

West Virginia Northern Community College

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

WEST VIRGINIA NORTHERN COMMUNITY COLLEGE

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS (RSI) (UNAUDITED)	3-11
FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2013 and 2012:	
Statements of Net Position	12-13
Component Unit—Statements of Financial Position	14
Statements of Revenues, Expenses, and Changes in Net Position	15-16
Component Unit—Statements of Activities	17-18
Statements of Cash Flows	19-20
Notes to Financial Statements	21-47
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	48-49



1341 National Road
P.O. Box 2050
Wheeling, WV 26003-0251
Voice: 304-242-4400
Fax: 304-242-1989
E-mail: lcostanzo@costanzocpas.com
Web Site: www.costanzocpas.com

INDEPENDENT AUDITORS' REPORT

To the Governing Board of
West Virginia Northern Community College:

We have audited the accompanying financial statements of West Virginia Northern Community College (the "College") and West Virginia Northern Community College Foundation, Inc. (the "Foundation" a discretely presented component unit of the College) as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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 financial statements are free from material misstatement. The Foundation's financial statements were not audited in accordance with *Government Auditing Standards* but were audited in accordance with auditing standards generally accepted in the United States of America.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position and changes in net position of the College and Foundation at June 30, 2013 and 2012, and cash flows of the College for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 to 11, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2013, on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.



October 23, 2013

West Virginia Northern Community College Management Discussion and Analysis Fiscal Year Ending June 30, 2013

Overview

West Virginia Northern Community College (WVNCC or the “College”) is providing its financial statements for the fiscal year 2013, along with a comparative of fiscal years 2012 and 2011. There are three Financial Statements presented: the Statements of Net Position; the Statements of Revenues, Expenses, and Changes in Net Position; and the Statements of Cash Flows as required by GASB reporting standards. This section of the annual financial report focuses on an overview of the College’s financial performance during the fiscal year ended June 30, 2013, with comparisons to the two previous fiscal years (June 30, 2012 and 2011).

In addition, WVNCC Foundation Inc. consists of two basic financial statements; the Statements of Financial Position and the Statements of Activities. The WVNCC Foundation Inc. assets are controlled by a separate Board of Trustees and its historical purpose has been in support of the College’s student scholarships, capital improvements, and institutional support. More information about the accounting and reporting aspects of the Foundation can be found in footnotes 12 and 17 of these financial statements.

Statements of Net Position

The Statements of Net Position present the Assets (current and non-current), Deferred Outflows of Resources, Liabilities (current and non-current), Deferred Inflows of Resources and Net Position (Assets plus Deferred Outflows of Resources minus Liabilities minus Deferred Inflows of Resources) of the College as of June 30, 2013. Assets denote the resources available to continue the operations of the College. Deferred outflows of resources, represents a consumption of net position that applies to a future period(s). Liabilities indicate how much the College owes vendors, employees, lending institutions and the West Virginia Higher Education Policy Commission. Deferred inflows of resources represent an acquisition of net position that applies to a future period(s). Net Position provides a way to measure the financial position of the College.

Net Position is displayed in three major categories:

- ***Net Investment in Capital Assets.*** This category provides equity in the property, plant, and equipment owned by WVNCC. The title is held by the West Virginia Northern Community College Board of Governors. It represents the College’s investment in capital assets plus deferred outflows of resources attributable to those capital assets, net of accumulated depreciation, outstanding debt obligations and deferred inflows of resources related to those capital assets. To the extent debt or deferred inflows of resources has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets. Rather that portion of debt or deferred inflows of resources is included in the same net position component as the unspent amount.

Restricted Net Position. This category includes net position whose use is restricted either due to externally imposed constraints or because of restrictions imposed by law. They are further divided into two additional components – expendable and non-expendable:

Expendable restricted net position includes resources in which the College is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties. For example, the expenditure must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets.

Non-expendable restricted net position include endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. The College presently does not have any non-expendable net position.

Unrestricted Net Position. This category represents resources derived from tuition and fees, State appropriations and sales and services of educational activities. These resources are used for transactions related to the educational and general operations of the College, and may be used at the sole discretion of the Governing Board to meet current expenses for any purpose.

Statements of Net Position				Change
Fiscal Years Ended June 30				
	2013	2012	2011	FY 13-12
Assets and Deferred Outflows:				
Current Assets	\$ 12,969,617	\$ 15,218,303	\$ 13,607,918	-14.78%
Other Noncurrent Assets	3,298,967	3,142,732	2,955,631	4.97%
Capital Assets - Net	<u>34,697,373</u>	<u>27,577,630</u>	<u>23,652,538</u>	25.82%
Total Assets	<u>50,965,957</u>	<u>45,938,665</u>	<u>40,216,087</u>	10.94%
Deferred Outflows of Resources:	_____ -	_____ -	_____ -	
Liabilities, Deferred Inflows, and Net Position:				
Current Liabilities	3,051,996	1,609,984	1,664,846	89.57%
Noncurrent Liabilities	<u>2,764,509</u>	<u>2,738,223</u>	<u>1,890,410</u>	0.96%
Total Liabilities	<u>5,816,505</u>	<u>4,348,207</u>	<u>3,555,256</u>	33.77%
Deferred Inflows of Resources:	_____ -	_____ -	_____ -	
Net Position:				
Net Investments in Capital Assets	34,697,373	27,569,775	23,616,419	25.85%
Restricted For - Expendable	3,325,281	3,145,469	2,978,285	5.72%
Unrestricted	<u>7,126,798</u>	<u>10,875,214</u>	<u>10,066,127</u>	-34.47%
Total Net Position	<u>\$ 45,149,452</u>	<u>\$ 41,590,458</u>	<u>\$ 36,660,831</u>	8.56%

Statement of Net Position 2013 to 2012 Financial Highlights:

Assets

- Current and Non-current cash and cash equivalents decreased \$2.5 million or 14%.
- Capital Assets-net increased \$7.1 million or 26%.
- Total Assets increased \$5 million or 11%.

Liabilities

- Current Liabilities increased \$1.4 million or 90%.
- Post-Employment Benefits Liability increased \$34,000 or 1%.
- Total liabilities increased \$1.5 million or 34%.

Comments

An indicator that the College has sufficient resources available to meet its obligations is the current ratio (current assets to current liabilities). This ratio is calculated at 4.25 to 1 and 9.45 to 1 for 2013 and 2012, respectively. The decline is attributable to the College's capital expansion including an addition to Weirton Campus and two renovated buildings on the Wheeling Campus. Despite a \$700,000 decline in Operating Revenue due to declining enrollment and modifications to student eligibility for financial aid, the College managed to maintain a robust cash balance which demonstrates continued asset growth for Fiscal Year 2013.

West Virginia Northern Community College continues to maintain a strong cash position with current cash and cash equivalents representing 24% of total assets for FY 2013. The percentage increase in total assets (11%) and the percentage increase in net position (9%) continue to show consistent growth in the College's financial position. The College has added approximately \$20.7 million in net fixed assets over the last 10 years. More detailed data with respect to capital assets for the years ended June 30, 2013 and 2012 can be found in footnote 5 to these financial statements.

The increase in Other Post Employment Benefits (OPEB) Liability is due to the accrual of annual OPEB cost as determined by the State's actuarial calculation. In FY 2013 and 2012, the State directed all of their Universities and Colleges to account for the full amount of these OPEB liabilities without the transfer of any State general revenue funds. Subsequent to their prior directive, the State has begun to modify the actuarial assumptions related to the OPEB Liability which slowed its growth for FY 2013 and beyond.

Statements of Revenues, Expenses and Changes in Net Position

The Statements of Revenues, Expenses and Changes in Net Position present the operating results of the College for the fiscal year ended June 30, 2013 compared to fiscal years ended June 30, 2012 and 2011. The purpose of the Statement is to present the revenues of the College (operating and non-operating), the expenses of the College (operating and non-operating), and any other revenues, expenses, gains and losses of the College. State Appropriations, while budgeted for operations, are considered and reported as non-operating revenues. This is due to State Appropriations being provided by the Legislature to the College without the Legislature directly receiving commensurate goods and services for those revenues. The utilization of capital assets is reflected in the Financial Statements as depreciation, which amortizes the cost of an asset over its expected useful life.

Statements of Revenues, Expenses, and Changes in Net Position Fiscal Years Ended June 30

	2013	2012	2011	Change FY 13 -12
Total Operating Revenues	\$ 5,649,836	\$ 6,347,486	\$ 5,854,407	-10.99%
Total Operating Expenses	<u>17,476,408</u>	<u>20,129,648</u>	<u>20,193,442</u>	-13.18%
Operating Loss	(11,826,572)	(13,782,162)	(14,339,035)	-14.19%
Net Nonoperating Revenues	13,469,021	14,953,608	16,460,072	-9.93%
State Capital Grants (Federal)	-	-	148,460	N/A
Capital Payments on Behalf of College	<u>1,916,545</u>	<u>3,758,181</u>	<u>282,453</u>	-49.00%
Increase in Net Position	3,558,994	4,929,627	2,551,950	-27.80%
Net Position - Beginning of Year	<u>41,590,458</u>	<u>36,660,831</u>	<u>34,108,881</u>	13.45%
Net Position - End of Year	<u>\$ 45,149,452</u>	<u>\$ 41,590,458</u>	<u>\$ 36,660,831</u>	8.56%

Statement of Revenues, Expenses and Changes in Net Position 2013 to 2012 Financial Highlights:

Operating Revenue

- Total Operating Revenues decreased \$700,000 or 11%.
- Net Student Tuition & Fees decreased \$517,000 or 16%.
- State Contracts and Grants decreased \$292,000 or 12%.

