

# **Johnson County Community College**

Basic Financial Statements and Supplemental Schedule

June 30, 2006 and 2005



**Johnson County Community College**  
**Basic Financial Statements and Supplemental Schedule**  
**June 30, 2006 and 2005**

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## Independent Accountants' Report on Financial Statements and Supplementary Information

The Board of Trustees  
Johnson County Community College  
Overland Park, Kansas

We have audited the accompanying basic financial statements of Johnson County Community College (the College) and its discretely presented component unit, as of and for the years ended June 30, 2006 and 2005, as listed in the table of contents. These basic financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, based on our audits, the basic financial statements referred to above present fairly, in all material respects, the financial position of Johnson County Community College and of its discretely presented component unit as of June 30, 2006 and 2005, and the respective changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements. The accompanying supplementary information, 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 been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*BKD, LLP*

Kansas City, Missouri  
September 28, 2006

# **Johnson County Community College**

## **Management's Discussion and Analysis**

### **Years Ended June 30, 2006 and 2005**

#### ***Introduction***

Management's discussion and analysis is an overview of the financial position and financial activities of Johnson County Community College (the College) for the fiscal years ended June 30, 2006 and 2005. The College's management prepared this discussion. It should be read in conjunction with the College's basic financial statements and notes that follow.

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.

There are three comparative financial statements presented: the statements of net assets; the statements of revenues, expenses, and changes in net assets and the statements of cash flows. The emphasis of the discussion about the financial statements is designed to focus on current activities, resulting changes, and currently known facts.

#### ***Statements of Net Assets***

The statements of net assets present the assets, liabilities and net assets of the College at June 30, 2006 and 2005. The purpose of the statements of net assets is to present a snapshot of the financial condition of the College. Total net assets, which is the difference between total assets and total liabilities, is one of the indicators of the current financial condition of the College.

The assets and liabilities are categorized between current and noncurrent. The difference is that current assets and current liabilities mature or become payable within the normal 12-month accounting cycle versus noncurrent assets and liabilities which mature or become payable after 12 months. For example, at June 30, 2006 and 2005, the College's current assets consist primarily of cash and short-term investments, while noncurrent assets consist primarily of restricted short-term investments and capital assets. Capital assets are the property, plant, and equipment maintained by the College.

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

Restricted net assets are categorized between expendable and nonexpendable and represent funds that are limited in terms of the purpose and time for which the funds can be spent. Restricted expendable net assets are available to be spent by the College after externally imposed stipulations have been fulfilled, or after the passage of time. Restricted nonexpendable net assets are endowments for which only the interest portion can be spent. The College has no restricted nonexpendable net assets at June 30, 2006 and 2005.

Unrestricted net assets are available to the College for any lawful purpose. The following schedule is prepared from the College's statements of net assets (page 9), which are presented on an accrual basis of accounting, whereby assets are capitalized and depreciated.

<b>Summary of Net Assets</b>					
<b>As of June 30</b>					
<i>(Dollars in Millions)</i>					
	<b>2006</b>	<b>2005</b>	<b>Increase (Decrease) 2006-2005</b>	<b>2004</b>	<b>Increase (Decrease) 2005-2004</b>
<b>Assets</b>					
Current assets	\$ 129.9	\$ 113.0	\$ 16.9	\$ 93.4	\$ 19.6
Capital assets	113.1	87.3	25.8	77.2	10.1
Other noncurrent assets	7.0	28.3	(21.3)	23.0	5.3
Total assets	<u>\$ 250.0</u>	<u>\$ 228.6</u>	<u>\$ 21.4</u>	<u>\$ 193.6</u>	<u>\$ 35.0</u>
<b>Liabilities</b>					
Current liabilities	\$ 19.4	\$ 15.8	\$ 3.6	\$ 11.1	\$ 4.7
Noncurrent liabilities	45.3	50.8	(5.5)	44.2	6.6
Total liabilities	<u>\$ 64.7</u>	<u>\$ 66.6</u>	<u>\$ (1.9)</u>	<u>\$ 55.3</u>	<u>\$ 11.3</u>
<b>Net assets</b>					
Invested in capital assets, net of related debt	\$ 63.9	\$ 32.9	\$ 31.0	\$ 33.8	\$ (0.9)
Restricted – expendable	30.4	53.5	(23.1)	43.2	10.3
Unrestricted	91.0	75.6	15.4	61.3	14.3
Total net assets	<u>\$ 185.3</u>	<u>\$ 162.0</u>	<u>\$ 23.3</u>	<u>\$ 138.3</u>	<u>\$ 23.7</u>

### ***Fiscal Year 2006 Compared to 2005***

Cash and short-term investments increased \$17.3 million as total current assets increased \$16.9 million due to increases in investment income, state aid, county property taxes and student tuition revenues. Total noncurrent assets increased \$4.5 million as a result of the capitalization of construction costs related to new facilities, and the maturing of restricted short term investments.

Total current liabilities increased \$3.6 million due to increases in the current portion long-term debt payable related to new debt issued during the fiscal year ended June 30, 2006. Total noncurrent liabilities decreased \$5.5 million as the net effect from issuance of \$8.2 million refunding revenue bonds, the defeasance of \$8.0 million of revenue bonds and scheduled repayments of long-term debt.

Net assets invested in capital assets, net of related debt, increased \$31.0 million as the net effect from the issuance of new long-term debt, the defeasance of long-term debt, scheduled repayments on long-term debt and capitalization of construction costs. Restricted, expendable, net assets decreased by \$23.1 million, largely as a result of the construction expenditures. Net assets, unrestricted increased by \$15.4 million to \$91.0 million as a consequence of overall revenues over expenses.

## ***Fiscal Year 2005 Compared to 2004***

Short-term investments increased \$20.6 million as total current assets increased \$19.6 million due to increases in private gifts, state aid, county property taxes and student tuition revenues. Total noncurrent assets increased \$15.4 million as a result of the restricted short-term investment of a portion of the proceeds from the sale of a \$12.1 million issue of certificates of participation and the capitalization of construction costs related to new facilities.

Total current liabilities increased \$4.7 million due to increases in the current portion of long-term debt payable related to new debt issues during the past two years. Total noncurrent liabilities increased \$6.6 million as the net effect from issuance of \$12.1 million certificates of participation and scheduled repayments of long-term debt.

Net assets invested in capital assets, net of related debt, decreased \$0.9 million as the net effect from the issuance of new long-term debt, scheduled repayments on long-term debt and capitalization of construction costs. Restricted, expendable, net assets increased by \$10.3 million, largely as a result of the issuance of the \$12.1 million of certificates of participation. Net assets, unrestricted increased by \$14.3 million to \$75.6 million as a consequence of overall revenues over expenses.

## ***Statements of Revenues, Expenses and Changes in Net Assets***

The statements of revenues, expenses and changes in net assets present the College's financial results for the fiscal years ended June 30, 2006 and 2005. The statements include the College's revenues and expenses, both operating and nonoperating.

Operating revenues and expenses are those for which the College directly exchanges goods and services. Nonoperating revenues and expenses are those that exclude specific, direct exchanges of goods and services. County property tax revenue, state aid and federal grants and contracts are examples of nonoperating revenues where the local taxpayers, state legislature and federal government, respectively, do not directly receive goods and services for the revenue.

The following summary is prepared from the College's statements of revenues, expenses and changes in net assets (page 11).

