

# ***West Virginia Northern Community College***

*Financial Statements and  
Additional Information for the  
Year Ended June 30, 2002, and  
Independent Auditors' Reports*

# WEST VIRGINIA NORTHERN COMMUNITY COLLEGE

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# **West Virginia Northern Community College Management's Discussion and Analysis Fiscal Year Ending June 30, 2002**

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## **Overview**

In June 1999, the Governmental Accounting Standards Board (GASB) released Statement No. 34, "*Basic Financial Statements and Accounting Management's Discussion and Analysis for State and Local Governments*," which established a new reporting format for annual financial statements. In November 1999 GASB release Statement No. 35, "*Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*," which extends the applicability of the new reporting standards to include public colleges and universities. West Virginia Northern Community College WVNCC or the "College" is required to implement these new standards for the year ended June 30, 2002. The Management's Discussion and Analysis is required supplementary information and has been prepared in accordance with the requirements of GASB 35.

This section of the WVNCC annual financial report provides an overview of the College's financial performance during the fiscal year ended June 30, 2002. GASB 35 does not require audited restatement of prior year's financial statements during the implementation year. Therefore only current year information (fiscal year 2002) is presented in the audited financial statements

As required by the new reporting standards, WVNCC's annual financial report consists of three basic financial statements: the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows. These statements focus on the financial conditions of the College, the result of operations, and cash flows of the College as a whole. Each of these statements is discussed below.

## **Statement of Net Assets**

The Statement of Net Assets presents the Assets (current and non-current), Liabilities (current and non-current), and Net Assets (Assets minus Liabilities) of the College as of June 30, 2002. Assets denote the resources available to continue the operations of the College. Liabilities indicate how much the College owes vendors, employees, lending institutions and the West Virginia Higher Education Policy Commission. Net Assets provide a way to measure the financial position of the College.

Net Assets are displayed in three major categories:

*Invested in capital assets, net of related debt.* This category represents the College'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 expanded for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

*Restricted Net Assets.* This category includes net assets whose use is restricted either due to externally imposed constraints or because of restrictions imposed by law. They are further divided into two additional components – expendable and non-expendable. **Expendable restricted net assets** include resources in which the College is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties. **Non-expendable restricted net assets** include 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. The College presently does not have any non-expendable net assets.

*Unrestricted Net Assets.* This category represents resources derived from tuition and fees, state appropriations and sales and services of educational activities. These resources are used for transactions related to the educational and general operations of the College, and may be used at the discretion of the Governing Board to meet current expenses for any purpose.

Statement of Net Assets  
June 30, 2002

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**Assets**

Current Assets

|   |              |
|---|--------------|
| Cash and Cash Equivalents                     | \$ 1,496,241 |
| Appropriations due from Primary Government    | 326,408      |
| Students Accounts Receivable (Net of reserve) | 83,141       |
| Loans to students                             | 21,290       |
| Due from Policy Commission                    | 56,126       |
| Prepaid Expenses                              | <u>6,842</u> |
| Total Current Assets                          | 1,990,048    |

Non-current Assets

|                                    |                   |
|------------------------------------|-------------------|
| Cash and Cash Equivalents          | 195,507           |
| Loans to students (Net of reserve) | 25,644            |
| Investment in capital assets       | <u>14,048,817</u> |
| Total Non-current Assets           | <u>14,269,968</u> |

**Total Assets** **\$ 16,260,016**

**Liabilities and Net Assets**

**Liabilities**

Current Liabilities

|  |               |
|--|---------------|
| Accounts Payable                               | \$ 277,568    |
| Due to State of West Virginia                  | 8,418         |
| Accrued liabilities                            | 346,657       |
| Deferred Revenue                               | 51,357        |
| Capital leases, current portion                | 24,210        |
| Compensated absences, current portion          | 272,089       |
| Debt obligation to Commission, current portion | <u>31,332</u> |
| Total Current Liabilities                      | 1,011,631     |

|   |                          |
|---|--------------------------|
| Non-current Liabilities                         |                          |
| Advances from federal sponsors                  | 97,917                   |
| Capital leases                                  | 79,654                   |
| Compensated absences                            | 816,228                  |
| Debt obligation to Commission                   | <u>222,956</u>           |
| Total Non-current Liabilities                   | 1,216,755                |
| <b>Total Liabilities</b>                        | <b><u>2,228,386</u></b>  |
| <b>Net Assets (Deficit)</b>                     |                          |
| Invested in capital assets, net of related debt | 13,690,665               |
| Restricted for:                                 |                          |
| Expendable:                                     |                          |
| Specific purposes by State Code                 | 533,203                  |
| Scholarships                                    | <u>70,384</u>            |
| Total expendable                                | 603,587                  |
| Unrestricted                                    | <u>(262,622)</u>         |
| <b>Total Net Assets</b>                         | <b><u>14,031,630</u></b> |
| <b>Total Liabilities and Net Assets</b>         | <b><u>16,260,016</u></b> |

In comparing the fiscal year 2001 to fiscal year 2002 there is an increase in cash and cash equivalents of \$489,920. This is a result of revenue from increasing tuition and fees by \$ 2.00 per credit hour and by having an increased enrollment from a budget base of 1,300 FTEs to an actual FTE enrollment of 1,494. Also, during the year Executive Management started looking at multi-year budgets to speed up the deficit reduction plan in the unrestricted funds balance. The deficit in the Unrestricted Funds as of the June 30, 2000 audited financial statement was \$ 662,869. The deficit in the Unrestricted Funds as of the June 30, 2001 audited financial statement was \$ 546, 901. The deficit in the Unrestricted Net Assets as of June 30, 2002 is \$ 262,622 this continued reduction in the deficit is the result of preplanning of expenses.

Appropriations due from Primary Government increased by \$ 37,017. This money is used to pay nine-month faculty contracts over twelve months, allowing the college to keep expenses and funding uses in the same fiscal period.

The largest change in assets is the reduction in Investment in Capital Assets of \$ 7,368,448. The change is a result of accumulated depreciation of \$ 8,152,296 net of additions for infrastructure and previous assets written off in 1998 and subsequently found of \$ 1,067,993 as of June 30, 2001. This change was needed to comply with GASB 34/35. The 2002 depreciation amounted to \$ 498,323.

In the liabilities section the accounts payable increase is because of some old telecom invoices that the college has settled and is making payments. Also, the decrease in accrued liabilities shows the amount that is due for the twelve-month faculty contracts.

The decrease in Net Assets is a result of a \$ 5,234 deficit in 2002 plus a transfer of liability from the Policy Commission of \$ 254,288.

## Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets presents the operating results of the College for the fiscal year ended June 30, 2002. The purpose of the statement is to present the revenues of the College (operating and non-operating), the expenses of the College (operating and non-operating), and any other revenues, expenses, gains and losses of the College. State Appropriations, while budgeted for operations, are considered and reported as non-operating revenues. This is due to State Appropriations being provided by the Legislature to the College without the Legislature directly receiving commensurate goods and services for those revenues. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

|  | <u>Year Ended June 30, 2002</u> |
|--|---------------------------------|
| Operating Revenues                                   |                                 |
| Student tuition and fees, net                        | \$ 1,622,902                    |
| Contracts and grants:                                |                                 |
| Federal  | 2,748,704                       |
| State  | 329,161                         |
| Private  | 173,421                         |
| Interest on student loans receivable                 | 12,754                          |
| Auxiliary enterprise revenue                         | 1,282                           |
| Sales and services of educational activities         | 78,034                          |
| Fees received from the Commission                    | 133,410                         |
| Miscellaneous, net                                   | <u>44,827</u>                   |
| Total operating revenue                              | 5,144,495                       |
| Operating Expenses                                   |                                 |
| Salaries and wages                                   | 5,361,314                       |
| Benefits   | 1,453,172                       |
| Supplies and other services                          | 1,824,767                       |
| Utilities  | 279,040                         |
| Student financial aid – scholarships and fellowships | 1,540,709                       |
| Fees assessed by the Commission for operations       | 83,063                          |
| Loan cancellation removal                            | <u>498,323</u>                  |
| Total Operating expenses                             | 11,040,388                      |
| <b>Operating Loss</b>                                | <b><u>(5,895,893)</u></b>       |
| Non-operating Revenues                               |                                 |
| State appropriations                                 | 5,816,249                       |
| Investment Income                                    | 83,265                          |
| Non-operating Expenses                               |                                 |
| Interest on Indebtedness                             | <u>8,855</u>                    |
| <b>Net Non-operating Revenues</b>                    | <b><u>5,890,659</u></b>         |

|   |                          |
|---|--------------------------|
| <b>Loss before transfer</b>                         | <b>(5,234)</b>           |
| <b>Transfer of liability from Policy Commission</b> | <b><u>(254,288)</u></b>  |
| <b>Decrease in Net Assets</b>                       | <b>(259,522)</b>         |
| <b>Net Assets at Beginning of Year</b>              | <b>14,291,152</b>        |
| <b>Net Assets at End of Year</b>                    | <b><u>14,031,630</u></b> |

Comparing the two fiscal year reports 2002-tuition revenue increased because of a modest tuition and fee increase and the enrollment has increased. Another operating revenue source that increased is federal grants and contracts. This increase is due to student loans money available to be given out by the College.

The 2002 operating expenses had some increase in supplies and other services with the focus going to some minor repairs on the buildings and grounds and creating a cleaner and safer learning environment.

Auxiliary enterprises have decreased because the only auxiliary enterprise the College had was the bookstore and on August 1, 2000 the College entered an agreement with Barnes and Nobel to outsource the bookstore and to be run by them. The College receives a commission on all sales of 3%, over the base amount of \$ 700,000. The commission earned for 2002 was \$5,738.

The Investment Income increased because the amount of cash on hand within the State fund accounts increased but was partially offset by the going interest rates during the year.

## **Statement of Cash Flows**

The Statement of Cash Flows provides information about the cash receipts, cash payments, and net change in cash resulting from the activities of the College during the year. This statement helps users assess the College's ability to generate net cash flows, its ability to meet obligations as they come due, and its need for external financing.

The Statement of cash Flows is divided into five parts:

*Cash flows from operating activities.* This section shows the net cash used by the operating activities of the College.

*Cash flows from non-capital financing activities.* This section reflects the cash received and paid for non-operating, non-investing, and non-capital financing purposes.

*Cash flows from capital and related financing activities.* This section includes cash used for the acquisition and construction of capital and related items.

*Cash flows from investing activities.* This section shows the purchases, proceeds, and interest received from investing activities.

*Reconciliation of net cash provided (used) to operating income (loss).* This part provides a schedule that reconciles the accrual-based operating loss and net cash flows used in operating activities.

|   | <u>Year Ended June 30, 2002</u>   |
|---|-----------------------------------|
| <b>Cash Provided (Used) By:</b>                   |                                   |
| Operating Activities:                             |                                   |
| Student tuition and fees                          | \$ 2,543,192                      |
| Contracts and grants                              | 3,260,105                         |
| Payments to and on behalf of employees            | (6,624,775)                       |
| Payments to suppliers                             | (1,857,659)                       |
| Payments to utilities                             | (216,925)                         |
| Payments for scholarships and fellowships         | (2,462,132)                       |
| Loans issued to students                          | (1,507,762)                       |
| Collection of loans to students                   | 1,498,367                         |
| Sales and services of educational activities      | 78,035                            |
| Auxiliary enterprise charges                      | 1,282                             |
| Fees retained by/from Commission                  | 50,347                            |
| Other receipts (payments) – net                   | <u>45,474</u>                     |
| Net cash used in operating activities             | (5,192,451)                       |
| Non-capital Financing Activities:                 |                                   |
| State appropriations                              | 5,779,232                         |
| Capital Financing Activities                      |                                   |
| Purchase of capital assets                        | (108,292)                         |
| Principal paid on leases                          | (57,024)                          |
| Interest paid on leases                           | (8,854)                           |
| Decrease in non-current cash and cash equivalents | <u>88,473</u>                     |
| Net cash used in capital financing activities     | (85,697)                          |
| Investing Activities:                             |                                   |
| Interest on Investments                           | 77,309                            |
| Increase in Cash                                  | <u>578,393</u>                    |
| Cash and cash equivalents, beginning of Year      | <u>917,848</u>                    |
| <b>Cash and cash equivalents, end of Year</b>     | <b><u><u>\$ 1,496,241</u></u></b> |

### **Capital Asset and Long Term Debt Activity**

The College has a long-term debt contract related to the purchase of the CSX land behind the B&O Building on the Wheeling Campus. The cost to the college is \$ 14,520 per year until year 2008. This investment property has a committee established from members of the West Virginia Northern

Community College Foundation and Board of Governors, and the President to determine the best use of the property.

The College has also entered into a contract with Xerox Corporation for five years to help the College's marketing. The cost of the contract is \$ 163,200 annually. The equipment will allow the College to put out high quality brochures and schedules for prospective students. The Xerox Center also supplies the faculty with high quality test and information for the students. Future plans of the center include the start up of classroom training to co-inside with the training with a local high school. This contract is recorded as an operating lease.

There are other smaller contracts with vendors for the rental of a parking lot and the purchase of a few copier machines.

