

MOUNTWEST COMMUNITY AND TECHNICAL COLLEGE

Financial Statements as of and for
the Years Ended June 30, 2013 and
2012, and Independent Auditors' Report

MOUNTWEST COMMUNITY AND TECHNICAL COLLEGE

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INDEPENDENT AUDITORS' REPORT

To the Governing Board of
Mountwest Community and Technical College
Huntington, WV

Report on the Financial Statements

We have audited the accompanying financial statements of Mountwest Community and Technical College ("the College") as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which 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.

Auditors' 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 audit 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Mountwest Community and Technical College, as of June 30, 2013 and 2012, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance 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 3 – 11 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 standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the 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 15, 2013, on our consideration of Mountwest Community and Technical 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 Mountwest Community and Technical College's internal control over financial reporting and compliance.

Hayflich Gugoraci PLLC

Huntington, WV
October 15, 2013

MOUNTWEST COMMUNITY & TECHNICAL COLLEGE
MANAGEMENT DISCUSSION AND ANALYSIS
FISCAL YEAR 2013
[Unaudited]

The History of the College

Mountwest Community and Technical College (MCTC or the “College”) is one of West Virginia’s ten community and technical colleges. MCTC headcount enrollment is approximately 3,000. MCTC offers 50 Associate degrees and 15 Certificate programs in the areas of Allied Health and Life Sciences, Business and Information Technology, Liberal Arts and Human Services, and Occupational Development.

Marshall Community College was founded in 1975 as a separate college within Marshall University to better serve students by bringing together many of the two-year associate degree programs under one College. Classes began in the fall of 1975 with a wide range of programs. From the outset, the Marshall Community College’s mission has been to provide two year associate degrees as well as provide continuing education and community service.

In 1991, the Marshall Community College name was changed to Marshall Community and Technical College to better reflect the technical nature of many of the programs offered. On October 30, 2003, Marshall Community and Technical College became accredited as an independent institution by The Higher Learning Commission, a Commission of the North Central Association of Colleges and Schools. This accreditation was continued for ten years on July 3, 2008.

Prior to Fiscal Year 2009, MCTC was a separately accredited institution, administratively-linked to Marshall University. MCTC’s financial information was included with the Marshall University Financial Statements through Fiscal Year 2008. With the passage of House Bill 3215 during the 2008 session of the West Virginia Legislature, MCTC became a free-standing and independent institution no longer administratively-linked to the four-year institution effective July 1, 2008. Effective March 13, 2010, Senate Bill 499 was passed changing the College’s name from Marshall Community and Technical College to Mountwest Community and Technical College. In August of 2012, MCTC moved into its new campus and is no longer located on Marshall University’s campus.

MCTC is governed by a separate Board of Governors. This twelve (12) member Board was established by House Bill 3215, effective July 1, 2008. The 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 MCTC.

Overview of the Financial Statements and Financial Analysis

There are three financial statements presented: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. The Governmental Accounting Standards Board (GASB) issues directives for presentation of college and university financial statements. This report format places emphasis on the overall economic resources of the College.

Statement of Net Position

A Statement of Net Position presents the assets, liabilities, and net position of MCTC as of the end of the fiscal year. A Statement of Net Position is a point in time financial statement and provides a fiscal snapshot of the College. A Statement of Net Position presents end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and net position (assets minus liabilities). Current assets and liabilities are typically associated with resources or obligations that will be used within the fiscal year. Noncurrent assets and liabilities are not typically used within the fiscal year. From the data presented, readers of a Statement of Net Position are able to determine the assets available to continue the operations of the College. They are also able to determine how much the College owes vendors, employees, lenders and others. Finally, a Statement of Net Position provides a picture of the net position (assets minus liabilities) and their availability for expenditure.

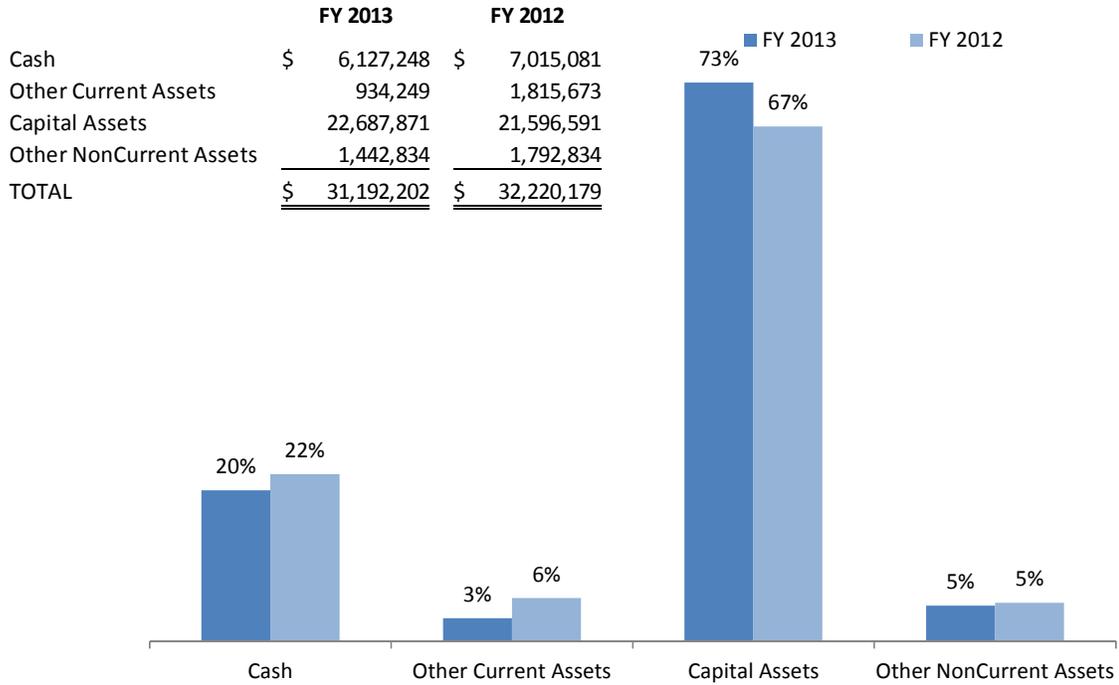
Net assets are divided into three major categories. The first category, net investment in capital assets provides the College's equity in or ownership of property, plant and equipment. The next asset category is restricted net position, which is divided into two categories, nonexpendable and expendable. Nonexpendable restricted net position includes endowments. The corpus of nonexpendable restricted resources is only available for investment purposes. MCTC does not have any nonexpendable restricted net position at June 30, 2013 or June 30, 2012. Expendable restricted net position is available for expenditure by the College but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of these resources. The final category is unrestricted net position. Unrestricted net position is available for general use by the College.

