Kanawha Valley Community and Technical College

Financial Statements
Years Ended June 30, 2013 and 2012

and

Independent Auditor's Reports

KANAWHA VALLEY COMMUNITY AND TECHNICAL COLLEGE

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Suttle & Stalnaker PLLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Governors
Kanawha Valley Community and Technical College
South Charleston, West Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Kanawha Valley Community and Technical College (the College), a component of the West Virginia Council for Community and Technical College Education, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, of the College, as of June 30, 2013 and 2012, and the respective changes in financial position, and, where applicable, cash flows, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 2 to the financial statements, the College early adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic 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 standard 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2013, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Suttle & Stalnaker, PLLC

Charleston, West Virginia
October 25, 2013

History

Kanawha Valley Community and Technical College ("Kanawha Valley" or the "College") is a State-supported institution within the West Virginia Council for Community and Technical College Education. Kanawha Valley offers certificate and associate-degree programs primarily in energy, health, and technical areas and customized training in these respective fields through workforce development. Until October 2004, the College was a component of West Virginia State University (WVSU). The community and technical college component became independently accredited by the Higher Learning Commission (HLC) of the North Central Association at that time, while still governed by the WVSU Board of Governors. The official name of the independently accredited institution was West Virginia State Community and Technical College (WVSCTC).

In accordance with House Bill 3215, passed by the West Virginia State Legislature in its 2008 session, WVSCTC became a separate entity with its own local Board of Governors effective July 1, 2008 and received net assets transferred from WVSU as of this date. In April 2009, the Board of Governors officially changed the college name to Kanawha Valley Community and Technical College. On July 1, 2010, Kanawha Valley began the transition from an administratively-linked college to an independent college with its own Board, unique name, and fully staffed offices and faculty to serve students. The College received funds during 2011 as part of the Community and Technical College lottery funds in the amount of $13.5 million and began renovating building 2000 at the WV Regional Technology Park which the College leases through the WV Regional Technology Park Corporation. Kanawha Valley began fiscal year 2013 at the new campus location at the WV Regional Technology Park. This move completed the transition to a standalone community and technical college. During the 2013 legislative session, Senate Bill 438 passed allowing the consolidation of Kanawha Valley with Bridgemont Community and Technical College. The completion of this consolidation will occur during fiscal year 2014 and after the HLC approves.

Overview

The Management's Discussion and Analysis is required supplementary information and has been prepared in accordance with the requirements of Governmental Accounting Standards Board (GASB) standards. This section of Kanawha Valley's annual financial report provides an overview of the College's financial performance during the fiscal years ended June 30, 2013, 2012, and 2011, with a focus on 2013. A comparative analysis is presented for fiscal year 2013 compared to fiscal year 2012.

Kanawha Valley's annual report consists of three basic financial statements: the statement of net position, the statement of revenues, expenses, and changes in net position, and the statement of cash flows. These statements focus on the financial condition of the College, the results of operations, and cash flows of the College as a whole. Each of these statements is discussed below.

Financial Highlights

At June 30, 2013, the total net position for Kanawha Valley was $11,741,871 representing a decrease of $192,062 compared with fiscal year 2012 and an increase of $10,924,356 compared with fiscal year 2011. This increase in net position, fiscal year 2013 compared with fiscal year 2012, was related to the loss of $252,899 partially offset by capital payments of $60,837. The increase in fiscal year 2013 compared to fiscal year 2011 was primarily attributable to increases in net capital assets.

Fiscal year 2013 operating revenues were up over fiscal year 2012 by $708,928 or 12% with an increase in tuition and fees revenues along with an increase in private grant revenues offset by a decrease in state grant revenue. Fiscal year 2013 operating revenues increased over 31% or $1,591,232 from fiscal year 2011. These increases were primarily in tuition and fees and private grants.

Net Position

The statement of net position presents the assets (current and noncurrent), deferred outflows of resources, liabilities (current and noncurrent), deferred inflows of resources, and net position of the College as of the end of the fiscal year. Assets denote the resources available to continue the operations of the College. Deferred outflows of resources are consumptions of net position that are applicable to future reporting periods. Liabilities indicate how much the College owes vendors, employees and lenders. Deferred inflows of resources are acquisitions of net position that are applicable to future reporting periods. Net position measures the equity or the availability of funds of the College for future periods.

Net position is displayed in three major categories:

Net investment in capital assets. This category represents the College'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 net investment in capital assets.

Restricted net position. This category includes net position, the use of which is restricted, either due to externally imposed constraints or because of restrictions imposed by law. They are further divided into two additional components – nonexpendable and expendable. **Nonexpendable restricted net position** includes endowment and similar type funds for 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. **Expendable restricted net position** includes resources for which the College is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties. The College has no restricted net position.

Unrestricted net position. This category includes resources that are not subject to externally imposed stipulations. Such resources are derived primarily from tuition and fees (not restricted as to use), state appropriations, and sales and services of educational activities. Unrestricted net position is used for transactions related to the educational and general operations of the College and may be designated for specific purposes by action of the College's management or the Board of Governors.

Condensed Schedules of Net Position

June 30,

	2013	2012	2011
Assets and deferred outflows			
Current assets	$ 3,468,428	$ 3,230,584	$ 2,840,104
Noncurrent assets	14,347,992	14,169,201	1,666,050
Total assets	17,816,420	17,399,785	4,506,154
Deferred outflows of resources	-	-	-
Total	$ 17,816,420	$ 17,399,785	$ 4,506,154
Liabilities, deferred inflows, and net position			
Current liabilities	$ 2,939,541	$ 3,292,969	$ 2,542,613
Noncurrent liabilities	3,135,008	2,172,883	1,146,026
Total liabilities	6,074,549	5,465,852	3,688,639
Deferred inflows of resources	-	-	-
Net position			
Invested in capital assets	12,718,614	13,669,201	1,666,050
Unrestricted (deficit)	(976,743)	(1,735,268)	(848,535)
Total net position	11,741,871	11,933,933	817,515
Total	$ 17,816,420	$ 17,399,785	$ 4,506,154

The total net position for Kanawha Valley was $11,741,871 representing a decrease of $192,062 compared with fiscal year 2012 and an increase of $10,924,356 compared with fiscal year 2011. This decrease in net position, fiscal year 2013 compared with fiscal year 2012, was related to the loss of $252,899 partially offset by capital payments of $60,837. The increase in fiscal year 2013 compared to fiscal year 2011 was primarily attributable to increases in net capital assets.

Total assets for Kanawha Valley were $17,816,420 representing an increase of $416,635 compared with fiscal year 2012 and an increase of $13,310,266 compared with fiscal year 2011. Specifics related to the changes in total assets in fiscal year 2013 compared with fiscal year 2012 are as follows:

- Cash and cash equivalents increased by $892,869 primarily related to new grants received. In fiscal year 2012 the College had several grants receivable that were received in 2013 which caused cash to increase and the grant receivable to decrease by $300 thousand. Also, the College received several large grants in fiscal year 2013 that increased cash but also increased unearned revenue by $329 thousand since they were not expended by year end. The remaining cash was related to an increase in tuition and fees received in advance of $215 thousand partially related to expanded summer school revenue.

- Net accounts receivable decreased by $330,968 related primarily to reduction in grants receivable.

- Due from the Council/Commission decreased by $324,057 primarily related to payment of last year's unpaid construction related items.

