# West Virginia Council for Community and Technical College Education

Combined Financial Statements as of and for the Years Ended June 30, 2012 and 2011, and Independent Auditors' Reports

## WEST VIRGINIA COUNCIL FOR COMMUNITY AND TECHNICAL COLLEGE EDUCATION

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## INDEPENDENT AUDITORS' REPORT

To the West Virginia Council for Community
and Technical College Education:

We have audited the accompanying combined statements of net assets of the West Virginia Council for Community and Technical College Education (the "Council") as of June 30, 2012 and 2011, and the related combined statements of revenues, expenses, and changes in net assets, and of cash flows for the years then ended. These combined financial statements are the responsibility of the Council's management. Our responsibility is to express an opinion on these combined financial statements based on our audits. We did not audit the financial statement of Bridgemont Community and Technical College, Kanawha Valley Community and Technical College, Mountwest Community and Technical College, New River Community and Technical College, Southern West Virginia Community and Technical College, and West Virginia Northern Community College for the year ended June 30, 2012, which statements reflect total assets, total net assets, and total revenues constituting approximately 34%, 27%, and 37%, respectively, of the Council in 2012. We did not audit the financial statements of New River Community and Technical College, Southern West Virginia Community and Technical College, and West Virginia Northern Community College for the year ended June 30, 2011, which statements reflect total assets, total net assets, and total revenues constituting approximately 29%, 30%, and 34%, respectively, of the Council in 2011. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Council for the years ended June 30, 2012 and 2011, is based solely on the reports of such other auditors.

We, and the other auditors, conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council'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 these audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Council as of June 30, 2012 and 2011, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 to 15 be presented to supplement the combined financial statements. Such information, although not a part of the combined financial statements, is required by the

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2013, on our consideration of the Council's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLP

January 10, 2013

# Virginia Council for Community and Technical College Education
# Management's Discussion and Analysis
**Fiscal Year 2012 (Unaudited)**

**Overview of the Combined Financial Statements and Financial Analysis**

Senate Bill 448, passed during the 2004 legislative session, gave the West Virginia Council for Community and Technical College Education (the "Council") the statutory authority for coordinating the delivery of community and technical college education in the State of West Virginia. The Council is comprised of 13 persons appointed by the Governor with the advice and consent of the Senate. There are ten public community and technical colleges and one administrative unit. The Council, combined with the West Virginia Higher Education Policy Commission (the "Commission") and its institutions collectively comprise the West Virginia Higher Education Fund (the "Fund"), which is a discretely presented component unit of the State of West Virginia. The supervision and management of the affairs of each institution is the responsibility of individual Governing Boards, while the Council is responsible for the development and implementation of a higher education policy agenda .Comparative statements for the fiscal years ended June 30, 2012 and 2011 are being presented.

During fiscal year 2008, House Bill No. 3215 was passed, which clarified and redefined relationships between and among certain higher education boards and institutions. This legislation defines the Statewide network of independently accredited community and technical colleges. Effective July 1, 2008, WVU Parkersburg and the administratively linked community and technical colleges of Fairmont State University, Marshall University, West Virginia State University, and West Virginia University (the "Universities") established their own Boards of Governors. Except for Fairmont State University and Pierpont Community and Technical College, which were granted an extension to be effective July 1, 2009, the newly established Boards of Governors and the Boards of Governors of the Universities jointly agreed on a division of assets and liabilities of the Universities which was effective retroactively to July 1, 2008. The net amount of assets (liabilities) initially transferred from the Universities to the separately established community and technical colleges was \$16,431,339 and (\$1,315,757) during 2011 and 2009, respectively. During 2012 and 2011, there were additional transfers from the Universities of \$111,634 and \$442,708, respectively. The Universities and the separately established community and technical colleges developed a plan that ensures the financial stability of auxiliary enterprises, including but not limited to, student housing, student centers, dining services, parking, and athletics through fiscal year 2012. The transition plans related to Fairmont and Pierpont extend Pierpont's obligation beyond 2012 to match outstanding bond commitments of Fairmont. Other than Pierpont's obligation, there are no formal commitments beyond 2012

The Governmental Accounting Standards Board ("GASB") has issued directives for presentation of college and university financial statements and any component units. The Council does not have any significant entities that are entirely or almost entirely for the benefit of the community and technical colleges reporting to the Council. While certain community and technical colleges do have Foundations which are included in their individual financial statements, these Foundations are not currently significant to the Council individually or in total.

The following discussion and analysis of the Council's Combined Financial Statements provides an overview of its financial activities for Fiscal Years 2012 and 2011 and is required supplemental information. There are three financial statements presented: the Combined Statement of Net Assets; the Combined Statement of Revenues, Expenses, and Changes in Net Assets; and the Combined Statement of Cash Flows.

**Combined Statement of Net Assets**

The Combined Statement of Net Assets presents the assets, liabilities, and net assets of the Council and is a point of time financial statement, designed to present to the readers of the financial statements a fiscal snapshot of the Council. The Combined Statement of Net Assets presents end-of-year financial information on Assets (current and noncurrent), Liabilities (current and noncurrent), and Net Assets (assets minus liabilities).

From the data presented, readers of the Combined Statement of Net Assets are able to determine the assets available to continue the operations of the Council. They are also able to determine how much the Council owes vendors, employees, and lending institutions. Finally, the Combined Statement of Net Assets provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the Council.

Net assets are divided into three major categories as follows:

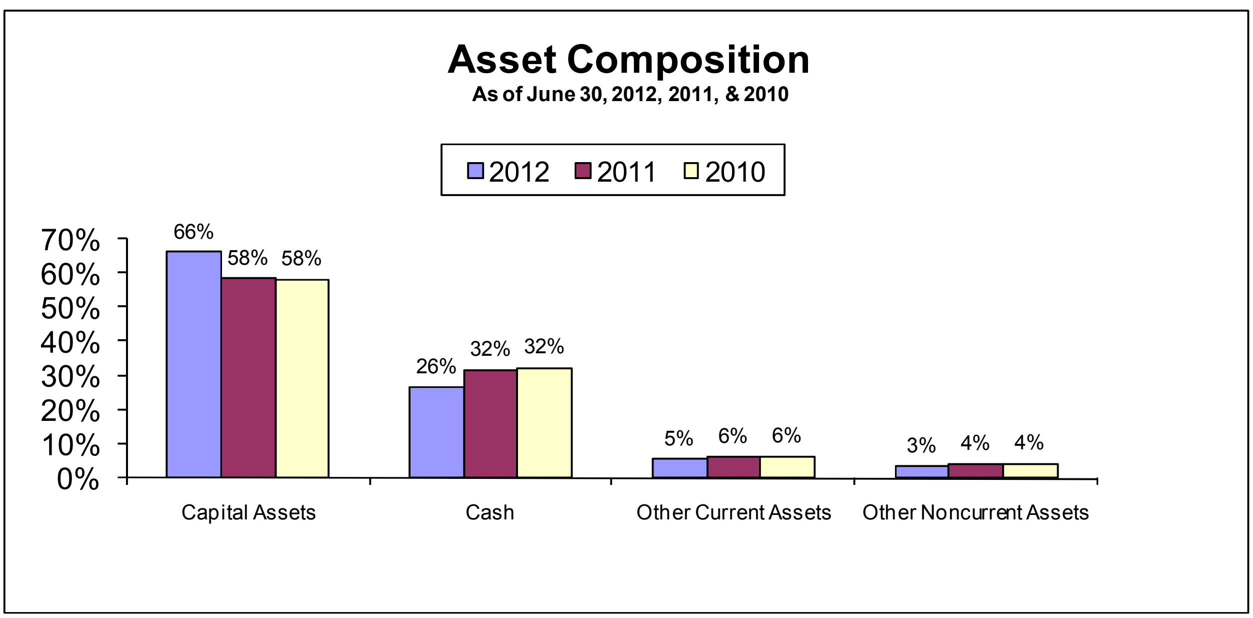
(1) Invested in Capital Assets, Net of Related Debt, which provides the Council's equity in property, plant, and equipment owned by the Council.

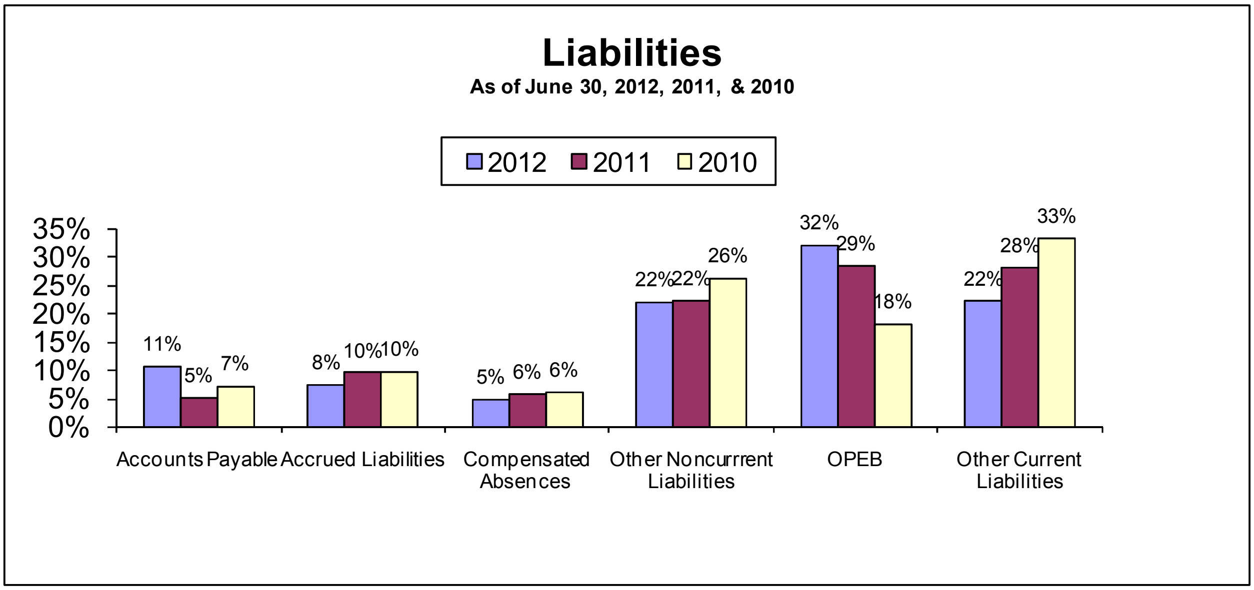
(2) Restricted Net Assets, which is divided into two categories, nonexpendable and expendable. Nonexpendable restricted net assets are not available for expenditure by the Council. These funds are invested and generate earnings that are available for certain types of expenditures. Expendable restricted net assets are available for expenditure by the Fund but have a specific purpose.

(3) Unrestricted net assets are available for expenditure and can be used for any lawful purpose of the Council.

**Condensed Schedules of Net Assets**
**(In thousands of dollars)**

| | June 30 2012 | June 30 2011 | June 30 2010 | Change From 2011 to 2012 |
|---|---|---|---|---|
| Assets | | | | |
| Current Assets | $ 89,134 | $ 83,871 | $ 78,584 | $ 5,263 |
| Capital Assets, net | 181,487 | 129,645 | 119,241 | 51,842 |
| Other Noncurrent Assets | 8,942 | 9,095 | 8,221 | (153) |
| Total Assets | $ 279,563 | $ 222,611 | $ 206,046 | $ 56,952 |
| Liabilities | | | | |
| Current Liabilities | $ 32,104 | $ 26,668 | $ 27,510 | $ 5,436 |
| Noncurrent Liabilities | 39,723 | 28,919 | 22,145 | 10,804 |
| Total Liabilities | 71,827 | 55,587 | 49,655 | 16,240 |
| Net Assets | | | | |
| Invested in Capital Assets, net | 164,924 | 116,595 | 105,112 | 48,329 |
| Restricted-expendable | 20,434 | 19,561 | 16,881 | 873 |
| Restricted-nonexpendable | 50 | 50 | 50 | - |
| Unrestricted | 22,328 | 30,818 | 34,348 | (8,490) |
| Total Net Assets | 207,736 | 167,024 | 156,391 | 40,712 |
| Total Liabilities and Net Assets | $ 279,563 | $ 222,611 | $ 206,046 | $ 56,952 |






Major items of note in the Combined Statement of Net Assets include:

- Total current assets of $89.1 million exceeded total current liabilities of $32.1 million as of June 30, 2012, for net working capital of $57.0 million as compared to net working capital of $57.2 million as of June 30, 2011. Current assets increased from the prior year by $5.3 million and current liabilities increased by $6.5 million.

