
**JOHNSON COUNTY COMMUNITY
COLLEGE**

FINANCIAL STATEMENTS

JUNE 30, 2017

Contents

| | |
|--|---------|
| Independent Auditor's Report | 1 – 2 |
| Management's Discussion and Analysis | 3 – 13 |
| Financial Statements | |
| Statements of net position | 14 |
| Statements of financial position – Johnson County Community College Foundation | 15 |
| Statements of revenues, expenses and changes in net position | 16 |
| Statements of activities – Johnson County Community College Foundation | 17 – 18 |
| Statements of cash flows | 19 – 20 |
| Notes to financial statements | 21 – 52 |
| Required Supplementary Information | |
| Schedule of College's proportionate share of the net pension liability | 53 |
| Schedule of College's contributions | 53 |
| Schedule of funding progress | 54 |
| Supplemental Schedule | |
| Budgetary expenditures with appropriations (unaudited) | 55 |



Independent Auditors' Report

RubinBrown LLP
Certified Public Accountants
& Business Consultants

1200 Main Street
Suite 1000
Kansas City, MO 64105

T 816.472.1122
F 816.472.1065

W rubinbrown.com
E info@rubinbrown.com

Board of Trustees
Johnson County Community College
Overland Park, Kansas

Report On The Financial Statements

We have audited the accompanying financial statements of Johnson County Community College and its discretely presented component unit as of and for the year ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise Johnson County Community 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 U.S. generally accepted accounting principles; 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.

Auditors' 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. The financial statements of Johnson County Community College Foundation were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 Johnson County Community College as of June 30, 2017 and 2016, and the results of its operations 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, schedule of College's proportionate share of the net pension liability, schedule of the College's contributions, and schedule of funding progress on pages 3 - 13, 53 and 54, respectively, 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise Johnson County Community College's basic financial statements. The accompanying supplemental schedule 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 report dated November 9, 2017, on our consideration of Johnson County Community College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts 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 the 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 the University's internal control over financial reporting and compliance.

RubinBrown LLP

November 9, 2017

Johnson County Community College

Management's Discussion and Analysis Years Ended June 30, 2017 and 2016

Introduction and Background

This section of Johnson County Community College's (the College) annual financial report presents management's discussion and analysis (MD&A) of the College's financial activity during the fiscal years ended June 30, 2017 and 2016. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with them. Responsibility for the completeness and fairness of this information rests with the College.

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

The financial statements focus on the College as a whole and are designed to emulate corporate presentation models whereby all College activities are consolidated into one total. The financial statements consist of four primary parts: (1) the statements of net position, (2) statements of revenues, expenses, and changes in net position, (3) statements of cash flow and (4) notes to the financial statements. The financial statements are prepared on the accrual basis of accounting and economic resources measurement focus. Under the accrual basis of accounting, expenses are recorded when incurred, and all revenues are recognized when earned in accordance with generally accepted accounting principles.

The Statement of Net Position is presented in the format where assets plus deferred outflows of resources equal liabilities plus deferred inflows of resources plus net position. Assets and liabilities are presented in order of liquidity and are classified as current (convertible into cash within one year) and non-current. This statement combines and consolidates current financial resources (short-term spendable resources) with long-term capital assets and deferred inflows and outflows of resources. The focus of this statement is to show the overall liquidity and health of the College as of the end of the fiscal year.

The Statement of Revenues, Expenses, and Changes in Net Position focuses on both the gross and net costs of College activities, which are supported substantially by property taxes, state and federal grants and contracts, student tuition and fees, and auxiliary enterprises revenues. This approach is intended to summarize and simplify the user's analysis of the financial results of the various College services to students and the public.

The Statements of Cash Flows disclose net cash provided by or used for operating, non-capital financing, capital and related financing, and investing activities. This statement shows that the College's cash flows are sufficient to pay current liabilities.

The Notes to the Financial Statements are an integral part of the basic statements and describe the College's significant accounting policies. The reader is encouraged to review the notes in conjunction with management's discussion and analysis of the financial statements.

Johnson County Community College

Management's Discussion and Analysis Years Ended June 30, 2017 and 2016

Financial Highlights

Statements of Net Position

The major components of the College's assets, deferred outflows, liabilities, deferred inflows and net position as of June 30, 2017 and 2016 are as follows (in millions of dollars):

| | 2017 | 2016 | Increase (Decrease) | Percent Change |
|---------------------------------------|-----------------|-----------------|------------------------|-------------------|
| ASSETS | | | | |
| Current assets | \$ 135.9 | \$ 124.8 | \$ 11.1 | 9% |
| Capital assets, net | 137.7 | 133.8 | 3.9 | 3% |
| Other noncurrent assets | 5.3 | 11.1 | (5.8) | -52% |
| Total Assets | <u>\$ 278.9</u> | <u>\$ 269.7</u> | <u>\$ 9.2</u> | <u>3%</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| | <u>\$ 0.8</u> | <u>\$ 0.7</u> | <u>\$ 0.1</u> | <u>14%</u> |
| LIABILITIES | | | | |
| Current liabilities | \$ 14.8 | \$ 16.9 | \$ (2.1) | -12% |
| Noncurrent liabilities | 29.0 | 33.6 | (4.6) | -14% |
| Total Liabilities | <u>\$ 43.8</u> | <u>\$ 50.5</u> | <u>\$ (6.7)</u> | <u>-13%</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| | <u>\$ 0.1</u> | <u>\$ 0.1</u> | <u>\$ -</u> | <u>100%</u> |
| NET POSITION | | | | |
| Net investment in capital assets | \$ 108.7 | \$ 99.5 | \$ 9.2 | 9% |
| Restricted | 16.6 | 21.8 | (5.2) | -24% |
| Unrestricted | 110.5 | 98.5 | 12.0 | 12% |
| Total Net Position | <u>\$ 235.8</u> | <u>\$ 219.8</u> | <u>\$ 16.0</u> | <u>7%</u> |

Fiscal Year 2017 Compared to Fiscal Year 2016

Assets

Total current assets increased to \$135.9 million as of June 30, 2017 from \$124.8 million as of June 30, 2016, primarily due to a \$10.6 million increase in cash and cash equivalents. This increase is due to favorable operating results.

Capital assets, net of accumulated depreciation, increased by \$3.9 million due to various capital improvements to the College's facilities. There was no construction in progress as of June 30, 2017 or 2016.

Noncurrent assets decreased to \$5.3 million as of June 30, 2017 from \$11.1 million as of June 30, 2016, primarily due to the expenditure of proceeds from the College's Series 2016 general obligation capital outlay bonds, which were issued in January of 2016 to fund various capital improvements to the College's facilities.

Johnson County Community College

Management's Discussion and Analysis Years Ended June 30, 2017 and 2016

Deferred outflows of resources increased by \$0.1 million in the current year. During the current year, the College recorded approximately \$0.2 million in additional deferred contributions to the Kansas Public Employees Retirement System (KPERS) pension plan associated with certain KPERS retirees employed by the College. The College makes contributions directly to KPERS for the KPERS retirees filling these positions. The balances for these deferred charges will be recognized as pension expense in future years.

Deferred charges on bond refunding decreased by approximately \$0.1 million in the current year as those charges are amortized over the life of the bonds.

Liabilities

Total current liabilities decreased to \$14.8 million as of June 30, 2017 from \$16.9 million as of June 30, 2016. This is primarily due to decreases of \$0.9 million in accounts payable and \$0.6 million in other accrued liabilities, as well as the College making the final principal payment of \$0.6 million on the Postsecondary Educational Institution Loan.

Total current assets at June 30, 2017 covered current liabilities 9.1 times. This means that for every dollar of current liabilities, the College has \$9.10 in current assets, indicating that the College is capable of funding its current liabilities.

Noncurrent liabilities decreased by \$4.6 million in fiscal year 2017 compared to fiscal year 2016. This decrease is primarily related to the College's scheduled principal payments on long-term obligations.

Net Position

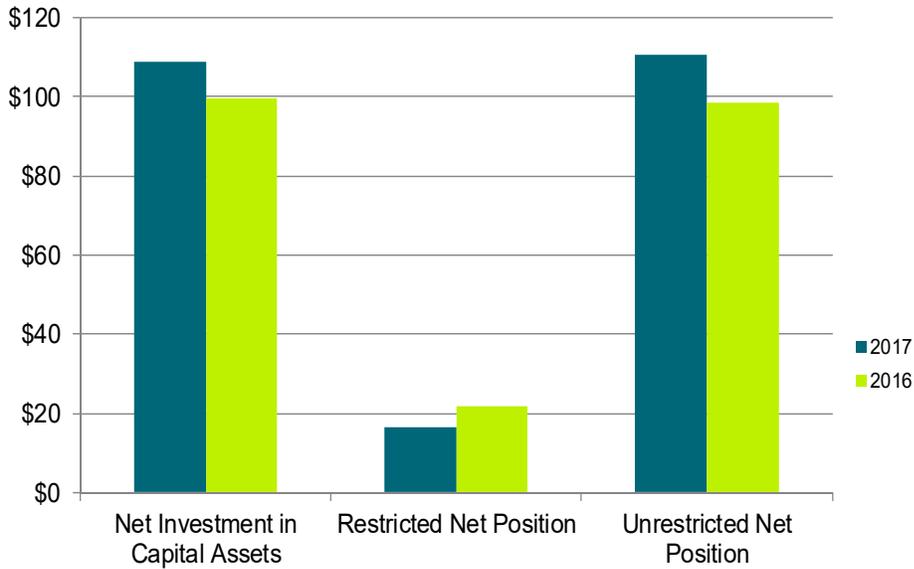
Total net position increased by \$16.0 million over prior year, which is primarily due to higher revenues from property taxes. Net Position includes three primary categories: Net Investment in Capital Assets, Restricted, and Unrestricted. The first category, Net Investment in Capital Assets, provides the College's equity in capital assets – the property, plant and equipment owned by the College. The next category is Restricted, which 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, Unrestricted, is not subject to externally imposed stipulations and is available for use by the College for any legal purpose. The College's Unrestricted Net Position increased by \$12 million in the current year as a result of the net operating surplus.

