

West Virginia Council for Community and Technical College Education

Combined Financial Statements
Years Ended June 30, 2013 and 2012
and
Independent Auditor's Reports

WEST VIRGINIA COUNCIL FOR COMMUNITY AND TECHNICAL COLLEGE EDUCATION

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	3 - 5
MANAGEMENT'S DISCUSSION AND ANALYSIS (RSI) (UNAUDITED)	6 - 18
COMBINED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2013 AND 2012:	
Combined Statements of Net Position	19 - 20
Combined Statements of Revenues, Expenses, and Changes in Net Position	21 - 22
Combined Statements of Cash Flows	23 - 24
Notes to Combined Financial Statements	25 - 48
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	49 - 50

INDEPENDENT AUDITOR'S REPORT

To the West Virginia Council for Community
and Technical College Education
Charleston, West Virginia

Report on the Combined Financial Statements

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

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these combined financial statements based on our audit. We did not audit the financial statements of Mountwest Community and Technical College and West Virginia Northern Community College, for the year ended June 30, 2013, which collectively represent 27%, 29%, and 20%, respectively, of the assets, net position, and revenues of the Council. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Council, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined financial statements.

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

Opinions

In our opinion, based on our audit and the report of other auditors, the combined financial statements referred to above present fairly, in all material respects, the respective combined financial position of the business-type activities of the Council, as of June 30, 2013, and the respective combined changes in net position and, where applicable, cash flows thereof for the year 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 combined financial statements, the Council 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

The combined financial statements of the Council as of and for the year ended June 30, 2012 were audited by other auditors whose report dated January 10, 2013 expressed an unmodified opinion on those statements. As discussed in Note 2 to the financial statements, the Council has adjusted its June 30, 2012 financial statements to retrospectively apply the change in accounting due to the early adoption of GASB Statement No. 65. As part of our audit of the June 30, 2013 financial statements, we also audited the adjustments to the year ended June 30, 2012 financial statements to retrospectively apply the change in accounting as described in Note 2. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the Council's June 30, 2012 financial statements other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the June 30, 2012 financial statements as a whole.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 - 18 be presented to supplement the basic combined financial statements. Such information, although not a part of the basic combined financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic combined financial statements in an appropriate operational, economic, or historical context. We and other auditors 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 combined financial statements, and other knowledge we obtained during our audit of the basic combined financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2013, on our consideration of the Council's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Council's internal control over financial reporting and compliance.



Charleston, West Virginia

November 19, 2013

WEST VIRGINIA COUNCIL FOR COMMUNITY AND TECHNICAL COLLEGE EDUCATION MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year 2013

Overview of the Combined Financial Statements and Financial Analysis

Senate Bill 448, passed during the 2004 legislative session, gave the West Virginia Council for Community and Technical College Education (the Council) the statutory authority for coordinating the delivery of community and technical college education in the State of West Virginia. The Council is comprised of 9 persons appointed by the Governor with the advice and consent of the Senate. There are ten public community and technical colleges and one administrative unit. The Council, combined with the West Virginia Higher Education Policy Commission (the Commission) and its institutions collectively comprise the West Virginia Higher Education Fund (the Fund), which is a discretely presented component unit of the State of West Virginia. The supervision and management of the affairs of each institution is the responsibility of individual Governing Boards, while the Council is responsible for the development and implementation of a higher education policy agenda. Comparative combined statements for the fiscal years ended June 30, 2013 and 2012 are presented.

During fiscal year 2008, House Bill No. 3215 was passed, which clarified and redefined relationships between and among certain higher education boards and institutions. This legislation defines the Statewide network of independently accredited community and technical colleges. Effective July 1, 2008, West Virginia University at Parkersburg (WVU at Parkersburg) and the administratively-linked community and technical colleges of Fairmont State University, Marshall University, West Virginia State University, and West Virginia University (the Universities) established their own Boards of Governors. Except for Fairmont State University and Pierpont Community and Technical College (Pierpont), which were granted an extension to be effective July 1, 2009, the newly established Boards of Governors and the Boards of Governors of the Universities jointly agreed on a division of assets and liabilities of the Universities, which was effective retroactively to July 1, 2008. During 2013 and 2012, there were transfers from the Universities of approximately \$166,000 and \$40,000, respectively. The Universities and the separately established community and technical colleges developed a plan that ensured the financial stability of auxiliary enterprises, including but not limited to, student housing, student centers, dining services, parking, and athletics through fiscal year 2012. The transition plans related to Fairmont State University and Pierpont extend Pierpont's obligation beyond 2012 to match outstanding bond commitments of Fairmont State University. Other than Pierpont's obligation, there are no formal commitments beyond 2012.

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

**WEST VIRGINIA COUNCIL FOR COMMUNITY
AND TECHNICAL COLLEGE EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year 2013**

The following discussion and analysis of the Council's Combined Financial Statements provides an overview of its financial activities for Fiscal Years 2013, 2012, and 2011, with a focus on 2013, and is required supplemental information. There are three financial statements presented: the Combined Statement of Net Position; the Combined Statement of Revenues, Expenses, and Changes in Net Position; and the Combined Statement of Cash Flows.

Combined Statement of Net Position

The Combined Statement of Net Position presents the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the Council. This point of time financial statement is designed to present to readers a fiscal snapshot of the Council. The Combined Statement of Net Position presents end-of-year financial information on assets (current and noncurrent), deferred outflows of resources, liabilities (current and noncurrent), deferred inflows of resources, and net position (assets and deferred outflows of resources minus liabilities and deferred inflows of resources).

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

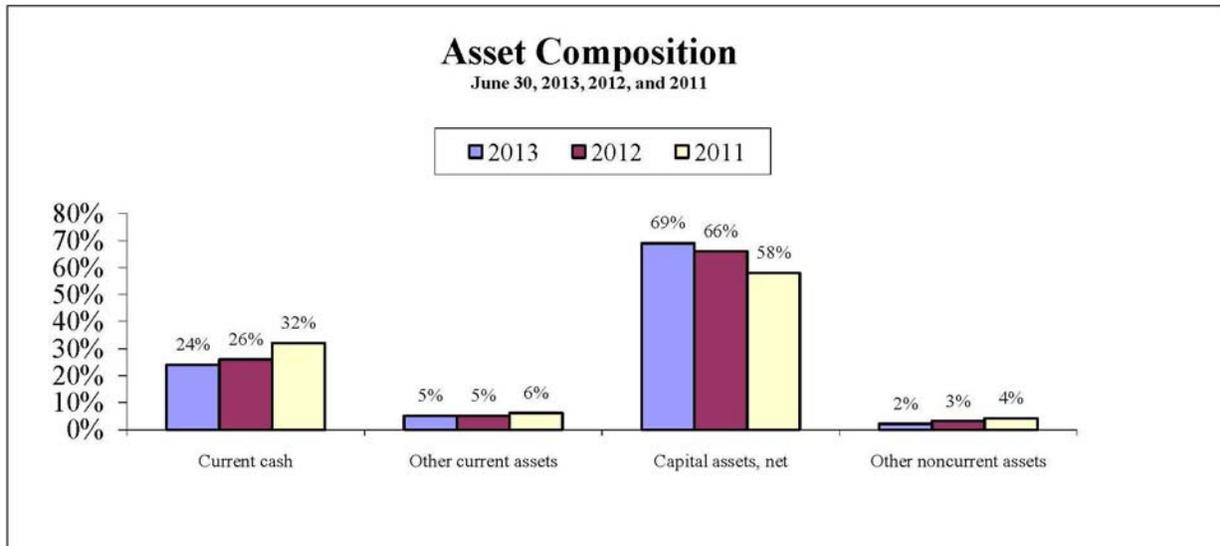
Net Position is divided into three major categories as follows:

- (1) Net investment in capital assets, which provides the Council's equity in property, plant, and equipment owned by the Council.
- (2) Restricted net position, which is divided into two categories, nonexpendable and expendable. Nonexpendable restricted balances are not available for expenditure by the Council. These funds are invested and generate earnings that are available for certain types of expenditures. Expendable restricted balances are available for expenditure by the Fund but have a specific purpose.
- (3) Unrestricted balances are available for expenditure and can be used for any lawful purpose of the Council.

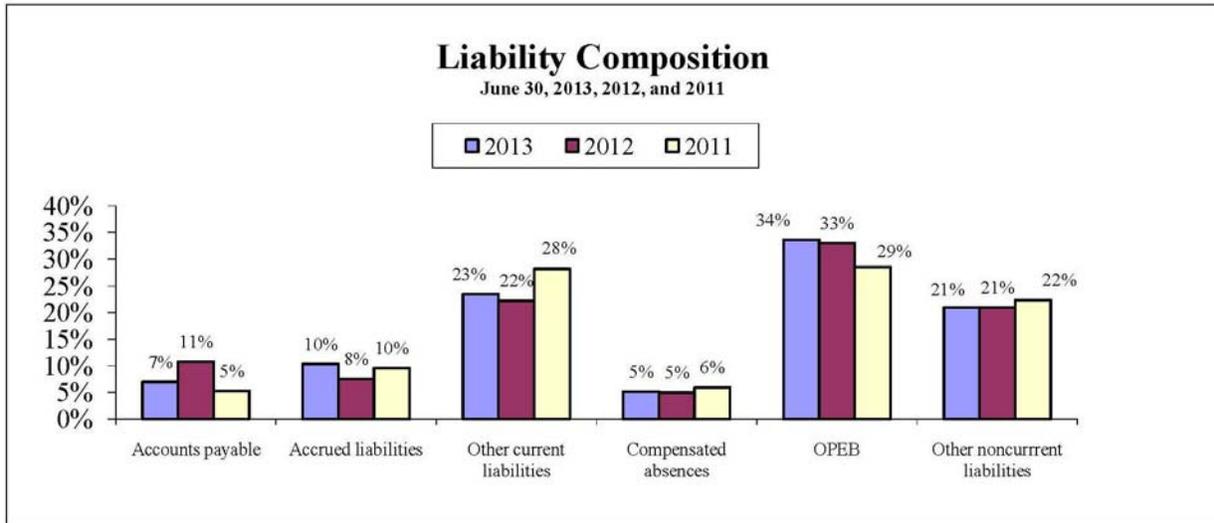
**WEST VIRGINIA COUNCIL FOR COMMUNITY
AND TECHNICAL COLLEGE EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year 2013**