    - The major components of currents assets include cash and cash equivalents of $74.0 million and $70.4 million, appropriations due from primary government of $6.9 million and $8.6 million, and net accounts receivable of $5.1 million and $3.7 million as of June 30, 2012 and 2011, respectively. The majority of the cash and cash equivalents represent interest earning assets invested through the office of the West Virginia State Treasurer, which is invested with Board of Treasury Investments at both June 30, 2012 and 2011.

    - The major components of current liabilities include deferred revenue of $13.9 million and $13.5 million, $5.4 million, and $5.3 million in accrued liabilities, $7.7 million and $2.9 million in accounts payable, and $2.9 million and $2.7 million of compensated absences as of June 30, 2012 and 2011, respectively. The increase in accounts payable is primarily a result of additional construction activity.

- Noncurrent assets total $190.4 million and $138.7 million and noncurrent liabilities total $39.7 million and $28.9 million as of June 30, 2012 and 2011, respectively. Noncurrent assets increased by $51.7 million over the prior year as did noncurrent liabilities by $10.8 million.

    - The primary noncurrent asset is $181.5 million and $129.6 million of net capital assets as of June 30, 2012 and 2011, respectively. The increase is a result of capital additions in excess of depreciation as discussed in the capital asset and long-term debt activity section of this MD&A.

    - Major components of noncurrent liabilities include capital lease obligations of $0.7 million and $3.6 million, bonds payable for 2012 totaling $3.3 million, debt service obligations payable to the Commission of $10.5 million and $7.6 million, and other post employment benefit liability of $23.9 million and $16.4 million, as of June 30, 2012 and 2011, respectively. The increase in other post employment benefit (OPEB) liability of $7.5 million is attributed to the continued lack of payments on behalf of West Virginia Council for Community and Technical College Education and lower investment returns and discount rates by the State's Multiple-Employer Trust Fund resulting in an increase Annual Required Contribution (ARC)for the past three years. During the 2012 legislative session, the legislature identified and committed funding for the liability that will result in a gradual reduction of the liability beginning in fiscal year 2017. The liability is estimated to be funded by 2037. The increase in OPEB liability for FY 2013 is expected to be much less.

- The net assets of the Council total $207.7 million and $167.0 million as of June 30, 2012 and 2011, respectively, an increase of $40.7 million and $10.6 million from the prior years.

    - Net assets invested in capital assets total $164.9 million and $116.6 million as of June 30, 2012 and 2011, respectively.

    - Restricted net assets total $20.4 million and $19.6 million as of June 30, 2012 and 2011, respectively and are primarily restricted for sponsored and capital projects.

    - Unrestricted net assets total $22.3 million and $30.8 million as of June 30, 2012 and 2011, respectively and represent net assets available to the Council for any lawful purpose of the Council and their institutions.

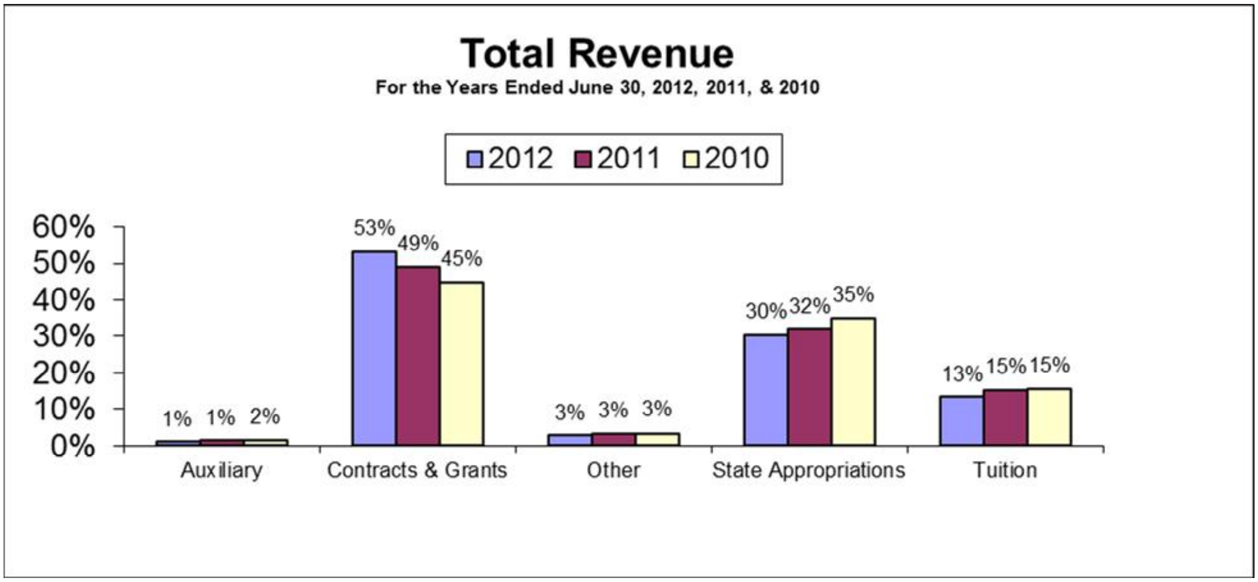
**Combined Statement of Revenues, Expenses, and Changes in Net Assets**

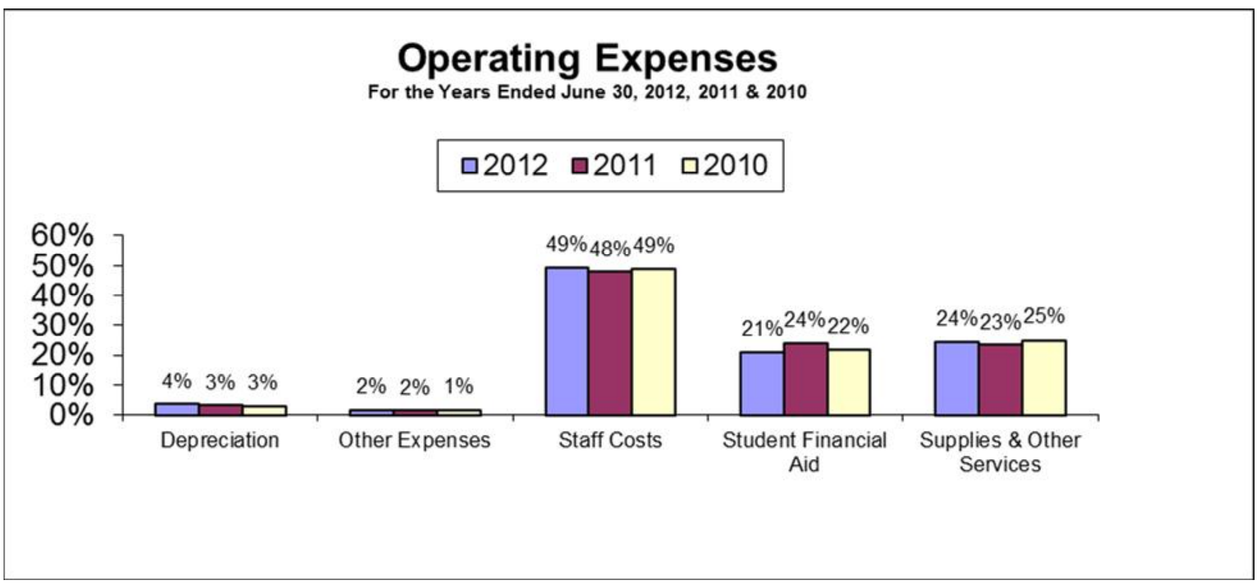
Changes in total net assets as presented on the Combined Statement of Net Assets are based on the activity presented in the Combined Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues of the Council, both operating and nonoperating, and the expenses of the Council, operating and nonoperating, and any other revenues, expenses, gains or losses of the Council.

Operating revenues represent the receipts earned from providing goods and service to the various customers and constituencies served by the Council, including fees from students and revenue in the form of Federal and State grants used to support operations and various initiatives. Operating expenses are those expenses incurred in the form of staff salaries, benefits, and various goods and services to carry out the mission of the Council. Revenues for which goods and services are not provided are reported as nonoperating revenues. For example, State appropriations are nonoperating because they are provided by the West Virginia State Legislature to the Council without the Legislature directly receiving commensurate goods and services for those revenues.

**Condensed Schedules of Revenues, Expenses, and Changes in Net Assets**
**(In thousands of dollars)**

| | FY 2012 | FY 2011 | FY 2010 | Change From 2011 to 2012 |
|---|---|---|---|---|
| Operating Revenues | $ 61,402 | $ 61,169 | $ 55,103 | $ 233 |
| Operating Expenses | 188,515 | 187,336 | 172,659 | 1,179 |
| Operating Loss | (127,113) | (126,167) | (117,556) | (946) |
| Net Nonoperating Revenues | 123,282 | 126,907 | 118,604 | (3,625) |
| Income Before Other Revenues, Expenses, Gains or Losses | (3,831) | 740 | 1,048 | (4,571) |
| Capital Projects & Bond Proceeds from the Commission and State | 2,734 | 302 | 757 | 2,432 |
| State Capital Grant (Federal) | 475 | 4,117 | 952 | (3,642) |
| Capital Grants and Gifts-Net | 3,112 | 226 | 404 | 2,886 |
| Capital Payments made on Behalf of Council and Institutions | 38,182 | 5,136 | 7,759 | 33,046 |
| Increase in Net Assets before Transfers | 40,672 | 10,521 | 10,920 | 30,151 |
| Transfers from (to) Entities of the Commission | 40 | 112 | 16,874 | (72) |
| Increase in Net Assets | 40,712 | 10,633 | 27,794 | 30,079 |
| Net Assets-Beginning of Year | 167,024 | 156,391 | 128,597 | 10,633 |
| Net Assets-End of Year | $ 207,736 | $ 167,024 | $ 156,391 | $ 40,712 |


Total Revenue
For the Years Ended June 30, 2012, 2011, & 2010
2012
2011
2010
60%
50%
40%
30%
20%
10%
0%
1% 1% 2%
53% 49% 45%
3% 3% 3%
30% 32% 35%
13% 15% 15%
Auxiliary
Contracts & Grants
Other
State Appropriations
Tuition


Operating Expenses
For the Years Ended June 30, 2012, 2011 & 2010
2012
2011
2010
60%
50%
40%
30%
20%
10%
0%
4% 3% 3%
2% 2% 1%
49% 48% 49%
21% 24% 22%
24% 23% 25%
Depreciation
Other Expenses
Staff Costs
Student Financial Aid
Supplies & Other Services

Major items of note in the Combined Statement of Revenue, Expenses, and Changes in Net Assets include:

- Operating Revenues of the Council totaled $61.4 million in FY 2012 compared to $61.2 million in FY 2011, an increase of $ 0.2 million compared to a prior year increase of $6.2 million.
    - Student tuition and fees revenues totaled $30.6 million in FY 2012 compared to $30.3 million in FY 2011, an increase of $0.3 million. Tuition is reported net of scholarship allowances totaling $31.7 million and $30.1 million in FY 2012 and 2011, respectively.
    - Federal grants and contracts totaled $8.1 million in FY 2012 compared to $6.9 million in FY 2011. The increase of $1.2 million represents normal fluctuations in grant activities. Federal grants include funding for sponsored research and other miscellaneous federal programs.
    - State grants and contracts totaled $11.6 million in FY 2012 compared to $12.5 million in FY 2011 and private grants and contracts totaled $1.9 million in FY 2012 compared to $2.2 million in FY 2011. These fluctuations represent normal grant activities.
    - Auxiliary enterprises generated revenues of $2.6 million, net of $0.3 million of scholarship allowances in FY 2012 compared to $2.7 million, net of $0.3 million of scholarship allowances in FY 2011.
    - Other operating revenues totaled $5.0 million in FY 2012 compared to $5.4 million in FY 2011, a decrease of $0.4 million. This decrease is primarily attributed to a decline in revenues received for payments of operating expenses related to various cooperative educational agreements with the community colleges and local business and boards of educations.
- Operating expenses totaled $188.5 million in FY 2012 compared to $187.3 million in FY 2011, an increase of $1.2 million.
    - Staff costs including salaries and benefits totaled $93.3 million in FY 2012 compared to $89.7 million in FY 2011, an increase of $3.6 million from the prior year. This increase is attributed to additional staffing at the institutions and salary increases.
    - Supplies and other services totaled $46.2 million in FY 2012 compared to $44.0 million in FY 2011. The change is attributable to inflationary cost increases.
    - Scholarships and fellowships totaled $39.8 million in FY 2012 compared to $44.9 million in FY 2011. This is primarily attributed to a decrease in the number of students receiving Pell grants.
    - Depreciation on capital assets totaled $6.7 million in FY 2012 compared to $6.1 million in FY 2011. This increase is attributable to the additional capital assets.
- The result from operations was a net operating loss of $127.1 million and $126.2 million for the years ended June 30, 2012 and 2011, respectively, but excludes State appropriations of

$69.8 million and $63.3 million, Federal Pell grants of $54.1 million and $59.7 million and State fiscal stabilization funds totaling $4.2 million received in fiscal year 2011. These exclusions are recorded are nonoperating revenues.

