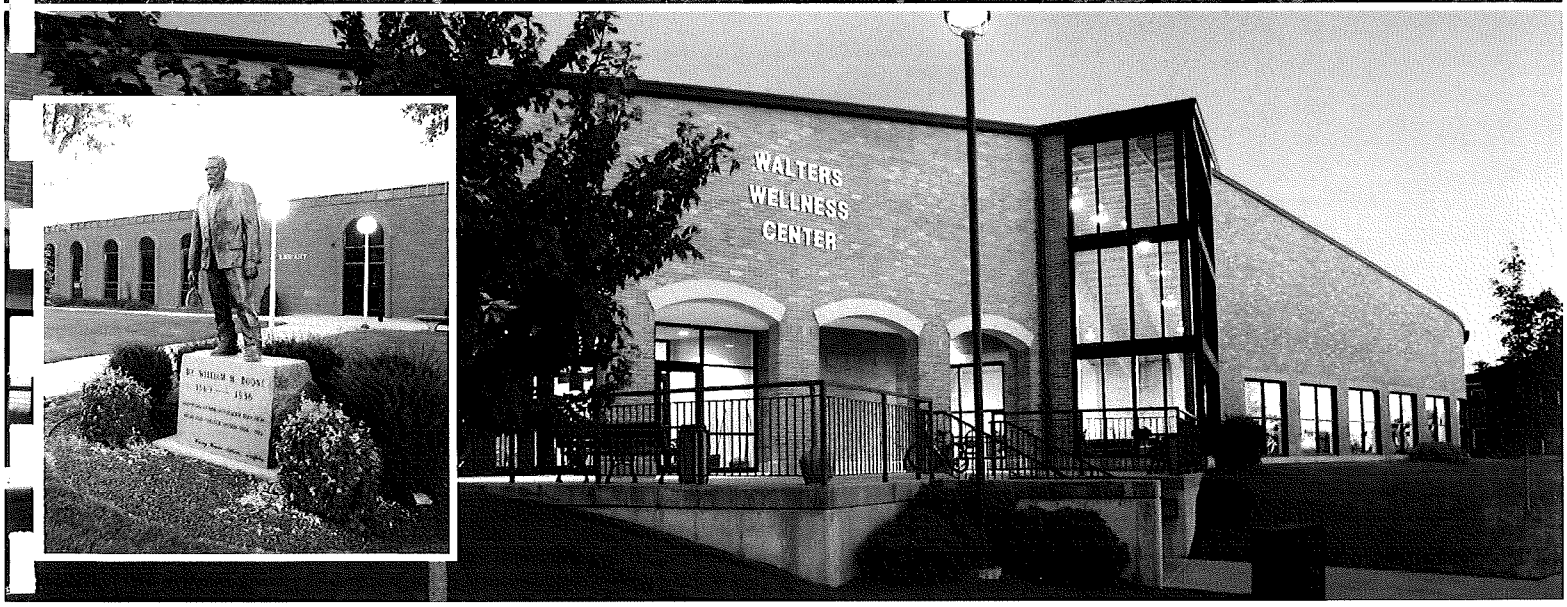
Highland Community College

BASIC FINANCIAL STATEMENTS

WITH SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2012



HIGHLAND COMMUNITY COLLEGE

BASIC FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

Years Ended June 30, 2012 and 2011

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HIGHLAND COMMUNITY COLLEGE

BASIC FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

Years Ended June 30, 2012 and 2011

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Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

BERBERICH TRAHAN & CO., P.A. 3630 SW Burlingame Rd., Topeka, KS 66611-2050 t 785.234.3427 toll-free 800.530.5526 f 785.233.1768 btandco.cpa.com

The Board of Trustees
Highland Community College:

We have audited the accompanying basic financial statements of the business-type activities and the discretely presented component unit of Highland Community College (the College), as of and for the years ended June 30, 2012 and 2011, which collectively comprise the College's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these basic financial statements based on our audits. 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 reports thereon have been furnished to us, and in our opinion, insofar as it relates to the amounts included for the Foundation, is based on the reports of the other auditors.

We conducted our audits 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 applicable provisions of the *Kansas Municipal Audit Guide*. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Highland Community College Foundation were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Highland Community College and its discretely presented component unit, as of June 30, 2012 and 2011, and the respective changes in financial position and cash flow, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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As described in Note 1 to the financial statements, beginning net assets as of July 1, 2010 were restated to correct errors in the recording of certain transactions.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2012 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* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 11 and the Schedule of Funding Progress on page 45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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 regarding 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 audits 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements. The accompanying supplementary information listed in the table of contents, including the schedule of expenditures of Federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the procedures performed as described previously, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Berberich Trahan & Co., P.A.

December 4, 2012

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 years ended June 30, 2012 and 2011 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 Assets, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows. Comparative data from prior year will also be discussed.

Background

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 local Board of Trustees has the authority to establish student tuition and fee rates, raise property taxes for the operations of the College and hire a president. The State of Kansas, through oversight by the Kansas Board of Regents, provides the College with an operating grant based upon the College's full-time equivalency enrollment of Kansas residents. Capital Outlay and Postsecondary Aid funds are provided by the Kansas Board of Regents for technical credit courses.

HCC serves over eight counties in Kansas, but has 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.

Fiscal year 2011 was the last year for funding for Kansas Community Colleges under Senate Bill 345. The new funding system went into effect for fiscal year 2012. However, because of the condition of the economy, state aid has essentially been frozen. With no new state dollars in 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 vocational fund to support the operations of the technical center and technical course offerings on the Highland campus. No local tax dollars are used as part of the technical center operations. The courses offered through the technical center are funded at the state level through a distribution process of postsecondary aid. The courses offered under the HCC structure are funded at the state level through state operating grant aid.

Economic Outlook

Founded in 1858, the HCC's main campus is located in Highland, Kansas – Doniphan County. The main campus is in close proximity (within 30 miles) of a private Catholic College and a Missouri State University. Regional instruction sites are located near the University of Kansas, Washburn University and Kansas State University. The locations of HCC's regional centers attract local students and students attending neighboring universities.

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. We are experiencing an enrollment decline which may be attributable to smaller graduating classes in the College's service area. Despite the decline in enrollment, online courses continue to be a popular option with students. The use of asynchronous and distance learning instructional modalities will increase as their educational viability improves and becomes more common and accepted.

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 Statements of Net Assets 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 Assets focuses on operating revenue, operating expenses by function, and nonoperating 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 services 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, 2012.

Comparative Analysis of Net Assets – Fiscal Years 2012 and 2011

	Net Assets As of June 30			
	2012	2011	Increase (Decrease)	Percent Change
Current assets	$ 3,523,816	$ 4,392,913	$ (869,097)	(19.8)
Capital assets	15,368,305	14,420,257	948,048	6.6
Other assets	442,020	725,563	(283,543)	(39.1)
Total assets	19,334,141	19,538,733	(204,592)	(1.0)
Current liabilities	2,202,131	2,097,474	104,657	5.0
Non-current liabilities	4,142,180	3,691,043	451,137	12.2
Total liabilities	6,344,311	5,788,517	555,794	9.6
Net assets				
Invested in captial assets, net of related debt	11,102,233	10,668,123	434,110	4.1
Restricted	13,124	405,809	(392,685)	(96.8)
Unrestricted	1,874,473	2,676,284	(801,811)	(30.0)
Total net assets	$ 12,989,830	$ 13,750,216	$ (760,386)	(5.5)

This schedule is prepared from the College's Statement of Net Assets (pages 12-13) 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 assets at June 30, 2012, decreased from $13,750,216 to $12,989,830 – a decrease of roughly 6 percent.

In fiscal year 2012, the College's total assets decreased from $19,538,733 to $19,334,141. Current assets decreased from $4,392,913 to $3,523,816. The decrease in current assets of approximately $900,000 is primarily attributed to a decrease in grants receivable of roughly $670,000. In addition to grants receivable decreasing, cash and cash equivalents decreased roughly $120,000 and accounts receivable decreased roughly $60,000. The overall increase in non-current assets (Capital and Other assets) of roughly $665,000 is a result of an increase in capital assets (net of accumulated depreciation) of approximately $950,000 and an increase in assets held for resale of roughly $127,000 offset by a decrease in restricted cash and cash equivalents of roughly $390,000.

Total liabilities increased from $5,788,517 to $6,344,311. Current liabilities increased by $104,657 primarily attributed to an increase in accounts payable and accrued liabilities of roughly $190,000 and an increase in leases payable of roughly $62,000. The increases are offset by a decrease in unearned revenue of roughly $121,000. Non-current liabilities increased roughly $450,000 primarily attributed to an increase in leases payable of roughly $650,000 and an increase in accrued compensated absences and early retirement incentives in aggregate of roughly $130,000 offset by a decrease in certificates of participation, net of deferred refunding of roughly $324,000.

Comparative Analysis of Net Assets – Fiscal Years 2011 and 2010

	Net Assets As of June 30			
	2011	2010	Increase (Decrease)	Percent Change
Current assets	$ 4,392,913	$ 4,441,282	$ (48,369)	(1.1)
Capital assets	14,420,257	12,791,123	1,629,134	12.7
Other assets	725,563	690,350	35,213	5.1
Total assets	19,538,733	17,922,755	1,615,978	9.0
Current liabilities	2,097,474	1,484,722	612,752	41.3
Non-current liabilities	3,691,043	2,887,595	803,448	27.8
Total liabilities	5,788,517	4,372,317	1,416,200	32.4
Net assets				
Invested in captial assets, net of related debt	10,668,123	9,734,760	933,363	9.6
Restricted	405,809	389,390	16,419	4.2
Unrestricted	2,676,284	3,426,288	(750,004)	(21.9)
Total net assets	$ 13,750,216	$ 13,550,438	$ 199,778	1.5

The College's total net assets at June 30, 2011, increased from $13,550,438 to $13,750,216 – an increase of roughly 2 percent.