### **Summary of Revenues, Expenses and Changes in Net Assets**

**Years Ended June 30**

*(Dollars in Millions)*

	<b>2006</b>	<b>2005</b>	<b>Increase (Decrease) 2006–2005</b>	<b>2004</b>	<b>Increase (Decrease) 2005–2004</b>
Operating revenues	\$ 52.9	\$ 49.4	\$ 3.5	\$ 43.9	\$ 5.5
Operating expenses	131.5	124.1	7.4	113.7	10.4
Operating loss	(78.6)	(74.7)	(3.9)	(69.8)	(4.9)
Nonoperating revenues, net	101.9	98.4	3.5	86.2	12.2
Increase in net assets	23.3	23.7	(0.4)	16.4	7.3
Net assets, beginning of year	162.0	138.3	23.7	121.9	16.4
Net assets, end of year	<u>\$ 185.3</u>	<u>\$ 162.0</u>	<u>\$ 23.3</u>	<u>\$ 138.3</u>	<u>\$ 23.7</u>

### **Fiscal Year 2006 Compared to 2005**

Operating revenues increased \$3.5 million which reflects an increase of \$2.3 million in tuition and fees revenue and a \$0.6 million increase in gifts, grants and contracts. The increase in tuition and fees was due to an increase in student enrollments and tuition rate increases.

Operating expenses increased \$7.4 million mainly as the result of a \$3.5 million increase in salaries and benefits expenses and a \$3.9 million increase in supplies and services. The increase in salaries and benefits reflects the addition of 10 new full-time positions, a 4.10% pay increase for faculty and staff and increases in the cost of benefits. Supplies and contractual services increased as a result of increases in postage costs, legal costs and costs related to instructional programs.

### **Fiscal Year 2005 Compared to 2004**

Operating revenues increased \$5.5 million which reflects an increase of \$4.1 million in tuition and fees revenue. The increase in tuition and fees was due to an increase in student enrollments and a \$4 per credit hour increase in tuition and fee rates.

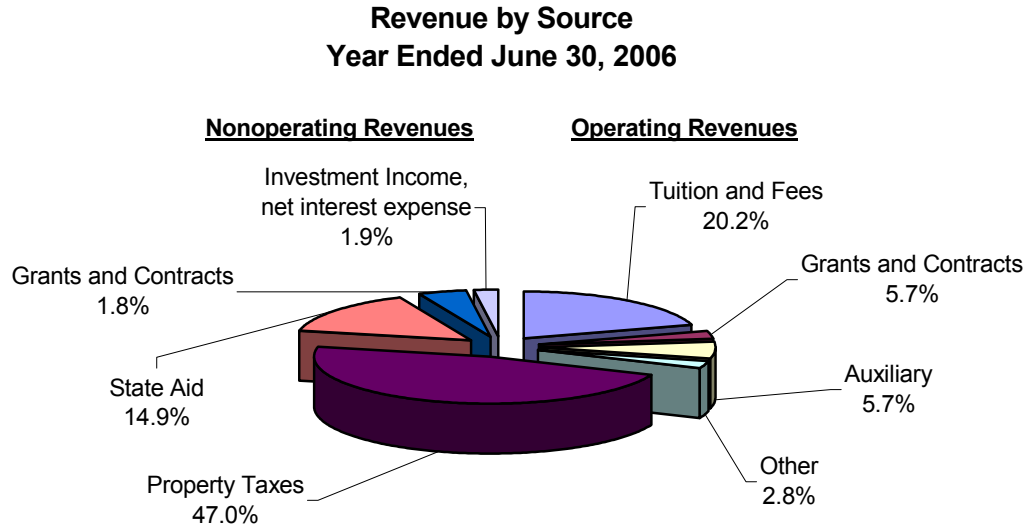
Operating expenses increased \$10.4 million mainly as the result of a \$4.5 million increase in salaries and benefits expenses and a \$5.0 million increase in supplies and services. The increase in salaries and benefits reflects the addition of ten new full-time positions, a 3.85% pay increase for faculty and staff and increases in the cost of benefits. Supplies and services increased as a result of aggressive maintenance to facilities including roof repairs and tuckpointing and general cost increases.

One of the financial strengths of the College is the diverse stream of revenues that supplement its student tuition and fees. The following summary is prepared from the College's statements of revenues, expenses and changes in net assets (page 11).

#### **Summary of Revenues Years Ended June 30 (Dollars in Millions)**

	<b>2006</b>	<b>2005</b>	<b>Increase (Decrease) 2006-2005</b>	<b>2004</b>	<b>Increase (Decrease) 2005-2004</b>
<b>Operating revenues</b>					
Student tuition and fees	\$ 31.2	\$ 28.9	\$ 2.3	\$ 24.8	\$ 4.1
Gifts, grants and contracts	8.9	8.3	0.6	7.4	0.9
Auxiliary enterprise revenue	8.9	8.4	0.5	7.8	0.6
Other operating revenues	3.9	3.8	0.1	3.9	(0.1)
<b>Total operating revenues</b>	<b>\$ 52.9</b>	<b>\$ 49.4</b>	<b>\$ 3.5</b>	<b>\$ 43.9</b>	<b>\$ 5.5</b>
<b>Nonoperating revenues (expenses)</b>					
County property taxes	\$ 72.7	\$ 71.3	\$ 1.4	\$ 66.0	\$ 5.3
State aid	23.0	20.9	2.1	19.2	1.7
Gifts, grants and contracts	2.8	5.0	(2.2)	1.4	3.6
Investment income	5.2	2.8	2.4	1.1	1.7
Interest on capital asset debt	(1.8)	(1.6)	(0.2)	(1.5)	( 0.1)
<b>Total nonoperating revenues, net</b>	<b>\$ 101.9</b>	<b>\$ 98.4</b>	<b>\$ 3.5</b>	<b>\$ 86.2</b>	<b>\$ 12.2</b>

The following is a graphic illustration of revenues by source for the year ended June 30, 2006.



The total operating expenses for the College for the years ended June 30, 2006, 2005 and 2004 were as follows.

**Summary of Operating Expenses  
Years Ended June 30  
(Dollars in Millions)**

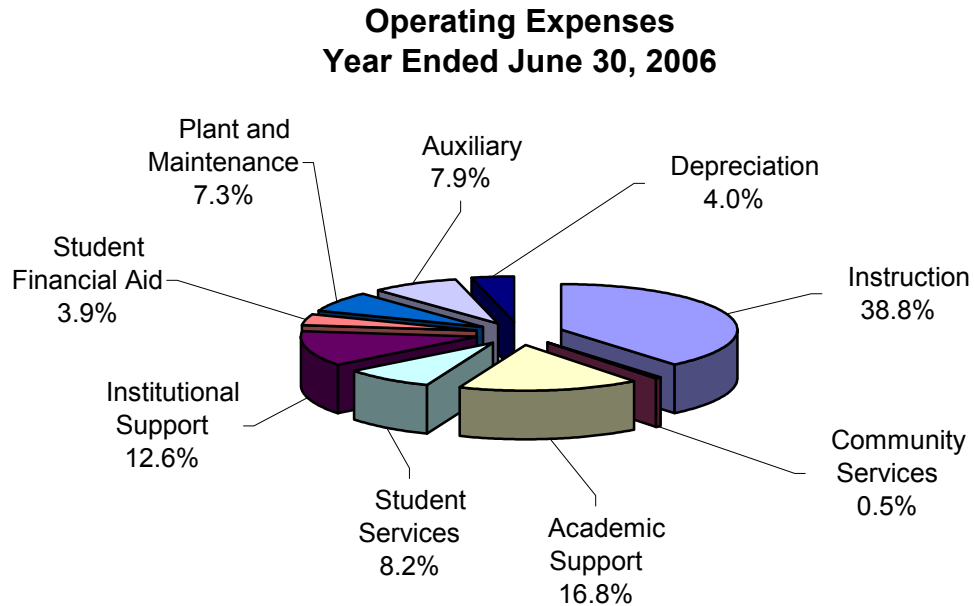
	2006	2005	Increase (Decrease) 2006–2005	2004	Increase (Decrease) 2005–2004
Operating expenses					
Salaries and benefits	\$ 88.1	\$ 84.6	\$ 3.5	\$ 80.1	\$ 4.5
Supplies, services and other	32.9	29.0	3.9	24.0	5.0
Scholarships and financial aid	5.3	5.3	—	4.8	0.5
Depreciation	5.2	5.2	—	4.8	0.4
Total operating expenses	<u>\$ 131.5</u>	<u>\$ 124.1</u>	<u>\$ 7.4</u>	<u>\$ 113.7</u>	<u>\$ 10.4</u>

The total operating expenses of the College by function for the years ended June 30, 2006, 2005 and 2004 were as follows.