- Capital assets increased by $178,791 primarily due to networking, telephones, and other construction related equipment for the new College campus offset by the depreciation related to leasehold improvements and equipment.

Total liabilities increased by $608,697 over fiscal year 2012 and $2,385,910 over fiscal year 2011. Specifics related to the changes in fiscal year 2013 compared with fiscal year 2012 are as follows:

- Short-term obligations decreased by $989,401 as the liability associated with a furniture purchase was paid.

- Leases payable increased by $528,283 for long-term leases and $176,095 for short-term leases which was related to a lease-purchase agreement for the telephone and network infrastructure for the new campus.

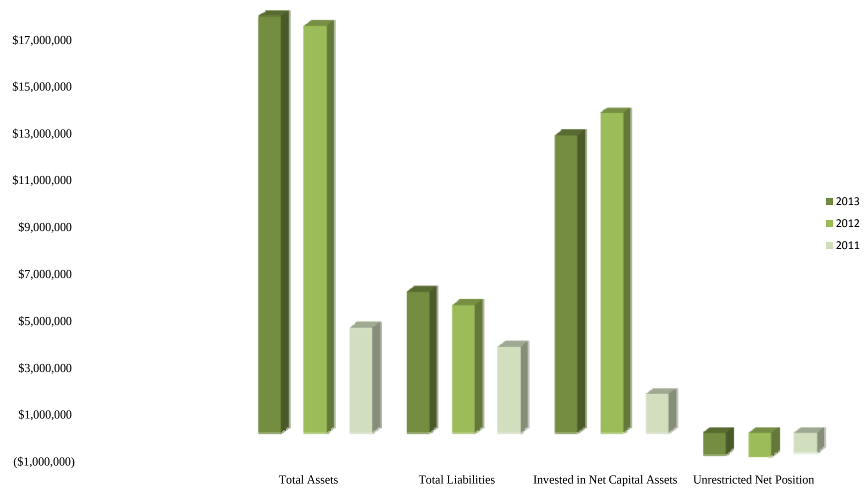
- Debt obligation due to the Commission increased by $375,000 for long-term debt and $50,000 for short-term debt regarding the assumption of an additional $500,000 energy loan to address remaining construction related equipment.

- Accounts payable increased by $153,153 primarily related to grant purchases in June and unpaid at year-end.

- Most notably, the other post employment benefits liability increased by only $46,766 as the impact from the State's measures to fund this liability and contain costs took effect in fiscal year 2013.

The following is a comparative illustration of the Statements of Net Position.

STATEMENT OF NET POSITION
June 30, 2013, 2012, and 2011



Revenues, Expenses, and Changes in Net Position

Statements of revenues, expenses, and changes in net position present the operating revenues, operating expenses, nonoperating revenues and expenses, and other revenues, expenses, gains, or losses of Kanawha Valley for each fiscal year.

State appropriations, while budgeted for operations, are considered and reported as non-operating revenues. This is because State appropriations are provided by the Legislature to the College without the Legislature directly receiving commensurate goods and services for those revenues. Likewise, Pell grants are reported as nonoperating, because of specific guidance in the American Institute of Certified Public Accountants industry audit guide.

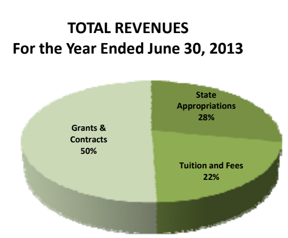
Student tuition and fees are reported net of scholarship discounts and allowances. Financial aid to students is reported using the National Association of College and University Business Officers alternative method. Under this method certain aid, such as loans and federal direct lending, is accounted for as a third party payment, while all other aid is reflected either as operating expenses or scholarship allowances, which reduce revenues. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

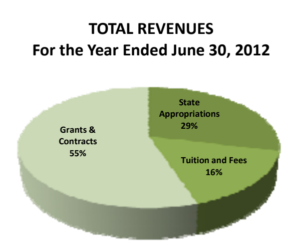
Condensed Schedules of Revenues, Expenses, and Changes in Net Position

Years Ended June 30,

	2013	2012	2011
Operating revenues	$ 6,739,391	$ 6,030,463	$ 5,148,159
Operating expenses	14,995,457	15,010,813	14,638,314
Operating loss	(8,256,066)	(8,980,350)	(9,490,155)
Net nonoperating revenues	8,003,167	8,196,939	8,250,970
Decrease in net position before revenue, expenses, gains or losses, and transfer	(252,899)	(783,411)	(1,239,185)
Capital grants and gifts and payments on behalf	60,837	10,900,444	1,334,596
Bond proceeds from the Commission	-	999,385	-
Transfer of net position from WVSU	-	-	80,208
Increase (decrease) in net position	(192,062)	11,116,418	175,619
Net position at beginning of year	11,933,933	817,515	641,896
Net position at end of year	$ 11,741,871	$ 11,933,933	$ 817,515

Revenues:
The following chart illustrates the composition of revenues by source for 2013 and 2012.





The most significant sources of revenue for the College are State appropriations, tuition and fees, and grants and contracts. Operating revenues for fiscal year 2013 were above fiscal year 2012 by $708,928 and significantly above fiscal year 2011 by $1,591,232. Net nonoperating revenues in fiscal year 2013 decreased slightly compared with fiscal year 2012 in the amount of $193,772. Specifics related to the changes in revenues in fiscal year 2013 compared with fiscal year 2012 are as follows:

- Net tuition and fee revenue increased by $803,655, primarily as a result of a decrease in the portion of fees remitted to WVSU.

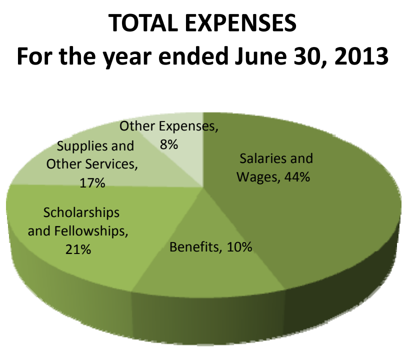
- State contracts and grants revenue decreased by $537,810 primarily related to the timing of new grants versus the completion of old grants.

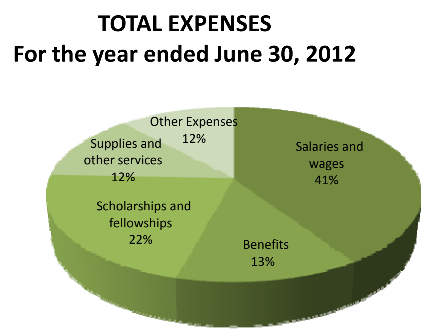
- Private contracts and grants increased by $321,608 primarily related to new contracts and grants.

- Pell grant revenue decreased by $212,185 due to fewer students receiving these funds.

Expenses:

The following is a graphic illustration of total expenses by source for fiscal years 2013 and 2012.





Total operating expenses for fiscal year 2013 were $14,995,457, a slight decrease of $15,356 over fiscal year 2012. Specifics related to the changes in expenses in fiscal year 2013 compared with fiscal year 2012 are as follows:

- The biggest reduction in expenses was $1,600,000 for charges from WVSU as the College no longer purchased services in fiscal year 2013 previously purchased in fiscal year 2012. This decrease was offset by increases in other expenses.

- Depreciation increased in fiscal year 2013 by $748,260 related to leasehold improvements and construction related equipment not a factor in fiscal year 2012.

