

Eastern Gateway Community College

**Basic Financial Statements
June 30, 2013**



Dave Yost • Auditor of State

Board of Trustees
Eastern Gateway Community College
4000 Sunset Boulevard
Steubenville, Ohio 43952

We have reviewed the *Independent Auditor's Report* of the Eastern Gateway Community College, Jefferson County, prepared by Ciuni & Panichi, Inc., for the audit period July 1, 2012 through June 30, 2013. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Eastern Gateway Community College is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

January 6, 2014

This page intentionally left blank.

Eastern Gateway Community College

For the Year Ended June 30, 2013

<u>Table of Contents</u>	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Statement of Net Position	7
Statement of Revenues, Expenses, and Changes in Net Position	9
Statement of Cash Flows	10
Notes to Financial Statements	12
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	29
Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133	31
Schedule of Expenditures of Federal Awards	34
Notes to Schedule of Expenditures of Federal Awards	35
Schedule of Findings OMB Circular A-133 Section .505	36

This page intentionally left blank.

Independent Auditor's Report

Board of Trustees
Eastern Gateway Community College
Steubenville, Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component unit of the Eastern Gateway Community College (the "College"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component unit of the College, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2013 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* in considering the College's internal control over financial reporting and compliance.

Cini & Paricki, Inc.

Cleveland, Ohio
December 20, 2013

EASTERN GATEWAY COMMUNITY COLLEGE
Management's Discussion and Analysis (MD&A)
For the Year Ended June 30, 2013

This section of Eastern Gateway Community College's (the "College" or "EGCC") Annual Financial Report presents management's discussion and analysis of the College's financial activity during the fiscal year ended June 30, 2013.

USING THIS ANNUAL REPORT

The College is reporting its financial position in accordance with the Governmental Accounting Standards Board (GASB) Statement 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and GASB Statement 35 – *For Public Colleges and Universities*, as amended by GASB Statements 37 and 38. Comparative condensed financial information has been presented for the current year and the prior year.

This report consists of three basic financial statements: The Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows. These statements provide information on the College as a whole, and present a snapshot of the College's finances. The following functions are included in the College's basic financial statements:

- Instruction
- Academic Support
- Student Services
- Institutional Support
- Operation and Maintenance of Plant
- Student Aid
- Public Service
- Auxiliary Services

The Statement of Net Position acts much like a consolidated balance sheet does for a business. It shows the book value of all asset categories, and compares them to the amount of liabilities, with the residual difference, called Net Position, being detailed by the type of commitment which gave rise to the underlying assets.

The Statement of Revenues, Expenses and Changes in Net Position acts as a statement of the College's operations. Revenues and expenses on the accrual basis of accounting are detailed by operating type, and the reconciliation between the beginning and ending Net Position is presented.

The Statement of Cash Flows presents the sources and uses of all cash transactions conducted by the College, broken down by type of functional activity. This statement assists the reader in determining the College's ability to generate future cash flows, meet its obligations as they become due and assess the need for additional funding or financing.

These statements can help the reader understand what the financial health of the College is at the end of the fiscal year, as well as indicating the changes in financial position since the end of the prior year. Over time, increases in net position, which are the result of the College keeping expenses lower than revenues, indicate a strengthening of the College's financial health.

EASTERN GATEWAY COMMUNITY COLLEGE
Management's Discussion and Analysis (MD&A)
For the Year Ended June 30, 2013

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The economic position of Eastern Gateway Community College is closely tied to that of the state. The current conditions in Ohio mirror that of many other states. State and federal government leaders seem determined to continue to support community college activities despite the budget constraints at each level. Support for Ohio public colleges were subsidized by federal stimulus dollars for fiscal years 2010 and 2011. The stimulus amounts for each of these two years amounted to approximately \$700,000. No stimulus funds were received in fiscal year 2012 or fiscal year 2013.

Jefferson Community College officially became Eastern Gateway Community College in October 2009. Eastern Gateway Community College, authorized by the Ohio General Assembly in July 2009 serves Trumbull, Mahoning, Columbiana, and Jefferson Counties in eastern Ohio and the Mahoning Valley. This has opened a large market for potential enrollment increases for the College.

The College received a \$1.9 million Department of Labor grant to help fund the expansion to the northern counties. This was a three-year grant that began in February 2009, and this grant was extended through July 2012. The College was awarded a 5-year \$14.8 million grant from the Department of Health and Human Services, known as the HOPE Grant. The HOPE Grant was established to provide training and intensive counseling for adults re-entering the workforce, primarily in the allied health technologies. The grant has provided substantial income, but is now in its final phases. Funding from this source is beginning to decline and will end on September 29, 2015.

In fiscal year 2009, the College's local levy funds were approximately \$1.2 million. Due to utility and personal property deregulation, this amount for fiscal year 2013 and future years has been reduced to less than \$900,000.

The College's current one (1) mill levy to support the Jefferson County Campus is up for renewal in 2016.

The population of the service district, which includes the counties of Jefferson, Columbiana, Mahoning and Trumbull, is now 626,685. The previous service district only included Jefferson County with a population of 69,409, so this represents an almost 10-fold growth in potential students for the College. The newly added counties of Mahoning and Trumbull have large numbers of urban poor, which presents distinct challenges in recruiting and retaining students; likewise, Columbiana has a distinctly rural population with a separate set of issues when doing the same.