**Summary of Operating Expenses by  
Functional Expenditure Classification  
Years Ended June 30**  
*(Dollars in Millions)*

	<b>2006</b>	<b>2005</b>	<b>Increase (Decrease) 2006-2005</b>	<b>2004</b>	<b>Increase (Decrease) 2005-2004</b>
Operating expenses					
Instruction	\$ 51.0	\$ 46.3	\$ 4.7	\$ 42.1	\$ 4.2
Community services	0.7	0.9	(0.2)	1.0	(0.1)
Academic support	22.1	21.2	0.9	19.3	1.9
Student services	10.8	10.7	0.1	10.2	0.5
Institutional support	16.6	14.9	1.7	14.8	0.1
Student financial aid	5.1	5.1	—	4.7	0.4
Plant and maintenance	9.6	9.9	(0.3)	8.2	1.7
Auxiliary	10.4	9.9	0.5	8.6	1.3
Depreciation	5.2	5.2	—	4.8	0.4
Total operating expenses	<u>\$ 131.5</u>	<u>\$ 124.1</u>	<u>\$ 7.4</u>	<u>\$ 113.7</u>	<u>\$ 10.4</u>

The following is a graphic illustration of operating expenses by function for the year ended June 30, 2006.



## Statements of Cash Flows

The statements of cash flows present information about the cash activity of the College. The statements show the major sources and uses of cash. The following summary is prepared from the College's statements of cash flows.

### Summary of Cash Flows Years Ended June 30 (Dollars in Millions)

	2006	2005	Increase (Decrease) 2006–2005	2004	Increase (Decrease) 2005–2004
Cash provided by (used in)					
Operating activities	\$(74.4)	\$(71.6)	\$ (2.8)	\$(67.4)	\$ (4.2)
Noncapital financing activities	98.0	96.0	2.0	116.3	(20.3)
Capital and related financing activities	(32.5)	(3.7)	(28.8)	0.9	(4.6)
Investing activities	14.3	(23.4)	37.7	(47.3)	23.9
Net change in cash	5.4	(2.7)	8.1	2.5	(5.2)
Cash, beginning of year	5.2	7.9	(2.7)	5.4	2.5
Cash, end of year	\$ 10.6	\$ 5.2	\$ 5.4	\$ 7.9	\$ (2.7)

## Economic Outlook

Tuition and fee rates remain the same for fiscal year 2007 and student credit hours are expected to increase by 2%, which is projected to increase tuition and fees revenue by \$0.4 million.

The assessed valuation of property in Johnson County is expected to increase by 7.8% to \$7.74 billion for fiscal year 2007. The Board of Trustees lowered the tax levy by .100 mills for fiscal year 2007 and set the tax levy rate at 8.860 mills. The combination of these two factors is expected to result in a \$4.5 million increase in property tax revenues during fiscal year 2007.

The State of Kansas has committed to increase state funding to community colleges by \$5 million during fiscal year 2007. Of this increase, the College expects to receive \$1.1 million in additional state funding.

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.

**Johnson County Community College**  
**Statements of Net Assets**  
**June 30, 2006 and 2005**

**Assets**

	<b>2006</b>	<b>2005</b>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 10,558,679	\$ 5,225,456
Short-term investments	115,068,509	103,062,869
Accounts receivable, net of uncollectible accounts; 2006 - \$3,306,000, 2005 - \$1,354,000	2,912,060	2,969,640
Student loans receivable	218,084	198,547
Inventories	<u>1,173,947</u>	<u>1,572,099</u>
Total current assets	<u>129,931,279</u>	<u>113,028,611</u>
<b>Noncurrent Assets</b>		
Restricted short-term investments	5,726,265	26,982,951
Student loans, net of allowance for uncollectible loans; 2006 and 2005 - \$62,000	1,217,569	1,303,884
Capital assets, net of accumulated depreciation; 2006 - \$67,538,677, 2005 - \$63,728,858	<u>113,129,538</u>	<u>87,328,449</u>
Total noncurrent assets	<u>120,073,372</u>	<u>115,615,284</u>
Total assets	<u>250,004,651</u>	<u>228,643,895</u>

**Liabilities**

<b>Current Liabilities</b>		
Accounts payable	5,148,523	3,356,604
Accrued salaries	3,330,264	3,127,882
Accrued compensated absences	301,198	302,861
Other accrued liabilities	3,524,630	2,429,015
Deferred student tuition and fee revenue	915,636	725,221
Deposits held in custody for others	375,811	373,779
Current portion of general obligation bonds	3,275,000	3,090,000
Current portion of revenue bonds payable	760,000	680,000
Current portion of capital lease obligations	1,587,141	1,546,100
Current portion of lease obligations assumed by third party	<u>140,142</u>	<u>130,922</u>
Total current liabilities	<u>19,358,345</u>	<u>15,762,384</u>
<b>Noncurrent Liabilities</b>		
Accrued compensated absences	1,850,213	1,860,431
General obligation bonds payable	6,905,000	10,180,000
Revenue bonds payable	25,795,000	26,325,000
Capital lease obligations	10,274,066	11,870,411
Lease obligations assumed by third party	<u>464,681</u>	<u>604,823</u>
Total noncurrent liabilities	<u>45,288,960</u>	<u>50,840,665</u>
Total liabilities	<u>64,647,305</u>	<u>66,603,049</u>

**Net Assets**

Invested in capital assets, net of related debt	63,928,508	32,901,192
Restricted — expendable for		
Capital projects	21,662,818	45,451,975
Bonds	5,771,893	5,134,092
Other	2,999,854	2,974,348
Unrestricted	<u>90,994,273</u>	<u>75,579,239</u>
Total net assets	<u>\$ 185,357,346</u>	<u>\$ 162,040,846</u>

**Johnson County Community College  
Component Unit  
Johnson County Community College Foundation  
Statements of Financial Position  
June 30, 2006 and 2005**

**Assets**

	<u>2006</u>	<u>2005</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 4,532,188	\$ 1,575,206
Contributions receivable	2,363,111	4,731,242
Other receivables	5,250	5,250
Investments	11,628,286	10,665,237
Accrued interest receivable	47,089	41,181
Campus art	1,501,262	1,451,735
Fixed assets – software, net	—	745
Cash surrender value of life insurance	<u>6,379</u>	<u>5,926</u>
Total assets	<u>\$ 20,083,565</u>	<u>\$ 18,476,522</u>

**Liabilities and Net Assets**

<b>Liabilities</b>		
Payables	\$ 13,375	\$ 5,992
General pledge to Johnson County Community College	<u>2,740,582</u>	<u>1,152,086</u>
Total liabilities	<u>2,753,957</u>	<u>1,158,078</u>
<b>Net Assets</b>		
Unrestricted	733,570	654,016
Temporarily restricted	6,277,902	7,064,796
Permanently restricted	<u>10,318,136</u>	<u>9,599,632</u>
Total net assets	<u>17,329,608</u>	<u>17,318,444</u>
Total liabilities and net assets	<u>\$ 20,083,565</u>	<u>\$ 18,476,522</u>

