

Johnson County Community College

Financial Report
June 30, 2013

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of Johnson County Community College (the College) as of June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and discretely presented component unit of Johnson County Community College as of June 30, 2013 and 2012, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 17 and the 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.

Other Information

Our audit was conducted for the purpose of forming an opinion 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 purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied by us in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our reports, for the years ended June 30, 2013 and 2012 dated November 5, 2013 and November 5, 2012 on our consideration of Johnson County Community College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Johnson County Community College's internal control over financial reporting and compliance.

McGladrey LLP

Davenport, Iowa
November 5, 2013

Johnson County Community College

Management's Discussion and Analysis Years Ended June 30, 2013 and 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, 2013, and comparative data for the fiscal years ended June 30, 2012 and 2011. 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 position; the statement of revenues, expenses and changes in net position; 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 position (the difference between assets and deferred outflows and liabilities and deferred inflows) are one indicator of the improvement or erosion of the College's financial health when considered with nonfinancial 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 other supplementary schedules as appropriate.

Financial Highlights for Fiscal Year Ended June 30, 2013

The College's financial position remained strong at June 30, 2013, with total assets of \$248.1 million and liabilities of \$51.8 million compared to \$252.7 million and \$52.3 million, respectively, at June 30, 2012. Net position, which represents the residual interest in the College's assets after liabilities are deducted, was \$196.3 million at June 30, 2013. This is a 2.1% decrease from last fiscal year's net position of \$200.4 million.

Johnson County Community College

Management's Discussion and Analysis Years Ended June 30, 2013 and 2012

Financial operations were in accordance with the budget plan approved by the College's Board of Trustees. Operating revenues were \$67.6 million and operating expenses were \$180.3 million, resulting in a loss from operations of \$112.7 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 \$108.6 million, which, when combined with the loss from operations, resulted in an overall decrease in net position of \$4.1 million compared to an \$8.5 million decrease for the year ended June 30, 2012.

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 position, which represents the residual interest in the College's assets after liabilities are deducted, was \$200.4 million at June 30, 2012. This is a 4.1% decrease from last fiscal year's net position of \$208.9 million.

Operating revenues were \$70.9 million and operating expenses were \$181.9 million, resulting in a loss from operations of \$111.0 million. Nonoperating revenues, net of nonoperating expenses, were \$102.5 million, which, when combined with other revenue sources and the loss from operations, resulted in an overall decrease in net position of \$8.5 million.

The Statement of Net Position

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

From the data presented, readers of the statement of net position 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 position provides a picture of the net position and its availability for expenditure by the College.

Net position is divided into three major categories. The first category, net investment in capital assets, provides the College's equity in capital assets – the property, plant and equipment owned by the College. The next category is restricted net position, which is divided into two categories, expendable and nonexpendable. Expendable restricted net position is 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 position. Unrestricted net position is available for use by the College for any legal purpose.

Johnson County Community College

**Management's Discussion and Analysis
Years Ended June 30, 2013 and 2012**

**Condensed Statement of Net Position
June 30, 2013, 2012 and 2011
(Dollars in Millions)**

	2013	2012	Increase (Decrease) 2013-2012	2011	Increase (Decrease) 2012-2011
Assets:					
Current assets	\$ 97.8	\$ 107.7	\$ (9.9)	\$ 117.7	\$ (10.0)
Capital assets, net	149.0	142.3	6.7	144.8	(2.5)
Other noncurrent assets	1.3	2.7	(1.4)	6.0	(3.3)
Total assets	\$ 248.1	\$ 252.7	\$ (4.6)	\$ 268.5	\$ (15.8)
Liabilities:					
Current liabilities	\$ 17.1	\$ 13.6	\$ 3.5	\$ 15.5	\$ (1.9)
Noncurrent liabilities	34.7	38.7	(4.0)	44.1	(5.4)
Total liabilities	\$ 51.8	\$ 52.3	\$ (0.5)	\$ 59.6	\$ (7.3)
Net position:					
Net investment in capital assets	\$ 114.1	\$ 105.9	\$ 8.2	\$ 104.4	\$ 1.5
Restricted, expendable	14.1	20.8	(6.7)	20.4	0.4
Unrestricted	68.1	73.7	(5.6)	84.1	(10.4)
Total net position	\$ 196.3	\$ 200.4	\$ (4.1)	\$ 208.9	\$ (8.5)

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

Fiscal Year 2013 Compared to Fiscal Year 2012

Current assets, which consist primarily of cash and receivables, totaled \$97.8 million at June 30, 2013, a decrease of \$9.9 million from June 30, 2012. Total current assets at June 30, 2013 cover current liabilities 5.7 times, an indicator of excellent liquidity. Net investment in capital assets, which represents 58.1% of total net position at June 30, 2013, 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 position is subject to externally imposed restrictions governing their use. This category of net position 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 position at June 30, 2013 and 2012.

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

Johnson County Community College

Management's Discussion and Analysis Years Ended June 30, 2013 and 2012

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 investment in capital assets, which represents 52.8% of total net position 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 position is subject to externally imposed restrictions governing their use. This category of net position 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 position at June 30, 2012 and 2011.

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

The Statement of Revenues, Expenses and Changes in Net Position

Changes in total net position presented on the statement of net position result from the activity presented in the statement of revenues, expenses and changes in net position. 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, both 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, 2013, 2012 and 2011.

Johnson County Community College

**Management's Discussion and Analysis
Years Ended June 30, 2013 and 2012**

**Condensed Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2013, 2012 and 2011**
(Dollars in Millions)

	2013	2012	Increase (Decrease) 2013-2012	2011	Increase (Decrease) 2012-2011
Operating revenues	\$ 67.6	\$ 70.9	\$ (3.3)	\$ 68.6	\$ 2.3
Operating expenses	180.3	181.9	(1.6)	178.2	3.7
Operating loss	(112.7)	(111.0)	(1.7)	(109.6)	(1.4)
Nonoperating revenues, net	108.6	102.5	6.1	104.6	(2.1)
(Decrease) in net assets	(4.1)	(8.5)	4.4	(5.0)	(3.5)
Net position, beginning of year	200.4	208.9	(8.5)	213.9	(5.0)
Net position, end of year	\$ 196.3	\$ 200.4	\$ (4.1)	\$ 208.9	\$ (8.5)
Total revenues	\$ 177.2	\$ 175.4	\$ 1.8	\$ 174.9	\$ 0.5
Total expenses	\$ 181.3	\$ 183.9	\$ (2.6)	\$ 179.9	\$ 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, 2013, 2012 and 2011.

**Revenues by Source
Years Ended June 30, 2013, 2012 and 2011**
(Dollars in Millions)

	2013	2012	Increase (Decrease) 2013-2012	2011	Increase (Decrease) 2012-2011
Operating revenues:					
Student tuition and fees	\$ 34.7	\$ 35.8	\$ (1.1)	\$ 35.1	\$ 0.7
Gifts, grants and contracts	18.0	19.7	(1.7)	18.1	1.6
Auxiliary enterprise revenue	10.2	11.2	(1.0)	11.2	-
Other operating revenues	4.7	4.2	0.5	4.2	-
Total operating revenues	\$ 67.6	\$ 70.9	\$ (3.3)	\$ 68.6	\$ 2.3
Nonoperating revenues (expenses):					
County property taxes	\$ 73.6	\$ 72.9	\$ 0.7	\$ 72.9	\$ -
State aid	31.2	29.1	2.1	28.6	0.5
Gifts, grants and contracts	4.7	2.5	2.2	4.6	(2.1)
Investment income	0.1	-	0.1	0.2	(0.2)
Interest on capital asset debt	(1.0)	(2.0)	1.0	(1.7)	(0.3)
Total nonoperating revenues, net	\$ 108.6	\$ 102.5	\$ 6.1	\$ 104.6	\$ (2.1)

Johnson County Community College

**Management's Discussion and Analysis
Years Ended June 30, 2013 and 2012**

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, 2013, 2012 and 2011.

