

Bluefield State College

Financial Statements

Years Ended June 30, 2012 and 2011

and

Independent Auditors' Reports

BLUEFIELD STATE COLLEGE
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INDEPENDENT AUDITORS' REPORT

To the Governing Board
Bluefield State College
Bluefield, West Virginia

We have audited the accompanying financial statements of the business-type activities and discretely presented component units of Bluefield State College (the "College") as of June 30, 2012 and 2011 and for the years then ended which collectively comprise the College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the discretely presented financial statements of The Bluefield State College Foundation, Inc. (a component unit of the College) for 2012 and 2011. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the discretely presented financial statements of The Bluefield State College Foundation, Inc. is based solely on the reports of the other auditors. We did audit the discretely presented financial statements of The Bluefield State College Research and Development Corporation (a component unit of the College) for 2012 and 2011.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of The Bluefield State College Foundation, Inc. and the Bluefield State College Research and Development Corporation were not audited in accordance with *Government Auditing Standards*. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion. Also, an audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for your opinions.

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the aggregate discretely presented component units, of the College as of June 30, 2012 and 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2012, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 13 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.



Charleston, West Virginia
October 23, 2012

BLUEFIELD STATE COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012

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Our discussion and analysis of Bluefield State College's (the College) financial performance provides an overview of the College's financial activities during the years ended June 30, 2012, 2011 and 2010. Since this discussion and analysis is designed to focus on current activities, resulting changes, and currently known facts, please refer to the College's basic financial statements on pages 14 to 21 and the notes to financial statements on pages 22 to 70.

During the fiscal year 2003 the College adopted Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units*, and an amendment to GASB Statement No. 14. As a result, the audited financial statements of the Bluefield State College Foundation, Incorporated (the "Foundation") are presented here with the College's financial statements for the fiscal years ended June 30, 2012 and 2011. For the years ended June 30, 2012 and 2011, the College determined that the Bluefield State College Research and Development Corporation (the "Corporation") resources were significant and required presentation in accordance with the GASB statements. The Foundation and the Corporation are private nonprofit organizations that reports under Financial Accounting Standards Board (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.

Complete financial statements of the Foundation can be obtained from the Treasurer of the Bluefield State College Foundation at 1629 College Drive, Bluefield, West Virginia 24701. Complete financial statements of the Corporation can be obtained from the Bluefield State College Research and Development Corporation at 219 Rock Street, Bluefield, West Virginia 24701.

Financial Highlights from Bluefield State College

The following are brief summaries for the College:

- The College's assets exceeded its liabilities at the end of fiscal year 2012 by approximately \$17.1 million, compared to approximately \$17.0 million and \$15.7 million in 2011 and 2010, respectively.
- The College's net assets remained relatively unchanged, with capital assets increasing by approximately \$2.5 million.
- The other post employment benefits (OPEB) liability at fiscal year-end 2012 was approximately \$4.9 million, all recorded as unrestricted.
- The College decreased liabilities by approximately \$0.4 million. The noncurrent liability of OPEB increased by approximately \$1.4 million, accounts payable decreased by approximately \$1.7 million primarily related to construction contracts in 2011 of approximately \$1.7 million.

Overview of the Financial Statements

The College has implemented GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities* beginning with fiscal year 2003. GASB No. 35 requires the College to present financial information as a whole rather than focusing on individual funds. Two major changes in the last several years are the recording of depreciation for capital assets and reclassifying certain loan program equity balances as liabilities. In addition, federal and state loan and grant programs are no longer reported as revenues and expenses in the financial statements since the transactions are directly with the student receiving the loan or grant.

This report consists of management's discussion and analysis, the basic financial statements, and the notes to the financial statements. The basic financial statements include the statement of net assets; statement of revenues, expenses, changes in net assets; and statement of cash flows.

The statement of net assets presents the College's assets and liabilities, with the difference reported as net assets. Increases or decreases in net assets can be an indicator of improvement or deterioration of the College's financial position.

Changes in net assets during the year are reported in the statement of revenues, expenses and changes in net assets. All revenues, expenses, and changes are reported as the underlying event occurs that results in the revenue, expense, or change. The statement of cash flows presents information on actual cash inflows or outflows as they occur.

Financial Analysis of the College

Of the College's net assets of approximately \$17.1 million, \$16.5 million (96%) represents its investment in capital assets of land, land improvements, buildings, equipment and library books, net of related debt. These capital assets are utilized to provide educational and related services to students and the communities and are not available for future spending. Unrestricted net assets are available to meet the College's obligations. The unrestricted net assets diminished to approximately (\$0.3) million with approximately \$4.9 million of unrestricted assets related to OPEB liability increasing by approximately \$1.4 million. The State of West Virginia has adopted a plan for elimination of the OPEB liability by 2035 for all state agencies. Approximately \$1.0 million of unrestricted net assets were also utilized in 2012 for completion of the Basic Science HVAC project. The unrestricted cash represents the amount not restricted via plant operations, auxiliaries, grant and loan funds, and state code restrictions.

The College's net assets from 2011 to 2012 increased by approximately \$0.1 million from approximately \$17.0 million to approximately \$17.1 million of which capital assets increased by approximately \$2.5 million and the OPEB liability increased by \$1.4 million.

BLUEFIELD STATE COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012

Net Assets
As of June 30, 2012, 2011 and 2010
(in millions)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Cash	\$ 5.8	\$ 7.7	\$ 7.0
Other current assets	<u>1.3</u>	<u>2.4</u>	<u>1.3</u>
Total current assets	<u>7.1</u>	<u>10.1</u>	<u>8.3</u>
Capital assets	17.0	14.5	11.1
Other noncurrent assets	<u>0.6</u>	<u>0.6</u>	<u>0.6</u>
Total noncurrent assets	<u>17.6</u>	<u>15.1</u>	<u>11.7</u>
Total assets	<u>24.7</u>	<u>25.2</u>	<u>20.0</u>
Current liabilities	1.9	3.7	1.9
Noncurrent liabilities	<u>5.7</u>	<u>4.5</u>	<u>2.4</u>
Total liabilities	<u>7.6</u>	<u>8.2</u>	<u>4.3</u>
Net assets			
Invested in capital assets-net of related debt	16.5	13.8	11.1
Restricted	0.9	0.5	1.0
Unrestricted	<u>(0.3)</u>	<u>2.7</u>	<u>3.6</u>
Total net assets	<u>\$ 17.1</u>	<u>\$ 17.0</u>	<u>\$ 15.7</u>

For the year ended June 30, 2012 there was an increase of approximately \$0.1 million in net assets, related to an increase in capital assets of approximately \$2.5 million and increase in non current liability of OPEB of approximately \$1.4 million. Current liabilities decreased by approximately \$1.8 million related to construction projects in process on campus. The OPEB liability as of June 30, 2012 was approximately \$4.9 million compared to the approximately \$3.5 million at June 30, 2011.

BLUEFIELD STATE COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012

The following table summarizes the operating results and nonoperating revenue for the past three fiscal years.

Operating Results
Years ended June 30, 2012, 2011 and 2010
(in millions)

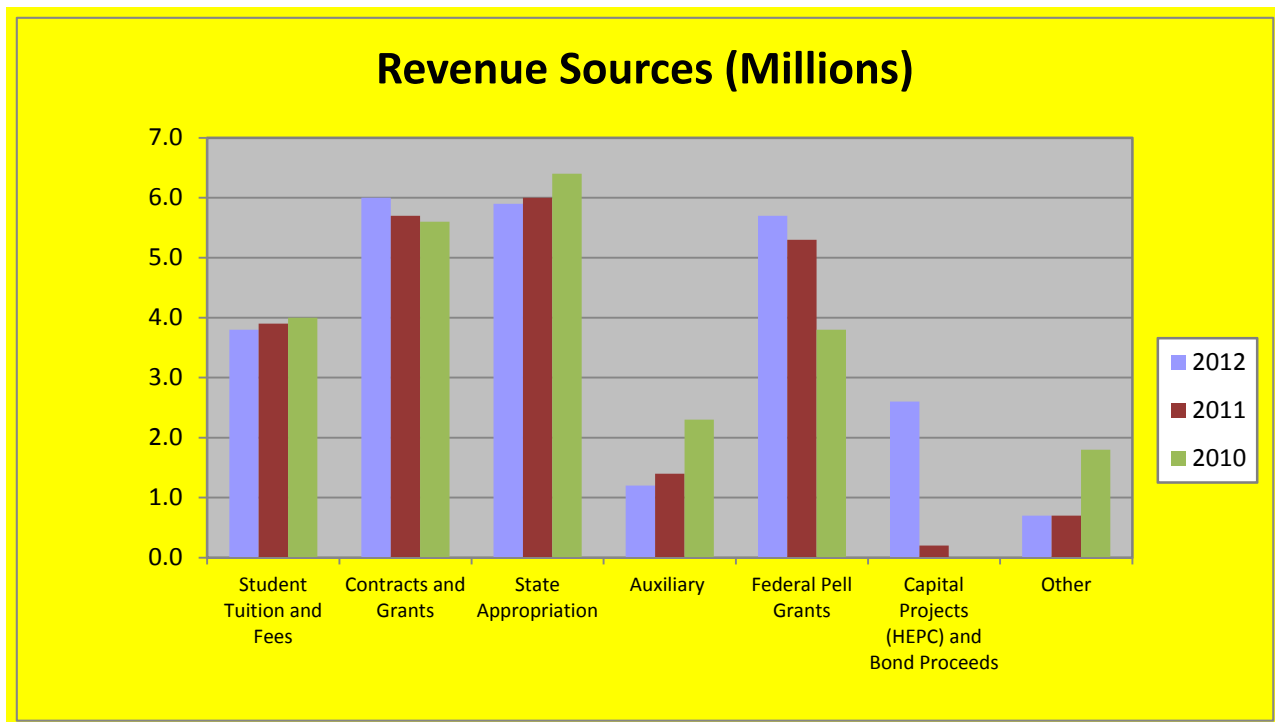
Tuition and fees increased from approximately \$10.0 million to approximately \$10.3 million; however, the scholarship allowance increased from approximately \$6.2 million to approximately \$6.7 million which nets to a reduction in tuition and fees of approximately \$0.2 million.

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating revenues			
Tuition and fees	\$ 3.6	\$ 3.8	\$ 3.9
Contracts and grants	5.9	6.0	5.7
Auxiliary	1.1	1.2	1.4
Other	<u>0.2</u>	<u>0.1</u>	<u>0.3</u>
	10.8	11.1	11.3
Less: operating expenses	<u>25.3</u>	<u>25.1</u>	<u>23.9</u>
Operating loss	(14.5)	(14.0)	(12.6)
Nonoperating revenues			
State appropriation	6.6	5.9	6.0
State fiscal stabilization funds (federal)	-	0.6	0.5
Federal Pell Grants	5.5	5.7	5.3
Other	<u>-</u>	<u>-</u>	<u>-</u>
Net nonoperating revenue	<u>12.1</u>	<u>12.2</u>	<u>11.8</u>
Loss before other revenues, expenses, gains and losses	<u>(2.4)</u>	<u>(1.8)</u>	<u>(0.8)</u>
State capital grants (federal)	0.4	0.5	0.2
Capital proceeds from the Commission	-	0.5	-
Capital bond proceeds from the state	<u>2.1</u>	<u>2.1</u>	<u>-</u>
Total change in net assets	<u>\$ 0.1</u>	<u>\$ 1.3</u>	<u>\$ (0.6)</u>

BLUEFIELD STATE COLLEGE
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 YEAR ENDED JUNE 30, 2012

Revenue Sources
Years ended June 30, 2012, 2011, and 2010
(in millions)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Student tuition and fees	\$ 3.6	\$ 3.8	\$ 3.9
Contracts and grants	5.9	6.0	5.7
State appropriations	6.6	5.9	6.0
Auxiliary	1.1	1.2	1.4
Federal Pell grants	5.5	5.7	5.3
Capital projects and bond proceeds	2.4	3.1	0.2
Other	<u>0.2</u>	<u>0.7</u>	<u>0.8</u>
Total revenue sources	<u>\$ 25.3</u>	<u>\$ 26.4</u>	<u>\$ 23.3</u>