## **Economic Outlook**

WVNCC's financial position is closely tied to that of the State of West Virginia. WVNCC is beginning to feel the impact of a weakening West Virginia economy. The level of state support is one of the key factors influencing the College's financial condition. State appropriations contribute approximately 50% of all revenues, the majority of which funds payroll and benefits for College employees. A steady decline in state appropriations has affected the College's ability to maintain quality programs and services. The College also faces an increase of more than \$ 100,000 in fiscal year 2003 in health insurance costs, BRIM premiums and other operating costs. The Board of Governors has approved the new Musser schedule for wage increases for the classified staff. This is a five-year plan that will greatly effect the amount of funding that goes towards employee wages and benefits. The College is only one of two state run colleges in the State System of Higher Education that has a deficit in the unrestricted net assets as of June 30, 2002. The unrestricted net assets deficit was greatly reduced this year (the audited financial statements should show a reduction of approximately \$ 284,279) because of the Executive Management's view of multi-year budgets. This view by management takes a closer look at spending and preplanning of expenses. Also, the increased enrollment allowed for more funds to be directed to deficit reduction. The College has a plan to reduce that deficit annually by approximately \$100,000 until it is eliminated. This will continue to be a challenge with the proposed budget reduction in State appropriations of ten percent.

The College is not a not-for-profit organization, but does not receive a large amount of money for contributions. Most contributions are made to the Foundation and the Foundation routinely gives the College the proceeds at the direction of the ir Board of Directors. Most of the money the Foundation has is restricted for scholarships.

The commitment of operating funds to fund capital expenditures has an ongoing impact on the overall financial picture of the college. There are major concerns with the heating and cooling systems at both the Wheeling Campus buildings. The cost to make these repairs and to stay within the five-year Facility Master Plan would be \$1,200,000 for the B&O Building and another \$300,000for the Hazel-Atlas building. Also, there is a need to upgrade the science laboratories on the Wheeling Campus. These repairs are estimated to cost \$ 180,900, plus an additional \$174,000 for new equipment. These projects have been on the Capital Request list sent to the Higher Education Policy Commission and the college has sent these projects in for the Special Project Funding request, which used to be called the Budget Digest. The President is in touch with the

College's local Legislatures to explain the urgency of these requests. Both the New Martinsville and the Weirton Campuses are relatively new and do not require any major repairs at this time.

There continues to be a parking problem for the Wheeling Campus. A committee is being formed to present possible options to the Foundation and request them to invest in the purchase of a few pieces of property that are in close proximity to the College. This will give the College the long-term solution to the parking needs in Wheeling. The approximate cost of these properties is estimated to be \$ 208,000 plus improvements of another \$ 75,000.

The College has launched a comprehensive upgrade of WVNCC's technology replacement strategy and this will have a major impact on operations, staffing and spending. The college has committed over 3% of the operating budget to technology and new technology purchases. The College took a major adjustment to its budget when the State funded ATM System no longer was to be funded by the state. The technology department was able to put the ATM into their budget at a reduced cost of \$ 78,000 from the \$ 126,000 that the State was paying and still receive the same services.

WVNCC has addressed the increased need for funding and maintaining quality academic programs and student services by approving a 3% increase in tuition and fees. For the past several years, WVNCC's tuition and fees have been lower than those at many peer institutions, and the College is the second lowest tuition and fee rate in the State. Even with the increases in tuition and fees, annual tuition at WVNCC remains below those peer averages and WVNCC continues to offer an exceptional education value. The College is limited on the amount of tuition increase by the State. The College faces stiff competition with two Community Colleges across the Ohio River. The College does have a reciprocity agreement with the two Ohio Community Colleges.

The need to continue to address priority needs and requirements for deferred maintenance, new technology, repairs and new construction projects is a large challenge facing the College in the years to come. College's senior leadership is assessing ways to achieve efficiencies and reduce expenditures in an effort to assist in meeting the future challenges.

## INDEPENDENT AUDITORS' REPORT

To the West Virginia Northern Community College Governing Board

We have audited the accompanying financial statements of West Virginia Northern Community College (the "College") as of June 30, 2002, and for the year then ended, listed in the foregoing Table of Contents. These financial statements are the responsibility of the management of the College. Our responsibility is to express an opinion 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the College at June 30, 2002, and the changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, the College changed its financial statement presentation to adopt the provisions of the Governmental Accounting Standards Board ("GASB") Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, as amended by GASB Statements No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*, as of July 1, 2001.

The Management's Discussion and Analysis on pages 1 to 8 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the College's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2002 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

October 11, 2002

# WEST VIRGINIA NORTHERN COMMUNITY COLLEGE

## STATEMENT OF NET ASSETS

JUNE 30, 2002

---

### ASSETS:

#### Current assets:

|  |                  |
|--|------------------|
| Cash and cash equivalents                  | \$ 1,496,241     |
| Appropriations due from Primary Government | 326,408          |
| Accounts receivable, net                   | 83,141           |
| Loans to students, current portion         | 21,290           |
| Due from Commission                        | 56,126           |
| Prepaid expenses                           | <u>6,842</u>     |
| Total current assets                       | <u>1,990,048</u> |

#### Noncurrent assets:

|   |                   |
|---|-------------------|
| Cash and cash equivalents                       | 195,507           |
| Loans to students, net of allowance of \$95,000 | 25,644            |
| Investment in capital assets, net               | <u>14,048,817</u> |
| Total noncurrent assets                         | <u>14,269,968</u> |

TOTAL ASSETS \$ 16,260,016

(Continued)

# WEST VIRGINIA NORTHERN COMMUNITY COLLEGE

## STATEMENT OF NET ASSETS

JUNE 30, 2002

---

### LIABILITIES:

#### Current liabilities:

|  |               |
|--|---------------|
| Accounts payable                               | \$ 277,568    |
| Due to State of West Virginia                  | 8,418         |
| Accrued liabilities                            | 346,657       |
| Deferred revenue                               | 51,357        |
| Capital leases, current portion                | 24,210        |
| Compensated absences, current portion          | 272,089       |
| Debt obligation to Commission, current portion | <u>31,332</u> |

Total current liabilities 1,011,631

#### Noncurrent liabilities:

|                                |                |
|--------------------------------|----------------|
| Advances from federal sponsors | 97,917         |
| Capital leases                 | 79,654         |
| Compensated absences           | 816,228        |
| Debt obligation to Commission  | <u>222,956</u> |

Total noncurrent liabilities 1,216,755

Total liabilities 2,228,386

### NET ASSETS (DEFICIT):

Invested in capital assets, net of related debt 13,690,665

#### Restricted for:

##### Expendable:

|                                 |               |
|---------------------------------|---------------|
| Specific purposes by State Code | 533,203       |
| Scholarships                    | <u>70,384</u> |

Total expendable 603,587

Unrestricted (262,622)

Total net assets 14,031,630

TOTAL LIABILITIES AND NET ASSETS \$ 16,260,016

See notes to financial statements

(Concluded)

