



BERBERICH TRAHAN & CO., P.A.
Certified Public Accountants

HIGHLAND COMMUNITY COLLEGE

BASIC FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2017

HIGHLAND COMMUNITY COLLEGE
BASIC FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

Year Ended June 30, 2017

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HIGHLAND COMMUNITY COLLEGE
BASIC FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

Year Ended June 30, 2017

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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Highland Community College:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Highland Community College (the College), as of and for the year ended June 30, 2017, 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 did not audit the financial statements of Highland Community College Foundation (the Foundation), the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, applicable provisions of the Kansas Municipal Audit and Accounting Guide, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Foundation, the discretely presented component unit, were not audited in accordance with *Government Auditing Standards*.

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 College'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 College'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.

An Independently Owned Member, RSM US Alliance

RSM US Alliance member firms are separate and independent businesses and legal entities that are responsible for their own acts and omissions, and each are separate and independent from RSM US LLP. RSM US LLP is the U.S. member firm of RSM International, a global network of independent audit, tax, and consulting firms. Members of RSM US Alliance have access to RSM International resources through RSM US LLP but are not member firms of RSM International.

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, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the required supplementary information listed in the table of contents 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.

Supplementary and 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. The schedules listed under supplementary information in the accompanying table of contents, including the schedule of expenditures of federal awards as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirement for Federal Awards (Uniform Guidance)*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules listed under supplementary information in the accompanying table of contents including 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 information is 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 19, 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.

Berberich Trahan & Co., P.A.

December 19, 2017
Topeka, Kansas

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Introduction

This section of HCC's Basic Financial Statements and Supplementary Information presents management's discussion and analysis of the College's financial performance during the fiscal year ended June 30, 2017, and is designed to focus on current activities. Therefore, please read this MD&A in conjunction with the accompanying financial statements and footnotes. Certain comparative information between the current year and the prior year is required to be presented in the MD&A. The financial statements have been prepared in accordance with Governmental Accounting Standards Board (GASB) principles. HCC has adopted GASB statements 34 and 35 on *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. The standards established by the GASB principles were used for preparation of public college financial statements that focus on aggregate operations, versus the previous standards that focus on the activity of an individual fund. The report consists of three basic financial statements that provide information on the College as a whole: the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows. Comparative data from prior year will also be discussed.

Background

HCC serves over all or parts of nine counties in Kansas with authority to levy taxes on one: Doniphan County. HCC's revenue sources for the general fund are received from the State of Kansas, students, the taxpayers of Doniphan County, and other sources.

The Kansas Board of Regents is responsible for the coordination of all 19 Kansas community colleges and for the governance and coordination of the public universities and technical schools and colleges in Kansas. A locally elected Board of Trustees, made up of six residents of Doniphan County, govern HCC.

The State of Kansas, through oversight by the Kansas Board of Regents, provides the College with an operating grant, which was historically based upon the College's full-time equivalency enrollment of Kansas residents. Other funds provided through the Kansas Board of Regents include Capital Outlay funds for technical credit courses, Technology Grant funds for student technology upgrades in the College, and Tuition Waivers for Kansas High School students participating in Postsecondary Technical Education Courses.

Fiscal year 2011 was the last year for funding for Kansas Community Colleges under Senate Bill 345. The new operating grant funding system went into effect for fiscal year 2012. However, because of the condition of the state budget, community college funding has essentially changed to a block grant. With state aid frozen for the foreseeable future, HCC has become more reliant on student tuition and fee generation. The strategy has been to implement slight increases in tuition paired with a managed enrollment growth to offset any of the College's increases in expenses.

HCC continues to receive postsecondary aid and capital outlay funds for the technical credit courses. The revenues and the tuition and fees generated by the technical courses are received into a separate Postsecondary Technical Education fund to support the operations of the technical center in Atchison, and to provide technical course offerings at the College's other locations. The State's funding mechanism for Technical Education is also through an operating grant, which is quite similar to the operating grant provided to community colleges. The operating grant for Technical Education has also changed into a block grant format.

Economic Outlook

The College's enrollments respond inversely to economic cycles – people tend to work more when the economy is good and continue their education more when work is less available. The economic forecast for the next year remains uncertain. The demand for job retraining, upgrading employability skills and lifelong learning will increase in the near future. Time limitations and economic pressures will influence students to enroll in classes at sites closest to their homes and workplaces, and to seek distance learning options whenever possible. In FY17, enrollment decreased slightly compared with FY16. The College anticipates that FY18 enrollment will be similar to FY17.

Funding of higher education will remain limited from traditional state and federal sources. Pressure will continue to increase tuition and fees to offset reduced state funding. Private fundraising efforts of the College's Foundation will grow in importance to assist students by removing financial barriers and to supplement funding for various College initiatives and operations.

Public demands for institutional accountability and effectiveness will continue to increase. The College will need to embrace innovation and continuous quality improvement efforts in academic and administrative support programs and services. Information gathering and reporting will continue to be a major requirement of the College to monitor continuous improvement and cost-effectiveness. Accrediting agency expectations will require more documented evidence of performance. Accountability measures will focus on student learning, outcomes, program completion, and cost-effectiveness.

Using This Annual Report

The financial statements focus on the College as a whole. The College's financial statements are designed to emulate corporate presentation models whereby the College activities are consolidated into one total. The focus of the Statement of Net Position is designed to be similar to bottom line results for the College. This financial statement combines and consolidates current financial resources (short-term unrestricted resources) with capital assets and long-term liabilities. The Statement of Revenues, Expenses, and Changes in Net Position focuses on operating revenue, operating expenses by function, and non-operating revenue/expenses which are supported mainly by tuition and fees, property taxes, state, federal, and other revenues. This approach is intended to summarize and simplify the user's analysis of cost related to college service to students and the public.

The remainder of the MD&A highlights the structure and contents of the primary government's financial statements. For detailed information pertaining to the Foundation (the College's discretely presented component unit), refer to the separately issued Foundation financial statements for the year ended June 30, 2017.

Comparative Analysis of Net Position – Fiscal Years 2017 and 2016

	Net Position as of June 30		Increase (Decrease)	Percent Change
	2017	2016		
ASSETS				
Current assets	\$ 1,955,461	\$ 2,464,093	\$ (508,632)	-20.6%
Capital assets	13,821,934	13,867,635	(45,701)	-0.3%
Other assets	486,271	222,719	263,552	118.3%
Total assets	16,263,666	16,554,447	(290,781)	-1.8%
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	24,299	35,513	(11,214)	-31.6%
Deferred outflows- pensions	76,333	6,498	69,835	100.0%
Total deferred outflows of resources	100,632	42,011	58,621	68.4%
LIABILITIES				
Current liabilities	1,555,657	1,749,905	(194,248)	-11.1%
Non-current liabilities	1,451,732	1,886,537	(434,805)	-23.0%
Total liabilities	3,007,389	3,636,442	(629,053)	-17.3%
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows - pension	95,187	9,158	86,029	939.4%
NET POSITION				
Net investment in capital assets, net of related debt	12,624,799	12,359,865	264,934	2.1%
Restricted	3,881	4,121	(240)	-5.8%
Unrestricted	633,042	586,872	46,170	7.9%
Total net position	\$ 13,261,722	\$ 12,950,858	\$ 310,864	2.4%

This schedule is prepared from the college's Statement of Net Position (pages 11-12) which is presented on an accrual basis of accounting and the economic resources measurement focus whereby assets are capitalized and depreciated.

The College's total net position at June 30, 2017, increased from \$12,950,858 to \$13,261,722 which is an increase of 2.4%.

In fiscal year 2017, the College's total assets decreased from \$16,554,447 to \$16,263,666, a decrease of 1.8%.

- Current assets decreased from \$2,464,093 to \$1,955,461. The decrease in current assets of approximately \$509,000 is primarily a result of a decrease in cash and cash equivalents compared with FY16.
 - Cash and cash equivalents decreased approximately \$461,000.
 - Grants receivable decreased approximately \$193,000
 - Student accounts receivable increased approximately \$221,000
 - Inventories decreased approximately \$13,000
- Noncurrent assets (Capital and Other assets) decreased approximately \$218,000.
 - Depreciation expense for FY16 increased approximately \$869,000
 - Assets held for resale increased approximately \$200,000 due to the Building Trade Home that is being held for sale.
 - Restricted investments were flat.
 - Textbooks increased approximately \$64,000
 - Other significant capital asset transactions during FY17 include increases in buildings and improvements, furniture and equipment, and vehicles, for a net result of approximately \$823,000.

