

**HUTCHINSON COMMUNITY COLLEGE  
AND AREA VOCATIONAL SCHOOL**

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

**June 30, 2010**

**Hutchinson Community College and Area Vocational School**

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With  
Independent Auditor's Report**

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## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Hutchinson Community College and Area Vocational School  
Hutchinson, Kansas

We have audited the accompanying financial statements of the Hutchinson Community College and Area Vocational School (College) and its discretely presented component unit as of and for the year ended June 30, 2010, 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 Hutchinson 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, 2010, 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, 2010, 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 12 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 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*  
Swindoll, Janzen, Hawk, & Loyd, LLC

December 1, 2010

## Management's Discussion and Analysis

### Introduction:

Hutchinson Community College and Area Vocational School is proud to present its financial statements for the fiscal year 2010. The following discussion and analysis of the financial performance and activity of Hutchinson Community College and Area Vocational School (The College) is to provide an introduction to and an understanding of the basic financial statements of the College for the year ended June 30, 2010 with selected comparative information for the years ended June 30, 2008 and June 30, 2009. This discussion focuses on the current activities, resulting changes, and currently known facts. This discussion should be read in conjunction with the College's basic financial statements and the footnotes to those financial statements. The College is solely responsible for the completeness and accuracy of this information.

### Using the Annual Report:

Beginning with the financial statements for the fiscal year ended June 30, 2003, GASB 34 required a change in the way financial information is presented for state and local governments. GASB 35 merely amends GASB 34 and makes it apply to public colleges and universities. The purpose of GASB 34/35 is to make the financial statement presentation of public entities more closely resemble or emulate that of non-public for-profit enterprises. The hope is that it will "enhance the understandability of the general purpose external financial reports." This approach is intended to summarize and simplify the user's analysis of costs of various College services to students and the public. The purpose for conversion to the GASB 34/35 model is usability and understandability. One way the new model will enhance understandability is by bringing the activities under one consolidated total known as the Government-Wide Financial Statements. The annual financial report will include the basic financial statements and required supplementary information. An additional requirement of GASB 34/35 is the presentation of component units. Further information on the component unit is available upon request from the Hutchinson Community College Endowment Association.

### Basic financial statements are comprised of two parts:

1. Basic Financial Statements – These include Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. These statements present the results on a single measurement focus and basis of accounting.
  - a. The Statement of Net Assets is designed to be similar to bottom line results for the College. This statement combines and consolidates current financial resources (short-term expendable resources) with capital assets.
  - b. The Statement of Revenues, Expenses, and Changes in Net Assets focus on both the gross costs and the net costs of College activities which are supported mainly by property taxes and by state and other revenues.
  - c. The Statement of Cash Flows provides information about the cash receipts and disbursements of an entity during a period.
2. The Notes to the Basic Financial Statements are an integral and essential portion of the financial statements.

Hutchinson Community College and Area Vocational School  
Management's Discussion and Analysis  
Fiscal year ended June 30, 2010

**Required Supplementary Information:**

Management Discussion and Analysis (MD&A) - This is information required by standards to be presented but is not part of the basic financial statements.

Other Postemployment Healthcare Benefits (OPEB) – This information is required by standards to be presented but is not part of the basic financial statements.

**Highlights to the Financial Statements:**

**Statement of Net Assets**

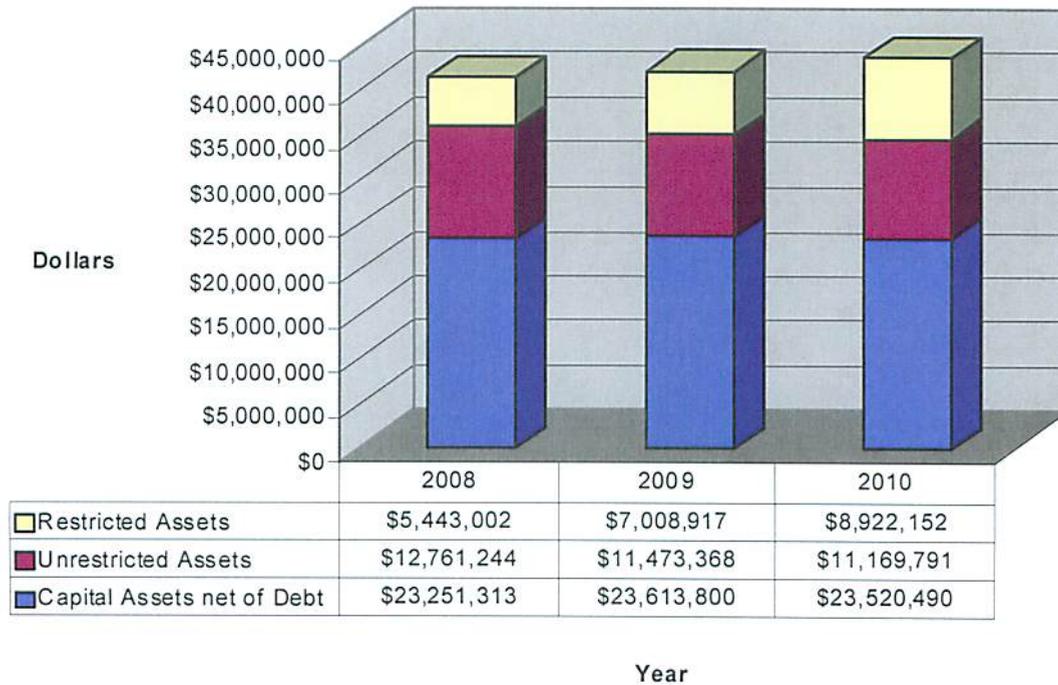
**Comparison Net Assets – Fiscal Year 2008, 2009, and 2010**

The Statement of Net Assets presents the assets, liabilities, and net assets of the College as of the end of the fiscal year. The Statement of Net Assets is a point of time financial statement. The purpose of the Statement of Net Assets is to present to the readers of the financial statements a fiscal snapshot of the College. The Statement of Net Assets presents end-of-year data concerning Assets (current and noncurrent), Liabilities (current and noncurrent), and Net Assets (Assets minus Liabilities). The difference between current and noncurrent assets is as follows: current assets are those assets that are expected to be used or consumed within one year. Noncurrent assets are those assets that are expected to provide value for greater than one year.

Net assets increased during the current fiscal year from \$41,455,559 in 2008, to \$42,096,085 in 2009, and to \$43,612,433 in 2010 for increases of \$640,526 (1.6%) 2008 to 2009 and \$1,516,348 (3.6%) 2009 to 2010.

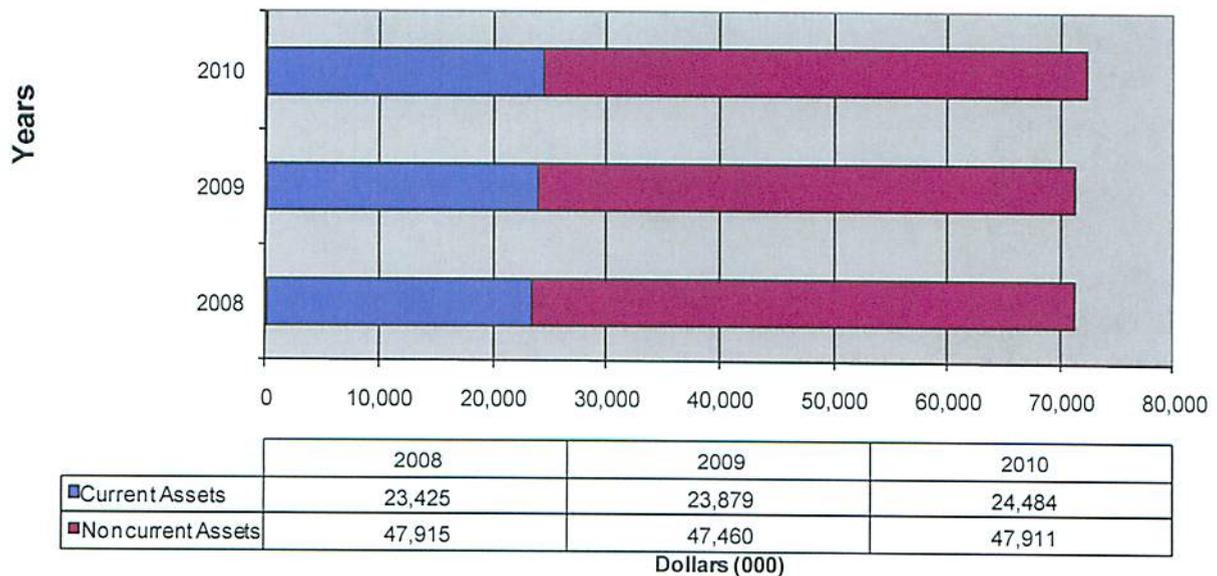
Hutchinson Community College and Area Vocational School  
 Management's Discussion and Analysis  
 Fiscal year ended June 30, 2010

**Breakdown of Net Assets**

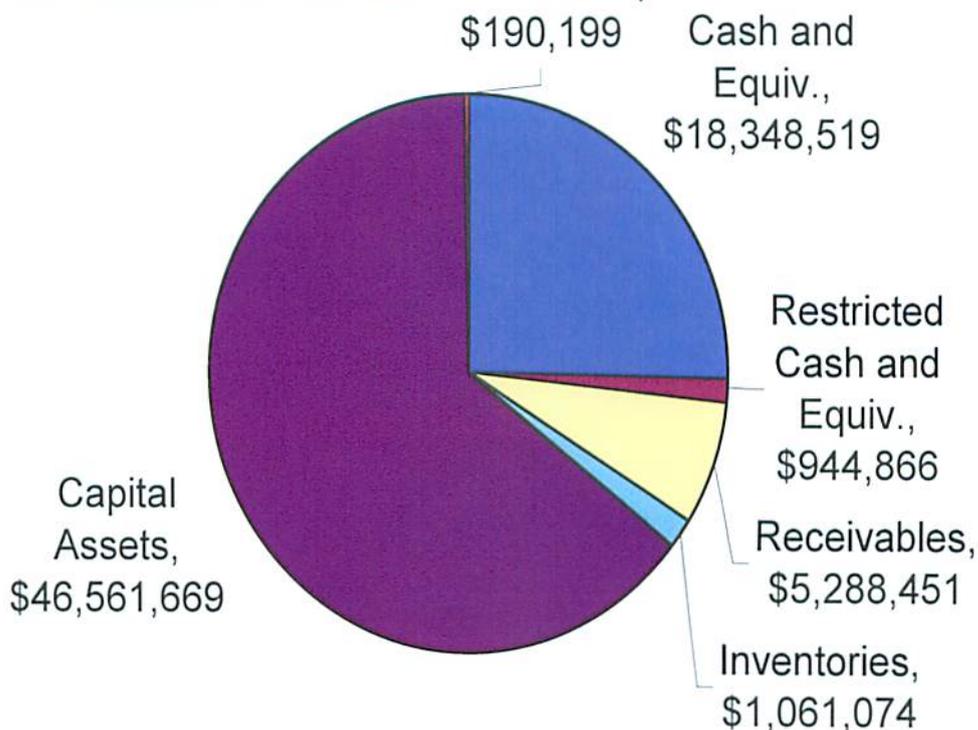


Total break down of assets between current and noncurrent classification for 2008 thru 2010 is as follows:

**Total Assets**



**Total Assets by Category 2010**



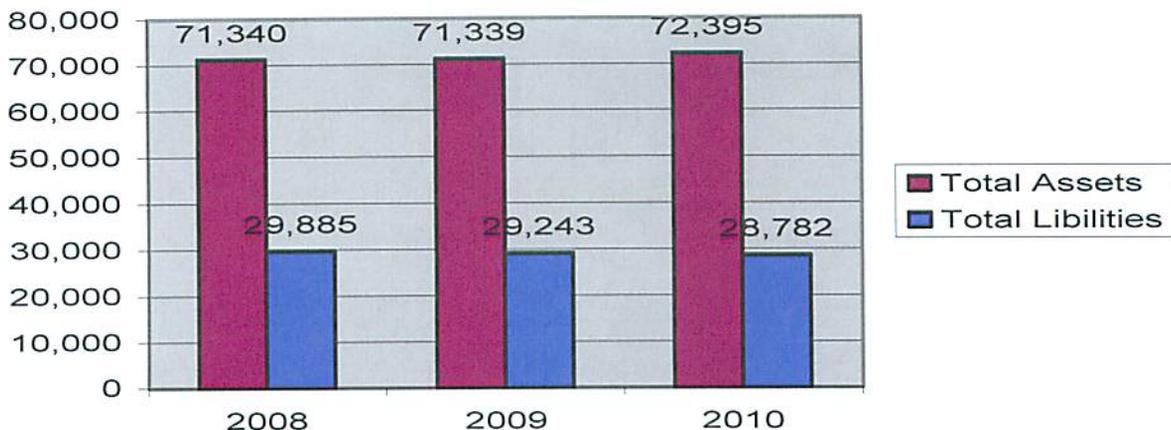
Of the \$72,394,778 in total assets, approximately 25.3% are in cash and cash equivalents and capital assets represent 64.3% of total assets.