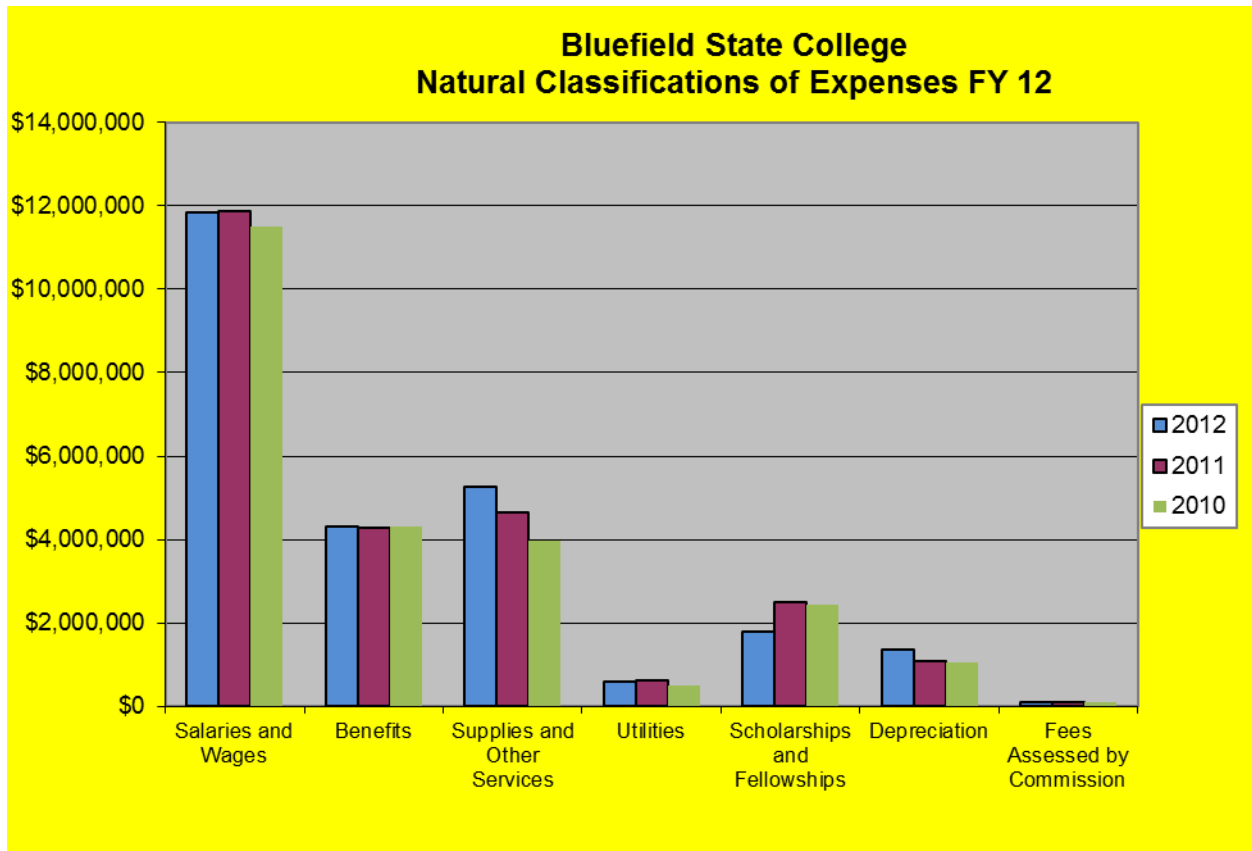


Capital Projects and Bond Proceeds relate to construction activities at Mahood Hall, Brown-Gilbert Basic Science Building, and Swimming Pool.

BLUEFIELD STATE COLLEGE
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 YEAR ENDED JUNE 30, 2012

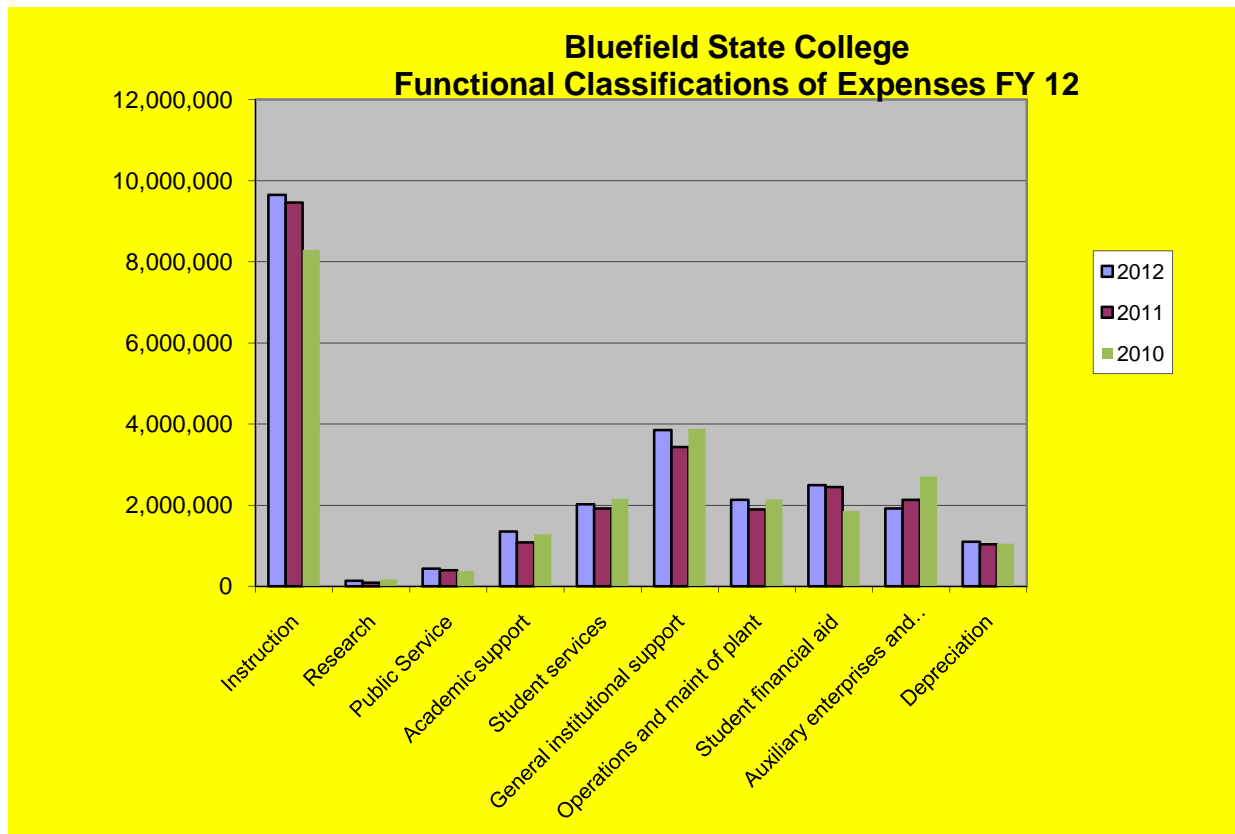
Operating Expenses
Years ended June 30, 2012, 2011 and 2010
(in millions)

Natural Classification	<u>2012</u>	<u>2011</u>	<u>2010</u>
Salaries and wages	\$ 11.8	\$ 11.9	\$ 11.5
Benefits	4.3	4.3	4.3
Supplies and other services	5.3	4.6	4.0
Utilities	0.6	0.6	0.5
Scholarships and fellowships	1.8	2.5	2.5
Depreciation	1.4	1.1	1.0
Fees assigned by Commission	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>
	<u>\$ 25.3</u>	<u>\$ 25.1</u>	<u>\$ 23.9</u>



BLUEFIELD STATE COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012

Functional Classification	<u>2012</u>	<u>2011</u>	<u>2010</u>
Instruction	\$ 9.4	\$ 9.7	\$ 9.5
Research	0.1	0.1	0.1
Public service	0.7	0.4	0.4
Academic support	1.2	1.4	1.1
Student services	2.0	2.0	1.9
Institutional support	3.9	3.9	3.4
Operation and maintenance of plant	2.9	2.1	1.9
Student financial aid	1.8	2.5	2.5
Auxiliary enterprises and other	1.9	1.9	2.1
Depreciation	<u>1.4</u>	<u>1.1</u>	<u>1.0</u>
	<u>\$ 25.3</u>	<u>\$ 25.1</u>	<u>\$ 23.9</u>



Statement of Cash Flows
Years ended June 30, 2012 and 2011

The Statement of Cash Flows presents detailed information about the cash activities of Bluefield State College during the year. The statement is divided into five parts. The first section deals with operating cash flows and shows the net cash used in the operating activities. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes. The third section deals with the cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital assets and related items and related funding received. The fourth section reflects the cash flows from investing activities and shows interest received from investing activities. The fifth section reconciles the net cash used in operating activities to the operating loss reflected in the Statement of Revenues, Expenses and Changes in Net Assets. Cash and cash equivalents decreased by approximately \$1.9 million for the year ended June 30, 2012.

Cash Flows
Years ended June 30, 2012, 2011 and 2010
(in millions)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Cash provided by (used in)			
Operating activities	\$ (11.9)	\$ (11.4)	\$ (10.4)
Non capital financing activities	12.0	12.2	11.7
Capital and related financing activities	(2.0)	(0.1)	(0.7)
Investing activities	<u>-</u>	<u>-</u>	<u>-</u>
Increase (decrease) in cash and cash equivalents	(1.9)	0.7	0.6
Cash and cash equivalents, beginning of year	<u>7.7</u>	<u>7.0</u>	<u>6.4</u>
Cash and cash equivalents, end of year	<u>\$ 5.8</u>	<u>\$ 7.7</u>	<u>\$ 7.0</u>

Capital Asset and Debt Administration

The debt service obligation payable to the Commission for Bluefield State College for the years ended June 30, 2012, 2011, and 2010 was approximately \$587 thousand, \$706 thousand, and \$33 thousand, respectively. The College entered into a loan agreement with the Commission during fiscal year 2011 to fund capital projects. The outstanding balance on the loan at June 30, 2012 was approximately \$587 thousand.

Major changes in capital assets for Bluefield State College for the year ending June 30, 2012 relate to two construction projects at Mahood Hall and Brown Gilbert Basic Science Building. The following is a brief summary of capital assets activity for the College as a whole:

BLUEFIELD STATE COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012

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- Additions to buildings were approximately \$8.0 million, of which approximately \$4.5 million was transferred from construction in progress to buildings. Building increases of approximately \$8.0 million relate to renovations of approximately \$4.8 million for Mahood Hall and approximately \$2.8 million for Brown Gilbert Basic Science Building, and approximately \$0.4 million for a swimming pool.
- Equipment purchases were \$352 thousand with the addition of various technology purchases over the capitalization threshold. The College disposed of approximately \$169 thousand in equipment during the fiscal year.
- Construction in progress includes the lab upgrades in Dickason Hall and Brown Gilbert Basic Science Building that are in the design stage.
- Library book purchases totaled approximately \$13 thousand.
- Depreciation expense was approximately \$1.4 million, with a reduction of approximately \$162 thousand in accumulated depreciation related to equipment disposals.

Readers interested in more detailed information regarding capital assets and debt administration should review the accompanying notes 5 and 7 to the financial statements.

Economic Outlook

The College's overall financial position continues to be strong. The College's enrollment continues to increase slightly, and the large construction projects on campus have enhanced the learning environment and conditions.

With the national economy continuing to be challenging, Bluefield State College continues also to be mindful of our students, keeping tuition at the level lowest in the State for baccalaureate institutions, and competitive in nearby Virginia counties. College personnel continue to be concerned of the happenings in the nation's capital, Washington, DC and the effect sudden changes may have on higher education. The "Other Post Employment Benefit" liability also will continue to be a challenge for a few years until the liability is fully funded. We are very appreciative for the State of West Virginia addressing this issue.

Contacting the College's Financial Management

This financial report is designed to provide a general overview of Bluefield State College's finances. Questions concerning any of the information provided in this report should be addressed to the Vice President of Financial and Administrative Affairs at Bluefield State College, 219 Rock Street, Bluefield, WV 24701.

