West Virginia Northern Community College

Financial Statements and Additional Information for the Years Ended June 30, 2005 and 2004 and Independent Auditors' Reports

WEST VIRGINIA NORTHERN COMMUNITY COLLEGE

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT

Governing Board
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, 2005 and 2004, and West Virginia Northern Community College Foundation, Inc. (the "Foundation" a component unit of West Virginia Northern Community College), as of June 30, 2005 and 2004, and for the years then ended, which collectively comprise the College's basic financial statements listed in the foregoing 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The Foundation's financial statements were not audited in accordance with *Government Auditing Standards* but were audited in accordance with auditing standards generally accepted in the United States of America. Both 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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 at June 30, 2005 and 2004, and of the Foundation as of June 30, 2005, and 2004, and the respective changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis 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. 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 required 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 September 19, 2005 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 read in conjunction with this report in considering the results of our audit.

Costanzo & Associates
Wheeling, WV
September 19, 2005

MD & A (Auditor will provide Orginal MD & A in the Working file pages 3-12)

WEST VIRGINIA NORTHERN COMMUNITY COLLEGE

STATEMENTS OF NET ASSETS
JUNE 30, 2005 AND 2004

	2005	2004
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 3,557,565	$ 2,661,311
Investments		4,443
Appropriations due from Primary Government	250,673	189,436
Accounts receivable—net	166,690	103,048
Loans to students—current portion	23,637	23,530
Due from Commission	835,430	1,680
Prepaid expenses	20,052	15,911
Total current assets	4,854,047	2,999,359
Noncurrent assets:		
Cash and cash equivalents	91,672	124,125
Loans to students, net of allowance of $101,800 and $104,800	32,140	28,536
Investment in capital assets—net	17,079,506	14,673,795
Total noncurrent assets	17,203,318	14,826,456
TOTAL ASSETS	$22,057,365	$17,825,815

(Continued)

WEST VIRGINIA NORTHERN COMMUNITY COLLEGE

STATEMENTS OF NET ASSETS
JUNE 30, 2005 AND 2004

	2005	2004
LIABILITIES:		
Current liabilities:		
Accounts payable	$ 267,416	$ 223,730
Due to State of West Virginia	40,423	8,248
Due to Commission	6,600	109,277
Due to Affiliates of Commission	10,265	17,381
Accrued liabilities	1,167,374	320,826
Deferred revenue	45,585	30,219
Capital leases—current portion	27,872	26,142
Compensated absences—current portion	293,851	315,503
Debt obligation to Commission—current portion	107,356	106,927
Total current liabilities	1,966,742	1,158,253
Noncurrent liabilities:		
Advances from federal sponsors	82,578	75,864
Capital leases	152,800	180,672
Compensated absences	1,041,836	1,118,603
Debt obligation to Commission	312,328	419,684
Total noncurrent liabilities	1,589,542	1,794,823
Total liabilities	3,556,284	2,953,076
NET ASSETS:		
Invested in capital assets—net of related debt	16,479,150	13,940,370
Restricted for—		
Expendable:		
Capital projects	871,098	202,559
Scholarships	62,731	68,380
Total expendable	933,829	270,939
Unrestricted	1,088,102	661,430
Total net assets	18,501,081	14,872,739
TOTAL LIABILITIES AND NET ASSETS	$ 22,057,365	$ 17,825,815

See notes to financial statements (Concluded)

WEST VIRGINIA NORTHERN COMMUNITY COLLEGE

THE WEST VIRGINIA NORTHERN COMMUNITY COLLEGE FOUNDATION, INCORPORATED, A COMPONENT UNIT OF WEST VIRGINIA NORTHERN COMMUNITY COLLEGE STATEMENTS OF FINANCIAL POSITION JUNE 30, 2005 AND 2004

ASSETS	2005	2004
ASSETS:		
Cash	$ 76,975	$ 57,316
Investments	1,167,467	1,050,291
Unconditional promises to give—net of allowance for uncollectible promises of $0 and $2,500	53,721	30,520
Notes Receivable from West Virginia Northern Community College	180,672	206,814
Other current assets	5,721	8,249
TOTAL ASSETS	$ 1,484,556	$ 1,353,190

LIABILITIES AND NET ASSETS	2005	2004
LIABILITIES:		
Due to West Virginia Northern Community College	$	$ 181
Other accrued liabilities		2,659
Total liabilities		2,840
NET ASSETS:		
Unrestricted	1,399,962	1,265,756
Permanently restricted	84,594	84,594
Total net assets	1,484,556	1,350,350
TOTAL LIABILITIES AND NET ASSETS	$ 1,484,556	$ 1,353,190

See notes to financial statements.

