

**HUTCHINSON COMMUNITY COLLEGE
AND AREA VOCATIONAL SCHOOL**

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

June 30, 2011

Hutchinson Community College and Area Vocational School

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

June 30, 2011

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SWINDOLL
JANZEN
HAWK &
LOYD, LLC

Certified Public Accountants

Celebrating
Our **75th**
Anniversary
1936 - 2011

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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, 2011, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Kansas Municipal Audit Guide*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the 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, 2011, and the respective changes in the financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2011, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 3 through 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 individual fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Swindoll, Janzen, Hawk & Loyd, LLC

Swindoll, Janzen, Hawk, & Loyd, LLC

December 1, 2011

Management's Discussion and Analysis

Introduction:

Hutchinson Community College and Area Vocational School is proud to present its financial statements for the fiscal year 2011. 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, 2011 with selected comparative information for the years ended June 30, 2009 and June 30, 2010. 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.

Hutchinson Community College and Area Vocational School
Management's Discussion and Analysis
Fiscal year ended June 30, 2011

- 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.

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.

Highlights to the Financial Statements:

Statement of Net Assets

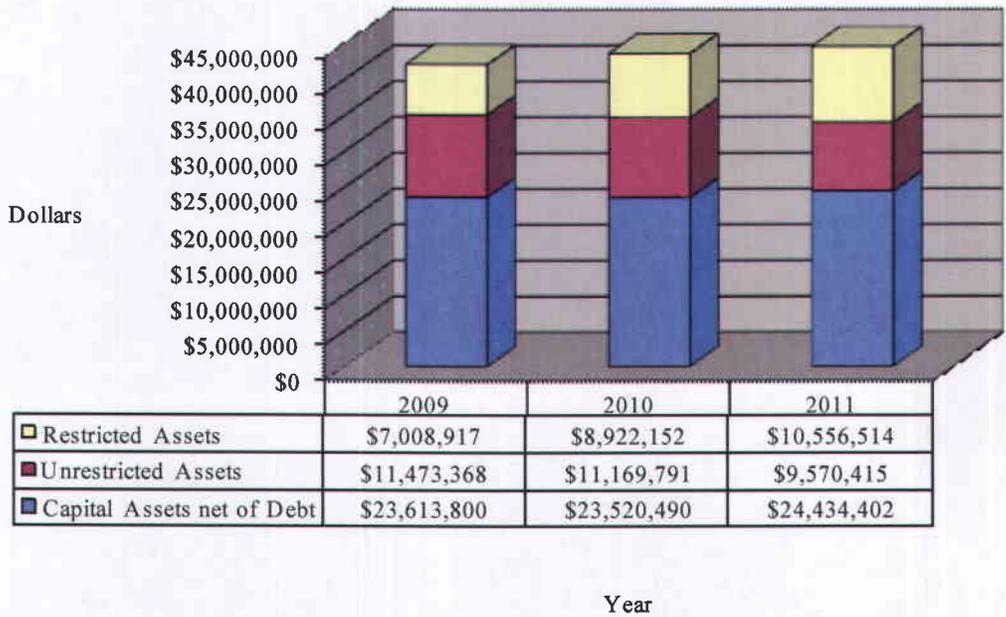
Comparison Net Assets – Fiscal Year 2009, 2010, and 2011

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 \$42,096,085 in 2009, to \$43,612,433 in 2010 to \$44,561,331 for increases of \$1,516,348 (3.6%) 2009 to 2010 and \$948,898 (2.2%) 2010 to 2011.

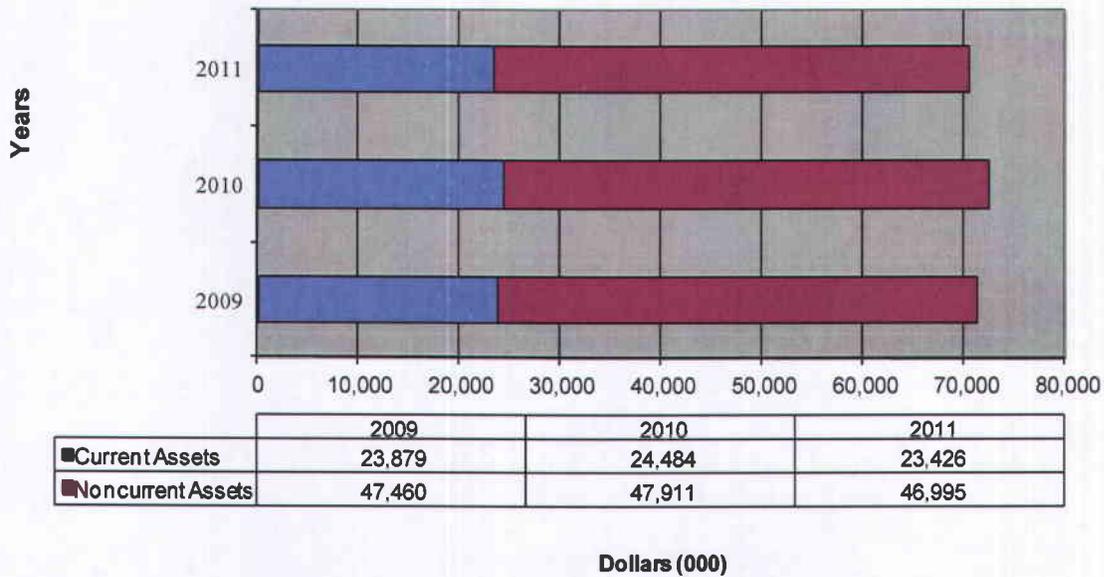
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 Management's Discussion and Analysis
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Breakdown of Net Assets

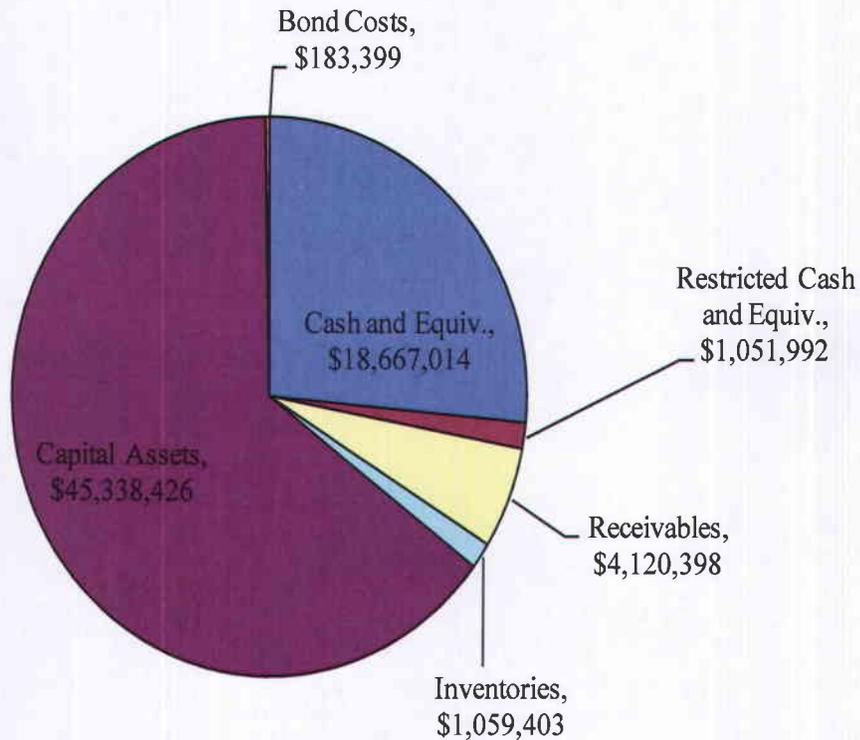


Total break down of assets between current and noncurrent classification for 2009 thru 2011 is as follows:

Total Assets



Total Assets by Category 2011



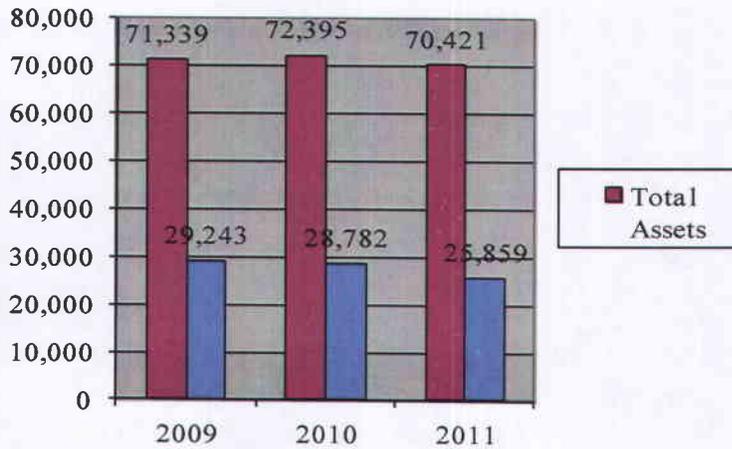
Of the \$70,420,632 in total assets, approximately 26.5% are in cash and cash equivalents and capital assets represent 64.4% of total assets.

