

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

*Financial Statements
For the Years Ended June 30, 2013 and 2012*

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WESTERN KANSAS COMMUNITY COLLEGE VIRTUAL EDUCATION CONSORTIUM
BARTON COUNTY, KANSAS

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FOR THE YEAR ENDED JUNE 30, 2013 AND 2012

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WESTERN KANSAS COMMUNITY COLLEGE VIRTUAL EDUCATION CONSORTIUM

June 30, 2013

Management's Discussion and Analysis

Overview of the Financial Statements and Financial Analysis

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

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

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

Statement of Net Assets

The Statement of Net Assets is a point of time financial statement. The purpose of the Statement of Net Assets is to present to the readers of the financial statements a fiscal snapshot of the Consortium. The Statement of Net Assets presents end-of-year data concerning Assets (current and noncurrent), Liabilities (current and noncurrent), and Net Assets (Assets minus Liabilities).

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

Net Assets at June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Assets:		
Current assets	\$ 516,238	\$ 965,271
Capital Assets	<u>22,961</u>	<u>28,426</u>
Total Assets	<u>\$ 539,199</u>	<u>\$ 993,697</u>
Liabilities:		
Current Liabilities	\$ 91,289	\$ 484,985
Non-Current Liabilities	<u>-0-</u>	<u>-0-</u>
Total Liabilities	<u>\$ 91,289</u>	<u>\$ 484,985</u>
Net Assets:		
Investment in Capital Assets	\$ 22,961	\$ 28,426
Unrestricted	<u>424,949</u>	<u>480,286</u>
Total Net Assets	<u>\$ 447,910</u>	<u>\$ 508,712</u>

The net assets of the Consortium are primarily cash and are available for repayment of the original investments made by the community college investors. It is also available to the Consortium to continue research and development of new courses and educational opportunities and improving existing coursework. As of the end of June, 2013, the consortium's success has provided continued dividend payments to the members. Past dividends completed the repayment of the initial investment made by the members. The past success of the Consortium will allow it to continue payments into the future.

Statement of Revenues, Expenses and Changes in Net Assets

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

Generally speaking, operating revenues are received for providing educational services to the various customers and constituencies of the Consortium. These revenues are primarily tuition received from students taking courses from the Consortium. Operating expenses are those expenses paid to produce the educational services provided in return for the operating revenues, and to carry out the mission of the Consortium. Non-operating revenues are revenues received for which educational services are not provided. For the Consortium, non-operating revenues are interest on cash balances.

Revenues, Expenses and Changes in Net Assets for the Years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating revenues	\$ 2,654,301	\$ 2,357,447
Operating expenses	<u>2,094,664</u>	<u>1,870,144</u>
Operating Income	559,637	487,303
Net non-operating revenues (expenses)	<u>(80,439)</u>	<u>(21,688)</u>
Net increase (decrease) in net assets	479,198	465,615
Net assets - beginning of year	508,712	583,097
Dividend Distribution	<u>(540,000)</u>	<u>(540,000)</u>
Net assets - end of year	<u>\$ 447,910</u>	<u>\$ 508,712</u>

The operating revenues of the Consortium are primarily tuition and fees generated on the sale of education to students. Revenues in the current year also includes on line test books purchased by students. Credit hour production increased 7.5%. Expenditures continue to be controlled but did increase primarily due to increased research into new educational products. Net income increased over the prior year and is large enough to continue needed research into new education possibilities and continued dividend payment to investors.

Our growth is continuing for several reasons. We have improved the engagement of students earlier in the enrollment process which has helped maintain a larger student base per course. Our consortium partners have also been offering more online degrees which allow more use of our general education classes. We have also been strengthening our partnerships with others in the educational industry which has helped us with improving our course selection and use. Revenues have also improved because of consulting services and premiums for the use of our learning management system. All of these improvements along with industry wide increased use of distance education should help to continue our success.

Statement of Cash Flows

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

Cash Flows for the Years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Net cash provided (used) by:		
Operating activities	\$ 596,236	\$ 492,989
Capital and related financing activities	(542,349)	(554,693)
Non-capital financing activities	(82,440)	(23,538)
Investing activities	<u>2,001</u>	<u>2,520</u>
Net Change in Cash	(26,552)	(82,722)
Cash - beginning of year	<u>301,462</u>	<u>384,184</u>
Cash - end of year	<u>\$ 274,910</u>	<u>\$ 301,462</u>

The positive cash flows from the operations for the year will continue to contribute to research of new educational possibilities and future dividend payments to the investors. The cash balance at the end of the year is sufficient to maintain the operations of the Consortium.

Economic Outlook

The Consortium has been successful since its inception. This is evidenced by continued growth in credit hour production. Future success will be dependent on developing courses needed and desired by students, successfully marketing these education products, and continuing to find methods to improve and maintain our service and quality. The investors and management are committed to continuing successful operations of the Consortium.

