

**Kanawha Valley Community
and Technical College**

Financial Statements
Years Ended June 30, 2012 and 2011

And

Independent Auditors' Reports

KANAWHA VALLEY COMMUNITY AND TECHNICAL COLLEGE

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the business-type activities, of Kanawha Valley Community and Technical College (the College), as of and for the year ended June 30, 2012, which collectively comprise the College's 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 opinions on these financial statements based on our audit. The financial statements of the College, as of and for the year ended June 30, 2011 were audited by other auditors whose report dated December 13, 2011, expressed an unqualified opinion on those statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, of the College, as of June 30, 2012, and the respective changes in financial position, and, where applicable, cash flows, 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 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standard generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in cursive script that reads "Settle & Stalaker, PLLC".

Charleston, West Virginia
October 23, 2012

**KANAWHA VALLEY COMMUNITY AND TECHNICAL COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2012**

History

Kanawha Valley Community and Technical College ("Kanawha Valley" or the "College") is a State-supported institution within the West Virginia Council for Community and Technical College Education. Kanawha Valley offers certificate and associate-degree programs primarily in energy, health, and technical areas and customized training in these respective fields through workforce development. Until April 2004, Kanawha Valley was a component of West Virginia State University ("WVSU"). Kanawha Valley became independently accredited by the Higher Learning Commission of the North Central Association in October 2004, while still under the WVSU Board of Governors. In accordance with House Bill 3215 passed by the West Virginia State Legislature ("the Legislature") in its 2008 session, Kanawha Valley became a separate entity effective July 1, 2008, with a separate Board of Governors, and received net assets transferred from WVSU as of this date.

In April 2009, the Board of Governors officially changed the college name to Kanawha Valley Community and Technical College. During fiscal year 2011-12, Kanawha Valley continued with the transitioning, which began during the previous fiscal year to operate as a standalone college by hiring separate academic support, student services, and financial personnel. The College also hired additional full-time and part-time faculty to offer the majority of the classes directly to Kanawha Valley students beginning with fall of 2011. The College received funds during 2010 as part of the Community and Technical College lottery funds in the amount of \$13.5 million and began renovating building 2000 at the WV Regional Technology Park which the College leases through the WV Regional Technology Park Corporation. Kanawha Valley began fiscal year 2013 at the new campus location at the WV Regional Technology Park. This move completed the transition to a standalone community and technical college.

Overview

The Management's Discussion and Analysis is required supplementary information and has been prepared in accordance with the requirements of Governmental Accounting Standards Board ("GASB") standards. This section of Kanawha Valley's annual financial report provides an overview of the College's financial performance during the fiscal years ended June 30, 2012, 2011, and 2010, with a focus on 2012. A comparative analysis is presented for fiscal year 2012 compared to fiscal year 2011.

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

Financial Highlights

At June 30, 2012, Kanawha Valley's total net assets were \$11,933,933 representing an increase of \$11,116,418 compared with FY 2011 and an increase of \$11,292,037 compared with FY 2010. This increase in net assets, FY 2012 compared with FY 2011 as well as FY 2010, was primarily attributable to increases in net capital assets.

FY 2012 operating revenues were up over FY 2011 by \$882,304 with a slight increase in tuition and fees revenues along with an increase in state grant revenues. FY 2012 operating revenues increased over 50% or \$2,025,777 from FY 2010. These increases were primarily in tuition and fees and state grants.

**KANAWHA VALLEY COMMUNITY AND TECHNICAL COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2012**

FY 2012 operating expenses increased slightly less than 3% or \$372,499 over FY 2011 primarily due to an increase in salaries and benefits offset by a reduction in student financial aid and a reduction in supplies and other services. FY 2012 operating expenses increased slightly more than 7% or \$988,081 over FY 2010 with increases reflected in most expenses offset by a reduction in expenses related to charges from WVSU.

Net nonoperating revenues were nearly level for FY 2012 compared with FY 2011 and FY 2010.

Net Assets

The statement of net assets present the assets (current and noncurrent), liabilities (current and noncurrent), and net assets (assets minus liabilities) of the College as of the end of the fiscal year. Assets denote the resources available to continue the operations of the College. Liabilities indicate how much the College owes vendors, employees and lenders. Net assets measure the equity or the availability of funds of the College for future periods.

Net Assets are displayed in three major categories:

Invested in capital assets, net of related debt. This category represents the College's total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted net assets. This category includes net assets, the use of which is restricted, either due to externally imposed constraints or because of restrictions imposed by law. They are further divided into two additional components – nonexpendable and expendable. **Nonexpendable restricted net assets** include endowment and similar type funds for which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income, which may either be expended or added to principal. **Expendable restricted net assets** include resources for which the College is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties. The College has no restricted net assets.

Unrestricted net assets. This category includes resources that are not subject to externally imposed stipulations. Such resources are derived primarily from tuition and fees (not restricted as to use), state appropriations, and sales and services of educational activities. Unrestricted net 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 College's management or the Board of Governors.

**KANAWHA VALLEY COMMUNITY AND TECHNICAL COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2012**

Condensed Schedules of Net Assets

	<u>As of June 30</u>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Assets			
Current assets	\$ 3,230,584	\$ 2,840,104	\$ 3,481,918
Noncurrent assets	<u>14,169,201</u>	<u>1,666,050</u>	<u>124,610</u>
Total assets	<u>\$ 17,399,785</u>	<u>\$ 4,506,154</u>	<u>\$ 3,606,528</u>
Liabilities			
Current liabilities	\$ 3,292,969	\$ 2,542,613	\$ 2,338,410
Noncurrent liabilities	<u>2,172,883</u>	<u>1,146,026</u>	<u>626,222</u>
Total liabilities	<u>\$ 5,465,852</u>	<u>\$ 3,688,639</u>	<u>\$ 2,964,632</u>
Net assets			
Invested in capital assets	\$ 13,669,201	\$ 1,666,050	-
Unrestricted (deficit)	<u>(1,735,268)</u>	<u>(848,535)</u>	<u>641,896</u>
Total net assets	<u>\$ 11,933,933</u>	<u>\$ 817,515</u>	<u>\$ 641,896</u>

