

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

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

**June 30, 2012**

**Cowley County Community College and Area Vocational-Technical School**

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With  
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**TABLE OF CONTENTS**

	<u>Page</u>
Independent Auditor's Report	1 - 2
Management's Discussion and Analysis	3 - 7
Basic Financial Statements:	
Statement of Net Assets	8
Statement of Revenues, Expenses and Changes in Net Assets	9
Statement of Cash Flows	10
Notes to Financial Statements	11 - 25
Required Supplementary Information	
Other Post Employment Benefits	26
Supplementary Information:	
Schedule of Cash Receipts and Expenditures – Budget and Actual – Budgetary Basis:	
General Fund	27
Postsecondary Technical Education Fund	28
Adult Education Fund	29
Adult Supplementary Fund	30
Motorcycle Driver Safety Fund	31
Bookstore Fund	32
Housing Fund	33
Cosmetology Fund	34
Wellness Center Fund	35
Athletics Fund	36
Capital Outlay Fund	37
Special Assessment Fund	38
Single Audit Section:	
Schedule of Expenditures of Federal Awards	39
Report on Internal Control and on Compliance - Government Auditing Standards	40 - 41
Report on Compliance and on Internal Control - OMB Circular A-133	42 - 43
Schedule of Findings and Questioned Costs	44 - 45
Summary Schedule of Prior Year Audit Findings	46



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## 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, 2012, 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, 2012, 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 1, 2012, 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 1, 2012

## 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, 2012.

The College implemented a new reporting format for fiscal year 2011 which continues for fiscal year 2012. The College also implemented a new reporting format for fiscal year 2003, with significant changes in content and structure occurring each time. 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 in detail by Note 3 (Cash and cash equivalents and 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. Also included this year is \$459,681 in Investment income. The investment in this case is the reserve account for Certificates of Participation the College has used in past years to finance various capital improvements. This money is not held by the College, but rather in trust for the benefit of the College.

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 \$2,212,641 for the College and (\$262,682) for the Endowment. This statement is supported by the detail statements for each fund as included in the Supplementary Information. 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, this statement, to the net operating loss as shown on the Statement of Revenues, Expenses, and Changes in Net Assets.

*Comparative Financial Information*

Net assets increased during the current fiscal year 2012 from \$27,990,158 in 2011 to \$30,453,057 for an increase of \$2,462,899. The most significant cause of this increase is an increase in capital assets net of depreciation of \$2,418,551 due to the completion of the Travis Hafner Center and other various additions to the College's capital assets. Please see Table 1 below.

Table 1  
as of June 30  
Condensed Statement of Net Assets

	<u>6/30/2011</u>	<u>6/30/2012</u>	<u>Change increase (decrease)</u>
<b>Assets</b>			
Current and other assets	\$ 17,464,933	\$ 16,563,037	\$ (901,896)
Noncurrent assets	3,648,517	2,695,860	(952,657)
Capital assets, net of depreciation	<u>23,639,072</u>	<u>26,057,623</u>	<u>2,418,551</u>
Total Assets	<u>\$ 44,752,522</u>	<u>\$ 45,316,520</u>	<u>\$ 563,998</u>
<b>Liabilities</b>			
Current and other liabilities	\$ 5,668,290	\$ 3,448,961	\$ (2,219,329)
Long term liabilities	<u>11,094,074</u>	<u>9,964,502</u>	<u>(1,129,572)</u>
Total Liabilities	<u>16,762,364</u>	<u>13,413,463</u>	<u>(3,348,901)</u>
<b>Net Assets</b>			
Invested in capital assets, net of debt	12,436,066	15,885,197	3,449,131
Restricted	1,295,332	1,159,403	(135,929)
Unrestricted	<u>14,258,760</u>	<u>13,408,457</u>	<u>(850,303)</u>
Total Net Assets	<u>27,990,158</u>	<u>30,453,057</u>	<u>2,462,899</u>
Total Liabilities and Net Assets	<u>\$ 44,752,522</u>	<u>\$ 43,866,520</u>	<u>\$ (886,002)</u>

Table 2 below is best understood by reading the analysis of the individual funds presented later in this document.

Table 2  
Fiscal Years Ended June 30  
Condensed Statement of Revenues, Expenses, and Changes in Net Assets

	<u>6/30/2011</u>	<u>6/30/2012</u>	<u>Change increase (decrease)</u>
<b>Revenue</b>			
Operating revenues			
Student tuition and fees	\$ 4,206,169	\$ 2,614,949	\$ (1,591,220)
Federal grants and contracts	9,319,632	9,652,303	332,671
State and local grants and contracts	117,541	393,698	276,157
Auxiliary enterprises and activity funds	4,339,073	4,662,539	323,466
Other revenue	287,680	766,557	478,877
Nonoperating revenues			
State appropriations	7,269,461	7,124,180	(145,281)
Property taxes	4,938,433	5,793,743	855,310
Other revenue	148,064	797,080	649,016
Capital gifts and grants	219,248	637,394	418,146
<b>Total revenue</b>	<u>30,845,301</u>	<u>32,442,443</u>	<u>1,597,142</u>
<b>Expenses</b>			
Operating expenses			
Instruction	7,698,195	7,493,044	(205,151)
Academic support	597,338	680,522	83,184
Student services	2,745,940	4,313,856	1,567,916
Institutional support	3,207,926	3,753,229	545,303
Operations and maintenance of plant	3,269,947	2,105,090	(1,164,857)
Depreciation	1,466,904	1,557,583	90,679
Scholarships and grants	6,555,713	5,233,530	(1,322,183)
Auxiliary enterprises	3,519,089	4,700,703	1,181,614
Subtotal	<u>29,061,052</u>	<u>29,837,557</u>	<u>776,505</u>
Nonoperating expenses			
Loss on disposal of capital assets	42,447	14,478	(27,969)
Interest on capital asset-related debt	439,126	377,767	(61,359)
Subtotal	<u>481,573</u>	<u>392,245</u>	<u>(89,328)</u>
<b>Total expenses</b>	<u>29,542,625</u>	<u>30,229,802</u>	<u>687,177</u>
Net increase (decrease) in net assets	1,302,676	2,212,641	909,965
Net assets - beginning of year	23,579,540	27,990,158	4,410,618
Prior period adjustment	3,107,942	250,258	(2,857,684)
<b>Net assets - end of year</b>	<u>\$ 27,990,158</u>	<u>\$ 30,453,057</u>	<u>\$ 2,462,899</u>

*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 \$8,239,876. 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 41% 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.

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*Analysis of Balances and Transactions of Individual Funds*

In an analysis of the individual funds, the following explanations are provided: Introduced this year is the Postsecondary Technical Education Fund. Legislation in 2011 created this fund to separate career/technical education (workforce degrees) from general education (transfer degrees). Relevant year-to-year comparisons can only be done by combining the information for both funds. With that, revenues totaled \$19,996,316 less a transfer of \$1,575,597 from the General Fund to the PSTE Fund, or a net of \$18,420,719 for FY 2012. This compares to General Fund revenues from previous years:

FY2011	\$18,845,975
FY2010	\$18,107,288

Student sources were flat as expected. Combined state sources were down \$69,297, but again, because of the 2011 legislation, another adjustment for comparison is necessary. The state sourced grants, (\$323,558 in FY2011) were moved to the “Other Grants” fund for FY2012. Significantly down in comparison is the local tax revenue. The revenue was expected to be roughly equal to FY2011, but a higher delinquency rate in the county resulted in lower tax collections.

Combined expenditures totaled \$20,057,104. With the adjustment for the transfer from General Fund to PSTE Fund, the net combined expenditures were \$18,481,507 as compared to FY2011 expenditures of \$18,720,648 and FY2010 of \$17,319,842. Overall spending was slightly down from the previous year, due mostly to the purchase and subsequent remodeling of the new dorm facility in FY2011. In total, \$60,788 was subtracted from the cash carryover balance for the General Fund. As noted above, the cash position of the College remains very healthy.

In the current year, the Motorcycle Driver Safety Fund, Housing Fund and Wellness Center Fund all showed an increase in Unencumbered cash for the fiscal year, most being insignificant changes.

The Adult Education Fund, Adult Supplementary Education Fund, Bookstore Fund, Cosmetology Fund, Capital Outlay Fund and Special Assessments Fund all showed a negative change to Unencumbered cash.

In explanation:

Adult Education Fund – Timing issue, grant received in one FY, spent in next;

Adult Supplementary Education Fund – Timing issue;

Bookstore Fund -- Transfer of accumulated earnings to capital projects for the College;

Cosmetology Fund -- Use of accumulated earnings to upgrade equipment;

Special Assessments Fund -- Planned decrease. 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.