# WEST VIRGINIA NORTHERN COMMUNITY COLLEGE

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2002

---

### OPERATING REVENUES:

|  |                      |
|--|----------------------|
| Student tuition and fees (net of scholarship allowance of \$967,046) | \$ 1,622,902         |
| Contracts and grants:  |                      |
| Federal  | 2,748,704            |
| State  | 329,161              |
| Private  | 173,421              |
| Interest on student loans receivable                                 | 12,754               |
| Sales and services of educational activities                         | 78,034               |
| Auxiliary enterprise revenue   | 1,282                |
| Fees from Commission   | 133,410              |
| Miscellaneous - net  | <u>44,827</u>        |
| <br>Total operating revenues   | <br><u>5,144,495</u> |

### OPERATING EXPENSES:

|  |                       |
|--|-----------------------|
| Salaries and wages                                   | 5,361,314             |
| Benefits   | 1,453,172             |
| Supplies and other services                          | 1,824,767             |
| Utilities  | 279,040               |
| Student financial aid - scholarships and fellowships | 1,540,709             |
| Depreciation   | 498,323               |
| Fees assessed by the Commission for operations       | <u>83,063</u>         |
| <br>Total operating expenses                         | <br><u>11,040,388</u> |

OPERATING LOSS (5,895,893)

(Continued)

# WEST VIRGINIA NORTHERN COMMUNITY COLLEGE

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2002

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|  |                      |
|--|----------------------|
| NONOPERATING REVENUES (EXPENSES):            |                      |
| State appropriations                         | \$ 5,816,249         |
| Investment income                            | 83,265               |
| Interest on indebtedness                     | <u>(8,855)</u>       |
| Net nonoperating revenues                    | <u>5,890,659</u>     |
| LOSS BEFORE TRANSFER                         | (5,234)              |
| TRANSFER OF LIABILITY FROM COMMISSION        | <u>(254,288)</u>     |
| DECREASE IN NET ASSETS                       | (259,522)            |
| NET ASSETS - BEGINNING OF YEAR (AS RESTATED) | <u>14,291,152</u>    |
| NET ASSETS - END OF YEAR                     | <u>\$ 14,031,630</u> |
| See notes to financial statements            | (Concluded)          |

# WEST VIRGINIA NORTHERN COMMUNITY COLLEGE

## STATEMENT OF CASH FLOWS YEAR ENDED JUNE 30, 2002

---

### CASH FLOWS FROM OPERATING ACTIVITIES:

|   |                |
|---|----------------|
| Student tuition and fees                    | \$ 2,543,192   |
| Contracts and grants                        | 3,260,105      |
| Payments to and on behalf of employees      | (6,624,775)    |
| Payments to suppliers                       | (1,857,659)    |
| Payments to utilities                       | (216,925)      |
| Payments for scholarships and fellowships   | (2,462,132)    |
| Loans issued to students                    | (1,507,762)    |
| Collection of loans to students             | 1,498,367      |
| Sales and service of educational activities | 78,035         |
| Auxiliary enterprise charges                | 1,282          |
| Fees received from Commission               | 104,425        |
| Other disbursements - net                   | <u>(8,604)</u> |

Net cash used in operating activities (5,192,451)

### CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

State appropriations 5,779,232

Cash provided by noncapital financing activities 5,779,232

### CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:

|  |               |
|--|---------------|
| Purchases of capital assets                      | (108,292)     |
| Principal paid on leases                         | (57,024)      |
| Interest paid on leases                          | (8,854)       |
| Decrease in noncurrent cash and cash equivalents | <u>88,473</u> |

Net cash used in capital financing activities (85,697)

### CASH FLOWS FROM INVESTING ACTIVITIES:

Interest on investments 77,309

Cash provided by investing activities 77,309

INCREASE IN CASH AND CASH EQUIVALENTS 578,393

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 917,848

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 1,496,241

(Continued)

# WEST VIRGINIA NORTHERN COMMUNITY COLLEGE

## STATEMENT OF CASH FLOWS YEAR ENDED JUNE 30, 2002

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### RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:

|  |                |
|--|----------------|
| Operating loss   | \$ (5,895,893) |
| Adjustments to reconcile operating loss to net cash<br>used in operating activities: |                |
| Depreciation expense   | 498,323        |
| Changes in assets and liabilities:   |                |
| Appropriations due from Primary Government   | (37,017)       |
| Accounts receivables, net  | (11,557)       |
| Loans to students, net   | 11,230         |
| Due from Commission  | (28,985)       |
| Prepaid expenses   | (301)          |
| Accounts payable   | 78,794         |
| Due to State of West Virginia  | (33,245)       |
| Accrued liabilities  | 30,111         |
| Deferred revenue   | 7,399          |
| Compensated absences   | 159,601        |
| Advances from federal sponsors   | 13,661         |
| Other operating activities   | <u>15,428</u>  |

Net cash used in operating activities \$ (5,192,451)

### NONCASH TRANSACTIONS:

Equipment purchased through capital leases \$ 105,886

See notes to financial statements.

(Concluded)

# WEST VIRGINIA NORTHERN COMMUNITY COLLEGE

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2002

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### 1. ORGANIZATION

West Virginia Northern Community College (the "College") is governed by the West Virginia Northern Community College Board of Governors (the "Board"). The Board was established by Senate Bill 653 ("S.B. 653"). S.B. 653 was enacted by the West Virginia Legislature on March 19, 2000 and restructured public higher education in West Virginia. S.B. 653 abolished the Board of Directors of the College System of West Virginia effective June 30, 2000, and replaced it with a transition year board, the West Virginia Higher Education Interim Governing Board (the "Interim Governing Board"). The Interim Governing Board was granted all powers, duties, and authorities of the Board of Directors and was transferred each valid agreement and obligation previously transferred to or vested in the Board of Directors.

Effective July 1, 2001, certain powers were transferred to the newly created Governing Board of each of the institutions of higher education. These powers and duties include, but are not limited to, the power to determine, control, supervise and manage the financial, business and educational policies and affairs of the institution under its jurisdiction, the duty to develop a master plan for the institution, the power to prescribe the specific functions and institution's budget request, the duty to review at least every five years all academic programs offered at the institution, and the power to fix tuition and other fees for the different classes or categories of students enrolled at its institution.

S.B. 653 also created the West Virginia Higher Education Policy Commission (the "Commission"), which will be responsible for developing, gaining consensus around and overseeing the implementation and development of a higher education public policy agenda.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the College have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board ("GASB"), including Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis of Public Colleges and Universities* (an Amendment of GASB Statement No. 34). The financial statement presentation required by GASB Statements No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the College's assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows and replaces the fund-group perspective previously required.

The College follows all GASB pronouncements as well as Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, and has elected not to apply the FASB Statements and Interpretations issued after November 30, 1989, to its financial statements.

**Reporting Entity**—The College is an operating unit of the West Virginia Higher Education Fund and represents separate funds of the State of West Virginia (the “State”) that are not included in the State’s general fund. The College is a separate entity which, along with all State institutions of higher education, the Commission and the West Virginia Network for Educational Telecomputing (“WVNET”), form the Higher Education Fund of the State. The Higher Education Fund is considered a component unit of the State, and its financial statements are discretely presented in the State’s comprehensive annual financial report.

