

Hutchinson Community College

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

June 30, 2017

Hutchinson Community College

June 30, 2017

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Hutchinson Community College
Hutchinson, Kansas

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the Hutchinson Community College (the College), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 and Accounting Guide*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the College, as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, other post-employment benefits and pension information on pages 3-11 and 34-37 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 of 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 any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements. Individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2017, 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Swindoll, Janzen, Hawk & Loyd, LLP

Swindoll, Janzen, Hawk, & Loyd, LLC
Hutchinson, Kansas

December 6, 2017

Management's Discussion and Analysis

Introduction:

Hutchinson Community College is proud to present its financial statements for the fiscal year 2017. The following discussion and analysis of the financial performance and activity of Hutchinson Community College (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, 2017, with selected comparative information for the years ended June 30, 2015 and June 30, 2016. 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 amended GASB 34 and made it applicable 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." 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 method is intended to summarize and simplify the user's analysis of the costs of various College services. 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 units are available upon request from the Hutchinson Community College Endowment Association and the Quest Center.

Basic financial statements are comprised of two parts:

1. Basic Financial Statements – These include Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; and Statement of Cash Flows. These statements present the results of a single measurement focus and basis of accounting.
 - a. The Statement of Net Position 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 Position focuses on both the gross costs and the net costs of College activities which are supported mainly by property taxes, state revenues and tuition.
 - c. The Statement of Cash Flows provides information about the cash receipts and cash disbursements of the College during the fiscal 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), Other Post Employment Benefits, and Pension Schedules - This is information required by standards to be presented but is not part of the basic financial statements.

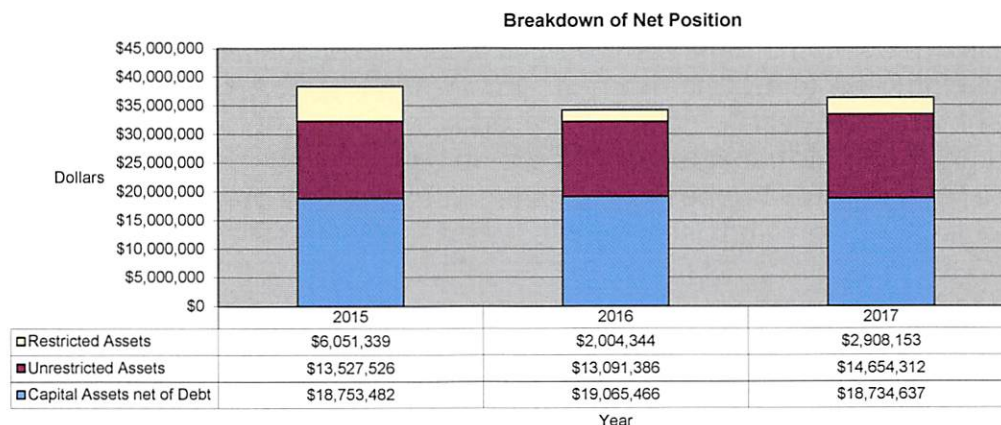
Highlights to the Financial Statements:

Statement of Net Position

Comparison Net Position – Fiscal Year 2015, 2016, and 2017

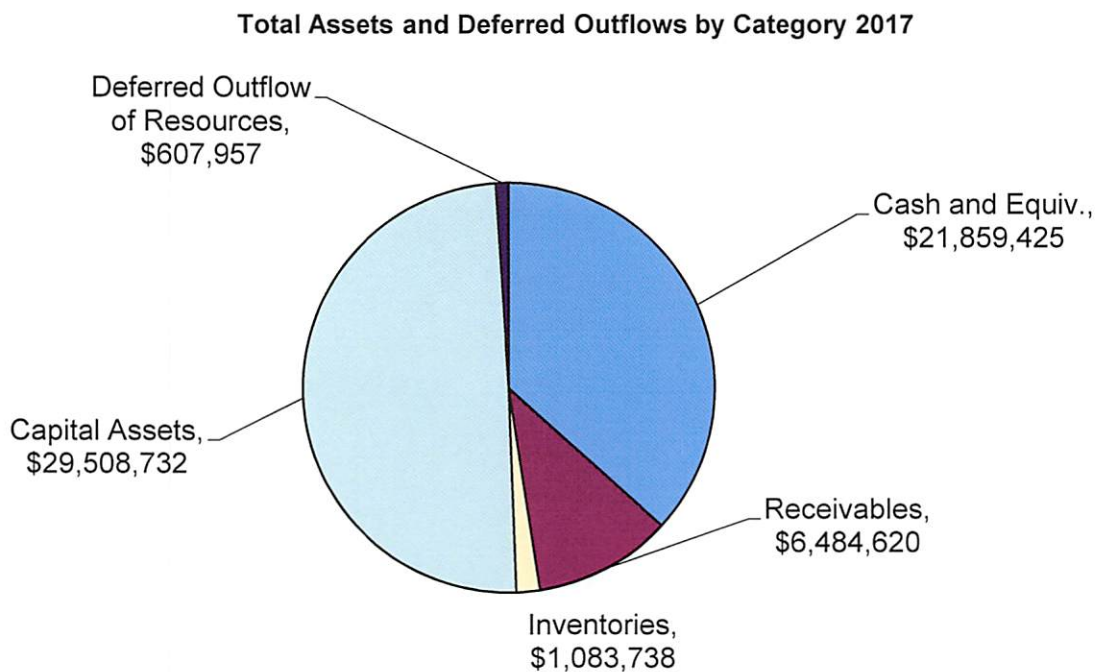
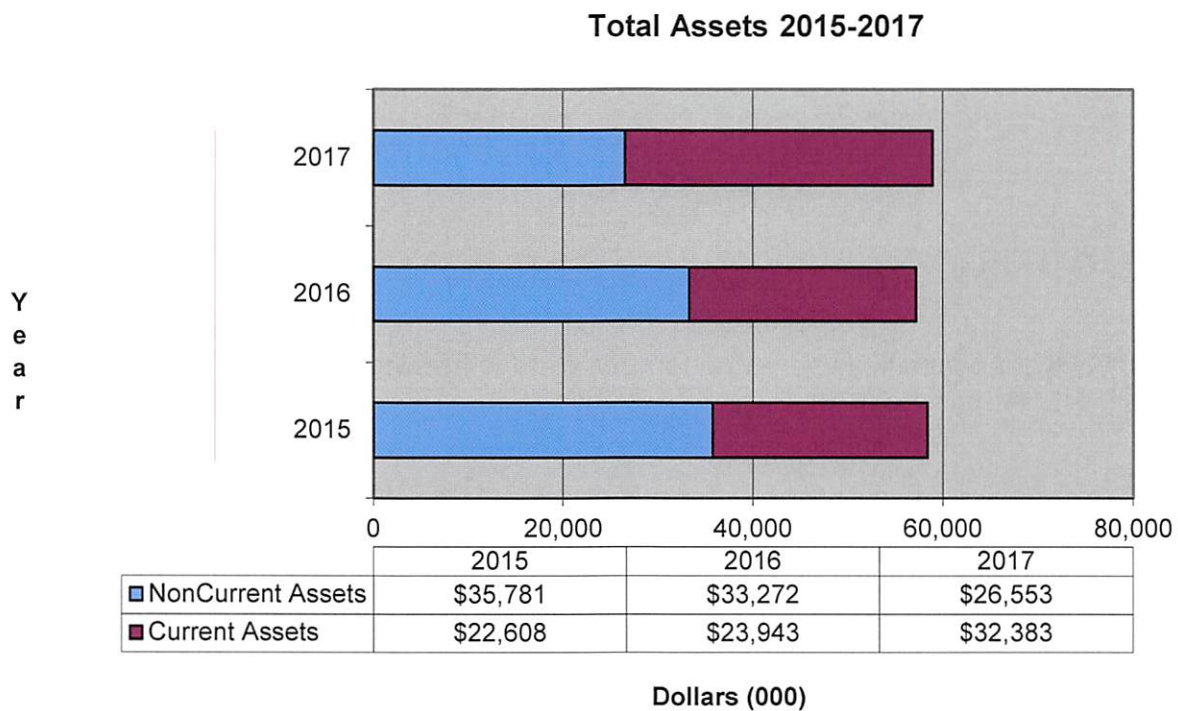
The Statement of Net Position presents the assets, deferred outflow of resources (deferred outflows), liabilities, deferred inflow of resources (deferred inflows) and net position of the College as of the end of the fiscal year. The Statement of Net Position is a point of time financial statement. The purpose of the Statement of Net Position is to present to the readers of the financial statements a fiscal snapshot of the College. The Statement of Net Position presents end-of-year data concerning Assets (current and noncurrent), Deferred Outflows, Liabilities (current and noncurrent), Deferred Inflows, and Net Position (Assets and Deferred Outflows minus Liabilities and Deferred Inflows). 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 decreased from \$38,332,347 in 2015 to \$34,161,196 in 2016 but increased in the current year for a total of \$36,297,102 for 2017. This is an increase of \$2,135,906 over the previous year.



Hutchinson Community College
Management's Discussion and Analysis
Fiscal year ended June 30, 2017

Total breakdown of assets between current and noncurrent classification for 2015 through 2017 is as follows:



Hutchinson Community College
Management's Discussion and Analysis
Fiscal year ended June 30, 2017

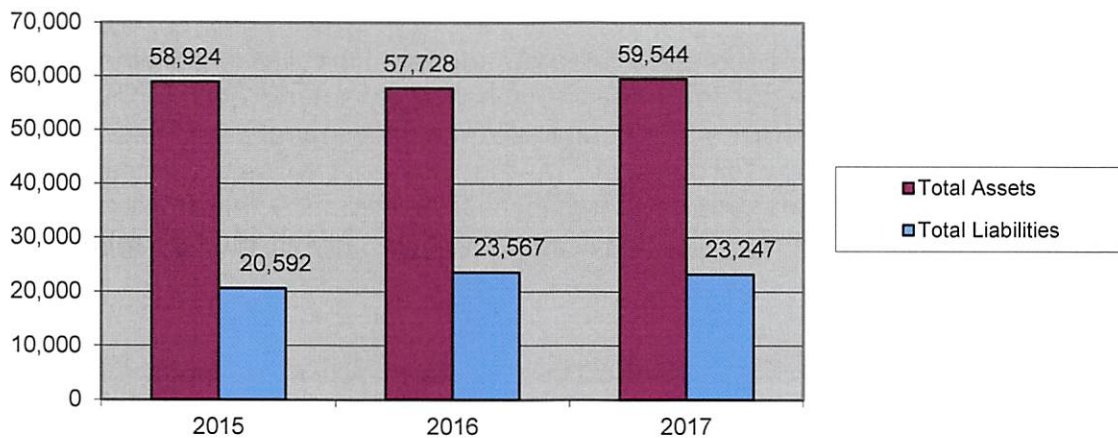
Of the \$59,544,472 in total assets and deferred outflows, approximately 36.7% are in cash and cash equivalents and capital assets represent 49.5% of total assets.

Comparison of Liabilities

	2015	% Total 2015	2016	% Total 2016	2017	% Total 2017
Current Liabilities	\$ 6,705,986	32.57%	\$ 6,102,164	25.89%	\$ 6,580,353	28.33%
Noncurrent Liabilities	13,885,939	67.43%	17,464,528	74.11%	16,647,717	71.67%
Total Liabilities	\$ 20,591,925	100.00%	\$ 23,566,692	100.00%	\$ 23,228,070	100.00%

Noncurrent liabilities in 2017 include, but are not limited to, certificates of participation related to student housing, lease payments which are a result of the college entering into an Energy Conservation Measures lease with Honeywell, Inc., and payments due to the City of Hutchinson for the renovation of the Hutchinson Sports Arena, a facility which the College occupies for use in its athletic programs. Current liabilities consist primarily of accounts payable and accrued liabilities, deposits held in custody for others, and the current portion of the certificates of participation.