In fiscal year 2011, the College's total assets increased from $17,922,755 to $19,538,733. Current assets decreased from $4,441,282 to $4,392,913. The decrease in current assets of approximately $50,000 is primarily attributed to a decrease in cash and cash equivalents of roughly $690,000 and inventories of roughly $16,000 offset by increases in grant receivables of roughly $620,000 and accounts receivable of roughly $40,000. The overall increase in non-current assets (capital and other assets) of roughly $1.66 million is a result of an increase in capital assets (net of accumulated depreciation) of approximately $1.6 million and an increase in restricted cash and cash equivalents and textbooks, net of accumulated depreciation in aggregate of roughly $40,000.

Total liabilities increased from $4,372,317 to $5,788,517. Current liabilities increased by $612,752 primarily attributed to an increase in unearned revenue of roughly $330,000; an increase in accounts payable and accrued liabilities of roughly $150,000 and an increase in certificates of participation, current portion of roughly $100,000. Non-current liabilities increased roughly $800,000 primarily attributed to an increase in leases payable of roughly $280,000; loans payable of roughly $300,000 and certificates of participation, net of deferred refunding of roughly $180,000.

Fiscal Years 2012 and 2011 Financial Highlights

At June 30, 2012, the College's net assets decreased from $13,750,216 to $12,989,830. Expenses exceeded Revenues by ($760,386) as follows:

	June 30		Increase	Percent
	2012	2011	(Decrease)	Change
Operating revenues	$ 13,727,910	$ 14,479,860	$ (751,950)	(5.2)
Nonoperating revenues	5,831,887	6,038,740	(206,853)	(3.4)
Total revenues	19,559,797	20,518,600	(958,803)	(4.7)
Operating expenses	20,196,263	19,694,116	502,147	2.5
Nonoperating expenses	123,920	59,463	64,457	108
Total expenses	20,320,183	19,753,579	566,604	2.9
Increase (decrease) in net assets	(760,386)	765,021	(1,525,407)	(199)
Net assets, beginning of year	13,750,216	13,550,438	199,778	1.5
Prior periord adjustment	-	(565,243)	565,243	(100)
Net assets, beginning of year - restated	13,750,216	12,985,195	765,021	5.9
Net assets, end of year	$ 12,989,830	$ 13,750,216	$ (760,386)	(5.5)

Total revenues decreased by $958,803 – a decrease of approximately 5 percent. Operating revenues decreased $751,950 – a decrease of roughly 5 percent. The decrease in operating revenues is attributed to a decrease in federal grants and contracts of roughly $1.2 million and a decrease in auxiliary enterprises (net of scholarship allowances) of roughly $160,000. The decreases were offset by increases in student tuition and fees (net of scholarship allowances) of roughly $330,000; an increase in state and local grants and contracts of roughly $150,000 and an increase in on-behalf payments of roughly $70,000. Non-operating revenues decreased $206,853 – a decrease of roughly 3 percent. This decrease is primarily attributed to a decrease in state and local appropriations of roughly $170,000.

Total expenses increased $566,604 – an increase of roughly 3 percent. Operating expenses increased $502,147 – an increase of roughly 3 percent. The increase in operating expense is primarily attributed to an increase in instruction of roughly $425,000; auxiliary enterprises of roughly $169,000 and operations and maintenance of roughly $163,000. The increases are offset by a decrease in financial aid of roughly $212,000. Non-operating expenses increased $64,457 as a direct result of an increase in interest on indebtedness.

In general, the ending net assets for fiscal year 2012 decreased $760,386. Details of revenues and operating expenses are covered in more detail in the subsequent financial statement sections.

At June 30, 2011, the College's net assets increased from $13,550,438 to $13,750,216. Revenues exceeded Expenses by $765,021 as follows:

	June 30		Increase	Percent
	2011	2010	(Decrease)	Change
Operating revenues	$ 14,479,860	$ 13,862,081	$ 617,779	4.5
Nonoperating revenues	6,038,740	6,221,680	(182,940)	(2.9)
Total revenues	20,518,600	20,083,761	434,839	2.2
Operating expenses	19,694,116	18,337,304	1,356,812	7.4
Nonoperating expenses	59,463	116,871	(57,408)	(49)
Total expenses	19,753,579	18,454,175	1,299,404	7.0
Increase (decrease) in net assets	765,021	1,629,586	(864,565)	(53)
Net assets, beginning of year	13,550,438	11,920,852	1,629,586	13.7
Prior periord adjustment	(565,243)	-	(565,243)	#DIV/0!
Net assets, beginning of year - restated	12,985,195	11,920,852	1,064,343	8.9
Net assets, end of year	$ 13,750,216	$ 13,550,438	$ 199,778	1.5

Total revenues increased by $434,839 – an increase of approximately 2 percent. Operating revenues increased $617,779 – an increase of roughly 5 percent. The increase in operating revenues is attributed to an increase in federal grants and contracts of roughly $850,000 and an increase in auxiliary enterprises (net of scholarship allowances) of roughly $130,000. The increases are offset by decreases in student tuition and fees (net of scholarship allowances) of roughly $100,000; a decrease in state and local grants and contracts of roughly $130,000 and a decrease in gifts and contributions of roughly $200,000. Non-operating revenues decreased $182,940 – a decrease of roughly 3 percent. This decrease is primarily attributed to a decrease in state and local appropriations of roughly $450,000 offset by an increase in property taxes of roughly $270,000.

Total expenses increased $1.2 million – an increase of roughly 7 percent. Operating expenses increased $1,356,812 – an increase of roughly 7 percent. The increase in operating expense is primarily attributed to an increase in Instruction of roughly $350,000; student services of roughly $180,000; an increase in institutional support of roughly $125,000; Other operating expenses of roughly $123,000; an increase in operations and maintenance of roughly $180,000 and an increase in academic support; On-behalf payments; auxiliary depreciation in aggregate of roughly $200,000. Nonoperating expenses decreased $57,408 as a direct result of an increase in interest on indebtedness.

In general, the ending net assets for fiscal year 2011 increased $199,778. The College restated its beginning net assets reducing the July 1, 2011 from $13,550,438 to $12,985,195. The restatements totaled $565,243. A cumulative prior period adjustment of $933,178 is comprised of three components. Previous liability calculations for faculty salaries and for deferred summer tuition resulted in a misstatement of prior period expenses and revenues of $352,956 and $291,958, respectively. In addition, a Pell draw of $288,264 was incorrectly excluded from fiscal year 2011. Of the total $933,178 adjustment, $367,935 was attributable to fiscal year 2011 and the remaining balance of $565,243 was attributable to years prior to fiscal year 2011 which is shown in table above. Details of revenues and operating expenses are covered in more detail in the subsequent financial statement sections.

Fiscal Years 2012 and 2011 Comparative Statement of Cash Flows

The Statement of Cash Flows presents information on the College's sources and uses of cash. Operating activities primarily reflects receipts 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, postsecondary 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 in fiscal years 2012 and 2011 due to increases in salaries and benefits, adjunct instructor payments and supplier expenditures. The four categories as defined by GASB are shown below:

	June 30		Increase	Percent
	2012	2011	(Decrease)	Change
Operating activities	$ (4,831,353)	$ (3,772,392)	$ (1,058,961)	28.1
Non-capital financing activities	6,331,685	5,271,795	1,059,890	20.1
Capital financing activities	(1,911,984)	(2,200,167)	288,183	(13.1)
Investing activities	(97,581)	27,763	(125,344)	(451.5)
Net decrease	(509,233)	(673,001)	163,768	(24.3)
Cash and cash equivalents, beginning of year	3,455,207	4,128,208	(673,001)	(16.3)
Cash and cash equivalents, end of year	$ 2,945,974	$ 3,455,207	$ (509,233)	(14.7)

Cash and cash equivalents decreased in fiscal years 2011 and increased in fiscal year 2010. The decrease in fiscal year 2011 is due to increases in salaries and benefits, adjunct instructor payments and supplier expenditures. The increase in fiscal year 2010 is attributed to an increase in tuition and fees and state appropriation receipts. The four categories as defined by GASB are shown below:

	June 30		Increase	Percent
	2011	2010	(Decrease)	Change
Operating activities	$ (3,772,392)	$ (3,454,460)	$ (317,932)	9.2
Non-capital financing activities	5,271,795	6,180,873	(909,078)	(14.7)
Capital financing activities	(2,200,167)	(2,316,274)	116,107	(5.0)
Investing activities	27,763	149,220	(121,457)	(81.4)
Net decrease	(673,001)	559,359	(1,232,360)	(220.3)
Cash and cash equivalents, beginning of year	4,128,208	3,568,849	559,359	15.7
Cash and cash equivalents, end of year	$ 3,455,207	$ 4,128,208	$ (673,001)	(16.3)

Fiscal Years 2012 and 2011 Comparative Debt Service Summary

During Fiscal year 2011, the College refunded the 2004 series revenue bond used to construct the Wellness Center and reissued Certificates of Participation to continue payments towards the Wellness Center and construct a new student housing unit. HCC received loan funds made available by the State of Kansas for deferred maintenance of campus facilities. March 2011 concluded the availability of loan funds for the 2009 series loans through the State. The funds were made available through application by the College and reimbursed to the College for allowable deferred maintenance expenses. The loans are interest free loans and are repayable over an eight year period for each application. The advance of roughly $50,000 in loan funds received in fiscal year 2012, were expended to replace the roof on the Ben Allen Fieldhouse. Decreases in both the 2008 loan payable and the 2010 certificates of participation were principal payments made according to the payment schedules. Capital leases increased roughly $700,000. The College entered into a capital lease with the Foundation of roughly $800,000 for the purchase of the Wamego facility used for instruction, office space and winery. The increase in obligation is offset by principal payments made to the Foundation for two homes and three duplexes used for student housing and the Wamego facility.