The accompanying financial statements present all funds under the authority of the College. The basic criterion for inclusion in the accompanying financial statements is the exercise of oversight responsibility derived from the College’s ability to significantly influence operations and accountability for fiscal matters of related entities. A related foundation of the College is not part of the College reporting entity and is not included in the accompanying financial statements as the College has no ability to designate management, cannot significantly influence operations of this entity and is not accountable for the fiscal matters of the foundation.

**Financial Statement Presentation**—During fiscal 2002, the College adopted GASB Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*, as amended by GASB Statements No. 37, *Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*. These statements establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a basis to focus on the College as a whole. Previously, financial statements focused on the accountability of individual fund groups rather than on the College as a whole. GASB Statement No. 35 reports equity as “net assets” rather than “fund balance”. Net assets are classified into four categories according to external donor restrictions or availability of assets for satisfaction of College obligations. The College’s net assets are classified as follows:

- *Invested in capital assets, net of related debt*—This represents the College’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*—This includes resources in which the College is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

The West Virginia Legislature, as a regulatory body outside the reporting entity, has restricted the use of certain funds by Article 10, “Fees and Other Money Collected at State Institutions of Higher Education” of the West Virginia State Code. These restrictions are primarily for the following: libraries, library supplies, and improvement in student services; faculty improvement; student activities; auxiliary operations; and special programs. These activities are fundamental to the normal ongoing operations of the College. These restrictions are subject to change by future actions of the West Virginia State Legislature.

- *Restricted net assets, nonexpendable*—This includes 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. The College does not have any restricted nonexpendable net assets at June 30, 2002.

- *Unrestricted net assets*—Unrestricted net assets represent resources derived from student tuition and fees, state appropriations and sales and services of educational activities. These resources are used for transactions relating to the educational and general operations of the College, and may be used at the discretion of the Board of Governors to meet current expenses for any purpose.

GASB Statement No. 35 requires the statements of net assets, revenues, expenses, and changes in net assets, and cash flows to be reported on an entity-wide basis. The provisions of GASB Statement No. 35 have been applied to the year presented. Following is a reconciliation of the total June 30, 2001 fund balance, as previously reported, to the restated net asset balance for the same date:

|   | <b>June 30,<br/>2001</b>    |
|---|-----------------------------|
| Fund balance, as previously reported      | \$ 21,459,711               |
| Accumulated depreciation                  | (8,152,296)                 |
| Asset capitalization                      | 1,067,993                   |
| Reclassification of federal loan programs | <u>(84,256)</u>             |
| <br>                                      |                             |
| Fund balance, restated as net assets      | <u><u>\$ 14,291,152</u></u> |

***Basis of Accounting***—For financial reporting purposes, the College is considered a special-purpose government engaged only in business-type activities. Accordingly, the College’s financial statements have been prepared on the accrual basis of accounting with a flow of economic resources measurement focus. Revenues are reported when earned and expenditures when materials or services are received.

***Cash and Cash Equivalents***—For purposes of the statement of net assets, the College considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Cash and cash equivalents balances on deposit with the State of West Virginia Treasurer’s Office (the “State Treasurer”) are pooled by the State Treasurer with other available funds of the State for investment purposes by the West Virginia Investment Management Board (the “IMB”). These funds are transferred to the IMB and the IMB is directed by the State Treasurer to invest the funds in specific external investment pools. Balances in the investment pools are recorded at fair value, which is determined by a third-party pricing service based on asset portfolio pricing models and other sources, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments for External Investment Pools*. The IMB was established by the West Virginia State Legislature and is subject to oversight by the West Virginia State Legislature. Fair value and investment income are allocated to participants in the pools based upon the funds that have been invested. The amounts on deposit with the State Treasurer are available for immediate withdrawal and, accordingly, are presented as cash and cash equivalents in the accompanying financial statements.

***Allowance for Doubtful Accounts***—It is the College’s policy to provide for future losses on uncollectible accounts, contracts, grants and loans receivable based on an evaluation of the underlying account, contract, grant and loan balances, the historical collectibility experienced by the College on such balances and such other factors which, in the College’s judgment, require consideration in estimating doubtful accounts.

***Noncurrent Cash and Cash Equivalents***—Cash, that is (1) externally restricted to make debt service payments, long-term loans to students or to maintain sinking or reserve funds, (2) to purchase capital or other noncurrent assets, and (3) permanently restricted, is classified as a noncurrent asset in the statement of net assets.

***Capital Assets***—Capital assets include property, plant and equipment, books and materials that are part of a catalogued library, and infrastructure assets. Capital assets are stated at cost at the date of acquisition or construction, or fair market value at the date of donation in the case of gifts. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings and infrastructure, 15 years for land improvements, 7 years for library books, and 3 to 10 years for furniture and equipment.

***Deferred Revenue***—Revenues for programs or activities to be conducted primarily in the next fiscal year are classified as deferred revenue, including items such as football ticket sales, orientation fees, room and board. Financial aid and other deposits are separately classified as deposits.

***Compensated Absences***—The College accounts for compensated absences in accordance with the provisions of GASB Statement No. 16, *Accounting for Compensated Absences*. This statement requires entities to accrue for employees' rights to receive compensation for vacation leave, or payments in lieu of accrued vacation or sick leave, as such benefits are earned and payment becomes probable.

The College's full-time employees earn up to two vacation leave days for each month of service and are entitled to compensation for accumulated, unpaid vacation leave upon termination. Full-time employees also earn 1-1/2 sick leave days for each month of service and are entitled to extend their health or life insurance coverage upon retirement in lieu of accumulated, unpaid sick leave. Generally, two days of accrued sick leave extend health insurance for one month of single coverage and three days extend health insurance for one month of family coverage. For employees hired after 1988, the employee shares in the cost of the extended benefit coverage to the extent of 50% of the premium required for the extended coverage. Employees hired July 1, 2001 or later will no longer receive sick leave credit toward insurance premiums when they retire.

Certain faculty employees (generally those with less than a 12-month contract) earn a similar extended health or life insurance coverage retirement benefit based on years of service. Generally 3-1/3 years of teaching service extend health insurance for one year of single coverage and five years extend health insurance for one year of family coverage.

The estimate of the liability for the extended health or life insurance benefit has been calculated using the vesting method in accordance with the provisions of GASB Statement No. 16. Under that method, the College has identified the accrued sick leave benefit earned to date by each employee, determined the cost of that benefit by reference to the benefit provisions and the current cost experienced by the College for such coverage, and estimated the probability of the payment of that benefit to employees upon retirement.

The estimated expense and expense incurred for the vacation leave, sick leave or extended health or life insurance benefits are recorded as a component of benefits expense on the statement of revenues, expenses and changes in net assets.