*Significant Capital and Long-term Debt Activity*

As described in the Notes to the Financial Statements (Note 5e), the College issued \$2,080,000 in new Certificates of Participation in conjunction with the refunding of prior debt used to construct the Webb-Brown Academic Center and renovate the Scott Auditorium. This resulted in a one-time interest savings which was recognized in FY2012. Debt outstanding at June 30, 2012 was \$10,585,000, a decrease of \$1,330,000 from the previous year ending balance of \$11,915,000. Included in this reduction of



outstanding debt was the final payment on the Certificates of Participation issued for the Brown Center. Looking down the road, the Certificates of Participation issued for the Track Complex will pay off in FY2014 and the Webb-Brown/Scott Certificates of Participation will pay off in FY2018.

#### *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 both of these projects were completed in FY2012, 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 four payments have been received and it is now anticipated that the remaining three 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 second part for non-technical education (see notes above). 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 FY2013, the legislature did not appropriate enough money to fully fund the cost model. The volatility of that source of funding is an ongoing concern.

The lawsuit between The College and the Kansas Board of Regents was settled in FY2012 with \$209,633 additional revenue being recognized in the PSTE Fund (\$157,957.56 net of legal fees). FY2012 and future years' funds were distributed based on the outcome of the suit.

In October, 2012, Dr. Patrick McAtee announced his retirement as President of Cowley County Community College after a brilliant 26 year career. The effective date of his retirement is January 1, 2013. The Board of Trustees has named Tony Crouch, Executive Vice President of Business Services as the Interim President while a search is conducted.

For the College,

Tony Crouch  
Executive Vice President of Business Services

December 1, 2012

## BASIC FINANCIAL STATEMENTS

**Cowley County Community College**

**Statement of Net Assets  
June 30, 2012**

	<u>Cowley County Community College</u>	<u>Component Unit CCCC Endowment</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 11,186,267	\$ 36,636
Restricted cash and cash equivalents (bond proceeds)	1,643,224	-
Investments	-	1,663,180
Receivables - federal and state grants and contracts	1,832,405	-
Receivables - students (net of allowance of \$140,000)	438,423	-
Receivables - WATC	1,000,000	-
Receivables - other	2,340	-
Inventories	460,378	36,717
Total current assets	<u>16,563,037</u>	<u>1,736,533</u>
<b>Noncurrent Assets</b>		
Investments	-	2,163,321
Receivables - students (net of allowance of \$1,260,000)	1,053,694	-
Receivables - WATC	1,500,000	-
Receivables - other	-	43,451
Capital assets, net of accumulated depreciation	26,057,623	43,590
Bond costs, net of accumulated amortization	142,166	-
Beneficial interest in trusts	-	422,133
Total noncurrent assets	<u>28,753,483</u>	<u>2,672,495</u>
<b>TOTAL ASSETS</b>	<u><b>\$ 45,316,520</b></u>	<u><b>\$ 4,409,028</b></u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 1,617,584	\$ -
Deposits held in custody for others	1,617,068	-
Accrued interest payable	125,606	-
Compensated absences payable	154,441	-
Revenue bonds, net of accumulated amortization of bond premiums	729,262	-
Certificates of Participation	655,000	-
Total current liabilities	<u>4,898,961</u>	<u>-</u>
<b>Noncurrent Liabilities</b>		
Compensated absences payable	5,820	-
Other postemployment benefits payable	851,290	-
Revenue bonds, net of accumulated amortization of bond premiums	5,112,392	-
Certificates of Participation	3,995,000	-
Total noncurrent liabilities	<u>9,964,502</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>	<u><b>14,863,463</b></u>	<u><b>-</b></u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	15,885,197	-
Restricted for:		
Nonexpendable - endowments	-	2,360,955
Expendable:		
Capital outlay and construction	76,249	-
Restricted funds	164,134	2,048,073
Revenue bond debt retirement	919,020	-
Unrestricted	13,408,457	-
Total net assets	<u>30,453,057</u>	<u>4,409,028</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><b>\$ 45,316,520</b></u>	<u><b>\$ 4,409,028</b></u>

**Cowley County Community College**

**Statement of Revenues, Expenses, and Changes in Net Assets  
For the Year Ended June 30, 2012**

	<u>Cowley County Community College</u>	<u>Component Unit CCCC Endowment</u>
<b>OPERATING REVENUES</b>		
Student tuition and fees	\$ 6,596,885	\$ -
Less allowances for institutional scholarships	(86,518)	-
Less allowances for federal grants	<u>(3,895,418)</u>	<u>-</u>
Net student source revenue	2,614,949	-
Federal sources	9,652,303	-
State sources	393,698	-
Auxiliary enterprises:		
Residential life (revenues are used as security for revenue bond series 2004)	2,133,326	-
Campus store (net of sales discounts of \$441,862)	1,967,661	-
Other auxiliary enterprises	561,552	-
Other operating revenues	<u>766,557</u>	<u>161,927</u>
Total operating revenues	<u>18,090,046</u>	<u>161,927</u>
<b>OPERATING EXPENSES</b>		
Educational and General:		
Instruction	7,493,044	-
Academic support	680,522	-
Student services	4,313,856	-
Institutional support	2,980,835	902,989
KPERs contribution paid directly by the State of Kansas	772,394	-
Operations and maintenance of plant	2,105,090	-
Depreciation and amortization	1,557,583	-
Scholarships and grants	5,233,530	-
Auxiliary Enterprises:		
Residential life	2,018,019	-
Campus store	1,976,049	-
Other auxiliary enterprises	<u>706,635</u>	<u>-</u>
Total operating expenses	<u>29,837,557</u>	<u>902,989</u>
Operating income (loss)	<u>(11,747,511)</u>	<u>(741,062)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	6,351,786	-
State contribution directly to the KPERs retirement system	772,394	-
Local sources	5,793,743	-
Private grants and gifts	337,399	500,217
Loss on disposal of capital assets	(14,478)	-
Investment income	459,681	(21,837)
Interest on capital asset-related debt	<u>(377,667)</u>	<u>-</u>
Net nonoperating revenues (expenses)	<u>13,322,758</u>	<u>478,380</u>
Income before other revenues	1,575,247	(262,682)
Capital grants and gifts	<u>637,394</u>	<u>-</u>
Net increase (decrease) in net assets	<u>2,212,641</u>	<u>(262,682)</u>
<b>NET ASSETS</b>		
Net assets - beginning of year	27,990,158	4,671,710
Prior period adjustment	<u>250,258</u>	<u>-</u>
Net assets - end of year	<u>\$ 30,453,057</u>	<u>\$ 4,409,028</u>

**Cowley County Community College**

**Statement of Cash Flows  
For the Year Ended June 30, 2012**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Student tuition and fees		\$ 2,519,090
Grants and contracts		20,604,154
Sales and services of auxiliary enterprises		4,662,539
Other receipts		2,053,490
Payments to employees for salaries and benefits		(13,671,032)
Payments to suppliers		(14,459,162)
Loans issued to students		(11,314,945)
	Net cash provided (used) by operating activities	<u>(9,605,866)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations		6,351,786
County and local appropriations		5,793,743
Private gifts and grants		337,399
	Net cash flows provided (used) by noncapital financing activities	<u>12,482,928</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchases of capital assets		(3,698,022)
Proceeds from debt		2,080,000
Principal paid on debt and capital lease		(3,410,000)
Interest paid on debt and capital lease		(423,860)
Capital gifts and grants		637,394
	Net cash provided (used) by capital and related financing activities	<u>(4,814,488)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on investments		459,682
	Net cash provided (used) by investing activities	<u>459,682</u>
	Net increase (decrease) in cash and cash equivalents	<u>(1,477,744)</u>
Cash and cash equivalents - beginning of year		<u>14,307,235</u>
Cash and cash equivalents - end of year		<u>\$ 12,829,491</u>
<b>RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH USED IN OPERATING ACTIVITIES</b>		
Operating loss		\$ (11,747,511)
Depreciation and amortization expense		1,557,583
Changes in operating assets and liabilities:		
Receivables, net		437,720
Inventories		(87,505)
Accounts payable and accrued expenses		(688,187)
Accrued employee benefits		153,077
Deposits held in custody for others		(3,437)
Employee benefits paid directly by State of Kansas		772,394
	Net cash used in operating activities	<u>\$ (9,605,866)</u>

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

**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.

**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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Capital Assets (Continued)

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.

*Restricted net assets – expendable* – Restricted expendable net assets include resources in which the College is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

*Unrestricted net assets* – Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the College, and may be used at the discretion of the governing board to meet current expenses for any purpose.