**Operating Expenses by Natural Classification
Years Ended June 30, 2013, 2012 and 2011
(Dollars in Millions)**

	2013	2012	Increase (Decrease) 2013-2012	2011	Increase (Decrease) 2012-2011
Operating expenses:					
Salaries and benefits	\$ 121.3	\$ 120.5	\$ 0.8	\$ 118.2	\$ 2.3
Supplies, services and other	36.4	37.0	(0.6)	35.9	1.1
Scholarships and financial aid	13.0	14.6	(1.6)	14.1	0.5
Depreciation	9.6	9.8	(0.2)	10.0	(0.2)
Total operating expenses	\$ 180.3	\$ 181.9	\$ (1.6)	\$ 178.2	\$ 3.7

**Operating Expenses by Functional Classification
Years Ended June 30, 2013, 2012 and 2011
(Dollars in Millions)**

	2013	2012	Increase (Decrease) 2013-2012	2011	Increase (Decrease) 2012-2011
Operating expenses:					
Instruction	\$ 64.1	\$ 62.9	\$ 1.2	\$ 61.9	\$ 1.0
Community services	1.0	1.1	(0.1)	0.9	0.2
Academic support	25.0	24.7	0.3	23.8	0.9
Student services	15.6	15.4	0.2	15.1	0.3
Institutional support	26.8	27.2	(0.4)	26.3	0.9
Student financial aid	12.7	14.4	(1.7)	13.9	0.5
Plant and maintenance	12.4	12.4	-	11.9	0.5
Auxiliary	13.1	14.0	(0.9)	14.4	(0.4)
Depreciation	9.6	9.8	(0.2)	10.0	(0.2)
Total operating expenses	\$ 180.3	\$ 181.9	\$ (1.6)	\$ 178.2	\$ 3.7

Johnson County Community College

Management's Discussion and Analysis Years Ended June 30, 2013 and 2012

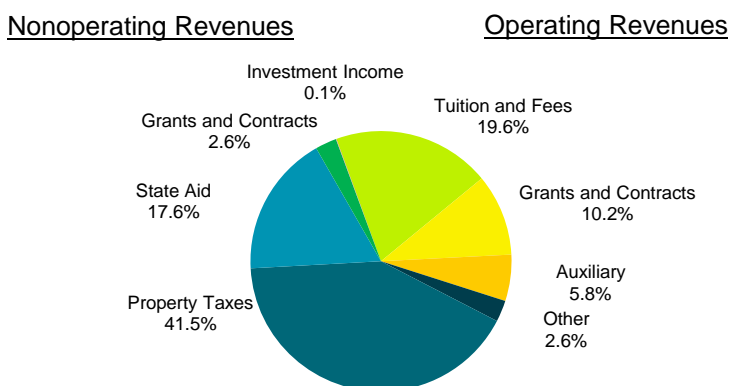
Fiscal Year 2013 Compared to Fiscal Year 2012

The statement of revenues, expenses and changes in net position reflects a decrease in net position of \$4.1 million during the year ended June 30, 2013, compared to a decrease of \$8.5 million during fiscal year 2012. Some highlights of the information provided in these statements follow.

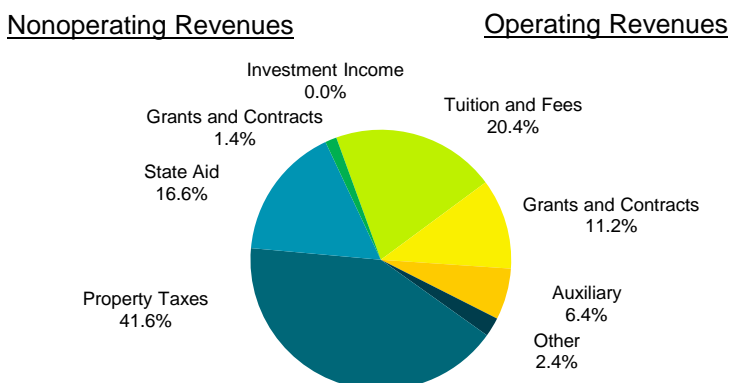
Revenues

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, 2013 and 2012.

Revenues by Source Year Ended June 30, 2013



Revenues by Source Year Ended June 30, 2012



County property taxes and state aid comprise 59.1% of the College's revenue for the year ended June 30, 2013, compared to 58.2% for the year ended June 30, 2012. The next largest revenue source was net tuition and fees, comprising 19.6% of revenue for the year ended June 30, 2013, compared to 20.4% for the year ended June 30, 2012.

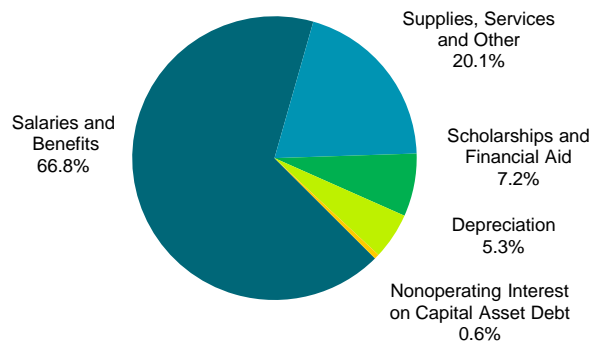
Johnson County Community College

**Management's Discussion and Analysis
Years Ended June 30, 2013 and 2012**

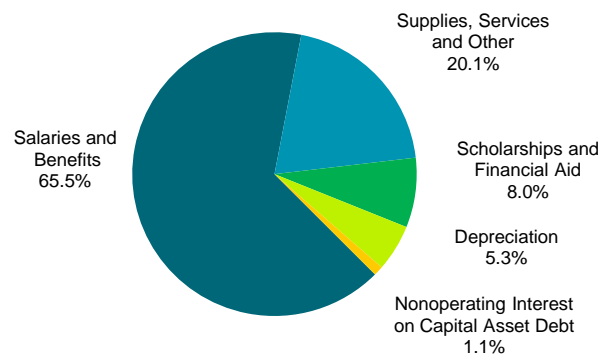
Expenses

Expenses are displayed in two formats, natural (object) classification and functional classification, in the following graphic illustrations for the years ended June 30, 2013 and 2012.

**Expenses by Natural Classification
Year Ended June 30, 2013**



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

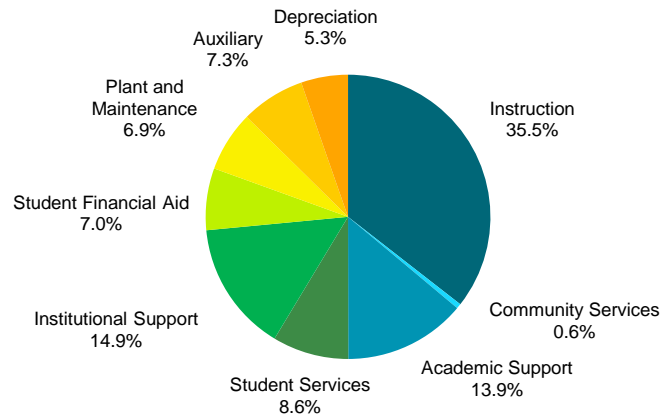


Salaries and benefits comprise 66.8% of expenses by natural classification for the year ended June 30, 2013, compared to 65.5% for the year ended June 30, 2012. Supplies, services and other expenses represent 20.1% of total expenses for the year ended June 30, 2013, compared to 20.1% for the year ended June 30, 2012. Scholarships and financial aid, depreciation and interest on capital asset debt represent the remaining 13.1% of expenses for the year ended June 30, 2013, compared to 14.4% for the year ended June 30, 2012.

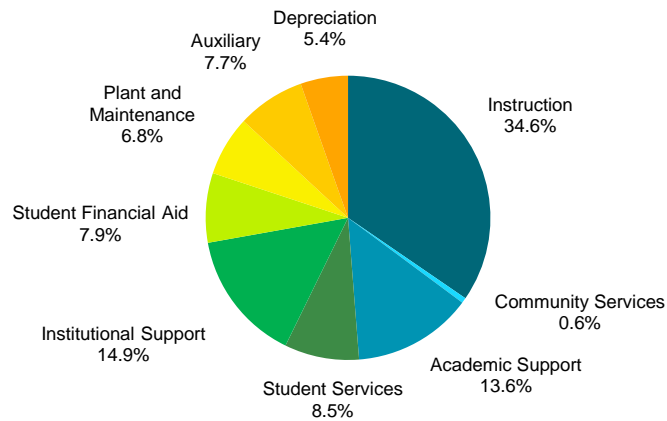
Johnson County Community College

**Management's Discussion and Analysis
Years Ended June 30, 2013 and 2012**

**Expenses by Functional Classification
Year Ended June 30, 2013**



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



Expenses by function indicate 35.5% is attributable to instruction for the year ended June 30, 2013, compared to 34.6% for the year ended June 30, 2012. The percentages for the remaining expenses by functional area range from 14.9% for institutional support to 0.6% for community services for the years ended June 30, 2013 and 2012.