The Valley Center site for EGCC located in downtown Youngstown provides a new level of permanency. Previously, the College was quartered in various sites with short-term leases or in career and technical centers with limited evening access. The permanent location has possibilities for expansion and is adding to brand recognition. Facilities are state of the art and will help attract students. The College is providing an additional anchor for the revitalization of the downtown area of Youngstown and, as that growth continues, the College can expect to benefit.

EASTERN GATEWAY COMMUNITY COLLEGE
Management's Discussion and Analysis (MD&A)
For the Year Ended June 30, 2013

During fiscal year 2012, the College began working with a company (Higher Education Partners) headquartered in Rhode Island, which had previous experience assisting other community colleges expand their operations. With the help of the Ohio Attorney General's Office, Eastern Gateway Community College, as well as another community college in Ohio, entered into formal agreements with Higher Education Partners with a long-term financial arrangement to help with expansion. Eastern Gateway Community College's arrangement with Higher Education Partners allowed for EGCC to open a new location in Downtown Youngstown in the Fall of 2012. The partnership arrangement calls for the renovation and equipping of the building to be funded by Higher Education Partners. In return, they will receive a percentage of the income from enrollment at the new building.

Eastern Ohio is experiencing a strong growth in the oil and natural gas industry due to the presence of the Marcellus and Utica shales. Tremendous opportunities exist for the College's Workforce Development and Training department and for specialized technical training within the Engineering department. Programs such as welding and waste water treatment have been established to provide training related to the industry. Grants have been obtained to fund some of the training.

CAPITAL PROJECTS

In fiscal year 2011, the College renovated the second floor of the Pugliese Training Center. This project included the addition of some administrative offices, as well as the development of a wellness center for staff and students. The College has plans to repave the Pugliese Training Center parking lot and install new roofing for both the Pugliese Training Center and the main building at the Jefferson County campus during the summer and fall of 2013.

SUMMARY OF FINANCIAL INFORMATION

The following is a summary of the changes in net position from fiscal year 2012 to fiscal year 2013 for the College.

Net position	<u>June 30, 2012</u>	<u>June 30, 2013</u>
Net investment in capital assets	\$ 10,723,302	\$ 10,520,242
Restricted for:		
Non-expendable		
Scholarships	71,523	72,348
Expendable		
Scholarships	204,095	190,639
Capital	483,704	420,791
Educational and general	298,563	55,911
Unrestricted	<u>3,206,105</u>	<u>3,605,237</u>
Total net position	<u><u>\$ 14,987,292</u></u>	<u><u>\$ 14,865,168</u></u>

The bond fund reflects the annual reduction in bond principle for the Pugliese Training Center building that will be completely paid off in September 2013.

The scholarships assets are the College endowment fund which is available for scholarships for students.

EASTERN GATEWAY COMMUNITY COLLEGE
Management's Discussion and Analysis (MD&A)
For the Year Ended June 30, 2013

Net position restricted for capital reflects the unspent state funds received by the College that are available for future capital purchases or improvements. The College currently receives an annual allocation for these types of purchases.

Net position restricted for educational and general represent various grant funds that have been received but not yet expended.

The unrestricted net position of the College increased by \$399,132 for the fiscal year ended June 30, 2013. This increase was primarily due to the funds received from the HOPE Grant and over \$700,000 in support from Higher Education Partners for the operations in Youngstown.

FY 2012 and 2013 Unrestricted Revenues and Expenses by Category

REVENUE	FY 2012		FY 2013	
	Amount	Percent of total	Amount	Percent of total
TUITION AND FEES	\$ 6,796,575	50.29%	\$ 7,329,786	48.21%
STATE APPROPRIATIONS	4,441,204	32.85%	4,712,349	30.99%
LEVY FUNDS	811,500	6.00%	892,283	5.87%
HOPE GRANT INSTRUCTIONAL SUPPORT	295,003	2.18%	393,110	2.59%
AUXILIARY	206,485	1.53%	190,661	1.25%
OTHER	179,909	1.33%	128,825	0.85%
SUPPORT FROM HIGHER EDUCATION PARTNERS		0.00%	763,574	5.02%
SUBTOTAL	12,730,676	94.18%	14,410,588	94.78%
REVENUE FROM RESTRICTED FUNDS (GRANTS), USED TO SUBSIDIZE OPERATIONS				
HOPE GRANT ADMINISTRATIVE ALLOWANCE	558,342	4.13%	736,239	4.84%
OTHER TRANSFERRED FROM RESTRICTED	228,600	1.69%	58,459	0.38%
TOTAL UNRESTRICTED REVENUE	\$ 13,517,618	100.00%	\$ 15,205,286	100.00%
EXPENSES				
WAGES AND SALARIES	\$ 6,413,745	48.23%	\$ 7,006,032	48.62%
FRINGE BENEFITS	2,364,083	17.78%	2,662,978	18.48%
SCHOLARSHIPS	669,585	5.04%	750,980	5.21%
OUTSIDE PROFESSIONAL SERVICES	508,176	3.82%	701,587	4.87%
SUPPLIES	504,568	3.79%	680,535	4.72%
MARKETING EXPENSES	439,123	3.30%	481,661	3.34%
MAINTENANCE AND REPAIRS	428,552	3.22%	429,075	2.98%
UTILITIES AND TELEPHONE EXPENSES	373,481	2.81%	491,459	3.41%
BAD DEBT EXPENSE	232,312	1.75%	373,504	2.59%
EQUIPMENT AND CAPITAL EXPENSES	204,614	1.54%	65,088	0.45%
FACILITY RENTAL	182,307	1.37%	248,825	1.73%
TRAVEL AND PROFESSIONAL DEVELOPMENT	104,465	0.79%	173,660	1.20%
ALL OTHER EXPENSES	871,815	6.56%	345,204	2.40%
TOTAL UNRESTRICTED EXPENSES	\$ 13,296,826	100.00%	\$ 14,410,588	100.00%