Condensed Schedules of Net Position *(In Thousands)*

	FY 2013	FY 2012	FY 2011
Assets			
Current Assets	\$ 7,061	\$ 8,831	\$ 8,468
Noncurrent assets	<u>24,131</u>	<u>23,389</u>	<u>13,323</u>
Total Assets	<u>\$ 31,192</u>	<u>\$ 32,220</u>	<u>\$ 21,791</u>
Liabilities			
Current liabilities	\$ 3,705	\$ 4,771	\$ 2,743
Noncurrent liabilities	<u>6,721</u>	<u>6,904</u>	<u>3,183</u>
Total Liabilities	<u>10,426</u>	<u>11,675</u>	<u>5,926</u>
Net Position			
Net Investment in capital assets	17,364	16,405	9,031
Restricted	7	9	6
Unrestricted	<u>3,395</u>	<u>4,131</u>	<u>6,828</u>
Total Net Position	<u>20,766</u>	<u>20,545</u>	<u>15,865</u>
Total	<u>\$ 31,192</u>	<u>\$ 32,220</u>	<u>\$ 21,791</u>

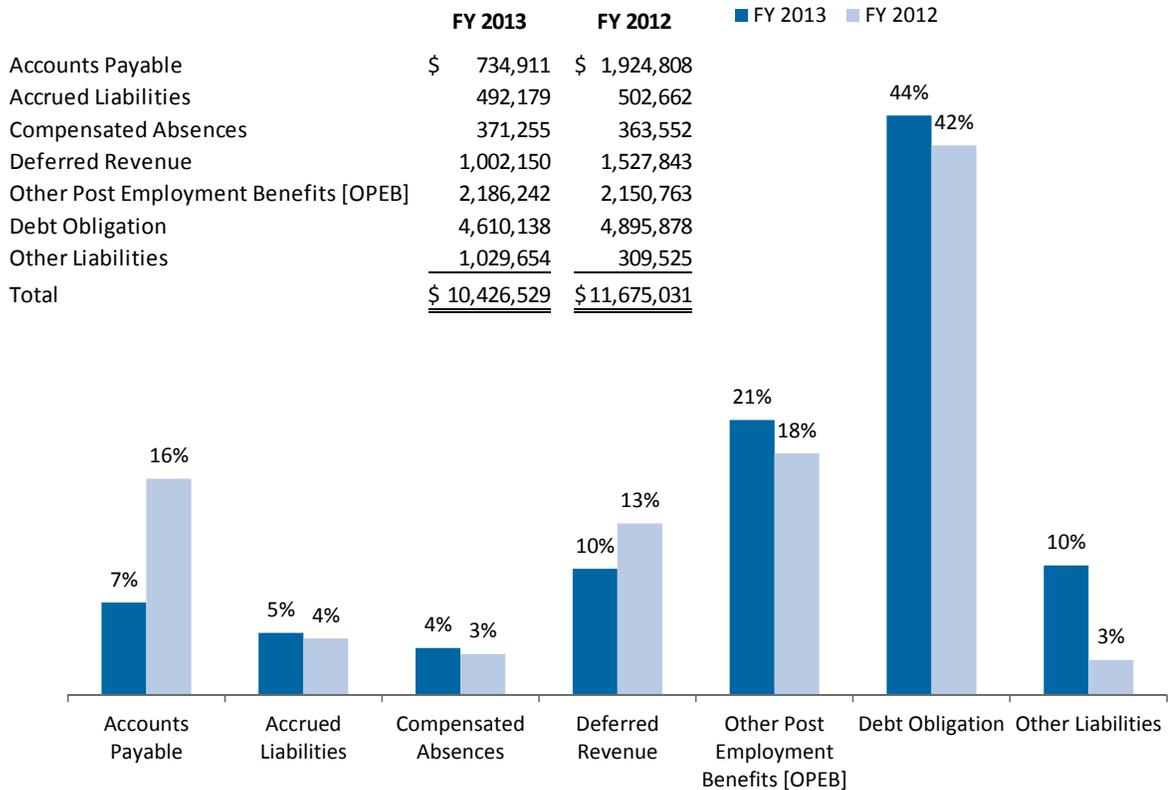
ASSET COMPOSITION

As of June 30, 2013 and 2012



LIABILITIES

As of June 30, 2013 and 2012



Major Items of Note in the Statement of Net Position include:

- Total current assets of \$7.1 million exceeded total current liabilities of \$3.7 million as of June 30, 2013 for net working capital of \$3.4 million as compared to net working capital of \$4.0 million as of June 30, 2012.
 - The major components of current assets include cash and cash equivalents of \$6.1 million as of June 30, 2013 and \$7.0 million as of June 30, 2012, and net accounts receivable of \$0.4 million at the end of both years. The majority of cash and cash equivalents is representative of interest earning assets invested through the office of the West Virginia State Treasurer.
 - The major components of current liabilities include accounts payable of \$.7 million and \$1.9 million, unearned revenue of \$1.0 million and \$1.5 million, accrued liabilities of \$0.5 million and \$0.5 million, and compensated absences of \$0.4 million and \$0.4 million as of June 30, 2013 and 2012, respectively. The decrease in accounts payable was due to payments related to the construction of the MCTC Headquarters Building outstanding as of June 30, 2012.
- Noncurrent assets total \$24.1 million and \$23.4 million and noncurrent liabilities total \$6.7 million and \$6.9 million as of June 30, 2013 and 2012, respectively.
 - Major components of noncurrent assets include capital assets of \$22.7 million and \$21.6 million as of June 30, 2013 and 2012, respectively. Note 5 to the Financial Statements provides additional information regarding capital assets.
 - Major components of noncurrent liabilities include debt service obligations payable to the Commission of \$1.1 million and \$1.2 million, and other post-employment benefits (OPEB) liability of \$2.2 million and \$2.2 million, as of June 30, 2013 and 2012, respectively. The OPEB liability continues to increase in the absence of any payments on behalf of the West Virginia Council for Community and Technical College Education during FY 2013 and decreases in investment returns by the State's Multiple-Employer Trust Fund which resulted in an increase of the Annual Required Contribution (ARC) related to other post-employment benefits. Note 8 to the Financial Statements provides additional information regarding the OPEB liability. Note 7 to the Financial Statements provides additional information regarding Bonds Payable.
- The net position of the College totaled \$20.8 million as of June 30, 2013 as compared to \$20.6 million as of June 30, 2012.
 - Net investment in capital assets total \$17.4 million and \$16.4 million as of June 30, 2013 and 2012, respectively.
 - Unrestricted net position total \$3.4 million and \$4.1 million as of June 30, 2013 and 2012, respectively and represent net position available to the College. Note 11 to the Financial Statements explains the impact of other post-employment benefits (OPEB) liability on the unrestricted net position balance. In June 2011, the Board designated \$1.5 million of the unrestricted net position to be used for the costs involved in renovating the new College campus. An additional \$0.4 million was added to the designation in FY 2012 as there were additional funds received that were related to the June 2011 designation. Note 11 details this designation of unrestricted net assets.

Statement of Revenues, Expenses and Changes in Net Position

Changes in total net position as presented on the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Position. The purpose of this statement is to present the revenues received by the institution, both operating and non-operating, and the expenses paid by the institution, operating and non-operating, and any other revenues, expenses, gains and losses received or spent by the College.

