WESTERN KANSAS COMMUNITY COLLEGE
VIRTUAL EDUCATION CONSORTIUM

Financial Statements With Independent Auditors' Report

For the Years Ended June 30, 2018 and 2017

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TABLE OF CONTENTS

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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Western Kansas Community College Virtual Education Consortium
Great Bend, Kansas

We have audited the accompanying financial statements of the business-type activities of **Western Kansas Community College Virtual Education Consortium**, as of and for the year ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Consortium'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 the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, 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 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.

Basis for Qualified Opinion on Proprietary Fund

As more fully described in Note 8 to the financial statements, the Consortium does not include the required annual cost and long-term obligation of the Consortium's other post employment benefits as required by Governmental Auditing Standards Board Statement Number 75. Accounting principles generally accepted in the United States of America require the financial data for these other post employment benefits be reported in the financial statements. The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, and expenses of the business-type activities has not been determined.

Qualified Opinion

In our opinion, except for the effects of the matter discussed in the Basis for Qualified Opinion on Proprietary Fund paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of **Western Kansas Community College Virtual Education Consortium** as of June 30, 2018 and 2017, and the results of its operations and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 thru 5 and schedule of proportionate share of the collective net pension liability and schedule of the Consortium's contributions on pages 19 and 20 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.

Adams, Brown, Beran & Ball, Chartered

ADAMS, BROWN, BERAN & BALL, CHTD.
Certified Public Accountants

September 28, 2018

Overview of the Financial Statements and Financial Analysis

Western Kansas Community College Virtual Education Consortium is presenting this discussion and analysis of its financial statements to provide an overview of the financial activities for the year. It is presenting its annual financial statements in accordance with pronouncements issued by the Government Accounting Standards Board (GASB), the authoritative body for establishing Generally Accepted Accounting Principles (GAAP) for state and local governments, including public institutions of higher learning.

The Consortium was created by six western Kansas community colleges to jointly develop and market general education courses over the internet. It was created in 1999 and has operated successfully since that time. The initial investments made by the colleges were completely repaid and the Consortium continues to produce quality education to students at a fair value.

The basic financial statements focus on the Consortium as a whole. These statements are designed to emulate corporate presentation models. There are three financial statements presented: the Statement of Net Position; the Statement of Revenues, Expenses, and Change in Net Position; and the Statement of Cash Flows. The statements are presented on a comparative basis. The emphasis of the discussion will include this comparison.

Statement of Net Position

The Statement of Net Position is a point in 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 Consortium. The Statement of Net Position presents end-of-year data concerning Assets (current and noncurrent), Liabilities (current and noncurrent), and Net Position (assets minus liabilities).

From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue the operations of the Consortium. They are also able to determine how much the Consortium owes vendors and others. The Statement of Net Position provides a picture of the net position (assets minus liabilities) and its availability for expenditure by the Consortium. The net position of the consortium is unrestricted and is available for any lawful purposes.

		2018	2017
Assets			
Current Assets	$	**1,331,059**	1,182,994
Capital Assets		**136,534**	182,355
Deferred Outflows		**74,022**	107,431
Total Assets		**1,541,615**	1,472,780
Liabilities			
Current Liabilities		**461,526**	508,323
Noncurrent Liabilities		**200,964**	207,015
Deferred Inflows		**14,937**	10,147
Total Liabilities		**677,427**	725,485
Net Position			
Investment in Capital Assets		**136,534**	182,355
Unrestricted		**727,654**	564,940
Total Net Position	$	**864,188**	747,295

The net position of the Consortium is primarily cash and accounts receivable from consortium members. They are available for future appropriations to members and to continue research and development of new courses and educational opportunities and improving existing coursework. As of the end of June, 2018, the Consortium's success has provided continued cash appropriations to the members. Past appropriations completed the repayment of the initial investment made by the members. Noncurrent liabilities, deferred outflows and deferred inflows, are primarily adjustments to identify pension liabilities. Reductions in Capital Assets is depreciation. There have been no additions during the year.