Comparison of Liabilities

	2009	% Total 2009	2010	% Total 2010	2011	% Total 2011
Current Liabilities	6,710,278	22.95%	7,473,657	25.97%	6,079,481	23.51%
Noncurrent Liabilities	22,532,615	77.05%	21,308,688	74.03%	19,779,820	76.49%
Total Liabilities	29,242,893	100.00%	28,782,345	100.00%	25,859,301	100.00%

Noncurrent liabilities in 2011 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 \$29,242,893 in 2009 to \$28,782,345 in 2010 and again in 2011 to \$25,859,301. Assets increased in 2010 over 2009 to a total of \$72,394,778 and decreased in 2011 to \$70,420,632. The asset to liability ratio (total assets/total liabilities) was 2.44 in 2009, 2.52 in 2010, and 2.72 in 2011.

Results of Operations Fiscal Year 2011

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.

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 Management's Discussion and Analysis
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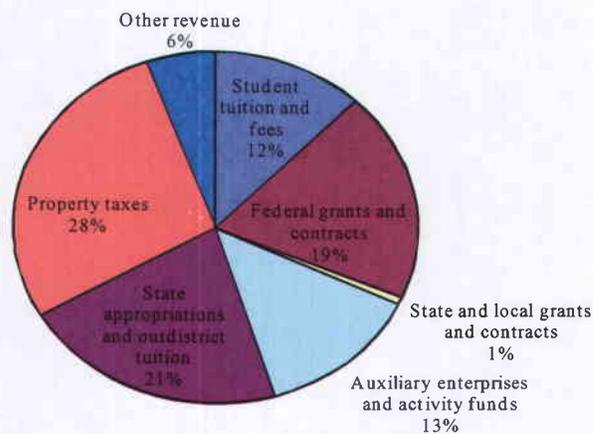
Revenue

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. These sources are relatively stable from year to year as a percentage of the total. In the fiscal year ended June 30, 2011 the College experienced an increase in state revenue and decrease in property tax revenue.

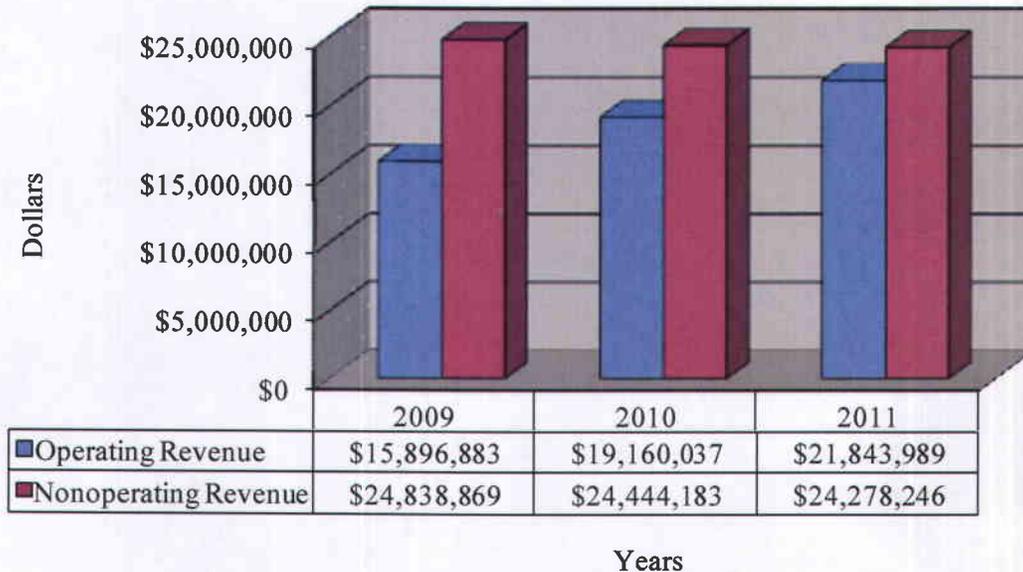
Source	2009	% Total 2009	2010	% Total 2010	2011	% Total 2011
Student tuition and fees	4,433,285	10.88%	5,143,818	11.80%	5,570,882	12.08%
Federal grants and contracts	4,668,665	11.46%	7,531,277	17.27%	8,910,362	19.32%
State and local grants and contracts	704,266	1.73%	313,797	0.72%	313,164	0.68%
Auxiliary enterprises and activity funds	5,690,666	13.97%	5,837,376	13.39%	6,098,781	13.22%
State appropriations and outdistrict tuition	9,865,576	24.22%	9,485,616	21.75%	9,820,124	21.29%
Property taxes	13,385,924	32.86%	12,919,447	29.63%	12,838,320	27.84%
Other revenue	1,987,370	4.88%	2,372,889	5.44%	2,570,602	5.57%
Total revenue	40,735,752	100.00%	43,604,220	100.00%	46,122,235	100.00%

Percentage of Revenue by Source 2011



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 Management's Discussion and Analysis
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Total Revenue Breakdown 2009 - 2011

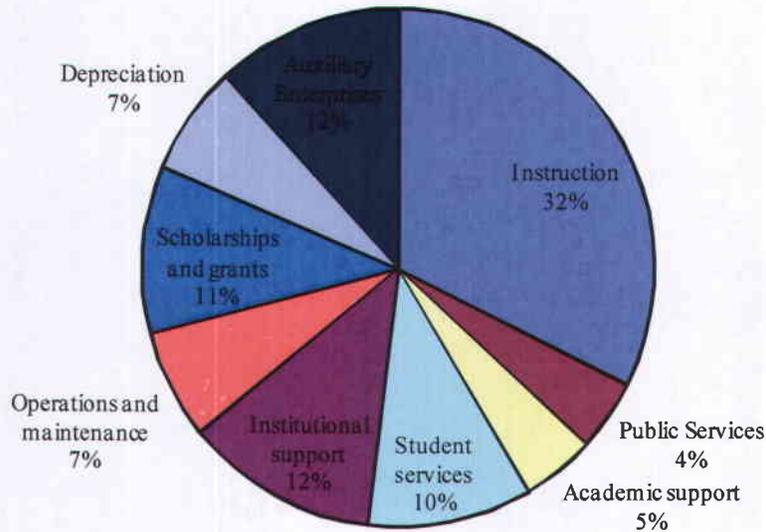


Expenses

Detail of the 2009 thru 2011 Education and General, and Auxiliary Enterprises and nonoperating expenditures:

	2009	% Total 2009	2010	% Total 2010	2011	% Total 2011
Operating Expenses						
Instruction	13,215,672	32.96%	13,295,386	31.59%	14,256,500	31.56%
Public Services	1,986,305	4.95%	1,920,758	4.56%	1,934,902	4.28%
Academic support	1,894,373	4.72%	2,026,001	4.81%	2,058,998	4.56%
Student services	4,560,037	11.37%	4,266,414	10.14%	4,550,417	10.07%
Institutional support	5,620,174	14.02%	5,083,004	12.08%	5,362,621	11.87%
Operations and maintenance	3,170,872	7.91%	3,174,598	7.54%	3,010,108	6.66%
Scholarships and grants	1,861,254	4.64%	3,459,071	8.22%	4,579,514	10.14%
Depreciation	1,930,565	4.81%	3,036,731	7.22%	3,040,017	6.73%
Auxiliary Enterprises	4,920,958	12.27%	4,993,945	11.87%	5,194,781	11.50%
Subtotal	39,160,210	97.67%	41,255,908	98.02%	43,987,858	97.38%
Nonoperating Expenses						
Interest on Capital asset-related debt	717,713	1.79%	767,802	1.82%	753,206	1.67%
Loss on Disposal of Capital Assets	217,303	0.54%	64,162	0.15%	432,273	0.96%
Subtotal	935,016	2.33%	831,964	1.98%	1,185,479	2.62%
Total Expenses	40,095,226	100.00%	42,087,872	100.00%	45,173,337	100.00%

2011 Percentage of Operating Expenses By Category



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.

