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GOVERNANCE LETTER

March 5, 2013

Executive Committee
Western Kansas Community College Virtual Education Consortium
1105 Main Street, Suite C
Great Bend, Kansas 67530

We have audited the financial statements of Western Kansas Community College Virtual Education Consortium ("Consortium") for the year ended June 30, 2012, and have issued our report thereon dated January 10, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our Engagement Letter dated June 29, 2010. Professional standards also require that we communicate to you the following information related to our audit.

Significant Accounting Policies

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Consortium are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2012. We noted no transactions entered into by the Consortium during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no sensitive estimates affecting the financial statements.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Executive Committee
Western Kansas Community College Virtual Education Consortium
March 5, 2013
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Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the Management Representation Letter dated January 10, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

The information is intended solely for the use of the Executive Committee, management and others within the Consortium and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

D. McMillen, Chartered

**WESTERN KANSAS COMMUNITY COLLEGE
VIRTUAL EDUCATION CONSORTIUM
BARTON COUNTY, KANSAS**

*Financial Statements
For the Years Ended June 30, 2012 and 2011*

**D. McMillen, Chartered
Certified Public Accountants
2200 Lakin, Suite A
Great Bend, KS 67530**

WESTERN KANSAS COMMUNITY COLLEGE VIRTUAL EDUCATION CONSORTIUM
BARTON COUNTY, KANSAS

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Executive Committee
Western Kansas Community
College Virtual Education Consortium
Barton County, Kansas

We have audited the accompanying statement of net assets of Western Kansas Community College Virtual Education Consortium, Barton County, Kansas, as of June 30, 2012 and 2011, and the related statement of revenues, expenses and changes in net assets and the statement of cash flows for the years then ended. These financial statements are the responsibility of the Consortium's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Western Kansas Community College Virtual Education Consortium, as of June 30, 2012 and 2011, and the changes in its net assets and cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2013, on our consideration of the Consortium's internal control over financial reporting and our tests of 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 controls 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 audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages i through iv, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards

generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide assurance.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Western Kansas Community College Virtual Education Consortium's basic financial statements.

D. McMillen, Chartered

D. McMillen, Chartered

Great Bend, Kansas
January 10, 2013

D. McMillen, Chartered

Certified Public Accountants

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Great Bend, KS 67530

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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

Executive Committee
Western Kansas Community
College Virtual Education Consortium
Barton County, Kansas

We have audited the financial statements of Western Kansas Community College Virtual Education Consortium, Barton County, Kansas, as of and for the year ended June 30, 2012, and have issued our report thereon dated January 10, 2013. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Western Kansas Community College Virtual Education Consortium's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Western Kansas Community College Virtual Education Consortium's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Western Kansas Community College Virtual Education Consortium's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Western Kansas Community College Virtual Education Consortium'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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of the audit committee, management, others within the organization, Executive Committee, 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.

D. McMillen, Chartered

D. McMillen, Chartered

Great Bend, Kansas
January 10, 2013

WESTERN KANSAS COMMUNITY COLLEGE VIRTUAL EDUCATION CONSORTIUM
BARTON COUNTY, KANSAS

STATEMENT OF NET ASSETS
JUNE 30, 2012 AND 2011

ASSETS:	<u>2012</u>	<u>2011</u>
Current Assets:		
Cash and Cash Equivalents	\$ 301,462	\$ 384,184
Accounts Receivable	441,509	65,153
Prepaid Contract Fees	83,879	69,691
Prepaid Payroll	<u>138,421</u>	<u>145,853</u>
Total Current Assets	<u>965,271</u>	<u>664,881</u>
Non-Current Assets:		
Other Receivables	-	-
Capital Assets, Net	<u>28,426</u>	<u>24,391</u>
Total Non-Current Assets	<u>28,426</u>	<u>24,391</u>
Total Assets	<u>\$ 993,697</u>	<u>\$ 689,272</u>
LIABILITIES:		
Current Liabilities:		
Accounts Payable	\$ 2,520	\$ 18,873
Deferred Tuition	482,465	86,631
Capital Lease	<u>-</u>	<u>671</u>
Total Current Liabilities	<u>484,985</u>	<u>106,175</u>
Non-Current Liabilities:		
Capital Lease	<u>-</u>	<u>-</u>
Total Non-Current Liabilities	<u>-</u>	<u>-</u>
Total Liabilities	<u>484,985</u>	<u>106,175</u>
NET ASSETS:		
Invested in Capital Assets, Net of Related Debt	28,426	23,721
Restricted for Dividends	-	-
Unrestricted	<u>480,286</u>	<u>559,376</u>
Total Net Assets	<u>508,712</u>	<u>583,097</u>
Total Liabilities and Net Assets	<u>\$ 993,697</u>	<u>\$ 689,272</u>