**Johnson County Community College**  
**Statements of Revenues, Expenses**  
**and Changes in Net Assets**  
**Years Ended June 30, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
<b>Operating Revenues</b>		
Student tuition and fees, net of scholarship allowances; 2006 - \$1,570,330, 2005 - \$1,655,233	\$ 31,230,649	\$ 28,860,058
Federal grants	5,624,606	5,797,995
State grants and contracts	743,421	276,879
Private gifts, grants and contracts	2,442,196	2,128,646
Local grants and contracts	100,761	113,934
Auxiliary enterprise revenue	8,842,627	8,411,462
Other operating revenue	<u>3,940,010</u>	<u>3,843,538</u>
Total operating revenues	<u>52,924,270</u>	<u>49,432,512</u>
<b>Operating Expenses</b>		
Salaries	66,236,114	63,452,989
Benefits	21,861,571	21,124,923
Contractual services	11,102,317	8,245,018
Supplies and other operating expenses	16,055,373	12,827,149
Utilities	2,077,195	2,047,713
Repairs and maintenance to plant	3,660,949	5,888,177
Scholarship and financial aid	5,274,334	5,298,342
Depreciation	<u>5,199,291</u>	<u>5,208,551</u>
Total operating expenses	<u>131,467,144</u>	<u>124,092,862</u>
<b>Operating Loss</b>	<u>(78,542,874)</u>	<u>(74,660,350)</u>
<b>Nonoperating Revenues (Expenses)</b>		
County property taxes	72,662,052	71,307,626
State aid	23,016,158	20,891,278
Federal grants and contracts	1,422,282	1,632,374
Private gifts and contracts restricted for debt service	1,360,725	3,448,582
Investment income	5,154,657	2,786,140
Interest on student loans receivable	20,646	24,056
Other nonoperating revenues (expenses)	28,808	(62,176)
Interest on capital asset debt	<u>(1,805,954)</u>	<u>(1,581,770)</u>
Total nonoperating revenues, net	<u>101,859,374</u>	<u>98,446,110</u>
<b>Increase in Net Assets</b>	23,316,500	23,785,760
<b>Net Assets, Beginning of Year</b>	<u>162,040,846</u>	<u>138,255,086</u>
<b>Net Assets, End of Year</b>	<u>\$ 185,357,346</u>	<u>\$ 162,040,846</u>

**Johnson County Community College  
Component Unit  
Johnson County Community College Foundation  
Statement of Activities  
Year Ended June 30, 2006**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Support and Revenue</b>				
Gifts and contributions	\$ 53,728	\$ 2,259,968	\$ 718,504	\$ 3,032,200
Contributed services	465,831	—	—	465,831
Dividend and interest income	56,189	320,148	—	376,337
Net realized and unrealized gains on investments	—	664,709	—	664,709
Net assets released from restrictions	<u>4,031,719</u>	<u>(4,031,719)</u>	<u>—</u>	<u>—</u>
Total support and revenue	<u>4,607,467</u>	<u>(786,894)</u>	<u>718,504</u>	<u>4,539,077</u>
<b>Expenses</b>				
Program expenses				
Scholarship programs	504,804			504,804
Performing arts programs	282,545			282,545
Visual arts programs	31,070			31,070
Capital project programs	2,768,495			2,768,495
Other programs	<u>226,645</u>			<u>226,645</u>
	<u>3,813,559</u>			<u>3,813,559</u>
Supporting services				
Fundraising	577,238			577,238
Management and general	<u>137,116</u>			<u>137,116</u>
	<u>714,354</u>			<u>714,354</u>
Total expenses	<u>4,527,913</u>			<u>4,527,913</u>
Increase (decrease) in net assets	79,554	(786,894)	718,504	11,164
<b>Net Assets, Beginning of Year</b>	<u>654,016</u>	<u>7,064,796</u>	<u>9,599,632</u>	<u>17,318,444</u>
<b>Net Assets, End of Year</b>	<u>\$ 733,570</u>	<u>\$ 6,277,902</u>	<u>\$ 10,318,136</u>	<u>\$ 17,329,608</u>

**Johnson County Community College  
Component Unit  
Johnson County Community College Foundation  
Statement of Activities  
Year Ended June 30, 2005**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Support and Revenue</b>				
Gifts and contributions	\$ 62,607	\$ 1,948,910	\$ 235,755	\$ 2,247,272
Contributed services	443,189	—	—	443,189
Dividend and interest income	45,080	316,615	—	361,695
Net realized and unrealized gains on investments	48	369,927	—	369,975
Net assets released from restrictions	<u>5,755,114</u>	<u>(5,755,114)</u>	<u>—</u>	<u>—</u>
Total support and revenue	<u>6,306,038</u>	<u>(3,119,662)</u>	<u>235,755</u>	<u>3,422,131</u>
<b>Expenses</b>				
Program expenses				
Scholarship programs	397,351			397,351
Performing arts programs	265,904			265,904
Visual arts programs	69,297			69,297
Capital project programs	4,427,086			4,427,086
Other programs	<u>510,043</u>			<u>510,043</u>
	<u>5,669,681</u>			<u>5,669,681</u>
Supporting services				
Fundraising	541,069			541,069
Management and general	<u>67,131</u>			<u>67,131</u>
	<u>608,200</u>			<u>608,200</u>
Total expenses	<u>6,277,881</u>			<u>6,277,881</u>
Increase (decrease) in net assets	28,157	(3,119,662)	235,755	(2,855,750)
<b>Net Assets, Beginning of Year</b>	<u>625,859</u>	<u>10,184,458</u>	<u>9,363,877</u>	<u>20,174,194</u>
<b>Net Assets, End of Year</b>	<u>\$ 654,016</u>	<u>\$ 7,064,796</u>	<u>\$ 9,599,632</u>	<u>\$ 17,318,444</u>

**Johnson County Community College**  
**Statements of Cash Flows**  
**Years Ended June 30, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
<b>Operating Activities</b>		
Student tuition and fees	\$ 31,562,683	\$ 28,967,657
Payments to suppliers	(22,990,630)	(19,151,430)
Payments to employees	(66,045,613)	(63,517,220)
Payments for scholarships and financial aid	(5,274,334)	(5,298,342)
Payments for employee benefits	(21,861,571)	(21,155,991)
Payments for utilities	(2,055,001)	(2,091,783)
Payments for auxiliary services, net of charges	(673,615)	(2,803,798)
Grants and contracts	9,011,583	9,581,728
Other receipts, net	<u>3,928,717</u>	<u>3,944,706</u>
Net cash used in operating activities	<u>(74,397,781)</u>	<u>(71,524,473)</u>
<b>Noncapital Financing Activities</b>		
County property taxes	72,046,662	71,307,626
State aid	23,016,158	20,891,278
Grants and contracts	2,889,774	3,714,376
Funds held for others	<u>2,032</u>	<u>55,485</u>
Net cash provided by noncapital financing activities	<u>97,954,626</u>	<u>95,968,765</u>
<b>Capital and Related Financing Activities</b>		
Purchases of capital assets, net of disposals	(25,383,414)	(13,163,655)
Proceeds from bond issuance	8,210,000	—
Principal and interest paid on bonds payable	(13,542,132)	(2,156,824)
Principal and interest paid on capital leases	(1,750,555)	(841,522)
Proceeds from capital leases	<u>—</u>	<u>12,451,549</u>
Net cash used in capital and related financing activities	<u>(32,466,101)</u>	<u>(3,710,452)</u>
<b>Investing Activities</b>		
Purchase of investments	(457,833,627)	(293,448,752)
Proceeds from sale and maturities of investments	467,084,673	267,573,687
Interest on investments	<u>4,991,433</u>	<u>2,488,518</u>
Net cash provided by (used in) investing activities	<u>14,242,479</u>	<u>(23,386,547)</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	5,333,223	(2,652,707)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>5,225,456</u>	<u>7,878,163</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 10,558,679</u>	<u>\$ 5,225,456</u>

**Johnson County Community College**  
**Statements of Cash Flows (Continued)**  
**Years Ended June 30, 2006 and 2005**

	<b>2006</b>	<b>2005</b>
<b>Reconciliation of Operating Loss to Net Cash Used in Operating Activities</b>		
Operating loss	\$ (78,542,874)	\$ (74,660,350)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation expense	5,199,291	5,208,551
Changes in assets and liabilities		
Accounts receivable, net	816,852	(826,130)
Inventories	398,152	(543,406)
Accounts payable	(748,581)	206,152
Accrued salaries	202,382	(194,490)
Accrued compensated absences	(11,881)	130,259
Other accrued liabilities	(1,901,538)	(911,715)
Deferred student tuition and fee revenue	142,456	40,474
Other deferred revenue	<u>47,960</u>	<u>26,182</u>
<b>Net Cash Used in Operating Activities</b>	<u>\$ (74,397,781)</u>	<u>\$ (71,524,473)</u>
<b>Supplemental Cash Flows Information</b>		
Accounts payable and other liabilities incurred for capital asset purchases	<u>\$ 5,588,158</u>	<u>\$ 2,183,898</u>

# Johnson County Community College

## Notes to Financial Statements

June 30, 2006 and 2005

### 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 six members, all being elected at large. The College is a public two-year community college offering a comprehensive curriculum with liberal arts and sciences, as well as vocational and technical programs for credit and noncredit students from Johnson County and surrounding communities.