WEST VIRGINIA NORTHERN COMMUNITY COLLEGE

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
OPERATING REVENUES:		
Student tuition and fees (net of scholarship allowance of $1,825,018 and $1,498,485)	$ 1,707,616	$ 1,749,881
Contracts and grants:		
Federal	4,838,554	4,040,226
State	1,200,284	309,891
Private	7,750	7,298
Interest on student loans receivable	1,055	3,595
Sales and services of educational activities	222,386	14,767
Fees from Commission	152,042	192,736
Miscellaneous—net	5,408	95,331
Total operating revenues	8,135,095	6,413,725
OPERATING EXPENSES:		
Salaries and wages	5,661,291	5,340,739
Benefits	1,313,034	1,559,663
Supplies and other services	2,950,381	1,697,187
Utilities	236,149	285,913
Student financial aid—scholarships and fellowships	2,328,310	2,315,960
Depreciation	536,063	488,813
Fees assessed by the Commission for operations	79,967	99,658
Total operating expenses	13,105,195	11,787,933
OPERATING LOSS	(4,970,100)	(5,374,208)

(Continued)

WEST VIRGINIA NORTHERN COMMUNITY COLLEGE

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
NONOPERATING REVENUES (EXPENSES):		
State appropriations	$ 6,124,942	$ 5,648,855
Loss on disposal of assets	(4,256)	(7,908)
Investment income	71,886	26,103
Interest on indebtedness	(20,727)	(34,129)
Net nonoperating revenues	6,171,845	5,632,921
INCREASE IN NET ASSETS BEFORE TRANSFER	1,201,745	258,713
CAPITAL AND BOND PROCEEDS FROM POLICY COMMISSION	2,426,597	
TRANSFER OF LIABILITY FROM COMMISSION		(14,627)
INCREASE IN NET ASSETS	3,628,342	244,086
NET ASSETS—Beginning of year	14,872,739	14,628,653
NET ASSETS—End of year	$ 18,501,081	$ 14,872,739

See notes to financial statements

(Concluded)

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, 2005

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT:				
Grants and donations	$ 3,658	$ 200,620	$	$ 204,278
Special events	990			990
Investment dividend and interest	40,889			40,889
Investment gain	12,979			12,979
Net assets released from restrictions—				
Satisfaction of program restrictions	200,620	(200,620)		
Total revenues, gain and other support	259,136			259,136
EXPENSES:				
Program services	115,136			115,136
Management and general	9,794			9,794
Total expenses	124,930			124,930
CHANGE IN NET ASSETS	134,206			134,206
NET ASSETS—Beginning of year	1,265,756		84,594	1,350,350
NET ASSETS—End of year	$ 1,399,962	$	$ 84,594	$ 1,484,556

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, 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	181,050	(181,050)		
Total revenues, gain and other support	277,861			277,861
EXPENSES:				
Program services	141,247			141,247
Management and general	5,632			5,632
Total expenses	146,879			146,879
CHANGE IN NET ASSETS	130,982			130,982
NET ASSETS—Beginning of year	1,134,774		84,594	1,219,368
NET ASSETS—End of year	$ 1,265,756	$	$ 84,594	$ 1,350,350

See notes to financial statements.

WEST VIRGINIA NORTHERN COMMUNITY COLLEGE

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	$ 3,538,447	$ 3,187,692
Contracts and grants	5,975,534	4,492,778
Payments to and on behalf of employees	(6,943,305)	(6,727,297)
Payments to suppliers	(3,142,536)	(1,709,760)
Payments to utilities	(245,949)	(294,067)
Payments for scholarships and fellowships	(4,137,598)	(3,798,879)
Loans issued to students	(3,077,957)	(2,639,358)
Collection of loans to students	3,062,698	2,677,421
Sales and service of educational activities	219,311	14,773
Auxiliary enterprise charges		(35)
Fees received from Commission	152,041	203,985
Fees assessed by the Commission for operations	(44,867)	(52,424)
Other disbursements—net	7,400	96,904
Net cash used in operating activities	(4,636,781)	(4,548,267)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	6,063,705	5,770,030
Cash provided by noncapital financing activities	6,063,705	5,770,030
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Purchases of capital assets	(2,063,922)	(1,266,391)
Proceeds on disposal of capital assets	4,615	157
Principal paid on leases	(26,144)	(37,950)
Interest paid on leases	(12,969)	(15,427)
Principal payment on debt obligation due Commission	(106,927)	(106,345)
Interest paid on obligation to Commission	(7,758)	(5,692)
Fees assessed by Commission	(35,100)	(47,234)
Capital Proceeds from Policy Commission	378,200	
Bond Proceeds from Policy Commission	1,253,156	
Decrease in noncurrent cash and cash equivalents	32,453	452,670
Net cash used in capital financing activities	(584,396)	(1,026,212)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on invesments	53,726	24,403
Cash provided by investing activities	53,726	24,403
INCREASE IN CASH AND CASH EQUIVALENTS	896,254	219,954
CASH AND CASH EQUIVALENTS—Beginning of year	2,661,311	2,441,357
CASH AND CASH EQUIVALENTS—End of year	$ 3,557,565	$ 2,661,311