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

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

#### Use of Restricted / Unrestricted Net Assets

When an expense is incurred that can be paid using either restricted or unrestricted resources, the College's policy is to first apply the expense towards restricted resources, and the remaining balance towards unrestricted resources.

#### Classification of Revenues

The College has classified its revenues as either operating or nonoperating revenues according to the following criteria:

*Operating revenues* – Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship allowances, (2) sales and services of auxiliary enterprises, and (3) most federal, state and local grants and contracts.

*Nonoperating revenues* – Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources such as state and county appropriations and investment income.

#### Scholarship Allowances

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

#### Property Tax Information

Collection of current year property tax by the County Treasurer is not completed, apportioned or distributed to the various subdivisions until the succeeding year, such procedure being in conformity with governing Kansas statutes. Consequently, current year property taxes receivable which are not available as a resource that can be used to finance the current year operations of the College are offset by deferred revenue for control purposes. A sixty-day period is used for revenue recognition.

The County Appraiser is responsible for assessment of all taxable property within Cowley County. The County Clerk computes the annual tax and issues the tax bills to all taxpayers. Property taxes are collected by the County Treasurer, who remits to the College its respective share of the tax collections. Property taxes become a lien against all property on November 1st. Taxpayers have the option of paying in full, or in two installments. The installment dates are December 20 and May 10.

## 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

### *(a) Budgetary Information*

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), debt service funds, and enterprise funds. The statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding fiscal year on or before August 1st.
2. Publication in local newspaper of the proposed budget and notice of public hearing on the budget on or before August 5th.
3. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25th.

**2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)**

**(a) Budgetary Information (Continued)**

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held and the governing body may amend the budget at that time. There were no such budget amendments for this year.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds.

All legal annual operating budgets are prepared using the statutory basis of accounting. Revenues are recognized when cash is received. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. All unused budgeted expenditure authority lapses at year-end.

A legal operating budget is not required for current restricted funds, capital project funds, trust funds, loan funds, and some special revenue funds. Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

**(b) Cash-Basis Law (KSA 10-1113)**

Kansas municipalities are subject to the cash-basis law as stated in Kansas Statute 10-1113. In accordance with Kansas Statute 12-1663, some sub-funds of the Restricted Funds have a negative unencumbered cash balance at June 30, 2012, and will be reimbursed from federal grants, state grants, and other contracts for expenditures already incurred by the College. This combined receivable has been recognized for GAAP purposes on these financial statements.

**3. DEPOSITS AND INVESTMENTS**

As of June 30, 2012, the College had cash and cash equivalents as listed below:

Deposits in financial banking institutions	\$ 6,096,267
Certificates of deposit	<u>5,090,000</u>
Total cash and cash equivalents	<u>11,186,267</u>
Deposits in financial banking institutions – bond proceeds	<u>1,643,224</u>
Total restricted cash and cash equivalents	<u>1,643,224</u>
Combined cash and cash equivalents	<u>\$ 12,829,491</u>

The College did not have any activity in investment-type assets.

The College’s policies relating to deposits and investments are governed by various Kansas Statutes (KSA). Those statutes specify the type of deposits and investments as well as the securing of those deposits and investments.

*Interest rate risk* – In accordance with Kansas Statute 12-1675, the College manages its exposure to interest rate fluctuations by limiting all time investments to maturities of less than two years.

*Credit risk* – State law limits the amount of credit risk by restricting governments to specific investment types as listed in KSA 12-1675. The College’s practice is to place idle funds in certificates of deposits and United States obligations.

**3. DEPOSITS AND INVESTMENTS (Continued)**

*Custodial credit risk* – The custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Kansas Statutes 9-1402 and 9-1405 requires that governments obtain security for all deposits. The College manages its custodial credit risk by requiring the financial institutions to grant a security interest in securities held by third-party custodial banks. As of June 30, 2012, the College was not exposed to custodial credit risk with its deposits or investments.

*Concentration of credit risk* – This is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. The College manages this risk by placing funds with financial institutions only after contacting all eligible institutions in the taxing area.

*Component unit* – Investments of the Cowley County Community College Endowment Association consists of stocks, bond notes, and mutual funds. These types of investments are not regulated by Kansas Statutes. These investments are subject to all normal market risks.

**4. CAPITAL ASSETS**

Following are the changes in capital assets for the year ended June 30, 2012:

	Beginning Balance	Prior Period Adjustment	Increases	(Decrease) Adjustments	Ending Balance
Non-depreciable capital assets:					
Land	\$ 2,260,846	\$ -	\$ 45,504	\$ -	\$ 2,306,350
Construction in progress	2,426,106	-	-	(2,426,106)	-
Total non-depreciable capital assets	4,686,952	-	45,504	(2,426,106)	2,306,350
Depreciable capital assets:					
Buildings and improvements	35,873,809	-	5,889,145	-	41,762,954
Equipment	2,370,904	411,715	189,479	(123,773)	2,848,325
Total depreciable capital assets	38,244,713	411,715	6,078,624	(123,773)	44,611,279
Less accumulated depreciation:					
Buildings and improvements	(17,409,726)	-	(1,271,079)	-	(18,680,805)
Equipment	(1,882,867)	(161,457)	(244,171)	109,294	(2,179,201)
Total accumulated depreciation	(19,292,593)	(161,457)	(1,515,250)	109,294	(20,860,006)
Total depreciable capital assets (net)	18,952,120	250,258	4,563,374	(14,479)	23,751,273
Total capital assets, net	\$ 23,639,072	\$ 250,258	\$ 4,608,878	\$ (2,440,585)	\$ 26,057,623

**5. LONG-TERM LIABILITIES**

The following is a summary of long-term liability transactions for the year ended June 30, 2012:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments/ Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Certificates of participation					
Student services	\$ 2,010,000	\$ -	\$ 2,010,000	\$ -	\$ -
Refunding certificate - Brown Center	135,000	-	135,000	-	-
Refunding certificate - track	465,000	-	155,000	310,000	150,000
Refunding certificate - Indoor Sports	2,660,000	-	185,000	2,475,000	205,000
Refunding certificate - Student Services	-	2,080,000	215,000	1,865,000	300,000
Revenue Bonds					
Dorm system refunding	2,230,000	-	530,000	1,700,000	555,000
Dorm revenue	4,415,000	-	180,000	4,235,000	190,000
Compensated absences	156,467	3,795	-	160,262	-
Post employment healthcare	<u>702,008</u>	<u>208,282</u>	<u>59,000</u>	<u>851,290</u>	<u>-</u>
Total long-term liabilities	<u>\$ 12,773,475</u>	<u>\$ 2,292,077</u>	<u>\$ 3,469,000</u>	<u>\$ 11,596,552</u>	<u>\$ 1,400,000</u>

The revenue bonds will be paid through the revenues generated from the Dormitory activities. The compensated absences and the postemployment healthcare benefits are generally liquidated by the General Fund. The certificates of participation will be paid through revenues generated through the various auxiliary enterprise funds and the general fund.

**(a) Refunding - Dorm**

The College issued the Refunding Bond Series 2004 Revenue Bonds. The original issue amount was \$4,335,000, due in annual principal installments ranging from \$530,000 to \$580,000 through year 2015. Interest rates vary from 3.875% to 5.0%. The bonds are secured by the net revenues of the Dormitories and Nelson Student Center.

The annual debt service requirements for the Refunding - Dorm are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
6/30/2013	\$ 555,000	\$ 67,886	\$ 622,886
6/30/2014	565,000	46,380	611,380
6/30/2015	<u>580,000</u>	<u>23,780</u>	<u>603,780</u>
Total	<u>\$ 1,700,000</u>	<u>\$ 138,046</u>	<u>\$ 1,838,046</u>

**5. LONG-TERM LIABILITIES (Continued)**

**(b) Dorm Revenue**

The College issued the Dormitory System Revenue Bonds Series 2007. The original issue amount was \$4,825,000, due in annual principal installments ranging from \$180,000 to \$360,000 through year 2028. Interest rates vary from 4.00% to 4.40%. The bonds are secured by the net revenues of the Dormitories and Nelson Student Center.

The annual debt service requirements for the Dorm Revenue are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
6/30/2013	\$ 190,000	\$ 177,205	\$ 367,205
6/30/2014	195,000	168,783	363,783
6/30/2015	205,000	160,033	365,033
6/30/2016	215,000	151,249	366,249
6/30/2017	225,000	142,393	367,393
6/30/2018 - 6/30/2022	1,265,000	561,695	1,826,695
6/30/2023 - 6/30/2027	1,580,000	258,079	1,838,079
6/30/2028	360,000	7,920	367,920
Total	<u>\$ 4,235,000</u>	<u>\$ 1,627,357</u>	<u>\$ 5,862,357</u>

**(c) Track Refunding**

The College issued the Track Refunding, Certificates of Participation Series A, 2008. The original issue amount was \$856,000, due in annual principal installments ranging from \$150,000 to \$160,000 through year 2014. Interest rate is 3.05%.

