

Southwestern College

Accountants' Report and Financial Statements

June 30, 2008 and 2007



Southwestern College

June 30, 2008 and 2007

Contents

Independent Accountants' Report on Financial Statements and Supplementary Information.....	1
 Financial Statements	
Statements of Financial Position.....	2
Statements of Activities	3
Statements of Cash Flows	4
Notes to Financial Statements	5
 Supplementary Information	
Schedule of Expenditures of Federal Awards	16
 Independent Accountants' Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards	17
 Independent Accountants' Report on Compliance and Internal Control Over Compliance with Requirements Applicable to Major Federal Awards Programs	19
 Schedule of Findings and Questioned Costs.....	21
 Summary Schedule of Prior Audit Findings.....	24



Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
Southwestern College
Winfield, Kansas

We have audited the accompanying statements of financial position of Southwestern College as of June 30, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southwestern College as of June 30, 2008 and 2007, and the changes in its net assets and its 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 October 1, 2008, on our consideration of the College's internal control over financial reporting and 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 the 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.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards 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 has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BKD, LLP

October 8, 2008

Southwestern College
Statements of Financial Position
June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Assets		
Cash and cash equivalents	\$ 1,065,348	\$ 872,856
Student receivable, net of allowance; 2008 - \$338,511, 2007 - \$363,753	1,418,304	1,937,208
Government loan receivable	3,915,638	3,721,368
Other receivables	171,549	151,963
Inventories	5,433	39,292
Prepaid expenses	322,202	196,523
Funds held by trustee	1,633,919	2,011,960
Investments	13,751,853	14,752,013
Pledges receivable, net	346,029	558,456
Fixed assets	12,947,434	12,765,619
Other assets	<u>178,683</u>	<u>197,344</u>
Total assets	<u><u>\$ 35,756,392</u></u>	<u><u>\$ 37,204,602</u></u>
 Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 821,618	\$ 280,706
Accrued expenses	783,954	1,877,246
Annuities payable	719,560	756,547
Long-term debt	9,890,645	10,771,802
Refundable government loan program	3,299,032	3,251,880
Other	<u>6,710</u>	<u>13,421</u>
Total liabilities	15,521,519	16,951,602
 Net Assets		
Unrestricted	(589,232)	(1,574,191)
Temporarily restricted	3,697,149	5,154,897
Permanently restricted	<u>17,126,956</u>	<u>16,672,294</u>
Total net assets	<u><u>20,234,873</u></u>	<u><u>20,253,000</u></u>
Total liabilities and net assets	<u><u>\$ 35,756,392</u></u>	<u><u>\$ 37,204,602</u></u>

Southwestern College
Statements of Activities
Years Ended June 30, 2008 and 2007

	2008			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Other Support				
Tuition and fees	\$ 21,090,643	\$ -	\$ -	\$ 21,090,643
Scholarship allowance	(5,076,347)	-	-	(5,076,347)
Net tuition and fees	16,014,296	-	-	16,014,296
Contributions	680,390	803,268	468,265	1,951,923
Auxiliary enterprises	2,576,349	-	-	2,576,349
Grants	617,654	-	-	617,654
Interest and dividends	200,419	674,607	-	875,026
Realized and unrealized gains (losses)	64,743	(466,442)	-	(401,699)
Other income	405,758	204,520	-	610,278
Change in value of split interest agreements	-	(76,344)	(12,928)	(89,272)
	20,559,609	1,139,609	455,337	22,154,555
Net assets released from restrictions	2,598,032	(2,597,357)	(675)	-
Reclassification of net assets (Note 10)	-	-	-	-
Total revenues, gains and other support	23,157,641	(1,457,748)	454,662	22,154,555
Expenses				
Academic Program				
Academic plant operations	1,439,563	-	-	1,439,563
Academic support services	1,708,812	-	-	1,708,812
Academic departments	8,377,021	-	-	8,377,021
Financial Aid	1,469,632	-	-	1,469,632
Auxiliary Services				
Athletics	1,449,934	-	-	1,449,934
Student life	863,932	-	-	863,932
Residence halls	705,644	-	-	705,644
Debt service	586,082	-	-	586,082
Student center	1,027,804	-	-	1,027,804
Institutional and General	4,544,258	-	-	4,544,258
Total expenses	22,172,682	-	-	22,172,682
Change in Net Assets	984,959	(1,457,748)	454,662	(18,127)
Net Assets, Beginning of Year	(1,574,191)	5,154,897	16,672,294	20,253,000
Net Assets, End of Year	\$ (589,232)	\$ 3,697,149	\$ 17,126,956	\$ 20,234,873