***Risk Management***—The State's Board of Risk and Insurance Management ("BRIM") provides general, property and casualty, and medical malpractice liability coverage to the College and its employees. Such coverage may be provided to the College by BRIM through self-insurance programs maintained by BRIM or policies underwritten by BRIM that may involve experience-related premiums or adjustments to BRIM.

BRIM engages an independent actuary to assist in the determination of its premiums so as to minimize the likelihood of premium adjustments to the College or other participants in BRIM's insurance programs. As a result, management does not expect significant differences between the premiums the College is currently charged by BRIM and the ultimate cost of that insurance based on the College's actual loss experience. In the event such differences arise between estimated premiums currently charged by BRIM to the College and the College's ultimate actual loss experience, the difference will be recorded, as the change in estimate becomes known.

**Classification of Revenues**—The College 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 and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most federal, state, local, and nongovernmental grants and contracts, (4) federal appropriations, and (5) sales and services of educational activities.
- *Nonoperating revenues*—Nonoperating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenues that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting* and GASB Statement No. 34, such as state appropriations and investment income.

**Use of Restricted Net Assets**—The College has not adopted a formal policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Generally, the College attempts to utilize restricted net assets first when practicable.

**Federal Financial Assistance Program**—The College did not make any loans to students under the Federal Direct Student Loan Program or Stafford Loan Program. The College did distribute other student financial assistance funds on behalf of the federal government to students under the federal Pell Grant, Supplemental Educational Opportunity Grant and College Work Study programs. The activity of these programs is recorded in the accompanying financial statements. In 2002, the College received and disbursed approximately \$2,700,000 under these federal student aid programs of which, approximately \$116,000 was related to Eastern West Virginia Technical and Community College.

**Scholarship Allowances**—Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances in the statement of revenues, expenses and changes in net assets. Scholarship allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the student's behalf.

Financial aid to students is reported in the financial statements under the alternative method as prescribed by the National Association of College and College Business Officers (NACUBO). Certain aid such as loans, funds provided to students as awarded by third parties, and Federal Direct Lending is accounted for as a third party payment (credited to the student's account as if the student made the payment). All other aid is reflected in the financial statements as operating expenses, or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method, these amounts are computed on a College basis by allocating the cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third party aid.

**Government Grants and Contracts**—Government grants and contracts normally provide for the recovery of direct and indirect costs, subject to audit. The College recognizes revenue associated with direct costs as the related costs are incurred. Recovery of related indirect costs is generally recorded at fixed rates negotiated for a period of one to five years.

**Income Taxes**—The College is exempt from income taxes, except for unrelated business income, as a nonprofit organization under federal income tax laws and regulations of the Internal Revenue Service.

**Cash Flows**—Any cash and cash equivalents escrowed, restricted for noncurrent assets or in funded reserves have not been included as cash and cash equivalents for the purpose of the statement of cash flows.

**Use of Estimates**—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**Recent Statements Issued by the Government Accounting Standards Board**—The GASB issued Statement No. 39, *Determining Whether Certain Organizations are Component Units*, an amendment of GASB Statement No. 14. This statement is effective for periods beginning after June 15, 2003. The College has not completed the process of evaluating the impact, if any, that will result from adopting GASB Statement No. 39. This statement, when adopted, could result in additional entities being included in the College’s financial statements.

### 3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents was as follows at June 30, 2002:

|  | Current             | Noncurrent        | Total               |
|--|---------------------|-------------------|---------------------|
| Cash on deposit with the State Treasurer | \$ 1,383,741        | \$ 195,507        | \$ 1,579,248        |
| Cash in bank                             | <u>112,500</u>      | <u>          </u> | <u>112,500</u>      |
|  | <u>\$ 1,496,241</u> | <u>\$ 195,507</u> | <u>\$ 1,691,748</u> |

Cash held by the State Treasurer includes \$144,524 restricted for capital assets.

The combined carrying amounts of cash in the bank at June 30, 2002 was \$112,500, as compared with the combined bank balance of \$230,751. The difference is primarily caused by items in transit and outstanding checks. The bank balances were covered by federal depository insurance or were secured by financial instruments held as collateral by the State’s agent.

Cash on deposit with the State Treasurer is a noncategorized deposit (with respect to risk and collateral disclosure) in accordance with GASB Statement No. 3.

#### 4. ACCOUNTS RECEIVABLE

Accounts receivable were as follows at June 30, 2002:

|  |                  |
|--|------------------|
| Student tuition and fees, net of allowance for doubtful accounts of \$54,946 | \$ 44,956        |
| Third party contracts receivable   | 28,816           |
| Other accounts receivable  | <u>9,369</u>     |
|  | <u>\$ 83,141</u> |

#### 5. CAPITAL ASSETS

The following is a summary of capital asset transactions for the College for the year ended June 30, 2002:

|                                       | Beginning<br>Balance | Additions           | Reductions      | Ending<br>Balance    |
|---------------------------------------|----------------------|---------------------|-----------------|----------------------|
| Capital assets not being depreciated: |                      |                     |                 |                      |
| Land                                  | <u>\$ 1,287,927</u>  | <u>\$ -</u>         | <u>\$ -</u>     | <u>\$ 1,287,927</u>  |
| Other capital assets:                 |                      |                     |                 |                      |
| Land improvements                     | \$ 97,566            | \$ -                | \$ -            | \$ 97,566            |
| Infrastructure                        | 706,987              | 29,821              |                 | 736,808              |
| Buildings                             | 17,433,408           | 28,810              |                 | 17,462,218           |
| Equipment (1)                         | 1,798,108            | 60,126              | (5,985)         | 1,852,249            |
| Leased equipment                      |                      | 72,221              |                 | 72,221               |
| Library books (1)                     | <u>1,161,262</u>     | <u>23,200</u>       | <u>(18,012)</u> | <u>1,166,450</u>     |
| Total other capital assets            | <u>21,197,331</u>    | <u>214,178</u>      | <u>(23,997)</u> | <u>21,387,512</u>    |
| Less accumulated depreciation for:    |                      |                     |                 |                      |
| Land improvements                     | (85,721)             | (964)               |                 | (86,685)             |
| Infrastructure                        | (549,240)            | (14,064)            |                 | (563,304)            |
| Buildings                             | (4,787,656)          | (348,978)           |                 | (5,136,634)          |
| Equipment (1)                         | (1,643,185)          | (76,105)            | 5,985           | (1,713,305)          |
| Leased equipment                      |                      | (32,099)            |                 | (32,099)             |
| Library books (1)                     | <u>(1,086,494)</u>   | <u>(26,113)</u>     | <u>18,012</u>   | <u>(1,094,595)</u>   |
| Total accumulated depreciation        | <u>(8,152,296)</u>   | <u>(498,323)</u>    | <u>23,997</u>   | <u>(8,626,622)</u>   |
| Other capital assets, net             | <u>\$ 13,045,035</u> | <u>\$ (284,145)</u> | <u>\$ -</u>     | <u>\$ 12,760,890</u> |
| Capital asset summary:                |                      |                     |                 |                      |
| Capital assets not being depreciated  | \$ 1,287,927         | \$ -                | \$ -            | \$ 1,287,927         |
| Other capital assets                  | <u>21,197,331</u>    | <u>214,178</u>      | <u>(23,997)</u> | <u>21,387,512</u>    |
| Total cost of capital assets          | 22,485,258           | 214,178             | (23,997)        | 22,675,439           |
| Less accumulated depreciation         | <u>(8,152,296)</u>   | <u>(498,323)</u>    | <u>23,997</u>   | <u>(8,626,622)</u>   |
| Capital assets, net                   | <u>\$ 14,332,962</u> | <u>\$ (284,145)</u> | <u>\$ -</u>     | <u>\$ 14,048,817</u> |

