

West Virginia Northern Community College

*Financial Statements and
Additional Information for the
Years Ended June 30, 2004 and 2003
and Independent Auditors' Reports*

WEST VIRGINIA NORTHERN COMMUNITY COLLEGE

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS (RSI)	3-12
FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2004 AND 2003:	
Statements of Net Assets	13-14
Component Unit—Statements of Net Assets	15
Statements of Revenues, Expenses and Changes in Net Assets	16-17
Component Unit—Statements of Activities	18-19
Statements of Cash Flows	20-21
Notes to Financial Statements	22-38
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	39-40

INDEPENDENT AUDITORS' REPORT

To the Governing Board of West Virginia Northern Community College

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of West Virginia Northern Community College (the "College") as of June 30, 2004, and West Virginia Northern Community College Foundation, Inc. (the "Foundation" a component unit of West Virginia Northern Community College), as of June 30, 2004, and 2003, and for the year(s) then ended, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the College and Foundation's management. Our responsibility is to express opinions on these financial statements based on our audit. The financial statements of the College as of June 30, 2003, were audited by other auditors whose report dated October 3, 2003, expressed an unqualified opinion on those statements.

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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the College as of June 30, 2004, and of the Foundation as of June 30, 2004, and 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year(s) then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, as of July 1, 2003, the College adopted GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, as an amendment to GASB Statement No. 14. As a result, the audited financial statements of The West Virginia Northern Community College Foundation, Incorporated (the "Foundation") are presented consistently with the College's financial statements for the fiscal years ended June 30, 2004 and 2003.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2004 on our consideration of the College's and the Foundation's internal control over financial reporting and on our tests of its compliance and other matters. The purpose of that report is to describe the scope of our 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.

The Management's Discussion and Analysis ("MD&A") on pages 3 to 12 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Costanzo & Associates

Wheeling, WV

October 15, 2004



West Virginia Northern Community College Management Discussion and Analysis Fiscal Year Ending June 30, 2004

Overview

West Virginia Northern Community College (WVNCC or the “College”) is proud to present its financial Statements for the fiscal years 2004 and 2003. There are three financial Statements presented: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. This section of the WVNCC annual financial report provides an overview of the College’s financial performance during the fiscal year ended June 30, 2004 and is required supplemental information.

Statement of Net Assets

The Statements of Net Assets present the Assets (current and non-current), Liabilities (current and non-current), and Net Assets (Assets minus Liabilities) of the College as of June 30, 2004 and 2003. 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.

STATEMENTS OF NET ASSETS
JUNE 30, 2004, 2003 AND 2002

	2004	2003	2002
ASSETS:			
Current assets:			
Cash and cash equivalents	\$ 2,661,311	\$ 2,441,357	\$ 1,496,241
Investments	4,443		
Appropriations due from Primary Government	189,436	310,610	326,408
Accounts receivable—net	103,048	101,250	83,141
Loans to students—current portion	23,530	24,465	21,290
Due from State of West Virginia	1,680	41,260	56,126
Prepaid expenses	<u>15,911</u>	<u>6,860</u>	<u>6,842</u>
Total current assets	<u>2,999,359</u>	<u>2,925,802</u>	<u>1,990,048</u>
Noncurrent assets:			
Cash and cash equivalents	124,125	576,795	195,507
Loans to students, net of allowance of \$104,800 and \$109,000	28,536	29,637	25,644
Investment in capital assets—net	<u>14,673,795</u>	<u>13,976,061</u>	<u>14,048,817</u>
Total noncurrent assets	<u>14,826,456</u>	<u>14,582,493</u>	<u>14,269,968</u>
TOTAL ASSETS	<u>\$ 17,825,815</u>	<u>\$ 17,508,295</u>	<u>\$ 16,260,016</u>

LIABILITIES:

Current liabilities:			
Accounts payable	\$ 223,730	\$ 243,580	\$ 277,568
Due to State of West Virginia	57,320	9,807	8,418
Due to Affiliates of Commission	77,586	64,977	
Accrued liabilities	320,826	353,581	346,657
Deferred revenue	30,219	23,759	51,357
Capital leases—current portion	26,142	40,414	24,210
Compensated absences—current portion	315,503	263,801	272,089
Debt obligation to Commission—current portion	<u>106,927</u>	<u>114,812</u>	<u>31,332</u>
Total current liabilities	<u>1,158,253</u>	<u>1,114,731</u>	<u>1,011,631</u>
Noncurrent liabilities:			
Advances from federal sponsors	75,864	76,041	97,917
Capital leases	180,672	215,343	79,654
Compensated absences	1,118,603	955,383	816,228
Debt obligation to Commission	<u>419,684</u>	<u>518,144</u>	<u>222,956</u>
Total noncurrent liabilities	<u>1,794,823</u>	<u>1,764,911</u>	<u>1,216,755</u>
Total liabilities	<u>2,953,076</u>	<u>2,879,642</u>	<u>2,228,386</u>
NET ASSETS:			
Invested in capital assets—net of related debt	13,940,370	13,497,348	13,690,665
Restricted for—			
Expendable:			
Specific purposes by State Code		850,088	533,203
Capital projects	202,559		
Scholarships	<u>68,380</u>	<u>66,536</u>	<u>70,384</u>
Total expendable	<u>270,939</u>	<u>916,624</u>	<u>603,587</u>
Unrestricted	<u>661,430</u>	<u>214,681</u>	<u>(262,622)</u>
Total net assets	<u>14,872,739</u>	<u>14,628,653</u>	<u>14,031,630</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 17,825,815</u>	<u>\$ 17,508,295</u>	<u>\$ 16,260,016</u>

In comparing the fiscal year 2004 to fiscal year 2003 current and non current cash and cash equivalents, there is a decrease of \$232,716. This is a result of revenue from tuition increasing, offset by significant planned increases in Investments in Capital Assets. Net Investments in Capital Assets increased by \$697,734, net of depreciation. This is a result of investments in new property for expansion and the relocation of the Hazel Atlas building, additional parking facilities and renovations to the exterior of the B & O building - all part of the College Square Project. Total Assets increased by \$317,520.

Total Liabilities increased \$73,434 primarily due to additional accruals for compensated absences (18% increase over 2003 total compensated absences).