- Net nonoperating revenue totaled $123.3 million and $126.9 million for the years ended June 30, 2012 and 2011, respectively, a decrease of $3.6 million from the prior year.

  - State general revenue and lottery appropriations totaled $69.8 million and $63.3 million for the years ended June 30, 2012 and 2011, reflecting an increase of $6.5 million in FY 2012. The State restored funding that was backfilled with State fiscal stabilization funds of $4.2 and $3.9 million in fiscal years 2011 and 2010, respectively.

  - Interest earned on investments totaled $0.1 million for both the years ended June 30, 2012 and 2011. Lower yields on investment with the Board of Treasury Investments (BTI) continued in FY 2012 as in FY 2011.

- Other revenues primarily consist of capital payments made on behalf of the Council from the 2009 Series A Bond proceeds from the Commission totaling $38.2 million and $5.1 million and State capital grants totaling $0.5 million and $4.1 million for the years ended June 30, 2012 and 2011, respectively. Capital grants and gifts totaled $3.1 million and $0.2 million for the years ended June 30, 2012 and 2011, respectively. Additional revenues from funding from the 2009 Series A Bond proceeds and 2004 Series B Bond proceeds from the Commission totaled $2.7 million and $0.3 million for the years ended June 30, 2012 and 2011, respectively, as discussed in the capital asset and long-term debt activity section of this MD&A.

- The activity for FY 2012 resulted in an increase of net assets before transfers of $40.7 million, as compared to the $10.5 million increase in net assets before transfers during FY 2011. These increases are before transfers from institutions of the Commission. Net assets at the June 30, 2012 totaled $207.7 million compared to $167.0 million at June 30, 2011.

- As reported on a functional expenditure basis, expenditures for Educational and General Expenses were $139.2 million and $133.1 million in FY 2012 and FY 2011, respectively, an increase of $6.1 million over FY 2011. Instruction expenses constitute 46.7% and 48.1% of total educational and general expenses and institutional support constitutes 25.0% and 23.3% of total educational and general expenses, in FY 2012 and FY 2011, respectively.

## Functional Expenditure Comparisons
## (In thousands of dollars)

**Functional Expenditure Comparisons**
**(in thousands of dollars)**

| | FY12 Total | % of E&G Total | FY11 Total | % of E&G Total | FY10 Total | % of E&G Total | Change From 2011 to 2012 |
|---|---|---|---|---|---|---|---|
| Instruction | $ 65,038 | 46.7% | $ 64,010 | 48.1% | $ 61,489 | 48.6% | $ 1,028 |
| Research | - | 0.0% | - | 0.0% | 16 | 0.0% | - |
| Public Service | 4,759 | 3.4% | 3,769 | 2.8% | 3,489 | 2.8% | 990 |
| Academic Support | 9,743 | 7.0% | 11,367 | 8.5% | 11,227 | 8.9% | (1,624) |
| Student Services | 12,870 | 9.2% | 12,798 | 9.7% | 10,695 | 8.5% | 72 |
| Plant Operations | 12,122 | 8.7% | 10,178 | 7.6% | 10,068 | 8.0% | 1,944 |
| Institutional Support | 34,677 | 25.0% | 30,929 | 23.3% | 29,477 | 23.2% | 3,748 |
| **Total E& G Expenses** | 139,209 | 100.0% | 133,051 | 100.0% | 126,461 | 100.0% | 6,158 |
| Financial Aid | 39,826 | | 45,032 | | 37,894 | | (5,206) |

## Combined Statement of Cash Flows

The final statement presented is the Combined Statement of Cash Flows. The Combined Statement of Cash Flows presents detailed information about the cash activity of the Council during the year. The statement is divided into five parts. The first section deals with operating cash flows and shows the net cash used by the operating activities of the Council. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes. The third section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fifth part reconciles the net cash used in operations to the operating loss reflected on the Combined Statement of Revenues, Expenses, and Changes in Net Assets.

**Condensed Schedules of Cash Flows**
**(In thousands of dollars)**

| | FY 2012 | FY 2011 | FY 2010 | Change From 2011 to 2012 |
|---|---|---|---|---|
| Cash Provided (Used) By: | | | | |
| Operating Activities | $ (112,523) | $ (113,125) | $ (101,984) | $ 602 |
| Noncapital Financing Activities | 123,629 | 127,133 | 120,880 | (3,504) |
| Capital and Related Financing Activities | (7,566) | (9,887) | (8,749) | 2,321 |
| Investing Activities | 83 | 143 | 125 | (60) |
| Increase in Cash and Cash Equivalents | 3,623 | 4,264 | 10,272 | (641) |
| Cash and Cash Equivalents, beginning of year | 70,424 | 66,160 | 55,888 | 4,264 |
| Cash and Cash Equivalents, end of year | $ 74,047 | $ 70,424 | $ 66,160 | $ 3,623 |

Major items of note in the Combined Statement of Cash Flows include:

- Cash provided from operating activities was exceeded by cash expended for operating activities by $112.5 million and $113.1 million for the years ended June 30, 2012 and 2011, respectively, primarily because State appropriations and Federal Pell grants are defined within GAAP as noncapital financing activities. Primary sources of cash from Operating Activities during FY 2012 and 2011 were Student tuition and fees of $30.0 million and $29.4 million and contracts and grants of $21.1 million and $21.2 million, respectively. Primary uses of cash for FY 2012 and 2011, respectively, included payments to and on behalf of employees of $82.5 million and $78.9 million; payments to suppliers of $33.9 million and $33.2 million and payments for scholarship and fellowships of $39.6 million and $44.8 million.

- Net cash provided from noncapital financing activities for FY 2012 and 2011, respectively, totaled $123.6 million and $127.1 million, of which $68.8 million and $62.8 million was from State General Revenue and Lottery appropriations, $54.4 million and $59.0 million were from Federal Pell grants. State fiscal stabilization funds totaling $4.2 million were received in fiscal year 2011 for the final time.

- Net cash used in capital financing activities for FY 2012 and 2011, respectively, totaled $7.6 million and $9.9 million and primarily resulted from purchases of capital assets and debt activity.

- Net cash of the Council at June 30, 2012 was $74.0 million compared to $70.4 million at June 30, 2011, an increase of $3.6 million.

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

Funding for capital projects comes from a variety of sources, including student tuition and other operating revenues, fund raising, bond proceeds from the Commission, capital lease financing, and other external financing arrangements. Four of the recently separated community and technical colleges primarily utilize the facilities of their respective four-year and postgraduate counterpart. The Commission still maintains responsibility within the West Virginia Higher Education Fund for real property acquisition and construction.

On December 8, 2009, the Commission, on behalf of the Council, issued $78,295,000 of Community and Technical Colleges Improvement Revenue Bonds, 2009 Series A ("2009 Bonds"). The proceeds of the 2009 Bonds are being used to finance the acquisition, construction, equipping, or improvement of community and technical college facilities in West Virginia. The interest rate on the 2009 Bonds ranges from 2.5% to 5.0% and the due dates commenced July 1, 2010 and end July 1, 2028. State Lottery proceeds of a maximum of $5,000,000 per year will be used to repay the debt, which has a maximum annual debt service of $4,999,750. In addition, pursuant to Section 18 (j) (1) of the Lottery Act, the Commission has granted a third-in-party lien, for the benefit of the bond holders, on the proceeds of the State Lottery Fund, up to a maximum of $7,500,000 annually. As of June 20, 2012, the Commission has made payments on behalf of the Council or transferred $48.7 million to entities of the Council leaving a balance of $29.6 million. Further details concerning capital assets are included in Note 5 and the long-term liabilities of the Council are included in Notes 6 through 11 of the Notes to the Council Financial Statements.

**Other Factors Impacting the Financial Position and Results of Operations of the Council**

Meeting the Challenge: 2011-2015 is the new West Virginia Community and Technical College System Master Plan. The mission of the West Virginia Community and Technical College System is to promote and provide high-quality, accessible, and responsive education and training opportunities that maximize student learning, improve the standard of living for West Virginians, and contribute to the economic vitality and competitiveness of our state. The Community and Technical College System will:

- Be a comprehensive community and technical college system that offers developmental education, career and technical education, workforce and continuing education and transfer education;
- Be the economic stimulus for business and industry to remain in or relocate to the state because of the education and training with which it equips its citizens to compete in the global economy;
- Produce a world-class workforce by being the primary provider of adult workforce and technical training; and
- Strategically partner with economic, workforce and community development, K-12 and the universities to meet the workforce development needs of citizens and businesses.

The Community and Technical College System goals are the following:

- Produce graduates with the general education and technical skills needed to be successful in the workplace or subsequent education.
- Provide workforce development programs that meet the demands of West Virginia's employers and enhance West Virginia's economic development efforts.
- Provide access to affordable, comprehensive community and technical college education in all regions of West Virginia.
- Provide resources to meet the needs of community and technical college students and employees.

The State Appropriation for Community and Technical Colleges as they were included in the Council for FY 2012 amounted to $69.8 million while for FY 2011 was $63.3 million. For fiscal year 2013, State appropriations for operations increased $1.0 million to fund a 4.0 % increase in insurance benefits. For fiscal year 2014, the Governor's Office instructed that budget requests are to reflect a 7.5 % reduction of the current FY 2013 appropriation.

The demographics of the State of West Virginia also have an impact on the future operations of the Council. The number of high school graduates has declined in recent years and is projected to decline further over the next ten years. Significant efforts are underway to expand the participation rate in higher education by both high school graduating seniors as well as adults to improve the economic environment of the State. Increased attendance by nonresident students is another factor in the future financial stability of the Council. Net student tuition and fees provide approximately 13% of the total revenues of the Council.

One of the key goals of the higher education system is to improve the economic environment of the State of West Virginia. The full impact of the current economic environment and the resulting impact on the future economic environment by various factors including the performance of the higher education system cannot be predicted with any certainty. The Council's current financial condition will be a significant resource supporting future economic development efforts.