The annual debt service requirements for the Track Refunding are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
6/30/2013	\$ 150,000	\$ 9,455	\$ 159,455
6/30/2014	160,000	4,880	164,880
Total	<u>\$ 310,000</u>	<u>\$ 14,335</u>	<u>\$ 324,335</u>

**(d) Indoor Sports Facility**

The College issued the Student Union Indoor Sports Facility, Certificates of Participation Series A, 2011. The original issue amount was \$2,660,000, due in annual principal installments ranging from \$185,000 to \$255,000 through year 2023. Interest rates vary from 1.10% to 3.60%.

The annual debt service requirements for the Indoor Sports Facility are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
6/30/2013	\$ 205,000	\$ 63,205	\$ 268,205
6/30/2014	205,000	60,950	265,950
6/30/2015	210,000	58,080	268,080
6/30/2016	215,000	54,510	269,510
6/30/2017	215,000	50,210	265,210
6/30/2018 - 6/30/2022	1,170,000	161,683	1,331,683
6/30/2023	255,000	9,180	264,180
Total	<u>\$ 2,475,000</u>	<u>\$ 457,818</u>	<u>\$ 2,932,818</u>

**5. LONG-TERM LIABILITIES (Continued)**

**(e) Refunding Certificate for Student Services Center**

The College issued the Refunding, Certificates of Participation Series B, 2011. The original issue amount was \$2,080,000, due in annual principal installments ranging from \$300,000 to 325,000 through year 2018. Interest rates vary from 0.65% to 2.15%.

The annual debt service requirements for the Refunding are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
6/30/2013	\$ 300,000	\$ 27,288	\$ 327,288
6/30/2014	300,000	24,737	324,737
6/30/2015	310,000	21,588	331,588
6/30/2016	310,000	17,712	327,712
6/30/2017	320,000	12,908	332,908
6/30/2018	325,000	6,987	331,987
Total	<u>\$ 1,865,000</u>	<u>\$ 111,220</u>	<u>\$ 1,976,220</u>

The College issued \$2,080,000 of certificates of participation to refund the outstanding Certificates of Participation Series A 2004. The purpose of the refunding was to lower interest rates and provide tax payer savings. As a result, the refunded certificates of participation are considered to be defeased and the proceeds of the new certificates were placed in an irrevocable trust to provide for all future debt service payments on the refunded certificates. Accordingly, the trust account assets and the liability for the defeased certificates are not included in the College's financial statements and the liability of the defeased debt has been removed from the Statement of Net Assets. At June 30, 2012, the amount of outstanding defeased certificates totaled \$1,760,000. The reacquisition price exceeded the net carrying amount of the old debt by \$57,000. This refunding was under taken to save the College approximately \$110,000 in interest payments.

**(f) Revenue Bond Covenants**

The College is required to maintain certain covenants related to the revenue bonds. Specifics of these covenants are as follows:

- a. The 2004 and 2007 Revenue Bond covenants request specific financial information as follows:

	<u>Student Housing</u>
Revenue	\$ 1,960,079
Expenses for operation and maintenance	(1,903,400)
Capital expenditures	2,924
Net revenues	<u>\$ 59,603</u>

- b. The terms of the College's debt agreements require the information of the following accounts and other items. The balance shown in the reserve accounts meet the requirements of the above mentioned agreements.

	<u>Arts Building</u>	<u>2004 Revenue Bonds</u>	<u>2007 Revenue Bonds</u>	<u>Total</u>
Cash balances requirement:				
Principal and interest	\$ -	\$ 218,943	\$ 233,901	\$ 452,844
Reserve	85,000	-	368,430	453,430
Depreciation, maintenance, and improvement	1,177,274	214,490	-	1,391,764
	<u>\$ 1,262,274</u>	<u>\$ 433,433</u>	<u>\$ 602,331</u>	<u>\$ 2,298,038</u>

**5. LONG-TERM LIABILITIES (Continued)**

**(f) Revenue Bond Covenants (Continued)**

The above cash balances are shown as follows in the financial statements.

	<u>Arts Building</u>	<u>Revenue Bonds</u>	<u>Total</u>
Student Union and dormitory Facilities			
Reserved	\$ -	\$ 578,624	\$ 578,624
Unreserved	-	214,490	214,490
Total	<u>\$ -</u>	<u>\$ 793,114</u>	<u>\$ 793,114</u>
Reserve Funds:			
Reserved	\$ 85,000	\$ 242,650	\$ 327,650
Unreserved	1,177,274	-	1,177,274
Total	<u>\$ 1,262,274</u>	<u>\$ 242,650</u>	<u>\$ 1,504,924</u>
Total	<u>\$ 1,262,274</u>	<u>\$ 1,035,764</u>	<u>\$ 2,298,038</u>

- (c) The 2004 and 2007 Revenue Bond covenants request the number of users served by the Dormitory System (System). The number of users totaled 475.
- (d) The 2004 and 2007 Revenue Bond covenants request information on insurance coverage for the System. Insurance is as follows:

<u>Character</u>	<u>Amount</u>	<u>Expiration Date</u>	<u>Annual Premium</u>
Building	\$ 16,597,613	4/3/2012	23,154
Personal property	1,380,885	4/3/2012	1,926

In addition to the above listing of insurance, the System is included in the College's general liability insurance coverage of \$1,000,000 (single occurrence) and the College's business income insurance coverage.

- (e) The 2004 and 2007 Revenue Bond covenants request information on the Debt Service Coverage Ratio.

Revenue - Housing	\$ 1,960,079
Interest income - Dorm	<u>5,751</u>
Total revenue	<u>\$ 1,965,830</u>
Debt Service - Housing	<u>\$ 989,685</u>
Debt Service Coverage Ratio	<u>1.99</u>

- (f) There is no information indicating arbitrage requirements have not been met.
- (g) Continuing disclosure requirements have been met.
- (h) All other significant requirements of the agreement have been met.

**6. OPERATING LEASE OBLIGATIONS**

The College leases certain facilities for its educational purposes. See below for descriptions of the various uses and the length of the operating lease. The related future rental payments are in the table below.

The Bloomenshine Center, Arkansas City, KS is used for operating classes, a student lounge, administrative offices and related educational activities. The operating lease has an option to renew the Lease for a term of three years at a time.

## 6. OPERATING LEASE OBLIGATIONS (Continued)

The operating lease of 101 Industrial Drive, Mulvane, KS is used for operating classes and related educational activities. The operating lease has an option to renew for an additional two years.

The operating lease of 242 Industrial Drive, Mulvane, KS is used for operating classes, a student union, administrative offices and related educational activities. The operating lease has an option to renew the Lease for terms extending one year at a time.

The operating lease of Paddington Place, Arkansas City, KS is used for registration offices and a computer lab. The operating lease has an option to renew for an additional three years.

The operating lease of Crystal Pointe, Arkansas City, KS is used for the purpose of operation of a satellite college, and the provision of related services. The operating lease has an option to renew for an additional three year term.

The operating lease of 410 E. Main Mulvane, KS is used for operating classes, a student union, administrative offices and related educational activities. The operating lease has an option to renew for an additional three years.

The operating lease of 410 E. Mulvane, KS - Parking is used for parking for church-related functions, provided that said church functions are not held during regularly scheduled class periods. The operating lease has an option to renew for an additional negotiated at the time of the extension.

The future minimum lease payments are as follows:

	<u>Bloomenshine Center</u>	<u>242 Industrial Drive Mulvane</u>	<u>101 Industrial Drive Mulvane</u>	<u>Paddington Place</u>
Year ending June 30,				
2013	\$ 120,000	\$ 32,736	\$ 83,700	\$ 26,730
2014	131,000	32,736	83,700	29,160
2015	132,000	2,728	90,000	29,160
2016	132,000	-	-	-
2017	132,000	-	-	-
2018 - 2020	11,000	-	-	-
	<u>\$ 658,000</u>	<u>\$ 68,200</u>	<u>\$ 257,400</u>	<u>\$ 85,050</u>
			<u>410 E. Main Mulvane - Parking</u>	
Year ending June 30,		<u>410 E. Main Mulvane</u>		
2013	\$ 46,040	\$ 72,000	\$ 3,600	
2014	46,040	72,000	3,600	
2015	-	72,000	3,600	
2016	-	72,000	3,600	
2017	-	72,000	-	
2018 - 2020	-	66,000	-	
	<u>\$ 92,080</u>	<u>\$ 426,000</u>	<u>\$ 14,400</u>	

## 7. DEFINED BENEFIT RETIREMENT PLANS

**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 KSA 74-4901, et seq. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 South Kansas, Suite 100, Topeka, Kansas 66603) or by calling 1-888-275-5737.