Statements of Revenues, Expenses and Changes in Net Assets

The Statements of Revenues, Expenses and Changes in Net Assets present the operating results of the College for the fiscal year ended June 30, 2004 compared to fiscal year ended June 30, 2003. 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.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

YEARS ENDED JUNE 30, 2004, 2003 AND 2002

	2004	2003	2002
OPERATING REVENUES:			
Student tuition and fees (net of scholarship allowance of \$1,498,485, \$1,492,064 and \$967,046)	\$ 1,749,881	\$ 1,664,084	\$ 1,622,902
Contracts and grants:			
Federal	4,040,226	3,849,011	2,748,704
State	309,891	370,303	329,161
Private	7,298		173,421
Interest on student loans receivable	3,595	3,821	12,754
Sales and services of educational activities	14,767	30,115	78,034
Auxiliary enterprise revenue		200	1,282
Fees from Commission	192,736	229,557	133,410
Miscellaneous—net	<u>95,331</u>	<u>89,844</u>	<u>44,827</u>
Total operating revenues	<u>6,413,725</u>	<u>6,236,935</u>	<u>5,144,495</u>
OPERATING EXPENSES:			
Salaries and wages	5,340,739	5,394,194	5,361,314
Benefits	1,559,663	1,423,539	1,453,172
Supplies and other services	1,697,187	1,854,674	1,824,767
Utilities	285,913	298,389	279,040
Student financial aid—scholarships and fellowships	2,315,960	2,026,219	1,540,709
Depreciation	488,813	471,944	498,323
Fees assessed by the Commission for operations	<u>99,658</u>	<u>104,529</u>	<u>83,063</u>
Total operating expenses	<u>11,787,933</u>	<u>11,573,488</u>	<u>11,040,388</u>
OPERATING LOSS	<u>5,374,208</u>	<u>5,336,553</u>	<u>5,895,893</u>

NONOPERATING REVENUES (EXPENSES):			
State appropriations	\$ 5,648,855	\$ 5,838,195	\$ 5,816,249
Loss on disposal of assets	(7,908)		
Investment income	26,103	81,064	83,265
Interest on indebtedness	<u>(34,129)</u>	<u>(32,620)</u>	<u>(8,855)</u>
Net nonoperating revenues	<u>5,632,921</u>	<u>5,886,639</u>	<u>5,890,659</u>
CAPITAL PROJECTS PROCEEDS FROM THE COMMISSION		<u>46,937</u>	
INCOME (LOSS) BEFORE TRANSFER	258,713	597,023	(5,234)
TRANSFER OF LIABILITY FROM COMMISSION	<u>(14,627)</u>		<u>(254,288)</u>
INCREASE (DECREASE) IN NET ASSETS	244,086	597,023	(259,522)
NET ASSETS—Beginning of year	<u>14,628,653</u>	<u>14,031,630</u>	<u>14,291,152</u>
NET ASSETS—End of year	<u>\$ 14,872,739</u>	<u>\$ 14,628,653</u>	<u>\$ 14,031,630</u>

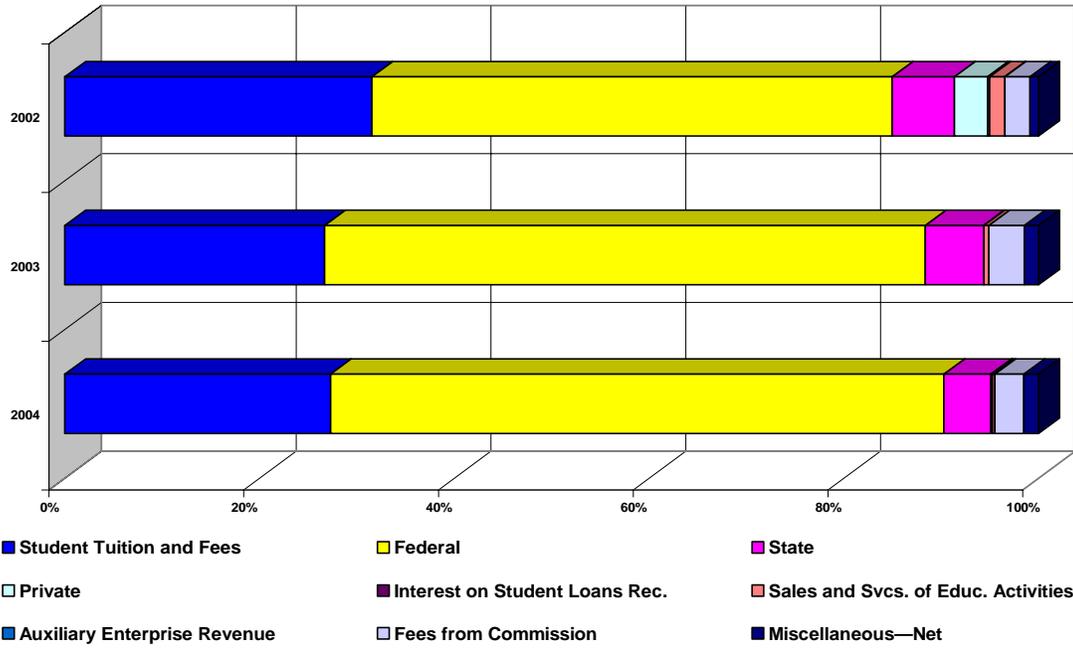
Total operating revenues increased \$176,790. Tuition and fees increased \$85,797 as a result of significant increases in enrollments. Increased enrollments directly attributed to an increase in Federal contracts and grants of \$191,215.

State Contracts and Grants decreased \$60,412 due primarily to the restructuring of the SBDC Program whereby the State now pays the costs directly rather than reimbursing the Higher Education Institutions. Fees from Commission decreased by \$36,821.

