

**COWLEY COUNTY COMMUNITY COLLEGE  
AND AREA VOCATIONAL-TECHNICAL SCHOOL**

**Financial Statements  
With  
Independent Auditor's Report**

**June 30, 2011**

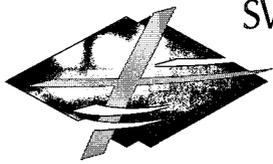
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SWINDOLL  
JANZEN  
HAWK &  
LOYD, LLC

Celebrating  
Our **75<sup>th</sup>**  
Anniversary  
1936 - 2011

B. Carver Swindoll, CPA  
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Certified Public Accountants

## INDEPENDENT AUDITOR'S REPORT

### Board of Trustees

Cowley County Community College and Area Vocational-Technical School  
Arkansas City, Kansas

We have audited the accompanying financial statements of the Cowley County Community College and Area Vocational School (College) and its discretely presented component unit as of and for the year ended June 30, 2011, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Kansas Municipal Audit Guide*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Cowley County Community College Endowment Association were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the College and of its discretely presented component unit as of June 30, 2011, and the respective changes in the financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2011, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods or preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide an assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements as a whole. The individual fund financial statements are presented for purposes of an additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The individual fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Swindoll, Janzen, Hawk & Loyd, LLC

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Swindoll, Janzen, Hawk, & Loyd, LLC

December 15, 2011

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This narrative overview and analysis of the Cowley County Community College annual financial report is provided for readers of the financial statements for the fiscal year ended June 30, 2011.

The College has implemented a new reporting format for fiscal year 2011. The College also implemented a new reporting format for fiscal year 2003, with significant changes in content and structure occurring each time. Because of these changes, much of the information in this document is not easily comparable to years prior and no prior year information is presented in these statements. The College feels the new reporting format will be more familiar to the end users of this report and provide more complete information going forward.

### *Overview of the Financial Statements*

The basic financial statements include the following components: College-wide financial statements, including the Cowley County Community College Endowment; notes to the financial statements; required supplementary information; supplementary information, including individual fund statements; and the single audit section related to compliance with federal award guidelines. Further detail concerning the component unit can be obtained from the Cowley County Community College Endowment Association.

The first statement included is the Statement of Net Assets. This statement is divided into two columns: Cowley County Community College and the College's component unit, Cowley County Community College Endowment. This statement (in summary) lists the assets owned by the College, liabilities for which the College is responsible, and the net of the two. This combined statement is supported by Note 3 (Cash and cash equivalents plus Restricted cash and cash equivalents); Note 4 (Capital assets); Note 5 (Compensated absences payable, Other postemployment benefits payable, and Certificates of Participation); and the detail statements for each fund as included in the Supplementary Information.

Of note, the College was required to implement GASB 45 during FY2009. As a result, a new liability, "Other Post-Employment Benefits" was created and is shown in the Noncurrent liabilities section and detailed in Note 8 and in the Required Supplementary Information section. Also of note, with the change in formatting, new receivables for students and WATC have been added to both Current and Noncurrent Assets.

For both assets and liabilities, current is defined as "within one year", while non-current would refer to anything longer than one year.

The second statement, again divided into the two columns, is the Statement of Revenues, Expenses, and Changes in Net Assets. This statement shows revenues and expenditures for the College and the Endowment. Operating Revenues are those associated with exchanges with students, commonly tuition and sales such as books. Federal sources include grants to students such as Pell Grants, SEOG, and Federal Work Study.

Nonoperating Revenues include all revenues that are not exchange based such as the state operating grant and property taxes. This statement is supported by the detail statements for each fund as included in the Supplementary Information.

The most definitive line to determine "profit or loss" is the Net increase (decrease) in net assets line, in this case a positive net change of \$1,302,676 for the College and \$1,184,236 for the Endowment.

For purposes of this statement, other auxiliary enterprises include cosmetology, wellness center, and athletic scholarships.

The final major statement included is the Statement of Cash Flows. This report does not reflect profit or loss, but rather changes in cash and cash equivalents. The last section of this statement reconciles the change in operating cash to the net operating loss.

#### *Comparative Financial Information*

As noted in the introduction, comparative information for the current and prior years is not presented in these statements due to the change in reporting format. However, comparative analysis will be provided in future years as information is available.

With that, the FY2009 Net increase in net assets for the College was \$1,523,323 and the FY2010 Net increase in net assets was \$1,612,729 as compared to \$1,302,676 for FY2011. Total assets increased from \$40,204,129 in FY2009, to \$41,648,142 in FY2010, to \$44,752,522 in FY2011 including a prior period adjustment of \$3,107,972 due to changes in accounting method/presentation for receivables and capital assets/depreciation. The prior period adjustment is discussed in detail in Note 13.