Total FY 2012 net assets increased by \$11,116,418 over FY 2011 and increased by \$11,292,037 over FY 2010. The increase (from FY 2012 compared with both FY 2011 and FY 2010) was primarily due to an increase in net capital assets. Specifics related to the changes in FY 2012 compared with FY 2011 are as follows:

- Capital assets – net increase of \$12,503,151 was primarily due to increases in construction in progress related to the renovations of the building that became the new College campus at the end of FY 2012.
- Cash and cash equivalents decreased by \$1,323,154 primarily due to spending from prior year fund balances especially in the College's tuition and fee fund balances as the College incurred additional transitional expenses associated with the separation from WVSU. Grant funds were depleted as grants came to an end.
- Due from the Council/Commission increased by \$1,490,374 primarily related to unpaid construction related items that were accrued at the end of FY 2012.

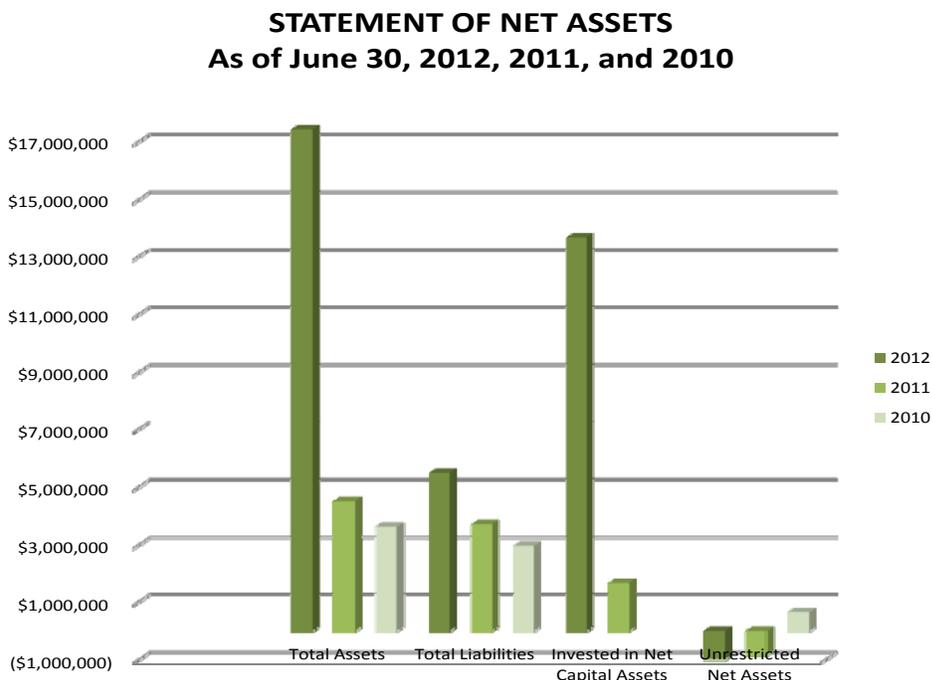
Total liabilities increased by \$1,777,213 over FY 2011 and \$2,501,220 over FY 2010. Specifics related to the changes in FY 2012 compared with FY 2011 are as follows:

- Other short-term obligations increased by \$989,401, due to an unpaid furniture invoice of \$984,136 received at year end related to the furniture for the new building.

**KANAWHA VALLEY COMMUNITY AND TECHNICAL COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2012**

- OPEB liability increased by \$577,005 partially due to the continued lack of State contributions for the last three years in the West Virginia Retiree Health Benefit Trust Fund (the "Trust") on behalf of Kanawha Valley. The OPEB liability represents Kanawha Valley's accumulated unpaid annual required contribution. The Trust accumulates and manages funds for retiree health benefits under a defined benefit cost-sharing multiple employer OPEB plan. The Public Employees Insurance Agency (PEIA) has been assigned the responsibility for the administration of the Trust. PEIA invoices the participants in the State's OPEB Plan, including the College, on a monthly basis, its contractually required contribution based on current health insurance policy holders. During the 2012 legislative session, the State took proactive measures to address this unfunded liability, which will take effect in future fiscal years and fully fund the liability by 2037.
- Debt obligation to the Commission (both current and long-term) increased by \$450,980 related to a new loan from the Commission related to additional funding for the building leasehold improvements at the new campus location.
- Deferred revenue decreased by \$396,703 primarily related to the spending down of some of the old grants partially offset by new state grants.

The following is a comparative illustration of the Statement of Net Assets.



**KANAWHA VALLEY COMMUNITY AND TECHNICAL COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2012**

Revenues, Expenses, and Changes in Net Assets

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

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

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

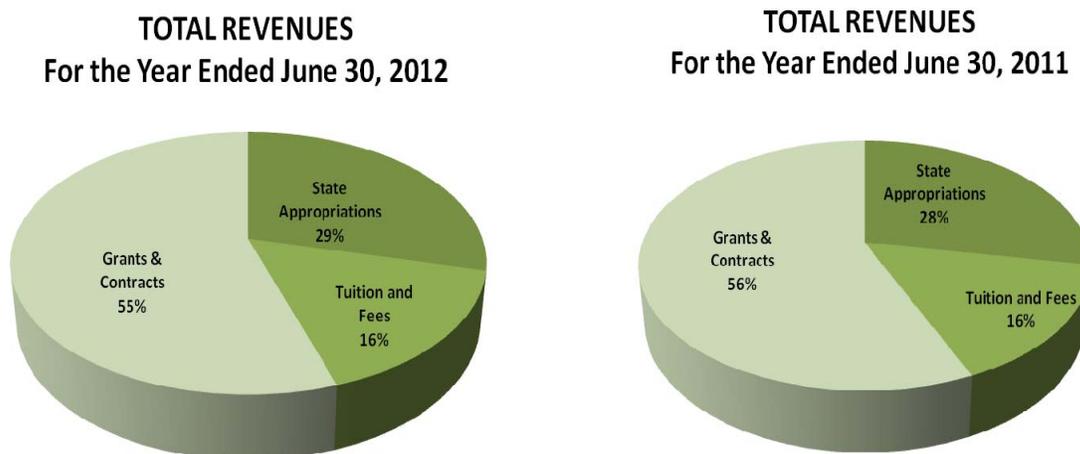
Condensed Schedules of Revenues, Expenses, and Changes in Net Assets

