, and changes in the College's annual OPEB obligation at June 30, 2012:

| | 2012 | 2011 |
|---|---|---|
| Annual required contribution | $ 484,566 | $ 546,545 |
| Amortization of AAL (30 yrs) | 575,056 | 623,940 |
| Interest on net OPEB obligation | 45,910 | 83,585 |
| Adjustment to annual required contribution | (49,991) | (75,761) |
| **Annual OPEB cost (expense)** | 1,055,541 | 1,178,309 |
| Contributions and payments made | (1,410,000) | (1,888,000) |
| **(Decrease) in net OPEB obligation** | (354,459) | (709,691) |
| Net OPEB obligation, beginning of year | 1,147,761 | 1,857,452 |
| Net OPEB obligation, end of year | $ 793,302 | $ 1,147,761 |

The College's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2012 follows:

| | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---|---|---|---|
| Fiscal year ended: | | | |
| June 30, 2012 | $ 1,055,541 | 133.58% | $ 793,302 |
| June 30, 2011 | 1,178,309 | 160.23 | 1,147,768 |
| June 30, 2010 | 1,176,416 | 61.80 | 1,857,452 |

Funded status and funding progress: As of July, 1, 2011, the most recent actuarial valuation date, the plan was zero percent funded. The College's actuarial accrued liability for benefits was $12,695,019 and the actuarial value of assets is zero, resulting in an unfunded actuarial accrued liability (UAAL) of $12,695,019. The covered payroll (annual payroll of active employees covered by the plan) was $57,515,493 and the ratio of the UAAL to the covered payroll was 22.07%.

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

## Note 6. Other Postemployment Benefit Plan (Continued)

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

In the July 1, 2011 actuarial valuation, the entry age normal (level percentage of pay) method was used. The actuarial assumptions included a 4.0% discount rate, 3% per year salary scale, 2% per year aggregate payroll growth, and an annual health care cost trend rate of 8.5% reduced by decrements of 0.5% annually to an ultimate rate of 5.0 percent. The UAAL is being amortized as a level percentage-of-pay on an open period basis. The amortization of UAAL is done over a period of 30 years. The remaining amortization period at June 30, 2012 was 26 years.

## Note 7. Risk Management

The College is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health and accidental benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in the years ended June 30, 2012, 2011 and 2010.

## Note 8. Contingencies

The College is named as a defendant in various legal actions arising in the normal course of operations. The College's management believes the resolution of those actions will not have a material effect on the College's basic financial statements.

## Note 9. New Pronouncements

The Governmental Accounting Standards Board (GASB) has issued several Statements not yet implemented by the College. The Statements which might impact the College are as follows:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, issued November 2010, will be effective for the College beginning with its year ending June 30, 2013. This Statement is intended to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. Specifically, this Statement improves financial reporting by establishing recognition, measurement and disclosure requirements SCAs for both transferors and governmental operators, requiring governments to account for and report SCAs in the same manner, which improves the comparability of financial statements. This Statement also improves the decision usefulness of financial reporting by requiring that specific relevant disclosures be made by transferors and governmental operators about SCAs. The College does not believe the adoption of this standard will have a material impact to the financial statements.