#### *Analysis of the College's Overall Financial Position and Results of Operations*

As noted on the detail statement for the General Fund, the College has an Unencumbered Cash Balance in the General Fund (the main operations fund for the College) of \$8,300,664. This represents cash available to continue operations in the event of a total loss of all revenue sources. As a ratio, the Unencumbered Cash Balance equals 44% of the funds expended for the year. This percentage is widely viewed as a healthy cash balance, putting the College in a strong financial position. This reserve is being maintained as a buffer to offset anticipated continued decreases in state-sourced funds and is forecasted to remain fairly constant over the next two to three years.

### *Analysis of Balances and Transactions of Individual Funds*

In an analysis of the individual funds, the following explanations are provided: General Fund-Revenues totaled \$18,845,975 for FY2011 as compared to \$18,107,288 in FY2010. Student sources and state sources were both up as expected, with other sources significantly down due largely to the difference in planned payments from WATC (discussed more completely later). Expenditures totaled \$18,720,648 as compared to FY2010 of \$17,319,842. While some increase was seen in most categories related mostly to wage increases, the primary increase in expenditures, \$937,308, was in the area of operation and maintenance and had to do with the purchase and subsequent remodeling of the new dorm facility (discussed later). In total, \$125,377 in cash carryover was added to the fund balance for the General Fund. As noted above, the cash position of the College is very healthy.

In the current year, the Adult Education Fund, Adult Supplemental Education Fund, Motorcycle Driver Safety Fund, Housing Fund, Wellness Center Fund, and Capital Outlay Fund all showed an increase in Unencumbered cash for the fiscal year. While most are insignificant changes, the \$250,015 change in the Housing Fund is a requirement to meet the bond covenants associated with past dorm construction.

The Bookstore Fund, Cosmetology Fund, and Special Assessments Fund all showed a negative change to Unencumbered cash. The negative change in the Bookstore Fund resulted from a transfer of accumulated earnings to capital projects for the College as detailed below. The change in the Cosmetology Fund was a use of accumulated earnings to upgrade equipment within the program. The negative change related to the Special Assessments Fund is a planned decrease as the mill levy for special assessments has been discontinued and the balances due are being paid from cash accumulated in this fund. This fund will be eliminated in future years.

### *Analysis of Significant Budgetary Variations*

In budgeting for operations, the College strives to under-forecast revenues and over-forecast expenditures, and this practice is reflected in the variances from budget as noted in each fund. While the expenditure budgets may seem extravagant in some cases, the College spending is limited by the published budget. In a year when unexpected revenue becomes available and opportunities present themselves, the College needs the flexibility to react. FY2011 is a perfect example as the College had the means to purchase and renovate a facility for additional dorm space.

### *Significant Capital and Long-term Debt Activity*

As described in the Notes to the Financial Statements (Note 5), the College issued \$2,660,000 in new Certificates of Participation in conjunction with the construction of an indoor athletic training center, discussed below. Debt outstanding at June 30, 2011 was \$11,915,000, an increase of \$1,300,000 from the previous year ending balance of \$10,615,000. Payments on this debt will not significantly impact future expenditures as the Certificates of Participation issued for the Brown Center will pay off in FY2012.

### *Significant Changes in Infrastructure Assets*

City Ball Park was deeded to the College by the City of Arkansas City in 2009. With the adjoining Track and Field Complex, and the addition of properties adjoining the track facility, the College elected to expand the facilities in the area and in November 2010 began construction of a \$3.4 million indoor athletic training facility. The building was substantially completed in November 2011.

In June 2011, the College was approved to purchase a former nursing home facility in the community and convert it to dormitory space. This project was completed in mid August 2011.

While neither of these projects were completed in FY2011, practically all expenditures for both facilities were recognized in FY2011.

### *Currently Known Facts or Conditions*

As of May 1, 2008 and July 1, 2008, the College transferred the operations of the Aviation Tech Center and the Southside Education Center, respectively, to Wichita Area Technical College. In return for this transfer, WATC purchased all equipment at both facilities through a payment schedule totaling \$5,000,000. Originally scheduled as \$1,000,000 on June 30, 2009 and \$2,000,000 each on June 30, 2010 and June 30, 2011, the payment schedule has been modified as follows: \$1,000,000 on June 30, 2009; \$500,000 each on June 30, 2010, June 30, 2011, and June 30, 2012; \$1,000,000 each on June 30, 2013 and June 30, 2014; and \$500,000 on June 30, 2015. The first three payments have been received and it is now anticipated that the remaining payments will be made according to the modified agreement.