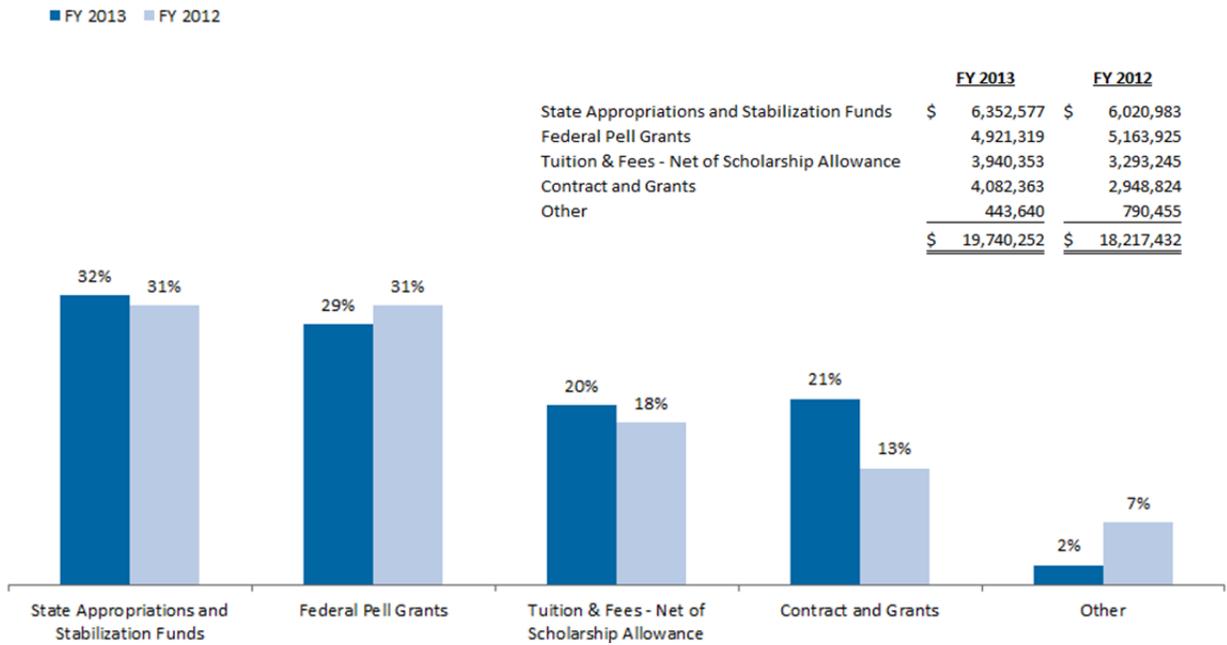
Generally speaking, operating revenues are received and operating expenses are expended for those items related to providing goods and services to the various customers and constituencies of the College, while carrying out the mission of the College. Revenues received for which goods and services are not provided are reported as non-operating revenues. For example, State appropriations are non-operating because they are provided by the Legislature to the College without the Legislature directly receiving commensurate goods and services for those revenues. Likewise, Federal Pell grants are reported as non-operating because of specific guidance in the AICPA industry audit guide.

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

	FY 2013	FY 2012	FY 2011
Operating revenues	\$ 8,450	\$ 7,015	\$ 7,342
Operating expenses	<u>(19,300)</u>	<u>(19,060)</u>	<u>(19,604)</u>
Operating Loss	(10,850)	(12,045)	(12,262)
Nonoperating revenues	11,290	11,202	11,938
Nonoperating expenses	<u>(219)</u>	<u>(136)</u>	<u>(123)</u>
Income (Loss) before Other Revenues, Expenses, Gains or Losses	221	(979)	(447)
Gifts of Capital Equipment	-	43	81
Capital Payments made on behalf of MCTC	<u>-</u>	<u>5,616</u>	<u>329</u>
Net Increase (Decrease) in Net Position	221	4,680	(37)
Net Assets - Beginning of Year	<u>20,545</u>	<u>15,865</u>	<u>15,902</u>
Net Assets - End of Year	<u><u>\$ 20,766</u></u>	<u><u>\$ 20,545</u></u>	<u><u>\$ 15,865</u></u>

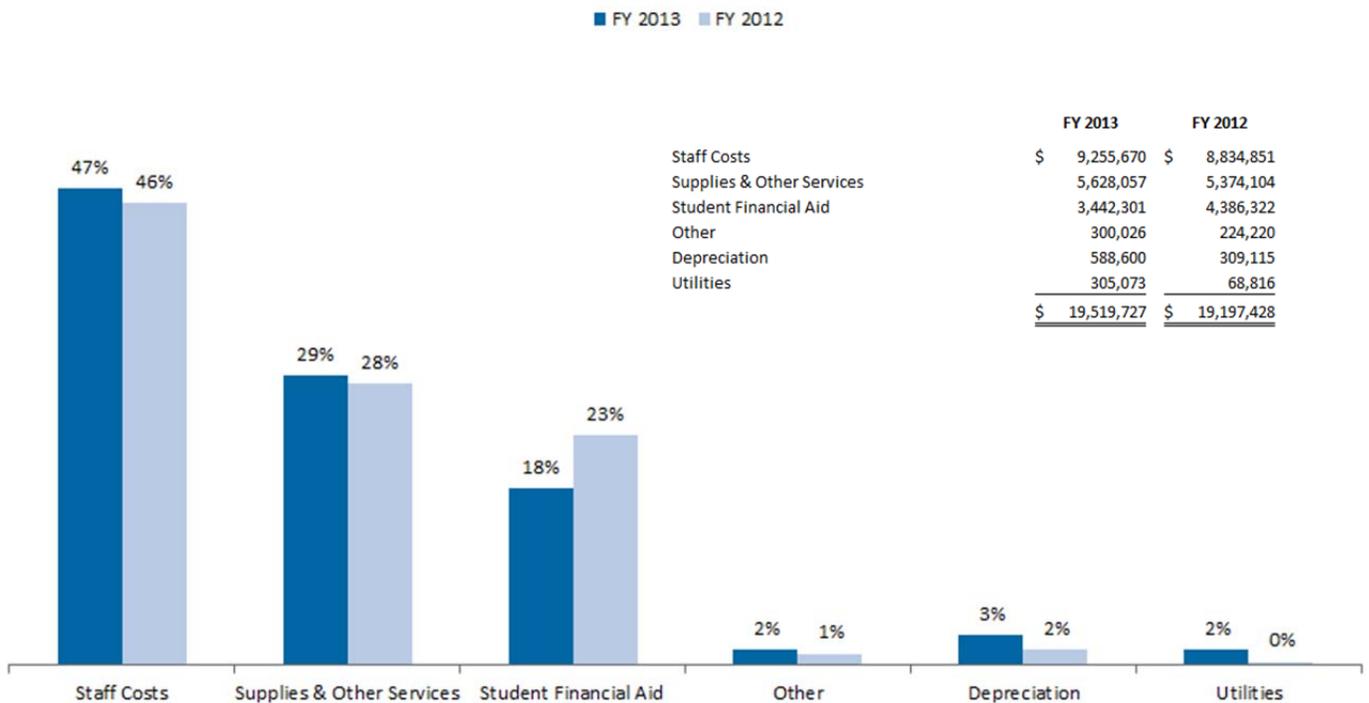
TOTAL REVENUES

For the Years ending June 30, 2013 and 2012



TOTAL EXPENDITURES

For the Years ending June 30, 2013 and 2012



Major Items of Note in the Statement of Revenues, Expenses, and changes in Net Position include:

- Operating Revenues of the College totaled \$8.4 million for FY 2013 compared to \$7.0 million in FY 2012, an increase of \$1.4 million.
 - Net student tuition and fees revenues totaled \$3.9 million in FY 2013 compared to \$3.3 million in FY 2012, an increase of \$0.6 million. This increase is due to the large impact of the high dollar aviation program. The course fees received from students increase tuition, but also increase supplies and other services expense. Tuition is reported net of scholarship allowance totaling \$6.0 million and \$4.2 million in FY 2013 and 2012, respectively. Gross student tuition and fees totaled \$9.9 million in FY 2013 compared to \$7.5 million in FY 2012.
 - Federal grants and contracts totaled \$1.9 million in FY 2013 compared to \$0.7 million in FY 2012. This increase is due to the Beacon Grant.
 - State grants and contracts totaled \$2.1 million in both FY 2013 and FY 2012 and private grants and contracts totaled \$0.08 million in FY 2013 compared to \$0.06 million in FY 2012. These fluctuations represent normal grant activities.
 - Other operating revenues totaled \$0.4 million in FY 2013 compared to \$0.7 million in FY 2012.
- Operating expenses totaled \$19.3 million in FY 2013 compared to \$19.0 million in FY 2012, a increase of \$0.3 million.
 - Staff costs including salaries and benefits totaled \$9.3 million in FY 2013 compared to \$8.8 million in FY 2012, an increase of \$0.5 million.
 - Supplies and other services totaled \$5.6 million in FY 2013 compared to \$5.3 million in FY 2012.
 - Student Financial Aid totaled \$3.4 million in FY 2013 compared to \$4.4 million in FY 2012. This decrease is attributable to a decrease in Federal Pell Grants.
 - Depreciation on capital assets totaled \$0.6 million in FY 2013 and \$0.3 million in FY 2012.
- The result from operations was a net operating loss of \$10.9 million and \$12.0 million for the years ended June 30, 2013 and 2012, respectively, but excludes State appropriations of \$6.3 million and \$6.0 million and Federal Pell grants of \$4.9 million and \$5.2 million for the years ended June 30, 2013 and 2012, respectively, which are recorded as non-operating revenue. Federal Pell grants are reported as non-operating, because of specific guidance in the AICPA industry audit guide.
- Net non-operating revenue totaled \$11.1 million for both the years ended June 30, 2013 and 2012.
 - State general revenue and lottery appropriations totaled \$6.3 million in FY 2013 and \$6.0 million in FY 2012.
 - Federal Pell grants totaled \$4.9 million and \$5.2 million for the years ended June 30, 2013 and 2012, respectively.
- Capital payments made on behalf of Mountwest Community and Technical College were \$5.6 million in FY 2012. These bond proceeds were used for renovation of the facility in FY 2012. Note 10 to the Financial Statements provides additional information regarding these bonds, which are not obligations of the College.
- The activities for FY 2013 resulted in an increase of net position of \$0.20 million compared to a \$4.7 million increase in FY 2012.