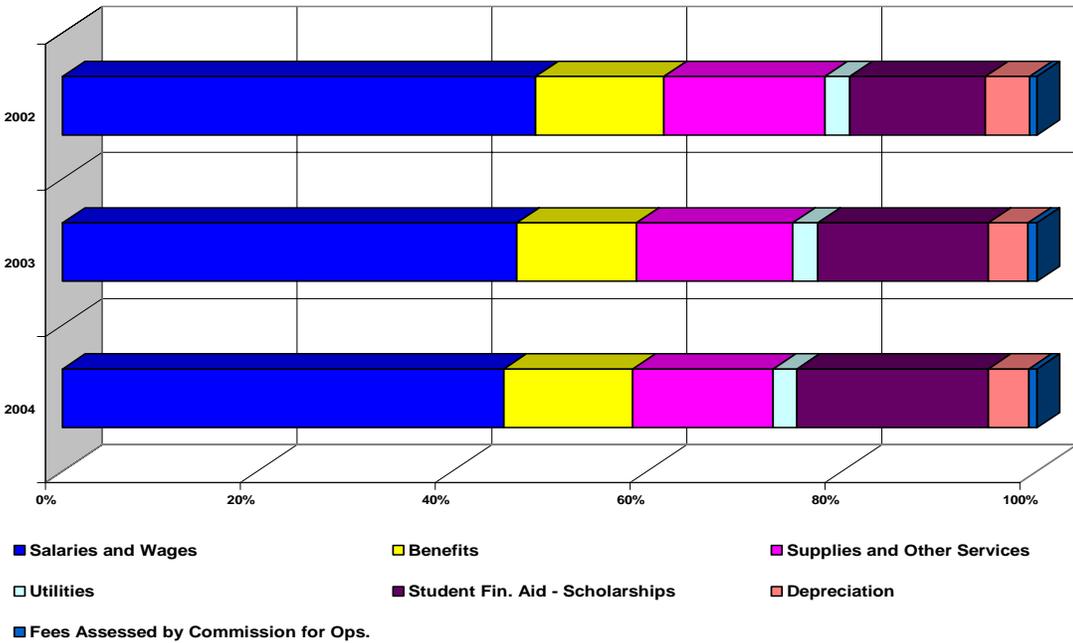
Total operating expenses increased by \$214,445 predominately related to increased student financial aid of \$289,741. Offsets in other expenses included: decreased supplies and other services of \$157,487; benefits increased \$136,124 due to increased costs associated with health insurance coverage; and total salaries and wages decreased by \$53,455 primarily due to vacancies that remained unfilled during the course of the fiscal year.

Non-operating revenues decreased by \$253,718 as a result of a mid-year decrease in State appropriations \$189,340 coupled with a decrease in investment income of \$54,961 due to lower returns based on short term market conditions and the Higher Education Policy Commissions investment policies.

**OPERATING REVENUES
FY 2002 - 2004**



**OPERATING EXPENSES
FY 2002 - 2004**



Statements of Cash Flows

The Statements of Cash Flows provide 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 four 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.

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2004, 2003 AND 2002

	2004	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:			
Student tuition and fees	\$ 3,187,692	\$ 3,180,880	\$ 2,543,192
Contracts and grants	4,492,778	4,234,181	3,260,105
Payments to and on behalf of employees	(6,727,297)	(6,679,943)	(6,624,775)
Payments to suppliers	(1,709,760)	(2,005,378)	(1,857,659)
Payments to utilities	(294,067)	(235,309)	(216,925)
Payments for scholarships and fellowships	(3,798,879)	(3,532,764)	(2,462,132)
Loans issued to students	(2,639,358)	(2,113,050)	(1,507,762)
Collection of loans to students	2,677,421	2,106,365	1,498,367
Sales and service of educational activities	14,773	30,115	78,035
Auxiliary enterprise charges	(35)	199	1,282
Fees received from Commission	203,985	276,494	104,425
Fees assessed by the Commission for operations	(52,424)	(54,456)	
Other disbursements—net	<u>96,904</u>	<u>59,239</u>	<u>(8,604)</u>
Net cash used in operating activities	<u>(4,548,267)</u>	<u>(4,733,427)</u>	<u>(5,192,451)</u>

CASH FLOWS FROM NONCAPITAL FINANCING
ACTIVITIES—

State appropriations	<u>5,770,030</u>	<u>5,853,991</u>	<u>5,779,232</u>
Cash provided by noncapital financing activities	<u>5,770,030</u>	<u>5,853,991</u>	<u>5,779,232</u>

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:

Purchases of capital assets	(1,266,391)	(145,464)	(108,292)
Proceeds on disposal of capital assets	157		
Principal paid on leases	(37,950)	(32,690)	(57,024)
Interest paid on leases	(15,427)	(13,879)	(8,854)
Principal payment on debt obligation due Commission	(106,345)	(31,332)	
Interest paid on obligation to Commission	(5,692)	(18,741)	
Fees assessed by Commission	(47,234)	(50,073)	
Monies borrowed from Commission		410,000	
(Increase) decrease in noncurrent cash and cash equivalents	<u>452,670</u>	<u>(381,285)</u>	<u>88,473</u>
Net cash used in capital financing activities	<u>(1,026,212)</u>	<u>(263,464)</u>	<u>(85,697)</u>

CASH FLOWS FROM INVESTING ACTIVITIES—

Interest on investments	<u>24,403</u>	<u>88,016</u>	<u>77,309</u>
Cash provided by investing activities	<u>24,403</u>	<u>88,016</u>	<u>77,309</u>

INCREASE IN CASH AND CASH EQUIVALENTS 219,954 945,116 578,393

CASH AND CASH EQUIVALENTS—Beginning of year 2,441,357 1,496,241 917,848

CASH AND CASH EQUIVALENTS—End of year \$ 2,661,311 \$ 2,441,357 \$ 1,496,241

West Virginia Northern continues to show a strong cash position with cash representing 16% of total Assets.

Economic Outlook

The reduction in State appropriations to the College in fiscal year 2005 will be offset by tuition and fee increases associated with increased enrollments. WVNCC's financial position is closely tied to that of the State of West Virginia. Although the economic forecasts for the State are negative and the number of high school graduates continues to decline, the College is well positioned in the Northern Panhandle to continue to be a leader in the State in enrollments growth.

In fiscal year 2004 WVNCC began the initial planning and development of several new academic and workforce development programs that will be implemented in fiscal year 2005.

These programs will broaden curriculum and should result in increased enrollment that will foster growth in revenues necessary to offset the impact of any future budget cuts by the State.

Goals of higher education that have been proclaimed at both State and regional levels include the following:

- “Residents will have the skills and knowledge to compete in the world economy in the 21st century.”
- “We shall develop a world class workforce that is well educated and appropriately trained for the job market.”

With the impetus of a swelling enrollment projected to continue, WVNCC has plotted a course for growth that will assure success in reaching these goals, with a strategy of making brighter the educational future of an increasing number of students. To meet the growing enrollment needs, the college is in the midst of an expansion, the College Square Project, that in the out-years, is expected to double enrollments on the Wheeling campus.

WVNCC anticipates the current fiscal year will be similar to the last and we will continue to be diligent in watching over our resources to maintain the school’s ability to react quickly to internal and external issues. A renewed emphasis has been placed on recruitment and retention of students. WVNCC has historically been attractive for offering a quality education at an affordable price. Through competitive tuition rates and a continued emphasis on recruitment, WVNCC anticipates continued increases in enrollments. A vision of the future that includes affordable tuition for the students of Northern West Virginia and continued enrollments growth would be severely threatened if funding inequities among institutions continue to go un-addressed.