Total liabilities decreased from \$3,636,442 to \$3,007,389 a decrease of 17.3%.

- Current liabilities decreased approximately \$194,000, primarily due to a decrease of approximately \$123,000 in accounts payable and accrued liabilities.
- Noncurrent liabilities decreased approximately \$435,000 primarily as a result of decreases in overall long term leases and debt, due to regularly scheduled principal payments.
 - Accrued compensated absences decreased approximately \$61,000.
 - Net OPEB obligation increased approximately \$70,000.
 - Early retirement incentives decreased \$24,000.
 - Leases payable decreased approximately \$73,000.
 - Loans payable decreased approximately \$34,000.
 - Certificates of participation decreased approximately \$360,000.
 - The net pension liability decreased approximately \$96,000.
 - A new winery incubator loan was entered into for \$145,000.

Fiscal Years 2017 and 2016 Financial Highlights

At June 30, 2017, the College's net position increased from \$12,950,858 to \$13,261,722. Revenues exceeded expenses by \$310,864 as follows:

	Year Ended June 30		Increase (Decrease)	Percent Change
	2017	2016		
Operating revenues	\$ 13,430,827	\$ 13,101,983	\$ 328,844	2.5%
Nonoperating revenues	8,925,753	9,314,099	(388,346)	-4.2%
Total revenues	22,356,580	22,416,082	(59,502)	-0.3%
Operating expenses	21,957,958	21,670,387	287,571	1.3%
Nonoperating expenses	87,758	140,053	(52,295)	-37.3%
Total expenses	22,045,716	21,810,440	235,276	1.1%
Increase (decrease) in net position	310,864	605,642	(294,778)	-48.7%
Net position, beginning of year	12,950,858	12,345,216	605,642	4.9%
Net position, end of year	\$ 13,261,722	\$ 12,950,858	\$ 310,864	2.4%

Total revenues decreased by \$59,502, a decrease of .3%.

- Operating revenues increased \$328,844 or were relatively flat due to flat enrollment and flat federal grants and contracts funding.
- Non-operating revenues decreased \$388,346, a decrease of 4.2% primarily due to a \$348,749 decrease in Pell grants.

Total expenses increased slightly by \$235,276, an increase of 1.1%. This slight increase is a result of monitoring the expenses to ensure spending is within the revenue range.

In general, the ending net position for fiscal year 2017 increased \$310,864. Details of revenues and operating expenses are covered in more detail in the subsequent financial statement sections.

Fiscal Years 2017 and 2016 Comparative Statement of Cash Flows

The Statement of Cash Flows presents information on the College's sources and uses of cash. Operating activities primarily reflect receipt of tuition and fees, grants, and auxiliary enterprises. It also reflects payments to suppliers, employees and employee benefits, and payments for scholarships. Non-capital financing activities are mainly those monies received from the state operating grant, post-secondary grant aid, and from the local tax base. Cash used in capital and related financing are the purchases of capital assets, purchases of textbooks, the principal paid on the deferred maintenance agreements and 2010 Certificate of Participation and related interest paid.

Cash and cash equivalents decreased by 33.5% in fiscal year 2017. The four categories as defined by GASB are shown below:

	June 30		Increase (Decrease)	Percent Change
	2017	2016		
Operating activities	\$ (7,480,784)	\$ (7,918,707)	\$ 437,923	-5.5%
Non-capital financing activities	8,879,866	9,260,382	(380,516)	-4.1%
Capital financing activities	(1,668,004)	(1,315,114)	(352,890)	26.8%
Investing activities	(192,254)	281,488	(473,742)	-168.3%
Net increase/decrease	(461,176)	308,049	(769,225)	-249.7%
Cash and cash equivalents, beginning of year	1,376,019	1,067,970	308,049	28.8%
Cash and cash equivalents, end of year	<u>\$ 914,843</u>	<u>\$ 1,376,019</u>	<u>\$ (461,176)</u>	<u>-33.5%</u>

Fiscal Years 2017 and 2016 Comparative Debt Service Summary

During fiscal year 2017, the College maintained a healthy debt position. All payments were made when due and the College added one additional loan payable of \$145,000 for a building to house the winery incubator in Wamego.

	June 30		Increase (Decrease)	Percent Change
	2017	2016		
Outstanding debt service:				
2009 loan payable	\$ -	\$ 33,931	\$ (33,931)	-100.0%
2017 loan payable	145,000	-	145,000	0.0%
2010 certificates of participation	755,000	1,115,000	(360,000)	-32.3%
Capital leases	321,434	394,352	(72,918)	-18.5%
Compensated absences	213,105	274,421	(61,316)	-22.3%
Net pension liability	26,606	122,961	(96,355)	100.0%
Early retirement incentives	24,000	48,000	(24,000)	-50.0%
Net OPEB obligation	645,084	575,223	69,861	12.1%
Total outstanding debt service	<u>\$ 2,130,229</u>	<u>\$ 2,563,888</u>	<u>\$ (433,659)</u>	<u>-16.9%</u>

Factors Bearing on the College's Future

At the time these financial statements were prepared and audited, the College was unaware of any adverse existing circumstances that could significantly affect its financial health in the future.

Request for Information

This financial report is designed to provide a general overview of Highland Community College's finances to all those interested in the College's accountability for the revenue it receives. Questions, concerns, or additional information regarding this report or any information contained therein should be directed to the Vice President of Finance and Operations, 606 W. Main, Highland, Kansas 66035.

HIGHLAND COMMUNITY COLLEGE

STATEMENT OF NET POSITION

June 30, 2017

	<u>Primary Institution</u>
Assets:	
Current assets:	
Cash and cash equivalents	\$ 910,962
Receivables:	
Grants	600,339
Accounts, net of allowances of \$ 1,085,099	407,988
Prepaid items	2,002
Inventories	34,170
	<hr/>
Total current assets	1,955,461
	<hr/>
Noncurrent assets:	
Restricted cash and cash equivalents	3,881
Assets held for resale	202,420
Textbooks, net of accumulated depreciation of \$ 969,968	279,970
Capital assets:	
Land	620,320
Buildings and improvements	22,491,175
Furniture and equipment	3,468,603
Vehicles	552,281
Less accumulated depreciation	(13,310,445)
	<hr/>
Total noncurrent assets	14,308,205
	<hr/>
Total assets	16,263,666
	<hr/>
Deferred outflows of resources:	
Deferred charge on refunding	24,299
Deferred outflows - pensions	76,333
	<hr/>
Total deferred outflows of resources	\$ 100,632
	<hr/>

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HIGHLAND COMMUNITY COLLEGE

STATEMENT OF NET POSITION (Continued)

June 30, 2017

	<u>Primary Institution</u>
Liabilities:	
Current liabilities:	
Accounts payable and accrued liabilities	\$ 570,720
Deposits held in custody for others	31,050
Unearned revenue	275,390
Accrued compensated absences, current portion	213,105
Early retirement incentives, current portion	24,000
Leases payable, current portion	59,103
Loans payable, current portion	12,289
Certificates of participation, current portion	370,000
	<hr/>
Total current liabilities	1,555,657
	<hr/>
Noncurrent liabilities:	
Net pension liability	26,606
Net OPEB obligation	645,084
Leases payable	262,331
Loans payable	132,711
Certificates of participation	385,000
	<hr/>
Total noncurrent liabilities	1,451,732
	<hr/>
Total liabilities	3,007,389
	<hr/>
Deferred inflows of resources:	
Deferred inflows - pensions	95,187
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Net position:	
Net investment in capital assets	12,624,799
Restricted for:	
Nonexpendable:	
Endowments	3,881
Unrestricted	633,042
	<hr/>
Total net position	\$ 13,261,722
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See accompanying notes to financial statements.