	<u>As of June 30</u>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating Revenues	\$ 6,030,463	\$ 5,148,159	\$ 4,004,686
Operating Expenses	<u>15,010,813</u>	<u>14,638,314</u>	<u>14,022,732</u>
Operating Loss	(8,980,350)	(9,490,155)	(10,018,046)
Net Nonoperating Revenues	<u>8,196,939</u>	<u>8,250,970</u>	<u>8,217,981</u>
Decrease in net assets before revenue, expenses, gains or losses, and transfer	(783,411)	(1,239,185)	(1,800,065)
Capital Grants and Gifts and Payments on Behalf	10,900,444	1,334,596	14,212
Bond Proceeds from the Commission	999,385	-	-
Transfer of Net Assets from WVSU	<u>-</u>	<u>80,208</u>	<u>-</u>
Increase (Decrease) in Net Assets	11,116,418	175,619	(1,785,853)
Net Assets at Beginning of Year	<u>817,515</u>	<u>641,896</u>	<u>2,427,749</u>
Net Assets and End of Year	<u>\$ 11,933,933</u>	<u>\$ 817,515</u>	<u>\$ 641,896</u>

**KANAWHA VALLEY COMMUNITY AND TECHNICAL COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2012**

Revenues:

The following chart illustrates the composition of revenues by source for 2012 and 2011.



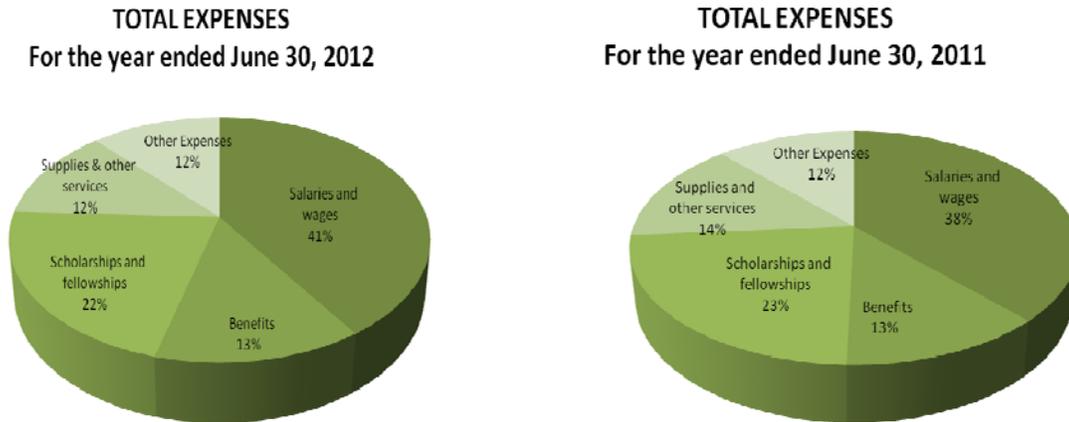
The most significant sources of revenue for the College are State appropriations, tuition and fees, and grants and contracts. Operating revenues for FY 2012 were above FY 2011 by \$882,304 and significantly above FY 2010 by \$2,025,777. Net nonoperating revenues in FY 2012 were very similar compared with FY 2011 with a slight decrease of \$54,031. Specifics related to the changes in revenues in FY 2012 compared with FY 2011 are as follows:

- State contracts and grants revenue increased by \$673,956 primarily related to the timing of new grants versus the completion of old grants.
- State appropriations increased by \$374,780, due to restoration of prior years' budget reductions that had been back filled by Federal American Recovery and Reinvestment Act funds and reported as grant revenue in the same amount. Also the State awarded funds for a 2% salary increase in the amount of \$63,508.
- State fiscal stabilization funds decreased by \$311,867 due to the end of the Federal American Recovery and Reinvestment Act program.
- Net tuition and fee revenue increased by \$199,304, primarily related to a modest annual tuition increase of \$126 for FY 2012.

**KANAWHA VALLEY COMMUNITY AND TECHNICAL COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2012**

Expenses:

The following is a graphic illustration of total expenses by source for fiscal years 2012 and 2011.



Total expenses for FY 2012 were \$15,023,432, an increase of \$370,935 over FY 2011. Specifics related to the changes in expenses in FY 2012 compared with FY 2011 are as follows:

- Salaries and wages increased by \$545,645, primarily related to Board approved salary increases for all employees not eligible for classified step increases (salary pool was 2%), faculty promotions and classified step increases.
- Benefits increased by \$199,586, due to an increase in salaries and wages and an increase in compensated absences liability for annual leave due to the addition of new employees.
- Supplies and other services decreased by \$236,768, due to the reduction of new equipment and other purchases in FY 2011 related to new employees hired in this previous fiscal year. Also there were one-time expenditures in FY 2011 related to Banner consulting as the College transitioned over to a new operating system not incurred in FY 2012.
- Scholarship and fellowship expense decreased by \$174,544, mainly due to less SEOG scholarships received offset by increases in state and other scholarships.