Statement of Cash Flows

The final statement presented by Mountwest Community and Technical College is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the College during the year. The statement is divided into five sections. The first section deals with operating cash flows and shows the net cash used by the operating activities of the College. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for non-operating, non-investing, and noncapital financing purposes. The third section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fifth section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Position.

Condensed Schedules of Cash Flows *(In Thousands)*

	FY 2013	FY 2012	FY 2011
Cash flows provided by (used in):			
Operating activities	\$ (10,707)	\$ (10,067)	\$ (11,320)
Noncapital financing activities	11,596	11,623	12,417
Capital and related financing activities	(1,794)	(2,114)	(831)
Investing activities	<u>17</u>	<u>14</u>	<u>17</u>
Net change in current cash	(888)	(544)	283
Current cash, beginning of year	<u>7,015</u>	<u>7,559</u>	<u>7,276</u>
Current cash, end of year	<u>\$ 6,127</u>	<u>\$ 7,015</u>	<u>\$ 7,559</u>

Major Items of Note in the Statement of Cash Flows include:

- Cash provided from operating activities was exceeded by cash expended for operating activities by \$10.7 million and \$10.1 million for the years ended June 30, 2013 and 2012, primarily because State appropriations and Federal Pell grants are defined by GAAP as noncapital financing activities. Primary sources of cash from Operating Activities during FY 2013 and 2012 were cash collections for net Student tuition and fees of \$3.8 million and \$3.5 million, and contracts and grants of \$3.6 million and \$3.0 million, respectively. Primary uses of cash for FY 2013 and 2012, respectively, included payments to and on behalf of employees of \$9.2 million and \$8.1 million, payments to suppliers of \$5.5 million and \$4.6 million, and payments for scholarships and fellowships of \$3.4 million and \$4.4 million.
- Net cash provided from noncapital financing activities for FY 2013 and 2012 totaled \$11.6 million for both years. \$4.9 million and \$5.2 million were from Federal Pell grants, during FY 2013 and FY 2012, respectively.
- Net cash used in capital financing activities totaled \$1.8 million and \$2.1 million for FY 2013 and 2012, respectively, and primarily resulted from purchases of capital assets and debt payments.
- Net cash of the College at June 30, 2013 was \$6.1 million compared to \$7.0 million at June 30, 2012, which represents a decrease of \$0.9 million.

Capital Asset and Long-Term Debt Activity

The College continues to expand its facilities with the May 20, 2010 purchase of 28 acres of land and a building with 115,000 square feet of space. This property was purchased for \$7.7 million as part of the \$13.5 million bond proceeds awarded from the \$78.3 million Higher Education Policy Commission on behalf of the West Virginia Council for Community and Technical College bond issue. During FY 2013, 2012 and 2011 that property was renovated, and it is now a state of the art campus for the College. Note 7 to the Financial Statements provides additional information regarding this debt. The College occupied the new campus in August of 2012.

As discussed in Note 7, the College issued \$3.5 million of debt on September 30, 2011 in order to complete the renovation of its new campus by July 15, 2012. Additional details regarding the Capital Assets and Debt Administration can be found in the notes to the financial statements.

Economic Outlook

Generally, community college enrollment is inversely related to the strength of the nation's economy. A declining economy results in lower employment and higher community college enrollment as citizens look to the community college to retrain. As the economy slowly improves from the recent recession, enrollment is expected to moderate, which will result in lower tuition income.

However, two factors may influence this general trend, 1) the impact of the new campus, 2) positive retention effects from our Beacon Grant. Increased visibility and identity may, in the long run, partly off-set the national trend toward lower community college enrollments as the economy improves. Increased fall to spring and fall to fall retention due to the Beacon Project may also contribute toward a stabilization of enrollment during a period of otherwise anticipated decline.

The financial benefits of increased retention, however, likely will not be substantial enough to counteract planned reductions in state allocations. Currently, the state of West Virginia is anticipating a 7.5% reduction to all its agencies for Fiscal Year 2014. For Mountwest, this would translate to a \$460,000 decrease in state appropriations. College administration will need to be cautious as it considers the impact of the reduction during a time when it is adjusting to the patterns of expenditures required to run the new campus.

MOUNTWEST COMMUNITY AND TECHNICAL COLLEGE
STATEMENTS OF NET POSITION
AS OF JUNE 30, 2013 AND 2012

	2013	2012 As Amended See Note 2
ASSETS AND DEFERRED OUTFLOWS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 6,127,248	\$ 7,015,081
Appropriations due from Primary Government	76,960	49,288
Due from the Council/Commission	51,077	44,981
Due from Marshall University — current portion	350,000	350,000
Accounts receivable — net	407,927	374,406
Bond proceeds receivable		950,251
Prepaid expenses	48,285	46,747
Total current assets	<u>7,061,497</u>	<u>8,830,754</u>
NONCURRENT ASSETS:		
Due from Marshall University — noncurrent	1,442,834	1,792,834
Capital assets — net	22,687,871	21,596,591
Total noncurrent assets	<u>24,130,705</u>	<u>23,389,425</u>
Total assets	31,192,202	32,220,179
DEFERRED OUTFLOWS OF RESOURCES		
	-	-
TOTAL	<u><u>\$ 31,192,202</u></u>	<u><u>\$ 32,220,179</u></u>
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	\$ 734,911	\$ 428,906
Construction payable		1,495,902
Due to State agencies	3,745	16,279
Due to Council/Commission	357,187	16,310
Accrued liabilities	492,179	502,662
Compensated absences	371,255	363,552
Debt obligation due to Commission — current portion	157,815	150,351
Bonds payable — current portion	335,236	162,555
Bonds interest payable	45,891	18,725
Capital lease obligation — current portion	204,843	87,746
Unearned revenue	1,002,150	1,527,843
Total current liabilities	<u>3,705,212</u>	<u>4,770,831</u>
NONCURRENT LIABILITIES:		
Other post employment benefits liability	2,186,242	2,150,763
Capital lease obligation	463,879	189,190
Bonds payable	3,002,209	3,337,445
Debt obligation due to Commission	1,068,987	1,226,802
Total noncurrent liabilities	<u>6,721,317</u>	<u>6,904,200</u>
Total liabilities	10,426,529	11,675,031
DEFERRED INFLOWS OF RESOURCES		
	-	-
TOTAL	<u><u>10,426,529</u></u>	<u><u>11,675,031</u></u>
NET POSITION:		
Net Investment in capital assets	17,363,838	16,405,335
Restricted for — expendable — scholarships	7,326	8,607
Unrestricted	3,394,509	4,131,206
Total net position	<u>20,765,673</u>	<u>20,545,148</u>
TOTAL	<u><u>\$ 31,192,202</u></u>	<u><u>\$ 32,220,179</u></u>

See notes to financial statements.