Operating Expenses

- Total Operating Expenses decreased \$2.6 million or 13%.
- Salaries and Wages increased \$64,000 or .8%.
- Employee Benefits decreased \$841,000 or 30%.
- Student Financial Aid decreased \$1.3 million or 27%.

Non-Operating Revenues (Expenses)

- Net Non-Operating Revenues decreased \$1.5 million or 10%.
- Federal Pell Grants to student decreased \$1.5 million or 21%.

Comments

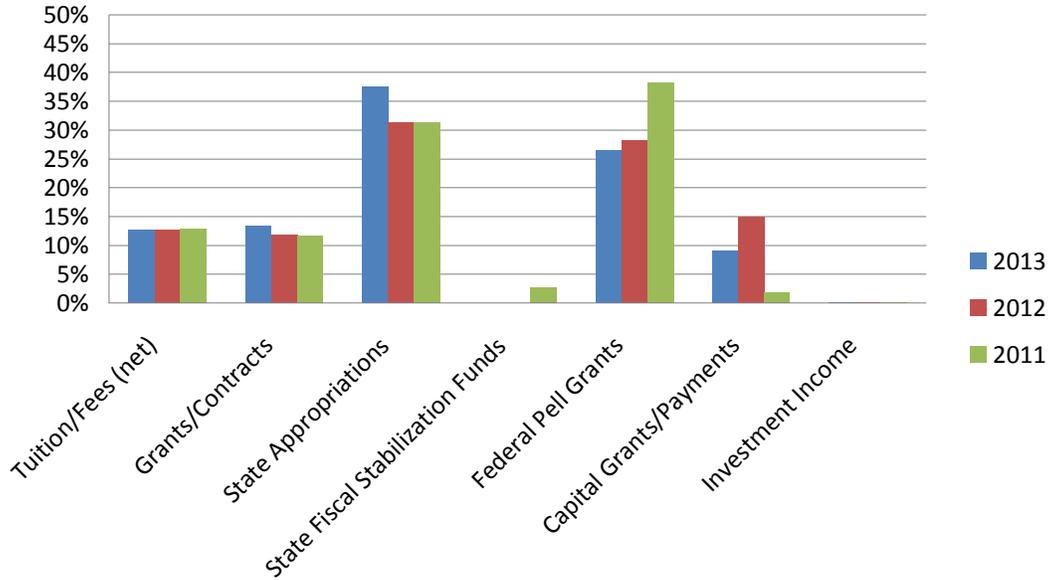
Total operating revenues decreased due to declines in enrollment and fewer State Grant funds secured and or available for College initiatives. Gross tuition and fees decreased by \$960,000 or 14%. However, netting scholarship allowances against gross tuition and fees yields a net decrease of \$517,000 or 16%.

Total operating expenses decreased due to decreases in financial aid disbursements and an overall 7% decrease in salary & benefits.

The Non-Operating Revenues decreased as a result of a decrease in Federal Pell Grants disbursed to students.

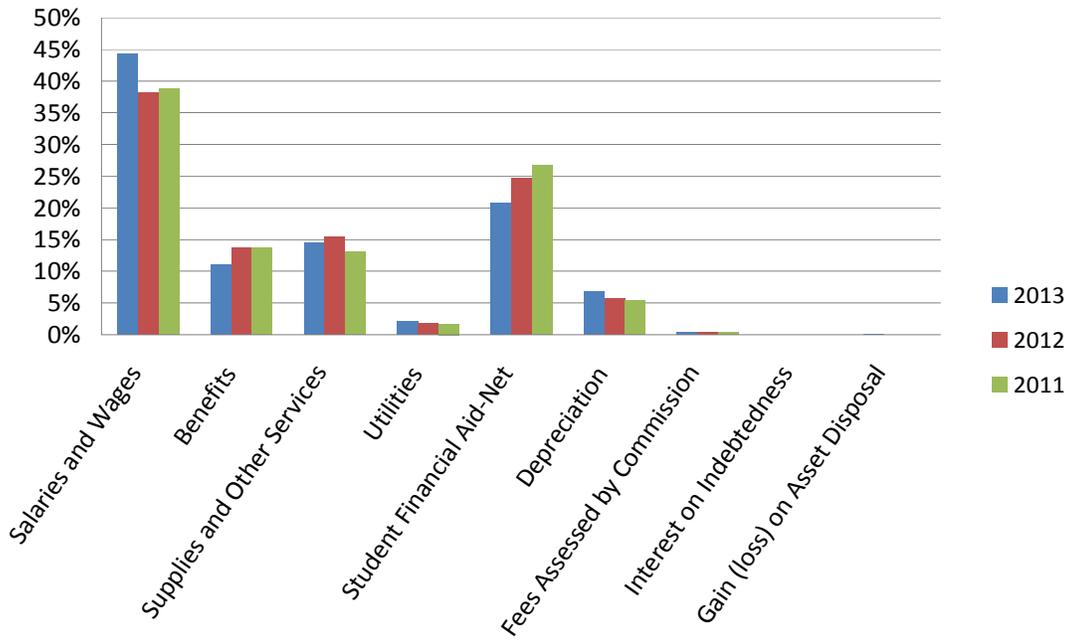
Major sources of revenue for the College consist of program and general. The graph illustrates the revenues by source and percentage based on the total revenue of \$21,035,541, \$25,060,613 and \$22,749,569, for the years ended 2013, 2012, and 2011 respectively.

Total Revenue for the Years Ended June 30, 2013, 2012, and 2011



The graph illustrates the operating expenses by natural classification, non-operating expenses, and percentage based on the total expenditures of \$17,476,547, \$20,130,986, and \$20,197,619 for the years ended 2013, 2012 and 2011, respectively.

Total Expenses for the Year Ended June 30, 2013, 2012, and 2011



Statements of Cash Flows

The Statements of Cash Flows provide information about the cash receipts, cash payments, and net change in cash resulting from the activities of the College during the year. This Statement helps users assess the College's ability to generate net cash flows, its ability to meet obligations as they come due, and its need for external financing.

The Statement of Cash Flows is divided into four parts:

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

Cash flows from non-capital financing activities. This section reflects the cash received and paid for non-operating, non-investing, and non-capital financing purposes.

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

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

Statements of Cash Flows
Fiscal Years Ended June 30

	2013	2012	2011	Change FY 13-12
Cash provided by (used in):				
Operating Activities	\$(10,914,076)	\$(11,776,643)	\$(12,078,739)	-7.32%
Noncapital Financing Activities	13,455,666	14,939,696	16,440,128	-9.93%
Capital Financing Activities	(5,249,509)	(1,553,938)	(1,665,555)	237.82%
Investing Activities	<u>24,614</u>	<u>16,391</u>	<u>26,914</u>	50.17%
Increase in Cash and Cash Equivalents	(2,683,305)	1,625,506	2,722,748	-265.08%
Cash and Cash Equivalents - beginning of year	<u>14,890,179</u>	<u>13,264,673</u>	<u>10,541,925</u>	12.25%
Cash and Cash Equivalents - end of year	<u>\$ 12,206,874</u>	<u>\$ 14,890,179</u>	<u>\$ 13,264,673</u>	-18.02%

Comments

The College generated negative cash flows which resulted in ending cash balance decrease of 18% for the fiscal year ended 2013. The decrease in 2013 is attributable to the use of cash in support of the building renovation projects on the Wheeling Campus. The 2013 decrease was further complicated by the reduction of Federal Pell funds in the amount of \$1.5 million or 21%. The 2012 increase in cash was supported by increased State Appropriations.

Capital Asset and Debt Activity

The College continued to invest in building improvements, equipment and other capital activity in FY 2013, financed by grants, bond proceeds, gifts and other College funds.

- During December 2009 the Higher Education Policy Commission (HEPC), on behalf of the Council for Community and Technical College Education, issued approximately \$78 million

in bonds which will be repaid from excess Lottery Funds. The College's share of the bond issuance is \$6 million, which was used to finance construction of an addition to the Weirton Redline building and is being used for renovations for the Applied Technology building and Student Union in Wheeling. Through June 30, 2013, the College's cumulative construction costs of \$5.9 million were paid on behalf of the College by HEPC from the bond proceeds for these projects.

- The College has met its debt service obligations to the HEPC.

Economic Outlook

WVNCC regional service area has a mixed economic future. Currently, Ohio, Wetzel and Marshall Counties in West Virginia have high employment and shortage of skilled workers for the existing jobs. Wetzel County in particular has seen job growth due to the migration of the Marcellus Shale industry in the region. The counties of Hancock, Brooke, and Tyler face economic slowdowns caused by heavy industry reductions and out migration. In all areas, high school population continues to decline while the elderly population is increasing. This is a formula that will produce negative economic issues for the region.

The competition for students also increased with the region's nine higher education institutions tapping a similar customer base. WVNCC is planning to outpace the other institutions by focusing on the traditional student market, expanding Developmental Education programs, creating a Physical Therapy Assistant program, and enhancing technical programs, especially Industrial Maintenance training. With funds provided through State initiatives, the College purchased a flexible space site in Wheeling and completed a major addition to its Weirton Campus for technical and nursing training. Finally, the College renovated a recently acquired building in part, to house a new Student Union. This space also houses a full retail Barnes and Noble bookstore which opened to College and Public use on July 15, 2013.

Another enrollment effort focuses on Northern's e-learning expansion. With the hiring of an Instructional Technologist, the College is committed to making a significant impact on e-learning in the region. The goal is to expand on-line courses by 25% within a year. In addition, the College will work with current faculty to offer 10% more hybrid courses. Within two years, it is expected Northern will have three complete programs on-line.