See Notes to Financial Statements

2007

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 17,640,494	\$ -	\$ -	\$ 17,640,494
(4,365,904)	-	-	(4,365,904)
13,274,590	-	-	13,274,590
675,782	583,604	592,166	1,851,552
2,557,916	-	-	2,557,916
679,987	-	-	679,987
264,527	645,394	-	909,921
149,544	2,909,383	-	3,058,927
329,841	171,127	-	500,968
-	(80,354)	27,935	(52,419)
17,932,187	4,229,154	620,101	22,781,442
2,826,240	(2,942,849)	116,609	-
-	544,749	(544,749)	-
20,758,427	1,831,054	191,961	22,781,442
1,278,363	-	-	1,278,363
1,518,644	-	-	1,518,644
7,899,989	-	-	7,899,989
1,174,408	-	-	1,174,408
1,249,405	-	-	1,249,405
811,782	-	-	811,782
728,713	-	-	728,713
603,132	-	-	603,132
1,103,536	-	-	1,103,536
4,443,922	-	-	4,443,922
20,811,894	-	-	20,811,894
(53,467)	1,831,054	191,961	1,969,548
(1,520,724)	3,323,843	16,480,333	18,283,452
<u>\$ (1,574,191)</u>	<u>\$ 5,154,897</u>	<u>\$ 16,672,294</u>	<u>\$ 20,253,000</u>

Southwestern College
Statements of Cash Flows
June 30, 2008 and 2007

	2008	2007
Operating Activities		
Change in net assets	\$ (18,127)	\$ 1,969,548
Items not requiring (providing) operating activities cash flows		
Depreciation and amortization	1,160,136	1,599,886
Net realized and unrealized gains on investments	401,699	(3,058,927)
Actuarial loss on annuity and trust obligations	43,301	117,588
Gain on sale of property and equipment	(79,450)	-
Contributions and investment income received restricted for long-term investment	(468,265)	(186,002)
Changes in		
Accounts receivable	324,634	(594,743)
Other receivables	(19,586)	322,001
Inventories	33,859	(1,238)
Prepaid expenses	(125,679)	(85,792)
Pledge receivable	157,951	272,047
Accounts payable and accrued expenses	(486,147)	429,029
Other assets and liabilities	(6,711)	(6,710)
Net cash provided by operating activities	<u>917,615</u>	<u>776,687</u>
Investing Activities		
Purchase of property and equipment	(1,420,187)	(873,794)
Proceeds from sale of property and equipment	114,650	-
Purchase of investments	(3,183,499)	(3,323,350)
Proceeds from disposition of investments	3,781,960	4,383,927
Increase in funds held by trustee	<u>378,041</u>	<u>200,080</u>
Net cash provided by (used in) investing activities	<u>(329,035)</u>	<u>386,863</u>
Financing Activities		
Proceeds from contributions and investment income restricted for long-term investment	522,741	186,002
Proceeds from issuance of long-term debt	1,222,146	1,229,074
Principal payments on long-term debt	(2,107,839)	(2,208,309)
Increase in federal student loan funds	47,152	35,222
Payments on annuities and trusts payable	<u>(80,288)</u>	<u>(80,723)</u>
Net cash used in financing activities	<u>(396,088)</u>	<u>(838,734)</u>
Increase in Cash and Cash Equivalents	192,492	324,816
Cash and Cash Equivalents, Beginning of Year	<u>872,856</u>	<u>548,040</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 1,065,348</u></u>	<u><u>\$ 872,856</u></u>
Supplemental Cash Flows Information		
Interest paid	<u><u>\$ 654,737</u></u>	<u><u>\$ 655,878</u></u>

Southwestern College
Notes to Financial Statements
June 30, 2008 and 2007

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Southwestern College (the College), Winfield, Kansas, is primarily an undergraduate, four-year, coeducational and residential Christian college of higher education. It is related by covenant to the Kansas West Conference of the United Methodist Church, and was chartered June 19, 1885, by the Methodists of Kansas. It opened its doors on September 7, 1886, under the name "The Southwest Kansas Conference College" and on November 5, 1908, adopted the name "The Southwestern College." The College is supported primarily by tuition, contributions from alumni and earnings on endowments.