**Condensed Combined Schedules of Net Position
June 30:
(In thousands of dollars)**

	2013	2012 As Amended See Note 2	2011 As Amended	Change from 2012 to 2013
Assets				
Current assets	\$ 85,854	\$ 89,134	\$ 83,871	\$ (3,280)
Capital assets, net	207,569	181,487	129,645	26,082
Other noncurrent assets	<u>5,548</u>	<u>8,909</u>	<u>9,095</u>	<u>(3,361)</u>
Total assets	298,971	279,530	222,611	19,441
Deferred outflows of resources	-	-	-	-
Total	<u>\$ 298,971</u>	<u>\$ 279,530</u>	<u>\$ 222,611</u>	<u>\$ 19,441</u>
Liabilities				
Current liabilities	\$ 32,033	\$ 32,108	\$ 26,671	\$ (75)
Noncurrent liabilities	<u>40,192</u>	<u>39,792</u>	<u>28,968</u>	<u>400</u>
Total liabilities	<u>72,225</u>	<u>71,900</u>	<u>55,639</u>	<u>325</u>
Deferred inflows of resources	<u>18</u>	-	-	<u>18</u>
Net position				
Net investment in capital assets	190,405	164,818	116,543	25,587
Restricted				
Expendable	18,697	20,434	19,561	(1,737)
Nonexpendable	50	50	50	-
Unrestricted	<u>17,576</u>	<u>22,328</u>	<u>30,818</u>	<u>(4,752)</u>
Total net position	<u>226,728</u>	<u>207,630</u>	<u>166,972</u>	<u>19,098</u>
Total	<u>\$ 298,971</u>	<u>\$ 279,530</u>	<u>\$ 222,611</u>	<u>\$ 19,441</u>



**WEST VIRGINIA COUNCIL FOR COMMUNITY
AND TECHNICAL COLLEGE EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year 2013**



Major items of note in the Combined Statements of Net Position include:

- Total current assets of approximately \$85.9 million exceeded total current liabilities of approximately \$32.0 million as of June 30, 2013 for net working capital of approximately \$53.9 million as compared to net working capital of approximately \$57.0 million as of June 30, 2012. Current assets decreased from the prior year by approximately \$3.3 million and current liabilities increased by approximately \$0.1 million.
- The major components of currents assets include cash and cash equivalents of approximately \$71.2 million and approximately \$74.0 million, appropriations due from primary government of approximately \$8.7 million and approximately \$6.9 million, and net accounts receivable of approximately \$4.4 million and approximately \$5.1 million as of June 30, 2013 and 2012, respectively. The majority of the cash and cash equivalents represent interest-earning assets invested through the office of the West Virginia State Treasurer, which were invested with the Board of Treasury Investments at both June 30, 2013 and 2012.
- The major components of current liabilities include unearned revenue of approximately \$14.4 million and approximately \$13.9 million, approximately \$7.3 million and approximately \$5.4 million in accrued liabilities, approximately \$4.7 million and approximately \$7.7 million in accounts payable, and approximately \$3.0 million and approximately \$2.9 million of compensated absences as of June 30, 2013 and 2012, respectively. The decrease in accounts payable is primarily due to reduced construction activity.
- Noncurrent assets total approximately \$213.1 million and approximately \$190.4 million and noncurrent liabilities total approximately \$40.2 million and approximately \$39.8 million as of June 30, 2013 and 2012, respectively. Noncurrent assets increased by approximately \$22.7 million over the prior year as did noncurrent liabilities by approximately \$0.4 million.

**WEST VIRGINIA COUNCIL FOR COMMUNITY
AND TECHNICAL COLLEGE EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year 2013**

- Capital assets, net of accumulated depreciation increased from approximately \$181.5 million to approximately \$207.6 million, an increase of approximately \$26.1 million over the previous year. This increase is a result of capital additions in excess of depreciation as discussed in the capital asset and long-term debt activity section of this MD&A.
- Major components of noncurrent liabilities include capital lease obligations of approximately \$1.4 million and approximately \$0.7 million, bonds payable for totaling approximately \$3.0 million and approximately \$3.3 million, debt service obligations payable to the Commission of approximately \$10.1 million and approximately \$10.6 million, and other postemployment benefits liability of approximately \$24.3 million and approximately \$23.9 million, as of June 30, 2013 and 2012, respectively. During the 2012 legislative session, the legislature identified and committed funding for the other postemployment benefits liability that will result in a gradual reduction of the liability beginning in fiscal year 2017. The liability is estimated to be fully funded by 2037.
- The net position of the Council totals approximately \$226.7 million and approximately \$207.6 million as of June 30, 2013 and 2012, respectively, an increase of approximately \$19.1 million and approximately \$40.7 million from the prior years.
 - The net investment in capital assets totaled approximately \$190.4 million and approximately \$164.8 million as of June 30, 2013 and 2012, respectively.
 - The restricted portion of the net position totaled approximately \$18.7 million and approximately \$20.5 million as of June 30, 2013 and 2012, respectively and are primarily restricted for sponsored and capital projects.
 - The unrestricted portion of the net position totaled approximately \$17.6 million and approximately \$22.3 million as of June 30, 2013 and 2012, respectively and represent net position available to the Council for any lawful purpose of the Council and their institutions.

Combined Statement of Revenues, Expenses, and Changes in Net Position

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

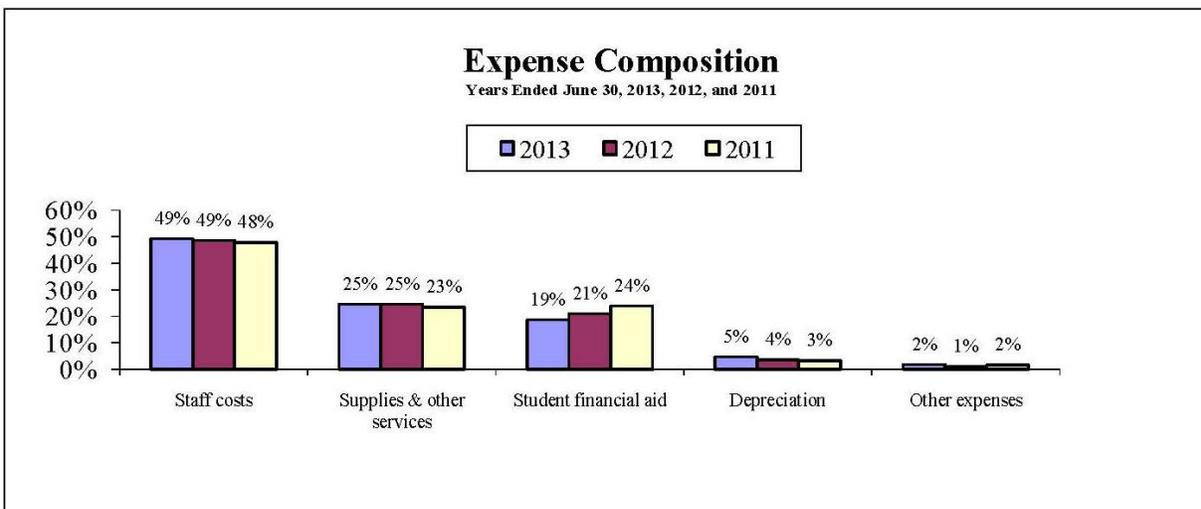
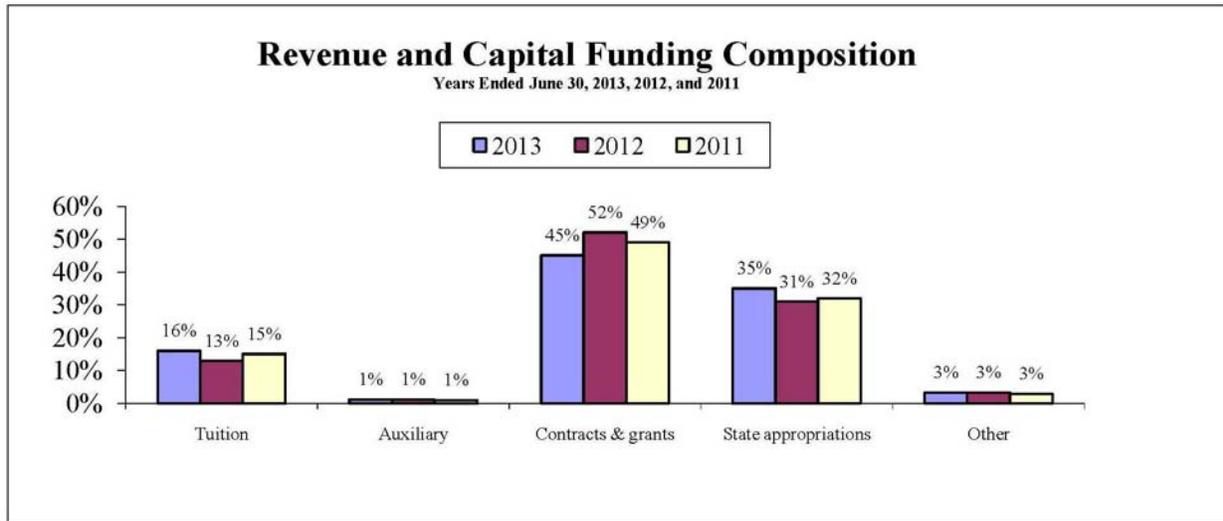
Operating revenues represent the receipts earned from providing goods and service to the various customers and constituencies served by the Council, including fees from students and revenue in the form of Federal and State grants used to support operations and various initiatives. Operating expenses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

**WEST VIRGINIA COUNCIL FOR COMMUNITY
AND TECHNICAL COLLEGE EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year 2013**

**Condensed Combined Schedule of Revenues, Expenses, and Changes in Net Assets
Years Ended June 30:
(In thousands of dollars)**

	<u>2013</u>	<u>2012</u> As Amended See Note 2	<u>2011</u> As Amended	<u>Change from</u> <u>2012 to 2013</u>
Operating revenues	\$ 63,805	\$ 60,029	\$ 61,169	\$ 3,776
Operating expenses	<u>183,012</u>	<u>187,142</u>	<u>187,336</u>	<u>(4,130)</u>
Operating loss	<u>(119,207)</u>	<u>(127,113)</u>	<u>(126,167)</u>	<u>7,906</u>
Net nonoperating revenues	<u>120,701</u>	<u>123,228</u>	<u>126,910</u>	<u>(2,527)</u>
Increase (decrease) in net position before other revenues, expenses, gains, or losses	<u>1,494</u>	<u>(3,885)</u>	<u>743</u>	<u>5,379</u>
Capital projects and bond proceeds from the Commission and the State	4,565	2,734	302	1,831
State capital grants (Federal)	-	475	4,117	(475)
Capital grants and gifts	613	3,112	226	(2,499)
Capital payments made on behalf of the Council and Institutions	<u>12,260</u>	<u>38,182</u>	<u>5,136</u>	<u>(25,922)</u>
Increase in net position before transfers	18,932	40,618	10,524	(21,686)
Transfers from Institutions of the Commission	<u>166</u>	<u>40</u>	<u>112</u>	<u>126</u>
Net position - beginning of year	<u>207,630</u>	<u>166,972</u>	<u>156,336</u>	<u>40,658</u>
Net position - end of year	<u>\$ 226,728</u>	<u>\$ 207,630</u>	<u>\$ 166,972</u>	<u>\$ 19,098</u>

**WEST VIRGINIA COUNCIL FOR COMMUNITY
AND TECHNICAL COLLEGE EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year 2013**



Major items of note in the Combined Statements of Revenue, Expenses, and Changes in Net Position include:

- Operating Revenues of the Council totaled approximately \$63.8 million in FY 2013 compared to approximately \$60.0 million in FY 2012, an increase of approximately \$3.8 million compared to a prior year decrease of approximately \$1.1 million.