BLUEFIELD STATE COLLEGE
STATEMENTS OF NET ASSETS
JUNE 30, 2012 AND 2011

ASSETS	<u>2012</u>	<u>2011</u>
Current assets		
Cash and cash equivalents	\$ 5,784,463	\$ 7,679,767
Accounts receivable, net of allowance of \$399,356 and \$454,221	513,108	504,995
Loans receivable - current portion	25,537	15,578
Prepaid expenses	15,596	15,096
Due from the Commission	605	569,353
Due from other state agencies	-	705,362
Due from New River Community and Technical College	268,678	268,678
Inventories	544,212	343,040
Total current assets	7,152,199	10,101,869
Noncurrent assets		
Cash and cash equivalents	120,396	116,706
Investments	392,980	398,341
Loans receivable, net of allowance of \$513,138 and \$505,651	38,791	60,558
Capital assets - net	17,045,293	14,486,927
Total noncurrent assets	17,597,460	15,062,532
Total assets	24,749,659	25,164,401
LIABILITIES		
Current liabilities		
Accounts payable	358,148	2,009,620
Due to the Commission	18,410	57,351
Accrued liabilities	1,008,716	1,031,966
Deferred revenue	13,595	7,230
Compensated absences - current portion	449,728	437,956
Debt service obligation payable to the Commission - current portion	109,000	119,515
Total current liabilities	1,957,597	3,663,638
Noncurrent liabilities		
Advances from federal sponsors	98,328	133,504
Compensated absences	265,835	276,281
Other post employment benefits liability	4,895,545	3,468,088
Debt service obligation payable to the Commission	477,500	586,500
Total noncurrent liabilities	5,737,208	4,464,373
Total liabilities	7,694,805	8,128,011
NET ASSETS		
Invested in capital assets - net of related debt	16,458,793	13,780,911
Restricted for:		
Nonexpendable:		
Endowment	434,480	439,841
Expendable:		
Scholarships	88,506	48,664
Loans	86,395	59,338
Grants	304,736	-
Other	23,810	-
Total restricted	937,927	547,843
Unrestricted (deficit)	(341,866)	2,707,636
Total net assets	\$ 17,054,854	\$ 17,036,390

The Accompanying Notes Are An Integral
Part Of These Financial Statements

BLUEFIELD STATE COLLEGE
BLUEFIELD STATE COLLEGE FOUNDATION, INC.
A COMPONENT UNIT OF BLUEFIELD STATE COLLEGE
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2012 AND 2011

ASSETS	<u>2012</u>	<u>2011</u>
ASSETS		
Cash and short-term investments	\$ 969,282	\$ 876,783
Interest receivable	5,295	5,637
Contributions receivable	245,629	317,358
Cash restricted for long-term investment	234,492	136,846
Investments	8,233,786	8,080,020
Assets held for others	21,740	20,483
Other assets	<u>-</u>	<u>412</u>
 Total assets	 <u>\$ 9,710,224</u>	 <u>\$ 9,437,539</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Amounts held on behalf of others	<u>\$ 21,740</u>	<u>\$ 20,483</u>
 Total liabilities	 <u>21,740</u>	 <u>20,483</u>
 NET ASSETS		
Unrestricted	7,814,690	7,469,482
Temporarily restricted	540,154	667,193
Permanently restricted	<u>1,333,640</u>	<u>1,280,381</u>
Total net assets	<u>9,688,484</u>	<u>9,417,056</u>
 Total liabilities and net assets	 <u>\$ 9,710,224</u>	 <u>\$ 9,437,539</u>

The Accompanying Notes Are An Integral
Part Of These Financial Statements

BLUEFIELD STATE COLLEGE RESEARCH & DEVELOPMENT CORPORATION
A COMPONENT UNIT OF BLUEFIELD STATE COLLEGE
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2012 AND 2011

ASSETS	<u>2012</u>	<u>2011</u>
Current assets		
Cash and cash equivalents	\$ 146,379	\$ 67,856
Receivables, net	48,573	93,836
Employee receivable	2,835	-
Inventory	4,474	4,733
	<hr/>	<hr/>
Total current assets	202,261	166,425
Property and equipment, net	4,239,885	4,512,140
Intangibles, net	72,557	81,109
	<hr/>	<hr/>
Total assets	<u>\$ 4,514,703</u>	<u>\$ 4,759,674</u>
 LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 120,214	\$ 149,656
Cash overdraft	50,891	-
Funds held for others	120,338	115,087
Deferred revenue	4,821	5,820
Current portion of long term debt	64,800	61,340
	<hr/>	<hr/>
Total current liabilities	361,064	331,903
Long term debt, net of current portion	3,487,953	3,552,753
	<hr/>	<hr/>
Total liabilities	3,849,017	3,884,656
Net Assets		
Unrestricted	665,686	875,018
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 4,514,703</u>	<u>\$ 4,759,674</u>

The Accompanying Notes Are An Integral
Part Of These Financial Statements

BLUEFIELD STATE COLLEGE
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Operating revenues		
Student tuition and fees (net of scholarship allowance of \$6,673,359 and \$6,248,301)	\$ 3,594,278	\$ 3,751,508
Contracts and grants		
Federal	3,535,523	3,511,377
State	1,882,576	1,829,011
Private	484,449	652,089
Interest on student loans receivable	871	2,251
Sales and services of educational activities	82,595	53,413
Auxiliary enterprise revenue (net of scholarship allowance of \$360,854 and \$362,259)	1,144,881	1,201,477
Miscellaneous - net	52,093	80,629
Total operating revenues	<u>10,777,266</u>	<u>11,081,755</u>
Operating expenses		
Salaries and wages	11,833,153	11,873,916
Benefits	4,307,211	4,273,384
Supplies and other services	5,271,629	4,642,314
Utilities	583,331	616,954
Student financial aid - scholarships and fellowships	1,795,462	2,493,954
Depreciation	1,372,953	1,094,661
Assessments by the Commission for operations	88,503	88,263
Total operating expenses	<u>25,252,242</u>	<u>25,083,446</u>
Operating loss	<u>(14,474,976)</u>	<u>(14,001,691)</u>
Nonoperating revenues (expenses)		
State appropriations	6,570,942	5,882,611
State fiscal stabilization funds (federal)	-	581,755
Federal Pell grants	5,476,966	5,695,149
Investment income	25,208	58,518
Assessments by the Commission for debt service	(2,213)	(3,042)
Loss on disposal of capital assets	(7,102)	(3,898)
Net nonoperating revenues	<u>12,063,801</u>	<u>12,211,093</u>
Loss before other revenues, expenses, gains and losses	<u>(2,411,175)</u>	<u>(1,790,598)</u>
State capital grants (federal)	371,432	478,568
Capital proceeds from Commission	-	515,517
Capital bond proceeds from the state	2,058,207	2,111,002
Increase (decrease) in net assets	<u>18,464</u>	<u>1,314,489</u>
Net assets - beginning of year	<u>17,036,390</u>	<u>15,721,901</u>
Net assets, end of year	<u>\$ 17,054,854</u>	<u>\$ 17,036,390</u>

BLUEFIELD STATE COLLEGE
BLUEFIELD STATE COLLEGE FOUNDATION, INC.
A COMPONENT UNIT OF BLUEFIELD STATE COLLEGE
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Revenues and other support				
Net gifts	\$ 7,205	\$ 93,238	\$ 44,745	\$ 145,188
Interest income	33,494	3,139	-	36,633
Dividend income	122,226	33,169	-	155,395
Fundraising income	15,539	-	-	15,539
Other income	357	-	-	357
Net realized and unrealized gains (losses)	231,963	(15,942)	-	216,021
Net assets released from restrictions	<u>232,129</u>	<u>(240,643)</u>	<u>8,514</u>	<u>-</u>
	<u>642,913</u>	<u>(127,039)</u>	<u>53,259</u>	<u>569,133</u>
Expenses and support				
College support:				
Student support	158,920	-	-	158,920
Institutional support	71,604	-	-	71,604
Conferences, meetings and travel	11,111	-	-	11,111
Other expenses	<u>12,978</u>	<u>-</u>	<u>-</u>	<u>12,978</u>
	254,613	-	-	254,613
Foundation fund raising expenses	13,409	-	-	13,409
Financial management expenses	<u>29,683</u>	<u>-</u>	<u>-</u>	<u>29,683</u>
	<u>297,705</u>	<u>-</u>	<u>-</u>	<u>297,705</u>
Change in net assets	345,208	(127,039)	53,259	271,428
Net assets				
Beginning	<u>7,469,482</u>	<u>667,193</u>	<u>1,280,381</u>	<u>9,417,056</u>
Ending	<u>\$ 7,814,690</u>	<u>\$ 540,154</u>	<u>\$ 1,333,640</u>	<u>\$ 9,688,484</u>

The Accompanying Notes Are An Integral
Part Of These Financial Statements

BLUEFIELD STATE COLLEGE
BLUEFIELD STATE COLLEGE FOUNDATION, INC.
A COMPONENT UNIT OF BLUEFIELD STATE COLLEGE
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Revenues and other support				
Net gifts	\$ 3,693	\$ 674,129	\$ 193,423	\$ 871,245
Interest income	45,931	5,335	-	51,266
Dividend income	112,239	18,708	-	130,947
Fundraising income	26,115	-	-	26,115
Other income	333	-	-	333
Net realized and unrealized gains (losses)	1,015,557	189,257	-	1,204,814
Net assets released from restrictions	<u>5,489,866</u>	<u>(5,506,294)</u>	<u>16,428</u>	<u>-</u>
	<u>6,693,734</u>	<u>(4,618,865)</u>	<u>209,851</u>	<u>2,284,720</u>
Expenses and support				
College support:				
Student support	46,691	-	-	46,691
Institutional support	375,360	-	-	375,360
Conferences, meetings and travel	6,115	-	-	6,115
Other expenses	<u>33,117</u>	<u>-</u>	<u>-</u>	<u>33,117</u>
	461,283	-	-	461,283
Foundation fund raising expenses	14,222	-	-	14,222
Financial management expenses	<u>21,588</u>	<u>-</u>	<u>-</u>	<u>21,588</u>
	<u>497,093</u>	<u>-</u>	<u>-</u>	<u>497,093</u>
Change in net assets	6,196,641	(4,618,865)	209,851	1,787,627
Net assets				
Beginning	<u>1,272,841</u>	<u>5,286,058</u>	<u>1,070,530</u>	<u>7,629,429</u>
Ending	<u>\$ 7,469,482</u>	<u>\$ 667,193</u>	<u>\$ 1,280,381</u>	<u>\$ 9,417,056</u>

The Accompanying Notes Are An Integral
Part Of These Financial Statements

BLUEFIELD STATE COLLEGE RESEARCH & DEVELOPMENT CORPORATION
A COMPONENT UNIT OF BLUEFIELD STATE COLLEGE
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Support and revenue		
Rental income	\$ 677,432	\$ 689,282
Contributions and donations	157,600	157,600
Federal, State and Private contracts and grants	437,121	501,805
Other income	91,778	84,961
	<hr/>	<hr/>
Total revenue and support	1,363,931	1,433,648
	<hr/>	<hr/>
Expenses		
Program services		
Federal programs	394,548	246,780
State programs	8,342	5,309
Private programs	2,451	1,395
Unrestricted programs	935,727	954,138
	<hr/>	<hr/>
Total program expenses	1,341,068	1,207,622
	<hr/>	<hr/>
Support services		
Management and general	232,195	222,343
	<hr/>	<hr/>
Total expenses	1,573,263	1,429,965
	<hr/>	<hr/>
Nonoperating expense		
Impairment loss	-	183,610
	<hr/>	<hr/>
Total nonoperating expense	-	183,610
	<hr/>	<hr/>
Increase (decrease) in net assets	(209,332)	(179,927)
	<hr/>	<hr/>
Beginning net assets	875,018	1,054,945
	<hr/>	<hr/>
Ending net assets	\$ 665,686	\$ 875,018
	<hr/> <hr/>	<hr/> <hr/>

The Accompanying Notes Are An Integral
Part Of These Financial Statements

BLUEFIELD STATE COLLEGE
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Student tuition and fees	\$ 3,676,936	\$ 3,749,967
Contracts and grants	5,816,117	5,918,783
Payments to and on behalf of employees	(14,746,331)	(14,638,018)
Payments to suppliers	(5,487,397)	(4,631,266)
Payments to utilities	(574,981)	(590,998)
Payments for scholarships and fellowships	(1,796,462)	(2,493,954)
Collections of loans to students	11,808	14,393
Sales and service of educational activities	84,195	21,967
Auxiliary enterprise charges	1,128,113	1,192,829
Fees assessed by Commission	(88,503)	(88,263)
Other receipts - net	52,360	82,880
Net cash used in operating activities	<u>(11,924,145)</u>	<u>(11,461,680)</u>
Cash flows from noncapital financing activities		
State appropriations	6,570,942	5,882,611
State fiscal stabilization funds (federal)	-	581,755
Federal Pell grants	5,476,966	5,695,149
William D. Ford direct lending receipts	9,299,016	8,696,819
William D. Ford direct lending payments	(9,299,016)	(8,696,819)
Net cash provided by noncapital financing activities	<u>12,047,908</u>	<u>12,159,515</u>
Cash flows from capital financing activities		
Purchases of capital assets	(5,628,423)	(2,799,700)
Proceeds from Commission	247,722	514,777
Payments to Commission for debt service	(12,728)	(25,944)
Bond funds transferred from other state agencies	2,763,566	1,405,640
Federal capital grant	692,916	157,084
Loan from Commission	-	750,000
Payments to Commission for loan	(109,000)	(54,500)
Withdrawals from noncurrent cash and cash equivalents	(3,689)	(6,197)
Net cash used in capital financing activities	<u>(2,049,636)</u>	<u>(58,840)</u>
Cash flows from investing activities		
Interest on investments	25,208	58,518
Sale (purchase) of investments	5,361	(42,395)
Net cash provided by investing activities	<u>30,569</u>	<u>16,123</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,895,304)	655,118
Cash and cash equivalents - beginning of year	<u>7,679,767</u>	<u>7,024,649</u>
Cash and cash equivalents - end of year	<u>\$ 5,784,463</u>	<u>\$ 7,679,767</u>
Reconciliation of net operating loss to net cash used in operating activities		
Operating loss	\$ (14,474,976)	\$ (14,001,691)
Adjustments to reconcile net operating loss to net cash used in operating activities		
Depreciation expense	1,372,953	1,094,661
Changes in assets and liabilities:		
Accounts receivables - net	(7,962)	(117,141)
Loans to students - net	11,808	14,393
Prepaid expenses	(500)	(8,494)
Inventories	(201,172)	(11,863)
Accounts payable	38,528	(13,508)
Accrued liabilities	(23,250)	64,033
Compensated absences	1,326	(4,541)
Other post employment benefits	1,427,457	1,449,790
Deferred revenue	6,365	(7,730)
Advances from federal sponsors	(35,176)	16,815
Due from the Commission	(605)	7,615
Due to the Commission	(38,941)	55,981
Net cash used in operating activities	<u>\$ (11,924,145)</u>	<u>\$ (11,461,680)</u>

BLUEFIELD STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 1 - ORGANIZATION

Bluefield State College (the “College”) is governed by the Bluefield State College Board of Governors (the “Board”). The Board was established by Senate Bill 653 (“S.B. 653”).