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

#### **Reporting Entity**

The College has implemented GASB Statement Number 39, *Determining Whether Certain Organizations Are Component Units*. This Statement amends GASB Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance to determine whether certain organizations for which the College is not financially accountable should be reported as component units based on the nature and significance of their relationship with the College.

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. The 250-member Board of the Foundation is self-perpetuating and consists of graduates and friends of the College. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon that the Foundation holds and invests, are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the College, the Foundation is considered a component unit of the College and is discretely presented in the College's financial statements. During the years ended June 30, 2006 and 2005, the College received direct contributions from the Foundation of \$2,225,064 and \$4,517,595, respectively.

# Johnson County Community College

## Notes to Financial Statements

June 30, 2006 and 2005

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 Statement No. 116, *Accounting for Contributions Received and Contributions Made*, and FASB Statement No. 117, *Financial Reporting for Not-for-Profit-Organizations*. 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 8) to the Foundation's financial statements have been incorporated into the College's notes to the financial statements.

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

### ***Measurement Focus, Basis of Accounting and Financial Statement Presentation***

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

The College has classified revenues as either operating or nonoperating revenues. Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, and (3) state, and local grants and contracts. Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as state appropriations, federal grants and contracts, investment income and county property taxes.

The College maintains an encumbrance system for tracking outstanding purchase orders and other commitments for material or services not received during the year. Encumbrances at June 30, 2006 and 2005 were \$25,817,660 (including construction contracts of \$22,603,795) and \$46,417,547 (including construction contracts of \$43,460,878), 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, 2006 do not constitute expenses or liabilities and are not reflected in these basic financial statements.

### ***Property Taxes***

Valuations are established and tax bills are due November 1. Substantially all tax revenues applicable to the preceding 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 47% and 48% of its financial support (exclusive of investment income) from property taxes during the years ended June 30, 2006 and 2005, respectively.

# Johnson County Community College

## Notes to Financial Statements

June 30, 2006 and 2005

The County Assessor is responsible for assessment of all taxable real property within Johnson County. Reassessment is on a two-year schedule established by the Assessor. The County Clerk computes the annual tax for each parcel of real property and prepares tax information used by the County Treasurer as the basis for issuing tax bills to all taxpayers in the county.

Property taxes are collected by the County Treasurer, who remits to each unit its respective share of the collections. Taxes levied in one year become due and payable in two installments, generally on 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.

The tax rates for the fiscal years ended June 30, 2006 and 2005, per \$100 of assessed valuation, are reflected in the following table:

<u>Fund</u>	<u>Rates</u>	
	<u>2006</u>	<u>2005</u>
General	8.441	8.919
Capital outlay	0.500	0.500
Special assessment	<u>0.019</u>	<u>0.019</u>
Total mill levy	<u>8.960</u>	<u>9.438</u>

### ***Scholarship Discounts and Allowances***

Student tuition and fee revenues are reported net of scholarship allowances in the statement of revenues, expenses and changes in net assets. Scholarship allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship allowance.

### ***Cash and Cash Equivalents***

Cash and cash equivalents include deposits held at banks plus small amounts of cash maintained for change funds. The College considers all liquid investments with original maturities of three months or less to be cash equivalents.

### ***Investments***

Investments in certificates of deposit are carried at cost. Other investments are reported at fair value.

# Johnson County Community College

## Notes to Financial Statements

June 30, 2006 and 2005

### **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 \$2,000 or more with an estimated useful life of four years or more. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. The College has elected not to capitalize its collection of library books.

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*):

	<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, 2006 and 2005, the College had recorded a vacation liability of \$2,151,411 and \$2,163,292, 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.

# Johnson County Community College

## Notes to Financial Statements

June 30, 2006 and 2005

### ***Deferred Tuition and Fee Revenue***

Tuition and fee revenue is earned over the length of the course. Deferred revenue represents student tuition and fees received before year end, which relate to subsequent periods.

### ***Net Assets***

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

Restricted net assets are funds that are limited in terms of the purpose and time for which the funds can be spent. Restricted net assets are further categorized between expendable and nonexpendable. Restricted expendable net assets are available to be spent by the College after externally imposed stipulations have been fulfilled or after the passage of time. Restricted nonexpendable net assets are endowments for which only the interest portion can be spent. The College has no restricted nonexpendable net assets at June 30, 2006 and 2005. Unrestricted net assets are available to the College for any lawful purpose. The College first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

### ***On-Behalf Payments for Fringe Benefits and Salaries***

The College recognizes as revenues and expenses, contributions made by the State of Kansas to the Kansas Public Employees Retirement System on behalf of the College's employees. In fiscal years 2006 and 2005, the State made contributions of \$3,764,664 and \$3,252,332, respectively (*see Note 5*).

### ***Income Taxes***

The College is a government entity and is not subject to income taxes. However, income from certain activities not directly related to the College's tax exempt purpose may be subject to taxation as unrelated business income.

### ***Use of Estimates***

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

### ***Reclassifications***

Certain reclassifications have been made to the 2005 financial statements to conform to the 2006 presentation.

# Johnson County Community College

## Notes to Financial Statements

June 30, 2006 and 2005

### Note 2: Deposits, Investments and Risk

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

#### **Deposits**

Cash and cash equivalents consists of cash and deposit balances in demand deposit bank accounts. Cash, depending on the source of receipts, is pooled, except when legal requirements dictate the use of separate accounts. The carrying amount of the College's deposits at June 30, 2006 and 2005 were \$10,558,679 and \$5,225,456, respectively, which includes amounts maintained for cashiers' change funds. Actual bank statement balances at June 30, 2006 and 2005 were \$11,461,377 and \$6,773,928, respectively. The difference between carrying amounts and bank balances represents primarily checks which have not cleared the bank. The deposit balances and cash float from outstanding checks are deposited in interest-bearing accounts.

#### 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, 2006 and 2005. 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 or 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.

#### **Investments**

The College's investments at June 30, 2006 and 2005 were \$120,794,774 and \$130,045,820, respectively. 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.

The State of Kansas Pooled Money Investment Board operates the State of Kansas Municipal Investment Pool (MIP), which is invested in accordance with the State statutes. The MIP is available for investment of funds administered by any Kansas municipality. The fair value of the MIP investment is approximately the same as the stated value of the MIP shares at June 30, 2006 and 2005. All funds deposited in the MIP are classified as investments even though some could be withdrawn on a day's notice.