Dr. Mark E. Sarver
Chief Executive Officer

D. McMillen, Chartered

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying statement of net assets of Western Kansas Community College Virtual Education Consortium, Barton County, Kansas, as of June 30, 2013 and 2012, and the related statement of revenues, expenses and changes in net assets and the statement of cash flows for the years then ended.

Managements Responsibility for the Financial Statement

Management is responsible for the preparation and the fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that free from material misstatement, whether due to fraud or not.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Western Kansas Community College Virtual Education Consortium, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages i – v be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2014 on our consideration of Western Kansas Community College Virtual Education Consortium's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Western Kansas Community College Virtual Education Consortium internal control over financial reporting and compliance.

D. McMillen, Chartered

D. McMillen, Chartered

Great Bend, Kansas
May 2, 2014

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Western Kansas Community College Virtual Education Consortium, Barton County, Kansas, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Western Kansas Community College Virtual Education Consortium's basic financial statements, and have issued our report thereon dated January 20, 2014.

Internal Control Over Financial Reporting

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

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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be

material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

D. McMillen, Chartered

D. McMillen, Chartered
Great Bend, Kansas
May 2, 2014

WESTERN KANSAS COMMUNITY COLLEGE VIRTUAL EDUCATION CONSORTIUM
BARTON COUNTY, KANSAS

STATEMENT OF NET ASSETS
JUNE 30, 2013 AND 2012

ASSETS:	<u>2013</u>	<u>2012</u>
Current Assets:		
Cash and Cash Equivalents	\$ 274,910	\$ 301,462
Accounts Receivable	49,587	441,509
Prepaid Contract Fees	51,498	83,879
Prepaid Payroll	<u>140,243</u>	<u>138,421</u>
Total Current Assets	<u>516,238</u>	<u>965,271</u>
Non-Current Assets:		
Other Receivables	-	-
Capital Assets, Net	<u>22,961</u>	<u>28,426</u>
Total Non-Current Assets	<u>22,961</u>	<u>28,426</u>
Total Assets	<u>\$ 539,199</u>	<u>\$ 993,697</u>
LIABILITIES:		
Current Liabilities:		
Accounts Payable	\$ 6,669	\$ 2,520
Deferred Tuition	84,620	482,465
Capital Lease	<u>-</u>	<u>-</u>
Total Current Liabilities	<u>91,289</u>	<u>484,985</u>
Non-Current Liabilities:		
Capital Lease	<u>-</u>	<u>-</u>
Total Non-Current Liabilities	<u>-</u>	<u>-</u>
Total Liabilities	<u>91,289</u>	<u>484,985</u>
NET ASSETS:		
Invested in Capital Assets, Net of Related Debt	22,961	28,426
Restricted for Dividends	-	-
Unrestricted	<u>424,949</u>	<u>480,286</u>
Total Net Assets	<u>447,910</u>	<u>508,712</u>
Total Liabilities and Net Assets	<u>\$ 539,199</u>	<u>\$ 993,697</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, 2013 AND 2012

	2013	2012
OPERATING REVENUES:		
Tuition	\$ 2,603,371	\$ 2,220,862
Commissions	1,929	6,899
Consulting	49,001	129,686
	2,654,301	2,357,447
 OPERATING EXPENSES:		
E College Fees	474,588	423,106
Instructional Costs	817,343	776,213
Salaries and Benefits	470,474	332,679
Marketing	43,822	24,223
Travel	42,340	50,648
Supplies	16,187	25,234
Legal and Accounting	23,696	12,780
Office Overhead	56,875	40,771
Utilities	14,585	8,462
Website	79,818	38,028
Training and Meetings	-	9,432
Consulting Costs	47,123	118,411
Interest	-	169
Depreciation	7,813	9,988
	2,094,664	1,870,144
Total Operating Expenses		
	559,637	487,303
 NON-OPERATING REVENUES (EXPENSES):		
Investment Income	2,001	2,520
Other Income	10,980	7,551
Coursework Research	(93,420)	(31,759)
	(80,439)	(21,688)
Total Non-Operating Revenues (Expenses)		
	479,198	465,615
 NET ASSETS:		
Total Net Assets - July 1, 2012 and 2011	508,712	583,097
Dividend Distribution	(540,000)	(540,000)
	447,910	508,712
Total Net Assets - June 30, 2013 and 2012	\$ 447,910	\$ 508,712

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, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition	\$ 2,555,993	\$ 2,703,327
Commissions and Royalty	1,929	6,899
Consulting Services	49,001	129,686
Payments for Salaries	(1,088,338)	(1,087,351)
Payments for Benefits	(186,518)	(155,713)
Payments for Contractual Services	(518,200)	(926,565)
Payments for Utilities	(14,585)	(8,462)
Payments for Marketing	(43,822)	(24,097)
Payments for Other Administration Costs	(159,224)	(144,566)
Payments for Interest	-	(169)
Net Cash Provided (Used) by Operating Activities	596,236	492,989
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Other Receipts	10,980	7,551
Payments for Course Research	(93,420)	(31,089)
Net Cash Provided by Non-Capital Financing Activities	(82,440)	(23,538)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Capital Assets	(2,349)	(14,022)
Paid on Capital Debt	-	(671)
Dividend Distributions	(540,000)	(540,000)
Net Cash Provided (Used) for Capital and Related Financing Activities	(542,349)	(554,693)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and Dividends on Investments	2,001	2,520
Other Investing Activities	-	-
Net Cash Provided (Used) by Investing Activities	2,001	2,520
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(26,552)	(82,722)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	301,462	384,184
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 274,910	\$ 301,462