**Comparison of Assets, Deferred Outflows, Liabilities and Deferred
Inflows
2015-2017 (in 000)**



Total liabilities and deferred inflows increased from \$20,591,925 in 2015 to \$23,566,692 in 2016 and decreased slightly to \$23,247,370 in 2017. Assets and deferred outflows decreased from \$58,924,272 in 2015 to \$57,727,888 in 2016 and increased to \$59,544,472 in 2017. The asset to liability ratio (total assets/total liabilities) was 2.86 in 2015, 2.45 in 2016 and 2.56 in 2017.

Results of Operations Fiscal Year 2017

Statement of Revenues, Expenses and Changes in Net Position

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

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

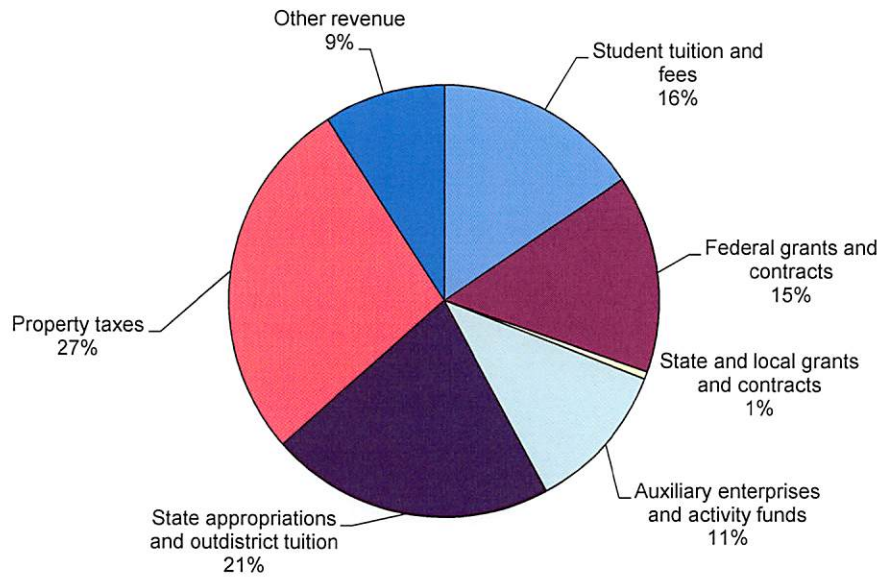
Revenue

The College receives revenue from a number of sources. In broad terms, they are: the State of Kansas, the Federal Government, students--in the form of tuition and fees, local taxpayers--by way of property taxes, business style auxiliary enterprises, and private gifts and grants. These sources are relatively stable from year to year as a percentage of the total.

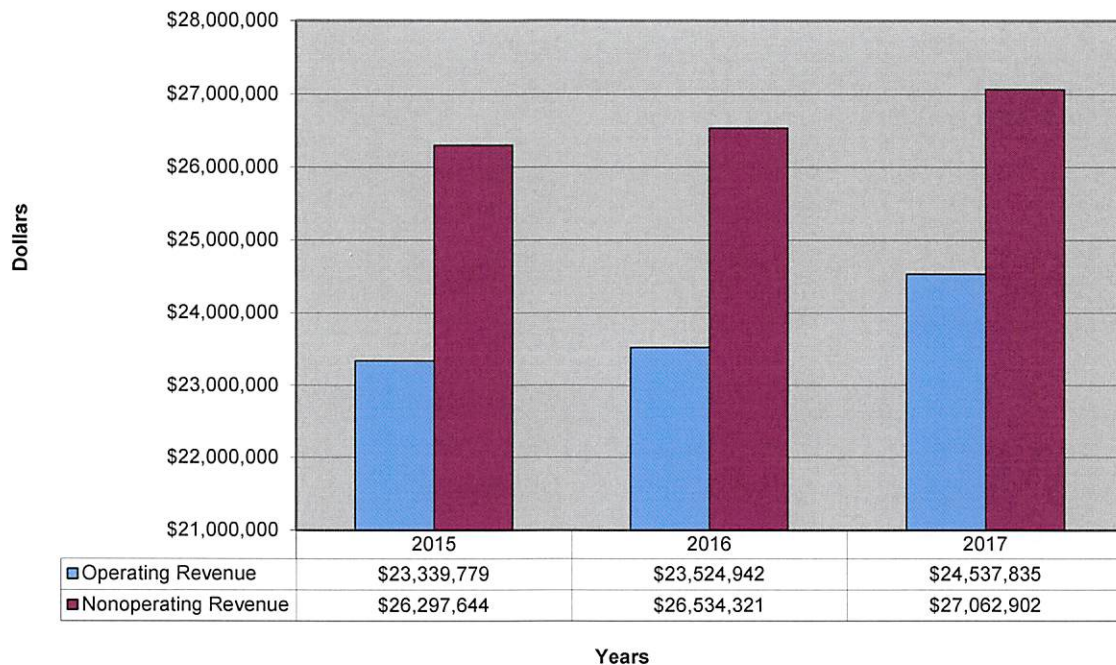
Source	2015	% Total 2015	2016	% Total 2016	2017	% Total 2017
Student tuition and fees	\$ 6,787,896	13.67%	\$ 6,899,396	13.78%	\$ 7,989,570	15.48%
Federal grants and contracts	7,925,343	15.97%	7,334,815	14.65%	7,672,088	14.87%
State and local grants and contracts	313,680	0.63%	271,691	0.54%	275,886	0.53%
Auxiliary enterprises and activity funds	6,338,273	12.77%	5,847,907	11.68%	5,787,856	11.22%
State appropriations and outdistrict tuition	11,467,417	23.10%	11,454,319	22.88%	11,034,202	21.38%
Property taxes	13,631,742	27.46%	14,006,127	27.98%	14,129,118	27.38%
Other revenue	3,173,072	6.39%	4,245,008	8.48%	4,712,017	9.13%
Total revenue	<u>\$ 49,637,423</u>	100.00%	<u>\$ 50,059,263</u>	100.00%	<u>\$ 51,600,737</u>	100.00%

Hutchinson Community College
Management's Discussion and Analysis
Fiscal year ended June 30, 2017

Percentage of Revenue by Source 2017



Total Revenue Breakdown 2015-2017



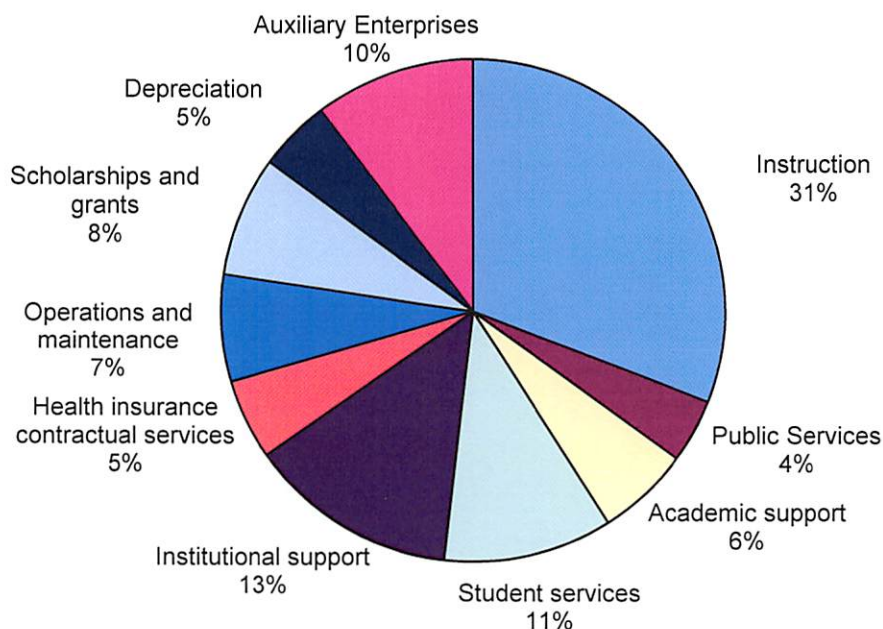
Hutchinson Community College
Management's Discussion and Analysis
Fiscal year ended June 30, 2017

Expenses

Detail of the 2015 through 2017 education, general, and auxiliary enterprise operating and nonoperating expenditures:

	2015	% Total 2015	2016	% Total 2016	2017	% Total 2017
Operating Expenses						
Instruction	\$ 14,656,568	29.63%	\$ 14,708,295	27.12%	\$ 15,140,710	30.64%
Public Services	2,150,524	4.35%	2,166,361	3.99%	2,021,980	4.09%
Academic support	2,627,305	5.31%	2,831,743	5.22%	2,932,759	5.90%
Student services	5,129,865	10.37%	5,191,193	9.57%	5,312,234	10.74%
Institutional support	6,693,818	13.53%	7,101,272	13.09%	6,564,895	13.27%
Health insurance contractual services	1,603,106	3.24%	2,373,933	4.38%	2,535,425	5.13%
Operations and maintenance	4,367,708	8.83%	8,392,632	15.48%	3,419,299	6.91%
Scholarships and grants	3,514,397	7.11%	3,183,814	5.87%	3,780,637	7.64%
Depreciation	3,326,038	6.72%	3,271,241	6.03%	2,268,091	4.59%
Auxiliary Enterprises	4,853,435	9.81%	4,543,915	8.38%	5,037,023	10.18%
Subtotal	48,922,764	98.92%	53,764,399	99.14%	49,013,053	99.09%
Nonoperating Expenses						
Interest on Capital asset-related debt	524,161	1.06%	466,015	0.86%	451,778	0.91%
Loss on Disposal of Capital Assets	11,226	0.02%	-	0.00%	-	0.00%
Debt issuance costs	-	-	-	-	-	-
Subtotal	535,387	1.08%	466,015	0.86%	451,778	0.91%
Total Expenses	\$ 49,458,151	100.00%	\$ 54,230,414	100.00%	\$ 49,464,831	100.00%

2017 Percentage of Operating Expenses By Category



Statement of Cash Flows

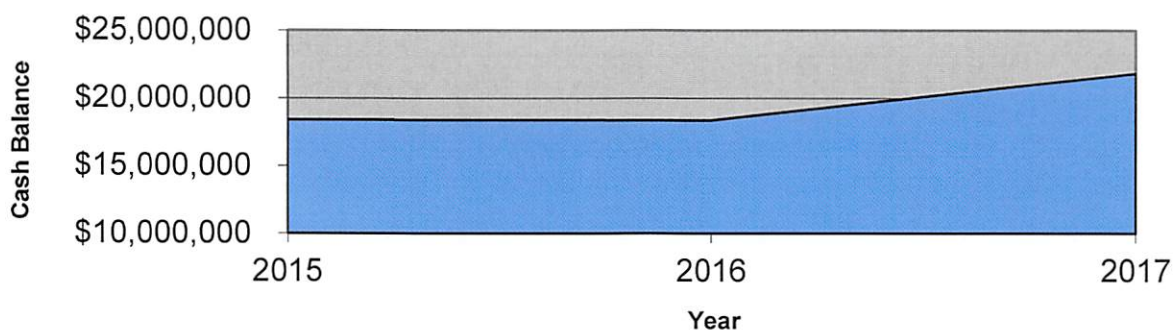
The final statement presented by the College is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the institution during the year.

The statement is divided into five sections. The first section deals with operating cash flows and shows the net cash used in the operating activities of the institution. The second section reflects cash flows from non-capital financing activities. This section includes the cash received and spent from state and local appropriations and private gifts. 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 Position.