Johnson County Community College

Management's Discussion and Analysis Years Ended June 30, 2013 and 2012

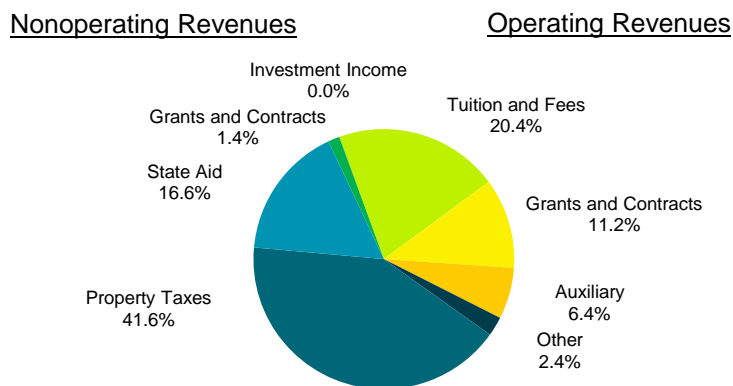
Fiscal Year 2012 Compared to Fiscal Year 2011

The statement of revenues, expenses and changes in net position reflects a decrease in net position 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.

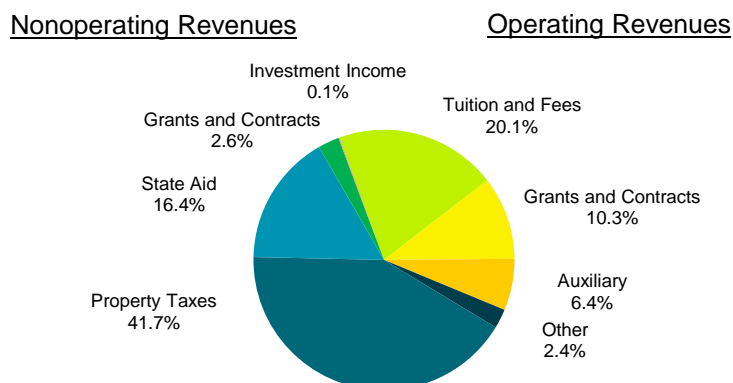
Revenues

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.

Revenues by Source Year Ended June 30, 2012



Revenues by Source Year Ended June 30, 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.

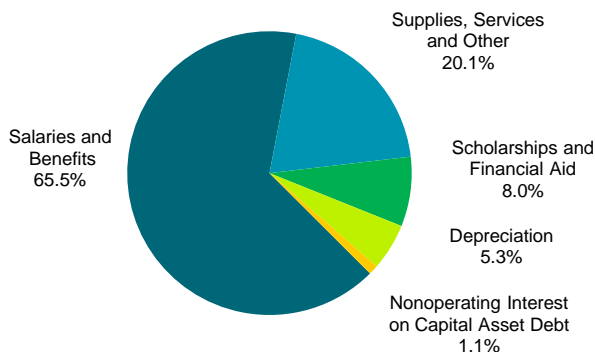
Johnson County Community College

**Management's Discussion and Analysis
Years Ended June 30, 2013 and 2012**

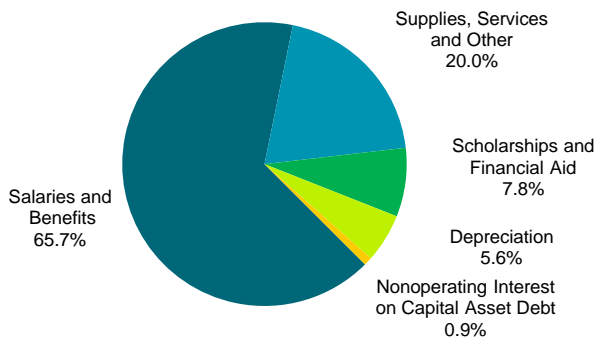
Expenses

Expenses are displayed in two 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**

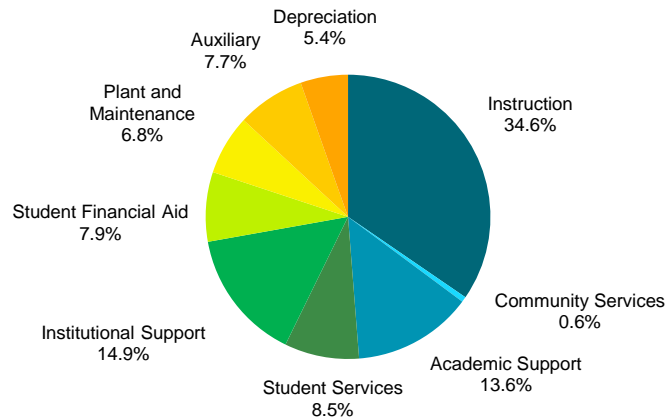


Salaries and benefits comprise 65.5% of expenses by natural classification for the year ended June 30, 2012, compared to 65.7% for the year ended June 30, 2011. Supplies, services and other expenses represent 20.1% of total expenses for the year ended June 30, 2012, compared to 20.0% for the year ended 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.

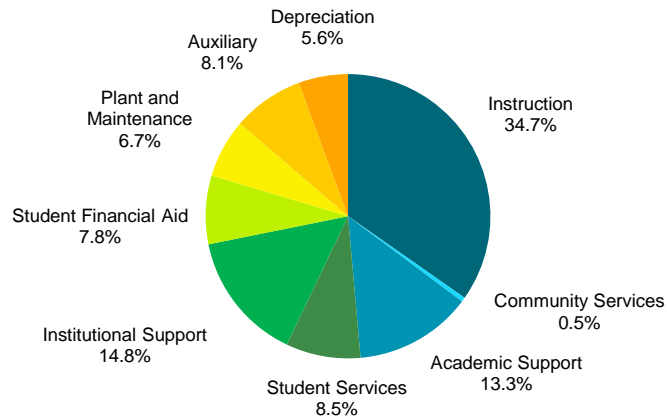
Johnson County Community College

**Management's Discussion and Analysis
Years Ended June 30, 2013 and 2012**

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



**Expenses by Functional Classification
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.

Johnson County Community College

Management's Discussion and Analysis Years Ended June 30, 2013 and 2012

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 position.

Condensed Statements of Cash Flows **Years Ended June 30, 2013, 2012 and 2011** *(Dollars in Millions)*

	2013	2012	Increase (Decrease) 2013-2012	2011	Increase (Decrease) 2012-2011
Cash provided by (used in):					
Operating activities	\$ (104.1)	\$ (101.5)	\$ (2.6)	\$ (97.7)	\$ (3.8)
Noncapital financing activities	109.6	105.1	4.5	105.8	(0.7)
Capital and related financing activities	(16.4)	(16.5)	0.1	(19.8)	3.3
Investing activities	1.5	3.4	(1.9)	9.6	(6.2)
Net change in cash	(9.4)	(9.5)	0.1	(2.1)	(7.4)
Cash, beginning of year	100.5	110.0	(9.5)	112.1	(2.1)
Cash, end of year	<u>\$ 91.1</u>	<u>\$ 100.5</u>	<u>\$ (9.4)</u>	<u>\$ 110.0</u>	<u>\$ (9.5)</u>

Fiscal Year 2013 Compared to Fiscal Year 2012

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 \$9.4 million for the fiscal year ended June 30, 2013, compared to a decrease of \$9.5 million for the fiscal year ended June 30, 2012. The decrease in cash at June 30, 2013, resulted primarily from the construction of the Hospitality and Culinary Academy building in the amount of \$10.9 million.