EASTERN GATEWAY COMMUNITY COLLEGE

Statement of Net Position

June 30, 2013

	Primary Institution	Component Unit
	Eastern Gateway CC	EGCC Foundation
ASSETS		
Current assets		
Cash and cash equivalents	\$ 826,734	\$ 268,999
Short-term investments	2,000,000	-
Student accounts receivable, net	636,843	-
Property tax receivable	877,200	-
Other receivables	1,151,407	750
Prepaid expenses	511,685	-
Inventory	14,853	-
Total current assets	<u>6,018,722</u>	<u>269,749</u>
Non-current assets		
Restricted cash and cash equivalents	2,627	-
Endowment investments	54,423	134,412
Capital assets, net	<u>10,776,424</u>	<u>-</u>
Total non-current assets	<u>10,833,474</u>	<u>134,412</u>
 Total assets	 <u>\$ 16,852,196</u>	 <u>\$ 404,161</u>

(continued)

The accompanying notes are an integral part of these financial statements.

EASTERN GATEWAY COMMUNITY COLLEGE

Statement of Net Position (continued)

June 30, 2013

	<u>Primary Institution</u>	<u>Component Unit</u>
	Eastern Gateway CC	EGCC Foundation
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 508,366	\$ -
Accrued wages	58,326	-
Bond interest payable	9,069	-
Deferred revenue	247,345	-
Deposits	25,424	-
Long-term liabilities, current portion	256,182	-
Total current liabilities	<u>1,104,712</u>	<u>-</u>
Non-current liabilities		
Compensated absences	<u>882,316</u>	<u>-</u>
Total Liabilities	1,987,028	-
NET POSITION		
Net investment in capital assets	10,520,242	-
Restricted for		
Nonexpendable		
Scholarships	72,348	195,803
Expendable		
Scholarships	190,639	143,474
Capital	420,791	28,820
Educational and general	55,911	14,637
Unrestricted	<u>3,605,237</u>	<u>21,427</u>
Total net position	<u>14,865,168</u>	<u>404,161</u>
Total liabilities and net position	\$ <u><u>16,852,196</u></u>	\$ <u><u>404,161</u></u>

The accompanying notes are an integral part of these financial statements.

EASTERN GATEWAY COMMUNITY COLLEGE
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2013

	Primary Institution	Component Unit
	Eastern Gateway CC	EGCC Foundation
REVENUES		
Tuitions and student fees	\$ 3,424,149	\$ -
Auxiliary enterprises revenue	190,660	-
Federal grants and contracts	5,072,599	-
Local grants and contracts	13,660	-
Other operating revenue	610,813	-
Donations	-	64,393
Total operating revenues	9,311,881	64,393
EXPENSES		
Operating expenses:		
Education and general	6,199,278	3,479
Public service	704,358	-
Academic support	647,766	-
Student services	5,291,433	-
Institutional support	4,497,138	-
Operation and maintenance of plant	1,164,410	-
Scholarships and fellowships	814,451	51,522
Auxiliary enterprises	38,164	-
Depreciation	483,721	-
Total operating expenses	19,840,719	55,001
Operating income (loss)	(10,528,838)	9,392
NON-OPERATING REVENUES		
Capital funds	190,530	-
State grants and contracts	4,799,777	-
Federal grants and contracts	3,905,640	-
Local grants and contracts	127	-
Investment income	32,378	17,471
Property taxes	815,381	-
Total non-operating revenues	9,743,833	17,471
Income (loss) before reimbursements	(785,005)	26,863
Partnership loss reimbursement	662,880	-
Change in net position	(122,125)	26,863
NET POSITION		
Net position, beginning of year	14,987,293	377,298
Net position, end of year	\$ 14,865,168	\$ 404,161

The accompanying notes are an integral part of these financial statements.

EASTERN GATEWAY COMMUNITY COLLEGE

Statement of Cash Flows
For the Year Ended June 30, 2013

	Primary Institution
	<u>Eastern Gateway CC</u>
CASH FLOW FROM OPERATING ACTIVITIES	
Student tuition and fees	\$ 2,589,463
Grants and contracts	5,086,259
Payments to suppliers	(8,795,085)
Payroll and fringe benefits	(9,559,542)
Auxiliary enterprise charges	190,660
Other income	76,074
Net cash used by operating activities	<u>(10,412,171)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Local property taxes	815,381
State appropriations	4,990,434
Grants and contracts	3,905,640
Payments from partnership	969,646
Payments to partnership	(306,766)
Net cash provided by non-capital financing activities	<u>10,374,335</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of capital assets	(36,024)
Principle payments on bond payable	(244,635)
Interest payments on bond payable	(8,660)
Net cash used in capital and related financing activities	<u>(289,319)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment income	70,324
Proceeds from sales and maturities of investments	991,424
Net cash provided by investing activities	<u>1,061,748</u>
NET INCREASE IN CASH	734,593
CASH, BEGINNING OF YEAR	94,768
CASH, END OF YEAR	<u>\$ 829,361</u>

(continued)

The accompanying notes are an integral part of these financial statements.