- Supplies and other services increased by $648,948, related to the assumption of new expenses paid directly to vendors previously included in the purchased service agreement with WVSU in fiscal year 2012.

- Salaries and wages increased by $543,475, primarily related to the hiring of additional employees as the College assumed services previously purchased from WVSU in fiscal year 2012.

- Benefits decreased by $436,940 as the State started funding the other post employment benefit liability.

- Utilities increased by $213,047 in fiscal year 2013 related to directly paying for utilities as opposed to these costs included in the service agreement with WVSU in fiscal year 2012.

Cash Flows

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

The statement of cash flows is divided into five sections:

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

Cash flows from noncapital financing activities. This section reflects the cash received and paid for nonoperating, noninvesting, and noncapital financing purposes.

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

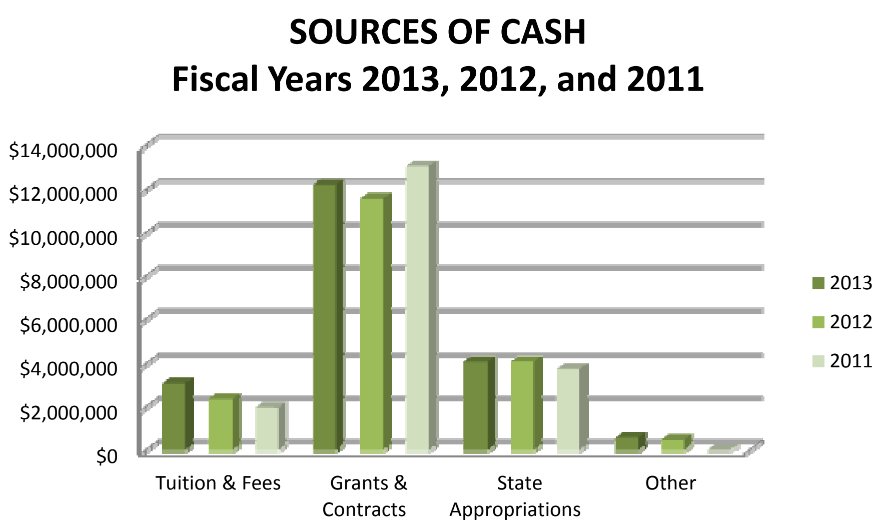
Cash flows from investing activities. This section shows the purchases, proceeds, and interest received from investing activities.

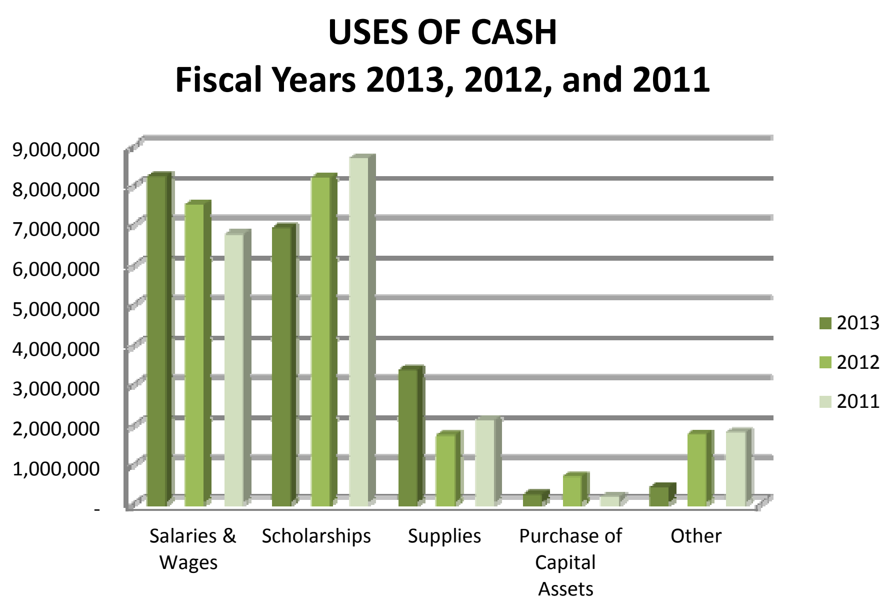
Reconciliation of operating loss to net cash used in operating activities. This section provides a schedule that reconciles the accrual-based operating income (loss) and net cash used in operating activities.

Condensed Schedules of Cash Flows
Years Ended June 30,

	2013	2012	2011
Cash provided (used) by:			
Operating activities	$ (7,301,660)	$ (9,285,964)	$ (8,730,306)
Noncapital financing activities	8,000,807	8,197,789	8,275,760
Capital and related financing activities	191,362	(236,430)	(282,026)
Investing activities	2,360	1,451	6,152
Increase (Decrease) in Cash and Cash Equivalents	892,869	(1,323,154)	(730,420)
Cash and Cash Equivalents, Beginning of Year	1,203,958	2,527,112	3,257,532
Cash and Cash Equivalents, End of Year	$ 2,096,827	$ 1,203,958	$ 2,527,112

The following graphs illustrate the sources and uses of cash for the last three fiscal years.





Capital Asset and Long Term Debt Activity

During fiscal year 2011, Kanawha Valley obtained $1,334,596 of the $13.5 million bond funds which were spent as payment for the design and renovations for the new college campus to be located at the WV Regional Technology Park.

During fiscal year 2012, Kanawha Valley obtained an additional $10,900,444 of the $13.5 million bond funds making the total capital payments made on behalf of Kanawha Valley $12,249,252. Additionally, the Commission transferred bond proceeds in the amount of $999,385 for payment of furniture and equipment related to the construction. These payments/transfers made a cumulative amount spent from bond funds of $13,248,637. The College relocated to the new college campus at the end of fiscal year 2012. The majority of the final payments to vendors occurred during fiscal year 2013. The final retainage to vendors is expected to be paid during fiscal year 2014 as remaining equipment, exterior lighting, and punch list items are resolved.

System debt associated with the Council's $13.5 million bonds is being repaid through the use of lottery funds. The College entered into a new energy savings loan with the Commission in the amount of $500,000 in fiscal year 2012 and an additional $500,000 in fiscal year 2013 to help further fund construction and equipment related to the new campus. This combined loan of $1,000,000 will be paid over ten years with final payment in 2022.

Economic Outlook

The financial position of Kanawha Valley Community and Technical College is closely tied to that of the State of West Virginia. Fortunately West Virginia's fiscal prudence has left the State in better financial position than most states allowing the State to continue with level and stable state appropriations for higher education. During the past few difficult years with the economy's downturn, West Virginia continued to maintain a balanced budget and even directed surplus funds to the State's "rainy day fund". The College is located in the Kanawha Valley portion of the State, close to the state capital of Charleston, an area which is gaining popularity as a business friendly site to attract new businesses.

During fiscal year 2012, Kanawha Valley Community and Technical College Foundation, Inc. was established and funded with the transfer of all community and technical college funds previously held at West Virginia State University's Foundation and Research Corporation. At the end of fiscal year 2012, the College moved to a new campus located at 2001 Union Carbide Drive in South Charleston. This location is strategically placed in the WV Regional Technology Park. Most of the funding for this 85,000 square foot new campus was primarily from the higher education bonds, the proceeds of which will be paid with lottery funds and require no payment by Kanawha Valley. The anticipated future enrollment growth from marketing efforts to promote the new location and expanded facilities is currently being realized with fall 2014 full-time equivalent enrollment 4% above fall 2013. The College has a strong workforce development partnership with the region's employers. Additionally, the College is developing several new partnerships focused on the needs and demands of regional employers, such as programs in healthcare, energy, and the chemical industry.