(Continued)

WEST VIRGINIA NORTHERN COMMUNITY COLLEGE

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (4,970,100)	$ (5,374,208)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation expense	536,063	488,813
Changes in assets and liabilities:		
Investments	4,443	(4,443)
Appropriations due from Primary Government	(61,237)	121,174
Accounts receivables—net	(63,642)	(1,798)
Loans to students—net	(3,711)	2,036
Due from State of West Virginia		41,260
Due from Commission	(833,750)	(1,680)
Prepaid expenses	(4,141)	(9,051)
Accounts payable	43,686	(19,850)
Due to State of West Virginia	32,175	(1,559)
Due to Commission	(102,677)	70,446
Due to affiliates of Commission	(7,116)	(8,765)
Accrued liabilities	846,548	(32,755)
Deferred revenue	15,366	6,460
Compensated absences	(98,419)	214,922
Advances from federal sponsors	6,714	(177)
Other operating activities	23,017	(39,092)
NET CASH USED IN OPERATING ACTIVITIES	$ (4,636,781)	$ (4,548,267)
NONCASH TRANSACTIONS:		
Capital assets purchased through accounts payable	$ 717,109	$ 60,787

See notes to financial statements.

(Concluded)

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. 448 created the West Virginia Council for Community and Technical College Education, 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 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 and the West Virginia Higher Education Policy Commission (the "Commission") (which includes West Virginia Network for Educational Telecomputing ("WVNET")), 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 discretely presented here with the College's financial statements for the fiscal year ended June 30, 2005 and 2004. 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 13).

Financial Statement Presentation—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* establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a combined 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:

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 resources in accordance with restrictions imposed by external third parties.

   The West Virginia State 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. House Bill 101 passed in March 2004 simplified the tuition and fee structure and removed the restrictions but included designations associated with auxiliaries and capital items. 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 State 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, 2005 or 2004, 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"). The State Treasurer is permitted by West Virginia Code §12-1-12A to invest up to $125 million in overnight repurchase agreements. 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 in accordance with West Virginia Code, policies set by the IMB, and by provisions of bond indentures and trust agreements, when applicable. 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.

The IMB maintains the Consolidated Fund investment fund, which consists of five investment pools, and participant-directed accounts, in which the state and local governmental agencies invest. The IMB also manages other investment pools, which include amounts invested by pension funds of the State, as well as certain operating funds of the Workers' Compensation Fund and other funds. These pools have been structured as multiparticipant variable net asset funds to reduce risk and offer investment liquidity diversification to the Fund participants. Funds not required to meet immediate disbursement needs are invested for longer periods. A more detailed discussion of the IMB's investment operations pool can be found in the IMB's annual report. A copy of the IMB's annual report can be obtained from the following address: 500 Virginia Street East, Suite 200, Charleston, WV 25301 or http://www.wvimb.org.

Investments —The College held an investment in a publicly traded stock that was received as part of a bankruptcy settlement with the entity. The stock was sold in June 2005. The college currently holds no other outside investments.

Permissible investments for all agencies include those guaranteed by the United States of America, its agencies and instrumentalities (U.S. Government obligations); equities, corporate debt obligations, including commercial paper, which meet certain ratings; certain money market funds; investment agreements with certain financial institutions; repurchase agreements; state and local government securities (SLGS); and other investments. Other investments consist primarily of single-family mortgage loans and collateralized mortgage obligations. SLGS are direct obligations of the U.S. Government, issued to state and local government entities to provide those governments with required cash flows at yields which do not exceed IRS arbitrage limits.

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, and (2) to purchase capital or other noncurrent assets 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. If material, interest on related borrowing, net of interest earnings on invested proceeds, is capitalized during the period of construction. No interest was capitalized as part of the cost of assets for the year ended June 30, 2005. 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. Nonoperating revenues also exclude student fees which were billed for capital improvements.

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. Under this program, the U.S. Department of Education makes interest subsidized and nonsubsidized loans directly to students, through universities like the college. The activity of this program is not recorded in the accompanying financial statements. The College received and disbursed approximately $3.1 and $2.4 million in 2005 and 2004, 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 combined financial statements. In 2005 and 2004, the College received and disbursed approximately $4,300,000, and $3,800,000, 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.