**WEST VIRGINIA COUNCIL FOR COMMUNITY
AND TECHNICAL COLLEGE EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year 2013**

- Student tuition and fee revenues totaled approximately \$32.5 million in FY 2013 compared to approximately \$29.4 million in FY 2012, an increase of approximately \$3.1 million. Tuition is reported net of scholarship allowances totaling approximately \$32.1 million and approximately \$31.7 million in FY 2013 and 2012, respectively. The increase is primarily due to tuition and fee increases.
- Federal grants and contracts totaled approximately \$8.2 million in FY 2013 compared to approximately \$8.1 million in FY 2012. Federal grants include funding for sponsored research and other miscellaneous federal programs.
- State grants and contracts totaled approximately \$12.9 million in FY 2013 compared to approximately \$11.6 million in FY 2012 and private grants and contracts totaled approximately \$2.6 million in FY 2013 compared to approximately \$1.9 million in FY 2012. These fluctuations represent normal grant activities.
- Sales and services of educational activities generated revenues of approximately \$1.4 million in FY 2013 compared to approximately \$1.5 million in FY 2012.
- Auxiliary enterprises generated revenues of approximately \$2.3 million, net of approximately \$0.5 million of scholarship allowances in FY 2013 compared to approximately \$2.4 million, net of approximately \$0.3 million of scholarship allowances in FY 2012.
- Other operating revenues totaled approximately \$3.9 million in FY 2013 compared to approximately \$5.0 million in FY 2012, a decrease of approximately \$1.1 million. This decrease is primarily attributed to a decline in revenues received for payments of operating expenses related to various cooperative educational agreements with the community colleges, local businesses, and boards of education.
- Operating expenses totaled approximately \$183.0 million in FY 2013 compared to approximately \$187.1 million in FY 2012, a decrease of approximately \$4.1 million.
 - Staff costs including salaries and benefits totaled approximately \$92.0 million in FY 2013 compared to approximately \$93.3 million in FY 2012, a decrease of approximately \$1.3 million from the prior year. An approximately \$6.1 million decrease in the other postemployment benefits expense was offset by salary and benefits increases. This offsetting increase is attributed to additional staffing at the institutions and salary increases.
 - Supplies and other services totaled approximately \$45.0 million in FY 2013 compared to approximately \$46.2 million in FY 2012. The change is attributable to reduction in purchases of supplies and other services in response to decreased state revenues.
 - Scholarships and fellowships totaled approximately \$34.2 million in FY 2013 compared to approximately \$38.4 million in FY 2012. This is primarily attributed to a decrease in the number of students receiving Pell grants.

**WEST VIRGINIA COUNCIL FOR COMMUNITY
AND TECHNICAL COLLEGE EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year 2013**

- Depreciation on capital assets totaled approximately \$8.6 million in FY 2013 compared to approximately \$6.7 million in FY 2012. This increase is attributable to the additional capital assets.
- The result from operations was an operating loss of approximately \$119.2 million and approximately \$127.1 million for the years ended June 30, 2013 and 2012, respectively, which excludes State appropriations of approximately \$71.4 million and approximately \$69.8 million, respectively, and federal Pell grants of approximately \$49.2 million and approximately \$54.1 million, respectively. These exclusions are recorded as nonoperating revenues.
- Net nonoperating revenue totaled approximately \$120.7 million and approximately \$123.2 million for the years ended June 30, 2013 and 2012, respectively, a decrease of approximately \$2.5 million from the prior year.
 - State general revenue and lottery appropriations totaled approximately \$71.4 million and approximately \$69.8 million for the years ended June 30, 2013 and 2012, reflecting an increase of approximately \$1.6 million in FY 2013.
 - Interest earned on investments totaled approximately \$0.1 million and approximately \$0.1 million for the years ended June 30, 2013 and 2012, respectively. Lower yields on investments with the Board of Treasury Investments (BTI) continued in FY 2013 as in FY 2012.
- Other funding primarily consists of capital payments made on behalf of the Council totaling approximately \$12.3 million and approximately \$38.2 million for the years ended June 30, 2013 and 2012, respectively. Capital grants and gifts totaled approximately \$0.6 million and approximately \$3.1 million for the years ended June 30, 2013 and 2012, respectively. The Council did not receive any funding in the form of State capital grants during the year ended June 30, 2013. State capital grants totaled approximately \$0.5 million for the year ended June 30, 2012. Additional revenues from funding from the 2009 Series A Bond proceeds and 2004 Series B Bond proceeds from the Commission totaled approximately \$4.6 million for the year ended June 30, 2013 and approximately \$2.7 million for the year ended June 30, 2012 as discussed in the capital asset and long-term debt activity section of this MD&A.
- The activity for FY 2013 resulted in an increase of net position before transfers of approximately \$18.9 million, as compared to the approximately \$40.6 million increase in net position before transfers during FY 2012. These increases are before transfers from institutions of the Commission. The net position at June 30, 2013 totaled approximately \$226.7 million compared to approximately \$207.6 million at June 30, 2012.
- As reported on a functional basis, expenditures for Educational and General (E&G) expenses were approximately \$136.1 million and approximately \$139.2 million in FY 2013 and FY 2012, respectively, a decrease of approximately \$3.1 million over FY 2012. Instruction expenses constitute 47.4% and 46.7% of total E&G expenses, and institutional support constitutes 23.4% and 8.7% of total E&G expenses, in FY 2013 and FY 2012, respectively.

**WEST VIRGINIA COUNCIL FOR COMMUNITY
AND TECHNICAL COLLEGE EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year 2013**

**Condensed Functional Expense Comparisons
Years Ended June 30:
(In thousands of dollars)**

	<u>FY 2013 Total</u>	<u>% of E&G Total</u>	<u>FY 2012 As Amended Total</u>	<u>% of E&G Total</u>	<u>FY 2011 Total</u>	<u>% of E&G Total</u>	<u>Change from 12 - 13</u>
Instruction	\$ 64,551	47.4%	\$ 65,038	46.7%	\$ 64,010	48.1%	\$ (487)
Public service	4,081	3.0%	4,759	3.4%	3,769	2.8%	(678)
Academic support	9,824	7.2%	9,743	7.0%	11,367	8.5%	81
Student services	12,732	9.4%	12,870	9.3%	12,798	9.6%	(138)
General institutional support	31,811	23.4%	12,122	8.7%	10,178	7.7%	19,689
Operations and maintenance of plant	<u>13,085</u>	<u>9.6%</u>	<u>34,677</u>	<u>24.9%</u>	<u>30,929</u>	<u>23.3%</u>	<u>(21,592)</u>
Total education and general	136,084	<u>100.0%</u>	139,209	<u>100.0%</u>	133,051	<u>100.0%</u>	(3,125)
Student financial aid	34,261		38,452		45,032		(4,191)
Auxiliary enterprises	2,895		2,389		2,625		506
Depreciation	8,615		6,689		6,109		1,926
Loan cancellations and write-offs	308		217		280		91
Other	<u>849</u>		<u>186</u>		<u>240</u>		<u>663</u>
Total	<u>\$ 183,012</u>		<u>\$ 187,142</u>		<u>\$ 187,337</u>		<u>\$ (4,130)</u>

Combined Statement of Cash Flows

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

**WEST VIRGINIA COUNCIL FOR COMMUNITY
AND TECHNICAL COLLEGE EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year 2013**

**Condensed Combined Schedule of Cash Flows
Years Ended June 30:
(In thousands of dollars)**

	2013	2012 As Amended See Note 2	2011	Change from 2012 to 2013
Cash provided (used) by:				
Operating activities	\$ (109,641)	\$ (112,523)	\$ (113,125)	\$ 2,882
Noncapital financing activities	122,195	123,629	127,133	(1,434)
Capital and related financing activities	(15,503)	(7,566)	(9,887)	(7,937)
Investing activities	<u>113</u>	<u>83</u>	<u>143</u>	<u>30</u>
Increase (decrease) in cash	(2,836)	3,623	4,264	(6,459)
Cash - beginning of year	<u>74,047</u>	<u>70,424</u>	<u>66,160</u>	<u>3,623</u>
Cash - end of year	<u>\$ 71,211</u>	<u>\$ 74,047</u>	<u>\$ 70,424</u>	<u>\$ (2,836)</u>

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

- Cash provided by operating activities was exceeded by cash expended for operating activities by approximately \$109.6 million and approximately \$112.5 million for the years ended June 30, 2013 and 2012, respectively, primarily because State appropriations and federal Pell grants are defined within GAAP as noncapital financing activities. Primary sources of cash from operating activities during FY 2013 and 2012 were student tuition and fees of approximately \$31.2 million and approximately \$28.9 million, respectively, and contracts and grants of approximately \$25.0 million and approximately \$21.1 million, respectively. Primary uses of cash for FY 2013 and 2012, respectively, included payments to and on behalf of employees of approximately \$91.0 million and approximately \$82.5 million, payments to suppliers of approximately \$36.8 million and approximately \$33.9 million, and payments for scholarship and fellowships of approximately \$34.0 million and approximately \$38.2 million.
- Net cash provided by noncapital financing activities for FY 2013 and 2012, respectively, totaled approximately \$122.2 million and approximately \$123.6 million, of which approximately \$72.2 million and approximately \$68.8 million were from State general revenue and lottery appropriations, and approximately \$49.5 million and approximately \$54.4 million were from federal Pell grants.
- Net cash used in capital financing activities for FY 2013 and 2012, respectively, totaled approximately \$15.5 million and approximately \$7.6 million and primarily resulted from purchases of capital assets and debt activity.
- Net cash of the Council at June 30, 2013 was approximately \$71.2 million compared to approximately \$74.0 million at June 30, 2012, a decrease of approximately \$2.8 million.

**WEST VIRGINIA COUNCIL FOR COMMUNITY
AND TECHNICAL COLLEGE EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year 2013**

Capital Asset and Long-Term Debt Activity

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

On December 8, 2009, the Commission, on behalf of the Council, issued \$78,295,000 of Community and Technical Colleges Improvement Revenue Bonds, 2009 Series A (2009 Bonds). The proceeds of the 2009 Bonds are being used to finance the acquisition, construction, equipping, or improvement of community and technical college facilities in West Virginia. The interest rate on the 2009 Bonds ranges from 2.5% to 5.0% and the due dates commenced July 1, 2010 and end July 1, 2028. State Lottery proceeds of a maximum of \$5,000,000 per year will be used to repay the debt, which has a maximum annual debt service of \$4,999,750. In addition, pursuant to Section 18 (j) (1) of the Lottery Act, the Commission has granted a third-in-party lien, for the benefit of the bond holders, on the proceeds of the State Lottery Fund, up to a maximum of \$7,500,000 annually. As of June 20, 2013, the Commission has made payments on behalf of the Council or transferred approximately \$64.3 million to entities of the Council. Further details concerning capital assets are included in Note 5 and the long-term liabilities of the Council are included in Notes 6 through 12 of the Notes to the Council's Combined Financial Statements.