# WEST VIRGINIA COUNCIL FOR COMMUNITY AND TECHNICAL COLLEGE EDUCATION

## COMBINED STATEMENTS OF NET ASSETS AS OF JUNE 30, 2012 AND 2011

| | 2012 | 2011 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 74,047,212 | $ 70,424,353 |
| Appropriations due from Primary Government | 6,859,516 | 8,559,900 |
| Accounts receivable — net | 5,068,742 | 3,728,275 |
| Bond proceeds receivable | 950,251 | |
| Due from the Commission | 1,138,752 | 79,479 |
| Inventories | 562,578 | 623,070 |
| Due from Marshall University — current portion | 350,000 | 350,000 |
| Other current assets | 156,931 | 105,686 |
| Total current assets | 89,133,982 | 83,870,763 |
| NONCURRENT ASSETS: | | |
| Cash and cash equivalents | 3,547,029 | 3,672,733 |
| Appropriation due from Primary Government | 3,240,267 | 2,959,355 |
| Due from Marshall University | 1,792,834 | 2,142,834 |
| Capital assets — net | 181,487,432 | 129,645,214 |
| Other noncurrent assets | 361,087 | 320,299 |
| Total noncurrent assets | 190,428,649 | 138,740,435 |
| TOTAL | $279,562,631 | $222,611,198 |

(Continued)

## WEST VIRGINIA COUNCIL FOR COMMUNITY AND TECHNICAL COLLEGE EDUCATION

### COMBINED STATEMENTS OF NET ASSETS AS OF JUNE 30, 2012 AND 2011

| | 2012 | 2011 |
|---|---|---|
| **LIABILITIES** | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | $ 7,738,875 | $ 2,947,203 |
| Accrued liabilities | 5,430,386 | 5,337,039 |
| Due to the Commission | 286,938 | 227,148 |
| Due to State and State agencies | 215,766 | 257,097 |
| Due to Bluefield State College | 268,678 | 268,678 |
| Deferred revenue | 13,936,857 | 13,470,830 |
| Compensated absences — current portion | 2,934,008 | 2,688,584 |
| Capital lease obligations — current portion | 227,012 | 262,066 |
| Bonds payable — current portion | 162,555 | |
| Other debt service obligations — current portion | 902,226 | 1,209,424 |
| Total current liabilities | 32,103,301 | 26,668,069 |
| NONCURRENT LIABILITIES: | | |
| Advances from federal sponsors | 54,621 | 51,753 |
| Other post employment benefit liability | 23,861,799 | 16,424,019 |
| Compensated absences | 654,828 | 607,646 |
| Capital lease obligations | 688,919 | 3,630,182 |
| Bonds payable | 3,337,445 | |
| Other debt service obligations | 10,505,467 | 7,585,868 |
| Funds due to West Virginia Development Office | 619,932 | 619,932 |
| Total noncurrent liabilities | 39,723,011 | 28,919,400 |
| Total liabilities | 71,826,312 | 55,587,469 |
| NET ASSETS: | | |
| Invested in capital assets — net of related debt | 164,924,408 | 116,594,758 |
| Restricted for: | | |
| Nonexpendable — other | 50,000 | 50,000 |
| Expendable: | | |
| Capital projects | 9,499,256 | 7,134,873 |
| Scholarships | 201,916 | 327,561 |
| Sponsored projects | 9,518,601 | 11,540,833 |
| Other | 1,214,486 | 557,376 |
| Total restricted expendable | 20,434,259 | 19,560,643 |
| Unrestricted | 22,327,652 | 30,818,328 |
| Total net assets | 207,736,319 | 167,023,729 |
| TOTAL | $ 279,562,631 | $ 222,611,198 |

See notes to combined financial statements.

(Concluded)

## WEST VIRGINIA COUNCIL FOR COMMUNITY AND TECHNICAL COLLEGE EDUCATION

### COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

| | 2012 | 2011 |
|---|---|---|
| OPERATING REVENUES: | | |
| Student tuition and fees — net of scholarship allowance of $31,651,850 and $30,084,901 in 2012 and 2011, respectively | $ 30,620,674 | $ 30,279,756 |
| Contracts and grants: | | |
| Federal | 8,063,738 | 6,917,818 |
| State | 11,636,971 | 12,482,861 |
| Private | 1,914,205 | 2,156,441 |
| Sales and services of educational activities | 1,490,937 | 1,287,020 |
| Auxiliary enterprise revenue — net of scholarship allowance of $309,287 and $326,034 in 2012 and 2011, respectively | 2,628,888 | 2,692,153 |
| Other operating revenues | 5,046,936 | 5,353,252 |
| Total operating revenues | 61,402,349 | 61,169,301 |
| OPERATING EXPENSES: | | |
| Salaries and wages | 69,584,143 | 66,770,243 |
| Benefits | 23,675,535 | 22,966,456 |
| Supplies and other services | 46,227,112 | 44,024,938 |
| Utilities | 2,371,202 | 2,238,218 |
| Student financial aid — scholarships and fellowships | 39,752,223 | 44,947,259 |
| Depreciation | 6,688,766 | 6,109,109 |
| Loan cancellations and write-offs | 216,783 | 280,324 |
| Total operating expenses | 188,515,764 | 187,336,547 |
| OPERATING LOSS | (127,113,415) | (126,167,246) |

(Continued)

## WEST VIRGINIA COUNCIL FOR COMMUNITY AND TECHNICAL COLLEGE EDUCATION

### COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

| | 2012 | 2011 |
|---|---|---|
| NONOPERATING REVENUES (EXPENSES): | | |
| State appropriations | $ 69,795,002 | $ 63,330,752 |
| State fiscal stabilization funds (federal) | | 4,218,912 |
| Federal Pell grants | 54,075,266 | 59,669,540 |
| Investment income | 88,090 | 135,728 |
| Fees assessed by the Commission | (157,203) | (192,615) |
| Other nonoperating expenses — net | (518,854) | (254,674) |
| Net nonoperating revenues | 123,282,301 | 126,907,643 |
| (LOSS) INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES | (3,831,114) | 740,397 |
| CAPITAL PROJECTS AND BOND PROCEEDS FROM THE COMMISSION AND STATE | 2,733,999 | 301,916 |
| STATE CAPITAL GRANTS (FEDERAL) | 474,841 | 4,117,098 |
| CAPITAL GRANTS AND GIFTS | 3,112,722 | 226,131 |
| CAPITAL PAYMENTS MADE ON BEHALF OF COUNCIL AND INSTITUTIONS | 38,182,078 | 5,135,418 |
| INCREASE IN NET ASSETS BEFORE TRANSFERS | 40,672,526 | 10,520,960 |
| TRANSFERS FROM INSTITUTIONS OF THE COMMISSION | 40,064 | 111,634 |
| INCREASE IN NET ASSETS | 40,712,590 | 10,632,594 |
| NET ASSETS — Beginning of year | 167,023,729 | 156,391,135 |
| NET ASSETS — End of year | $ 207,736,319 | $ 167,023,729 |

See notes to combined financial statements. (Concluded)

# WEST VIRGINIA COUNCIL FOR COMMUNITY AND TECHNICAL COLLEGE EDUCATION

## COMBINED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

| | 2012 | 2011 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Student tuition and fees | $ 30,040,349 | $ 29,443,721 |
| Contracts and grants | 21,074,023 | 21,209,377 |
| Payments to and on behalf of employees | (82,529,506) | (78,871,530) |
| Payments to suppliers | (33,869,367) | (33,239,792) |
| Payments to utilities | (2,430,175) | (2,323,551) |
| Payments for scholarships and fellowships | (39,616,424) | (44,835,102) |
| Auxiliary enterprise charges | 3,024,036 | 3,096,342 |
| Sales and service of educational activities | 2,735,573 | 2,640,041 |
| Other payments — net | (10,951,856) | (10,244,777) |
| Net cash used in operating activities | (112,523,347) | (113,125,271) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | |
| State appropriations | 68,796,101 | 62,834,563 |
| State fiscal stabilization funds (federal) | | 4,218,912 |
| Federal Pell grants | 54,440,190 | 59,005,240 |
| William D. Ford direct lending receipts | 44,382,498 | 42,512,798 |
| William D. Ford direct lending payments | (44,383,449) | (42,520,498) |
| Other nonoperating receipts — net | 393,422 | 1,081,925 |
| Net cash provided by noncapital financing activities | 123,628,762 | 127,132,940 |
| CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES: | | |
| Capital gifts and grants received | 3,538,747 | 4,306,552 |
| Purchases of capital assets | (13,056,307) | (10,726,183) |
| Proceeds from capital debt | 2,549,749 | |
| Capital projects and bond proceeds from the Commission and State | 1,232,877 | 144,663 |
| Withdrawals from noncurrent cash and cash equivalents | 435,914 | 72,416 |
| Deposits to noncurrent cash and cash equivalents | (310,212) | (1,248,483) |
| Debt service assessed for debt service and reserves | (1,892,585) | (2,033,469) |
| Principal paid on capital debt and leases | (274,067) | (260,852) |
| Interest paid on capital debt and leases | (120,545) | (162,331) |
| Receipt from West Virginia University loan | 3,420,000 | |
| Payment of capital lease with loan proceeds | (3,420,000) | |
| Other | 330,787 | 21,008 |
| Net cash used in capital financing activities | (7,565,642) | (9,886,679) |
| CASH FLOWS FROM INVESTING ACTIVITIES — Investment income | 83,086 | 143,863 |
| INCREASE IN CASH AND CASH EQUIVALENTS | 3,622,859 | 4,264,853 |
| CASH AND CASH EQUIVALENTS — Beginning of year | 70,424,353 | 66,159,500 |
| CASH AND CASH EQUIVALENTS — End of year | $ 74,047,212 | $ 70,424,353 |

(Continued)

## WEST VIRGINIA COUNCIL FOR COMMUNITY AND TECHNICAL COLLEGE EDUCATION

### COMBINED STATEMENTS OF CASH FLOWS
### FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

| | 2012 | 2011 |
|---|---|---|
| RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES: | | |
| Operating loss | $ (127,113,415) | $ (126,167,246) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | | |
| Depreciation expense | 6,688,766 | 6,109,109 |
| Changes in assets and liabilities: | | |
| Receivables — net | 697,765 | 710,687 |
| Due from the Commission | (798,353) | 35,044 |
| Inventories | 58,302 | 270 |
| Accounts payable/amounts due | (446,277) | (2,086,083) |
| Accrued liabilities and deposits | (54,272) | 692,140 |
| Compensated absences | 292,607 | 251,363 |
| Other post employment benefits | 7,437,780 | 7,409,303 |
| Deferred revenue | 369,163 | (241,511) |
| Advances from federal sponsors | 2,868 | (6,932) |
| Other | 341,719 | 168,585 |
| NET CASH USED IN OPERATING ACTIVITIES | $ (112,523,347) | $ (113,125,271) |
| SIGNIFICANT NONCASH TRANSACTIONS: | | |
| Capital asset additions in accounts payable | $ 15,507,708 | $ 337,043 |
| Appropriations used for construction in progress | $ 2,431,498 | $ - |
| Capital lease obligation incurred for building | $ - | $ 439,823 |

See notes to combined financial statements. (Concluded)

## 1. ORGANIZATION

The West Virginia Council for Community and Technical College Education (the "Council") is comprised of the following:

Blue Ridge Community and Technical College
Bridgemont Community and Technical College ("Bridgemont")
Eastern West Virginia Community and Technical College ("Eastern")
Kanawha Valley Community and Technical College ("Kanawha")
Pierpont Community and Technical College ("Pierpont")
Mountwest Community and Technical College ("Mountwest")
New River Community and Technical College ("New River")
Southern West Virginia Community and Technical College
West Virginia Council for Community and Technical College Education (administrative unit)
West Virginia Northern Community College ("Northern")
West Virginia University at Parkersburg ("WVU Parkersburg")

The Council is a part of the West Virginia Higher Education Fund. The Council (two-year education) and the West Virginia Higher Education Policy Commission (the "Commission") (four-year and post-graduate education) collectively comprise the West Virginia Higher Education Fund. Both the Council and the Commission were legislatively created under Senate Bill No. 448 and Senate Bill No. 653, respectively. Senate Bill No. 448, which was enacted in March 2004, requires a separate combined audit of the Council.

The Council is responsible for developing, overseeing, and advancing the State of West Virginia's (the "State") public policy agenda as it relates to community and technical college education. The Council is comprised of 13 persons appointed by the Governor with the advice and consent of the Senate.

Each institution within the Council is governed by their own Governing Boards, which are responsible for the general determination, control, supervision, and management of the financial business and educational policies and affairs of its institution. Certain administrative services are provided by the Commission to the Council at no charge.

During fiscal year 2008, House Bill No. 3215 was passed, which clarified and redefined relationships between and among certain higher education boards and institutions. This legislation defines the statewide network of independently accredited community and technical colleges. Effective July 1, 2008, WVU Parkersburg and the administratively linked community and technical colleges of Fairmont State University, Marshall University, West Virginia State University, and West Virginia University (the "Universities") established their own Boards of Governors. Except for Fairmont State University ("Fairmont") and Pierpont which were granted an extension to be effective January 1, 2010, the newly established Boards of Governors and the Boards of Governors of the Universities jointly agreed on a division of assets and liabilities of the Universities as required. The net amount of assets (liabilities) at the transfer dates transferred from the Universities to the separately established community and technical colleges was $16,431,339 during 2010. During 2012 and 2011, there were additional transfers from the

Universities of $40,064 and $111,634, respectively. The Universities and the separately established community and technical colleges developed a plan that ensures the financial stability of auxiliary enterprises, including but not limited to, student housing, student centers, dining services, parking, and athletics through at least fiscal year 2012. There are no formal requirements after June 30, 2012, except for Pierpont. The transition plans related to Fairmont and Pierpont extend Pierpont's obligation beyond 2012 to match outstanding bond commitments of Fairmont.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The combined financial statements of the Council have been prepared in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles") as prescribed by Governmental Accounting Standards Board standards (GASB). The financial statement presentation required by GASB provides a comprehensive, entity-wide perspective of the Council's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows.