The last initiative focuses on simplifying the registration process for students by streamlining processes and providing early registration opportunities. The process has been changed to a fully automated process so that students may register on-line at their leisure.

WVNCC has worked diligently to establish contingency, deferred maintenance, and base budget funds. All department budgets have adequate funding, but a cautionary stance is still maintained within the budget. Increased efficiencies have permitted the College to reinvest in its infrastructure and personnel. Northern is expected to be financially stable going into the next fiscal year.

WEST VIRGINIA NORTHERN COMMUNITY COLLEGE

STATEMENTS OF NET POSITION AS OF JUNE 30, 2013 AND 2012

	2013	2012
ASSETS AND DEFERRED OUTFLOWS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 12,206,874	\$ 14,890,179
Accounts receivable—net	282,395	284,685
Interest receivable on State cash accounts	730	1,853
Due from Commission/Council	471,407	-
Loans to students—current portion	8,166	8,792
Prepaid expenses	<u>45</u>	<u>32,794</u>
Total current assets	<u>12,969,617</u>	<u>15,218,303</u>
NONCURRENT ASSETS		
Cash and cash equivalents	3,281,941	3,124,364
Loans to students, net of allowance of \$93,965 and \$91,657 in 2013 and 2012, respectively	17,026	18,368
Capital assets—net	<u>34,697,373</u>	<u>27,577,630</u>
Total noncurrent assets	<u>37,996,340</u>	<u>30,720,362</u>
TOTAL ASSETS	50,965,957	45,938,665
DEFERRED OUTFLOWS OF RESOURCES	<u>-</u>	<u>-</u>
TOTAL	<u>\$ 50,965,957</u>	<u>\$ 45,938,665</u>

(Continued)

WEST VIRGINIA NORTHERN COMMUNITY COLLEGE

STATEMENTS OF NET POSITION AS OF JUNE 30, 2013 AND 2012

	2013	2012
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	\$ 207,124	\$ 383,816
Due to State of West Virginia	24,195	12,766
Due to Commission/Council	103,172	27,291
Accrued liabilities	2,199,633	771,466
Unearned revenues	145,258	29,571
Capital leases—current portion	-	7,855
Compensated absences	<u>372,614</u>	<u>377,219</u>
 Total current liabilities	 <u>3,051,996</u>	 <u>1,609,984</u>
NONCURRENT LIABILITIES		
Advances from federal sponsors	46,573	54,621
Other post employment benefits liability	<u>2,717,936</u>	<u>2,683,602</u>
 Total noncurrent liabilities	 <u>2,764,509</u>	 <u>2,738,223</u>
 TOTAL LIABILITIES	 <u>5,816,505</u>	 <u>4,348,207</u>
DEFERRED INFLOWS OF RESOURCES		
TOTAL	<u>5,816,505</u>	<u>4,348,207</u>
NET POSITION		
Net investment in capital assets	34,697,373	27,569,775
Restricted for:		
Capital projects	3,260,559	3,096,903
Scholarships	64,722	48,566
Unrestricted	<u>7,126,798</u>	<u>10,875,214</u>
TOTAL NET POSITION	<u>\$ 45,149,452</u>	<u>\$ 41,590,458</u>

(Concluded)

See notes to financial statements

WEST VIRGINIA NORTHERN COMMUNITY COLLEGE

WEST VIRGINIA NORTHERN COMMUNITY COLLEGE FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION

AS OF JUNE 30, 2013 AND 2012

	2013	2012
ASSETS		
Cash	\$ 31,292	\$ 24,412
Accounts receivable	2,060	2,460
Notes receivable from West Virginia Northern Community College		7,855
Investments at fair value	3,107,072	2,702,287
Prepaid expenses	2,332	1,992
Other current assets	<u>9,369</u>	<u>1,591</u>
TOTAL	<u>\$ 3,152,125</u>	<u>\$ 2,740,597</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	\$ 24,507	\$ 5,574
Refundable advance	<u>6,358</u>	
Total liabilities	<u>30,865</u>	<u>5,574</u>
NET ASSETS:		
Unrestricted	514,049	426,195
Temporarily restricted	1,951,046	1,711,858
Permanently restricted	<u>656,165</u>	<u>596,970</u>
Total net assets	<u>3,121,260</u>	<u>2,735,023</u>
TOTAL	<u>\$ 3,152,125</u>	<u>\$ 2,740,597</u>

See notes to financial statements.

WEST VIRGINIA NORTHERN COMMUNITY COLLEGE

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

	2013	2012
OPERATING REVENUES:		
Student tuition and fees - net of scholarship allowance of \$3,120,148 and \$3,563,155 in 2013 and 2012, respectively	\$ 2,671,864	\$ 3,189,007
Contracts and grants:		
Federal	506,143	278,968
State	2,202,305	2,494,493
Private	100,699	197,187
Interest on student loans receivable	149	1,034
Sales and services of educational activities	171,106	190,274
Miscellaneous—net	<u>(2,430)</u>	<u>(3,477)</u>
 Total operating revenues	 <u>5,649,836</u>	 <u>6,347,486</u>
OPERATING EXPENSES:		
Salaries and wages	7,750,353	7,686,515
Benefits	1,922,235	2,763,379
Supplies and other services	2,536,476	3,120,620
Utilities	366,995	380,474
Student financial aid—scholarships and fellowships	3,629,320	4,961,092
Depreciation	1,197,489	1,136,892
Fees assessed by the Commission for operations	<u>73,540</u>	<u>80,676</u>
 Total operating expenses	 <u>17,476,408</u>	 <u>20,129,648</u>
 OPERATING LOSS	 <u>(11,826,572)</u>	 <u>(13,782,162)</u>

(Continued)

WEST VIRGINIA NORTHERN COMMUNITY COLLEGE

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

	2013	2012
NONOPERATING REVENUES (EXPENSES):		
State appropriations	\$ 7,893,643	\$ 7,858,495
Federal Pell grants	5,562,022	7,081,201
Loss on disposal of assets	(9,997)	(2,856)
Investment income	23,492	18,106
Interest on indebtedness	<u>(139)</u>	<u>(1,338)</u>
Net nonoperating revenues	<u>13,469,021</u>	<u>14,953,608</u>
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	<u>1,642,449</u>	<u>1,171,446</u>
PAYMENTS MADE AND EXPENSES INCURRED ON BEHALF OF COLLEGE	<u>1,916,545</u>	<u>3,758,181</u>
INCREASE IN NET POSITION	3,558,994	4,929,627
NET POSITION—Beginning of year	<u>41,590,458</u>	<u>36,660,831</u>
NET POSITION—End of year	<u>\$ 45,149,452</u>	<u>\$ 41,590,458</u>
See notes to financial statements		(Concluded)

WEST VIRGINIA NORTHERN COMMUNITY COLLEGE

WEST VIRGINIA NORTHERN COMMUNITY COLLEGE FOUNDATION, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUES:				
Grants and donations	\$ 32,581	\$ 329,936	\$ 59,195	\$ 421,712
Dividend and interest income	10,423	47,828		58,251
Special events fundraisers	\$55,790			
Less costs of direct benefits to donors	<u>(18,390)</u>	37,400		37,400
Gain on investment	32,793	150,667		183,460
Net assets released from restrictions—				
Satisfaction of program restrictions	<u>289,243</u>	<u>(289,243)</u>		
Total support and revenues	<u>402,440</u>	<u>239,188</u>	<u>59,195</u>	<u>700,823</u>
EXPENSES:				
WV Northern Community College support:				
Scholarships/Student Assistance	105,158			105,158
Institutional Support	149,045			149,045
Fundraising	18,161			18,161
Management and general	<u>42,222</u>			<u>42,222</u>
Total expenses	<u>314,586</u>			<u>314,586</u>
CHANGE IN NET ASSETS	87,854	239,188	59,195	386,237
NET ASSETS—Beginning of year	<u>426,195</u>	<u>1,711,858</u>	<u>596,970</u>	<u>2,735,023</u>
NET ASSETS—End of year	<u>\$ 514,049</u>	<u>\$ 1,951,046</u>	<u>\$ 656,165</u>	<u>\$ 3,121,260</u>

See notes to financial statements.

WEST VIRGINIA NORTHERN COMMUNITY COLLEGE

WEST VIRGINIA NORTHERN COMMUNITY COLLEGE FOUNDATION, INC. STATEMENTS OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUES:				
Grants and donations	\$ 17,422	\$ 400,097	\$ 50,490	\$ 468,009
Dividend and interest income	9,022	39,314		48,336
Special events fundraisers	\$ 71,633			
Less costs of direct benefits to donors	<u>(21,438)</u>	50,195		50,195
Investment gain	6,721	35,989		42,710
Net assets released from restrictions—				
Satisfaction of program restrictions	<u>261,818</u>	<u>(261,818)</u>		
Total support and revenues	<u>345,178</u>	<u>213,582</u>	<u>50,490</u>	<u>609,250</u>
EXPENSES:				
WV Northern Community College support:				
Scholarships/Student Assistance	3,146			3,146
Institutional Support	229,245			229,245
Fundraising	34,307			34,307
Management and general	<u>33,259</u>			<u>33,259</u>
Total expenses	<u>299,957</u>			<u>299,957</u>
CHANGE IN NET ASSETS	45,221	213,582	50,490	309,293
NET ASSETS—Beginning of year	<u>380,974</u>	<u>1,498,276</u>	<u>546,480</u>	<u>2,425,730</u>
NET ASSETS—End of year	<u>\$ 426,195</u>	<u>\$ 1,711,858</u>	<u>\$ 596,970</u>	<u>\$ 2,735,023</u>

See notes to financial statements.