Southwestern College is accredited by The Higher Learning Commission and a member of the North Central Association. It is further accredited by the University Senate of the United Methodist Church, the Kansas State Board of Education, the National Association of Schools of Music, the National League for Nursing, the Kansas State Board of Nursing and the Kansas State Department of Education.

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, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The College considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2008 and 2007, cash equivalents consisted primarily of money market funds and repurchase agreements. The repurchase agreements are held by one counter party. Money market funds held in investment manager accounts are not considered cash equivalents but instead are shown as investments. The College has uninsured deposits held at financial institutions totaling approximately \$1,375,000 (bank balance before reduction for outstanding checks). The College has obtained pledged securities against these uninsured deposits from the financial institutions where total uninsured and uncollateralized funds amount to approximately \$135,000. The College has not experienced any losses in such accounts and believes it is not exposed to any significant risk relating to these funds.

Investments and Funds Held by Trustee

Investments and funds held by trustee in equity securities having a readily determinable fair value and all debt securities are carried at fair value. Other investments are valued at estimated fair value based on appraisals or other available market data. Investment return includes dividend, interest

Southwestern College

Notes to Financial Statements

June 30, 2008 and 2007

and other investment income; realized and unrealized gains and losses on investments carried at fair value.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statements of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

The College maintains pooled investment accounts for its endowments. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated monthly to the individual endowments based on the relationship of the fair value of the interest of each endowment to the total fair value of the pooled investments accounts, as adjusted for additions to or deductions from those accounts.

Student Accounts and Notes Receivable

Student accounts receivable are stated at the amount billed to the students less applied scholarships, loan proceeds and payments received from students and third parties. The College provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Tuition is generally due at the beginning of the semester unless the student has signed a payment plan. Charges that are past due without payments for three consecutive months, have had no response to the due diligence process and are assigned to third-party collection agencies are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the student.

Notes receivable consist of amounts due under the Federal Perkins Loan Program and institutional loan programs and are stated at their outstanding principal amount, net of an allowance for doubtful notes. Loans are made to students based on demonstrated financial need for both Perkins and institutional loans and satisfaction of federal eligibility requirements for the Federal Perkins Loan Program. Principal and interest payments on loans generally do not commence until after the borrower graduates or otherwise ceases enrollment. The College provides an allowance for doubtful notes which is based upon a review of outstanding loans, historical collection information and existing conditions. Interest income is recorded as received which is not materially different from the amount that would have been recognized on the accrual basis. Loans that are delinquent continue to accrue interest. Loans that are past due for at least one payment are considered delinquent. Delinquent loans are written off based on individual credit evaluation and specific circumstances of the student.

Property and Equipment

Property and equipment are depreciated on a straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

Southwestern College
Notes to Financial Statements
June 30, 2008 and 2007

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the College has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the College in perpetuity.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as unrestricted revenue and net assets.

Gifts of land, buildings, equipment and other long-lived assets are reported as unrestricted revenue and net assets unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as temporarily or permanently restricted revenue and net assets. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of temporarily restricted net assets as unrestricted net assets are reported when the long-lived assets are placed in service.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are reported at the present value of estimated future cash flows. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Deferred Revenue

Revenue from tuition and fees is deferred and recognized over the periods to which the tuition and fees relate.

Income Taxes

The College is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the College is subject to federal income tax on any unrelated business taxable income.

Southwestern College
Notes to Financial Statements
June 30, 2008 and 2007

Note 2: Investments and Investment Return

Investments at June 30 consisted of the following:

	2008	2007
Money market funds	\$ 456,464	\$ 390,944
Equity securities	7,285,653	8,537,716
Equity mutual funds	411,619	631,323
Fixed income bonds	48,831	40,474
Balanced fund	79,332	78,958
Real estate and mineral interests	5,124,545	4,731,945
Cash surrender value of life insurance	272,636	257,484
Annuity	72,773	83,169
	<u>\$ 13,751,853</u>	<u>\$ 14,752,013</u>

Total investment return is comprised of the following:

	2008	2007
Interest and dividend income	\$ 875,026	\$ 909,921
Net realized and unrealized gain (loss) on investments reported at fair value	<u>(401,699)</u>	<u>3,058,927</u>
	<u>\$ 473,327</u>	<u>\$ 3,968,848</u>

Southwestern College
Notes to Financial Statements
June 30, 2008 and 2007

Note 3: Pledges Receivable

Pledges receivable consisted of the following:

	June 30, 2008			
	Temporarily Restricted in Net Assets Due to Time Factor	Temporarily Restricted Due to Donor Restrictions	Permanently Restricted	Total
Due within one year	\$ 127,160	\$ 37,685	\$ 127,267	\$ 292,112
Due in one to five years	202,785	79,000	11,000	292,785
	<u>329,945</u>	<u>116,685</u>	<u>138,267</u>	<u>584,897</u>
Less				
Allowance for uncollectible contributions	94,003	32,532	86,864	213,399
Unamortized discount	<u>16,603</u>	<u>8,244</u>	<u>622</u>	<u>25,469</u>
	<u>\$ 219,339</u>	<u>\$ 75,909</u>	<u>\$ 50,781</u>	<u>\$ 346,029</u>

	June 30, 2007			
	Temporarily Restricted in Net Assets Due to Time Factor	Temporarily Restricted Due to Donor Restrictions	Permanently Restricted	Total
Due within one year	\$ 185,655	\$ 167,357	\$ 127,892	\$ 480,904
Due in one to five years	297,876	31,000	24,500	353,376
	<u>483,531</u>	<u>198,357</u>	<u>152,392</u>	<u>834,280</u>
Less				
Allowance for uncollectible contributions	135,533	58,680	45,125	239,338
Unamortized discount	<u>31,754</u>	<u>2,758</u>	<u>1,974</u>	<u>36,486</u>
	<u>\$ 316,244</u>	<u>\$ 136,919</u>	<u>\$ 105,293</u>	<u>\$ 558,456</u>

The discount rate was 6% for 2008 and 2007.

Southwestern College
Notes to Financial Statements
June 30, 2008 and 2007

Note 4: Property and Equipment

Property and equipment at June 30 consists of:

	2008	2007
Buildings and leasehold improvements	\$ 32,730,296	\$ 32,267,455
Equipment	8,401,366	8,281,341
Construction in progress	573,388	50,994
	<u>41,705,050</u>	<u>40,599,790</u>
Less accumulated depreciation and amortization	<u>28,757,616</u>	<u>27,834,171</u>
	<u><u>\$ 12,947,434</u></u>	<u><u>\$ 12,765,619</u></u>

Note 5: Long-term Debt

	2008	2007
Note payable, bank (A)	\$ 31,186	\$ 211,287
Note payable, bank (B)	49,108	74,397
Note payable, bank (C)	37,139	52,966
Note payable, bank (D)	61,407	112,768
Note payable, bank (E)	197,358	-
Note payable, bank (F)	45,367	-
Note payable, bank (G)	14,544	-
Educational facilities revenue bonds, Series 2008A (H)	800,000	-
Educational facilities revenue bonds, Series 2007A	-	800,000
Educational facilities revenue bonds, Series 1997	-	175,000
Educational facilities revenue bonds, Series 1998 (I)	2,180,000	2,315,000
Educational facilities revenue bonds, Series 2001 (J)	2,925,000	3,180,000
Educational facilities revenue bonds, Series 2003 (K)	1,105,000	1,285,000
Educational facilities revenue bonds, Series 2007 (L)	2,440,000	2,545,000
Capital lease obligations (M)	4,536	20,384
	<u>9,890,645</u>	<u>10,771,802</u>
Less current maturities	<u>1,732,076</u>	<u>1,943,122</u>
	<u><u>\$ 8,158,569</u></u>	<u><u>\$ 8,828,680</u></u>