**Reporting Entity** — The accompanying combined financial statements present all entities under the authority of the Council under GASB.

The basic criterion for inclusion in the accompanying combined financial statements is the exercise of oversight responsibility derived from the Council's ability to significantly influence operations and accountability for fiscal matters of related entities. Related foundations and other affiliates of the Council are not part of the Council's reporting entity and are not included in the accompanying combined financial statements as the Council has no ability to designate management, cannot significantly influence operations of these entities, and is not accountable for the fiscal matters of the foundations and other affiliates under GASB blended component unit requirements.

Under GASB discretely presented component unit requirements the Council does not have any foundations or other affiliates which are required to be included in the combined financial statements as a discretely presented component unit, as they are either 1) insignificant or 2) have dual purpose (not entirely or almost entirely for the benefit of the Council).

**Financial Statement Presentation** — GASB establishes standards for external financial reporting for public colleges and universities and requires that financial statements be presented on a combined basis to focus on the Council as a whole. Net assets are classified into four categories according to external donor restrictions or availability of assets for satisfaction of Council obligations. The Council's net assets are classified as follows:

*Invested in Capital Assets, Net of Related Debt* — This represents the Council's total investment in capital assets, net of accumulated depreciation, and outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

*Restricted Net Assets, Expendable* — This includes resources in which the Council is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

The West Virginia Legislature, as a regulatory body outside the reporting entity, has restricted the use of certain funds by Article 10, *Fees and Other Money Collected at State Institutions of Higher Education* of the West Virginia State Code. House Bill No. 101 passed in March 2004 simplified the tuition and fees restrictions to auxiliaries and capital items. These activities are fundamental to the normal ongoing operations of the Council. These restrictions are subject to change by future actions of the West Virginia Legislature.

*Restricted Net Assets, Nonexpendable* — This includes endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

*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 Council, and may be used at the discretion of the respective governing boards to meet current expenses for any purpose.

**Basis of Accounting** — For financial reporting purposes, the Council is considered a special-purpose government engaged only in business-type activities. Accordingly, the Council's combined 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 expenses when materials or services are received. All intercompany accounts and transactions have been eliminated.

**Cash and Cash Equivalents** — For purposes of the statements of net assets, the Council 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 of West Virginia (the "State") for investment purposes by the West Virginia Board of Treasury Investments (BTI). These funds are transferred to the BTI, and the BTI 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 BTI, and by the provisions of bond indentures and trust agreements, when applicable. Balances in the investment pools are recorded at fair value, or amortized cost, which approximates fair value. Fair value is determined by a third-party pricing service based on asset portfolio pricing models and other sources in accordance with GASB. The BTI was established by the State Legislature and is subject to oversight by the 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 are available for immediate withdrawal or on the first day of each month for the WV Short Term Bond Pool, and accordingly, are presented as cash and cash equivalents in the accompanying combined financial statements.

The BTI maintains the Consolidated Fund investment fund which consists of eight investment pools and participant-directed accounts, three of which the Council may invest in. These pools have been structured as multiparticipant variable net asset funds to reduce risk and offer investment liquidity diversification to the Consolidated Fund participants. Consolidated Funds not required to meet immediate disbursement needs are invested for longer periods. A more detailed discussion of the BTI's investment operations pool can be found in its annual report. A copy of that annual report can be obtained from the following address: 1900 Kanawha Blvd. East, Room E-122, Charleston, WV 25305 or http://www.wvbti.com.

**Appropriations Due from Primary Government** — For financial reporting purposes, appropriations due from the State are presented separate from cash and cash equivalents, as amounts are not specific deposits with the State Treasurer but are obligations of the State.

**Allowance for Doubtful Accounts** — It is the Council'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 Council on such balances, and such other factors which, in the Council's judgment, require consideration in estimating doubtful accounts.

**Amounts with Affiliates** — The current amounts due to/from affiliates, including the Commission and institutions of the Commission, are noninterest bearing and payable on demand.

Debt service obligations payable to Commission and its institutions bear interest and have scheduled maturities. Notes payable to the Commission are noninterest bearing (see Note 11).

**Inventories** — Inventories are stated at the lower of cost or market, cost being determined on the first-in, first-out method.

**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 or settle long-term liabilities or (3) to be held for permanently restricted net assets is classified as a noncurrent asset in the statements of net assets.

**Noncurrent Due from Primary Government** — An appropriation due from primary government 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, or (3) to be held for permanently restricted net assets, is classified as a noncurrent asset in the statements 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. There was no interest capitalized as part of the cost of assets for the years ended June 30, 2012 and 2011. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 20 to 50 years for buildings and infrastructure, 20 years for land improvements, 7 to 20 years for library assets, and 3 to 10 years for furniture and equipment.

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

**Compensated Absences and Other Post Employment Benefits** — GASB provides standards for the measurement, recognition, and display of other postemployment benefit (OPEB) expenditures, assets, and liabilities, including applicable note disclosures and required supplementary information. During fiscal year 2006, House Bill No. 4654 was established to create a trust fund for postemployment benefits for the State. Effective July 1, 2007, the Council was required to participate in this multiple employer cost-sharing plan, the West Virginia Retiree Health Benefit Trust Fund, sponsored by the State. Details regarding this plan and its stand-alone financial statements can be obtained by contacting West Virginia Public Employees Insurance Agency (PEIA), State Capitol Complex, Building 5, Room 1001, 1900 Kanawha Boulevard, East, Charleston, WV 25305-0710 or http://www.wvpeia.com.

GASB 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 Council'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, or who were hired before 1988 but did not choose such coverage until after 1988 but before July 1, 2001, 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. Additionally, all retirees have the option to purchase continued coverage regardless of their eligibility for premium credits. This liability is now provided for under the multiple employer cost-sharing plan sponsored by the State.

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. Faculty hired after July 1, 2009, will no longer receive years of service credit toward insurance premiums when they retire. Employees hired after July 1, 2010, receive no health issuance premium subsidy from the Council. Two groups of employees hired after July 1, 2010, will not be required to pay the unsubsidized rate: 1) active employees who were originally hired before July 1, 2010, who have a break in service of fewer than two years after July 1, 2010; and 2) retired employees who retired before July 1, 2010, return to active service after July 1, 2010, and then go back into retirement. In those cases, the original hire date will apply.

The estimated expense and expense incurred for vacation leave or OPEB benefits are recorded as a component of benefits expense on the statements 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 coverage to the Council and its employees. Such coverage may be provided to the Council 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 Council or other participants in BRIM's insurance programs. As a result, management does not expect significant differences between the premiums the Council is currently charged by BRIM and the ultimate cost of that insurance based on the Council's actual loss experience. In the event such differences arise between estimated premiums currently charged by BRIM to the Council and the Council's ultimate actual loss experience, the difference will be recorded as the change in estimate becomes known.

In addition, through its participation in the West Virginia PEIA and a third-party insurer, the Council has obtained health, life, prescription drug coverage, and coverage for job-related injuries for its employees. In exchange for payment of premiums to PEIA and the third-party insurer, the College has transferred its risks related to health, life, prescription drug coverage, and job-related injuries.

**Classification of Revenues** — The Council has classified its revenues according to the following criteria:

*Operating Revenues* — Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most federal, state, local, and nongovernmental grants and contracts, and (4) sales and services of educational activities.

*Nonoperating Revenues* — Nonoperating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenues that are defined as nonoperating revenues by GASB, such as state appropriations, federal Pell grants, and investment income, and sale of capital assets (including natural resources).

*Other Revenues* — Other revenues consist primarily of capital grants and gifts.

**Use of Restricted Net Assets** — The Council 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 Council attempts to utilize restricted net assets first when practicable. Certain community and technical colleges (CTCs) have adopted a policy to utilize restricted net assets first.

**Federal Financial Assistance Programs** — The Council makes loans to students under the Federal Direct Student Loan Program. Under this program, the U.S. Department of Education makes interest subsidized and nonsubsidized loans directly to students through the institutions within the Council. The Council also makes loans to students under the Stafford Loan Program through financial institutions. Direct and Stafford student loan receivables are not included in the Council's combined statements of net assets. In 2012 and 2011, the Council received and disbursed, or awarded, approximately \$56,200,000 and \$55,800,000, respectively, under both Student Loan Programs, which is not included as revenue and expense on the combined statements of revenues, expenses, and changes in net assets.

The Council 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 2012 and 2011, the Council received and disbursed approximately \$55,300,000 and \$60,900,000, 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 combined statements of revenues, expenses, and changes in net assets. Scholarship allowances are the difference between the stated charge for goods and services provided by the Council, and the amount that is paid by students and/or third parties making payments on the students' behalf.

Financial aid to students is reported in the combined financial statements under the alternative method as prescribed by the National Association of College and University 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 combined 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 Council 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 Council is exempt from income taxes, except for unrelated business income, as a nonprofit organization under federal income tax laws and regulations of the Internal Revenue Service.

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

**Use of Estimates —** The preparation of financial statements in conformity with generally accepted accounting principles 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 materially from those estimates.

**Risk and Uncertainties** — Investments are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain securities, it is reasonably possible that changes in risk and values will occur in the near term and that such changes could materially affect the amounts reported in the combined financial statements.

**Newly Adopted Statements Issued by the Governmental Accounting Standards Board** — During 2011, the Council adopted Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This statement addresses how to account for and report service concession arrangements (SCAs) by establishing recognition, measurement, and disclosure requirements for SCAs for both transferors and governmental operators. No material SCAs were identified.

The Council also adopted issued Statement No. 61, *The Financial Reporting Entity: Omnibus — an amendment of GASB Statements No. 14 and No. 34*. This statement improves financial reporting for a governmental financial reporting entity by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of the entity. The adoption of this statement did not have a material impact on the financial statements.

The Council also adopted Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance included in the FASB and AICPA pronouncements issued on or before November 30, 1989. This statement improves financial reporting by contribution to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. The adoption of this statement did not have a material impact on the financial statements.

The Council also adopted Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*. This statement improves financial reporting by clarifying whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. The adoption of this statement did not have a material impact on the financial statements.

**Recent Statements Issued by the Governmental Accounting Standards Board** — The Governmental Accounting Standards Board has issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective for fiscal years beginning after December 15, 2011. The objective of this statement is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in the statement of financial position and related disclosures. The Council has not yet determined the effect that the adoption of GASB Statement No. 63 may have on its financial statements.

The GASB has also issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective for fiscal years beginning after December 15, 2012. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The Council has not yet determined the effect that the adoption of GASB Statement No. 65 may have on its financial statements.

The GASB has also issued Statement No. 66, *Technical Corrections — 2012: An Amendment of GASB Statements No. 10 and No. 64*, effective for fiscal years beginning after December 15, 2012 This statement improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and GASB Statement No. 62, *Codification of*

*Accounting and Financial Reporting Guidance Contained in Pre-November, 1989 FASB and AICPA Pronouncements*. The Council has not yet determined the effect that the adoption of GASB Statement No. 66 may have on its financial statements.

The GASB has also issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective for fiscal years beginning after June 15, 2014. This statement enhances the information provided in the financial statements regarding the effects of pension-related transactions, the pension obligations of the entity, and the resources available to satisfy those obligations. The Council has not yet determined the effect that the adoption of GASB Statement No. 68 may have on its financial statements.

## 3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents at June 30, 2012 and 2011, was held as follows:

| **2012** | **Current** | **Noncurrent** | **Total** |
|---|---|---|---|
| State Treasurer | $ 71,444,747 | $ 3,415,087 | $ 74,859,834 |
| Trustee | 30,451 | 831 | 31,282 |
| Banks | 2,562,814 | 131,111 | 2,693,925 |
| On hand | 9,200 | | 9,200 |
| | $ 74,047,212 | $ 3,547,029 | $ 77,594,241 |

| **2011** | **Current** | **Noncurrent** | **Total** |
|---|---|---|---|
| State Treasurer | $ 69,017,913 | $ 3,620,828 | $ 72,638,741 |
| Trustee | 100 | 28 | 128 |
| Banks | 1,397,240 | 51,877 | 1,449,117 |
| On hand | 9,100 | | 9,100 |
| | $ 70,424,353 | $ 3,672,733 | $ 74,097,086 |

Amounts held by the State Treasurer and Trustee include $7,531,938 and $8,712,638 of restricted cash at June 30, 2012 and 2011, respectively.