Comparison of Liabilities

	2008	% Total 2008	2009	% Total 2009	2010	% Total 2010
Current Liabilities	10,191,031	34.10%	6,710,278	22.95%	7,473,657	25.97%
Noncurrent Liabilities	19,693,692	65.90%	22,532,615	77.05%	21,308,688	74.03%
Total Liabilities	29,884,723	100.00%	29,242,893	100.00%	28,782,345	100.00%

Noncurrent liabilities in 2010 are related to revenue bonds payable, payments due to the Kansas Board of Regents under the zero interest deferred maintenance loan program, and as a result of the college entering into a Energy Conservation Measures lease with Honeywell, Inc. Current liabilities consist primarily of accounts payable and accrued liabilities, deposits held in custody for others, the current portions of revenue bonds payable and the Kansas Board of Regents Loan.

### Comparison of Assets and Liabilities (in 000)



Total liabilities decreased from \$29,884,723 in 2008, to \$29,242,893 in 2009, and decreases again to \$28,782,345 in 2010. Assets decreased slightly from \$71,340,282 in 2008, to \$71,338,978 in 2009, and increased in 2010 to a total of \$72,394,778. The asset to liability ratio (total assets/total liabilities) 2.39 in 2008, 2.44 in 2009, and 2.52 in 2010.

#### Results of Operations Fiscal Year 2010

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

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of this statement is to present the revenues received by the institution, both operating and nonoperating, and the expenses paid by the institution, operating and nonoperating, and any other revenues, expenses, gains and losses received or spent by the institution.

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the institution. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institution. Nonoperating revenues are revenues received for which goods and services are not provided. For example, state appropriations are nonoperating because they are provided by the legislature to the institution without the legislature directly receiving commensurate goods and services for those revenues.

#### Revenue

Components and sources of revenue:

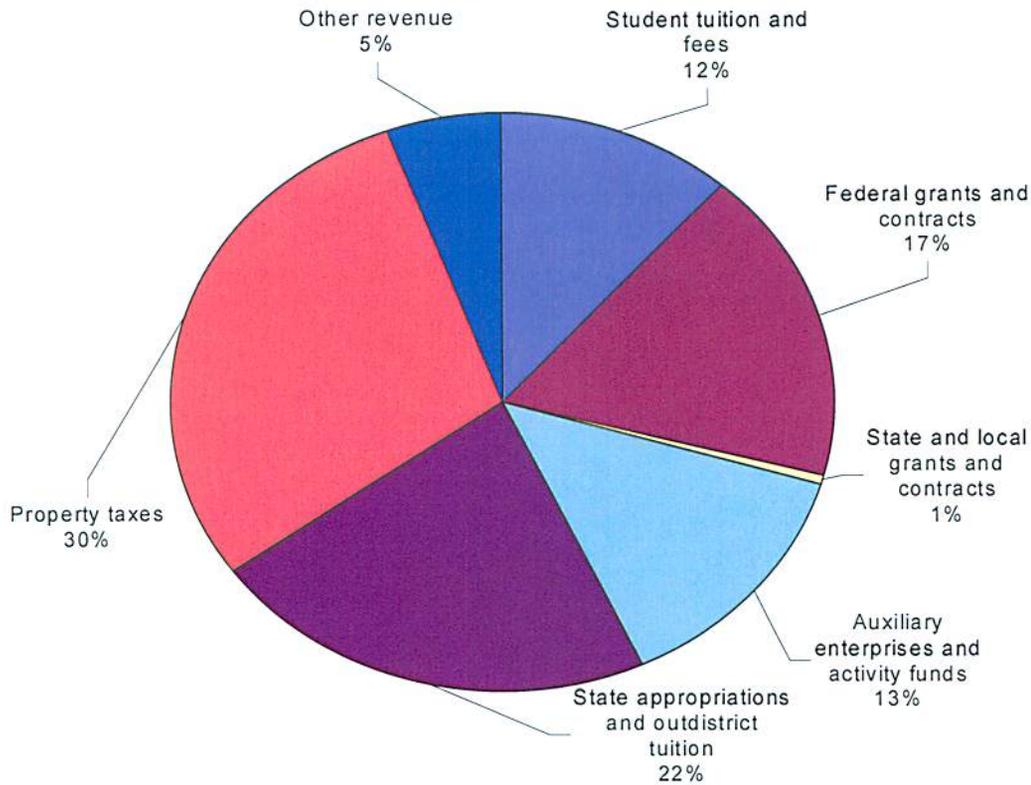
The College receives revenue from a number of sources. They are in broad terms: The State of Kansas, Federal Government, students--in the form of tuition and fees, local taxpayers--by way of property taxes, through business style auxiliary enterprises, private gifts and grants, as well as other operating revenue.

Hutchinson Community College and Area Vocational School  
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 Fiscal year ended June 30, 2010

These sources are relatively stable from year to year as a percentage of the total. In the fiscal year ended June 30, 2010 the College experienced a significant drop in state revenue and property tax revenue.

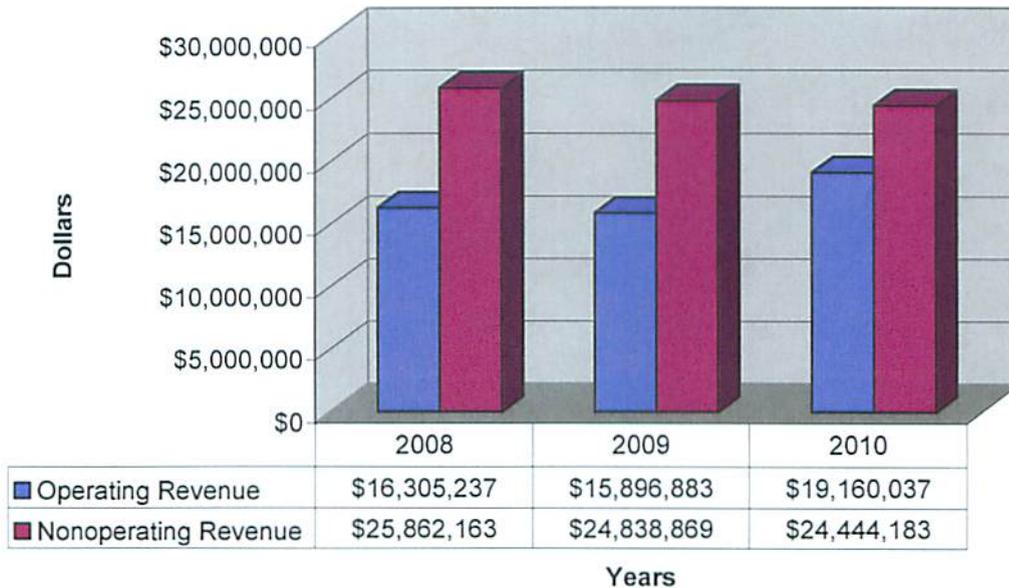
Source	2008	% Total 2008	2009	% Total 2009	2010	% Total 2010
Student tuition and fees	4,736,601	11.23%	4,433,285	10.88%	5,143,818	11.80%
Federal grants and contracts	4,472,894	10.61%	4,668,665	11.46%	7,531,277	17.27%
State and local grants and contracts	1,181,510	2.80%	704,266	1.73%	313,797	0.72%
Auxiliary enterprises and activity funds	5,581,764	13.24%	5,690,666	13.97%	5,837,376	13.39%
State appropriations and outdistrict tuition	9,021,530	21.39%	9,865,576	24.22%	9,485,616	21.75%
Property taxes	13,208,530	31.32%	13,385,924	32.86%	12,919,447	29.63%
Other revenue	3,964,571	9.40%	1,987,370	4.88%	2,372,889	5.44%
Total revenue	42,167,400	100.00%	40,735,752	100.00%	43,604,220	100.00%

**Percentage of Revenue by Source 2010**



Hutchinson Community College and Area Vocational School  
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 Fiscal year ended June 30, 2010

**Total Revenue Breakdown 2008 - 2010**

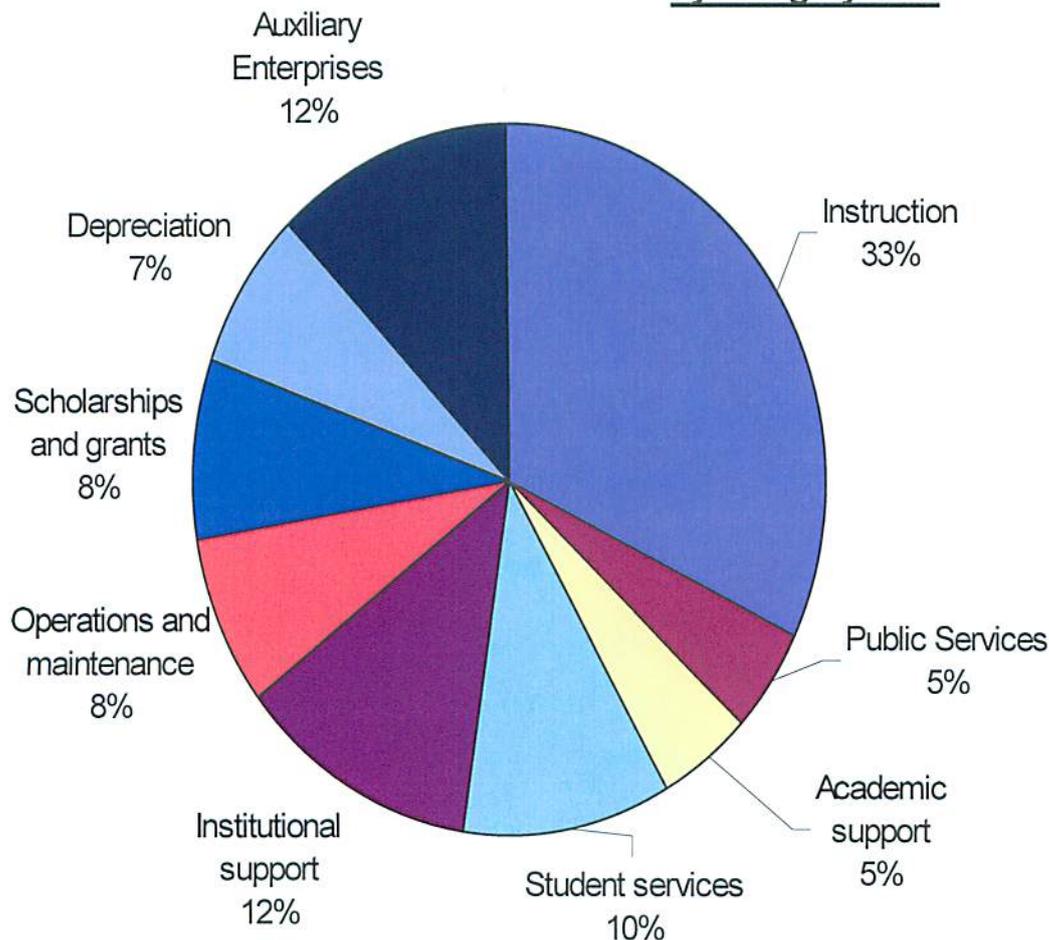


Expenses

Detail of the 2008 thru 2010 Education and General, and Auxiliary Enterprises and nonoperating expenditures:

	2008	% Total 2008	2009	% Total 2009	2010	% Total 2010
<b>Operating Expenses</b>						
Instruction	13,396,487	34.93%	13,215,672	32.96%	13,295,386	31.59%
Public Services	2,195,790	5.72%	1,986,305	4.95%	1,920,758	4.56%
Academic support	1,971,733	5.14%	1,894,373	4.72%	2,026,001	4.81%
Student services	4,412,493	11.50%	4,560,037	11.37%	4,266,414	10.14%
Institutional support	5,046,098	13.16%	5,620,174	14.02%	5,083,004	12.08%
Operations and maintenance	2,965,016	7.73%	3,170,872	7.91%	3,174,598	7.54%
Scholarships and grants	1,502,331	3.92%	1,861,254	4.64%	3,459,071	8.22%
Depreciation	1,743,555	4.55%	1,930,565	4.81%	3,036,731	7.22%
Auxiliary Enterprises	4,472,671	11.66%	4,920,958	12.27%	4,993,945	11.87%
Subtotal	37,706,174	98.31%	39,160,210	97.67%	41,255,908	98.02%
<b>Nonoperating Expenses</b>						
Interest on Capital asset-related debt	469,145	1.22%	717,713	1.79%	767,802	1.82%
Loss on Disposal of Capital Assets	180,296	0.47%	217,303	0.54%	64,162	0.15%
Subtotal	649,441	1.69%	935,016	2.33%	831,964	1.98%
<b>Total Expenses</b>	<b>38,355,615</b>	<b>100.00%</b>	<b>40,095,226</b>	<b>100.00%</b>	<b>42,087,872</b>	<b>100.00%</b>

**Percentage of Operating Expenses  
by Category 2010**



**Statement of Cash Flows**

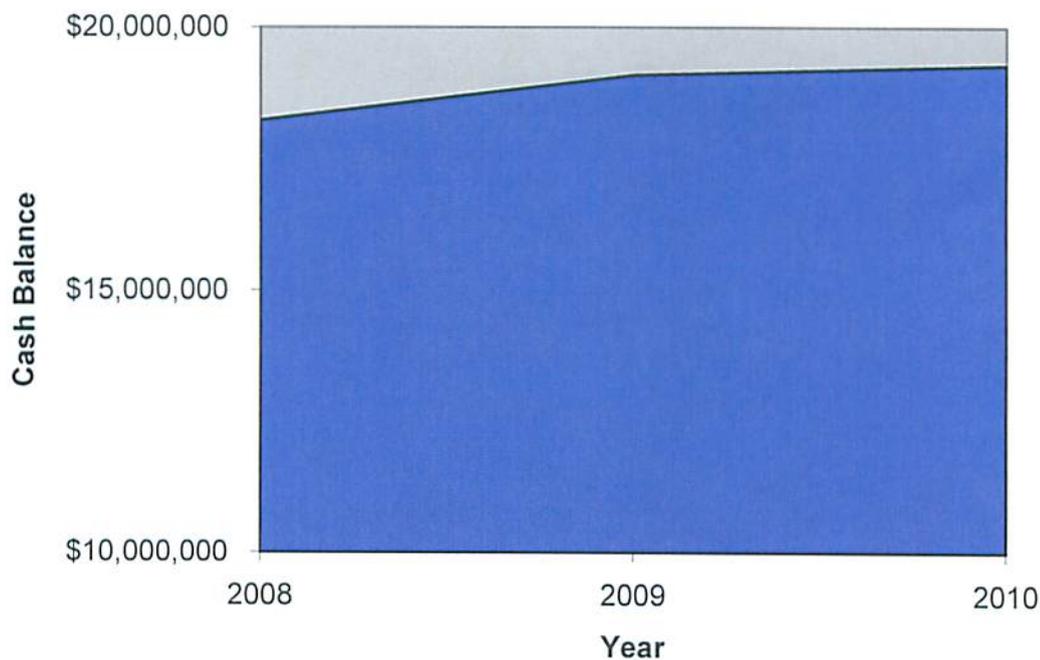
The final statement presented by the College is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the institution during the year.

The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the institution. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes. The third section reflects the cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section deals with cash flows from investing activities and shows the interest received from investing activities. The fifth section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

Summary Statement of Cash Flows information

	2008	2009	2010
Net Cash Provided (used) by:			
Operating Activities	(18,878,196)	(19,873,716)	(17,844,147)
Noncapital financing activities	22,336,341	22,778,231	22,082,481
Capital and related financing activities	(2,542,981)	(2,210,598)	(4,090,100)
Investing activities	727,047	164,014	43,169
Net Change in Cash	1,642,211	857,931	191,403
Cash Beginning of year	16,601,840	18,244,051	19,101,982
Cash end of year	18,244,051	19,101,982	19,293,385

**End of Year Cash 2006-2008**



Summary of Overall Performance

The College completed another solid performance for the fiscal year ended June 30, 2010. Its financial condition continues to be strong with Net Assets remaining relatively flat from the 2009 level; cash balances were slightly above the fiscal year 2009 balances; and combined operating and nonoperating revenue for 2010 increased over the 2009 numbers. Enrollment remained strong for the 2010 academic year. Auxiliary Enterprises also continued to performed very well during the fiscal year under review. Considering the decreases experienced in both state appropriations and local sources this fiscal year's performance demonstrates the agility and resiliency of Hutchinson Community College.

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Management's Discussion and Analysis  
Fiscal year ended June 30, 2010

**Capital Assets and Long-term Debt Activities:**

The expansion and renovation of the Richard E. Smith Science Center continued during the 2010 fiscal year. The facility will provide the college's students with a science experience that will be rivaled by few institutions. This project was scheduled for substantial completion in the spring of 2010. As the final phase of construction on the Richard E. Smith Science Center, the College created an emergency access lane that incorporated green building technologies. Instead of a concrete or asphalt driving lane, for use by emergency vehicles, the College utilized a new style paver system that is buried below grade level and has grass planted in the system. This approach will provide the students and patrons of the college a very attractive green space at the heart of the College's campus and at the same time allow necessary access to the buildings in the event of an emergency. Additionally, the College started the renovation of the Agriculture Diesel Program facility during the 2010 fiscal year and expected to wrap the project up in the early part of the 2011 fiscal year. The College also started a complete remodel and renovation of the Elland Hall residence hall restroom facilities. Funds from the American Reinvestment and Recovery Act (Stimulus) were utilized to perform this project. This was again a busy and exciting year for Hutchinson Community College's infrastructure improvement.

Even amid the turmoil and uncertainty facing the college due, in part, to the State of Kansas's economic situation, the future continues to be positive for Hutchinson Community College and Area Vocational School. The College's student centered, service oriented approach to community college education continues to pay the dividend of strong credit enrollment. The market driven business and industry noncredit offerings continue to grow and expand as the College serves the needs of that segment of the market. Hutchinson Community College and Area Vocational School is truly striving to be the premier, two-year educational institution in Kansas and continues to expand its tradition of excellence through learning and collaboration.

Carter L. File CPA, MBA  
Dean of Finance and Operations

## BASIC FINANCIAL STATEMENTS

**Hutchinson Community College and Area Vocational School**

**Statement of Net Assets  
June 30, 2010**

	<u>Hutchinson Community College</u>	<u>Component Unit HCC Endowment</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 18,348,519	\$ 598,996
Restricted cash and cash equivalents (bond proceeds)	944,866	-
Investments	-	1,803,135
Receivables - federal and state grants & contracts	3,532,463	-
Receivables - students (net of allowance of \$168,500)	425,329	-
Receivables - other	171,841	201,298
Inventories	1,061,074	-
Total current assets	<u>24,484,092</u>	<u>2,603,429</u>
<b>Noncurrent Assets</b>		
Investments	-	3,928,974
Receivables - students (net of allowance of \$1,216,500)	1,158,818	-
Receivables - other	-	210,300
Capital assets, net of accumulated depreciation	46,561,669	-
Bond costs, net of accumulated amortization	190,199	-
Total noncurrent assets	<u>47,910,686</u>	<u>4,139,274</u>
<b>TOTAL ASSETS</b>	<u>\$ 72,394,778</u>	<u>\$ 6,742,703</u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 2,759,949	\$ 39,610
Deposits held in custody for others	2,395,689	-
Deferred revenue	87,344	-
Accrued interest payable	240,515	-
Compensated absences payable	286,001	-
Early retirement benefits payable	100,675	-
Capital lease obligations	473,760	-
Loan payable - Kansas Board of Regents	1,019,724	-
Revenue bonds	110,000	-
Total current liabilities	<u>7,473,657</u>	<u>39,610</u>
<b>Noncurrent Liabilities</b>		
Compensated absences payable	81,175	-
Early retirement benefits payable	66,574	-
Other postemployment benefits payable	285,798	-
Capital lease obligations	8,599,207	-
Loan payable - Kansas Board of Regents	5,620,934	-
Revenue bonds	6,655,000	-
Total noncurrent liabilities	<u>21,308,688</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>	<u>28,782,345</u>	<u>39,610</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	23,520,490	-
Restricted for:		
Nonexpendable - endowments	-	3,838,448
Expendable:		
Capital outlay	393,181	-
Restricted funds	7,061,180	2,864,645
Revenue bond debt retirement	1,467,791	-
Unrestricted	11,169,791	-
Total net assets	<u>43,612,433</u>	<u>6,703,093</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 72,394,778</u>	<u>\$ 6,742,703</u>

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

**Hutchinson Community College and Area Vocational School**

**Statement of Revenues, Expenses, and Changes in Net Assets  
For the Year Ended June 30, 2010**

	<u>Hutchinson Community College</u>	<u>Component Unit HCC Endowment</u>
<b>OPERATING REVENUES</b>		
Student tuition and fees	\$ 7,899,714	\$ -
Less allowances for institutional scholarships	(61,331)	-
Less allowances for federal grants	<u>(2,694,565)</u>	<u>-</u>
Net student source revenue	5,143,818	-
Federal sources	7,531,277	-
State sources	248,202	-
County sources	18,000	-
Local sources	47,595	-
Auxiliary enterprises:		
Residential life (net of scholarship allowances of \$750; revenues are used as security for revenue bond series 2004)	1,226,385	-
Campus store (net of sales discounts of \$189,974; revenues are used as security for revenue bond series 2004)	2,605,393	-
Union (revenues are used as security for revenue bond series 2004)	1,089,129	-
Other auxiliary enterprises	916,469	-
Private gifts and grants	47,299	-
Other operating revenues	<u>286,470</u>	<u>325,311</u>
Total operating revenues	<u>19,160,037</u>	<u>325,311</u>
<b>OPERATING EXPENSES</b>		
Educational and General:		
Instruction	13,295,386	-
Public service	1,920,758	-
Academic support	2,026,001	-
Student services	4,266,414	-
Institutional support	3,680,688	1,365,133
KPERs contribution paid directly by the State of Kansas	1,402,316	-
Operations and maintenance of plant	3,174,598	-
Depreciation and amortization	3,036,731	-
Scholarships and grants	3,459,071	-
Auxiliary Enterprises:		
Residential life	784,521	-
Campus store	2,230,095	-
Union	908,843	-
Other auxiliary enterprises	<u>1,070,486</u>	<u>-</u>
Total operating expenses	<u>41,255,908</u>	<u>1,365,133</u>
Operating income (loss)	<u>(22,095,871)</u>	<u>(1,039,822)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	8,083,300	-
State contribution directly to the KPERs retirement system	1,402,316	-
Local sources	12,919,447	-
Private grants and gifts	1,079,734	1,838,667
Loss on disposal of capital assets	(64,162)	-
Investment income	46,692	623,749
Interest on capital asset-related debt	<u>(767,802)</u>	<u>-</u>
Net nonoperating revenues (expenses)	<u>22,699,525</u>	<u>2,462,416</u>
Income before other revenues	603,654	1,422,594
Capital grants and gifts	<u>912,694</u>	<u>-</u>
Net increase (decrease) in net assets	1,516,348	1,422,594
<b>NET ASSETS</b>		
Net assets - beginning of year	<u>42,096,085</u>	<u>5,280,499</u>
Net assets - end of year	<u>\$ 43,612,433</u>	<u>\$ 6,703,093</u>