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 has 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.

The GASB has also issued Statement No. 46, *Net Assets Restricted by Enabling Legislation* (an amendment of GASB Statement No. 34), effective for fiscal years beginning after June 15, 2005. This statement provides guidance clarifying the meaning of the phrase "legally enforceable" as it applies to restrictions imposed on net asset use by enabling legislation. The College has not yet determined the effect, if any, that the adoption of GASB Statement No. 46 may have on its financial statements.

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents was as follows at June 30, 2005 and 2004:

	2005		
	Current	Noncurrent	Total
Cash on deposit with the State Treasurer	$ 3,475,236	$ 75,671	$ 3,550,907
Cash in bank	82,329	16,001	98,330
	$ 3,557,565	$ 91,672	$ 3,649,237

	2004		
	Current	Noncurrent	Total
Cash on deposit with the State Treasurer	$ 2,625,675	$ 100,328	$ 2,726,003
Cash in bank	35,636	23,797	59,433
	$ 2,661,311	$ 124,125	$ 2,785,436

Cash held by the State Treasurer includes $75,671 and $100,328 in 2005 and 2004 restricted for capital assets.

The combined carrying amounts of cash in the bank at June 30, 2005 and 2004 were $98,330 and $59,433, respectively, as compared with the combined bank balance of $172,540 and $123,962, 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 comprised of the following investment pools.

Cash Liquidity

Credit risk

The IMB limits the exposure to credit risk in the Cash Liquidity pool by requiring all corporate bonds to be rated AA or higher. Commercial paper must be rated A1 by Standard & Poor's and P1 by Moody's. Additionally, the pool must have at least 15% of its assets in United States Treasury issues.

The following table provides information on the weighted average credit ratings of the Cash Liquidity pool's investments.

Security Type	Moody's	S&P	Carrying Value	Percent of Assets
Commercial paper	P1	A-1	$ 598,241,394	37.9%
U. S. Treasury bills	Aaa	AAA	259,397,648	16.4%
Corporate notes	Aaa	AAA	155,559,323	9.9%
Certificates of deposit	P1	A-1	152,998,937	9.7%
Agency bonds	Aaa	AAA	147,955,465	9.4%
Agency discount notes	P1	A-1	119,564,248	7.6%
Money market funds	Aaa	AAA	4,241,278	0.3%
Total rated investments			$1,437,958,293	91.2%

The College's ownership represents 0.15 % of these amounts held by IMB.

Unrated securities include repurchase agreements of $141,050,000. Acceptable collateral for the repurchase agreements include U. S. Treasury and government agency securities, all of which carry the highest credit rating.

Concentration of credit risk

West Virginia statutes prohibit the Cash Liquidity pool from investing more than 5% of its assets in securities issued by a single private corporation or association. At June 30, 2005, the pool did not have investments in any one private corporation or association that represented more than 5% of assets.

Custodial credit risk

At June 30, 2005, the Cash Liquidity pool held no securities that were subject to custodial credit risk. Repurchase agreements are collateralized at 102% and the collateral is held in the name of the IMB. Securities lending collateral that is reported in the Statement of Assets and Liabilities is invested in the lending agent's money market fund.

Interest rate risk

The weighted average maturity of the investments of the Cash Liquidity pool cannot exceed 60 days. The maturity of floating rate notes is assumed to be the next interest rate reset date. The following table provides the weighted average maturities (WAM) for the various asset types in the Cash Liquidity pool.

Security Type	Carrying Value	WAM
Commercial paper	$ 598,241,394	49
U. S. Treasury bills	259,397,648	30
Corporate notes	155,559,323	53
Certificates of deposit	152,998,937	42
Agency bonds	147,955,465	88
Repurchase agreements	141,050,000	1
Agency discount notes	119,564,248	52
Money market funds	4,241,278	1
Total assets	$ 1,579,008,293	45

Foreign currency risk

The Cash Liquidity pool has no securities that are subject to foreign currency risk.

Government Money Market

Credit risk

The IMB limits the exposure to credit risk in the Government Money Market pool by limiting the pool to U. S. Treasury issues, U. S. government agency issues, money market funds investing in U. S. Treasury issues and U. S. government agency issues, and repurchase agreements collateralized by U. S. Treasury issues and U. S. government agency issues. None of the government agency issues held by the pool have the explicit guarantee of the U. S. Treasury; however, they are all rated Aaa by Moody's and AAA by Standard & Poor's. Agency discount notes held by the pool are rated P1 by Moody's and A-1 by Standard & Poor's.

Concentration of credit risk

West Virginia statutes prohibit the Government Money Market pool from investing more than 5% of its assets in securities issued by a single private corporation or association. At June 30, 2005, the pool did not have investments in any one private corporation or association that represented more than 5% of assets.