Fiscal year 2014 state appropriations were reduced by 7.5% and even before this went into effect, Kanawha Valley took cost-containing measures to absorb this reduction. The College also raised tuition by 10% to assist in the revenue shortfall from the State as well as align tuition rates with Bridgemont Community and Technical College in anticipation of approval of the consolidation by the HLC. The State Budget Office projections for fiscal year 2015 State revenues are projected to be below that of 2014 and an additional reduction in state appropriations may be required. Should this reduction occur, the College has developed plans to address this reduction. With the consolidation of Kanawha Valley and Bridgemont Community and Technical College, many opportunities will be available to enhance revenue and pursue additional cost efficiencies through careful consideration of filling any current and new vacancies, determining the applicability of part-time versus full-time employees and contractual versus permanent employees. In anticipation of the HLC approving this consolidation, expanded joint appointments are being used to contain personnel costs including a shared president between both institutions. Enhanced recruitment activities and projects are on-going to increase the tuition and fee revenue stream through enrollment. The new consolidated institution may be required to modestly raise tuition again in fiscal year 2015 should state appropriations be reduced to avoid impacting critical operations of the College.

Request For Information

The financial report is designed to provide an overview of the finances of the College for those with an interest in this organization. Questions concerning any of the financial information provided in this report or requests for addition information should be addressed to the Kanawha Valley Community and Technical College at 2001 Union Carbide Drive, South Charleston, WV 25303.

KANAWHA VALLEY COMMUNITY AND TECHNICAL COLLEGE
STATEMENTS OF NET POSITION
JUNE 30, 2013 AND 2012

	2013	2012
ASSETS AND DEFERRED OUTFLOWS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 2,096,827	$ 1,203,958
Due from the Council/Commission	1,167,951	1,492,008
Accounts receivable — net	203,650	534,618
Total current assets	3,468,428	3,230,584
NONCURRENT ASSETS:		
Capital assets — net	14,347,992	14,169,201
DEFERRED OUTFLOWS OF RESOURCES:		
Total deferred outflows of resources	-	-
TOTAL	$ 17,816,420	$ 17,399,785
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	$ 383,727	$ 230,574
Due to the Council/Commission	36,184	122,949
Accrued liabilities	468,592	492,279
Due to State agencies	136,001	72,958
Compensated absences — current portion	193,705	218,697
Other short term obligations	-	989,401
Debt obligation due to Commission — current portion	100,000	50,000
Leases payable - current portion	176,095	-
Unearned revenue	1,445,237	1,116,111
Total current liabilities	2,939,541	3,292,969
NONCURRENT LIABILITIES:		
Other postemployment benefits liability	1,682,884	1,636,118
Compensated absences	98,841	86,765
Leases payable	528,283	-
Debt obligation due to Commission	825,000	450,000
Total noncurrent liabilities	3,135,008	2,172,883
DEFERRED INFLOWS OF RESOURCES:		
Total deferred inflows of resources	-	-
NET POSITION:		
Net investment in capital assets	12,718,614	13,669,201
Unrestricted (deficit)	(976,743)	(1,735,268)
Total net position	11,741,871	11,933,933
TOTAL	$ 17,816,420	$ 17,399,785

The Accompanying Notes Are An Integral
Part Of These Financial Statements

KANAWHA VALLEY COMMUNITY AND TECHNICAL COLLEGE
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
OPERATING REVENUES:		
Student tuition and fees — net of scholarship allowance of $2,103,170 in 2013 and $2,107,796 in 2012	$ 3,090,138	$ 2,286,483
Contracts and grants:		
Federal	159,443	136,057
State	2,860,640	3,398,450
Private	531,081	209,473
Miscellaneous revenue	98,089	-
Total operating revenues	6,739,391	6,030,463
OPERATING EXPENSES:		
Salaries and wages	6,649,668	6,106,193
Benefits	1,588,600	2,025,540
Supplies and other services	2,503,499	1,854,551
Utilities	266,343	53,296
Student financial aid — scholarships and fellowships	3,099,782	3,243,031
Depreciation	820,063	71,803
Fees assessed by the Commission for operations	67,502	56,399
Charges from West Virginia State University	-	1,600,000
Total operating expenses	14,995,457	15,010,813
OPERATING LOSS	(8,256,066)	(8,980,350)
NONOPERATING REVENUES (EXPENSES):		
State appropriations	4,125,664	4,112,421
Pell grant revenue	3,883,501	4,095,686
Investment income	2,360	1,451
Loss on disposal	-	(2,301)
Fees assessed by the Commission	(8,358)	(10,318)
Net nonoperating revenues	8,003,167	8,196,939
DECREASE IN NET POSITION BEFORE REVENUES, EXPENSES, GAINS, OR LOSSES	(252,899)	(783,411)
BOND PROCEEDS FROM THE COMMISSION	-	999,385
CAPITAL PAYMENTS AND EXPENSES INCURRED ON BEHALF OF THE COLLEGE	60,837	10,900,444
INCREASE (DECREASE) IN NET POSITION	(192,062)	11,116,418
NET POSITION — Beginning of year	11,933,933	817,515
NET POSITION — End of year	$ 11,741,871	$ 11,933,933

KANAWHA VALLEY COMMUNITY AND TECHNICAL COLLEGE
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	$ 3,098,122	$ 2,378,978
Grants and contracts	4,527,330	2,540,533
Payments to and on behalf of employees	(8,228,105)	(7,510,955)
Payments to suppliers	(3,363,469)	(1,741,794)
Charges from West Virginia State University	-	(1,600,000)
Payments to utilities	(266,343)	(53,296)
Payments for scholarships and fellowships	(3,099,782)	(3,243,031)
Fees retained by the Commission	(67,502)	(56,399)
Other receipts (payments)	98,089	-
Net cash used in operating activities	(7,301,660)	(9,285,964)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	4,125,664	4,112,421
Federal student loan program — direct lending receipts	3,843,038	4,955,266
Federal student loan program — direct lending payments	(3,843,038)	(4,955,266)
Pell Grant revenue	3,883,501	4,095,686
Fees assessed by the Commission	(8,358)	(10,318)
Net cash provided by noncapital financing activities	8,000,807	8,197,789
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Purchases and construction of capital assets	(233,638)	(687,410)
Payment to the Commission for debt service	(75,000)	(49,020)
Proceeds from the Commission	500,000	500,000
Net cash provided by (used in) capital financing activities	191,362	(236,430)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on investments	2,360	1,451
Net cash provided by investing activities	2,360	1,451
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	892,869	(1,323,154)
CASH AND CASH EQUIVALENTS - Beginning of year	1,203,958	2,527,112
CASH AND CASH EQUIVALENTS - End of year	$ 2,096,827	$ 1,203,958
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (8,256,066)	$ (8,980,350)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	820,063	71,803
Changes in assets and liabilities:		
Due from the Commission/Council	324,057	(490,990)
Accounts receivable, net	330,968	(223,260)
Accounts payable	(836,248)	90,600
Due to the Commission/Council	(86,765)	112,979
Accrued liabilities	(23,687)	(5,832)
Due to State Agencies	63,043	(90,822)
Compensated absences	(12,916)	49,605
Unearned revenue	329,125	(396,702)
Other postemployment benefits liability	46,766	577,005
Net cash used in operating activities	$ (7,301,660)	$ (9,285,964)
NONCASH TRANSACTIONS:		
Noncash transactions — Payments on behalf of the College	$ 60,837	$ 11,889,845
Noncash transactions — Capital lease	$ 704,378	$ -

NOTE 1 - ORGANIZATION

Kanawha Valley Community and Technical College (the College) is governed by the Kanawha Valley Community and Technical College Board of Governors (the Board). The Board was established by House Bill 3215, effective July 1, 2008, which clarified and redefined relationships between and among certain higher education boards and institutions.