**Note 9. New Pronouncements (Continued)**

- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*, issued November 2010, will be effective for the College beginning with its year ending June 30, 2013. This Statement is intended to improve financial reporting for a governmental financial reporting entity by improving guidance for including, presenting and disclosing information about component units and equity interest transactions of a financial reporting entity. The amendments to the criteria for including component units allow users of financial statements to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. The amendments to the criteria for blending also improve the focus of a financial reporting entity on the primary government by ensuring that the primary government includes only those component units that are so intertwined with the primary government that they are essentially the same as the primary government, and by clarifying which component units have that characteristic. GASB 61 is effective for periods beginning after June 15, 2012. The College does not believe that this standard will have a material impact to the financial statements.
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, issued January 2011, will be effective for the College beginning with its year ending June 30, 2013. This Statement is intended to enhance the usefulness of the Codification of Governmental Accounting and Financial Reporting Standards by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. This Statement incorporates into the GASB's authoritative literature the applicable guidance previously presented in the following pronouncements issued before November 30, 1989: FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA's Committee on Accounting Procedure. By incorporating and maintaining this guidance in a single source, the GASB believes that GASB 62 reduces the complexity of locating and using authoritative literature needed to prepare state and local government financial reports. GASB 62 is effective for periods beginning after December 15, 2011. Earlier application is encouraged. The College does not believe that the adoption of this standard will have a material impact on the financial statements.
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, issued July 2011, will be effective for the College beginning with its year ending June 30, 2013. This Statement is intended to improve financial reporting by providing users of financial reports with information about how past transactions will continue to impact the College's financial statements in the future. This Statement provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). The Statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. This Statement also amends certain provisions of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and related pronouncements to reflect the residual measure in the statement of financial position as net position, rather than net assets. The College has not determined the effect of this standard on the financial statements.

## Note 9. New Pronouncements (Continued)

- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities,* issued April 2012, will be effective for the College beginning with its year ending June 30, 2014. This Statement clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. GASB Concepts Statement (CON) No. 4, *Elements of Financial Statements*, specifies that recognition of deferred outflows and deferred inflows should be limited to those instances specifically identified in authoritative GASB pronouncements. Consequently, guidance was needed to determine which balances being reported as assets and liabilities should actually be reported as deferred outflows of resources or deferred inflows of resources, according to the definitions in CON 4. Based on those definitions, this Statement reclassifies certain items currently being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. In addition, the Statement recognizes certain items currently being reported as assets and liabilities as outflows of resources and inflows of resources. The College has not determined the effect of this Statement on the financial statements.

- GASB Statement No. 66, *Technical Corrections - 2012*, issued April 2012, will be effective for the College beginning with its year ending June 30, 2014. This Statement enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. This Statement amends GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, by modifying the specific guidance on accounting for: (*a*) operating lease payments that vary from a straight-line basis; (*b*) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans; and (*c*) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes would eliminate any uncertainty regarding the application of GASB Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases,* and result in guidance that is consistent with the requirements in GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues,* respectively. The College has not determined the effect of this Statement on the financial statements.

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, issued June 2012, will be effective for the College beginning with its year ending June 30, 2015. This Statement replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and GASB Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. This Statement requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information. The College has not determined the effect of this Statement on the financial statements.

## Note 10. Johnson County Community College Foundation – Accounting Policies and Other Disclosures

### Basis of presentation:

The financial statements of the Foundation have been prepared on the accrual basis of accounting.

### Cash and cash equivalents:

The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. Cash equivalents consist primarily of money market mutual funds and certificates of deposit. As of June 30, 2012 and 2011, the Foundation maintained cash balances in excess of federally insured limits; however, management monitors the financial stability of those institutions and believes the risk of loss is minimal.

### Investments and investment return:

Investments in equity securities having a readily determinable fair value and all debt securities are carried at fair value. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value.

Dividend and interest income and net realized and unrealized gains (losses) are reflected in the statements of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions. Interest income is accrued as earned and dividend income is recorded when notified. Realized gains and losses are recorded at the time of the sale under the standards promulgated by FASB.

### Temporarily and permanently restricted net assets:

Temporarily restricted net assets are those whose use by the Foundation has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Foundation in perpetuity.

### Contributions:

A contribution in the form of an unconditional promise to give is recognized as revenue by the Foundation in the period in which the promise is received. Conditional promises to give made by donors are not recognized until the conditions are met. Assets received subject to conditions are accounted for as refundable advances until the conditions are met.

Unconditional promises to give cash over a period of time in excess of one year are recorded at the present value of amounts to be received, using an appropriate discount rate, if the amounts of such discounts are material. The Foundation does not record an allowance for uncollectible promises to give as write-offs have been rare.