Johnson County Community College

Management's Discussion and Analysis Years Ended June 30, 2013 and 2012

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.

Capital Assets and Long-Term Debt

Capital assets are reflected in the following table for the years ended June 30, 2013, 2012 and 2011.

Capital Assets **Years Ended June 30, 2013, 2012 and 2011** *(Dollars in Millions)*

	2013	2012	Increase (Decrease) 2013-2012	2011	Increase (Decrease) 2012-2011
Capital assets:					
Land	\$ 1.0	\$ 1.0	\$ -	\$ 1.0	\$ -
Construction in progress	11.8	2.1	9.7	12.8	(10.7)
Works of art	3.4	3.2	0.2	3.2	-
Land improvements	37.3	35.7	1.6	35.2	0.5
Buildings and improvements	179.2	177.2	2.0	162.4	14.8
Equipment	29.4	29.8	(0.4)	28.9	0.9
Rental Textbooks	1.2	1.1	0.1	0.6	0.5
Total	263.3	250.1	13.2	244.1	6.0
Less accumulated depreciation	114.3	107.8	6.5	99.3	8.5
Net capital assets	\$ 149.0	\$ 142.3	\$ 6.7	\$ 144.8	\$ (2.5)

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

Fiscal Year 2013 Compared to Fiscal Year 2012

As of June 30, 2013, the College had recorded \$263.3 million invested in capital assets, \$114.3 million in accumulated depreciation and \$149.0 million in net capital assets. The \$6.7 million increase in net capital assets was primarily due to the construction of the Hospitality and Culinary Academy building.

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.

Johnson County Community College

Management's Discussion and Analysis Years Ended June 30, 2013 and 2012

Long-Term Debt Years Ended June 30, 2013, 2012 and 2011 (Dollars in Millions)

	2013	2012	Increase (Decrease) 2013-2012	2011	Increase (Decrease) 2012-2011
Long-term debt:					
Revenue bonds	\$ 21.3	\$ 22.2	\$ (0.9)	\$ 22.4	\$ (0.2)
Certificates of participation	10.9	12.4	(1.5)	18.1	(5.7)
Loan obligations	2.6	3.3	(0.7)	4.0	(0.7)
Total long-term debt	\$ 34.8	\$ 37.9	\$ (3.1)	\$ 44.5	\$ (6.6)

During fiscal year 2012, the College prepaid the Series 2004 Certificates of Participation in the amount of \$2.9 million. During fiscal year 2013, the College refunded the Series 2002 and 2004 Student Commons and Parking System Revenue Bonds, \$1.6 million and \$4.1 million, respectively, with the \$5.1 million issuance of the Series 2012 Student Commons and Parking System Revenue Bonds. Additional information concerning long-term debt is provided in Note 4 to the financial statements.

Economic Outlook

Tuition and fee rates increase by \$1 per credit hour for fiscal year 2014.

Assessed valuation of property in Johnson County is expected to increase 1.7% for fiscal year 2014. The College's Board of Trustees increased the tax levy by .75 to 9.535 mills for fiscal year 2014. The combination of these two factors is expected to result in a higher level of property tax revenues during fiscal year 2014.

The State of Kansas is expected to provide the same level of funding for fiscal year 2014.

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 Donald Perkins, Associate Vice President, Financial Services/CFO, 12345 College Blvd., Overland Park, Kansas 66210-1299.

Johnson County Community College

Statements of Net Position June 30, 2013 and 2012

	2013	2012
Assets		
Current Assets:		
Cash and cash equivalents	\$ 91,069,334	\$ 100,489,091
Accounts receivable, net of uncollectible accounts 2013 \$3,284,375; 2012 \$3,228,699	5,041,414	5,535,065
Student loans receivable	119,325	132,116
Inventories	1,537,475	1,517,475
Total current assets	97,767,548	107,673,747
Noncurrent Assets:		
Restricted short-term investments	-	1,426,394
Student loans, net of allowance for uncollectible loans 2013 and 2012 \$62,079	1,134,351	1,125,876
Capital assets not being depreciated	16,218,910	6,359,179
Capital assets being depreciated	247,135,297	243,784,753
Less accumulated depreciation	(114,313,308)	(107,828,548)
Other	169,253	120,623
Total noncurrent assets	150,344,503	144,988,277
Total assets	248,112,051	252,662,024
Liabilities		
Current Liabilities:		
Accounts payable	5,399,695	3,599,166
Accrued salaries	2,751,453	2,766,935
Accrued compensated absences	451,444	499,668
Other accrued liabilities	1,846,164	307,434
Deferred student tuition and fee revenue	2,929,063	2,751,029
Deposits held in custody for others	566,821	543,809
Current portion of revenue bonds payable	1,070,000	1,001,565
Current portion of certificates of participation	1,460,000	1,440,000
Current portion of loan obligation	661,673	661,673
Total current liabilities	17,136,313	13,571,279
Noncurrent Liabilities:		
Accrued compensated absences	2,773,157	3,069,389
Revenue bonds payable	20,251,621	21,273,469
Certificates of participation	9,485,000	10,945,000
Loan obligation	1,985,018	2,646,690
OPEB obligations	203,103	793,302
Total noncurrent liabilities	34,697,899	38,727,850
Total liabilities	51,834,212	52,299,129
Net Position:		
Net investment in capital assets	114,127,586	105,894,003
Restricted, expendable for:		
Capital projects	7,588,143	14,758,184
Bonds	1,698,981	1,567,965
Loan funds and other	4,821,071	4,490,715
Unrestricted	68,042,058	73,652,028
Total net position	\$ 196,277,839	\$ 200,362,895

See Notes to Financial Statements.

Johnson County Community College

Johnson County Community College Foundation - Component Unit

**Statements of Financial Position
June 30, 2013 and 2012**

Assets	2013	2012
Cash and cash equivalents	\$ 1,133,237	\$ 3,235,682
Contributions receivable, net	522,692	991,765
Other receivables	9,000	14,000
Investments	20,831,397	19,116,534
Accrued interest receivable	217,653	70,211
Campus artwork	2,915,520	2,793,703
Cash surrender value of life insurance	10,782	9,970
Other assets	61,113	-
	<u>\$ 25,701,394</u>	<u>\$ 26,231,865</u>
 Liabilities and Net Assets		
Liabilities, payables	<u>\$ 71,772</u>	<u>\$ 118,139</u>
Net Assets:		
Unrestricted, undesignated	1,565,929	1,455,062
Unrestricted, designated for scholarships and program support	1,141,019	1,104,590
Temporarily restricted	6,786,655	7,553,631
Permanently restricted	16,136,019	16,000,443
Total net assets	<u>25,629,622</u>	<u>26,113,726</u>
	<u>\$ 25,701,394</u>	<u>\$ 26,231,865</u>

See Notes to Financial Statements.

Johnson County Community College

**Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2013 and 2012**

	2013	2012
Operating revenues:		
Student tuition and fees, net of scholarship allowances 2013 \$4,784,551; 2012 \$4,276,465	\$ 34,727,280	\$ 35,839,858
Federal grants	16,266,094	17,570,904
State grants and contracts	367,587	474,690
Private gifts, grants and contracts	1,312,970	1,519,767
Local grants and contracts	76,928	78,378
Auxiliary enterprise revenue	10,177,652	11,246,448
Other operating revenue	4,711,073	4,181,862
Total operating revenues	67,639,584	70,911,907
Operating expenses:		
Salaries	87,074,885	86,892,575
Benefits	34,226,103	33,645,895
Contractual services	9,564,974	8,820,653
Supplies and other operating expenses	17,646,254	17,799,983
Utilities	3,557,328	3,226,046
Repairs and maintenance to plant	5,579,488	7,128,509
Scholarship and financial aid	13,039,361	14,602,955
Depreciation	9,642,848	9,842,890
Total operating expenses	180,331,241	181,959,506
Operating loss	(112,691,657)	(111,047,599)
Nonoperating revenues (expenses):		
County property taxes	73,613,231	72,972,976
State aid	31,254,006	29,096,309
Federal grants and contracts	2,475,406	2,391,542
Private gifts and contracts	2,194,725	101,111
Investment income	101,125	87,148
Interest on student loans receivable	21,407	21,427
Other nonoperating revenues (expenses)	(13,730)	(146,170)
Interest on capital asset debt	(1,039,569)	(2,035,003)
Total nonoperating revenues, net	108,606,601	102,489,340
(Decrease) in net position	(4,085,056)	(8,558,259)
Net position:		
Beginning	200,362,895	208,921,154
Ending	\$ 196,277,839	\$ 200,362,895

See Notes to Financial Statements.