Summary Statement of Cash Flows information

	2015	2016	2017
Net Cash Provided (used) by:			
Operating Activities	(21,391,172)	(21,540,638)	(18,287,874)
Noncapital financing activities	23,720,320	23,941,619	24,338,919
Capital and related financing activities	(4,253,814)	(2,465,828)	(2,591,959)
Investing activities	21,684	20,892	37,835
Net Change in Cash	(1,902,982)	(43,955)	3,496,921
Cash Beginning of year	20,309,441	18,406,459	18,362,504
Cash end of year	18,406,459	18,362,504	21,859,425

End of Year Cash 2015-2017



Summary of Overall Performance

The College completed another solid performance for the fiscal year ended June 30, 2017. Its financial condition continues to be strong. Cash balances increased by more than \$3 million from fiscal year 2016 balances. Combined operating and nonoperating revenue for 2017 increased by approximately \$1,500,000 from the same measures in 2016. Operating expenditures were higher than usual in 2016 due to the College entering into an operating agreement with the City of Hutchinson. For 2017, operating expenditures remain steady when compared with 2015 figures. Enrollment increased slightly for the college in 2017. Auxiliary enterprises also continued to perform well during the fiscal year under review. Even with a decrease in state appropriations, this fiscal year's performance demonstrates once again the agility and resiliency of Hutchinson Community College.

Capital Assets and Long-term Debt Activities:

In May 2017, the College renovated the restrooms in the west wing of the Kent Hall dormitory. The work emulated the 2010 restroom remodel done in the north and south wings of the Elland Hall dormitory. The project included all new electrical and plumbing and updated décor. Additional work on Kent Hall included installing new flooring in the dorm rooms located in the west wing, repairing the north parking lot, and removing the concrete overhangs on the exterior of the building. Total costs of all projects was approximately \$943,000.

Other projects for fiscal year 2017 included installing an additional parking lot at the College's Fire Science facility, replacing the carpeting in the Parker Student Union and outfitting the locker rooms, training rooms and new Athletic offices in the Hutchinson Sports Arena, the primary athletic facility for the College. This was again a busy and exciting year for Hutchinson Community College facility improvement.

The future continues to be positive for Hutchinson Community College. 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 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.

Julie A. Blanton
Vice President of Finance and Operations

BASIC FINANCIAL STATEMENTS

Hutchinson Community College
Statements of Net Position
June 30, 2017

	Hutchinson Community College	Component Unit HCC Endowment	Component Unit Quest Center
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 21,859,425	\$ 755,691	\$ 32,473
Investments	-	6,505,374	50,423
Receivables - federal and state grants and contracts	2,191,663	-	-
Receivables - students (net of allowance of \$273,500)	985,516	-	-
Receivables - other	432,877	4,175	216
Inventories	1,083,738	-	-
Total current assets	<u>26,553,219</u>	<u>7,265,240</u>	<u>83,112</u>
Noncurrent Assets			
Investments	-	7,496,817	-
Receivables - students (net of allowance of \$2,161,500)	2,874,564	-	-
Receivables - other	-	37,485	-
Capital assets, net of accumulated depreciation	29,508,732	-	-
Beneficial interest in trusts	-	1,702,512	-
Other	-	-	227,668
Total noncurrent assets	<u>32,383,296</u>	<u>9,236,814</u>	<u>227,668</u>
TOTAL ASSETS	<u>58,936,515</u>	<u>16,502,054</u>	<u>310,780</u>
DEFERRED OUTFLOW OF RESOURCES			
Deferred charge on refunding	489,264	-	-
Net difference between projected and actual earnings on pension plan investment	35,561	-	-
Changes in proportionate share of contributions	83,132	-	-
TOTAL DEFERRED OUTFLOW OF RESOURCES	<u>607,957</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	<u>\$ 59,544,472</u>	<u>\$ 16,502,054</u>	<u>\$ 310,780</u>
LIABILITIES			
Current Liabilities			
Accounts payable and accrued expenses	\$ 1,548,822	\$ 18,479	\$ -
Medical claims payable	418,377	-	-
Deposits held in custody for others	2,899,418	-	-
Unearned revenue	77,903	-	-
Accrued interest payable	144,110	-	-
Compensated absences payable	447,588	-	-
Early retirement benefits payable	150,657	-	-
Capital lease obligations	433,478	-	-
Certificates of Participation	210,000	-	-
Sports Arena payable	250,000	-	-
Total current liabilities	<u>6,580,353</u>	<u>18,479</u>	<u>-</u>
Noncurrent Liabilities			
Compensated absences payable	85,661	-	-
Early retirement benefits payable	132,623	-	-
Other postemployment benefits payable	1,165,819	-	-
Net pension liabilities	393,733	-	-
Capital lease obligations	4,927,032	-	-
Certificates of Participation	5,692,849	-	-
Sports Arena payable	4,250,000	-	-
Other liabilities	-	-	5,524
Total noncurrent liabilities	<u>16,647,717</u>	<u>-</u>	<u>5,524</u>
TOTAL LIABILITIES	<u>23,228,070</u>	<u>18,479</u>	<u>5,524</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred charge on refunding	18,588	-	-
Net difference between projected and actual earnings on pension plan investment	712	-	-
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>19,300</u>	<u>-</u>	<u>-</u>
NET POSITION			
Net investment in capital assets	18,734,637	-	-
Restricted for:			
Nonexpendable - endowments	-	8,931,660	-
Expendable:			
Endowment activity	-	7,551,915	-
Capital outlay	2,241,789	-	-
Restricted funds	21,747	-	-
Health insurance	644,617	-	-
Unrestricted	<u>14,654,312</u>	<u>-</u>	<u>305,256</u>
Total net position	<u>36,297,102</u>	<u>16,483,575</u>	<u>305,256</u>
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION	<u>\$ 59,544,472</u>	<u>\$ 16,502,054</u>	<u>\$ 310,780</u>

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

Hutchinson Community College
Statements of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2017

	Hutchinson Community College	Component Unit HCC Endowment	Component Unit Quest Center
OPERATING REVENUES			
Student tuition and fees	\$ 11,114,138	\$ -	\$ -
Less allowances for institutional scholarships	(82,836)	-	-
Less allowances for federal grants	(3,041,732)	-	-
Net student source revenue	7,989,570	-	-
Federal sources	7,672,088	-	-
State sources	172,027	-	-
County sources	19,115	-	65,000
Local sources	84,744	-	-
Auxiliary enterprises:			
Residential life (net of scholarship allowances of \$0 for 2017)	1,692,258	-	-
Campus store (net of sales discounts of \$491,044 for 2017)	1,565,197	-	-
Union	1,433,009	-	-
Other auxiliary enterprises	1,097,392	-	-
Private gifts and grants	26,830	-	-
Health insurance charges for services	2,839,825	-	-
Other operating revenues	(54,220)	421,287	2,080
Total operating revenues	<u>24,537,835</u>	<u>421,287</u>	<u>67,080</u>
OPERATING EXPENSES			
Educational and General:			
Instruction	15,140,710	-	-
Public service	2,021,980	-	-
Academic support	2,932,759	-	-
Student services	5,312,234	-	-
Institutional support	4,183,650	2,259,981	74,963
KPERS contribution paid directly by the State of Kansas	2,381,245	-	-
Health insurance contractual services	2,535,425	-	-
Operations and maintenance of plant	3,419,299	-	-
Depreciation and amortization	2,268,091	-	-
Scholarships and grants	3,780,637	-	-
Auxiliary Enterprises:			
Residential life	1,504,205	-	-
Campus store	1,316,664	-	-
Union	952,544	-	-
Other auxiliary enterprises	1,263,610	-	-
Total operating expenses	<u>49,013,053</u>	<u>2,259,981</u>	<u>74,963</u>
Operating income (loss)	<u>(24,475,218)</u>	<u>(1,838,694)</u>	<u>(7,883)</u>
NONOPERATING REVENUES (EXPENSES)			
State appropriations	8,652,957	-	-
State contribution directly to the KPERS retirement system	2,381,245	-	-
Local sources	14,129,118	-	-
Private grants and gifts	1,556,844	2,375,069	-
Investment income	37,835	1,464,799	14,947
Interest on capital asset-related debt	(451,778)	-	-
Net nonoperating revenues (expenses)	<u>26,306,221</u>	<u>3,839,868</u>	<u>14,947</u>
Income(loss) before other revenues	1,831,003	2,001,174	7,064
Capital grants and gifts	304,903	-	-
Net increase (decrease) in net position	2,135,906	2,001,174	7,064
NET POSITION			
Net position - beginning of year	<u>34,161,196</u>	<u>14,482,401</u>	<u>298,192</u>
Net position - end of year	<u>\$ 36,297,102</u>	<u>\$ 16,483,575</u>	<u>\$ 305,256</u>

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

Hutchinson Community College
Statement of Cash Flows
For the Year Ended June 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES

Student tuition and fees	\$ 7,541,552
Grants and contracts	16,419,092
Sales and services of auxiliary enterprises	5,787,856
Private gifts and grants	26,830
Health insurance charges for services	2,887,086
Other receipts	(392,069)
Payments to employees for salaries and benefits	(24,989,975)
Payments to suppliers	(18,581,012)
Loans issued to students	(6,987,234)
Net cash provided (used) by operating activities	<u>(18,287,874)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State appropriations	8,652,957
County and local appropriations	14,129,118
Private gifts and grants	1,556,844
Net cash provided (used) by noncapital financing activities	<u>24,338,919</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchases of capital assets	(1,100,876)
Principal paid on debt and capital lease	(1,358,700)
Interest paid on debt and capital lease	(437,286)
Capital gifts and grants	304,903
Net cash provided (used) by capital and related financing activities	<u>(2,591,959)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest on investments	<u>37,835</u>
Net cash provided (used) by investing activities	<u>37,835</u>

Net increase (decrease) in cash and cash equivalents 3,496,921

Cash and cash equivalents - beginning of year 18,362,504

Cash and cash equivalents - end of year \$ 21,859,425

**RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO
NET CASH PROVIDED (USED) IN OPERATING ACTIVITIES**

Operating loss	\$ (24,475,218)
Depreciation and amortization expense	2,268,091
Changes in operating assets and liabilities:	
Receivables, net	852,354
Inventories	(222,818)
Accounts payable and accrued expenses	834,005
Unearned revenue	(13,665)
Amortization of deferred charge on refunding	(23,299)
Accrued employee benefits	54,841
Deposits held in custody for others	56,590
Employee benefits paid directly by State of Kansas	2,381,245
Net cash provided (used) in operating activities	<u>\$ (18,287,874)</u>

Hutchinson Community College

Notes to Financial Statements

June 30, 2017

1. Summary of Significant Accounting Policies

Hutchinson Community College (the College) is a public, two-year post-secondary educational institution, organized under the laws of the State of Kansas, and is governed by an elected Board of Trustees. 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

For financial reporting purposes, the College is considered a special-purpose government engaged only in business-type activities. It 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 units. The component units discussed below are included in the College's reporting entity because of the significance of their financial relationship with the College. The financial data of the College's component units are 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.

The Quest Center is a legally separate, tax-exempt component unit of the College. The Quest Center acts primarily as a not-for-profit organization that houses loans for small business entrepreneurship venture activities. They also provide consulting, planning, and patent services. The College has access to the Quest Center's resources for educational services to provide to its students. The College processes the Quest Center's daily operating expenditures. The activity on the books for the Quest Center is for loan servicing activities. The Quest Center directly services certain loans and acts as the third party servicer for loans provided through the Kansas Center for Entrepreneurs.

1. Summary of Significant Accounting Policies (Cont.)

(a) Reporting Entity (Cont.)