The College maintains various collections of inexhaustible assets to which no value can be determined. Such collections include contributed works of art, historical treasures and literature that are held for exhibition, education, research and public service. These collections are neither disposed of for financial gain nor encumbered in any means. Accordingly, such collections are not capitalized or recognized for financial statement purposes.

Title for certain real property is with the Commission.

**6. CHANGES IN LONG-TERM LIABILITIES**

The following is a summary of long-term obligations for the College as of June 30, 2002:

|                                 | <b>Beginning<br/>Balance</b> | <b>Additions</b>     | <b>Reductions</b>           | <b>Ending<br/>Balance</b> | <b>Current<br/>Portion</b> |
|---------------------------------|------------------------------|----------------------|-----------------------------|---------------------------|----------------------------|
| Advances from Federal sponsor   | \$ 84,256                    | \$ 13,661            | \$ -                        | \$ 97,917                 | \$ -                       |
| Capital leases payable          | 76,588                       | 27,276               |                             | 103,864                   | 24,210                     |
| Accrued compensated absences    | 928,716                      | 159,601              |                             | 1,088,317                 | 272,089                    |
| Debt obligation to Commission   | <u>                    </u>  | <u>254,288</u>       | <u>                    </u> | <u>254,288</u>            | <u>31,332</u>              |
| <br>Total long-term liabilities | <br><u>\$ 1,089,560</u>      | <br><u>\$454,826</u> | <br><u>\$ -</u>             | <br><u>\$1,544,386</u>    | <br><u>\$ 327,631</u>      |

Additional information regarding leases payable is included in Note 7.

**7. LEASE OBLIGATIONS**

The College leases various equipment, automobiles, and facilities under operating lease agreements. Aggregate payments under these agreements approximated \$202,000 for the year ended June 30, 2002. Future minimum rental commitments are as follows as of June 30, 2002:

| <b>Year Ending<br/>June 30</b> |                       |
|--------------------------------|-----------------------|
| 2003                           | \$ 209,970            |
| 2004                           | 179,081               |
| 2005                           | 163,200               |
| 2006                           | <u>122,400</u>        |
|                                | <br><u>\$ 674,651</u> |

Included in the financial statements is \$26,146 of expense for usage and maintenance fees for a library automation system provided by an affiliate.

The College leases land and equipment which are accounted for as capital leases. The following is a schedule by year of future annual minimum payments required under the lease obligations existing at June 30, 2002:

| Year Ending<br>June 30 | Land             | Equipment         | Total             |
|------------------------|------------------|-------------------|-------------------|
| 2003                   | \$ 14,520        | \$ 16,883         | \$ 31,403         |
| 2004                   | 14,520           | 16,883            | 31,403            |
| 2005                   | 14,520           | 7,034             | 21,554            |
| 2006                   | 14,520           |                   | 14,520            |
| 2007                   | 14,520           |                   | 14,520            |
| Thereafter             | <u>11,177</u>    | <u>          </u> | <u>11,177</u>     |
|                        | <u>83,777</u>    | <u>40,800</u>     | <u>124,577</u>    |
| Less interest          | <u>(17,660)</u>  | <u>(3,053)</u>    | <u>(20,713)</u>   |
|                        | <u>\$ 66,117</u> | <u>\$ 37,747</u>  | <u>\$ 103,864</u> |

#### 8. COMPENSATED ABSENCES

The composition of the compensated absence liability was as follows at June 30, 2002:

|                                   |                     |
|-----------------------------------|---------------------|
| Health or life insurance benefits | \$ 835,760          |
| Accrued vacation leave            | <u>252,557</u>      |
|                                   | <u>\$ 1,088,317</u> |

The cost of health and life insurance benefits paid by the College is based on a combination of years of service and age. For the year ended June 30, 2002, the amount paid by the College for extended health or life insurance coverage retirement benefits totaled \$19,532. As of June 30, 2002, there were 10 retirees currently receiving for these benefits.

#### 9. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

The College is a State institution of higher education, and the College receives a State appropriation to finance its operations. In addition, it is subject to the legislative and administrative mandates of State government. Those mandates affect all aspects of the College's operations, its tuition and fee structure, its personnel policies and its administrative practices.

The State has chartered the Commission with the responsibility to construct or renovate, finance and maintain various academic and other facilities of the State's universities and colleges, including certain facilities of the College. Financing for these facilities was provided through revenue bonds issued by the former Board of Regents or the former Boards of the College and College Systems (the "Boards"). These obligations administered by the Commission are the direct and total responsibility of the Commission, as successor to the former Boards.

The Commission has the authority to assess each public institution of higher education for payment of debt service on these system bonds. The tuition and registration fees of the members of the former State College System are generally pledged as collateral for the Commission's bond indebtedness. Student fees collected by the institution in excess of the debt service allocation are retained by the institution for internal funding of capital projects and maintenance. Although the bonds remain as capital obligation of the Commission, an estimate of the obligation of each institution is reported as a long-term payable by each institution and as a receivable by the Commission, effective as of June 30, 2002. The amount allocated to the College during fiscal 2002 was \$254,288.

## 10. RETIREMENT PLANS

Substantially all full-time employees of the College participate in either the West Virginia Teachers' Retirement System (the "STRS") or the Teachers' Insurance and Annuities Association - College Retirement Equities Fund (the "TIAA-CREF"). Previously, upon full-time employment, all employees were required to make an irrevocable selection between the STRS and TIAA-CREF. Effective July 1, 1991, the STRS was closed to new participants. Current participants in the STRS are permitted to make a one-time election to cease their participation in that plan and commence contributions to the West Virginia Teachers' Defined Contribution Plan. Contributions to and participation in the West Virginia Teachers' Defined Contribution Plan by College employees have not been significant to date.