Historically the College receives nearly 40% of its General Fund revenue from the State of Kansas. In prior years this has come in the form of an operating grant. Beginning in FY12, that grant has been separated into two parts, one part for technical education, the other part for non-technical education. The division of the grants and the distribution of the grants to the various colleges is based on a cost model for education managed by the Kansas Board of Regents. For FY2012, the legislature did not appropriate enough money to fully fund the cost model. With that, it was agreed that all colleges would receive the same funds as they did in the prior fiscal year, less any cuts to state appropriations shared proportionally. The volatility of that source of funding is an ongoing concern as the agreement that forged the change will require the distribution to be "re-centered" in FY2014. At this point in time, re-centering has not been defined and the various institutions can only speculate as to what the impact might be absent additional funds.

The College remains party to a lawsuit with the Kansas Board of Regents listed as defendants to the suit. The suit alleges that the distribution of funds by the Board of Regents for technical education was historically incorrect, thereby impacting the current distribution. While the College has received tentative agreement from judicial proceedings, no changes in distribution have been agreed to or received to date.

For the College,

Tony Crouch  
Executive Vice President of Business Services

December 15, 2011

## BASIC FINANCIAL STATEMENTS

**Cowley County Community College**

**Statement of Net Assets  
June 30, 2011**

	<u>Cowley County Community College</u>	<u>Component Unit CCCC Endowment</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 13,077,927	\$ 49,406
Restricted cash and cash equivalents (bond proceeds)	1,229,308	-
Investments	-	1,952,228
Receivables - federal and state grants and contracts	1,075,612	-
Receivables - students (net of allowance of \$140,000)	419,939	-
Receivables - WATC	500,000	-
Receivables - other	789,273	-
Inventories	372,874	16,154
<b>Total current assets</b>	<u>17,464,933</u>	<u>2,017,788</u>
<b>Noncurrent Assets</b>		
Investments	-	2,152,504
Receivables - students (net of allowance of \$1,260,000)	979,756	-
Receivables - WATC	2,500,000	-
Receivables - other	-	11,409
Capital assets, net of accumulated depreciation	23,639,072	48,590
Bond costs, net of accumulated amortization	168,761	-
Beneficial interest in trusts	-	441,419
<b>Total noncurrent assets</b>	<u>27,287,589</u>	<u>2,653,922</u>
<b>TOTAL ASSETS</b>	<u>\$ 44,752,522</u>	<u>\$ 4,671,710</u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 2,305,770	\$ -
Deposits held in custody for others	1,620,504	-
Accrued interest payable	171,699	-
Compensated absences payable	151,055	-
Revenue bonds, net of accumulated amortization of bond premiums	694,262	-
Certificates of Participation	725,000	-
<b>Total current liabilities</b>	<u>5,668,290</u>	<u>-</u>
<b>Noncurrent Liabilities</b>		
Compensated absences payable	5,412	-
Other postemployment benefits payable	702,008	-
Revenue bonds, net of accumulated amortization of bond premiums	5,841,654	-
Certificates of Participation	4,545,000	-
<b>Total noncurrent liabilities</b>	<u>11,094,074</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>	<u>16,762,364</u>	<u>-</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	12,436,066	-
Restricted for:		
Nonexpendable - endowments	-	2,293,178
Expendable:		
Capital outlay and construction	154,840	-
Restricted funds	176,431	2,378,532
Revenue bond debt retirement	964,061	-
Unrestricted	14,258,760	-
<b>Total net assets</b>	<u>27,990,158</u>	<u>4,671,710</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 44,752,522</u>	<u>\$ 4,671,710</u>