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

**Hutchinson Community College and Area Vocational School**

**Statement of Cash Flows  
For the Year Ended June 30, 2010**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Student tuition and fees	\$	5,115,421
Grants and contracts		13,383,508
Sales and services of auxiliary enterprises		5,837,376
Private gifts and grants		47,299
Other receipts		355,454
Payments to employees for salaries and benefits		(21,490,676)
Payments to suppliers		(13,622,160)
Loans issued to students		(7,470,369)
		<u>(17,844,147)</u>
	Net cash provided (used) by operating activities	
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations		8,083,300
County and local appropriations		12,919,447
Private gifts and grants		1,079,734
		<u>22,082,481</u>
	Net cash flows provided (used) by noncapital financing activities	
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchases of capital assets		(4,291,172)
Proceeds from sales of capital assets		8,407
Proceeds from debt		1,606,721
Principal paid on debt and capital lease		(1,550,957)
Interest paid on debt and capital lease		(775,793)
Capital gifts and grants		912,694
		<u>(4,090,100)</u>
	Net cash provided (used) by capital and related financing activities	
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on investments		43,169
		<u>43,169</u>
	Net cash provided (used) by investing activities	
	Net increase (decrease) in cash and cash equivalents	191,403
Cash and cash equivalents - beginning of year		<u>19,101,982</u>
Cash and cash equivalents - end of year		<u>\$ 19,293,385</u>
<b>RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH USED IN OPERATING ACTIVITIES</b>		
Operating loss	\$	(22,095,871)
Depreciation and amortization expense		3,036,731
Changes in operating assets and liabilities:		
Receivables, net		(2,110,943)
Inventories		(89,403)
Accounts payable and accrued expenses		1,586,612
Deferred revenue		86,044
Accrued employee benefits		56,816
Deposits held in custody for others		283,551
Employee benefits paid directly by State of Kansas		1,402,316
		<u>(17,844,147)</u>
	Net cash used in operating activities	<u>\$ (17,844,147)</u>

# HUTCHINSON COMMUNITY COLLEGE AND AREA VOCATIONAL SCHOOL

## NOTES TO FINANCIAL STATEMENTS

June 30, 2010

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Hutchinson Community College and Area Vocational School (College) is a public, two-year post-secondary educational institution. It was established in 1928 to meet the diverse educational needs and interests of the citizens of Reno, Harvey, McPherson, Rice Counties, and adjacent areas, as well as residents from other localities who choose to attend.

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 Reno 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.

Hutchinson 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.

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.

**Hutchinson Community College and Area Vocational School  
Notes to Financial Statements (Continued)**

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

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

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.

Inventory of educational activities are valued at the estimated sales price less selling costs which is in accordance with established industry practices. Inventory relates to crops, livestock, and ag diesel mechanics.

**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 \$500 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.

**Hutchinson Community College and Area Vocational School  
Notes to Financial Statements (Continued)**

**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. The amortization expense of equipment under capital leases is included in depreciation expense.

Estimated useful lives used for calculating depreciation are as follows:

Land improvements – 10 to 15 years  
Buildings – 15 years  
Furniture – 10 years  
Equipment – 5 to 7 years

**Deferred Revenues**

Deferred revenue includes amounts received for tuition, fees, and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting periods. Deferred revenue may also include amounts received from grant and contract sponsors that have not yet been earned.

**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 based upon a pre-determined daily dollar amount multiplied by the number of accumulated sick days.

**Noncurrent Liabilities**

Noncurrent liabilities include (1) principal amounts of bonds payable, loans payable, and capital lease obligations with contractual maturities greater than one year; and (2) estimated amounts for the early retirement benefits, 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.

**Hutchinson Community College and Area Vocational School  
Notes to Financial Statements (Continued)**

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

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

**Net Assets (Continued)**

*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.

**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**

The County Appraiser is responsible for assessment of all taxable property within Reno 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.

**Hutchinson Community College and Area Vocational School  
Notes to Financial Statements (Continued)**

**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.

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, 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, 2010, 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.

***(c) Unclaimed Property Act (KSA 58-3935)***

Kansas municipalities are subject to the unclaimed property act as stated in Kansas Statute 58-3935. In accordance with the statute, payroll checks are subject to unclaimed property after one year. The College has several payroll checks outstanding that were issued over one year ago. The College is remitting these checks to the State.

**Hutchinson Community College and Area Vocational School  
Notes to Financial Statements (Continued)**

**3. DEPOSITS AND INVESTMENTS**

As of June 30, 2010, the College had cash and cash equivalents as listed below:

Deposits in financial banking institutions	\$ 5,660,864
Certificates of deposit	6,000,000
State investment pool	<u>6,687,655</u>
Total cash and cash equivalents	<u>18,348,519</u>
Deposits in financial banking institutions – bond proceeds	<u>944,866</u>
Total restricted cash and cash equivalents	<u>944,866</u>
Combined cash and cash equivalents	<u>\$ 19,293,385</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, United State obligations, and the Kansas Municipal Investment Pool (KMIP). The KMIP was rated AA Af/S1+ by Standard & Poor’s as of March, 2010. The KMIP is permitted to invest in fully collateralized certificates of deposit, certain obligations of the United States, certain repurchase/reverse repurchase agreements, and other types of investments.

*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. Monies in the Kansas Municipal Investment Pool are not required to have pledged securities. As of June 30, 2010, 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 and by the fact that the monies in the KMIP are diverse according to the policies of the investment pool.

*Component unit* – Investments of the Hutchinson Community College Endowment Association consists of mutual funds, treasury obligations, certificates of deposits, and other investments. These investments are managed by the Finance Committee of the Endowment Association. The type of investments are not regulated by Kansas Statutes. These investments are subject to all normal market risks.

**Hutchinson Community College and Area Vocational School  
Notes to Financial Statements (Continued)**

**4. CAPITAL ASSETS**

Following are the changes in capital assets for the year ended June 30, 2010:

	Beginning Balance	Increases	(Decrease) Adjustments	Ending Balance
Non-depreciable capital assets:				
Land	\$ 153,414	\$ -	\$ -	\$ 153,414
Books and films	1,094,904	-	-	1,094,904
Construction in progress	<u>6,916,494</u>	<u>2,294,860</u>	<u>-</u>	<u>9,211,354</u>
Total non-depreciable capital assets	<u>8,164,812</u>	<u>2,294,860</u>	<u>-</u>	<u>10,459,672</u>
Depreciable capital assets:				
Improvements	2,399,861	62,692	-	2,462,554
Buildings	33,464,138	-	-	33,464,138
Equipment	<u>21,162,026</u>	<u>1,018,995</u>	<u>(104,513)</u>	<u>22,076,508</u>
Total depreciable capital assets	<u>57,026,025</u>	<u>1,081,687</u>	<u>(104,513)</u>	<u>58,003,200</u>
Less accumulated depreciation:				
Improvements	(792,693)	(139,406)	-	(932,099)
Buildings	(13,019,040)	(1,216,037)	-	(14,235,077)
Equipment	<u>(5,091,484)</u>	<u>(1,674,488)</u>	<u>31,945</u>	<u>(6,734,027)</u>
Total accumulated depreciation	<u>(18,903,217)</u>	<u>(3,029,931)</u>	<u>31,945</u>	<u>(21,901,203)</u>
Total depreciable capital assets (net)	<u>38,122,808</u>	<u>(1,948,244)</u>	<u>(72,568)</u>	<u>36,101,997</u>
Total capital assets, net	<u>\$ 46,287,620</u>	<u>\$ 346,616</u>	<u>\$ (72,568)</u>	<u>\$ 46,561,669</u>

**5. LONG-TERM LIABILITIES**

The following is a summary of long-term liability transactions for the year ended June 30, 2010:

	Beginning Balance	Additions	Payments/ Reductions	Ending Balance	Current Portion
Revenue bonds	\$ 6,870,000	\$ -	\$ (105,000)	\$ 6,765,000	\$ 110,000
Board of Regents PEI loan	7,660,381	-	(1,019,723)	6,640,658	1,019,724
Capital lease obligations	9,147,566	351,635	(426,234)	9,072,967	473,760
Compensated absences	385,886	1,723	(20,433)	367,176	286,001
Early retirement benefits	223,622	50,480	(106,853)	167,249	100,675
Post employment healthcare	<u>153,899</u>	<u>131,899</u>	<u>-</u>	<u>285,798</u>	<u>-</u>
Total long-term liabilities	<u>\$ 24,441,354</u>	<u>\$ 535,737</u>	<u>\$ (1,678,243)</u>	<u>\$ 23,298,848</u>	<u>\$ 1,990,160</u>

The revenue bonds will be paid through the revenues generated from the Dormitory, Union, and Campus Store activities. The Board of Regents loan will be paid through the Capital Outlay Fund. The capital lease obligations are liquidated through the Central Administrative Funds and the General Fund. The compensated absences, early retirement benefits, and the postemployment healthcare benefits are generally liquidated by the General Fund and the Vocational Education Fund.

**Hutchinson Community College and Area Vocational School  
Notes to Financial Statements (Continued)**

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

***(a) Revenue Bonds***

The College issued the Student Union and Dormitory System Refunding and Improvement Revenue Bonds Series 2004. The original issue amount was \$7,265,000, due in annual principal installments ranging from \$110,000 to \$780,000 through year 2038. Interest rates vary from 3.625% to 5.25%. The bonds are secured by the net revenues of the Dormitories, Union, and Campus Store activities.

The annual debt service requirements for the revenue bonds are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
06/30/11	\$ 110,000	\$ 332,128	\$ 442,128
06/30/12	115,000	328,049	443,049
06/30/13	120,000	323,565	443,565
06/30/14	120,000	318,765	438,765
06/30/15	135,000	313,240	448,240
6/30/16 - 6/30/20	755,000	1,473,543	2,228,543
6/30/21 - 6/30/25	975,000	1,266,875	2,241,875
6/30/26 - 6/30/30	1,255,000	985,162	2,240,162
6/30/31 - 6/30/35	1,630,000	608,288	2,238,288
6/30/35 - 6/30/38	1,560,000	137,000	1,697,000
Total	<u>\$ 6,775,000</u>	<u>\$ 6,086,615</u>	<u>\$ 12,861,615</u>

***(b) Kansas Board of Regents PEI Loan***

The College entered into a loan with the Kansas Board of Regents to finance the costs of certain infrastructure improvement bonds. The original loan amount was \$8,157,790, due in annual principal installments of \$1,019,724 through year 2016 and a final payment of \$522,315 in year 2017. Interest rate is 0%. The College has elected to not impute interest based on guidance in the GASB Comprehensive Implementation Guide.

The remaining debt service requirement for the loan is as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
06/30/11	\$ 1,019,724	\$ -	\$ 1,019,724
06/30/12	1,019,724	-	1,019,724
06/30/13	1,019,724	-	1,019,724
06/30/14	1,019,724	-	1,019,724
06/30/15	1,019,724	-	1,019,724
6/30/16 - 6/30/18	1,542,038	-	1,542,038
Total	<u>\$ 6,640,658</u>	<u>\$ -</u>	<u>\$ 6,640,658</u>

***(c) Capital Lease Obligations***

The College has entered into various lease agreements for financing the acquisition of equipment. The lease agreements qualify as capital leases for accounting purposes and, therefore, have been reported at the present value of their future minimum lease payments as of the inception date. The equipment totaled \$351,635 and is included in the capital assets of the College. The amortization of this equipment has been included in the College's depreciation expense.