EASTERN GATEWAY COMMUNITY COLLEGE

Statement of Cash Flows (continued)

For the Year Ended June 30, 2013

	Primary Institution
	<u>Eastern Gateway CC</u>
Reconciliation of net operating revenues (expenses) to by operating activities:	
Operating loss	\$ (10,528,838)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	483,721
Changes in assets and liabilities:	
Receivables, net	(561,856)
Inventories	(1,005)
Prepaid expenses	(164,979)
Accounts payable and accrued liabilities	259,273
Deferred revenue	5,621
Deposits	1,260
Compensated absences	94,632
Net cash used by operating activities	<u><u>\$ (10,412,171)</u></u>

The accompanying notes are an integral part of these financial statements.

EASTERN GATEWAY COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013

NOTE 1 – DESCRIPTION OF THE REPORTING ENTITY

Eastern Gateway Community College (the “College” or “EGCC”) is a political subdivision established for the purpose of exercising the rights and privileges conveyed to it by the constitution and the laws of the State of Ohio. The College operates under an appointed Board of Trustees. Management believes the financial statements included in this report represent all of the funds of the College over which the College has the ability to exercise direct operating control.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when an obligation has been incurred. The College reports as a business-type activity. Business-type activities are those activities that are financed in whole, or in part, by fees charged to external parties for goods and services. Pursuant to provisions of GASB Statement No. 35, the full scope of the College’s activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements. Restricted grant revenue is recognized only to the extent expended.

Net Position Classifications

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the *Government Accounting Standards Board* (GASB).

Net investment in capital assets: This represents the College’s total net investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred, but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.

Restricted net position – expendable: Restricted, expendable net position include resources in which the College is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Restricted net position – non-expendable: Non-expendable, restricted net position consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Unrestricted net position: Unrestricted net position represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. 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 Governing Board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty, and staff.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the College’s policy is to first apply the expense towards restricted resources, and then towards unrestricted resources.

EASTERN GATEWAY COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Classification of Revenues

The College has classified its revenues as either operating or non-operating revenues according to the following criteria:

Operating revenue: Operating revenues include activities that have the characteristics of exchange transactions such as (1) student tuition and fees, net of external scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, and (3) most federal, state and local grants and contracts and federal appropriations.

Non-operating revenues: Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, such as state appropriations, investment income, and property taxes.

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 amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Cash Equivalents

For the purposes of the statements of cash flows, the College considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Investments

The College accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statements of revenues, expenses, and changes in net position.

Inventory

Inventory is valued at cost on a first-in, first-out basis.

Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, and staff, the majority of each residing in the State of Ohio. Accounts receivable also include amounts due from the federal, state, and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the College's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts. This also includes receivables due from our College partners, Higher Education Partners ("HEP"). Property taxes receivable include estimated amounts due at June 30, 2013.

EASTERN GATEWAY COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. For equipment, the College's capitalization policy includes all items with a unit cost of \$5,000 or more, and an estimated life of greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance and software are charged to operating expense in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, 40 years for buildings and building improvements, 10 years for equipment other than computer equipment, and 3 years for computer equipment.

Deferred Revenues

Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year, but related to the subsequent accounting period.

Compensated Absences

The College follows the provisions of Government Accounting Standards Board Statement No. 16, *Accounting for Compensated Absences*.

Employee vacation and sick pay is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as compensated absences payable in the statements of net position, and as a component of compensation and benefit expense in the statements of revenues, expenses, and changes in net position. The College is applying the termination method to calculate compensated absences.

Noncurrent Liabilities

Noncurrent liabilities include estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year.

Income Tax

The College, as a political subdivision of the State of Ohio, is excluded from federal income taxes under Section 115 (1) of the Internal Revenue Code, as amended.

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of external scholarship discounts and allowances in the statements of revenues, expenses, and changes in net position. External scholarship discounts and 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 students' behalf. Certain governmental grants, such as Pell grants, and other federal, state, or non-governmental programs, are recorded as either operating or non-operating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance.

EASTERN GATEWAY COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in Accounting Principles

For 2013, the College has implemented Governmental Accounting Standard Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*, Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements*, and Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

GASB Statement No. 61 modifies existing requirements for the assessment of potential component units in determining what should be included in the financial reporting entity, and financial reporting entity display and disclosure requirements. The implementation of this statement did not result in any change in the College's financial statements.

GASB Statement No. 62 incorporates into GASB's authoritative literature certain FASB and AICPA pronouncements issued on or before November 30, 1989. The implementation of this statement did not result in any change in the College's financial statements.

GASB Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related note disclosures. The College's financial statements and disclosures have been updated to reflect the implementation of this standard.