HIGHLAND COMMUNITY COLLEGE

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Year Ended June 30, 2017

	<u>Primary Institution</u>
Operating revenues:	
Student tuition and fees (net of scholarship allowances of \$2,860,407)	\$ 1,146,004
Federal grants and contracts	5,221,758
State and local grants and contracts	2,086,793
Auxiliary enterprises	3,764,619
On-behalf payments	849,936
Gifts and contributions	222,271
Other operating revenues	<u>139,446</u>
Total operating revenues	<u>13,430,827</u>
Operating expenses:	
Education and general:	
Instruction	5,974,478
Academic support	2,214,952
Community service	287,631
Research	75,677
Student services	3,304,790
Institutional support	3,780,814
Operations and maintenance	1,083,418
Depreciation and amortization	879,908
Financial aid	1,735,756
Auxiliary enterprises	1,361,224
Auxiliary depreciation	409,374
On-behalf payments	<u>849,936</u>
Total operating expenses	<u>21,957,958</u>
Operating loss	<u>\$ (8,527,131)</u>

(Continued)

HIGHLAND COMMUNITY COLLEGE

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
(Continued)

Year Ended June 30, 2017

	<u>Primary Institution</u>
Nonoperating revenues (expenses):	
State and local appropriations	\$ 3,824,749
Property taxes	1,822,848
Pell grants	3,270,755
Investment income	7,401
Interest on indebtedness	(49,272)
Other nonoperating expenses	<u>(38,486)</u>
Net nonoperating revenues	<u>8,837,995</u>
Increase in net position	310,864
Net position - beginning of year	<u>12,950,858</u>
Net position - end of year	<u><u>\$ 13,261,722</u></u>

See accompanying notes to financial statements.

HIGHLAND COMMUNITY COLLEGE

STATEMENT OF CASH FLOWS

Year Ended June 30, 2017

	Primary Institution
Cash flows from operating activities:	
Tuition and fees	\$ 924,711
Grants and contracts	7,462,300
Auxiliary enterprise charges	3,764,619
Gifts and contributions	222,271
Other receipts	139,446
Payments to suppliers	(6,729,617)
Payments to employees	(10,153,362)
Payments for employee benefits	(1,749,928)
Payments for scholarships	(1,361,224)
Net cash used in operating activities	(7,480,784)
Cash flows from noncapital financing activities:	
State appropriations	3,824,749
Property taxes	1,822,848
Pell grant	3,270,755
William D. Ford direct lending receipts	4,167,033
William D. Ford direct lending disbursements	(4,167,033)
PLUS loans receipts	42,450
PLUS loans disbursements	(42,450)
Other	(38,486)
Net cash provided by noncapital financing activities	8,879,866
Cash flows from capital and related financing activities:	
Purchases of capital assets	(822,992)
Purchases of textbooks	(473,511)
Proceeds from issuance on long-term debt	145,000
Principal paid on long-term debt	(466,849)
Interest paid on long-term debt	(49,652)
Net cash used in capital and related financing activities	(1,668,004)
Cash flows from investing activities:	
Purchase of assets held for resale	(199,655)
Interest on investments	7,401
Net cash used in investing activities	(192,254)
Net decrease in cash and cash equivalents	(461,176)
Cash and cash equivalents, beginning of year	1,376,019
Cash and cash equivalents, end of year	\$ 914,843

(Continued)

HIGHLAND COMMUNITY COLLEGE

STATEMENT OF CASH FLOWS (Continued)

Year Ended June 30, 2017

	Primary Institution
Reconciliation of cash and cash equivalents to statement of net position:	
Unrestricted cash and cash equivalents	\$ 910,962
Restricted cash and cash equivalents	3,881
Total cash and cash equivalents, end of the year	<u>\$ 914,843</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (8,527,131)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	1,289,282
Changes in assets and liabilities:	
Grants receivable	193,436
Accounts receivable, net	(221,293)
Prepays	62,580
Inventories	12,972
Deferred outflows - pensions	(69,835)
Accounts payable and accrued liabilities	(157,577)
Deposits held in custody for others	2,250
Unearned revenue	(39,687)
Accrued compensated absences	(61,316)
Early retirement incentives	(24,000)
Net pension liability	(96,355)
Net OPEB obligation	69,861
Deferred inflows - pensions	86,029
Net cash used in operating activities	<u>\$ (7,480,784)</u>

See accompanying notes to financial statements.

HIGHLAND COMMUNITY COLLEGE
STATEMENT OF FINANCIAL POSITION
COMPONENT UNIT

June 30, 2017

	<u>Foundation</u>
Assets:	
Current assets:	
Cash and cash equivalents	\$ 167,257
Lease receivable	<u>56,640</u>
Total current assets	<u>223,897</u>
Noncurrent assets:	
Lease receivable	264,794
Restricted investments	2,650,856
Capital assets:	
Land	758,000
Buildings and improvements	19,450
Furniture and equipment	2,191
Less accumulated depreciation	<u>(18,887)</u>
Total noncurrent assets	<u>3,676,404</u>
Total assets	<u>3,900,301</u>
Liabilities:	
Current liabilities:	
Note payable, current portion	29,538
Accounts payable due to HCC	19,866
Noncurrent liabilities:	
Note payable	<u>131,555</u>
Total liabilities	<u>180,959</u>
Net assets:	
Permanently restricted	2,476,719
Temporarily restricted	1,406,163
Unrestricted	<u>(163,540)</u>
Total net assets	<u>\$ 3,719,342</u>

See accompanying notes to financial statements.

HIGHLAND COMMUNITY COLLEGE

STATEMENT OF ACTIVITIES COMPONENT UNIT

Year Ended June 30, 2017

	<u>Foundation</u>
Operating revenues:	
Gifts and contributions	\$ 184,198
Net investment income	264,056
Other operating revenues	<u>91,239</u>
Total operating revenues	<u>539,493</u>
Operating expenses:	
Depreciation and amortization	375
Other operating expenses	<u>181,968</u>
Total operating expenses	<u>182,343</u>
Increase in net assets	357,150
Net assets - beginning of year	<u>3,362,192</u>
Net assets - end of year	<u><u>\$ 3,719,342</u></u>

See accompanying notes to financial statements.

HIGHLAND COMMUNITY COLLEGE

STATEMENT OF CASH FLOWS COMPONENT UNIT

Year Ended June 30, 2017

Cash flows from operating activities:	
Change in net assets	\$ 357,150
Adjustment to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	375
Unrealized gain on investments	(166,812)
Realized gain on investments	(18,654)
Change in accrued liabilities	19,866
	<hr/>
Net cash provided by operating activities	191,925
	<hr/>
Cash flows from investing activities:	
Payments received on lease receivables	72,239
Purchase of investments	(511,545)
Proceeds from sale of investments	292,184
	<hr/>
Net cash used in investing activities	(147,122)
	<hr/>
Cash flows from financing activities	
Principal paid on notes payable	(28,258)
	<hr/>
Net increase in cash and cash equivalents	16,545
Cash and cash equivalents, beginning of year	150,712
	<hr/>
Cash and cash equivalents, end of year	<u><u>\$ 167,257</u></u>

See accompanying notes to financial statements.

HIGHLAND COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

1 - Summary of Significant Accounting Policies

Organization

Highland Community College (the College) was established in 1858 to provide a) college transfer and general education programs which parallel those courses usually offered during the first two years of a four-year program in the professions or liberal arts; b) occupational, vocational, and technical education programming which is designed to equip an individual with a marketable skill in two years or less; and c) continuing education programs which offer educational opportunities for personal growth, economic improvement, cultural development, and enrichment of personal and family living. For financial reporting purposes, the College is considered a special purpose government engaged only in business-type activities.

The Board of Trustees (the Board), a six-member group constituting an on-going entity, has governance responsibilities over all activities related to the College. In addition to revenues from student tuition and fees and from auxiliary enterprises of the College, the College receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities. Board members are elected by the public and have policy making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters.

Financial Reporting Entity

Entities that are legally separate tax-exempt organizations are required to be reported in the College's financial statements if the resources of the affiliated organization benefit the College, the College is entitled to or can otherwise access the resources, and the resources are considered significant to the College.