**Note 10. Johnson County Community College Foundation – Accounting Policies and Other Disclosures (Continued)**

Revenue is reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Gains and losses on investments related to the endowment funds are reported as increases or decreases in temporarily restricted net assets. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) or the appropriation of endowment earnings are reported as released from restrictions.

**Contributed services:**

Contributions of services are recognized as revenue at their estimated fair value only when the services received create or enhance nonfinancial assets or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated.

**Tax status:**

The Foundation is recognized as exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation may be subject to federal and state income taxes on any net income from unrelated business activities. The Foundation files a Form 990 (Return of Organization Exempt from Income Tax) annually and unrelated business income (UBI) is reported on Form 990-T, as appropriate. Management has evaluated their material tax positions, which include such matters as the tax exempt status of the Foundation and various positions relative to potential sources of UBI. As of June 30, 2012 and 2011, there were no uncertain tax benefits identified and recorded as a liability. Forms 990 and 990-T filed by the Foundation are generally no longer subject to examination by the Internal Revenue Service for fiscal years ended June 30, 2008 and prior.

**Management estimates:**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**New pronouncement:**

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.* This ASU was issued to clarify FASB’s intent on application of certain aspects of existing fair value measurement requirements and to change certain requirements for measuring fair value and for disclosing information about fair value measurements. These changes include guidance on measuring the fair value of financial instruments that are managed within a portfolio, application of premiums and discounts, and additional disclosures about fair value measurements. FASB has concluded that this ASU will achieve the objective of developing common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. This ASU is effective for the Foundation for annual reporting periods beginning after December 15, 2011. Management is in the process of evaluating the potential impact this standard will have on its financial statements.

## Note 10. Johnson County Community College Foundation – Accounting Policies and Other Disclosures (Continued)

### Contributions receivable

Contributions are recognized as revenue when unconditional pledges are made at the present value of expected future payments. As of June 30, 2012 and 2011, management believed that no allowance for doubtful collection was necessary based on the evaluation of the receivables and the related donors. Contributions receivable are scheduled to be received as follows:

| | 2012 | 2011 |
|---|---|---|
| Due in less than one year | $ 326,541 | $ 602,100 |
| Due after one year to five years | 644,000 | 861,700 |
| Due in more than five years | 30,000 | 30,000 |
| **Total contributions receivable** | 1,000,541 | 1,493,800 |
| Less discount of present value | 8,776 | 11,944 |
| **Contributions receivable, net** | $ 991,765 | $ 1,481,856 |

Total gross pledges of $692,171 and $1,410,200 as of June 30, 2012 and 2011, respectively, were due from certain members of the Foundation's Board of Directors or affiliated organizations of these Directors. Approximately 39% and 37% of total gross pledges receivable as of June 30, 2012 and 2011, respectively, were due from one donor in each year.

Conditional promises to give, where the donor has placed a condition on the gift that the ultimate transfer of assets or promises to give is contingent on a future and uncertain event, are not recorded as contributions until the condition is met. There are approximately $420,000 and $0 of conditional promises to give as of June 30, 2012 and 2011, respectively.

Contributions receivable are discounted to present value at discount rates which range from 0.33% - 3% and 0.45% - 5% as of June 30, 2012 and 2011, respectively. The Foundation uses a discount rate that is commensurate with the risks involved with the contribution receivable.

### Investments:

As of June 30, 2012 and 2011, the Foundation held the following investments which are recorded at fair value:

| | 2012 | 2011 |
|---|---|---|
| U.S. government obligations | $ 2,662,702 | $ 2,073,653 |
| Equity funds | 4,978,011 | 5,379,889 |
| Corporate bonds | 3,174,396 | 3,121,564 |
| Common stock | 8,301,425 | 9,462,274 |
| | $ 19,116,534 | $ 20,037,380 |

The investments of the Foundation are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would affect investment balances and the amounts reported in the financial statements.