Because of the financial benefit that the Quest Center provides the College through its educational resources, and the financial burden that is generated through the College's processing of the Quest Center's operational expenses, the Quest Center is considered a component unit of the College and is discretely presented in the College's financial statements. For financial reporting purposes only, the Quest Center'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 Quest Center 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 Quest Center's financial information. Complete financial statements for the Quest Center can be obtained from the College'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. All assets and liabilities associated with the operation of the College are included on the statement of net position. Revenues are recognized when earned, and expenses are recorded when an obligation has been incurred, regardless of the timing of related cash flows. All significant interfund transactions have been eliminated.

Nonexchange transactions, in which the College receives value without directly giving equal value in return, include property taxes; federal, state, and local grants; state appropriations, and other contributions. 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.

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.

(c) Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position

Deposits and Investments

Kansas Statute (KSA) 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.

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.

1. Summary of Significant Accounting Policies (Cont.)

(c) Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position (Cont.)

Accounts Receivable

Accounts receivable consists of tuition and fees charged to students, amounts due from the federal, state, and local governments in connection with reimbursement of allowable expenses 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 expenses 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, which include property, plant, and equipment, are recorded at cost at the date of acquisition, or their estimated fair market value at the date of donation in the case of gifts. For equipment, the College's capitalization policy includes all items with a unit cost of \$5,000 or more, and an estimated useful life of greater than three years. Renovations to buildings and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

Depreciation is computed on assets having a value of more than \$5,000 using the straight-line method over the estimated useful lives of the assets. Depreciation is not allocated to the various functions of the College but is reported separately on these financial statements. 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 to 40 years
- Furniture – 10 years
- Equipment – 5 to 7 years

Unearned Revenues

Unearned 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. Unearned revenue may also include amounts received from grant and contract sponsors that have not yet been earned.

Federal programs are audited in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

1. Summary of Significant Accounting Policies (Cont.)

(c) Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position (Cont.)

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 position and a related expense is recorded in the statement of revenues, expenses, and changes in net position.

The amount for vacation payable 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.

Medical Claims Payable

The medical claims payable relates to the College's self-insured health care program and includes reported, as well as incurred but not reported, medical claims. These are expected to be fully paid within one year of the financial statement date.

Noncurrent Liabilities

Noncurrent liabilities include (1) principal amounts of certificates of participation payable, related premiums and discounts, loans payable, and capital lease obligations with contractual maturities greater than one year; and (2) estimated amounts for the early retirement benefits, compensated absences, other post employment benefits and net pension liabilities not anticipated to be paid within the next fiscal year.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Kansas Public Employees Retirement System (KPERs) and additions to/deductions from KPERs's fiduciary net position have been determined on the same basis as they are reported by KPERs. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflow/Inflow of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflow of resources. This separate financial statement element, *deferred outflow of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The College has two items that qualify for reporting in this category. The first is the deferred charge on refunding resulting from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or original debt. The second is deferred outflows related to pensions as actuarially determined and explained in Note 8.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflow of resources. This separate financial statement element, *deferred inflow of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The College has one item that qualifies for reporting in this category. It is the deferred inflows relating to pensions as actuarially determined and explained in Note 8.

1. Summary of Significant Accounting Policies (Cont.)

(c) Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position (Cont.)

Net Position

The College's net positions are classified as follows:

Net investment in capital assets – This represents the College's total investment in capital assets, net of accumulated depreciation and reduced by 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 of net investment in capital assets.

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

Restricted net position – 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 position – 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.

Net Position Flow Assumption

Sometimes the College will fund outlays for a particular purpose from both restricted (e.g. restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the College's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

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.

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.

1. Summary of Significant Accounting Policies (Cont.)

(c) *Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position (Cont.)*

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 position. 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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during that reporting period. Actual results could differ from those estimates.

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 College's legal level of budget control is at the fund level. Kansas 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.

Kansas 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 regulatory basis of accounting. Regulatory receipts are recognized when cash is received. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments for future payment and are supported by a document evidencing the commitment, such as a purchase order or contract. All unencumbered appropriations (legal budget expenditure authority) lapse at year end. Encumbered appropriations are not re-appropriated in the ensuing year's budget but are carried forward until liquidated or canceled. Accordingly, the data presented in the budgetary comparison schedules differs from the data presented in the financial statements prepared in accordance with GAAP. The reconciliations are presented on the face of the budgetary comparison schedules.

2. Stewardship, Compliance, and Accountability (Cont.)

(a) Budgetary Information (Cont.)

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 KSA 10-1113. Some sub-funds of the Restricted Funds have a negative unencumbered cash balance at June 30, 2017, which is allowable under KSA 12-1663. This fund will be reimbursed from federal grants, state grants, and other contracts for expenditures already incurred by the College in the following fiscal year. This combined receivable has been recognized for GAAP purposes on these financial statements.

3. Deposits and Investments

As of June 30, 2017, the College had cash and cash equivalents as listed below:

Deposits in financial banking institutions	\$ 10,859,425
Certificates of deposit	<u>11,000,000</u>
 Total cash and cash equivalents	 <u>\$ 21,859,425</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 – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. In accordance with KSA 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 States obligations, and the Kansas Municipal Investment Pool (KMIP). The KMIP was rated AAf/S1+ by Standard & Poor's as of March, 2017. 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. The fair value of the investments in the pool are the same as the value of the pool shares. The KMIP is managed by the Pool Investment Board of which four members are appointed by the Governor of the State of Kansas.

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. KSA 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 KMIP are not required to have pledged securities. As of June 30, 2017, the College was not exposed to custodial credit risk with its deposits or investments.

3. Deposits and Investments (Cont.)

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.

4. Capital Assets

Capital asset activity for the year ended June 30, 2017, was as follows:

	Beginning Balance	Increases	(Decrease) Adjustments	Ending Balance
Non-depreciable capital assets:				
Land	\$ 195,688	\$ -	\$ -	\$ 195,688
Books and films	1,088,964	-	-	1,088,964
Construction in progress	-	813,871	-	813,871
Total non-depreciable capital assets	1,284,652	813,871	-	2,098,523
Depreciable capital assets:				
Improvements	2,911,443	-	-	2,911,443
Buildings	49,787,976	-	-	49,787,976
Equipment	17,381,474	287,005	(13,307)	17,655,172
Total depreciable capital assets	70,080,893	287,005	(13,307)	70,354,591
Less accumulated depreciation:				
Improvements	(1,831,324)	(151,040)	-	(1,982,364)
Buildings	(23,114,232)	(1,734,739)	-	(24,848,971)
Equipment	(15,765,061)	(361,293)	13,307	(16,113,047)
Total accumulated depreciation	(40,710,617)	(2,247,072)	13,307	(42,944,382)
Total capital assets, net	\$ 30,654,928	\$ (1,146,196)	\$ -	\$ 29,508,732

Depreciation expense for the year ended June 30, 2017 is \$2,247,072.

5. Long-Term Liabilities

The following is a summary of long-term liability transactions for the year ended June 30, 2017:

	Beginning Balance	Additions	Payments/ Reductions	Ending Balance	Current Portion
Certificates of Participation	\$ 6,060,000	\$ -	\$ (205,000)	\$ 5,855,000	\$ 210,000
Premium on Certificates	50,129	-	(2,279)	47,850	2,279
Board of Regents PEI loan	522,315	-	(522,315)	-	-
Sports Arena	4,500,000	-	-	4,500,000	250,000
Capital lease obligations	5,991,895	-	(631,385)	5,360,510	433,478
Compensated absences	475,601	87,090	(29,442)	533,249	447,588
Early retirement benefits	275,608	152,733	(145,061)	283,280	150,657
Post employment healthcare	1,079,632	86,187	-	1,165,819	-
Net pension liability	391,006	2,727	-	393,733	-
Total long-term liabilities	\$ 19,346,186	\$ 328,737	\$ (1,535,482)	\$ 18,139,441	\$ 1,494,002

5. Long-Term Liabilities (Cont.)

The Certificates of Participation and the Sports Arena will be liquidated by the General Fund and the Postsecondary Technical Education Fund. 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, postemployment healthcare benefits, and the pension benefits are generally liquidated by the General Fund and the Postsecondary Technical Education Fund.

(a) *Certificates of Participation*

The College issued Certificates of Participation Series 2012. The original issue amount was \$6,650,000, due in annual principal installments ranging from \$210,000 to \$375,000 through year 2038. Interest rates vary from 2.00% to 4.00%.

The annual debt service requirements for the certificates of participation are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
6/30/2018	\$ 210,000	\$ 182,153	\$ 392,153
6/30/2019	215,000	177,903	392,903
6/30/2020	220,000	173,553	393,553
6/30/2021	225,000	167,978	392,978
6/30/2022	235,000	161,078	396,078
6/30/23 - 6/30/27	1,260,000	709,706	1,969,706
6/30/28 - 6/30/32	1,470,000	516,200	1,986,200
6/30/33 - 6/30/37	1,730,000	235,612	1,965,612
6/30/2038	<u>290,000</u>	<u>5,800</u>	<u>295,800</u>
Total	<u>\$ 5,855,000</u>	<u>\$ 2,329,981</u>	<u>\$ 8,184,981</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. June 30, 2017, was the last year of payment, so there are no future debt service requirements.

(c) *Sports Arena*

The College entered into an Interlocal Agreement with the City of Hutchinson to help finance the cost of construction and funding improvements to the Hutchinson Sports Arena. The original agreement amount was \$4,500,000, due in annual installments ranging from \$250,000 to \$500,000 through year 2027. Interest rate is 0%. The College has elected to not impute interest based on guidance in the GASB Comprehensive Implementation Guide.

5. Long-Term Liabilities (Cont.)

(c) Sports Arena (Cont.)

The annual debt service requirements for the sports arena are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
6/30/2018	\$ 250,000	\$ -	\$ 250,000
6/30/2019	500,000	-	500,000
6/30/2020	500,000	-	500,000
6/30/2021	500,000	-	500,000
6/30/2022	500,000	-	500,000
6/30/23 - 6/30/27	<u>2,250,000</u>	<u>-</u>	<u>2,250,000</u>
Total	<u>\$ 4,500,000</u>	<u>\$ -</u>	<u>\$ 4,500,000</u>

(d) 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 \$215,204 and is included in the capital assets of the College. The amortization of this equipment has been included in the College's depreciation expense.

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 \$1,196,200 and is included in the capital assets of the College. The amortization of this equipment has been included in the College's depreciation expense.

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 amortization of this equipment has been included in the College's depreciation expense.

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

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
6/30/2018	\$ 433,478	\$ 251,162	\$ 684,640
6/30/2019	355,588	231,531	587,119
6/30/2020	368,456	214,645	583,101
6/30/2021	390,492	197,630	588,122
6/30/2022	412,623	179,504	592,127
6/30/23 - 6/30/27	2,491,045	580,752	3,071,797
6/30/28 - 6/30/32	<u>908,828</u>	<u>53,595</u>	<u>962,423</u>
Total	<u>\$ 5,360,510</u>	<u>\$ 1,708,819</u>	<u>\$ 7,069,329</u>

5. Long-Term Liabilities (Cont.)

(e) 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 Postsecondary Technical Education Fund. For the year ended June 30, 2017, the College paid \$204,430 in benefits. The liability for the early retirement benefit plan includes the expected cash outflows discounted at a range of 1.625% to 2.500%. At year end, there were 25 retirees receiving benefits.

6. Operating Lease

The College leases 200 E. Third Ave., Hutchinson, KS for the purpose of operating Sidney's Hairdressing College. The operating lease term is through December 31, 2021. Expenses for the year ending June 30, 2017, were \$42,000.

The College leases Toro utility vehicles. The operating lease term is through May 1, 2018. Expenses for the year ending June 30, 2017, were \$4,735.