NOTES TO FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THESE STATEMENTS

WESTERN KANSAS COMMUNITY COLLEGE VIRTUAL EDUCATION CONSORTIUM
BARTON COUNTY, KANSAS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012 AND 2011

	2012	2011
OPERATING REVENUES:		
Tuition	\$ 2,220,862	\$ 1,710,200
Commissions	6,899	80,826
Refunds	-	-
Consulting	129,686	76,666
Total Operating Revenues	2,357,447	1,867,692
 OPERATING EXPENSES:		
E College Fees	423,106	256,274
Instructional Costs	776,213	676,795
Salaries and Benefits	332,679	267,300
Marketing	24,223	7,606
Travel	50,648	33,212
Supplies	25,234	11,639
Legal and Accounting	12,780	10,636
Office Overhead	49,233	28,067
Website	38,028	43,117
Training and Meetings	9,432	2,106
Consulting Costs	118,411	67,924
Interest	169	109
Depreciation	9,988	6,961
Total Operating Expenses	1,870,144	1,411,746
Operating Income (Loss)	487,303	455,946
 NON-OPERATING REVENUES (EXPENSES):		
Investment Income	2,520	3,850
Other Income	7,551	4,157
Coursework Research	(31,759)	-
Total Non-Operating Revenues (Expenses)	(21,688)	8,007
Increase (Decrease) in Net Assets	465,615	463,953
 NET ASSETS:		
Total Net Assets - July 1, 2011 and 2010	583,097	419,144
Dividend Distribution	(540,000)	(300,000)
Total Net Assets - June 30, 2012 and 2011	\$ 508,712	\$ 583,097

NOTES TO FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THESE STATEMENTS

WESTERN KANSAS COMMUNITY COLLEGE VIRTUAL EDUCATION CONSORTIUM
BARTON COUNTY, KANSAS

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012 AND 20101

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition	\$ 2,703,327	\$ 1,779,325
Commissions and Royalty	6,899	80,826
Consulting Services	129,686	94,172
Payments for Salaries	(1,087,351)	(961,446)
Payments for Benefits	(155,713)	(129,022)
Payments for Contractual Services	(926,565)	(369,858)
Payments for Utilities	(8,462)	(5,028)
Payments for Marketing	(24,097)	(7,606)
Payments for Other Administration Costs	(144,566)	(78,908)
Payments for Interest	(169)	(109)
	<u>492,989</u>	<u>402,346</u>
Net Cash Provided (Used) by Operating Activities		
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Other Receipts	7,551	4,636
Payments for Course Research	(31,089)	-
	<u>(23,538)</u>	<u>4,636</u>
Net Cash Provided by Non-Capital Financing Activities		
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Capital Assets	(14,022)	(16,777)
Paid on Capital Debt	(671)	(1,150)
Dividend Distributions	(540,000)	(300,000)
	<u>(554,693)</u>	<u>(317,927)</u>
Net Cash Provided (Used) for Capital and Related Financing Activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and Dividends on Investments	2,520	3,850
Other Investing Activities	-	-
	<u>2,520</u>	<u>3,850</u>
Net Cash Provided (Used) by Investing Activities		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(82,722)	92,905
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>384,184</u>	<u>291,279</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ <u><u>301,462</u></u>	\$ <u><u>384,184</u></u>

NOTES TO FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THESE STATEMENTS

WESTERN KANSAS COMMUNITY COLLEGE VIRTUAL EDUCATION CONSORTIUM
BARTON COUNTY, KANSAS

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012 AND 2011

	2012	2011
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ 487,303	\$ 455,946
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Amortization and Depreciation	9,988	6,961
(Gain) Loss on Disposition of Capital Assets	-	-
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	(376,356)	13,348
(Increase) Decrease in Prepaid Contracts	(14,188)	(69,691)
(Increase) Decrease in Prepaid Payroll	7,432	2,663
(Increase) Decrease in Other Assets	-	-
Increase (Decrease) in Accounts Payable	(16,353)	467
Increase (Decrease) in Prepaid Tuition	395,834	(6,869)
Increase (Decrease) in Other Liabilities	(671)	(479)
Net Cash Provided (Used) by Operating Activities	\$ 492,989	\$ 402,346
 SUPPLEMENTAL DISCLOSURES		
Non-cash Investing and Financing Transactions:		
Acquisition of Equipment	-	-
 Cash Paid for Interest	169	109