WEST VIRGINIA NORTHERN COMMUNITY COLLEGE

STATEMENTS OF NET ASSETS JUNE 30, 2004 AND 2003

	2004	2003
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 2,661,311	\$ 2,441,357
Investments	4,443	
Appropriations due from Primary Government	189,436	310,610
Accounts receivable—net	103,048	101,250
Loans to students—current portion	23,530	24,465
Due from State of West Virginia	1,680	41,260
Prepaid expenses	<u>15,911</u>	<u>6,860</u>
Total current assets	<u>2,999,359</u>	<u>2,925,802</u>
Noncurrent assets:		
Cash and cash equivalents	124,125	576,795
Loans to students, net of allowance of \$104,800 and \$109,000	28,536	29,637
Investment in capital assets—net	<u>14,673,795</u>	<u>13,976,061</u>
Total noncurrent assets	<u>14,826,456</u>	<u>14,582,493</u>
TOTAL ASSETS	<u>\$ 17,825,815</u>	<u>\$ 17,508,295</u>

(Continued)

WEST VIRGINIA NORTHERN COMMUNITY COLLEGE

STATEMENTS OF NET ASSETS JUNE 30, 2004 AND 2003

	2004	2003
LIABILITIES:		
Current liabilities:		
Accounts payable	\$ 223,730	\$ 243,580
Due to State of West Virginia	57,320	9,807
Due to Affiliates of Commission	77,586	64,977
Accrued liabilities	320,826	353,581
Deferred revenue	30,219	23,759
Capital leases—current portion	26,142	40,414
Compensated absences—current portion	315,503	263,801
Debt obligation to Commission—current portion	<u>106,927</u>	<u>114,812</u>
Total current liabilities	<u>1,158,253</u>	<u>1,114,731</u>
Noncurrent liabilities:		
Advances from federal sponsors	75,864	76,041
Capital leases	180,672	215,343
Compensated absences	1,118,603	955,383
Debt obligation to Commission	<u>419,684</u>	<u>518,144</u>
Total noncurrent liabilities	<u>1,794,823</u>	<u>1,764,911</u>
Total liabilities	<u>2,953,076</u>	<u>2,879,642</u>
NET ASSETS:		
Invested in capital assets—net of related debt	13,940,370	13,497,348
Restricted for—		
Expendable:		
Specific purposes by State Code		850,088
Capital projects	202,559	
Scholarships	<u>68,380</u>	<u>66,536</u>
Total expendable	<u>270,939</u>	<u>916,624</u>
Unrestricted	<u>661,430</u>	<u>214,681</u>
Total net assets	<u>14,872,739</u>	<u>14,628,653</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 17,825,815</u>	<u>\$ 17,508,295</u>

See notes to financial statements

(Concluded)

**THE WEST VIRGINIA NORTHERN COMMUNITY COLLEGE
 FOUNDATION, INCORPORATED, A COMPONENT UNIT OF
 WEST VIRGINIA NORTHERN COMMUNITY COLLEGE
 STATEMENTS OF NET ASSETS
 JUNE 30, 2004 AND 2003**

ASSETS	2004	2003
ASSETS:		
Cash	\$ 57,316	\$ 37,456
Investments	1,050,291	894,028
Unconditional promises to give—net of allowance for uncollectible promises of \$2,500 and \$0	30,520	
Notes Receivable from West Virginia Northern Community College	206,814	231,332
Other current assets	<u>8,249</u>	<u>59,543</u>
 TOTAL ASSETS	 <u>\$1,353,190</u>	 <u>\$1,222,359</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES:		
Due to West Virginia Northern Community College	\$ 181	\$ 331
Other accrued liabilities	<u>2,659</u>	<u>2,660</u>
 Total liabilities	 <u>2,840</u>	 <u>2,991</u>
 NET ASSETS:		
Unrestricted	1,265,756	1,134,774
Permanently restricted	<u>84,594</u>	<u>84,594</u>
 Total net assets	 <u>1,350,350</u>	 <u>1,219,368</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$1,353,190</u>	 <u>\$1,222,359</u>

See notes to financial statements.

WEST VIRGINIA NORTHERN COMMUNITY COLLEGE

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
OPERATING REVENUES:		
Student tuition and fees (net of scholarship allowance of \$1,498,485 and \$1,492,064)	\$ 1,749,881	\$ 1,664,084
Contracts and grants:		
Federal	4,040,226	3,849,011
State	309,891	370,303
Private	7,298	
Interest on student loans receivable	3,595	3,821
Sales and services of educational activities	14,767	30,115
Auxiliary enterprise revenue		200
Fees from Commission	192,736	229,557
Miscellaneous—net	95,331	89,844
	<u>6,413,725</u>	<u>6,236,935</u>
Total operating revenues		
OPERATING EXPENSES:		
Salaries and wages	5,340,739	5,394,194
Benefits	1,559,663	1,423,539
Supplies and other services	1,697,187	1,854,674
Utilities	285,913	298,389
Student financial aid—scholarships and fellowships	2,315,960	2,026,219
Depreciation	488,813	471,944
Fees assessed by the Commission for operations	99,658	104,529
	<u>11,787,933</u>	<u>11,573,488</u>
Total operating expenses		
OPERATING LOSS	<u>(5,374,208)</u>	<u>(5,336,553)</u>

(Continued)

WEST VIRGINIA NORTHERN COMMUNITY COLLEGE

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
NONOPERATING REVENUES (EXPENSES):		
State appropriations	\$ 5,648,855	\$ 5,838,195
Loss on disposal of assets	(7,908)	
Investment income	26,103	81,064
Interest on indebtedness	<u>(34,129)</u>	<u>(32,620)</u>
Net nonoperating revenues	<u>5,632,921</u>	<u>5,886,639</u>
CAPITAL PROJECTS PROCEEDS FROM THE COMMISSION	<u> </u>	<u>46,937</u>
INCOME BEFORE TRANSFER	258,713	597,023
TRANSFER OF LIABILITY FROM COMMISSION	<u>(14,627)</u>	<u> </u>
INCREASE IN NET ASSETS	244,086	597,023
NET ASSETS—Beginning of year	<u>14,628,653</u>	<u>14,031,630</u>
NET ASSETS—End of year	<u>\$ 14,872,739</u>	<u>\$ 14,628,653</u>