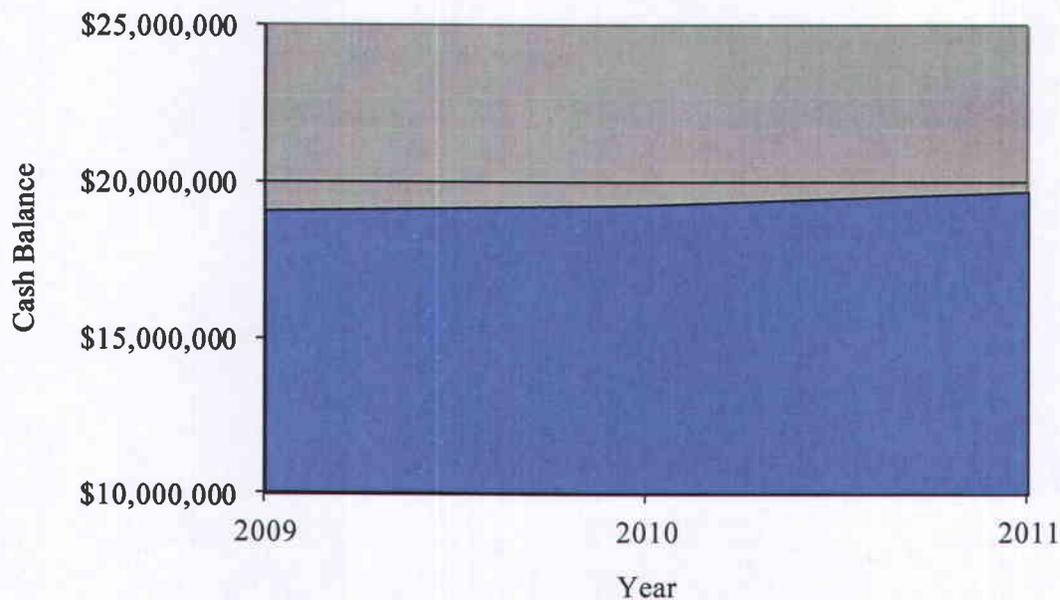
The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the institution. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, 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.

Hutchinson Community College and Area Vocational School
 Management's Discussion and Analysis
 Fiscal year ended June 30, 2011

Summary Statement of Cash Flows information

	2009	2010	2011
Net Cash Provided (used) by:			
Operating Activities	(19,873,716)	(17,844,147)	(17,224,155)
Noncapital financing activities	22,778,231	22,082,481	21,321,972
Capital and related financing activities	(2,210,598)	(4,090,100)	(3,703,739)
Investing activities	164,014	43,169	31,543
Net Change in Cash	857,931	191,403	425,621
Cash Beginning of year	18,244,051	19,101,982	19,293,385
Cash end of year	19,101,982	19,293,385	19,719,006

End of Year Cash 2009-2011



Summary of Overall Performance

The College completed another solid performance for the fiscal year ended June 30, 2011. Its financial condition continues to be strong with Net Assets remaining relatively flat from the 2010 level; cash balances were slightly above the fiscal year 2010 balances; and combined operating and nonoperating revenue for 2011 were up over the 2010 numbers. Enrollment remained strong for the 2010 academic year. Auxiliary Enterprises also continued to perform very well during the fiscal year under review. Considering the flattening experienced in state appropriations this

Hutchinson Community College and Area Vocational School
Management's Discussion and Analysis
Fiscal year ended June 30, 2011

fiscal year's performance demonstrates the agility and resiliency of Hutchinson Community College.

Capital Assets and Long-term Debt Activities:

The expansion and renovation of the Richard E. Smith Science Center was completed and dedicated in the early portion of fiscal 2011. The facility will provide the college students with a science experience that will be rivaled by few institutions in the state. The College purchased ten condominium units adjacent and contiguous to the current College property. These units will be renovated and remodeled to provide additional student housing. The College also started a major flooring project in Elland and Kent residence halls. 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 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
Vice President of Finance and Operations

BASIC FINANCIAL STATEMENTS

Hutchinson Community College and Area Vocational School

Statement of Net Assets June 30, 2011

	<u>Hutchinson Community College</u>	<u>Component Unit HCC Endowment</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 18,667,014	\$ 759,997
Restricted cash and cash equivalents (bond proceeds)	1,051,992	-
Investments	-	2,654,101
Receivables - federal and state grants and contracts	1,770,587	-
Receivables - students (net of allowance of \$183,500)	522,582	-
Receivables - other	354,400	58,901
Inventories	1,059,403	-
Total current assets	<u>23,425,978</u>	<u>3,472,999</u>
Noncurrent Assets		
Investments	-	4,732,138
Receivables - students (net of allowance of \$1,351,500)	1,472,829	-
Receivables - other	-	59,751
Capital assets, net of accumulated depreciation	45,338,426	-
Bond costs, net of accumulated amortization	183,399	-
Beneficial interest in trusts	-	1,549,744
Total noncurrent assets	<u>46,994,654</u>	<u>6,341,633</u>
TOTAL ASSETS	<u>\$ 70,420,632</u>	<u>\$ 9,814,632</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued expenses	\$ 885,740	\$ 9,741
Deposits held in custody for others	2,892,409	-
Deferred revenue	69,169	-
Accrued interest payable	232,748	-
Compensated absences payable	293,318	-
Early retirement benefits payable	69,068	-
Capital lease obligations	502,305	-
Loan payable - Kansas Board of Regents	1,019,724	-
Revenue bonds	115,000	-
Total current liabilities	<u>6,079,481</u>	<u>9,741</u>
Noncurrent Liabilities		
Compensated absences payable	89,548	-
Early retirement benefits payable	41,268	-
Other postemployment benefits payable	416,259	-
Capital lease obligations	8,091,535	-
Loan payable - Kansas Board of Regents	4,601,210	-
Revenue bonds	6,540,000	-
Total noncurrent liabilities	<u>19,779,820</u>	<u>-</u>
TOTAL LIABILITIES	<u>25,859,301</u>	<u>9,741</u>
NET ASSETS		
Invested in capital assets, net of related debt	24,434,402	-
Restricted for:		
Nonexpendable - endowments	-	6,344,982
Expendable:		
Capital outlay	8,715,838	-
Restricted funds	253,899	3,459,909
Revenue bond debt retirement	1,586,777	-
Unrestricted	9,570,415	-
Total net assets	<u>44,561,331</u>	<u>9,804,891</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 70,420,632</u>	<u>\$ 9,814,632</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, 2011