**KANAWHA VALLEY COMMUNITY AND TECHNICAL COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2012**

Cash Flows

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

The statement of cash flows is divided into five sections:

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

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

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

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

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

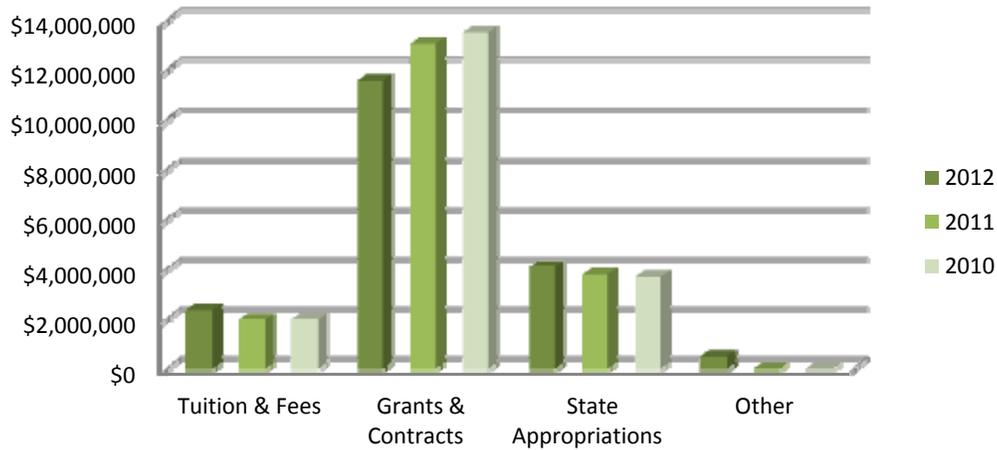
Condensed Schedules of Cash Flows
Years Ending June 30

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Cash provided (used) by:			
Operating activities	\$ (9,285,964)	\$ (8,730,306)	\$ (8,908,586)
Noncapital financing activities	8,197,789	8,275,760	8,179,588
Capital and related financing activities	(236,430)	(282,026)	(197,226)
Investing activities	<u>1,451</u>	<u>6,152</u>	<u>7,451</u>
Decrease in Cash and Cash Equivalents	(1,323,154)	(730,420)	(918,733)
Cash and Cash Equivalents, Beginning of Year	<u>2,527,112</u>	<u>3,257,532</u>	<u>4,176,305</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,203,958</u>	<u>\$ 2,527,112</u>	<u>\$ 3,257,532</u>

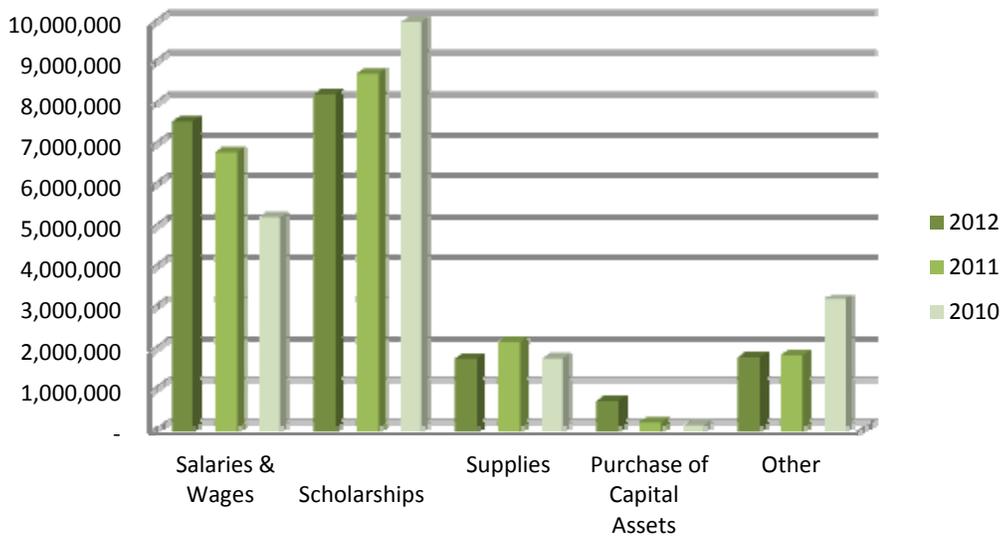
**KANAWHA VALLEY COMMUNITY AND TECHNICAL COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2012**

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

**SOURCES OF CASH
Fiscal Years 2012, 2011, and 2010**



**USES OF CASH
Fiscal Years 2012, 2011, and 2010**



**KANAWHA VALLEY COMMUNITY AND TECHNICAL COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2012**

Capital Asset and Long Term Debt Activity

During FY 2011, Kanawha Valley obtained \$1,334,596 of the \$13.5 million bond funds which was spent as payment for the design and renovations for the new college campus to be located at the WV Regional Technology Park. These renovations were expected to be completed in 2012.

During FY 2012, Kanawha Valley obtained an additional \$10,900,444 of the \$13.5 million bond funds making the total capital payments made on behalf of Kanawha Valley \$12,249,252. Additionally, the Commission transferred bond proceeds in the amount of \$999,385 for payment of furniture and equipment related to the construction. These payments/transfers made a cumulative amount spent from bond funds of \$13,248,637. The College relocated to the new college campus at the end of FY 2012. Final payments to vendors will be done during FY 2013 as remaining construction is completed and all equipment related to the new location is installed.

Kanawha Valley continued to make scheduled debt service payments in FY 2012 and made the final payment in FY 2012 for the debt issued by the WV Higher Education Policy Commission. System debt associated with the Council's \$13.5 million bonds is being repaid through the use of through the lottery funds. The College entered into a new energy savings loan with the Commission in the amount of \$500,000 to help further fund construction and equipment related to the new campus. This loan will be paid during the next ten years.

Economic Outlook

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

Recently, at the end of fiscal year 2012, the College moved to a new campus located at 2001 Union Carbide Drive in South Charleston. This location is strategically placed in the WV Regional Technology Park. While enrollment projections are currently level with fall of 2011, the College anticipates future enrollment growth as marketing efforts promote the new location and expanded facilities. The majority of the funding for this 85,000 square foot new campus was primarily from the higher education bonds, the proceeds of which will be paid with lottery funds.