Statement of Revenues, Expenses and Change in Net Position

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

Generally speaking, operating revenues are received for providing educational services to the various customers and constituencies of the Consortium. The revenues are primarily tuition received from students taking courses from the Consortium. The six colleges enroll and charge tuition and fees to their students and then pay the resulting revenues to the Consortium. Operating expenses are those expenses paid to produce the educational services provided in return for the operating revenues, and to carry out the mission of the Consortium. Non-operating revenues (expenses) are amounts for which educational services are not provided. For the Consortium, nonoperating revenues (expenses) are interest on cash balances, service charges, coursework research and appropriations to members.

	2018	2017
Operating Revenues	$ **2,716,278**	2,743,585
Operating Expenses	**2,095,451**	2,069,597
Net Operating Income	**620,827**	673,988
Net Nonoperating Revenues (Expenses)	**(503,934)**	(514,818)
Change in Net Position	**116,893**	159,170
Total Net Position, Beginning	**747,295**	588,125
Total Net Position, Ending	$ **864,188**	747,295

The operating revenues of the Consortium are primarily tuition and fees generated from the sale of education to students. Revenues also include online text books purchased by students. Credit hour production decreased by approximately 1.4% while tuition rates increased 2.0% during the Fall 2017. Expenditures are much improved with good management of spending. The increase in expenditures is caused by adjustments in noncurrent liabilities, deferred outflows and deferred inflows that are not controlled by the Consortium. Operating income is normally used to continue needed research into new education possibilities and continue appropriation payments to members.

Even though credit hour production had a modest decline this year there are currently effective efforts for growth underway. The Consortium is also continuing to improve the engagement of students earlier in the enrollment process which is helping maintain a larger student base per course. The Consortium partners are offering more online degrees, which allow more use of the assigned general education classes. Furthermore, there has also been strengthening in the number of partnerships with others in the education industry which has helped the Consortium with improving marketing efforts, student course selection and use. All of these improvements along with industry wide increased use of distance education and the increased marketing efforts in other states should help to continue the Consortium's success.

Statement of Cash Flows

The final statement presented by the Consortium is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the Consortium during the year. It is divided into cash flows from operating activities, capital activities, noncapital activities and investing activities. It reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Change in Net Position.

		2018	2017
Net Cash Provided (Used) By			
Operating Activities	$	**617,327**	855,777
Capital and Related Financing Activities		**(550,000)**	(650,639)
Noncapital Financing Activities		**42,575**	37,798
Investing Activities		**3,491**	2,459
Net Change in Cash		**113,393**	245,395
Cash - Beginning		**818,775**	573,380
Cash - Ending	$	**932,168**	818,775

Cash flows from operations for the year will continue to contribute to research of new educational possibilities and future appropriation payments to members. The net change in cash is caused primarily by timing of accounts receivable payments and is not a cause for concern. The cash balance at the end of the year is sufficient to maintain the operations of the Consortium.

Economic Outlook

The Consortium has been successful since its inception. Future success will be dependent on developing courses needed and desired by students, successfully marketing these education products, and continuing to find methods to improve and maintain excellent service and quality. The investors and management are committed to continuing successful operations of the Consortium.

Dr. Esther Lahargoue
Chief Executive Officer

WESTERN KANSAS COMMUNITY COLLEGE VIRTUAL EDUCATION CONSORTIUM
Statements of Net Position
Proprietary Fund
June 30, 2018 and 2017

ASSETS

		2018	2017
Current Assets			
Cash	$	**932,168**	818,775
Accounts Receivable		**363,650**	327,640
Prepaid Expenses		**35,241**	36,579
Total Current Assets		**1,331,059**	1,182,994
Noncurrent Assets			
Capital Assets, Net		**136,534**	182,355
Deferred Outflows of Resources			
Deferred Outflows - Pensions		**74,022**	107,431
Total Assets and Deferred Outflows of Resources		**1,541,615**	1,472,780