The combined carrying amounts of cash in the bank at June 30, 2012 and 2011, were $2,693,925 and $1,449,117, as compared with the combined bank balance of $3,075,430 and $2,266,296, respectively. The difference is primarily caused by outstanding checks and items in transit. The bank balances were covered by federal depository insurance, as noted below, or were secured by financial instruments held as collateral by the State's agent. Regarding federal depository insurance, interest bearing accounts are secured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. Noninterest bearing accounts are 100% insured through December 31, 2012.

Amounts with the State Treasurer as of June 30, 2012 and 2011, are comprised of the following investment pools:

The BTI has adopted an investment policy in accordance with the "Uniform Prudent Investor Act." The "prudent investor rule" guides those with responsibility for investing the money for others. Such fiduciaries must act as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income; preserve capital; and, in general, avoid speculative investments. The BTI's investment policy is to invest assets in a manner that strives for maximum safety, provides adequate liquidity to meet all operating requirements, and achieves the highest possible investment return consistent with the primary objectives of safety and liquidity. The BTI recognizes that risk, volatility, and the possibility of loss in purchasing power are present to some degree in all types of investments. Due to the short-term nature of BTI's Consolidated Fund, the BTI believes that it is imperative to review and adjust the investment policy in reaction to interest rate market fluctuations/trends on a regular basis and has adopted a formal review schedule. Investment policies have been established for each investment pool and account of the BTI's Consolidated Fund. Of the BTI's Consolidated Fund pools and accounts in which the Council invests, all are subject to credit risk.

**WV Money Market Pool — Credit Risk** — Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. For the years ended June 30, 2012 and 2011, the WV Money Market Pool has been rated AAAm by Standard & Poor's. A Fund rated "AAAm" has extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market, and/or liquidity risks. "AAAm" is the highest principal stability fund rating assigned by Standard & Poor's. As this pool has been rated, specific information on the credit ratings of the underlying investments of the pool have not been provided.

The BTI limits the exposure to credit risk in the WV Money Market Pool by requiring all corporate bonds to be rated AA- by Standard & Poor's (or its equivalent) or higher. Commercial paper must be rated at least A-1 by Standard & Poor's and P-1 by Moody's. The pool must have at least 15% of its assets in U.S. Treasury issues.

At June 30, 2012 and 2011, the WV Money Market Pool investments had a total carrying value of $2,786,968,000 and $3,018,560,000, respectively, of which the Council's ownership represents 2.28% and 2.05%, respectively.

**WV Government Money Market Pool — Credit Risk** — For the years ended June 30, 2012 and 2011, the WV Government Money Market Pool has been rated AAAm by Standard & Poor's. A Fund rated "AAAm" has extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market, and/or liquidity risks. "AAAm" is the highest principal stability fund rating assigned by Standard & Poor's. As this pool has been rated, specific information on the credit ratings of the underlying investments of the pool have not been provided.

The BTI limits the exposure to credit risk in the WV 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. The pool must have at least 15% of its assets in U.S. Treasury issues.

At June 30, 2012 and 2011, the WV Government Money Market Pool investments had a total carrying value of $299,629,000 and $262,692,000, respectively, of which the Council's ownership represents 0.16% and 0.17%, respectively.

## WV Short Term Bond Pool:

*Credit Risk* — The BTI limits the exposure to credit risk in the WV Short Term Bond Pool by requiring all corporate bonds to be rated A by Standards & Poor's (or its equivalent) or higher. Commercial paper must be rated at least A-1 by Standards & Poor's and P-1 by Moody's. As this pool has not been rated, the following table provides information on the credit ratings of the WV Short Term Bond Pool's investments (in thousands):

| | Credit Rating* | | 2012 | | 2011 | |
|---|---|---|---|---|---|---|
| **Security Type** | **Moody's** | **S&P** | **Carrying Value** | **Percent of Pool Assets** | **Carrying Value** | **Percent of Pool Assets** |
| Corporate asset backed securities | Aaa | AAA | $ 95,628 | 18.99 % | $ 87,197 | 18.40 % |
| | Aaa | NR * | 38,524 | 7.64 | 19,891 | 4.20 |
| | Aa3 | AA+ ** | | | 454 | 0.10 |
| | B1 | CCC ** | 896 | 0.18 | 885 | 0.19 |
| | B3 | B ** | | | 366 | 0.08 |
| | B3 | BB ** | 311 | 0.06 | | |
| | B3 | BBB ** | | | 631 | 0.13 |
| | B3 | BBB- ** | 53 | 0.01 | | |
| | B3 | CCC ** | 280 | 0.06 | | |
| | Ca | CCC ** | 586 | 0.12 | 664 | 0.14 |
| | Caa2 | CCC ** | 186 | 0.04 | 473 | 0.10 |
| | Caa3 | CCC ** | 243 | 0.05 | 393 | 0.08 |
| | Caa3 | D ** | 26 | 0.01 | 27 | 0.01 |
| | NR | AA+ | 3,900 | 0.77 | | |
| | NR * | NR * | 3,786 | 0.75 | 4,000 | 0.84 |
| | | | 144,419 | 28.68 | 114,981 | 24.27 |
| Corporate bonds and notes | Aaa | AA | | | 2,043 | 0.43 |
| | Aa1 | A | | | 4,143 | 0.87 |
| | Aa2 | AA+ | 9,025 | 1.79 | | |
| | Aa2 | AA | | | 11,866 | 2.50 |
| | Aa3 | AA | | | 7,064 | 1.49 |
| | Aa3 | AA- | 15,666 | 3.11 | | |
| | Aa3 | A | 23,032 | 4.57 | 13,040 | 2.75 |
| | A1 | AA | 12,145 | 2.41 | 8,107 | 1.71 |
| | A1 | A+ | 30,684 | 6.09 | | |
| | A1 | A | | | 22,731 | 4.80 |
| | A2 | AA | | | 2,555 | 0.54 |
| | A2 | A | 39,064 | 7.76 | 23,976 | 5.06 |
| | A3 | A | | | 8,770 | 1.85 |
| | A3 | A- | 7,755 | 1.54 | | |
| | A3 | BBB+ | 3,006 | 0.60 | | |
| | Baa1 | A- | 4,162 | 0.83 | | |
| | Baa2 | A- | 6,709 | 1.33 | | |
| | | | 151,248 | 30.03 | 104,295 | 22.00 |
| Commercial paper | P-1 | A-1 | | | 15,995 | 3.38 |
| U.S. agency bonds | Aaa | AAA | | | 20,017 | 4.22 |
| U.S. agency bonds | Aaa | AA+ | 45,024 | 8.94 | | |
| U.S. Treasury notes*** | Aaa | AAA | | | 25,034 | 5.28 |
| U.S. Treasury notes*** | Aaa | AA+ | 44,251 | 8.79 | | |
| U.S. agency mortgage backed securities**** | Aaa | AAA | | | 97,296 | 20.53 |
| U.S. agency mortgage backed securities**** | Aaa | AA+ | 77,065 | 15.30 | | |
| Money market funds | Aaa | AAAm | 41,610 | 8.26 | 96,287 | 20.32 |
| | | | $ 503,617 | 100 % | $ 473,905 | 100 % |

* NR = Not Rated

** The securities were not in compliance with BTI Investment Policy at June 30, 2012 and/or 2011. The securities were in compliance when originally acquired, but were subsequently downgraded. BTI management and its investment advisors have determined that it is in the best interests of the participants to hold the securities for optimal outcome.

*** U.S. Treasury issues are explicitly guaranteed by the United States government and are not subject to credit risk.

**** U.S. agency mortgage backed securities are explicitly guaranteed by the United States government and are not subject to credit risk.

At June 30, 2012 and 2011, the Council's ownership represents 1.68% and 1.71%, respectively, of these amounts held by the BTI.

*Interest Rate Risk* — Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. All the BTI's Consolidated Fund pools and accounts are subject to interest rate risk.

The overall weighted average maturity of the investments of the WV Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase, except for government floating rate notes, which can be up to 731 days. The following table provides information on the weighted average maturities for the various asset types in the WV Money Market Pool:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| **Security Type** | **Carrying Value (In thousands)** | **WAM (Days)** | **Carrying Value (In thousands)** | **WAM (Days)** |
| Repurchase agreements | $ 90,204 | 3 | $ 84,357 | 1 |
| U.S. Treasury notes | 330,865 | 122 | 298,345 | 137 |
| U.S. Treasury bills | 237,978 | 37 | 231,051 | 34 |
| Commercial paper | 853,470 | 35 | 1,069,576 | 35 |
| Certificates of deposit | 110,000 | 10 | 140,000 | 58 |
| U.S. agency discount notes | 738,706 | 44 | 697,164 | 45 |
| Corporate bonds and notes | 36,000 | 48 | 127,000 | 20 |
| U.S. agency bonds/notes | 189,691 | 68 | 170,788 | 66 |
| Money market funds | 200,054 | 1 | 200,279 | 1 |
| | $2,786,968 | 46 | $3,018,560 | 46 |

The overall weighted average maturity of the investments of the WV Government Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase, except for government floating rate notes, which can be up to 731 days. The following table provides information on the weighted average maturities for the various asset types in the WV Government Money Market Pool:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| **Security Type** | **Carrying Value (In thousands)** | **WAM (Days)** | **Carrying Value (In thousands)** | **WAM (Days)** |
| Repurchase agreements | $ 91,900 | 3 | $ 98,400 | 1 |
| U.S. Treasury notes | 103,324 | 111 | 45,811 | 131 |
| U.S. Treasury bills | 4,999 | 62 | | |
| U.S. agency discount notes | 76,397 | 52 | 60,852 | 74 |
| U.S. agency bonds/notes | 23,004 | 9 | 57,498 | 22 |
| Money market funds | 5 | 1 | 131 | 1 |
| | $299,629 | 54 | $262,692 | 45 |

The overall effective duration of the investments of the WV Short Term Bond Pool cannot exceed 731 days. Maximum effective duration of individual securities cannot exceed 1,827 days (five years) from date of purchase. The following table provides information on the effective duration for the various asset types in the WV Short Term Bond Pool:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| **Security Type** | **Carrying Value (in Thousands)** | **Effective Duration (Days)** | **Carrying Value (in Thousands)** | **Effective Duration (Days)** |
| U. S. Treasury bonds/notes | $ 44,251 | 366 | $ 25,034 | 227 |
| Commercial paper | | | 15,995 | 55 |
| Corporate notes | 151,248 | 242 | 104,295 | 234 |
| Corporate asset backed securities | 144,419 | 250 | 114,981 | 268 |
| U.S. agency bonds/notes | 45,024 | 23 | 20,017 | 85 |
| U.S. agency mortgage backed securities | 77,065 | 13 | 97,296 | 18 |
| Money market funds | 41,610 | 1 | 96,287 | 1 |
| | $ 503,617 | 180 | $ 473,905 | 138 |

*Other Investment Risks* — Other investment risks include concentration of credit risk, custodial credit risk, and foreign currency risk. None of the BTI's Consolidated Fund's investment pools or accounts is exposed to these risks as described below.

Concentration of credit risk is the risk of loss attributed to the magnitude of the BTI's Consolidated Fund pool or account's investment in a single corporate issuer. The BTI investment policy prohibits those pools and accounts permitted to hold corporate securities from investing more than 5% of their assets in any one corporate name or one corporate issue.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the BTI will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Repurchase agreements are required to be collateralized by at least 102% of their value, and the collateral is held in the name of the BTI. Securities lending collateral that is reported on the BTI's statement of fiduciary net assets is invested in a pool managed by the securities lending agent. In all transactions, the BTI or its agent does not release cash or securities until the counterparty delivers its side of the transaction.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. None of the BTI's Consolidated Fund's investment pools or accounts holds interests in foreign currency or interests valued in foreign currency.

*Deposits* — Custodial credit risk of deposits is the risk that in the event of failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Deposits include nonnegotiable certificates of deposit. None of the above pools contain nonnegotiable certificates of deposit. The BTI does not have a deposit policy for custodial credit risk.