The College has a strong workforce development partnership with the region's employers. Additionally, the College is developing several new partnerships focused on the needs and demands of regional employers, such as programs in health care, energy, and the chemical industry.

During fiscal year 2012, the College set up the Kanawha Valley Community and Technical College Foundation, Inc., received approval from the IRS as a 501(c)(3), and received transfer of all funds previously held at West Virginia State University's Foundation and Research Corporation. These measures will allow College personnel to begin fund raising to help strengthen the College's financial operations. Additional measures include securing grants especially to offset costs for starting new academic programs. The College is in a position to remain financially stable and anticipates strengthening financial operations especially with growth anticipated from the new location.

KANAWHA VALLEY COMMUNITY AND TECHNICAL COLLEGE
 STATEMENTS OF NET ASSETS
 JUNE 30, 2012 AND 2011

ASSETS	<u>2012</u>	<u>2011</u>
Current assets		
Cash and cash equivalents	\$ 1,203,958	\$ 2,527,112
Due from the Council/Commission	1,492,008	1,634
Accounts receivable — net	<u>534,618</u>	<u>311,358</u>
Total current assets	3,230,584	2,840,104
Noncurrent assets		
Capital assets — net	<u>14,169,201</u>	<u>1,666,050</u>
Total assets	<u>17,399,785</u>	<u>4,506,154</u>
LIABILITIES		
Current liabilities		
Accounts payable	230,574	139,974
Due to Council/Commission	122,949	9,970
Accrued liabilities	492,279	498,111
Due to State agencies	72,958	163,780
Compensated absences — current portion	218,697	168,944
Other short term obligations	989,401	-
Debt obligation due to Commission — current portion	50,000	49,020
Deferred revenue	<u>1,116,111</u>	<u>1,512,814</u>
Total current liabilities	<u>3,292,969</u>	<u>2,542,613</u>
Noncurrent liabilities		
Other postemployment benefits liability	1,636,118	1,059,113
Compensated absences	86,765	86,913
Debt obligation due to Commission	<u>450,000</u>	<u>-</u>
Total noncurrent liabilities	<u>2,172,883</u>	<u>1,146,026</u>
Total liabilities	<u>5,465,852</u>	<u>3,688,639</u>
NET ASSETS		
Invested in capital assets	13,669,201	1,666,050
Unrestricted (deficit) assets	<u>(1,735,268)</u>	<u>(848,535)</u>
Total net assets	<u>\$ 11,933,933</u>	<u>\$ 817,515</u>

The Accompanying Notes Are An Integral
 Part Of These Financial Statements

KANAWHA VALLEY COMMUNITY AND TECHNICAL COLLEGE
 STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET 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 \$2,107,796 in 2012 and \$2,160,837 in 2011	\$ 2,286,483	\$ 2,087,179
Contracts and grants:		
Federal	136,057	154,846
State	3,398,450	2,724,494
Private	<u>209,473</u>	<u>181,640</u>
Total operating revenues	<u>6,030,463</u>	<u>5,148,159</u>
Operating expenses		
Salaries and wages	6,106,193	5,560,548
Benefits	2,025,540	1,825,954
Supplies and other services	1,854,551	2,091,319
Utilities	53,296	38,649
Student financial aid — scholarships and fellowships	3,243,031	3,417,575
Depreciation	71,803	48,618
Fees assessed by the Commission for operations	56,399	55,651
Charges from West Virginia State University	<u>1,600,000</u>	<u>1,600,000</u>
Total operating expenses	<u>15,010,813</u>	<u>14,638,314</u>
Operating loss	<u>(8,980,350)</u>	<u>(9,490,155)</u>
Nonoperating revenues (expenses)		
State appropriations	4,112,421	3,737,641
State fiscal stabilization funds (federal)	-	311,867
Pell Grant revenue	4,095,686	4,209,493
Investment income	1,451	6,152
Loss on disposal	(2,301)	-
Fees assessed by the Commission	<u>(10,318)</u>	<u>(14,183)</u>
Net nonoperating revenues	<u>8,196,939</u>	<u>8,250,970</u>
Decrease in net assets before revenue, expenses, gains or losses, and transfer	(783,411)	(1,239,185)
Transfer of assets from West Virginia State University	-	80,208
Bond proceeds from the Commission	999,385	-
Payments made and expenses incurred on behalf of Kanawha Valley Community and Technical College	<u>10,900,444</u>	<u>1,334,596</u>
Increase in net assets	11,116,418	175,619
Net assets — beginning of year	<u>817,515</u>	<u>641,896</u>
Net assets — end of year	<u>\$ 11,933,933</u>	<u>\$ 817,515</u>