Southwestern College
Notes to Financial Statements
June 30, 2008 and 2007

- (A) Due August 4, 2008; payable approximately \$15,722 monthly including interest at 6.8%; this note is secured by laptop computers.
- (B) Due May 31, 2010; payable approximately \$2,154 monthly including interest at .9%; this note is secured by vehicles.
- (C) Due August 18, 2010; payable approximately \$1,511 monthly including interest at 4.95%; this note is secured by a vehicle.
- (D) Due July 4, 2009; payable approximately \$4,843 monthly including interest at 7.36%; this note is secured by software and equipment.
- (E) Due August 22, 2009; payable approximately \$14,692 monthly including interest at 7.25%; this note is secured by laptop computers.
- (F) Due August 6, 2009; payable approximately \$3,396 monthly including interest at 7.25%; this note is secured by laptop computers.
- (G) Due October 22, 2010; payable approximately \$531 monthly including interest at 1.83%; this note is secured by a vehicle.
- (H) Obligations issued by Kansas Independent College Finance Authority and guaranteed by the College; maturing May 1, 2009; semiannual interest payments at a rate of 5.25%; secured by property. At June 30, 2008 financial covenants relating to debt service coverage ratio and other compliance issues have been met on this bond.
- (I) Obligations issued by City of Winfield, Kansas and guaranteed by the College; maturing serially at varying amounts through April 1, 2022; semiannual interest payments at rates ranging from 4.40% to 5.75%; secured by property. At June 30, 2008 and 2007, financial covenants relating to debt service coverage ratio and other compliance issues have been met on this bond.
- (J) Obligations issued by Kansas Independent College Finance Authority and guaranteed by the College; maturing serially at varying amounts through October 1, 2021; semiannual interest payments at rates ranging from 5.00% to 6.15%; secured by property. At June 30, 2008 and 2007, financial covenants relating to debt service coverage ratio and other compliance issues have been met on this bond.
- (K) Obligations issued by Kansas Independent College Finance Authority and guaranteed by the College; maturing serially at varying amounts through October 1, 2013; semiannual interest payments at rates ranging from 1.60% to 4.50%; secured by property. At June 30, 2008 and 2007, financial covenants relating to debt service coverage ratio and other compliance issues have been met on this bond.
- (L) Obligations issued by City of Winfield, Kansas and guaranteed by the College; maturing serially at varying amounts through October 1, 2022; semiannual interest payments at rates ranging from 4.75% to 5.15%; secured by property. At June 30, 2008 and 2007, financial covenants relating to debt service coverage ratio and other compliance issues have been met on this bond.

Southwestern College
Notes to Financial Statements
June 30, 2008 and 2007

- (M) Capital lease is for copier, payments are required to be made on a quarterly basis beginning in September 2008 with a final payment due in June 2013.

Aggregate annual maturities and sinking fund requirements of long-term debt and payments on capital lease obligations at June 30, 2008, are:

	Long-term Debt
2009	\$ 1,732,076
2010	700,729
2011	651,025
2012	675,907
2013	705,908
Thereafter	5,425,000
	<u>\$ 9,890,645</u>

Property and equipment includes the following property under capital leases at June 30:

	2008	2007
Equipment	\$ 8,540	\$ 15,654
Less accumulated depreciation	5,245	15,071
	<u>\$ 3,295</u>	<u>\$ 583</u>

The future debt service requirements on the educational facilities revenue bonds at June 30, 2008, are:

	Principal	Interest	Total
2009	\$ 1,390,000	\$ 484,247	\$ 1,874,247
2010	610,000	418,791	1,028,791
2011	645,000	378,378	1,023,378
2012	675,000	353,910	1,028,910
2013	705,000	318,048	1,023,048
Thereafter	5,425,000	1,365,386	6,790,386
	<u>\$ 9,450,000</u>	<u>\$ 3,318,760</u>	<u>\$ 12,768,760</u>

Southwestern College
Notes to Financial Statements
June 30, 2008 and 2007

Note 6: Annuity Gift Agreements

The College has entered into numerous agreements with individuals whereby the individuals have deposited a sum of money with the College. In exchange, the individuals are to receive, during the term of their life, an annuity or annual sum of money based upon the provisions of each specific agreement. The assets deposited are recorded at fair value and a liability is recorded equal to the actuarial present value of the payments expected to be made to the individuals using the age end life expectancy of the annuitant. At June 30, 2008, assets and liabilities related to annuities totaled \$1,214,520 and \$719,560, respectively. At June 30, 2007, assets and liabilities related to annuities totaled \$1,214,520 and \$756,547, respectively.