Johnson County Community College

**Management's Discussion and Analysis
Years Ended June 30, 2017 and 2016**

Comparison of Net Position

The following table presents the comparisons of net investment in capital assets, restricted net position and unrestricted net position for the College for fiscal years 2017 and 2016 (in millions of dollars):



Johnson County Community College

Management's Discussion and Analysis Years Ended June 30, 2017 and 2016

Statements of Revenues, Expenses and Changes in Net Position

The following table presents the statements of revenues, expenses and changes in net position for the College for fiscal years 2017 and 2016 (in millions of dollars):

| | 2017 | 2016 | Increase (Decrease) | Percent Change |
|-----------------------------------|------------|------------|------------------------|-------------------|
| Operating Revenues | | | | |
| Student tuition and fees | \$ 35.4 | \$ 35.0 | \$ 0.4 | 1% |
| Gifts, grants and contracts | 2.0 | 2.5 | (0.5) | -20% |
| Auxiliary enterprises | 9.9 | 10.3 | (0.4) | -4% |
| Other operating revenues | 5.5 | 5.7 | (0.2) | -4% |
| Total Operating Revenues | \$ 52.8 | \$ 53.5 | \$ (0.7) | -1% |
| Less Operating Expenses | 178.5 | 179.6 | (1.1) | -1% |
| Operating Income (Loss) | \$ (125.7) | \$ (126.1) | \$ 0.4 | 0% |
| Non-Operating Revenues (Expenses) | | | | |
| County property taxes | \$ 96.0 | \$ 90.5 | \$ 5.5 | 6% |
| State appropriations | 31.7 | 32.5 | (0.8) | -2% |
| Gifts, grants and contracts | 14.3 | 15.4 | (1.1) | -7% |
| Investment & other income | 0.8 | 0.5 | 0.3 | 60% |
| Interest on capital asset debt | (1.1) | (1.0) | (0.1) | 10% |
| Total Nonoperating revenues, net | \$ 141.7 | \$ 137.9 | \$ 3.8 | 3% |
| Increase in Net Position | \$ 16.0 | \$ 11.8 | \$ 4.2 | 36% |
| Net Position, Beginning of Year | \$ 219.8 | \$ 208.0 | \$ 11.8 | 6% |
| Net Position, End of Year | \$ 235.8 | \$ 219.8 | \$ 16.0 | 7% |

Fiscal Year 2017 Compared to Fiscal Year 2016

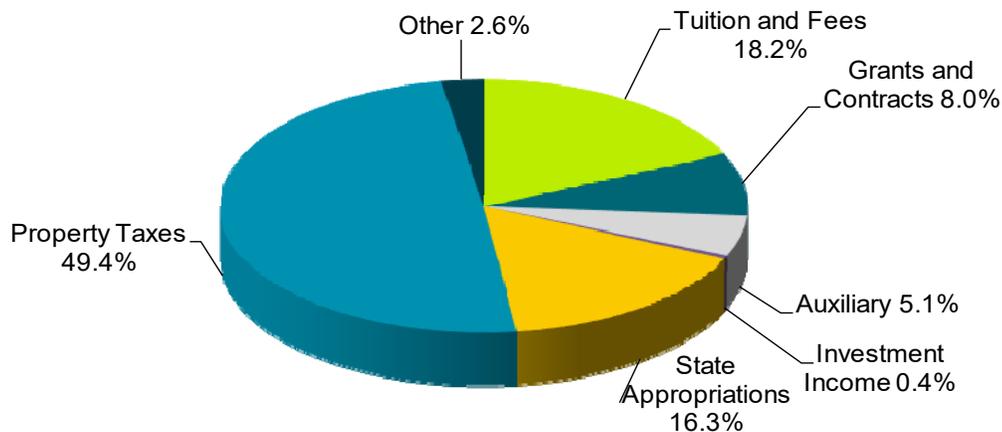
Revenues

The College's operating and non-operating revenues were \$194.5 million for fiscal 2017, an increase of \$3.1 million from fiscal 2016. The College has three primary revenue sources that accounted for 83.9% of total revenues in fiscal 2017. Local property taxes continue to be the College's primary revenue source, accounting for \$96.0 million, or 49.4%, of fiscal 2017 total revenues. The second largest source of revenue was student tuition and fees, totaling \$35.4 million, or 18.2%, of total revenues in fiscal 2017. The third largest revenue source, state appropriations, totaled \$31.7 million and accounted for 16.3% of fiscal 2017 total revenues.

Johnson County Community College

Management's Discussion and Analysis Years Ended June 30, 2017 and 2016

Operating and Non-Operating Revenues June 30, 2017



Operating revenues from student tuition and fees increased by \$0.4 million in fiscal 2017, primarily due to a \$2 per credit hour tuition increase for Johnson County resident students, \$4 per credit hour increase for Kansas resident students and a \$6 per credit hour tuition increase for out of state students. A new Metro Rate tuition rate of \$135 per credit hour was implemented in the Fall 2016 semester for residents in an eligible metropolitan geographic area.

Non-operating revenues increased \$3.8 million from the prior year to \$141.7 million. Revenue from property taxes increased \$5.5 million from fiscal 2016 due to an increase in assessed valuation in Johnson County for the 2016 tax year. The College's tax levy was adjusted slightly by the County from 9.469 mills in 2016 to 9.473 mills in 2017.

Revenue from the state of Kansas was \$31.7 million in fiscal 2017 compared to \$32.5 million in fiscal 2016, a decrease of approximately \$0.8 million. This was primarily due to the state's 2017 budget reduction of 4% for the Kansas Board of Regents for credit hour state aid. Contributions made by the state of Kansas on behalf of the College to KPERS were \$9.3 million in fiscal 2017, compared to \$9.2 million in fiscal 2016. The College records a revenue and expense for the payments made by the State to KPERS.

Non-operating revenues are presented net of non-operating expenses (interest on capital asset debt), which remained consistent with the prior year.

Expenses

Total operating expenses for fiscal 2017 were \$178.5 million, a decrease of \$1.1 million compared to fiscal 2016. This decrease is primarily related to the decrease in costs associated with a retirement program offered to certain eligible employees, which were \$1.7 million in fiscal 2016 and decreased to \$0.4 million in fiscal 2017.

As previously discussed, the State's KPERS pension contributions, which are included in operating expenses, increased by \$0.1 million in the current year. The state of Kansas makes these contributions on behalf of the College. The College records an expense and revenue for the payments made by the State to KPERS.

Johnson County Community College

Management's Discussion and Analysis Years Ended June 30, 2017 and 2016

Additionally, the College's pension expense decreased from \$0.8 million during fiscal 2016 to \$0.1 million in fiscal 2017. This was due to the \$0.7 million pension liability accrual for certain KPERS retirees that are employed by the College, which was made during fiscal 2016.

Instruction costs, which are the largest component of the College's operating expenses, decreased by \$1.2 million in fiscal 2017, primarily due to a change in the method used to allocate employee benefit costs among functional categories. Student financial aid expenses decreased by approximately \$0.8 million in the current year due to a decrease in Federal Pell grants awarded.

Student services expenses increased by \$0.9 million during fiscal 2017 primarily due to Federal Perkins Loan assignment costs. The College intends to liquidate its Federal Perkins Loan program portfolio and to discontinue participation in the program.

The increase in depreciation expense is consistent with the increase in capital assets in fiscal 2017 as compared to fiscal 2016.

Operating Expenses

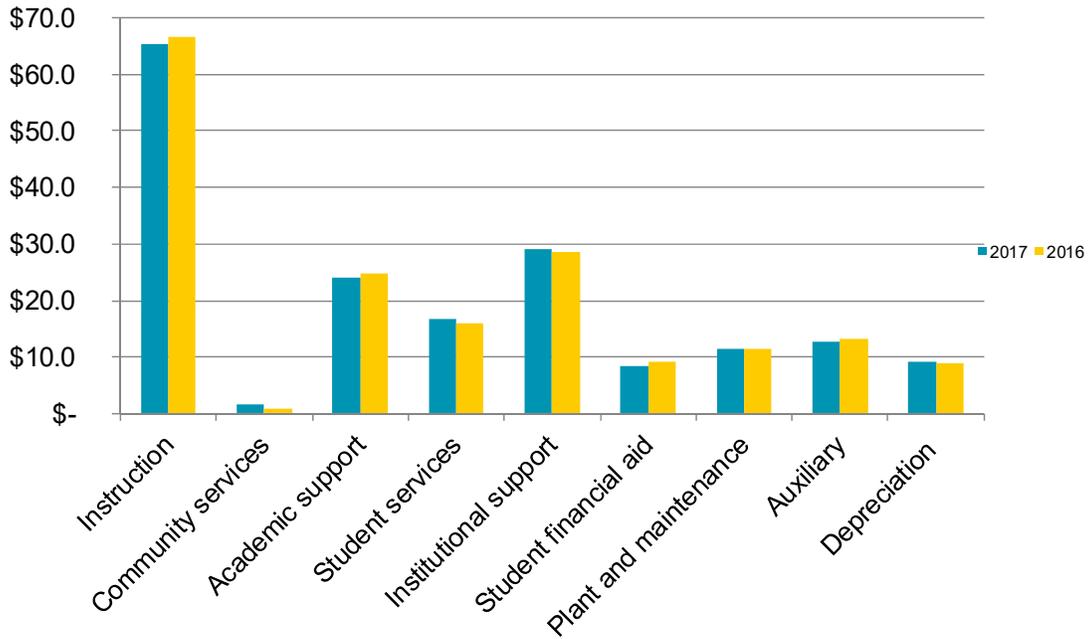
The following table presents the College's operating expenses by function for fiscal years 2017 and 2016 (in millions of dollars):

| | 2017 | 2016 | Increase (Decrease) | Percent Change |
|---------------------------------|-----------------|-----------------|------------------------|-------------------|
| Operating Expenses | | | | |
| Instruction | \$ 65.4 | \$ 66.6 | \$ (1.2) | -2% |
| Community services | 1.5 | 0.9 | 0.6 | 67% |
| Academic support | 24.0 | 24.7 | (0.7) | -3% |
| Student services | 16.8 | 15.9 | 0.9 | 6% |
| Institutional support | 29.0 | 28.6 | 0.4 | 1% |
| Student financial aid | 8.4 | 9.2 | (0.8) | -9% |
| Plant and maintenance | 11.5 | 11.5 | - | 0% |
| Auxiliary | 12.7 | 13.2 | (0.5) | -4% |
| Depreciation | 9.2 | 9.0 | 0.2 | 2% |
| Total Operating Expenses | \$ 178.5 | \$ 179.6 | \$ (1.1) | -1% |

Johnson County Community College

**Management's Discussion and Analysis
Years Ended June 30, 2017 and 2016**

**Comparison of Operating Expenses
Fiscal Years 2017 and 2016**

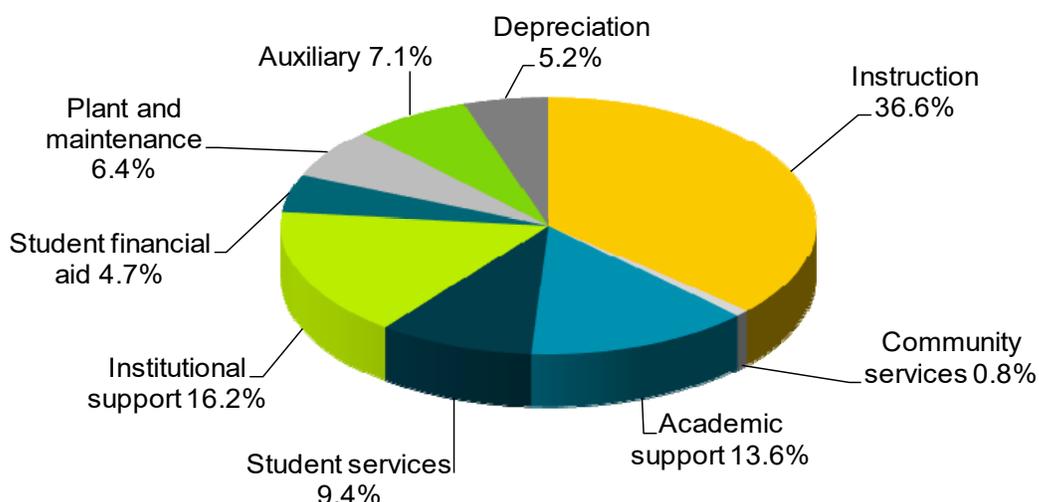


As shown in the charts above, fiscal 2017 Instruction costs were \$65.4 million. This category represents all of the direct costs associated with teaching students and is the largest component of operating expenses, accounting for 36.6% of total operating expenses.