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, 2013 AND 2012

	2013	2012
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ 559,637	\$ 487,303
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Amortization and Depreciation	7,813	9,988
(Gain) Loss on Disposition of Capital Assets		-
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	391,923	(376,356)
(Increase) Decrease in Prepaid Contracts	32,381	(14,188)
(Increase) Decrease in Prepaid Payroll	(1,822)	7,432
(Increase) Decrease in Other Assets	-	-
Increase (Decrease) in Accounts Payable	4,149	(16,353)
Increase (Decrease) in Prepaid Tuition	(397,845)	395,834
Increase (Decrease) in Other Liabilities	-	(671)
Net Cash Provided (Used) by Operating Activities	\$ 596,236	\$ 492,989
 SUPPLEMENTAL DISCLOSURES		
Non-cash Investing and Financing Transactions:		
Acquisition of Equipment	-	169
 Cash Paid for Interest	0	109

WESTERN KANSAS COMMUNITY COLLEGE VIRTUAL EDUCATION CONSORTIUM
BARTON COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

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, 2013 and 2012, 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, 2013 AND 2012

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, 2013 and 2012 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 temporally 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, 2013 and 2012 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 \$61 per enrollment for the 2012 Summer Sessions 1 and 2 to \$28 through the Summer Sessions of 2013.

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, 2013 AND 2012

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 have been paid through the payroll system of Colby Community College and received the same vacation and sick leave benefits as provided by the policy manual for College employees. Beginning January 1, 2013 the payroll for the Director and Administrative Staff was moved to the Consortium. Currently there is no provision for carry-forward of vacation and sick leave for the Administrative Staff. 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.

K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% and 6% (if hired on or after July 1, 2009) of covered salary. 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 remaining amount necessary to achieve the actuarially determined contribution rate. The State currently contributes 10.27% of covered payroll and 19.12% for non-licensed KPERS retirees. These contribution requirements are established by KPERS and are periodically revised. The State of Kansas' contribution to KPERS for the Consortium administrative staff for the year ended June 30, 2013 was \$6,314 which is equal to the required contribution for the year as set forth by the legislature.

WESTERN KANSAS COMMUNITY COLLEGE VIRTUAL EDUCATION CONSORTIUM
BARTON COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

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. As of June 30, 2013 there is no long-term debt.

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.

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.

WESTERN KANSAS COMMUNITY COLLEGE VIRTUAL EDUCATION CONSORTIUM
BARTON COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

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.

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, 2013 and 2012.

The entire bank balance was held by one bank resulting in a concentration of credit risk. At year-end, June 30, 2013 the carrying amount of the Consortium's deposits and the bank balance was \$275,877 and \$274,910, respectively. At June 30, 2013, \$250,000 was covered by FDIC insurance and the balance of \$25,877 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, 2013 and 2012 the College had no investments.

WESTERN KANSAS COMMUNITY COLLEGE VIRTUAL EDUCATION CONSORTIUM
BARTON COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

3. **Capital Assets**

	Beginning Balance <u>June 30, 2012</u>	Increase	Decrease	Ending Balance <u>June 30, 2013</u>
Office Equipment and Furniture	\$ 49,582	2,349	-	51,931
Less: Accumulated Depreciation	(21,156)	(7,813)	-	(28,969)
	<u>28,426</u>	<u>(5,464)</u>	<u>-</u>	<u>22,962</u>
	Beginning Balance <u>July 1, 2011</u>	Increase	Decrease	Ending Balance <u>June 30, 2012</u>
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>

4. **Lease Obligations**

The Consortium had one operating lease at June 30, 2013 and 2012 for office space located in Great Bend.

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

WESTERN KANSAS COMMUNITY COLLEGE VIRTUAL EDUCATION CONSORTIUM
BARTON COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

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	-

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 May 2, 2014, which is also the date on which the financial statements were issued. Management has determined there is one event which needs disclosure as set forth in GASBS 56. At June 30, 2013 all members of the Consortium were current in accounts receivable. However, subsequent to year-end one member became seriously delinquent and at November 30, 2013 the balance due was in excess of \$270,000. At the end of March the Consortium member had made great strides toward becoming current and had an outstanding balance of \$117,000.

D. McMillen, Chartered

Certified Public Accountants

2200 Lakin, Suite A
Great Bend, KS 67530

Tele: 620-792-2588
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GOVERNANCE LETTER

May 8, 2014

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, 2013, and have issued our report thereon dated May 8, 2014. 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 November 1, 2013. 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 2013. 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
May 8, 2014
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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 May 2, 2014.

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