**Hutchinson Community College and Area Vocational School  
Notes to Financial Statements (Continued)**

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

***(c) Capital Lease Obligations (Continued)***

The College has a lease agreement with the Educational Facilities Authority of Reno County for Gowans Stadium. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been reported at the present value of the future minimum lease payments as of the inception date. The construction and equipment totaled \$2,689,646 and is included in the capital assets of the College.

The College also has a lease agreement with Honeywell, Inc. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been reported at the present value of the future minimum lease payments as of the inception date. The construction and future equipment totaled \$7,180,000 and is included as an asset in the construction in progress of the College.

The annual debt service requirements for the capital leases are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
06/30/11	\$ 473,760	\$ 422,330	\$ 896,090
06/30/12	506,522	399,667	906,189
06/30/13	535,575	375,443	911,018
06/30/14	560,892	350,095	910,987
06/30/15	533,224	325,050	858,274
6/30/16 - 6/30/20	2,268,508	1,272,162	3,540,670
6/30/21 - 6/30/25	2,194,316	794,443	2,988,759
6/30/25 - 6/30/29	2,000,170	217,038	2,217,208
Total	<u>\$ 9,072,967</u>	<u>\$ 4,156,228</u>	<u>\$ 13,229,195</u>

***(d) Early Retirement Benefit Plan***

At the discretion of the Board of Trustees, the College offers a voluntary early retirement plan to eligible employees. Employees must have completed at least 15 years of full-time and continuous service with the College and must be eligible to receive unreduced KPERS retirement benefits. Benefits apply for a maximum of 38 months, or until the employee is eligible for full social security benefits, whichever occurs first. This benefit program is unfunded and current costs are paid by the General Fund and the VoTech Fund. For the year ended June 30, 2010, the College paid \$84,344 in benefits. The liability for the early retirement benefit plan includes the expected cash outflows discounted at an average of 3.66%. At year-end, there were 18 retirees receiving benefits.

***(e) Revenue Bond Covenants***

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

- a. The 2004 Revenue Bond covenants request the number of users served by the Student Union and Dormitory System (System). The number of users totaled 9,571.
- b. The 2004 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	\$19,700,000	07/01/10	\$15,530
Personal property	715,000	07/01/10	564

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.

**Hutchinson Community College and Area Vocational School  
Notes to Financial Statements (Continued)**

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

**(e) Revenue Bond Covenants (Continued)**

c. The 2004 Revenue Bond covenants request specific financial information as follows:

	Student Union	Student Housing	Campus Store	Total
Gross revenue	\$ 1,089,129	\$ 1,227,135	\$ 2,795,368	\$ 5,111,632
Gross expenditures	(695,843)	(510,271)	(2,417,646)	(3,623,760)
Adjustment				
Capital purchases	19,657	-	1,597	21,254
Transfers in (out)	62,000	-	(12,000)	50,000
Net revenues	<u>\$ 474,943</u>	<u>\$ 716,864</u>	<u>\$ 367,319</u>	<u>\$ 1,559,126</u>

d. The 2004 Revenue Bond covenants request the amount in the Bond Reserve Account created by the Bond Resolution. The fund balance in this account is \$459,000.

e. The operation and maintenance accounts are represented by the fund balances of the individual operating funds.

Student Union	\$ 394,186
Student Housing	1,914,662
Campus Store	<u>1,685,815</u>
	<u>\$ 3,994,663</u>

**6. 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.

**Funding Policy** - KSA 74-4919 establishes the KPERs member-employee contribution rate at 4% of covered salary. Member-employees' contributions are withheld by their employer and paid to KPERs according to the provisions of Section 414(h) of the Internal Revenue Code. The State of Kansas is required to contribute the remaining amount necessary to achieve the actuarially determined contribution rate. Kansas currently contributes an average of 7.57% 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, 2010, 2009 and 2008 were \$1,402,316, \$1,488,377 and \$1,332,003, 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.

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

**Plan Description** - The College sponsors a medical, prescription drug, cancer, dental, and accident insurance plan (Plan) to qualifying retirees and their dependents. Coverage is provided through fully-insured contracts that collectively operate as a single-employer defined benefit plan. Qualifying retirees are those employees who are eligible for immediate retirement benefits under the Kansas Public Employees Retirement System and retire prior to age 65. 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.

**Hutchinson Community College and Area Vocational School  
Notes to Financial Statements (Continued)**

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

**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 the Normal Cost plus amortization of the Actuarial Accrued Liability (AAL). The Normal Cost is the amount of Actuarial Present Value of benefits allocated to the current year. The amount of AAL is the portion of the Actuarial Present Value of benefits allocated to all prior years. 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:

Normal cost	\$ 121,228
Interest on net OPEB obligation	-
Amortization of AAL	<u>72,671</u>
Annual OPEB cost (expense)	193,899
Contributions made	<u>62,000</u>
Increase in net OPEB obligation	131,899
Net OPEB obligation - beginning of year	153,899
Net OPEB obligation - end of year	<u><u>\$ 285,798</u></u>

Schedule of Employer contributions (for fiscal year ended)

<u>Fiscal</u> <u>Year</u> <u>Ended</u>	<u>Annual</u> <u>OPEB</u> <u>Cost</u>	<u>Net</u> <u>Employer</u> <u>Contributions</u>	<u>Net</u> <u>Percentage</u> <u>Contributed</u>	<u>End of Year</u> <u>Net OPEB</u> <u>Obligation</u>
June 30, 2010	\$ 193,899	\$ 62,000	32%	\$ 285,798

**Funded Status and Funding Progress** – As of July 1, 2008, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$1,668,412. 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 \$1,668,412. The covered payroll (annual payroll of active employees covered by the plan) was \$14,674,116, and the ratio of the UAAL to the covered payroll was 11.4%.

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.

**Hutchinson Community College and Area Vocational School  
Notes to Financial Statements (Continued)**

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

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)
7/1/08	\$ -	\$ 1,668,412	\$ 1,668,412	0%	\$ 14,674,116	11.4%

**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, 2008 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 College’s pooled funds and investments. The valuation assumed annual healthcare cost trend rate of 6.0 and 9.0 percent in the first four years and an ultimate rate of 6.0 percent after four 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.

**8. 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.

**9. JOINT VENTURE**

In 2003, the College entered into an agreement with the Hutchinson Unified School District No. 308 to form a separate legal entity named the Educational Facilities Authority of Reno County (Authority). The purpose of the Authority is to facilitate the renovation, improvement, and acquisition of educational and athletic facilities as determined by the Authority’s board of directors. The College has entered into a capital lease agreement with the Authority for the construction of improvements to an athletic facility. Details of that lease are included in Note 5. Additionally, the College agreed to make annual contributions to cover an allocated portion of the annual operating costs. For this fiscal year, the College paid operating costs of \$91,583 to the Authority.

Requests for additional financial information should be addressed to the Authority in care of the Hutchinson Community College, 1300 North Plum, Hutchinson, Kansas 67501.

**Hutchinson Community College and Area Vocational School  
Notes to Financial Statements (Continued)**

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

The Hutchinson Community College Endowment Association transferred \$412,000 to the College to support college activities and paid \$566,240 in student scholarships during the current fiscal year.

The College provides administrative support, office space, and other services to the Hutchinson 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**

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

The revenues pledged to this Series 2004 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	\$ 5,606,766
Capital assets, net	4,472,515
Total assets	<u>\$ 10,079,281</u>
Liabilities:	
Current liabilities	\$ 254,312
Long-term liabilities	6,655,000
Total liabilities	<u>6,909,312</u>
Net Assets:	
Invested in capital assets, net of related debt	(1,431,149)
Restricted	459,000
Unrestricted	4,142,118
Total net assets	<u>3,169,969</u>
Total liabilities and net assets	<u>\$ 10,079,281</u>

**Hutchinson Community College and Area Vocational School  
Notes to Financial Statements (Continued)**

**12. SEGMENT INFORMATION (Continued)**

**Revenue Bonds Series 2004 (Continued)**

**Student Union and Dormitory System Revenue Bonds – Series 2004 (Continued)**

Condensed Statement of Revenues, Expenses and Changes in Net Assets:

Operating Revenue	\$ 5,111,631
Depreciation and amortization expense	(534,575)
Other operating expense	<u>(3,632,933)</u>
Operating income	<u>944,123</u>
Nonoperating revenues (expenses):	
Interest income	28,670
Interest expense	(335,073)
Interfund transfers	<u>50,000</u>
change in net assets	687,720
Beginning net assets	<u>2,482,249</u>
Ending net assets	<u>\$ 3,169,969</u>

Condensed Statement of Cash Flows

Net cash provided (used) by:	
Operating activities	\$ 1,280,925
Noncapital financing activities	50,000
Capital financing activities	(441,025)
Investing activities	<u>24,640</u>
Net increase (decrease)	914,540
Beginning cash and cash equivalents	<u>3,652,874</u>
Ending cash and cash equivalents	<u>\$ 4,567,414</u>

REQUIRED SUPPLEMENTARY INFORMATION

**Hutchinson Community College and Area Vocational School**

**Other Post Employment Benefits  
Year ended June 30, 2010**

Schedule of Funding Progress:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percent of Covered Payroll ((b-a)/c)</u>
07/01/08	\$ -	\$ 1,668,412	\$ 1,668,412	0%	\$14,674,116	11.37%

Schedule of Employer Contributions:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
06/30/09	\$ 193,899	\$ 40,000	\$ 153,899
06/30/10	\$ 193,899	\$ 62,000	\$ 285,798

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

## SUPPLEMENTARY INFORMATION

**Hutchinson Community College and Area Vocational School**

**Schedule of Cash Receipts, Expenditures, and Changes in Unencumbered Cash  
Budget and Actual - Budgetary Basis  
General Fund  
Year ended June 30, 2010**

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts Budgetary Basis	With Final Budget Over (Under)
<b><u>Cash Receipts</u></b>				
Student sources	\$ 3,393,282	\$ 3,393,282	\$ 3,963,792	\$ 570,510
Federal sources	573,530	573,530	-	(573,530)
State sources	3,663,176	3,663,176	3,579,648	(83,528)
Local sources	11,511,238	11,511,238	11,326,931	(184,307)
Other sources	619,701	619,701	225,667	(394,034)
<b>Total Cash Receipts</b>	<b><u>\$19,760,927</u></b>	<b><u>\$19,760,927</u></b>	<b>19,096,038</b>	<b><u>\$ (664,889)</u></b>
<b><u>Expenditures and Transfers Subject to Budget</u></b>				
Instruction	\$ 6,069,582	\$ 6,069,582	5,467,875	\$ (601,707)
Public service	182,318	182,318	143,143	(39,175)
Academic support	1,559,231	1,559,231	1,456,496	(102,735)
Student services	4,443,378	4,443,378	3,836,490	(606,888)
Institutional support	3,399,346	3,399,346	2,914,606	(484,740)
Operation and maintenance	3,596,458	3,596,458	3,060,404	(536,054)
Scholarships	200,393	200,393	138,815	(61,578)
Transfer to Vocational Education Fund	1,550,000	1,550,000	1,550,000	-
Nonmandatory transfers out	1,851,000	1,851,000	1,865,000	14,000
<b>Total Expenditures and Transfers Subject to Budget</b>	<b><u>\$22,851,706</u></b>	<b><u>\$22,851,706</u></b>	<b>20,432,829</b>	<b><u>\$ (2,418,877)</u></b>
<b>Receipts Over (Under) Expenditures</b>			<b>(1,336,791)</b>	
<b>Unencumbered Cash, July 1</b>			<b><u>7,413,358</u></b>	
<b>Unencumbered Cash, June 30</b>			<b><u>\$ 6,076,567</u></b>	
<b>Unencumbered Cash, June 30</b>			<b>\$ 6,076,567</b>	
<b>Receivables</b>			<b>4,897</b>	
<b>GAAP fund balance (internal books)</b>			<b><u>\$ 6,081,464</u></b>	