MOUNTWEST COMMUNITY AND TECHNICAL COLLEGE
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012 As Amended See Note 2
OPERATING REVENUES:		
Gross student tuition and fees	\$ 9,924,595	\$ 7,474,915
Less — scholarship allowance	<u>(5,984,242)</u>	<u>(4,181,670)</u>
Student tuition and fees — net of scholarship allowance	3,940,353	3,293,245
Contracts and grants:		
Federal	1,899,288	746,092
State	2,105,211	2,138,209
Private	77,864	64,523
Sales and services of educational activities	11,349	41,922
Other operating revenues	<u>416,044</u>	<u>731,001</u>
Total operating revenues	<u>8,450,109</u>	<u>7,014,992</u>
OPERATING EXPENSES:		
Salaries and wages	7,466,736	6,687,570
Benefits	1,788,934	2,147,281
Supplies and other services	5,628,057	5,374,104
Utilities	305,073	68,816
Student financial aid — scholarships and fellowships	3,442,301	4,386,322
Depreciation	588,600	309,115
Fees assessed by the Commission for operations	<u>80,123</u>	<u>87,280</u>
Total operating expenses	<u>19,299,824</u>	<u>19,060,488</u>
OPERATING LOSS	<u>(10,849,715)</u>	<u>(12,045,496)</u>
NONOPERATING REVENUES (EXPENSES):		
State appropriations	6,352,577	6,020,983
Federal Pell grants	4,921,319	5,163,925
Gifts		3,255
Investment income	16,247	14,277
Interest on indebtedness	(148,844)	(16,125)
Other nonoperating expenses	(3,030)	(32,745)
Fees assessed by the Commission	<u>(68,029)</u>	<u>(85,070)</u>
Net nonoperating revenues	<u>11,070,240</u>	<u>11,068,500</u>
INCOME (LOSS) BEFORE OTHER REVENUE, EXPENSES, GAINS OR LOSSES	220,525	(976,996)
GIFTS OF CAPITAL EQUIPMENT		43,816
CAPITAL PAYMENTS MADE ON BEHALF OF MOUNTWEST COMMUNITY AND TECHNICAL COLLEGE		<u>5,616,053</u>
NET INCREASE IN NET POSITION	220,525	4,682,873
NET POSITION — Beginning of year (As Amended)	<u>20,548,148</u>	<u>15,865,275</u>
NET POSITION — End of year	<u>\$ 20,768,673</u>	<u>\$ 20,548,148</u>

See notes to financial statements.

MOUNTWEST COMMUNITY AND TECHNICAL COLLEGE

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	\$ 3,847,184	\$ 3,503,213
Contracts and grants	3,622,290	2,998,628
Payments to and on behalf of employees	(9,222,971)	(8,141,116)
Payments to suppliers	(5,540,898)	(4,609,117)
Payments to utilities	(305,073)	(68,816)
Payments for scholarships and fellowships	(3,442,301)	(4,383,322)
Sales and service of educational activities	11,349	41,922
Auxiliary enterprise charges	178,290	338,314
Fees assessed by Commission	(80,123)	(87,280)
Other receipts/expenses — net	<u>225,244</u>	<u>340,177</u>
Net cash used in operating activities	<u>(10,707,009)</u>	<u>(10,067,397)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	6,324,905	6,065,192
Federal Pell grants	4,921,319	5,202,083
Receipt of amount due from Marshall University	350,000	350,000
Federal student loan program — direct lending receipts	3,952,178	6,236,084
Federal student loan program — direct lending payments	<u>(3,952,178)</u>	<u>(6,230,161)</u>
Net cash provided by noncapital financing activities	<u>11,596,224</u>	<u>11,623,198</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Issuance costs on new bonds		(35,180)
Proceeds from sale of bonds	950,251	2,549,749
Purchases of capital assets	(2,026,387)	(4,092,515)
Principal paid on debt	(357,669)	(83,475)
Interest paid on debt	(141,552)	(17,555)
Principal payment on debt obligation due to the Commission	(150,351)	(349,686)
Fees assessed by the Commission	<u>(68,029)</u>	<u>(85,070)</u>
Net cash used in capital financing activities	<u>(1,793,737)</u>	<u>(2,113,732)</u>
CASH FLOWS FROM INVESTING ACTIVITY — Investment income	<u>16,689</u>	<u>13,610</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(887,833)	(544,321)
CASH AND CASH EQUIVALENTS — Beginning of year	<u>7,015,081</u>	<u>7,559,402</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 6,127,248</u>	<u>\$ 7,015,081</u>

(Continued)

MOUNTWEST COMMUNITY AND TECHNICAL COLLEGE

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$(10,849,715)	\$(12,045,496)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation expense	588,600	309,115
Gift of noncapital equipment		3,255
Changes in assets and liabilities:		
Accounts receivables — net	(40,059)	(24,759)
Other assets and prepaid expenses	(1,538)	(22,638)
Accounts payable	88,697	784,370
Accrued liabilities	(10,483)	43,150
Compensated absences	7,703	28,451
Accrued other post employment benefits liability	35,479	622,134
Unearned revenue	(525,693)	235,021
NET CASH USED IN OPERATING ACTIVITIES	<u>\$(10,707,009)</u>	<u>\$(10,067,397)</u>
NONCASH TRANSACTIONS:		
Loss on disposal of assets	<u>\$ (3,030)</u>	<u>\$</u>
Construction in progress additions in construction payable	<u>\$</u>	<u>\$ 1,495,902</u>
Capitalized interest	<u>\$ 19,873</u>	<u>\$ 19,590</u>
Capital lease obligation incurred for building/equipment	<u>\$ 586,900</u>	<u>\$</u>
See notes to financial statements.		(Concluded)

MOUNTWEST COMMUNITY AND TECHNICAL COLLEGE

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

1. ORGANIZATION

Mountwest Community and Technical College (the “College” or MCTC) is governed by the Mountwest Community and Technical College Board of Governors (the “Board”). The Board was established by House Bill 3215.

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 the College.

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

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

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

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 positions are classified into four categories according to external donor restrictions or availability of assets for satisfaction of College obligations. The College's components of net positions are classified as follows:

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, net of related debt.

Restricted— Expendable — This includes resources for which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Restricted— 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 components of net position at June 30, 2013 or 2012.

Unrestricted — Unrestricted components of net position represent resources derived from student tuition and fees, state appropriations, and sales and services of educational activities. These resources are used for transactions relating to the educational and general operations of the College, and may be used at the discretion of the Board 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 focus on the flow of economic resources measurement. Revenues are reported when earned and expenses 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 of West Virginia Treasurer's Office (the "State Treasurer") are pooled by the State Treasurer with other available funds of the State for investment purposes by the West Virginia Board of Treasury Investments (BTI). These funds are transferred to the BTI, and the BTI is directed by the State Treasurer to invest the funds in specific external investment pools in accordance with West Virginia Code, policies set by the BTI, provisions of bond indentures, and the trust agreements when applicable. Balances in the investment pools are recorded at fair value or amortized cost, which approximates fair value. Fair value is determined by a third-party pricing service based on asset portfolio pricing models and other sources in accordance with GASB. The BTI was established by the State Legislature and is subject to oversight by the State Legislature. Fair value and investment income are allocated to participants in the pools based upon the funds that have been invested. The amounts on deposit are available for immediate withdrawal or on the first day of each month for the WV Short Term Bond Pool and, accordingly, are presented as cash and cash equivalents in the accompanying financial statements.