LIABILITIES

Current Liabilities			
Accounts Payable		**39,967**	100,439
Accrued Salaries		**58,614**	55,322
Deferred Tuition		**299,454**	301,640
Compensated Absences		**63,491**	50,922
Total Current Liabilities		**461,526**	508,323
Noncurrent Liabilities			
Net Pension Liability		**200,964**	207,015
Deferred Inflows of Resources			
Deferred Inflows - Pensions		**14,937**	10,147
Total Liabilities and Deferred Inflows of Resources		**677,427**	725,485

NET POSITION

Invested in Capital Assets, Net of Related Debt		**136,534**	182,355
Unrestricted		**727,654**	564,940
Total Net Position	$	**864,188**	747,295

The notes to the financial statements are an integral part of this statement.

WESTERN KANSAS COMMUNITY COLLEGE VIRTUAL EDUCATION CONSORTIUM
Statements of Revenues, Expenses and Change in Net Position
Proprietary Fund
For the Years Ended June 30, 2018 and 2017

		2018	2017
Operating Revenues			
Tuition	$	**2,715,122**	2,737,218
Commissions		**1,156**	1,467
Platform		**-**	4,900
Total Operating Revenues		**2,716,278**	2,743,585
Operating Expenses			
Digital Asset Fees		**366,482**	417,195
Instructional Costs		**805,943**	847,746
Salaries and Benefits		**617,438**	531,040
Marketing		**96,876**	88,943
Travel		**16,328**	13,361
Supplies		**19,211**	15,188
Legal and Accounting		**40,794**	34,166
Office Overhead		**43,067**	36,455
Utilities		**15,571**	14,406
Website		**27,800**	33,540
Platform Costs		**120**	5,542
Depreciation		**45,821**	32,015
Total Operating Expenses		**2,095,451**	2,069,597
Net Operating Income		**620,827**	673,988
Nonoperating Revenues (Expense)			
State Aid - KPERS		**42,575**	37,798
Investment Income		**3,491**	2,459
Member Appropriations		**(550,000)**	(555,075)
Net Nonoperating Revenues (Expense)		**(503,934)**	(514,818)
Change in Net Position		**116,893**	159,170
Net Position - Beginning		**747,295**	588,125
Net Position - Ending	$	**864,188**	747,295

The notes to the financial statements are an integral part of this statement.

WESTERN KANSAS COMMUNITY COLLEGE VIRTUAL EDUCATION CONSORTIUM
Statements of Cash Flows
For the Years Ended June 30, 2018 and 2017

		2018	2017
Cash Flows From Operating Activities			
Tuition	$	**2,676,926**	2,921,503
Commissions and Royalty		**1,156**	1,467
Consulting Services		**-**	4,900
Payments for Salaries and Benefits		**(1,435,844)**	(1,432,754)
Payments for Contractual Services		**(393,064)**	(436,820)
Payments for Utilities		**(15,571)**	(14,406)
Payments for Marketing		**(96,876)**	(88,943)
Payments for Other Administration Costs		**(119,400)**	(99,170)
Net Cash Provided by Operating Activities		**617,327**	855,777
Cash Flows From Noncapital Financing Activities			
State Aid - KPERS		**42,575**	37,798
Cash Flows From Capital and Related Financing Activities			
Purchase of Capital Assets		**-**	(95,564)
Member Appropriations		**(550,000)**	(555,075)
Net Cash Used by Capital and Related Financing Activities		**(550,000)**	(650,639)
Cash Flows From Investing Activities			
Interest and Dividends on Investments		**3,491**	2,459
Net Increase in Cash		**113,393**	245,395
Cash - Beginning of Year		**818,775**	573,380
Cash - End of Year	$	**932,168**	818,775