**Hutchinson Community College and Area Vocational School**

**Schedule of Cash Receipts, Expenditures, and Changes in Unencumbered Cash  
Budget and Actual - Budgetary Basis  
Vocational Education Fund  
Year ended June 30, 2010**

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts Budgetary Basis	With Final Budget Over (Under)
<b><u>Cash Receipts</u></b>				
Student sources	\$ 2,687,617	\$ 2,687,617	\$ 3,246,755	\$ 559,138
Federal sources	374,815	374,815	418,821	44,006
State sources	4,957,823	4,957,823	4,511,944	(445,879)
Local sources	-	-	52	52
Other sources	1,627,743	1,627,743	46,847	(1,580,896)
Transfer from General Fund	1,550,000	1,550,000	1,550,000	-
<b>Total Cash Receipts</b>	<b><u>\$ 11,197,998</u></b>	<b><u>\$ 11,197,998</u></b>	<b><u>9,774,419</u></b>	<b><u>\$ (1,423,579)</u></b>
<b><u>Expenditures Subject to Budget</u></b>				
Instruction	\$ 8,053,258	\$ 8,053,258	7,037,959	\$ (1,015,299)
Public service	450,524	450,524	339,003	(111,521)
Academic support	877,530	877,530	619,500	(258,030)
Student services	94,599	94,599	44,548	(50,051)
Institutional support	1,204,145	1,204,145	779,386	(424,759)
Operation and maintenance	854,314	854,314	655,741	(198,573)
<b>Total Expenditures Subject to Budget</b>	<b><u>\$ 11,534,370</u></b>	<b><u>\$ 11,534,370</u></b>	<b><u>9,476,137</u></b>	<b><u>\$ (2,058,233)</u></b>
Receipts Over (Under) Expenditures			298,282	
Unencumbered Cash, July 1			<u>7,302</u>	
Unencumbered Cash, June 30			<u>\$ 305,584</u>	
Detail of unencumbered cash balance:				
Vocational Education Fund			\$ 305,584	
Perkins Grant Fund			-	
			<u>\$ 305,584</u>	
Unencumbered Cash, June 30			\$ 305,584	
Receivables			7,931	
Deferred revenue			<u>(1,300)</u>	
GAAP fund balance (internal books)			<u>\$ 312,215</u>	

**Hutchinson Community College and Area Vocational School**

**Schedule of Cash Receipts, Expenditures, and Changes in Unencumbered Cash  
Budget and Actual - Budgetary Basis  
Adult Education Fund  
Year ended June 30, 2010**

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts Budgetary Basis	With Final Budget Over (Under)
<u>Cash Receipts</u>				
Student sources	\$ -	\$ -	\$ 1,705	\$ 1,705
Federal sources	128,966	128,966	102,323	(26,643)
State sources	70,001	70,001	49,822	(20,179)
Local sources	-	-	13,770	-
Private gifts and grants	5,000	5,000	-	(5,000)
Other sources	143,009	143,009	20,331	(122,678)
<b>Total Cash Receipts</b>	<b>\$ 346,976</b>	<b>\$ 346,976</b>	<b>187,951</b>	<b>\$ (159,025)</b>
<u>Expenditures Subject to Budget</u>				
Instruction	\$ 221,401	\$ 221,401	148,867	\$ (72,534)
Academic support	63,699	63,699	48,176	(15,523)
<b>Total Expenditures Subject to Budget</b>	<b>\$ 285,100</b>	<b>\$ 285,100</b>	<b>197,043</b>	<b>\$ (88,057)</b>
Receipts Over (Under) Expenditures			(9,092)	
Unencumbered Cash, July 1			24,398	
Unencumbered Cash, June 30			\$ 15,306	
Unencumbered Cash, June 30			\$ 15,306	
Receivables			-	
GAAP fund balance (internal books)			\$ 15,306	

**Hutchinson Community College and Area Vocational School**

**Schedule of Cash Receipts, Expenditures, and Changes in Unencumbered Cash  
Budget and Actual - Budgetary Basis  
Adult Supplementary Fund  
Year ended June 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts Budgetary Basis</u>	<u>Variance With Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		<u>(Under)</u>
<u>Cash Receipts</u>				
Student sources	\$ 531,500	\$ 531,500	\$ 295,405	\$ (236,095)
State sources	26,250	26,250	-	(26,250)
Private gifts and grants	3,360	3,360	13,085	9,725
Other sources	<u>761,411</u>	<u>761,411</u>	<u>48,681</u>	<u>(712,730)</u>
 Total Cash Receipts	 <u>\$ 1,322,521</u>	 <u>\$ 1,322,521</u>	 <u>357,171</u>	 <u>\$ (965,350)</u>
 <u>Expenditures Subject to Budget</u>				
Instruction	<u>\$ 1,099,998</u>	<u>\$ 1,099,998</u>	<u>295,505</u>	<u>\$ (804,493)</u>
 Receipts Over (Under) Expenditures			 61,666	
 Unencumbered Cash, July 1			 <u>254,645</u>	
 Unencumbered Cash, June 30			 <u>\$ 316,311</u>	
 Unencumbered Cash, June 30			 \$ 316,311	
Receivables			<u>24,793</u>	
GAAP fund balance (internal books)			<u>\$ 341,104</u>	

**Hutchinson Community College and Area Vocational School**

**Schedule of Cash Receipts, Expenditures, and Changes in Unencumbered Cash  
Budget and Actual - Budgetary Basis  
Employee Benefit Fund  
Year ended June 30, 2010**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance With Final Budget Over (Under)
	Original	Final		
<u>Cash Receipts</u>				
Local sources	\$ -	\$ -	\$ -	\$ -
<u>Expenditures Subject to Budget</u>				
Institutional support	\$ 100,000	\$ 100,000	-	\$ (100,000)
Receipts Over (Under) Expenditures			-	
Unencumbered Cash, July 1			-	
Unencumbered Cash, June 30			\$ -	
Unencumbered Cash, June 30			\$ -	
Accrued sick leave pay			(92,575)	
Accrued vacation pay			(274,601)	
Accrued early retirement pay			(167,247)	
Accrued other postemployment benefits			(285,798)	
GAAP fund balance (internal books)			\$ (820,221)	

**Hutchinson Community College and Area Vocational School**

**Schedule of Cash Receipts, Expenditures, and Changes in Unencumbered Cash  
Budget and Actual - Budgetary Basis  
Motorcycle Driver Safety Fund  
Year ended June 30, 2010**

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts Budgetary Basis	With Final Budget Over (Under)
<b><u>Cash Receipts</u></b>				
Student sources	\$ 99,750	\$ 99,750	\$ 65,450	\$ (34,300)
State sources	52,500	52,500	11,468	(41,032)
Other sources	-	-	5,836	5,836
	<u>-</u>	<u>-</u>	<u>5,836</u>	<u>5,836</u>
 Total Cash Receipts	 <u>\$ 152,250</u>	 <u>\$ 152,250</u>	 <u>82,754</u>	 <u>\$ (69,496)</u>
 <b><u>Expenditures Subject to Budget</u></b>				
Instruction	\$ 137,116	\$ 137,116	64,761	\$ (72,355)
Academic support	4,935	4,935	-	(4,935)
	<u>4,935</u>	<u>4,935</u>	<u>-</u>	<u>(4,935)</u>
 Total Expenditures Subject to Budget	 <u>\$ 142,051</u>	 <u>\$ 142,051</u>	 <u>64,761</u>	 <u>\$ (77,290)</u>
 Receipts Over (Under) Expenditures			17,993	
 Unencumbered Cash, July 1			<u>216,001</u>	
 Unencumbered Cash, June 30			<u>\$ 233,994</u>	
 Unencumbered Cash, June 30			\$ 233,994	
Receivables			<u>-</u>	
GAAP fund balance (internal books)			<u>\$ 233,994</u>	

**Hutchinson Community College and Area Vocational School**

**Schedule of Cash Receipts, Expenditures, and Changes in Unencumbered Cash  
Budget and Actual - Budgetary Basis  
Capital Outlay Fund  
Year ended June 30, 2010**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance With Final Budget Over (Under)
	Original	Final		
<b><u>Cash Receipts</u></b>				
Local sources	\$ 1,607,490	\$ 1,607,490	\$ 1,578,694	\$ (28,796)
Private gifts	5,500,000	5,500,000	-	(5,500,000)
Other sources	6,493,110	6,493,110	1,667,331	(4,825,779)
<b>Total Cash Receipts</b>	<b>\$ 13,600,600</b>	<b>\$ 13,600,600</b>	<b>3,246,025</b>	<b>\$(10,354,575)</b>
<b><u>Expenditures and Transfers Subject to Budget</u></b>				
Institutional support	\$ -	\$ -	215	\$ 215
Operations and maintenance:				
Capital expense	16,557,429	16,557,429	1,939,271	(14,618,158)
Retirement of indebtedness	1,501,000	1,501,000	1,019,724	(481,276)
Interest and fees	347,006	347,006	19,151	(327,855)
Transfers (in)	(1,500,000)	(1,500,000)	(1,500,000)	-
<b>Total Expenditures and Transfers Subject to Budget</b>	<b>\$ 16,905,435</b>	<b>\$ 16,905,435</b>	<b>1,478,361</b>	<b>\$(15,427,074)</b>
Receipts Over (Under) Expenditures			1,767,664	
Unencumbered Cash, July 1			5,223,112	
Unencumbered Cash, June 30			<b>\$ 6,990,776</b>	
Unencumbered Cash, June 30			\$ 6,990,776	
Receivables			70,403	
GAAP fund balance (internal books)			<b>\$ 7,061,179</b>	

**Hutchinson Community College and Area Vocational School**

**Schedule of Cash Receipts, Expenditures, and Changes in Unencumbered Cash  
Budget and Actual - Budgetary Basis  
Revenue Bond Fund  
Year ended June 30, 2010**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance With Final Budget Over (Under)
	Original	Final		
<b><u>Cash Receipts</u></b>				
Private gifts	\$ 1,000,000	\$ 1,000,000	\$ -	\$ (1,000,000)
Other sources	2,649,986	2,649,986	26,654	(2,623,332)
<b>Total Cash Receipts</b>	<b>\$ 3,649,986</b>	<b>\$ 3,649,986</b>	<b>26,654</b>	<b>\$ (3,623,332)</b>
<b><u>Expenditures and Transfers Subject to Budget</u></b>				
Plant equipment/facility	\$ 100,000	\$ 100,000	9,174	\$ (90,826)
Retirement of indebtedness	150,000	150,000	105,000	(45,000)
Interest and fees	500,000	500,000	336,024	(163,976)
Transfers (in)	(550,000)	(550,000)	(550,000)	-
<b>Total Expenditures and Transfers Subject to Budget</b>	<b>\$ 200,000</b>	<b>\$ 200,000</b>	<b>(99,802)</b>	<b>\$ (299,802)</b>
Receipts Over (Under) Expenditures			126,456	
Unencumbered Cash, July 1			1,422,850	
Unencumbered Cash, June 30			<b>\$ 1,549,306</b>	
Unencumbered Cash, June 30			\$ 1,549,306	
Receivables			2,015	
GAAP fund balance (internal books)			<b>\$ 1,551,321</b>	

Hutchinson Community College and Area Vocational School

Schedule of Cash Receipts, Expenditures, and Changes in Unencumbered Cash  
Budget and Actual - Budgetary Basis  
Auxiliary Enterprise Funds - Combined  
Year ended June 30, 2010