Johnson County Community College

**Management's Discussion and Analysis
Years Ended June 30, 2017 and 2016**

**Operating Expenses
June 30, 2017**



Statement of Capital Assets and Long-Term Debt

The College's Capital Assets and Long-Term Debt as of June 30, 2017 and 2016 were as follows (in millions of dollars):

| | 2017 | 2016 | Increase (Decrease) | Percent Change |
|---|-----------------|-----------------|------------------------|-------------------|
| Capital Assets | | | | |
| Land | \$ 1.0 | \$ 1.0 | \$ - | 0% |
| Works of art | 3.8 | 3.7 | 0.1 | 3% |
| Land improvements | 39.0 | 38.3 | 0.7 | 2% |
| Buildings and improvements | 206.4 | 197.1 | 9.3 | 5% |
| Equipment | 29.5 | 28.6 | 0.9 | 3% |
| Total Capital Assets | 279.7 | 268.7 | 11.0 | 4% |
| Less accumulated depreciation | 142.0 | 134.9 | 7.1 | 5% |
| Net Capital Assets | \$ 137.7 | \$ 133.8 | \$ 3.9 | 3% |
| Long-Term Debt | | | | |
| Revenue bonds | \$ 16.8 | \$ 18.0 | \$ (1.2) | -7% |
| Certificates of participation | 4.9 | 6.5 | (1.6) | -25% |
| Loan obligations | - | 0.7 | (0.7) | -100% |
| General obligation capital outlay bonds | 7.8 | 9.7 | (1.9) | 100% |
| Total Long-Term Debt | \$ 29.5 | \$ 34.9 | \$ (5.4) | -15% |

Johnson County Community College

Management's Discussion and Analysis Years Ended June 30, 2017 and 2016

Fiscal Year 2017 Compared to Fiscal Year 2016

As of June 30, 2017, the College had \$279.7 million invested in capital assets and \$142.0 million in accumulated depreciation, for total net capital assets of \$137.7 million. Total capital assets increased by \$3.9 million in fiscal 2017 due to various capital improvement projects, including campus infrastructure and energy upgrades, digital security cameras and related technology, and renovation of performing arts spaces in the College's Carlsen Center.

The College's long-term debt decreased by \$5.4 million during fiscal 2017 to \$29.5 million due to scheduled principal payments.

On August 18, 2015 the College refunded the Series 2006 Student Commons and Parking System Refunding Revenue Bonds of \$4.9 million with the \$4.3 million issuance of the Series 2015 Student Commons and Parking System Refunding Revenue Bonds. The College's outstanding revenue bond debt is rated AA+ by Standard & Poor's.

On January 6, 2016 the College issued the Series 2016 General Obligation Capital Outlay Bonds in the amount of \$9.0 million. The College's outstanding general obligation capital outlay bond debt is rated Aaa by Moody's Investors Service. The Series 2016 Bonds were issued to finance the costs of various capital improvements to campus facilities.

Detailed information about the College's long-term obligations is presented in Note 4 to the financial statements.

Current Issues

The College's Board of Trustees passed a \$150 million operating budget for fiscal year 2018. The budget retained the existing per credit hour tuition rates of \$93 for Johnson County resident students, \$110 for Kansas resident students, \$220 for out of state students, and the Metro Rate of \$135 per credit hour for residents in an eligible metropolitan geographic area. Management has noted that student credit hour and full time equivalent (FTE) enrollment was relatively flat in fiscal 2017 compared to fiscal 2016. The College administration will continue to monitor and respond to enrollment trends.

The State of Kansas' fiscal 2018 budget did not restore the 4% reduction in funding for the Kansas Board of Regents that was implemented in fiscal 2017. The 4% reduction resulted in a decrease of approximately \$0.8 million in the College's state appropriations in fiscal 2017. Therefore, the College expects that its state appropriations for credit hour state aid in fiscal 2018 will remain flat with fiscal 2017.

On October 4, 2017 the College issued the Series 2017 Certificates of Participation with a principal amount of \$50,000,000. The Certificates were rated Aa1 by Moody's Investors Service. Proceeds from the Certificates will be used to fund a portion of construction costs associated with various capital projects identified in the College's recent Facilities Master Plan, including a new Career and Technical Education building and a new Arts and Design building.

Management is not aware of any other currently known facts, decisions, or conditions that would have a significant impact on the College's financial position (net position) or results of operations (revenues, expenses, and other changes in net position).

Economic Factors That Will Affect the Future

The College continues to monitor the State of Kansas budget and consider the impact of the State's funding on the College's budget.

Johnson County Community College

Management's Discussion and Analysis Years Ended June 30, 2017 and 2016

Health care costs will continue to rise, causing the College to explore options such as wellness, increased employee contributions, and other cost-containment measures.

Revenues from property taxes represent 49.4% of the revenues the College receives to support operations. The College continues to track residential and commercial property values and economic activity in the residential and office construction sectors to forecast future funding impact on the College.

Contacting Financial Management

This financial report is designed to provide our bondholders, students, community members, and other interested parties with a general overview of Johnson County Community College's finances and to demonstrate the College's accountability for the funds it receives. Questions concerning any information provided in this report should be addressed to Rachel Lierz, Associate Vice President, Financial Services/Chief Financial Officer, 12345 College Blvd., Overland Park, Kansas 66210, (913) 469-8500.

Johnson County Community College

Statements of Net Position
June 30, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|---|-----------------------|-----------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 128,388,698 | \$ 117,779,423 |
| Accounts receivable, net of uncollectible accounts 2017 \$3,712,925; 2016 \$4,564,971 | 5,333,608 | 5,781,763 |
| Inventories | 2,021,436 | 990,852 |
| Other assets | 185,179 | 74,803 |
| Student loans receivable, net of allowance for uncollectible loans 2017 \$62,080; 2016 \$0 | 56,129 | 140,542 |
| Total Current Assets | <u>135,985,050</u> | <u>124,767,383</u> |
| Noncurrent Assets | | |
| Restricted cash and cash equivalents | 4,298,630 | 9,554,678 |
| Student loans, net of allowance for uncollectible loans 2017 \$0; 2016 \$67,080 | - | 788,054 |
| Capital assets not being depreciated | 4,804,792 | 4,777,792 |
| Capital assets being depreciated | 274,829,403 | 263,958,437 |
| Less accumulated depreciation | (141,990,527) | (134,896,770) |
| OPEB assets | 982,251 | 773,535 |
| Total Noncurrent Assets | <u>142,924,549</u> | <u>144,955,726</u> |
| Total Assets | <u>278,909,599</u> | <u>269,723,109</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred charges on refunding | 483,189 | 546,170 |
| Deferred contributions to pension plan | 334,876 | 121,480 |
| Total Deferred Outflows of Resources | <u>818,065</u> | <u>667,650</u> |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts payable | 1,809,514 | 2,726,052 |
| Accrued salaries | 3,372,891 | 3,862,828 |
| Accrued compensated absences | 393,522 | 363,233 |
| Other accrued liabilities | 648,337 | 1,276,651 |
| Unearned student tuition and fee revenue | 2,900,431 | 2,989,514 |
| Deposits held in custody for others | 1,263,031 | 504,923 |
| Current portion of revenue bonds payable | 1,220,000 | 1,185,000 |
| Current portion of certificates of participation | 1,595,000 | 1,555,000 |
| Current portion of loan obligation | - | 661,672 |
| Current portion of general obligation capital outlay bonds | 1,685,000 | 1,760,000 |
| Total Current Liabilities | <u>14,887,726</u> | <u>16,884,873</u> |
| Noncurrent Liabilities | | |
| Accrued compensated absences | 2,973,028 | 3,187,029 |
| Net pension liability | 1,027,865 | 780,004 |
| Revenue bonds payable | 15,533,684 | 16,793,291 |
| Certificates of participation | 3,337,961 | 4,938,590 |
| General obligation capital outlay bonds | 6,078,536 | 7,948,048 |
| Total Noncurrent Liabilities | <u>28,951,074</u> | <u>33,646,962</u> |
| Total Liabilities | <u>43,838,800</u> | <u>50,531,835</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Proportionate share of collective deferred inflows of resources | 134,257 | 76,765 |
| Total Deferred Inflows of Resources | <u>134,257</u> | <u>76,765</u> |
| NET POSITION | | |
| Net investment in capital assets | 108,691,293 | 99,544,027 |
| Restricted, expendable for: | | |
| Capital projects | 13,104,408 | 17,193,988 |
| Loan funds and other | 3,441,970 | 4,530,407 |
| Unrestricted | 110,516,936 | 98,513,737 |
| Total Net Position | <u>\$ 235,754,607</u> | <u>\$ 219,782,159</u> |

See Notes to Financial Statements.

Johnson County Community College

Johnson County Community College Foundation - Component Unit

Statements of Financial Position

June 30, 2017 and 2016

| ASSETS | 2017 | 2016 |
|---|----------------------|----------------------|
| Cash and cash equivalents | \$ 1,943,421 | \$ 1,707,275 |
| Promises to give | 1,034,839 | 1,075,561 |
| Investments | 25,257,583 | 22,277,999 |
| Accrued interest receivable | 61,027 | 66,587 |
| Inventory | 7,023 | - |
| Campus artwork | 4,136,551 | 3,648,838 |
| Other assets | 142,809 | - |
| Cash surrender value of life insurance | 8,151 | 8,541 |
| Intangible assets | 45,835 | 49,654 |
| Total Assets | 32,637,239 | 28,834,455 |
| LIABILITIES | | |
| Accounts payable | 254,283 | 98,347 |
| Total Liabilities | 254,283 | 98,347 |
| NET ASSETS | | |
| Unrestricted, undesignated | 2,068,460 | 1,939,124 |
| Unrestricted, designated for scholarships and program support | 1,941,970 | 1,584,446 |
| Temporarily restricted | 9,786,278 | 6,926,913 |
| Permanently restricted | 18,586,248 | 18,285,625 |
| Total Net Assets | 32,382,956 | 28,736,108 |
| Total Liabilities and Net Assets | \$ 32,637,239 | \$ 28,834,455 |

See Notes to Financial Statements.

Johnson County Community College

Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|---|-----------------------|-----------------------|
| REVENUES | | |
| Operating Revenues | | |
| Student tuition and fees, net of scholarship allowances 2017 \$4,517,832; 2016 \$4,540,240 | \$ 35,362,577 | \$ 35,008,627 |
| State grants and contracts | 503,749 | 477,169 |
| Private gifts, grants and contracts | 1,410,812 | 1,932,540 |
| Local grants and contracts | 70,838 | 79,560 |
| Auxiliary enterprises | 9,920,009 | 10,310,780 |
| Other operating revenue | 5,570,428 | 5,684,940 |
| Total Operating Revenues | <u>52,838,413</u> | <u>53,493,616</u> |
| EXPENSES | | |
| Operating Expenses | | |
| Salaries | 86,757,139 | 85,065,601 |
| Benefits | 36,990,279 | 38,804,469 |
| Contractual services | 10,253,257 | 10,361,615 |
| Supplies and other operating expenses | 13,582,557 | 12,671,510 |
| Auxiliary enterprises | 5,536,282 | 6,014,364 |
| Utilities | 3,097,731 | 3,145,503 |
| Repairs and maintenance to plant | 4,262,564 | 4,855,907 |
| Scholarship and financial aid | 8,823,600 | 9,700,248 |
| Depreciation | 9,187,639 | 9,011,253 |
| Total Operating Expenses | <u>178,491,048</u> | <u>179,630,470</u> |
| Operating Loss | <u>(125,652,635)</u> | <u>(126,136,854)</u> |
| NON-OPERATING REVENUES (EXPENSES) | | |
| County property taxes | 95,945,119 | 90,508,563 |
| State appropriations | 31,630,500 | 32,474,846 |
| Federal grants and contracts | 14,323,657 | 15,423,719 |
| Investment income | 623,857 | 238,723 |
| Interest on student loans receivable | 35,292 | 79,203 |
| Interest on capital asset debt | (1,081,793) | (956,009) |
| Other nonoperating revenues | 148,451 | 142,958 |
| Total Nonoperating Revenues, Net | <u>141,625,083</u> | <u>137,912,003</u> |
| Increase in Net Position | 15,972,448 | 11,775,149 |
| Net Position at Beginning of Year | 219,782,159 | 208,007,010 |
| Net Position at End of Year | <u>\$ 235,754,607</u> | <u>\$ 219,782,159</u> |

See Notes to Financial Statements.