# Johnson County Community College

## Notes to Financial Statements

June 30, 2006 and 2005

At June 30, 2006 and 2005, the College had the following investments which all mature in less than one year:

### June 30, 2006 Investment Maturities

<u>Investment Type</u>	<u>Fair Value</u>
Kansas Municipal Investment Pool	\$ 7,864,632
Certificates of Deposit – Hillcrest Bank	12,000,000
Certificates of Deposit – Metcalf Bank	4,000,000
Certificates of Deposit – First Kansas Bank and Trust Company	4,000,000
Certificates of Deposit – Capitol Federal Savings	84,000,000
Certificates of Deposit – UMB Bank	4,000,000
Collateralized Investment Agreement – Citigroup	4,577,642
U.S. Treasury Obligation Fund	<u>352,500</u>
Totals	<u>\$120,794,774</u>

### June 30, 2005 Investment Maturities

<u>Investment Type</u>	<u>Fair Value</u>
Kansas Municipal Investment Pool	\$ 7,639,351
Certificates of Deposit – Goldbank	60,000,000
Certificates of Deposit – Capital City Bank	24,000,000
Certificates of Deposit – First National Bank of Olathe	4,000,000
Certificates of Deposit – Capitol Federal Savings	20,000,000
Collateralized Investment Agreement – Citigroup	14,053,251
U.S. Treasury Obligation Fund	<u>353,218</u>
Totals	<u>\$ 130,045,820</u>

# Johnson County Community College

## Notes to Financial Statements

June 30, 2006 and 2005

Investments are disclosed as follows in the statements of net assets:

	2006	2005
Short-term investments	\$ 115,068,509	\$ 103,062,869
Restricted short-term investments	<u>5,726,265</u>	<u>26,982,951</u>
Totals	<u>\$ 120,794,774</u>	<u>\$ 130,045,820</u>

### **Credit Risk**

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The College's investment policy for credit risk exceeds the provisions of State law by requiring depositories to pledge qualified securities with a market value equal to 105% of deposits in excess of FDIC coverage. The College's investment policy currently does not address interest rate risk or concentration of credit risk.

The College's investment in the collateralized investment agreement with Citigroup was rated AA- by Standards & Poor's and Aa1 by Moody's Investors Services at June 30, 2006.

The College's investments in the Kansas Municipal Investment Pool was rated AAAf/S1+ by Standards & Poor's at June 30, 2006.

### **Note 3: Capital Assets**

Capital assets consisted of the following categories at June 30, 2006 and 2005:

	July 1, 2005 Beginning Balance	Additions/ Transfers	Retirements	June 30, 2006 Ending Balance
Land and land improvements	\$ 20,879,876	\$ 14,125		\$ 20,894,001
Buildings and improvements	95,021,807	605,211		95,627,018
Construction in progress	11,079,291	27,830,357		38,909,648
Equipment	23,058,419	2,292,282	\$ (1,464,791)	23,885,910
Works of art	<u>1,017,914</u>	<u>342,719</u>	<u>(8,995)</u>	<u>1,351,638</u>
Total	151,057,307	31,084,694	(1,473,786)	180,668,215
Less accumulated depreciation	<u>63,728,858</u>	<u>5,199,291</u>	<u>(1,389,472)</u>	<u>67,538,677</u>
Capital assets, net	<u>\$ 87,328,449</u>	<u>\$ 25,885,403</u>	<u>\$ (84,314)</u>	<u>\$113,129,538</u>

# Johnson County Community College

## Notes to Financial Statements

June 30, 2006 and 2005

	July 1, 2004 Beginning Balance	Additions/ Transfers	Retirements	June 30, 2005 Ending Balance
Land and land improvements	\$ 8,717,093	\$ 12,162,783		\$ 20,879,876
Buildings and improvements	92,531,351	2,490,456		95,021,807
Construction in progress	12,548,644	(1,469,353)		11,079,291
Equipment	22,953,355	2,019,611	\$ (1,914,547)	23,058,419
Works of art	<u>873,858</u>	<u>144,056</u>	<u>—</u>	<u>1,017,914</u>
Total	137,624,301	15,347,553	(1,914,547)	151,057,307
Less accumulated depreciation	<u>60,410,388</u>	<u>5,208,551</u>	<u>(1,890,081)</u>	<u>63,728,858</u>
Capital assets, net	<u>\$ 77,213,913</u>	<u>\$ 10,139,002</u>	<u>\$ (24,466)</u>	<u>\$ 87,328,449</u>

The College has capitalized \$839,240 and \$193,695 in interest related to construction projects for the years ended June 30, 2006 and 2005, respectively.

### Note 4: Long-Term Obligations

Long-term obligations consist of the following categories at June 30, 2006 and 2005:

Long-Term Obligations	July 1, 2005 Beginning Balance	Additions	Reductions	June 30, 2006 Ending Balance	Due Within One Year
General Obligation Bonds					
Series 2004	\$ 13,270,000		\$ (3,090,000)	\$ 10,180,000	\$ 3,275,000
Revenue Bonds					
Series 1998	9,045,000		(8,090,000)	955,000	115,000
Series 2002	11,810,000		(110,000)	11,700,000	115,000
Series 2004	6,150,000		(460,000)	5,690,000	505,000
Series 2006		\$ 8,210,000		8,210,000	25,000
Capital Lease Obligations					
Series 2000 COP	1,259,255		(224,078)	1,035,177	239,858
Series 2004 COP	11,725,000		(1,180,000)	10,545,000	1,200,000
Series 2002 Koch	211,011		(42,415)	168,596	44,360
Series 2004 Koch	221,245		(108,811)	112,434	102,923
Lease obligations assumed by a third party					
Series 2000 COP (BNSF)	735,745		(130,922)	604,823	140,142
Other long-term liabilities					
Accrued compensated absences	<u>2,163,292</u>	<u>2,088,657</u>	<u>(2,100,538)</u>	<u>2,151,411</u>	<u>301,198</u>
Total long-term liabilities	<u>\$ 56,590,548</u>	<u>\$ 10,298,657</u>	<u>\$ (15,536,764)</u>	<u>\$ 51,352,441</u>	<u>\$ 6,063,481</u>

# Johnson County Community College

## Notes to Financial Statements

June 30, 2006 and 2005

Long-Term Obligations	July 1, 2004 Beginning Balance	Additions	Reductions	June 30, 2005 Ending Balance	Due Within One Year
General Obligation Bonds					
Series 2004	\$ 13,270,000			\$ 13,270,000	\$ 3,090,000
Revenue Bonds					
Series 1998	9,155,000		\$ (110,000)	9,045,000	110,000
Series 2002	11,910,000		(100,000)	11,810,000	110,000
Series 2004	6,520,000		(370,000)	6,150,000	460,000
Capital Lease Obligations					
Series 2000 COP	1,473,865		(214,610)	1,259,255	224,078
Series 2004 COP		\$ 12,125,000	(400,000)	11,725,000	1,180,000
Series 2002 Koch	251,569		(40,558)	211,011	42,416
Series 2004 Koch		326,549	(105,304)	221,245	99,606
Lease obligations assumed by a third party					
Series 2000 COP (BNSF)	861,135		(125,390)	735,745	130,922
Other long-term liabilities					
Accrued compensated absences	<u>2,033,033</u>	<u>2,116,485</u>	<u>(1,986,226)</u>	<u>2,163,292</u>	<u>302,861</u>
Total long-term liabilities	<u>\$ 45,474,602</u>	<u>\$ 14,568,034</u>	<u>\$ (3,452,088)</u>	<u>\$ 56,590,548</u>	<u>\$ 5,749,883</u>

### **Bonds Payable**

General obligation bonds payable as of June 30, 2006 and 2005 consist of the following:

Description	2006	2005
Regnier Center and Nerman Museum of Contemporary Art – General Obligation Bonds, Series 2004, \$13,270,000, 2.5% to 4.0%, due in annual principal payments ranging from \$3,275,000 in August 2006 to \$3,495,000 in August 2008; interest is paid semiannually on February 1 and August 1	\$ <u>10,180,000</u>	\$ <u>13,270,000</u>
Total general obligation bonds	10,180,000	13,270,000
Less current portion of general obligation bonds	<u>3,275,000</u>	<u>3,090,000</u>
Noncurrent general obligation bonds payable	<u>\$ 6,905,000</u>	<u>\$ 10,180,000</u>

At June 30, 2005, bonds payable were \$13,270,000. During 2006, \$3,090,000 of bond payments were made, resulting in a general obligation bond payable balance at June 30, 2006 of \$10,180,000. Interest expense relating to general obligation bonds was \$307,932 and \$302,829 for the years ended June 30, 2006 and 2005, respectively.