Discretely Presented Component Unit. Highland Community College Foundation (the Foundation) is a legally separate tax-exempt component unit of the College. The Foundation was created to assist in the receipt, management, and distribution of economic resources to build and maintain academic and support programs for the College.

The Foundation is a nonprofit organization that reports under standards of the Financial Accounting Standards Board (FASB). As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

HIGHLAND COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Financial Reporting Entity (Continued)

The Foundation is a nonprofit organization that reports under standards of the Financial Accounting Standards Board (FASB). As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

Complete financial statements for the Foundation may be obtained at the Foundation's administrative office at 606 W. Main, Highland, KS 66035.

Blended Component Unit. In January 2017, the College organized Highland Vineyards and Winery, LLC (the Company) under the laws of the State of Kansas for the purpose of operating a winery incubator program at the College. The College owns 100% of the outstanding capital stock of the Company. Although the Company is a legally separate organization, the College is financially accountable for the component unit. In addition, the Company's governing body is substantially the same as the governing body of the College. The financial statements of the Company have been included within the College's reporting entity. Separately issued financial statements for the Company are not available.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Basis of accounting refers to when revenues and expenses and the related assets and liabilities are recognized in the accounts and reported in the financial statements. Measurement focus refers to what is being measured. The financial statements are prepared on the accrual basis of accounting and on an economic resources measurement focus in accordance with accounting principles generally accepted in the United States of America. With this measurement focus, all assets and all liabilities are included on the statement of net position. The statement of revenues, expenses, and changes in net position presents increases (revenues) and decreases (expenses) in total net position. The statement of cash flows provides information about how the College meets the cash flow needs of its activities. All significant intra-agency transactions have been eliminated.

HIGHLAND COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

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

The College distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing goods and services in connection with ongoing operations. The principal operating revenues of the College are student tuition and fees and sales and services of auxiliary enterprises, net of scholarship discounts and allowances. Operating expenses include the costs of providing education and auxiliary services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Nonoperating transactions include property taxes, state and local appropriations, and other contributions. On an accrual basis, revenue from property taxes is recognized in the period for which the levy is intended to finance. Revenue from state and local appropriations and other contributions is recognized in the year in which all eligibility requirements have been satisfied.

Pell grant receipts are classified as nonoperating revenues and any amounts applied to student receivable accounts are recorded as scholarship discounts or allowances per guidance provided in GASB No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*.

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statements of revenues, expenses, and changes in net position. Scholarship discounts and allowances are the difference 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 students' behalf. Certain governmental grants, such as Pell grants, 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 discount and allowance.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the College must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the College on a reimbursement basis.

HIGHLAND COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

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

When both restricted and unrestricted resources are available, it is the College's policy to use restricted resources first.

Statement of Cash Flows

For the purposes of the statement of cash flows, the College considers all highly liquid investment instruments with an original maturity of three months or less to be cash equivalents.

Accounts Receivable and Unearned Revenues

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff, the majority of which reside in the State of Kansas. Accounts receivable are recorded net of estimated uncollectible amounts. Receivables from Federal and State governments are related to reimbursements pursuant to the College's grants and contracts with these governments. Unearned revenues include amounts received from tuition and fees and certain auxiliary enterprise activities prior to the end of the fiscal year but related to the subsequent accounting period. Unearned revenues also include amounts received from grant and contract sponsors that have not yet been earned.

Inventories

Inventories are recorded at the lower of cost or market, with cost determined using the first-in, first-out (FIFO) method.

Investments

The Foundation's investments are recorded at fair value based on quoted market prices. Unrealized gains and losses related to changes in fair value are reported in the Foundation's statement of activities.

HIGHLAND COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Deferred Outflows of Resources/Deferred Inflows of Resources

In addition to assets and liabilities, the statement of net position reports separate sections for deferred outflows of resources and deferred inflows of resources. These separate financial statement elements, *deferred outflows and deferred inflows of resources*, represent the consumption or acquisition of net position that applies to a future period and, therefore, will *not* be recognized as an outflow or inflow of resources (expense or expenditure or revenue) until then. The College has deferred outflows and deferred inflows for pensions that qualify for reporting in this category. See Note 7 for more information on these deferred outflows and deferred inflows.

The College has an additional item that qualifies for reporting as part of deferred outflows of resources. It is the deferred charge on refunding reported on the statement of net position. A deferred charge on refunding results 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 refunding debt.

Textbooks

Textbooks are assets that are being rented to the students of the College. Textbooks are depreciated using the sum-of-the-years digits method over their estimated useful life of three years. Depreciation expense is recorded in auxiliary enterprises.

Assets Held for Resale

Assets held for resale are houses built by the Technical Center Division of the College (the Technical Center) students and sold to the public once the housing project is complete. Assets held for resale are recorded at cost which approximates fair value. The proceeds of the sales are used to fund future housing projects. The College had \$ 202,420 in assets held for resale at June 30, 2017.

HIGHLAND COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Capital Assets

Capital assets include land, buildings and improvements, furniture and equipment, and vehicles. Capital assets are defined as assets with an initial individual cost of more than \$ 5,000 and an estimated useful life of more than one year. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated acquisition value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Major additions and improvements are capitalized. When assets are sold, the gain or loss on the sale is recorded as non-operating gains or losses. The College capitalizes interest on the construction of capital assets when material.

The College's capital assets are depreciated using the straight-line method over the estimated useful lives of the capital assets. The estimated useful lives are:

Buildings	39 - 40 years
Building improvements	5 - 20 years
Furniture and equipment	3 - 50 years
Vehicles	5 - 15 years

The Foundation values donated capital assets at the estimated fair market value of the asset at the time of donation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets.

Unearned Revenue

Tuition and fees received before year end which relate to the subsequent period are reported as unearned on the statement of net position.

Compensated Absences

The College provides paid vacation to classified personnel based on length of service on a calendar year basis. The College provides paid vacation to administrative personnel at a standard rate, regardless of years of service. A maximum of 22 days may be carried over to the following year for vacation leave. Employees are paid for accumulated vacation upon termination of employment.

HIGHLAND COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Compensated Absences (Continued)

The provision for and accumulation of sick leave is based upon employment classification. Only retiring professional employees are compensated for unused sick leave. The maximum amount of accrued sick leave for which a retiring employee may be compensated is 25 percent of their accrued sick leave balance but not to exceed twenty work days.

Pensions

The employer contributions for community colleges are funded by the State of Kansas on behalf of these employers for active employees. Therefore, these employers 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 Kansas Public Employees Retirement System (KPERS). Since these employers do not contribute directly to KPERS for active employees, there is no net pension liability or deferred inflows or outflows to report in their financial statements for active employees. See Note 7 for disclosures regarding the State's portion of the College's total proportionate share of the collective net pension liability that is associated with the College. The College recognizes pension expense associated with the College as well as revenue in an amount equal to the State's total proportionate share of the collective pension expense associated with the College.

The College does make contributions directly to KPERS for KPERS retirees filling KPERS covered positions per K.S.A. 74-4937, known as "working after retirement" employees. The resulting proportional share of the "working after retirement" contributions and resulting net pension liability, deferred inflows of resources and deferred outflows of resources are attributable to the College. 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 KPERS and additions to/deductions from KPERS' 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.

HIGHLAND COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Net Position

Net position is classified as follows:

Net investment in capital assets – This represents the total investment in capital assets, net of accumulated depreciation and related debt.

Restricted net position – nonexpendable – This includes resources that are for endowment purposes. The corpus of the endowment is restricted by external third parties and cannot be expended.

Unrestricted net position – This includes resources derived from student tuition and fees, state and local appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions related to educational and general operations and may be used at the discretion of the governing board to meet current expenses for any purpose.

Property Taxes

The lien date for property taxes is January 1. Property taxes are levied on November 1. Property owners have the option of paying one-half or the full amount of the taxes levied on or before December 20 of the year levied, with the balance to be paid on or before May 10 of the ensuing year. Property taxes become delinquent on December 20 of each fiscal year if the taxpayer has not remitted at least one-half of the amount due. Billing and collection is done by Doniphan County. Assessed values are established by the Doniphan County appraiser's office.

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.