	<u>Hutchinson Community College</u>	<u>Component Unit HCC Endowment</u>
OPERATING REVENUES		
Student tuition and fees	\$ 8,963,376	\$ -
Less allowances for institutional scholarships	(61,806)	-
Less allowances for federal grants	(3,330,688)	-
Net student source revenue	5,570,882	-
Federal sources	8,910,362	-
State sources	244,727	-
County sources	17,100	-
Local sources	51,337	-
Auxiliary enterprises:		
Residential life (net of scholarship allowances of \$0; revenues are used as security for revenue bond series 2004)	1,297,378	-
Campus store (net of sales discounts of \$124,709; revenues are used as security for revenue bond series 2004)	2,584,320	-
Union (revenues are used as security for revenue bond series 2004)	1,203,837	-
Other auxiliary enterprises	1,013,246	-
Private gifts and grants	60,551	-
Other operating revenues	890,249	285,539
Total operating revenues	<u>21,843,989</u>	<u>285,539</u>
OPERATING EXPENSES		
Educational and General:		
Instruction	14,256,500	-
Public service	1,934,902	-
Academic support	2,058,998	-
Student services	4,550,417	-
Institutional support	3,808,059	1,815,437
KPERS contribution paid directly by the State of Kansas	1,554,562	-
Operations and maintenance of plant	3,010,108	-
Depreciation and amortization	3,040,017	-
Scholarships and grants	4,579,514	-
Auxiliary Enterprises:		
Residential life	926,672	-
Campus store	2,305,843	-
Union	928,752	-
Other auxiliary enterprises	1,033,514	-
Total operating expenses	<u>43,987,858</u>	<u>1,815,437</u>
Operating income (loss)	<u>(22,143,869)</u>	<u>(1,529,898)</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	8,265,562	-
State contribution directly to the KPERS retirement system	1,554,562	-
Local sources	12,838,320	-
Private grants and gifts	218,090	3,576,456
Loss on disposal of capital assets	(432,273)	-
Investment income	28,680	1,055,240
Interest on capital asset-related debt	(753,206)	-
Net nonoperating revenues (expenses)	<u>21,719,735</u>	<u>4,631,696</u>
Income before other revenues	(424,134)	3,101,798
Capital grants and gifts	1,373,032	-
Net increase (decrease) in net assets	948,898	3,101,798
NET ASSETS		
Net assets - beginning of year	<u>43,612,433</u>	<u>6,703,093</u>
Net assets - end of year	<u>\$ 44,561,331</u>	<u>\$ 9,804,891</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, 2011**

CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees		\$ 5,488,163
Grants and contracts		18,688,380
Sales and services of auxiliary enterprises		6,098,781
Private gifts and grants		60,551
Other receipts		704,827
Payments to employees for salaries and benefits		(22,054,246)
Payments to suppliers		(17,706,076)
Loans issued to students		<u>(8,504,535)</u>
Net cash provided (used) by operating activities		<u>(17,224,155)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations		8,265,562
County and local appropriations		12,838,320
Private gifts and grants		<u>218,090</u>
Net cash flows provided (used) by noncapital financing activities		<u>21,321,972</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets		(3,521,382)
Proceeds from sales of capital assets		12,879
Proceeds from debt		801,557
Principal paid on debt and capital lease		(1,608,852)
Interest paid on debt and capital lease		(760,973)
Capital gifts and grants		<u>1,373,032</u>
Net cash provided (used) by capital and related financing activities		<u>(3,703,739)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments		<u>31,543</u>
Net cash provided (used) by investing activities		<u>31,543</u>
Net increase (decrease) in cash and cash equivalents		425,621
Cash and cash equivalents - beginning of year		<u>19,293,385</u>
Cash and cash equivalents - end of year		<u>\$ 19,719,006</u>
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss		\$ (22,143,869)
Depreciation and amortization expense		3,040,016
Changes in operating assets and liabilities:		
Receivables, net		363,633
Inventories		1,671
Accounts payable and accrued expenses		(607,951)
Deferred revenue		(18,175)
Accrued employee benefits		89,238
Deposits held in custody for others		496,720
Employee benefits paid directly by State of Kansas		<u>1,554,562</u>
Net cash used in operating activities		<u>\$ (17,224,155)</u>

HUTCHINSON COMMUNITY COLLEGE AND AREA VOCATIONAL SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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.

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.

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.

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.

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, 2011, 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.

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

3. DEPOSITS AND INVESTMENTS

As of June 30, 2011, the College had cash and cash equivalents as listed below:

Deposits in financial banking institutions	\$ 3,475,428
Certificates of deposit	11,500,000
State investment pool	<u>3,691,586</u>
Total cash and cash equivalents	<u>18,667,014</u>
Deposits in financial banking institutions – bond proceeds	<u>1,051,992</u>
Total restricted cash and cash equivalents	<u>1,051,992</u>
Combined cash and cash equivalents	<u>\$ 19,719,006</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 AAA/S1+ by Standard & Poor's as of March, 2011. 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, 2011, 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. These types 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, 2011:

	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	9,211,354	-	(9,211,354)	-
Total non-depreciable capital assets	<u>10,459,672</u>	<u>-</u>	<u>(9,211,354)</u>	<u>1,248,318</u>
Depreciable capital assets:				
Improvements	2,462,554	-	-	2,462,554
Buildings	33,464,138	10,414,296	-	43,878,434
Equipment	22,076,508	1,052,183	(592,832)	22,535,859
Total depreciable capital assets	<u>58,003,200</u>	<u>11,466,479</u>	<u>(592,832)</u>	<u>68,876,847</u>
Less accumulated depreciation:				
Improvements	(932,099)	(131,750)	-	(1,063,849)
Buildings	(14,235,077)	(1,216,037)	-	(15,451,114)
Equipment	(6,734,027)	(1,685,430)	147,681	(8,271,776)
Total accumulated depreciation	<u>(21,901,203)</u>	<u>(3,033,217)</u>	<u>147,681</u>	<u>(24,786,739)</u>
Total depreciable capital assets (net)	<u>36,101,997</u>	<u>8,433,262</u>	<u>(445,151)</u>	<u>44,090,108</u>
Total capital assets, net	<u>\$ 46,561,669</u>	<u>\$ 8,433,262</u>	<u>\$ (9,656,505)</u>	<u>\$ 45,338,426</u>

5. LONG-TERM LIABILITIES

The following is a summary of long-term liability transactions for the year ended June 30, 2011:

	Beginning Balance	Additions	Payments/ Reductions	Ending Balance	Current Portion
Revenue bonds	\$ 6,765,000	\$ -	\$ (110,000)	\$ 6,655,000	\$ 115,000
Board of Regents PEI loan	6,640,658	-	(1,019,724)	5,620,934	1,019,724
Capital lease obligations	9,072,967	-	(479,127)	8,593,840	502,305
Compensated absences	367,176	15,690	-	382,866	293,318
Early retirement benefits	167,249	43,762	(100,675)	110,336	69,068
Post employment healthcare	285,798	130,461	-	416,259	-
Total long-term liabilities	<u>\$23,298,848</u>	<u>\$ 189,913</u>	<u>\$ (1,709,526)</u>	<u>\$21,779,235</u>	<u>\$ 1,999,415</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 \$115,000 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:

Year Ending	Principal	Interest	Total
6/30/2012	\$ 115,000	\$ 328,049	\$ 443,049
6/30/2013	120,000	323,565	443,565
6/30/2014	120,000	318,765	438,765
6/30/2015	125,000	313,240	438,240
6/30/2016	135,000	307,348	442,348
6/30/17 - 6/30/21	795,000	1,438,570	2,233,570
6/30/22 - 6/30/26	1,025,000	1,216,875	2,241,875
6/30/27 - 6/30/31	1,325,000	917,719	2,242,719
6/30/32 - 6/30/36	1,715,000	521,856	2,236,856
6/30/37 - 6/30/38	1,180,000	68,500	1,248,500
Total	<u>\$ 6,655,000</u>	<u>\$ 5,754,487</u>	<u>\$ 12,409,487</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:

Year Ending	Principal	Interest	Total
6/30/2012	\$ 1,019,724	\$ -	\$ 1,019,724
6/30/2013	1,019,724	-	1,019,724
6/30/2014	1,019,724	-	1,019,724
6/30/2015	1,019,724	-	1,019,724
6/30/2016	1,019,723	-	1,019,723
6/30/2017	522,315	-	522,315
Total	<u>\$ 5,620,934</u>	<u>\$ -</u>	<u>\$ 5,620,934</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.