**Johnson County Community College**  
**Notes to Financial Statements**  
**June 30, 2006 and 2005**

Future annual maturities of general obligation bonds payable are as follows:

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total General Obligation Bonds</b>
2007	\$ 3,275,000	\$ 238,125	\$ 3,513,125
2008	3,410,000	130,000	3,540,000
2009	<u>3,495,000</u>	<u>43,688</u>	<u>3,538,688</u>
Total	<u>\$ 10,180,000</u>	<u>\$ 411,813</u>	<u>\$ 10,591,813</u>

Revenue bonds payable as of June 30, 2006 and 2005 consist of the following:

<b>Description</b>	<b>2006</b>	<b>2005</b>
Student Commons and Parking System Revenue Bonds, Series 1998, \$9,665,000, 4.25% to 5.05%, due in annual principal payments ranging from \$115,000 in November 2006 to \$815,000 in November 2021; interest is paid semi-annually on May 15 and November 15 (Partial refunding took place in 2006)	\$ 955,000	\$ 9,045,000
Student Commons and Parking System Revenue Bonds, Series 2002, \$12,000,000, 3.5% to 6.0%, due in annual principal payments ranging from \$115,000 in November 2006 to \$1,645,000 in November 2027; interest is paid semi-annually on May 15 and November 15	11,700,000	11,810,000
Student Commons and Parking System Revenue Bonds, Series 2004, \$6,520,000, 2.625% to 4.3 %, due in annual principal payments ranging from \$205,000 in November 2008 to \$505,000 in November 2022; interest is paid semi-annually on May 15 and November 15	5,690,000	6,150,000
Student Commons and Parking System Refunding Revenue Bonds, Series 2006, \$8,210,000, 3% to 5 %, due in annual principal payments ranging from \$25,000 in November 2006 to \$785,000 in November 2021; interest is paid semi-annually on May 15 and November 15	<u>8,210,000</u>	<u>—</u>
Total revenue bonds	26,555,000	27,005,000
Less current portion of revenue bonds payable	<u>760,000</u>	<u>680,000</u>
Noncurrent revenue bonds payable	<u>\$ 25,795,000</u>	<u>\$ 26,325,000</u>

At June 30, 2005, revenue bonds payable were \$27,005,000. During 2006, \$680,000 of bond payments were made and \$7,980,000 of bonds were advanced refunded using the proceeds from an \$8,210,000 new issue, resulting in a revenue bond payable balance at June 30, 2006 of \$26,555,000. Interest expense relating to the revenue bonds was \$1,447,470 and \$1,228,644 for the years ended June 30, 2006 and 2005, respectively.

**Johnson County Community College**  
**Notes to Financial Statements**  
**June 30, 2006 and 2005**

Future annual maturities of revenue bonds payable are as follows:

Fiscal Year	Principal	Interest	Total Revenue Bonds
2007	\$ 760,000	\$ 1,142,879	\$ 1,902,879
2008	795,000	1,115,092	1,910,092
2009	810,000	1,085,081	1,895,081
2010	845,000	1,052,396	1,897,396
2011	880,000	1,016,599	1,896,599
2012–2016	4,950,000	4,512,227	9,462,227
2017–2021	6,070,000	3,412,099	9,482,099
2022–2026	7,750,000	1,933,106	9,683,106
2027–2028	<u>3,695,000</u>	<u>196,015</u>	<u>3,891,015</u>
Total	<u>\$ 26,555,000</u>	<u>\$ 15,465,494</u>	<u>\$ 42,020,494</u>

**Lease Obligations**

Capital lease obligations at June 30, 2006 and 2005 consist of the following:

Description	2006	2005
Warehouse and Police Academy Buildings – Certificates of Participation, Series 2000, \$2,225,000 in obligations for facilities (capital cost of \$3,525,000 before accumulated depreciation of \$563,862 and \$469,885 at June 30, 2006 and 2005, respectively), 5.55% to 5.65%, aggregate payments of \$1,184,950, including interest of \$149,773, due in semiannual installments ranging from \$7,935 to \$288,822, including interest, through April 2010. See below regarding related obligations assumed by Burlington Northern Santa Fe Railway.	\$ 1,035,177	\$ 1,259,255
Regnier Center for Technology and Business and Nerman Museum of Contemporary Art – Certificates of Participation, Series 2004, \$12,125,000 in obligations for facilities (capital cost of \$47,495,000), 3.00% to 4.00%, aggregate payments of \$12,319,725, including interest of \$1,774,725, due in semiannual installments ranging from \$29,300 to \$1,494,300, including interest, through April 2014.	10,545,000	11,725,000
Shinohara Printing Press Equipment Lease – Capital Lease, Koch Financial Corp., Series 2002 (capital cost of \$389,000 before accumulated depreciation of \$272,300 and \$194,500 at June 30, 2006 and 2005, respectively); 4.49% aggregate payments of \$182,837, including interest of \$14,241, due in monthly installments of \$4,252 including interest, through January 2010.	168,596	211,012

# Johnson County Community College

## Notes to Financial Statements

June 30, 2006 and 2005

Description	2006	2005
Heidelberg Digital High Speed Production Printer Equipment		
Lease – Capital Lease, Koch Financial Corp., Series 2004 (capital cost of \$343,325 before accumulated depreciation of \$137,330 and \$68,665 at June 30, 2006 and 2005, respectively); 3.28% aggregate payments of \$114,442, including interest of \$2,008, due in monthly installments of \$9,537 including interest, through July 2007.	\$ <u>112,434</u>	\$ <u>221,244</u>
Total capital lease obligations	11,861,207	13,416,511
Less current portion of capital lease obligations	<u>1,587,141</u>	<u>1,546,100</u>
Noncurrent capital lease obligations	<u>\$ 10,274,066</u>	<u>\$ 11,870,411</u>

Warehouse and Police Academy Buildings – In June 2000, the College entered into a ten-year agreement with Commerce Bank of Kansas City (Commerce) whereby the College leased the site on which the Warehouse and Police Academy Facilities (the Facilities) are located. Concurrently, the College issued \$3,525,000 of Certificates of Participation. The proceeds of this issuance were used to construct the Facilities, which have been leased to the College for a ten-year term. Also in 2000, the College entered into a ten-year agreement with Burlington Northern Santa Fe Railway (Burlington). Under the terms of the agreement, Burlington agrees to make semiannual payments of principal and related interest in installments ranging from approximately \$4,636 to \$168,750 for a total principal amount of \$1,300,000. As Burlington makes payments for its share of the outstanding principal on the certificates, the College will reduce the “lease obligation assumed by third party” and recognize a gift.

The College has accounted for the transactions as capital leases and recorded the cost of the equipment and facilities as assets and the corresponding obligations as liabilities.

At the beginning of the year, capital lease obligations payable were \$13,416,511. During the year, \$1,555,304 of lease obligations were paid, resulting in a capital lease obligations payable balance at June 30, 2006 of \$11,861,207. Interest expense relating to lease obligations was \$470,210 and \$379,918 for the years ended June 30, 2006 and 2005, respectively.

The minimum lease commitments for capital lease obligations at June 30, 2006 are as follows:

Fiscal Year	Principal	Interest	Total Capital Leases
2007	\$ 1,587,141	\$ 428,739	\$ 2,015,880
2008	1,530,230	375,318	1,905,548
2009	1,568,626	322,454	1,891,080
2010	1,600,210	267,761	1,867,971
2011	1,325,000	209,525	1,534,525
2012-2014	<u>4,250,000</u>	<u>336,950</u>	<u>4,586,950</u>
Total obligations	<u>\$ 11,861,207</u>	<u>\$ 1,940,747</u>	<u>\$ 13,801,954</u>

# Johnson County Community College

## Notes to Financial Statements

### June 30, 2006 and 2005

The College leases office space under operating lease agreements that expire through fiscal year 2008. Rental expense totaled \$589,745 and \$583,650 for the years ended June 30, 2006 and 2005, respectively. Minimum rental commitments under noncancelable operating leases with initial terms of one year or longer at June 30, 2006 are \$52,764.