	June 30		Increase	Percent
	2012	2011	(Decrease)	Change
Outstanding debt service				
2009 loan payable	$ 169,655	$ 119,930	$ 49,725	41.5
2008 loan payable	485,001	606,251	(121,250)	(20.0)
2010 certificates of participation	2,490,000	2,820,000	(330,000)	(11.7)
Captial leases	1,201,788	489,324	712,464	145.6
Compensated absences	294,005	236,246	57,759	24.4
Net OPEB obligation	299,707	231,840	67,867	29.3
Total outstanding debt service	4,940,156	4,503,591	436,565	9.7

During Fiscal Year 2011, the College retired its 2004 loan payable, which had been issued for the construction of the Wellness Center, by issuing 2010 Certificates of Participation. In addition to refinancing the debt on the Wellness Center, the Certificates of Participation also funded the construction of additional student housing. The College received loan funds from the State of Kansas for deferred maintenance of campus facilities from both the 2008 and 2009 state allocations. Those loan funds are received when the College incurs eligible expenditures and applies to the State for reimbursement. During the year, the College also made principal payments on each of those loans. The College also entered into two new capital leases with the College's Foundation, for purchase of houses and duplexes needed for additional student housing.

2009 loan payable	$ 119,930	$ 91,540	$ 28,390	31.0
2008 loan payable	606,251	343,323	262,928	76.6
2004 loan payable	-	2,450,000	(2,450,000)	(100.0)
2010 certificates of participation	2,820,000	-	2,820,000	#DIV/0!
Captial leases	489,324	171,500	317,824	185.3
Compensated absences	236,246	233,514	2,732	1.2
Net OPEB obligation	231,840	155,014	76,826	49.6
Total outstanding debt service	4,503,591	3,444,891	1,058,700	30.7

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

STATEMENTS OF NET ASSETS

June 30, 2012 and 2011

	Primary Institution	
	2012	2011
Assets:		
Current assets:		
Cash and cash equivalents	$ 2,944,950	$ 3,062,198
Receivables:		
Grants	360,264	1,030,695
Accounts, net of allowances of $ 654,453 and $ 541,514, respectively	105,315	161,353
Prepaid items	36,999	61,368
Inventories	76,288	77,299
Total current assets	3,523,816	4,392,913
Noncurrent assets:		
Restricted cash and cash equivalents	1,024	393,009
Assets held for resale	131,376	4,457
Restricted investments	12,100	12,800
Bond issuance costs, net of accumulated amortization of $ 10,029 and $ 4,559, respectively	39,203	44,673
Textbooks, net of accumulated depreciation of $ 1,322,884 and $ 934,861, respectively	258,317	270,624
Capital assets:		
Land	1,080,320	928,470
Construction in progress	572,732	765,941
Buildings and improvements	20,094,256	18,517,659
Furniture and equipment	2,440,245	2,280,936
Vehicles	428,708	413,308
Less accumulated depreciation	(9,247,956)	(8,486,057)
Total noncurrent assets	15,810,325	15,145,820
Total assets	$ 19,334,141	$ 19,538,733

(Continued)

HIGHLAND COMMUNITY COLLEGE

STATEMENTS OF NET ASSETS
(Continued)

June 30, 2012 and 2011

	Primary Institution	
	2012	2011
Liabilities:		
Current liabilities:		
Accounts payable and accrued liabilities	$ 761,495	$ 574,814
Deposits held in custody for others	42,899	82,775
Unearned revenue	597,398	718,924
Accrued compensated absences, current portion	163,386	177,037
Early retirement incentives, current portion	22,736	-
Leases payable, current portion	124,036	62,536
Loans payable, current portion	155,181	151,388
Certificates of participation, current portion	335,000	330,000
Total current liabilities	2,202,131	2,097,474
Noncurrent liabilities:		
Accrued compensated absences	130,618	59,209
Net OPEB obligation	299,707	231,840
Early retirement incentives	60,000	-
Leases payable	1,077,752	426,788
Loans payable	499,475	574,793
Certificates of participation, net of deferred refunding difference of $ 80,372 and $ 91,587, respectively	2,074,628	2,398,413
Total liabilities	6,344,311	5,788,517
Net assets:		
Invested in capital assets, net of related debt	11,102,233	10,668,123
Restricted for:		
Nonexpendable:		
Endowments	12,100	12,800
Expendable:		
Capital projects	-	191,784
Other	1,024	201,225
Unrestricted	1,874,473	2,676,284
Total net assets	$ 12,989,830	$ 13,750,216

See accompanying notes to financial statements.

HIGHLAND COMMUNITY COLLEGE

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Years Ended June 30, 2012 and 2011

	Primary Institution	
	2012	2011
Operating revenues:		
Student tuition and fees (net of scholarship allowances of $ 3,280,303 and $ 3,844,676, respectively)	$ 3,423,941	$ 3,091,448
Federal grants and contracts	4,641,175	5,827,574
State and local grants and contracts	1,712,554	1,559,387
Auxiliary enterprises (net of scholarship allowances of $ 120,518 and $ 122,823, respectively)	3,186,319	3,342,664
On-behalf payments	641,490	568,116
Gifts and contributions	2,275	-
Other operating revenues	120,156	90,671
Total operating revenues	13,727,910	14,479,860
Operating expenses:		
Education and general:		
Instruction	7,704,700	7,279,136
Academic support	1,303,096	1,336,557
Student services	2,081,873	2,028,733
Institutional support	2,001,270	2,082,409
Operations and maintenance	1,990,914	1,827,527
Depreciation and amortization	778,584	746,089
Financial aid	1,588,135	1,799,751
Auxiliary enterprises	1,670,464	1,501,423
Auxiliary depreciation	388,023	401,079
On-behalf payments	641,490	568,116
Other operating expenses	47,714	123,296
Total operating expenses	20,196,263	19,694,116
Operating loss	$ (6,468,353)	$ (5,214,256)

(Continued)

HIGHLAND COMMUNITY COLLEGE

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
(Continued)

Years Ended June 30, 2012 and 2011

	Primary Institution	
	2012	2011
Nonoperating revenues (expenses):		
State and local appropriations	$ 4,047,540	$ 4,217,828
Property taxes	1,533,101	1,502,511
Investment income	28,638	31,220
Interest on indebtedness	(123,920)	(59,463)
Other nonoperating revenues	222,608	287,181
Net nonoperating revenues	5,707,967	5,979,277
Increase (decrease) in net assets	(760,386)	765,021
Net assets - beginning of year, as previously stated	13,750,216	13,550,438
Prior period adjustments	-	(565,243)
Net assets - beginning of the year, as restated	13,750,216	12,985,195
Net assets - end of year	$ 12,989,830	$ 13,750,216

See accompanying notes to financial statements.

HIGHLAND COMMUNITY COLLEGE

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2012 and 2011

	Primary Institution	
	2012	2011
Cash flows from operating activities:		
Tuition and fees	$ 3,432,265	$ 2,927,766
Grants and contracts	6,374,198	7,593,833
Auxiliary enterprise charges	3,186,319	3,342,664
Gifts and contributions	2,275	-
Other receipts	120,156	90,671
Payments to suppliers	(5,916,494)	(5,900,130)
Payments to employees	(8,816,612)	(8,520,432)
Payments for employee benefits	(1,625,325)	(1,507,013)
Payments for scholarships	(1,588,135)	(1,799,751)
Net cash used in operating activities	(4,831,353)	(3,772,392)
Cash flows from noncapital financing activities:		
State appropriations	4,047,540	4,217,828
Property taxes	1,533,101	1,502,511
William D. Ford direct lending receipts	6,274,024	7,330,593
William D. Ford direct lending disbursements	(5,745,588)	(8,066,318)
PLUS loans receipts	242,379	93,795
PLUS loans disbursements	(242,379)	(93,795)
Other	222,608	287,181
Net cash provided by noncapital financing activities	6,331,685	5,271,795
Cash flows from capital and related financing activities:		
Purchases of capital assets	(950,736)	(2,204,765)
Purchases of textbooks	(375,716)	(422,756)
Proceeds of loan	83,656	442,706
Proceeds of certificates of participation	-	3,055,000
Payment to refund revenue bonds	-	(2,498,920)
Issuance costs for certificates of participation	-	(49,232)
Principal paid on long-term debt	(572,717)	(448,924)
Interest paid on long-term debt	(96,471)	(73,276)
Net cash used in capital and related financing activities	(1,911,984)	(2,200,167)
Cash flows from investing activities:		
Proceeds from maturities of investments	25,600	27,100
Purchase of assets held for resale	(126,919)	(127,325)
Proceeds from sale of assets held for resale	-	122,868
Interest on investments	28,638	31,220
Purchase of investments	(24,900)	(26,100)
Net cash provided by (used in) investing activities	(97,581)	27,763
Net decrease in cash and cash equivalents	(509,233)	(673,001)
Cash and cash equivalents, beginning of year	3,455,207	4,128,208
Cash and cash equivalents, end of year	$ 2,945,974	$ 3,455,207