Reconciliation of Net Operating Income to Net Cash Used by Operating Activities

Net Operating Income	$	**620,827**	673,988
Adjustments to Reconcile Net Operating Income to Net Cash Provided By Operating Activities			
Depreciation		**45,821**	32,015
(Increase) Decrease in			
Accounts Receivable		**(36,010)**	164,735
Prepaid Expenses		**1,338**	19,457
Increase (Decrease) in			
Accounts Payable		**(60,472)**	9,801
Accrued Salaries		**3,292**	(45,199)
Deferred Tuition		**12,569**	(2,432)
Compensated Absences		**(2,186)**	19,550
Net Pension Liability		**32,148**	(16,138)
Net Cash Provided by Operating Activities	$	**617,327**	855,777

The notes to the financial statements are an integral part of this statement.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Western Kansas Community College Virtual Education Consortium (Consortium) was organized under the inter-local cooperative agreement act authorized by K.S.A. 12-2901 and approved by the office of the Attorney General on October 29, 2002 and the Board of Regents on November 14, 2002. The Consortium functions as a special purpose government and encompasses the geographic areas in Western Kansas served by the Community Colleges of Barton, Colby, Dodge City, Garden City, Pratt and Seward County. The Consortium offers online courses under the name EduKan. EduKan provides access to quality higher education through degrees, certificates, individual courses, support services and emerging market-driven programming through distance education.

At inception of the Consortium, the six member Colleges invested equal funds to support the project's operation and development. As revenues exceeded expenses an appropriate level of cash reserves was established. As of January 2007, the entire amount of the original investment has been returned to the respective Colleges.

Financial Reporting Entity

The Consortium is governed by a separate Board of Directors comprised of the six member College Presidents. The accounting and reporting policies of the Consortium, relating to the funds included in the accompanying financial statements, conform to generally accepted accounting principles applicable to public institutions engaged in business-type activities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies of the Consortium are described below.

Use of Estimates

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

Measurement Focus and Basis of Accounting

The Consortium's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and liabilities associated with the operation of the Consortium are included in the statement of net position. The statement of revenues, expenses and change in net position presents increases and decreases in net position. Under the accrual basis of accounting, revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Revenues are recognized as soon as they are both measurable and available.

When both restricted and unrestricted resources are available for use, it is the Consortium's policy to use restricted resources first and then unrestricted resources as needed.

Revenue Classification

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

Operating Revenues – Operating revenues include activities that have the characteristics of exchange transactions, such as student tuition and fees and sales and services of auxiliary enterprises.

Nonoperating Revenues – Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, such as state aid, property taxes and investment income.

Cash
For purposes of the statement of cash flows, cash consists of checking and money market accounts.

Accounts Receivable
Accounts receivable consists of tuition and fee charges to students. The member Colleges receive billings from the Consortium for the tuition due from the students enrolled through their respective College. The balance shown as accounts receivable at June 30, 2018 and 2017 is considered to be 100% collectible by management since each College is responsible for collecting their own receivables from the students. Accordingly, no provision has been established for doubtful accounts.

Inventory and Prepaid Items
Payments made to vendors for goods and services that will benefit periods beyond the current year are recorded as prepaid items when they are deemed material and it is considered appropriate. Prepaid contract fees and prepaid payroll include the amounts paid for summer sessions not yet completed. The Consortium maintains no significant inventory of office supplies. These items are expensed as purchased and no inventory is recorded in the financial statements.

Deferred Revenue
Summer session tuition and fees billed to students who enroll in May and June are allocated over the days of the course and the portion related to the subsequent accounting period is recorded as deferred revenue.

Capital Assets
Capital assets include property and equipment. Capital assets are defined by the Consortium as assets with an initial unit cost of $5,000 or more. Such assets are recorded at historical cost or estimated cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized as projects are constructed. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the assets' lives are not capitalized.

Property and equipment of the Consortium are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Office and Computer Equipment	3-5

Deferred Outflows and Inflows of Resources
In addition to assets, the statement of financial position may report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Consortium reports collective deferred outflows for pensions. See Note 7 for more information on these deferred outflows.