HIGHLAND COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Income Taxes

The College, as a political subdivision of the State of Kansas, is excluded from Federal income taxes under Section 115(1) of the Internal Revenue Code, as amended.

The Foundation is organized as a Kansas nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as organizations described in Section 501(c)(3). The Foundation has been classified as other than a private foundation by the Internal Revenue Service. The Foundation is required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS annually. In addition, the Foundation is subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. The Foundation has determined it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS. The Foundation is no longer subject to federal and state tax examinations by tax authorities for years before 2014.

The Foundation believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Foundation would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Adoption of New Governmental Accounting Standards Board Statement

During the year the College adopted GASB Statement No. 77, *Tax Abatement Disclosures*, which enhances comparability of financial statements among governments by establishing disclosures about the nature and magnitude of tax abatements enabling users to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government's financial position and economic condition.

HIGHLAND COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Pending Governmental Accounting Standards Board Statements

The Governmental Accounting Standards Board (GASB) has issued the following statements not yet implemented by the College.

GASB Statement No. 75, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, and requires governments to report a liability on the face of the financial statements for the OPEB that they provide. Statement No. 75 requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about the OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements. The provisions of this statement are effective for periods beginning after June 15, 2017.

GASB Statement No. 85, *Omnibus 2017*, addresses practice issues that have been identified during implementation and application of certain GASB Statements, including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. The requirements of this statement are effective for periods beginning after June 15, 2017.

GASB Statement No. 87, *Leases*, improves accounting and financial reporting for leases by governments. Statement 87 increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

HIGHLAND COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

2 - Budgetary Information

Kansas statutes require that an annual operating budget be legally adopted for the current funds - unrestricted and plant funds. The statutes provide for the following sequence and timetable for 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 on or before August 5th of the proposed budget and notice of public hearing on the budget.
3. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication the hearing may be held and the governing body may amend the budget at that time. There were no such budget amendments for the year ended June 30, 2017.

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

All legal annual operating budgets are prepared using the cash basis of accounting, modified by the recording of encumbrances. Revenues are recognized when cash is received. Expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments by the College for future payments 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.

Spending in funds which are not subject to the legal annual operating budget requirements is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the Board.

HIGHLAND COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

2 - Budgetary Information (Continued)

Statutory Noncompliance

The College is not able to provide actual budgetary activity that is comparable to the published budget for fiscal year 2017. In addition, unencumbered cash by individual fund cannot be determined.

3 - Cash and Investments

Credit risk. Kansas statutes authorize the College to invest in time deposits, open accounts, certificates of deposit, repurchase agreements, U.S. Treasury bills or notes, or the State Treasurer's Municipal Investment Pool. All College deposits and investments are in cash and certificates of deposit at banks within Kansas.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the College's deposits may not be returned to it. Statutes also require that collateral pledged must have a fair market value equal to 100% of the deposits, less insured amounts, and must be assigned for the benefit of the College. At June 30, 2017, the College's deposits were not exposed to custodial credit risk.

Concentration of credit risk. The College's deposit policy does not place any limitations on the percentage of the College's total deposits that may be with any one issuer. Kansas statutes indirectly prohibit such a limitation, as local banks must be given preference on each investment of idle funds.

HIGHLAND COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

3 - Cash and Investments (Continued)

Investments held by the Foundation consisted of the following at June 30, 2017:

	Cost	Fair Value	Unrealized Gain (Loss)
Cash and sweep balance	\$ 84,708	\$ 84,708	\$ -
Bonds	54,350	53,136	(1,214)
Mutual funds	1,115,159	1,248,482	133,323
Equities	685,669	767,643	81,974
Other investments	318,976	361,268	42,292
REIT	144,320	135,619	(8,701)
	<u>\$ 2,403,182</u>	<u>\$ 2,650,856</u>	<u>\$ 247,674</u>

Investment income of the Foundation consisted of the following for the year ended June 30, 2017:

Interest and dividends	\$ 97,283
Partnership distribution	8,777
Realized gain	18,654
Unrealized gain	<u>166,812</u>
	<u>\$ 291,526</u>

Investment expense is netted against investment income on the component unit statement of activities.

HIGHLAND COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

4 - Capital Assets

Summaries of changes in capital assets follow:

	Balance July 1, 2016	Additions	Retirements	Transfers	Balance June 30, 2017
<u>Highland Community College:</u>					
Capital assets not being depreciated:					
Land	\$ 620,320	\$ -	\$ -	\$ -	\$ 620,320
Construction in progress	34,155	-	-	(34,155)	-
Total capital assets not being depreciated	654,475	-	-	(34,155)	620,320
Capital assets being depreciated:					
Buildings and improvements	21,978,836	478,184	-	34,155	22,491,175
Furniture and equipment	3,173,723	294,880	-	-	3,468,603
Vehicles	502,353	49,928	-	-	552,281
Total capital assets being depreciated	25,654,912	822,992	-	34,155	26,512,059
Less accumulated depreciation for:					
Buildings and improvements	(9,607,506)	(614,762)	-	-	(10,222,268)
Furniture and equipment	(2,419,496)	(223,011)	-	-	(2,642,507)
Vehicles	(414,750)	(30,920)	-	-	(445,670)
Total accumulated depreciation	(12,441,752)	(868,693)	-	-	(13,310,445)
Total capital assets being depreciated, net	13,213,160	(45,701)	-	34,155	13,201,614
Total capital assets, net	<u>\$ 13,867,635</u>	<u>\$ (45,701)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,821,934</u>
<u>Foundation:</u>					
Capital assets not being depreciated:					
Land	\$ 758,000	\$ -	\$ -	\$ -	\$ 758,000
Capital assets being depreciated:					
Buildings and improvements	19,450	-	-	-	19,450
Furniture and equipment	2,191	-	-	-	2,191
Total capital assets being depreciated	21,641	-	-	-	21,641
Less accumulated depreciation	(18,512)	(375)	-	-	(18,887)
Total capital assets being depreciated, net	3,129	(375)	-	-	2,754
Total capital assets, net	<u>\$ 761,129</u>	<u>\$ (375)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 760,754</u>

HIGHLAND COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

5 - Operating Leases

The College has an operating lease for office equipment. Future payments required under the operating lease agreement are \$ 78,750 for the year ended June 30, 2018.

Operating lease expense related to lease agreements, including those that expired during the year, was \$ 132,525 for the year ended June 30, 2017.

The facilities and properties used by the Technical Center are owned by the Atchison Unified School District No. 409 (the District). As a result, the College entered into a lease agreement in 2008 with the District for use of the facilities and properties. The initial lease terms are for a ten year period. At the expiration of the lease, the parties may, at their option, extend the lease terms for an additional ten year period. Under the lease agreement, in lieu of paying rent to the District, the College is responsible for paying insurance, maintenance, and utility costs of the facility and property during the lease term. Any construction or improvements to the facility remain the property of the District.

6 - Long-Term Debt

During the year ended June 30, 2011, the College issued 2010 Series Refunding and Improvement Certificates of Participation in the amount of \$ 3,055,000. The 2010 Series certificates of participation are due in annual installments ranging from \$ 370,000 to \$ 385,000 and mature between March 1, 2018 and March 1, 2019. The certificates of participation bear interest at rates ranging from 2.75% to 2.9% payable semi-annually. The remaining balance at June 30, 2017 is \$ 755,000.

The certificates maturing on March 1, 2018 and thereafter are subject to redemption on or after March 1, 2017 at the option of the College at a price equal to 100% of the principal portion outstanding plus the any accrued interest to the prepayment date.

HIGHLAND COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

6 - Long-Term Debt (Continued)

The annual debt service requirement to amortize the certificates of participation is as follows:

Year Ending June 30,	Principal	Interest	Total
2018	\$ 370,000	\$ 21,340	\$ 391,340
2019	385,000	11,165	396,165
	<u>\$ 755,000</u>	<u>\$ 32,505</u>	<u>\$ 787,505</u>

Capital Lease Payable

In fiscal year 2014, the Foundation purchased property and facilities in Baileyville, Kansas and then sold the property to the College for \$ 350,000 for a satellite learning center. The Foundation also loaned the College \$ 150,000 for construction costs to prepare the facilities for use. The total amount due from the College to the Foundation is \$ 321,434 at June 30, 2017. The property was sold to the College per an installment sale with an interest rate of 4.35%.