(Continued)

HIGHLAND COMMUNITY COLLEGE

STATEMENTS OF CASH FLOWS
(Continued)

Years Ended June 30, 2012 and 2011

	Primary Institution	
	2012	2011
Reconciliation of cash and cash equivalents to statement of net assets:		
Unrestricted cash and cash equivalents	$ 2,944,950	$ 3,062,198
Restricted cash and cash equivalents	1,024	393,009
Total cash and cash equivalents, end of the year	$ 2,945,974	$ 3,455,207
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (6,468,353)	$ (5,214,256)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	1,166,607	1,147,168
Changes in assets and liabilities:		
Grants receivable	141,995	119,451
Accounts receivable, net	56,038	(40,386)
Prepaid items	24,369	(1,554)
Inventories	1,011	16,163
Accounts payable and accrued liabilities	200,021	59,330
Deposits held in custody for others	(39,876)	(25,287)
Unearned revenue	(121,526)	87,421
Accrued compensated absences	57,758	2,732
Early retirement incentives	82,736	-
Net OPEB obligation	67,867	76,826
Net cash used in operating activities	$ (4,831,353)	$ (3,772,392)
NONCASH CAPITAL FINANCING ACTIVITIES:		
Capital assets acquired through capital leasing transactions	$ 800,000	$ 380,360

See accompanying notes to financial statements.

HIGHLAND COMMUNITY COLLEGE

STATEMENTS OF NET ASSETS
COMPONENT UNIT

June 30, 2012 and 2011

	Foundation	
	2012	2011
Assets:		
Current assets:		
Cash and cash equivalents	$ 100,073	$ 158,180
Lease receivable	124,036	62,536
Total current assets	224,109	220,716
Noncurrent assets:		
Lease receivable	1,082,485	431,521
Restricted investments	591,733	540,797
Capital assets:		
Land	782,600	789,890
Buildings and improvements	387,181	379,891
Furniture and equipment	2,191	2,191
Less accumulated depreciation	(73,861)	(63,534)
Total noncurrent assets	2,772,329	2,080,756
Total assets	$ 2,996,438	$ 2,301,472

(Continued)

HIGHLAND COMMUNITY COLLEGE

STATEMENTS OF NET ASSETS
COMPONENT UNIT
(Continued)

June 30, 2012 and 2011

	Foundation	
	2012	2011
Liabilities:		
Current liabilities:		
Accounts payable	$ 39,526	$ 40,180
Note payable, current portion	58,038	-
Total current liabilities	97,564	40,180
Noncurrent liabilities:		
Note payable	516,962	-
Total liabilities	614,526	40,180
Net assets:		
Invested in capital assets, net of related debt	231,531	241,858
Restricted for:		
Nonexpendable:		
Endowments	1,907,686	1,881,578
Expendable:		
Other	512,714	416,238
Unrestricted	(270,019)	(278,382)
Total net assets	$ 2,381,912	$ 2,261,292

See accompanying notes to financial statements.

HIGHLAND COMMUNITY COLLEGE

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
COMPONENT UNIT

Years Ended June 30, 2012 and 2011

	Foundation	
	2012	2011
Operating revenues:		
Gifts and contributions	$ 149,260	$ 151,621
Net investment income	23,172	51,416
Other operating revenues	76,507	72,440
Total operating revenues	248,939	275,477
Operating expenses:		
Depreciation and amortization	10,327	10,611
Other operating expenses	117,992	144,898
Total operating expenses	128,319	155,509
Increase in net assets	120,620	119,968
Net assets - beginning of year	2,261,292	2,141,324
Net assets - end of year	$ 2,381,912	$ 2,261,292

See accompanying notes to financial statements.

1 - Summary of Significant Accounting Policies

Reporting Entity

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 (Board), a six-member group constituting an on-going entity, has governance responsibilities over all activities related to Highland Community 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.

As required by accounting principles generally accepted in the United States of America, these financial statements present the College and its component unit, an entity for which the College is considered to be financially accountable. The discretely presented component unit is reported in separate statements in the basic financial statements to emphasize it is legally separate from the College. The discretely presented component unit has a June 30 year end.

Discretely-presented component unit. Highland Community College Foundation (the Foundation) is a Kansas non-profit organization created to assist in the receipt, management, and distribution of economic resources to build and maintain academic and support programs for Highland Community College.

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

1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Basis of accounting refers to when revenues, 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 assets. The statement of revenues, expenses and changes in net assets presents increases (revenues) and decreases (expenses) in total net assets. 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.

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.

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.

1 - Summary of Significant Accounting Policies (Continued)

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

Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, all proprietary funds continue to follow Financial Accounting Standards Board (FASB) standards issued on or before November 30, 1989. However, from that date forward, proprietary funds have the option of either choosing not to apply future FASB standards (including amendments of earlier pronouncements), or continuing to follow new FASB pronouncements (unless they conflict with GASB guidance). The College has chosen not to apply FASB standards issued after November 30, 1989.

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

Accounts receivable are carried at the original amount less an estimate made for uncollectibles. Management determines the allowance for uncollectibles by using historical experience applied to an aging of accounts. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded as revenue when received.

Inventories

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

Investments

The College's investments include nonnegotiable certificates of deposit. The certificates of deposit are recorded at cost because they are not affected by market rate changes. The Foundation's investments are recorded at fair value based on quoted market prices. Unrealized gains/losses related to changes in fair value are reported in the Foundation's statement of revenues, expenses, and changes in net assets.

1 - Summary of Significant Accounting Policies (Continued)

Bond Issuance Costs and Deferred Refunding Difference

Bond issuance costs and the deferred refunding difference are being amortized over the term of the bonds using a method which approximates the effective interest rate method.

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 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 held $ 131,376 and $ 4,457 in assets held for resale at June 30, 2012 and 2011, respectively.

Capital Assets

Capital assets include land, buildings and improvements, furniture and equipment, vehicles and construction in progress. 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 fair 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.

1 - Summary of Significant Accounting Policies (Continued)

Capital Assets (Continued)

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 years
Building improvements	15 years
Furniture and equipment	7 years
Vehicles	5 years

The Foundation values donated capital assets at the estimated fair market value of the asset at the time of donation. Depreciation is calculated on 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 assets.

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.

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.

1 - Summary of Significant Accounting Policies (Continued)

Net Assets

Net assets are classified as follows:

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

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

Restricted net assets – expendable – This includes resources that are legally or contractually obligated to be spent in accordance with restrictions imposed by external third parties. When both restricted and unrestricted resources are available for use, the policy is to use restricted resources first, then unrestricted resources when they are needed.

Unrestricted net assets – 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, during 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.

1 - Summary of Significant Accounting Policies (Continued)

Pending Governmental Accounting Standards Board Statements

At June 30, 2012, the Governmental Accounting Standards Board (GASB) had issued several statements not yet implemented by the College. The statements that might impact the College are as follows:

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34,* was issued in November 2010. The objective of this statement is to improve financial reporting by modifying certain requirements for inclusion of component units in the financial reporting entity. This statement also amends the criteria and guidance for reporting component units as if they were part of the primary government (that is, blending). Additionally, this statement requires a primary government to report its equity interest in a component unit as an asset. The provisions of this statement are effective for periods beginning after June 15, 2012.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* was issued in June 2011. The objective of this statement is to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. The provisions of this statement are effective for periods beginning after December 15, 2011.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, was issued in March 2012. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflow of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. In addition, debt issuance costs, except any portion related to prepaid insurance costs, should be recognized as an expense in the period incurred. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged. Accounting changes adopted to conform to the provisions of the statement should be applied retroactively by restating financial statements, if practical, for all periods presented.

1 - Summary of Significant Accounting Policies (Continued)

Pending Governmental Accounting Standards Board Statements (Continued)

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, was issued in June 2012. The objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. This statement also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. Decision-usefulness and accountability also will be enhanced through new note disclosures and required supplementary information. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2014. Earlier application is encouraged.

Prior Period Adjustments

Beginning net assets as of June 30, 2010 were restated to correct an error in the recording of held payroll checks at year-end. The effect of this restatement on the beginning balance was a decrease of $ 320,816 in net assets. For the year ending June 30, 2011, the College's instruction expense was increased in the amount of $ 32,140, and accrued liabilities were increased as of June 30, 2011 in the amount of $ 352,956. There was no effect on current revenue or expenditures as a result of this adjustment.

Beginning net assets as of June 30, 2010 were restated to reflect a change in the method used to record deferred tuition for summer classes offered by the College. The effect of this restatement on the beginning balance was a decrease of $ 244,427 in net assets. For the year ending June 30, 2011, the College's tuition and fees revenue was decreased in the amount of $ 47,531, and unearned revenue was increased as of June 30, 2011 in the amount of $ 291,958. There was no effect on current revenue or expenditures as a result of this adjustment.

Beginning net assets as of June 30, 2011 were restated to correctly record the College's auxiliary revenue in the amount of $ 288,264 to adjust for an overstatement of grants receivable. The effect of this restatement on net asset balance was a decrease of $ 288,264 as of June 30, 2011. For the year ended June 30, 2011, auxiliary revenue was decreased in the amount of $ 288,264 and grants receivable at June 30, 2011 were decreased by $ 288,264. There was no effect on current revenue or expenditures as a result of this adjustment.