WEST VIRGINIA NORTHERN COMMUNITY COLLEGE

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

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	\$ 2,652,464	\$ 3,219,164
Contracts and grants	2,441,890	3,030,536
Payments to and on behalf of employees	(9,544,932)	(9,648,531)
Payments to suppliers	(2,538,675)	(3,160,171)
Payments to utilities	(386,966)	(367,470)
Payments for scholarships and fellowships	(3,629,320)	(4,961,092)
Loans issued to students	(5,129)	(5,000)
Collection of loans to students	4,290	2,131
Sales and service of educational activities	171,106	190,274
Fees assessed by the Commission for operations	(73,540)	(80,676)
Other receipts/(payments)—net	<u>(5,264)</u>	<u>4,192</u>
Net cash used in operating activities	<u>(10,914,076)</u>	<u>(11,776,643)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	7,893,643	7,858,495
Federal Pell grants	5,562,023	7,081,201
Federal direct lending receipts	3,878,320	5,230,996
Federal direct lending payments	<u>(3,878,320)</u>	<u>(5,230,996)</u>
Net cash provided by noncapital financing activities	<u>13,455,666</u>	<u>14,939,696</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Purchases of capital assets	(5,081,682)	(1,336,512)
Principal paid on leases	(7,854)	(15,023)
Interest paid on leases	(138)	(963)
Principal payment on debt obligation due Commission	-	(13,241)
Interest paid on obligation to Commission	-	(529)
Fees assessed by Commission	(2,258)	(2,258)
Withdrawals from (deposits to) noncurrent cash and cash equivalents	<u>(157,577)</u>	<u>(185,412)</u>
Net cash used in capital financing activities	<u>(5,249,509)</u>	<u>(1,553,938)</u>
CASH FLOWS FROM INVESTING ACTIVITY - Interest on investments	<u>24,614</u>	<u>16,391</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,683,305)	1,625,506
CASH AND CASH EQUIVALENTS—Beginning of year	<u>14,890,179</u>	<u>13,264,673</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 12,206,874</u>	<u>\$ 14,890,179</u>

WEST VIRGINIA NORTHERN COMMUNITY COLLEGE

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

	2013	2012
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (11,826,572)	\$ (13,782,162)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	1,197,489	1,136,892
Changes in assets and liabilities:		
Accounts receivables—net	2,290	49,414
Interest receivable from State cash accounts	1,123	(1,713)
Due from Commission/Council	(440,000)	35
Loans to students—net	1,968	(1,515)
Prepaid expenses	32,749	(32,789)
Accounts payable	(213,313)	(42,083)
Due to State of West Virginia	11,429	(838)
Due to Commission/Council	75,881	27,257
Accrued liabilities	97,926	8,594
Unearned revenue	115,687	749
Compensated absences	(4,605)	1,721
Other post employment benefits	34,334	852,800
Advances from federal sponsors	(8,048)	2,868
Other	7,586	4,127
	<u> </u>	<u> </u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (10,914,076)</u>	<u>\$ (11,776,643)</u>
NONCASH TRANSACTIONS:		
Capital assets purchased through accounts payable and accrued liabilities	<u>\$ 1,485,028</u>	<u>\$ 148,019</u>

See notes to financial statements.

WEST VIRGINIA NORTHERN COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2013 and 2012

1. ORGANIZATION

West Virginia Northern Community College (the "College") is governed by the West Virginia Northern Community College Board of Governors (the "Board"). The Board was established by Senate Bill 448 ("S.B. 448").

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The accompanying financial statements present all funds under the authority of the College. The basic criterion for inclusion in the accompanying financial statements is the exercise of oversight responsibility derived from the College's ability to significantly influence operations and accountability for fiscal matters of related entities. A related alumni association of the College is not part of the College reporting entity and is not included in the accompanying financial statements, as the College has no ability to designate management, cannot significantly influence operations of this entity, and is not accountable for its fiscal matters under GASB.

In accordance with GASB, the audited financial statements of West Virginia Northern Community College Foundation, Incorporated (the "Foundation") are discretely presented here with the College's financial statements for the fiscal years ended June 30, 2013 and 2012. The Foundation is a private nonprofit organization that reports under FASB standards. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation

features. No modifications have been made to the Foundation's audited financial information as it is presented herein (see also Notes 12 and 17).

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

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

The West Virginia Legislature (the "State Legislature"), as a regulatory body outside the reporting entity, has restricted the use of certain funds, by Article 10, *Fees and Other Money Collected at State Institutions of Higher Education* of the West Virginia State Code. House Bill 101 passed in March 2004 simplified the tuition and fee restrictions to auxiliaries and capital items. These activities are fundamental to the normal ongoing operations of the institution. These restrictions are subject to change by future actions of the West Virginia Legislature.

- *Restricted Net Position, Nonexpendable*—This includes endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. The College does not have any restricted nonexpendable net position at June 30, 2013 and 2012.
- *Unrestricted Net Position*—This represents resources derived from student tuition and fees, state appropriations, and sales and services of educational activities. These resources are used for transactions relating to the educational and general operations of the College, and may be used at the discretion of the Board to meet current expenses for any purpose.

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

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

Cash and cash equivalents balances on deposit with the State of West Virginia Treasurer's Office (the "State Treasurer") are pooled by the State Treasurer with other available funds of the State for investment purposes by the West Virginia Board of Treasury Investments (BTI). These funds are transferred to the BTI, and the BTI is directed by the State Treasurer to invest the funds in specific external investment pools in accordance with West Virginia Code, policies set by the BTI, provisions of bond indentures, and trust agreements when applicable. Balances in the investment pools are recorded at fair value or amortized cost, which approximates fair value. Fair value is determined by a third-party pricing service based on asset portfolio pricing models and other sources, in accordance with GASB. The BTI was established by the State Legislature and is subject to oversight by the State Legislature.

Fair value and investment income are allocated to participants in the pools based upon the funds that have been invested. The amounts on deposit are available for immediate withdrawal or on the first day of each month for the WV Short Term Bond Pool and, accordingly, are presented as cash and cash equivalents in the accompanying financial statements.

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

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

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

Noncurrent Cash, Cash Equivalents and Investments—Cash, cash equivalents and investments that are (1) externally restricted to make debt service payments and long-term loans to students, or to maintain sinking or reserve funds, or (2) to purchase capital or other noncurrent assets are classified as a noncurrent asset in the 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 value at the date of donation in the case of gifts. If material, interest on related borrowing, net of interest earnings on invested proceeds, is capitalized during the period of construction. No interest was capitalized as part of the cost of assets for the years ended June 30, 2013 and 2012. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings and infrastructure, 15 years for land improvements, 7 years for library books, and 3 to 12 years for furniture and equipment. The College capitalizes all purchases of library books and uses a capitalization threshold of \$1,000 for other capital assets. The accompanying financial statements reflect all adjustments required by GASB.

Unearned Revenues—Revenues for programs or activities to be conducted primarily in the next fiscal year are classified as unearned revenues, including items such as application, orientation, and tuition fees. Financial aid and other deposits are separately classified as deposits.

Compensated Absences and Other Postemployment Benefits — GASB provides standards for the measurement, recognition, and display of other postemployment benefit (OPEB) expenditures, assets, and liabilities, including applicable note disclosures and required supplementary information. During fiscal year 2006, House Bill No. 4654 was established to create a trust fund for postemployment benefits for the State. The College is required to participate in this multiple-employer, cost-sharing plan, the West Virginia Retiree Health Benefit Trust Fund, sponsored by the State. Details regarding this plan and its stand-alone financial statements can be obtained by contacting the West Virginia Public Employees Insurance Agency (PEIA), 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 College's full-time employees earn up to two vacation leave days for each month of service and are entitled to compensation for accumulated, unpaid vacation leave upon termination. Full-time employees also earn 1 1/2 sick-leave days for each month of service and are entitled to extend their health or life insurance coverage upon retirement in lieu of accumulated, unpaid sick leave. Generally, two days of accrued sick leave extend health insurance for one month of single coverage and three days extend health insurance for one month of family coverage. For employees hired after 1988 or who were hired before 1988 but did not choose such coverage until after 1988 but before July 1, 2001, the employee shares in the cost of the extended benefit coverage to the extent of 50% of the premium required for the extended coverage. Employees hired July 1, 2001, or later will no longer receive sick-leave credit toward insurance premiums when they retire. Additionally, all retirees have the option to purchase continued coverage regardless of their eligibility for premium credits. This liability is now provided for under the multiple-employer, cost-sharing plan sponsored by the State.

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

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

Deferred Outflows of Resources — Consumption of net position by the College that is applicable to a future fiscal year is reported as a deferred outflow of resources on the statement of net position. The College does not have any items that qualify for reporting in this category.

Deferred Inflows of Resources — An acquisition of net position by the College that is applicable to a future fiscal year is reported as a deferred inflow of resources on the statement of net position. The College does not have any items that qualify for reporting in this category.

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

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

In addition, through its participation in the PEIA and a third-party insurer, the College has obtained health, life, prescription drug coverage, and coverage for job-related injuries for its employees. In

exchange for payment of premiums PEIA and the third-party insurer, the College has transferred its risks related to health, life, prescription drug coverage, and job-related injuries.

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

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

Use of Restricted Net Position—The College has not adopted a formal policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available. Generally, the College attempts to utilize restricted net position first when practicable. The College had designated net position of \$2 million as of June 30, 2012 for capital projects. This designation was spent on capital improvements in the year ending June 30, 2013.