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 capital assets 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>
06/30/12	\$ 502,305	\$ 403,883	\$ 906,188
06/30/13	534,425	376,594	911,019
06/30/14	560,892	350,095	910,987
06/30/15	533,224	325,050	858,274
06/30/16	562,600	301,405	864,005
6/30/17 - 6/30/21	2,090,399	1,168,386	3,258,785
6/30/22 - 6/30/26	2,338,457	690,995	3,029,452
6/30/27 - 6/30/29	1,471,538	122,856	1,594,394
Total	<u>\$ 8,593,840</u>	<u>\$ 3,739,264</u>	<u>\$ 12,333,104</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, 2011, the College paid \$60,103 in benefits. The liability for the early retirement benefit plan includes the expected cash outflows discounted at an average of 3.02%. At year-end, there were 11 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 9,643.
- 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	\$20,402,810	07/01/11	\$16,269
Personal property	715,000	07/01/11	570

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.

5. LONG-TERM LIABILITIES (Continued)

(e) Revenue Bond Covenants (Continued)

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

	<u>Student Union</u>	<u>Student Housing</u>	<u>Campus Store</u>	<u>Total</u>
Gross revenue	\$ 1,203,837	\$ 1,297,378	\$ 2,709,029	\$ 5,210,244
Gross expenditures	(722,981)	(1,302,574)	(2,420,759)	(4,446,314)
Adjustment				
Capital purchases	10,681	-	-	10,681
Transfers in (out)	62,000	-	(12,000)	50,000
Net revenues	<u>\$ 553,537</u>	<u>\$ (5,196)</u>	<u>\$ 276,270</u>	<u>\$ 824,611</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	\$ 662,042
Student Housing	1,634,466
Campus Store	<u>1,962,085</u>
	<u>\$ 4,258,593</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 for employees hired before July 1, 2009. After this date the rate changes to 6%. Member-employees' contributions are withheld by their employer and paid to KPERS according to the provisions of Section 414(h) of the Internal Revenue Code. The State of Kansas is required to contribute the remaining amount necessary to achieve the actuarially determined contribution rate. Kansas currently contributes an average of 8.17% 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, 2011, 2010, and 2009 were \$1,554,562, \$1,402,316, and \$1,488,377, 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. Four medical plans are available. 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. Retirees receive a benefit since they aren't charged the full age adjusted cost. Plan coverage is provided for under K.S.A. 12-0540. No separate financial report is issued for the Plan.

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

Annual OPEB Cost and Net OPEB Obligation – The College's annual OPEB cost (expense) consists of 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	\$ 134,501
Interest on net OPEB obligation	11,432
Amortization of AAL	<u>72,976</u>
Annual OPEB cost (expense)	218,909
Contributions made	76,000
Adjustment to ARC	<u>(12,448)</u>
Increase in net OPEB obligation	130,461
Net OPEB obligation - beginning of year	<u>285,798</u>
Net OPEB obligation - end of year	<u>\$ 416,259</u>

Schedule of Employer contributions (for fiscal year ended)

Fiscal Year Ended	Annual OPEB Cost	Net Employer Contributions	Net Percentage Contributed	End of Year Net OPEB Obligation
June 30, 2009	\$ 193,899	\$ 40,000	20.6%	\$ 153,899
June 30, 2010	\$ 193,899	\$ 62,000	32.0%	\$ 285,798
June 30, 2011	\$ 206,461	\$ 76,000	36.8%	\$ 416,259

Funded Status and Funding Progress – As of January 1, 2011 the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$1,642,934. 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 \$1,642,934. The covered payroll (annual payroll of active employees covered by the plan) was \$14,883,229, and the ratio of the UAAL to the covered payroll was 11.0%.

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

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The valuation includes, for example, assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress will present in time, multiyear trend information about whether the actuarial value of plan assets (if any) is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Schedule of Funding Progress:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll ((b-a)/c)
7/1/2008	-	\$ 1,668,412	\$ 1,668,412	0%	14,674,116	11.4%
1/1/2011	-	\$ 1,642,934	\$ 1,642,934	0%	14,883,299	11.0%

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 January 1, 2011 actuarial valuation, the projected unit credit method was applied. The actuarial assumptions included a 4.0 percent investment rate of return, which is a blended rate of the expected long-term investment returns on plan assets and on the College's pooled funds and investments. The valuation assumed annual healthcare cost trend rate of 5.0 and 8.5 percent in the first eight years and an ultimate rate of 5.0 percent after eight 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.

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

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 \$104,806 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.

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

The Hutchinson Community College Endowment Association transferred \$170,000 to the College to support college activities and paid \$574,429 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:

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

Condensed Statement of Net Assets

Assets:	
Current assets	\$ 6,072,514
Capital assets, net	4,902,765
Total assets	<u>\$ 10,975,279</u>
Liabilities:	
Current liabilities	\$ 342,143
Long-term liabilities	6,540,000
Total liabilities	<u>6,882,143</u>
Net Assets:	
Invested in capital assets, net of related debt	(782,777)
Restricted	459,000
Unrestricted	4,416,913
Total net assets	<u>4,093,136</u>
Total liabilities and net assets	<u>\$ 10,975,279</u>

Condensed Statement of Revenues, Expenses and Changes in Net Assets

Operating Revenue	\$ 5,210,245
Depreciation and amortization expense	(534,575)
Other operating expense	(3,486,480)
Operating income	<u>1,189,190</u>
Nonoperating revenues (expenses):	
Interest income	15,108
Interest expense	(331,131)
Interfund transfers	<u>50,000</u>
Change in net assets	923,167
Beginning net assets	<u>3,169,969</u>
Ending net assets	<u>\$ 4,093,136</u>

Condensed Statement of Cash Flows

Net cash provided (used) by:	
Operating activities	\$ 1,714,943
Noncapital financing activities	50,000
Capital financing activities	(1,406,951)
Investing activities	<u>17,972</u>
Net increase (decrease)	375,964
Beginning cash and cash equivalents	<u>4,567,414</u>
Ending cash and cash equivalents	<u>\$ 4,943,378</u>

REQUIRED SUPPLEMENTARY INFORMATION

Hutchinson Community College and Area Vocational School

**Other Post Employment Benefits
Year ended June 30, 2011**

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)
07/01/08	\$ -	\$ 1,668,412	\$ 1,668,412	0%	\$ 14,674,116	11.37%
01/01/11	\$ -	\$ 1,642,934	\$ 1,642,934	0%	\$ 14,883,299	11.04%

Schedule of Employer Contributions:

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Cost Contributed	Net OPEB Obligation
06/30/09	\$ 193,899	\$ 40,000	\$ 153,899
06/30/10	\$ 193,899	\$ 62,000	\$ 285,798
06/30/11	\$ 206,461	\$ 76,000	\$ 416,259

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, 2011**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance With Final Budget Over (Under)
	Original	Final		(Under)
<u>Cash Receipts</u>				
Student sources	\$ 3,502,207	\$ 3,502,207	\$ 4,460,247	\$ 958,040
Federal sources	462,524	462,524	-	(462,524)
State sources	3,596,296	3,596,296	3,662,884	66,588
Local sources	11,557,222	11,557,222	11,208,610	(348,612)
Other sources	619,701	619,701	193,567	(426,134)
Total Cash Receipts	<u>\$ 19,737,950</u>	<u>\$ 19,737,950</u>	19,525,308	<u>\$ (212,642)</u>
<u>Expenditures and Transfers Subject to Budget</u>				
Instruction	\$ 6,160,626	\$ 6,160,626	5,735,718	\$ (424,908)
Public service	185,053	185,053	137,985	(47,068)
Academic support	1,582,619	1,582,619	1,568,498	(14,121)
Student services	4,510,029	4,510,029	4,447,492	(62,537)
Institutional support	3,450,336	3,450,336	3,084,362	(365,974)
Operation and maintenance	3,650,405	3,650,405	3,149,200	(501,205)
Scholarships	203,399	203,399	144,751	(58,648)
Transfer to Vocational Education Fund	1,550,000	1,550,000	1,550,000	-
Nonmandatory transfers out	1,586,000	1,586,000	1,586,000	-
Total Expenditures and Transfers Subject to Budget	<u>\$ 22,878,467</u>	<u>\$ 22,878,467</u>	21,404,006	<u>\$ (1,474,461)</u>
Receipts Over (Under) Expenditures			(1,878,698)	
Unencumbered Cash, July 1			<u>6,076,567</u>	
Unencumbered Cash, June 30			<u>\$ 4,197,869</u>	
Unencumbered Cash, June 30			\$ 4,197,869	
Receivables			1,728	
GAAP fund balance (internal books)			<u>\$ 4,199,597</u>	