**7. DEFINED BENEFIT RETIREMENT PLANS (Continued)**

**Funding Policy** - KSA 74-4919 establishes the KPERS member-employee contribution rate at 4% of covered salary for employees hired before July 1, 2009. After this date the rate changes to 6%. Member-employees' contributions are withheld by their employer and paid to KPERS according to the provisions of Section 414(h) of the Internal Revenue Code. The State of Kansas is required to contribute the remaining amount necessary to achieve the actuarially determined contribution rate. Kansas currently contributes an average of 9.77% of covered payroll. These contribution requirements are established by KPERS and periodically revised. Kansas' contributions to KPERS for the College's employees for the years ending June 30, 2012, 2011 and 2010 were \$772,394, \$854,732 and \$799,565, respectively, equal to the required contributions for each year. Kansas' contributions to KPERS for the College's employees for the years ending June 30, 2012, 2011, and 2010, were \$1,899,182, \$1,554,562, and \$1,402,316, respectively, equal to the required contributions for each year. The State of Kansas, not the College, is legally responsible for making employer contributions to KPERS. The payment made by the State of Kansas on behalf of the College's employees is recorded as revenue and as an expense on these financial statements.

**8. OTHER POSTEMPLOYMENT HEALTHCARE BENEFITS (OPEB)**

**Plan Description** – The College sponsors a medical, prescription drug, dental benefits (healthcare benefits) to retired employees and their dependents under certain conditions. Coverage is provided through fully-insured contracts that collectively operate as a single-employer defined benefit plan. Qualifying retirees are those employees who are a full-time employee, participating in the group insurance plan prior to retirement, who retires after age 60 with at least 10 years of continuous full-time service with the College. Retirees may continue coverage with the College by paying the carrier premium rate. Coverage is available until Medicare eligibility (i.e. age 65) for each of the retirees and their spouses. Plan coverage is provided for under K.S.A. 12-0540. No separate financial report is issued for the Plan.

**Funding Policy** – The College provides health insurance benefits to retirees and their dependents in accordance with Kansas law (K.S.A. 12-5040). The benefits are paid from the general operating assets of the College on a pay-as-you-go basis. The contribution requirements of plan members and the College are established and may be amended by the Board of Trustees.

**Annual OPEB Cost and Net OPEB Obligation** – The College's annual OPEB cost (expense) consists of Annual Required Contribution (ARC) plus Interest on Net OPEB Obligation minus Adjustment to ARC. The Annual Required Contribution is the employer's periodic required contribution actuarially determined in accordance with the parameters of GASB Statement 45, Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions. The Interest on Net OPEB Obligation is the interest at the assumed investment return on the beginning of year Net OPEB obligation. The Adjustment to ARC is the amortization of the discounted present value of the balance of the beginning of year Net OPEB Obligation. The Net OPEB Obligation is the sum of the OPEB liability or cost already booked at transition to Statement 45 and the cumulative difference between the Annual OPEB Cost and the employer's contributions to the OPEB plans since the effective date of Statement 45. The following table presents the components of the College's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the College's net OPEB obligation to the Plan:

Annual required contribution	\$ 208,282
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	<u>208,282</u>
Contributions paid	<u>59,000</u>
Increase in net OPEB obligation	149,282
Net OPEB obligation - beginning of year	<u>702,008</u>
Net OPEB obligation - end of year	<u>\$ 851,290</u>

**8. OTHER POSTEMPLOYMENT HEALTHCARE BENEFITS (OPEB) (Continued)**

Schedule of Employer contributions (for fiscal year ended)

Fiscal Year Ended	Annual OPEB Cost	Net Employer Contributions	Net Percentage Contributed	End of Year Net OPEB Obligation
June 30, 2010	\$ 261,051	\$ 2,028	1%	\$ 494,322
June 30, 2011	261,051	53,365	20%	702,008
June 30, 2012	208,282	59,000	28%	851,290

**Funded Status and Funding Progress** – As of July 1, 2011, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$1,477,303. The College’s policy is to fund the benefits on a pay-as-you-go basis, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,477,303. The covered payroll (annual payroll of active employees covered by the plan) was \$8,905,358, and the ratio of the UAAL to the covered payroll was 16.6%.

Actuarial valuations 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. The valuation includes, for example, assumptions about future employment, mortality, and the healthcare cost trends. 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 schedule of funding progress will present in time, multiyear trend information about whether the actuarial value of plan assets (if any) is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Schedule of Funding Progress:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll ((b-a)/c)
7/1/2008	\$ -	\$ 1,502,502	\$ 1,502,502	0%	\$ 7,548,810	19.9%
7/1/2011	-	1,477,303	1,477,303	0%	8,905,358	16.6%

**Actuarial Methods and Assumptions** – Projections of benefits for financial reporting purposes are based on the substantive plan and include 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 calculation.

In the July 1, 2011 actuarial valuation, the projected unit credit method was applied. The actuarial assumptions included a 4.0 percent investment rate of return, which is a blended rate of the expected long-term investment returns on plan assets and on the employer’s own investments calculated based on the funded level of the plan at the valuation date and on the annual healthcare cost trend rates. The valuation assumed annual healthcare cost trend rate of 10.0 percent initially and an ultimate rate of 5.0 percent after ten years. The valuation followed generally accepted actuarial methods and included tests as considered necessary to assure the accuracy of the results. The UAAL is being amortized over 30 years on a level percent-of-pay, open period basis.

**9. RISK MANAGEMENT**

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. There has been no significant change in insurance coverage from the previous fiscal year. Settled claims have not exceeded commercial insurance coverage in any of the past three years.

**10. RELATED PARTY TRANSACTIONS BETWEEN THE COLLEGE AND ITS COMPONENT UNIT**

The Cowley County Community College Endowment Association paid \$191,766 in student scholarships during the current fiscal year.

The College provides administrative support, office space, and other services to the Cowley County Community College Endowment Association. The Endowment Association does not reimburse the College for expenses incurred.

**11. CONTINGENT LIABILITIES**

The College receives significant financial assistance from numerous federal and state governmental agencies in the form of grants and state pass-through aid. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit. Any disallowed claims resulting from such audits could become a liability of the College. However, in the opinion of management, any such disallowed claims would not have a material effect on the financial statements.

The College is a defendant in various pending litigation and administrative proceedings. Management anticipates that any potential claims, if any, against the College would be covered by insurance and would not materially affect the College's financial position.

**12. SEGMENT INFORMATION**

The College issued revenue bonds to finance activities of its auxiliary enterprise funds. Investors in those bonds rely on the revenue generated by the individual activities for repayment. Descriptive information for the College's segment is listed below.

**Revenue Bonds Series 2004 and 2007**

**Student Union and Dormitory System Revenue Bonds - Series 2004 and 2007**

The revenues pledged to this Series 2004 and 2007 bonds consist of net revenues generated from the Dormitory system and the Union system of the College. The condensed financial information for this segment is as follows:

Condensed Statement of Net Assets

Assets:	
Current assets	\$ 2,806,568
Capital assets, net	<u>7,842,921</u>
Total assets	<u>\$ 10,649,489</u>
Liabilities:	
Current liabilities	\$ 1,022,648
Long-term liabilities	<u>5,190,000</u>
Total liabilities	<u>6,212,648</u>
Net Assets:	
Invested in capital assets, net of related debt	3,222,009
Restricted	-
Unrestricted	<u>1,214,832</u>
Total net assets	<u>4,436,841</u>
Total liabilities and net assets	<u>\$ 10,649,489</u>

**12. SEGMENT INFORMATION (Continued)**

Condensed Statement of Revenues, Expenses and Changes in Net Assets

Operating Revenue	\$ 4,655,743
Depreciation and amortization expense	(464,873)
Other operating expense	<u>(1,957,912)</u>
Operating income	<u>2,232,958</u>
Nonoperating revenues (expenses):	
Interest income	5,751
Interest expense	<u>(267,573)</u>
Change in net assets	1,971,136
Beginning net assets	<u>2,465,705</u>
Ending net assets	<u>\$ 4,436,841</u>

Condensed Statement of Cash Flows

Net cash provided (used) by:	
Operating activities	\$ 1,522,528
Noncapital financing activities	-
Capital financing activities	(716,376)
Investing activities	<u>(267,573)</u>
Net increase (decrease)	538,579
Beginning cash and cash equivalents	<u>2,267,989</u>
Ending cash and cash equivalents	<u>\$ 2,806,568</u>

**13. PRIOR PERIOD ADJUSTMENT**

During the year ended June 30, 2012, the following affected the beginning net assets of the College:

Corrections were made to the capital asset records to reflect the assets of the College at June 30, 2011 due to the change in the College's policy of recognizing and depreciating capital assets at \$5,000 and above.	\$ 411,715
Corrections were made to the capital asset records for Accumulated Depreciation to reflect the assets of the College at June 30, 2011 due to the change in the College's policy of recognizing and depreciating capital assets at \$5,000 and above.	<u>(161,457)</u>
Total prior period adjustment on Statement of Revenues, Expenses, and Changes in Net Assets	<u>\$ 250,258</u>

The net prior period adjustment is shown as an increase in beginning net assets in the Statement of Revenues, Expenses, and Changes in Net Assets.