Johnson County Community College

Johnson County Community College Foundation - Component Unit

Statement of Activities

Year Ended June 30, 2013

	2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Support and revenue:				
Gifts and contributions	\$ 72,622	\$ 1,404,075	\$ 220,458	\$ 1,697,155
Contributed services	506,653	-	-	506,653
Dividend and interest income	875	782,080	-	782,955
Net realized and unrealized gains (losses) on investments	161,121	1,454,523	-	1,615,644
Net assets released from restrictions	4,492,536	(4,492,536)	-	-
Change in donor designation	-	84,882	(84,882)	-
Total support and revenue	5,233,807	(766,976)	135,576	4,602,407
Expenses:				
Program expenses:				
Scholarship programs	968,408	-	-	968,408
Foundation programming	17,327	-	-	17,327
Performing arts programs	326,106	-	-	326,106
Visual arts programs	58,684	-	-	58,684
Capital project programs	2,301,225	-	-	2,301,225
Educational program support	611,451	-	-	611,451
	4,283,201	-	-	4,283,201
Supporting services:				
Fund raising	598,894	-	-	598,894
Management and general	204,416	-	-	204,416
	803,310	-	-	803,310
Total expenses	5,086,511	-	-	5,086,511
Increase (decrease) in net assets	147,296	(766,976)	135,576	(484,104)
Net assets:				
Beginning	2,559,652	7,553,631	16,000,443	26,113,726
Ending	\$ 2,706,948	\$ 6,786,655	\$ 16,136,019	\$ 25,629,622

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			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
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

Statements of Cash Flows
Years Ended June 30, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities:		
Student tuition and fees	\$ 35,002,359	\$ 37,106,291
Payments to suppliers	(21,211,084)	(18,399,280)
Payments to employees	(88,025,022)	(87,017,481)
Payments for scholarships and financial aid	(13,039,361)	(14,602,955)
Payments for employee benefits	(34,228,166)	(33,675,363)
Payments for utilities	(3,365,072)	(3,282,180)
Payments for auxiliary services, net of charges	(1,961,462)	(3,903,866)
Grants and contracts	18,154,535	19,365,193
Other receipts, net	4,570,275	2,944,432
Net cash (used in) operating activities	(104,102,998)	(101,465,209)
Cash Flows from Noncapital Financing Activities:		
County property taxes	73,758,588	73,372,462
State aid	31,254,006	29,096,309
Grants and contracts	4,517,332	2,594,705
Funds held for (returned to) others	42,872	(7,540)
Net cash provided by noncapital financing activities	109,572,798	105,055,936
Cash Flows from Capital and Related Financing Activities:		
Purchases of capital assets	(12,117,012)	(8,211,915)
Capitalized interest	(137,377)	(448,596)
Proceeds from the sale of capital assets	(13,730)	121,087
Proceeds from bonds, net of bond issue costs and premiums 2013 \$155,000; 2012 \$68,435	5,290,000	9,868,436
Proceeds from loan receivable	-	768,856
Principal paid on bonds payable	(6,280,000)	(10,186,565)
Principal paid on certificates of participation	(1,440,000)	(5,675,000)
Principal paid on loan obligations	(661,672)	(661,673)
Interest paid on bonds payable	(644,602)	(1,463,934)
Interest paid on certificates of participation	(435,831)	(626,951)
Net cash (used in) capital and related financing activities	(16,440,224)	(16,516,255)
Cash Flows from Investing Activities:		
Proceeds from sale and maturities of investments	1,426,394	3,344,532
Interest on investments	124,273	109,389
Net cash provided by investing activities	1,550,667	3,453,921
(Decrease) in cash and cash equivalents	(9,419,757)	(9,471,607)
Cash and cash equivalents:		
Beginning	100,489,091	109,960,698
Ending	\$ 91,069,334	\$ 100,489,091

(Continued)

Johnson County Community College

**Statements of Cash Flows (Continued)
Years Ended June 30, 2013 and 2012**

	2013	2012
Reconciliation of Operating (Loss) to Net Cash (Used in)		
Operating Activities:		
Operating (loss)	\$ (112,691,657)	\$ (111,047,599)
Adjustments to reconcile operating (loss) to net cash (used in) operating activities:		
Depreciation expense	9,642,848	9,842,890
Changes in assets and liabilities:		
Accounts receivable, net	503,668	(722,916)
Inventories	(20,000)	108,510
Accounts payable	(1,325,570)	359,612
Accrued salaries	(15,482)	(66,593)
Accrued compensated absences	(344,456)	296,146
Other accrued liabilities	559,816	(31,959)
Deferred student tuition and fee revenue	260,725	100,774
Other deferred revenue	(82,691)	50,385
Postemployment benefit obligation	(590,199)	(354,459)
Net cash (used in) operating activities	<u>\$ (104,102,998)</u>	<u>\$ (101,465,209)</u>
Schedule of Noncash Capital and Related Items, accounts payable and other liabilities related to capital asset acquisitions		
	\$ (4,113,974)	\$ 1,101,764

See Notes to Financial Statements.

Johnson County Community College

Notes to Financial Statements

Note 1. Organization and Summary of Significant Accounting Policies

The Johnson County Community College District (the 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 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 College has determined it would be misleading to exclude the Foundation which is considered a component unit of the College and is discretely presented in the College's financial statements. During the years ended June 30, 2013 and 2012, the College received direct contributions from the Foundation of \$4,265,874 and \$2,025,476, respectively. Contributions are included in the statement of revenues, expenses and changes in net position in the private gifts, grants and contracts line in both the operating and nonoperating revenues sections and the other operating revenue line.

Johnson County Community College

Notes to Financial Statements

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) federal, 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, 2013 and 2012, were \$5,418,748 (including construction contracts of \$2,255,234) and \$6,073,578 (including construction contracts of \$2,168,647), 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, 2013 and 2012 do not constitute expenses or liabilities and are not reflected in these basic financial statements.

The financial statements of the College are prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Government Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

The College adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, in the current year. The adoption of this Statement changed the presentation of the basic financial statements to a statement of net position format.

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 1st in the year of assessment and are revenue for the fiscal year the following June 30.

Johnson County Community College

Notes to Financial Statements

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

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 41.5% and 41.6% of its financial support (exclusive of investment income) from property taxes during the years ended June 30, 2013 and 2012, respectively.

The tax rates for the fiscal years ended June 30, 2013 and 2012, per \$100 of assessed valuation, are reflected in the following table:

Fund:	2013	2012
General	8.250	8.243
Capital outlay	0.500	0.499
Special assessment	0.035	0.034
Total mill levy	8.785	8.776

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.)

Student tuition and fees, net of scholarship allowances:

Tuition and fees 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 fees revenues are reported net of scholarship allowances in the statement of revenues, expenses and changes in net position.

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.

Johnson County Community College

Notes to Financial Statements

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

Operating and nonoperating activities:

Operating activities, as reported in the statement of revenues, expenses and changes in net position, 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.

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 two 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.

Johnson County Community College

Notes to Financial Statements

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

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.

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). Interest is capitalized on construction projects with construction periods of greater than one year.

	<u>Years</u>
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, 2013 and 2012, the College had recorded a vacation liability of \$3,224,601 and \$3,569,057, 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 position:

Net position is presented in three major categories. The first is net investment in capital assets, which represents the College's equity in its property, plant and equipment. The second is restricted, while the third is unrestricted.

Restricted net position is funds that are limited in terms of the purpose and time for which the funds can be spent. Restricted net position is further categorized between expendable and nonexpendable. Restricted expendable net position is available to be spent by the College after externally imposed stipulations have been fulfilled or after the passage of time. Restricted nonexpendable net position is endowments for which only the earnings can be spent. The College has no restricted nonexpendable net position at June 30, 2013 and 2012. Unrestricted net position is 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 position during the reporting period. Actual results could differ from those estimates.