## 4. ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2012 and 2011, are as follows:

| | 2012 | 2011 |
|---|---|---|
| Student tuition and fees — net of allowance for doubtful accounts of $4,124,479 and $2,857,790 in 2012 and 2011, respectively | $ 2,136,479 | $ 1,977,916 |
| Grants and contracts receivable — no allowance necessary | 1,770,632 | 1,241,165 |
| Due from State agencies | 933,732 | 329,228 |
| Other | 227,899 | 179,966 |
| | $ 5,068,742 | $ 3,728,275 |

## 5. CAPITAL ASSETS

A summary of capital assets transactions for the Council at June 30, 2012 and 2011, is as follows:

| | 2012 | | | | |
|---|---|---|---|---|---|
| | Beginning Balance | Transfers | Additions | Reductions | Ending Balance |
| Capital assets not being depreciated: | | | | | |
| Land | $ 7,108,355 | $ - | $ 32,766 | $ - | $ 7,141,121 |
| Construction in progress | 7,333,959 | 239 | 53,005,115 | 2,920,422 | 57,418,891 |
| Total capital assets not being depreciated | $ 14,442,314 | $ 239 | $53,037,881 | $2,920,422 | $ 64,560,012 |
| Other capital assets: | | | | | |
| Land improvements | $ 1,780,884 | $ 383 | $ 189,619 | $ 8,990 | $ 1,961,896 |
| Infrastructure | 7,999,709 | 4,571 | 80,354 | | 8,084,634 |
| Buildings | 137,060,169 | 20,693 | 2,981,354 | 152,693 | 139,909,523 |
| Equipment | 26,225,878 | 145 | 5,463,256 | 2,884,314 | 28,804,965 |
| Library books | 9,546,327 | 1,980 | 175,690 | 453,866 | 9,270,131 |
| Total other capital assets | 182,612,967 | 27,772 | 8,890,273 | 3,499,863 | 188,031,149 |
| Less accumulated depreciation for: | | | | | |
| Land improvements | 571,087 | 141 | 122,683 | 5,044 | $ 688,867 |
| Infrastructure | 4,455,601 | 1,853 | 454,876 | | 4,912,330 |
| Buildings | 37,906,783 | 6,401 | 3,240,990 | 11,152 | 41,143,022 |
| Equipment | 15,518,105 | 72 | 2,702,455 | 2,589,474 | 15,631,158 |
| Library books | 8,958,491 | 1,859 | 167,762 | 399,760 | 8,728,352 |
| Total accumulated depreciation | 67,410,067 | 10,326 | 6,688,766 | 3,005,430 | 71,103,729 |
| Other capital assets — net | $ 115,202,900 | $17,446 | $ 2,201,507 | $ 494,433 | $ 116,927,420 |
| Capital asset summary: | | | | | |
| Capital assets not being depreciated | $ 14,442,314 | $ 239 | $53,037,881 | $2,920,422 | $ 64,560,012 |
| Other capital assets | 182,612,967 | 27,772 | 8,890,273 | 3,499,863 | 188,031,149 |
| Total cost of capital assets | 197,055,281 | 28,011 | 61,928,154 | 6,420,285 | 252,591,161 |
| Less accumulated depreciation | 67,410,067 | 10,326 | 6,688,766 | 3,005,430 | 71,103,729 |
| Capital assets — net | $ 129,645,214 | $17,685 | $55,239,388 | $3,414,855 | $ 181,487,432 |

| | 2011 | | | | |
|---|---|---|---|---|---|
| | Beginning Balance | Transfers | Additions | Reductions | Ending Balance |
| Capital assets not being depreciated: | | | | | |
| Land | $ 6,764,167 | $ - | $ 360,000 | $ 15,812 | $ 7,108,355 |
| Construction in progress | 2,776,936 | 170 | 7,600,612 | 3,043,759 | 7,333,959 |
| Total capital assets not being depreciated | $ 9,541,103 | $ 170 | $ 7,960,612 | $ 3,059,571 | $ 14,442,314 |
| Other capital assets: | | | | | |
| Land improvements | $ 1,619,862 | $ 1,022 | $ 160,000 | $ - | $ 1,780,884 |
| Infrastructure | 7,978,520 | 12,189 | 9,000 | | 7,999,709 |
| Buildings | 128,890,729 | 54,881 | 8,114,559 | | 137,060,169 |
| Equipment | 24,271,798 | 340 | 3,072,007 | 1,118,267 | 26,225,878 |
| Library books | 9,424,847 | 5,243 | 208,392 | 92,155 | 9,546,327 |
| Total other capital assets | 172,185,756 | 73,675 | 11,563,958 | 1,210,422 | 182,612,967 |
| Less accumulated depreciation for: | | | | | |
| Land improvements | 460,194 | 307 | 110,586 | | $ 571,087 |
| Infrastructure | 3,998,054 | 4,130 | 453,417 | | 4,455,601 |
| Buildings | 34,874,695 | 15,988 | 3,016,100 | | 37,906,783 |
| Equipment | 14,236,272 | 145 | 2,345,924 | 1,064,236 | 15,518,105 |
| Library books | 8,916,625 | 4,997 | 183,082 | 146,213 | 8,958,491 |
| Total accumulated depreciation | 62,485,840 | 25,567 | 6,109,109 | 1,210,449 | 67,410,067 |
| Other capital assets — net | $ 109,699,916 | $ 48,108 | $ 5,454,849 | $ (27) | $ 115,202,900 |
| Capital asset summary: | | | | | |
| Capital assets not being depreciated | $ 9,541,103 | $ 170 | $ 7,960,612 | $ 3,059,571 | $ 14,442,314 |
| Other capital assets | 172,185,756 | 73,675 | 11,563,958 | 1,210,422 | 182,612,967 |
| Total cost of capital assets | 181,726,859 | 73,845 | 19,524,570 | 4,269,993 | 197,055,281 |
| Less accumulated depreciation | 62,485,840 | 25,567 | 6,109,109 | 1,210,449 | 67,410,067 |
| Capital assets — net | $ 119,241,019 | $ 48,278 | $ 13,415,461 | $ 3,059,544 | $ 129,645,214 |

The Council maintains certain 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.

The Council has construction commitments as of June 30, 2012, of approximately:

| | |
|---|---|
| New River | $ 158,000 |
| Northern | 6,200,000 |
| Pierpont | 3,446,000 |
| | $ 9,804,000 |

## 6. LONG-TERM LIABILITIES

A summary of long-term obligation transactions for the Council at June 30, 2012 and 2011, is as follows:

| | 2012 | | | | |
|---|---|---|---|---|---|
| | Beginning Balance | Transfers/ Additions | Reductions | Ending Balance | Current Portion |
| Bonds, capital leases, and notes payable: | | | | | |
| Capital leases payable | $ 3,892,248 | $ 359,750 | $ 3,336,067 | $ 915,931 | $ 227,012 |
| Other debt service obligations | 8,795,292 | 8,384,169 | 5,771,768 | 11,407,693 | 902,226 |
| Due to Bluefield State College | 268,678 | | | 268,678 | 268,678 |
| Bonds payable | | 3,500,000 | | 3,500,000 | 162,555 |
| Funds due to West Virginia Development Office | 619,932 | | | 619,932 | |
| Total debt | 13,576,150 | 12,243,919 | 9,107,835 | 16,712,234 | |
| Other noncurrent liabilities: | | | | | |
| Advances from federal sponsors | 51,753 | 2,868 | | 54,621 | |
| OPEB liability | 16,424,019 | 7,437,780 | | 23,861,799 | |
| Accrued compensated absences | 3,296,230 | 584,263 | 291,657 | 3,588,836 | 2,934,008 |
| Total long-term liabilities | $ 33,348,152 | $ 20,268,830 | $ 9,399,492 | $ 44,217,490 | |

| | 2011 | | | | |
|---|---|---|---|---|---|
| | Beginning Balance | Transfers/ Additions | Reductions | Ending Balance | Current Portion |
| Capital leases and notes payable: | | | | | |
| Capital leases payable | $ 3,670,774 | $ 514,822 | $ 293,348 | $ 3,892,248 | $ 262,066 |
| Other debt service obligations | 9,778,989 | 414,487 | 1,398,184 | 8,795,292 | 1,209,424 |
| Due to Bluefield State College | 268,678 | | | 268,678 | 268,678 |
| Funds due to West Virginia Development Office | 619,932 | | | 619,932 | |
| Total debt | 14,338,373 | 929,309 | 1,691,532 | 13,576,150 | |
| Other noncurrent liabilities: | | | | | |
| Advances from federal sponsors | 58,685 | | 6,932 | 51,753 | |
| OPEB liability | 9,014,716 | 7,409,303 | | 16,424,019 | |
| Accrued compensated absences | 3,044,867 | 574,207 | 322,844 | 3,296,230 | 2,688,584 |
| Total long-term liabilities | $ 26,456,641 | $ 8,912,819 | $ 2,021,308 | $ 33,348,152 | |

At June 30, 2012 and 2011, debt service obligations include amounts due to the Commission of $3,883,630 and $4,002,385, respectively, Fairmont of $4,302,063 and $4,592,907, respectively, and West Virginia University of $3,222,000 and $200,000, respectively.

## 7. LEASE OBLIGATIONS

**Capital** — The Council leases certain property, plant, and equipment through capital leases. The following is a schedule by year of future annual minimum payments required under the lease obligations:

| Years Ending June 30 | Total |
|---|---|
| 2013 | $ 248,600 |
| 2014 | 216,700 |
| 2015 | 196,955 |
| 2016 | 90,999 |
| 2017 | 91,873 |
| 2018–2022 | 147,830 |
| Future minimum lease payments | 992,957 |
| Less interest | 77,026 |
| Total | $ 915,931 |

**Operating** — The Council had entered into various operating lease agreements. Future annual minimum lease payments for years subsequent to June 30, 2012, are as follows:

| Years Ending June 30 | Total |
|---|---|
| 2013 | $ 1,266,777 |
| 2014 | 871,608 |
| 2015 | 512,482 |
| 2016 | 372,181 |
| 2017 | 314,183 |
| 2018 | 211,967 |
| Total | $ 3,549,198 |

Total rent expense for these operating leases for the years ended June 30, 2012 and 2011, was approximately $1,735,389 and $1,630,663, respectively.

## 8. BONDS

Bonds payable at June 30, 2012, consist of the following:

| | Original Interest Rate | Annual Principal Installment Due | Principal Amount Outstanding 2012 |
|---|---|---|---|
| College Revenue Bonds | 4.125 % | $162,555–$450,605 | $ 3,500,000 |

On September 30, 2011, Mountwest issued $3,500,000 in revenue bonds to First Sentry Bank of Huntington, WV. The proceeds were used to complete the financing of the $20 million campus project opened in the fall semester of 2012. The terms of the bonds are for 10 years with the fixed interest rate of 4.125%. Mountwest made an interest only payment on March 1, 2012 with a second interest only payment to be made on September 1, 2012. Semi-annual payments of principal and interest will be made on March 1 and September 1 of each year, thereafter, commencing on March 1, 2013. The payments are to be made from cash receipts from Marshall University and a pledge of the general capital fees collected from students.

A summary of the annual aggregate principal and interest payments for years subsequent to June 30, 2012, is as follows:

| **Years Ending June 30** | **Principal** | **Interest** | **Total** |
|---|---|---|---|
| 2013 | $ 162,555 | $ 110,785 | $ 273,340 |
| 2014 | 335,236 | 134,248 | 469,484 |
| 2015 | 349,208 | 120,276 | 469,484 |
| 2016 | 363,761 | 105,723 | 469,484 |
| 2017 | 378,921 | 90,563 | 469,484 |
| 2018–2021 | 1,910,319 | 202,361 | 2,112,680 |
| | | | 4,263,956 |
| Less interest | | | 763,956 |
| Total | | | $ 3,500,000 |

## 9. WEST VIRGINIA DEVELOPMENT OFFICE OBLIGATION

In previous years, Eastern entered into two financial assistance agreements with the West Virginia Development Office (WVDO) for $685,000 and $2,000,000; these funds will be used to construct a new sewer system and access road for Eastern's facility, respectively. Under the terms of both agreements, Eastern agrees to repay WVDO "if nonoperating funds become available or when an appropriate nonoperating income stream is established" or "if Eastern sells or disposes of the two acres of property."