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

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

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

The Community and Technical College System goals are the following:

- Produce graduates with the general education and technical skills needed to be successful in the workplace or subsequent education;
- Provide workforce development programs that meet the demands of West Virginia's employers and enhance West Virginia's economic development efforts;

**WEST VIRGINIA COUNCIL FOR COMMUNITY
AND TECHNICAL COLLEGE EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year 2013**

- Provide access to affordable, comprehensive community and technical college education in all regions of West Virginia; and
- Provide resources to meet the needs of community and technical college students and employees.

The State Appropriation for Community and Technical Colleges as they were included in the Council for FY 2013 amounted to approximately \$71.4 million while for FY 2012 was approximately \$69.8 million. For fiscal year 2013, State appropriations for operations increased approximately \$0.2 million to fund a 4.0% increase in insurance benefits. For FY 2014, state appropriations decreased approximately \$4.7 million as are result of statewide budget reductions. For FY 2015, the Governor's Office instructed that budget requests are to reflect a 7.5% reduction of the current FY 2014 appropriation.

The demographics of the State of West Virginia also have an impact on the future operations of the Council. The number of high school graduates has declined in recent years and is projected to decline further over the next ten years. Significant efforts are underway to expand the participation rate in higher education by both high school graduating seniors as well as adults to improve the economic environment of the State. Increased attendance by nonresident students is another factor in the future financial stability of the Council. Net student tuition and fees provide approximately 16% of the total revenues of the Council.

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

Requests for Information

The financial report is designed to provide an overview of the finances of the Council for those with an interest in this organization. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Ed Magee at 1018 Kanawha Boulevard East, Suite 700, Charleston, West Virginia 25301.

WEST VIRGINIA COUNCIL FOR COMMUNITY AND TECHNICAL COLLEGE EDUCATION 19
COMBINED STATEMENTS OF NET POSITION
JUNE 30, 2013 AND 2012

	<u>2013</u>	2012 As Amended <u>See Note 2</u>
ASSETS AND DEFERRED OUTFLOWS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 71,210,715	\$ 74,047,212
Appropriations due from Primary Government - current portion	8,696,500	6,859,516
Accounts receivable, net of allowance for doubtful accounts	4,385,957	5,068,742
Bond proceeds receivable	-	950,251
Due from the Commission	732,865	1,138,752
Inventories	352,365	562,578
Due from Marshall University - current portion	350,000	350,000
Other current assets	<u>126,063</u>	<u>156,931</u>
Total current assets	<u>85,854,465</u>	<u>89,133,982</u>
NONCURRENT ASSETS:		
Cash and cash equivalents	3,749,905	3,547,029
Appropriation due from Primary Government	-	3,240,267
Due from Marshall University	1,442,834	1,792,834
Capital assets, net of accumulated depreciation	207,568,590	181,487,432
Other noncurrent assets	<u>355,913</u>	<u>328,568</u>
Total noncurrent assets	<u>213,117,242</u>	<u>190,396,130</u>
DEFERRED OUTFLOWS OF RESOURCES:		
Total deferred outflows of resources	<u>-</u>	<u>-</u>
TOTAL	<u>\$ 298,971,707</u>	<u>\$ 279,530,112</u>

The Accompanying Notes Are An Integral
Part Of These Combined Financial Statements

WEST VIRGINIA COUNCIL FOR COMMUNITY AND TECHNICAL COLLEGE EDUCATION 20
COMBINED STATEMENTS OF NET POSITION (Continued)
JUNE 30, 2013 AND 2012

	<u>2013</u>	2012 As Amended <u>See Note 2</u>
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	\$ 4,719,646	\$ 7,738,875
Accrued liabilities	7,312,179	5,430,386
Due to the Commission	161,750	286,938
Due to the State and State agencies	244,558	215,766
Due to Bluefield State College	268,678	268,678
Compensated absences - current portion	3,035,201	2,934,008
Capital lease obligations - current portion	516,072	227,012
Bonds payable - current portion	335,236	162,555
Other debt service obligations - current portion	995,991	906,368
Unearned revenue	14,432,798	13,936,857
Other current liabilities	10,550	-
Total current liabilities	32,032,659	32,107,443
NONCURRENT LIABILITIES:		
Advances from federal sponsors	46,573	54,621
Other postemployment benefits liability	24,277,305	23,861,799
Compensated absences	675,662	654,828
Capital lease obligations	1,437,946	688,919
Bonds payable	3,002,209	3,337,445
Other debt service obligations	10,132,693	10,574,864
Funds due to West Virginia Development Office	619,932	619,932
Total noncurrent liabilities	40,192,320	39,792,408
DEFERRED INFLOWS OF RESOURCES:		
Deferred inflows - service concession arrangement	14,450	-
Deferred inflows - Pell	4,000	-
Total deferred inflows of resources	18,450	-
NET POSITION:		
Net investment in capital assets	190,404,737	164,818,350
Restricted for - non expendable - other	50,000	50,000
Restricted for - expendable - capital projects	8,778,380	9,499,256
Restricted for - expendable - scholarships	98,581	201,916
Restricted for - expendable - sponsored projects	8,841,422	9,518,601
Restricted for - expendable - other	978,967	1,214,486
Unrestricted	17,576,191	22,327,652
Total net position	226,728,278	207,630,261
TOTAL	\$ 298,971,707	\$ 279,530,112

The Accompanying Notes Are An Integral
Part Of These Combined Financial Statements

WEST VIRGINIA COUNCIL FOR COMMUNITY AND TECHNICAL COLLEGE EDUCATION
COMBINED STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	2012 As Amended <u>See Note 2</u>
OPERATING REVENUES:		
Student tuition and fees, net of scholarship allowance of \$32,118,055 and \$31,651,850 in 2013 and 2012, respectively	\$ 32,522,112	\$ 29,449,977
Contracts and grants:		
Federal	8,175,650	8,063,738
State	12,914,598	11,636,971
Private	2,601,013	1,914,205
Sales and services of educational activities	1,363,375	1,490,937
Auxiliary enterprise revenue, net of scholarship allowance of \$547,614 and \$309,287 in 2013 and 2012, respectively	2,309,372	2,426,196
Other operating revenue	<u>3,918,817</u>	<u>5,046,936</u>
Total operating revenues	<u>63,804,937</u>	<u>60,028,960</u>
OPERATING EXPENSES:		
Salaries and wages	74,052,150	69,584,143
Benefits	17,941,234	23,675,535
Supplies and other services	44,956,253	46,227,112
Utilities	2,920,964	2,371,202
Student financial aid - scholarships and fellowships	34,218,424	38,378,834
Depreciation	8,614,438	6,688,766
Loan cancellations and write-offs	<u>308,318</u>	<u>216,783</u>
Total operating expenses	<u>183,011,781</u>	<u>187,142,375</u>
OPERATING LOSS	<u>(119,206,844)</u>	<u>(127,113,415)</u>

The Accompanying Notes Are An Integral
Part Of These Combined Financial Statements

WEST VIRGINIA COUNCIL FOR COMMUNITY AND TECHNICAL COLLEGE EDUCATION
COMBINED STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION (Continued)
YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	2012 As Amended <u>See Note 2</u>
NONOPERATING REVENUES (EXPENSES):		
State appropriations	71,359,315	69,795,002
Federal Pell grant	49,195,238	54,075,266
Investment income	110,417	88,090
Fees assessed by the Commission	(161,384)	(157,203)
Other nonoperating revenues (expenses)	<u>197,397</u>	<u>(572,900)</u>
Net nonoperating revenues	<u>120,700,983</u>	<u>123,228,255</u>
INCREASE (DECREASE) IN NET POSITION BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	1,494,139	(3,885,160)
CAPITAL PROJECTS AND BOND PROCEEDS FROM THE COMMISSION AND STATE	4,564,879	2,733,999
STATE CAPITAL GRANTS (FEDERAL)	-	474,841
CAPITAL GRANTS AND GIFTS	612,807	3,112,722
CAPITAL PAYMENTS MADE ON BEHALF OF THE COUNCIL AND INSTITUTIONS	<u>12,260,415</u>	<u>38,182,078</u>
INCREASE IN NET POSITION BEFORE TRANSFERS	18,932,240	40,618,480
TRANSFERS FROM INSTITUTIONS OF THE COMMISSION	<u>165,777</u>	<u>40,019</u>
INCREASE IN NET POSITION	<u>19,098,017</u>	<u>40,658,499</u>
NET POSITION - Beginning of year	<u>207,630,261</u>	<u>166,971,762</u>
NET POSITION - End of year	<u>\$ 226,728,278</u>	<u>\$ 207,630,261</u>

The Accompanying Notes Are An Integral
Part Of These Combined Financial Statements

WEST VIRGINIA COUNCIL FOR COMMUNITY AND TECHNICAL COLLEGE EDUCATION
COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	2012 As Amended <u>See Note 2</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	\$ 31,209,280	\$ 28,869,652
Contracts and grants	24,965,482	21,074,023
Payments to and on behalf of employees	(91,001,367)	(82,529,506)
Payments to suppliers	(36,752,045)	(33,869,367)
Payments to utilities	(3,045,441)	(2,430,175)
Payments for scholarships and fellowships	(33,981,056)	(38,243,035)
Auxiliary enterprise charges	2,481,695	2,821,344
Sales and service educational activities	2,651,053	2,735,573
Other payments, net	<u>(6,168,289)</u>	<u>(10,951,856)</u>
Net cash used in operating activities	<u>(109,640,688)</u>	<u>(112,523,347)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	72,222,331	68,796,101
Federal Pell Grant	49,476,250	54,440,190
Federal student loan program - direct lending receipts	47,077,544	56,187,594
Federal student loan program - direct lending payments	(47,071,993)	(56,188,545)
Other nonoperating receipts, net	<u>490,724</u>	<u>393,422</u>
Net cash provided by noncapital financing activities	<u>122,194,856</u>	<u>123,628,762</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Capital grants and gifts received	612,807	3,538,747
Purchases of capital assets	(20,539,859)	(13,056,307)
Proceeds from capital debt	950,251	2,549,749
Capital projects and bond proceeds from the Commission and State	5,094,570	1,232,877
Withdrawals from noncurrent cash and cash equivalents	5,472	435,914
Deposits to noncurrent cash and cash equivalents	(208,348)	(310,212)
Debt service assessed for debt service and reserves	(1,026,886)	(1,892,585)
Principal paid on capital debt and leases	(675,469)	(274,067)
Interest paid on capital debt and leases	(269,352)	(120,545)
Receipt from West Virginia University loan	-	3,420,000
Payment of capital lease with loan proceeds	-	(3,420,000)
Other	<u>553,343</u>	<u>330,787</u>
Net cash used in capital financing activities	<u>(15,503,471)</u>	<u>(7,565,642)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on investments	<u>112,806</u>	<u>83,086</u>
Net cash provided by investing activities	<u>112,806</u>	<u>83,086</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,836,497)	3,622,859
CASH AND CASH EQUIVALENTS - Beginning of year	<u>74,047,212</u>	<u>70,424,353</u>
CASH AND CASH EQUIVALENTS - End of year	<u>\$ 71,210,715</u>	<u>\$ 74,047,212</u>