In addition to liabilities, the statement of financial position may report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The Consortium reports collective deferred inflows for pensions. See Note 7 for more information on these deferred inflows.

On-Behalf Payments for Employee Benefits
The Consortium recognizes revenues and expenses for contributions made by the State of Kansas to the Kansas Public Employees Retirement System (KPERS) on behalf of the Consortium's employees.

Net Position
The Consortium's net position can be presented in the following categories:

a. *Invested in capital assets, net of related debt*: This represents the Consortium's total investment in capital assets, net of outstanding debt obligations related to those capital assets.

b. *Restricted net position – expendable*: Expendable restricted net position includes resources in which the Consortium is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties. The Consortium has no expendable restricted net position at June 30, 2018.

c. *Restricted net position – nonexpendable:* Nonexpendable restricted net position is when there are limitations imposed on the resources' use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Consortium has no nonexpendable restricted net position at June 30, 2018 and 2017.

d. *Unrestricted net position* – Unrestricted net position represents resources derived from student tuition and fees and sales and services of auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the Consortium and may be used at the discretion of the board to meet current expenses for any lawful purpose.

NOTE 2 – BUDGETARY INFORMATION

The Consortium is not subject to the legal annual operating budget requirements, but is controlled by the use of an internal budget established by the governing body. As the Consortium is not subject to these requirements, comparison to budget has been waived on the financial statements.

NOTE 3 – DEPOSITS AND INVESTMENTS

K.S.A. 9-1401 establishes the depositories which may be used by the Consortium. The statute requires banks eligible to hold the Consortium's funds have a main or branch bank in the county in which the Consortium is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The Consortium has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the Consortium's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The Consortium has no investment policy that would further limit its investment choices.

Concentration of Credit Risk
State statutes place no limit on the amount the Consortium may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and K.S.A. 9-1405.

Custodial Credit Risk – Deposits
Custodial credit risk is the risk that, in the event of a bank failure, the Consortium's deposits may not be returned to it. State statutes require the Consortium's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. The Consortium does not use "peak periods". All deposits were legally secured at June 30, 2018 and 2017.

The Consortium's carrying amount of deposits was $932,168 and $818,775 and the bank balance was $941,712 and $822,965 at June 30, 2018 and 2017, respectively. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, $250,000 was covered by federal depository insurance and $691,712 and $572,965 was collateralized by securities held by the pledging institutions' agents in the Consortium's name at June 30, 2018 and 2017, respectively.

Custodial Credit Risk - Investments
For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the Consortium will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured. The Consortium had no investments at June 30, 2018 and 2017.

NOTE 4 – CAPITAL ASSETS

The following is a summary of changes in the various capital asset categories for the year ended June 30, 2018 for **Western Kansas Community College Virtual Education Consortium**.

		Beginning Balance	Increases	Decreases	**Ending Balance**
Office Equipment	$	239,526	-	-	**239,526**
Accumulated Depreciation		(57,171)	(45,821)	-	**(102,992)**
Capital Assets, Net	$	182,355	(45,821)	-	**136,534**

The following is a summary of changes in the various capital asset categories for the year ended June 30, 2017

		Beginning Balance	Increases	Decreases	Ending Balance
Office Equipment	$	77,962	161,564	-	239,526
Accumulated Depreciation		(25,156)	(32,015)	-	(57,171)
Capital Assets, Net	$	52,806	129,549	-	182,355

NOTE 5 – LITIGATION

Western Kansas Community College Virtual Education Consortium is party to various legal proceedings which normally occur in governmental operations. The legal proceedings are not likely to have a material financial impact on the funds of the Consortium.

NOTE 6 – RISK MANAGEMENT

Western Kansas Community College Virtual Education Consortium 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. The Consortium has been unable to obtain health insurance at a cost it considered to be economically justifiable. For this reason, the County joined together with other counties in the State to participate in the State Employee Health Plan (SEHP), a public entity risk pool currently operating as a common risk management and insurance program for 88,821 covered lives.