Federal Financial Assistance Program—The College makes loans to students under the Federal Direct Student Loan Program. Under this program, the U.S. Department of Education makes interest subsidized and nonsubsidized loans directly to students through institutions like the College. Direct student loan receivables are not included in the College's accompanying statements of net position since the loans are repayable directly to the U.S. Department of Education. In 2013 and 2012, the College received and disbursed approximately \$3.9 and \$5.2 million, respectively, under the Federal Direct Student Loan Program on behalf of the U.S. Department of Education, which is not included as revenue and expense on the statements of revenues, expenses, and changes in net position.

The College also distributes other student financial assistance funds on behalf of the federal government to students under the federal Pell Grant, Supplemental Educational Opportunity Grant, and College Work Study programs. The activity of these programs is recorded in the accompanying financial statements. In 2013 and 2012, the College received and disbursed approximately \$5.7 and \$7.2 million, respectively, under these federal student aid programs.

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

Financial aid to students is reported in the financial statements under the alternative method as prescribed by the National Association of College and College Business Officers. Certain aid such as loans, funds provided to students as awarded by third parties, and Federal Direct Lending is accounted for as a third party payment (credited to the student's account as if the student made the payment). All other aid is reflected in the financial statements as operating expenses, or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method, these amounts are computed

on a College basis by allocating the cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third-party aid.

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

Service Concession Arrangements—The College has service concession arrangements for the operation of bookstores and vending food services. Significant renovations made to College facilities by service concession vendors are capitalized and revenues are deferred and accreted over the life of the contract.

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

Cash Flows—Any cash and cash equivalents escrowed, restricted for noncurrent assets, or in funded reserves have not been included as cash and cash equivalents for the cash flow statement purposes.

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

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

Newly Adopted Statements Issued by the Government Accounting Standards Board — The College has adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The objective of this statement is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in the statement of financial position and related disclosures. The adoption of this statement did not have a material impact on the financial statements.

The College has early adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The adoption of this statement did not have a material impact on the financial statements.

The College has early adopted GASB Statement No. 66, *Technical Corrections — 2012: An Amendment of GASB Statements No. 10 and No. 64*. This statement improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November, 1989 FASB and AICPA Pronouncements*. The adoption of this statement did not have a material impact on the financial statements.

Recent Statements Issued by the Governmental Accounting Standards Board— The GASB has issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective for fiscal years beginning

after June 15, 2014. This statement enhances the information provided in the financial statements regarding the effects of pension-related transactions, the pension obligations of the entity, and the resources available to satisfy those obligations. The College has not yet determined the effect that the adoption of GASB Statement No. 68 may have on its financial statements.

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

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

3. CASH AND CASH EQUIVALENTS

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

2013	Current	Noncurrent	Total
State Treasurer	\$ 11,877,079	\$ 3,260,559	\$ 15,137,638
Bank	329,795	21,382	351,177
	<u>\$ 12,206,874</u>	<u>\$ 3,281,941</u>	<u>\$ 15,488,815</u>
2012	Current	Noncurrent	Total
State Treasurer	\$ 14,440,607	\$ 3,096,903	\$ 17,537,510
Bank	449,572	27,461	477,033
	<u>\$ 14,890,179</u>	<u>\$ 3,124,364</u>	<u>\$ 18,014,543</u>

Amounts held by the State Treasurer include \$3,260,559 and \$3,096,903 at June 30, 2013 and 2012, respectively, restricted for capital assets. These amounts were collateralized by financial instruments held by the State's agent.

The combined carrying amount of cash in the bank was \$329,795 and \$477,033, as compared with the combined bank balance of \$351,848 and \$477,127 at June 30, 2013 and 2012, respectively. The difference is primarily caused by items in transit and outstanding checks. The bank balances were covered by federal depository insurance as noted below or collateralized by securities held by the State's

agent. Regarding federal depository insurance, bank balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000.

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

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

WV Money Market Pool — Credit Risk — Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. For the years ended June 30, 2013 and 2012, the WV Money Market Pool has been rated AAAM by Standard & Poor’s. A Fund rated “AAAM” has extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market, and/or liquidity risks. “AAAM” is the highest principal stability fund rating assigned by Standard & Poor’s. As this pool has been rated, specific information on the credit ratings of the underlying investments of the pool have not been provided.

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

At June 30, 2013 and 2012, the WV Money Market Pool investments had a total carrying value of \$2,495,868,000 and \$2,786,968,000, respectively, of which the College’s ownership represents 0.56% and 0.55%, respectively.

WV Government Money Market Pool — Credit Risk — For the years ended June 30, 2013 and 2012, the WV Government Money Market Pool has been rated AAAM by Standard & Poor’s. A Fund rated “AAAM” has extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market, and/or liquidity risks. “AAAM” is the highest principal stability fund rating assigned by Standard & Poor’s. As this pool has been rated, specific information on the credit ratings of the underlying investments of the pool have not been provided.

The BTI limits the exposure to credit risk in the WV Government Money Market Pool by limiting the pool to U.S. Treasury issues, U.S. government agency issues, money market funds investing in U.S. Treasury issues and U.S. government agency issues, and repurchase agreements collateralized by U.S. Treasury issues and U.S. government agency issues. The pool must have at least 15% of its assets in U.S. Treasury issues.

At June 30, 2013 and 2012, the WV Government Money Market Pool investments had a total carrying value of \$287,184,000 and \$299,629,000, respectively, of which the College's ownership represents 0.03% and 0.04%, 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):

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

* NR = Not Rated

** The securities were not in compliance with BTI Investment Policy at June 30, 2013 and/or 2012. The securities were in compliance when originally acquired, but were subsequently downgraded. BTI management and its investment advisors have determined that it is in the best interests of the participants to hold the securities for optimal outcome.

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

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

At June 30, 2013 and 2012, the College's ownership represents 0.17% and 0.41%, respectively, of these amounts held by the BTI.

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

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

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

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

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

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

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

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

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

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

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

4. ACCOUNTS RECEIVABLE

Accounts receivable 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 \$709,498 and \$583,863, respectively	\$ 256,095	\$ 266,720
Third party contracts receivable	<u>26,300</u>	<u>17,965</u>
	<u>\$ 282,395</u>	<u>\$ 284,685</u>

5. CAPITAL ASSETS

Capital asset transactions for the years ended June 30, 2013 and 2012 are as follows:

	<u>2013</u>			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 1,412,926	\$ -	\$ -	\$ 1,412,926
Construction in Progress	<u>4,843,476</u>	<u>7,638,708</u>	<u>(2,915,532)</u>	<u>9,566,652</u>
Total capital assets not being depreciated	<u>\$ 6,256,402</u>	<u>\$ 7,638,708</u>	<u>\$ (2,915,532)</u>	<u>\$ 10,979,578</u>
Other capital assets:				
Land improvements	\$ 738,067	\$ -	\$ -	\$ 738,067
Infrastructure	987,672	113,213	-	1,100,885
Buildings	26,279,660	2,254,544	-	28,534,204
Equipment	4,686,993	1,218,911	(228,670)	5,677,234
Library books	<u>632,061</u>	<u>17,385</u>	<u>(25,368)</u>	<u>624,078</u>
Total other capital assets	<u>33,324,453</u>	<u>3,604,053</u>	<u>(254,038)</u>	<u>36,674,468</u>
Less accumulated depreciation for:				
Land improvements	(366,524)	(43,333)	-	(409,857)
Infrastructure	(837,500)	(30,939)	-	(868,439)
Buildings	(7,443,962)	(583,719)	-	(8,027,681)
Equipment	(2,818,666)	(514,186)	218,673	(3,114,179)
Library books	<u>(536,573)</u>	<u>(25,312)</u>	<u>25,368</u>	<u>(536,517)</u>
Total accumulated depreciation	<u>(12,003,225)</u>	<u>(1,197,489)</u>	<u>244,041</u>	<u>(12,956,673)</u>
Other capital assets—net	<u>\$ 21,321,228</u>	<u>\$ 2,406,564</u>	<u>\$ (9,997)</u>	<u>\$ 23,717,795</u>
Capital asset summary:				
Capital assets not being depreciated	\$ 6,256,402	\$ 7,638,708	\$ (2,915,532)	\$ 10,979,578
Other capital assets	<u>33,324,453</u>	<u>3,604,053</u>	<u>(254,038)</u>	<u>36,674,468</u>
Total cost of capital assets	39,580,855	11,242,761	(3,169,570)	47,654,046
Less accumulated depreciation	<u>(12,003,225)</u>	<u>(1,197,489)</u>	<u>244,041</u>	<u>(12,956,673)</u>
Capital assets—net	<u>\$ 27,577,630</u>	<u>\$ 10,045,272</u>	<u>\$ (2,925,529)</u>	<u>\$ 34,697,373</u>

	2012			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	\$ 1,412,926	\$ -	\$ -	\$ 1,412,926
Construction in Progress	367,900	4,548,559	(72,983)	4,843,476
Total capital assets not being depreciated	<u>\$ 1,780,826</u>	<u>\$ 4,548,559</u>	<u>\$ (72,983)</u>	<u>\$ 6,256,402</u>
Other capital assets:				
Land improvements	\$ 738,067	\$ -	\$ -	\$ 738,067
Infrastructure	974,759	12,913	-	987,672
Buildings	26,205,293	74,367	-	26,279,660
Equipment	4,415,779	469,384	(198,170)	4,686,993
Library books	901,548	32,600	(302,087)	632,061
Total other capital assets	<u>33,235,446</u>	<u>589,264</u>	<u>(500,257)</u>	<u>33,324,453</u>
Less accumulated depreciation for:				
Land improvements	(322,942)	(43,582)	-	(366,524)
Infrastructure	(808,040)	(29,460)	-	(837,500)
Buildings	(6,903,083)	(540,879)	-	(7,443,962)
Equipment	(2,515,697)	(498,283)	195,314	(2,818,666)
Library books	(813,972)	(24,688)	302,087	(536,573)
Total accumulated depreciation	<u>(11,363,734)</u>	<u>(1,136,892)</u>	<u>497,401</u>	<u>(12,003,225)</u>
Other capital assets—net	<u>\$ 21,871,712</u>	<u>\$ (547,628)</u>	<u>\$ (2,856)</u>	<u>\$ 21,321,228</u>
Capital asset summary:				
Capital assets not being depreciated	\$ 1,780,826	\$ 4,548,559	\$ (72,983)	\$ 6,256,402
Other capital assets	33,235,446	589,264	(500,257)	33,324,453
Total cost of capital assets	35,016,272	5,137,823	(573,240)	39,580,855
Less accumulated depreciation	<u>(11,363,734)</u>	<u>(1,136,892)</u>	<u>497,401</u>	<u>(12,003,225)</u>
Capital assets—net	<u>\$ 23,652,538</u>	<u>\$ 4,000,931</u>	<u>\$ (75,839)</u>	<u>\$ 27,577,630</u>

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

The College has construction commitments of approximately \$333,550 as of June 30, 2013.