The future minimum lease payments for operating leases are as follows:

<u>Year Ending</u>	<u>Total</u>
6/30/2018	\$ 46,340
6/30/2019	42,000
6/30/2020	42,000
6/30/2021	<u>17,500</u>
Total	<u>\$ 147,840</u>

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. Five 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 are not charged the full age adjusted cost. Plan coverage is provided for under KSA 12-0540. No separate financial report is issued for the Plan.

Retirees and beneficiaries receiving benefits	11
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>387</u>
Total	<u>398</u>

Funding Policy. The College provides health insurance benefits to retirees and their dependents in accordance with Kansas law (KSA 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.

7. Other Postemployment Healthcare Benefits (OPEB) (Cont.)

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.

	<u>June 30, 2017</u>
Normal cost	\$ 87,829
Interest on net OPEB obligation	37,787
Amortization of AAL	46,690
Adjustment to ARC	<u>(44,119)</u>
Annual OPEB cost (expense)	128,187
Contributions made	<u>42,000</u>
Increase in net OPEB obligation	86,187
Net OPEB obligation - beginning of year	<u>1,079,632</u>
 Net OPEB obligation - end of year	 <u>\$ 1,165,819</u>

Schedule of employer contributions:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Net Employer Contributions</u>	<u>Net Percentage Contributed</u>	<u>End of Year Net OPEB Obligation</u>
June 30, 2015	\$ 167,889	\$ 52,000	31.0%	\$ 995,423
June 30, 2016	167,209	83,000	49.6%	1,079,632
June 30, 2017	128,187	42,000	32.8%	1,165,819

Funded Status and Funding Progress. As of January 1, 2017, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$1,103,917. 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 \$1,103,917. The covered payroll (annual payroll of active employees covered by the Plan) was \$16,380,554, and the ratio of the UAAL to the covered payroll was 6.7%.

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, multi-year 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:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percent of Covered Payroll ((b-a)/c)</u>
1/1/2013	\$ -	\$ 2,025,473	\$ 2,025,473	0%	\$ 15,193,064	13.33%
1/1/2015	-	1,428,104	1,428,104	0%	15,248,564	9.37%
1/1/2017	-	1,103,917	1,103,917	0%	16,380,554	6.74%

7. Other Postemployment Healthcare Benefits (OPEB) (Cont.)

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, 2017, actuarial valuation, the projected unit credit method was applied. The actuarial assumptions included a 3.50% 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 7.00% in the first year and then 6.50% in year two, decreasing by 0.50% until year 3 and then decreasing by 0.25% until year nine when it reaches an ultimate rate of 4.50%. 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. Defined Benefit Pension Plan

Plan Description. The College participates in the Kansas Public Employees Retirement System (KPERS or System), a cost-sharing multiple-employer defined benefit pension plan as provided by Kansas law and administered by KPERS, a body corporate and an instrumentality of the State of Kansas. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available, stand-alone comprehensive annual financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737, or at the KPERS website at www.kpers.org.

KPERS provides pension benefits to the following statewide pension groups under one plan, as provided by KSA 74, article 49:

- Public employees, which include:
 - State/School Employees
 - Local Employees
- Police and Firemen
- Judges

Substantially all public employees in Kansas are covered by the pension plan. The State of Kansas and Kansas schools are required to participate, while participation by local political subdivisions is optional, but irrevocable once elected.

The employer contributions for non-public school district schools, as defined in KSA 74-4931 (2) and (3), are funded by the State of Kansas on behalf of these employers. Therefore, these employers, are vocational-technical schools and community junior colleges, are considered to be in a special funding situation as defined by GASB Statement No. 68. The State is treated as a nonemployer contributing entity in the System. Since these employers do not contribute directly to the System for active employees, there is no net pension liability or deferred inflows or outflows to report in the financial statements for active employees. The notes to the College's financial statements must disclose the portion of the nonemployer contributing entities' total proportionate share of the collective net pension liability that is associated with the non-public school district employer. In addition, each non-public school district employer must recognize the pension expense associated with their employer as well as revenue in an amount equal to the nonemployer contributing entities' total proportionate share of the collective pension expense associated with their employer.

8. Defined Benefit Pension Plan (Cont.)

A number of these employers make contributions directly to KPERS for KPERS retirees filling KPERS covered positions per KSA 74-4937, "working after retirement" employees. The resulting proportional share of these agencies "working after retirement" contributions and resulting net pension liability are attributable to the employer.

Benefits provided. Benefits are established by statute and may only be changed by the General Assembly. Members with ten or more years of credited service, may retire as early as age 55, with an actuarially reduced monthly benefit. Normal retirement is at age 65, age 62 with ten years of credited service, or whenever a member's combined age and years of credited service equal 85 "points".

Monthly retirement benefits are based on a statutory formula that includes final average salary and years of service. When ending employment, members may withdraw their contributions from their individual accounts, including interest. Members who withdraw their accumulated contributions lose all rights and privileges of membership. For all pension coverage groups, the accumulated contributions and interest are deposited into and disbursed from the membership accumulated reserve fund as established by KSA 74-4922.

Members choose one of seven payment options for their monthly retirement benefits. At retirement a member may receive a lump sum payment of up to 50% of the actuarial present value of the member's lifetime benefit. His or her monthly retirement benefit is then permanently reduced based on the amount of the lump sum. Benefit increases, including ad hoc post retirement benefit increases, must be passed into law by the Kansas Legislature. Benefit increases are under the authority of the Legislature and the Governor of the State of Kansas.

The 2012 Legislature made changes affecting new hires, current members and employers. A new KPERS 3 cash balance retirement plan for new hires starting January 1, 2015, was created. Normal retirement age for KPERS 3 is 65 with five years of service or 60 with 30 years of service. Early retirement is available at age 55 with ten years of service, with a reduced benefit. Monthly benefit options are an annuity benefit based on the account balance at retirement.

Contributions. For all pension coverage groups, the retirement benefits are disbursed from the retirement benefit payment reserve fund established by KSA 74-4922. Member contribution rates are established by State law, and are paid by the employee according to the provisions of Section 414(h) of the Internal revenue code. State law provides that the employer contribution rates for each of the three state wide pension groups to be determined based on the results of each annual actuarial valuation. The contributions and assets of all groups are deposited in the Kansas Public Employees Retirement Fund established by KSA 74-4921. All of the retirement systems are funded on an actuarial reserve basis.

For fiscal years beginning in 1995, Kansas legislation established statutory limits on increases in contribution rates for KPERS employers. Annual increases in the employer contribution rates related to subsequent benefit enhancements are not subject to these limitations. The statutory cap increase over the prior year contribution rate is 1.10% of total payroll for the fiscal year ended June 30, 2016.

The State is required to contributed 100% of the College's contractually required contributions, which are actuarially determined as an amount that, when combined with employee contributions, is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. However, they do make contributions directly to KPERS for KPERS retirees filling KPERS covered positions per KSA 74-4937, "working after retirement" employees. The resulting proportional share of the "working after retirement" contributions and resulting new pension liability are attributable to the employer.

KSA 74-4919 and KSA 74-49,210 establish the KPERS member-employee contribution rates. KPERS has multiple benefit structures and contribution rates depending on whether the employee is a KPERS 1, KPERS 2, or KPERS 3 member. KPERS 1 members are active and contributing members hired before July 1, 2009. KPERS 2 members were first employed in a covered position on or after July 1, 2009, and KPERS 3 members were first employed in a covered position on or after January 1, 2015. Effective January 1, 2015, Kansas law established the KPERS member-employee contribution rate of 6% of covered salary for KPERS 1, KPERS 2, and KPERS 3 members.

8. Defined Benefit Pension Plan (Cont.)

The College's contractually required contributions rate for the year ended June 30, 2016, was 16.00% of the annual college payroll of which .38% of payroll was required from the College and 99.62% of payroll was required from the State. The College's contributions to the pension plan were \$27,378 for the year ended June 30, 2016.

Legislature in the 2015 session authorized issuance of \$1.0 billion in net bond proceeds to improve the funding of the State/School group. The bonds were issued in August 2015 and deposited in the trust fund on August 20, 2015.

Restatements - State/School Group. The KPERS GASB 68 report's schedules of the employer and nonemployer allocations as of and for the year ended June 30, 2016, was restated to include an additional \$1.0 billion in contributions received from the State for the state/school group from the State's issuance of pension obligation bonds. Additionally, the schedule of pension amounts by employer and nonemployee was restated to 1) receive certain allocations based on the changes to employer allocations discussed above for the state/school group, and 2) eliminate deferred inflows of resources of \$1.0 billion previously reported. Amounts reported for the local, police and fire, and judges groups were not impacted by the restatement.

Employer Allocations. Although KPERS administers one cost sharing, multiple-employer defined benefit pension plan, separate (sub) actuarial valuations are prepared to determine the actuarial determined contribution rate by group. Following this method, the measurement of the collective net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense are determined separately for each of the following groups of the plan:

- State/School
- Local
- Police and Fireman
- Judges

To facilitate the separate (sub) actuarial valuations, KPERS maintains separate accounts to identify additions, deductions, and fiduciary net position applicable to each group. The allocation percentages presented for each group in the schedule of employer and nonemployer allocations are applied to amounts presented in the schedules of pension amounts by employer and nonemployer.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2017, the College reported a liability for its proportionate share of the net pension liability that reflected a reduction for the State pension support provided to the College. The amount recognized by the College as its proportionate share of the net pension liability, the related state support, and the total portion of the net pension liability that was associated with the College were as follows:

College's proportionate share of the net pension liability	\$ 393,733
State's proportionate share of the net pension liability associated with the College	<u>32,468,359</u>
	<u>\$ 32,862,092</u>

The net pension liability was measured as of December 31, 2015, which was rolled forward to June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of the that date. The College's proportion of the net pension liability was based on the ratio of its contributions to the total of the employer and non-employer contributions of the group for the fiscal year ended June 30, 2016. The contributions used exclude contributions made for prior service, excess benefits, and irregular payments. At June 30, 2016, the combined College and State's proportion was .38%, which was a decrease of 0.020% from its porportion measured as of the year ended June 30, 2015.

8. Defined Benefit Pension Plan (Cont.)

For the actuarial report as of June 30, 2017, there were changes in assumptions and benefits as described in the notes to the required supplemental information.

There were no changes between the measurement date of December 31, 2015, rolled forward to June 30, 2016, and the College's reporting date of June 30, 2017.