Johnson County Community College

Notes to Financial Statements

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, 2013 and 2012, are reflected in the following table at cost. Actual bank statement balances for total deposits at June 30, 2013 and 2012, were \$84,939,166 and \$60,532,929, 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.

	2013	2012
Cash	\$ 11,449,239	\$ 10,268,266
Certificates of Deposit:		
Bank of Kansas City	15,000,000	24,000,000
Capitol Federal Savings	21,000,000	25,000,000
Commerce Bank	37,000,000	-
Total deposits	\$ 84,449,239	\$ 59,268,266

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, 2013 and 2012. 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.

Johnson County Community College

Notes to Financial Statements

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 the stated value of the MIP shares at June 30, 2013 and 2012 based on quoted market prices. 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, 2013 and 2012, the College had the following investments which all mature in less than one year:

	2013	2012
Kansas Municipal Investment Pool – Overnight Pool	\$ 6,620,095	\$ 6,226,717
U.S. Treasury Obligation Fund – Commerce Bank	-	1,426,394
U.S. Treasury Bills	-	34,994,108
Total investments	\$ 6,620,095	\$ 42,647,219

A summary of deposits and investments at June 30, 2013 and 2012 is as follows:

	2013	2012
Deposits:		
Cash	\$ 11,449,239	\$ 10,268,266
Certificates of Deposit	73,000,000	49,000,000
Investments:		
Kansas Municipal Investment Pool	6,620,095	6,226,717
U.S. Treasury Obligation Fund	-	1,426,394
U.S. Treasury Bills	-	34,994,108
Total deposits and investments	\$ 91,069,334	\$ 101,915,485

Johnson County Community College

Notes to Financial Statements

Note 2. Deposits, Investments and Risk (Continued)

Deposits and investments are summarized on the statement of net position at June 30, 2013 and 2012, as follows:

	2013	2012
Cash and cash equivalents:		
Cash	\$ 11,449,239	\$ 10,268,266
Kansas Municipal Investment Pool – Overnight Pool	6,620,095	6,226,717
Certificates of Deposit (1 to 91 days)	73,000,000	49,000,000
U.S. Treasury Bills	-	34,994,108
Total cash and cash equivalents	<u>91,069,334</u>	<u>100,489,091</u>
Restricted short-term investments:		
U.S. Treasury Obligation Fund	-	1,426,394
Total deposits and investments	<u>\$ 91,069,334</u>	<u>\$ 101,915,485</u>

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 AAf/S1+ by Standard & Poor's at June 30, 2013 and 2012. 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.

Johnson County Community College

Notes to Financial Statements

Note 3. Capital Assets

The following tables present the changes in the various capital asset categories at June 30, 2013 and 2012:

	July 1, 2012 Beginning Balance	Additions/ Transfers	Retirements	June 30, 2013 Ending Balance
Capital assets not being depreciated:				
Land	\$ 1,028,265	\$ -	\$ -	\$ 1,028,265
Construction in progress	2,082,729	9,675,786	-	11,758,515
Works of art	3,248,185	184,145	(200)	3,432,130
Total assets not being depreciated	6,359,179	9,859,931	(200)	16,218,910
Capital assets being depreciated:				
Land improvements	35,695,284	1,655,257	-	37,350,541
Buildings and improvements	177,145,934	2,105,072	-	179,251,006
Equipment, furniture and computer technology	29,811,186	2,215,133	(2,644,696)	29,381,623
Rental textbooks	1,132,349	596,357	(576,579)	1,152,127
Total assets being depreciated	243,784,753	6,571,819	(3,221,275)	247,135,297
Less accumulated depreciation:				
Land improvements	15,348,307	1,655,681	-	17,003,988
Buildings and improvements	67,431,015	4,891,623	-	72,322,638
Equipment, furniture and computer technology	24,371,131	2,536,774	(2,606,267)	24,301,638
Rental textbooks	678,095	558,770	(551,821)	685,044
Total accumulated depreciation	107,828,548	9,642,848	(3,158,088)	114,313,308
Capital assets, net	\$ 142,315,384	\$ 6,788,902	\$ (63,387)	\$ 149,040,899

Johnson County Community College

Notes to Financial Statements

Note 3. Capital Assets (Continued)

	June 30, 2011			June 30, 2012
	Beginning Balance	Additions/ Transfers	Retirements	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	13,892,410	1,455,897	-	15,348,307
Buildings and improvements	62,603,003	4,828,012	-	67,431,015
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

The College has capitalized \$137,377 and \$448,596 in interest related to construction projects for the years ended June 30, 2013 and 2012, respectively.

Johnson County Community College

Notes to Financial Statements

Note 4. Long-Term Obligations

Long-term obligations consist of the following categories at June 30, 2013 and 2012:

Long-Term Obligations	July 1, 2012 Beginning Balance	Additions	Reductions	June 30, 2013 Ending Balance	Amounts Due Within One Year
Revenue bonds:					
Series 2002	\$ 1,605,000	\$ -	\$ (1,605,000)	\$ -	\$ -
Series 2004	4,085,000	-	(4,085,000)	-	-
Series 2006	6,640,000	-	(545,000)	6,095,000	570,000
Series 2011	9,760,000	-	(45,000)	9,715,000	45,000
Series 2012	-	5,135,000	-	5,135,000	455,000
Premium on Series 2011 Bonds	185,034	-	(11,565)	173,469	-
Premium on Series 2012 Bonds	-	216,696	(13,544)	203,152	-
Total revenue bonds	22,275,034	5,351,696	(6,305,109)	21,321,621	1,070,000
Certificates of participation:					
Series 2009 COP	12,385,000	-	(1,440,000)	10,945,000	1,460,000
Loan obligation, KBOR PEI	3,308,363	-	(661,672)	2,646,691	661,673
Other accrued liabilities:					
Compensated Absences	3,569,057	2,600,383	(2,944,839)	3,224,601	451,444
Net OPEB Obligation	793,302	1,056,801	(1,647,000)	203,103	-
Total other accrued liabilities	4,362,359	3,657,184	(4,591,839)	3,427,704	451,444
Total Long-Term Obligations	\$ 42,330,756	\$ 9,008,880	\$ (12,998,620)	\$ 38,341,016	\$ 3,643,117

Johnson County Community College

Notes to Financial Statements

Note 4. Long-Term Obligations (Continued)

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

Johnson County Community College

Notes to Financial Statements

Note 4. Long-Term Obligations (Continued)

Revenue bonds:

Revenue bonds payable as of June 30, 2013 and 2012, consist of the following:

	2013	2012
Student Commons and Parking System Refunding Revenue Bonds, Series 2006, \$8,210,000, 3% to 5%, due in annual principal payments ranging from \$570,000 in November 2013 to \$785,000 in November 2021; interest is paid semiannually on May 15 and November 15.	\$ 6,095,000	\$ 6,640,000
Student Commons and Parking System Refunding Revenue Bonds, Series 2011, \$9,800,000, 2% to 4%, due in annual principal payments ranging from \$45,000 in November 2013 to \$1,615,000 in November 2027; interest is paid semiannually on May 15 and November 15. (A)	9,715,000	9,760,000
Premium on Series 2011 Revenue Bonds.	173,469	185,034
Student Commons and Parking System Refunding Revenue Bonds, Series 2012, \$5,135,000, 1% to 2%, due in annual principal payments ranging from \$455,000 in November 2013 to \$205,000 in November 2027; interest is paid semiannually on May 15 and November 15. (B)	5,135,000	-
Premium on Series 2012 Revenue Bonds.	203,152	-
Student Commons and Parking System Revenue Bonds, Series 2002, \$12,000,000, 3.5% to 6.0%, paid in full during the year ended June 30, 2013 (A) (B)	-	1,605,000
Student Commons and Parking System Revenue Bonds, Series 2004, \$6,520,000, 2.625% to 4.3%, paid in full during the year ended June 30, 2013 (B)	-	4,085,000
Total revenue bonds	21,321,621	22,275,034
Less current portion of revenue bonds payable	1,070,000	1,001,565
Noncurrent revenue bonds payable	\$ 20,251,621	\$ 21,273,469

- (A) The Student Commons and Parking System Refunding Revenue Bonds, Series 2011 were issued during the year ended June 30, 2012 to advance refund \$9,225,000 of the Student Commons and Parking System 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).
- (B) The Student Commons and Parking System Refunding Revenue Bonds, Series 2012 were issued during the year ended June 30, 2013 to refund \$1,605,000 of the Student Commons and Parking System Revenue Bonds, Series 2002 and \$4,085,000 of the Student Commons and Parking System Revenue Bonds, Series 2004 with interest rates at 5.0% and 4.3% respectively. The College completed the refunding to reduce its total debt service payments by \$1,004,950 over the next 15 years to obtain a \$929,729 economic gain (difference between present values of the old and new debt service payments).