WEST VIRGINIA NORTHERN COMMUNITY COLLEGE

THE WEST VIRGINIA NORTHERN COMMUNITY COLLEGE
 FOUNDATION, INCORPORATED, A COMPONENT UNIT OF
 WEST VIRGINIA NORTHERN COMMUNITY COLLEGE
 STATEMENTS OF ACTIVITIES
 YEAR ENDED JUNE 30, 2004

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT:				
Grants and donations	\$ 1,950	\$ 181,050	\$	\$ 183,000
Special events	806			806
Investment dividend and interest	34,841			34,841
Investment gain	59,214			59,214
Net assets released from restrictions—				
Satisfaction of program restrictions	<u>181,050</u>	<u>(181,050)</u>	<u> </u>	<u> </u>
Total revenues, gain and other support	<u>277,861</u>	<u> </u>	<u> </u>	<u>277,861</u>
EXPENSES:				
Program services	141,247			141,247
Management and general	<u>5,632</u>	<u> </u>	<u> </u>	<u>5,632</u>
Total expenses	146,879			146,879
CHANGE IN NET ASSETS	130,982			130,982
NET ASSETS—Beginning of year	<u>1,134,774</u>	<u> </u>	<u>84,594</u>	<u>1,219,368</u>
NET ASSETS—End of year	<u>\$ 1,265,756</u>	<u>\$</u>	<u>\$ 84,594</u>	<u>\$ 1,350,350</u>

See notes to financial statements.

WEST VIRGINIA NORTHERN COMMUNITY COLLEGE

THE WEST VIRGINIA NORTHERN COMMUNITY COLLEGE
 FOUNDATION, INCORPORATED, A COMPONENT UNIT OF
 WEST VIRGINIA NORTHERN COMMUNITY COLLEGE
 STATEMENTS OF ACTIVITIES
 YEAR ENDED JUNE 30, 2003

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT:				
Grants and donations	\$ 2,756	\$ 103,586	\$	\$ 106,342
Special events	1,898			1,898
Investment dividend and interest	28,321			28,321
Investment loss	(15,049)			(15,049)
Net assets released from restrictions— Satisfaction of program restrictions	103,586	(103,586)		
Total revenues, gain and other support	121,512			121,512
EXPENSES:				
Program services	30,272			30,272
Management and general	3,498			3,498
Total expenses	33,770			33,770
CHANGE IN NET ASSETS	87,742			87,742
NET ASSETS—Beginning of year	1,047,032		84,594	1,131,626
NET ASSETS—End of year	\$ 1,134,774	\$	\$ 84,594	\$ 1,219,368

See notes to financial statements.

WEST VIRGINIA NORTHERN COMMUNITY COLLEGE

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	\$ 3,187,692	\$ 3,180,880
Contracts and grants	4,492,778	4,234,181
Payments to and on behalf of employees	(6,727,297)	(6,679,943)
Payments to suppliers	(1,709,760)	(2,005,378)
Payments to utilities	(294,067)	(235,309)
Payments for scholarships and fellowships	(3,798,879)	(3,532,764)
Loans issued to students	(2,639,358)	(2,113,050)
Collection of loans to students	2,677,421	2,106,365
Sales and service of educational activities	14,773	30,115
Auxiliary enterprise charges	(35)	199
Fees received from Commission	203,985	276,494
Fees assessed by the Commission for operations	(52,424)	(54,456)
Other disbursements—net	<u>96,904</u>	<u>59,239</u>
Net cash used in operating activities	<u>(4,548,267)</u>	<u>(4,733,427)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES—		
State appropriations	<u>5,770,030</u>	<u>5,853,991</u>
Cash provided by noncapital financing activities	<u>5,770,030</u>	<u>5,853,991</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Purchases of capital assets	(1,266,391)	(145,464)
Proceeds on disposal of capital assets	157	
Principal paid on leases	(37,950)	(32,690)
Interest paid on leases	(15,427)	(13,879)
Principal payment on debt obligation due Commission	(106,345)	(31,332)
Interest paid on obligation to Commission	(5,692)	(18,741)
Fees assessed by Commission	(47,234)	(50,073)
Monies borrowed from Commission		410,000
(Increase) decrease in noncurrent cash and cash equivalents	<u>452,670</u>	<u>(381,285)</u>
Net cash used in capital financing activities	<u>(1,026,212)</u>	<u>(263,464)</u>
CASH FLOWS FROM INVESTING ACTIVITIES—		
Interest on investments	<u>24,403</u>	<u>88,016</u>
Cash provided by investing activities	<u>24,403</u>	<u>88,016</u>
INCREASE IN CASH AND CASH EQUIVALENTS	219,954	945,116
CASH AND CASH EQUIVALENTS—Beginning of year	<u>2,441,357</u>	<u>1,496,241</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 2,661,311</u>	<u>\$ 2,441,357</u>

(Continued)

WEST VIRGINIA NORTHERN COMMUNITY COLLEGE

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (5,374,208)	\$ (5,289,616)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation expense	488,813	471,944
Changes in assets and liabilities:		
Investments	(4,443)	
Appropriations due from Primary Government	121,174	15,798
Accounts receivables—net	(1,798)	(3,243)
Loans to students—net	2,036	(7,168)
Due from State of West Virginia	39,580	-
Prepaid expenses	(9,051)	(17)
Accounts payable	(19,850)	(33,958)
Due to State of West Virginia	47,513	1,389
Due to affiliates of Commission	12,609	64,977
Accrued liabilities	(32,755)	6,924
Deferred revenue	6,460	(27,598)
Compensated absences	214,922	130,867
Advances from federal sponsors	(177)	(21,876)
Other operating activities	(39,092)	(41,850)
	<u> </u>	<u> </u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (4,548,267)</u>	<u>\$ (4,733,427)</u>
NONCASH TRANSACTIONS:		
Capital assets purchased through capital leases	<u>\$</u>	<u>\$ 184,583</u>
Capital assets purchased through accounts payable	<u>\$ 60,787</u>	<u>\$ 69,142</u>

See notes to financial statements.

(Concluded)

WEST VIRGINIA NORTHERN COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2004 AND 2003

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”), which was enacted by the West Virginia Legislature on March 19, 2000 and restructured higher education in West Virginia.

Their Board’s 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 is 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.

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 and the Commission (which includes West Virginia Network for Educational Telecomputing), forms 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 alumni association 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 its fiscal matters, under GASB Statement No. 14, *The Financial Reporting Entity*.