Johnson County Community College

Johnson County Community College Foundation - Component Unit

Statement of Activities

Year Ended June 30, 2017

| | 2017 | | | Total |
|--|---------------------|---------------------------|---------------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | |
| SUPPORT AND REVENUE | | | | |
| Gifts and contributions | \$ 423,050 | \$ 3,582,006 | \$ 264,223 | \$ 4,269,279 |
| Contributed services | 642,900 | - | - | 642,900 |
| Dividend and interest income | 112,419 | 527,210 | - | 639,629 |
| Net realized and unrealized gains (losses) on investments | 156,756 | 1,733,937 | - | 1,890,693 |
| Net assets released from restrictions | 2,947,388 | (2,947,388) | - | - |
| Change in donor designation | - | (36,400) | 36,400 | - |
| Total Support and Revenue | 4,282,513 | 2,859,365 | 300,623 | 7,442,501 |
| EXPENSES | | | | |
| Program expenses: | | | | |
| Scholarship programs | 1,177,995 | - | - | 1,177,995 |
| Foundation programming | 86,503 | - | - | 86,503 |
| Performing arts programming | 402,170 | - | - | 402,170 |
| Visual arts programs | 51,535 | - | - | 51,535 |
| Capital project programs | 274,996 | - | - | 274,996 |
| Educational program support | 609,011 | - | - | 609,011 |
| Other expenses | 948 | - | - | 948 |
| Total Program Expenses | 2,603,158 | - | - | 2,603,158 |
| Supporting Services | | | | |
| Fundraising | 852,771 | - | - | 852,771 |
| Management and general | 339,724 | - | - | 339,724 |
| Total Supporting Services | 1,192,495 | - | - | 1,192,495 |
| Total Expenses | 3,795,653 | - | - | 3,795,653 |
| Change in Net Assets | 486,860 | 2,859,365 | 300,623 | 3,646,848 |
| Net Assets - Beginning of Year | 3,523,570 | 6,926,913 | 18,285,625 | 28,736,108 |
| Net Assets - End of Year | \$ 4,010,430 | \$ 9,786,278 | \$ 18,586,248 | \$ 32,382,956 |

See Notes to Financial Statements.

Johnson County Community College

Johnson County Community College Foundation - Component Unit

Statement of Activities

Year Ended June 30, 2016

| | 2016 | | | Total |
|---|---------------------|------------------------|------------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | |
| SUPPORT AND REVENUE | | | | |
| Gifts and contributions | \$ 228,533 | \$ 1,638,703 | \$ 975,612 | \$ 2,842,848 |
| Contributed services | 598,810 | - | - | 598,810 |
| Dividend and interest income | 118,779 | 492,284 | - | 611,063 |
| Net realized and unrealized gains (losses) on investments | (82,671) | (447,703) | 3,319 | (527,055) |
| Net assets released from restrictions | 3,035,578 | (3,035,578) | - | - |
| Change in donor designation | - | (43,000) | 43,000 | - |
| Total Support and Revenue | 3,899,029 | (1,395,294) | 1,021,931 | 3,525,666 |
| EXPENSES | | | | |
| Program expenses: | | | | |
| Scholarship programs | 1,108,447 | - | - | 1,108,447 |
| Foundation programming | 106,256 | - | - | 106,256 |
| Performing arts programming | 518,603 | - | - | 518,603 |
| Visual arts programs | 186,738 | - | - | 186,738 |
| Capital project programs | 425,353 | - | - | 425,353 |
| Educational program support | 400,380 | - | - | 400,380 |
| Other expenses | - | - | - | - |
| Total Program Expenses | 2,745,777 | - | - | 2,745,777 |
| Supporting Services | | | | |
| Fundraising | 703,775 | - | - | 703,775 |
| Management and general | 267,613 | - | - | 267,613 |
| Total Supporting Services | 971,388 | - | - | 971,388 |
| Total Expenses | 3,717,165 | - | - | 3,717,165 |
| Change in Net Assets | 181,864 | (1,395,294) | 1,021,931 | (191,499) |
| Net Assets - Beginning of Year | 3,341,706 | 8,322,207 | 17,263,694 | 28,927,607 |
| Net Assets - End of Year | \$ 3,523,570 | \$ 6,926,913 | \$ 18,285,625 | \$ 28,736,108 |

See Notes to Financial Statements.

Johnson County Community College

Statements of Cash Flows
Years Ended June 30, 2017 and 2016

| | 2017 | 2016 |
|---|-----------------------|-----------------------|
| CASH FLOWS (USED IN) OPERATING ACTIVITIES | | |
| Student tuition and fees | \$ 35,103,870 | \$ 34,884,539 |
| Payments to suppliers | (28,647,558) | (27,566,263) |
| Payments to employees | (87,639,504) | (83,911,838) |
| Payments for scholarships and financial aid | (8,823,600) | (9,700,248) |
| Payments for employee benefits | (37,455,543) | (38,507,783) |
| Payments for utilities | (3,098,718) | (3,137,840) |
| Auxiliary enterprises | 3,467,271 | 5,395,415 |
| Grants and contracts | 1,963,960 | 2,742,549 |
| Other receipts, net | 6,002,503 | 6,169,119 |
| Net Cash (Used in) Operating Activities | (119,127,319) | (113,632,350) |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES | | |
| County property taxes | 96,729,933 | 89,899,496 |
| State appropriations | 31,630,500 | 32,474,846 |
| Grants and contracts | 14,626,820 | 15,989,438 |
| Funds held for (returned to) others | 758,108 | (6,646) |
| Net Cash From Non-Capital Financing Activities | 143,745,361 | 138,357,134 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Purchases of capital assets | (13,424,840) | (5,399,929) |
| Proceeds from the sale of capital assets | 148,451 | 142,958 |
| Proceeds from bonds | - | 13,220,000 |
| Principal paid on bonds payable | (2,945,000) | (5,435,000) |
| Principal paid on certificates of participation | (1,555,000) | (1,520,000) |
| Principal paid on loan obligations | (661,672) | (661,673) |
| Interest paid on bonds payable | (1,096,142) | (770,937) |
| Interest paid on certificates of participation | (320,929) | (308,629) |
| Issuance costs, fees and premiums | - | 1,024,052 |
| Net Cash From (Used in) Capital and Related Financing Activities | (19,855,132) | 290,842 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest on investments | 590,317 | 281,908 |
| Net Cash from Investing Activities | 590,317 | 281,908 |
| Increase in Cash and Cash Equivalents | 5,353,227 | 25,297,534 |
| Cash and Cash Equivalents - Beginning of Year | 127,334,101 | 102,036,567 |
| Cash and Cash Equivalents - Ending of Year | \$ 132,687,328 | \$ 127,334,101 |

(Continued)

Johnson County Community College

Statements of Cash Flows (Continued)
Years Ended June 30, 2017 and 2016

| | 2017 | 2016 |
|---|--------------------------------|--------------------------------|
| RECONCILIATION OF OPERATING (LOSS) TO NET CASH (USED IN) OPERATING ACTIVITIES | | |
| Operating (loss) | \$ (125,652,635) | \$ (126,136,854) |
| Adjustments to reconcile operating (loss) to net cash (used in) operating activities: | | |
| Depreciation expense | 9,187,639 | 9,011,253 |
| Changes in assets and liabilities: | | |
| Accounts receivable, net | 301,477 | 736,319 |
| Other assets | (110,376) | 8,599 |
| Inventories | (1,030,584) | 940,771 |
| Accounts payable | (483,546) | 258,110 |
| Accrued salaries | (489,937) | 1,158,353 |
| Accrued compensated absences | (183,712) | 182,221 |
| Other accrued liabilities | (459,803) | (538,896) |
| Net pension liability | 247,861 | 780,004 |
| Unearned student tuition and fee revenue | (89,083) | 199,296 |
| Postemployment benefit asset | (208,716) | (186,811) |
| Deferred outflows of resources: | (213,396) | (121,480) |
| Deferred inflows of resources: | 57,492 | 76,765 |
| Net Cash (Used in) Operating Activities | <u>\$ (119,127,319)</u> | <u>\$ (113,632,350)</u> |
| Schedule of Noncash Capital and Related Items, accounts payable and other liabilities related to capital asset acquisitions | \$ 432,992 | \$ (180,281) |

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 (the College) taxing district 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, 2017 and 2016, the College received direct contributions from the Foundation of \$2,515,707 and \$2,639,521, respectively. Contributions are included in the statement of revenues, expenses and changes in net position in the private gifts, grants and contracts line and in the other operating revenue line in the operating revenues section.

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.

Johnson County Community College

Notes to Financial Statements

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

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, net of cost of goods sold, and (3) federal, state and local grants and contracts. Non-operating revenues include activities that have the characteristics of non-exchange 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, 2017 and 2016 were \$10,239,238 and \$15,323,045, 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, 2017 and 2016 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.

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.

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 49.4% and 47.1% of its financial support (exclusive of investment income) from property taxes during the years ended June 30, 2017 and 2016, respectively.

The tax rates for the fiscal years ended June 30, 2017 and 2016, expressed in mills per \$1,000 of assessed valuation, are reflected in the following table:

Johnson County Community College

Notes to Financial Statements

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

| Fund | <u>2017</u> | <u>2016</u> |
|------------------------|---------------------|---------------------|
| General | 8.938 | 8.934 |
| Capital outlay | 0.501 | 0.501 |
| Special assessment | 0.034 | 0.034 |
| Total Mill Levy | <u>9.473</u> | <u>9.469</u> |

Federal grants and state appropriations:

Funds from federal grants are recognized as revenue when eligibility requirements are met. Funds from state appropriations consist primarily of state grants and payments made by the state to the Kansas Public Employees Retirement System (KPERs) on behalf of the College. For state grants, the funds are recognized when eligibility requirements are met. The College recognizes the contributions made to KPERs by the state on behalf of the College as revenues and expenses in the Statements of Revenue, Expenses and Changes in Net Position (See Note 5).

Student tuition and fees, net of scholarship allowances:

Tuition and fees revenue is earned over the length of the course. Unearned revenue represents student tuition and fees received before year-end, which relate to subsequent periods. Student tuition and fees revenues are reported net of certain scholarship allowances in the Statements of Revenues, Expenses and Changes in Net Position.

Scholarship allowances and student aid:

Certain federal financial aid grants to students are reported as federal grants and contracts in non-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 (SEOG), are for the payment of students' tuition and fees, a like amount is reported as scholarship allowance which is reported as an operating expense in the financial statements. Federal Work-Study grant expenses are reported as operating expenses as students work for compensation. Certain other student aid sources (loans, funds provided to students as awarded by third parties and Federal Direct Lending) are paid directly to the students or credited to the students' account and do not impact revenues or expenses reported in the financial statements.

Operating and nonoperating activities:

Operating activities, as reported in the statement of revenues, expenses and changes in net position, are transactions that result from exchange transactions, such as payments received for providing services and payments made for services or goods received. Nonoperating activities include Federal grants consisting primarily of Pell grants and SEOG 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.

Johnson County Community College

Notes to Financial Statements

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

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 in bank certificates of deposit are carried at cost and investments in the Kansas Municipal Investment Pool are carried at amortized cost. Investments other than bank certificates of deposit and the Kansas Municipal Investment Pool are reported at fair value. Fair value is determined using quoted market prices.

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 which 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.

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.

Capital assets 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.