## 10. OTHER POST EMPLOYMENT BENEFITS

In accordance with GASB, OPEB costs are accrued based upon invoices received from PEIA based upon actuarial determined amounts. At June 30, 2012, 2011, and 2010, the noncurrent liability related to OPEB costs was $23,861,799, $16,424,019, and $9,014,716, respectively. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees were $9,134,875 and $1,697,095, respectively, during 2012; $9,134,875 and $1,697,095, respectively, during 2011; and $9,450,652 and $1,649,680, respectively, during 2010. As of June 30, 2012, 2011, and 2010, there were 153, 161, and 153 retirees receiving these benefits, respectively.

## 11. SYSTEM BONDS PAYABLE

The Council receives State appropriations to finance its operations. In addition, it is subject to the legislative and administrative mandates of State government. Those mandates affect various aspects of the Council'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 within the Council. Financing for these facilities was provided through revenue bonds issued by various former governing boards, which are now administered by the Commission.

The Commission has the authority to assess each institution of the Council for payment of debt service on these system bonds. The tuition and registration fees of the Institutions are generally pledged as collateral for the Commission's bond indebtedness. Student fees collected by an institution in excess of the debt service allocation are retained by the institution for internal funding of capital projects and maintenance. The bonds remain a capital obligation of the Commission. During 2012 and 2011, the Council paid $808,913 and $1,421,870, respectively, to the Commission against the debt obligation. The amount due to the Commission on this debt obligation at June 30, 2012 and 2011, is $2,494,630 and $3,502,385, respectively. As of June 30, 2011, the Commission has loans outstanding with institutions of $500,000. Additionally, the Commission has loans with individual institutions of the Council. During 2012, Bridgemont and Kanawha borrowed $410,000 and $500,000, respectively, from the Commission. During 2012, the institutions repaid $181,000 to the Commission and owe the Commission $1,229,000 as of June 30, 2012.

For the years ended June 30, 2012 and 2011, debt service assessed is as follows:

| | 2012 | 2011 |
|---|---|---|
| Principal | $ 808,913 | $ 1,185,205 |
| Interest | 147,693 | 194,015 |
| Other | 88,596 | 133,192 |
| | $ 1,045,202 | $ 1,512,412 |

During the year ended June 30, 2005, the West Virginia Higher Education Policy Commission issued $167 million of 2004 Series B 30-year Revenue Bonds to fund capital projects at various higher education institutions in the State. The Institutions that comprise the Council have been approved to receive $34.5 million of these funds. State lottery funds will be used to repay the debt, although the Council's revenues are pledged if lottery funds prove to be insufficient. As of June 30, 2012, approximately $472,000 is remaining to be drawn.

## 12. CAPITAL PAYMENTS MADE ON BEHALF OF THE COUNCIL

On December 8, 2009, the Commission, on behalf of the Council, issued $78,295,000 of Community and Technical Colleges Improvement Revenue Bonds, 2009 Series A ("2009 Bonds"). The proceeds of the 2009 Bonds will be used to finance the acquisition, construction, equipping, or improvement of community and technical college facilities in West Virginia and pay issuance costs of $295,000. The interest rate on the 2009 Bonds ranges from 2.5% to 5.0% and the due dates commence July 1, 2010 and end July 1, 2028. State Lottery proceeds of a maximum of $5,000,000 per year will be used to repay the debt, which has a maximum annual debt service of $4,999,750. In addition, pursuant to Section 18(j)(1) of the Lottery Act, the Commission has granted a third-in-party lien, for the benefit of the bondholders, on the proceeds of the State Lottery Fund, up to a maximum of $7,500,000 annually. As of June 30, 2012, approximately $48,706,000 was paid by the Commission on behalf of the Council and/or expended by the Council.

## 13. UNRESTRICTED NET ASSETS

The Council's unrestricted net assets include certain designated net assets at June 30, 2012 and 2011, as follows:

| | 2012 | 2011 |
|---|---|---|
| Designated for capital projects | $ 5,225,000 | $ 4,812,500 |
| Designated for fund managers | 769,454 | 657,001 |
| Designated for auxiliaries | 7,303 | 14,529 |
| Undesignated | 40,187,694 | 41,758,317 |
| Total unrestricted net assets before OPEB | 46,189,451 | 47,242,347 |
| Less OPEB liability | 23,861,799 | 16,424,019 |
| Total unrestricted net assets | $22,327,652 | $30,818,328 |

## 14. RETIREMENT PLANS

Substantially all full-time employees of the Council participate in either the West Virginia Teachers' Retirement System (STRS) or the Teachers' Insurance and Annuities Association — College Retirement Equities Fund (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.

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. Contributions to and participation in the West Virginia Teachers' Defined Contribution Plan by Council employees have not been significant to date.

The STRS is a cost sharing, defined benefit, public retirement system. Employer and employee contribution rates are established annually by the State Legislature. The contractual maximum contribution rate is 15%. The Council accrued and paid its contribution to the STRS at the rate of 15% of each enrolled employee's total annual salary for the years ended June 30, 2012 and 2011. Required employee contributions are at the rate of 6% of total annual salary for the years ended June 30, 2012 and 2011. 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 five 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, 2012, 2011, and 2010, were approximately $605,000, $671,000, and $802,000, respectively, which consisted of approximately $431,000, $437,000, and $574,000, from the Council in 2012, 2011, and 2010, respectively, and approximately $174,000, $234,000, and $228,000, from the covered employees, 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 institutions within the Council. 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 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 Council 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 Council.

Total contributions to the TIAA-CREF for the years ended June 30, 2012, 2011, and 2010, were approximately $6,360,000, $5,952,000, and $5,510,000, which consisted of approximately $3,180,000, $2,976,000, and $2,755,000, respectively, from the Council and from the covered employees, respectively.

The Educators Money is a defined contribution plan in which benefits are based solely upon amounts contributed plus investment earnings. Each employee who elects to participate in this plan is required to make a contribution equal to 6% of total annual compensation. The University matches the employees' 6% contributions. Contributions are immediately and fully vested. Employees may elect to make additional contributions to the Educators Money, which are not matched by the University.

The Council's total payroll for the years ended June 30, 2012 and 2011, was approximately $68,318,000 and $65,869,000, respectively, and total covered employees' salaries in the STRS and TIAA-CREF were approximately $9,398,000 and $52,757,000, respectively, in 2012 and $8,968,000 and $48,984,000, respectively, in 2011.

## 15. FOUNDATIONS

Various foundations have been established as separate nonprofit organizations incorporated in the State having as their purpose "… to aid, strengthen and further in every proper and useful way, the work and services of the (individual institutions within the Council), and their affiliated nonprofit organizations…" Oversight of the foundations is the responsibility of separate and independently elected Boards of Directors, not otherwise affiliated with the Council. In carrying out its responsibilities, the Boards of Directors of the foundations employ management, form policy and maintain fiscal accountability over funds administered by the foundations. Accordingly, the financial statements of the foundations are not included in the accompanying combined financial statements under the blended component unit requirements. The financial statements are also not included in the accompanying combined financial statements as discretely presented component units because they are not significant.

## 16. AFFILIATED ORGANIZATIONS

The Council has various separately incorporated affiliated organizations, including alumni and other associations. Oversight responsibility for these organizations rests with independent boards and management not otherwise affiliated with the Council. Accordingly, the financial statements of these organizations are not included in the Council's accompanying combined financial statements under the blended component unit requirements. They are not included in the Council's accompanying combined financial statements under the discretely presented component unit requirement as they are 1) not significant or 2) have dual purpose (i.e., not entirely or almost entirely for the benefit of the Council).

## 17. CONTINGENCIES AND COMMITMENTS

**Contingencies** — The nature of the educational industry is such that, from time to time, claims will be presented against colleges and universities 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 Council would not impact seriously on the financial status of the Council.

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. Management believes disallowances, if any, would not have a significant financial impact on the Council's financial position.

The Internal Revenue Code of 1986 establishes rules and regulations for arbitrage rebates. There are no arbitrage rebate liabilities that have been recorded in the combined financial statements at June 30, 2012.

The CTCs within the Council own various buildings that are known to contain asbestos. The CTCs are not required by Federal, State, or Local Law to remove the asbestos from the buildings. The CTCs are required by Federal Environmental, Health, and Safety Regulations to manage the presence of asbestos in the buildings in a safe condition. Significant problems of dangerous asbestos conditions are abated as the condition becomes known. The CTCs also address 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.

## 18. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

For the years ended June 30, 2012 and 2011, the following table represents operating expenses within both natural and functional classifications:

| 2012 | Salaries and Wages | Benefits | Supplies and Other Services | Utilities | Scholarships and Fellowships | Depreciation | Loan Cancellations and Write-Offs | Total |
|---|---|---|---|---|---|---|---|---|
| Instruction | $40,131,984 | $10,926,603 | $13,816,951 | $ 162,550 | $ - | $ - | $ - | $ 65,038,088 |
| Public service | 2,443,339 | 479,001 | 1,826,481 | 10,089 | | | | 4,758,910 |
| Academic support | 4,485,624 | 1,236,754 | 3,974,304 | 46,459 | | | | 9,743,141 |
| Student services | 6,193,078 | 2,173,752 | 4,498,526 | 4,256 | | | | 12,869,612 |
| Operations and maintenance of plant | 1,999,129 | 945,598 | 7,196,485 | 1,980,676 | | | | 12,121,888 |
| General institutional support | 14,041,157 | 7,880,726 | 12,588,358 | 167,172 | | | | 34,677,413 |
| Total education and general | 69,294,311 | 23,642,434 | 43,901,105 | 2,371,202 | - | - | - | 139,209,052 |
| Student financial aid | 73,767 | | 30 | | 39,752,223 | | | 39,826,020 |
| Auxiliary enterprises | 216,065 | 33,101 | 2,139,874 | | | | | 2,389,040 |
| Depreciation | | | | | | 6,688,766 | | 6,688,766 |
| Loan cancellations and write-offs | | | | | | | 216,783 | 216,783 |
| Other | | | 186,103 | | | | | 186,103 |
| Total | $69,584,143 | $23,675,535 | $46,227,112 | $2,371,202 | $39,752,223 | $6,688,766 | $216,783 | $ 188,515,764 |

| 2011 | Salaries and Wages | Benefits | Supplies and Other Services | Utilities | Scholarships and Fellowships | Depreciation | Loan Cancellations and Write-Offs | Total |
|---|---|---|---|---|---|---|---|---|
| Instruction | $40,264,984 | $11,567,381 | $12,117,704 | $ 60,011 | $ - | $ - | $ - | $ 64,010,080 |
| Public service | 1,432,735 | 382,218 | 1,945,280 | 9,172 | | | | 3,769,405 |
| Academic support | 5,499,359 | 1,691,278 | 4,133,198 | 43,309 | | | | 11,367,144 |
| Student services | 5,560,086 | 2,092,562 | 5,143,151 | 2,182 | | | | 12,797,981 |
| Operations and maintenance of plant | 1,641,372 | 788,525 | 5,743,097 | 2,005,352 | | | | 10,178,346 |
| General institutional support | 11,968,630 | 6,383,890 | 12,457,757 | 118,192 | | | | 30,928,469 |
| Total education and general | 66,367,166 | 22,905,854 | 41,540,187 | 2,238,218 | - | - | - | 133,051,425 |
| Student financial aid | 84,048 | | 167 | | 44,947,259 | | | 45,031,474 |
| Auxiliary enterprises | 319,029 | 60,602 | 2,245,250 | | | | | 2,624,881 |
| Depreciation | | | | | | 6,109,109 | | 6,109,109 |
| Loan cancellations and write-offs | | | | | | | 280,324 | 280,324 |
| Other | | | 239,334 | | | | | 239,334 |
| Total | $66,770,243 | $22,966,456 | $44,024,938 | $2,238,218 | $44,947,259 | $6,109,109 | $ 280,324 | $ 187,336,547 |

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

To the West Virginia Council for Community
and Technical College Education:

We have audited the combined financial statements of the West Virginia Council for Community and Technical College Education (the "Council") as of June 30, 2012, and have issued our report thereon dated January 10, 2013, which states reliance on other auditors. 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

Management of the Council is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Council's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

## Compliance and Other Matters

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

The report is intended solely for the information and use of the management of the Council, the State of West Virginia, the West Virginia 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 the specified parties.

Deloitte & Touche LLP

January 10, 2013