Note 7: Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30 are available for the following purposes or periods:

	2008	2007
Educational program activities		
General operations/other	\$ 396,118	\$ 231,205
Annuity trust agreements	69,052	222,578
Athletics	38,436	114,654
Scholarships	1,666,495	2,333,823
Academics and library	1,185,432	1,766,828
Plant and equipment	341,616	485,809
	<u>\$ 3,697,149</u>	<u>\$ 5,154,897</u>

Permanently Restricted Net Assets

Permanently restricted net assets at June 30 are restricted to:

	2008	2007
Investment in perpetuity, the income of which is expendable to support Educational program activities	<u>\$ 17,126,956</u>	<u>\$ 16,672,294</u>

Permanently restricted net assets include a loan to unrestricted net assets at June 30, 2008 and 2007, in the amount of \$3,470,315 and \$2,846,583, respectively.

Southwestern College
Notes to Financial Statements
June 30, 2008 and 2007

Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	<u>2008</u>	<u>2007</u>
Purpose restrictions accomplished		
Educational program expenses	\$ 2,456,607	\$ 2,783,694
Time restrictions expired		
Death of annuity beneficiary	<u>140,750</u>	<u>159,155</u>
	<u>\$ 2,597,357</u>	<u>\$ 2,942,849</u>

Note 8: Operating Leases

Noncancellable operating leases for office space and equipment expire in various years through 2013. These leases require the College to pay all executory costs (property taxes, maintenance and insurance).

Future minimum lease payments at June 30, 2008, were:

2009	\$ 232,983
2010	232,983
2011	177,434
2012	47,562
2013	<u>23,781</u>
	<u>\$ 714,743</u>

Rental expense for all operating leases for the years ended June 30, 2008 and 2007, was \$340,090 and \$326,909, respectively.

Note 9: Retirement Plan

The College has a defined contribution pension plan covering substantially all employees. The Board of Trustees annually determines the amount, if any, of the College's contributions to the plan. Pension expense was \$313,781 and \$304,927 for 2008 and 2007, respectively.

Southwestern College
Notes to Financial Statements
June 30, 2008 and 2007

Note 10: Reclassification of Net Assets

The College made reclassifications in the restriction status on certain net assets during the prior fiscal year. The change in the prior year relates to the reclassification of permanently restricted net assets to temporarily restricted net assets as a result of a misclassification of net asset restrictions established by the donor.

Note 11: Change in Accounting Estimate

Effective July 1, 2007, the estimated useful life of the College's major additions and renovations was extended from ten to thirty-five years, in recognition of the College's decision to continue use of the equipment beyond the period in which it would become fully depreciated under the estimated service life in effect at June 30, 2007. The effect of this change was to increase change in net assets for 2008 by \$151,004.

Supplementary Information

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Southwestern College
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2008

Cluster/Program	Federal Agency/ Pass-Through Entity	CFDA Number	Amount
Student Financial Aid Cluster:			
Federal Work Study Program	U.S. Department of Education	84.033	\$ 102,137
Federal Supplemental Education Opportunity Grant Program	U.S. Department of Education	84.007	118,158
Federal Perkins Loan Program	U.S. Department of Education	84.038	4,149,116
Federal Family Educational Loan Program	U.S. Department of Education	84.032	8,790,380
Federal Direct Student Loans Program	U.S. Department of Education	84.268	2,217,490
Federal Pell Grant Program	U.S. Department of Education	84.063	1,138,168
Nursing Student Loans	U.S. Department of Education	93.364	12,939
Academic Competitiveness Grant	U.S. Department of Education	84.375	20,100
National Science and Mathematics Access to Retain Talent (SMART) Grants	U.S. Department of Education	84.376	56,000
			<u>16,604,488</u>
Special Education State Program:			
Special Education - State Personnel Development	U.S. Department of Agriculture/ Kansas Department of Agriculture	84.323	12,000
Transition to Teaching	U.S. Department of Agriculture/ Kansas Department of Agriculture	84.350	5,000
Child and Adult Care Food Program	U.S. Department of Agriculture/ Kansas Department of Agriculture	10.558	5,003
			<u>\$ 16,626,491</u>

Notes to Schedule

1. This schedule includes the federal awards activity of Southwestern College and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
2. No federal awards were provided to subrecipients during this period.