As of July 1, 2003, the College adopted GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, as an amendment to GASB Statement No. 14. As a result, the audited financial statements of The West Virginia Northern Community College Foundation, Incorporated (the “Foundation”) are presented here with the College’s financial statements for the fiscal year ended June 30, 2004 and 2003. The Foundation is a private nonprofit organization that reports under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation’s audited financial information as it is presented herein (see also Note 12).

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. 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:

- a. *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.
- b. *Restricted Net Assets, expendable*—This includes resources in which the College is legally or contractually obligated to spend 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 Code. House Bill 101 passed in March 2004 simplified the tuition and fee restrictions. For 2004, these restrictions are for bookstore auxiliaries and capital items. For 2003, these restrictions were 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 institution. These restrictions are subject to change by future actions of the West Virginia Legislature.

- c. *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, 2004 or 2003, respectively.
- d. *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.

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.

Investments —The College holds an investment in a publicly traded stock that was received as part of a bankruptcy settlement with the entity. The stock is valued at market as determined by quoted prices.

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 12 years for furniture and equipment. The College’s capitalization threshold is \$1,000.

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 application, orientation, and tuition fees. 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:

- a. **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.
- b. **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 makes loans to students under the Federal Stafford Loan Program. The activity of this program is not recorded in the accompanying financial statements. The College received and disbursed approximately \$2.4 and \$2.0 million in 2004 and 2003, respectively, under the Federal Stafford Loan Program on behalf of the U.S. Department of Education.

The College also distributes 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 2004 and 2003, the College received and disbursed approximately \$ 3,800,000, and \$3,600,000, respectively, under these federal student aid programs.

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.

Interest Expense – The College accounts for interest on debt as an expense of the period in which it is incurred. The College does not capitalize interest on debt as part of the cost of the asset.

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 cash flow statement purposes.

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.

Reclassification—Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

Recent Statements Issued by the Government Accounting Standards Board—The GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures*. This statement is effective for periods beginning after June 15, 2004. The College has not completed the process of evaluating the impact, if any, that will result from adopting GASB Statement No. 40. The statement, when adopted, could result in additional disclosure in the College’s financial statements regarding custodial credit risk, concentration of credit risk, and interest rate risk related to deposits and investments.

The GASB has also issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, effective for fiscal years beginning after December 15, 2004. This statement requires the College to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred and record impaired assets and impairment losses accordingly. This statement also addresses the appropriate recording of an insurance recovery associated with events or changes in circumstances resulting in impairment of capital assets. The College has not yet determined the effect that the adoption of GASB Statement No. 42 may have on the financial statements.

The GASB has also issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective for fiscal years beginning after December 15, 2006. This statement provides standards for the measurement, recognition and display of other postemployment benefit expenditures, assets, and liabilities, including applicable note disclosures and required supplementary information. The College has not yet determined the effect that the adoption of GASB Statement No. 45 may have on the financial statements.

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents was as follows at June 30, 2004 and 2003:

	2004		
	Current	Noncurrent	Total
Cash on deposit with the State Treasurer	\$ 2,625,675	\$ 100,328	\$ 2,726,003
Cash in bank	<u>35,636</u>	<u>23,797</u>	<u>59,433</u>
	<u>\$ 2,661,311</u>	<u>\$ 124,125</u>	<u>\$ 2,785,436</u>
	2003		
	Current	Noncurrent	Total
Cash on deposit with the State Treasurer	\$ 2,393,911	\$ 554,856	\$ 2,948,767
Cash in bank	<u>47,446</u>	<u>21,939</u>	<u>69,385</u>
	<u>\$ 2,441,357</u>	<u>\$ 576,795</u>	<u>\$ 3,018,152</u>

Cash held by the State Treasurer includes \$100,328 in 2004 and \$554,856 in 2003 restricted for capital assets.

The combined carrying amounts of cash in the bank at June 30, 2004 and 2003 were \$59,433 and \$69,385, respectively, as compared with the combined bank balance of \$123,962 and \$116,744, respectively. The difference is primarily caused by items in transit and outstanding checks. The bank balances were covered by federal depository insurance or were collateralized by securities held 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. INVESTMENTS

Investments as of June 30, 2004 and 2003 are summarized as follows:

	<u>2004</u>	
	Cost	Market or Carrying Value
Domestic Stock	<u>\$ 1,896</u>	<u>\$ 4,443</u>

	<u>2003</u>	
	Cost	Market or Carrying Value
Domestic Stock	<u>\$</u>	<u>\$</u>

The college does not intend to hold these securities in the long-term. Unrealized gains of \$2,547 on this domestic stock are included as investment income.

5. ACCOUNTS RECEIVABLE

Accounts receivable were as follows at June 30, 2004 and 2003:

	2004	2003
Student tuition and fees, net of allowance for doubtful accounts of \$202,250 and \$141,875, respectively	\$ 83,730	\$ 89,108
Third party contracts receivable	17,749	9,726
Other accounts receivable	<u>1,569</u>	<u>2,416</u>
	<u>\$ 103,048</u>	<u>\$ 101,250</u>

6. CAPITAL ASSETS

The following is a summary of capital asset transactions for the College for the years ended June 30, 2004 and 2003:

	2004			Ending Balance
	Beginning Balance	Additions	Reductions	
Capital assets not being depreciated:				
Land	\$ 1,462,926	\$	\$	\$ 1,462,926
Construction in Progress		<u>328,500</u>		<u>328,500</u>
Total capital assets not being depreciated	<u>\$ 1,462,926</u>	<u>\$ 328,500</u>	<u>\$</u>	<u>\$ 1,791,426</u>
Other capital assets:				
Land improvements	\$ 101,815	\$	\$	\$ 101,815
Infrastructure	750,891	194,668		945,559
Buildings	17,475,555	528,503		18,004,058
Equipment (1)	2,020,839	143,466	(132,657)	2,031,648
Leased equipment	72,221		(72,221)	
Library books (1)	<u>1,172,017</u>	<u>10,467</u>	<u>(5,385)</u>	<u>1,177,099</u>
Total other capital assets	<u>21,593,338</u>	<u>877,104</u>	<u>(210,263)</u>	<u>22,260,179</u>
Less accumulated depreciation for:				
Land improvements	(87,649)	(1,248)		(88,897)
Infrastructure	(579,310)	(24,773)		(604,083)
Buildings	(5,486,193)	(355,503)		(5,841,696)
Equipment (1)	(1,782,905)	(77,982)	132,656	(1,728,231)
Leased equipment	(44,136)	(9,028)	53,164	
Library books (1)	<u>(1,100,010)</u>	<u>(20,279)</u>	<u>5,386</u>	<u>(1,114,903)</u>
Total accumulated depreciation	<u>(9,080,203)</u>	<u>(488,813)</u>	<u>191,206</u>	<u>(9,377,810)</u>
Other capital assets—net	<u>\$ 12,513,135</u>	<u>\$ 388,291</u>	<u>\$ (19,057)</u>	<u>\$ 12,882,369</u>
Capital asset summary:				
Capital assets not being depreciated	\$ 1,462,926	\$ 328,500	\$	\$ 1,791,426
Other capital assets	<u>21,593,339</u>	<u>877,104</u>	<u>(210,264)</u>	<u>22,260,179</u>
Total cost of capital assets	23,056,265	1,205,604	(210,264)	24,051,605
Less accumulated depreciation	<u>(9,080,204)</u>	<u>(488,813)</u>	<u>191,207</u>	<u>(9,377,810)</u>
Capital assets—net	<u>\$ 13,976,061</u>	<u>\$ 716,791</u>	<u>\$ (19,057)</u>	<u>\$ 14,673,795</u>