Custodial credit risk

At June 30, 2005, the Government Money Market pool held no securities that were subject to custodial credit risk. Repurchase agreements are collateralized at 102% and the collateral is held in the name of the IMB. Securities lending collateral that is reported in the Statement of Assets and Liabilities is invested in the lending agent's money market fund.

Interest rate risk

The weighted average maturity of the investments of the Government Money Market pool cannot exceed 60 days. The maturity of floating rate notes is assumed to be the next interest rate reset date. The following table provides the weighted average maturities (WAM) for the various asset types in the Government Money Market pool.

Security Type	Carrying Value	WAM (days)
Agency discount notes	$ 46,409,362	32
Agency bonds	42,571,144	75
Repurchase agreements	39,950,000	1
U. S. Treasury bills	24,903,836	48
Money market funds	985,190	1
Total assets	$ 154,819,532	38

The College's ownership represents 0.02% of these amounts held by IMB.

Foreign currency risk

The Government Money Market pool has no securities that are subject to foreign currency risk.

Enhanced Yield

Credit risk

The IMB limits the exposure to credit risk in the Enhanced Yield pool by requiring all corporate bonds to be rated A or higher. Commercial paper must be rated A1 by Standard & Poor's and P1 by Moody's. Additionally, the pool must have at least 15% of its assets in United States Treasury issues.

The following table provides information on the weighted average credit ratings of the Enhanced Yield pool's investments.

Security Type	Moody's	S&P	Fair Value	Percent of Assets
Corporate notes	A	AA	$ 81,631,581	30.0%
Agency bonds	Aaa	AAA	69,203,277	25.5%
U. S. Treasury notes	Aaa	AAA	66,466,539	24.5%
Corporate asset backed securities	Aaa	AAA	49,990,408	18.4%
Total rated investments			$ 267,291,805	98.4%

The College's ownership represents 0.24 % of these amounts held by IMB.

Unrated securities include repurchase agreements of $4,362,262. Acceptable collateral for the repurchase agreements include U. S. Treasury and government agency securities, all of which carry the highest credit rating.

Concentration of credit risk

West Virginia statutes prohibit the Enhanced Yield pool from investing more than 5% of its assets in securities issued by a single private corporation or association. At June 30, 2005, the pool did not have investments in any one private corporation or association that represented more than 5% of assets.

Custodial credit risk

At June 30, 2005, the Enhanced Yield pool held no securities that were subject to custodial credit risk. Repurchase agreements are collateralized at 102% and the collateral is held in the name of the IMB. Securities lending collateral that is reported in the Statement of Assets and Liabilities is invested in the lending agent's money market fund.

Interest rate risk

The weighted average maturity of the investments of the Enhanced Yield pool cannot exceed two years. The maturity of floating rate notes is assumed to be the next interest rate reset date. The following table provides the weighted average maturities (WAM) for the various asset types in the Enhanced Yield pool.

Security Type	Fair Value	WAM (years)
Corporate notes	$ 81,631,581	1.7
Agency bonds	69,203,277	1.9
U. S. Treasury notes	66,466,539	2.3
Corporate asset backed securities	49,990,408	1.1
Repurchase agreement	4,362,262	0.0
Total assets	$ 271,654,067	1.7

Foreign currency risk

The Enhanced Yield pool has no securities that are subject to foreign currency risk.

4. INVESTMENTS

Investments as of June 30, 2005 and 2004 are summarized as follows:

	2005	
	Cost	Market or Carrying Value
Domestic Stock	$	$

	2004	
	Cost	Market or Carrying Value
Domestic Stock	$ 1,896	$ 4,443

The college sold these securities in June 2005. Realized gain of $1,867 at June 30, 2005 and unrealized gain of $2,547 at June 30, 2004 on this domestic stock were included as investment income.

5. ACCOUNTS RECEIVABLE

Accounts receivable were as follows at June 30, 2005 and 2004:

	2005	2004
Student tuition and fees, net of allowance for doubtful accounts of $234,565 and $202,250, respectively	$ 72,936	$ 83,730
Third party contracts receivable	77,379	17,749
Other accounts receivable	24,038	1,569
	$ 174,353	$ 103,048

6. CAPITAL ASSETS

The following is a summary of capital asset transactions for the College for the years ended June 30, 2005 and 2004:

	2005			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	$ 1,462,926	$	$	$ 1,462,926
Construction in Progress	328,500	2,389,275		2,717,775
Total capital assets not being depreciated	$ 1,791,426	$ 2,389,275	$	$ 4,180,701
Other capital assets:				
Land improvements	$ 101,815	$	$	$ 101,815
Infrastructure	945,559	15,600		961,159
Buildings	18,004,058	72,212		18,076,270
Equipment	2,031,648	446,700	(103,709)	2,374,639
Library books	1,177,099	20,026	(86,195)	1,110,930
Total other capital assets	22,260,179	554,538	(189,904)	22,624,813
Less accumulated depreciation for:				
Land improvements	(88,897)	(1,248)		(90,145)
Infrastructure	(604,083)	(29,815)		(633,898)
Buildings	(5,841,696)	(361,400)		(6,203,096)
Equipment	(1,728,231)	(125,636)	101,670	(1,752,197)
Library books	(1,114,903)	(17,964)	86,195	(1,046,672)
Total accumulated depreciation	(9,377,810)	(536,063)	187,865	(9,726,008)
Other capital assets—net	$ 12,882,369	$ 18,475	$ (2,039)	$ 12,898,805
Capital asset summary:				
Capital assets not being depreciated	$ 1,791,426	$ 2,389,275	$	$ 4,180,701
Other capital assets	22,260,179	554,538	(189,904)	22,624,813
Total cost of capital assets	24,051,605	2,943,813	(189,904)	26,805,514
Less accumulated depreciation	(9,377,810)	(536,063)	187,865	(9,726,008)
Capital assets—net	$ 14,673,795	$ 2,407,750	$ (2,039)	$ 17,079,506

	2004			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	$ 1,462,926	$	$	$ 1,462,926
Construction in Progress		328,500		328,500
Total capital assets not being depreciated	$ 1,462,926	$ 328,500	$	$ 1,791,426
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)	1,172,017	10,467	(5,385)	1,177,099
Total other capital assets	21,593,338	877,104	(210,263)	22,260,179
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)	(1,100,010)	(20,279)	5,386	(1,114,903)
Total accumulated depreciation	(9,080,203)	(488,813)	191,206	(9,377,810)
Other capital assets—net	$ 12,513,135	$ 388,291	$ (19,057)	$ 12,882,369
Capital asset summary:				
Capital assets not being depreciated	$ 1,462,926	$ 328,500	$	$ 1,791,426
Other capital assets	21,593,339	877,104	(210,264)	22,260,179
Total cost of capital assets	23,056,265	1,205,604	(210,264)	24,051,605
Less accumulated depreciation	(9,080,204)	(488,813)	191,207	(9,377,810)
Capital assets—net	$ 13,976,061	$ 716,791	$ (19,057)	$ 14,673,795

The College maintains various collections of inexhaustible assets to which no value can be practically determined. Accordingly, such collections are not capitalized or recognized for financial statement purposes. 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.

Title for certain real property is with the Commission.

Subsequent to June 30, 2005, the College drew down $795,241 in bond proceeds from the West Virginia Higher Education Policy Commission, which issued $167,260,000 of 2004 Series B Revenue Bonds (Higher Education Facilities) in August 2004. The College has been approved for $8,910,000 of the bond proceeds for capital projects from this bond issuance and has drawn down a total of $2,048,397 of which $795,241 was receivable at June 30, 2005.

7. LONG-TERM LIABILITIES

The following is a summary of long-term obligations for the College as of June 30, 2005 and 2004:

	2005				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Advances from Federal sponsor	$ 75,864	$ 6,714	$	$ 82,578	$
Capital leases payable	206,814		26,142	180,672	27,872
Accrued compensated absences	1,434,106		98,419	1,335,687	293,851
Debt obligation to Commission	526,611		106,927	419,684	107,356
Total long-term liabilities	$ 2,243,395	$ 6,714	$ 231,488	$2,018,621	$ 429,079

	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	632,956	14,627	120,972	526,611	106,927
Total long-term liabilities	$ 2,183,938	$229,549	$170,092	$2,243,395	$ 448,572

8. LEASES

The College leases equipment under operating lease agreements. Aggregate payments under these agreements approximated $181,216 for the year ended June 30, 2005, and approximately $169,350 for the year ended June 30, 2004. Future minimum rental commitments are as follows as of June 30, 2005:

Year Ending June 30	
2006	$ 170,132
2007	169,632
2008	169,632
2009	163,482
2010	72,516
	$ 745,394

Included in the financial statements are $10,265 and $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, 2005 and 2004.