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, 2011**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance With Final Budget Over (Under)
	Original	Final		
<u>Cash Receipts</u>				
Student sources	\$ 2,916,001	\$ 2,916,001	\$ 3,581,231	\$ 665,230
Federal sources	374,815	374,815	334,976	(39,839)
State sources	4,678,604	4,678,604	4,602,678	(75,926)
Local sources	-	-	25	25
Other sources	1,677,743	1,677,743	91,447	(1,586,296)
Transfer from General Fund	1,550,000	1,550,000	1,550,000	-
 Total Cash Receipts	 \$ 11,197,163	 \$ 11,197,163	 10,160,357	 \$ (1,036,806)
 <u>Expenditures Subject to Budget</u>				
Instruction	\$ 8,174,057	\$ 8,174,057	7,546,885	\$ (627,172)
Public service	430,524	430,524	317,850	(112,674)
Academic support	890,693	890,693	540,607	(350,086)
Student services	96,018	96,018	36,775	(59,243)
Institutional support	1,222,207	1,222,207	882,343	(339,864)
Operation and maintenance	867,129	867,129	674,586	(192,543)
 Total Expenditures Subject to Budget	 \$ 11,680,628	 \$ 11,680,628	 9,999,046	 \$ (1,681,582)
 Receipts Over (Under) Expenditures			 161,311	
 Unencumbered Cash, July 1			 305,584	
 Unencumbered Cash, June 30			 \$ 466,895	
 Detail of unencumbered cash balance:				
Vocational Education Fund			\$ 466,895	
Perkins Grant Fund			-	
			\$ 466,895	
 Unencumbered Cash, June 30			 \$ 466,895	
Receivables			0	
Deferred revenue			(1,300)	
GAAP fund balance (internal books)			\$ 465,595	

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, 2011**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance With Final Budget Over (Under)
	Original	Final		
<u>Cash Receipts</u>				
Student sources	\$ -	\$ -	\$ 3,460	\$ 3,460
Federal sources	128,966	128,966	159,605	30,639
State sources	70,001	70,001	75,351	5,350
Local sources	-	-	13,700	-
Private gifts and grants	5,000	5,000	-	(5,000)
Other sources	143,009	143,009	18,175	(124,834)
Total Cash Receipts	<u>\$ 346,976</u>	<u>\$ 346,976</u>	270,291	<u>\$ (76,685)</u>
<u>Expenditures Subject to Budget</u>				
Instruction	\$ 224,723	\$ 224,723	214,730	\$ (9,993)
Academic support	64,654	64,654	51,898	(12,756)
Total Expenditures Subject to Budget	<u>\$ 289,377</u>	<u>\$ 289,377</u>	266,628	<u>\$ (22,749)</u>
Receipts Over (Under) Expenditures			3,663	
Unencumbered Cash, July 1			<u>15,306</u>	
Unencumbered Cash, June 30			<u>\$ 18,969</u>	
Unencumbered Cash, June 30			\$ 18,969	
Receivables			<u>-</u>	
GAAP fund balance (internal books)			<u>\$ 18,969</u>	

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, 2011**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance With Final Budget Over (Under)
	Original	Final		
<u>Cash Receipts</u>				
Student sources	\$ 531,500	\$ 531,500	\$ 266,118	\$ (265,382)
State sources	26,250	26,250	-	(26,250)
Private gifts and grants	3,360	3,360	8,906	5,546
Other sources	761,411	761,411	39,149	(722,262)
 Total Cash Receipts	\$ 1,322,521	\$ 1,322,521	314,173	\$ (1,008,348)
 <u>Expenditures Subject to Budget</u>				
Instruction	\$ 1,099,998	\$ 1,099,998	354,929	\$ (745,069)
 Receipts Over (Under) Expenditures			(40,756)	
 Unencumbered Cash, July 1			316,311	
 Unencumbered Cash, June 30			\$ 275,555	
 Unencumbered Cash, June 30			\$ 275,555	
Receivables			165,288	
GAAP fund balance (internal books)			\$ 440,843	

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, 2011**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance With Final Budget Over (Under)
	Original	Final		
<u>Cash Receipts</u>				
Student sources	\$ 99,750	\$ 99,750	\$ 58,210	\$ (41,540)
State sources	52,500	52,500	19,208	(33,292)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Cash Receipts	\$ 152,250	\$ 152,250	77,418	\$ (74,832)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>Expenditures Subject to Budget</u>				
Instruction	\$ 137,116	\$ 137,116	60,068	\$ (77,048)
Academic support	4,935	4,935	-	(4,935)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Expenditures Subject to Budget	\$ 142,051	\$ 142,051	60,068	\$ (81,983)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Receipts Over (Under) Expenditures			17,350	
Unencumbered Cash, July 1			<u>233,994</u>	
Unencumbered Cash, June 30			\$ <u>251,344</u>	
Unencumbered Cash, June 30			\$ 251,344	
Receivables			<u>-</u>	
GAAP fund balance (internal books)			\$ <u>251,344</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, 2011**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance With Final Budget Over (Under)
	Original	Final		
<u>Cash Receipts</u>				
Local sources	\$ 1,640,349	\$ 1,640,349	\$ 1,615,985	\$ (24,364)
Private gifts	4,500,000	4,500,000	-	(4,500,000)
Other sources	6,493,110	6,493,110	1,478,183	(5,014,927)
 Total Cash Receipts	 \$ 12,633,459	 \$ 12,633,459	 3,094,168	 \$ (9,539,291)
 <u>Expenditures and Transfers Subject to Budget</u>				
Operations and maintenance:				
Capital expense	\$ 16,242,429	\$ 16,242,429	\$ 1,567,780	\$(14,674,649)
Retirement of indebtedness	1,301,000	1,301,000	1,019,724	(281,276)
Interest and fees	597,006	597,006	16,602	(580,404)
Transfers (in)	(1,235,000)	(1,235,000)	(1,235,000)	-
 Total Expenditures and Transfers Subject to Budget	 \$ 16,905,435	 \$ 16,905,435	 1,369,106	 \$(15,536,329)
 Receipts Over (Under) Expenditures			 1,725,062	
 Unencumbered Cash, July 1			 6,990,776	
 Unencumbered Cash, June 30			 \$ 8,715,838	
 Unencumbered Cash, June 30			 \$ 8,715,838	
Receivables			-	
GAAP fund balance (internal books)			\$ 8,715,838	

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, 2011**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance With Final Budget Over (Under)
	Original	Final		
<u>Cash Receipts</u>				
Private gifts	\$ -	\$ -	\$ -	\$ -
Other sources	-	-	16,540	16,540
	-	-	16,540	16,540
Total Cash Receipts	\$ -	\$ -	16,540	\$ 16,540
<u>Expenditures and Transfers Subject to Budget</u>				
Plant equipment/facility	\$ -	\$ -	4,991	\$ 4,991
Retirement of indebtedness	150,000	150,000	110,000	(40,000)
Interest and fees	500,000	500,000	332,128	(167,872)
Payments to reserves	10,000	10,000	-	(10,000)
Transfers (in)	(550,000)	(550,000)	(550,000)	-
	(550,000)	(550,000)	(550,000)	-
Total Expenditures and Transfers Subject to Budget	\$ 110,000	\$ 110,000	(102,881)	\$ (212,881)
Receipts Over (Under) Expenditures			119,421	
Unencumbered Cash, July 1			1,549,306	
Unencumbered Cash, June 30			\$ 1,668,727	
Unencumbered Cash, June 30			\$ 1,668,727	
Receivables			583	
GAAP fund balance (internal books)			\$ 1,669,310	