	2003			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	\$ 1,287,927	\$ 174,999	\$ -	\$ 1,462,926
Other capital assets:				
Land improvements	\$ 97,566	\$ 4,249	\$ -	\$ 101,815
Infrastructure	736,808	14,083	-	750,891
Buildings	17,462,218	13,337	-	17,475,555
Equipment (1)	1,852,249	168,590	-	2,020,839
Leased equipment	72,221	-	-	72,221
Library books (1)	<u>1,166,450</u>	<u>23,930</u>	<u>(18,363)</u>	<u>1,172,017</u>
Total other capital assets	<u>21,387,512</u>	<u>224,189</u>	<u>(18,363)</u>	<u>21,593,338</u>
Less accumulated depreciation for:				
Land improvements	(86,685)	(964)	-	(87,649)
Infrastructure	(563,304)	(16,006)	-	(579,310)
Buildings	(5,136,634)	(349,559)	-	(5,486,193)
Equipment (1)	(1,713,305)	(69,600)	-	(1,782,905)
Leased equipment	(32,099)	(12,037)	-	(44,136)
Library books (1)	<u>(1,094,595)</u>	<u>(23,778)</u>	<u>18,363</u>	<u>(1,100,010)</u>
Total accumulated depreciation	<u>(8,626,622)</u>	<u>(471,944)</u>	<u>18,363</u>	<u>(9,080,203)</u>
Other capital assets—net	<u>\$ 12,760,890</u>	<u>\$ (247,755)</u>	<u>\$ -</u>	<u>\$ 12,513,135</u>
Capital asset summary:				
Capital assets not being depreciated	\$ 1,287,927	\$ 174,999	\$ -	\$ 1,462,926
Other capital assets	<u>21,387,512</u>	<u>224,190</u>	<u>(18,363)</u>	<u>21,593,339</u>
Total cost of capital assets	22,675,439	399,189	(18,363)	23,056,265
Less accumulated depreciation	<u>(8,626,622)</u>	<u>(471,945)</u>	<u>18,363</u>	<u>(9,080,204)</u>
Capital assets—net	<u>\$ 14,048,817</u>	<u>\$ (72,756)</u>	<u>\$ -</u>	<u>\$ 13,976,061</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.

7. LONG-TERM LIABILITIES

The following is a summary of long-term obligations for the College as of June 30, 2004 and 2003:

	2004				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Advances from Federal sponsor	\$ 76,041	\$	\$ 177	\$ 75,864	\$
Capital leases payable	255,757		48,943	206,814	26,142
Accrued compensated absences	1,219,184	214,922		1,434,106	315,503
Debt obligation to Commission	<u>632,956</u>	<u>14,627</u>	<u>120,972</u>	<u>526,611</u>	<u>106,927</u>
Total long-term liabilities	<u>\$ 2,183,938</u>	<u>\$229,549</u>	<u>\$ 170,092</u>	<u>\$2,243,395</u>	<u>\$ 448,572</u>

	2003				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Advances from Federal sponsor	\$ 97,917	\$	\$ 21,876	\$ 76,041	\$ -
Capital leases payable	103,864	184,583	32,690	255,757	40,414
Accrued compensated absences	1,088,317	130,867		1,219,184	263,801
Debt obligation to Commission	<u>253,288</u>	<u>410,000</u>	<u>31,332</u>	<u>632,956</u>	<u>114,812</u>
Total long-term liabilities	<u>\$ 1,544,386</u>	<u>\$725,450</u>	<u>\$ 85,898</u>	<u>\$2,183,938</u>	<u>\$ 419,027</u>

8. LEASES

The College leases equipment under operating lease agreements. Aggregate payments under these agreements approximated \$169,350 for the year ended June 30, 2004, and approximately \$191,000 for the year ended June 30, 2003. Future minimum rental commitments are as follows as of June 30, 2004:

2005	\$ 187,800
2006	147,000
2007	24,600
2008	24,600
2009	18,450
2010 and thereafter	
	<u>\$ 402,450</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 for both the years ended June 30, 2004 and 2003.

The College leases land under capital lease agreements. The following is a schedule by year of future annual minimum payments required under the lease obligations existing at June 30, 2004:

Year Ending June 30	
2005	\$ 39,111
2006	39,111
2007	39,111
2008	35,481
2009	24,591
Thereafter	<u>83,200</u>
	260,605
Less interest	<u>(53,791)</u>
	<u>\$ 206,814</u>

9. COMPENSATED ABSENCES

The composition of the compensated absence liability was as follows at June 30, 2004 and 2003:

	2004	2003
Health or life insurance benefits	\$ 1,164,462	\$ 986,403
Accrued vacation leave	<u>269,644</u>	<u>232,781</u>
	<u>\$ 1,434,106</u>	<u>\$ 1,219,184</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 years ended June 30, 2004 and 2003, the amount paid by the College for extended health or life insurance coverage retirement benefits totaled approximately \$54,943 and \$30,000, respectively. As of June 30, 2004 and 2003, there were 19 and 15 retirees, respectively, currently receiving these benefits.

10. 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. During 2004 and 2003, the College paid \$38,972 and \$50,073, respectively, against the debt obligation. The amount due to Commission at June 30, 2004 is \$526,611. During the fiscal year ended June 30, 2003, the Commission loaned \$410,000 to the College, which is non-interest bearing and payable in five annual installments of \$82,000, which commenced June 15, 2004. The College paid \$82,000 as the first installment on June 15, 2004.