The Consortium pays monthly premiums to the SEHP for its health insurance coverage. The agreement to participate provides that the SEHP will be self-sustaining through member premiums and will not reinsure through commercial companies. Additional premiums may be due if total claims for the pool are different than what has been anticipated by SEHP management.

The Consortium carries commercial insurance for all other risks of loss, including property, general liability, automobile, crime, cyber liability, directors and officers' professional liability, inland marine and workers' compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 7 – DEFINED BENEFIT PENSION PLAN

Plan Description

Western Kansas Community College Virtual Education Consortium participates in a cost-sharing multiple-employer pension plan (Pension Plan), as defined in Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans*. The Pension Plan is administered by the Kansas Public Employees Retirement System (KPERS), a body corporate and an instrumentality of the State of Kansas. KPERS provides benefit provisions to the following statewide pension groups under one plan, as provided by K.S.A. 74, article 49:

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

Substantially all public employees in Kansas are covered by the Pension Plan. Participation by local political subdivisions is optional, but irrevocable once elected.

Those employees participating in the Pension Plan for the Consortium are included in the State/School employees group.

KPERS issues a stand-alone comprehensive annual financial report, which is available on the KPERS website at www.kpers.org.

Benefits

Benefits are established by statute and may only be changed by the Legislature. 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 service equal 85.

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 K.S.A. 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. The 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. For all pension coverage groups, the retirement benefits are disbursed from the retirement benefit payment reserve fund as established by K.S.A. 74-4922.

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 5 years of service or 60 with 30 years of service. Early retirement is available at age 55 with 10 years of service with a reduced benefit. Monthly benefit options are an annuity benefit based on the account balance at retirement.

Special Funding Situation
The employer contributions for community colleges, as defined in K.S.A.74-4931(2) and (3), are funded by the State of Kansas on behalf of the employer. Therefore, the Consortium is considered to be in a special funding situation as defined by GASB Statement No. 68, Accounting and Financial Reporting for Pensions. The State is treated as a nonemployer contributing entity in the System. Since the Consortium does 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 Consortium also makes contributions directly to KPERS for KPERS retirees filling KPERS covered positions per K.S.A. 74-4937, “working after retirement” employees. The resulting proportional share of these agencies “working after retirement” contributions and resulting net position liability are attributable to the Consortium. These amounts are reflected separately and recorded in the financial statements.

Contributions
Member contributions 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 are determined based on the results of an annual actuarial valuation. The contributions and assets of all groups are deposited in the Kansas Public Employees Retirement Fund established by K.S.A. 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 1.2% of total payroll for the fiscal year ended June 30, 2017.

The actuarially determined employer contribution rate and the statutory contribution rate for school employees was 16.03% and 10.81%, respectively, for the fiscal year ended June 30, 2017. The actuarially determined employer contribution rate and the statutory contribution rate for school employees was 16.00% and 10.91%, respectively, for the fiscal year ended June 30, 2016. The Consortium is required to make all contributions on behalf of KPERS retirees working after retirement.

Contributions to the pension plan for the Consortium were $14,830 and $14,394 for the fiscal years ended June 30, 2018 and 2017, respectively.

Employer and Nonemployer 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 identity 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.

The allocation percentages for the Consortium's share of the collective pension amounts as of June 30, 2017 and 2016 were based on the ratio of each employer's contributions to the total of the employer and nonemployer contributions of the group for the fiscal years ended June 30, 2017 and 2016, respectively.

The contributions used exclude contributions made for prior service, excess benefits and irregular payments.