The cost of and accumulated depreciation on the Baileyville building are as follows at June 30:

Cost	\$ 350,000
Accumulated depreciation	31,410

Amortization of \$ 8,974 in 2017 on the asset acquired through the capital lease has been included in depreciation expense.

HIGHLAND COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

6 - Long-Term Debt (Continued)

Capital Leases Payable (Continued)

Future payments required under the capital lease agreement are as follows:

Year Ending June 30,	Principal	Interest	Total
2018	\$ 59,103	\$ 13,982	\$ 73,085
2019	61,674	11,411	73,085
2020	64,357	8,728	73,085
2021	67,157	5,928	73,085
2022	69,143	3,008	72,151
	\$ 321,434	\$ 43,057	\$ 364,491

Loans Payable

The College entered into a loan agreement with the KBOR for deferred maintenance costs effective March 2009. The College has five deferred maintenance projects approved under this loan agreement. The College must pay for construction costs upfront and request reimbursement for actual costs. The loan is for a term of eight years and a total not to exceed \$ 241,100. The College must pay 1/8 of the total loan amount on or before December 1 in each of the eight years of the amortization period, beginning December 1, 2009. The annual payment due is \$ 33,931. Repayments must be made in accordance with this schedule regardless of whether the College has requested and/or received loan disbursements. The loan does not bear interest. The last payment on the loan was made during the year ended June 30, 2017.

Winery Incubator Loan Payable

In November 2016, the College entered into a loan agreement for \$ 145,000 with the Bank of the Flint Hills for the purchase of a winery. The loan is due in annual installments of \$ 17,545 and bears interest at 3.625%. The final maturity of the note is November 1, 2026. The loan is not collateralized.

HIGHLAND COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

6 - Long-Term Debt (Continued)

Winery Incubator Loan Payable (Continued)

Future principal payments required under the winery incubator loan are as follows:

<u>Year Ending June 30,</u>	
2018	\$ 12,289
2019	12,734
2020	13,196
2021	13,674
2022	14,170
2023 - 2026	<u>78,937</u>
	<u><u>\$ 145,000</u></u>

Changes in Long-Term Debt

Current fiscal year transactions are summarized as follows:

	<u>Balance, July 1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance, June 30, 2017</u>	<u>Due Within One Year</u>
Certificates of participation					
Series 2010	\$ 1,115,000	\$ -	\$ 360,000	\$ 755,000	\$ 370,000
2009 loan payable	33,931	-	33,931	-	-
Winery incubator loan payable	-	145,000	-	145,000	12,289
Capital lease payable	394,352	-	72,918	321,434	59,103
Compensated absences	274,421	245,098	306,414	213,105	213,105
Net pension liability	122,961	-	96,355	26,606	-
Net OPEB obligation	575,223	69,861	-	645,084	-
Early retirement incentives	48,000	-	24,000	24,000	24,000
	<u>\$ 2,563,888</u>	<u>\$ 459,959</u>	<u>\$ 893,618</u>	<u>\$ 2,130,229</u>	<u>\$ 678,497</u>

HIGHLAND COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

7 - Defined Benefit Pension Plan

General Information about the Pension Plan

Description of Pension Plan. The College participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et. seq. KPERS provides benefit provisions to statewide pension groups for State/School employees, local employees, Police and Firemen, and Judges under one plan. Those employees participating in the pension plan for the College are included in the State/School employee group. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. KPERS' financial statements are included in the Comprehensive Annual Financial Report which can be found on KPERS' website at www.kpers.org or by writing to KPERS (611 South Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

Benefits Provided. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Benefits are established by statute and may only be changed by the General Assembly. Member employees 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 an employee'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, member employees may withdraw their contributions from their individual accounts, including interest. Member employees who withdraw their accumulated contributions lose all rights and privileges of membership. The accumulated contributions and interest are deposited into and disbursed from the membership accumulated reserve fund as established by K.S.A. 74-4922.

Member employees choose one of seven payment options for their monthly retirement benefits. At retirement a member employee may receive a lump-sum payment of up to 50% of the actuarial present value of the member employee'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 retirement benefits are disbursed from the retirement benefit payment reserve fund as established by K.S.A. 74-4922.

HIGHLAND COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

7 - Defined Benefit Pension Plan (Continued)

Funding Policy

Contributions. K.S.A. 74-4919 and K.S.A. 74-49,210 establish the KPERS member-employee contribution rates. KPERS has three benefit structures and contribution rates depend 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 before January 1, 2015. KPERS 3 members were first employed in a covered position on or after January 1, 2015. Kansas law establishes the KPERS member employee contribution rate at 6% of covered salary for KPERS 1, KPERS 2, and KPERS 3 members. Member employees' contributions are withheld by their employer and paid to KPERS according to the provisions of Section 414(h) of the Internal Revenue Code.

The State of Kansas is required to contribute the statutorily required employer's share. For fiscal year 2017, the State of Kansas contributed 10.81% for the period July 1, 2016 to March 31, 2017 and 12.01% for the period April 1, 2017 to June 30, 2017 of covered payroll.

Although KPERS administers one cost-sharing multiple-employer defined benefit pension plan, separate actuarial valuations are prepared to determine the actuarial determined contribution rate by group. To facilitate the separate 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.

The individual employer allocation percentages for the pension amounts were based on the ratio of the employer and nonemployer contributions for the individual employer in relation to the total of all employer and nonemployer contributions of the group.

At June 30, 2016 (the valuation date), the College's proportion of the net pension liability was .178466%, which was an increase of .0087% from the proportion measured of .1698% at June 30, 2016. The proportion recognized by the State of Kansas on behalf of the College was .17807% (special funding situation). The proportion recognized by the College for KPERS retirees was .000396%.

HIGHLAND COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

7 - Defined Benefit Pension Plan (Continued)

Funding Policy (Continued)

Special Funding Situation

The employer contributions for the College, as defined in K.S.A. 74-4931 (2) and (3), are funded by the State of Kansas on behalf of the College. Therefore, the College is considered to be in a special funding situation as defined by GASB Statement No. 68.

The State of Kansas is treated as a non-employer contributing entity to KPERS and is required to recognize its proportionate share of the net pension liability, deferred outflows of resources, deferred inflows of resources, and expenses for the pension plan attributable to the College. At June 30, 2017, the proportionate share of the net pension liability recognized by the State of Kansas that was attributable to the College was \$ 11,994,816.

The State of Kansas contributed \$ 849,936 directly to KPERS on behalf of the College for the year ended June 30, 2017. The payments made by the State of Kansas on behalf of the College have been recorded as both revenues and expenses in the Statements of Revenues, Expenses and Changes in Net Position.

Net Pension Liability

The College makes contributions directly to KPERS for KPERS retirees filling KPERS covered positions per K.S.A. 74-4937. During the year ended June 30, 2017, the contribution made to KPERS for these employees was \$ 13,815. The College reported a liability for its proportionate share of the net pension liability related to these employees of \$ 26,606 at June 30, 2017.

The June 30, 2017 net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015, which was rolled forward to June 30, 2016.

HIGHLAND COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

7 - Defined Benefit Pension Plan (Continued)

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 KPERS' collective net pension liability that reflected a reduction for State pension support provided to the College. The amount recognized by the College as its proportionate share of the collective net pension liability, the related state support, and the total portion of the collective net pension liability that was associated with the College were as follows:

College's proportionate share of the collective net pension liability	\$ 26,606
State's proportionate share of the collective net pension liability associated with the College	<u>11,994,816</u>
Total	<u><u>\$ 12,021,422</u></u>

The College's proportion of the collective net pension liability was based on the ratio of the total actual contribution made for the College (including on-behalf contributions from the State and contributions paid by the College) to KPERS, relative to the total employer and nonemployer contributions of the State/School subgroup within KPERS for the fiscal year ended June 30, 2017. The contributions used exclude contributions made for prior service, excess benefits and irregular payments. The College's proportion was .000396% at June 30, 2017.

The College recognized pension expense of \$ 68,813 for the year ended June 30, 2017, related to the College's net pension liability.