**Independent Accountants' Report on Internal Control Over
Financial Reporting and Compliance and Other Matters Based on an
Audit of the Financial Statements Performed in Accordance with
*Government Auditing Standards***

Board of Trustees
Southwestern College
Winfield, Kansas

We have audited the financial statements of Southwestern College as of and for the year ended June 30, 2008, and have issued our report thereon dated October 8, 2008. 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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the College's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the College's financial statements that is more than inconsequential will not be prevented or detected by the College's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 08-01 to be a significant deficiency in internal control over financial reporting.

Board of Trustees
Southwestern College
(Continued)

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the College's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

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 also noted certain additional matters that we reported to the College's management in a separate letter dated October 8, 2008.

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 governing body, management and others within the College and 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.

BKD, LLP

October 8, 2008



Independent Accountants' Report on Compliance and Internal Control Over Compliance with Requirements Applicable to Major Federal Awards Programs

Board of Trustees
Southwestern College
Winfield, Kansas

Compliance

We have audited the compliance of Southwestern College with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2008. The College's major federal programs are 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 each of its major federal programs is the responsibility of the College's management. Our responsibility is to express an opinion on the compliance of Southwestern College 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 on the College's compliance with those requirements.

In our opinion, Southwestern College complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Southwestern College is responsible for establishing and maintaining effective internal control over compliance with 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 requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 control deficiency in an entity's internal control over compliance 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 noncompliance with a compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

This report is intended solely for the information and use of the governing body, management and 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.

BKD, LLP

October 8, 2008

Southwestern College
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

Summary of Auditor's Results

1. The opinion expressed in the independent accountants' report was:
☒ Unqualified ☐ Qualified ☐ Adverse ☐ Disclaimed

2. The independent accountants' report on internal control over financial reporting described:

Significant deficiency(ies) noted considered material weakness(es)? ☐ Yes ☒ No

Significant deficiency(ies) noted that are not considered to be a material weakness? ☒ Yes ☐ No

3. Noncompliance considered material to the financial statements was disclosed by the audit? ☐ Yes ☒ No

4. The independent accountants' report on internal control over compliance with requirements applicable to major federal awards programs described:

Significant deficiency(ies) noted considered material weakness(es)? ☐ Yes ☒ No

Significant deficiency(ies) noted that are not considered to be a material weakness? ☐ Yes ☒ No

5. The opinion expressed in the independent accountants' report on compliance with requirements applicable to major federal awards was:
☒ Unqualified ☐ Qualified ☐ Adverse ☐ Disclaimed

6. The audit disclosed findings required to be reported by OMB Circular A-133? ☐ Yes ☒ No

Southwestern College
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2008

7. The College's major program was:

Cluster/Program	Number
Student Financial Aid Cluster	
Federal Work Study Program	84.033
Federal Supplemental Education Opportunity Grant Program	84.007
Federal Perkins Loan Program	84.038
Federal Family Educational Loan Program	84.032
Federal Direct Student Loans Program	84.268
Federal Pell Grant Program	84.063
Nursing Student Loans	93.364
Academic and Competitiveness Grant	84.375
National Science and Mathematics Access to Retain Talent (SMART) Grants	84.376

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was \$498,795.

9. The College qualified as a low-risk auditee as that term is defined in OMB Circular A-133?

☒ Yes ☐ No

Southwestern College
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2008

Findings Required to be Reported by Government Auditing Standards

Reference Number	Finding	Questioned Costs
08-01	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition – Two individuals have incompatible duties in the purchases, accounts payable and cash disbursements cycle.</p> <p>Context – These individuals are responsible for issuing checks payable to vendors, posting activity into the computer system and reconciling the bank statement.</p> <p>Effect – Potentially material misstatements in the financial statements or material misappropriations of assets due to error or fraud could occur and not be prevented or detected in a timely manner.</p> <p>Cause – Duties in the purchases, accounts payable and cash disbursements cycle are not adequately segregated and monitored.</p> <p>Recommendation – Management should periodically evaluate the costs versus the benefits of further segregation of duties or addition of monitoring or other compensating controls and implement those changes it deems appropriate for which benefits are determined to exceed costs.</p> <p>Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation. Management will perform the suggested evaluation and make any changes deemed appropriate that are cost beneficial within the next year.</p>	None

Southwestern College
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2008

Reference Number	Summary of Finding	Status
07-04	CFDA No. 84.268 Federal Direct Student Loans Program – Reporting – Disbursement dates reported to Common Origination and Disbursement (COD) System did not agree with College records.	Resolved