Johnson County Community College

Notes to Financial Statements

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

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

Deferred inflows and outflows of resources:

In addition to assets, the Statements of Net Position report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and will not be recognized as an expense until the future period. The College's deferred outflows include deferred charges on advanced refunding which represents the difference in the carrying value of the refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Bond issuance costs are expensed at time of issuance.

The college also reports deferred outflows of resources related to pensions as described in Note 5.

In addition to liabilities, the Statements of Net Position include a separate section for deferred inflows of resources. This separate financial element represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources until then. The College's deferred inflows of resources include deferred inflows of resources related to pensions as described in Note 5.

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, 2017 and 2016, the College had recorded a vacation liability of \$3,366,550 and \$3,550,262, 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 investment in its capital assets, net of debt used to acquire or construct the capital assets. The second is restricted, and the third is unrestricted.

Restricted net position represents 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 had no restricted nonexpendable net position at June 30, 2017 and 2016.

Johnson County Community College

Notes to Financial Statements

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

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.

Recent accounting pronouncements:

GASB Statement No. 72, *Fair Value Measurement and Application*, sets forth the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under GASB 72 are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the College and its component unit has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs reflect the College's and component unit's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the College's and component unit's own data.

When available, quoted prices are used to determine fair value by the College and the component unit. When quoted prices in active markets are available, investments are classified within Level 1 of the fair value hierarchy. The College's and component unit's Level 1 investments primarily consist of investments in mutual funds, cash equivalents and equity securities.

The implementation of GASB 72 did not have a significant impact on the College's financial statements.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. This Statement requires disclosure of tax abatement information, including the amount of taxes abated, for (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. This statement is effective for the College's fiscal year ending June 30, 2017.

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, 2017 and 2016, are reflected in the following table at cost. Actual bank statement balances for total deposits at June 30, 2017 and 2016 were \$126,944,781 and \$110,387,775, respectively. The difference between carrying amounts and bank balances primarily represents 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.

| | 2017 | 2016 |
|--------------------------|-----------------------|-----------------------|
| Cash | \$ 12,575,434 | \$ 14,474,964 |
| Certificates of Deposit: | | |
| Bank of Kansas City | 13,000,000 | - |
| Capital City Bank | 28,000,000 | 27,000,000 |
| Capitol Federal Savings | 37,000,000 | 12,000,000 |
| UMB Bank | 35,000,000 | 55,000,000 |
| Total Deposits | \$ 125,575,434 | \$ 108,474,964 |

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, 2017 and 2016. 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.

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.

Johnson County Community College

Notes to Financial Statements

Note 2. Deposits, Investments and Risk (Continued)

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. 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, 2017 and 2016, the College had investments in the Kansas Municipal Investment Pool – Overnight Pool, which mature in less than one year, of \$7,111,894 and \$18,859,137, respectively. Included in the investment balance at June 30, 2017 and 2016 were unspent bond funds of \$4,298,630 and \$9,554,678, respectively.

A summary of deposits and investments at June 30, 2017 and 2016 is as follows:

| | 2017 | | 2016 |
|---------------------------------------|-----------------------|-----------|--------------------|
| Deposits: | | | |
| Cash | \$ 12,575,434 | \$ | 14,474,964 |
| Certificates of Deposit | 113,000,000 | | 94,000,000 |
| Investments: | | | |
| Kansas Municipal Investment Pool | 7,111,894 | | 18,859,137 |
| Total Deposits and Investments | \$ 132,687,328 | \$ | 127,334,101 |

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 College's deposits and investments in the Kansas Municipal Investment Pool were rated AA+/S1+ by Standard & Poor's at June 30, 2017 and 2016.

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, 2017 and 2016:

| | June 30, 2016 | Additions/ Transfers | Retirements | June 30, 2017 |
|--|-----------------------|-------------------------|--------------------|-----------------------|
| | Ending Balance | | | Ending Balance |
| Capital assets not being depreciated: | | | | |
| Land | \$ 1,028,265 | \$ - | \$ - | \$ 1,028,265 |
| Works of art | 3,749,527 | 27,000 | | 3,776,527 |
| Total Assets not Being Depreciated | 4,777,792 | 27,000 | - | 4,804,792 |
| Capital assets being depreciated: | | | | |
| Land improvements | 38,340,691 | 622,066 | - | 38,962,757 |
| Buildings and improvements | 197,069,062 | 9,381,742 | - | 206,450,804 |
| Equipment, furniture and computer technology | 28,548,684 | 2,980,494 | (2,113,336) | 29,415,842 |
| Total Assets Being Depreciated | 263,958,437 | 12,984,302 | (2,113,336) | 274,829,403 |
| Less accumulated depreciation: | | | | |
| Land improvements | 22,073,569 | 1,728,062 | - | 23,801,631 |
| Buildings and improvements | 88,420,943 | 5,676,181 | - | 94,097,124 |
| Equipment, furniture and computer technology | 24,402,258 | 1,783,396 | (2,093,882) | 24,091,772 |
| Total Accumulated Depreciation | 134,896,770 | 9,187,639 | (2,093,882) | 141,990,527 |
| Capital Assets, Net | \$ 133,839,459 | \$ 3,823,663 | \$ (19,454) | \$ 137,643,668 |

Johnson County Community College

Notes to Financial Statements

Note 3. Capital Assets (Continued)

| | June 30, 2015 Ending Balance | Additions/ Transfers | Retirements | June 30, 2016 Ending Balance |
|--|---------------------------------------|-------------------------|--------------------|---------------------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 1,028,265 | \$ - | \$ - | \$ 1,028,265 |
| Works of art | 3,619,062 | 130,465 | - | 3,749,527 |
| Total Assets not Being Depreciated | 4,647,327 | 130,465 | - | 4,777,792 |
| Capital assets being depreciated: | | | | |
| Land improvements | 37,817,577 | 523,114 | - | 38,340,691 |
| Buildings and improvements | 193,738,632 | 3,330,430 | - | 197,069,062 |
| Equipment, furniture and computer technology | 29,056,290 | 1,563,331 | (2,070,937) | 28,548,684 |
| Total Assets Being Depreciated | 260,612,499 | 5,416,875 | (2,070,937) | 263,958,437 |
| Less accumulated depreciation: | | | | |
| Land improvements | 20,396,089 | 1,677,480 | - | 22,073,569 |
| Buildings and improvements | 82,893,525 | 5,527,418 | - | 88,420,943 |
| Equipment, furniture and computer technology | 24,699,709 | 1,755,289 | (2,052,740) | 24,402,258 |
| Total Accumulated Depreciation | 127,989,323 | 8,960,187 | (2,052,740) | 134,896,770 |
| Capital Assets, Net | \$ 137,270,503 | \$ (3,412,847) | \$ (18,197) | \$ 133,839,459 |

The College had no capitalized interest related to construction projects for the years ended June 30, 2017 and 2016, 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, 2017 and 2016:

| Long-Term Obligations | July 1, 2016 Beginning Balance | Additions | Reductions | June 30, 2017 Ending Balance | Amounts Due Within One Year |
|--|--------------------------------------|---------------------|-----------------------|------------------------------------|-----------------------------------|
| Revenue Bonds: | | | | | |
| Series 2011 | \$ 9,575,000 | \$ - | \$ (50,000) | \$ 9,525,000 | \$ 50,000 |
| Series 2012 | 3,765,000 | - | (485,000) | 3,280,000 | 485,000 |
| Series 2015 | 4,250,000 | - | (650,000) | 3,600,000 | 685,000 |
| Premium on Series 2011 Bonds | 138,774 | - | (11,565) | 127,209 | - |
| Premium on Series 2012 Bonds | 162,523 | - | (13,544) | 148,979 | - |
| Premium on Series 2015 Bonds | 86,994 | - | (14,498) | 72,496 | - |
| Total Revenue Bonds | 17,978,291 | - | (1,224,607) | 16,753,684 | 1,220,000 |
| Certificates of Participation: | | | | | |
| Series 2009 COP | 6,475,000 | - | (1,555,000) | 4,920,000 | 1,595,000 |
| Premium on Series 2009 COP | 18,590 | - | (5,629) | 12,961 | - |
| Total Certificates of Participation | 6,493,590 | - | (1,560,629) | 4,932,961 | 1,595,000 |
| Loan Obligation, KBOR PEI | 661,672 | - | (661,672) | - | - |
| General Obligation Bonds: | | | | | |
| Series 2016 Capital Outlay | 8,970,000 | - | (1,760,000) | 7,210,000 | 1,685,000 |
| Premium on Series 2016 Capital Outlay | 738,048 | - | (184,512) | 553,536 | - |
| Total General Obligation Bonds | 9,708,048 | - | (1,944,512) | 7,763,536 | 1,685,000 |
| Other Accrued Liabilities: | | | | | |
| Compensated Absences | 3,550,262 | 1,083,267 | (1,266,979) | 3,366,550 | 393,522 |
| Net Pension Liability | 780,004 | 247,861 | - | 1,027,865 | - |
| Net OPEB Obligation (Asset) | (773,535) | 550,284 | (759,000) | (982,251) | - |
| Total Other Accrued Liabilities | 3,556,731 | 1,881,412 | (2,025,979) | 3,412,164 | 393,522 |
| Total Long-Term Obligations | \$ 38,398,332 | \$ 1,881,412 | \$ (7,417,399) | \$ 32,862,345 | \$ 4,893,522 |

Johnson County Community College

Notes to Financial Statements

Note 4. Long-Term Obligations (Continued)

| Long-Term Obligations | July 1, 2015 Beginning Balance | Additions | Reductions | June 30, 2016 Ending Balance | Amounts Due Within One Year |
|--|--------------------------------------|----------------------|-----------------------|------------------------------------|-----------------------------------|
| Revenue Bonds: | | | | | |
| Series 2006 | \$ 4,925,000 | \$ - | \$ (4,925,000) | \$ - | \$ - |
| Series 2011 | 9,625,000 | - | (50,000) | 9,575,000 | 50,000 |
| Series 2012 | 4,225,000 | - | (460,000) | 3,765,000 | 485,000 |
| Series 2015 | - | 4,250,000 | - | 4,250,000 | 650,000 |
| Premium on Series 2006 Bonds | 68,863 | - | (68,863) | - | - |
| Premium on Series 2011 Bonds | 150,339 | - | (11,565) | 138,774 | - |
| Premium on Series 2012 Bonds | 176,065 | - | (13,542) | 162,523 | - |
| Premium on Series 2015 Bonds | - | 101,493 | (14,499) | 86,994 | - |
| Total Revenue Bonds | 19,170,267 | 4,351,493 | (5,543,469) | 17,978,291 | 1,185,000 |
| Certificates of Participation: | | | | | |
| Series 2009 COP | 7,995,000 | - | (1,520,000) | 6,475,000 | 1,555,000 |
| Premium on Series 2009 COP | 24,219 | - | (5,629) | 18,590 | - |
| Total Certificates of Participation | 8,019,219 | - | (1,525,629) | 6,493,590 | 1,555,000 |
| Loan Obligation, KBOR PEI | 1,323,345 | - | (661,673) | 661,672 | 661,672 |
| General Obligation Bonds: | | | | | |
| Series 2016 Capital Outlay | - | 8,970,000 | - | 8,970,000 | 1,760,000 |
| Premium on Series 2016 Capital Outlay | - | 922,559 | (184,511) | 738,048 | - |
| Total General Obligation Bonds | - | 9,892,559 | (184,511) | 9,708,048 | 1,760,000 |
| Other Accrued Liabilities: | | | | | |
| Compensated Absences | 3,368,041 | 1,311,060 | (1,128,839) | 3,550,262 | 363,233 |
| Net Pension Liability | - | 780,004 | - | 780,004 | - |
| Net OPEB Obligation (Asset) | (586,724) | 549,189 | (736,000) | (773,535) | - |
| Total Other Accrued Liabilities | 2,781,317 | 2,640,253 | (1,864,839) | 3,556,731 | 363,233 |
| Total Long-Term Obligations | \$ 31,294,148 | \$ 16,884,305 | \$ (9,780,121) | \$ 38,398,332 | \$ 5,524,905 |