KANAWHA VALLEY COMMUNITY AND TECHNICAL 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	\$ 2,378,978	\$ 1,984,339
Contracts and grants	2,540,533	3,306,925
Payments to and on behalf of employees	(7,510,955)	(6,779,655)
Payments to suppliers	(1,741,794)	(2,130,040)
Charges from West Virginia State University	(1,600,000)	(1,600,000)
Payments for utilities	(53,296)	(38,649)
Payments for scholarships and fellowships	(3,243,031)	(3,417,575)
Fees retained by the Commission	<u>(56,399)</u>	<u>(55,651)</u>
Net cash used in operating activities	<u>(9,285,964)</u>	<u>(8,730,306)</u>
Cash flows from noncapital financing activities		
State appropriations	4,112,421	3,770,360
State fiscal stabilization funds (federal)	-	311,867
Federal student loan program — direct lending receipts	4,955,266	5,274,508
Federal student loan program — direct lending payments	(4,955,266)	(5,276,285)
Pell Grant revenue	4,095,686	4,209,493
Fees assessed by the Commission	<u>(10,318)</u>	<u>(14,183)</u>
Net cash provided by noncapital financing activities	<u>8,197,789</u>	<u>8,275,760</u>
Cash flows from capital financing activities		
Purchases and construction of capital assets	(687,410)	(175,254)
Payment to the Commission for debt service	(49,020)	(106,772)
Proceeds from the Commission	<u>500,000</u>	<u>-</u>
Net cash provided by (used in) capital financing activities	<u>(236,430)</u>	<u>(282,026)</u>
Cash flows from investing activities		
Interest on investments	<u>1,451</u>	<u>6,152</u>
Net cash provided by investing activities	<u>1,451</u>	<u>6,152</u>
Decrease in cash and cash equivalents	(1,323,154)	(730,420)
Cash and cash equivalents — Beginning of year	<u>2,527,112</u>	<u>3,257,532</u>
Cash and cash equivalents — End of year	<u>\$ 1,203,958</u>	<u>\$ 2,527,112</u>
Reconciliation of net operating loss to net cash used in operating activities		
Operating loss	\$ (8,980,350)	\$ (9,490,155)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation expense	71,803	48,618
Changes in assets and liabilities:		
Due from the Commission/Council	(490,990)	(878)
Accounts receivable — net	(223,260)	(118,670)
Accounts payable	90,600	(191,052)
Due to the Commission/Council	112,979	9,970
Accrued liabilities	(5,832)	(18,068)
Due to State agencies	(90,822)	142,362
Compensated absences	49,605	62,325
Deferred revenue	(396,702)	262,652
Other postemployment benefits liability	<u>577,005</u>	<u>562,590</u>
Net cash used in operating activities	<u>\$ (9,285,964)</u>	<u>\$ (8,730,306)</u>
Noncash transactions — Capital additions	<u>\$ 11,889,845</u>	<u>\$ 1,414,804</u>

KANAWHA VALLEY COMMUNITY AND TECHNICAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

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NOTE 1 - ORGANIZATION

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Financial Statement Presentation — GASB establishes standards for external financial reporting for public colleges and universities and requires that financial statements be presented on a combined basis to focus on the College as a whole. Net 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:

KANAWHA VALLEY COMMUNITY AND TECHNICAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

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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 accumulated depreciation and outstanding debt obligations related to those capital assets. To the extent debt has been incurred, but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted Net Assets — Expendable — This includes resources for which the College is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties. The College does not have any restricted expendable net assets at June 30, 2012 or 2011.

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

Restricted Net 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. The College does not have any restricted nonexpendable net assets at June 30, 2012 and 2011.

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

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

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

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

KANAWHA VALLEY COMMUNITY AND TECHNICAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

Capital Assets — Capital assets include construction in progress, leasehold improvements and equipment. Capital assets are stated at cost at the date of acquisition or construction, or fair market value at the date of donation in the case of gifts. The capital assets transferred in were recorded at net book value. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 20–50 years for buildings and infrastructure, 20 years for land improvements and library books, and 3–10 years for furniture and equipment. The College capitalizes all purchases of library books and uses a capitalization threshold of \$5,000 for other capital assets.

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

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>.

KANAWHA VALLEY COMMUNITY AND TECHNICAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

KANAWHA VALLEY COMMUNITY AND TECHNICAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 s paid by the employers. BrickStreet retains the risk related to the compensation of injured employees under the program.

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

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

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

Other Revenues — Other revenues consist primarily of capital gains and gifts.

Use of Restricted Net 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 unsubsidized loans directly to students, through universities like the College. Direct student loan receivables are not included in the College's statements of net assets as the loans are repayable directly to the U.S. Department of Education. In 2012 and 2011, the College received and disbursed approximately \$4.9 million and \$5.2 million, respectively, under the Federal Direct Student Loan Program on behalf of the U.S. Department of Education, which is not included as revenue and expense on the statements of revenues, expenses, and changes in net 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 College 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 \$4.2 million and \$4.3 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.

KANAWHA VALLEY COMMUNITY AND TECHNICAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

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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 nonprofit organization under federal income tax laws and regulations of the Internal Revenue Service.

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

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

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

Newly Adopted Statements Issued by the Governmental Accounting Standards Board — During 2012, 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.

KANAWHA VALLEY COMMUNITY AND TECHNICAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

**KANAWHA VALLEY COMMUNITY AND TECHNICAL 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. 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.

Reclassifications — Certain amounts in the 2011 financial statements have been reclassified to conform to the 2012 presentation. The reclassification was a reduction of \$915,581 to both state grant revenue and financial aid expense in FY 2011. The impact of the reclassification on FY 2011 net assets was \$0.

NOTE 3 - CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents as of June 30, 2012 and 2011, are held as follows:

	<u>2012</u>	<u>2011</u>
State Treasurer	\$ 1,045,485	\$ 2,587,704
In bank	<u>158,473</u>	<u>(60,592)</u>
	<u>\$ 1,203,958</u>	<u>\$ 2,527,112</u>

The combined carrying amount of cash in the bank was \$158,473 and \$(60,592) as compared with the combined bank balance of \$179,335 and \$20,780 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.

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

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

KANAWHA VALLEY COMMUNITY AND TECHNICAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 3 - CASH AND CASH EQUIVALENTS (CONTINUED)

WV Money Market Pool — Credit Risk — Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. For the years ended June 30, 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 0.03% and 0.08%, 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.

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 0.00% and 0.01%, 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):

KANAWHA VALLEY COMMUNITY AND TECHNICAL 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-	6,709	1.33			
		<u>151,248</u>	<u>30.03</u>	<u>104,295</u>	<u>22.00</u>	
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	AAAm	41,610	8.26	96,287	20.32
			<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 0.02% and 0.06%, respectively, of these amounts held by the BTI.

KANAWHA VALLEY COMMUNITY AND TECHNICAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 3 - CASH AND CASH EQUIVALENTS (CONTINUED)

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

The overall weighted average maturity of the investments of the WV Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase, except for government floating rate notes, which can be up to 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

KANAWHA VALLEY COMMUNITY AND TECHNICAL 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	<u>2012</u>		<u>2011</u>	
	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	<u>41,610</u>	1	<u>96,287</u>	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.