For the year ended June 30, 2017, the College recognized pension expense of \$2,381,245 and revenue of \$2,381,245 for support provided by the state. For the portion related to the "working after retirement" the College recognized pension expense of \$2,727, which includes the changes in the collective net pension liability, projected earnings on pension plan investments, and the amortization of deferred outflows of resources and deferred inflows of resources for the current period. At June 30, 2016, the College did not report deferred outflows of resources or deferred inflows of resources due to the State's proportionate share being 100%. However, due to the restatement and changes in the information presented in the System's report, at June 30, 2017, the College now does report deferred outflows of resources and deferred inflows of resources. At the measurement date of June 30, 2016, the College reported deferred outflows of resources and deferred inflows of resources related to pensions for the College from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 18,588
Changes of assumptions	-	712
Net difference between projected and actual earnings on pension plan investments	35,561	-
Changes in proportion and differences between College contributions and proportionate share of contributions	83,132	-
Total	<u>\$ 118,693</u>	<u>\$ 19,300</u>

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expenses by the College as follows:

<u>Year ended June 30:</u>	<u>Amount</u>
2017	\$ 25,391
2018	25,391
2019	33,807
2020	14,402
2021	402
Thereafter	-
	<u>\$ 99,393</u>

Actuarial assumptions. The total pension liability recognized by the State and the portion recognized by the College, were determined by an actuarial valuation as of December 31, 2015, which was rolled forward to June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

- Price Inflation 3.0 percent
- Wage inflation 4.0 percent
- Salary increases, including wage increases 4.0 to 16.0 percent, including inflation
- Long-term rate of return, net of investment expense, and including price inflation 8.0 percent

8. Defined Benefit Pension Plan (Cont.)

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

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

The long-term expected rate of return of pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016, are summarized in the following table:

<u>Asset class</u>	<u>Long-term target allocation</u>	<u>Long-term expected real rate of return</u>
Global Equity	47.00%	6.80%
Fixed Income	13.00%	1.25%
Yield Driven	8.00%	6.55%
Real Return	11.00%	1.71%
Real Estate	11.00%	5.05%
Alternatives	8.00%	9.85%
Short-term Investments	<u>2.00%</u>	-0.25%
Total	<u>100.00%</u>	

Discount rate. The discount rate used to measure the total pension liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the contractually required rate. The State, School and Local employers do not necessarily contribute the full actuarially determined rate. Based on legislation passed in 1993, the employer contribution rates certified by the System's Board of Trustees for these groups may not increase by more than the statutory cap. The expected KPERS employer statutory contribution was modeled for future years, assuming all actuarial assumptions are met in future years. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the State's proportionate share of the net pension liability to changes in the discount rate. The table below presents the net pension liability of the Pension Plan as of June 30, 2017, calculated using the discount rate of 8.00%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (7.00%) or 1-percentage point higher (9.00%) than the current rate:

<u>1% Decrease (7.00%)</u>	<u>Discount rate (8.00%)</u>	<u>1% Increase (9.00%)</u>
\$511,960	\$393,720	\$293,283

9. Risk Management

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

The College has established a self-insured health care program for eligible College employees and covered dependents. The activity is reported in an internal service fund on these financial statements. The College limits its exposure through specific and aggregate stop-loss coverage. All claims handling procedures are performed by a third-party claims administrator. Reported unpaid claims, as well as incurred but not reported claims, have been accrued as a liability based upon the claims administrator's estimate. These claims are expected to be fully paid within one year of the financial statement date.

Changes in claims liabilities during the past year is summarized below:

Unpaid claims, June 30, 2016	\$ 388,498
Claims incurred (including incurred but not reported)	1,985,780
Claim payments	<u>(1,955,901)</u>
Unpaid claims, June 30, 2017	<u>\$ 418,377</u>

10. 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 \$95,473 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.

11. Related Party Transactions Between the College and its Component Unit

The Hutchinson Community College Endowment Association paid \$829,427 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.

12. 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.

13. Implementation of New Standard

GASB issued Statement No. 82, Pension Issues. The primary objective of this statement is to issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in the Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.. The College implemented this standard for the year ended June 30, 2017. The provisions of this statement had no significant effect on the College's current financial statements.

14. Subsequent Events

Management has evaluated the effects on the financial statements of subsequent events occurring through the date of this report, which is the date at which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

Hutchinson Community College

Other Post Employment Benefits Year ended June 30, 2017

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)
1/13/2013	\$ -	\$ 2,025,473	\$ 2,025,473	0%	\$ 15,193,064	13.33%
1/1/2015	-	1,428,104	1,428,104	0%	15,247,564	9.37%
1/1/2017	-	1,103,917	1,103,917	0%	16,380,554	6.74%

Schedule of Employer Contributions:

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2015	\$ 167,889	\$ 52,000	\$ 995,423
6/30/2016	167,209	83,000	1,079,632
6/30/2017	128,187	42,000	1,165,819

Hutchinson Community College

**Schedule of the College's Proportionate Share of the Net Pension Liability
For the Year ended June 30, 2017**

Kansas Public Employees Retirement System

Last 10 Fiscal Years*

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
College's proportion of the net pension liability (asset)	0.00%	0.00%	0.00%	0.00%	For 2007 to 2012, this data is not yet available.					
College's proportionate share of the net pension liability (asset)	\$ 393,733	\$ 391,006	\$ -	\$ -	For 2007 to 2012, this data is not yet available.					
State's proportionate share of the net pension liability (asset)	0.35%	0.36%	0.35%	0.34%						
State's proportionate share of the net pension liability (asset)	\$ 32,468,359	\$ 32,053,273	\$ 28,836,666	\$ 32,815,043	For 2007 to 2012, this data is not yet available.					
Total collective net pension liability (asset)	\$ 32,862,092	\$ 32,444,279	\$ 28,836,666	\$ 32,815,043						
College's covered-employee payroll	\$ 21,157,899	\$ 20,515,939	\$ 20,209,665	\$ 19,614,418						
College's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	155.32%	158.14%	142.69%	167.30%	For 2007 to 2012, this data is not yet available.					
Plan fiduciary net position as a percentage of the total pension liability	186.51%	185.27%	199.42%	149.64%	For 2007 to 2012, this data is not yet available.					

Hutchinson Community College

Schedule of College Contributions For the Year ended June 30, 2017

Kansas Public Employees Retirement System

Last 10 Fiscal Years*

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually required contribution	\$ 27,378	\$ 24,530	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	(27,378)	(24,530)	-	-	-	-	-	-	-	-
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
College's covered-employee payroll	\$ 21,157,899	\$ 20,515,939	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions as a percentage of covered-employee payroll	0.13%	0.12%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Note: Historically, the College has not been responsible for contributions due to being a special funding situation. The State of Kansas has paid all contributions. Due to changes in the statutes, the College is now responsible for "working after retirement" employees contributions.

Hutchinson Community College

Notes to Required Supplementary Information For the Year Ended June 30, 2017

Changes in benefit terms:

Effective January 1, 2015, a new KPERS 3 cash balance retirement plan for new hires was created. Also, effective January 1, 2015, Kansas law established the KPERS member employee contribution rate of 6% of covered salary for KPERS 1, KPERS 2, and KPERS 3 members.

Changes in assumptions:

Per the KPERS' GASB 68 actuarial report as of June 30, 2016, assumptions changed to include salary increases. It also includes changes from the updated RP-2000 Combine Mortality Tables. Further, assumptions have been updated based on the results of an actuarial experience study conducted for the three year period ending December 31, 2012.

SUPPLEMENTARY INFORMATION

Hutchinson Community College

Schedule of Cash Receipts, Expenditures, and Changes in Unencumbered Cash Budget and Actual - Budgetary Basis General Fund Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance With Final Budget Over (Under)
	Original	Final		
<u>Cash Receipts</u>				
Student sources	\$ 6,104,221	\$ 6,104,221	\$ 6,938,022	\$ 833,801
Federal sources	100,000	100,000	-	(100,000)
State sources	4,900,010	4,900,010	4,900,010	-
Local sources	14,638,497	14,638,497	14,081,935	(556,562)
Other sources	2,002,569	2,002,569	555,877	(1,446,692)
Total Cash Receipts	<u>\$27,745,297</u>	<u>\$27,745,297</u>	<u>26,475,844</u>	<u>\$ (1,269,453)</u>
<u>Expenditures and Transfers Subject to Budget</u>				
Instruction	\$ 7,343,733	\$ 7,343,733	5,902,740	\$ (1,440,993)
Public service	225,887	225,887	19,467	(206,420)
Academic support	2,027,041	2,027,041	1,525,850	(501,191)
Student services	5,873,678	5,873,678	4,742,165	(1,131,513)
Institutional support	3,601,135	3,601,135	2,748,473	(852,662)
Operation and maintenance	3,745,378	3,745,378	3,606,737	(138,641)
Scholarships	276,852	276,852	182,277	(94,575)
Transfer to Postsecondary Technical Education Fund	5,500,000	5,500,000	5,500,000	-
Nonmandatory transfers out	1,661,000	1,661,000	1,661,000	-
Total Expenditures and Transfers Subject to Budget	<u>\$30,254,704</u>	<u>\$30,254,704</u>	<u>25,888,709</u>	<u>\$ (4,365,995)</u>
Receipts Over (Under) Expenditures			587,135	
Unencumbered Cash, July 1			<u>9,326,224</u>	
Unencumbered Cash, June 30			<u>\$ 9,913,359</u>	
Unencumbered Cash, June 30			\$ 9,913,359	
Receivables			<u>272,919</u>	
GAAP fund balance (internal books)			<u>\$10,186,278</u>	

Hutchinson Community College

Schedule of Cash Receipts, Expenditures, and Changes in Unencumbered Cash Budget and Actual - Budgetary Basis Postsecondary Technical Education Fund Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance With Final Budget Over (Under)
	Original	Final		
Cash Receipts				
Student sources	\$ 4,381,853	\$ 4,381,853	\$ 3,865,069	\$ (516,784)
Federal sources	505,640	505,640	412,542	(93,098)
State sources	5,352,592	5,352,592	3,798,730	(1,553,862)
Other sources	2,381,617	2,381,617	88,916	(2,292,701)
Transfer from General Fund	5,500,000	5,500,000	5,500,000	-
Total Cash Receipts	\$ 18,121,702	\$ 18,121,702	13,665,257	\$ (4,456,445)
Expenditures Subject to Budget				
Instruction	\$ 10,265,827	\$ 10,265,827	8,225,643	\$ (2,040,184)
Public service	321,899	321,899	346,542	24,643
Academic support	1,439,077	1,439,077	1,368,014	(71,063)
Student services	2,228,878	2,228,878	960,172	(1,268,706)
Institutional support	2,405,390	2,405,390	1,950,126	(455,264)
Operation and maintenance	2,281,664	2,281,664	870,225	(1,411,439)
Scholarships	106,322	106,322	-	(106,322)
Total Expenditures Subject to Budget	\$ 19,049,057	\$ 19,049,057	13,720,722	\$ (5,328,335)
Receipts Over (Under) Expenditures			(55,465)	
Unencumbered Cash, July 1			483,343	
Unencumbered Cash, June 30			<u>\$ 427,878</u>	
Detail of unencumbered cash balance:				
Vocational Education Fund			\$ 427,790	
Perkins Grant Fund			<u>(88)</u>	
			<u>\$ 427,702</u>	
Unencumbered Cash, June 30			\$ 427,878	
Receivables			-	
Unearned revenue			<u>(1,300)</u>	
GAAP fund balance (internal books)			<u>\$ 426,578</u>	

Hutchinson Community College

Schedule of Cash Receipts, Expenditures, and Changes in Unencumbered Cash Budget and Actual - Budgetary Basis

Adult Education Fund
Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance With Final Budget Over (Under)
	Original	Final		
<u>Cash Receipts</u>				
Student sources	\$ 3,721	\$ 3,721	\$ 100	\$ (3,621)
Federal sources	151,375	151,375	76,533	(74,842)
State sources	144,099	144,099	79,156	(64,943)
Local sources	106,322	106,322	47,088	(59,234)
Private gifts and grants	5,869	5,869	-	(5,869)
Other sources	167,858	167,858	15,580	(152,278)
 Total Cash Receipts	 \$ 579,244	 \$ 579,244	 218,457	 \$ (360,787)
<u>Expenditures Subject to Budget</u>				
Instruction	\$ 423,830	\$ 423,830	195,017	\$ (228,813)
Academic support	139,391	139,391	34,806	(104,585)
 Total Expenditures Subject to Budget	 \$ 563,221	 \$ 563,221	 229,823	 \$ (333,398)
 Receipts Over (Under) Expenditures			(11,366)	
 Unencumbered Cash, July 1			12,093	
 Unencumbered Cash, June 30			\$ 727	
 Unencumbered Cash, June 30			\$ 727	
Receivables			2,493	
 GAAP fund balance (internal books)			\$ 3,220	