The STRS is a cost sharing, public employee retirement system. Employer and employee contribution rates are established annually by the State Legislature. The College accrued and paid its contribution to the STRS at the rate of 15% of each enrolled employee's total annual salary for the year ended June 30, 2002. Required employee contributions were at the rate of 6% of total annual salary for the year ended June 30, 2002. Participants in the STRS may retire with full benefits upon reaching age 60 with five years of service, age 55 with 30 years of service, or any age with 35 years of service. Lump-sum withdrawal of employee contributions is available upon termination of employment. Pension benefits are based upon 2% of final average salary (the highest 5 years' salary out of the last 15 years) multiplied by the number of years of service.

The TIAA-CREF is a defined contribution benefit plan in which benefits are based solely upon amounts contributed plus investment earnings. Employees who elect to participate in this plan are required to make a contribution equal to 6% of total annual compensation. The College matches the employees' 6% contribution. Contributions are immediately and fully vested.

Total contributions to the STRS for the years ended June 30, 2002, 2001, and 2000 were \$233,895, \$262,166 and \$296,008, respectively, which consisted of \$167,068, \$187,329 and \$211,430 from the College in 2002, 2001 and 2000, respectively, and \$66,827, \$74,837 and \$84,578 from the covered employees in 2002, 2001 and 2000, respectively.

The contribution rate is set by the State Legislature on an overall basis, and the STRS does not perform a calculation of the contribution requirement for individual employers, such as the College. Historical trend and net pension obligation information is available from the annual financial report of the Consolidated Public Retirement Board. A copy of the report may be obtained by writing to the Consolidated Public Retirement Board, Building 5, Room 1000, Charleston, WV 25305.

Total contributions to the TIAA-CREF for the years ended June 30, 2002, 2001 and 2000 were \$418,714, \$430,000 and \$448,206, respectively, which consisted of equal contributions from the College and covered employees of \$209,357 in 2002, \$215,000 in 2001, and \$224,103 in 2000.

The College's total payroll for the years ended June 30, 2002 was \$5,379,859; total covered employees' salaries in the STRS and TIAA-CREF were \$1,113,787 and \$3,489,283 in 2002, respectively.

## **11. FOUNDATION (UNAUDITED)**

The West Virginia Northern Community College Foundation, Incorporated (the “Foundation”) is a separate nonprofit organization incorporated in the State and has as its purpose “...to aid, strengthen and further in every proper and useful way, the work and services of the College and its affiliated nonprofit organizations...” Oversight of the Foundation is the responsibility of a separate and independently elected Board of Directors, not otherwise affiliated with the College. In carrying out its responsibilities, the Board of Directors of the Foundation employs management, forms policy and maintains fiscal accountability over funds administered by the Foundation. Accordingly, the financial statements of the Foundation are not included in the accompanying financial statements.

## **12. ALUMNI ASSOCIATION (UNAUDITED)**

The College has a separately incorporated affiliated organization, the Alumni Association. Oversight responsibility for this entity rests with an independent board and management not otherwise affiliated with the College. Accordingly, the financial statements of this organization are not included in the College’s accompanying financial statements.

## **13. CONTINGENCIES**

The nature of the educational industry is such that, from time-to-time, claims will be presented against the College on account of alleged negligence, acts of discrimination, breach of contract or disagreements arising from the interpretation of laws or regulations. While some of these claims may be for substantial amounts, they are not unusual in the ordinary course of providing educational services in a higher education system. In the opinion of management, all known claims are covered by insurance or are such that an award against the College would not seriously impact the financial position of the institution.

Under the terms of federal grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. The College’s management believes disallowances, if any, will not have a significant financial impact on the College’s financial position.

The College owns various buildings which are known to contain asbestos. The College is not required by federal, state or local law to remove the asbestos from its buildings. The College is required under Federal Environmental, Health and Safety Regulations to manage the presence of asbestos in its buildings in a safe condition. The College addresses its responsibility to manage the presence of asbestos in its buildings on a case by case basis. Significant problems of dangerous asbestos conditions are abated as the condition becomes known. The College also addresses the presence of asbestos as building renovation or demolition projects are undertaken and through asbestos operation and maintenance programs directed at containing, managing or operating with the asbestos in a safe condition.

**14. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS**

For the year ended June 30, 2002, the following table represents operating expenses within both natural and functional classifications:

|                                     | <b>Salaries<br/>and<br/>Wages</b> | <b>Benefits</b>            | <b>Supplies<br/>and<br/>Other Services</b> | <b>Utilities</b>         | <b>Scholarships<br/>and<br/>Fellowships</b> | <b>Depreciation</b>      | <b>Fees<br/>Assessed by<br/>the Commission</b> | <b>Total</b>                |
|-------------------------------------|-----------------------------------|----------------------------|--|--------------------------|---|--------------------------|--|-----------------------------|
| Instruction                         | \$ 2,561,552                      | \$ 812,436                 | \$ 518,838                                 | \$ 45,906                | \$ -  | \$ -                     | \$ -   | \$ 3,938,732                |
| Public service                      | 161,398                           | 33,143                     | 102,608                                    |                          |   |                          |  | 297,149                     |
| Academic support                    | 1,012,629                         | 238,485                    | 343,901                                    | 45,911                   |   |                          |  | 1,640,926                   |
| Student services                    | 848,200                           | 192,630                    | 329,155                                    |                          |   |                          |  | 1,369,985                   |
| General institutional support       | 581,686                           | 134,235                    | 262,464                                    | 107,059                  |   |                          |  | 1,085,444                   |
| Operations and maintenance of plant | 195,849                           | 42,243                     | 259,603                                    | 80,164                   |   |                          |  | 577,859                     |
| Student financial aid               |                                   |                            |  |                          | 1,540,709                                   |                          |  | 1,540,709                   |
| Auxiliary enterprises               |                                   |                            | 3,293                                      |                          |   |                          |  | 3,293                       |
| Depreciation                        |                                   |                            |  |                          |   | 498,323                  |  | 498,323                     |
| Other                               |                                   |                            | 4,905                                      |                          |   |                          | 83,063   | 87,968                      |
| <b>Total</b>                        | <b><u>\$ 5,361,314</u></b>        | <b><u>\$ 1,453,172</u></b> | <b><u>\$ 1,824,767</u></b>                 | <b><u>\$ 279,040</u></b> | <b><u>\$ 1,540,709</u></b>                  | <b><u>\$ 498,323</u></b> | <b><u>\$ 83,063</u></b>                        | <b><u>\$ 11,040,388</u></b> |

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the West Virginia Northern Community College Governing Board

We have audited the financial statements of West Virginia Northern Community (the "College") as of and for the year ended June 30, 2002, and have issued our report thereon dated October 11, 2002, which contains a consistency paragraph for the adoption of Governmental Accounting Standards Board Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. 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.

**Compliance**

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 grants, 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 that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the College's internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the West Virginia Northern Community College Governing Board, managements of the College and the West Virginia Higher Education Policy Commission, 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.

October 11, 2002