## Note 10. Johnson County Community College Foundation – Accounting Policies and Other Disclosures (Continued)

**Contributed services and related party transactions:**

The College provides the Foundation with office space, furniture and equipment without charge. Certain College employees perform duties for the Foundation without compensation from the Foundation. Management of the Foundation has estimated the fair market value of these services, which are recorded as management and general expenses and contributed services revenue, to be approximately $504,000 and $411,000 for 2012 and 2011, respectively.

No amounts have been reflected in the financial statements for donated services, which do not create or enhance nonfinancial assets or which do not require specialized skills; however, time and resources have been contributed by volunteers in furtherance of the Foundation's objectives. Substantially all program expenses included in the statements of activities are paid to the College, or paid to vendors on behalf of the College.

**Net assets:**

Temporarily restricted net assets: Temporarily restricted net assets as of June 30, 2012 and 2011 were restricted as follows:

| | 2012 | 2011 |
|---|---|---|
| Student Support, scholarships to students | $ 3,341,459 | $ 3,493,240 |
| Program Support, support of college programs, including visual and performing arts programs | 4,212,172 | 4,065,366 |
| Building Capital Campaign | - | 96,258 |
| | $ 7,553,631 | $ 7,654,864 |

Temporarily restricted net assets were released from donor restrictions by incurring scholarship expenses, sponsorship of various College programs, including visual and performing arts programs and the transfer or pledge of designated capital funds to the College. Spending of endowment earnings are released through net assets when the Board approves the appropriations.

Permanently restricted net assets: Permanently restricted net assets are restricted for investment in perpetuity, the income from which is generally expendable for student scholarships and programs support. Permanently restricted net assets also include significant portions of the campus art, which can only be sold under specific restrictions, including that the proceeds be reinvested in new campus art. The total of campus art included in permanently restricted assets was $973,851 for the years ended June 30, 2012 and 2011 and is included below in visual and performing art programs.

Permanently restricted net assets as of June 30, 2012 and 2011 were restricted as follows:

| | 2012 | 2011 |
|---|---|---|
| Scholarships to students | $ 7,527,623 | $ 7,289,748 |
| Support of College programs, including visual and performing art programs | 8,472,820 | 8,468,324 |
| | $ 16,000,443 | $ 15,758,072 |

## Note 10. Johnson County Community College Foundation – Accounting Policies and Other Disclosures (Continued)

**Fair value measurements:**

The Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification defines fair value, establishes a framework for measuring fair value, and requires disclosure of fair value measurements. The fair value hierarchy set forth in the Topic is as follows:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity’s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Assets recorded at fair value on a recurring basis: A description of the valuation methodologies used for assets measured at fair value, on a recurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below:

*Investments and cash surrender value of life insurance*: Where quoted prices are available in an active market, securities are classified within level 1 of the valuation hierarchy. Level 1 securities would include equity funds and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow. Level 2 securities would include U.S. government obligations of states and political subdivisions and certain corporate, asset backed and other securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within level 3 of the hierarchy.

There have been no changes in valuation techniques used for any assets measured at fair value during the year ended June 30, 2012.

## Note 10. Johnson County Community College Foundation – Accounting Policies and Other Disclosures (Continued)

The following tables summarize the assets measured at fair value on a recurring basis, as of June 30, 2012 and 2011 segregated by the general classification of such instruments pursuant to the valuation hierarchy:

| | June 30, 2012 | | | |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| Investments: | | | | |
| U.S. government obligations | $ 2,662,702 | $ - | $ 2,662,702 | $ - |
| Equity funds: | | | | |
| Fixed income mutual funds | 2,361,703 | 2,361,703 | - | - |
| International mutual funds | 717,473 | 717,473 | - | - |
| Domestic mutual funds | 1,898,835 | 1,898,835 | - | - |
| Corporate bonds | 3,174,396 | - | 3,174,396 | - |
| Common stock: | | | | |
| Energy | 808,959 | 808,959 | - | - |
| Materials | 448,022 | 448,022 | - | - |
| Industrials | 804,950 | 804,950 | - | - |
| Consumer discretionary | 1,091,532 | 1,091,532 | - | - |
| Consumer staples | 1,146,373 | 1,146,373 | - | - |
| Health care | 1,070,876 | 1,070,876 | - | - |
| Financials | 808,526 | 808,526 | - | - |
| Information technology | 1,432,862 | 1,432,862 | - | - |
| Telecommunication services | 401,409 | 401,409 | - | - |
| Utilities | 284,711 | 284,711 | - | - |
| Other | 3,205 | 3,205 | - | - |
| | 19,116,534 | 13,279,436 | 5,837,098 | - |
| Cash surrender value of life insurance | 9,970 | - | - | 9,970 |
| **Total** | $ 19,126,504 | $ 13,279,436 | $ 5,837,098 | $ 9,970 |