NOTES TO FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THESE STATEMENTS

WESTERN KANSAS COMMUNITY COLLEGE VIRTUAL EDUCATION CONSORTIUM
BARTON COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

1. **Summary of Significant Accounting Policies**

The accounting policies of the Western Kansas Community College Virtual Education Consortium conform to generally accepted accounting principles (GAAP) applicable to public institutions engaged only in business-type activities adopted by the Government Accounting Standards Board (GASB). For the years ended June 30, 2012 and 2011, the Consortium followed GASB Statement No. 35, which prescribes a new reporting model for public colleges within the reporting guidelines of GASB Statement No. 34, as amended by GASB Statement No. 37. The Consortium also follows GASB Statement No. 38, which prescribes new and revised note disclosures.

A. Nature of Operations

The Western Kansas Community College Virtual Education Consortium is a body corporate and politic organized under the Inter-local Cooperative Agreement Act authorized by K.S.A. 12-2901 and approved by the office of the Attorney General October 29, 2002 and the Board of Regents November 14, 2002. The Consortium functions as a special purpose governmental unit. As the name implies, the Western Kansas Community College Virtual Education Consortium encompasses the geographic areas in Western Kansas served by the Community Colleges of Barton, Colby, Dodge City, Garden City, Pratt and Seward County. The Consortium offers the online courses under the name of EduKan. The Purpose of the Organization is three fold: 1) To serve as an instrument of cooperation among the member educational institutions on the design and delivery of distance (inter-net) education courses, programs and degrees. 2) To expand distance education programs and to increase effectiveness of individual institutions by combining forces, coordinating activities and eliminating duplication of efforts. 3) To pool and share the financial, physical and intellectual resources and expenditures of the individual institutions to realize a broader base of support through affiliation.

B. Reporting Entity

The Consortium is a special purpose government that is governed by a separate executive board comprised of the related College Presidents. It is legally separate and fiscally independent of other state and local governments. The financial reporting entity, as defined by Government Accounting Standards Board ("GASB") Statement 14, "The Financial Reporting Entity", consists of the special purpose government.

C. Basis of Presentation and Accounting

The financial statements include a statement of net assets; a statement of revenues, expenses, and changes in net assets; and a statement of cash flows. A statement of net assets provides information about the assets, liabilities, and net assets of the Consortium at the end of the year. Assets and liabilities are classified as either current or non-current. Net assets are classified according to external donor restrictions or availability of assets to satisfy Consortium obligations. Invested in capital assets net of related debt represents the net value of capital assets less the debt incurred to acquire or construct the asset. Non-expendable, restricted net assets are gifts that have been received for endowment purposes, the corpus of which cannot be expended. Expendable, restricted net assets represent grants, contracts, gifts, and other resources that have been externally restricted for specific purposes. Unrestricted net assets include all other net assets, including those that have been designated by management to be used for other than general operating purposes.

A statement of revenues, expenses, and changes in net assets provides information about the Consortium's financial activities during the year. Revenues and expenditures are classified as either operating or non-operating, and all changes in net assets are reported.

A statement of cash flows provides information about the Consortium's sources and uses of cash and cash equivalents during the year. Increases and decreases in cash and cash equivalents are classified as operating, non-capital financing, capital and related financing, or investing.

WESTERN KANSAS COMMUNITY COLLEGE VIRTUAL EDUCATION CONSORTIUM
BARTON COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

Summary of Significant Accounting Policies, continued

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Grants and donations are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

When both restricted and unrestricted resources are available for use, it is the Consortium's policy to use restricted resources first, and then unrestricted resources as they are needed. . At June 30, 2012 and 2011 there were no restricted resources.

The Consortium follows FASB Statements and Interpretations issued on or before November 30, 1989; Accounting Principles Board Opinions; and Accounting Research Bulletins, unless those pronouncements conflict with or contradict GASB pronouncements.