Johnson County Community College

Notes to Financial Statements

Note 4. Long-Term Obligations (Continued)

Revenue Bonds:

Revenue bonds payable as of June 30, 2017 and 2016, consist of the following:

| | 2017 | 2016 |
|--|----------------------|----------------------|
| Student Commons and Parking System Refunding Revenue Bonds, Series 2011, \$9,800,000, interest is paid semiannually on May 15 and November 15 at interest rates of 2% to 4%. | \$ 9,525,000 | \$ 9,575,000 |
| Premium on Series 2011 Revenue Bonds. | 127,209 | 138,774 |
| Student Commons and Parking System Refunding Revenue Bonds, Series 2012, \$5,135,000, interest is paid semiannually on May 15 and November 15 at interest rates of 2%. | 3,280,000 | 3,765,000 |
| Premium on Series 2012 Revenue Bonds. | 148,979 | 162,523 |
| Student Commons and Parking System Refunding Revenue Bonds, Series 2015, \$4,250,000, interest is paid semiannually on May 15 and November 15 at interest rates of 2%. | 3,600,000 | 4,250,000 |
| Premium on Series 2015 Revenue Bonds. | 72,496 | 86,994 |
| Total Revenue Bonds Payable | 16,753,684 | 17,978,291 |
| Less current portion of revenue bonds payable | 1,220,000 | 1,185,000 |
| Noncurrent Revenue Bonds Payable | \$ 15,533,684 | \$ 16,793,291 |

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). The College was in compliance with this covenant at June 30, 2017 and 2016.

Johnson County Community College

Notes to Financial Statements

Note 4. Long-Term Obligations (Continued)

Future annual maturities of revenue bonds payable are as follows:

| Fiscal Year: | Principal | Interest | Total Revenue Bonds |
|----------------------------|----------------------|---------------------|------------------------|
| 2018 | \$ 1,220,000 | \$ 486,838 | \$ 1,706,838 |
| 2019 | 1,250,000 | 461,700 | 1,711,700 |
| 2020 | 1,285,000 | 435,825 | 1,720,825 |
| 2021 | 1,340,000 | 407,775 | 1,747,775 |
| 2022 | 1,370,000 | 377,600 | 1,747,600 |
| 2023-2027 | 8,120,000 | 1,124,025 | 9,244,025 |
| 2028 | 1,820,000 | 34,350 | 1,854,350 |
| Total Revenue Bonds | \$ 16,405,000 | \$ 3,328,113 | \$ 19,733,113 |

On August 18, 2015 the College issued the Student Commons and Parking System Refunding Revenue Bonds, Series 2015 in the amount of \$4,250,000 with premiums of \$101,498 at interest rates of 2%. Interest is payable semiannually. The Series 2015 Bonds were issued to refund \$4,295,000 of the Student Commons and Parking System Refunding Revenue Bonds, Series 2006. The College completed the refunding to reduce its total debt service payments by \$298,995 over the next six years to obtain a \$284,831 economic gain (difference between present values of the old and new debt service payments). A deferred charge of \$92,461 on the refunding was recorded as a deferred outflow of resources in the Statements of Net Position.

General Obligation Capital Outlay Bonds:

General obligation capital outlay bonds payable as of June 30, 2017 and 2016, consist of the following:

| | 2017 | 2016 |
|---|---------------------|---------------------|
| General Obligation Capital Outlay Bonds, Series 2016, \$8,970,000, interest is paid semiannually on March 1 and September 1 at interest rates of 4% to 5% | \$ 7,210,000 | \$ 8,970,000 |
| Premium on Series 2016 General Obligation Capital Outlay Bonds | 553,536 | 738,048 |
| Total General Obligation Capital Outlay Bonds Payable | 7,763,536 | 9,708,048 |
| Less current portion of general obligation capital outlay bonds payable | 1,685,000 | 1,760,000 |
| Noncurrent General Obligation Capital Outlay Bonds Payable | \$ 6,078,536 | \$ 7,948,048 |

Johnson County Community College

Notes to Financial Statements

Note 4. Long-Term Obligations (Continued)

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

| Fiscal Year: | Principal | Interest | Total General Obligation Bonds |
|---------------------------------------|---------------------|-------------------|--------------------------------------|
| 2018 | \$ 1,685,000 | \$ 309,950 | \$ 1,994,950 |
| 2019 | 1,755,000 | 232,375 | 1,987,375 |
| 2020 | 1,840,000 | 142,500 | 1,982,500 |
| 2021 | 1,930,000 | 48,250 | 1,978,250 |
| Total General Obligation Bonds | \$ 7,210,000 | \$ 733,075 | \$ 7,943,075 |

On January 6, 2016 the College issued the General Obligation Capital Outlay Bonds, Series 2016 in the amount of \$8,970,000 with premium of \$922,559 at interest rates of 4% to 5%. Interest is payable semiannually. The Series 2016 Bonds were issued to finance the costs of various capital improvements to campus buildings.

Certificates of Participation:

Certificates of participation at June 30, 2017 and 2016, consist of the following:

| | 2017 | 2016 |
|--|---------------------|---------------------|
| 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 \$1,998,094 and \$1,665,079 as of June 30, 2017 and 2016, 3.50% to 4.55%, aggregate payments of \$7,052,075, including interest of \$577,075) | \$ 4,920,000 | \$ 6,475,000 |
| Premium on Series 2009 Certificates of Participation | 12,961 | 18,590 |
| Total Certificates of Participation | 4,932,961 | 6,493,590 |
| Less current portion of certificates of participation | 1,595,000 | 1,555,000 |
| Noncurrent Certificates of Participation | \$ 3,337,961 | \$ 4,938,590 |

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, 2017 are as follows:

| | Principal | Interest | Total Capital Leases |
|--|---------------------|-------------------|----------------------------|
| Fiscal Year: | | | |
| 2018 | \$ 1,595,000 | \$ 181,104 | \$ 1,776,104 |
| 2019 | 1,640,000 | 112,337 | 1,752,337 |
| 2020 | 1,685,000 | 38,334 | 1,723,334 |
| Total Certificates of Participation | \$ 4,920,000 | \$ 331,775 | \$ 5,251,775 |

The College leases office space under operating lease agreements that expire through fiscal year 2020. Rental expense totaled \$386,806 and \$412,706 for the years ended June 30, 2017 and 2016, respectively. Minimum rental commitments under these noncancelable operating leases with initial terms of one year or longer at June 30, 2017 are \$328,098.

Loan Obligations:

The College's loan obligations as of June 30, 2017 and 2016, consist of the following:

| | 2017 | 2016 |
|--|-------------|-------------|
| 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 payment due December 1, 2016. | \$ - | \$ 661,672 |
| Less current portion of the loan obligation | - | 661,672 |
| Noncurrent Loan Obligation | \$ - | \$ - |

The final principal payment of \$661,672 on the Postsecondary Educational Institution Loan was made during the year ending June 30, 2017.

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 \$0 and \$5,979 as of June 30, 2017 and 2016, respectively.

Johnson County Community College

Notes to Financial Statements

Note 4. Long-Term Obligations (Continued)

Subsequent event:

On October 4, 2017, the College issued the Series 2017 Certificates of Participation in the amount of \$50,000,000 with premium of \$3,495,940 at interest rates of 3% to 5%. Interest is payable semiannually through October 1, 2037. Proceeds from the sale of the Certificates will be used to finance various capital projects on the campus.

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 benefit provisions to statewide pension groups for State/School employees, Local employees, Police and Firemen, and Judges under one plan. Those employees participating in the pension plan for the College are included in the State/School employee group.

KPERs provides retirement benefits, life insurance, disability income benefits, and death benefits. Benefits are established by statute and may only be changed by the General Assembly. Member employees with ten or more years of credited service may retire as early as age 55 with an actuarially reduced monthly benefit. Normal retirement is at age 65, age 62 with ten years of credited service, or whenever an employee's combined age and years of credited service equal 85 "points".

Monthly retirement benefits are based on a statutory formula that includes final average salary and years of service. When ending employment, member employees may withdraw their contributions from their individual accounts, including interest. Member employees who withdraw their accumulated contributions lose all rights and privileges of membership. The accumulated contributions and interest are deposited into and disbursed from the membership accumulated reserve fund as established by K.S.A. 74-4922.

Member employees choose one of seven payment options for their monthly retirement benefits. At retirement a member employee may receive a lump-sum payment of up to 50% of the actuarial present value of the member employee's lifetime benefit. His or her monthly retirement benefit is then permanently reduced based on the amount of the lump sum. Benefit increases, including ad hoc post-retirement benefit increases, must be passed into law by the Kansas Legislature. Benefit increases are under the authority of the Legislature and the Governor of the State of Kansas. The retirement benefits are disbursed from the retirement benefit payment reserve fund as established by K.S.A. 74-4922.

Johnson County Community College

Notes to Financial Statements

Note 5. Defined Benefit Pension Plan (Continued)

Funding policy:

K.S.A. 74-4919, as amended, establishes a three tier benefit structure. Tier 1 members include active members hired before July 1, 2009. Tier 2 members include active members hired between July 1, 2009 and December 31, 2014. Tier 3 members include those first employed in a KPERS covered position after January 1, 2015. The member-employee contribution rate 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 statutorily required employer's share. For fiscal year 2017, the State of Kansas contributed 10.81% for the period July 1, 2016 to March 31, 2017 and 12.01% for the period April 1, 2017 to June 30, 2017 of covered payroll. For fiscal year 2016, the State of Kansas contributed 10.91% for the period July 1, 2015 to March 31, 2016 and 10.81% for the period April 1, 2016 to June 30, 2016 of covered payroll.

Although KPERS administers one cost-sharing multiple-employer defined benefit pension plan, separate actuarial valuations are prepared to determine the actuarial determined contribution rate by group. To facilitate the separate actuarial valuations, KPERS maintains separate accounts to identify additions, deductions, and fiduciary net position applicable to each group. The allocation percentages presented for each group in the schedule of employer and nonemployer allocations are applied to amounts presented in the schedules of pension amounts by employer and nonemployer.

The individual employer allocation percentages for the pension amounts were based on the ratio of the employer and nonemployer contributions for the individual employer in relation to the total of all employer and nonemployer contributions of the group.

At June 30, 2016, the College's proportion of the net pension liability was 1.969%, which was an increase of .045% from the proportion measured of 1.924% at June 30, 2015. The proportion recognized by the State of Kansas on behalf of the College was 1.957% (special funding situation). The proportion recognized by the College for KPERS retirees was 0.012%.

Special Funding Situation:

The employer contributions for the College, as defined in K.S.A. 74-4931 (2) and (3), are funded by the State of Kansas on behalf of the College. Therefore, the College is considered to be in a special funding situation as defined by GASB Statement No. 68.

The State of Kansas is treated as a non-employer contributing entity to KPERS and is required to recognize its proportionate share of the net pension liability, deferred outflows of resources, deferred inflows of resources, and expenses for the pension plan attributable to the College. At June 30, 2017 and 2016, the proportionate share of the net pension liability recognized by the State of Kansas that was attributable to the College was \$132,370,340 and \$132,414,195, respectively.