Hutchinson Community College

Schedule of Cash Receipts, Expenditures, and Changes in Unencumbered Cash Budget and Actual - Budgetary Basis Adult Supplementary Fund Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts Budgetary Basis	With Final Budget Over (Under)
<u>Cash Receipts</u>				
Student sources	\$ 623,851	\$ 623,851	\$ 262,199	\$ (361,652)
State sources	30,811	30,811	-	(30,811)
Private gifts and grants	3,944	3,944	26,830	22,886
Other sources	893,710	893,710	54,127	(839,583)
Total Cash Receipts	<u>\$ 1,552,316</u>	<u>\$ 1,552,316</u>	343,156	<u>\$ (1,209,160)</u>
<u>Expenditures Subject to Budget</u>				
Instruction	<u>\$ 1,291,128</u>	<u>\$ 1,291,128</u>	<u>388,633</u>	<u>\$ (902,495)</u>
Receipts Over (Under) Expenditures			(45,477)	
Unencumbered Cash, July 1			<u>294,278</u>	
Unencumbered Cash, June 30			<u>\$ 248,801</u>	
Unencumbered Cash, June 30			\$ 248,801	
Receivables			<u>30,945</u>	
GAAP fund balance (internal books)			<u>\$ 279,746</u>	

Hutchinson Community College

Schedule of Cash Receipts, Expenditures, and Changes in Unencumbered Cash Budget and Actual - Budgetary Basis Motorcycle Driver Safety Fund Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance With Final Budget Over (Under)
	Original	Final		
<u>Cash Receipts</u>				
Student sources	\$ 117,082	\$ 117,082	\$ 51,550	\$ (65,532)
State sources	61,622	61,622	16,800	(44,822)
Other sources	-	-	4,326	4,326
Total Cash Receipts	<u>\$ 178,704</u>	<u>\$ 178,704</u>	72,676	<u>\$ (106,028)</u>
<u>Expenditures Subject to Budget</u>				
Instruction	\$ 245,069	\$ 245,069	66,349	\$ (178,720)
Academic support	5,793	5,793	137	(5,656)
Total Expenditures Subject to Budget	<u>\$ 250,862</u>	<u>\$ 250,862</u>	66,486	<u>\$ (184,376)</u>
Receipts Over (Under) Expenditures			6,190	
Unencumbered Cash, July 1			<u>109,689</u>	
Unencumbered Cash, June 30			<u>\$ 115,879</u>	
Unencumbered Cash, June 30 Receivables			\$ 115,879 -	
GAAP fund balance (internal books)			<u>\$ 115,879</u>	

Hutchinson Community College

**Schedule of Cash Receipts, Expenditures, and Changes in Unencumbered Cash
Budget and Actual - Budgetary Basis
Auxiliary Enterprise Funds - Combined
Year Ended June 30, 2017**

	Budgeted Amounts		Actual				Variance With Final Budget Over (Under)
	Original	Final	Student Service Enterprises	Academic Enterprises	Central Administration	Total Budgetary Basis	
Cash Receipts							
Student sources	\$ 737,298	\$ 737,298	\$ 511,590	\$ -	\$ -	\$ 511,590	\$ (225,708)
Federal sources	35,213	35,213	-	8,818	-	8,818	(26,395)
Private gifts and grants	528,190	528,190	287,654	-	-	287,654	(240,536)
Sales	9,417,279	9,417,279	4,762,932	206,577	658,886	5,628,395	(3,788,884)
Other	1,284,994	1,284,994	44,823	94,540	-	139,363	(1,145,631)
Total Cash Receipts	\$ 12,002,974	\$ 12,002,974	5,606,999	309,935	658,886	6,575,820	\$ (5,427,154)
Expenditures and Transfers Subject to Budget							
Salaries and benefits	\$ 777,250	\$ 777,250	162,983	105,419	35,090	303,492	\$ (473,758)
General operating	2,573,456	2,573,456	700,240	49,739	630,488	1,380,467	(1,192,989)
Supplies	804,172	804,172	118,554	26,388	128,492	273,434	(530,738)
Scholarships	855,605	855,605	709,338	3,980	-	713,318	(142,287)
Cost of sales	5,131,841	5,131,841	2,307,586	137,001	-	2,444,587	(2,687,253)
Capital expenses	3,325,888	3,325,888	971,649	2,133	11,169	984,951	(2,340,937)
Mandatory transfers out (in)	-	-	550,000	-	-	550,000	550,000
Nonmandatory transfers out (in)	95,164	95,164	(62,003)	(23,000)	(348,500)	(433,503)	(528,667)
Total Expenditures and Transfers Subject to Budget	\$ 13,563,376	\$ 13,563,376	5,458,347	301,660	456,739	6,216,746	\$ (7,346,629)
Receipts Over (Under) Expenditures			148,652	8,275	202,147	359,074	
Unencumbered Cash, July 1			9,062,446	(329,464)	300,174	9,033,156	
Unencumbered Cash, June 30			\$ 9,211,098	\$ (321,189)	\$ 502,321	\$ 9,392,230	*
Unencumbered Cash, June 30			\$ 9,211,098	\$ (321,189)	\$ 502,321	\$ 9,392,230	
Receivables			30,642	57,755	147,741	236,138	
Inventory			894,209	189,529	-	1,083,738	
GAAP fund balance (internal books)			\$ 10,135,949	\$ (73,905)	\$ 650,062	\$ 10,712,106	

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

Hutchinson Community College

**Schedule of Cash Receipts, Expenditures, and Changes in Unencumbered Cash
Budget and Actual - Budgetary Basis
Student Service Enterprise Funds
Year Ended June 30, 2017**

	Budgeted Amounts		Actual				Total Budgetary Basis	Variance With Final Budget Over (Under)
	Original	Final	Athletics	Campus Store	Student Union	Student Housing		
<u>Cash Receipts</u>								
Student sources	\$ 737,298	\$ 737,298	\$ 356,156	\$ -	\$ 77,717	\$ 77,717	\$ 511,590	\$ (225,708)
Private gifts and grants	528,190	528,190	287,654	-	-	-	287,654	(240,536)
Sales	7,207,684	7,207,684	204	1,824,152	1,344,687	1,593,889	4,762,932	(2,444,752)
Other	575,741	575,741	-	13,566	10,605	20,652	44,823	(530,918)
Total Cash Receipts	\$ 9,048,913	\$ 9,048,913	644,014	1,837,718	1,433,009	1,692,258	5,606,999	\$ (3,441,914)
<u>Expenditures and Transfers Subject to Budget</u>								
Salaries and benefits	\$ 325,823	\$ 325,823	-	162,983	-	-	162,983	\$ (162,840)
General operating	1,325,533	1,325,533	4,675	52,892	118,179	524,494	700,240	(625,293)
Supplies	542,074	542,074	-	6,625	55,870	56,059	118,554	(423,520)
Scholarships	835,283	835,283	709,338	-	-	-	709,338	(125,945)
Cost of sales	4,833,333	4,833,333	-	1,560,219	747,367	-	2,307,586	(2,525,747)
Capital expenses	2,142,433	2,142,433	-	1,992	31,128	938,529	971,649	(1,170,784)
Mandatory transfers out (in)	-	-	-	-	275,000	275,000	550,000	550,000
Nonmandatory transfers out (in)	471,975	471,975	(70,000)	69,997	(62,000)	-	(62,003)	(533,978)
Total Expenditures and Transfers Subject to Budget	\$ 10,476,454	\$ 10,476,454	644,013	1,854,708	1,165,544	1,794,082	5,458,347	\$ (5,018,107)
Receipts Over (Under) Expenditures			1	(16,990)	267,465	(101,824)	148,652	
Unencumbered Cash, July 1			4	3,179,315	2,116,644	3,766,483	9,062,446	
Unencumbered Cash, June 30			\$ 5	\$ 3,162,325	\$ 2,384,109	\$ 3,664,659	\$ 9,211,098	*
Unencumbered Cash, June 30			\$ 5	\$ 3,162,325	\$ 2,384,109	\$ 3,664,659	\$ 9,211,098	
Receivables			-	30,642	-	-	30,642	
Inventory			-	894,209	-	-	894,209	
GAAP fund balance (internal books)			\$ 5	\$ 4,087,176	\$ 2,384,109	\$ 3,664,659	\$ 10,135,949	

Hutchinson Community College

Schedule of Cash Receipts, Expenditures, and Changes in Unencumbered Cash
Budget and Actual - Budgetary Basis
Academic Enterprise Funds
Year Ended June 30, 2017

	Actual													Variance With Final
	Budgeted Amounts		Child Care	Ag Mechanics	Crops	Bldg Construct	Livestock	RCIC	OSHA	Mine Safety	South Campus Motor	Wildland Fire Science	Total Budgetary Basis	Budget Over (Under)
	Original	Final												
Cash Receipts														
Federal sources	\$ 35,213	\$ 35,213	\$ 8,818	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,818	\$ (26,395)
Sales	499,183	499,183	70,095	13,760	26,548	-	35,850	4,327	-	-	55,997	-	206,577	(292,606)
Other	692,087	692,087	-	3,750	-	-	14	1,093	16,490	73,193	-	-	94,540	(597,547)
Total Cash Receipts	\$ 1,226,483	\$ 1,226,483	78,913	17,510	26,548	-	35,864	5,420	16,490	73,193	55,997	-	309,935	\$ (916,548)
Expenditures and Transfers Subject to Budget														
Salaries and benefits	\$ 370,299	\$ 370,299	82,836	-	3,095	-	-	-	10,526	9,162	-	-	105,419	\$ (264,880)
General operating	285,470	285,470	12,520	-	2,299	-	18,958	17	650	11,893	3,402	-	49,739	(235,731)
Supplies	65,982	65,982	246	4,627	39	-	-	-	3,580	1,801	16,095	-	26,388	(39,594)
Scholarships	20,322	20,322	-	-	800	-	3,180	-	-	-	-	-	3,980	(16,342)
Cost of sales	298,508	298,508	-	57,949	51,061	-	23,110	1,907	-	-	2,974	-	137,001	(161,507)
Capital expenses	74,506	74,506	-	-	-	-	-	-	-	2,133	-	-	2,133	(72,373)
Nonmandatory transfers out (in)	(27,913)	(27,913)	(27,500)	-	3,750	-	-	-	-	750	-	-	(23,000)	4,913
Total Expenditures and Transfers Subject to Budget	\$ 1,087,174	\$ 1,087,174	67,902	62,576	61,044	-	45,248	1,924	14,756	25,739	22,471	-	301,660	\$ (785,514)
Receipts Over (Under) Expenditures			11,011	(45,066)	(34,496)	-	(9,384)	3,496	1,734	47,454	33,526	-	8,275	
Unencumbered Cash, July 1			(137,401)	(120,055)	12,245	914	(91,784)	(36,608)	(70,241)	52,996	412	60,058	(329,464)	
Unencumbered Cash, June 30			\$ (126,390)	\$ (165,121)	\$ (22,251)	\$ 914	\$ (101,168)	\$ (33,112)	\$ (68,507)	\$ 100,450	\$ 33,938	\$ 60,058	\$ (321,189)	*
Unencumbered Cash, June 30			\$ (126,390)	\$ (165,121)	\$ (22,251)	\$ 914	\$ (101,168)	\$ (33,112)	\$ (68,507)	\$ 100,450	\$ 33,938	\$ 60,058	\$ (321,189)	
Receivables			677	55,007	-	-	-	-	1,000	1,071	-	-	57,755	
Inventory			-	48,385	5,644	-	135,500	-	-	-	-	-	189,529	
GAAP fund balance (internal books)			\$ (125,713)	\$ (61,729)	\$ (16,607)	\$ 914	\$ 34,332	\$ (33,112)	\$ (67,507)	\$ 101,521	\$ 33,938	\$ 60,058	\$ (73,905)	

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

Hutchinson Community College

**Schedule of Cash Receipts, Expenditures, and Changes in Unencumbered Cash
Budget and Actual - Budgetary Basis
Central Administrative Service Funds
Year Ended June 30, 2017**