Subsequent Events

In preparing these financial statements, the College has evaluated events and transactions for potential recognition or disclosure through December 20, 2013, the date the financial statements were available to be issued.

NOTE 3 – CASH AND CASH EQUIVALENTS

The investment and deposit of College monies is governed by the Ohio Revised Code. In accordance with the Ohio Revised Code, only banks located in Ohio and Ohio domestic building and loan associations are eligible to hold public deposits. Also, the investment of the College's monies is restricted to certificates of deposits, savings accounts, money market accounts, STAR Ohio, obligations of the United States Government, or certain agencies thereof, and certain industrial revenue bonds issued by other governmental entities. The College may also enter into repurchase agreements with any eligible depository for a period not exceeding 30 days.

The College's Board of Trustees is responsible for selecting depositories and investing funds. Protection for the College's deposits is provided by the Federal Deposit Insurance Corporation, qualified securities pledged in the name of the College and held at the Federal Reserve, or by a collateral pool created by the financial institution to cover all local governmental deposits. The face value of the pooled collateral must equal at least 110 percent of the public funds on deposit. At least quarterly, the College determines that the collateral has a market value adequate to cover the deposits. Collateral is held by Trustees, including the Federal Reserve Bank and the Federal Home Loan Bank Board.

EASTERN GATEWAY COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013

NOTE 3 – CASH AND CASH EQUIVALENTS (continued)

The College adopted GASB 40, *Deposit and Investment Risk Disclosures* (an amendment of GASB Statement No. 3). Generally this statement requires that state and local governments communicate key information about such risks in four principal areas: investment credit risks, including credit quality information issued by rating agencies; interest-related disclosures that include investment maturity information; interest rate sensitivity for investments that are highly sensitive to changes in interest rates; and foreign exchange exposures that would indicate the foreign investment's denomination.

As of June 30, 2013, the College had the following cash and cash equivalents:

<u>Description</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
PNC Bank checking and savings account	\$ 829,361	\$ 997,619
Wesbanco CD's	2,000,000	2,000,000
Various corporate stock	<u>54,423</u>	<u>54,423</u>
Total cash and equivalents	\$ <u>2,883,784</u>	\$ <u>3,052,042</u>

Credit Risk: The College does not have any exposure to credit risk.

Concentration of Credit Risk: The College does not have any exposure to concentration of credit risk.

Foreign Currency Risk: The College does not have any exposure to foreign currency risk.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of a bank failure, the College's deposits may not be returned to it. Of the bank balance of \$3,052,042, the Federal Depository Insurance Corporation insured \$500,000 and the balance of \$2,552,042 was exposed to custodial credit risk because it was collateralized by U.S. Government Securities not in the College's name.

The application of GASB Statement No. 40 does not have a material impact on the College's financial position or results of operations.

NOTE 4 – ACCOUNTS RECEIVABLE

Receivables at June 30, 2013, consisted of accounts (tuition and other fees), notes, interest, levy receivables, receivable due from the College's partner in Youngstown (HEP) and intergovernmental grants. All receivables, except for doubtful accounts receivable in collection with the Ohio Attorney General, are considered collectible in full due to the stable condition of State programs and the current fiscal year guarantee of federal awards.

EASTERN GATEWAY COMMUNITY COLLEGE
Notes to Financial Statements
June 30, 2013

NOTE 4 – ACCOUNTS RECEIVABLE (continued)

Other receivables consist of the following at June 30, 2013:

Grant receivables	\$	331,711
Financial aid receivable		9,727
Higher Education Partners (HEP) loss reimbursement		566,814
Foundation scholarships		20,039
Third parties		218,985
Other		<u>4,131</u>
Total other receivables	\$	<u><u>1,151,407</u></u>

NOTE 5 – CAPITAL ASSETS

Changes in capital assets at June 30, 2013, are composed of the following:

<u>Description</u>	<u>Balance at July 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2013</u>
Capital assets, non-depreciable:				
Land	\$ 629,200	\$ -	\$ -	\$ 629,200
Capital assets, depreciable:				
Buildings and improvements	18,777,656	-	-	18,777,656
Equipment and furniture	<u>2,098,676</u>	<u>36,024</u>	<u>(29,600)</u>	<u>2,105,100</u>
Total depreciable	<u>20,876,332</u>	<u>36,024</u>	<u>(29,600)</u>	<u>20,882,756</u>
Less accumulated depreciation:				
Buildings and improvements	8,675,737	382,778	-	9,058,515
Equipment and furniture	<u>1,605,674</u>	<u>100,943</u>	<u>(29,600)</u>	<u>1,677,017</u>
Total accumulated depreciation	<u>10,281,411</u>	<u>483,721</u>	<u>(29,600)</u>	<u>10,735,532</u>
Total capital assets, depreciable, net	<u>10,594,921</u>	<u>(447,697)</u>	<u>-</u>	<u>10,147,224</u>
Capital assets, net	\$ <u><u>11,224,121</u></u>	\$ <u><u>(447,697)</u></u>	\$ <u><u>-</u></u>	\$ <u><u>10,776,424</u></u>

EASTERN GATEWAY COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013

NOTE 6 – STATE SUPPORT

Eastern Gateway Community College is a state-assisted institution of higher education, which receives a student enrollment-based instructional subsidy from the State of Ohio. This subsidy is determined annually based upon a formula devised by the Ohio Board of Regents, adjusted to state resources available.