Powers and duties of the Board include, but are not limited to, the power to determine, control, supervise, and manage the financial, business, and educational policies and affairs of the College under its jurisdiction, the duty to develop a master plan for the College, the power to prescribe the specific functions and College's budget request, the duty to review, at least every five years, all academic programs offered at the College, and the power to fix tuition and other fees for the different classes or categories of students enrolled at its College.

Senate Bill 448 gave the West Virginia Council for Community and Technical Education (the Council) the responsibility for developing, overseeing, and advancing the state of West Virginia public policy agenda as it relates to community and technical college education.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The accompanying financial statements present all funds under the authority of the College. The basic criterion for inclusion in the accompanying financial statements is the exercise of oversight responsibility derived from the College's ability to significantly influence operations and accountability for fiscal matters of related entities.

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 College as a whole. Net position is classified into four categories according to external donor restrictions or availability of assets for satisfaction of College obligations. The College's net position is classified as follows:

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net investment in capital assets - This represents the College'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 net investment in capital assets.

Restricted net position - *expendable* - This includes resources for which the College is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties. The College does not have any restricted expendable net position at June 30, 2013 or 2012.

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

Restricted net position - *nonexpendable* - This includes endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. The College does not have any restricted nonexpendable net position at June 30, 2013 and 2012.

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

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

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

Cash and cash equivalents balances on deposit with the State Treasurer's Office (the State Treasurer) are pooled by the State Treasurer with other available funds of the State for investment purposes and is overseen and managed by the West Virginia Board of Treasury Investments (BTI). 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 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 West Virginia State Legislature and is subject to oversight by the West Virginia State Legislature. Fair value and investment income are allocated to participants in the pools based upon the funds that have been invested. The amounts on deposit 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 financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Permissible investments for all agencies include those guaranteed by the United States of America, its agencies and instrumentalities (U.S. government obligations); corporate debt obligations, including commercial paper, which meet certain ratings; certain money market funds; repurchase agreements; reverse repurchase agreements; asset-backed securities; certificates of deposit; state and local government securities; and other investments. Other investments consist primarily of investments in accordance with the Linked Deposit Program, a program using financial institutions in West Virginia to obtain certificates of deposit, loans approved by the Legislature, and any other program investments authorized by the Legislature.

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.

Noncurrent Cash, Cash Equivalents, and Investments - Cash, cash equivalents, and investments that are (a) externally restricted to make debt service payments and long-term loans to students, or to maintain sinking or reserve funds, (b) to purchase capital or other noncurrent assets or settle long-term liabilities, and (c) permanently restricted net position are classified as noncurrent assets in the accompanying statements of net position.

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

Capital Assets - Capital assets include construction in progress, leasehold improvements and equipment. 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. The capital assets transferred in were recorded at net book value. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 20–50 years for buildings and infrastructure, 20 years for land improvements, and 3–10 years for furniture and equipment. The College uses a capitalization threshold of $5,000 for other capital assets.

Unearned Revenue - Revenues for programs or activities to be conducted primarily in the next fiscal year are classified as unearned revenue. Financial aid and other deposits are separately classified as deposits. Additionally, revenues under reimbursement grant contracts are classified as unearned revenue until the costs have been incurred.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences and Other Postemployment Benefits (OPEB) - GASB provides for the measurement, recognition, and display of 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. The College is required to participate in this multiple-employer, cost-sharing plan, the West Virginia Retiree Health Benefit Trust Fund, sponsored by the State of West Virginia. Details regarding this plan and its standalone financials can be obtained by contacting the West Virginia Public Employees Insurance Agency (PEIA), 601 57th St. SE, Suite 2, Charleston, WV 25304-2345 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 College's full-time employees earn up to two vacation leave days for each month of service and are entitled to compensation for accumulated, unpaid vacation leave upon termination. Full-time employees also earn 1 1/2 sick leave days for each month of service and are entitled to extend their health or life insurance coverage upon retirement in lieu of accumulated, unpaid sick leave. Generally, two days of accrued sick leave extend health insurance for one month of single coverage, and three days extend health insurance for one month of family coverage. For employees hired after 1988, 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 insurance premium subsidy from the College. 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 the vacation leave or OPEB benefits are recorded as a component of benefits expense in the combined statements of revenues, expenses, and changes in net position.

Deferred Outflows of Resources - Consumption of net position by the College that is applicable to a future fiscal year is reported as a deferred outflow of resources on the statement of net position.

Deferred Inflows of Resources - An acquisition of net position by the College that is applicable to a future fiscal year is reported as a deferred inflow of resources on the statement of net position.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

In addition, through its participation in PEIA and third-party insurers, the College 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 insurers, the College has transferred its risks related to health, life, prescription drug coverage, and job-related injuries.

West Virginia had a single private insurance company, BrickStreet Insurance, which provided workers' compensation coverage to all employers in the State. Other private insurance companies began to offer coverage to the private-sector employers beginning July 1, 2009 and began to offer to government employers July 1, 2010. Nearly every employer in the State, who has a payroll, must have coverage. The cost of all coverage is paid by the employers. BrickStreet retains the risk related to the compensation of injured employees under the program.

Classification of Revenues - The College has classified its revenues according to the following criteria:

Operating revenues **-** Operating revenues include activities that have the characteristics of exchange transactions, such as (a) student tuition and fees, net of scholarship discounts and allowances, (b) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (c) most federal, state, local, and nongovernmental grants and contracts, and (d) sales and services of educational activities.

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

Other revenues **-** Other revenues consist primarily of capital gains and gifts.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Federal Financial Assistance Programs - The College 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 institutions like the College. Direct student loan receivables are not included in the College's statements of net position as the loans are repayable directly to the U.S. Department of Education. In 2013 and 2012, the College received and disbursed approximately $3.8 million and $4.9 million, respectively, under the Federal Direct Student Loan Program on behalf of the U.S. Department of Education, which is not included as revenue and expense on the statements of revenues, expenses, and changes in net position.

The College also distributes other student financial assistance funds on behalf of the federal government to students under the Federal Pell Grant, Supplemental Educational Opportunity Grant, and College Work Study programs. The activity of these programs is recorded in the accompanying financial statements. In 2013 and 2012, the College received and disbursed approximately $4.0 million and $4.2 million, 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 statements of revenues, expenses, and changes in net position. Scholarship allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the student's behalf.

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

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

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

Cash Flows - Any cash and cash equivalents escrowed, restricted for noncurrent assets, or in funded reserves have been included as cash and cash equivalents for the purpose of the statements of cash flows.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Newly Adopted Statements Issued by the Governmental Accounting Standards Board

The College has adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. 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 adoption of this statement resulted in the addition of deferred outflows of resources and deferred inflows of resources to the statements of net position.