Johnson County Community College

Notes to Financial Statements

Note 4. Long-Term Obligations (Continued)

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.)

Future annual maturities of revenue bonds payable are as follows:

Fiscal year:	Principal	Interest	Total Revenue Bonds
2014	\$ 1,070,000	\$ 687,998	\$ 1,757,998
2015	1,100,000	652,160	1,752,160
2016	1,140,000	612,447	1,752,447
2017	1,185,000	576,373	1,761,373
2018	1,210,000	545,485	1,755,485
2019 - 2023	6,810,000	2,139,231	8,949,231
2024 - 2028	8,430,000	818,550	9,248,550
Total	\$ 20,945,000	\$ 6,032,244	\$ 26,977,244

Certificates of participation:

Certificates of participation at June 30, 2013 and 2012, consist of the following:

	2013	2012
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 \$666,031 and \$333,016 as of June 30, 2013 and 2012, 1.10% to 4.55%, aggregate payments of \$12,577,740, including interest of \$1,632,740)	\$ 10,945,000	\$ 12,385,000
Total certificates of participation	10,945,000	12,385,000
Less current portion of certificates of participation	1,460,000	1,440,000
Noncurrent certificates of participation	\$ 9,485,000	\$ 10,945,000

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

Johnson County Community College

Notes to Financial Statements

Note 4. Long-Term Obligations (Continued)

The minimum lease commitments for certificates of participation at June 30, 2013, are as follows:

	Principal	Interest	Total Capital Leases
Fiscal year:			
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	1,595,000	181,104	1,776,104
2019 - 2020	3,325,000	150,671	3,475,671
Total certificates of participation	\$ 10,945,000	\$ 1,632,740	\$ 12,577,740

The College leases office space under operating lease agreements that expire through fiscal year 2017. Rental expense totaled \$592,374 and \$583,788 for the years ended June 30, 2013 and 2012, respectively. Minimum rental commitments under these noncancelable operating leases with initial terms of one year or longer at June 30, 2013 are \$163,183.

Loan obligation:

Loan obligation as of June 30, 2013 and 2012 consist of the following:

	2013	2012
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.	\$ 2,646,691	\$ 3,308,363
Less current portion of the loan obligation	661,673	661,673
Noncurrent loan obligation	\$ 1,985,018	\$ 2,646,690

Future annual maturities of the loan obligation are as follows:

	Principal	Interest	Total Loan Payable
Fiscal year:			
2014	\$ 661,673	\$ -	\$ 661,673
2015	661,673	-	661,673
2016	661,673	-	661,673
2017	661,672	-	661,672
Total loans	\$ 2,646,691	\$ -	\$ 2,646,691

Johnson County Community College

Notes to Financial Statements

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, 2013 and 2012.

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 2013, the State of Kansas contributed 10.37% for the period July 1, 2012 through January 15, 2013 and 9.37% for the period January 16, 2013 through April 15, 2013 and 10.22% for the period April 16, 2013 through June 30, 2013 of covered payroll. 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. The College's contribution to KPERs for the year ended June 30, 2013, was \$12,864,016, which consisted of \$8,997,876 from the State of Kansas and \$3,866,140 from employees. The College's contributions to KPERs for employees for the years ended June 30, 2012 and 2011 were \$12,092,535, which consisted of \$8,307,178 from the state of Kansas and \$3,785,357 from employees, and \$11,214,509, which consisted of \$7,584,191 from the state of Kansas and \$3,630,318 from employees, respectively, equal to the statutorily required contributions for each year.

Johnson County Community College

Notes to Financial Statements

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 postemployment benefit plan that provides medical and prescription drug 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 retired 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 \geq 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. Three medical plan options (PPO, HMO and HSA) 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 retired prior to June 1, 2013 and either met the Rule of 85 or were 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.

Johnson County Community College

Notes to Financial Statements

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, 2013:

	2013	2012
Annual required contribution	\$ 484,566	\$ 484,566
Amortization of AAL (30 yrs)	575,056	575,056
Interest on net OPEB obligation	31,732	45,910
Adjustment to annual required contribution	(34,553)	(49,991)
Annual OPEB cost (expense)	1,056,801	1,055,541
Contributions and payments made	(1,647,000)	(1,410,000)
(Decrease) in net OPEB obligation	(590,199)	(354,459)
Net OPEB obligation, beginning of year	793,302	1,147,761
Net OPEB obligation, end of year	<u>\$ 203,103</u>	<u>\$ 793,302</u>

The College's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2013 follows:

	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Fiscal year ended:			
June 30, 2013	\$ 1,056,801	155.85%	\$ 203,103
June 30, 2012	1,055,541	133.58	793,302
June 30, 2011	1,178,309	160.23	1,147,768

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.

Johnson County Community College

Notes to Financial Statements

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 8.0% reduced by decrements of 0.5% annually to an ultimate rate of 5.0%. 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, 2013 was 25 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, 2013 and 2012.

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. 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.

Johnson County Community College

Notes to Financial Statements

Note 9. New Pronouncements (Continued)

- 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.

Johnson County Community College

Notes to 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, 2013 and 2012, 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. The Foundation has not experienced any losses due to these concentrations.

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.

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.

Temporarily and permanently restricted net position:

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.

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 due to expiration of time of fulfillment of purpose or the appropriation of endowment earnings are reported as released from restrictions.

Johnson County Community College

Notes to Financial Statements

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

Contributed services:

Contributed 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, 2013 and 2012, there were no income tax effects with respect to the financial statements. Forms 990 and 990-T filed by the Foundation are no longer subject to examination by the Internal Revenue Service for fiscal years ended June 30, 2009 and prior.

Campus artwork:

Campus artwork includes artwork donated to the Foundation that is required to be held in perpetuity (see Note 5). The Foundation's campus artwork also includes artwork held as an investment by the Foundation. The Foundation has elected to report artwork at cost or, if donated, fair value at the date of donation.

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.

Current accounting developments:

In October 2012, the Financial Accounting Standard Board (FASB) issued guidance which requires not-for-profit entities to classify cash receipts from the "nearly immediate" sale of donated financial assets as an operating activity in the statement of cash flows when received with no donor-imposed restrictions. When the donor has restricted the use of the cash receipts from the sale of donated financial assets, classification as a financing activity would be required. When financial assets are not "nearly immediately" sold, classification as an investing activity would be appropriate. The guidance is effective prospectively for fiscal years beginning after June 15, 2013. Management is in the process of evaluating the potential impact this guidance will have on its financial statements.

Johnson County Community College

Notes to Financial Statements

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

In April 2013, the FASB issued ASU 2013-06, *Not-for-Profit Entities (Topic 958), Services Received from Personnel of an Affiliate*, which requires a recipient not-for-profit entity to recognize all services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity. Those services should be measured at the cost recognized by the affiliate for the personnel providing those services. However, if measuring a service received from personnel of an affiliate at cost will significantly overstate or understate the value of the service received, the recipient not-for-profit entity may elect to recognize that service received at either (1) the cost recognized by the affiliate for the personnel providing that service or (2) the fair value of that service. The amendments in this update are effective prospectively for fiscal years beginning after June 15, 2014, and interim and annual periods thereafter. Management is in the process of evaluating the potential impact this guidance will have on its financial statements.