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, 2005:

Year Ending June 30	
2006	$ 39,112
2007	39,111
2008	35,481
2009	24,591
2010	24,591
2011 and Thereafter	58,608
	221,494
Less interest	(40,822)
	$ 180,672

9. COMPENSATED ABSENCES

The composition of the compensated absence liability was as follows at June 30, 2005 and 2004:

	2005	2004
Health or life insurance benefits	$ 1,047,183	$ 1,164,462
Accrued vacation leave	288,504	269,644
	$ 1,335,687	$ 1,434,106

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, 2005 and 2004, the amount paid by the College for extended health or life insurance coverage retirement benefits totaled approximately $56,432 and $54,943, respectively. As of June 30, 2005 and 2004, there were 20 and 19 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 2005 and 2004, the College paid $24,927 and $38,972, respectively, against the debt obligation. The amount due to Commission at June 30, 2005 and 2004 is $419,684 and $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 has paid $164,000 on this loan with two installments of $82,000 on June 15, 2005 and 2004.

11. UNRESTRICTED NET ASSETS

The College's unrestricted net assets of $1,088,102 and $661,430 at June 30, 2005 and 2004 does not have designations for auxiliaries, repairs or any other specific designations. Therefore, the entire unrestricted net asset balance remains undesignated.

12. 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, 2005 and 2004, one employee is 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, 2005 and 2004. Required employee contributions were at the rate of 6% of total annual salary for both the years ended June 30, 2005 and 2004. 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, 2005, 2004, and 2003 were $181,837, $183,917, and $220,269, respectively, which consisted of $129,884, $131,369, and $157,335 from the College in 2005, 2004 and 2003, respectively, and $51,953, $52,548, and $62,935 from the covered employees in 2005, 2004 and 2003, 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, 2005, 2004 and 2003 were $453,598, $430,888, and $420,254, respectively, which consisted of equal contributions from the College and covered employees of $226,799 in 2005, 215,445 in 2004, and $210,127 in 2003.

The College's total payroll for the years ended June 30, 2005 and 2004 was $5,823,569 and 5,443,189, respectively; total covered employees' salaries in the STRS and TIAA-CREF were $865,893, and 875,794 and $3,779,981 and $3,590,749, respectively.

13. 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, 2005 and 2004, the Foundation's net assets (including unrealized gains) totaled $1,484,556 and $1,350,350, respectively. Complete financial statements for the Foundation can be obtained from the Executive Director of the Foundation located in the College B&O Building, Room 101 at 1704 Market St., Wheeling, WV 26003.

During the years ended June 30, 2005 and 2004, the Foundation contributed $48,667 and $51,525, respectively, to the college for scholarships and grants.

14. 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.

15. 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 status 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 by 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.

16. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

For the year ended June 30, 2005 and 2004, the following table represents operating expenses within both natural and functional classifications:

2005

	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Fees Assessed by the Commission	Total
Instruction	$ 2,824,251	$ 500,612	$ 311,380	$ 28,130	$	$	$	$ 3,664,373
Public service	194,520	33,318	8,689					236,527
Academic support	806,002	248,670	707,377	28,130				1,790,179
Student services	903,196	245,233	161,054					1,309,483
General institutional support	745,589	197,161	1,534,534	72,665				2,549,949
Operations and maintenance of plant	187,733	88,040	227,347	107,224				610,344
Student financial aid					2,328,310			2,328,310
Depreciation						536,063		536,063
Other							79,967	79,967
Total	$ 5,661,291	$ 1,313,034	$ 2,950,381	$ 236,149	$ 2,328,310	$ 536,063	$ 79,967	$ 13,105,195

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	$ 5,340,739	$ 1,559,663	$ 1,697,187	$ 285,913	$ 2,315,960	$ 488,813	$ 99,658	$ 11,787,933

17. COMPONENT UNIT DISCLOSURES (FOUNDATION)

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

NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of activities

West Virginia Northern Community College Foundation, Inc. ("Foundation") is a not-for-profit corporation organized under the laws of the State of West Virginia. The Foundation is classified as a private foundation and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation was organized to support and assist in the development and growth of West Virginia Northern Community College ("the College") for all aspects of its programs and services and has as its purpose "…to aid, strengthen and further in every prosper and useful way, the work and services of West Virginia Northern Community College and its affiliated nonprofit organizations…" Oversight of the Foundation is the responsibility of a separate and independently elected Board of Trustees. In carrying out its responsibilities, the Board of Trustees of the Foundation employs management, forms policy and maintains fiscal accountability over funds administered by the Foundation. Although West Virginia Northern Community 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. During the years ended June 30, 2004 and 2005, the Foundation contributed $48,667 and $51,525, respectively, to the college for scholarships and grants.

Basis of Accounting

Assets and liabilities, revenues and expenses, are recognized on the accrual basis of accounting for financial statement purposes.

Use of Estimates

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

Cash and cash equivalents

For purposes of the statement of cash flows, the Foundation considers all highly liquid investments, available for current use, with an initial maturity of three months or less to be cash equivalents.

Promises To Give

All contributions are recorded at their estimated fair value and are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted support that increases those net asset classes.