The State of Kansas contributed \$9,290,196 and \$9,203,256 directly to KPERS on behalf of the College for the years ended June 30, 2017 and 2016, respectively. The payments made by the State of Kansas on behalf of the College have been recorded as both revenues and expenses in the Statements of Revenues, Expenses and Changes in Net Position.

Johnson County Community College

Notes to Financial Statements

Note 5. Defined Benefit Pension Plan (Continued)

Net Pension Liability:

The college makes contributions directly to KPERS for KPERS retirees filling KPERS covered positions per K.S.A. 74-4937. During the years ended June 30, 2017 and June 30, 2016, the contribution made to KPERS for these employees was \$100,759 and \$72,003, respectively. The College reported a liability for its proportionate share of the net pension liability related to these employees of \$1,027,865 and \$780,004 at June 30, 2017 and 2016.

The June 30, 2017 net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015, which was rolled forward to June 30, 2016. The June 30, 2016 net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014, which was rolled forward to June 30, 2015.

The College proportion of the net pension liability was based on the ratio of the College's actual contribution to KPERS, relative to the total employer and nonemployer contributions of the State/School subgroup within KPERS for the fiscal years ended June 30, 2017 and 2016. The contributions used exclude contributions made for prior service, excess benefits and irregular payments. The College's proportion was 0.012% and 0.011% at June 30, 2017 and 2016.

The College recognized pension expense of \$91,957 and \$807,292 for the years ended June 30, 2017 and 2016, respectively, related to the College's net pension liability.

At June 30, 2017, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | 2017 | | 2016 | |
|--|--------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Difference between expected and actual experience | \$ - | \$ (48,526) | \$ - | \$ (23,375) |
| Net difference between projected and actual earnings on pension plan investments | 92,836 | - | - | (20,320) |
| Change in proportion | 242,040 | (83,873) | - | (31,334) |
| Change in assumptions | - | (1,858) | - | (1,736) |
| College contributions subsequent to measurement date | - | - | 121,480 | - |
| Total | \$ 334,876 | \$ (134,257) | \$ 121,480 | \$ (76,765) |

Johnson County Community College

Notes to Financial Statements

Note 5. Defined Benefit Pension Plan (Continued)

The net \$200,619 of amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Fiscal Year:</u> | | |
|---------------------|----|----------------|
| 2018 | \$ | 28,815 |
| 2019 | | 28,815 |
| 2020 | | 59,348 |
| 2021 | | 57,339 |
| 2022 | | <u>26,302</u> |
| Total | \$ | <u>200,619</u> |

Discount Rate:

The discount rate used to measure the total pension liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the contractually required rate. The State, School and Local employers do not necessarily contribute the full actuarially determined rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Actuarial Assumptions:

The total pension liability for the June 30, 2016 measurement date was determined by an actuarial valuation as of December 31, 2015 which was rolled forward to June 30, 2016. The total pension liability for the June 30, 2015 measurement date was determined by an actuarial valuation as of December 31, 2014, which was rolled forward to June 30, 2015. These actuarial valuations used the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|--|---|
| Price inflation | 3.0 percent |
| Wage inflation | 4.0 percent |
| Salary increases, including wage increases | 4.0 to 16.00 percent, including inflation |
| Investment rate of return | 8.0 percent, net of investment expense, and including price inflation |

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, with adjustments for mortality improvements based on Scale AA.

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study conducted for the three year period beginning December 31, 2012.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Johnson County Community College

Notes to Financial Statements

Note 5. Defined Benefit Pension Plan (Continued)

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocations as of June 30, 2016 are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|------------------------|--------------------------|---|
| Global equity | 47% | 6.80% |
| Fixed income | 13% | 1.25% |
| Yield driven | 8% | 6.55% |
| Real return | 11% | 1.71% |
| Real estate | 11% | 5.05% |
| Alternatives | 8% | 9.85% |
| Short-term investments | 2% | -0.25% |
| Total | 100% | |

Sensitivity to changes in the discount rate:

The following presents the College's proportionate share of the net pension liability calculated using the discount rate of 8.00%, as well as what the College's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

| | 1% Decrease (7.00%) | Current Discount Rate (8.00%) | 1% Increase (9.00%) |
|---|--------------------------------|--|--------------------------------|
| College's proportionate share of the net pension liability allocated to the State of Kansas | \$ 173,457,445 | \$ 132,370,340 | \$ 99,367,461 |
| College's proportionate share of the net pension liability allocated to the College | \$ 1,336,531 | \$ 1,027,865 | \$ 765,650 |
| Total | \$ 174,793,976 | \$ 133,398,205 | \$ 100,133,111 |

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 at www.kpers.org.

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.

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:

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.

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, 2017 and 2016:

Johnson County Community College

Notes to Financial Statements

Note 6. Other Postemployment Benefit Plan (Continued)

| | 2017 | 2016 |
|--|---------------------|---------------------|
| Normal cost | \$ 267,300 | \$ 267,300 |
| Amortization of AAL (30 yrs) | 278,448 | 278,448 |
| Annual Required Contribution | 545,748 | 545,748 |
| Interest on net OPEB obligation (asset) | (27,074) | (20,535) |
| Adjustment to annual required contribution | 31,610 | 23,976 |
| Annual OPEB Cost (Expense) | 550,284 | 549,189 |
| Contributions and payments made | (759,000) | (736,000) |
| (Decrease) in Net OPEB Obligation | (208,716) | (186,811) |
| Net OPEB Obligation (Asset), Beginning of Year | (773,535) | (586,724) |
| Net OPEB Obligation (Asset), End of Year | \$ (982,251) | \$ (773,535) |

The College's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2017 follows:

| Fiscal Year Ended: | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation (Asset) |
|--------------------|---------------------|--|-----------------------------------|
| June 30, 2017 | \$ 550,284 | 137.93% | \$ (982,251) |
| June 30, 2016 | 549,189 | 134.02 | (773,535) |
| June 30, 2015 | 739,826 | 149.63 | (586,724) |
| June 30, 2014 | 737,347 | 157.32 | (219,550) |
| June 30, 2013 | 1,056,801 | 155.85 | 203,103 |

Funded status and funding progress:

As of July 1, 2015, the most recent actuarial valuation date, the plan was zero percent funded. The College's actuarial accrued liability for benefits was \$6,583,456 and the actuarial value of assets is zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$6,583,456. The covered payroll (annual payroll of active employees covered by the plan) was \$62,792,740 and the ratio of the UAAL to the covered payroll was 10.48%.

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, 2015 actuarial valuation, the entry age normal (level percentage of pay) method was used. The actuarial assumptions included a 3.5% discount rate, 3% per year salary scale, 2% per year aggregate payroll growth, and an annual health care cost trend rate of 8% 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.

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, 2017 and 2016.

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 Statements not yet implemented by the College. The Statements which might impact the College are as follows:

In June 2015, the GASB issued Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which will require governments providing defined benefit other postemployment benefits (OPEB) plans to recognize their long-term obligation for benefits as a liability for the first time, and will expand required disclosures. This statement will be effective for the College's fiscal year ending June 30, 2018. The College has not yet determined the effect that the adoption of this Statement will have on its financial statements.

In November 2016, the GASB issued Statement No. 83 *Certain Asset Retirement Obligations*, which will require governments to recognize and measure certain asset retirement obligations, including obligations that may not have been previously reported. This statement will be effective for the College's fiscal year ending June 30, 2019. The College has not yet determined the effect that the adoption of this Statement will have on its financial statements.

In March 2017, the GASB issued Statement No. 85 *Omnibus*, which addresses a variety of topics, including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).

Johnson County Community College

Notes to Financial Statements

Note 9. New Pronouncements (Continued)

This statement will be effective for the College's fiscal year ending June 30, 2018. The College has not yet determined the effect that the adoption of this Statement will have on its financial statements.

In June 2017, the GASB issued Statement No. 87 *Leases*, which will require reporting of certain lease liabilities that currently are classified as operating leases. This statement will be effective for the College's fiscal year ending June 30, 2021. The College has not yet determined the effect that the adoption of this Statement will have on its 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 in accordance with the provisions of the FASB ASC. The FASB ASC requires the Foundation to distinguish between contributions that increase permanently restricted net assets, temporarily restricted net assets and unrestricted net assets. It also requires recognition of contributions, including contributed services meeting certain criteria, at fair values. The FASB ASC establishes standards for external financial statements of not-for-profit organizations and requires a statement of financial position, a statement of activities, and a statement of cash flows.

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, 2017 and 2016, 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, 2013 and prior.

Promises to give:

Unconditional promises to give are recognized as revenue at the present value of expected future payments when unconditional pledges are made. As of June 30, 2017 and 2016, management believed that no allowance for doubtful collection was necessary based on the evaluation of the receivables and the related donors. Promises to give are scheduled to be received as follows:

| | 2017 | 2016 |
|---|---------------------|---------------------|
| Due in less than one year | \$ 402,919 | \$ 800,522 |
| Due after one year to five years | 644,450 | 280,000 |
| Total Promises to Give | 1,047,369 | 1,080,522 |
| Less discount of present value (interest rates from 0.88% to 2.97%) | 12,530 | 4,961 |
| Promises to Give, net | \$ 1,034,839 | \$ 1,075,561 |

Johnson County Community College

Notes to Financial Statements

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

Total gross pledges of \$779,450 and \$415,000 as of June 30, 2017 and 2016, respectively, were due from certain members of the Foundation's Board of Directors or affiliated organizations of these Directors. Approximately 72% and 35% of gross pledges receivable from Board members were due from one donor as of June 30, 2017 and 2016, 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 no conditional promises to give as of June 30, 2017 and 2016, respectively.

Investments:

The Foundation's investment portfolio as of June 30, 2017 and 2016 consisted of the following:

| | 2017 | 2016 |
|-----------------------------|----------------------|----------------------|
| U.S. government obligations | \$ 1,375,136 | \$ 2,007,684 |
| Equity funds | 11,363,806 | 7,409,125 |
| Corporate bonds | 3,642,486 | 3,877,570 |
| Common stock | 8,727,479 | 8,833,732 |
| Certificates of deposit | 148,676 | 149,888 |
| | <u>\$ 25,257,583</u> | <u>\$ 22,277,999</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 \$643,000 and \$599,000 for 2017 and 2016, 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. At June 30, 2017, the Foundation owed a related party \$58,756, which was included in accounts payable.

Johnson County Community College

Notes to Financial Statements

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

Net assets:

Temporarily restricted net assets as of June 30, 2017 and 2016 were restricted as follows:

| | 2017 | 2016 |
|---|---------------------|---------------------|
| Scholarships to students | \$ 5,617,661 | \$ 4,016,846 |
| Support of College programs, including visual and performing arts programs and capital projects | 4,168,617 | 2,910,067 |
| | <u>\$ 9,786,278</u> | <u>\$ 6,926,913</u> |

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, 2017 and 2016 and is included below in visual and performing art programs.

Permanently restricted net assets as of June 30, 2017 and 2016 were restricted as follows:

| | 2017 | 2016 |
|--|----------------------|----------------------|
| Scholarships to students | \$ 8,782,825 | \$ 8,535,218 |
| Support of College programs, including visual and performing arts programs | 9,803,423 | 9,750,407 |
| | <u>\$ 18,586,248</u> | <u>\$ 18,285,625</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, 2017 and 2016 as follows:

| | 2017 | 2016 |
|---|---------------------|---------------------|
| Scholarships to students | \$ 1,093,478 | \$ 1,036,217 |
| Support of College programs, including visual and performing arts programs and capital projects | 1,853,910 | 1,999,361 |
| | <u>\$ 2,947,388</u> | <u>\$ 3,035,578</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, 2017.