The College has early adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. 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 adoption of this statement resulted in the addition of deferred outflows of resources and deferred inflows of resources to the statements of net position.

The College has early adopted Statement No. 66, *Technical Corrections - 2012: An Amendment of GASB Statements No. 10 and No. 64*. 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 adoption of this statement did not have a material impact on the financial statements.

Recent Statements Issued by the Governmental Accounting Standards Board

The GASB has 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 College has not yet determined the effect that the adoption of GASB Statement No. 68 may have on its financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The GASB has also issued Statement No. 69¸ *Government Combinations and Disposals of Government Operations*, effective for fiscal years beginning after December 31, 2013. This statement provides guidance on measurement and reporting of combinations and disposals of government operations. The College has not yet determined the effect that the adoption of GASB Statement No. 69 may have on its financial statements.

The GASB also issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, effective for fiscal years beginning after June 15, 2013. Early application is encourage. This statement requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. In addition, the Statement requires: (1) A government guarantor to consider qualitative factors when determining if a payment on its guarantee is more likely than not to be required. Such factors may include whether the issuer of the guaranteed obligation is experiencing significant financial difficulty or initiating the process of entering into bankruptcy or financial reorganization; (2) An issuer government that is required to repay a guarantor for guarantee payments made to continue to report a liability unless legally released. When a government is released, the government would recognize revenue as a result of being relieved of the obligation; (3) A government guarantor or issuer to disclose information about the amounts and nature of nonexchange financial guarantees. The College has not yet determined the effect that the adoption of GASB Statement No. 70 may have on its financial statements.

NOTE 3 - CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents as of June 30, 2013 and 2012, are held as follows:

	2013	2012
Cash on deposit with State Treasurer/BTI	$ 1,944,633	$ 1,045,485
Cash in bank	152,194	158,473
	$ 2,096,827	$ 1,203,958

The combined carrying amount of cash in the bank was $152,194 and $158,473 as compared with the combined bank balance of $185,771 and $179,335 at June 30, 2013 and 2012, 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 collateralized by securities held by the State’s agent. Regarding federal depository insurance, accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. Balances in these accounts sometimes exceed the federal deposit insurance limits; however, management believes the banks to be creditworthy and believes that credit risk associated with these deposits is minimal.

Amounts with the State Treasurer as of June 30, 2013 and 2012, are comprised of the following investment pools:

NOTE 3 - CASH AND CASH EQUIVALENTS (CONTINUED)

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 College invests, all are subject to credit risk. The following BTI investment risk information has been extracted from the notes to BTI's financial statements.

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, 2013 and 2012, 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, 2013 and 2012, the WV Money Market Pool investments had a total carrying value of $2,495,868,000 and $2,786,968,000, respectively, of which the College's ownership represents 0.07% and 0.03%, respectively.

WV Government Money Market Pool - Credit Risk - For the years ended June 30, 2013 and 2012, 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, 2013 and 2012, the WV Government Money Market Pool investments had a total carrying value of $287,184,000 and $299,629,000, respectively, of which the Colleges's ownership represents 0.00% and 0.01%, respectively.

NOTE 3 - CASH AND CASH EQUIVALENTS (CONTINUED)

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. Mortgage-backed and asset-backed securities must be rated AAA by Standard & Poor's and Aaa 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*		2013		2012	
Security Type	Moody's	S&P	Carrying Value	Percent of Pool Assets	Carrying Value	Percent of Pool Assets
Corporate asset-backed securities	Aaa	AAA	$ 53,681	8.72 %	$ 95,628	18.99 %
	Aaa	NR *	59,810	9.71	38,524	7.64
	B1	CCC **			896	0.18
	B3	BB **			311	0.06
	B3	BBB- **			53	0.01
	B3	CCC **			280	0.06
	Ca	CCC **	308	0.05	586	0.12
	Ca	D **	95	0.02		
	Caa1	CCC **	932	0.15		
	Caa2	CCC **			186	0.04
	Caa3	CCC **			243	0.05
	Caa3	D **	367	0.06	26	0.01
	Caa3	NR **	24	0.00		
	NR	AAA	37,411	6.07		
	NR	AA+	2,514	0.41	3,900	0.77
	NR *	NR *	3,819	0.62	3,786	0.75
			158,961	25.81	144,419	28.68
Corporate bonds and notes	Aa2	AA+	3,002	0.49	9,025	1.79
	Aa2	AA	12,731	2.07		
	Aa2	AA-	9,192	1.49		
	Aa3	AA-	33,034	5.36	15,666	3.11
	Aa3	A+	11,693	1.90		
	Aa3	A			23,032	4.57
	A1	AA+	13,295	2.16		
	A1	AA	4,118	0.67	12,145	2.41
	A1	A+	47,500	7.71	30,684	6.09
	A1	A	13,522	2.19		
	A2	A+	9,348	1.52		
	A2	A	47,709	7.75	39,064	7.76
	A2	A-	5,052	0.82		
	A3	A-	7,986	1.30	7,755	1.54
	A3	BBB+			3,006	0.60
	Baa1	A- **	2,416	0.39	4,162	0.83
	Baa2	A- **	6,959	1.13	6,709	1.33
			227,557	36.95	151,248	30.03
U.S. agency bonds	Aaa	AA+	9,986	1.62	45,024	8.94
U.S. Treasury notes***	Aaa	AA+	140,154	22.76	44,251	8.79
U.S. agency mortgage backed securities****	Aaa	AA+	73,692	11.97	77,065	15.30
Money market funds	Aaa	AAAm	5,457	0.89	41,610	8.26
			$615,807	100 %	$503,617	100 %

* NR = Not Rated

** The securities were not in compliance with BTI Investment Policy at June 30, 2013 and/or 2012. 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.

NOTE 3 - CASH AND CASH EQUIVALENTS (CONTINUED)

At June 30, 2013 and 2012, the College's ownership represents 0.02% and 0.02%, 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 762 days. The following table provides information on the weighted average maturities for the various asset types in the WV Money Market Pool:

	2013		2012	
Security Type	**Carrying Value (In thousands)**	**WAM (Days)**	**Carrying Value (In thousands)**	**WAM (Days)**
Repurchase agreements	$ 229,326	3	$ 90,204	3
U.S. Treasury notes	279,755	132	330,865	122
U.S. Treasury bills	34,993	77	237,978	37
Commercial paper	970,395	43	853,470	35
Certificates of deposit	259,000	66	110,000	10
U.S. agency discount notes	445,784	47	738,706	44
Corporate bonds and notes	10,000	60	36,000	48
U.S. agency bonds/notes	66,603	139	189,691	68
Money market funds	200,012	1	200,054	1
	$ 2,495,868	52	$ 2,786,968	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 762 days. The following table provides information on the weighted average maturities for the various asset types in the WV Government Money Market Pool:

	2013		2012	
Security Type	**Carrying Value (In thousands)**	**WAM (Days)**	**Carrying Value (In thousands)**	**WAM (Days)**
Repurchase agreements	$ 101,500	3	$ 91,900	3
U.S. Treasury notes	50,112	103	103,324	111
U.S. Treasury bills	4,999	76	4,999	62
U.S. agency discount notes	125,474	67	76,397	52
U.S. agency bonds/notes	5,000	34	23,004	9
Money market funds	99	1	5	1
	$ 287,184	50	$ 299,629	54

NOTE 3 - CASH AND CASH EQUIVALENTS (CONTINUED)

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:

	2013		2012	
Security Type	**Carrying Value (in Thousands)**	**Effective Duration (Days)**	**Carrying Value (in Thousands)**	**Effective Duration (Days)**
U. S. Treasury bonds/notes	$ 140,154	491	$ 44,251	366
Corporate bonds/notes	227,557	293	151,248	242
Corporate asset-backed securities	158,961	471	144,419	250
U.S. agency bonds/notes	9,986	583	45,024	23
U.S. agency mortgage-backed securities	73,692	60	77,065	13
Money market funds	5,457	1	41,610	1
	$ 615,807	358	$ 503,617	180

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.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2013 and 2012, are as follows:

	2013	2012
Student tuition and fees — net of allowance for doubtful accounts of $361,058 and $480,390 in 2013 and 2012, respectively	$ 163,939	$ 172,609
Due from other higher education and other State Agencies	5,780	18,533
Grants receivable	33,931	334,660
Other accounts receivable	-	8,816
	$ 203,650	$ 534,618

NOTE 5 - CAPITAL ASSETS

A summary of capital assets transactions for the College as of June 30, 2013 and 2012, is as follows:

	2013			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	$ -	$ -	$ -	$ -
Construction in progress	12,749,252	765,215	12,749,252	765,215
Total capital assets not being depreciated	$ 12,749,252	$ 765,215	$ 12,749,252	$ 765,215
Other capital assets:				
Leasehold improvements	$ -	$ 12,749,252	$ -	$ 12,749,252
Equipment	1,587,762	233,639	(15,139)	1,806,262
Total other capital assets	1,587,762	12,982,891	(15,139)	14,555,514
Less accumulated depreciation for:				
Leasehold improvements	-	(637,463)	-	(637,463)
Equipment	(167,813)	(182,600)	15,139	(335,274)
Total accumulated depreciation	(167,813)	(820,063)	15,139	(972,737)
Capital assets, net	$ 14,169,201	$ 12,928,043	$ (12,749,252)	$ 14,347,992

NOTE 5 - CAPITAL ASSETS (CONTINUED)

	2012			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	$ -	$ -	$ -	$ -
Construction in progress	1,348,808	11,400,444	-	12,749,252
Total capital assets not being depreciated	$ 1,348,808	$ 11,400,444	$ -	$ 12,749,252
Other capital assets:				
Equipment	$ 450,524	$ 1,176,811	$ (39,573)	$ 1,587,762
Less accumulated depreciation for:				
Equipment	(133,282)	(71,803)	37,272	(167,813)
Total accumulated depreciation	(133,282)	(71,803)	37,272	(167,813)
Capital assets, net	$ 1,666,050	$ 12,505,452	$ (2,301)	$ 14,169,201

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

NOTE 6 - LONG-TERM LIABILITIES

A summary of long-term obligation transactions for the College for the years ended June 30, 2013 and 2012, is as follows:

	2013				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated absences	$ 305,462	$ -	$ (12,916)	$ 292,546	$ 193,705
Other postemployment benefits liability	1,636,118	46,766	-	1,682,884	-
Leases payable	-	704,378	-	704,378	176,095
Debt obligation due to the Commission	500,000	500,000	(75,000)	925,000	100,000
Total long-term liabilities	$ 2,441,580	$ 1,251,144	$ (87,916)	$ 3,604,808	$ 469,800

KANAWHA VALLEY COMMUNITY AND TECHNICAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

	2012				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated absences	$ 255,857	$ 49,605	$ -	$ 305,462	$ 218,697
Other postemployment benefits liability	1,059,113	577,005	-	1,636,118	-
Debt obligation due to the Commission	49,020	500,000	(49,020)	500,000	50,000
Total long-term liabilities	$ 1,363,990	$ 1,126,610	$ (49,020)	$ 2,441,580	$ 268,697

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS

In accordance with GASB, OPEB costs are accrued based upon invoices received from PEIA based upon actuarial determined amounts. At June 30, 2013, 2012, and 2011 the noncurrent liability related to OPEB costs was $1,682,884, $1,636,118, and $1,059,113, respectively. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was $273,823 and $227,057, respectively, during 2013 or 83%. The total of OPEB expense incurred and the amount of OPEB expense that relates to retirees was $760,672 and $183,667, respectively, during 2012 or 24%. The total of OPEB expense incurred and the amount of OPEB expense that relates to retirees was $562,590 and $143,936, respectively, during 2011 or 26%. As of the years ended June 30, 2013, 2012 and 2011, there were nine, six and five retirees, respectively, receiving these benefits.

NOTE 8 - LEASES

Operating Leases - The College leases various buildings and equipment under operating lease agreements. Total rental expense for the years ended June 30, 2013 and 2012, was $339,519 and $148,226, respectively.

Following is a schedule of future minimum lease payments for the term of the operating leases:

Year Ending June 30	Rental Payments
2014	$ 33,116
2015	18,671
2016	18,671
2017	18,671
2018	6,224
	$ 95,353

Capital Leases - On November 7, 2012, the College entered into a capital lease for equipment. The lease is payable in annual installments of $176,095 over 4 years. The total amount outstanding on the lease at June 30, 2013 was $704,378. The first payment is due September 15, 2013.

NOTE 8 - LEASES (CONTINUED)

The net book value of equipment under capital leases is included in the Statement of Net Position as investment in capital assets and was $704,378 at June 30, 2013. Depreciation of assets purchased under capital leases will be included in depreciation expense.

The future minimum lease payments required under the capital lease and the present value of the net minimum lease payments as of June 30, 2013, are as follows:

Year Ending June 30		
2014	$	176,095
2015		176,095
2016		176,095
2017		176,093
Future minimum lease payments	$	704,378

NOTE 9 - STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

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

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

The Municipal Bond Commission has the authority to assess each public institution of higher education for payment of debt service on these system bonds. The tuition and registration fees of the members of the former State University System are generally pledged as collateral for the Commission's bond indebtedness. Student fees collected by the institution in excess of the debt service allocation are retained by the institution for the Municipal Bond Commission, an estimate of the obligation of each institution is reported as a long-term payable by each institution and as a receivable by the Commission, effective as of June 30, 2002.

NOTE 9 - STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS (CONTINUED)

Debt service assessed for the years ended June 30, 2013 and 2012, is as follows:

	2013	2012
Principal	$ -	$ 49,020
Interest	-	1,961
Other	8,358	8,357
	$ 8,358	$ 59,338

During December 2009, the Commission, on behalf of the Council, issued $78,295,000 of Community and Technical Colleges Improvement Revenue Bonds, 2009 Series A (the “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. The bond projects listed in the bond offering for the 2009 Bonds proposes bond funding of $13,500,000 for the College. As of June 30, 2013, $13,300,000 has been recognized by the College. State lottery funds will be used to repay the debt.

During fiscal year 2013 the College entered into an interest free capital project loan with the Commission in the amount of $500,000 to fund building renovations. This loan was combined with a similar interest free capital project loan that the College received commission during fiscal year 2012 in the amount of $500,000. The total loan in the amount of $1 million is to be repaid over ten years in quarterly payments of $25,000. The amount due to the Commission at June 30, 2013 and 2012 was $925,000, and $500,000, respectively.

NOTE 10 - UNRESTRICTED NET POSITION

The College did not have any designated unrestricted net position as of June 30, 2013 and 2012.