Net Pension Liability
Net pension liability activity for the following years ended is as follows:

	June 30, 2018	June 30, 2017
State Share of Net Pension Liability	$ 411,449	$ 397,677
College Share of Net Pension Liability	200,964	207,015
Measurement Date	June 30, 2017	June 30, 2016
Valuation Date	December 31, 2016	December 31, 2015
College's Proportion	.00299%	.00308%
Change in Proportion	-.0009%	.0005%

Actuarial Assumptions
The actuarial valuation used the following actuarial assumptions applied to all periods included in the measurement:

Price inflation	2.75%
Wage inflation	3.50%
Salary increases, including wage increases	3.50% to 12.00%, including inflation
Long-term rate of return net of investment expense, including price inflation	7.75%

Mortality rates were based on the RP-2014 Mortality Tables, with age setbacks and age set forwards as well as other adjustments based on different membership groups. Future mortality improvements are anticipated using Scale MP-2016.

The actuarial assumptions used in the December 31, 2016 valuation were based on the results of an actuarial experience study conducted for the period January 1, 2013 through December 31, 2015. The experience study is dated November 18, 2016.

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 of the most recent experience study, dated November 18, 2016, as provided by KPERS' investment consultant, are summarized in the following table:

Asset Class	Long-Term Target Allocation	Long-Term Expected Real Rate of Return
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	2.00	(0.25)
Total	100.00%	

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. 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 school employers do not necessarily contribute the full actuarial 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 plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Consortium's proportionate share of the net pension liability calculated using the discount rate of 7.75%, as well as what the Consortium's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.75%) or 1 percentage point higher (8.75%) than the current rate:

1% Decrease (6.75%)	Discount Rate (7.75%)	1% Increase (8.75%)
$267,930	$200,964	$144,458

Pension Expense

For the years ended June 30, 2018 and 2017, the Consortium recognized pension revenue of $42,575 and $37,798, respectively, for support provided by the State in the form of nonemployer contributions to KPERS on the Consortium's behalf. The Consortium recognized pension expense of $42,716 and $42,191 for June 30, 2018 and 2017, respectively, 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 for employer contributions to KPERS for working after retirement employees.

Deferred Outflows of Resources and Deferred Inflows of Resources
At June 30, 2018, the Consortium reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

		2018		2017	
		Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	$	-	9,994	-	9,773
Net differences between projected and actual earnings on investments		-	-	-	-
Changes in assumptions		-	266	-	374
Changes in proportion		63,497	4,677	92,597	-
Contributions subsequent to measurement date		10,525	-	14,834	-
Total	$	**74,022**	**14,937**	107,431	10,147

The $10,525 reported as deferred outflows of resources related to pensions resulting from Consortium contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ended June 30, 2018. Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	
2018	$ 21,530
2019	24,038
2020	5,486
2021	(2,661)
2022	167

Pension Plan Fiduciary Net Position
Detailed information about the pension plan's fiduciary net position is available in the separately issued KPERS financial report.

NOTE 8 – OTHER POST EMPLOYMENT BENEFITS

The Consortium allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the Consortium is subsidizing the retirees because each participant is charged a level of premium regardless of age. However, the cost of this subsidy has not been quantified in these financial statements.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the Consortium makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured.

NOTE 9 – COMPENSATED ABSENCES

All full-time employees (40 hours per week) are eligible for vacation, personal leave and sick leave. Upon resignation or retirement, all unused vacation and sick leave will be paid to the employee at his/her current salary.

Personal Leave
Paid personal days are used to provide time off from work for personal reasons and are used at the employee's discretion. Paid personal leave consists of 16 hours per fiscal year. Unused hours are not eligible for carry over to the next fiscal year or payout when employment terminates.

Vacation
Each employee is entitled to 160 hours each year at the start of the fiscal year. Employees may carry over up to 80 hours of vacation at the end of the fiscal year. If the hours are not used by October 31st they will be forfeited. The Consortium's potential liability for vacation has been estimated at $11,462 and $8,155 at June 30, 2018 and 2017, respectively, and is recorded in the financial statements.

Sick Leave
Each employee is entitled to 80 hours each year at the start of the fiscal year. Employees may carry over unused sick leave each year, but may not accumulate more than a total of 720 hours. Any unused sick leave in excess of 720 hours will be forfeited. The Consortium's potential liability for sick leave has been estimated at $52,029 and $42,767 at June 30, 2018 and 2017, respectively, and is recorded in the financial statements.