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

**Cowley County Community College**

**Statement of Revenues, Expenses, and Changes in Net Assets  
For the Year Ended June 30, 2011**

	<u>Cowley County Community College</u>	<u>Component Unit CCCC Endowment</u>
<b>OPERATING REVENUES</b>		
Student tuition and fees	\$ 7,631,385	\$ -
Less allowances for institutional scholarships	(101,484)	-
Less allowances for federal grants	<u>(3,323,732)</u>	-
Net student source revenue	4,206,169	-
Federal sources	9,319,632	-
State sources	117,541	-
Auxiliary enterprises:		
Residential life (revenues are used as security for revenue bond series 2004)	1,978,576	-
Campus store (net of sales discounts of \$441,862)	1,794,997	-
Other auxiliary enterprises	565,500	-
Other operating revenues	<u>287,680</u>	<u>158,434</u>
Total operating revenues	<u>18,270,095</u>	<u>158,434</u>
<b>OPERATING EXPENSES</b>		
Educational and General:		
Instruction	7,698,195	-
Academic support	597,338	-
Student services	2,745,940	-
Institutional support	2,353,194	521,386
KPERS contribution paid directly by the State of Kansas	854,732	-
Operations and maintenance of plant	3,269,947	-
Depreciation and amortization	1,466,904	-
Scholarships and grants	6,555,713	-
Auxiliary Enterprises:		
Residential life	1,291,180	-
Campus store	1,553,896	-
Other auxiliary enterprises	<u>674,013</u>	-
Total operating expenses	<u>29,061,052</u>	<u>521,386</u>
Operating income (loss)	<u>(10,790,957)</u>	<u>(362,952)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	6,414,729	-
State contribution directly to the KPERS retirement system	854,732	-
Local sources	4,938,433	-
Private grants and gifts	-	944,689
Loss on disposal of capital assets	(42,447)	-
Investment income	148,064	602,499
Interest on capital asset-related debt	<u>(439,126)</u>	-
Net nonoperating revenues (expenses)	<u>11,874,385</u>	<u>1,547,188</u>
Income before other revenues	1,083,428	1,184,236
Capital grants and gifts	<u>219,248</u>	-
Net increase (decrease) in net assets	<u>1,302,676</u>	<u>1,184,236</u>
<b>NET ASSETS</b>		
Net assets - beginning of year	23,579,540	3,487,474
Prior period adjustment	<u>3,107,942</u>	-
Net assets - end of year	<u>\$ 27,990,158</u>	<u>\$ 4,671,710</u>

**Cowley County Community College**

**Statement of Cash Flows  
For the Year Ended June 30, 2011**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Student tuition and fees		\$ 4,158,392
Grants and contracts		18,174,606
Sales and services of auxiliary enterprises		4,339,073
Other receipts		618
Payments to employees for salaries and benefits		(12,872,260)
Payments to suppliers		(13,306,731)
Loans issued to students		(9,724,244)
	Net cash provided (used) by operating activities	<u>(9,230,546)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations		6,414,729
County and local appropriations		4,938,433
	Net cash flows provided (used) by noncapital financing activities	<u>11,353,162</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchases of capital assets		(3,234,379)
Proceeds from debt		2,660,000
Principal paid on debt and capital lease		(1,360,000)
Interest paid on debt and capital lease		(426,255)
Capital gifts and grants		219,248
Payments for debt issue costs		(27,068)
	Net cash provided (used) by capital and related financing activities	<u>(2,168,454)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on investments		148,064
	Net cash provided (used) by investing activities	<u>148,064</u>
	Net increase (decrease) in cash and cash equivalents	102,226
Cash and cash equivalents - beginning of year		<u>14,205,009</u>
Cash and cash equivalents - end of year		<u>\$ 14,307,235</u>
<b>RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH USED IN OPERATING ACTIVITIES</b>		
Operating loss		\$ (10,790,957)
Depreciation and amortization expense		1,466,904
Changes in operating assets and liabilities:		
Receivables, net		(1,594,145)
Inventories		10,979
Accounts payable and accrued expenses		689,484
Accrued employee benefits		(140,037)
Deposits held in custody for others		272,494
Employee benefits paid directly by State of Kansas		854,732
	Net cash used in operating activities	<u>\$ (9,230,546)</u>

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

# COWLEY COUNTY COMMUNITY COLLEGE AND AREA VOCATIONAL-TECHNICAL SCHOOL

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cowley County Community College and Area Vocational-Technical School is a community college and a vocational/technical school. With more than 70 majors and degree possibilities, the College prepares students to transfer to a four-year program or to enter the workforce with a two-year job-ready degree.

The accounting and reporting policies of the College relating to the accompanying financial statements conform to accounting principles generally accepted in the United States of America (GAAP) applicable to public institutions engaged only in business-type activities adopted by the Governmental Accounting Standards Board (GASB). The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

#### *(a) Reporting Entity*

The College is a special-purpose government that is governed by a Board of Trustees elected by the voters of Cowley County, Kansas. It is legally separate and fiscally independent of other state and local governments. The accompanying financial statements present the activities of the College (the primary government) and its discretely presented component unit. The component unit discussed below is included in the College's reporting entity because of the significance of its financial relationship with the College. The financial data of the College's component unit is discretely presented in a separate column to emphasize that it is a legally separate entity.

Cowley County Community College Endowment Association (Endowment) is a legally separate, tax-exempt component unit of the College. The Endowment acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. Although the College does not control the timing or amount of receipts from the Endowment, the majority of resources, or income thereon, that the Endowment holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Endowment can only be used by, or for the benefit of, the College, the Endowment is considered a component unit of the College and is discretely presented in the College's financial statements. For financial reporting purposes only the Endowment's statements of financial position and activities are included in the College's financial statements as required by generally accepted accounting principles for public colleges and universities.