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, 2011

	Budgeted Amounts		Actual				Variance
	Original	Final	Student Service Enterprises	Academic Enterprises	Central Administration	Total Budgetary Basis	With Final Budget Over (Under)
Cash Receipts							
Student sources	\$ 295,050	\$ 295,050	\$ 467,811	\$ -	\$ -	\$ 467,811	\$ 172,761
Federal sources	30,000	30,000	-	9,675	-	9,675	(20,325)
Private gifts and grants	450,000	450,000	182,496	-	-	182,496	(267,504)
Sales	7,012,257	7,012,257	5,071,944	226,133	597,715	5,895,792	(1,116,465)
Other	1,302,938	1,302,938	36,386	105,807	8,329	150,522	(1,152,416)
Total Cash Receipts	\$ 9,090,245	\$ 9,090,245	5,758,637	341,615	606,044	6,706,296	\$ (2,383,949)
Expenditures and Transfers Subject to Budget							
Salaries and benefits	\$ 558,360	\$ 558,360	157,945	207,407	32,493	397,845	\$ (160,515)
General operating	2,080,445	2,080,445	575,445	95,452	524,161	1,195,058	(885,387)
Supplies	561,828	561,828	70,789	19,756	137,225	227,770	(334,058)
Scholarships	666,099	666,099	575,924	4,000	-	579,924	(86,175)
Cost of sales	3,794,045	3,794,045	2,797,373	134,994	-	2,932,367	(861,678)
Capital expenses	3,336,572	3,336,572	844,762	37,602	116,628	998,992	(2,337,580)
Mandatory transfers out (in)	550,000	550,000	550,000	-	-	550,000	-
Nonmandatory transfers out (in)	(321,000)	(321,000)	(120,000)	(27,500)	(103,500)	(251,000)	70,000
Total Expenditures and Transfers Subject to Budget	\$ 11,226,349	\$ 11,226,349	5,452,238	471,711	707,007	6,630,956	\$ (4,595,393)
Receipts Over (Under) Expenditures			306,399	(130,096)	(100,963)	75,340	
Unencumbered Cash, July 1			2,957,748	(224,318)	894,389	3,627,819	
Unencumbered Cash, June 30			\$ 3,264,147	\$ (354,414)	\$ 793,426	\$ 3,703,159	*
Unencumbered Cash, June 30			\$ 3,264,147	\$ (354,414)	\$ 793,426	\$ 3,703,159	
Receivables			13,735	74,440	172,005	260,180	
Inventory			980,823	78,581	-	1,059,404	
GAAP fund balance (internal books)			\$ 4,258,705	\$ (201,393)	\$ 965,431	\$ 5,022,743	

* 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, 2011

	Budgeted Amounts		Actual				Total Budgetary Basis	Variance With Final Budget Over (Under)
	Original	Final	Athletics	Campus Store	Student Union	Student Housing		
Cash Receipts								
Student sources	\$ 295,050	\$ 295,050	\$ 302,807	\$ -	\$ 82,502	\$ 82,502	\$ 467,811	\$ 172,761
Private gifts and grants	450,000	450,000	182,496	-	-	-	182,496	(267,504)
Sales	5,603,749	5,603,749	16,182	2,748,627	1,105,374	1,201,761	5,071,944	(531,805)
Other	764,488	764,488	4,439	1,439	15,961	14,547	36,386	(728,102)
Total Cash Receipts	\$ 7,113,287	\$ 7,113,287	505,924	2,750,066	1,203,837	1,298,810	5,758,637	\$ (1,354,650)
Expenditures and Transfers Subject to Budget								
Salaries and benefits	\$ 187,917	\$ 187,917	-	157,892	-	53	157,945	\$ (29,972)
General operating	993,450	993,450	-	45,758	114,131	415,556	575,445	(418,005)
Supplies	341,067	341,067	-	8,384	3,715	58,690	70,789	(270,278)
Scholarships	661,899	661,899	575,924	-	-	-	575,924	(85,975)
Cost of sales	3,612,737	3,612,737	-	2,202,919	594,454	-	2,797,373	(815,364)
Capital expenses	2,484,600	2,484,600	-	5,806	10,681	828,275	844,762	(1,639,838)
Mandatory transfers out (in)	-	-	-	-	275,000	275,000	550,000	550,000
Nonmandatory transfers out (in)	-	-	(70,000)	12,000	(62,000)	-	(120,000)	(120,000)
Total Expenditures and Transfers Subject to Budget	\$ 8,281,670	\$ 8,281,670	505,924	2,432,759	935,981	1,577,574	5,452,238	\$ (2,829,432)
Receipts Over (Under) Expenditures			-	317,307	267,856	(278,764)	306,399	
Unencumbered Cash, July 1			112	650,803	394,186	1,912,647	2,957,748	
Unencumbered Cash, June 30			\$ 112	\$ 968,110	\$ 662,042	\$ 1,633,883	\$ 3,264,147	*
Unencumbered Cash, June 30			\$ 112	\$ 968,110	\$ 662,042	\$ 1,633,883	\$ 3,264,147	
Receivables			-	13,152	-	583	13,735	
Inventory			-	980,823	-	-	980,823	
GAAP fund balance (internal books)			\$ 112	\$ 1,962,085	\$ 662,042	\$ 1,634,466	\$ 4,258,705	

* 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, 2011

	Actual												Variance With Final Budget Over (Under)
	Budgeted Amounts		Child Care	Ag Mechanics	Crops	Bldg Construct	Livestock	RCIC	OSHA	Mine Safety	Wildland Fire Science	Total Budgetary Basis	
	Original	Final											
Cash Receipts													
Federal sources	\$ 30,000	\$ 30,000	\$ 7,704	\$ -	\$ 1,971	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,675	\$ (20,325)
Sales	384,525	384,525	64,108	48,762	58,934	-	53,115	1,214	-	-	-	226,133	(158,392)
Other	523,825	523,825	269	7,244	-	-	-	1,179	14,732	82,383	-	105,807	(418,018)
Total Cash Receipts	\$ 938,350	\$ 938,350	72,081	56,006	60,905	-	53,115	2,393	14,732	82,383	-	341,615	\$ (596,735)
Expenditures and Transfers Subject to Budget													
Salaries and benefits	\$ 301,144	\$ 301,144	99,288	-	9,065	-	-	-	23,538	75,516	-	207,407	\$ (93,737)
General operating	242,406	242,406	13,231	275	9,657	-	49,260	-	1,850	20,716	463	95,452	(146,954)
Supplies	44,256	44,256	2,262	5,661	535	-	162	-	1,030	9,813	293	19,756	(24,500)
Scholarships	4,200	4,200	-	-	4,000	-	-	-	-	-	-	4,000	(200)
Cost of sales	181,308	181,308	-	74,808	53,505	-	3,041	3,640	-	-	-	134,994	(46,314)
Capital expenses	73,700	73,700	749	-	-	-	-	(345)	1,487	6,390	29,321	37,602	(36,098)
Mandatory transfers out (in)	550,000	550,000	-	-	-	-	-	-	-	-	-	-	(550,000)
Nonmandatory transfers out (in)	(147,500)	(147,500)	(27,500)	-	-	-	-	-	-	-	-	(27,500)	120,000
Total Expenditures and Transfers Subject to Budget	\$ 1,249,514	\$ 1,249,514	88,030	80,744	76,762	-	52,463	3,295	27,905	112,435	30,077	471,711	\$ (777,803)
Receipts Over (Under) Expenditures			(15,949)	(24,738)	(15,857)	-	652	(902)	(13,173)	(30,052)	(30,077)	(130,096)	
Unencumbered Cash, July 1			(60,348)	(93,479)	(1,363)	914	(81,463)	(43,703)	(54,627)	16,442	93,309	(224,318)	
Unencumbered Cash, June 30			<u>\$ (76,297)</u>	<u>\$(118,217)</u>	<u>\$ (17,220)</u>	<u>\$ 914</u>	<u>\$ (80,811)</u>	<u>\$ (44,605)</u>	<u>\$ (67,800)</u>	<u>\$ (13,610)</u>	<u>\$ 63,232</u>	<u>\$(354,414)</u>	*
Unencumbered Cash, June 30			\$ (76,297)	\$(118,217)	\$ (17,220)	\$ 914	\$ (80,811)	\$ (44,605)	\$ (67,800)	\$ (13,610)	\$ 63,232	\$(354,414)	
Receivables			3,752	25,517	42,179	-	-	-	2,992	-	-	74,440	
Inventory			-	36,731	1,600	-	40,250	-	-	-	-	78,581	
GAAP fund balance (internal books)			<u>\$ (72,545)</u>	<u>\$ (55,969)</u>	<u>\$ 26,559</u>	<u>\$ 914</u>	<u>\$ (40,561)</u>	<u>\$ (44,605)</u>	<u>\$ (64,808)</u>	<u>\$ (13,610)</u>	<u>\$ 63,232</u>	<u>\$(201,393)</u>	