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.

KANAWHA VALLEY COMMUNITY AND TECHNICAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 3 - CASH AND CASH EQUIVALENTS (CONTINUED)

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

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2012 and 2011, is as follows:

	<u>2012</u>	<u>2011</u>
Student tuition and fees — net of allowance for doubtful accounts of \$480,390 in 2012 and \$313,367 in 2011	\$ 172,609	\$ 235,807
Due from other higher education and other State agencies	18,533	2,439
Grants receivable	334,660	60,245
Other accounts receivable	<u>8,816</u>	<u>12,867</u>
	<u>\$ 534,618</u>	<u>\$ 311,358</u>

NOTE 5 - CAPITAL ASSETS

A summary of capital assets transactions for the College as of June 30, 2012 and 2011, is as follows:

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

KANAWHA VALLEY COMMUNITY AND TECHNICAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 5 - CAPITAL ASSETS (CONTINUED)

	2011				
	Beginning Balance	Transfers	Additions	Reductions	Ending Balance
Capital assets not being depreciated:					
Land	\$ -	\$ -	\$ -	\$ -	\$ -
Construction in progress	<u>14,212</u>	<u>-</u>	<u>1,334,596</u>	<u>-</u>	<u>1,348,808</u>
Total capital assets not being depreciated	<u>\$ 14,212</u>	<u>\$ -</u>	<u>\$ 1,334,596</u>	<u>\$ -</u>	<u>\$ 1,348,808</u>
Other capital assets:					
Equipment	<u>\$ 195,062</u>	<u>\$ 80,208</u>	<u>\$ 175,254</u>	<u>\$ -</u>	<u>\$ 450,524</u>
Less accumulated depreciation for:					
Equipment	<u>(84,664)</u>	<u>-</u>	<u>(48,618)</u>	<u>-</u>	<u>(133,282)</u>
Total accumulated depreciation	<u>(84,664)</u>	<u>-</u>	<u>(48,618)</u>	<u>-</u>	<u>(133,282)</u>
Other capital assets – net	<u>\$ 124,610</u>	<u>\$ 80,208</u>	<u>\$ 1,461,232</u>	<u>\$ -</u>	<u>\$ 1,666,050</u>

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

NOTE 6 - LONG-TERM LIABILITIES

A summary of long-term obligation transactions for the College for the years ended June 30, 2012 and 2011, is as follows:

	2012				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated absences	\$ 255,857	\$ 49,605	\$ -	\$ 305,462	\$ 218,697
Other post employment benefits liability	1,059,113	577,005	-	1,636,118	-
Debt obligation due to the Commission	<u>49,020</u>	<u>500,000</u>	<u>(49,020)</u>	<u>500,000</u>	<u>50,000</u>
Total long-term liabilities	<u>\$ 1,363,990</u>	<u>\$ 1,126,610</u>	<u>\$ (49,020)</u>	<u>\$ 2,441,580</u>	<u>\$ 268,697</u>
	2011				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated absences	\$ 193,532	\$ 62,325	\$ -	\$ 255,857	\$ 168,944
Other post employment benefits liability	496,523	562,590	-	1,059,113	-
Debt obligation due to the Commission	<u>155,792</u>	<u>-</u>	<u>(106,772)</u>	<u>49,020</u>	<u>49,020</u>
Total long-term liabilities	<u>\$ 845,847</u>	<u>\$ 624,915</u>	<u>\$ (106,772)</u>	<u>\$ 1,363,990</u>	<u>\$ 217,964</u>

KANAWHA VALLEY COMMUNITY AND TECHNICAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS

In accordance with GASB, OPEB costs are accrued based upon invoices received from PEIA based upon actuarial determined amounts. At June 30, 2012 and 2011, the noncurrent liability related to OPEB costs was \$1,636,118 and \$1,059,113, respectively. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was \$760,672 and \$183,667, respectively, during 2012, \$562,590 and \$143,936, respectively, during 2011, and \$423,744 and \$82,828, respectively, during 2010. As of the years ended June 30, 2012, 2011 and 2010, there are six, five and two retirees, respectively, receiving these benefits.

NOTE 8 - OPERATING LEASES

The College leases various buildings and equipment under operating lease agreements. Total rental expense for the years ended June 30, 2012 and 2011, was \$148,226 and \$138,042, respectively.

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

Year Ending <u>June 30</u>	Rental <u>Payments</u>
2013	\$ <u>73,906</u>
	\$ <u>73,906</u>

NOTE 9 - STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

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

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

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

**KANAWHA VALLEY COMMUNITY AND TECHNICAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011**

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

Debt service assessed for the years ended June 30, 2012 and 2011, is as follows:

	<u>2012</u>	<u>2011</u>
Principal	\$ 49,020	\$ 106,772
Interest	1,961	5,965
Other	<u>8,357</u>	<u>8,217</u>
	<u>\$ 59,338</u>	<u>\$ 120,954</u>

During December 2009, the Commission, on behalf of the Council, issued \$78,295,000 of Community and Technical Colleges Improvement Revenue Bonds, 2009 Series A (the "2009 Bonds"). The proceeds of the 2009 Bonds will be used to finance the acquisition, construction, equipping, or improvement of community and technical college facilities in West Virginia. The bond projects listed in the bond offering for the 2009 Bonds proposes bond funding of \$13,500,000 for the College. As of June 30, 2012, \$13,248,637 has been recognized by the College. State lottery funds will be used to repay the debt.

During fiscal year 2012 the College entered into an interest free capital project loan with the Higher Education Policy Commission in the amount of \$500,000 to fund an HVAC replacement project. The loan is to be repaid over ten years in quarterly payments of \$12,500. The amount due to the Commission at June 30, 2012 is \$500,000.

NOTE 10 - UNRESTRICTED NET ASSETS

The College did not have any designated unrestricted net assets as of June 30, 2012 and 2011.