In addition to the current operating subsidies, the State of Ohio provides the funding for the construction of major plant facilities on Eastern Gateway Community College’s campus. The funding is obtained from the issuance of special obligation bonds by the Ohio Public Facilities Commission (OPFC), which, in turn, initiates the construction and subsequent lease of the facility by the Ohio Board of Regents.

Such facilities are reflected as building or construction in progress in the accompanying balance sheet. Neither the obligation for the bonds issued by OPFC, nor the annual debt service charges for principal and interest on the bonds are reflected in the College’s financial statements. Debt service is funded through appropriations to the Ohio Board of Regents by the General Assembly.

NOTE 7 – LONG-TERM LIABILITIES

The College’s long-term liabilities consisted of the following at June 30, 2013:

	<u>Balance at</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at</u> <u>June 30, 2013</u>	<u>Current</u> <u>Portion</u>
Compensated absences	\$ 787,684	\$ 166,716	\$ (72,084)	\$ 882,316	\$ -
Bond payable	<u>500,817</u>	<u>-</u>	<u>(244,635)</u>	<u>256,182</u>	<u>256,182</u>
Total	\$ <u>1,288,501</u>	\$ <u>166,716</u>	\$ <u>(316,719)</u>	\$ <u>1,138,498</u>	\$ <u>256,182</u>

In October 2003, the College issued Series 2003 Bonds totaling \$2,100,000 to finance the purchase and renovation of the neighboring American Electric Power building. Purchasing the building facilitated the growth of the College in both size and programs offered. The bonds will mature on September 30, 2013 and pay interest at a rate of 4.72 percent per annum. The final payment of \$256,182 will be due and payable upon the maturity date. Interest paid was \$23,639 for year ended June 30, 2013. Interest expense was \$14,978 for the year ended June 30, 2013.

EASTERN GATEWAY COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013

NOTE 8 – DEFINED BENEFIT PENSION PLANS

School Employees Retirement Systems

Plan Description – The College contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability, and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained on SERS' website at www.ohsers.org under **Employers/Audit Resources**.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary, and the College is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory amounts, by the SERS' Retirement Board. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the system. For fiscal year ending June 30, 2013, the allocation to pension and death benefits is 13.10 percent. The remaining .90 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. The College's contributions to SERS for the years ended June 30, 2013, 2012 and 2011 were \$371,677, \$379,739 and \$357,612, respectively, which equaled the required contribution for each year.

State Teachers Retirement System

Plan Description - The College contributes to the cost-sharing multiple-employer defined benefit health plan administered by the State Teachers Retirement System of Ohio ("STRS Ohio") for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physician's fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio, which may be obtained by visiting www.strsoh.org, or by calling (888) 227-7877.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

EASTERN GATEWAY COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013

NOTE 8 – DEFINED BENEFIT PENSION PLANS (continued)

State Teachers Retirement System (continued)

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – For the fiscal year ended June 30, 2012, (the latest date for which information is available) plan members were required to contribute 10 percent of their annual covered salaries. The College was required to contribute 14 percent; 13.7 percent was the portion used to fund pension and health care obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The College's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2013, 2012 and 2011 were \$772,446, \$681,321 and \$605,494.

NOTE 9 – POSTEMPLOYMENT BENEFITS

School Employee Retirement System

Postemployment Benefits – In addition to a cost-sharing multiple-employer defined benefit pension plan the School Employees Retirement System of Ohio (SERS) administers two postemployment benefit plans.

Medicare Part B Plan – The Medicare Part B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2013 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2013, the actuarially required allocation is .74%. The College's contributions for the years ended June 30, 2013, 2012 and 2011 were \$19,646, \$20,072, and \$18,902, respectively, which equaled the required contributions each year.

Health Care Plan – ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

EASTERN GATEWAY COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013

NOTE 9 – POSTEMPLOYMENT BENEFITS (continued)

School Employee Retirement System (continued)

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. For the year ended June 30, 2013, the health care allocation is .16%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2013, the minimum compensation level was established at \$20,525. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The College's contributions assigned to health care for the years ended June 30, 2013, 2012, and 2011 were \$46,348, \$41,740, and \$39,287, respectively.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status. The financial reports of SERS' Health Care and Medicare B plans are included in its Comprehensive Annual Financial Report. The report can be obtained on SERS' website at www.ohsers.org under **Employers/Audit Resources**.

State Teachers Retirement System

Plan Description – The College contributes to the cost-sharing multiple-employer defined benefit health plan administered by the State Teachers Retirement System of Ohio (“STRS Ohio”) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physician's fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio, which may be obtained by visiting www.strsoh.org, or by calling (888) 227-7877.

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for postemployment health care may be deducted from employer contributions. For fiscal year ended June 30, 2013, STRS Ohio allocated employer contributions equal to one percent of covered payroll to the postemployment health care. The College's contributions assigned to health care for the years ended June 30, 2013, 2012, and 2011 were \$55,175, \$48,666 and \$43,250, respectively.