	Budgeted Amounts		Actual			Total Budgetary Basis	Variance With Final Budget Over (Under)
	Original	Final	Student Service Enterprises	Academic Enterprises	Central Administration		
<b>Cash Receipts</b>							
Student sources	\$ 295,050	\$ 295,050	\$ 411,507	\$ -	\$ -	\$ 411,507	\$ 116,457
Federal sources	30,000	30,000	-	9,913	-	9,913	(20,087)
Private gifts and grants	450,000	450,000	90,605	-	-	90,605	(359,395)
Sales	7,012,257	7,012,257	4,758,146	282,450	502,818	5,543,414	(1,468,843)
Other	1,302,938	1,302,938	165,528	94,690	5,272	265,490	(1,037,448)
<b>Total Cash Receipts</b>	<b>\$ 9,090,245</b>	<b>\$ 9,090,245</b>	<b>5,425,786</b>	<b>387,053</b>	<b>508,090</b>	<b>6,320,929</b>	<b>\$ (2,769,316)</b>
<b>Expenditures and Transfers Subject to Budget</b>							
Salaries and benefits	\$ 558,360	\$ 558,360	137,610	204,740	40,542	382,892	\$ (175,468)
General operating	2,080,445	2,080,445	635,533	100,177	506,755	1,242,465	(837,980)
Supplies	561,828	561,828	58,611	17,013	120,832	196,456	(365,372)
Scholarships	666,099	666,099	548,360	15,831	-	564,191	(101,908)
Cost of sales	3,794,045	3,794,045	2,684,716	108,843	-	2,793,559	(1,000,486)
Capital expenses	3,336,572	3,336,572	111,379	3,785	88,000	203,164	(3,133,408)
Mandatory transfers out (in)	550,000	550,000	550,000	-	-	550,000	-
Nonmandatory transfers out (in)	(251,000)	(251,000)	(161,000)	(27,500)	(76,500)	(265,000)	(14,000)
<b>Total Expenditures and Transfers Subject to Budget</b>	<b>\$ 11,296,349</b>	<b>\$ 11,296,349</b>	<b>4,565,209</b>	<b>422,889</b>	<b>679,629</b>	<b>5,667,727</b>	<b>\$ (5,628,622)</b>
Receipts Over (Under) Expenditures			860,577	(35,836)	(171,539)	653,202	
Unencumbered Cash, July 1			2,097,171	(188,482)	1,065,928	2,974,617	
Unencumbered Cash, June 30			\$ 2,957,748	\$ (224,318)	\$ 894,389	\$ 3,627,819	*
Unencumbered Cash, June 30			\$ 2,957,748	\$ (224,318)	\$ 894,389	\$ 3,627,819	
Receivables			51,437	16,375	175,208	243,020	
Inventory			985,590	75,484	-	1,061,074	
GAAP fund balance (internal books)			\$ 3,994,775	\$ (132,459)	\$ 1,069,597	\$ 4,931,913	

\* Exempt from Cash-Basis Law (KSA 10-1116).

Hutchinson Community College and Area Vocational School

Schedule of Cash Receipts, Expenditures, and Changes in Unencumbered Cash  
Budget and Actual - Budgetary Basis  
Student Service Enterprise Funds  
Year ended June 30, 2010

	Budgeted Amounts		Actual				Total Budgetary Basis	Variance With Final Budget Over (Under)
	Original	Final	Athletics	Campus Store	Student Union	Student Housing		
<b>Cash Receipts</b>								
Student sources	\$ 295,050	\$ 295,050	\$ 254,865	\$ -	\$ 78,321	\$ 78,321	\$ 411,507	\$ 116,457
Private gifts and grants	450,000	450,000	90,605	-	-	-	90,605	(359,395)
Sales	5,603,749	5,603,749	99,097	2,536,071	990,535	1,132,443	4,758,146	(845,603)
Other	764,488	764,488	10,490	120,408	20,274	14,356	165,528	(598,960)
<b>Total Cash Receipts</b>	<b>\$ 7,113,287</b>	<b>\$ 7,113,287</b>	<b>455,057</b>	<b>2,656,479</b>	<b>1,089,130</b>	<b>1,225,120</b>	<b>5,425,786</b>	<b>\$ (1,687,501)</b>
<b>Expenditures and Transfers Subject to Budget</b>								
Salaries and benefits	\$ 187,917	\$ 187,917	-	137,610	-	-	137,610	\$ (50,307)
General operating	993,450	993,450	4,447	164,189	93,801	373,096	635,533	(357,917)
Supplies	341,067	341,067	392	7,701	179	50,339	58,611	(282,456)
Scholarships	661,899	661,899	547,610	-	-	750	548,360	(113,539)
Cost of sales	3,612,737	3,612,737	-	2,102,510	582,206	-	2,684,716	(928,021)
Capital expenses	2,484,600	2,484,600	-	5,636	19,657	86,086	111,379	(2,373,221)
Mandatory transfers out (in)	550,000	550,000	-	-	275,000	275,000	550,000	-
Nonmandatory transfers out (in)	(112,000)	(112,000)	(111,000)	12,000	(62,000)	-	(161,000)	(49,000)
<b>Total Expenditures and Transfers Subject to Budget</b>	<b>\$ 8,719,670</b>	<b>\$ 8,719,670</b>	<b>441,449</b>	<b>2,429,646</b>	<b>908,843</b>	<b>785,271</b>	<b>4,565,209</b>	<b>\$ (4,154,461)</b>
Receipts Over (Under) Expenditures			13,608	226,833	180,287	439,849	860,577	
Unencumbered Cash, July 1			(13,496)	423,970	213,899	1,472,798	2,097,171	
Unencumbered Cash, June 30			\$ 112	\$ 650,803	\$ 394,186	\$ 1,912,647	\$ 2,957,748	*
Unencumbered Cash, June 30			\$ 112	\$ 650,803	\$ 394,186	\$ 1,912,647	\$ 2,957,748	
Receivables			-	49,422	-	2,015	51,437	
Inventory			-	985,590	-	-	985,590	
GAAP fund balance (internal books)			\$ 112	\$ 1,685,815	\$ 394,186	\$ 1,914,662	\$ 3,994,775	

\* Exempt from Cash-Basis Law (KSA 10-1116).

Hutchinson Community College and Area Vocational School

Schedule of Cash Receipts, Expenditures, and Changes in Unencumbered Cash  
Budget and Actual - Budgetary Basis  
Academic Enterprise Funds  
Year ended June 30, 2010

	Budgeted Amounts		Actual									Total Budgetary Basis	Variance With Final Budget Over (Under)
	Original	Final	Child Care	Ag Mechanics	Crops	Bldg Construct	Livestock	RCIC	OSHA	Mine Safety	Wildland Fire Science		
<b>Cash Receipts</b>													
Federal sources	\$ 30,000	\$ 30,000	\$ 7,942	\$ -	\$ 1,971	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,913	\$ (20,087)
Sales	384,525	384,525	77,455	74,071	55,902	-	72,753	2,269	-	-	-	282,450	(102,075)
Other	523,825	523,825	205	330	833	-	-	337	11,227	81,758	-	94,690	(429,135)
<b>Total Cash Receipts</b>	<b>\$ 938,350</b>	<b>\$ 938,350</b>	<b>85,602</b>	<b>74,401</b>	<b>58,706</b>	<b>-</b>	<b>72,753</b>	<b>2,606</b>	<b>11,227</b>	<b>81,758</b>	<b>-</b>	<b>387,053</b>	<b>\$ (551,297)</b>
<b>Expenditures and Transfers Subject to Budget</b>													
Salaries and benefits	\$ 301,144	\$ 301,144	98,321	-	2,369	-	-	-	50,333	53,717	-	204,740	\$ (96,404)
General operating	242,406	242,406	17,235	-	8,355	-	52,887	79	2,242	18,975	404	100,177	(142,229)
Supplies	44,256	44,256	3,011	5,262	1,182	-	-	-	225	7,333	-	17,013	(27,243)
Scholarships	4,200	4,200	-	-	6,011	-	9,820	-	-	-	-	15,831	11,631
Cost of sales	181,308	181,308	-	53,460	46,423	-	6,050	2,910	-	-	-	108,843	(72,465)
Capital expenses	73,700	73,700	-	-	471	-	-	62	235	3,017	-	3,785	(69,915)
Nonmandatory transfers out (in)	(27,500)	(27,500)	(27,500)	-	-	-	-	-	-	-	-	(27,500)	-
<b>Total Expenditures and Transfers Subject to Budget</b>	<b>\$ 819,514</b>	<b>\$ 819,514</b>	<b>91,067</b>	<b>58,722</b>	<b>64,811</b>	<b>-</b>	<b>68,757</b>	<b>3,051</b>	<b>53,035</b>	<b>83,042</b>	<b>404</b>	<b>422,889</b>	<b>\$ (396,625)</b>
Receipts Over (Under) Expenditures			(5,465)	15,679	(6,105)	-	3,996	(445)	(41,808)	(1,284)	(404)	(35,836)	
Unencumbered Cash, July 1			(54,883)	(109,158)	4,742	914	(85,459)	(43,258)	(12,819)	17,726	93,713	(188,482)	
Unencumbered Cash, June 30			\$ (60,348)	\$ (93,479)	\$ (1,363)	\$ 914	\$ (81,463)	\$ (43,703)	\$ (54,627)	\$ 16,442	\$ 93,309	\$ (224,318)	*
Unencumbered Cash, June 30			\$ (60,348)	\$ (93,479)	\$ (1,363)	\$ 914	\$ (81,463)	\$ (43,703)	\$ (54,627)	\$ 16,442	\$ 93,309	\$ (224,318)	
Receivables			5,711	10,664	-	-	-	-	-	-	-	16,375	
Inventory			-	32,984	2,000	-	40,500	-	-	-	-	75,484	
GAAP fund balance (internal books)			\$ (54,637)	\$ (49,831)	\$ 637	\$ 914	\$ (40,963)	\$ (43,703)	\$ (54,627)	\$ 16,442	\$ 93,309	\$ (132,459)	

\* Exempt from Cash-Basis Law (KSA 10-1116).

**Hutchinson Community College and Area Vocational School**

**Schedule of Cash Receipts, Expenditures, and Changes in Unencumbered Cash  
Budget and Actual - Budgetary Basis  
Central Administrative Service Funds  
Year ended June 30, 2010**

	Budgeted Amounts		Actual					Total Budgetary Basis	Variance With Final Budget Over (Under)	
	Original	Final	Postage	Motor Pool	Telephone	Copier	Parking			Tuition Advance
<b>Cash Receipts</b>										
Sales	\$ 1,023,983	\$ 1,023,983	\$ 114,490	\$ 141,675	\$ 18,671	\$ 117,917	\$ 34,034	\$ 76,031	\$ 502,818	\$ (521,165)
Other	14,625	14,625	-	14	117	5,141	-	-	5,272	(9,353)
<b>Total Cash Receipts</b>	<b>\$ 1,038,608</b>	<b>\$ 1,038,608</b>	<b>114,490</b>	<b>141,689</b>	<b>18,788</b>	<b>123,058</b>	<b>34,034</b>	<b>76,031</b>	<b>508,090</b>	<b>\$ (530,518)</b>
<b>Expenditures and Transfers Subject to Budget</b>										
Salaries and benefits	\$ 69,299	\$ 69,299	-	40,542	-	-	-	-	40,542	\$ (28,757)
General operating	844,589	844,589	147,045	73,389	82,679	99,371	1,788	102,483	506,755	(337,834)
Supplies	176,505	176,505	-	81,657	-	39,175	-	-	120,832	(55,673)
Capital expenses	778,272	778,272	-	-	37,504	-	50,496	-	88,000	(690,272)
Nonmandatory transfers out (in)	(111,500)	(111,500)	(26,500)	(80,000)	(55,000)	50,000	(15,000)	50,000	(76,500)	35,000
<b>Total Expenditures and Transfers Subject to Budget</b>	<b>\$ 1,757,165</b>	<b>\$ 1,757,165</b>	<b>120,545</b>	<b>115,588</b>	<b>65,183</b>	<b>188,546</b>	<b>37,284</b>	<b>152,483</b>	<b>679,629</b>	<b>\$ (1,077,536)</b>
Receipts Over (Under) Expenditures			(6,055)	26,101	(46,395)	(65,488)	(3,250)	(76,452)	(171,539)	
Unencumbered Cash, July 1			80,424	94,318	322,713	390,241	353,238	(175,006)	1,065,928	
Unencumbered Cash, June 30			\$ 74,369	\$ 120,419	\$ 276,318	\$ 324,753	\$ 349,988	\$ (251,458)	\$ 894,389	*
Unencumbered Cash, June 30			\$ 74,369	\$ 120,419	\$ 276,318	\$ 324,753	\$ 349,988	\$ (251,458)	\$ 894,389	
Receivables			315	-	-	100	-	174,793	175,208	
GAAP fund balance (internal books)			\$ 74,684	\$ 120,419	\$ 276,318	\$ 324,853	\$ 349,988	\$ (76,665)	\$ 1,069,597	

\* Exempt from Cash-Basis Law (KSA 10-1116).