6. LONG-TERM LIABILITIES

Long-term obligation transactions for the College for the year ended June 30, 2013 and 2012 are as follows:

	2013				
	Beginning Balance	Additions	Reductions	Ending Balance	
Advances from federal sponsors	\$ 54,621	\$ -	\$ 8,048	\$ 46,573	
OPEB Liability	2,683,602	313,383	279,049	2,717,936	
Capital leases payable	7,855	-	7,855	-	
Total long-term liabilities	\$ 2,746,078	\$ 313,383	\$ 294,952	\$ 2,764,509	

	2012				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Advances from federal sponsors	\$ 51,753	\$ 2,868	\$ -	\$ 54,621	
OPEB Liability	1,830,802	1,119,963	267,163	2,683,602	
Capital leases payable	22,878		15,023	7,855	\$ 7,855
Debt obligation to Commission	13,241	-	13,241	-	
Total long-term liabilities	\$ 1,918,674	\$ 1,122,831	\$ 295,427	\$ 2,746,078	

7. LEASE OBLIGATIONS

The College leases equipment and classroom space under multiple operating lease agreements. Aggregate payments under these agreements approximated \$163,925 for each of the years ended June 30, 2013 and 2012. Future minimum rental commitments as of June 30, 2013, are as follows:

Year Ending June 30	
2014	\$ 97,925
2015	45,963
	-
	<u>\$ 143,888</u>

Included in the financial statements is \$10,265 of lease expense for usage and maintenance fees for a library automation system provided by an affiliate for each of the years ended June 30, 2013 and 2012.

The College also leased land under a capital lease agreement. The final payment on this capital lease was made in December 2012. There are no future minimum capital lease payments at June 30, 2013.

8. OTHER POST EMPLOYMENT BENEFITS

In accordance with GASB, OPEB costs are accrued based upon invoices received from PEIA based upon actuarial determined amounts. At June 30, 2013, 2012, and 2011, the noncurrent liability related to OPEB costs was \$2,717,936, \$2,683,602, and \$1,830,802, respectively. The total of OPEB expense incurred and the amount of OPEB expense that relates to retirees was \$313,383 and \$279,049, respectively, during 2013, or 89%, \$1,119,963 and \$266,995, respectively, during 2012, or 24% and

\$1,176,238 and \$264,874, respectively, during 2011, or 23%. As of and for the years ended June 30, 2013, 2012, and 2011, there were 22, 14, and 19, respectively, retirees receiving these benefits.

9. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

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

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

The Commission has the authority to assess each public institution of higher education for payment of debt service on these system bonds. The education and general capital fees (previously tuition and registration fees) of the members of the former State College System are generally pledged as collateral for the Commission’s bond indebtedness. Student fees collected by the institution in excess of the debt service allocation are retained by the institution for internal funding of capital projects and maintenance. Although the bonds remain as capital obligation of the Commission, an estimate of the obligation of each institution is reported as a long-term payable by each institution and as a receivable by the Commission, effective as of June 30, 2002. In 2012 the College paid \$13,241 against the debt obligation. The amounts due to Commission at June 30, 2012 were paid in full.

During December 2009, the Commission, on behalf of the Council, issued \$78,295,000 of Community and Technical Colleges Improvement Revenue Bonds, 2009 Series A (the “2009 Bonds”). The proceeds of the 2009 Bonds will be used to finance the acquisition, construction, equipping, or improvement of community and technical college facilities in West Virginia. The bond projects listed in the bond offering for the 2009 Bonds propose bond funding of \$6,000,000 for the College. As of June 30, 2013, \$5,966,285 of such bond proceeds has been expended on behalf of the College. State lottery funds will be used to repay the debt.

10. UNRESTRICTED NET POSITION

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

	2013	2012
Designated for repairs and capital improvements	\$	\$ 2,000,000
Undesignated	<u>9,844,734</u>	<u>11,558,816</u>
Total unrestricted net assets before OPEB liability	9,844,734	13,558,816
Less: OPEB liability	<u>2,717,936</u>	<u>2,683,602</u>
Total unrestricted net position	<u>\$ 7,126,798</u>	<u>\$ 10,875,214</u>

11. RETIREMENT PLANS

Substantially all full-time employees of the College participate in either the West Virginia State Teachers' Retirement System (the "STRS") or the Teachers' Insurance and Annuities Association – College Retirement Equities Fund (the "TIAA-CREF"). Previously, upon full-time employment, all employees were required to make an irrevocable selection between the STRS and TIAA-CREF. Effective July 1, 1991, the STRS was closed to new participants. Current participants in the STRS are permitted to make a one-time election to cease their participation in that plan and commence contributions to the West Virginia Teachers' Defined Contribution Plan. Contributions to and participation in the West Virginia Teachers' Defined Contribution Plan by College employees have not been significant to date.

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

The STRS is a cost-sharing, defined-benefit public employee retirement system. Employer and employee contribution rates are established annually by the State Legislature. The contractual maximum contribution rate is 15%. The College's contributions to the STRS were at the rate of 15% of each enrolled employee's total annual salaries for the years ended June 30, 2013 and 2012. Required employee contributions were at the rate of 6% of total annual salaries 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 5 years salary out of the last 15 years) multiplied by the number of years of service.

Total contributions to the STRS for the years ended June 30, 2013, 2012, and 2011 were \$101,029, \$102,766, and \$98,857, respectively, which consisted of \$72,164, \$73,404, and \$70,612, from the College in 2013, 2012, and 2011, respectively, and \$28,865, \$29,362, and \$28,245, from the covered employees in 2013, 2012 and 2011, respectively.

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

The TIAA-CREF and Educators Money are defined contribution benefit plans 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 College matches the employees' 6% contribution. Contributions are immediately and fully vested. In addition, employees may elect to make additional contributions to TIAA-CREF and Educators Money, which are not matched by the College.

Total contributions to the TIAA-CREF for the years ended June 30, 2013, 2012, and 2011 were \$669,012, \$656,760, and \$652,364, respectively, which consisted of equal contributions from the College and covered employees of \$334,506 in 2013, \$328,390 in 2012, and \$326,182 in 2011.

Total contributions to Educators Money for the years ended June 30, 2013, 2012, and 2011 were \$22,368, \$22,192, and \$17,992, respectively, which consisted of contributions of \$11,184, \$11,096, and \$8,996 from the College in 2013, 2012 and 2011, respectively, and \$11,184, \$11,096, and \$8,996, from the covered employees in 2013, 2012 and 2011, respectively.

The College's total payroll for the years ended June 30, 2013, 2012 and 2011 was \$7,750,353, \$7,686,515 and \$7,843,000, respectively; total covered employees' salaries in the STRS, TIAA-CREF, and Educators Money were \$481,089, \$5,654,003, \$186,393, and \$489,361, \$5,570,407, \$184,945, and \$470,749, \$5,436,364, \$149,929, in 2013, 2012 and 2011, respectively.

12. FOUNDATION

The West Virginia Northern Community College Foundation, Incorporated is a separate nonprofit organization incorporated in the State and has as its mission "...seeks, receives and manages private funds to increase the College's capabilities in the areas of institutional development, professional development, capital facilities and equipment, and financial assistance to students." Oversight of the Foundation is the responsibility of a separate and independently elected Board of Trustees not otherwise affiliated with the College. In carrying out its responsibilities, the Board of Trustees of the Foundation oversees management, forms policy, and maintains fiscal accountability over funds administered by the Foundation. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, which the Foundation holds and invests, is restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the College, the Foundation is considered a component unit of the College and is therefore discretely presented with the College's financial statements in accordance with GASB. Based on the Foundation's audited financial statements as of June 30, 2013 and 2012, the Foundation's net assets (including unrealized gains) totaled \$3,121,260 and \$2,735,023, respectively. Complete financial statements for the Foundation can be obtained from the Foundation office located in the College B&O Building, Room 122 at 1704 Market St., Wheeling, WV 26003.

During the years ended June 30, 2013 and 2012, the Foundation contributed \$254,203 and \$232,391, respectively, to the College for scholarships, capital improvements, and institutional support.