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

S.B. 653 also created the West Virginia Higher Education Policy Commission (the “Commission”), which is responsible for developing, gaining consensus around and overseeing the implementation and development of a higher education public policy agenda.

As a requirement of Governmental Accounting Standards Board standards (GASB), the College has included information from the Bluefield State College Foundation, Inc. (the “Foundation”) and Bluefield State College Research & Development Corporation (the “Corporation”).

Although the College benefits from the activities of the Foundation, the Foundation is independent of the College in all respects. The Foundation is not a subsidiary of the College and is not directly or indirectly controlled by the College. The Foundation has its own separate, independent Board of Directors. Moreover, the assets of the Foundation are the exclusive property of the Foundation and do not belong to the College. The College is not accountable for, and does not have ownership of, any of the financial and capital resources of the Foundation. The College does not have the power or authority to mortgage, pledge, or encumber the assets of the Foundation. The Board of Directors of the Foundation is entitled to make all decisions regarding the business and affairs of the Foundation, including, without limitation, distributions made to the College. Under State law, neither the principal nor income generated by the assets of the Foundation can be taken into consideration in determining the amount of State-appropriated funds allocated to the College. Third parties dealing with the College, the Board, and the State of West Virginia (the “State”) (or any agency thereof) should not rely upon the financial statements of the Foundation for any purpose without consideration of all the foregoing conditions and limitations.

BLUEFIELD STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 1 - ORGANIZATION (Continued)

Although the College benefits from the activities of the Corporation, the Corporation is independent of the College in all respects. The Corporation is not a subsidiary of the College and is not directly or indirectly controlled by the College. The assets of the Corporation are the exclusive property of the Corporation and do not belong to the College. The College is not accountable for, and does not have ownership of, any of the financial and capital resources of the Corporation. The College does not have the power or authority to mortgage, pledge, or encumber the assets of the Corporation. Any income resulting from the operations of the Corporation is for the benefit of the Corporation and is not distributed to the College. Third parties dealing with the College, the Board, and the State (or any agency thereof) should not rely upon the financial statements of the Corporation for any purpose without consideration of all the foregoing conditions and limitations.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the College have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by GASB. The combined financial statement presentation required by GASB provides a comprehensive, entity-wide perspective of the College's assets, liabilities, net assets, revenues, expenses, changes in net assets 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 Commission (which includes West Virginia Network for Educational Telecomputing), and West Virginia Council for Community and Technical Education 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 basic criteria 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.

BLUEFIELD STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

As of July 1, 2003, the College adopted GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, an amendment to GASB Statement No. 14. As a result, the audited financial statements of The Bluefield State College Foundation, Incorporated (the "Foundation") are presented as a discrete component unit with the College's combined financial statements in accordance with GASB. The Foundation is a private nonprofit organization that reports under FASB standards, including the Presentation of Financial Statements for Not-for-Profit Entities Topic of the FASB Accounting Standards Codification. 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 except that in accordance with governmental accounting standards, the Foundation's statements of cash flows are not presented.

As of July 1, 2008, the Bluefield State College Research and Development Corporation (the "Corporation") became a material component unit and for the years ended June 30, 2012 and 2011 are presented as a discrete component unit with the College's combined financial statements in accordance with GASB. The Corporation 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 Corporation's audited financial information as it is presented herein except that in accordance with governmental accounting standards, the Corporation's statements of cash flows are not presented.

The Center for Applied Research and Technology of Bluefield State College and the Bluefield State College Alumni Association are not part of the College reporting entity and are not included in the accompanying financial statements as the College has no ability to designate management, cannot significantly influence operations of the entity and is not accountable for the fiscal matters of the entity under GASB.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The West Virginia State Legislature, as a regulatory body outside the reporting entity, has restricted the use of certain funds by Article 10, *Fees and Other Money Collected as State Institutions of Higher Education* of the West Virginia State Code. House Bill 101 passed in March 2004 simplified the tuition and fee structure and removed the restrictions but included designations associated with auxiliary 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 State Legislature.

- ***Restricted net assets, nonexpendable*** - This includes endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.
- ***Unrestricted net assets*** - Unrestricted net assets include resources that are not subject to externally imposed stipulations. Such resources are derived from tuition and fees (not restricted as to use), state appropriations, sales and services of educational activities and auxiliary enterprises. Unrestricted net assets are used for transactions related to the educational and general operations of the College and may be designated for specific purposes by action of the Board of Governors.

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

Noncurrent Cash, Cash Equivalents and Investments - Cash 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, (2) to purchase capital or other noncurrent assets or settle long-term liabilities, and (3) permanently restricted net assets, are classified as a noncurrent asset in the accompanying combined statements of net assets.

Investments - GASB requires the College to record certain investment balances at fair value. The College's investments were on deposit with First Community Bank, Inc. and First Century Bank, Inc. These funds represented the George M. Cruise Endowed Chair of Health Sciences/Nursing and the James H. Shott Endowed Chair of Business, respectively. Funds on deposit were invested in Federal Agency Bonds, money market funds, the underlying securities of which were securities of the U.S. Government, Federated Prime Value Obligation Funds, equity market funds, fixed income securities, and other mutual funds invested in high-quality fixed income securities. These funds are classified as long-term due to the restrictions on expenditure. Amounts held for restricted expenditures are available for immediate withdrawal.

Capital Assets - Capital assets include property, plant and equipment, books and materials that are part of a catalogued library and infrastructure assets. Capital assets are stated at cost at the date of acquisition or construction, or fair market value at the date of donation in the case of gifts. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 20 to 50 years for buildings and infrastructure, 20 years for land improvements, 7 years for library books and 3 to 10 years for furniture and equipment. The College's capitalization threshold is \$5,000. There was no interest capitalized during 2012 or 2011. The accompanying combined financial statements reflect all adjustments required by GASB.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences and Other Post employment Benefits (OPEB) — GASB provides for the measurement, recognition, and display of OPEB expenditures, assets, and liabilities, including applicable note disclosures and required supplementary information. During fiscal year 2006, House Bill No. 4654 was established to create a trust fund for postemployment benefits for the State. The College is required to participate in this multiple-employer, cost-sharing plan, the West Virginia Retiree Health Benefit Trust Fund, sponsored by the State of West Virginia. Details regarding this plan can be obtained by contacting the West Virginia Public Employees Insurance Agency (PEIA), 601 57th St. SE, Suite 2, Charleston, WV 25304-2345 or <http://www.wvpeia.com>.

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 assets.

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

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

In addition, through its participation in the West Virginia Public Employees Insurance Agency (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.

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

Classification of Revenues - The College has classified its revenues as either operating or nonoperating 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Use of Restricted Net Assets - 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 assets are available. Generally, the College attempts to utilize restricted net assets first when practicable.

Federal Financial Assistance Programs - The College makes loans to students under the Federal Direct Student Loan Program. Under this program, the U.S. Department of Education makes interest subsidized and nonsubsidized loans directly to students, through the College. Direct student loan receivables are not included in the College's statement of net assets as the loans are repayable directly to the U.S. Department of Education. In 2012 and 2011 respectively, the College received and disbursed approximately \$9.3 million and \$8.7 million, 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 assets.

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 Federal Work Study programs. The activity of these programs is recorded in the accompanying financial statements. In 2012 and 2011, the College received and disbursed approximately \$5.7 million and \$6.1 million, respectively, under these federal student aid programs.

Scholarship Allowances - Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances in the statements of revenues, expenses and changes in net assets. 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Income Taxes - The College is exempt from income taxes, except for unrelated business income, as a governmental instrumentality under federal income tax laws and regulations of the Internal Revenue Service as described in Section 115 of the Internal Revenue Code.

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Newly Adopted Statements Issued by the Governmental Accounting Standards Board — During 2011, the College adopted Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This statement addresses how to account for and report service concession arrangements (SCAs) by establishing recognition, measurement, and disclosure requirements for SCAs for both transferors and governmental operators. The adoption of this statement did not have a material impact on the financial statements.

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

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

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

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

BLUEFIELD STATE COLLEGE
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The GASB has also issued Statement No. 66, *Technical Corrections — 2012: An Amendment of GASB Statements No. 10 and No. 64*, effective for fiscal years beginning after December 15, 2012. This statement improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November, 1989 FASB and AICPA Pronouncements*. The College has not yet determined the effect that the adoption of GASB Statement No. 66 may have on its financial statements.

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

NOTE 3 - CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents was as follows at June 30:

	2012		
	Current	Noncurrent	Total
Cash on deposit with the State Treasurer	\$ 5,742,474	\$ 41,075	\$ 5,783,549
Cash in bank	34,589	79,321	113,910
Cash on hand	7,400	-	7,400
	\$ 5,784,463	\$ 120,396	\$ 5,904,859

BLUEFIELD STATE COLLEGE
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 3 - CASH AND CASH EQUIVALENTS (Continued)

	2011		
	Current	Noncurrent	Total
Cash on deposit with the State Treasurer	\$ 7,554,306	\$ 41,073	\$ 7,595,379
Cash in bank	118,061	75,633	193,694
Cash on hand	7,400	-	7,400
	\$ 7,679,767	\$ 116,706	\$ 7,796,473

Cash held by the State Treasurer and cash in bank include for years ended June 30, 2012 and 2011 respectively, \$1,398,312 and \$3,474,474 of restricted cash for specific purposes by West Virginia State Code, grant resources and loan funds.

The combined carrying amount of cash in the bank was \$113,910 and \$193,694 as compared with the combined bank balance of \$301,058 and \$418,736 at June 30, 2012 and 2011, respectively. The difference is primarily caused by outstanding checks and items in transit. The bank balances were covered by federal depository insurance as noted below or were collateralized by securities held by the State's agent. Regarding federal depository insurance, interest bearing accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Non-interest bearing accounts are 100% insured through December 31, 2012. Balances in these accounts sometimes exceed the federal deposit insurance limits; however, management believes the banks to be creditworthy and believes that credit risk associated with these deposits is minimal. At June 30, 2012 and 2011 respectively, total bank balances exceeded federal deposit insurance by \$30,265 and \$147,998.

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

NOTE 3 - CASH AND CASH EQUIVALENTS (Continued)

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

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

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

At June 30, 2012 and 2011, the WV Money Market Pool investments had a total carrying value of \$2,786,968,000 and \$3,018,560,000, respectively, of which the College’s ownership represents 0.18% and 0.22% respectively.

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

BLUEFIELD STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 3 - CASH AND CASH EQUIVALENTS (Continued)

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

At June 30, 2012 and 2011, the WV Government Money Market Pool investments had a total carrying value of \$299,629,000 and \$262,692,000, respectively, of which the College's ownership represents 0.01% and 0.02%, respectively.

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

BLUEFIELD STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 3 - CASH AND CASH EQUIVALENTS (Continued)

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

* NR = Not Rated

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

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

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

At June 30, 2012 and 2011, the College's ownership represents 0.13% and 0.18%, 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.