REQUIRED SUPPLEMENTARY INFORMATION

**Cowley County Community College and Area Vocational-Technical School**

**Other Post Employment Benefits  
Year Ended June 30, 2012**

Schedule of Funding Progress:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll ((b-a)/c)
7/1/2008	\$ -	\$ 1,502,502	\$ 1,502,502	0%	\$ 7,548,810	19.9%
7/1/2011	-	1,477,303	1,477,303	0%	8,905,358	16.6%

Schedule of Employer Contributions:

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2010	\$ 261,051	\$ 2,028	\$ 494,322
6/30/2011	261,051	53,365	702,008
6/30/2012	208,282	59,000	851,290

Information for earlier years is not available as June 30, 2009 is the first year of implementation of GASB No. 45.

## SUPPLEMENTARY INFORMATION

**Cowley County Community College and Area Vocational-Technical School**

**Schedule of Cash Receipts, Expenditures, and Changes in Unencumbered Cash  
Budget and Actual - Budgetary Basis  
General Fund  
Year Ended June 30, 2012**

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts	With Final
			Budgetary	Budget
			Basis	Over
				(Under)
<u>Cash Receipts</u>				
Student sources	\$ 4,563,350	\$ 4,563,350	\$ 4,890,664	\$ 327,314
State sources	4,398,539	4,398,539	4,316,885	(81,654)
Local sources	5,013,202	5,013,202	4,755,843	(257,359)
Other sources	<u>1,189,000</u>	<u>1,189,000</u>	<u>652,966</u>	<u>(536,034)</u>
Total Cash Receipts	<u>\$ 15,164,091</u>	<u>\$ 15,164,091</u>	<u>14,616,358</u>	<u>\$ (547,733)</u>
<u>Expenditures and Transfers Subject to Budget</u>				
Instruction	\$ 5,500,000	\$ 5,500,000	4,435,498	\$(1,064,502)
Academic support	625,000	625,000	486,033	(138,967)
Student services	3,700,000	3,700,000	3,160,661	(539,339)
Institutional support	2,500,000	2,500,000	1,986,456	(513,544)
Operation and maintenance	4,112,675	4,112,675	2,804,622	(1,308,053)
Scholarships	250,000	250,000	199,266	(50,734)
Nonmandatory transfers in (out)	<u>2,091,400</u>	<u>2,091,400</u>	<u>1,604,610</u>	<u>(486,790)</u>
Total Expenditures and Transfers Subject to Budget	<u>\$ 18,779,075</u>	<u>\$ 18,779,075</u>	<u>14,677,146</u>	<u>\$(4,101,929)</u>
Receipts Over (Under) Expenditures			(60,788)	
Unencumbered Cash, July 1			<u>8,300,664</u>	
Unencumbered Cash, June 30			<u>\$ 8,239,876</u>	
Unencumbered Cash, June 30			\$ 8,239,876	
Receivables			3,992,116	
Accrued sick leave			(25,820)	
Accrued vacation			(134,441)	
Accrued other post employment benefits			<u>(851,290)</u>	
GAAP fund balance			<u>\$ 11,220,441</u>	



**Cowley County Community College and Area Vocational-Technical School**

**Schedule of Cash Receipts, Expenditures, and Changes in Unencumbered Cash  
Budget and Actual - Budgetary Basis  
Postsecondary Technical Education Fund  
Year Ended June 30, 2012**

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts	With Final
			Budgetary	Budget
			Basis	Over
				(Under)
<u>Cash Receipts</u>				
Student sources	\$ 1,410,050	\$ 1,410,050	\$ 1,582,369	\$ 172,319
State sources	2,012,175	2,012,175	2,221,992	209,817
Other sources	15,400	15,400	1,575,597	1,560,197
Transfers	<u>2,036,400</u>	<u>2,036,400</u>	-	<u>(2,036,400)</u>
Total Cash Receipts	<u>\$ 5,474,025</u>	<u>\$ 3,437,625</u>	<u>5,379,958</u>	<u>\$ 1,942,333</u>
<u>Expenditures and Transfers Subject to Budget</u>				
Instruction	\$ 3,045,670	\$ 3,045,670	2,489,833	\$ (555,837)
Academic support	223,500	223,500	194,488	(29,012)
Student services	463,355	463,355	489,965	26,610
Institutional support	696,000	696,000	850,302	154,302
Operation and maintenance	825,000	825,000	1,261,820	436,820
Scholarships	115,500	115,500	-	(115,500)
Nonmandatory transfers in (out)	<u>105,000</u>	<u>105,000</u>	<u>93,550</u>	<u>(11,450)</u>
Total Expenditures and Transfers Subject to Budget	<u>\$ 5,474,025</u>	<u>\$ 5,474,025</u>	<u>5,379,958</u>	<u>\$ (94,067)</u>
Receipts Over (Under) Expenditures				-
Unencumbered Cash, July 1				-
Prior period adjustment				-
Unencumbered Cash, June 30			\$	-
Unencumbered Cash, June 30			\$	-
Receivables				-
GAAP fund balance			\$	-

**Cowley County Community College and Area Vocational-Technical School**

**Schedule of Cash Receipts, Expenditures, and Changes in Unencumbered Cash  
Budget and Actual - Budgetary Basis  
Adult Education Fund  
Year Ended June 30, 2012**

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts Budgetary Basis	With Final Budget Over (Under)
<u>Cash Receipts</u>				
Federal sources	\$ 90,354	\$ 90,354	\$ 90,354	\$ -
State sources	67,344	67,344	67,360	16
Local sources	-	-	35,000	35,000
Other sources	125,000	125,000	95	(124,905)
Total Cash Receipts	<u>\$ 282,698</u>	<u>\$ 282,698</u>	<u>192,809</u>	<u>\$ (89,889)</u>
<u>Expenditures Subject to Budget</u>				
Instruction	<u>\$ 303,845</u>	<u>\$ 303,845</u>	<u>199,604</u>	<u>\$ (104,241)</u>
Receipts Over (Under) Expenditures			(6,795)	
Unencumbered Cash, July 1			<u>21,146</u>	
Unencumbered Cash, June 30			<u>\$ 14,351</u>	
Unencumbered Cash, June 30			\$ 14,351	
Receivables			-	
GAAP fund balance			<u>\$ 14,351</u>	

**Cowley County Community College and Area Vocational-Technical School**

**Schedule of Cash Receipts, Expenditures, and Changes in Unencumbered Cash  
Budget and Actual - Budgetary Basis  
Adult Supplementary Fund  
Year Ended June 30, 2012**

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts Budgetary Basis	With Final Budget Over (Under)
<u>Cash Receipts</u>				
Student sources	\$ 75,000	\$ 75,000	\$ 15,511	\$ (59,489)
Other sources	225,000	225,000	600	(224,400)
	<u>300,000</u>	<u>300,000</u>	<u>16,111</u>	<u>(283,889)</u>
Total Cash Receipts				
<u>Expenditures Subject to Budget</u>				
Instruction	\$ 347,239	\$ 347,239	41,121	\$ (306,118)
Receipts Over (Under) Expenditures			(25,010)	
Unencumbered Cash, July 1			<u>47,238</u>	
Unencumbered Cash, June 30			\$ <u>22,228</u>	
Unencumbered Cash, June 30			\$ 22,228	
Receivables			<u>-</u>	
GAAP fund balance			<u>\$ 22,228</u>	

**Cowley County Community College and Area Vocational-Technical School**

**Schedule of Cash Receipts, Expenditures, and Changes in Unencumbered Cash  
Budget and Actual - Budgetary Basis  
Motorcycle Driver Safety Fund  
Year Ended June 30, 2012**