	2013	2012
Total unrestricted net position (deficit) before OPEB liability	$ 706,141	$ (99,150)
Less: OPEB liability	1,682,884	1,636,118
Total unrestricted net position (deficit)	$ (976,743)	$ (1,735,268)

The primary reason that unrestricted net position is in a deficit is related to the unfunded OPEB liability. The OPEB liability represents the College’s accumulated unpaid annual required contribution. The Trust accumulates and manages funds for retiree health benefits under a defined benefit cost-sharing multiple employer OPEB plan. The Public Employees Insurance Agency (PEIA) has been assigned the responsibility for the administration of the Trust. PEIA invoices the participants in the State’s OPEB Plan, including the College, on a monthly basis, the contractually required contribution based on current health insurance policy holders. During the 2012 legislative session, the State took proactive measures to address this unfunded liability, which will take effect in future fiscal years and fully fund the liability by 2037. In addition to the actions of the State to fund the liability, the College plans to make an effort to monitor and reduce expenditures where possible to eliminate the deficit in unrestricted net position.

NOTE 11 - RETIREMENT PLANS

Substantially all full-time employees of the College 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. Contributions to and participation in the West Virginia Teachers' Defined Contribution Plan by College employees have not been significant to date.

Effective January 1, 2003, higher education employees enrolled in the basic 401(a) retirement plan with TIAA-CREF have an option to switch to the New Educators Money 401(a) basic retirement plan ("Educators Money"). New hires have the choice of either plan.

The STRS is a cost-sharing, defined benefit, public employee retirement system. Employer and employee contribution rates are established annually by the West Virginia State Legislature. The contractual maximum contribution rate is 15%. The College accrued and paid its contribution to the STRS at the rate of 15% of each enrolled employee's total annual salary for the year ended June 30, 2013. Required employee contributions were at the rate of 10% of total annual salary for the year ended June 30, 2013. 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, 2013, 2012, and 2011, were $7,615, $24,245, and $25,014, respectively, which consisted of $5,440, $15,685, and $16,547, respectively, from the College and $2,175, $8,560, and $8,467, respectively, from the covered employees.

The contribution rate is set by the West Virginia State Legislature on an overall basis and the STRS does not perform a calculation of the contribution requirement for individual employers, such as the College. Historical trend and net pension obligation information is available from the annual financial report of the Consolidated Public Retirement Board. A copy of the report may be obtained by writing to the Consolidated Public Retirement Board, 4101 MacCorkle Avenue S.E., Charleston. West Virginia 25304-1636.

The TIAA-CREF and Educators Money are defined contribution benefit plans in which benefits are based solely upon amounts contributed, plus investment earnings. Employees who elect to participate in this plan are required to make a contribution equal to 6% of total annual compensation. The College matches the employees' 6% contribution. Contributions are immediately and fully vested. In addition, employees may elect to make additional contributions to TIAA-CREF and Educators Money, which are not matched by the College.

Total contributions to the TIAA-CREF for the years ended June 30, 2013, 2012, and 2011, were $640,036, $577,666, and $518,802, respectively, which consisted of $320,018, $288,833, and $259,401, respectively, from the College and the covered employees.

NOTE 11 - RETIREMENT PLANS (CONTINUED)

Total contributions to the Educators Money for the years ended June 30, 2013, 2012, and 2011, were $16,552, $16,484, and $13,382, respectively, which consisted of $8,276, $8,242, and $6,691, respectively, from both the College and covered employees.

The College's total payroll for the years ended June 30, 2013, 2012 and 2011, was $5,264,249, $4,859,938 and $4,575,963, respectively, and total covered employees' salaries in the STRS, TIAA-CREF, and Educators Money were $36,263, $5,090,808, and $137,178, respectively, in 2013, $142,669, $4,579,905, and $137,364, respectively, in 2012, and $141,102, $4,323,342, and $111,519, respectively in 2011.

NOTE 12 - CONTINGENCIES

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

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

The Internal Revenue Code of 1986 establishes rules and regulations for arbitrage rebates. There are no arbitrage rebate liabilities that have been recorded in the financial statements as of June 30, 2013 and 2012.

NOTE 13 - SUBSEQUENT EVENTS

During the State's 2013 legislative session legislators passed Senate Bill 438 allowing for the consolidation of Bridgemont Community and Technical College and Kanawha Valley Community and Technical College, pending approval by the HLC. This consolidation will have a very positive impact on both institutions as both institutions are small and cannot afford to duplicate management as is evidenced by the fund balances at each institution. Moreover with the close geographical proximity, less than 35 miles, each institution competes with one another especially in the workforce industry training. The change of control documentation recently submitted to the HLC reflects the positive outcomes to the financial health of both institutions once the consolidation is approved. The impact of these efficiencies will be realized in fiscal year 2015 after all approvals are obtained and projected savings will be significant. During 2014, some of the efficiencies have already been implemented to assist in the financial health of both institutions. Please see Economic Outlook in the Management Discussion and Analysis section for additional discussion.

KANAWHA VALLEY COMMUNITY AND TECHNICAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012

NOTE 14 - NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

This table represents operating expenses within both natural and functional classifications for the year ended June 30:

2013

	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Fees Assessed by Commission	Total
Instruction	$ 4,080,727	$ 884,345	$ 366,399	$ (687)	$ -	$ -	$ -	$ 5,330,784
Public service	591,941	130,207	406,569	9,369	30,992	-	-	1,169,078
Academic support	378,905	92,110	382,752	20	-	-	-	853,787
Student services	361,221	115,257	85,392	(25,894)	-	-	-	535,976
General institutional support	991,679	305,850	1,132,688	283,535	-	-	-	2,713,752
Operations and maintenance of plant	172,851	60,502	129,699	-	-	-	-	363,052
Student financial aid	72,344	329	-	-	3,068,790	-	-	3,141,463
Depreciation	-	-	-	-	-	820,063	-	820,063
Fees assessed by the Commission	-	-	-	-	-	-	67,502	67,502
Total	$ 6,649,668	$ 1,588,600	$ 2,503,499	$ 266,343	$ 3,099,782	$ 820,063	$ 67,502	$ 14,995,457

2012

	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Fees Assessed by Commission	Total
Instruction	$ 3,834,105	$ 1,309,634	$ 471,847	$ 11,191	$ -	$ -	$ -	$ 5,626,777
Public service	756,339	166,970	453,488	9,518	59,255	-	-	1,445,570
Academic support	249,550	95,046	180,527	50	-	-	-	525,173
Student services	338,760	151,341	84,161	2,179	-	-	-	576,441
General institutional support	853,672	302,549	2,254,507	30,358	-	-	-	3,441,086
Operations and maintenance of plant	-	-	9,991	-	-	-	-	9,991
Student financial aid	73,767	-	30	-	3,183,776	-	-	3,257,573
Depreciation	-	-	-	-	-	71,803	-	71,803
Fees assessed by the Commission	-	-	-	-	-	-	56,399	56,399
Total	$ 6,106,193	$ 2,025,540	$ 3,454,551	$ 53,296	$ 3,243,031	$ 71,803	$ 56,399	$ 15,010,813

Charges from West Virginia State University are included under supplies and other services in the general institutional support line item.

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S 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*

Board of Governors
Kanawha Valley Community and Technical College
Charleston, West Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business type activities of Kanawha Valley Community and Technical College (the College), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated October 25, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Suttle & Stalnaker, PLLC

Charleston, West Virginia
October 25, 2013