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, 2012.

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. Budget comparison statements are presented in supplementary information for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

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.

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 and the State Treasurer's Municipal Investment Pool. All College deposits and investments are in cash and certificates of deposit at banks within the county.

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, 2012 and 2011, 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.

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

	2012		
	Cost	Fair Value	Unrealized Gain (Loss)
Bonds	$ 24,999	$ 24,396	$ (603)
Money market funds	2,873	2,873	-
Preferred/fixed rate capital securities	135,283	137,202	1,919
Mutual funds	155,541	156,831	1,290
Stock options & ETF	169,983	185,431	15,448
Other stock	25,000	25,000	-
REIT	60,000	60,000	-
	$ 573,679	$ 591,733	$ 18,054

3 - Cash and Investments (Continued)

	2011		
	Cost	Fair Value	Unrealized Gain (Loss)
Bonds	$ 19,674	$ 19,591	$ (83)
Money market funds	119,118	119,118	-
Securities	85,807	87,149	1,342
Mutual funds	144,185	147,569	3,384
Common stocks	116,342	142,370	26,028
Other stock	25,000	25,000	-
	$ 510,126	$ 540,797	$ 30,671

Net investment income of the Foundation consisted of the following for the years ended June 30:

	2012	2011
Interest and dividends	$ 34,588	$ 44,110
Investment fees	(6,047)	(20,038)
Partnership distribution	1,899	-
Realized losses	(4,448)	(19,093)
Unrealized gains (losses)	(12,358)	46,437
	$ 13,634	$ 51,416

4 - Capital Assets

Summaries of changes in capital assets follow:

	Balance July 1, 2011	Additions	Retirements	Transfers	Balance June 30, 2012
Highland Community College:					
Capital assets, not being depreciated:					
Land	$ 928,470	$ 151,850	$ -	$ -	$ 1,080,320
Construction in progress	765,941	550,507	-	(743,716)	572,732
Total capital assets, not being depreciated	1,694,411	702,357	-	(743,716)	1,653,052
Capital assets, being depreciated:					
Buildings and improvements	18,517,659	832,881	-	743,716	20,094,256
Furniture and equipment	2,280,936	159,309	-	-	2,440,245
Vehicles	413,308	15,400	-	-	428,708
Total capital assets, being depreciated	21,211,903	1,007,590	-	743,716	22,963,209
Less accumulated depreciation for:					
Buildings and improvements	(6,825,292)	(505,570)	-	-	(7,330,862)
Furniture and equipment	(1,326,007)	(232,358)	-	-	(1,558,365)
Vehicles	(334,758)	(23,971)	-	-	(358,729)
Total accumulated depreciation	(8,486,057)	(761,899)	-	-	(9,247,956)
Total capital assets, being depreciated, net	12,725,846	245,691	-	743,716	13,715,253
	$ 14,420,257	$ 948,048	$ -	$ -	$ 15,368,305

	Balance July 1, 2011	Additions	Retirements	Transfers	Balance June 30, 2012
Foundation:					
Capital assets, not being depreciated:					
Land	$ 789,890	$ -	$ -	$ (7,290)	$ 782,600
Capital assets, being depreciated:					
Buildings and improvements	379,891	-	-	7,290	387,181
Furniture and equipment	2,191	-	-	-	2,191
Less accumulated depreciation	(63,534)	(10,327)	-	-	(73,861)
Total capital assets, being depreciated, net	318,548	(10,327)	-	7,290	315,511
	$ 1,108,438	$ (10,327)	$ -	$ -	$ 1,098,111

4 - Capital Assets (Continued)

	Balance July 1, 2010	Additions	Retirements	Transfers	Balance June 30, 2011
Highland Community College:					
Capital assets, not being depreciated:					
Land	$ 928,470	$ -	$ -	$ -	$ 928,470
Construction in progress	1,494,575	1,521,562	-	(2,250,196)	765,941
Total capital assets, not being depreciated	2,423,045	1,521,562	-	(2,250,196)	1,694,411
Capital assets, being depreciated:					
Buildings and improvements	15,733,156	534,307	-	2,250,196	18,517,659
Furniture and equipment	1,975,487	305,449	-	-	2,280,936
Vehicles	424,028	-	(10,720)	-	413,308
Total capital assets, being depreciated	18,132,671	839,756	(10,720)	2,250,196	21,211,903
Less accumulated depreciation for:					
Buildings and improvements	(6,358,605)	(466,687)	-	-	(6,825,292)
Furniture and equipment	(1,091,717)	(234,290)	-	-	(1,326,007)
Vehicles	(314,271)	(31,207)	10,720	-	(334,758)
Total accumulated depreciation	(7,764,593)	(732,184)	10,720	-	(8,486,057)
Total capital assets, being depreciated, net	10,368,078	107,572	-	2,250,196	12,725,846
	$ 12,791,123	$ 1,629,134	$ -	$ -	$ 14,420,257

4 - Capital Assets (Continued)

	Balance July 1, 2010	Additions	Retirements	Transfers	Balance June 30, 2011
Foundation:					
Capital assets, not being depreciated:					
Land	$ 1,073,292	$ -	$ (283,402)	$ -	$ 789,890
Capital assets, being depreciated:					
Buildings and improvements	482,261	-	(102,370)	-	379,891
Furniture and equipment	2,191	-	-	-	2,191
Less accumulated depreciation	(52,923)	(10,611)	-	-	(63,534)
Total capital assets, being depreciated, net	431,529	(10,611)	(102,370)	-	318,548
	$ 1,504,821	$ (10,611)	$ (385,772)	$ -	$ 1,108,438

The College had approximately $ 437,700 in commitments for building construction and other contracts at June 30, 2011. At June 30, 2012, the College had no significant commitments for construction or other contracts.

5 - Operating Leases

The College has an operating lease for office equipment. Future payments required under the operating lease agreement are as follows:

Year Ending June 30,	
2013	$ 70,800
2014	59,000
	$ 129,800

5 - Operating Leases (Continued)

Operating lease expense related to this lease agreement was $70,800 for the years ended June 30, 2012 and 2011. The College also has an operating lease which is contingent upon the enrollment hours taken by students at that location. Operating lease expense for this location was $103,357 and $ 185,360 for the years ended June 30, 2012 and 2011, respectively.

During 2006, the College entered into an operating lease with the Foundation for the use of classroom space at a satellite location. Lease payments are $ 50,000 each year until the lease is terminated. If the College is unable to make a payment during the year, a six percent interest fee will be charged on the unpaid annual payment. Operating lease expense for the College and rent income for the Foundation was $ 50,000 for the years ended June 30, 2012 and 2011.

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 with the District for use of the facilities and properties. The initial lease terms are for a 10 year period. At the expiration of the lease, the parties may, at their option, extend the lease terms for an additional 10 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 $ 335,000 to $ 385,000 and maturing between March 1, 2013 and March 1, 2019. The certificates of participation bear interest at rates ranging from 2.0% to 2.9% payable semi-annually. The remaining balance at June 30, 2012 is $ 2,490,000.

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.

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
2013	$ 335,000	$ 58,550	$ 393,550
2014	340,000	51,850	391,850
2015	345,000	45,050	390,050
2016	355,000	38,150	393,150
2017	360,000	30,340	390,340
2018-2019	755,000	32,505	787,505
	$ 2,490,000	$ 256,445	$ 2,746,445

Capital Leases Payable

In August 2009, the College entered into an agreement to lease two houses purchased by the Foundation. The terms of the agreement call for eight annual payments of $ 24,500 plus interest at 6% per annum to be paid by the College to the Foundation with the first payment commencing April 1, 2010. Upon termination of the lease, the College may take title to the buildings for no additional consideration. Accordingly, the College has recorded the buildings as capital assets.

In August 2010, the College entered into an agreement to lease three duplexes purchased by the Foundation. The terms of the agreement call for ten annual payments of $ 38,036 plus interest at 6% per annum to be paid by the College to the Foundation with the first payment commencing April 1, 2011. Upon termination of the lease, the College may take title to the buildings for no additional consideration. Accordingly, the College has recorded the buildings as capital assets.

In March 2012, the College entered into an agreement to lease a building and land purchased by the Foundation. The terms of the agreement call for a $ 25,000 down payment and ten annual payments of $ 95,213 including interest at 4.35% per annum to be paid by the College to the Foundation with the first payment commencing September 1, 2012. Upon termination of the lease, the College may take title to the building and land for no additional consideration. Accordingly, the College has recorded the building and land as capital assets.

6 - Long-Term Debt (Continued)

Capital Leases Payable (Continued)

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

	2012	2011
Houses		
Cost	$ 196,000	$ 196,000
Accumulated depreciation	12,983	7,957
Duplexes		
Cost	$ 380,360	$ 380,360
Accumulated depreciation	14,629	4,876
Building and land		
Cost	$ 800,000	$ -
Accumulated depreciation	8,398	-

Amortization of $ 23,176 and $ 9,902 in 2012 and 2011, respectively, on the assets acquired through the capital leases has been included in depreciation expense.