11. 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.

Effective January 1, 2003, higher education employees enrolled in the basic 401(a) retirement plan with TIAA-CREF have an option to switch to the new Educators Money 401(a) basic retirement plan. New hires have the choice of either plan. As of June 30, 2004, one employee was enrolled in the new Educators Money 401(a) basic retirement plan.

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 both years ended June 30, 2004 and 2003. Required employee contributions were at the rate of 6% of total annual salary for both the years ended June 30, 2004 and 2003. 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.

Total contributions to the STRS for the years ended June 30, 2004, 2003, and 2002 were \$183,917, \$220,269, and \$233,895, respectively, which consisted of \$131,369, \$157,335, and \$167,068 from the College in 2004, 2003 and 2002, respectively, and \$52,548, \$62,935, and \$66,827 from the covered employees in 2004, 2003 and 2002, 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.

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. In addition, employees may elect to make additional contributions to TIAA-CREF, which are not matched by the College.

Total contributions to the TIAA-CREF for the years ended June 30, 2004, 2003 and 2002 were \$430,888, \$420,254 and \$418,714, respectively, which consisted of equal contributions from the College and covered employees of \$215,445 in 2004, \$210,127 in 2003, and \$209,357 in 2002.

The College's total payroll for the years ended June 30, 2004 and 2003 was \$5,443,189 and \$5,361,314, respectively; total covered employees' salaries in the STRS and TIAA-CREF were \$875,794 and \$1,048,901 and \$3,590,749 and \$3,503,540, respectively.

12. FOUNDATION

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. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, which the Foundation holds and invests, is restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the College, the Foundation is considered a component unit of the College and is therefore discretely presented with the College's financial statements in accordance with GASB Statement No. 39. Based on the Foundation's audited financial statements as of June 30, 2004 and 2003, the Foundation's net assets (including unrealized gains) totaled \$1,350,350 and \$1,219,368, respectively. Complete financial statements for the Foundation can be obtained from the Executive Director of the Foundation located in the College B&O Building at 1704 Market St., Wheeling, WV 26003.

During the years ended June 30, 2004 and 2003, the Foundation contributed \$51,525 and \$30,272, respectively, to the college for scholarships and grants.

13. 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 under GASB Statement No. 14. And they are not included in the College's accompanying financial statements because they are not significant.

14. 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.

15. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

For the year ended June 30, 2004 and 2003, the following table represents operating expenses within both natural and functional classifications:

	2004							
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Fees Assessed by the Commission	Total
Instruction	\$ 2,680,767	\$ 800,354	\$ 309,377	\$ 31,757	\$	\$	\$	\$ 3,822,255
Public service	184,668	36,807	3,176					224,651
Academic support	843,532	246,058	283,310	31,758				1,404,658
Student services	852,975	233,528	60,845					1,147,348
General institutional support	574,277	154,655	924,051	82,042				1,735,025
Operations and maintenance of plant	204,520	88,261	116,428	140,356				549,565
Student financial aid					2,315,960			2,315,960
Depreciation						488,813		488,813
Other							99,658	99,658
Total	<u>\$ 5,340,739</u>	<u>\$ 1,559,663</u>	<u>\$ 1,697,187</u>	<u>\$ 285,913</u>	<u>\$ 2,315,960</u>	<u>\$ 488,813</u>	<u>\$ 99,658</u>	<u>\$ 11,787,933</u>

	2003							
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Fees Assessed by the Commission	Total
Instruction	\$ 2,543,595	\$ 712,285	\$ 489,288	\$ 26,001	\$ -	\$ -	\$ -	\$ 3,771,169
Public service	164,450	37,498	10,891					212,839
Academic support	1,072,936	277,885	427,051					1,803,872
Student services	887,305	212,322	258,653	26,000				1,358,280
General institutional support	529,441	120,093	681,438	67,170				1,398,142
Operations and maintenance of plant	196,467	63,456	33,242	179,218				472,383
Student financial aid					2,026,219			2,026,219
Depreciation						471,944		471,944
Other			(45,889)				104,529	58,640
Total	<u>\$ 5,394,194</u>	<u>\$ 1,423,539</u>	<u>\$ 1,854,674</u>	<u>\$ 298,389</u>	<u>\$ 2,026,219</u>	<u>\$ 471,944</u>	<u>\$ 104,529</u>	<u>\$ 11,573,488</u>

16. COMPONENT UNIT DISCLOSURES (FOUNDATION)

The following are significant notes taken directly from the Foundation's financial statements:

Investments were reported at the lower of market or carrying value. The values at June 30, 2004 and 2003 were \$1,050,291 and \$894,028. Original costs associated with these investments were \$1,216,694 and \$1,114,940, respectively. Unrealized losses amounted to \$166,403 and \$220,912 at June 30, 2004 and 2003. Investment income and gains and losses on investments are reported as increases or decreases in unrestricted net assets unless a donor or law temporarily or permanently restricts their use.

At June 30, 2004 unconditional promises to give consists of \$1,105 in receivables collectible within one year and \$29,415 collectible within 5 years. There we no unconditional promises to give in excess of five years. Unconditional promises to give are shown net of a \$2,500 allowance for uncollectible accounts.

17. SUBSEQUENT EVENT

During August 2004, the West Virginia Higher Education Policy Commission issued \$167,260,000 of 2004 Series B Revenue Bonds (Higher Education Facilities). The College has been approved for \$8,910,000 of the bond proceeds for capital projects from this bond issuance.

* * * * *

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Governing Board of West Virginia Northern Community College

We have audited the financial statements of the business-type activities and the discretely presented component unit of West Virginia Northern Community College (the "College") as of June 30, 2004, and West Virginia Northern Community College Foundation, Inc. (the "Foundation"), as of June 30, 2004, and 2003, and for the year(s) then ended, which collectively comprise the College's basic financial statements and have issued our report thereon dated October 15, 2004, which contains a consistency paragraph for the adoption of Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. 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 in order to determine our auditing procedures for the purpose of expressing our opinions 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 that might be material weakness. A material weakness is a reportable 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 caused by error or fraud 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 internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain immaterial instances of noncompliance that we have reported to management of the College and Foundation, in separate letters dated October 15, 2004.

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 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the West Virginia Northern Community College Governing Board, management of the College, the West Virginia Higher Education Policy Commission, the WV Council for Community and Technical College Education, federal and state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Costanzo & Associates

Wheeling, WV

October 15, 2004