BLUEFIELD STATE COLLEGE
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 3 - CASH AND CASH EQUIVALENTS (Continued)

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

Security Type	2012		2011	
	Carrying Value (In thousands)	WAM (Days)	Carrying Value (In thousands)	WAM (Days)
Repurchase agreements	\$ 90,204	3	\$ 84,357	1
U.S. Treasury notes	330,865	122	298,345	137
U.S. Treasury bills	237,978	37	231,051	34
Commercial paper	853,470	35	1,069,576	35
Certificates of deposit	110,000	10	140,000	58
U.S. agency discount notes	738,706	44	697,164	45
Corporate bonds and notes	36,000	48	127,000	20
U.S. agency bonds/notes	189,691	68	170,788	66
Money market funds	<u>200,054</u>	1	<u>200,279</u>	1
	<u>\$2,786,968</u>	46	<u>\$3,018,560</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 731 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	2012		2011	
	Carrying Value (In thousands)	WAM (Days)	Carrying Value (In thousands)	WAM (Days)
Repurchase agreements	\$ 91,900	3	\$ 98,400	1
U.S. Treasury notes	103,324	111	45,811	131
U.S. Treasury bills	4,999	62		
U.S. agency discount notes	76,397	52	60,852	74
U.S. agency bonds/notes	23,004	9	57,498	22
Money market funds	<u>5</u>	1	<u>131</u>	1
	<u>\$299,629</u>	54	<u>\$262,692</u>	45

BLUEFIELD STATE COLLEGE
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 3 - CASH AND CASH EQUIVALENTS (Continued)

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

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

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

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

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

BLUEFIELD STATE COLLEGE
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 3 - CASH AND CASH EQUIVALENTS (Continued)

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

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

NOTE 4 - ACCOUNTS RECEIVABLE

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

	<u>2012</u>	<u>2011</u>
Student tuition and fees, net of allowance for doubtful accounts of \$399,356 in 2012 and \$454,221 in 2011	\$ 173,822	\$ 249,197
Grants and contracts receivable	185,284	120,860
Other accounts receivable	<u>154,002</u>	<u>134,938</u>
Accounts receivable net	<u>\$ 513,108</u>	<u>\$ 504,995</u>

NOTE 5 - INVESTMENTS

As of June 30, 2012 and 2011 respectively, investments had a combined carrying value of \$392,980 and \$398,341 of which \$176,435 and \$180,732 is invested with First Community Bank and \$216,545 and \$217,609 is invested with First Century Bank, respectively. Of the funds invested with First Community Bank, 5% is invested in Federal Government Bonds, 1% is invested in fixed income securities and 94% is invested in a money market fund, the underlying securities of which were securities of the U.S. Government. Of the funds invested with First Century Bank, 68% is invested in equities, 29% is invested in fixed income securities and 3% is invested in money market funds, the underlying securities of which were securities of the Federated Government Obligation Tax Managed Fund and Goldman Sachs Financial Square Government Fund.

BLUEFIELD STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 5 - INVESTMENTS (Continued)

The investments are held with a third-party trustee. The money market funds invest in U.S. Government Securities and Federated Prime Value Obligation Funds. These funds are rated AAA by Standard and Poor's. The U.S. Government Securities are also rated Aaa by Moody's. The Federal Government Bonds are rated AAA by Standard and Poor's and Aaa by Moody's. The fixed income securities invest in Federal Home Loan Bank Bonds, Freddie Mac Notes and certificates of deposit under the CDARS program. The equity market securities, fixed income securities and limited partnerships are rated AAA by Standard and Poor's. Management believes that there is no significant custodial credit risk nor interest rate risk for any of the funds. Furthermore, the funds are not exposed to any significant concentration of credit risk nor any foreign currency risk.

NOTE 6 - CAPITAL ASSETS

The following is a summary of capital asset transactions for the College for the year ended June 30:

	2012			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	\$ 277,942	\$ -	\$ -	\$ 277,942
Construction in progress	<u>4,559,311</u>	<u>65,069</u>	<u>4,519,958</u>	<u>104,422</u>
Total capital assets not being depreciated	<u>\$ 4,837,253</u>	<u>\$ 65,069</u>	<u>\$ 4,519,958</u>	<u>\$ 382,364</u>
Other capital assets:				
Land improvements	\$ 4,381,817	\$ -	\$ -	\$ 4,381,817
Buildings	18,832,200	8,028,575	-	26,860,775
Equipment	3,589,463	352,230	169,277	3,772,416
Library books	<u>1,386,732</u>	<u>12,505</u>	<u>-</u>	<u>1,399,237</u>
Total other capital assets	<u>28,190,212</u>	<u>8,393,310</u>	<u>169,277</u>	<u>36,414,245</u>
Less accumulated depreciation for:				
Land improvements	1,790,705	290,751	-	2,081,456
Buildings	12,483,060	760,373	-	13,243,433
Equipment	2,918,442	309,948	162,175	3,066,215
Library books	<u>1,348,331</u>	<u>11,881</u>	<u>-</u>	<u>1,360,212</u>
Total accumulated depreciation	<u>18,540,538</u>	<u>1,372,953</u>	<u>162,175</u>	<u>19,751,316</u>
Other capital assets – net	<u>\$ 9,649,674</u>	<u>\$ 7,020,357</u>	<u>\$ 7,102</u>	<u>\$ 16,662,929</u>
Capital asset summary:				
Capital assets not being depreciated	\$ 4,837,253	\$ 65,069	\$ 4,519,958	\$ 382,364
Other capital assets	<u>28,190,212</u>	<u>8,393,310</u>	<u>169,277</u>	<u>36,414,245</u>
Total cost of capital assets	33,027,465	8,458,379	4,689,235	36,796,609
Less accumulated depreciation	<u>18,540,538</u>	<u>1,372,953</u>	<u>162,175</u>	<u>19,751,316</u>
Capital assets - net	<u>\$ 14,486,927</u>	<u>\$ 7,085,426</u>	<u>\$ 4,527,060</u>	<u>\$ 17,045,293</u>

BLUEFIELD STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 6 - CAPITAL ASSETS (Continued)

	2011			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	\$ 277,942	\$ -	\$ -	\$ 277,942
Construction in progress	<u>784,370</u>	<u>4,162,735</u>	<u>387,794</u>	<u>4,559,311</u>
Total capital assets not being depreciated	<u>\$ 1,062,312</u>	<u>\$ 4,162,735</u>	<u>\$ 387,794</u>	<u>\$ 4,837,253</u>
Other capital assets:				
Land improvements	\$ 4,381,817	\$ -	\$ -	\$ 4,381,817
Buildings	18,369,619	462,581	-	18,832,200
Equipment	3,787,082	199,512	397,131	3,589,463
Library books	<u>1,375,659</u>	<u>11,073</u>	<u>-</u>	<u>1,386,732</u>
Total other capital assets	<u>27,914,177</u>	<u>673,166</u>	<u>397,131</u>	<u>28,190,212</u>
Less accumulated depreciation for:				
Land improvements	1,499,953	290,752	-	1,790,705
Buildings	11,966,051	517,009	-	12,483,060
Equipment	3,040,101	271,574	393,233	2,918,442
Library books	<u>1,333,005</u>	<u>15,326</u>	<u>-</u>	<u>1,348,331</u>
Total accumulated depreciation	<u>17,839,110</u>	<u>1,094,661</u>	<u>393,233</u>	<u>18,540,538</u>
Other capital assets – net	<u>\$ 10,075,067</u>	<u>\$ (421,495)</u>	<u>\$ 3,898</u>	<u>\$ 9,649,674</u>
Capital asset summary:				
Capital assets not being depreciated	\$ 1,062,312	\$ 4,162,735	\$ 387,794	\$ 4,837,253
Other capital assets	<u>27,914,177</u>	<u>673,166</u>	<u>397,131</u>	<u>28,190,212</u>
Total cost of capital assets	28,976,489	4,835,901	784,925	33,027,465
Less accumulated depreciation	<u>17,839,110</u>	<u>1,094,661</u>	<u>393,233</u>	<u>18,540,538</u>
Capital assets – net	<u>\$ 11,137,379</u>	<u>\$ 3,741,240</u>	<u>\$ 391,692</u>	<u>\$ 14,486,927</u>

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

Title for certain real property is with the Commission.

The College has been approved to receive \$6.0 million of Education, Arts, Science and Tourism (EAST) bond proceeds issued by the West Virginia Development Office during August 2010. As of June 30, 2012, \$4,169,207 of such proceeds have been received. The West Virginia Development Office is responsible for repayment of the debt.

BLUEFIELD STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 6 - CAPITAL ASSETS (Continued)

At June 30, 2012, the College had outstanding contractual commitments of approximately \$275,526 for property, plant, and equipment expenditures.

NOTE 7 - LONG-TERM LIABILITIES

The following is a summary of long-term obligation transactions for the College for the year ended June 30:

	2012					
	Beginning				Ending	Current
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>Portion</u>	
Advances from federal sponsors	\$ 133,504	\$ -	\$ 35,176	\$ 98,328	\$ -	
Accrued compensated absences	714,237	1,326	-	715,563	449,728	
OPEB liability	3,468,088	1,828,877	401,420	4,895,545	-	
Debt obligation due Commission	<u>706,015</u>	<u>-</u>	<u>119,515</u>	<u>586,500</u>	<u>109,000</u>	
Total noncurrent liabilities	<u>\$ 5,021,844</u>	<u>\$ 1,830,203</u>	<u>\$ 556,111</u>	<u>\$ 6,295,936</u>	<u>\$ 558,728</u>	

	2011					
	Beginning				Ending	Current
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>Portion</u>	
Advances from federal sponsors	\$ 116,689	\$ 16,815	\$ -	\$ 133,504	\$ -	
Accrued compensated absences	718,778	-	4,541	714,237	437,956	
OPEB liability	2,018,298	1,833,138	383,348	3,468,088	-	
Debt obligation due Commission	<u>33,417</u>	<u>750,000</u>	<u>77,402</u>	<u>706,015</u>	<u>119,515</u>	
Total noncurrent liabilities	<u>\$ 2,887,182</u>	<u>\$ 2,599,953</u>	<u>\$ 465,291</u>	<u>\$ 5,021,844</u>	<u>\$ 557,471</u>	

NOTE 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, 2012 and 2011, the noncurrent liability related to OPEB costs was \$4,895,545 and \$3,468,088, respectively. The total of OPEB expense incurred and the amount of OPEB expense that relates to retirees was \$1,828,877 and \$401,420, respectively, during 2012, \$1,833,138 and \$383,348, respectively, during 2011 and \$1,898,447 and \$321,004 respectively, during 2010. As of the years ended June 30, 2012, 2011 and 2010, there were 25, 21, and 15 retirees receiving these benefits, respectively.

BLUEFIELD STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 9 - STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

The College is a State institution of higher education. It receives a State appropriation in partial support of its operations. In addition, the College 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 assesses each public institution of higher education for funds to meet the payment of debt service on these various bonds. The 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 a capital obligation of the Commission, an estimate of the obligation of each institution is reported as a long-term payable by each institution and as a receivable by the Commission. During 2012 and 2011, the College paid \$10,515 and \$22,902 to the Commission against the debt obligation. The amount due to Commission at June 30, 2012 is \$0.

During fiscal year 2011 the College entered into two capital project loans with the Higher Education Policy Commission in the amounts of \$410,000 and \$340,000 to fund an HVAC replacement project. The loan for \$410,000 is to be repaid over ten years in semi-annual payments of \$20,500 while the loan for \$340,000 is to be repaid over five years in semi-annual payments of \$34,000. During 2012 the College paid \$109,000 to the Commission against the loan. The amount due to the Commission at June 30, 2012 is \$586,500.

BLUEFIELD STATE COLLEGE
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 10 - UNRESTRICTED NET ASSETS

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

	<u>2012</u>	<u>2011</u>
Designated for repair and replacement	\$ 324,540	\$ 1,087,408
Undesignated	<u>4,229,139</u>	<u>5,088,316</u>
Total unrestricted net assets before OPEB liability	4,553,679	6,175,724
Less: OPEB liability	<u>4,895,545</u>	<u>3,468,088</u>
Total unrestricted net assets (deficit)	<u>\$ (341,866)</u>	<u>\$ 2,707,636</u>

NOTE 11 - RETIREMENT PLANS

Substantially all full-time employees of the College participate in either the West Virginia 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 new Educators Money 401(a) basic retirement plan. New hires have a choice of either plan. As of June 30, 2012, there were no employees enrolled in the new Educators Money 401(a) basic retirement plan.

The STRS is a cost sharing, multiple employer 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 accrued and paid its contribution to the STRS at the rate of 15% of each enrolled employee's total annual salary for the years ended June 30, 2012 and 2011. Required employee contributions were at the rate of 6% of total annual salary for the years ended June 30, 2012 and 2011. Participants in the STRS may retire with full benefits upon reaching age 60 with five years of service, age 55 with 30 years of service, or any age with 35 years of service. Lump-sum withdrawal of employee contributions is available upon termination of employment. Pension benefits are based upon 2% of final average salary (the highest five years' salaries out of the last 15 years) multiplied by the number of years of service.