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

Year Ending June 30,	Principal	Interest	Total
2013	$ 124,036	$ 59,258	$ 183,294
2014	126,712	52,832	179,544
2015	129,503	46,287	175,790
2016	132,416	39,622	172,038
2017	135,456	32,829	168,285
2018-2021	553,665	74,537	628,202
	$ 1,201,788	$ 305,365	$ 1,507,153

6 - Long-Term Debt (Continued)

Loans Payable

The College entered into a loan agreement with the Kansas Board of Regents (KBOR) for deferred maintenance costs effective March 2008. The College has four deferred maintenance projects approved under the loan agreement. The College must pay for construction costs upfront and request reimbursement for actual costs. The loan is for a term of 8 years and a total not to exceed $ 970,000. The College must pay 1/8 of the total loan amount ($ 121,250) on or before December 1 in each of the eight years in the amortization period, beginning December 1, 2008. 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 balance of the loan payable was $ 485,001 and $ 606,251 at June 30, 2012 and 2011, respectively.

The College entered into another loan agreement with the Kansas Board of Regents (KBOR) for deferred maintenance costs effective March 2009. The College has five deferred maintenance projects approved under the loan agreement. The College must pay for construction costs upfront and request reimbursement for actual costs. The loan is for a term of 8 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 in the amortization period, beginning December 1, 2009. 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 balance of the loan payable was $ 169,655 and $ 119,930 at June 30, 2012 and 2011, respectively.

6 - Long-Term Debt (Continued)

Changes in Long-Term Debt

Current fiscal year and prior fiscal year transactions are summarized as follows:

	Balance, July 1, 2011	Additions	Reductions	Balance, June 30, 2012	Due Within One Year
Certificates of participation Series 2010	$ 2,820,000	$ -	$ 330,000	$ 2,490,000	$ 335,000
Less deferred amounts:					
Deferred refunding difference	(91,587)	-	(11,215)	(80,372)	-
2008 loan payable	606,251	-	121,250	485,001	121,250
2009 loan payable	119,930	83,656	33,931	169,655	33,931
Capital lease payable	489,324	800,000	87,536	1,201,788	124,036
Compensated absences	236,246	237,737	179,979	294,004	163,386
Net OPEB obligation	231,840	67,867	-	299,707	-
Early retirement incentives	-	90,000	7,264	82,736	22,736
	$ 4,412,004	$ 1,279,260	$ 748,745	$ 4,942,519	$ 800,339

	Balance, July 1, 2010	Additions	Reductions	Balance, June 30, 2011	Due Within One Year
Revenue Bonds Series 2004	$ 2,450,000	$ -	$ 2,450,000	$ -	$ -
Certificates of participation Series 2010	-	3,055,000	235,000	2,820,000	330,000
Less deferred amounts:					
Deferred refunding difference	-	(100,933)	(9,346)	(91,587)	-
2008 loan payable	343,323	384,178	121,250	606,251	121,250
2009 loan payable	91,540	58,528	30,138	119,930	30,138
Capital lease payable	171,500	380,360	62,536	489,324	62,536
Compensated absences	233,514	189,588	186,856	236,246	177,037
Net OPEB obligation	155,014	76,826	-	231,840	-
	$ 3,444,891	$ 4,043,547	$ 3,076,434	$ 4,412,004	$ 720,961

7 - Defined Benefit Pension Plan

Plan description. The College participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, *et seq.* KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions, KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas Avenue, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

Funding policy. K.S.A. 74-4919 and K.S.A. 74-4921 establishes the KPERS member-employee contribution rates. Effective July 1, 2009, KPERS has two benefit structures and funding depends on whether the employee is a Tier 1 or Tier 2 member. Tier 1 members are active and contributing members hired before July 1, 2009. Tier 2 members were first employed in a covered position on or after July 1, 2009. Kansas law establishes the KPERS member-employee contribution rate of 4% of covered salary for Tier 1 members and at 6% of covered salary for Tier 2 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 on behalf of the College. The State of Kansas made payments of $ 641,490 and $ 568,116 on behalf of the college for the years ended June 30, 2012 and 2011.

8 - Early Retirement Benefits

The College began offering early retirement benefits to certain eligible employees in the current year. To be eligible for early retirement benefits, employees must be full-time employees of the College and must be KPERS eligible. To be KPERS eligible, Tier 1 and Tier 2 members must meet one of the following criteria as required by KPERS: full retirement qualifications or early retirement qualifications.

Benefits for eligible participants include receiving $6,000 per year each year for three years in either a lump sum of $6,000 per year or $500 per month at the eligible participant's discretion. Eligible participants may use the $6,000 to pay towards continuing their participation in the College's group health insurance plan at the same rate paid by the college. Amounts in excess of the eligible participant's premiums would be paid to the eligible participant.

9 - 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.

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. During the years ended June 30, 2012 and 2011, the College did not have any retirees covered under the plan, therefore, the College made no contributions to the plan.

9 - Other Postemployment Healthcare Benefits (Continued)

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 cost each year and amortize any unfunded actuarial liabilities over a period of not to exceed thirty years. The following presents the components of the College's annual OPEB cost for the years ended June 30, 2012 and 2011, the amounts contributed to the plan and changes in the College's net OPEB obligation.

	2012	2011
Annual required contribution	$ 69,227	$ 77,735
Interest on net OPEB obligation	8,114	5,425
Adjustment to annual required contribution	(9,474)	(6,334)
Annual OPEB cost (expense)	67,867	76,826
Contributions made	-	-
Increase in net OPEB obligation	67,867	76,826
Net OPEB obligation, July 1, 2011	231,840	155,014
Net OPEB obligation, June 30, 2012	$ 299,707	$ 231,840

The College's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2012 and 2011 are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2012	$ 67,867	0%	$ 299,707
2011	$ 76,826	0%	$ 231,840
2010	$ 77,279	0%	$ 155,014
2009	$ 77,735	0%	$ 77,735

9 - Other Postemployment Healthcare Benefits (Continued)

Funded Status and Funding Progress. As of July 1, 2011, the most recent actuarial valuation date, the actuarial accrued liability for benefits was $ 469,258. 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 $ 469,258. For the years ended June 30, 2012 and 2011, respectively, the covered payroll (annual payroll of active employees covered by the plan) was $ 5,810,780 and $ 6,742,302, and the ratio of the UAAL to the covered payroll was 6.65 percent and 8.62 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 the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared 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, will present in time, 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 actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2011 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 showed an actual annual healthcare cost trend rate of -3.0 percent after one year and assumed an annual healthcare cost trend rate of 8.5 percent after two years, reduced by decrements to an ultimate rate of 5.0 percent after nine 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 30 years and assuming a payroll increase of 2.00 percent per year.

10 - 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 years ended June 30, 2012 and 2011, respectively, were approximately $ 10,600 and $ 9,800. The Foundation also contributed $30,322 to the College to be used for library enhancements during the year ended June 30, 2011.

During 2009, an agreement was created between the College and the Foundation which transferred the Brown County land and building to the Foundation from the trust at the fair value of $ 777,450 based on the County's appraisal of the property. The land and building are restricted for endowment based on the requirements of the trust agreement. Additionally, the Foundation entered into an agreement with the College to lease the Brown County land to the College. The College is to receive the farm cash rent from the property and pay 33% of the farm cash rent to the Foundation. The College also has the right to purchase the property for a sum of $ 1,000 to be exercised at any time. The lease with option to purchase shall terminate on July 1, 2029 with the right to renew for an additional 21 years. The Foundation is responsible for paying the real estate taxes on the property and the College is responsible for paying all insurance and other costs associated with farming and maintaining the property as well as capital improvements.

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.

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.

REQUIRED SUPPLEMENTARY INFORMATION

HIGHLAND COMMUNITY COLLEGE

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

OTHER POST EMPLOYMENT BENEFITS

June 30, 2012

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%	$4,842,960	12.00%
7/1/2011	$ -	$ 469,258	$ 469,258	0.0%	$5,810,780	8.08%

SUPPLEMENTARY INFORMATION

HIGHLAND COMMUNITY COLLEGE

ALL CURRENT FUNDS - UNRESTRICTED

SCHEDULE OF CASH RECEIPTS AND EXPENDITURES - BUDGET AND ACTUAL

Year Ended June 30, 2012

GENERAL FUND

	Original and Final Budget	Actual	Variance Over (Under)
Cash receipts:			
Student sources:			
Tuition	$ 5,100,000	$ 3,398,203	$ (1,701,797)
Fees	687,250	613,454	(73,796)
State sources:			
State operating grant	4,044,912	4,047,540	2,628
Local sources:			
Current year ad valorem tax	939,247	1,364,380	425,133
Prior year ad valorem tax	87,456	-	(87,456)
Motor vehicle tax	111,508	137,109	25,601
Delinquent tax	21,488	31,611	10,123
Other sources:			
Interest	-	27,909	27,909
Other income	300,000	595,188	295,188
Transfers	-	400,000	400,000
Total cash receipts	$ 11,291,861	10,615,394	$ (676,467)

(Continued)

HIGHLAND COMMUNITY COLLEGE

ALL CURRENT FUNDS - UNRESTRICTED

SCHEDULE OF CASH RECEIPTS AND EXPENDITURES - BUDGET AND ACTUAL

Year Ended June 30, 2012

GENERAL FUND
(Continued)

	Original and Final Budget	Actual	Variance Over (Under)
Expenditures subject to budget:			
Instruction	$ 3,900,000	$ 3,794,629	$ (105,371)
Academic support	1,505,000	1,219,526	(285,474)
Student services	2,000,000	2,027,200	27,200
Institutional support	2,100,000	1,944,562	(155,438)
Operation and maintenance	2,500,000	1,862,638	(637,362)
Scholarships	80,000	58,377	(21,623)
Transfers	350,000	231,700	(118,300)
Total expenditures subject to budget	$ 12,435,000	11,138,632	$ (1,296,368)
Receipts under expenditures subject to budget		(523,238)	
Unencumbered cash, beginning		1,758,437	
Unencumbered cash, ending		$ 1,235,199	