**SINGLE AUDIT SECTION**

**Hutchinson Community College and Area Vocational School**

**Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2010**

<u>Federal Grantor/Pass-Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Identifying Number</u>	<u>Program or Award Amount</u>	<u>Disbursements/ Expenditures</u>
<b><u>Department of Education</u></b>				
Direct Programs:				
TRIO Student Support Services 08-09	84.042A	P042A060103	\$ 403,582	\$ 42,729
TRIO Student Support Services 09-10	84.042A	P042A060103	426,954	359,263
Supplemental Education Opportunity Grant	84.007	P007A091519	82,207	118,989
Federal Work-Study Program	84.033	P033A091519	132,641	115,904
PELL Grant 09-10	84.063	P063P090142	5,809,666	5,809,666
Federal Direct Student Loan	84.268	P268K100142	7,470,369	7,470,369
Academic Competitiveness Grant	84.375	P375A090142	102,887	102,887
Fund for the Improvement of Postsecondary Education	84.116Z	P116Z090167	238,000	238,000
Passed Through Kansas Board of Regents:				
Adult Education State Grant	84.002		68,706	68,706
Adult Education - Project Next Step	84.191A		40,880	31,340
Adult Education - Kan-Go	84.191A		13,275	9,239
Adult Education - Incentive	84.191A		2,894	2,894
Adult Education - State Leadership	84.002		200	200
ARRA - State Fiscal Stabilization Fund	84.394	S394A090017	1,036,054	582,717
Vocational Education - Program Improvement	84.048		339,584	339,584
Vocational Educaiton - Program Improvement Reserved	84.048		79,818	79,818
Vocational Education - State Leadership	84.048		13,920	8,611
Total Department of Education				<u>15,380,916</u>
<b><u>Department of Labor</u></b>				
Mine Health and Safety 08-09	17.600	MS -18777-09-55-R-20	88,183	25,146
Mine Health and Safety 09-10	17.600	MS -19818-10-55-R-20	83,067	<u>65,223</u>
Total Department of Labor				<u>90,369</u>
<b><u>Department of Agriculture</u></b>				
Passed Through State Department of Education:				
Child and Adult Care Food Program	10.558		7,942	<u>7,942</u>
<b><u>Corporation for National and Community Service</u></b>				
Retired Senior Volunteer Program	94.002	07SRWKS009	84,553	<u>84,553</u>
<b><u>Department of the Treasury</u></b>				
Volunteer Income Tax Assistance	21.009	10VITA0102	20,000	<u>20,000</u>
Total Federal Financial Assistance				<u>\$ 15,583,780</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.



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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  
Hutchinson Community College and Area Vocational School  
Hutchinson, Kansas

We have audited the financial statements of Hutchinson Community College and Area Vocational School and its discretely presented component unit as of and for the year ended June 30, 2010, which collectively comprise the College's basic financial statements and have issued our report thereon dated December 1, 2010. 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 Hutchinson Community College Endowment Association were not audited in accordance with *Government Auditing Standards*.

**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 material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting, and are listed as reference numbers 10-1, 10-2, 10-3, and 10-4. 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**

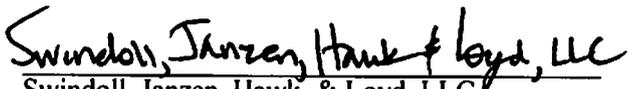
As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 no

instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of the College, in a separate letter dated December 1, 2010.

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

December 1, 2010



SWINDOLL  
JANZEN  
HAWK &  
LOYD, LLC

Certified Public Accountants

B. Carver Swindoll, CPA  
Keith S. Janzen, CPA  
Kyle J. Hawk, CPA  
D. Scot Loyd, CGFM, CPA

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Trustees  
Hutchinson Community College and Area Vocational School  
Hutchinson, Kansas

### Compliance

We have audited the compliance of Hutchinson Community College and Area Vocational School with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. 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, Hutchinson Community College and Area Vocational School complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as items 10-5 and 10-6.

### Internal Control Over Compliance

The management of Hutchinson Community College and Area Vocational 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 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, 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* in an entity's internal 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 in this section and would not necessarily identify all deficiencies in the internal control 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, and Loyd, LLC

December 1, 2010

# Hutchinson Community College and Area Vocational School

## Schedule of Findings and Questioned Costs For the Year Ended June 30, 2010

### SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Hutchinson Community College and Area Vocational School.
2. Four significant deficiencies relating to the audit of the financial statements is 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*. The significant deficiencies are not material weaknesses.
3. No instances of noncompliance material to the financial statements of Hutchinson Community College and Area Vocational School were disclosed during the audit.
4. There were no significant deficiencies in internal control over major federal award programs were reported in the Report on Compliance With Requirements Applicable to 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 expressed 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
Academic Competitiveness Grant	84.375
State Stabilization	84.394
Perkins	84.048

8. The threshold for distinguishing Types A and B program was \$300,000.
9. Hutchinson Community College and Area Vocational School was not a low-risk auditee.

### FINDINGS--FINANCIAL STATEMENTS AUDIT

#### 10-01 SIGNIFICANT DEFICIENCY – PAYROLL DEPARTMENT

**Condition:** The College's payroll department is responsible for all aspects of payroll processing, including the creation and maintenance of the employee master files.

**Criteria:** Duties associated with the employee master files should be separate from the duties associated with the regular payroll processing. This segregation of duties is a basic concept of good internal control.

**Effect:** The ability of the payroll department to have access to the employee master files increases the risk that an error or irregularity could occur and go undetected.

**Recommendation:** We recommend that College management review the processes of the payroll department to determine how access to the employee master file can be restricted and/or compensating controls can be put into place to strengthen internal controls in the payroll department.

**Response by management:** College management agrees to review the payroll processes to determine responsibilities and to restrict access to the employee master files.

## Hutchinson Community College and Area Vocational School

### Schedule of Findings and Questioned Costs For the Year Ended June 30, 2010

#### 10-2 SIGNIFICANT DEFICIENCY – BOOKSTORE INTERDEPARTMENT CHARGES

**Condition:** The College currently does not require purchase orders for interdepartmental charges to purchase items such as clothing.

**Criteria:** Purchase orders should be required to purchase items from the College Bookstore through interdepartmental charges so that those purchases go through the same approval process as any other purchase at the College.

**Effect:** Interdepartmental charges to the College Bookstore without purchase orders can be made without approval. Those charges could potentially be material to the financial statements. It also increases the risk that an error or irregularity could occur and go undetected.

**Recommendation:** We recommend that the College require all interdepartmental charges/purchases from the Bookstore to go through the purchase order process, thereby receiving the same approval to purchase as if buying from an outside vendor.

**Response by management:** College management agrees to implement the purchase order process to interdepartmental charges at the Bookstore.

#### 10-3 SIGNIFICANT DEFICIENCY – BOOKSTORE ACCOUNTS RECEIVABLE

**Condition:** The College's Bookstore accounts receivable does not reconcile between the detail sub-ledgers and the general ledger.

**Criteria:** The general ledger account is the control mechanism to ensure that activity in the detail accounts is complete and accurate.

**Effect:** The fact that there is an unreconciled difference increases the risk that an error or irregularity could occur and go undetected.

**Recommendation:** We recommend that the College develop a procedure for reconciling the detail listing of bookstore accounts receivable to the general ledger.

**Response by management:** Management agrees with this finding and will develop a procedure for reconciling the College Bookstore accounts receivable.

#### 10-4 SIGNIFICANT DEFICIENCY – CAPITAL ASSETS

**Condition:** The College's current capital asset procedures and software system does not allow for management to maintain an efficient, effective, or accurate capital asset records system.

**Criteria:** Capital asset policies and procedures should be in place to allow for management to efficiently, effectively, and accurately maintain their capital asset records.

**Effect:** Potentially, errors or irregularities could occur and go undetected in several ways. Assets could be in existence that are not on capital asset records. Assets could be on the records, but no longer exist. Also, assets could be located in inappropriate locations and used for inappropriate purposes.

## Hutchinson Community College and Area Vocational School

### Schedule of Findings and Questioned Costs For the Year Ended June 30, 2010

#### 10-4 SIGNIFICANT DEFICIENCY – CAPITAL ASSETS (continued)

**Recommendation:** We recommend that the College obtain a new software system that better enables the College to accurately maintain the capital asset records. We also recommend that a College-wide memo be sent to all employees that purchase and maintain capital assets as to the procedures and policies of the College in purchasing, maintaining, and disposing of capital assets.

**Response by management:** Management agrees with this finding. They are in the process of obtaining a new software system. Employees will be informed of the College's policies and procedures with regard to capital assets.

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

##### DEPARTMENT OF EDUCATION

#### 10-5 Vocational Education – Program Improvement – CFDA No. 84.048 Award Period – 7/1/09 to 6/30/10 Compliance Issue – Equipment and Real Property

**Condition:** Physical inventory of federal equipment purchased is not taken at least once every two years and equipment records do not contain all required information.

**Criteria:** Per OMB A-133 2010 Compliance Supplement, "equipment records shall be maintained and a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records."

**Questioned Costs:** Not applicable.

**Cause:** The College currently does not have a software system in place that allows for an easy process of taking a physical inventory and reconciling back to the records. Also, the current records database does not have some of the required components as it relates to the information of an asset as listed in the compliance supplement.

**Effect:** The A-102 Common Rule and OMB Circular A-110 require that equipment be used in the program for which it was acquired or, when appropriate, other Federal programs. If inventory is not taken or records not maintained, then it is possible that equipment purchased with federal dollars is not being used appropriately for the applicable program as required by the grant.

**Recommendation:** We recommend that the College obtain a new software system that assists in the process of taking a physical inventory and reconciling back to the records. Also, ensure that the software purchased has all the required components of information relating to an asset.

**Response by management:** Management agrees with this finding. They are already in the process of trying to find a new software program. They expect to purchase the new software during the 2010-2011 year and begin implementation. This process will most likely take a couple of years to implement fully. The College prepared a Corrective Action Plan which addresses this finding.

## Hutchinson Community College and Area Vocational School

### Schedule of Findings and Questioned Costs For the Year Ended June 30, 2010

10-6 Student Financial Assistance – CFDA No. 84.268  
Award Period – 7/1/09 to 6/30/10  
Compliance Issue – Special tests – Student status changes

**Condition:** A group of graduating students did not have their status changed at the National Student Clearinghouse.

**Criteria:** Per OMB A-133 2010 Compliance Supplement, SFA cluster, when a student graduates, their status should be reported to the Clearinghouse.

**Questioned costs:** Not applicable.

**Cause:** The spring “Graduates Only” report was not complete at the time of submission.

**Effects:** If a student’s status is not changed, the loan repayment status will not go into effect.

**Context:** The “Graduates Only” report was resubmitted and changes were updated to the National Student Clearinghouse. There is a six month window before the repayment status occurs. Therefore, the student’s status was changed before the repayment status started and thus, no loan repayment status started late.

**Recommendations:** We recommend that the College Records Office develop procedures to make sure that all student files are processed before the submission to the National Student Clearinghouse is completed.

**Response by management:** Management agrees with this finding. The College prepared a Corrective Action Plan which addresses this finding.

**Hutchinson Community College and Area Vocational School**

**Summary Schedule of Prior Year Audit Findings  
For the Year Ended June 30, 2010**

There were no reportable findings for the year ended June 30, 2010.