BLUEFIELD STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 11 - RETIREMENT PLANS (Continued)

Total contributions to the STRS for the years ended June 30, 2012, 2011 and 2010 were \$176,308, \$178,789, and \$186,771 which consisted of \$125,934, \$127,706, and \$133,408, from the College, and \$50,374, \$51,083 and \$53,363 from the covered employees in 2012, 2011 and 2010, 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, 4101 MacCorkle Avenue S.E., Charleston, West Virginia 25304-1636.

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

Total contributions to the TIAA-CREF for the years ended June 30, 2012, 2011 and 2010 were \$1,098,434, \$1,101,252, and \$1,074,514 which consisted of equal contributions of \$549,217, \$550,626, and \$537,257, respectively, from both the College and covered employees.

The Great West benefit program is also available to new employees. Total contributions to the Great West for year ended June 30, 2012 2011, and 2010 were \$28,534, \$26,820, and \$23,582, which consisted of equal contributions \$14,267, \$13,410, and \$11,791, respectively, from both College and employees.

The College's total payroll for the years ended June 30, 2012, 2011 and 2010 was \$11,858,477, \$11,812,128, and \$11,501,909. Total covered employees' salaries in the STRS and TIAA-CREF and Great West were \$839,565, \$9,153,610, and \$237,790, respectively, in 2012; \$1,135,160, \$9,168,770, and \$223,500, respectively in 2011; and \$889,383, \$8,954,283, and \$196,516, respectively in 2010.

BLUEFIELD STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 12 - LEASES

The College leases a branch campus facility in the State. Rental payments for the facility were \$148,992 for the year end June 30, 2012. Following is a schedule of future minimum lease payments for the term of this operating lease.

Year Ending <u>June 30</u>	Rental <u>Payments</u>
2013	<u>\$ 149,000</u>

NOTE 13 - DISCRETELY PRESENTED COMPONENT UNITS

The Bluefield State College Foundation, Inc. (the "Foundation") is a separate nonprofit organization incorporated in the State of West Virginia and has as its purpose "...to aid, strengthen and further in every proper and useful way, the work and services of the College and its affiliated nonprofit organizations..." Oversight of the Foundation is the responsibility of a separate and independently elected Board of Directors, not otherwise affiliated with the College. In carrying out its responsibilities, the Board of Directors of the Foundation employs 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, that the Foundation holds and invests are 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. Complete financial statements for the Foundation can be obtained from the President of the Bluefield State College Foundation at College Avenue, Bluefield, Virginia 24605.

During the years ended June 30, 2012 and 2011, the Foundation contributed \$132,858 and \$114,907, to the College for scholarships and grants and employee compensation.

BLUEFIELD STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 13 - DISCRETELY PRESENTED COMPONENT UNITS (Continued)

The Bluefield State College Research and Development Corporation (the "Corporation") is a separate nonprofit organization incorporated in the State of West Virginia and has as its purpose "...form partnerships and develop commitments for assistance from a wide spectrum of community based organizations in both the public and private sectors. The corporation will work to identify and eliminate barriers that inhibit access to technology training and market based development activities in communities served by the College..." Oversight of the Corporation is the responsibility of a separate and independently elected Board of Directors, not otherwise affiliated with the College. In carrying out its responsibilities, the Board of Directors of the Corporation employs management, forms policy and maintains fiscal accountability over funds administered by the Corporation. Although the College does not control the timing or amount of receipts from the Corporation, the majority of resources, or income thereon, that the Corporation holds and invests are restricted to the activities of the College by donors or grant restrictions. Because these restricted resources held by the Corporation can only be used by, or for the benefit of, the College, the Corporation can only be used by, or for the benefit of, the College, the Corporation is considered a component unit of the College and is therefore discretely presented with the College's financial statements in accordance with GASB. Complete financial statements for the Corporation can be obtained from the President of the Bluefield State College Research and Development Corporation at 704 Bland Street, Bluefield, Virginia 24605.

NOTE 14 - AFFILIATED ORGANIZATIONS (UNAUDITED)

The College has separately incorporated affiliated organizations including the Center for Applied Research and Technology of Bluefield State College and the Bluefield State College Alumni Association. Oversight responsibility for these entities rests with independent boards and management not otherwise affiliated with the College. Accordingly, the financial statements of such organizations are not included in the accompanying combined financial statements under the blended component unit requirements. They are not included in the College's accompanying combined 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).

BLUEFIELD STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

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NOTE 15 - CONTINGENCIES

The nature of the educational industry is such that, from time to time, claims will be presented against colleges 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 impact the financial position of the College.

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

The 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 under Federal Environmental, Health and Safety Regulations to manage the presence of asbestos in its buildings in a safe condition. 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 condition.

NOTE 16 - COMPONENT UNIT DISCLOSURES

The following are the notes taken directly from the Foundation's (pages 50-60) and the Research and Development Corporation's (pages 61-69) financial statements starting on the following page:

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND OTHER MATTERS

Nature of Foundation:

Bluefield State College Foundation, Inc. (the "Foundation") is incorporated as a non-profit corporation under the laws of the State of West Virginia. The purpose of the Foundation is to provide for student scholarships and faculty and staff development at Bluefield State College (the "College").

The Foundation is managed by an independently elected Board of Directors not otherwise affiliated with the College. All contributions generally are for the benefit of the College and are administered by the Foundation.

Basis of accounting:

The financial statements of the Foundation have been prepared on the accrual basis of accounting.

Basis of financial statement presentation and accounting:

The accompanying financial statements present information regarding the Foundation's financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. The three classes are differentiated based on the existence or absence of donor-imposed restrictions, as described below:

Unrestricted net assets are free of donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties. Revenues, gains, and losses that are not temporarily or permanently restricted by donors are included in this classification. Expenses are reported as decreases in this classification.

Temporarily restricted net assets are limited in use by donor-imposed stipulations that expire either by the passage of time or that can be fulfilled by action of the Foundation pursuant to those stipulations.

Permanently restricted net assets are amounts required by donors to be held in perpetuity; however, the income on these assets is available to meet various restricted and other operating needs. These net assets primarily include permanent endowment funds and funds held in trust by others.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND OTHER MATTERS (Continued)

Cash and short-term investments:

The Foundation considers all highly liquid investments with maturity of three months or less when purchased to be cash and cash equivalents.

The money market investment accounts are approximately \$1,054,000 and \$787,000 for June 30, 2012 and 2011, respectively, and the principal underlying assets are securities of the U.S. Government, its agencies, authorities and instrumentality's and obligations of U.S. banks. The estimated fair value of short-term investments approximates cost. Cash equivalents are stated at cost, which approximates market value. Cash held for long-term investment is classified as investment.

Fund descriptions:

General Administrative Account - Funds that were released from Title III restrictions and internally restricted by the Foundation's Board for the purpose of ensuring funds be available for future administrative costs. Most donors elect for endow funds to be permanently restricted for scholarships and, following the market's downturns, the Board felt it necessary to set aside funds to cover needed future administrative costs.

Endowed Account - Funds permanently set aside by donors for specific uses with the majority designated for scholarships. The Robertson endowment; however, is for use by the library.

Peters Engineering Chair - Account endowed for use as directed by the Head of the Engineering Division.

FCB Title III and FCBT Title III - Funds set aside with one-half of the income allowed to be used by the Foundation as it chose until June 2010. Restrictions have been satisfied and the funds have now been released for the Foundation to use in any manner it feels is beneficial to Bluefield State College. The Board has determined to continue using one-half of the income for disbursements and has internally restricted the use of the remaining funds for future needs.

BSC General Foundation Account - Unrestricted funds and property held by the Foundation. Monies are used for administrative costs, discretionary funds for use by the President and Executive Director of the Foundation as approved by the Board and any other day-to-day costs of maintaining the Foundation.

Use of estimates:

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could vary from those estimates.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND OTHER MATTERS (Continued)

Contributions receivable:

Unconditional promises are recognized as revenue in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Promises are recorded at net realizable value if they are expected to be collected in one year and at fair value if they are expected to be collected in more than one year. Conditional promises are recognized when the conditions on which they depend are substantially met. Management believes all receivables to be fully collectible and accordingly there is no allowance for doubtful accounts.

Investments:

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the Statements of Financial Position. The fair value of investments in equities, bonds, U.S. securities, exchange traded mutual funds, and short-term assets is determined by reference to quoted market prices. Net unrealized and realized gains or losses are reflected in the Statements of Activities. Certain land and other investments, which are not readily marketable, are carried at cost.

Gifts of investments are recorded at their fair value (based on quotations or appraisals) at date of gift. Purchases and sales of investments are recorded on the trade date.

Income and realized and unrealized net gains on investments of endowment and similar net asset classes are reported as follows:

- As increases in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund;
- As increases in temporarily restricted net assets if the terms of the gift impose restrictions on the use of the income;
- As increases in unrestricted net assets in all other cases.

Assets whose use is limited:

Assets whose use is limited consist of assets internally designated by the Foundation for specific use. The Foundation retains control over these assets and may, at its discretion, subsequently use the assets for other purposes. These assets consist of cash and cash equivalents, investments, and other property. Cash and cash equivalents and investments within this category follow the same policies noted earlier for regular cash and cash equivalents (those whose use is not limited).

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND OTHER MATTERS (Continued)

Amounts held on behalf of others:

Amounts held on behalf of others are used to account for assets held by the Foundation as an agent. These funds are custodial by nature (assets equal liabilities) and do not involve measurement of operations.

Contributions:

Contributions, including unconditional promises to give or contributions receivable, are recognized as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions, in the period the donor's commitment is received. Unrestricted, unconditional promises to give for future operations are recognized as temporarily restricted revenues unless the donor explicitly stipulates its use to support current period activities.

Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as prior collection history, type of contribution, and nature of the fundraising activity.

Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the temporarily restricted net asset class, and a reclassification to unrestricted net assets is made to reflect the expiration of such restrictions.

The Foundation occasionally utilizes office space located in a college owned building and receives assistance in development and administration of the Foundation by an employee of the College.

The value of these services as well as other donated volunteer services are not reflected in the accompanying financial statements since there is no objective basis available by which to measure the value of such services.

Income tax status:

The Foundation is a non-profit organization exempt from federal income taxes under *Internal Revenue Code* Section 501(c)(3) based upon its determination letter dated October 16, 1969. In addition, the Foundation qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation within the meaning of Section 509(a) of the *Internal Revenue Code*.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND OTHER MATTERS (Continued)

The Federal Forms 990 of the Foundation for the fiscal years 2011, 2010, and 2009 are subject to examination by the Internal Revenue Service, generally for three years after they are filed.

Credit risk concentration:

Financial instruments, which potentially subject the Foundation to concentrations of credit risk, consist principally of cash and cash equivalents and investments. The Foundation places its temporary cash investments with high credit quality financial institutions and does not believe it is exposed to any significant credit risk on cash and cash equivalents. Concentration of credit risk for investments is limited by the Foundation's policy of diversification of investments.

Subsequent events:

Subsequent events have been evaluated through September 6, 2012, the date the financial statements were available to be issued.

NOTE 2 - CONTRIBUTIONS RECEIVABLE

Contributions receivable and the related allowance at June 30, 2012 and 2011, consist of:

	2012	2011
Unconditional promises to give	\$ 251,954	\$ 326,811
Less: Unamortized discount of 1.0% and 1.8% for 2012 and 2011, respectively	6,325	9,453
Net unconditional promises to give	\$ 245,629	\$ 317,358
Expected to be collected in:		
Less than one year	\$ 127,429	\$ 102,391
One to five years	118,200	214,967
	\$ 245,629	\$ 317,358

BLUEFIELD STATE COLLEGE FOUNDATION, INC.
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 2 - CONTRIBUTIONS RECEIVABLE (Continued)

The ownership of pledges receivable for each class of net assets as of June 30, 2012 and 2011, is as follows:

	2012	2011
Temporarily restricted	\$ 195,058	\$ 217,501
Permanently restricted	<u>50,571</u>	<u>99,857</u>
	<u>\$ 245,629</u>	<u>\$ 317,358</u>

NOTE 3 - INVESTMENTS

Investments are comprised of the following:

	2012	2011
Certificates of Deposits	\$ 395,000	\$ 410,000
Corporate and Municipal bonds and notes	626,943	471,556
United States Treasury, Government and other obligations	804,989	1,031,393
Equity investments	4,332,756	5,492,222
Mutual funds	1,691,878	280,644
Real estate	356,600	372,600
Limited partnership	<u>25,620</u>	<u>21,605</u>
	<u>\$ 8,233,786</u>	<u>\$ 8,080,020</u>

The ownership of investments for each class of net assets as of June 30, 2012 and 2011, is as follows:

	2012	2011
Unrestricted	\$ 6,997,833	\$ 6,715,985
Temporarily restricted	250,544	538,854
Permanently restricted	<u>985,409</u>	<u>825,181</u>
	<u>\$ 8,233,786</u>	<u>\$ 8,080,020</u>

Realized and unrealized gains (losses) recognized during the years ended June 30, 2012 and 2011, consisted of the following:

	2012	2011
Realized	\$ 6,956	\$ (8,351)
Unrealized	<u>209,065</u>	<u>1,213,165</u>
	<u>\$ 216,021</u>	<u>\$ 1,204,814</u>

BLUEFIELD STATE COLLEGE FOUNDATION, INC.
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 3 - INVESTMENTS (Continued)

Government obligations consist principally of obligations to the U.S. Treasury and agencies. Corporate obligations are concentrated in the financial services and utilities sectors. Corporate equities are diversified, with no significant industry concentrations.