(Continued)

HIGHLAND COMMUNITY COLLEGE

ALL CURRENT FUNDS - UNRESTRICTED

SCHEDULE OF CASH RECEIPTS AND EXPENDITURES - BUDGET AND ACTUAL

Year Ended June 30, 2012

POSTSECONDARY TECHNICAL EDUCATION FUND

	Original and Final Budget	Actual	Variance Over (Under)
Cash receipts:			
Student sources:			
Tuition	$ 2,500,000	$ 1,638,158	$ (861,842)
Fees	-	115,020	115,020
Federal sources:			
Federal operating grant	-	110,148	110,148
State sources:			
State operating grant	1,455,444	1,587,058	131,614
Other sources:			
Interest	-	549	549
Transfers	-	200,000	200,000
Other income	600,000	11,887	(588,113)
Total cash receipts	$ 4,555,444	3,662,820	$ (892,624)
Expenditures subject to budget:			
Instruction	$ 4,555,444	3,256,399	$ (1,299,045)
Student services	-	159,480	159,480
Academic support	-	114,049	114,049
Total expenditures subject to budget	$ 4,555,444	3,529,928	$ (1,025,516)
Receipts over expenditures subject to budget		132,892	
Unencumbered cash, beginning		-	
Unencumbered cash, ending		$ 132,892	

(Continued)

HIGHLAND COMMUNITY COLLEGE

ALL CURRENT FUNDS - UNRESTRICTED

SCHEDULE OF CASH RECEIPTS AND EXPENDITURES - BUDGET AND ACTUAL

Year Ended June 30, 2012

ADULT EDUCATION FUND

	Original and Final Budget	Actual	Variance Over (Under)
Cash receipts:			
Federal grants	$ 65,000	$ 64,387	$ (613)
State grants	55,000	55,514	514
Transfers	30,000	22,008	(7,992)
Total cash receipts	$ 150,000	141,909	$ (8,091)
Total expenditures subject to budget	$ 150,000	141,909	$ (8,091)
Receipts over expenditures subject to budget		-	
Unencumbered cash, beginning		-	
Unencumbered cash, ending		$ -	

(Continued)

HIGHLAND COMMUNITY COLLEGE

ALL CURRENT FUNDS - UNRESTRICTED

SCHEDULE OF CASH RECEIPTS AND EXPENDITURES - BUDGET AND ACTUAL

Year Ended June 30, 2012

ADULT SUPPLEMENTARY EDUCATION

	Original and Final Budget	Actual	Variance Over (Under)
Cash receipts:			
Fees	$ 100,000	$ 3,000	$ (97,000)
Expenditures subject to budget:			
Instruction	$ 100,000	2,746	$ (97,254)
Institutional support	-	230	230
Total expenditures subject to budget	$ 100,000	2,976	$ (97,024)
Receipts over expenditures subject to budget		24	
Unencumbered cash, beginning		11,438	
Unencumbered cash, ending		$ 11,462	

(Continued)

HIGHLAND COMMUNITY COLLEGE

ALL CURRENT FUNDS - UNRESTRICTED

SCHEDULE OF CASH RECEIPTS AND EXPENDITURES - BUDGET AND ACTUAL

Year Ended June 30, 2012

AUXILIARY FUND

	Original and Final Budget	Actual	Variance Over (Under)
Cash receipts:			
Sales and services	$ 4,000,000	$ 3,720,805	$ (279,195)
Transfers in	-	135,000	135,000
Total cash receipts	$ 4,000,000	3,855,805	$ (144,195)
Expenditures subject to budget:			
Operating expenditures	$ 4,000,000	2,412,727	$ (1,587,273)
Principal payments on loan	-	155,181	155,181
Interest payments on loan	-	2,025	2,025
Transfers	-	1,222,097	1,222,097
Total expenditures subject to budget	$ 4,000,000	3,792,030	$ (207,970)
Receipts over expenditures subject to budget		63,775	
Unencumbered cash, beginning		528,772	
Unencumbered cash, ending		$ 592,547	

See accompanying independent auditor's report.

HIGHLAND COMMUNITY COLLEGE

ALL PLANT FUNDS

SCHEDULE OF CASH RECEIPTS AND EXPENDITURES - BUDGET AND ACTUAL

Year Ended June 30, 2012

CAPITAL OUTLAY

	Original and Final Budget	Actual	Variance Over (Under)
Cash receipts:			
State grants	$ 131,688	$ 148,508	$ 16,820
Loan proceeds	400,000	83,656	(316,344)
Other	750,000	210,783	(539,217)
Tax credit donations	50,000	-	(50,000)
Transfers	-	327,265	327,265
Total cash receipts	$ 1,331,688	770,212	$ (561,476)
Expenditures subject to budget:			
Plant equipment and facility	$ 1,300,000	864,698	$ (435,302)
Transfers	-	83,053	83,053
Total expenditures subject to budget	$ 1,300,000	947,751	$ (352,249)
Receipts under expenditures subject to budget		(177,539)	
Unencumbered cash, beginning		197,621	
Unencumbered cash, ending		$ 20,082	

See accompanying independent auditor's report.

HIGHLAND COMMUNITY COLLEGE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Total Award	Expenditures
U.S. Department of Agriculture:			
Passed through Kansas Department of Agriculture:			
Specialty Crop Block Grant Program	10.170	$ 61,461	$ 21,088
U.S. Department of Labor:			
Passed through Washburn University:			
Technical Retraining to Achieve Credentials	17.282	776,400	83,415
National Science Foundation:			
Passed through Missouri State University:			
Viticulture and Enology Science and Technology Alliance	47.076	91,454	73,524
U.S. Department of Education:			
Direct Programs:			
TRIO - Student Support Services	84.042	439,998	229,176
Student Financial Assistance Cluster:			
Federal Supplemental Educational Opportunity Grant Program	84.007	65,750	65,750
Federal Work Study Program	84.033	63,320	52,821
Federal Pell Grant Program	84.063	3,983,458	3,983,458
Federal Direct Student Loans	84.268	5,745,588	5,745,588
Student Financial Assistance Cluster subtotal			9,847,617
Passed through Kansas Board of Regents:			
Adult Education	84.002	64,387	64,387
Carl Perkins Program Improvement	84.048	110,148	106,285
Total U.S. Department of Education			10,247,465
Total federal award expenditures			$ 10,425,492

See accompanying notes to schedule of expenditures of federal awards.

HIGHLAND COMMUNITY COLLEGE

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2012

1 - General

The accompanying schedule of federal awards presents the activity of all federal award programs of Highland Community College (the College).

2 - Basis of Accounting

The accompanying schedule of expenditures of federal awards is presented using the accrual basis of accounting.

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, 2012

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified:	None
Significant deficiencies identified that are not considered to be material weaknesses:	Finding 2009-1
Noncompliance material to financial statements:	None

Federal Awards

Internal control over major programs:	
Material weaknesses identified:	None
Significant deficiencies identified that are not considered to be material weaknesses:	Findings 2012-1, 2012-2, 2012-3
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings that are required to be reported in accordance with Section 510(a) of Circular A-133:	Findings 2012-1, 2012-2, 2012-3

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
Student Financial Assistance 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

Dollar threshold used to distinguish between Type A and Type B programs:	$ 312,765
Auditee qualified as a low-risk auditee:	Yes

Section II – Financial Statement Findings

Finding 2009-1 – Significant Deficiency

Criteria – The College's internal controls should be designed to ensure financial statements are prepared in accordance with generally accepted accounting principles (GAAP).

Condition – Significant asset, liability and fund balance/net asset accounts are not recorded on the College's general ledger system. The computer system for maintaining student accounts receivable information cannot show an appropriate roll-forward balance. The accounts receivable system allows different departments to make changes to student balances for any semester at any time and it does not integrate with the current general ledger system. In addition, tuition and fees are allocated to revenue accounts based on an allocation of actual cash received rather than being based on actual tuition and fee charges.

Cause – The College's general ledger system is not capable of maintaining information in accordance with GAAP.

Effect – Although the College continues to make strides in identifying significant journal entries, there remained required journal entries which were not initially identified by the College's internal controls and information in such areas as receivables, payables, deferred revenues, long-term debt, capital asset and fund balance/net asset information are not available to the Board of Trustees and users within the College's management. In addition, tuition and fee revenue may not be appropriately reported by revenue classification.

Recommendation – We continue to recommend the College investigate opportunities to obtain a general ledger system that allows the financial statements prepared by management to be presented on the accrual basis of accounting and that can appropriately and more efficiently track student accounts receivable balances and tuition and fee revenue.

Management's Response/Corrective Action Plan (Unaudited) – Management continues through the audit, and regular updates from the Finance Officer, to bring to the Board of Trustees attention the significance of this issue. Management also recognizes the financial commitment that must be made to purchase and implement the software required.

Section III – Federal Award Findings and Questioned Costs

Finding 2012-1 – Significant Deficiency

Federal Program – Student Financial Assistance Cluster (CFDA Nos. 84.007, 84.033, 84.063, 84.268), U. S. Department of Education, Grant Award Year 2012

Compliance Requirement – Special Tests and Provisions No. 2 - Verification

Condition – Our testing of the verification of student eligibility revealed that for 2 of 60 students tested, the College did not accurately correct the students' accounts in the database after obtaining updated information from the students during the verification process. Also, certain parts of the verification documentation were missing for 3 of 60 students tested.