EASTERN GATEWAY COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013

NOTE 10 – RISK MANAGEMENT

The College is exposed to various risks of loss related to torts, theft of, damage to, destruction of assets, errors and omissions, injuries to employees and natural disasters. During the fiscal year 2013, the College contracted with insurance companies for coverage of buildings and contents.

The following is a list of insurance coverage's for the College and the deductibles associated with each:

<u>Coverage</u>	<u>Amount</u>	<u>Deductible</u>
Commercial Property		
Commercial Property and Building (blanket)	\$ 34,614,900	\$ 5,000
Earthquake	6,000,000	100,000
Business Income	1,000,000	-
Commercial General Liability		
General Liability (per occurrence)	1,000,000	-
Employee Liability	1,000,000	-
Employee Benefit Liability (aggregate)	3,000,000	-
Directors and Officers Liability	1,000,000	10,000
General Aggregate	2,000,000	-
Damage to Property Rented by College	300,000	-
Commercial Crime		
Employee Dishonesty	150,000	-
Forgery	150,000	-
Premises (theft, disappearance, destruction)	25,000	-
Commercial Inland Marine		
Accounts Receivable	100,000	500
Valuable Papers	100,000	500
EDP	1,054,100	5,800
Commercial Umbrella	5,000,000	-
Automobile Liability	1,000,000	-
Technology-Related Coverage		
Privacy Liability	1,000,000	25,000
Data Branch Fund	250,000	25,000
Network Security Liability	1,000,000	25,000
Internet Media Liability	1,000,000	25,000
Network Extortion	1,000,000	25,000
Regulatory Proceeding	250,000	25,000
Maximum Policy Aggregate	1,000,000	-

EASTERN GATEWAY COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013

NOTE 10 – RISK MANAGEMENT (continued)

Settled claims have not exceeded commercial coverage in any of the past three years. Also, the College has not significantly reduced coverages in the past year.

The College pays the State Worker's Compensation System a premium based on a rate per \$100 of salaries. The rate is calculated based on accident history and administrative costs.

The College does not provide vision or dental insurance. However, each employee is granted an amount of \$2,500, in a Health Savings Account, to use for reimbursement of expenses for non-covered medical payments, co-payments, etc. If a full-time employee waives medical coverage, the College will pay \$4,000 per year taxable cash award and \$4,000 per year to waive spousal coverage or dependent.

Rates – July 1, 2012 to June 30, 2013

	<u>PPO</u>
Single Coverage	\$ 464.15
Employee/Spouse	1,020.19
Employee/Child	783.48
Family Coverage	1,432.81

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Litigations

At June 30, 2013, there were no lawsuits or claims pending against Eastern Gateway Community College. Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. College management believes disallowances, if any, will be immaterial.

Collaboration Agreement

The College entered into a Collaboration Agreement (the "Agreement") with Higher Education Partners, LLC ("HEP") on May 1, 2012, with an initial term of 20 years. HEP financially assisted the expansion of the College's academic and degree program offerings to the Valley Center campus in Youngstown, Ohio (the "Facility"). HEP is responsible for, without reimbursement from the College, the costs and expenses related to any construction, renovation, equipment, and repairs required to be made to the Facility in order for the Facility to be used for its intended educational purposes.

The Agreement requires the College to pay HEP a 15 percent service fee (of net tuition and subsidy revenues) and reimburse HEP for direct expenses, including rental payments for the lease of the Facility, in any year that the net operating revenues generated at the Facility exceed the related direct expenses. When direct expenses at the Facility exceed the net operating revenues at the Facility, HEP is required to reimburse the College for an amount equal to the net operating loss, plus five percent of the operating expenses. The accumulated loss reimbursements, along with direct expenses of HEP and service fees not paid to HEP will be carried forward and paid back to HEP only if future net income is generated from the Facility, and such future payments will be limited to the actual net operating income. At June 30, 2013, \$566,814 was included in other receivables for net operating losses incurred by the College at the Facility.

EASTERN GATEWAY COMMUNITY COLLEGE
Notes to Financial Statements
June 30, 2013

NOTE 11 – COMMITMENTS AND CONTINGENCIES (continued)

Collaboration Agreement (continued)

Partnership loss reimbursement for fiscal year ended June 30, 2013 included:

Payments from HEP	\$	969,646
Payments to HEP		<u>(306,766)</u>
	\$	<u>662,880</u>

NOTE 12 – DISCRETELY PRESENTED COMPONENT UNIT

1. DESCRIPTION OF ORGANIZATION

The Eastern Gateway Community College Foundation (the “Foundation”) is a legally separate, tax-exempt organization supporting Eastern Gateway Community College. The Foundation is exempt from income taxes under Section 501(c)(3) as a non-governmental, not-for-profit entity of the Internal Revenue Code. The Foundation was established to foster excellence in teaching and learning by encouraging philanthropic support for students, faculty, programs, and facilities for the College. Because the majority of the distribution of the resources held by the Foundation is received by the College, the Foundation is considered a component unit of the College and is presented in the College’s financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Financial Statement Presentation

The financial statements of the Foundation have been prepared utilizing the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities. Furthermore, the accounting policies adhered to by the Foundation are generally consistent with the *Audit and Accounting Guide for Not-For-Profit Organizations* issued by the American Institute of Certified Public Accountants.