* 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, 2011

	Budgeted Amounts		Actual							Total Budgetary Basis	Variance With Final Budget Over (Under)
	Original	Final	Postage	Motor Pool	Telephone	Copier	Parking	Tuition Advance			
Cash Receipts											
Sales	\$ 1,023,983	\$ 1,023,983	\$ 117,761	\$ 128,576	\$ 97,436	\$ 153,528	\$ 30,885	\$ 69,529	\$ 597,715	\$ (426,268)	
Other	14,625	14,625	-	-	8,329	-	-	-	8,329	(6,296)	
Total Cash Receipts	\$ 1,038,608	\$ 1,038,608	117,761	128,576	105,765	153,528	30,885	69,529	606,044	\$ (432,564)	
Expenditures and Transfers Subject to Budget											
Salaries and benefits	\$ 69,299	\$ 69,299	-	32,493	-	-	-	-	32,493	\$ (36,806)	
General operating	844,589	844,589	139,885	27,197	116,410	106,165	1,258	133,246	524,161	(320,428)	
Supplies	176,505	176,505	-	101,753	-	35,472	-	-	137,225	(39,280)	
Capital expenses	778,272	778,272	-	17,645	84,683	4,027	10,273	-	116,628	(661,644)	
Nonmandatory transfers out (in)	(173,500)	(173,500)	(26,500)	(80,000)	(55,000)	23,000	-	35,000	(103,500)	70,000	
Total Expenditures and Transfers Subject to Budget	\$ 1,695,165	\$ 1,695,165	113,385	99,088	146,093	168,664	11,531	168,246	707,007	\$ (988,158)	
Receipts Over (Under) Expenditures			4,376	29,488	(40,328)	(15,136)	19,354	(98,717)	(100,963)		
Unencumbered Cash, July 1			74,369	120,419	276,318	324,753	349,988	(251,458)	894,389		
Unencumbered Cash, June 30			\$ 78,745	\$ 149,907	\$ 235,990	\$ 309,617	\$ 369,342	\$ (350,175)	\$ 793,426	*	
Unencumbered Cash, June 30			\$ 78,745	\$ 149,907	\$ 235,990	\$ 309,617	\$ 369,342	\$ (350,175)	\$ 793,426		
Receivables			266	-	-	18	-	171,721	172,005		
GAAP fund balance (internal books)			\$ 79,011	\$ 149,907	\$ 235,990	\$ 309,635	\$ 369,342	\$ (178,454)	\$ 965,431		

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

Hutchinson Community College and Area Vocational School

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011**

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Identifying Number	Program or Award Amount	Disbursements/ Expenditures
<u>Department of Education</u>				
Direct Programs:				
TRIO Student Support Services 08-09	84.042A	P042A060103-08	\$ 403,582	\$ 24,557
TRIO Student Support Services 09-10	84.042A	P042A060103-09	426,954	67,691
Supplemental Education Opportunity Grant	84.007	P007A101519	76,070	81,375
Federal Work Study Program	84.033	P033A101519	69,000	55,563
PELL Grant 10-11	84.063	P063P100142	7,546,073	7,546,073
Federal Direct Student Loan	84.268	P268K100142	8,504,535	8,504,535
Academic Competitiveness Grant	84.375	P375A100142	175,383	175,383
Fund for the Improvement of Postsecondary Education	84.116Z	P116Z100243	250,000	218,945
Passed Through Kansas Board of Regents:				
Adult Education State Grant	84.002		134,535	134,535
Adult Education - Professional Development	84.191A		5,070	5,070
Adult Education - Kan-Go	84.191A		13,275	4,036
Adult Education - Kan-Go II	84.191A		20,000	3,625
ARRA - State Fiscal Stabilization Fund	84.394	S394A090017	1,036,054	382,108
Vocational Education - Basic	84.048		317,850	317,850
Vocational Education - State Leadership	84.048		17,126	17,126
Total Department of Education				<u>17,538,472</u>
<u>Department of Labor</u>				
Mine Health and Safety 09-10	17.600	MS -19818-10-55-R-19	83,067	17,844
Mine Health and Safety 10-11	17.600	MS -21276-11-55-R-20	83,067	66,997
State Energy Sector Partnership & Training Project	17.275	GJ-20033-10-60-A-20	323,000	54,668
Total Department of Labor				<u>139,509</u>
<u>Department of Agriculture</u>				
Passed Through State Department of Education:				
Child and Adult Care Food Program	10.558		7,705	<u>7,705</u>
<u>Corporation for National and Community Service</u>				
Retired Senior Volunteer Program	94.002	10SRWKS010	87,090	<u>87,090</u>
<u>Department of the Treasury</u>				
Volunteer Income Tax Assistance	21.009	11VITA1164	19,597	<u>19,597</u>
Total Federal Financial Assistance				<u>\$ 17,792,373</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.



SWINDOLL
JANZEN
HAWK &
LOYD, LLC

Certified Public Accountants

Celebrating **75th**
Our Anniversary
1936 - 2011

B. Carver Swindoll, CPA
Keith S. Janzen, CPA
Kyle J. Hawk, CPA, CMAP
D. Scot Loyd, CPA, CGFM
Chet L. Buchman, CPA, CVA

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, 2011, which collectively comprise the College's basic financial statements and have issued our report thereon dated December 1, 2011. 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 11-1 and 11-2. 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, 2011.

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

Swindoll, Janzen, Hawk, & Loyd, LLC

December 1, 2011



Certified Public Accountants

Celebrating
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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 (College) with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of College's major federal programs for the year ended June 30, 2011. 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, 2011.

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 the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph 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 & Loyd, LLC

Swindoll, Janzen, Hawk, and Loyd, LLC

December 1, 2011

Hutchinson Community College and Area Vocational School

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2011

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. Two 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

8. The threshold for distinguishing Types A and B program was \$300,000.
9. Hutchinson Community College and Area Vocational School was a low-risk auditee.

FINDINGS--FINANCIAL STATEMENTS AUDIT

11-01 SIGNIFICANT DEFICIENCY – PAYROLL DEPARTMENT

Condition: The College's two person 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, 2011**

FINDINGS--FINANCIAL STATEMENTS AUDIT (CONT.)

11-2 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.

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

There were no reportable findings for the year ended June 30, 2011.

Hutchinson Community College and Area Vocational School

**Summary Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2011**

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.

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.

Current Status: This finding is a work in progress. They are implementing a new capital asset software that identifies federal equipment. It is not fully in place at 6/30/11. Once this is in place, a physical inventory will occur.

- 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.

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.

Current Status: This finding has been corrected in the current year.