#### ***Defeased Debt***

During the year ended June 30, 2006, the College issued \$8,210,000 of Series 2006 revenue bonds with an average interest rate of 3.82% to refund \$7,980,000 in Series 1998 revenue bonds with an average interest rate of 4.99%. The net proceeds of the revenue bonds were \$8,285,167 (after bond premium of \$171,590 and payment of \$96,423 in underwriting fees, insurance and other issuance costs).

Through this issuance, the College made a partial refunding of the Series 1998 revenue bond issuance by placing funds in an irrevocable trust to provide for future debt service payments until the November 15, 2008 call date of the defeased bonds. Funds placed in the trust are risk free. For financial reporting purposes, the debt has been considered defeased and, therefore, removed as a liability from the financial statements.

The total amount of the defeased debt outstanding but removed from the financial statements amounted to \$7,980,000 at June 30, 2006.

The refunding was undertaken to reduce total debt service payments (principal and interest) over the next 15 years by \$652,442 and resulted in an economic gain (the difference between the present values of the old and new debt service payments) of approximately \$495,000. The refunding of the 1998 series bonds resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$256,552.

#### **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](http://www.kpers.org).

# Johnson County Community College

## Notes to Financial Statements

June 30, 2006 and 2005

### ***Funding Policy***

K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% of covered salary. 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 2006, the State of Kansas contributed 5.27% of covered payroll. The College's contribution to KPERS for the year ended June 30, 2006 was \$6,245,497, which consisted of \$3,764,664 from the State of Kansas and \$2,480,833 from employees. The College's contributions to KPERS for employees for the years ended June 30, 2005 and 2004 were \$5,630,637 and \$4,935,132, respectively, equal to the statutorily required contributions for each year.

### **Note 6: 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, 2006, 2005 and 2004.

### **Note 7: 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 8: Johnson County Community College Foundation – Accounting Policies**

#### ***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. At June 30, 2006 and 2005, cash equivalents consisted primarily of money market mutual funds. From time to time, the Foundation maintains 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.

# Johnson County Community College

## Notes to Financial Statements

June 30, 2006 and 2005

### **Contributions**

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are reported at the present value of estimated future cash flows. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

### **Tax Status**

As the Foundation qualifies as a nonprofit corporation under Section 501(c)(3) of the Internal Revenue Code, it is exempt from federal and state income taxes. However, the Foundation is subject to federal income tax on any unrelated business taxable income.

### **Artwork**

Artwork is stated at cost or, if donated, at fair value at the date of the donation. The Foundation does not depreciate artwork, as management believes that the value of such has not diminished.

### **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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

# Johnson County Community College

## Notes to Financial Statements

June 30, 2006 and 2005

### Contributions Receivable

Contributions are recognized as revenue when unconditional pledges are made at the present value of expected future payments. As of June 30, 2006 and 2005, management believes 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:

	<u>2006</u>	<u>2005</u>
Due in less than one year	\$ 766,441	\$ 1,764,379
Due after one year to five years	1,703,000	3,144,442
Due in more than five years	<u>50,000</u>	<u>100,000</u>
Total contributions receivable	2,519,441	5,008,821
Less discount of present value, estimated at 5%	<u>156,330</u>	<u>277,579</u>
Contributions receivable, net	\$ <u><u>2,363,111</u></u>	\$ <u><u>4,731,242</u></u>

As of June 30, 2006 and 2005, total gross pledges of \$1,000,000 and \$2,855,000, respectively, were due from certain members of the Foundation's Executive Board of Directors or affiliated organizations of these Directors. Approximately 40% and 57% of total gross pledges receivable at June 30, 2006 and 2005, respectively, were due from one private foundation.

### Investments

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

Investment return is 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.

At June 30, 2006 and 2005, the Foundation held the following investments at fair value:

	<u>2006</u>	<u>2005</u>
U.S. Government obligations	\$ 3,002,292	\$ 935,349
Equity funds	1,918,324	1,383,293
Municipal bonds	100,000	—
Corporate bonds	1,412,975	2,313,033
Common stock	4,886,993	5,510,165
Mortgage-backed securities	<u>307,702</u>	<u>523,397</u>
	\$ <u><u>11,628,286</u></u>	\$ <u><u>10,665,237</u></u>

# Johnson County Community College

## Notes to Financial Statements

June 30, 2006 and 2005

### **Contributed Services and Related-Party Transactions**

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

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 estimates the fair market value of these services, which are recorded as management and general expenses and contributions revenue, to be approximately \$466,000 and \$443,000 in 2006 and 2005, 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 Foundation's statement of activities are paid to the College, or paid to vendors on behalf of the College.

### **Net Assets**

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

Temporarily restricted net assets are restricted as follows:

	<u>2006</u>	<u>2005</u>
Scholarships to students	\$ 2,687,208	\$ 2,263,558
Support of College programs including visual and performing art programs	1,589,228	537,866
Building capital campaign	<u>2,001,466</u>	<u>4,263,372</u>
	<u>\$ 6,277,902</u>	<u>\$ 7,064,796</u>

Temporarily restricted net assets were released from donor restrictions by incurring scholarship expenses, sponsorship of various College programs including visual and performing arts programs and the transfer or pledge of designated capital funds to the College.

# Johnson County Community College

## Notes to Financial Statements

June 30, 2006 and 2005

### ***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.

### ***Concentrations***

Approximately 25% of all contributions were received from one donor during the year ended June 30, 2006.

### ***Pledge to Johnson County Community College***

During 2005, Johnson County Community College issued certificates of participation pursuant to a lease purchase agreement to assist with financing of the Regnier Center for Technology and Business and the Nerman Museum of Contemporary Art. Total obligations issued under these certificates of participation amounted to \$12,125,000. Semiannual payments on these certificates of participation range from \$29,300 to \$1,494,300 and are due through April 2014. As of June 30, 2006 and 2005, the College has recorded liabilities amounting to \$10,545,000 and \$11,725,000, respectively, associated with these certificates of participation.

In connection with the issuance of these certificates of participation, the College and the Foundation entered into an agreement, which states that the Foundation will establish a separate fund to account for receipt and investment of donations for these projects. Prior to each payment due by the College under the certificates of participation, the Foundation will pay an amount equal to the lesser of the balance on hand in this fund or the principal amount of payment due by the College.

Under this agreement, the College will pay any difference between the amount of the payments due and the amounts received from the Foundation. Also, under this agreement, the Foundation will be held harmless from any such differences.

As of June 30, 2006 and 2005, this donation fund amounted to \$2,740,582 and \$1,152,086, respectively, and is included as a liability in the Foundation's statement of financial position.

**Johnson County Community College**  
**Supplemental Schedule of Comparison of**  
**Budgetary Expenditures with Appropriations**  
**Year Ended June 30, 2006**

	<b>Budgetary Expenditures</b>	<b>Legal Appropriations of Budget</b>	<b>Under Budget</b>
<b>Current Unrestricted Funds</b>			
General	\$ 109,411,714	\$ 117,604,468	\$ 8,192,754
Adult education	5,538,510	9,043,195	3,504,685
Auxiliary enterprises	<u>11,453,513</u>	<u>15,807,091</u>	<u>4,353,578</u>
Total current unrestricted funds	<u>126,403,737</u>	<u>\$ 142,454,754</u>	<u>\$ 16,051,017</u>
<b>Current Restricted Funds</b>			
Special assessments	155,939	<u>\$ 420,000</u>	<u>\$ 264,061</u>
Other restricted	<u>9,862,294</u>		
Total current restricted funds	<u>10,018,233</u>		
Total current funds	<u>136,421,970</u>		
<b>Loan Funds</b>	<u>31,487</u>		
<b>Plant Funds</b>			
Unexpended, capital outlay	4,169	<u>\$ 7,360,756</u>	<u>\$ 7,356,587</u>
Repair and replacement reserve	35,063		
Bond proceeds, construction	98,973		
Debt retirement, revenue bonds	<u>14,959,493</u>		
Total plant funds	<u>15,097,698</u>		
Total current, loan, and plant funds	<u>\$ 151,551,155</u>		