Contributions receivable

Contributions are recognized as revenue at the present value of expected future payments when unconditional pledges are made. As of June 30, 2013 and 2012, 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:

	2013	2012
Due in less than one year	\$ 350,334	\$ 326,541
Due after one year to five years	168,000	644,000
Due in more than five years	10,000	30,000
Total contributions receivable	528,334	1,000,541
Less discount of present value (interest rates from 0.33% to 2.97%)	5,642	8,776
Contributions receivable, net	\$ 522,692	\$ 991,765

Total gross pledges of \$336,171 and \$692,171 as of June 30, 2013 and 2012, respectively, were due from certain members of the Foundation's Board of Directors or affiliated organizations of these Directors. Approximately 37% and 39% of total gross pledges receivable were due from one donor as of June 30, 2013 and 2012, respectively.

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 \$210,000 and \$420,000 of conditional promises to give as of June 30, 2013 and 2012, respectively.

Johnson County Community College

Notes to Financial Statements

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

Investments:

The Foundation's investment portfolio as of June 30, 2013 and 2012 consisted of the following:

	2013	2012
U.S. government obligations	\$ 1,572,613	\$ 2,662,702
Equity funds	7,525,798	4,978,011
Corporate bonds	2,880,906	3,174,396
Common stock	8,451,690	8,301,425
Certificates of deposit	400,390	-
	<u>\$ 20,831,397</u>	<u>\$ 19,116,534</u>

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.

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 and fund raising expenses and contributed services revenue, to be approximately \$507,000 and \$504,000 for 2013 and 2012, 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 position:

Temporarily restricted net assets: Temporarily restricted net assets as of June 30, 2013 and 2012 were restricted as follows:

	2013	2012
Scholarships to students	\$ 4,041,075	\$ 3,341,459
Support of College programs, including visual and performing arts programs and capital projects	2,745,580	4,212,172
	<u>\$ 6,786,655</u>	<u>\$ 7,553,631</u>

Johnson County Community College

Notes to Financial Statements

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

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 both the years ended June 30, 2013 and 2012 and is included below in visual and performing art programs.

Permanently restricted net assets as of June 30, 2013 and 2012 were restricted as follows:

	2013	2012
Scholarships to students	\$ 7,685,639	\$ 7,527,623
Support of College programs, including visual and performing arts programs	8,450,380	8,472,820
	<u>\$ 16,136,019</u>	<u>\$ 16,000,443</u>

Assets released from restriction:

Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors for the years ended June 30, 2013 and 2012 as follows:

	2013	2012
Scholarships to students	\$ 892,816	\$ 755,961
Support of College programs, including visual and performing arts programs and capital projects	3,599,720	1,909,049
	<u>\$ 4,492,536</u>	<u>\$ 2,665,010</u>

Johnson County Community College

Notes to Financial Statements

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.

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: 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.

Cash value of life insurance: Life insurance policies are valued at cash surrender value determined by the life insurance companies and 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, 2013.

Johnson County Community College

Notes to Financial Statements

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, 2013 and 2012 segregated by the general classification of such instruments pursuant to the valuation hierarchy:

	June 30, 2013			
	Total	Level 1	Level 2	Level 3
Investments:				
U.S. government obligations	\$ 1,572,613	\$ -	\$ 1,572,613	\$ -
Equity funds:				
Fixed income mutual funds	3,176,561	3,176,561	-	-
International mutual funds	1,346,569	1,346,569	-	-
Domestic mutual funds	3,002,668	3,002,668	-	-
Corporate bonds	2,880,906	-	2,880,906	-
Common stock:				
Energy	868,140	868,140	-	-
Materials	374,519	374,519	-	-
Industrials	797,336	797,336	-	-
Consumer discretionary	1,156,670	1,156,670	-	-
Consumer staples	794,500	794,500	-	-
Health care	1,186,537	1,186,537	-	-
Financials	1,306,946	1,306,946	-	-
Information technology	1,254,019	1,254,019	-	-
Telecommunication services	339,610	339,610	-	-
Utilities	370,208	370,208	-	-
Other	3,205	3,205	-	-
	20,431,007	15,977,488	4,453,519	-
Cash surrender value of life insurance	10,782	-	-	10,782
Total	\$ 20,441,789	\$ 15,977,488	\$ 4,453,519	\$ 10,782

Johnson County Community College

Notes to Financial Statements

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

	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

There were no transfers between level 1, 2 or 3 for the fair value hierarchy for the fiscal years ended June 30, 2013 and 2012.

Johnson County Community College

Notes to Financial Statements

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

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

	<u>Cash Surrender of Life Insurance</u>	
	2013	2012
Balance, beginning	\$ 9,970	\$ 9,354
Total gains (realized/unrealized) included in change in net assets	812	616
Balance, ending	<u>\$ 10,782</u>	<u>\$ 9,970</u>
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	<u>\$ 812</u>	<u>\$ 616</u>

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.

Johnson County Community College

Notes to Financial Statements

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 4.73% and 4.69% for the calendar years ended December 31, 2012 and 2011, 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, 2013 and 2012 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
2013				
Donor-restricted endowment funds	\$ (294)	\$ 3,870,110	\$ 15,162,168	\$ 19,031,984
2012				
Donor-restricted endowment funds	\$ (161,415)	\$ 2,797,295	\$ 15,026,592	\$ 17,662,472

Johnson County Community College

Notes to Financial Statements

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, 2013 and 2012 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
2013				
Endowment net assets, beginning of year	\$ (161,415)	\$ 2,797,295	\$ 15,026,592	\$ 17,662,472
Investment return:				
Investment income	-	351,321	-	351,321
Net appreciation/(depreciation) (realized and unrealized)	161,121	1,321,817	-	1,482,938
Total investment return	161,121	1,673,138	-	1,834,259
Contributions	-	-	220,458	220,458
Appropriation of endowment funds for expenditure	-	(624,805)	-	(624,805)
Donor designated change in restriction	-	24,482	(84,882)	(60,400)
Endowment net assets, end of year	\$ (294)	\$ 3,870,110	\$ 15,162,168	\$ 19,031,984
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)
Endowment net assets, end of year	\$ (161,415)	\$ 2,797,295	\$ 15,026,592	\$ 17,662,472

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, 2013 and 2012 the endowment fund had underwater funds of \$294 and \$161,415, respectively. This represents approximately 0% and 1% of the Foundation's donor restricted endowment funds as of June 30, 2013 and 2012, 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, 2013 and 2012 was prudent.

Johnson County Community College

Notes to Financial Statements

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:

	<u>2013</u>	<u>2012</u>
Total capital assets, net	<u>\$ 21,524,053</u>	<u>\$ 22,250,808</u>
Total debt	<u>\$ 21,321,621</u>	<u>\$ 22,275,034</u>
Operating revenues, sales and service	\$ 14,818,464	\$ 16,261,780
Less operating expenses, salaries, utilities, depreciation and other expenses	<u>11,671,259</u>	<u>12,362,689</u>
Operating income	<u>\$ 3,147,205</u>	<u>\$ 3,899,091</u>

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
2013	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% - 8.0%; 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, 2013**

	Budgetary Expenditures	Legal Appropriations Budget	(Over) Under Budget
Current Unrestricted Funds:			
General	\$ 116,401,893	\$ 129,522,694	\$ 13,120,801
Postsecondary Technical Education	46,573,991	44,585,289	(1,988,702)
Adult supplementary education	5,326,079	9,589,584	4,263,505
Motorcycle driver	65,240	318,077	252,837
Auxiliary enterprises	14,714,830	20,376,760	5,661,930
Total current unrestricted funds	<u>183,082,033</u>	<u>\$ 204,392,404</u>	<u>\$ 21,310,371</u>
Current Restricted Funds:			
Special assessments	307,271	<u>\$ 350,000</u>	<u>\$ 42,729</u>
Other restricted	<u>18,852,094</u>		
Total current restricted funds	<u>19,159,365</u>		
Total current funds	<u>202,241,398</u>		
Loan Funds	<u>81,793</u>		
Plant Funds:			
Unexpended, capital outlay	11,523,214	<u>\$ 12,534,640</u>	<u>\$ 1,011,426</u>
Repair and replacement reserve	81,297		
Bond proceeds, construction	2,567,003		
Debt retirement, revenue bonds	<u>1,971,002</u>		
Total plant funds	<u>16,142,516</u>		
Total current, loan, and plant funds	<u>\$ 218,465,707</u>		