The Accompanying Notes Are An Integral
Part Of These Combined Financial Statements

WEST VIRGINIA COUNCIL FOR COMMUNITY AND TECHNICAL COLLEGE EDUCATION
COMBINED STATEMENTS OF CASH FLOWS (Continued)
YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	2012 As Amended <u>See Note 2</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN		
OPERATING ACTIVITIES:		
Operating loss	\$ (119,206,844)	\$ (127,113,415)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	8,614,438	6,688,766
Changes in assets and liabilities:		
Receivables, net	215,795	697,765
Due from the Commission	(405,887)	(798,353)
Inventories	209,212	58,302
Accounts payable/amounts due	(674,186)	(446,277)
Accrued liabilities and deposits	265,168	(54,272)
Compensated absences	122,027	292,607
Other postemployment benefits	352,506	7,437,780
Unearned revenue	505,633	369,163
Advances from federal sponsors	(8,048)	2,868
Other	<u>369,498</u>	<u>341,719</u>
Net cash used in operating activities	<u>\$ (109,640,688)</u>	<u>\$ (112,523,347)</u>
NONCASH TRANSACTIONS:		
Capital asset additions in accounts payable	<u>\$ 2,764,447</u>	<u>\$ 15,507,708</u>
Appropriations used for construction in progress	<u>\$ 540,267</u>	<u>\$ 2,431,498</u>
Capital payments made and expenses incurred on behalf of the Council	<u>\$ 10,343,870</u>	<u>\$ 38,182,078</u>

The Accompanying Notes Are An Integral
Part Of These Combined Financial Statements

**WEST VIRGINIA COUNCIL FOR COMMUNITY
AND TECHNICAL COLLEGE EDUCATION
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012**

NOTE 1 - ORGANIZATION

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

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

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

The Council is responsible for developing, overseeing, and advancing the State of West Virginia's (the State) public policy agenda as it relates to community and technical college education. The Council is comprised of 9 persons appointed by the Governor with the advice and consent of the Senate.

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

During fiscal year 2008, House Bill No. 3215 was passed, which clarified and redefined relationships between and among certain higher education boards and institutions. This legislation defines the statewide network of independently accredited community and technical colleges. Effective July 1, 2008, WVU Parkersburg and the administratively linked community and technical colleges of Fairmont State University, Marshall University, West Virginia State University, and West Virginia University (the Universities) established their own Boards of Governors. Except for Fairmont State University (Fairmont) and Pierpont which were granted an extension to be effective January 1, 2010, the newly established Boards of Governors and the Boards of Governors of the Universities jointly agreed on a division of assets and liabilities of the Universities as required. During 2013 and 2012, there were transfers from the Universities of approximately \$166,000 and \$40,000, respectively. The Universities and the separately established community and technical colleges developed a plan that ensures the financial stability of auxiliary enterprises, including but not limited to, student housing, student centers, dining services, parking, and athletics through at least fiscal year 2012. There are no formal requirements after June 30, 2012, except for Pierpont. The transition plans related to Fairmont and Pierpont extend Pierpont's obligation beyond 2013 to match outstanding bond commitments of Fairmont.

**WEST VIRGINIA COUNCIL FOR COMMUNITY
AND TECHNICAL COLLEGE EDUCATION
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

- *Net investment in capital assets* - This represents the Council's total investment in capital assets, net of accumulated depreciation, and outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.
- *Restricted net position, expendable* - This includes resources in which the Council is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

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

- *Restricted net position, nonexpendable* - This includes endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.
- *Unrestricted net position* - Unrestricted 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 Council, and may be used at the discretion of the respective governing boards to meet current expenses for any purpose.

**WEST VIRGINIA COUNCIL FOR COMMUNITY
AND TECHNICAL COLLEGE EDUCATION
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Cash and cash equivalents balances on deposit with the State of West Virginia Treasurer's Office (the State Treasurer) are pooled by the State Treasurer with other available funds of the State of West Virginia (the State) for investment purposes by the West Virginia Board of Treasury Investments (BTI). These funds are transferred to the BTI, and the BTI is directed by the State Treasurer to invest the funds in specific external investment pools in accordance with West Virginia Code, policies set by the BTI, and by the provisions of bond indentures and trust agreements, when applicable. Balances in the investment pools are recorded at fair value, or amortized cost, which approximates fair value. Fair value is determined by a third-party pricing service based on asset portfolio pricing models and other sources in accordance with GASB. The BTI was established by the State Legislature and is subject to oversight by the State Legislature. Fair value and investment income are allocated to participants in the pools based upon the funds that have been invested. The amounts on deposit are available for immediate withdrawal or on the first day of each month for the WV Short Term Bond Pool, and accordingly, are presented as cash and cash equivalents in the accompanying combined financial statements.

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

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

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

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

**WEST VIRGINIA COUNCIL FOR COMMUNITY
AND TECHNICAL COLLEGE EDUCATION
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Noncurrent Cash, Cash Equivalents, and Investments - Cash, cash equivalents, and investments that are (1) externally restricted to make debt service payments, long-term loans to students or to maintain sinking or reserve funds, (2) to purchase capital or other noncurrent assets or settle long-term liabilities or (3) to be held for permanently restricted net position is classified as a noncurrent asset in the combined statements of net position.

Noncurrent Due from Primary Government - An appropriation due from primary government that is (1) externally restricted to make debt service payments, long-term loans to students, or to maintain sinking or reserve funds, (2) to purchase capital or other noncurrent assets, or (3) to be held for permanently restricted net position, is classified as a noncurrent asset in the combined statements of net position.

Capital Assets - Capital assets include property, plant, and equipment, books and materials that are part of a catalogued library, and infrastructure assets. Capital assets are stated at cost at the date of acquisition or construction, or fair market value at the date of donation in the case of gifts. There was no interest capitalized as part of the cost of assets for the years ended June 30, 2013 and 2012. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 20 to 50 years for buildings and infrastructure, 20 years for land improvements, 7 to 20 years for library assets, and 3 to 10 years for furniture and equipment.

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

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

GASB requires entities to accrue for employees' rights to receive compensation for vacation leave, or payments in lieu of accrued vacation or sick leave, as such benefits are earned and payment becomes probable. The Council's full-time employees earn up to two vacation leave days for each month of service and are entitled to compensation for accumulated, unpaid vacation leave upon termination. Full-time employees also earn 1 1/2 sick leave days for each month of service and are entitled to extend their health or life insurance coverage upon retirement in lieu of accumulated, unpaid sick leave. Generally, two days of accrued sick leave extend health insurance for one month of single coverage and three days extend health insurance for one month of family coverage. For employees hired after 1988, or who were hired before 1988 but did not choose such coverage until after 1988 but before July 1, 2001, the employee shares in the cost of the extended benefit coverage to the extent of 50% of the premium required for the extended coverage. Employees hired July 1, 2001, or later will no longer receive sick leave credit toward insurance premiums when they retire. Additionally, all retirees have the option to purchase continued coverage regardless of their eligibility for premium credits. This liability is now provided for under the multiple employer cost-sharing plan sponsored by the State.

**WEST VIRGINIA COUNCIL FOR COMMUNITY
AND TECHNICAL COLLEGE EDUCATION
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Certain faculty employees (generally those with less than a 12-month contract) earn a similar extended health or life insurance coverage retirement benefit based on years of service. Generally 3-1/3 years of teaching service extend health insurance for one year of single coverage and five years extend health insurance for one year of family coverage. Faculty hired after July 1, 2009, will no longer receive years of service credit toward insurance premiums when they retire. Employees hired after July 1, 2010, receive no health issuance premium subsidy from the Council. Two groups of employees hired after July 1, 2010, will not be required to pay the unsubsidized rate: 1) active employees who were originally hired before July 1, 2010, who have a break in service of fewer than two years after July 1, 2010; and 2) retired employees who retired before July 1, 2010, return to active service after July 1, 2010, and then go back into retirement. In those cases, the original hire date will apply.

The estimated expense and expense incurred for vacation leave or OPEB benefits are recorded as a component of benefits expense on the combined statements of revenues, expenses, and changes in net position.

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

Deferred Inflows of Resources - An acquisition of net position by the Council that is applicable to a future fiscal year is reported as a deferred inflow of resources on the combined statements of net position. Deferred inflows of resources are accreted over the life of the Council's service concession arrangement.

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

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

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

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

- *Operating revenues* - Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most federal, state, local, and nongovernmental grants and contracts, and (4) sales and services of educational activities.
- *Nonoperating revenues* - Nonoperating revenues include activities that have the characteristics of 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, and investment income, and sale of capital assets (including natural resources).
- *Other revenues* - Other revenues consist primarily of capital grants and gifts.

**WEST VIRGINIA COUNCIL FOR COMMUNITY
AND TECHNICAL COLLEGE EDUCATION
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Restricted Net Position - The Council has not adopted a formal policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. Generally, the Council attempts to utilize restricted net position first when practicable. Certain community and technical colleges (CTCs) have adopted a policy to utilize restricted net position first.

Federal Financial Assistance Programs - The Council makes loans to students under the Federal Direct Student Loan Program. Under this program, the U.S. Department of Education makes interest subsidized and nonsubsidized loans directly to students through the institutions within the Council. The Council also makes loans to students under the Stafford Loan Program through financial institutions. Direct and Stafford student loan receivables are not included in the Council's combined statements of net position. In 2013 and 2012, the Council received and disbursed, or awarded, approximately \$47,100,000 and \$56,200,000, respectively, under both Student Loan Programs, which is not included as revenue and expense on the combined statements of revenues, expenses, and changes in net position.

The Council also distributes other student financial assistance funds on behalf of the federal government to students under the federal Pell Grant, Supplemental Educational Opportunity Grant, and College Work Study programs. The activity of these programs is recorded in the accompanying combined financial statements. In 2013 and 2012, the Council received and disbursed approximately \$50,700,000 and \$55,300,000, respectively, under these federal student aid programs.

Scholarship Allowances - Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances in the combined statements of revenues, expenses, and changes in net position. Scholarship allowances are the difference between the stated charge for goods and services provided by the Council, and the amount that is paid by students and/or third parties making payments on the students' behalf.