NOTE 4 - UNRESTRICTED NET ASSETS

Unrestricted net assets as of June 30, 2012 and 2011, include the following:

	2012	2011
Designated:		
Investment in land, leased for charitable purposes	\$ 250,000	\$ 250,000
Internally restricted by Board	<u>6,601,420</u>	<u>6,321,092</u>
	<u>6,851,420</u>	<u>6,571,092</u>
Undesignated:		
Other	856,670	775,790
Investment in land	<u>106,600</u>	<u>122,600</u>
	<u>963,270</u>	<u>898,390</u>
	<u>\$ 7,814,690</u>	<u>\$ 7,469,482</u>

Land is leased to another non-profit entity for \$1 per year to assist in its charitable purpose. The lease renews in 10 year terms, but automatically terminates May 31, 2083 or if the land is not used for the stated purpose. The lease provides that the lessee must maintain liability coverage of one million dollars to protect the Foundation.

As of June 30, 2012, funds internally restricted by the Foundation's Board for the purpose of ensuring funds be available for future needs of the Foundation totaled \$6,238,395 and \$363,025 for administrative costs.

NOTE 5 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes or periods:

	2012	2011
Provide scholarship assistance and operations of the Foundation	\$ 434,812	\$ 562,760
Engineering technology department	<u>105,342</u>	<u>104,433</u>
	<u>\$ 540,154</u>	<u>\$ 667,193</u>

NOTE 6 - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets as of June 30, 2012 and 2011 are restricted to investment in perpetuity, the income from which is expendable to support:

	2012	2011
Engineering technology department	\$ 150,000	\$ 150,000
Financial aid	<u>1,183,640</u>	<u>1,130,381</u>
	<u>\$ 1,333,640</u>	<u>\$ 1,280,381</u>

NOTE 7 - FAIR VALUE MEASUREMENTS

The Plan's investments are reported at fair value in the accompanying statements of net assets available for benefits. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Plan believes its valuation methods are appropriate and consistent with those of other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels. Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority; Level 2 inputs consist of observable inputs other than quoted prices for identical assets; and Level 3 inputs consist of unobservable inputs and have the lowest priority. The Plan uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Plan measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs were used only when Level 1 or Level 2 inputs were not available.

Level 1 Fair Value Measurements

Cash and short-term investments have principal underlying assets which are securities of the U.S. government, its agencies, authorities and instrumentalities and obligations of U.S. banks. The estimated fair value approximates cost. Cash restricted for long-term is classified as investment and is stated at cost, which approximates market value. The fair value of investments in equities, bonds, U.S. securities, exchange traded mutual funds, and short-term assets is determined by reference to quoted market prices.

Level 3 Fair Value Measurement

Partnerships are valued and stated at estimated fair market value as determined in good faith by the trustee. Real estate is carried at cost.

Gains and losses (realized and unrealized) included in statements of activities are reported in net realized and unrealized gain (loss).

BLUEFIELD STATE COLLEGE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

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NOTE 7 - FAIR VALUE MEASUREMENTS (Continued)

	Fair Value	Fair Value Measurements at Reporting Date Using		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2012:				
Cash and short-term investments	\$ 969,282	\$ 969,282	\$ -	\$ -
Cash restricted for long-term investment	234,492	234,492	-	-
Investments:				
Certificates of deposits	395,000	395,000	-	-
Corporate and municipal bonds and notes	626,943	626,943	-	-
U.S. treasury, government and other obligations	804,989	804,989	-	-
Equity investments	4,332,756	4,332,756	-	-
Mutual funds	1,691,878	1,691,878	-	-
Real estate	356,600	-	-	356,600
Limited partnership	25,620	-	-	25,620
	<u>\$ 9,437,560</u>	<u>\$ 9,055,340</u>	<u>\$ -</u>	<u>\$ 382,220</u>
June 30, 2011:				
Cash and short-term investments	\$ 887,830	\$ 887,830	\$ -	\$ -
Cash restricted for long-term investment	136,846	136,846	-	-
Investments:				
Certificates of deposits	410,000	410,000	-	-
Corporate and municipal bonds and notes	471,556	471,556	-	-
U.S. treasury, government and other obligations	1,031,393	1,031,393	-	-
Equity investments	5,492,222	5,492,222	-	-
Mutual funds	280,644	280,644	-	-
Real estate	372,600	-	-	372,600
Limited partnership	21,605	-	-	21,605
	<u>\$ 9,104,696</u>	<u>\$ 8,710,491</u>	<u>\$ -</u>	<u>\$ 394,205</u>

NOTE 7 - FAIR VALUE MEASUREMENTS (Continued)

Level 3 Gains and Losses:

The following table sets forth a summary of changes in the fair value of the Foundation's level 3 assets for the years ended June 30, 2012 and 2011. Gains and losses (realized and unrealized) included in earnings for the year are reported as non-interest income.

	2012	2011
Balance, beginning of year	\$ 394,205	\$ 390,285
Purchases, sales, issuances and settlements	(16,000)	-
Unrealized gains relating to assets still held at year end	4,015	3,920
Balance, end of year	\$ 382,220	\$ 394,205

NOTE 8 - RELATED PARTY TRANSACTIONS

Certain local financial institutions hold substantially all the Foundation's assets in their trust departments. Some of the Foundation's board members also serve as officers and directors of these institutions. The Foundation paid \$17,362 and \$15,914 in management fees to these related parties for the years ended June 30, 2012 and 2011, respectively.

NOTE 9 - FUNCTIONAL ALLOCATION OF EXPENSES

Expenses are reported on a functional basis that discloses the purposes for which the expenses have been incurred. A brief description of each of the functional classifications follows:

College support – Funds expended primarily to provide support services for Bluefield State College. It includes scholarships awarded to the students and the provision of services that directly assist the academic functions, such as faculty development, as well as capital projects.

Foundation fund raising expenses – Expenses related to community and alumni relations, including development and fund raising.

Financial management expenses – Expenses incurred principally for (1) central executive-level activities concerned with management of day-to-day operations and long-range planning, (2) legal and fiscal operations, and (3) administrative data processing.

BLUEFIELD STATE COLLEGE FOUNDATION, INC.
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 10 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions when expenses were incurred to satisfy the restricted purposes or by occurrence of other events as specified by donors. Restrictions were satisfied as follows for the years ended June 30, 2012 and 2011:

	2012	2011
Operating:		
Financial aid	\$ 160,525	\$ 28,473
General operations	-	-
Institutional support	71,604	375,360
Release of Title III to unrestricted funds	-	5,074,626
Reclassification to FHFO	-	11,407
Reclassifications to permanent funds	-	16,428
	\$ 232,129	\$ 5,506,294

BLUEFIELD STATE COLLEGE RESEARCH & DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF ACTIVITIES - Bluefield State College Research & Development Corporation (the "Corporation"), is organized for the purpose of operating a non-profit organization exclusively for charitable, educational and scientific purposes within the meaning of Section 501(c) (3) of the Internal Revenue Code. In 2008, the Corporation purchased a college dormitory facility to house students. Revenues are derived from federal, state or private sources in the form of grants. The majority of revenues are derived from office space rent to start-up businesses and dormitory rooms rented to students.

The Corporation provides most of its resources for the benefit of Bluefield State College. Furthermore, because of the relationship with Bluefield State College the Corporation is considered a discretely presented component unit of the Bluefield State College.

BASIS OF ACCOUNTING - The financial statements of the Corporation have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

BASIS OF PRESENTATION - Financial statement presentation follows the requirements of the Financial Accounting Standards Board and report using accounting principles generally accepted in the United States of America. The Corporation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

USE OF ESTIMATES - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS - For purposes of the statements of cash flows, the Corporation considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. Cash restricted for funds held for others was \$120,338 and \$115,087 for the years ended June 30, 2012 and 2011, respectively.

The Corporation maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Corporation has not experienced any losses in such accounts. The Corporation believes that the bank is credit worthy and that it is not exposed to any significant credit risk on cash and cash equivalents.

BLUEFIELD STATE COLLEGE RESEARCH & DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

RECEIVABLES - The Corporation has receivables from grants, other State Agencies and also leases office space to businesses and dormitory rooms to students based on contractual agreements. Receivables are stated at face amount with an allowance for doubtful accounts, based on historical collection experience, and an evaluation of the accounts receivables are deemed delinquent based on billing due dates or other contractual terms, with no interest accrued. When accounts are deemed uncollectible, they are charged against the allowance. The allowance for bad debt expense for the years ended June 30, 2012 and 2011 was \$59,843 and \$13,402, respectively.

INVENTORIES - Inventories consisting of food items are stated at the lower of cost or market, with cost determined primarily on the first-in, first-out method.

FUNDS HELD FOR OTHERS - Funds held for others are used to account for assets held by the Corporation as an agent. These funds are custodial by nature (assets equal liabilities) and do not involve measurement of operations.

PROPERTY AND EQUIPMENT - Property and equipment are stated at cost at the date of acquisition or fair value at the date of the gift, less accumulated depreciation. Additions, improvements and expenditures that materially improve or extend the life of an asset are capitalized. The Corporation utilizes a capitalization threshold of \$5,000. Maintenance and repairs are charged to expense as incurred. Upon retirement or sale of an asset, its cost and related accumulated depreciation are removed from the property accounts. Depreciation is calculated on the straight-line method over the estimated useful lives of the depreciable assets.

INTANGIBLES - As part of the dormitory facility purchase in 2008, the Corporation has recorded a covenant not to compete, amortized over the life of the agreement, and facility start up costs, amortized over 15 years, in the amount of \$111,042. Accumulated amortization for the years ended June 30, 2012 and 2011 was \$38,485 and \$29,933, respectively.

IMPAIRMENT OF PROPERTY AND EQUIPMENT - If facts and circumstances suggest that property or equipment may be impaired, the carrying value is reviewed for recoverability. If this review indicates that the carrying value of the asset will not be recovered, as determined based on projected undiscounted cash flows related to the asset over its remaining life, the carrying value of the asset is reduced to its estimated fair value through an impairment loss. An impairment loss of \$183,610 was recognized in other expense for the year ended June 30, 2011 related to the valuation of property and equipment. There was no impairment loss recognized for the year ended June 30, 2012.

BLUEFIELD STATE COLLEGE RESEARCH & DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ACCOUNTS PAYABLE AND ACCRUED EXPENSES - Accounts payable and accrued expenses consist primarily of expenses incurred for the operation of the Mountain View Dormitory and related payroll liabilities. Related party payables due to Bluefield State College as of the years ended June 30, 2012 and 2011 were \$36,005 and \$56,955, respectively.

DEFERRED REVENUE - Deferred revenue consists of grants that have been received for a specific purpose, but have not yet met revenue recognition criteria.

UNRESTRICTED NET ASSETS - The unrestricted category consists of funds whose use is limited only to the extent that the Corporation's bylaws limit the activities of the organization. Contributions with donor-imposed restrictions met in the same year in which the contribution is recognized are reported as changes in unrestricted net assets.

TEMPORARILY RESTRICTED NET ASSETS - Temporarily restricted net assets are comprised of funds whose use has been limited by donors to a specific time period and/or purpose. The Corporation currently has no temporarily restricted net assets.

PERMANENTLY RESTRICTED NET ASSETS - Permanently restricted net assets are comprised of funds whose use have been restricted by the donor and must be maintained permanently by the Corporation. The Corporation currently has no permanently restricted net assets.

SUPPORT AND REVENUE - Support received under conditional contracts and grants are reported as deferred revenue until qualifying expenses have been incurred or other conditions have been substantially met. Contracts and grants receivable represent amounts expected to be received after year-end on approved grants. Deferred revenue represents amounts received or receivable in advance of incurring the related expenditures. Cash received but not yet expended for these contracts is restricted to the purposes of the contribution or contract.