13. ALUMNI ASSOCIATION (UNAUDITED)

The College has a separately incorporated affiliated organization, the Alumni Association. Oversight responsibility for this entity rests with an independent board and management not otherwise affiliated with the College. Accordingly, the financial statements of this organization are not included in the College's accompanying financial statements under the blended component requirements. They are not included in the College's accompanying financial statements under directly presented component unit requirements as, they (1) are not material or (2) have dual purposes (i.e. not entirely or almost entirely for the benefit of the College).

14. CONTINGENCIES

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

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

The College owns various buildings, which are known to contain asbestos. The College is not required by federal, state or local law to remove the asbestos from its buildings. The College is required by

federal environmental, health and safety regulations to manage the presence of asbestos in its buildings in a safe manner. The College addresses its responsibility to manage the presence of asbestos in its buildings on a case-by-case basis. Significant problems of dangerous asbestos conditions are abated, as the condition becomes known. The College also addresses the presence of asbestos as building renovation or demolition projects are undertaken and through asbestos operation and maintenance programs directed at containing, managing or operating with the asbestos in a safe manner.

15. SERVICE CONCESSION ARRANGEMENTS

The College has adopted GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The College has identified two 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 with AVI Food Systems and Barnes & Noble College Booksellers, Inc. The management of the College entered into these agreements to improve the quality of the services to students while increasing the revenues from these operations.

In the Agreement with AVI Food Systems (“AVI”) that was effective on April 1, 2008, the College granted to AVI the exclusive right to operate and provide vending services on the College’s three campus locations. AVI provides manual hot and cold food and beverages, vended food and snacks, and catering for occasional special events. The contract is for a period of two years and four months with two additional one-year extension options. On August 1, 2012 the contract expired. AVI continues to provide vending services on a month to month basis under the same contract terms. AVI provides vendor contract revenues to the College based on the contractual agreement. The vendor contract revenue from AVI in fiscal years 2013 and 2012 were \$12,977 and \$16,023, respectively. AVI also provides \$2,000 annually to the College during the term of the agreement for student scholarships or in-kind goods and services.

The Bookstore Operating Agreement was effective on August 1, 2010, between the College and Barnes & Noble College Booksellers, Inc. (“B&N”). The Agreement is for B&N to operate bookstores on the College’s three campus locations. The contract is for a period of five years and may be renewed if both parties agree for an additional five year period. B&N will cover the cost of bookstore capital improvements up to \$240,000 over the term of the Agreement. Construction of a new Student Union/Bookstore was in progress at June 30, 2013. In addition, B&N pays commission to the College based on the contractual agreement. The College shares payroll expenses of \$10,000 in the New Martinsville campus Bookstore by B&N reducing the last commission check payable to the College for the fiscal year. B&N provided vendor contract revenues to the College in fiscal years 2013 and 2012 in the amount of \$124,306 and \$136,702, respectively. B&N provides \$2,000 annually for textbook scholarships and \$1,000 annually for the Presidential Scholarship to the College during the term of the agreement for student scholarships. B&N also provides \$1,000 annually for the West Virginia Northern Community College Foundation, Inc.

16. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

For the year 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	Fees Assessed by the Commission	Total
Instruction	\$ 3,662,463	\$ 815,960	\$ 1,545,216	\$ 46,436	\$ -	\$ -	\$ -	\$ 6,070,075
Public service	122,219	21,777	19,881					163,877
Academic support	554,437	119,891	124,855	41,982				841,165
Student services	723,635	202,857	96,513					1,023,005
General institutional support	2,289,620	594,455	653,183	118,082				3,655,340
Operations and maintenance of plant	397,979	167,295	96,828	160,495				822,597
Student financial aid					3,629,320			3,629,320
Depreciation						1,197,489		1,197,489
Other							73,540	73,540
Total	\$ 7,750,353	\$1,922,235	\$ 2,536,476	\$ 366,995	\$3,629,320	\$1,197,489	\$ 73,540	\$17,476,408

	2012							
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Fees Assessed by the Commission	Total
Instruction	\$ 4,047,124	\$1,176,568	\$ 1,149,044	\$ 44,096	\$	\$	\$ -	\$ 6,416,832
Public service	301,599	43,930	25,961					371,490
Academic support	490,779	148,773	210,779	46,409				896,740
Student services	773,785	342,745	87,878					1,204,408
General institutional support	1,684,364	796,844	1,143,928	117,932				3,743,068
Operations and maintenance of plant	388,864	254,519	503,030	172,037				1,318,450
Student financial aid					4,961,092			4,961,092
Depreciation						1,136,892		1,136,892
Other							80,676	80,676
Total	\$ 7,686,515	\$2,763,379	\$ 3,120,620	\$ 380,474	\$4,961,092	\$1,136,892	\$ 80,676	\$20,129,648

17. COMPONENT UNIT DISCLOSURES (FOUNDATION)

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

NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING

Nature of Activities - West Virginia Northern Community College Foundation, Inc. (the "Foundation") is a not-for-profit corporation organized under the laws of the State of West Virginia. The Foundation is classified as exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Foundation was organized to support and assist in the development and growth of West Virginia Northern Community College ("the College") for all aspects of its programs and services. The Foundation's mission "...seeks, receives and manages private funds to increase the College's capabilities in the areas of institutional development, professional development, capital facilities and equipment, and financial assistance to students." Oversight of the Foundation is the responsibility of a separate and independently elected Board of Trustees not otherwise affiliated with the College. The President of the College is a non-voting member of the Board of Trustees. In carrying out its responsibilities, the Board of Trustees of the Foundation oversees management, forms policy and maintains fiscal accountability over funds administered by the Foundation. Although West Virginia Northern Community College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, which the Foundation holds and invests, is restricted to the activities of the College by the donors. During the years ended June 30, 2013 and 2012, the Foundation contributed \$105,158 and \$3,146, respectively, to the college for scholarships and grants.

Basis of Accounting - The Foundation financial statements have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

Basis of Presentation - The Foundation reports its financial position and activities according to standards established by the Financial Accounting Standards Board (FASB). Accordingly, the Foundation has classified its net assets and its revenue, expenses, gains, and losses based on the existence or absence of donor-imposed restrictions. Under FASB, the Foundation is required to report its financial position and activities according to three classes of net assets. Below is a summary of those classifications:

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

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

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

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

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

Cash and Cash Equivalents - For purposes of the statement of cash flows, the Foundation considers all highly liquid investments, available for current use, with an initial maturity of three months or less to be cash equivalents. Money market funds included in investments are not considered cash equivalents.

Accounts Receivable - Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management monitors accounts receivable closely and considers all accounts receivable amounts fully collectible, thus no provision for uncollectible accounts has been made.

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

Investments - Investments in marketable securities and all debt securities are reported at their fair value based upon quoted market prices in the statement of financial position.

The Foundation operates a pooled investment portfolio consisting of common trust funds for all funds. New funds or additions to existing funds are assigned a share in the common trust fund investment pool based upon the amount of cash or estimated fair value of securities deposited. Income, including unrealized appreciation or depreciation and realized capital gains and losses, are allocated to unrestricted or temporarily restricted funds depending on whether the investment was established for general operating (unrestricted) or a specific purpose (temporarily restricted).

Contributions - All contributions are recorded at their estimated fair value and are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributions of donated noncash assets are recorded at fair value in the period received. Donated services are recognized as contributions at their fair values in the period received in accordance with FASB, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation.

RESTRICTED CASH

Restricted cash of \$2,122 and \$4,179 at June 30, 2013 and 2012, respectively, are included in cash in the Statements of Financial Position. The restrictions have been imposed by the donors.

	2013	2012
Cash restricted for scholarships and student assistance	\$ -	\$ 4,057
Cash restricted for institutional support	<u>2,122</u>	<u>122</u>
Total restricted cash	<u>\$ 2,122</u>	<u>\$ 4,179</u>

INVESTMENTS

The cost and estimated fair values of investments at June 30, 2013 and 2012 are:

	2013		2012	
	<u>Cost</u>	<u>Estimated Fair Value</u>	<u>Cost</u>	<u>Estimated Fair Value</u>
U.S. Government Agency Obligations		\$ 323,439		\$ 402,923
Corporate Bonds and Notes		224,573		153,924
Equity Securities		1,540,700		1,333,187
Equity Mutual Funds		289,689		194,004
Fixed Income Mutual Funds		411,066		229,282
Common Trust Fund Balance	2,723,712	2,789,467	2,404,420	2,313,320
Cash Equivalents	317,605	317,605	388,967	388,967
	<u>\$ 3,041,317</u>	<u>\$ 3,107,072</u>	<u>\$ 2,793,387</u>	<u>\$ 2,702,287</u>

Gains (losses) on investments for the periods ended June 30, 2013 and 2012 are summarized as follows:

	<u>2013</u>	<u>2012</u>
Realized losses	\$ (8,637)	\$ (1,749)
Unrealized gains	192,097	44,459
Total gains on investments	<u>\$ 183,460</u>	<u>\$ 42,710</u>

Investment income and gains and losses on investments are reported as an increase or decrease in unrestricted net assets unless a donor or law temporarily or permanently restricts their use.

All thirty-three of the Foundation investment funds are invested in a financial institution's common trust fund. The common trust fund balance reflects the aggregate cost basis that each of these investment funds has in the financial institutions common trust fund. The common trust fund fair market value reflects the market value of individual investments held by the fund at June 30, 2013 and 2012.

The Foundation, through a trust department, invests in cash equivalents and a common trust fund, which allows the Foundation to purchase domestic and foreign equities, fixed income and equity mutual funds, U.S. Government obligations, corporate bonds and commercial paper. "The Foundation's primary investment objective is to outperform the established spending rate of 3.00% plus inflation over the long-term in order for the Foundation to operate in perpetuity."