HIGHLAND COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

7 - Defined Benefit Pension Plan (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

At June 30, 2017, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 1,257
Net difference between projected and actual earnings on pension plan investments	2,404	-
Changes in proportionate share	60,114	93,882
Changes in assumptions	-	48
College contributions subsequent to measurement date	<u>13,815</u>	<u>-</u>
Total	<u><u>\$ 76,333</u></u>	<u><u>\$ 95,187</u></u>

The \$ 13,815 reported as deferred outflows of resources related to pensions resulting from College contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30</u>	<u>Deferred Outflows (Inflows) of Resources</u>
2018	\$ 125
2019	125
2020	(2,939)
2021	(19,881)
2022	<u>(10,099)</u>
	<u><u>\$ (32,669)</u></u>

HIGHLAND COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

7 - Defined Benefit Pension Plan (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Actuarial assumptions. The total pension liability for KPERS in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Price inflation	3.00 percent
Wage inflation	4.00 percent
Salary increases, including wage increases	4.00 - 16.00 percent
Long-term rate of return, net of investment expense, and including price inflation	8.00 percent

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, 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 beginning December 31, 2012.

HIGHLAND COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

7 - Defined Benefit Pension Plan (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

The long-term expected rate of return on 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 allocations as of June 30, 2016 are summarized in the following table:

<u>Asset Class</u>	<u>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	2.00%	-0.25%
Total	<u>100.00%</u>	

Discount rate. The discount rate used by KPERS 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 subgroup of employers does not necessarily contribute the full actuarial determined rate. 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.

HIGHLAND COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

7 - Defined Benefit Pension Plan (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Sensitivity of the College's proportionate share of the collective net pension liability to changes in the discount rate. The following presents the College's proportionate share of the net pension liability calculated using the discount rate of 8.00%, as well as what the College's proportionate share of the collective 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>Current Discount Rate (8.00%)</u>	<u>1% Increase (9.00%)</u>
College's proportionate share of the net pension liability allocated to the College	\$ 34,608	\$ 26,606	\$ 19,826

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

8 - Other Postemployment Healthcare Benefits

Description. The College offers postemployment health and dental insurance to retired employees. The benefits are provided through fully insured contracts that collectively operate as a single employer defined benefit postemployment healthcare plan administered by the College. Kansas statutes provide that postemployment healthcare benefits be extended to retired employees who have met age and/or service eligibility requirements until the individuals become eligible for Medicare coverage at age 65. The health and dental insurance benefit provides the same coverage for retirees and their dependents as for active employees and their dependents. The benefit is available for selection at retirement and is extended to retirees and their dependents until the individuals become eligible for Medicare at age 65. Eligibility for retirement is based on the retirement provisions of the Kansas Public Employees Retirement System. A retiring employee who waives continuing participation in the College's health insurance program at the time of retirement is not eligible to participate at a later date. The plan does not issue a stand-alone financial report.

HIGHLAND COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

8 - Other Postemployment Healthcare Benefits (Continued)

Funding Policy. The College provides health and dental insurance benefits to retirees and their dependents in accordance with Kansas law (K.S.A. 12-5040). Kansas statutes, which may be amended by the state legislature, establish that participating retirees may be required to contribute to the employee group health benefits plan, including administrative costs at an amount not to exceed 125 percent of the premium cost for other similarly situated employees.

The College requires participating retirees to contribute 100 percent of the blended premium cost of active employees to maintain coverage.

The College appropriates funds annually for the costs associated with this retirement benefit and provides funding for expenditures on a pay-as-you-go basis through the College's general operating fund.

Annual OPEB Cost and Net OPEB Obligation. The College's annual OPEB (other post employment benefit) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period of time not to exceed thirty years. The following presents the components of the College's annual OPEB cost for the year ended June 30, 2017, the amounts contributed to the plan, and changes in the College's net OPEB obligation.

Annual required contribution	\$ 73,241
Interest on net OPEB obligation	20,130
Adjustment to annual required contribution	<u>(23,510)</u>
Annual OPEB cost (expense)	69,861
Net OPEB obligation, beginning of year	<u>575,223</u>
Net OPEB obligation, end of year	<u><u>\$ 645,084</u></u>

HIGHLAND COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

8 - Other Postemployment Healthcare Benefits (Continued)

The College's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2017	\$ 69,861	0%	\$ 645,084
2016	70,281	0%	575,223
2015	70,691	0%	504,942

Funded Status and Funding Progress. As of July 1, 2014, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$ 497,011. 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 \$ 497,011. The covered payroll (annual payroll of active employees covered by the plan) was \$ 6,722,096, and the ratio of the UAAL to the covered payroll was 7.39 percent.

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 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 to past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liabilities for benefits.

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 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 values of assets, consistent with the long-term perspective of the calculations.

HIGHLAND COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

8 - Other Postemployment Healthcare Benefits (Continued)

In the July 1, 2014 actuarial valuation, the projected unit credit actuarial cost method was applied. The actuarial assumptions included a 3.5 percent discount rate, which is a blended rate of the expected long-term investment return on the College's own investments calculated based on the funded level of the plan at the valuation date. The valuation used an actual annual healthcare cost trend rate percent in the first year and assumed an annual healthcare cost trend rate of 6.5% grading down to an ultimate of 5.0% over 5 years. The valuation did not assume a dental cost trend rate because no employer age-subsidy may exist since both actives and retirees pay the carrier rate. The UAAL is being amortized using a level percentage of projected payroll on an open basis over a period of thirty years and assuming a payroll increase of 2.0 percent per year.

9 - Transactions with the Foundation

The Foundation uses College employees to perform Foundation operations. The Foundation reimburses the College for a portion of the executive director's salary and all of the bookkeeper's salary. All payroll and withholding activities for these employees are performed by the College. The amounts paid to the College for salaries and benefits during the year ended June 30, 2017 were approximately \$ 60,000.

10 - Temporarily and Permanently Restricted Net Assets - Foundation

The Foundation holds temporarily restricted net assets for the following purposes at June 30, 2017:

Scholarships	\$ 1,067,744
Education Program	108,911
Conservation Agreement	88,339
Irwin Hall and Peuker Plaza	<u>141,169</u>
Total temporarily restricted net assets	<u><u>\$ 1,406,163</u></u>

HIGHLAND COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

10 - Temporarily and Permanently Restricted Net Assets - Foundation (Continued)

Investment earnings on temporarily restricted net assets are considered to be either temporarily restricted or unrestricted. Investment earnings on permanently restricted net assets are considered temporarily restricted for scholarships and other designated expenses. During the year ended June 30, 2017, \$ 68,787 of temporarily restricted net assets were released from restriction for the purpose of scholarships or property expenses.

Permanently restricted net assets of \$ 2,476,719 are restricted and only the income from the investment may be used for scholarships.

The Foundation has adopted investment and spending policies approved by the Foundation's Board of Trustees for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of these endowment assets over the long-term. The Foundation's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes.

11 - Commitments and Contingencies

The College is a party to various claims arising in the ordinary course of business. While the results of litigation and claims cannot be predicted with certainty, based on advice of counsel and considering insurance coverage, management believes that the final outcome of such matters will not have a material effect on the College's financial position.

The College participates in a number of federal and state assisted grant programs that are subject to financial and compliance audits by the grantor agencies or their designees. Accordingly, the College's compliance with applicable grant requirements and any disallowed costs resulting from such audits, if any, could become a liability of the College. It is management's opinion that any such disallowed costs will not have a material effect on the financial statements of the College at June 30, 2017.

HIGHLAND COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

12 - 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 from these risks have not exceeded commercial insurance coverage for the past three years.

13 - Tax Abatements

Doniphan County considers certain properties to be subject to economic development exemptions or neighborhood revitalization rebates for the purpose of attracting and improving businesses within its jurisdiction. For the year ended June 30, 2017, abated property taxes that impacted the College totaled \$ 87,302.