	<u>2012</u>	<u>2011</u>
Total unrestricted net assets (deficit) before OPEB liability	\$ (99,150)	\$ 210,578
Less: OPEB liability	<u>1,636,118</u>	<u>1,059,113</u>
Total unrestricted net assets (deficit)	<u>\$ (1,735,268)</u>	<u>\$ (848,535)</u>

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

KANAWHA VALLEY COMMUNITY AND TECHNICAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

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NOTE 11 - RETIREMENT PLANS

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

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

The STRS is a cost-sharing, defined benefit, public employee retirement system. Employer and employee contribution rates are established annually by the West Virginia State Legislature. The contractual maximum contribution rate is 15%. The College accrued and paid its contribution to the STRS at the rate of 15% of each enrolled employee's total annual salary for the year ended June 30, 2011. Required employee contributions were at the rate of 10% of total annual salary for the year ended June 30, 2012. Participants in the STRS may retire with full benefits upon reaching age 60 with five years of service, age 55 with 30 years of service, or any age with 35 years of service. Lump-sum withdrawal of employee contributions is available upon termination of employment. Pension benefits are based upon 2% of final average salary (the highest five years' salary out of the last 15 years) multiplied by the number of years of service.

Total contributions to the STRS for the years ended June 30, 2012, 2011, and 2010, were \$24,245, \$25,014, and \$34,857, respectively, which consisted of \$15,685, \$16,547, and \$23,628, respectively, from the College and \$8,560, \$8,467, and \$11,229, respectively, from the covered employees.

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

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

Total contributions to the TIAA-CREF for the years ended June 30, 2012, 2011, and 2010, was \$577,666, \$518,802, and \$391,298, respectively, which consisted of \$288,833, \$259,401, and \$195,649, respectively, from the College and the covered employees.

KANAWHA VALLEY COMMUNITY AND TECHNICAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

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NOTE 11 - RETIREMENT PLANS (CONTINUED)

Total contributions to the Educators Money for the years ended June 30, 2012, 2011, and 2010, were \$16,484, \$13,382, and \$12,570, respectively, which consisted of \$8,242, \$6,691, and \$6,285, respectively, from both the College and covered employees.

The College's total payroll for the years ended June 30, 2012, 2011 and 2010, were \$4,859,938, \$4,575,963 and \$3,552,725, respectively, and total covered employees' salaries in the STRS, TIAA-CREF, and Educators Money were \$142,669, \$4,579,905, and \$137,364, respectively, in 2012, \$141,102, \$4,323,342, and \$111,519, respectively, in 2011, and \$187,164, \$3,260,809 and \$104,752, respectively in 2010.

NOTE 12 - CONTINGENCIES

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

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

The Internal Revenue Code of 1986 establishes rules and regulations for arbitrage rebates. There are no arbitrage rebate liabilities that have been recorded in the financial statements as of June 30, 2012 and 2011.

KANAWHA VALLEY COMMUNITY AND TECHNICAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 13 - NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

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

2012								
	Salaries and <u>Wages</u>	Benefits	Supplies and Other <u>Services</u>	Utilities	Scholarships and <u>Fellowships</u>	Depreciation	Fees Assessed by <u>Commission</u>	<u>Total</u>
Instruction	\$ 3,834,105	\$ 1,309,634	\$ 471,847	\$ 11,191	\$ -	\$ -	\$ -	\$ 5,626,777
Public service	756,339	166,970	453,488	9,518	59,255	-	-	1,445,570
Academic support	249,550	95,046	180,527	50	-	-	-	525,173
Student services	338,760	151,341	84,161	2,179	-	-	-	576,441
General institutional support	853,672	302,549	2,254,507	30,358	-	-	-	3,441,086
Operations and maintenance of plant	-	-	9,991	-	-	-	-	9,991
Student financial aid	73,767	-	30	-	3,183,776	-	-	3,257,573
Depreciation	-	-	-	-	-	71,803	-	71,803
Fees assessed by the Commission	-	-	-	-	-	-	56,399	56,399
Total	\$ 6,106,193	\$ 2,025,540	\$ 3,454,551	\$ 53,296	\$ 3,243,031	\$ 71,803	\$ 56,399	\$ 15,010,813

2011								
	Salaries and <u>Wages</u>	Benefits	Supplies and Other <u>Services</u>	Utilities	Scholarships and <u>Fellowships</u>	Depreciation	Fees Assessed by <u>Commission</u>	<u>Total</u>
Instruction	\$ 3,729,453	\$ 1,111,016	\$ 551,765	\$ (2,204)	\$ (6,068)	\$ -	\$ -	\$ 5,383,962
Public service	310,627	70,053	518,058	8,658	92,435	-	-	999,831
Academic support	297,800	100,183	239,751	406	-	-	-	638,140
Student services	396,804	156,016	131,119	500	28,339	-	-	712,778
General institutional support	741,816	388,686	2,248,022	6,989	4,373	-	-	3,389,886
Operations and maintenance of plant	-	-	2,437	24,300	-	-	-	26,737
Student financial aid	84,048	-	167	-	3,298,496	-	-	3,382,711
Depreciation	-	-	-	-	-	48,618	-	48,618
Fees assessed by the Commission	-	-	-	-	-	-	55,651	55,651
Total	\$ 5,560,548	\$ 1,825,954	\$ 3,691,319	\$ 38,649	\$ 3,417,575	\$ 48,618	\$ 55,651	\$ 14,638,314

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



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

To the Governing Board of
Kanawha Valley Community and Technical College

We have audited the financial statements of Kanawha Valley Community and Technical College (the "College") as of and for the year ended June 30, 2012, and have issued our report thereon dated October 23, 2012. 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.

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, 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 would not necessarily identify all deficiencies in internal control 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 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 Kanawha Valley Community and Technical College Governing Board, management of the College, and the West Virginia Council for Community and Technical College Education, federal and state awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Suttle & Stalnak, PLLC".

Charleston, West Virginia
October 23, 2012