The BTI maintains the Consolidated Fund investment fund, which consists of eight investment pools and participant-directed accounts, three of which the Commission 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 report. A copy of that annual report can be obtained from the following address: 1900 Kanawha Blvd. East, Room E-122, Charleston, WV 25305 or <http://www.wvbt.com>.

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

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

Capital Assets — Capital assets include land, land improvements, leasehold improvements, equipment, buildings and improvements. 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 from Marshall University were recorded at net book value. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 3–10 years for furniture and equipment, 15 years for land improvements, and 50 years for buildings and improvements. Leasehold improvements are amortized over the period of the lease. The financial statements reflect all adjustments required by GASB.

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.

Compensated Absences and Other Postemployment Benefits (OPEB) — GASB provides standards 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. Details regarding this plan and its stand-alone financial statements 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.peia.wv.gov>

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 on the 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. There are no deferred outflows of resources recorded in the financial statements at June 30, 2013 or 2012.

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. There are no deferred inflows of resources recorded in the financial statements at June 30, 2013 or 2012.

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.

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 (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most federal, state, local, and nongovernmental grants and contracts, and (4) sales and services of educational activities.

Nonoperating Revenues — Nonoperating revenues include activities that have the characteristics of 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 Components of 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 resources are available. Generally, the College attempts to utilize restricted resources first when practicable.

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 unsubsidized loans directly to students, through institutions such as 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 \$3,950,000 and \$6,230,000, 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 was awarded approximately \$5,120,000 and \$5,330,000, respectively, under these federal student aid programs.

Scholarship Allowances — Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances in the 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 University Business Officers. 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.

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.

Reclassifications — Certain reclassifications have been made to the prior year presentation to conform to the current year presentation.

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 did not have a material impact on the financial statements.

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. See “Early Adoption of GASB No. 65” section for further description of the amendments.

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 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 encouraged. 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.

Early Adoption of GASB No 65—

As required with the adoption of GASB Statement No. 65 as discussed above, the College's financial statements have been amended from the amounts previously reported as described below. Such changes relate to reclassifying bond issuance costs previously recorded as other assets to other nonoperating expenses in the amount of \$32,519.

	As Previously Reported	Statement of Net Position Effect	Statement of Revenues, Expenses and Changes in Net Position Effect	As Amended
Other assets - net	\$ 32,519	\$ (32,519)	\$ -	\$ -
Net investment in capital				
capital assets	16,437,854	(32,519)		16,405,335
Other nonoperating expenses	11,098,019		(32,519)	11,065,500
Income (loss) before other				
revenues, expenses, gains or				
losses and transfer	(947,477)		(32,519)	(979,996)
Increase in net position	4,712,392		(32,519)	4,679,873
Net position - beginning of year	15,865,275			15,865,275
Net position - end of year	20,577,667		(32,519)	20,545,148

3. CASH AND CASH EQUIVALENTS

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

	2013	2012
State Treasurer	\$6,070,965	\$6,959,079
In bank	55,233	55,252
On hand	1,050	750
	<u>\$6,127,248</u>	<u>\$7,015,081</u>

The combined carrying amount of cash in the bank was \$55,233 and \$55,252, as compared with the combined bank balance of \$59,113 and \$79,922 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, interest bearing accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000.

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

The BTI has adopted an investment policy in accordance with the "Uniform Prudent Investor Act." The "prudent investor rule" guides those with responsibility for investing the money for others. Such fiduciaries must act as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income; preserve capital; and, in general, avoid speculative investments. The BTI's investment policy is to invest assets in a manner that strives for maximum safety, provides adequate

liquidity to meet all operating requirements, and achieves the highest possible investment return consistent with the primary objectives of safety and liquidity. The BTI recognizes that risk, volatility, and the possibility of loss in purchasing power are present to some degree in all types of investments. Due to the short-term nature of BTI's Consolidated Fund, the BTI believes that it is imperative to review and adjust the investment policy in reaction to interest rate market fluctuations/trends on a regular basis and has adopted a formal review schedule. Investment policies have been established for each investment pool and account of the BTI's Consolidated Fund. Of the BTI's Consolidated Fund pools and accounts in which the College invests, all are subject to credit risk.

WV Money Market Pool — Credit Risk — Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. For the years ended June 30, 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 .023% and 0.22% 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 College's ownership represents 0.01% in both years.

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):

Security Type	Credit Rating*		2013		2012	
	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
			<u>158,961</u>	<u>25.81</u>	<u>144,419</u>	<u>28.68</u>
	Corporate bonds and notes	Aa2	AA+	3,002	0.49	9,025
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	
		<u>227,557</u>	<u>36.95</u>	<u>151,248</u>	<u>30.03</u>	
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	AAA m	5,457	0.89	41,610	8.26
		<u>\$615,807</u>	<u>100 %</u>	<u>\$503,617</u>	<u>100 %</u>	

* 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.

At June 30, 2013 and 2012, the College's ownership represents 0.07% and 0.16%, 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:

Security Type	2013		2012	
	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	111
U.S. Treasury bills	34,993	77	237,978	62
Commercial paper	970,395	43	853,470	52
Certificates of deposit	259,000	66	110,000	9
U.S. agency discount notes	445,784	47	738,706	1
Corporate bonds and notes	10,000	60	36,000	
U.S. agency bonds/notes	66,603	139	189,691	54
Money market funds	<u>200,012</u>	1	<u>200,054</u>	
	<u>\$ 2,495,868</u>	52	<u>\$ 2,165,845</u>	

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:

Security Type	2013		2012	
	Carrying Value (In thousands)	WAM (Days)	Carrying Value (In thousands)	WAM (Days)
Repurchase agreements	\$ 10,150	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	<u>99</u>	1	<u>5</u>	1
	<u>\$ 195,834</u>	50	<u>\$ 299,629</u>	54

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:

Security Type	2013		2012	
	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 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
	<u>\$ 615,807</u>	358	<u>\$ 503,617</u>	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.

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 \$351,859 and \$299,284 for 2013 and 2012, respectively	\$ 319,454	\$ 215,521
Due from other State agencies	24,167	20,318
Grants and contracts receivable	61,272	138,201
Other accounts receivable	3,034	366
	<u>\$ 407,927</u>	<u>\$ 374,406</u>

In addition, during the year ended June 30, 2012, the College recorded \$950,251 in bond proceeds receivable, which related to the construction project at the new campus. In August 2012, the bond proceeds were applied to the construction payable.

5. CAPITAL ASSETS

Summaries of capital assets transactions for the College for the years ended June 30, 2013 and 2012 are as follows:

	2013				
	Beginning Balance	Additions	Reductions	Transfers	
Capital assets not being depreciated:					
Land	\$ 1,878,768	\$ -	\$ -	\$ -	\$ 1,878,768
Construction in progress	<u>11,139,758</u>	<u>1,060,753</u>	<u>-</u>	<u>(12,200,511)</u>	<u>-</u>
Total capital assets not being depreciated	<u>13,018,526</u>	<u>1,060,753</u>	<u>-</u>	<u>(12,200,511)</u>	<u>1,878,768</u>
Other capital assets:					
Building and leasehold improvements	7,620,719			12,200,511	19,821,230
Building - leased	439,823				439,823
Land improvements	258,186				258,186
Telecommunications - leased		586,900			586,900
Equipment	<u>1,787,892</u>	<u>35,257</u>	<u>(381,141)</u>	<u>-</u>	<u>1,442,008</u>
Total other capital assets	<u>10,106,620</u>	<u>622,157</u>	<u>(381,141)</u>	<u>12,200,511</u>	<u>22,548,147</u>
Less accumulated depreciation for:					
Building and leasehold improvements	472,208	375,816			848,024
Building - leased	17,593	8,797			26,390
Land improvements	37,294	17,212			54,506
Telecommunication - leased		35,866			35,866
Equipment	<u>1,001,460</u>	<u>150,909</u>	<u>(378,111)</u>	<u>-</u>	<u>774,258</u>
Total accumulated depreciation	<u>1,528,555</u>	<u>588,600</u>	<u>(378,111)</u>	<u>-</u>	<u>1,739,044</u>
Other capital assets — net	<u>\$ 8,578,065</u>	<u>\$ 33,557</u>	<u>\$ (3,030)</u>	<u>\$ -</u>	<u>\$ 20,809,103</u>
Capital asset summary:					
Capital assets not being depreciated	\$ 13,018,526	\$ 1,060,753	\$ -	\$(12,200,511)	\$ 1,878,768
Other capital assets	<u>10,106,620</u>	<u>622,157</u>	<u>(381,141)</u>	<u>12,200,511</u>	<u>22,548,147</u>
Total cost of capital assets	23,125,146	1,682,910	(381,141)		24,426,915
Less accumulated depreciation	<u>1,528,555</u>	<u>588,600</u>	<u>(378,111)</u>	<u>-</u>	<u>1,739,044</u>
Capital assets — net	<u>\$ 21,596,591</u>	<u>\$ 1,094,310</u>	<u>\$ (3,030)</u>	<u>\$ -</u>	<u>\$ 22,687,871</u>

	2012				
	Beginning Balance	Additions	Reductions	Transfers	Ending Balance
Capital assets not being depreciated:					
Land	\$ 1,878,768	\$ -	\$ -	\$ -	\$ 1,878,768
Construction in progress	<u>1,061,329</u>	<u>10,387,515</u>	<u>(309,086)</u>	<u>-</u>	<u>11,139,758</u>
Total capital assets not being depreciated	<u>2,940,097</u>	<u>10,387,515</u>	<u>(309,086)</u>	<u>-</u>	<u>13,018,526</u>
Other capital assets:					
Building and leasehold improvements	7,311,633	309,086			7,620,719
Building - leased	439,823				439,823
Land improvements	258,186				258,186
Equipment	<u>1,450,305</u>	<u>337,587</u>			<u>1,787,892</u>
Total other capital assets	<u>9,459,947</u>	<u>646,673</u>	<u>-</u>	<u>-</u>	<u>10,106,620</u>
Less accumulated depreciation for:					
Building and leasehold improvements	320,825	151,383			472,208
Building - leased	8,796	8,797			17,593
Land improvements	20,081	17,213			37,294
Equipment	<u>869,738</u>	<u>131,722</u>			<u>1,001,460</u>
Total accumulated depreciation	<u>1,219,440</u>	<u>309,115</u>	<u>-</u>	<u>-</u>	<u>1,528,555</u>
Other capital assets — net	<u>\$ 8,240,507</u>	<u>\$ 337,558</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,578,065</u>
Capital asset summary:					
Capital assets not being depreciated	\$ 2,940,097	\$ 10,387,515	\$ (309,086)	\$ -	\$ 13,018,526
Other capital assets	<u>9,459,947</u>	<u>646,673</u>			<u>10,106,620</u>
Total cost of capital assets	12,400,044	11,034,188	(309,086)	-	23,125,146
Less accumulated depreciation	<u>1,219,440</u>	<u>309,115</u>			<u>1,528,555</u>
Capital assets — net	<u>\$ 11,180,604</u>	<u>\$ 10,725,073</u>	<u>\$ (309,086)</u>	<u>\$ -</u>	<u>\$ 21,596,591</u>

6. NONCURRENT LIABILITIES

Summaries of noncurrent obligation transactions for the College for the years ended June 30, 2013 and 2012, are as follows:

	2013				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Noncurrent liabilities:					
OPEB liability	\$ 2,150,763	\$ 60,909	\$ (25,430)	\$ 2,186,242	
Bonds Payable	3,500,000		(162,555)	3,337,445	\$ 335,236
Capital lease obligations	276,936	586,900	(195,114)	668,722	204,843
Debt obligation due to Commission	<u>1,377,153</u>		<u>(150,351)</u>	<u>1,226,802</u>	157,815
Total noncurrent liabilities	<u>\$ 7,304,852</u>	<u>\$ 647,809</u>	<u>\$ (533,450)</u>	<u>\$ 7,419,211</u>	

	2012				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Noncurrent liabilities:					
OPEB liability	\$ 1,528,629	\$ 638,376	\$ (16,242)	\$ 2,150,763	
Bonds Payable		3,500,000		3,500,000	\$ 162,555
Capital lease obligations	360,411		(83,475)	276,936	87,746
Debt obligation due to Commission	<u>1,726,839</u>		<u>(349,686)</u>	<u>1,377,153</u>	150,351
Total noncurrent liabilities	<u>\$ 3,615,879</u>	<u>\$ 4,138,376</u>	<u>\$ (449,403)</u>	<u>\$ 7,304,852</u>	

7. BONDS

Bonds payable at June 30, 2013 and 2012, consist of the following:

	Rate	Installment Due	2013	2012
College Revenue Bonds	4.125%	\$162,555-\$450,605	<u>\$ 3,337,445</u>	<u>\$ 3,500,000</u>

On September 30, 2011, the college issued \$3,500,000 in revenue bonds to First Sentry Bank of Huntington, WV. The proceeds were used to complete the financing of the \$20 million campus project opened in the fall semester of 2012. The terms of the bonds are for 10 years with the fixed interest rate of 4.125%. The college made interest only payments on March 1, 2012 and September 1, 2012. Semi-annual payments of principal and interest will be made on March 1 and September 1 of each year, commencing on March 1, 2013. The payments are to be made from cash receipts from Marshall University, pursuant to the Memorandum of Understanding between the College and Marshall University executed on March 20, 2009, and a pledge of the general capital fees collected from students.

A summary of the annual aggregate principal payments for years subsequent to June 30, 2013 is as follows:

Years Ending June 30	Principal	Interest	Total
2014	\$ 335,236	\$ 134,248	\$ 469,484
2015	349,208	120,276	469,484
2016	363,761	105,723	469,484
2017	378,921	90,563	469,484
2018	394,713	74,771	469,484
2019 - 2021	1,515,606	127,590	<u>1,643,196</u>
			3,990,616
Less interest			<u>653,171</u>
Total			<u>\$ 3,337,445</u>

8. OTHER POST EMPLOYMENT BENEFITS

In accordance with GASB, OPEB costs are accrued based upon invoices received from PEIA based upon actuarial determined amounts. At June 30, 2013, 2012 and 2011, the noncurrent liability related to OPEB costs was \$2,186,242, \$2,150,763, and \$1,528,629 respectively. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was \$257,973 and \$197,064, respectively during 2013 or 76%. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was \$808,070 and \$185,936, respectively, during 2012 or 23%. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was \$909,321 and \$172,393, respectively, during 2011 or 18%. As of and for the years ended June 30, 2013, 2012, and 2011, there were 9, 3, and 3, respectively, retirees receiving these benefits.

9. CAPITAL LEASE

The College leases a building through a capital lease for the College's Cooking and Culinary Arts Center. At June 30, 2013 and 2012, a leased building with a net book value of \$413,433 and \$422,230, respectively, is included in buildings. During fiscal year 2013, the College leased telecommunication equipment for the Headquarters Building through a capital lease. At June 30, 2013, the equipment had a net book value of \$551,034.