## Note 10. Johnson County Community College Foundation – Accounting Policies and Other Disclosures (Continued)

| | June 30, 2011 | | | |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| Investments: | | | | |
| U.S. government obligations | $ 2,073,653 | $ - | $ 2,073,653 | $ - |
| Equity funds: | | | | |
| Fixed income mutual funds | 2,061,320 | 2,061,320 | - | - |
| International mutual funds | 941,762 | 941,762 | - | - |
| Domestic mutual funds | 2,376,807 | 2,376,807 | - | - |
| Corporate bonds | 3,121,564 | - | 3,121,564 | - |
| Common stock: | | | | |
| Energy | 1,218,363 | 1,218,363 | - | - |
| Materials | 483,865 | 483,865 | - | - |
| Industrials | 1,143,842 | 1,143,842 | - | - |
| Consumer discretionary | 1,189,812 | 1,189,812 | - | - |
| Consumer staples | 1,149,761 | 1,149,761 | - | - |
| Health care | 1,295,711 | 1,295,711 | - | - |
| Financials | 1,059,341 | 1,059,341 | - | - |
| Information technology | 1,301,411 | 1,301,411 | - | - |
| Telecommunication services | 298,513 | 298,513 | - | - |
| Utilities | 267,594 | 267,594 | - | - |
| Other | 54,061 | 54,061 | - | - |
| | 20,037,380 | 14,842,163 | 5,195,217 | - |
| Cash surrender value of life insurance | 9,354 | - | - | 9,354 |
| **Total** | $ 20,046,734 | $ 14,842,163 | $ 5,195,217 | $ 9,354 |

There were no transfers between level 1, 2 or 3 for the fair value hierarchy for the fiscal years ended June 30, 2012 and 2011.

**Note 10. Johnson County Community College Foundation – Accounting Policies and Other Disclosures (Continued)**

The following table presents additional information about assets and liabilities measured at fair value on a recurring basis for which the Foundation has utilized level 3 inputs to determine fair value.

| | Cash Surrender of Life Insurance | |
|---|---|---|
| | 2012 | 2011 |
| Balance, beginning | $ 9,354 | $ 8,652 |
| Total gains (realized/unrealized) included in change in net assets | 616 | 702 |
| Balance, ending | $ 9,970 | $ 9,354 |
| Total gains included in change in net assets attributable to the change in unrealized gains or losses relating to financial instruments still held at fiscal year-end | $ 616 | $ 702 |

**Endowment fund and net asset classifications:**

The Foundation's Endowment Fund consists of various donor restricted endowment funds. Net assets associated with endowment funds, including funds designated to function as endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Executive Board of the Johnson County Community College Foundation has interpreted the Kansas Uniform Prudent Management of Institutional Funds Act (KUPMIFA) as allowing the organization to accumulate or appropriate endowed funds as needed to fulfill the goals and objectives of the Foundation, absent explicit donor stipulations to the contrary. As a result of this interpretation, Johnson County Community College Foundation classifies as permanently restricted net assets (a) the original value of gifts to the permanent endowment and (b) the original value of subsequent gifts to the permanent endowment. Unless specified by the donor, accumulations resulting from the investment of the permanent restricted endowment fund are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by Kansas UPMIFA. In accordance with Kansas UPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purpose of the organization and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the organization and (7) the investment policies of the organization.