	Budgeted Amounts		Actual							Variance With Final Budget Over (Under)
	Original	Final	Postage	Motor Pool	Telephone	Copier	Parking	Tuition Advance	Total Budgetary Basis	
Cash Receipts										
Sales	\$ 1,710,410	\$ 1,710,410	\$ 93,179	\$ 144,496	\$ 183,960	\$ 143,267	\$ 24,637	\$ 69,347	\$ 658,886	\$ (1,051,524)
Other	17,166	17,166	-	-	-	-	-	-	-	(17,166)
Total Cash Receipts	\$ 1,727,576	\$ 1,727,576	93,179	144,496	183,960	143,267	24,637	69,347	658,886	\$ (1,068,690)
Expenditures and Transfers Subject to Budget										
Salaries and benefits	\$ 81,127	\$ 81,127	-	35,090	-	-	-	-	35,090	\$ (46,037)
General operating	962,450	962,450	113,344	49,389	128,643	134,054	5,912	199,146	630,488	(331,962)
Supplies	196,116	196,116	-	87,134	-	41,358	-	-	128,492	(67,624)
Capital expenses	1,108,948	1,108,948	-	-	8,660	-	2,509	-	11,169	(1,097,779)
Nonmandatory transfers out (in)	(348,898)	(348,898)	(26,500)	(200,000)	(80,000)	(2,000)	(40,000)	-	(348,500)	398
Total Expenditures and Transfers Subject to Budget	\$ 1,999,743	\$ 1,999,743	86,844	(28,387)	57,303	173,412	(31,579)	199,146	456,739	\$ (1,543,004)
Receipts Over (Under) Expenditures			6,335	172,883	126,657	(30,145)	56,216	(129,799)	202,147	
Unencumbered Cash, July 1			115,398	225,306	505,699	270,368	102,730	(919,327)	300,174	
Unencumbered Cash, June 30			\$ 121,733	\$ 398,189	\$ 632,356	\$ 240,223	\$ 158,946	\$ (1,049,126)	\$ 502,321	*
Unencumbered Cash, June 30			\$ 121,733	\$ 398,189	\$ 632,356	\$ 240,223	\$ 158,946	\$ (1,049,126)	\$ 502,321	
Receivables			-	154	-	7	-	147,580	147,741	
GAAP fund balance (internal books)			\$ 121,733	\$ 398,343	\$ 632,356	\$ 240,230	\$ 158,946	\$ (901,546)	\$ 650,062	

Hutchinson Community College

Schedule of Cash Receipts, Expenditures, and Changes in Unencumbered Cash Budget and Actual - Budgetary Basis Capital Outlay Fund Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance With Final Budget Over (Under)
	Original	Final		
<u>Cash Receipts</u>				
Local sources	\$ 25,000	\$ 25,000	\$ 94	\$ (24,906)
Other sources	<u>5,386,330</u>	<u>5,386,330</u>	<u>20</u>	<u>(5,386,310)</u>
Total Cash Receipts	<u>\$ 5,411,330</u>	<u>\$ 5,411,330</u>	<u>114</u>	<u>\$ (5,411,216)</u>
<u>Expenditures and Transfers Subject to Budget</u>				
Operations and maintenance:				
Capital expense	8,206,973.00	\$ 8,206,973	565,341	\$ (7,641,632)
Retirement of indebtedness	1,222,763	1,222,763	527,424	(695,339)
Transfers (in)	<u>(1,100,000)</u>	<u>(1,100,000)</u>	<u>(1,100,000)</u>	<u>-</u>
Total Expenditures and Transfers Subject to Budget	<u>\$ 8,329,736</u>	<u>\$ 8,329,736</u>	<u>(7,235)</u>	<u>\$ (8,336,971)</u>
Receipts Over (Under) Expenditures			7,349	
Unencumbered Cash, July 1			<u>2,234,440</u>	
Unencumbered Cash, June 30			<u>\$ 2,241,789</u>	
Unencumbered Cash, June 30			<u>\$ 2,241,789</u>	
Receivables			<u>-</u>	
GAAP fund balance (internal books)			<u>\$ 2,241,789</u>	

SINGLE AUDIT SECTION

Hutchinson Community College
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Identifying Number	Disbursements/ Expenditures
<u>Department of Education</u>			
Student Financial Aid (SFA) Cluster			
Supplemental Education Opportunity Grant	84.007	P007A151519	\$ 123,199
Federal Work Study Program	84.033	P033A151519	126,512
PELL Grant	84.063	P063P150142	6,576,022
Federal Direct Student Loan	84.268	P268K160142	7,179,033
Total Student Financial Aid (SFA) Cluster			<u>14,004,766</u>
Passed Through Kansas Board of Regents:			
Adult Education State Grant	84.002		76,533
Vocational Education - Basic	84.048		<u>405,004</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>14,486,303</u>
<u>Department of Labor</u>			
Direct Programs:			
Mine Health and Safety 15-16	17.600	MS-27042-15-55-R-20	24,268
Mine Health and Safety 16-17	17.600	MS-28599-16-55-R-20	<u>77,632</u>
TOTAL DEPARTMENT OF LABOR			<u>101,900</u>
<u>Department of Agriculture</u>			
Passed Through State Department of Education:			
Child and Adult Care Food Program	10.558		<u>7,547</u>
TOTAL DEPARTMENT OF AGRICULTURE			<u>7,547</u>
<u>Corporation for National and Community Service</u>			
Retired Senior Volunteer Program 15-16	94.002	10SRWKS013	57,909
Retired Senior Volunteer Program 16-17	94.002	16SRWKS008	<u>16,545</u>
TOTAL RETIRED SENIOR VOLUNTEER PROGRAM			<u>74,454</u>
<u>Department of the Treasury</u>			
Volunteer Income Tax Assistance	21.009		<u>23,809</u>
<u>Department of Commerce</u>			
Mid-America Manufacturing Technology Center	11.611	70NANB15H052	174,354
Mid-America Manufacturing Technology Center	11.611	70NANB15H052	<u>6,681</u>
TOTAL DEPARTMENT OF COMMERCE - MANUFACTURING EXTENSION PARTNERSHIP			<u>181,035</u>
TOTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS			<u>\$ 14,875,048</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Hutchinson Community College of Hutchinson, Kansas, under programs of the federal government for the year ended June 30, 2017. The information in the Schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the College, it is not intended to and does not present the financial position, changes in net position, or cash flows of the College.

Note 2 - Summary of Significant Account Policies

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(2) The College has not elected to use the 10 percent *de minimis* indirect cost rate as allowed under the Uniform Guidance.

**INDEPENDENT AUDITOR'S 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
Hutchinson, Kansas

We have audited, in accordance with the 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 business-type activities, and the aggregate discretely presented component unit of Hutchinson Community College, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Hutchinson Community College's basic financial statements, and have issued our report thereon dated December 6, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hutchinson Community College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hutchinson Community College's internal control. Accordingly, we do not express an opinion on the effectiveness of Hutchinson Community College's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify two certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency (2017-001 and 2017-002).

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hutchinson Community College's financial statements are free from 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*.

Hutchinson Community College's Response to Findings

Hutchinson Community College's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Hutchinson Community College's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Swindoll, Janzen, Hawk, & Loyd, LLC

Swindoll, Janzen, Hawk, & Loyd, LLC
Hutchinson, Kansas

December 6, 2017

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Trustees
Hutchinson Community College
Hutchinson, Kansas

Report on Compliance for Each Major Federal Program

We have audited Hutchinson Community College's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the College's major federal programs for the year ended June 30, 2017. 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.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the College's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the College's compliance.

Opinion on Each Major Federal Program

In our opinion, the College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

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Report on Internal Control Over Compliance

Management of the College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the College's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The College's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The College's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Swindoll, Janzen, Hawk & Loyd, LLC

Swindoll, Janzen, Hawk, and Loyd, LLC
Hutchinson, Kansas

December 6, 2017

Hutchinson Community College

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2017

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on the financial statements of Hutchinson Community College, Hutchinson, Kansas were prepared in accordance with GAAP.
2. Significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of Hutchinson Community College, Hutchinson, Kansas, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies related to the audit of the major federal award programs as reported in the Independent Auditor's Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and Internal Control over Compliance Required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs for Hutchinson Community College, Hutchinson, Kansas expresses an unmodified opinion.
6. There is one audit finding that is required to be reported in accordance with 2CFR section 200.516(a).
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

8. The threshold for distinguishing Types A and B program was \$750,000.
9. Hutchinson Community College, Hutchinson, Kansas was determined to be a low-risk auditee.

FINDINGS--FINANCIAL STATEMENTS AUDIT

2017-001 SIGNIFICANT DEFICIENCY – CAPITAL ASSETS

Condition: The College's current capital asset policies and procedures do 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 also be in existence, which 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.

FINDINGS--FINANCIAL STATEMENTS AUDIT (CONT.)

2017-001 SIGNIFICANT DEFICIENCY – CAPITAL ASSETS (CONT.)

Recommendation: We recommend that a committee of various key people involved in tracking the capital assets be formed to review processes, procedures, and policies regarding capital assets and then also implement the committee's decisions College-wide. This will give the various departments and employees some buy-in to the policies and procedures of the College as well as spread the responsibility of enforcing the policies and procedures to more people, not just the Business Office. It should also help facilitate the awareness and compliance with these policies and procedure.

Views of Responsible Officials and Planned Corrective Actions: Management agrees with this finding. Steps are being taken to start the process recommended above.

FINDINGS AND QUESTIONED COSTS--MAJOR FEDERAL AWARD PROGRAMS AUDIT

Student Financial Aid Programs

Federal Supplemental Education Opportunity Grant, CFDA No. 84.007. Federal Work-Study Program CFDA No. 84.033. Federal Pell Grant Program CFDA No. 84.063. Federal Direct Student Loan Program CFDA No. 84.268.

2017-002 SIGNIFICANT DEFICIENCY – STATUS UPDATES

Condition: During current year testing, we reviewed the status updates for 15 students who graduated during the year (2 fall graduates, 13 spring graduates). The status was not properly updated for 13 of the 15 students selected for testing.

Criteria: 34 CFR 685.309 When a student who received a Direct Loan disbursement either fails to begin attendance or begins attendance on a less than half-time basis, the school must report the change in the student's enrollment status to the Department using the NSLDS enrollment reporting process. Unless it expects to submit its next updated enrollment report to the Secretary within the next 60 days, a school must notify the Secretary within 30 days after the date the school discovers that the student has ceased to be enrolled on at least a half-time basis or failed to enroll on at least a half-time basis for the period for which the loan was intended.

Cause: The condition was caused by an error in the batch upload of the graduates report to the NSLDS system.

Effect: The grace periods / repayment status for these students did not start on time.

Questioned Costs: None.

Context: Thirteen of the 15 students selected for testing did not have updated status in the Records office. This error was limited to the June graduates report batch upload to the NSLDS system.

Repeat Finding: This is not a repeat finding.

Recommendation: The records office should review the batches to ensure proper upload to the NSLDS system.

Views of Responsible

Officials: The College has submitted a Corrective Action Plan to reconcile this condition.



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Summary Schedule of Prior Year Audit Findings For the Year Ended June 30, 2017

FINDINGS--FINANCIAL STATEMENTS AUDIT

2016-001 SIGNIFICANT DEFICIENCY – CAPITAL ASSETS

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

Recommendation: The auditors recommended 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. Management concurred with the recommendation and indicated that the procedures would be implemented.

Current Status: The recommended procedures were implemented. The College had similar findings for 2017. The College is working on implementing additional procedures as noted in Finding 2017-001 on the Schedule of Findings and Questioned Costs.

FINDINGS AND QUESTIONED COSTS--MAJOR FEDERAL AWARD PROGRAMS AUDIT

Student Financial Aid Programs

There were no reportable findings for the year ended June 30, 2016.