Criteria – For those students selected for the verification process, the College is required to obtain acceptable documentation from the student and match that documentation to the student aid application. If there are differences, the College is required to make the necessary changes to the student's account and ensure that the changes made to the account are accurate.

Cause – Human error and a lack of review of the verification caused incorrect amounts to be included on the students' accounts and caused the loss of certain verification documentation.

Effect – The lack of review of verification results could impact the eligibility of selected students.

Questioned Costs – Unknown.

Context – The amount of Title IV funds disbursed to the students in question was $ 34,254. The total amount disbursed in the rest of our sample population was $ 349,715.

Recommendation – We recommend the College implement procedures that would include a thorough review of the changes made to student accounts resulting from the verification process.

Management's Response/Corrective Action Plan (Unaudited) – Since the close of Fiscal Year 2012, the Financial Aid office improved the verification process. When the verification process is complete, the student's file is placed on "hold" in Power Campus until such time as the Individual Student Income Report correction processes through FAFSA. Once the new FAFSA information is downloaded, the student's file is pulled, and the corrections are reviewed by the Director of Financial Aid to make sure they are accurate before the file is released to the Director for the awarding process. If the correction is not accurate then the adjustments are made and resent to FAFSA for processing.

These two students were verified 5/11 and 9/11 respectively, which was prior to the change of internal controls.

Finding 2012-2 – Significant Deficiency

Federal Program – Student Financial Assistance Cluster (CFDA Nos. 84.007, 84.033, 84.063, 84.268), U. S. Department of Education, Grant Award Year 2012

Compliance Requirement – Special Tests and Provisions No. 8 – Borrower Data Transmission and Reconciliation- Direct Loans only (CFDA No. 84.268)

Condition – Reconciliations of School Account Statements (SAS) were performed only at year end when such reconciliations are required to be performed monthly.

Criteria – As discussed at 34 CFR 685.102(b), the College is required to perform monthly reconciliations of the School Account Statement data files back to the College's financial records.

Cause – The College was unaware that the reconciliation was required to be completed monthly.

Effect – Not performing the reconciliation monthly could lead to material differences between the U.S. Department of Education and the College's financial information. These differences would then not be corrected in a timely manner.

Questioned Costs – None.

Recommendation – We recommend the College implement procedures that will address the lack of timeliness for the SAS reconciliations.

Management's Response/Corrective Action Plan (Unaudited) – Although we are currently performing reconciliation of school account statements on a monthly basis, we are not documenting the procedure and providing back up documentation and proof of balance. Going forward, the Financial Aid department will create a reconciliation document that will be completed by the Financial Aid Assistant II and who will also provide backup documentation that will be reviewed by the Financial Aid Director.

Finding 2012-3 – Significant Deficiency

Federal Program – Student Financial Assistance Cluster (CFDA Nos. 84.007, 84.033, 84.063, 84.268), U. S. Department of Education, Grant Award Year 2012

Compliance Requirement – Special Tests and Provisions No. 4 – Return of Title IV Funds

Condition – During our testwork, we discovered that 1 student of the 5 students tested did not have the appropriate amount of funds returned to the federal government.

Criteria – The College must determine the amount of unearned Title IV assistance to be returned to the federal government using guidance at 34 CFR 668.22.

Cause – The student withdrew shortly after Pell funds were disbursed in the account. On the "Treatment of Title IV Funds When A Student Withdraws from a Credit Hour Program" form, the Pell grant was included in the "Amount that Could Have Been Disbursed" column instead of in the "Amount Disbursed" column. This caused an understatement of the calculated amount of funds to be returned to the federal government.

Effect – This miscalculation caused the student to receive more Unsubsidized Direct Loan funds than allowed.

Questioned Costs and Context – The amount of Title IV funds returned to the U.S. Department of Education for the student should have been $ 1,603. However, the amount actually returned was $ 848, causing a $ 755 underpayment.

Recommendation – We recommend the College implement procedures that would include a thorough review of the "Treatment of Title IV Funds When a Student Withdraws From a Credit-Hour Program" form by someone other than the preparer.

Management's Response/Corrective Action Plan (Unaudited) – This was and R2T4 (Return to Title IV fund) that happened Oct. 2011. The return of funds was started in the wrong column on the R2T4 worksheet. By using the correct column, it proved that more funds should have been returned to the government. The Financial Aid department has a new director who will do departmental training and test processes throughout the year for understanding and inconsistencies. The FA department will research a system for double checking the R2T4 processes being done.

HIGHLAND COMMUNITY COLLEGE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2012

Finding 2009-1 – Significant Deficiency

Criteria – The College's internal controls should be designed to ensure financial statements are prepared in accordance with generally accepted accounting principles (GAAP).

Condition – Significant asset, liability and fund balance/net asset accounts are not recorded on the College's general ledger system. The computer system for maintaining student accounts receivable information cannot show an appropriate roll-forward balance. The accounts receivable system allows different departments to make changes to student balances for any semester at any time and it does not integrate with the current general ledger system. In addition, tuition and fees are allocated to revenue accounts based on an allocation of actual cash received rather than being based on actual tuition and fee charges.

Cause – The College's general ledger system is not capable of maintaining information in accordance with GAAP.

Effect – Although the College has made strides in identifying significant journal entries, there remained required journal entries which were not initially identified by the College's internal controls and information in such areas as receivables, payables, deferred revenues, long-term debt, capital asset and fund balance/net asset information are not available to the Board of Trustees and users within the College's management. In addition, tuition and fee revenue may not be appropriately reported by revenue classification.

Recommendation – We continue to recommend the College investigate opportunities to obtain a general ledger system that allows the financial statements prepared by management to be presented on the accrual basis of accounting and that can appropriately and more efficiently track student accounts receivable balances and tuition and fee revenue.

Management's Response/Corrective Action Plan (Unaudited) – Management continues through the audit, and regular updates from the Finance Officer, to bring to the Board of Trustees attention the significance of this issue. Management also recognizes the financial commitment that must be made to purchase and implement the software required. The software has been identified, but continues to be cost prohibitive.

Follow-up – This finding has been repeated.

Finding 2011-1 – Significant Deficiency

Federal Program – Student Financial Assistance Cluster (CFDA Nos. 84.007, 84.033, 84.063, 84.268), U. S. Department of Education, Grant Award Year 2011

Compliance Requirement – Special Tests and Provisions No. 2 - Verification

Condition – Our testing of the verification of student eligibility revealed that for 1 of 60 students tested, the College did not accurately correct the "Adjusted Gross Income" (AGI) amount on the "Institutional Student Information Record" (ISIR).

Criteria – For those students selected for the verification process, the College is required to obtain acceptable documentation from the student and match that documentation to the student aid application. If there are differences, the College is required to make the necessary changes to the student's account and ensure that the changes made to the account are accurate.

Cause – Human error and a lack of review of the verification caused the incorrect amount to be included on the student's account. The correct AGI was entered in the system but not on the correct line.

Effect – The lack of review of change made as a result of the verification process could impact the eligibility of selected students.

Questioned Costs – Known questioned costs are $ 2,350. This is the overpayment of Pell funds to the student.

Context – The amount of Title IV funds disbursed to the student in question was $ 5,091. The total amount disbursed in the rest of our sample population was $ 430,263.

Recommendation – We recommend the College implement procedures that would include a thorough review of the changes made to student accounts resulting from the verification process.

Management's Response/Corrective Action Plan (Unaudited) – The correction from the ISIR must be made by hand. This was a situation of human error. Staff will make the correction to the student's pell with the Department of Education and then make an adjustment to the student account. The adjustment did not change the student's loan eligibility. The financial aid staff will evaluate the process and make a determination on the steps needed to review all corrections made.

Follow-up – Although issues were not found with the verification of Adjusted Gross Income in the current year, there were similar data entry-issues found within the sample selected. Therefore, this finding is repeated in the current year. However, the finding has been renumbered due to the fact that there are additional compliance items that need to be included with this finding.

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

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*

BERBERICH TRAHAN & CO., P.A. 3630 SW Burlingame Rd., Topeka, KS 66611-2050 t 785.234.3427 toll-free 800.530.5526 f 785.233.1768 btandcocpa.com

The Board of Trustees
Highland Community College:

We have audited 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, 2012, and have issued our report thereon dated December 4, 2012. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of Highland Community College Foundation, as described in our report on the College's financial statements. The financial statements of Highland Community College Foundation were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

Management of the College is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as Finding 2009-1 that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the College in a separate letter dated December 4, 2012.

The College's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the College's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Trustees, management, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Berberich Trahan & Co., P.A.

December 4, 2012

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

BERBERICH TRAHAN & CO., P.A. 3630 SW Burlingame Rd., Topeka, KS 66611-2050 t 785.234.3427 toll-free 800.530.5526 f 785.233.1768 btandcocpa.com

The Board of Trustees
Highland Community College:

Compliance

We have audited Highland Community College's (the College) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended June 30, 2012. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above 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. Our audit does not provide a legal determination of the College's compliance with those requirements.

In our opinion, the College complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Findings 2012-1, 2012-2, and 2012-3.

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Internal Control Over Compliance

Management of the College is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the College's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as Findings 2012-1, 2012-2, and 2012-3. 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.

The College's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the College's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Board of Trustees, management, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Berberich Trahan & Co., P.A.

December 4, 2012