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

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

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

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

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

**WEST VIRGINIA COUNCIL FOR COMMUNITY
AND TECHNICAL COLLEGE EDUCATION
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Newly Adopted Statements Issued by the Governmental Accounting Standards Board

The Council 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 combined statement of financial position and related disclosures. The adoption of this statement resulted in the addition of deferred outflows of resources and deferred inflows of resources to the combined statements of net position.

The Council has early adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The adoption of this statement resulted in the addition of deferred outflows of resources and deferred inflows of resources to the combined statements of net position. See Early Adoption of GASB Statement No. 65 section below for further description of the amendments.

The Council 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 combined financial statements.

Recent Statements Issued by the Governmental Accounting Standards Board

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

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 Council has not yet determined the effect that the adoption of GASB Statement No. 69 may have on its combined financial statements.

**WEST VIRGINIA COUNCIL FOR COMMUNITY
AND TECHNICAL COLLEGE EDUCATION
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Council has not yet determined the effect that the adoption of GASB Statement No. 70 may have on its combined financial statements.

Early Adoption of GASB Statement No. 65 - As discussed above, the Council's combined financial statements have been amended from the amounts previously reported as described below. The adoption of GASB Statement No. 65 required the amortization of bond issuance costs previously reported as assets to nonoperating expenses in the amount of \$32,519 and the recalculation of debt service obligations for 2012 resulting in additional debt service obligations of \$73,539 and the write off of \$21,527 of bond issuance costs. The cumulative effect on net position as of the earliest period presented was \$51,967.

	As Previously Reported	Combined Statement of Net Position Effect	Combined Statement of Revenues, Expenses, and Changes in Net Position Effect	As Amended
Other noncurrent assets	\$ 361,087	\$ (32,519)	\$ -	\$ 328,568
Other debt service obligations - current portion	902,226	4,142	-	906,368
Other debt service obligations	10,505,467	69,397	-	10,574,864
Net investment in capital assets	164,924,408	(106,058)	-	164,818,350
Other nonoperating revenues (expenses)	(518,854)	-	(54,046)	(572,900)
Increase (decrease) in net position before other revenues, expenses, gains, or losses	(3,831,114)	-	(54,046)	(3,885,160)
Increase in net position before transfers	40,672,526	-	(54,046)	40,618,480
Transfers from Institutions of the Commission	40,064	-	(45)	40,019
Increase in net position	40,712,590	-	(54,091)	40,658,499
Net position - beginning of year	167,023,729	(51,967)	-	166,971,762
Net position - end of year	207,736,319	(106,058)	-	207,630,261

Reclassifications - Certain amounts in the 2012 combined financial statements have been reclassified to conform to the 2013 presentation. The reclassification was a reduction of \$1,170,697 of tuition and fee revenue, \$202,692 of auxiliary revenue, and \$1,373,389 reduction in student financial aid expense for the year ended June 30, 2012. The impact of the reclassification on the year ended June 30, 2012's net position was \$0.

**WEST VIRGINIA COUNCIL FOR COMMUNITY
AND TECHNICAL COLLEGE EDUCATION
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012**

NOTE 3 - CASH AND CASH EQUIVALENTS

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

2013	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
State Treasurer	\$ 70,070,796	\$ 3,624,318	\$ 73,695,114
Trustee	-	65	65
Banks	1,129,819	125,522	1,255,341
On hand	<u>10,100</u>	<u>-</u>	<u>10,100</u>
	<u>\$ 71,210,715</u>	<u>\$ 3,749,905</u>	<u>\$ 74,960,620</u>
2012	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
State Treasurer	\$ 71,444,747	\$ 3,415,087	\$ 74,859,834
Trustee	30,451	831	31,282
Banks	2,562,814	131,111	2,693,925
On hand	<u>9,200</u>	<u>-</u>	<u>9,200</u>
	<u>\$ 74,047,212</u>	<u>\$ 3,547,029</u>	<u>\$ 77,594,241</u>

Amounts held by the State Treasurer and Trustee include \$3,624,383 and \$7,531,938 of restricted cash at June 30, 2013 and 2012, respectively.

The combined carrying amounts of cash in the bank at June 30, 2013 and 2012, were \$1,255,341 and \$2,693,925, as compared with the combined bank balance of \$2,317,123 and \$3,075,430, respectively. The difference is primarily caused by outstanding checks and items in transit. The bank balances were covered by federal depository insurance, as noted below, or were secured by financial instruments held as collateral by the State's agent. Regarding federal depository insurance, accounts are secured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000.

Amounts with the State Treasurer/BTI 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 Council invests, all are subject to credit risk. The following BTI investment risk information has been extracted from the notes to the BTI's financial statements.

**WEST VIRGINIA COUNCIL FOR COMMUNITY
AND TECHNICAL COLLEGE EDUCATION
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012**

NOTE 3 - CASH AND CASH EQUIVALENTS (Continued)

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 Council's ownership represents 2.61% and 2.28%, 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 Council's ownership represents 0.16% and 0.16%, respectively.

WV Short Term Bond Pool - Credit Risk - The BTI limits the exposure to credit risk in the WV Short Term Bond Pool by requiring all corporate bonds to be rated A by Standards & Poor's (or its equivalent) or higher. Commercial paper must be rated at least A-1 by Standards & Poor's and P-1 by Moody's. 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):

**WEST VIRGINIA COUNCIL FOR COMMUNITY
AND TECHNICAL COLLEGE EDUCATION
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012**

NOTE 3 - CASH AND CASH EQUIVALENTS (Continued)

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	*	<u>3,819</u>	<u>0.62</u>	<u>3,786</u>	<u>0.75</u>
				<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	1.79	
	Aa2	AA	12,731	2.07			
	Aa2	AA-	9,192	1.49			
	Aa3	AA-	33,034	5.36	15,666	3.11	
	Aa3	A+	11,693	1.90			
	Aa3	A			23,032	4.57	
	A1	AA+	13,295	2.16			
	A1	AA	4,118	0.67	12,145	2.41	
	A1	A+	47,500	7.71	30,684	6.09	
	A1	A	13,522	2.19			
	A2	A+	9,348	1.52			
	A2	A	47,709	7.75	39,064	7.76	
	A2	A-	5,052	0.82			
	A3	A-	7,986	1.30	7,755	1.54	
	A3	BBB+			3,006	0.60	
	Baa1	A-	**	2,416	0.39	4,162	0.83
Baa2	A-	**	<u>6,959</u>	<u>1.13</u>	<u>6,709</u>	<u>1.33</u>	
			227,557	36.95	151,248	30.03	
U.S. agency bonds	Aaa	AA+	9,986	1.62	45,024	8.94	
U.S. Treasury notes***	Aaa	AA+	140,154	22.76	44,251	8.79	
U.S. agency mortgage backed securities****	Aaa	AA+	73,692	11.97	77,065	15.30	
Money market funds	Aaa	AAA m	<u>5,457</u>	<u>0.89</u>	<u>41,610</u>	<u>8.26</u>	
			<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.

**WEST VIRGINIA COUNCIL FOR COMMUNITY
AND TECHNICAL COLLEGE EDUCATION
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012**

NOTE 3 - CASH AND CASH EQUIVALENTS (Continued)

At June 30, 2013 and 2012, the Council's ownership represents 0.78% and 1.68%, 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:

<u>Security Type</u>	<u>2013</u>		<u>2012</u>	
	<u>Carrying Value (In thousands)</u>	<u>WAM (Days)</u>	<u>Carrying Value (In thousands)</u>	<u>WAM (Days)</u>
Repurchase agreements	\$ 229,326	3	\$ 90,204	3
U.S. Treasury notes	279,755	132	330,865	122
U.S. Treasury bills	34,993	77	237,978	37
Commercial paper	970,395	43	853,470	35
Certificates of deposit	259,000	66	110,000	10
U.S. agency discount notes	445,784	47	738,706	44
Corporate bonds and notes	10,000	60	36,000	48
U.S. agency bonds/notes	66,603	139	189,691	68
Money market funds	<u>200,012</u>	1	<u>200,054</u>	1
	<u>\$ 2,495,868</u>	52	<u>\$ 2,786,968</u>	46

The overall weighted average maturity of the investments of the WV Government Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase, except for government floating rate notes, which can be up to 762 days. The following table provides information on the weighted average maturities for the various asset types in the WV Government Money Market Pool:

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

**WEST VIRGINIA COUNCIL FOR COMMUNITY
AND TECHNICAL COLLEGE EDUCATION
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012**

NOTE 3 - CASH AND CASH EQUIVALENTS (Continued)

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

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

**WEST VIRGINIA COUNCIL FOR COMMUNITY
AND TECHNICAL COLLEGE EDUCATION
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012**

NOTE 4 - ACCOUNTS RECEIVABLE

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

	<u>2013</u>	<u>2012</u>
Student tuition and fees, net of allowance for doubtful accounts of \$5,248,647 and \$4,124,479 in 2013 and 2012, respectively	\$ 2,440,053	\$ 2,136,479
Grants and contracts receivable, no allowance necessary	560,413	1,770,632
Due from State agencies	1,223,889	933,732
Other	<u>161,602</u>	<u>227,899</u>
	<u>\$ 4,385,957</u>	<u>\$ 5,068,742</u>

NOTE 5 - CAPITAL ASSETS

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

	2013				
	Beginning Balance	Transfers	Additions	Reductions	
Capital assets not being depreciated:					
Land	\$ 7,141,121	\$ -	\$ 1,609,351	\$ 949,026	\$ 7,801,446
Construction in progress	<u>57,418,885</u>	<u>(12,196,118)</u>	<u>23,809,334</u>	<u>47,788,788</u>	<u>21,243,313</u>
Total capital assets not being depreciated	<u>\$ 64,560,006</u>	<u>\$ (12,196,118)</u>	<u>\$ 25,418,685</u>	<u>\$ 48,737,814</u>	<u>\$ 29,044,759</u>
Other capital assets:					
Land improvements	\$ 1,961,896	\$ 3,197	\$ 108,446	\$ -	\$ 2,073,539
Infrastructure	8,084,634	37,039	185,368	-	8,307,041
Buildings	139,909,523	12,372,127	52,277,321	55,514	204,503,457
Equipment	28,575,965	1,395	4,755,187	1,814,733	31,517,814
Software	229,000	-	586,900	-	815,900
Library books	<u>9,270,131</u>	<u>15,262</u>	<u>196,119</u>	<u>114,792</u>	<u>9,366,720</u>
Total other capital assets	<u>188,031,149</u>	<u>12,429,020</u>	<u>58,109,341</u>	<u>1,985,039</u>	<u>256,584,471</u>
Less accumulated depreciation for:					
Land improvements	688,867	1,297	130,573	-	820,737
Infrastructure	4,912,330	17,273	466,752	-	5,396,355
Buildings	41,143,022	54,405	4,680,050	44,411	45,833,066
Equipment	15,506,484	756	3,116,674	1,587,820	17,036,094
Software	124,668	-	57,866	-	182,534
Library books	<u>8,728,352</u>	<u>14,771</u>	<u>162,523</u>	<u>113,792</u>	<u>8,791,854</u>
Total accumulated depreciation	<u>71,103,723</u>	<u>88,502</u>	<u>8,614,438</u>	<u>1,746,023</u>	<u>78,060,640</u>
Other capital assets, net	<u>\$ 116,927,426</u>	<u>\$ 12,340,518</u>	<u>\$ 49,494,903</u>	<u>\$ 239,016</u>	<u>\$ 178,523,831</u>
Capital asset summary:					
Capital assets not being depreciated	\$ 64,560,006	\$ (12,196,118)	\$ 25,418,685	\$ 48,737,814	\$ 29,044,759
Other capital assets	<u>188,031,149</u>	<u>12,429,020</u>	<u>58,109,341</u>	<u>1,985,039</u>	<u>256,584,471</u>
Total cost of capital assets	252,591,155	232,902	83,528,026	50,722,853	285,629,230
Less accumulated depreciation	<u>71,103,723</u>	<u>88,502</u>	<u>8,614,438</u>	<u>1,746,023</u>	<u>78,060,640</u>
Capital assets, net	<u>\$ 181,487,432</u>	<u>\$ 144,400</u>	<u>\$ 74,913,588</u>	<u>\$ 48,976,830</u>	<u>\$ 207,568,590</u>

**WEST VIRGINIA COUNCIL FOR COMMUNITY
AND TECHNICAL COLLEGE EDUCATION
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012**

NOTE 5 - CAPITAL ASSETS (Continued)

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

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

Title for certain real property is with the Commission.