The Foundation has adopted investment and spending policies for its Endowment Fund. The objectives of these policies are to establish a payout rate from endowment accounts that provides spending for the endowed purposes, and that allow for a rate of growth in the endowment that meets or exceeds the rate of inflation.

## Note 10. Johnson County Community College Foundation – Accounting Policies and Other Disclosures (Continued)

In accordance with the Foundation's investment policy, the endowment funds shall be invested to provide for total return. The endowment funds shall be invested in a diversified portfolio, consisting of common stocks, preferred stock, U.S. government obligations, equity funds, bonds, cash equivalents and other investments, which may reflect varying rates of return. The Foundation's investment goals are:

- To generate cash sufficient to support the programs and purposes of Johnson County Community College, meeting the objectives of the Endowment Spending Policy.
- To grow the principal of the fund at a rate greater than inflation as measured by the Consumer Price Index. At all times it is understood that risk to the principal of the assets be minimized.

The Foundation recognizes the need for spendable income by the beneficiaries of the endowment and long-term institutional funds under their custodianship. The spending policy reflects an objective to distribute as much total return as is consistent with overall investment objectives defined above while protecting the real value of the Endowment Fund principal. Normally, 5% of the most recent 12 quarter rolling average of the market value of each endowment fund, including appreciated gains and losses, is made available for distribution at the end of the calendar year. This rate may not apply to those endowment fund assets that are not part of the investment pool. Deviations to this policy may be made with the approval of the Executive Board. In accordance with these policies, the Executive Board approved imputed spending percentage was 4.69% and 4.29% for the calendar years ended December 31, 2011 and 2010, respectively. Any income from dividends, interest and capital appreciation, and both realized and unrealized, in excess of the administrative fee and approved spending appropriation is reinvested for growth and to preserve the purchasing power of the endowment against inflation.

Endowment net assets as of June 30, 2012 and 2011 were as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| | | 2012 | | |
| Donor-restricted endowment funds | $ (161,415) | $ 2,797,295 | $ 15,026,592 | $ 17,662,472 |
| | | 2011 | | |
| Donor-restricted endowment funds | $ (379) | $ 3,459,069 | $ 14,784,221 | $ 18,242,911 |

## Note 10. Johnson County Community College Foundation – Accounting Policies and Other Disclosures (Continued)

The changes in endowment net assets for the years ended June 30, 2012 and 2011 were as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| | | **2012** | | |
| Endowment net assets, beginning of year | $ (379) | $ 3,459,069 | $ 14,784,221 | $ 18,242,911 |
| Investment return: | | | | |
| Investment income | - | 270,281 | - | 270,281 |
| Net appreciation/(depreciation) (realized and unrealized) | (2,788) | (407,504) | - | (410,292) |
| **Total investment return** | (2,788) | (137,223) | - | (140,011) |
| Contributions | - | - | 242,371 | 242,371 |
| Appropriation of endowment funds for expenditure | (158,248) | (524,551) | - | (682,799) |
| Donor designated change in restriction | - | - | - | - |
| Endowment net assets, end of year | $ (161,415) | $ 2,797,295 | $ 15,026,592 | $ 17,662,472 |
| | | **2011** | | |
| Endowment net assets, beginning of year | $ (617,761) | $ 1,956,096 | $ 14,625,284 | $ 15,963,619 |
| Investment return: | | | | |
| Investment income | - | 285,508 | - | 285,508 |
| Net appreciation/(depreciation) (realized and unrealized) | 826,675 | 1,919,691 | - | 2,746,366 |
| **Total investment return** | 826,675 | 2,205,199 | - | 3,031,874 |
| Contributions | - | - | 219,408 | 219,408 |
| Appropriation of endowment funds for expenditure | (209,293) | (762,697) | - | (971,990) |
| Donor designated change in restriction | - | 60,471 | (60,471) | - |
| Endowment net assets, end of year | $ (379) | $ 3,459,069 | $ 14,784,221 | $ 18,242,911 |

From time to time, the fair value of endowment funds associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration, underwater endowments. As of June 30, 2012 and 2011 the endowment fund had underwater funds of $161,415 and $379, respectively. This represents 0.912% and 0.002% of the Foundation's donor restricted endowment funds as of June 30, 2012 and 2011, respectively. This amount is reported in unrestricted net assets. These deficiencies, which the Foundation believes are temporary, resulted from unfavorable market fluctuations. The Board determined that continued appropriation during fiscal years ended June 30, 2012 and 2011 was prudent.