It is the Foundation's investment policy that with the exception of fixed income investments explicitly guaranteed by the U.S. government, no single investment security shall represent more than 5% of total Portfolio assets. With the exception of passively managed investment vehicles seeking to match the returns on a broadly diversified market index, no single investment pool or investment company (mutual fund) shall comprise more than 20% of total Portfolio assets. With respect to fixed income investments, for individual bonds, the minimum average credit quality of these investments shall be investment grade (Standard & Poor's BBB or Moody's Baa or higher). A maximum of 5% of fixed income investments may be exempted from this guideline.

The Foundation's spending policy states that income available for spending is determined by the Allocation Committee, unless the investment fund has a legal document stipulating otherwise. For scholarships, the Allocation Committee calculates 3% of the three year rolling fair market value average to determine the amount of student assistance available. Capital spending and institutional development spending is discretionary depending on adequate funding sources to maintain the expenditure level of the program. All income and appreciation not needed to meet the spending needs will be reinvested.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The Foundation follows FASB standard for using fair value to measure financial assets and financial liabilities. This standard applies whenever other standards require or permit assets or liabilities to be measured at fair value.

FASB establishes a three level hierarchy based on pricing availability in measuring fair values for assets and liabilities. These three levels are:

Level I – Quoted market prices are available in active trading markets for identical assets or liabilities as of the report date.

Level II – Pricing inputs other than quoted market prices are available in active trading markets as of the report date. These assets or liabilities have prices available but are traded less frequently, or are fair valued using other financial instruments, the parameters of which can be directly observed.

Level III – Assets or liabilities have little or no pricing observability as of the report date. These items are usually measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation.

The Foundation reports all investments at their fair value as of June 30, 2013 and 2012. The Foundation holds no investments as of June 30, 2013 and 2012 under Levels III.

June 30, 2013	Level I	Level II	Level III	Total
Valued on a recurring basis:				
Assets:				
Equity securities	\$ 1,540,700	\$ -	\$ -	\$ 1,540,700
Debt securities	-	548,012	-	548,012
Mutual funds	700,755	-	-	700,755
Cash equivalents	317,605	-	-	317,605
Total	<u>\$ 2,559,060</u>	<u>\$ 548,012</u>	<u>\$ -</u>	<u>\$ 3,107,072</u>
June 30, 2012	Level I	Level II	Level III	Total
Valued on a recurring basis:				
Assets:				
Equity securities	\$ 1,333,187	\$ -	\$ -	\$ 1,333,187
Debt securities	-	556,847	-	556,847
Mutual funds	423,286	-	-	423,286
Cash equivalents	388,967	-	-	388,967
Total	<u>\$ 2,145,440</u>	<u>\$ 556,847</u>	<u>\$ -</u>	<u>\$ 2,702,287</u>

TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Net assets were temporarily and permanently restricted for the following purposes at June 30, 2013 and 2012:

	2013		2012	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Scholarships/Student Assistance	\$ 1,390,531	\$ 656,165	\$ 1,265,177	\$ 596,970
Capital Projects	122,744		24,186	
Institutional Support	437,771		422,495	
Totals	<u>\$ 1,951,046</u>	<u>\$ 656,165</u>	<u>\$ 1,711,858</u>	<u>\$ 596,970</u>

ENDOWMENTS

The Foundation discloses its endowment funds under the provisions of FASB, which provides guidance on the net asset classification of donor-restricted and board designated endowment funds for a nonprofit organization subject to an enacted version of the *Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA)*. The state of West Virginia has adopted the provisions of the UPMIFA.

The Foundation's endowment consists of two individual funds established for scholarships. Its endowment is donor-restricted only. The Foundation holds no Board of Trustees designed endowments. As required by GAAP, net assets associated with endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions. The Foundation Board of Trustees has interpreted the UPMIFA as requiring the preservation of the fair value of the original contribution as of the contribution date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets, (a) the original value of contributions donated to the permanent endowment, and (b) the original value of subsequent contributions to the permanent endowment. Accumulations of interest, dividends, and market appreciation made in accordance with the direction of the applicable endowment instrument are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation allocation committee in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to spend or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the organization and the donor-restricted endowment fund
3. General economic conditions
4. Possible effects of inflation/deflation
5. Expected total return from income and the appreciation of investments
6. Other financial resources of the Foundation
7. Foundation investment policies (see footnote #3)

Endowment Net Asset composition as of June 30, 2013 and 2012 is as follows:

Net Asset Endowment Composition	2013	2012
Unrestricted	\$ -	\$ -
Temporarily Restricted	257,150	162,366
Permanently Restricted	656,165	596,970
Total Funds	\$ 913,315	\$ 759,336

Description of Amounts Classified as Temporarily and Permanently Restricted Net Assets	2013	2012
Permanently Restricted Net Assets		
Portion of perpetual endowment funds required to be retained by donor stipulation or UPMIFA	\$ 656,165	\$ 596,970
Temporarily Restricted Net Assets		
Term Endowment Funds	\$ 210,557	\$ 126,392
Portion of perpetual endowment funds subject to purpose restrictions	46,593	35,974
Total	\$ 257,150	\$ 162,366

Changes in Endowment Net Assets for the years ended June 30, 2013 and 2012 are as follows:

June 30, 2013	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, beginning of year	\$ -	\$ 162,366	\$ 596,970	\$ 759,336
Investment return:				
Investment income	-	15,163	-	15,163
Net appreciation (realized and unrealized)	-	48,029	-	48,029
Total investment return	-	63,192	-	63,192
Contributions	-	110,000	59,195	169,195
Appropriation of endowment assets for expenditure	-	(78,408)	-	(78,408)
Endowment net assets, end of year	\$ -	\$ 257,150	\$ 656,165	\$ 913,315
June 30, 2012	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, beginning of year	\$ -	\$ 40,665	\$ 546,480	\$ 587,145
Investment return:				
Investment income	-	13,567	-	13,567
Net appreciation (realized and unrealized)	-	13,293	-	13,293
Total investment return	-	26,860	-	26,860
Contributions	-	104,910	50,490	155,400
Appropriation of endowment assets for expenditure	-	(10,069)	-	(10,069)
Endowment net assets, end of year	\$ -	\$ 162,366	\$ 596,970	\$ 759,336

Funds with Deficiencies – From time to time, the fair value of assets associated with individual donor-restricted perpetual endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. No deficiencies of this nature were reported in unrestricted net assets as of June 30, 2013 and 2012, respectively.

Return Objectives and Risk Parameters – The Foundation’s Board of Trustees has adopted investment and spending policies for endowment assets similar to those as described in investment footnote #3 identified for all investments of the Foundation. Such policies attempt to provide a predictable stream of funding the scholarship programs supported by its endowment while trying to achieve appreciation in excess of inflation rates. Actual returns in any given year may vary from this objective.

Strategies Employed for Achieving Objectives – To satisfy its long-term rate-of-return objective, Foundation investment strategies rely on a total return philosophy in which returns are achieved through both realized and unrealized capital appreciation and current investment yields. The Foundation seeks diversification of investments with an emphasis on equity-based investments to achieve this objective.

Spending Policy and How the Investment Objectives Relate to Spending Policy – The Foundation has a spending policy of appropriating 3% of the three-year rolling fair market value investment average.

The Foundation expects the current spending policy to allow its endowment to grow in excess of this spending level. This is consistent with the Foundation's objective to maintain the donor-required level of perpetual duration or for a specified term as well as to provide for additional real growth through new contributions and investment return.

SPECIAL EVENTS FUNDRAISERS

Various special events fundraisers were held during the year. Gross revenues and direct expenses related to those events are as follows at June 30, 2013 and 2012:

June 30, 2013	<u>Golf Scramble</u>	<u>Friends Dinner</u>		<u>Total</u>
Special event revenue	\$ 19,718	\$ 36,072		\$ 55,790
Less: Cost of direct benefit for donors	<u>(9,702)</u>	<u>(8,688)</u>		<u>(18,390)</u>
	<u>\$ 10,016</u>	<u>\$ 27,384</u>		<u>\$ 37,400</u>
June 30, 2012	<u>Golf Scramble</u>	<u>Friends Dinner</u>	<u>Other</u>	<u>Total</u>
Special event revenue	\$ 32,128	\$ 36,773	\$ 2,732	\$ 71,633
Less: Cost of direct benefit for donors	<u>(12,060)</u>	<u>(9,378)</u>		<u>(21,438)</u>
	<u>\$ 20,068</u>	<u>\$ 27,395</u>	<u>\$ 2,732</u>	<u>\$ 50,195</u>

RELATED PARTY TRANSACTIONS

A member of the Board of Trustees also provided legal services for the Foundation. \$870 and \$360 was incurred for legal services to the member's law firm for the fiscal year ended June 30, 2013 and 2012, respectively.

SUBSEQUENT EVENTS

The Foundation assessed events occurring subsequent to June 30, 2013, through the date of this report for potential recognition and disclosure in the financial statements. No events have occurred that would require adjustment to or disclosure in the financial statements which were available to be issued September 24, 2013.



1341 National Road
P.O. Box 2050
Wheeling, WV 26003-0251
Voice: 304-242-4400
Fax: 304-242-1989
E-mail: lcostanzo@costanzocpas.com
Web Site: www.costanzocpas.com

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

To the Governing Board of
West Virginia Northern Community College:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of West Virginia Northern Community College (the "College") exclusive of the discretely presented component unit as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated October 23, 2013. The audit of the discretely presented component unit was conducted in accordance with auditing standards generally accepted in the United States of America, but not in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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.

A handwritten signature in blue ink that reads "Cortez & Associates, PLLC". The signature is written in a cursive, flowing style.

October 23, 2013