Unconditional promises to give that are expected to be collected within one year are recorded at estimated net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Amortization of the discounts in included in contribution revenue. Conditional promises to give are not recorded as support until the conditions are substantially met.

The Foundation uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

Investments

Investments in equity securities and all debt securities are reported at their fair value based upon quoted market prices.

The Foundation operates a pooled investment portfolio consisting of common trust funds for all funds. New funds or additions to exiting funds are assigned a share in the common trust fund investment pool based upon the amount of cash or estimated fair value of securities deposited. Income, including unrealized appreciation or depreciation and realized capital gains and losses, are unrestricted.

Notes Receivable

Notes receivable are carried at unpaid principal balances. Interest on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding.

Net Assets

The Foundation has classified its net assets and its revenue, expenses, gains, and losses based on the existence or absence of donor-imposed restrictions. Below is a summary of those classifications:

Unrestricted – Assets and contributions that are not restricted by donors or for which restrictions have expired are unrestricted.

Temporarily restricted – Assets and contributions for which the donor has imposed restrictions that permit the Foundation to use or expend the donated assets for College support according to the restriction are temporarily restricted. The restrictions are satisfied either by the passage of time or by actions of the Foundation.

Permanently restricted – Assets and contributions for which the donor stipulates that resources be maintained permanently, but permits the Foundation to use or expend part or all of the income derived from the donated assets, are permanently restricted. Such assets are comprised of investment accounts, which are subject to the restrictions of the donor requiring that the principal be invested in perpetuity. The investment income, including realized and unrealized gains and losses are recorded as unrestricted as they are disbursed according to the terms of the gift instrument.

Both temporarily and permanently restricted net assets are to be used for the support and benefit of West Virginia Northern Community College.

INVESTMENTS

The costs and estimated fair values of investments at June 30, 2005 and 2004 are:

	2005		2004	
	Cost	Fair Market Value	Cost	Fair Market Value
U.S. Government Agency Obligations		$ 320,149		$ 240,452
Corporate Bonds and Notes		-		53,645
Equity Securities		527,441		384,833
Foreign Equity		38,964		-
Fixed Income Mutual Funds		24,462		-
Common Trust Fund Balance	1,064,988	911,016	845,333	678,930
Cash Equivalents	256,451	256,451	371,361	371,361
	$ 1,321,439	$ 1,167,467	$ 1,216,694	$ 1,050,291

Unrealized losses on investments amount to $153,972 and $166,403 at June 30, 2005 and 2004. 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.

Each of the twenty-three investment funds of the Foundation is invested in a financial institution's common trust fund. The common trust fund balance reflects the aggregate cost basis that each of these twenty-three investment funds has in the financial institutions common trust fund. The common trust fund fair market value reflects the market value of individual investments held by the fund at June 30, 2005 and 2004.

The Foundation, through a trust department, invests in cash equivalents and a common trust fund, which allows the Foundation to purchase domestic and foreign equities, fixed income and equity mutual funds, U.S. Government obligations, corporate bonds and commercial paper. "The Foundation's investment objective is to obtain maximum total return by balancing growth and income and assuming a prudent degree of risk to provide predictable income and achieve an appreciation of the capital after factoring for inflation." It is the Foundation's investment policy that no one company shall exceed ten percent of the equity portfolio. The Foundation cannot exceed ten percent investment in international equities and cannot be invested more than twenty-five percent in any one industry. Additionally, any fixed income investment cannot exceed ten years maturity.

UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give consist of receivables for the West Virginia Northern Community College Square Project Campaign. At June 30, 2005 and 2004 the receivable balances of $23,785 and $1,105 are collectible within one year and $29,936 and $29,415 are collectible within 5 years. There were no unconditional promises to give in excess of five years. Unconditional promises to give are shown net of a $-0- and $2,500 allowance for uncollectible accounts at June 30, 2005 and 2004.

NOTES RECEIVABLE

The Foundation leases land under three capital lease agreements to West Virginia Northern Community College. The following is a schedule by year of future annual minimum payments required under the lease obligations existing at June 30, 2005:

Year Ending June 30	
2006	$ 39,112
2007	39,111
2008	35,481
2009	24,591
2010	24,591
2011 and Thereafter	58,608
	221,494
Less interest	(40,822)
	$ 180,672

*****

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

Governing Board
West Virginia Northern Community College

We have audited the financial statements of West Virginia Northern Community College (the "College") as of and for the years ended June 30, 2005 and 2004, and have issued our report thereon dated September 19, 2005, which states reliance on another audit report dated September 12, 2005 for the discretely presented component unit. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, 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 an opinion 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 weaknesses. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the College in a separate letter dated September 19, 2005.

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
September 19, 2005