Future annual minimum lease payments for years subsequent to June 30, 2013, are as follows:

Years Ending June 30	Principal	Interest	Total
2014	\$ 204,843	\$ 25,418	\$ 230,261
2015	214,279	15,982	230,261
2016	122,240	8,421	130,661
2017	127,360	3,301	<u>130,661</u>
			721,844
Less interest			<u>53,122</u>
Total			<u>\$ 668,722</u>

10. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

The College is a State institution of higher education, and the College receives a State appropriation to finance its operations. In addition, it is subject to the legislative and administrative mandates of 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 Commission, as successor to the former Boards.

The Commission has the authority to assess each public institution of higher education for payment of debt service on these system bonds. The tuition and registration fees of the members of the former State 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 internal funding of capital projects and maintenance. Although the bonds remain as a capital obligation of the Commission, an estimate of the obligation of each institution is reported as a long-term payable by each institution and as a receivable by the Commission.

For the years ended June 30, 2013 and 2012, debt services assessed are as follows:

	2013	2012
Principal	\$ 150,351	\$ 349,686
Interest	62,529	79,571
Other	<u>5,500</u>	<u>5,499</u>
Total	<u>\$ 218,380</u>	<u>\$ 434,756</u>

During the year ended June 30, 2005, the Commission issued \$167,000,000 of 2004 Series B 30-year Revenue Bonds to fund capital projects at various higher education institutions in the State. The College had been approved to receive \$4,253,559 of these funds plus interest earnings of \$281,294. The College has recognized \$4,253,559 plus the related interest earnings of \$281,294 as of June 30, 2012. State lottery funds will be used to repay the debt, although, the College revenues are pledged if lottery funds prove insufficient.

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 MCTC. As of June 30, 2013, \$13,500,000 has been recognized as capital payments made on behalf of MCTC. State lottery funds will be used to repay the debt.

11. UNRESTRICTED COMPONENTS OF NET POSITION

During FY 2013 and 2012, the Board designated certain unrestricted components of net position to be used for the costs involved in renovating the new college campus. The designated unrestricted resources include all rental income received from DirecTV and all payments received from Marshall University, for the property purchased from the College.

	2013	2012
Designated for the campus renovation project	\$ 987,500	\$ 1,925,000
Undesignated	<u>4,593,251</u>	<u>4,356,969</u>
Total unrestricted net position before OPEB Liability	5,580,751	6,281,969
Less: OPEB liability	<u>2,186,242</u>	<u>2,150,763</u>
Total unrestricted net position	<u>\$ 3,394,509</u>	<u>\$ 4,131,206</u>

12. 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 both years ended June 30, 2013 and 2012. Required employee contributions were at the rate of 6% of total annual salary for both years ended June 30, 2013 and 2012. 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 approximately \$48,000, \$68,000, and \$77,000, respectively, which consisted of approximately \$34,000, \$49,000, and \$55,000, respectively, from the College and approximately \$14,000, \$19,000, and \$22,000, 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, Building 5, Room 1000, Charleston, WV 25305.

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 approximately \$672,000, \$585,000, and \$576,000, respectively, which consisted of equal contributions from the College and covered employees of approximately \$336,000, \$292,500, and \$288,000, respectively.

Total contributions to the Educators Money for the years ended June 30, 2013, 2012, and 2011, were approximately \$23,000, \$29,000, and \$14,000, respectively, which consisted of approximately \$11,500, \$14,500, and \$7,000 from both the College and from covered employees, respectively, for both years.

The College's total payroll for the years ended June 30, 2013, 2012, and 2011 was approximately \$7,466,000, \$6,688,000, and \$6,716,000, respectively. Total covered employees' salaries in the STRS, TIAA-CREF, and Educators Money were approximately \$228,000, \$5,598,000, and \$189,000; \$324,000, \$4,900,000, and \$238,000; and \$366,000, \$4,795,000, and \$112,000 respectively, in 2013, 2012 and 2011.

13. RELATED PARTY TRANSACTIONS

Marshall University continued to provide services to the College through August 2012 and the College recorded approximately \$100,000 during 2013 and \$2.0 million during 2012, in supplies and other services expense in connection with service agreements.

14. CONTINGENCIES

The nature of the educational industry is such that, from time-to-time, claims will be presented against the College on account of alleged negligence, acts of discrimination, breach of contract, or disagreements arising from the interpretation of laws or regulations. While some of these claims may be for substantial amounts, they are not unusual in the ordinary course of providing educational services in a higher education system. In the opinion of management, all known claims are covered by insurance or are such that an award against the College would not 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 at June 30, 2013 or 2012.

The College owns buildings that are known to contain asbestos. The College is not required by federal, state, or local law to remove the asbestos from its buildings. The College is required under federal environmental, health, and safety regulations to manage the presence of asbestos in its buildings in a safe manner. The College addresses its responsibility to manage the presence of asbestos in its buildings on a case-by-case basis. Significant problems of dangerous asbestos conditions are abated as the conditions become known. The College also addresses the presence of asbestos as building renovation or demolition projects are undertaken and through asbestos operation and maintenance programs directed at containing, managing, or operating with the asbestos in a safe manner.

15. MOUNTWEST FOUNDATION, INC.

With the change in State law to establish the College as a separate entity, a separate nonprofit Mountwest Foundation, Inc. ("Mountwest Foundation") was incorporated in the State, effective July 1, 2009, whose purpose is to benefit the work and services of the College. Mountwest Foundation has a fourteen-member Board. There was limited activity in the Mountwest Foundation in fiscal year 2013. Accordingly, the financial statements of the Mountwest Foundation are not included in the accompanying financial statements because they are not controlled by the College and they are not considered significant.

During the years ended June 30, 2013 and 2012 the Mountwest Foundation contributed \$30,725 and \$27,014, respectively, to the College for scholarships and items purchased by the College.

16. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

For the years ended June 30, 2013 and 2012, the following tables represent operating expenses within both natural and functional classifications:

	2013							Total
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Fees Assessed by the Commission	
Instruction	\$ 4,901,424	\$ 1,130,501	\$ 2,075,377					8,107,302
Public service	89,301	27,237	18					116,556
Academic support	255,196	50,727	416,661					722,584
Student services	1,012,555	251,230	1,333,089					2,596,874
General institutional support	909,843	231,256	733,956					1,875,055
Operations and maintenance of plant	174,427	57,201	1,014,730	305,073				1,551,431
Student financial aid					3,442,301			3,442,301
Auxiliary Enterprises	123,990	40,782	54,226					218,998
Depreciation						588,600		588,600
Other							80,123	80,123
Total	\$ 7,466,736	\$ 1,788,934	\$ 5,628,057	\$ 305,073	\$ 3,442,301	\$ 588,600	\$ 80,123	\$ 19,299,824

	2012							Total
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Fees Assessed by the Commission	
Instruction	\$ 4,539,443	\$ 1,327,438	\$ 1,428,060	\$ -	\$ -	\$ -	\$ -	\$ 7,294,941
Public service	63,319	22,720	34,602					120,641
Academic support	218,851	116,337	444,733					779,921
Student services	947,005	335,413	1,187,802					2,470,220
General institutional support	914,193	338,061	736,829					1,989,083
Operations and maintenance of plant	4,279	7,182	1,355,975	68,816				1,436,252
Student financial aid					4,386,322			4,386,322
Auxiliary Enterprises	480	130						610
Depreciation						309,115		309,115
Other			186,103				87,280	273,383
Total	\$ 6,687,570	\$ 2,147,281	\$ 5,374,104	\$ 68,816	\$ 4,386,322	\$ 309,115	\$ 87,280	\$ 19,060,488

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

To the Governing Board of
Mountwest Community and Technical College
Huntington, WV

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 Mountwest 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 comprise Mountwest Community and Technical College's basic financial statements, and have issued our report thereon dated October 15, 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.

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.

Hayflich Grigoraci PLLC

Huntington, WV
October 15, 2013