D. Cash and Cash Equivalents

The Consortium considers unrestricted and temporarily restricted funds that are highly liquid investments with an original maturity of three months or less to be cash and cash equivalents. This would include dividend and savings accounts, and certificates of deposit or short term investments. Cash contributions that are restricted by the donor for long-term purposes are not included in the definitions of cash even though the funds are invested in short term liquid investments.

E. Investments

The Consortium accounts for its investments at fair value in accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", if applicable. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statements of revenues, expenses and changes in net assets. Types of investments authorized include marketable securities and debt securities. At June 30, 2012 and 2011 the Consortium had no investments.

F. Accounts Receivable

Accounts receivable consist of tuition charges to students and auxiliary enterprise services provided to students. The member Colleges receive billings from the Consortium for the tuition due from the students enrolled through their respective school. Each College is responsible for collecting their own receivables from the students; as a result, there is no allowance for doubtful accounts.

G. Prepaid Expenses

Prepaid Contract Fees reflects the amount paid to e-College for Summer Session fees as of the end of the fiscal year. These fees ranged from \$69 per enrollment for the 2011 Summer Sessions to \$52 for the last Summer Session of 2012.

Prepaid Payroll represents the salary payments to Summer Session instructors, paid during June and before the end of the fiscal year.

H. Deferred Tuition

Deferred Tuition is the Summer Session Tuition billed to students, which enrolled during May and June.

WESTERN KANSAS COMMUNITY COLLEGE VIRTUAL EDUCATION CONSORTIUM
BARTON COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

Summary of Significant Accounting Policies, continued

I. Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Multiple assets whose cost is less than \$5,000 but the aggregate requestor total is \$5,000 or more are capitalized. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	30 years
Building Improvements	15-30 years
Vehicles	3-5 years
Office Equipment	3-5 years
Computer Equipment	3-5 years

The Consortium had no Capitalized Assets until 2009. Computers and related office equipment with useful lives of three years or less represented the only physical assets of the Consortium at June 30, 2008.

J. Compensated Absences

The Director and Administrative Staff are paid through the payroll system of Colby Community College and receive the same vacation and sick leave benefits as provided by the policy manual for College employees. Most of the instructors for the online courses are employees of one of the six member Colleges and as such, are covered by the policy of each College. There is no amount accrued by the Consortium for compensated absences as the liability is currently the responsibility of each College.

K. Retirement Plan

As explained in the above item J, regarding Compensated Absences, the administration and most of the online instructors are employees of a member College and are covered by a defined benefit pension plan. All College employees meeting KPERS requirements participate 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, disability income benefits and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 South Kansas Avenue, Suite 100; Topeka, KS 66603-3803) or by calling 1-888-275-5737.

L. Long-Term Debt

At June 30, 2011 the Consortium had long-term debt related to a capital lease. This long-term debt was paid in full during 2012, as set forth in Note 5.

M. Net Assets

The Consortium's net assets are classified as follows.

Invested in Capital Assts, Net of Related Debt: This represents the Consortium's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

WESTERN KANSAS COMMUNITY COLLEGE VIRTUAL EDUCATION CONSORTIUM
BARTON COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

Summary of Significant Accounting Policies, continued

Restricted Net Assets – Expendable: Restricted expendable net assets include resources in which the Consortium is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

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

Unrestricted Net Assets: Unrestricted net assets represent resources derived from student tuition and fees, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the Consortium and may be used at the discretion of the governing board to meet current expenses for any purpose.

N. Classification of Revenues

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

Operating Revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition (2) sales and services of auxiliary enterprises.

Non-Operating Revenues: Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34, such as investment income.

O. Income Taxes

Western Kansas Community College Virtual Education Consortium is a local governmental entity not subject to taxation, including income taxes, by other governmental entities, under the constitution of the United States of America.

P. Budgets and Budgetary Comparisons

There are no requirements for a formal budget, either by statute, governmental agency or granting authority. As such, no budgetary information is presented.

Q. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

R. Joint Venture, Equity and Dividends

At inception of the Consortium, the six member Colleges invested equal funds to support the project operation and development. As revenues exceeded expenses an appropriate level of cash reserves was established. Beyond this level of reserves, the Net Asset increases were available to return the capital initially invested in the form of dividends. As of January 2007, the entire amount of the original investment had been returned to the respective Colleges in the form of dividends.