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts Budgetary Basis	With Final Budget Over (Under)
<u>Cash Receipts</u>				
Student sources	\$ 35,000	\$ 35,000	\$ 15,918	\$ 19,082
Other sources	20,000	20,000	-	20,000
	<u>55,000</u>	<u>55,000</u>	15,918	<u>(39,082)</u>
Total Cash Receipts				
<u>Expenditures Subject to Budget</u>				
Instruction	\$ 57,209	\$ 57,209	13,018	\$ (44,191)
Receipts Over (Under) Expenditures			2,900	
Unencumbered Cash, July 1			<u>2,301</u>	
Unencumbered Cash, June 30			<u>\$ 5,201</u>	
Unencumbered Cash, June 30			\$ 5,201	
Receivables			<u>-</u>	
GAAP fund balance			<u>\$ 5,201</u>	

**Cowley County Community College and Area Vocational-Technical School**

**Schedule of Cash Receipts, Expenditures, and Changes in Unencumbered Cash  
Budget and Actual - Budgetary Basis  
Bookstore Fund  
Year Ended June 30, 2012**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance With Final Budget Over (Under)
	<u>Original</u>	<u>Final</u>		<u>(Under)</u>
<u>Cash Receipts</u>				
Sales	\$ 3,000,000	\$ 3,000,000	\$ 2,217,265	\$ 782,735
Other income	400,000	400,000	243,746	156,254
Total Cash Receipts	<u>\$ 3,400,000</u>	<u>\$ 3,400,000</u>	<u>2,461,011</u>	<u>\$ 938,989</u>
<u>Expenditures Subject to Budget</u>				
Salaries and benefits	\$ 250,000	\$ 250,000	139,381	\$ 110,619
General operating expenses	250,000	250,000	691,581	(441,581)
Supplies	25,000	25,000	118,811	(93,811)
Cost of goods sold	3,089,203	3,089,203	1,305,391	1,783,812
Transfer	-	-	301,740	(301,740)
Total Expenditures Subject to Budget	<u>\$ 3,614,203</u>	<u>\$ 3,614,203</u>	<u>2,556,904</u>	<u>\$ 1,057,299</u>
Receipts Over (Under) Expenditures			(95,893)	
Unencumbered Cash, July 1			<u>212,338</u>	
Unencumbered Cash, June 30			<u>\$ 116,445</u>	
Unencumbered Cash, June 30			\$ 116,445	
Inventory			<u>460,378</u>	
GAAP fund balance			<u>\$ 576,823</u>	

**Cowley County Community College and Area Vocational-Technical School**

**Schedule of Cash Receipts, Expenditures, and Changes in Unencumbered Cash  
Budget and Actual - Budgetary Basis  
Housing Fund  
Year Ended June 30, 2012**

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts Budgetary Basis	With Final Budget Over (Under)
<u>Cash Receipts</u>				
Sales	\$ 3,000,000	\$ 3,000,000	\$ 1,905,610	\$ 1,094,390
Other income	150,000	150,000	105,476	44,524
	<u>3,150,000</u>	<u>3,150,000</u>	<u>2,011,086</u>	<u>1,138,914</u>
<u>Total Cash Receipts</u>				
	<u>\$ 3,150,000</u>	<u>\$ 3,150,000</u>	<u>2,011,086</u>	<u>\$ 1,138,914</u>
<u>Expenditures Subject to Budget</u>				
Salaries and benefits	\$ 325,000	\$ 325,000	277,943	\$ 47,057
General operating expenses	2,131,378	2,131,378	8,536	2,122,842
Supplies	50,000	50,000	208,633	(158,633)
Cost of goods sold	-	-	747,466	(747,466)
Equipment	5,000	5,000	27,697	(22,697)
Transfer	-	-	687,637	(687,637)
	<u>2,511,378</u>	<u>2,511,378</u>	<u>1,957,912</u>	<u>553,466</u>
<u>Total Expenditures Subject to Budget</u>				
	<u>\$ 2,511,378</u>	<u>\$ 2,511,378</u>	<u>1,957,912</u>	<u>\$ 553,466</u>
Receipts Over (Under) Expenditures			53,174	
Unencumbered Cash, July 1			<u>367,944</u>	
Unencumbered Cash, June 30			\$ <u>421,118</u>	
Unencumbered Cash, June 30			\$ 421,118	
Receivables			<u>-</u>	
GAAP fund balance			<u>\$ 421,118</u>	

**Cowley County Community College and Area Vocational-Technical School**

**Schedule of Cash Receipts, Expenditures, and Changes in Unencumbered Cash  
Budget and Actual - Budgetary Basis  
Cosmetology Fund  
Year Ended June 30, 2012**

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts Budgetary Basis	With Final Budget Over (Under)
<u>Cash Receipts</u>				
Sales	\$ 125,000	\$ 125,000	\$ 55,746	\$ 69,254
<u>Expenditures Subject to Budget</u>				
Salaries and benefits	\$ 45,000	\$ 45,000	22,993	\$ 22,007
Supplies	95,000	95,000	26,544	68,456
Cost of goods sold	43,701	43,701	37,207	6,494
Total Expenditures Subject to Budget	\$ 183,701	\$ 183,701	86,744	\$ 96,957
Receipts Over (Under) Expenditures			(30,998)	
Unencumbered Cash, July 1			59,310	
Unencumbered Cash, June 30			\$ 28,312	
Unencumbered Cash, June 30			\$ 28,312	
Receivables			-	
GAAP fund balance			\$ 28,312	

**Cowley County Community College and Area Vocational-Technical School**

**Schedule of Cash Receipts, Expenditures, and Changes in Unencumbered Cash  
Budget and Actual - Budgetary Basis  
Wellness Center Fund  
Year Ended June 30, 2012**

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Over (Under)
	Original	Final	Budgetary Basis	(Under)
<u>Cash Receipts</u>				
Sales	\$ 75,000	\$ 75,000	\$ 19,237	\$ 55,763
Other income	75,000	75,000	103,003	(28,003)
	<u>150,000</u>	<u>150,000</u>	<u>122,240</u>	<u>27,760</u>
<u>Total Cash Receipts</u>	<u>\$ 150,000</u>	<u>\$ 150,000</u>	<u>122,240</u>	<u>\$ 27,760</u>
<u>Expenditures Subject to Budget</u>				
Salaries and benefits	\$ 145,748	\$ 145,748	\$ 80,211	\$ 65,537
General operating expenses	10,000	10,000	-	10,000
Supplies	10,000	10,000	9,953	47
Equipment	-	-	23,921	(23,921)
	<u>165,748</u>	<u>165,748</u>	<u>114,085</u>	<u>51,663</u>
<u>Total Expenditures Subject to Budget</u>	<u>\$ 165,748</u>	<u>\$ 165,748</u>	<u>114,085</u>	<u>\$ 51,663</u>
Receipts Over (Under) Expenditures			8,155	
Unencumbered Cash, July 1			<u>15,632</u>	
Unencumbered Cash, June 30			<u>\$ 23,787</u>	
Unencumbered Cash, June 30			\$ 23,787	
Receivables			-	
GAAP fund balance			<u>\$ 23,787</u>	



**Cowley County Community College and Area Vocational-Technical School**

**Schedule of Cash Receipts, Expenditures, and Changes in Unencumbered Cash  
Budget and Actual - Budgetary Basis  
Athletics Fund  
Year Ended June 30, 2012**

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts Budgetary Basis	With Final Budget Over (Under)
<u>Cash Receipts</u>				
Student sources	\$ 675,000	\$ 675,000	\$ 505,806	\$ 169,194
<u>Expenditures Subject to Budget</u>				
General operating expenses	\$ 675,000	\$ 675,000	505,806	\$ 169,194
Receipts Over (Under) Expenditures			-	
Unencumbered Cash, July 1			-	
Unencumbered Cash, June 30			\$ -	
Unencumbered Cash, June 30 Receivables			\$ -	
GAAP fund balance			\$ -	

**Cowley County Community College and Area Vocational-Technical School**

**Schedule of Cash Receipts, Expenditures, and Changes in Unencumbered Cash  
Budget and Actual - Budgetary Basis  
Capital Outlay Fund  
Year Ended June 30, 2012**