For financial reporting purposes, the Endowment follows the provisions of the Financial Accounting Standards Board (FASB) which establish the financial reporting standards for all nonprofit organizations. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. With the exception of necessary presentation adjustments, no modifications have been made to the Endowment's financial information. Complete financial statements for the Endowment can be obtained from the Endowment's business office.

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

The College's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recorded when earned, and expenses are recorded when an obligation has been incurred. Property taxes are recognized in the year for which they are levied. State appropriations are recognized as revenue in the year in which the appropriation is first made available for use. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. All significant inter-fund transactions have been eliminated.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***(b) Measurement Focus, Basis of Accounting, and Financial Statement Presentation  
(Continued)***

The College has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless these pronouncements conflict with Governmental Accounting Standards Board pronouncements. The College has elected not to apply FASB pronouncements issued after the applicable date.

The College does not present budgetary comparison information in the basic financial statements or as required supplemental information. This is because the College reports as a business-type activity and does not have the reporting requirements related to major funds. The College does present budgetary comparison information in the supplementary information to these financial statements.

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 certain reported amounts of assets, liabilities, revenues, and expenses. Accordingly, actual results could differ from those estimates.

***(c) Assets, Liabilities, and Equity***

**Deposits and Investments**

Kansas Statute 12-1675 authorizes the College to invest monies in time deposits, certificates of deposits, repurchase agreements consisting of obligations insured by the U.S. government or any agency thereof, U.S. Treasury bills or notes with maturities not exceeding two years, and the Kansas Municipal Investment Pool. Investments are reported at fair value based on quoted market prices.

Cash resources of the individual funds (except for any proceeds of revenue bonds, which are separately invested) are combined to form a pool of cash and temporary investments that are managed by the College. Investments of the pooled accounts consist primarily of certificates of deposits. Interest income earned is allocated to various funds based upon statutory guidelines.

Cash maintained in escrow accounts specifically designated for bond repayments and reserves are classified as restricted cash.

For purposes of the statement of cash flows, the College considers all investments with original maturities of one year or less to be cash equivalents.

**Accounts Receivable**

Accounts receivable consists of tuition and fee charges to students, amounts due from the federal, state, and local governments in connection with reimbursement of allowable expenditures made pursuant to the College's grants and contracts, and other receivables. Accounts receivable are recorded net of estimated uncollectible amounts.

**Inventories**

Inventories of the campus store are stated at the lower of cost or market, cost being determined principally on the basis of average cost. Campus store inventories consist of books, clothing, and supplies. Inventories have been adjusted for obsolete merchandise. They are recorded as expenditures when consumed rather than when purchased.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***(c) Assets, Liabilities, and Equity (Continued)***

**Capital Assets**

Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. For equipment, the College's capitalization policy includes all items with a unit cost of \$5,000 or more, and an estimated useful life of greater than three years. Renovations to buildings and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

Depreciation is computed on assets having a value of more than \$5,000 using the straight-line method over the estimated useful lives of the assets. Depreciation is not allocated to the various functions of the College but is reported separately on these financial statements.

Estimated useful lives used for calculating depreciation are as follows:

Buildings and improvements— 20 to 30 years  
Equipment and furniture – 5 to 15 years

**Federal Financial Assistance Programs**

Federal programs are audited in accordance with the U.S. Office of Management and Budget Circular A-133 Audits of States, Local Governments, and Non-Profit Organizations.

**Compensated Absences Payable**

Employee vacation and sick leave pay is accrued at year-end for financial statement purposes. The liability is recorded in the statement of net assets and a related expense is recorded in the statement of revenues, expenses, and changes in net assets.

For vacation pay, the amount is based on leave earned, but not taken. Employees are allowed to carry over a limited number of vacation days from year to year.

Unused sick leave is accumulated up to a specified maximum number of days. Upon separation from the College, the compensation is for one-half of the accumulated sick leave to a maximum of one hundred days paid at rate of current pay, (1/21 of monthly salary or hourly rate).

**Noncurrent Liabilities**

Noncurrent liabilities include (1) principal amounts of bonds payable; and (2) estimated amounts for the compensated absences and other postemployment benefits not anticipated to be paid within the next fiscal year.

**Net Assets**

The College's net assets are classified as follows:

*Invested in capital assets, net of related debt* – This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component invested in capital assets, net of related debt.

*Restricted net assets – nonexpendable* – Restricted nonexpendable net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.