WESTERN KANSAS COMMUNITY COLLEGE VIRTUAL EDUCATION CONSORTIUM
BARTON COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

2. **Deposits and Investments, Laws and Regulations**

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

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

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

Custodial Credit Risk for Deposits: Custodial credit risk is the risk that in the event of bank failure, the College's deposits may not be returned to it. State statutes require the Government's deposits in financial institutions to be entirely covered by Federal Depository Insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City or the Federal Home Loan Bank of Topeka, except during designated "peak period". All deposits were legally secured at June 30, 2012.

The entire bank balance was held by one bank resulting in a concentration of credit risk. At year-end, June 30, 2012 the carrying amount of the Consortium's deposits and the bank balance was \$301,462 and \$462,935, respectively. At June 30, 2012, \$250,000 was covered by FDIC insurance and the balance of \$212,935 was covered by pledged securities held under joint custody receipts issued by a third-party bank in the Consortium's name. The third-party holding the pledged securities is independent of the pledging bank. The pledged securities are held under a tri-party custodial agreement signed by all three parties: the Consortium, the pledging bank and the independent third-party bank holding the pledged securities.

Custodial Credit Risk for Investments: For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the Government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured. As of June 30, 2012 the College had no investments.

WESTERN KANSAS COMMUNITY COLLEGE VIRTUAL EDUCATION CONSORTIUM
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

3. Capital Assets

	Beginning Balance June 30, 2011	Increase	Decrease	Ending Balance June 30, 2012
Office Equipment and Furniture	\$ 35,559	14,023	-	49,582
Less: Accumulated Depreciation	(11,168)	(9,988)	-	(21,156)
	<u>24,391</u>	<u>4,035</u>	<u>-</u>	<u>28,426</u>

	Beginning Balance July 1, 2010	Increase	Decrease	Ending Balance June 30, 2011
Office Equipment and Furniture	\$ 18,782	16,777	-	35,559
Less: Accumulated Depreciation	(4,207)	(6,961)	-	(11,168)
	<u>14,575</u>	<u>9,816</u>	<u>-</u>	<u>24,391</u>

4. Lease Obligations

The Consortium had one operating lease at June 30, 2012 and 2011 for office space located in Great Bend. The Consortium, also had one capital lease for a Canon Copy Machine (which also serves as a printer) dated February 14, 2009 for 36 months. The capital lease contract evolves into ownership as the lease amount is paid in full.

Future minimum lease payments for the capitalized lease and aggregate minimum rental payments under the operating lease agreement that has an initial non-cancelable lease term in excess of one year is as follows:

June 30, 2012		
	Capital Leases	Operating Leases
Year Ended:		
June 30, 2013	\$ -	9,000
June 30, 2014	-	5,250
Total Minimum Lease Payments	-	14,250
Less Amount Representing Interest	-	-
Present Value of Future Minimum Capital Lease Payments	-	14,250

June 30, 2011		
	Capital Leases	Operating Leases
Year Ended:		
June 30, 2012	\$ 735	3,750
June 30, 2013	-	9,000
June 30, 2014	-	5,250
Total Minimum Lease Payments	735	18,000
Less Amount Representing Interest	(64)	-
Present Value of Future Minimum Capital Lease Payments	671	18,000

WESTERN KANSAS COMMUNITY COLLEGE VIRTUAL EDUCATION CONSORTIUM
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

5. **Schedule of Indebtedness – Leases**

<u>Capital Lease</u>	<u>Balance 7/1/2011</u>	<u>Issued (Refunded)</u>	<u>Principal Payments</u>	<u>Balance 6/30/2012</u>	<u>Interest Paid</u>	<u>Due Within One Year</u>
Canon Copy Machine issued 02/14/09 For 36 months At 4.00%	671	-	671	-	169	-

<u>Capital Lease</u>	<u>Balance 7/1/2010</u>	<u>Issued (Refunded)</u>	<u>Principal Payments</u>	<u>Balance 6/30/2011</u>	<u>Interest Paid</u>	<u>Due Within One Year</u>
Canon Copy Machine issued 02/14/09 For 36 months At 4.00%	1,821	-	1,150	671	109	671

6. **Economic Dependency**

As described in nature of operations part A under footnote 1 summary of significant accounting policies the Consortium is comprised of six colleges. The loss of one or more colleges under this consortium could cause an economic hardship.

7. **Subsequent Events**

Management has evaluated subsequent events through January 10, 2013, which is also the date on which the financial statements were issued. Management has determined there are no events which need disclosure as set forth in GASBS 56.