## Note 11. Segment Information

The College has issued revenue bonds to construct a student center and parking garages for its students as described in Note 4 which are revenue backed debt instruments. Segment information related to the activities associated with the College's activities is as follows:

| | 2012 | 2011 |
|---|---|---|
| Total capital assets, net | $ 22,250,808 | $ 22,977,562 |
| Total debt | $ 22,275,034 | $ 22,465,000 |
| Operating revenues, sales and service | $ 16,261,780 | $ 15,893,442 |
| Less operating expenses, salaries, utilities, depreciation and other expenses | 12,362,689 | 13,015,506 |
| **Operating income** | $ 3,899,091 | $ 2,877,936 |

**Johnson County Community College**

**Required Supplementary Information**
**Schedule of Funding Progress**

| Fiscal Year Ended | Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability | Unfunded AAL | Funded Ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|---|---|---|---|---|---|---|---|
| 2009 | July 1, 2007 | $ - | $ 18,317,947 | $ 18,317,947 | - % | $ 46,418,163 | 39.46% |
| 2010 | July 1, 2009 | - | 15,297,222 | 15,297,222 | - | 58,303,801 | 26.24 |
| 2011 | July 1, 2009 | - | 15,297,222 | 15,297,222 | - | 56,196,190 | 27.22 |
| 2012 | July 1, 2011 | - | 12,695,019 | 12,695,019 | - | 57,515,493 | 22.07 |

The information presented in the required supplementary information schedule was determined as part of the actuarial valuation as of July 1, 2011. Additional information follows:

a. The cost method used to determine the ARC is the entry age normal actuarial cost method.
b. There are no plan assets.
c. Economic assumptions are as follows: healthcare cost trend rates of 5.0% - 8.5%; discount rate of 4.0%, 3.0% per year salary scale and 2.0% per year aggregate payroll growth.
d. The amortization method is a level percentage-of-pay on an open-period basis.

**Johnson County Community College**

**Budgetary Expenditures with Appropriations (Unaudited)**
**Year Ended June 30, 2012**

| | Budgetary Expenditures | Legal Appropriations Budget | Under Budget |
|---|---|---|---|
| **Current Unrestricted Funds:** | | | |
| General | $ 125,204,845 | $ 129,804,297 | $ 4,599,452 |
| Postsecondary Technical Education | 42,809,896 | 44,262,529 | 1,452,633 |
| Adult supplementary education | 5,022,433 | 9,282,125 | 4,259,692 |
| Motorcycle driver | 60,887 | 225,465 | 164,578 |
| Auxiliary enterprises | 15,068,854 | 20,053,960 | 4,985,106 |
| **Total current unrestricted funds** | 188,166,915 | $ 203,628,376 | $ 15,461,461 |
| **Current Restricted Funds:** | | | |
| Special assessments | 282,327 | $ 300,000 | $ 17,673 |
| Other restricted | 16,727,799 | | |
| **Total current restricted funds** | 17,010,126 | | |
| **Total current funds** | 205,177,041 | | |
| **Loan Funds** | 24,403 | | |
| **Plant Funds:** | | | |
| Unexpended, capital outlay | 4,362,095 | $ 11,556,458 | $ 7,194,363 |
| Repair and replacement reserve | 72,661 | | |
| Bond proceeds, construction | 835,710 | | |
| Debt retirement, revenue bonds | 2,059,800 | | |
| **Total plant funds** | 7,330,266 | | |
| **Total current, loan, and plant funds** | $ 212,531,710 | | |