Compensatory Time
The Consortium does not have an official compensatory time policy. Due to one employee working an excessive amount of additional time during the holidays, a one time exception was given to allow the additional hours to be carried over at fiscal year end. There was no potential liability for compensatory time at June 30, 2018 and 2017.

NOTE 10 – OPERATING LEASE

On February 14, 2018, the Consortium entered into an extension term on an operating lease agreement for office space with Moore Development Corporation from March 1, 2018 through February 28, 2019 for a monthly amount of $800. The Consortium paid $9,534 and $9,447 for rent for the years ended June 30, 2018 and 2017, respectively.

The following is a schedule of future payments:

Year Ending		Total
2019	$	6,400

NOTE 11 – MEMBER APPROPRIATIONS

Each fiscal year end, the Consortium calculates the revenues that exceed expenses and an appropriation is returned back to the six member Colleges. Thirty percent of the total appropriation available is allocated equally among the members. The other seventy percent is based on the amount of credit hours each member purchased through EduKan and is allocated respectively. The appropriation amount available for distribution was $550,000 and $555,075 at June 30, 2018 and 2017, respectively.

NOTE 12 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 28, 2018, which is the date the financial statements were available to be issued. On August 1, 2018, the Consortium entered into a withdrawal agreement with Garden City Community College (GCCC) and Colby Community College (CCC) effective August 3, 2018. All rights and obligation under the terms of the Interlocal Agreement ceased between the Consortium, GCCC and CCC. The withdrawal amount shall be equal to 16.58% of Net Position for GCCC and 17.64% of Net Position for CCC as of June 30, 2018.

WESTERN KANSAS COMMUNITY COLLEGE VIRTUAL EDUCATION CONSORTIUM

Required Supplementary Information

WESTERN KANSAS COMMUNITY COLLEGE VIRTUAL EDUCATION CONSORTIUM
Schedule of Proportionate Share of the Collective Net Pension Liability
Kansas Public Employees Retirement System
June 30, 2018

		June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Measurement Date		**June 30, 2017**	June 30, 2016	June 30, 2015	June 30, 2014
The Consortium's proportion of the collective net pension liability		**0.00299%**	0.00308%	0.00303%	0.00264%
The Consortium's proportionate share of the net pension liability	$	**200,964**	207,015	209,716	168,798
The State's proportionate share of the net pension liability		**411,449**	397,677	367,780	320,860
Total proportionate share of the net pension liability	$	**612,413**	604,692	577,496	489,658
The Consortium's covered-employee payroll	$	**272,789**	254,110	233,507	221,423
The Consortium's proportionate share of the collective net pension liability as a percentage of its covered-employee payroll		**73.67%**	81.47%	89.81%	76.23%
Plan fiduciary net position as a percentage of the total pension liability		**67.12%**	65.10%	64.95%	66.60%

GASB 68 requires presentation of ten years. As of June 30, 2018, only four years of information are available.

Note: Information on this schedule is measured as of the measurement date.

WESTERN KANSAS COMMUNITY COLLEGE VIRTUAL EDUCATION CONSORTIUM

Schedule of the Consortium's Contributions

Kansas Public Employees Retirement System

June 30, 2018

		2018	2017	2016	2015
Contractually required contribution	$	**14,830**	14,394	13,157	11,911
Contributions in relation to the contractually required contribution		**14,830**	14,394	13,157	11,911
Contribution deficiency (excess)	$	**-**	-	-	-
The Consortium's covered-employee payroll		**272,789**	254,110	233,507	221,423
Contributions as a percentage of covered-employee payroll - working after retirement		**5.44%**	5.66%	5.63%	5.38%

GASB 68 requires presentation of ten years. As of June 30, 2018, only four years of information are available.

Note: Information on this schedule is measured as of the measurement date.