The Council has construction commitments as of June 30, 2013, of approximately:

Northern	\$ 334,000
WVU at Parkersburg	418,000
New River	544,000
Pierpont	<u>782,000</u>
	<u>\$ 2,078,000</u>

**WEST VIRGINIA COUNCIL FOR COMMUNITY
AND TECHNICAL COLLEGE EDUCATION
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012**

NOTE 6 - LONG-TERM LIABILITIES

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

	2013				
	<u>Beginning Balance</u>	<u>Transfers/ Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds, capital leases, and notes payable:					
Capital leases payable	\$ 915,931	\$ 1,397,002	\$ 358,915	\$ 1,954,018	\$ 516,072
Other debt service obligations	11,481,232	538,447	890,995	11,128,684	995,991
Due to Bluefield State College	268,678	-	-	268,678	268,678
Bonds payable	3,500,000	-	162,555	3,337,445	335,236
Funds due to West Virginia Development Office	<u>619,932</u>	<u>-</u>	<u>-</u>	<u>619,932</u>	<u>-</u>
Total debt	16,785,773	1,935,449	1,412,465	17,308,757	2,115,977
Other noncurrent liabilities:					
Advances from federal sponsors	54,621	-	8,048	46,573	-
Other postemployment benefits liability	23,861,799	3,013,087	2,597,581	24,277,305	-
Accrued compensated absences	<u>3,588,836</u>	<u>426,120</u>	<u>304,093</u>	<u>3,710,863</u>	<u>3,035,201</u>
Total long-term liabilities	<u>\$ 44,291,029</u>	<u>\$ 5,374,656</u>	<u>\$ 4,322,187</u>	<u>\$ 45,343,498</u>	<u>\$ 5,151,178</u>
	2012				
	<u>Beginning Balance</u>	<u>Transfers/ Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds, capital leases, and notes payable:					
Capital leases payable	\$ 3,892,248	\$ 359,750	\$ 3,336,067	\$ 915,931	\$ 227,012
Other debt service obligations	8,795,292	8,457,708	5,771,768	11,481,232	906,368
Due to Bluefield State College	268,678	-	-	268,678	268,678
Bonds payable	-	3,500,000	-	3,500,000	162,555
Funds due to West Virginia Development Office	<u>619,932</u>	<u>-</u>	<u>-</u>	<u>619,932</u>	<u>-</u>
Total debt	13,576,150	12,317,458	9,107,835	16,785,773	1,564,613
Other noncurrent liabilities:					
Advances from federal sponsors	51,753	2,868	-	54,621	-
Other postemployment benefits liability	16,424,019	9,134,875	1,697,095	23,861,799	-
Accrued compensated absences	<u>3,296,230</u>	<u>584,263</u>	<u>291,657</u>	<u>3,588,836</u>	<u>2,934,008</u>
Total long-term liabilities	<u>\$ 33,348,152</u>	<u>\$ 22,039,464</u>	<u>\$ 11,096,587</u>	<u>\$ 44,291,029</u>	<u>\$ 4,498,621</u>

At June 30, 2013 and 2012, debt service obligations include amounts due to the Commission of \$4,015,123 and \$3,883,630, respectively, Fairmont of \$4,204,561 and \$4,375,602, respectively, and West Virginia University of \$2,909,000 and \$3,222,000, respectively.

**WEST VIRGINIA COUNCIL FOR COMMUNITY
AND TECHNICAL COLLEGE EDUCATION
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012**

NOTE 7 - LEASE OBLIGATIONS

Capital - The Council leases certain property, plant, and equipment through capital leases. The net book value of leased assets totaled \$2,304,127 and \$1,096,562 for June 30, 2013 and 2012, respectively. The following is a schedule by year of future annual minimum payments required under the lease obligations:

<u>Years Ending June 30,</u>	<u>Total</u>
2014	\$ 552,391
2015	532,648
2016	426,689
2017	398,630
2018	22,546
Thereafter	<u>125,284</u>
Future minimum lease payments	2,058,188
Less interest	<u>104,170</u>
Total	<u>\$ 1,954,018</u>

Operating - The Council had entered into various operating lease agreements. Future annual minimum lease payments for years subsequent to June 30, 2013, are as follows:

<u>Years Ending June 30,</u>	<u>Total</u>
2014	\$ 1,701,925
2015	1,471,345
2016	1,206,754
2017	1,041,897
2018	<u>816,196</u>
Total	<u>\$ 6,238,117</u>

Total rent expense for these operating leases for the years ended June 30, 2013 and 2012, was approximately \$2,062,127 and \$1,735,389, respectively.

NOTE 8 - BONDS

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

	Original Interest Rate	Annual Principal Installment Due	Principal Amount Outstanding <u>2013</u>
College Revenue Bonds	4.125 %	\$162,555-\$450,605	<u>\$ 3,337,445</u>

**WEST VIRGINIA COUNCIL FOR COMMUNITY
AND TECHNICAL COLLEGE EDUCATION
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012**

NOTE 8 - BONDS (Continued)

On September 30, 2011, Mountwest issued \$3,500,000 in revenue bonds to First Sentry Bank of Huntington, WV. The proceeds were used to complete the financing of the \$20.0 million campus project opened in the fall semester of 2012. The terms of the bonds are for 10 years with the fixed interest rate of 4.125%. Mountwest made 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, thereafter, commencing on March 1, 2013. The payments are to be made from cash receipts from Marshall University pursuant to the Memorandum of Understanding between Mountwest 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 and interest payments for years subsequent to June 30, 2013, is as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>

NOTE 9 - WEST VIRGINIA DEVELOPMENT OFFICE OBLIGATION

In previous years, Eastern entered into two financial assistance agreements with the West Virginia Development Office (WVDO) for \$685,000 to construct a new sewer system and \$2,000,000 for the access road for Eastern’s facility at 316 Eastern Drive. As of June 30, 2013 a total of \$619,932 has been drawn on these two agreements. Under the terms of both agreements, Eastern agrees to repay the WVDO “if nonoperating funds become available or when an appropriate nonoperating income stream is established” or if Eastern “sells or disposes of the two acres of property.”

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS

In accordance with GASB, OPEB costs are accrued based upon invoices received from PEIA based upon actuarial determined amounts. At June 30, 2013, 2012, and 2011, the noncurrent liability related to OPEB costs was \$24,277,305, \$23,861,799, and \$16,424,019, respectively. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees were \$3,013,087 and \$1,852,985, respectively, during 2013, or 61%; \$9,134,875 and \$1,697,095, respectively, during 2012, or 19%; and \$9,390,077 and \$1,873,999, respectively, during 2011, or 20%. As of June 30, 2013, 2012, and 2011, there were 176, 153, and 161 retirees receiving these benefits, respectively. During the 2012 legislative session, the State took proactive measures to address this unfunded liability, which will take effect in future fiscal years and fully fund the liability by 2037.

**WEST VIRGINIA COUNCIL FOR COMMUNITY
AND TECHNICAL COLLEGE EDUCATION
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012**

NOTE 11 - SYSTEM BONDS PAYABLE

The Council receives State appropriations to finance its operations. In addition, it is subject to the legislative and administrative mandates of State government. Those mandates affect various aspects of the Council's operations, its tuition and fee structure, its personnel policies, and its administrative practices.

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

The Municipal Bond Commission has the authority to assess each public institution of the Council 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 capital obligation of the Commission, an estimate of the obligation of each institution was reported as a long-term payable by each institution and as a receivable by the Commission.

During 2013 and 2012, the Council paid \$198,507 and \$808,913, respectively, to the Commission against the debt obligation. The amount due to the Commission on this debt obligation at June 30, 2013 and 2012, is \$2,296,122 and \$2,494,630, respectively. The Commission has loans with individual institutions of the Council. During 2012, Bridgemont and Kanawha borrowed \$410,000 and \$500,000, respectively, from the Commission. In 2013, Kanawha borrowed an additional \$500,000 from the Commission. During 2013, the institutions repaid \$175,000 to the Commission and owe the Commission \$1,543,000 as of June 30, 2013.

For the years ended June 30, 2013 and 2012, debt service assessed is as follows:

	<u>2013</u>	<u>2012</u>
Principal	\$ 198,507	\$ 808,913
Interest	111,110	147,693
Other	<u>51,136</u>	<u>88,596</u>
	<u>\$ 360,753</u>	<u>\$ 1,045,202</u>

During the year ended June 30, 2005, the Commission issued \$167.0 million of 2004 Series B 30-year Revenue Bonds to fund capital projects at various higher education institutions in the State. The Institutions that comprise the Council have been approved to receive \$34.5 million of these funds. State lottery funds will be used to repay the debt, although the Council's revenues are pledged if lottery funds prove to be insufficient. As of June 30, 2013, approximately \$472,000 is remaining to be drawn.

**WEST VIRGINIA COUNCIL FOR COMMUNITY
AND TECHNICAL COLLEGE EDUCATION
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012**

NOTE 12 - CAPITAL PAYMENTS MADE ON BEHALF OF THE COUNCIL

On December 8, 2009, the Commission, on behalf of the Council, issued \$78,295,000 of Community and Technical Colleges Improvement Revenue Bonds, 2009 Series A (2009 Bonds). The proceeds of the 2009 Bonds will be used to finance the acquisition, construction, equipping, or improvement of community and technical college facilities in West Virginia and pay issuance costs of \$295,000. The interest rate on the 2009 Bonds ranges from 2.5% to 5.0% and the due dates commence July 1, 2010 and end July 1, 2028. State Lottery proceeds of a maximum of \$5,000,000 per year will be used to repay the debt, which has a maximum annual debt service of \$4,999,750. In addition, pursuant to Section 18(j)(1) of the Lottery Act, the Commission has granted a third-in-party lien, for the benefit of the bondholders, on the proceeds of the State Lottery Fund, up to a maximum of \$7,500,000 annually. As of June 30, 2013, \$64,304,982 was paid by the Commission on behalf of the Council and/or expended by the Council.