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts Budgetary Basis	With Final Budget Over (Under)
<u>Cash Receipts</u>				
Private gifts	\$ 350,000	\$ 350,000	\$ 38,167	\$ 311,833
Total Cash Receipts	<u>\$ 350,000</u>	<u>\$ 350,000</u>	38,167	<u>\$ (311,833)</u>
<u>Expenditures and Transfers Subject to Budget</u>				
Plant equipment and facility	\$ 364,000	\$ 364,000	52,167	\$ (311,833)
Receipts Over (Under) Expenditures			(14,000)	
Unencumbered Cash, July 1			<u>14,000</u>	
Unencumbered Cash, June 30			<u>\$ -</u>	
Unencumbered Cash, June 30			\$ -	
Receivables			-	
GAAP fund balance			<u>\$ -</u>	

**Cowley County Community College and Area Vocational-Technical School**

**Schedule of Cash Receipts, Expenditures, and Changes in Unencumbered Cash  
Budget and Actual - Budgetary Basis  
Special Assessment Fund  
Year Ended June 30, 2012**

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts Budgetary Basis	With Final Budget Over (Under)
<u>Cash Receipts</u>	<u>\$ -</u>	<u>\$ -</u>	\$ -	<u>\$ -</u>
<u>Expenditures Subject to Budget</u>				
Plant equipment/facility	<u>\$ 87,491</u>	<u>\$ 87,491</u>	<u>11,241</u>	<u>\$ (76,250)</u>
Receipts Over (Under) Expenditures			(11,241)	
Unencumbered Cash, July 1			<u>87,490</u>	
Unencumbered Cash, June 30			<u>\$ 76,249</u>	
Unencumbered Cash, June 30			\$ 76,249	
Receivables			<u>-</u>	
Balance per internal books			<u>\$ 76,249</u>	

SINGLE AUDIT SECTION

**Cowley County Community College and Area Vocational-Technical School**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2012**

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Identifying Number	Program or Award Amount	Disbursements/ Expenditures
<u>Department of Education</u>				
Direct Programs:				
TRIO Student Support Services 10-11	84.042A	P042A060039-10	\$ 290,516	\$ 42,254
TRIO Student Support Services 11-12	84.042A	P042A110052	281,510	244,827
TRIO Upper Bound Program	84.047A	P047A070634-10	250,000	49,691
TRIO Upper Bound Program	84.047A	P047A070634-11	242,250	195,665
Supplemental Education Opportunity Grant	84.007	P007A111504	55,000	58,438
Federal Work-Study Program	84.033	P033A111504	83,814	89,052
PELL Grant	84.063	P063P111454	8,867,633	8,867,633
Federal Direct Student Loan	84.268	P268K111454	11,314,945	11,314,945
Passed Through Kansas Board of Regents:				
Adult Education - Basic Grants to States	84.002		90,354	90,354
ARRA - State Fiscal Stabilization Fund	84.394	S394A090017	450,303	450,303
Carl Perkins	84.048		141,356	119,738
Total Department of Education				<u>21,522,900</u>
Total Federal Financial Assistance Expended				<u>\$ 21,522,900</u>

Note 1 - The accompanying schedule of expenditures of federal awards includes the federal grant activity of the College and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 - Federal Work-Study Programs and Supplemental Education Opportunity Grant both have expenditures in excess of the award amount. This is due to administrative fees in the amount of \$5,238 for Federal Work-Study and \$3,438 for SEOG. Administrative fees are allowed to be charged to the grant and are reimbursed by the federal government and are therefore included in the above expenditures.

Note 3 - Federal Work-Study and Supplemental Education Opportunity Grant both have expenditures in excess of the award amount. Both grants had matching requirements met by the College. Work-Study had \$26,192 matched by the College. SEOG had \$17,188 matched by the College. As required, neither of these non-federal dollars are included in the expenditures shown above.



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of Cowley County Community College and Area Vocational-Technical School and its discretely presented component unit as of and for the year ended June 30, 2012, which collectively comprise the College's basic financial statements and have issued our report thereon dated December 1, 2012. We conducted our audit 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. The financial statements of the Cowley County Community College Endowment Association were not audited in accordance with *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

Management of the College is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be a material weakness, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency in internal control over financial reporting (12-1). A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item (12-2).

We noted certain matters that we reported to management of the College, in a separate letter dated December 1, 2012.

The College's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the College's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Board of Trustees, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Swindoll, Janzen, Hawk & Loyd, LLC

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Swindoll, Janzen, Hawk, & Loyd, LLC

December 1, 2012



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JANZEN  
HAWK &  
LOYD, LLC

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT  
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

**Compliance**

We have audited the compliance of Cowley County Community College and Area Vocational-Technical School (College) with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of College's major federal programs for the year ended June 30, 2012. The College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

We conducted our audit of compliance 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the College's compliance with those requirements.

In our opinion, Cowley County Community College and Area Vocational-Technical School, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 12-2.



## Internal Control Over Compliance

The management of Cowley County Community College and Area Vocational-Technical School is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the College's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The College's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the College's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, Board of Trustees, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Swindoll, Janzen, Hawk & Loyd, LLC

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Swindoll, Janzen, Hawk, and Loyd, LLC

December 1, 2012

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

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2012**

**SUMMARY OF AUDITOR'S RESULTS**

1. The auditor's report expresses an unqualified opinion on the financial statements of Cowley County Community College and Area Vocational-Technical School.
2. Significant deficiencies relating to the audit of the financial statements are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance With *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of Cowley County Community College and Area Vocational-Technical School Arkansas City, Kansas, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies related to the audit of the major federal award programs as reported in the Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for Cowley County Community College and Area Vocational School, Arkansas City, Kansas expresses an unqualified opinion.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The programs tested as major programs include:

	<u>CFDA No.</u>
Student Financial Aid Programs:	
Federal Supplemental Educational Opportunity Grant Program	84.007
Federal Work-Study Program	84.033
Federal PELL Grant Program	84.063
Federal Direct Student Loan Program	84.268
TRIO Student Support Services	84.042A
TRIO Upper Bound Program	84.047A
8. The threshold for distinguishing Types A and B program was \$300,000.
9. Cowley County Community College and Area Vocational-Technical School, Arkansas City, Kansas qualified as a low-risk auditee.

**FINDINGS--FINANCIAL STATEMENTS AUDIT**

**12-1 SIGNIFICANT DEFICIENCY- CAPITAL ASSETS**

**Condition:** During the review of capital assets we found several discrepancies with the capital asset additions and disposal lists. We also noticed that the asset tags were not located on several pieces of equipment, i.e. lawn equipment and mini truck.

**Criteria:** Part of a strong internal control system in the area of capital assets is ensuring that the database is complete as well as the ability to identify and locate the assets in the database.

**Cause:** Asset tags are hard to keep on mobile and heavily used equipment. Assets are shifted between multiple sites depending on need and the College's records aren't always updated. Assets are sold or disposed and aren't removed from the capital asset list. Assets additions from prior years were added to current year capital asset list to bring it up to date.

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

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2012**

**Effect:** Capital assets could potential be materially understated. Assets without tags are more susceptible to misuse and potentially theft.

**Recommendation:** We recommend that since the tag is the primary device of tracking and identifying various equipment as belonging to the College, that all assets have the tag easily visible on the equipment. We also recommend asset records be updated when assets are moved to other sites or disposed.

**FINDINGS AND QUESTIONED COSTS--MAJOR FEDERAL AWARD PROGRAMS AUDIT**

12-2 Student Financial Assistance – CFDA No. 84.268  
Award Period – 7/1/11 to 6/30/12  
Compliance Issue – Special tests – Return of Title IV funds.

**Condition:** The College did not determine the withdrawal date for students who withdrew without providing notification within the required 30 days.

**Criteria:** The College must determine the withdrawal date for a student who withdraws without providing notification to the institution no later than 30 days after the end of the earlier of the: (1) payment period or period of enrollment, (2) academic year in which the student withdrew, or (3) educational program from which the student withdrew.

**Effect:** Funds potentially would not be returned, or not returned in a timely manner.

**Recommendation:** We recommend that the College determine that a student withdrew within the 30 day compliance requirement.

**Response by management:** Management agrees with this finding. They will make determination within 30 days.

**Cowley County Community College and Area Vocational-Technical School**

**Summary Schedule of Prior Audit Findings  
For the Year Ended June 30, 2012**

**FINDINGS AND QUESTIONED COSTS--MAJOR FEDERAL AWARD PROGRAMS AUDIT**

- 11-3 Student Financial Assistance – CFDA No. 84.268  
Award Period – 7/1/10 to 6/30/11  
Compliance Issue – Special tests – Return of Title IV funds.

**Condition:** The College did not determine the withdrawal date for students who withdrew without providing notification within the required 30 days.

**Recommendation:** We recommend that the College determine that a student withdrew within the 30 day compliance requirement.

**Current Status:** Finding still an issue at June 30, 2012.