CONTRIBUTED SERVICES, SUPPLIES, AND SPACE - Contributions of services are recognized if the services received create or enhance nonfinancial assets, or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributed services and promises to give services that do not meet the above criteria are not recognized. Contributed services that are recognized are valued at the estimated cost that would have been incurred by the Corporation to purchase similar services. Donated space is valued at the estimated fair rental value. Donations of occupancy costs and other non-inventory items are expensed during the year the contributions are provided.

BLUEFIELD STATE COLLEGE RESEARCH & DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FUNCTIONAL REPORTING - Expenses are reported on a functional basis that discloses the purposes for which the expenses have been incurred. A brief description of each of the functional classifications is as follows:

- Program Services - Represent funds expended primarily to provide support for certain federal, state and private research and development programs.
- Management and General - Represent expenses incurred principally for (1) executive level activities concerned with management of the operations, (2) legal and fiscal operations, and (3) other administrative related expenses.
- Fundraising - Represents expenses related to community and other development costs expended to perform fundraising for the Corporation. The Corporation had no fundraising expenditures for the years ended June 30, 2012 and 2011.

CONCENTRATIONS - Approximately 25% and 12% of the Corporation's support was provided by grants from the Federal Government for the years ended June 30, 2012 and 2011, respectively.

INCOME TAX STATUS - The Corporation is exempt from federal income tax on its exempt purpose activities as an organization described in Section 501(c)(3) of the Internal Revenue Code. Effective July 1, 2010, the Corporation adopted ASC Topic 740-10, Accounting for Uncertainty in Income Taxes, which prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than not to be sustained upon examination by taxing authorities. For the year ended June 30, 2012, the Corporation has no material uncertain tax positions to be accounted for in the financial statements under the new rules. The Corporation recognized interest and penalties, if any, related to unrecognized tax benefits in interest expense. As of June 30, 2012 tax years ending on or after June 30, 2009 in each jurisdiction remain subject to examination.

BLUEFIELD STATE COLLEGE RESEARCH & DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 2 - RECEIVABLES

The following is a summary of receivables due the Corporation under grant or lease contractual agreements at June 30:

	<u>2012</u>	<u>2011</u>
NASA grants	\$ 5,000	\$ 5,000
IDEA Network of Biomedical Research Excellence grants	28,387	11,813
Health Science Technology Academy grants	10,120	6,119
Morehouse School of Medicine grant	2,727	-
Student rent receivable	60,203	26,136
Related party receivable	-	18,887
Other accounts receivables	1,979	39,283
Allowance for doubtful accounts	<u>(59,843)</u>	<u>(13,402)</u>
	<u>\$ 48,573</u>	<u>\$ 93,836</u>

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2012</u>	<u>2011</u>
Land	\$ 492,289	\$ 492,289
Land improvements	7,076	7,076
Buildings	4,710,547	4,710,547
Furniture and fixtures	<u>152,292</u>	<u>152,292</u>
	5,362,204	5,362,204
Less accumulated depreciation	<u>(1,122,319)</u>	<u>(850,064)</u>
	<u>\$ 4,239,885</u>	<u>\$ 4,512,140</u>

Depreciation expense for the years ended June 30, 2012 and 2011 was \$272,255 and \$259,472, respectively.

BLUEFIELD STATE COLLEGE RESEARCH & DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 4 - LONG TERM DEBT

Long-term debt consisted of the following at June 30:

	<u>2012</u>	<u>2011</u>
<p>The Corporation borrowed \$1.8 million in January 2008 by issuing bonds through the City of Bluefield. The bonds mature in 2028. Bond proceeds were used to purchase a dormitory facility. Monthly payments are \$12,392 including a fixed rate of interest at 5.5% per annum. The debt is secured by land, building, furniture, fixtures and equipment. The debt agreement also contains a number of financial covenants. The Corporation is in compliance with all such covenants.</p>	\$ 1,552,753	\$ 1,614,093
<p>The Corporation assumed \$2.0 million in debt as part of a transaction where the Corporation acquired a dormitory facility. Debt is secured by a second lien on land, building, furniture, fixtures and equipment. Annual payments are \$100,000 including a fixed rate of interest at 5.0% per annum.</p>	<u>2,000,000</u> 3,552,753	<u>2,000,000</u> 3,614,093
<p>Less current portion:</p>	<u>64,800</u>	<u>61,340</u>
<p>Long-term portion</p>	<u>\$ 3,487,953</u>	<u>\$ 3,552,753</u>

Debt matures as follows at June 30:

2013	\$ 64,800
2014	68,455
2015	72,316
2016	76,395
2017	80,705
Thereafter	<u>3,190,082</u>
	<u>\$ 3,552,753</u>

Interest expense was \$187,239 and \$190,344 for the years ended June 30, 2012 and 2011, respectively.

BLUEFIELD STATE COLLEGE RESEARCH & DEVELOPMENT CORPORATION
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 5 - LEASES

The Corporation leases office space to various third party businesses under operating lease agreements. The building in which the office space is leased was impaired during fiscal year 2011. The cost of the building was valued at \$0 in the statement of financial position at June 30, 2012.

Aggregate rental income from the lease agreements was approximately \$74,000 and \$75,000 for the years ended June 30, 2012 and 2011, respectively. Future minimum rentals are as follows at June 30:

2013	\$ 36,945
2014	16,988
2015	<u>1,800</u>
	<u>\$ 55,733</u>

NOTE 6 - CONTINGENCIES

Under the terms of federal and state 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 Corporation's management believes disallowances, if any, will not have a significant financial impact on the Corporation's financial position.

BLUEFIELD STATE COLLEGE RESEARCH & DEVELOPMENT CORPORATION
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 7 - DETAILS OF PROGRAM SERVICES AND SUPPORT SERVICES

Details of Program Services and Support Services at June 30 are as follows:

	<u>2012</u>	<u>2011</u>
Federal Programs		
National Institutes of Health/Department of Health and Human Services Grant	\$ 66,283	\$ 91,491
Marshall University Research/IDEA Network of Biomedical Research Excellence Grant	202,643	123,596
NASA Grant	8,191	4,893
West Virginia University Health Science Technology Academy Grant	21,910	22,547
MayaTech Corporation Grant	95,236	
Morehouse School of Medicine Grant	285	4,253
	<u>394,548</u>	<u>246,780</u>
State Programs		
Tobacco Control Grant	3,747	4,241
Bluefield State College International Initiatives	4,376	1,068
Tierney Grant	219	-
	<u>8,342</u>	<u>5,309</u>
Private and Unrestricted Programs		
Mountainview Dormitory Facility	935,727	954,138
WV Humanities Council Grant	1,499	1,231
American Electric Power Grant	952	-
Norfolk Southern Grant	-	164
	<u>938,178</u>	<u>955,533</u>
Support Services		
Management and General	<u>232,195</u>	<u>222,343</u>
	<u>\$ 1,573,263</u>	<u>\$ 1,429,965</u>

BLUEFIELD STATE COLLEGE RESEARCH & DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 8 - NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The natural classifications with functional classifications at June 30 are as follows:

	Salaries and <u>Wages</u>	Benefits	Supplies and Other <u>Services</u>	<u>Utilities</u>	Scholarships Fellowships and Support <u>Services</u>	Depreciation and <u>Amortization</u>	Interest <u>Expense</u>	<u>Total</u>
2012								
Research	\$ 45,700	\$ 11,476	\$ 42,805	\$ -	\$ -	\$ -	\$ -	\$ 99,981
Student support	-	-	-	-	490,064	-	-	490,064
Depreciation and amortization	-	-	-	-	-	280,807	-	280,807
Interest expense	-	-	-	-	-	-	187,239	187,239
Other	<u>114,050</u>	<u>25,470</u>	<u>165,840</u>	<u>209,812</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>515,172</u>
	<u>\$159,750</u>	<u>\$ 36,946</u>	<u>\$208,645</u>	<u>\$209,812</u>	<u>\$ 490,064</u>	<u>\$ 280,807</u>	<u>\$ 187,239</u>	<u>\$1,573,263</u>
2011								
Research	\$ 44,011	\$ 10,379	\$ 77,997	\$ -	\$ -	\$ -	\$ -	\$ 132,387
Student support	-	-	-	-	409,580	-	-	409,580
Depreciation and amortization	-	-	-	-	-	268,024	-	268,024
Interest Expense	-	-	-	-	-	-	190,344	190,344
Other	<u>34,335</u>	<u>9,795</u>	<u>104,090</u>	<u>281,410</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>429,630</u>
	<u>\$ 78,346</u>	<u>\$ 20,174</u>	<u>\$182,087</u>	<u>\$281,410</u>	<u>\$ 409,580</u>	<u>\$ 268,024</u>	<u>\$ 190,344</u>	<u>\$1,429,965</u>

NOTE 9 - SUBSEQUENT EVENTS

Subsequent to June 30, 2012, the Corporation entered into negotiations with a third party to sell the Mountainview Student and Conference Center. The negotiations are currently ongoing and management believes a potential sales price, less related sales costs, would cover the net book value of the assets.

In preparing these financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through September 6, 2012, the date the financial statements were issued.

BLUEFIELD STATE COLLEGE
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 17 - NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

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

2012

	<u>Salaries and Wages</u>	<u>Benefits</u>	<u>Supplies and Other Services</u>	<u>Utilities</u>	<u>Scholarships and Fellowships</u>	<u>Depreciation</u>	<u>Fees Assessed by Commission</u>	<u>Total</u>
Instruction	\$ 6,288,983	\$ 2,188,758	\$ 858,909	\$ 5	\$ -	\$ -	\$ -	\$ 9,336,655
Research	77,478	29,343	12,746	-	-	-	-	119,567
Public service	211,422	91,725	324,295	1	-	-	-	627,443
Academic support	637,659	249,355	331,959	690	-	-	-	1,219,663
Student services	1,188,736	426,689	360,890	699	-	-	-	1,977,014
General institutional support	2,128,278	807,627	895,642	86,726	-	-	-	3,918,273
Operations and maintenance of plant	765,134	316,961	1,356,081	443,165	-	-	-	2,881,341
Student financial aid	-	-	-	-	1,795,462	-	-	1,795,462
Auxiliary enterprises	535,463	196,753	1,131,107	52,045	-	-	-	1,915,368
Depreciation	-	-	-	-	-	1,372,953	-	1,372,953
Other	-	-	-	-	-	-	88,503	88,503
Total	\$ 11,833,153	\$ 4,307,211	\$ 5,271,629	\$ 583,331	\$ 1,795,462	\$ 1,372,953	\$ 88,503	\$ 25,252,242

2011

	<u>Salaries and Wages</u>	<u>Benefits</u>	<u>Supplies and Other Services</u>	<u>Utilities</u>	<u>Scholarships and Fellowships</u>	<u>Depreciation</u>	<u>Fees Assessed by Commission</u>	<u>Total</u>
Instruction	\$ 6,595,821	\$ 2,256,179	\$ 798,882	\$ 52	\$ -	\$ -	\$ -	\$ 9,650,934
Research	47,629	17,441	70,717	-	-	-	-	135,787
Public service	205,868	86,887	140,623	-	-	-	-	433,378
Academic support	609,381	234,686	506,326	638	-	-	-	1,351,031
Student services	1,177,914	426,759	413,652	638	-	-	-	2,018,963
General institutional support	2,049,041	762,457	975,383	64,454	-	-	-	3,851,335
Operations and maintenance of plant	692,908	300,359	665,320	480,064	-	-	-	2,138,651
Student financial aid	-	-	-	-	2,493,954	-	-	2,493,954
Auxiliary enterprises	495,354	188,616	1,071,411	71,108	-	-	-	1,826,489
Depreciation	-	-	-	-	-	1,094,661	-	1,094,661
Other	-	-	-	-	-	-	88,263	88,263
Total	\$ 11,873,916	\$ 4,273,384	\$ 4,642,314	\$ 616,954	\$ 2,493,954	\$ 1,094,661	\$ 88,263	\$ 25,083,446



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
Bluefield State College
Bluefield, West Virginia

We have audited the financial statements of Bluefield State College (the "College") as of and for the year ended June 30, 2012, and have issued our report thereon dated October 23, 2012, which states reliance on other auditors for the discretely presented component unit. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of The Bluefield State College Foundation, Inc., as described in our report on the College's financial statements. The financial statements of The Bluefield State College Foundation, Inc. and the Bluefield State College Research and Development Corporation were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to management of the College in a separate letter dated October 23, 2012.

This report is intended solely for the information and use of the College's management, the Members of the College's Governing Board, the West Virginia Higher Education Policy Commission, federal and state awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than those specified parties.



Charleston, West Virginia
October 23, 2012