REQUIRED SUPPLEMENTARY INFORMATION

HIGHLAND COMMUNITY COLLEGE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
OTHER POSTEMPLOYMENT BENEFITS

June 30, 2017

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2008	\$ -	\$ 581,333	\$ 581,333	0.0%	\$ 4,848,619	11.99%
7/1/2011	\$ -	\$ 469,258	\$ 469,258	0.0%	\$ 5,810,780	8.08%
7/1/2014	\$ -	\$ 497,011	\$ 497,011	0.0%	\$ 6,722,096	7.39%

HIGHLAND COMMUNITY COLLEGE

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE COLLEGE'S PROPORTIONATE SHARE OF THE COLLECTIVE NET PENSION LIABILITY

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

Last Three Fiscal Years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Measurement date	June 30, 2016	June 30, 2015	June 30, 2014
College's proportion of the collective net pension liability	0.000396%	0.00178%	0.00000%
College's proportionate share of the collective net pension liability	\$ 26,606	\$ 122,961	\$ -
State's proportionate share of the collective net pension liability associated with the College	<u>11,994,816</u>	<u>11,635,049</u>	<u>11,052,676</u>
Total	<u>\$ 12,021,422</u>	<u>\$ 11,758,010</u>	<u>\$ 11,052,676</u>
College's covered-employee payroll	\$ 7,890,410	\$ 7,802,088	\$ 7,738,851
College's proportionate share of the collective net pension liability as a percentage of its covered-employee payroll	0.337%	1.576%	0.000%
Plan fiduciary net position as a percentage of the total pension liability	65.10%	64.95%	66.60%

*GASB 68 requires presentation of ten years. As of June 30, 2017, only three years of information are available.

HIGHLAND COMMUNITY COLLEGE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE COLLEGE'S CONTRIBUTIONS
KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

Last Three Fiscal Years*

	2017	2016	2015
Contractually required contribution	\$ 13,815	\$ 1,850	\$ -
Contributions in relation to the contractually required contribution	(13,815)	(1,850)	-
Contribution deficiency (excess)	\$ -	\$ -	\$ -
College's covered-employee payroll	\$ 7,890,410	\$ 7,802,088	\$ -
Contributions as a percentage of covered-employee payroll	0.00%	0.00%	0.00%

*GASB 68 requires presentation of ten years. As of June 30, 2017, only three years of information are available.

Note: Contractually required contributions for the College consist of "working after retirement" contributions for KPERS retirees who are filing KPERS covered positions as College employees under K.S.A. 74-4937.

Changes in benefit terms for KPERS. Effective January 1, 2014, KPERS 1 members' employee contribution rate increased to 5.0% and then on January 1, 2015, increased to 6.0% with an increase in benefit multiplier to 1.85% for future years of service. For KPERS 2 members retiring after July 1, 2012, the cost of living adjustment (COLA) is eliminated, but members will receive a 1.85% multiplier for all years of service.

SUPPLEMENTARY INFORMATION

HIGHLAND COMMUNITY COLLEGE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture:		
Passed through Kansas Department of Agriculture:		
Specialty Crop Block Grant Program	10.170	\$ 39,836
Rural Business Development Grant	10.351	44,934
		<hr/>
Total U.S. Department of Agriculture		84,770
		<hr/>
National Science Foundation:		
Passed through Missouri State University:		
Viticulture and Enology Science and Technology Alliance - Education and Human Resources (2015)	47.076	74,844
		<hr/>
U.S. Department of Education:		
Higher Education - Institutional Aid	84.031A	403,345
TRIO Cluster - Student Support Services	84.042A	280,004
		<hr/>
Student Financial Assistance Cluster:		
Federal Supplemental Educational Opportunity Grant Program	84.007	51,051
Federal Work Study Program	84.033	86,339
Federal Pell Grant Program	84.063	3,270,755
Federal Direct Student Loans	84.268	4,167,033
		<hr/>
Student Financial Assistance Cluster subtotal		7,575,178
		<hr/>
Passed through Kansas Board of Regents:		
Adult Education	84.002	91,723
Carl Perkins Program Improvement	84.048	76,161
Carl Perkins Reserve	84.048	667
Carl Perkins Leadership	84.048	33,163
		<hr/>
		201,714
		<hr/>
Total U.S. Department of Education		8,460,241
		<hr/>
Total federal award expenditures		\$ 8,619,855
		<hr/>

See accompanying notes to schedule of
expenditures of federal awards.

HIGHLAND COMMUNITY COLLEGE

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2017

1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Highland Community College (the College) under programs of the federal government for the year ended June 30, 2017. The information in this 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 assets, or cash flows of the College.

2 - Summary of Significant Accounting Policies

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

3 - Guaranteed Student Loans

Guaranteed student loans, including subsidized and unsubsidized direct student loans, are presented on the basis of the amount of loans awarded and are made by the Secretary of Education rather than by the College. Due to this program being a transaction between the student and the loan origination center, these loans are not recorded in the College's financial statements. Due to the College's responsibility for determining eligibility and administering the loans, they have been included in the schedule of expenditures of federal awards.

HIGHLAND COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2017

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified:	No
Significant deficiencies identified that are not considered to be material weaknesses:	None reported
Noncompliance material to the financial statements:	Finding 2017-001

Federal Awards

Internal control over major programs:	
Material weaknesses identified:	No
Significant deficiencies identified that are not considered to be material weaknesses:	None reported
Type of auditor’s report issued on compliance for major programs	Unmodified
Any audit findings that are required to be reported in accordance with 2 CFR 200.516(a):	No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
	Student Financial Assistance Programs Cluster:
84.007	Federal Supplemental Educational Opportunity Grant Program
84.033	Federal Work Study Program
84.063	Federal Pell Grant Program
84.268	Federal Direct Student Loans

HIGHLAND COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Dollar threshold used to distinguish between Type A
and Type B programs: \$ 750,000

Auditee qualified as a low-risk auditee: No

Section II – Financial Statement Findings

Finding 2017-001 – Material Noncompliance

Prior Reference Number – 2016-002

Condition – The College is not able to provide actual budgetary activity that is comparable to the published budget for fiscal year 2017. In addition, unencumbered cash by individual fund cannot be determined.

Criteria – The College’s internal controls and financial reporting processes should be designed to ensure compliance with Kansas statutes (specifically K.S.A. 10-1117, K.S.A. 79-2934, and K.S.A. 79-2935).

Cause – The College’s financial reporting internal control structure was not designed to allow the College to maintain information to provide budgetary information in accordance with the Kansas Municipal Audit and Accounting Guide.

Effect – The College is not able to demonstrate compliance with K.S.A. 10-1117, K.S.A. 79-2934, or K.S.A. 79-2935.

Recommendation – We recommend the College implement controls and processes to report budgetary information to be in compliance with K.S.A. 10-1117, K.S.A. 79-2934, and K.S.A. 79-2935.

Corrective Action Plan (Unaudited) – Management will review its financial account setup in Great Plains and create additional accounts and complete a set up so the budget and actual information can be entered in the accounting system.

Contact Name – Randy Willy

Expected Complete Date – March 30, 2018

HIGHLAND COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Section III – Federal Award Findings and Questioned Costs

None.



BERBERICH TRAHAN & CO., P.A.
Certified Public Accountants

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**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**

The Board of Trustees
Highland Community College:

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 discretely presented component unit of Highland 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, and have issued our report thereon dated December 19, 2017. Our report includes a reference to other auditors who audited the financial statements of Highland Community College Foundation (the Foundation), as described in our report on the College's financial statements. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 College'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.

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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. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as Finding 2017-001.

The College's Response to the Finding

The College's response to the finding 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 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 result of that testing, and not to provide an opinion on the effectiveness of the College'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 College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Berberich Trahan & Co., P.A.

December 19, 2017
Topeka, Kansas



BERBERICH TRAHAN & CO., P.A.
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

The Board of Trustees
Highland Community College:

Report on Compliance for Each Major Federal Program

We have audited Highland Community College's (the College) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the College's major federal program for the year ended June 30, 2017. The College's major federal program is 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 the College's major federal program 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 for Federal Awards* (Uniform Guidance). Those standards and the 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 the major federal program. However, our audit does not provide a legal determination of the College's compliance.

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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 its major federal program for the year ended June 30, 2017.

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 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 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.

Berberich Trahan & Co., P.A.

December 19, 2017
Topeka, Kansas