NOTE 13 - SERVICE CONCESSION ARRANGEMENTS

The Council has adopted GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The Council has identified four contracts for services that meet the four criteria of a service concession arrangement (SCA). SCAs are defined as a contract between a government and an operator, another government or a private entity, in which the operator provides services, the operator collects and is compensated by fees from third parties, the government still has control over the services provided and the government retains ownership of the assets at the end of the contract. The contracts are between Blue Ridge and Barnes & Noble College Booksellers, LLC (Barnes & Noble), Northern and AVI Food Systems, Northern and Barnes & Noble, and WVU at Parkersburg and Barnes & Noble. Blue Ridge, Northern, and WVU at Parkersburg contract with Barnes & Noble to operate the campus bookstores and AVI Food Systems to operate and provide vending services on campus. Commission revenues from these contracts are recorded as other operating revenue on the combined statement of revenues, expenses, and changes in net position.

NOTE 14 - UNRESTRICTED NET POSITION

The Council's unrestricted net position include certain designated net position at June 30, 2013 and 2012, as follows:

	<u>2013</u>	<u>2012</u>
Designated for capital projects	\$ 2,287,500	\$ 5,225,000
Designated for fund managers	703,456	769,454
Designated for auxiliaries	4,180	7,303
Undesignated	<u>38,858,360</u>	<u>40,187,694</u>
Total unrestricted net position before OPEB	41,853,496	46,189,451
Less OPEB liability	<u>24,277,305</u>	<u>23,861,799</u>
Total unrestricted net position	<u>\$ 17,576,191</u>	<u>\$ 22,327,652</u>

**WEST VIRGINIA COUNCIL FOR COMMUNITY
AND TECHNICAL COLLEGE EDUCATION
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012**

NOTE 15 - RETIREMENT PLANS

Substantially all full-time employees of the Council participate in either the West Virginia Teachers' Retirement System (STRS) or the Teachers' Insurance and Annuities Association - College Retirement Equities Fund (TIAA-CREF). Previously, upon full-time employment, all employees were required to make an irrevocable selection between the STRS and TIAA-CREF. Effective July 1, 1991, the STRS was closed to new participants. Current participants in the STRS are permitted to make a one-time election to cease their participation in that plan and commence contributions to the West Virginia Teachers' Defined Contribution Plan.

Effective January 1, 2003, higher education employees enrolled in the basic 401(a) retirement plan with TIAA-CREF have an option to switch to the new Educators Money 401(a) basic retirement plan. New hires have the choice of either plan. Contributions to and participation in the West Virginia Teachers' Defined Contribution Plan by Council employees have not been significant to date.

The STRS is a cost sharing, defined benefit, public retirement system. Employer and employee contribution rates are established annually by the State Legislature. The contractual maximum contribution rate is 15%. The Council accrued and paid its contribution to the STRS at the rate of 15% of each enrolled employee's total annual salary for the years ended June 30, 2013 and 2012. Required employee contributions are at the rate of 6% of total annual salary for the 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.

The contribution rate is set by the State Legislature on an overall basis, and the STRS does not perform a calculation of the contribution requirement for individual employers, such as the institutions within the Council. Historical trend and net pension obligation information is available from the annual financial report of the Consolidated Public Retirement Board. A copy of the report may be obtained by writing to the Consolidated Public Retirement Board, Building 5, Room 1000, Charleston, WV 25305.

Total contributions to the STRS for the years ended June 30, 2013, 2012, and 2011, were approximately \$542,000, \$605,000, and \$671,000, respectively, which consisted of approximately \$387,000, \$431,000, and \$437,000, from the Council in 2013, 2012, and 2011, respectively, and approximately \$155,000, \$174,000, and \$234,000, from the covered employees, respectively.

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

Total contributions to the TIAA-CREF for the years ended June 30, 2013, 2012, and 2011, were approximately \$6,820,000, \$6,360,000, and \$5,952,000, which consisted of approximately \$3,410,000, \$3,180,000, and \$2,976,000, respectively, from the Council and from the covered employees, respectively.

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

**WEST VIRGINIA COUNCIL FOR COMMUNITY
AND TECHNICAL COLLEGE EDUCATION
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012**

NOTE 15 - RETIREMENT PLANS (Continued)

The Council's total payroll for the years ended June 30, 2013, 2012, and 2011 was approximately \$69,940,000, \$68,318,000, and \$65,869,000, respectively, and total covered employees' salaries in the STRS and TIAA-CREF were approximately \$9,940,000 and \$56,170,000, respectively, in 2013, \$9,398,000 and \$52,757,000, respectively, in 2012, and \$8,968,000 and \$48,984,000, respectively in 2011.

NOTE 16 - FOUNDATIONS

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

NOTE 17 - AFFILIATED ORGANIZATIONS

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

NOTE 18 - CONTINGENCIES AND COMMITMENTS

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

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

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

The CTCs within the Council own various buildings that are known to contain asbestos. The CTCs are not required by Federal, State, or Local Law to remove the asbestos from the buildings. The CTCs are required by Federal Environmental, Health, and Safety Regulations to manage the presence of asbestos in the buildings in a safe condition. Significant problems of dangerous asbestos conditions are abated as the condition becomes known. The CTCs also address the presence of asbestos as building renovation or demolition projects are undertaken and through asbestos operation and maintenance programs directed at containing, managing, or operating with the asbestos in a safe condition.

**WEST VIRGINIA COUNCIL FOR COMMUNITY
AND TECHNICAL COLLEGE EDUCATION
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012**

NOTE 19 - SUBSEQUENT EVENTS

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

On September 18, 2013, the Council was notified that it has been awarded a \$25.0 million grant through the US Department of Labor Trade Adjustment Assistance Community College and Career Training grant program. Bridgemont Community and Technical College is the official awardee as the Consortium Leader. All ten community and technical colleges will receive funding from this grant which focuses on the areas of manufacturing and mechatronics, energy technology, information technology, and construction.

WEST VIRGINIA COUNCIL FOR COMMUNITY AND TECHNICAL COLLEGE EDUCATION
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012

NOTE 20 - NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

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

2013	Salaries and Wages		Benefits		Supplies and Other Services		Utilities		Scholarships and Fellowships		Depreciation		Loan Cancellations and Write-Offs		Total
Instruction	\$ 41,890,187	\$ 9,367,822	\$ 13,077,550	\$ 215,227	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 64,550,786
Public service	2,103,751	423,885	1,512,416	9,743	30,992	-	-	-	-	-	-	-	-	-	4,080,787
Academic support	4,723,949	1,079,943	3,978,311	42,051	-	-	-	-	-	-	-	-	-	-	9,824,254
Student services	6,563,141	1,863,271	4,324,097	(18,503)	-	-	-	-	-	-	-	-	-	-	12,732,006
General institutional support	15,695,145	4,286,984	11,412,936	415,558	-	-	-	-	-	-	-	-	-	-	31,810,623
Operations and maintenance of plant	2,555,447	806,844	7,466,193	2,256,888	-	-	-	-	-	-	-	-	-	-	13,085,372
Total education and general	73,531,620	17,828,749	41,771,503	2,920,964	30,992	-	-	-	-	-	-	-	-	-	136,083,828
Student financial aid	72,344	1,514	-	-	-	-	-	-	-	-	-	-	-	-	34,261,290
Auxiliary enterprises	448,186	110,971	2,335,845	-	34,187,432	-	-	-	-	-	-	-	-	-	2,895,002
Depreciation	-	-	-	-	-	-	-	-	-	8,614,438	-	-	-	-	8,614,438
Loan cancellations and write-offs	-	-	-	-	-	-	-	-	-	-	-	-	308,318	-	308,318
Other	-	-	-	848,905	-	-	-	-	-	-	-	-	-	-	848,905
Total	\$ 74,052,150	\$ 17,941,234	\$ 44,956,253	\$ 2,920,964	\$ 34,218,424	\$ 8,614,438	\$ 308,318	\$ 183,011,781							
2012	Salaries and Wages		Benefits		Supplies and Other Services		Utilities		Scholarships and Fellowships		Depreciation		Loan Cancellations and Write-Offs		Total
Instruction	\$ 40,131,984	\$ 10,926,603	\$ 13,816,951	\$ 162,550	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 65,038,088
Public service	2,443,339	479,001	1,826,481	10,089	-	-	-	-	-	-	-	-	-	-	4,758,910
Academic support	4,485,624	1,236,754	3,974,304	46,459	-	-	-	-	-	-	-	-	-	-	9,743,141
Student services	6,193,078	2,173,752	4,498,526	4,256	-	-	-	-	-	-	-	-	-	-	12,869,612
Operations and maintenance of plant	1,999,129	945,598	7,196,485	1,980,676	-	-	-	-	-	-	-	-	-	-	12,121,888
General institutional support	14,041,157	7,880,726	12,588,558	167,172	-	-	-	-	-	-	-	-	-	-	34,677,413
Total education and general	69,294,311	23,642,434	43,901,105	2,371,202	-	-	-	-	-	-	-	-	-	-	139,209,052
Student financial aid	73,767	-	30	-	38,378,834	-	-	-	-	-	-	-	-	-	38,452,631
Auxiliary enterprises	216,065	33,101	2,139,874	-	-	-	-	-	-	-	-	-	-	-	2,389,040
Depreciation	-	-	-	-	-	-	-	-	6,688,766	-	-	-	-	-	6,688,766
Loan cancellations and write-offs	-	-	-	-	-	-	-	-	-	-	-	-	216,783	-	216,783
Other	-	-	-	186,103	-	-	-	-	-	-	-	-	-	-	186,103
Total	\$ 69,584,143	\$ 23,675,535	\$ 46,227,112	\$ 2,371,202	\$ 38,378,834	\$ 6,688,766	\$ 216,783	\$ 187,142,375							

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

Council Members
West Virginia Council for Community
and Technical College Education
Charleston, West Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements of the business-type activities of the West Virginia Council for Community and Technical College Education (the Council), as of and for the year ended June 30, 2013, and the related notes to the combined financial statements, which collectively comprise the Council's basic combined financial statements, and have issued our report thereon dated November 19, 2013. Our report includes a reference to other auditors who audited the financial statements of Mountwest Community and Technical College and West Virginia Northern Community College, as described in our report on the Council's combined financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered the Council'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 opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. Accordingly, we do not express an opinion on the effectiveness of the Council'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 Council's combined 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 combined 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.



Charleston, West Virginia
November 19, 2013