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, 2017 and 2016 segregated by the general classification of such instruments pursuant to the valuation hierarchy:

| | June 30, 2017 | | | |
|--|----------------------|---------------------|-----------------|----------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Investments | | | | |
| U.S. government obligations | \$ - | \$ 1,375,136 | \$ - | \$ 1,375,136 |
| Equity funds: | | | | |
| Fixed income mutual funds | 3,056,585 | - | - | 3,056,585 |
| International mutual funds | 3,299,036 | - | - | 3,299,036 |
| Domestic mutual funds | 5,008,185 | - | - | 5,008,185 |
| Corporate bonds | - | 3,642,486 | - | 3,642,486 |
| Common stock | | | | |
| Energy | 491,042 | - | - | 491,042 |
| Materials | 334,231 | - | - | 334,231 |
| Industrials | 1,044,553 | - | - | 1,044,553 |
| Consumer discretionary | 998,888 | - | - | 998,888 |
| Consumer staples | 666,915 | - | - | 666,915 |
| Health care | 1,048,836 | - | - | 1,048,836 |
| Financials | 1,200,662 | - | - | 1,200,662 |
| Information technology | 1,578,956 | - | - | 1,578,956 |
| Telecommunication services | 220,154 | - | - | 220,154 |
| Utilities | 138,448 | - | - | 138,448 |
| REITS | 141,011 | - | - | 141,011 |
| Preferred stock | 863,783 | - | - | 863,783 |
| | <u>\$ 20,091,285</u> | <u>\$ 5,017,622</u> | <u>\$ -</u> | <u>\$ 25,108,907</u> |
| Cash surrender value of life insurance | - | - | 8,151 | 8,151 |
| Total | <u>\$ 20,091,285</u> | <u>\$ 5,017,622</u> | <u>\$ 8,151</u> | <u>\$ 25,117,058</u> |

Johnson County Community College

Notes to Financial Statements

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

| | June 30, 2016 | | | Total |
|--|----------------------|---------------------|-----------------|----------------------|
| | Level 1 | Level 2 | Level 3 | |
| Investments | | | | |
| U.S. government obligations | \$ - | \$ 2,007,684 | \$ - | \$ 2,007,684 |
| Equity funds: | | | | |
| Fixed income mutual funds | 1,678,451 | - | - | 1,678,451 |
| International mutual funds | 2,358,417 | - | - | 2,358,417 |
| Domestic mutual funds | 3,372,257 | - | - | 3,372,257 |
| Corporate bonds | - | 3,877,570 | - | 3,877,570 |
| Common stock | | | | |
| Energy | 572,795 | - | - | 572,795 |
| Materials | 322,898 | - | - | 322,898 |
| Industrials | 943,418 | - | - | 943,418 |
| Consumer discretionary | 1,051,251 | - | - | 1,051,251 |
| Consumer staples | 764,493 | - | - | 764,493 |
| Health care | 1,167,066 | - | - | 1,167,066 |
| Financials | 1,075,222 | - | - | 1,075,222 |
| Information technology | 1,631,116 | - | - | 1,631,116 |
| Telecommunication services | 160,184 | - | - | 160,184 |
| Utilities | 171,795 | - | - | 171,795 |
| REITS | 25,557 | - | - | 25,557 |
| Preferred stock | 947,937 | - | - | 947,937 |
| | <u>\$ 16,242,857</u> | <u>\$ 5,885,254</u> | <u>\$ -</u> | <u>\$ 22,128,111</u> |
| Cash surrender value of life insurance | - | - | 8,541 | 8,541 |
| Total | <u>\$ 16,242,857</u> | <u>\$ 5,885,254</u> | <u>\$ 8,541</u> | <u>\$ 22,136,652</u> |

There were no transfers between Level 1, 2 or 3 for the fair value hierarchy for the fiscal years ended June 30, 2017 and 2016.

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:

| | 2017 | 2016 |
|--|----------------------|----------------------|
| Total Capital Assets, Net | <u>\$ 18,617,033</u> | <u>\$ 19,343,788</u> |
| Total Debt | <u>\$ 16,753,684</u> | <u>\$ 17,978,291</u> |
| Operating revenues, sales and service | \$ 14,135,957 | \$ 13,958,938 |
| Less operating expenses, salaries, utilities, depreciation and other expenses | 11,522,268 | 10,740,744 |
| Operating Income | <u>\$ 2,613,689</u> | <u>\$ 3,218,194</u> |

Note 12. Tax Abatement Disclosures

In August 2015, the GASB issued GASB Statement No.77, *Tax Abatement Disclosures*. This Statement is intended to improve financial reporting relating to disclosures of tax abatement transactions. The required disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments that reduce the reporting government's tax revenues. The Statement is effective for the College's fiscal year ending June 30, 2017.

Property tax abatements are authorized under Kansas statutes KSA 12-1740 et. Seq. and KSA 79-201a and subject to County policy. Abatements may not exceed a term of ten years by statute. The developer must demonstrate a positive cost/benefit to the various taxing jurisdictions under Kansas law. Other criteria for eligibility include: (1) significant addition to the local economy in terms of private capital investment (a minimum investment of \$2,000,000) and increased direct and indirect employment opportunities, (2) the nature of the business either exports a substantial portion of its products/services from Johnson County or are for local consumption but would add new jobs and replace purchases now being made by Johnson County or are for local consumption but would add new jobs and replace purchases now being made by Johnson County residents in areas outside of Johnson County, (3) preferences shall be extended to existing industries to facilitate expansion or retention, (4) no abatements granted for a relocation within Johnson County except under special circumstances detailed in the policy, (5) property owned by Johnson County and used exclusively for aviation purposes is eligible for 100% exemption from all ad valorem taxation, (6) except for projects mentioned in #5, no property tax abatement shall be in excess of 50% of the amount that would have been paid, and (7) projects must be in compliance with NCAC Comprehensive Compatibility Plan and Johnson County's Airport Vicinity Overlay Districts and Zones Regulations.

Any tax abatement granted shall be accompanied by a performance agreement between the applicant and the Board of County Commissioners (BOCC) subject to annual review by the BOCC to determine that the conditions qualifying the business for the incentives continue to exist and that assurances made by the applicant to induce the BOCC to grant the incentives are fulfilled.

Johnson County cities have used tax abatements for many years to spur industrial and office development. Kansas statutes provide a process for cities to abate property tax on qualifying property.

Johnson County Community College

Notes to Financial Statements

Note 12. Tax Abatement Disclosures (Continued)

GASB 77 also requires disclosure information about tax abatements entered into by other governments affecting revenues of the College.

The following cities within Johnson County, Kansas have entered into tax abatement agreements that reduce property tax revenues for the College: De Soto, Bonner Springs, Lenexa, Olathe, Overland Park and Shawnee. The gross dollar amount by which the College's property tax revenues were reduced as a result of these tax abatement agreements entered into was approximately \$617,000 during the year ending June 30, 2017. There are no tax abatement agreements entered into by the College.

Johnson County Community College

**Required Supplementary Information
Schedules of College's Proportionate Share and Contributions
Year Ended June 30, 2017**

**KPERS Defined Benefit Pension Plan
Schedule of College's Proportionate Share of the Net Pension Liability**

| | Plan Year Ended | |
|--|---------------------|-------------------|
| | 2016 | 2015* |
| Total proportion of the state/school group net pension liability allocated to the College | 1.96949% | 1.92353% |
| Less: proportion of the state/school group net pension liability allocated to the State of Kansas (special funding) | 1.95760% | 1.91227% |
| College's proportion of the state/school group net pension liability | <u>0.01189%</u> | <u>0.01126%</u> |
| Total proportionate share of the state/school group net pension liability allocated to the College | \$133,398,205 | \$133,194,199 |
| Less: proportionate share of the state/school group net pension liability allocated to the State of Kansas (special funding) | \$132,370,340 | \$132,414,195 |
| College's proportionate share of the state/school group net pension liability | <u>\$ 1,027,865</u> | <u>\$ 780,004</u> |
| College's state/school group covered payroll | \$ 323,900 | \$ 242,814 |
| College's state/school group proportionate share of net pension liability as a percentage of its covered payroll | 317.34% | 321.24% |
| Plan fiduciary net position as a percentage of the total pension liability | 65.10% | 64.95% |

**KPERS Defined Benefit Pension Plan
Schedule of College's Contributions**

| | Plan Year Ended | |
|---|-----------------|------------|
| | 2016 | 2015* |
| Required state/school group contribution | \$ 72,003 | \$ 49,477 |
| Contributions made in relation to the required contribution | 72,003 | 49,477 |
| Contribution deficiency | <u>-</u> | <u>-</u> |
| College's state/school group covered payroll | \$ 323,900 | \$ 242,814 |
| Contributions as a percentage of state/school group covered payroll | 22.23% | 20.38% |

* GASB 68 requires presentation of ten years. The College's proportionate share of the net pension liability allocated to employer prior to the plan year ended 2015 is not available.

Johnson County Community College

**Required Supplementary Information
Other Postemployment Benefit Plan
Schedule of Funding Progress
Year Ended June 30, 2017**

| 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 |
|-------------------|--------------------------|---------------------------|-----------------------------|---------------|--------------|-----------------|---|
| 2010 | July 1, 2009 | \$ - | \$ 15,297,222 | \$ 15,297,222 | - % | \$ 56,196,190 | 27.22% |
| 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 |
| 2014 | July 1, 2013 | - | 9,172,678 | 9,172,678 | - | 53,763,734 | 17.10 |
| 2015 | July 1, 2013 | - | 9,172,678 | 9,172,678 | - | 53,763,734 | 17.10 |
| 2016 | July 1, 2015 | - | 6,583,456 | 6,583,456 | - | 62,792,740 | 10.48 |
| 2017 | July 1, 2015 | - | 6,583,456 | 6,583,456 | - | 62,792,740 | 10.48 |

The information presented in the required supplementary information schedule was determined as part of the actuarial valuation as of July 1, 2015. 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 3.5%, 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, 2017**

| | Budgetary Expenditures | Legal Appropriations Budget | (Over) Under Budget |
|---|---------------------------|-----------------------------------|---------------------------|
| Current Unrestricted Funds: | | | |
| General | \$ 126,581,259 | \$ 136,016,371 | \$ 9,435,112 |
| Postsecondary technical education (PTE) | 45,610,233 | 40,300,397 | (5,309,836) |
| Subtotal General and PTE | <u>172,191,492</u> | <u>176,316,768</u> | <u>4,125,276</u> |
| Adult supplementary education | 5,805,124 | 8,138,733 | 2,333,609 |
| Truck driver training | 265,844 | 890,868 | 625,024 |
| Motorcycle driver | 85,343 | 93,092 | 7,749 |
| Auxiliary enterprises | 14,512,638 | 16,145,186 | 1,632,548 |
| Total Current Unrestricted Funds | <u>192,860,441</u> | <u>\$ 201,584,647</u> | <u>\$ 8,724,206</u> |
| Current Restricted Funds: | | | |
| Special assessments | 204,045 | <u>\$ 560,000</u> | <u>\$ 355,955</u> |
| Other restricted | <u>16,498,183</u> | | |
| Total Current Restricted Funds | <u>16,702,228</u> | | |
| Total Current Funds | <u>209,562,669</u> | | |
| Loan Funds | <u>930,950</u> | | |
| Plant Funds: | | | |
| Unexpended, capital outlay | 2,030,174 | <u>\$ 7,593,230</u> | <u>\$ 5,563,056</u> |
| Repair and replacement reserve | 87,530 | | |
| Bond proceeds, construction | 1,828,894 | | |
| Debt retirement, revenue bonds | 4,012,312 | | |
| Total Plant Funds | <u>7,958,910</u> | | |
| Total Current, Loan, and Plant Funds | <u>\$ 218,452,529</u> | | |