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards ASC 958-205, *Financial Statements of Not-For-Profit Organizations*. Under those standards, the Foundation is required to report information regarding its financial position and activities according to three classes of net position:

Unrestricted – Net position is not subject to donor-imposed stipulations. This category includes net position designated by the Board.

Temporarily restricted – Net position is subject to donor imposed stipulations that may, or will be met by actions of the Board/College and/or the passage of time.

Permanently restricted – Net position is subject to donor-imposed stipulations that they be maintained permanently by the College.

With the exceptions of the necessary presentation adjustments to conform to the College’s GASB reporting format, no modifications have been made to the Foundation’s financial information in the College’s report.

EASTERN GATEWAY COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013

NOTE 12 – DISCRETELY PRESENTED COMPONENT UNIT (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include cash in checking accounts and short-term investments with an original maturity of three months or less. Substantially all of the Foundation's cash and cash equivalents are composed of investments in money market funds. At times, cash on hand may exceed federally insured limits.

Investments

Investments of the unrestricted, temporarily restricted, and permanently restricted funds are pooled for making investment transactions and are carried at fair value with any realized or unrealized gains and losses reported in the statement of revenues, expenses and changes in net position. Interest and dividend income, as well as realized and unrealized gains and losses, is allocated proportionally each month.

3. INVESTMENTS

Investments consist of the following at June 30, 2013:

Equity Mutual Fund	\$	80,034
Fixed Income		<u>54,378</u>
	\$	<u><u>134,412</u></u>

4. FAIR VALUE MEASUREMENTS

Fair Value of Financial Instruments – The Foundation adopted applicable sections of the Financial Accounting Standards Board Accounting Standards Codification (ASC) 820: Fair Value Measurements and Disclosures for financial assets and financial liabilities. In accordance with ASC 820, fair value is defined as the price the Foundation would receive to sell an investment or pay to transfer a liability in a timely transaction with an independent buyer in the principal market, or in the absence of a principal market the most advantageous market for the investment or liability. ASC 820 establishes a three-tier hierarchy to distinguish between (1) inputs that reflect the assumptions market participants would use in pricing an asset or liability developed based on market data obtained from sources independent of the reporting entity (observable inputs) and (2) inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing an asset or liability developed based on the best information available in the circumstances (unobservable inputs) and to establish classification of fair value measurements for disclosure purposes. Various inputs may be used in determining the value of the Foundation's investments. The inputs are summarized in the three broad levels below:

EASTERN GATEWAY COMMUNITY COLLEGE

Notes to Financial Statements

June 30, 2013

NOTE 12 – DISCRETELY PRESENTED COMPONENT UNIT (continued)

4. FAIR VALUE MEASUREMENTS (continued)

Level 1 – quoted prices in active markets for identical investments

Level 2 – other significant observable inputs (including quoted prices for similar investments, interest rates, credit risk, etc.)

Level 3 – significant unobservable inputs (including the Foundation’s own assumptions in determining the fair value of the investments)

The input or methodology used for valuing securities is not necessarily an indication of the risk associated with maintaining those investments.

The following is a summary of the inputs used as of June 30, 2013, in valuing the Foundation’s investments carried at fair value:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity mutual funds	\$ 80,034	\$ -	\$ -	\$ 80,034
Fixed income	<u>54,378</u>	<u>-</u>	<u>-</u>	<u>54,378</u>
	<u>\$ 134,412</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 134,412</u>

5. ENDOWMENT FUND

Net Position Classification of Endowment Funds

As required by accounting principles generally accepted in the United States of America, net position associated with endowment funds, including board-designated funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

Distributions from the endowment funds are spent in compliance with the donor’s restrictions applicable to the funds being distributed. The Foundation classifies as permanently restricted net position (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net position is classified as temporarily restricted net position until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standards of prudence by the Uniform Prudent Management of Institutional Funds Act (UPMIFA). In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund;
- (2) The purpose of the Foundation and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The expected total return from income and the appreciation of investments
- (5) The investment policies of the Foundation

EASTERN GATEWAY COMMUNITY COLLEGE
Notes to Financial Statements
June 30, 2013

NOTE 12 – DISCRETELY PRESENTED COMPONENT UNIT (continued)

5. ENDOWMENT FUND (continued)

Net Position Classification of Endowment Funds (continued)

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. When donor endowment deficits exist, they are classified as a reduction of unrestricted net position. There were no deficits of this nature during fiscal year 2013.

The Foundation's endowment fund activity was as follows for the year ended June 30, 2013:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net position, beginning of year	\$ 139,732	\$ 170,745	\$ 310,477
Investment return:			
Interest and dividends	1,961	1,902	3,863
Net realized and unrealized gain	<u>3,111</u>	<u>1,436</u>	<u>4,547</u>
Total investment return	5,072	3,338	8,410
Cash contributions	3,620	25,020	28,640
Appropriation of endowment assets for expenditure	<u>(4,950)</u>	<u>(3,300)</u>	<u>(8,250)</u>
Endowment net position, end of year	\$ <u><u>143,474</u></u>	\$ <u><u>195,803</u></u>	\$ <u><u>339,277</u></u>

This Page Intentionally Left Blank

**Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with *Government Auditing Standards***

Board of Trustees
Eastern Gateway Community College
Steubenville, Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component unit of the Eastern Gateway Community College (the "College"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated December 20, 2013.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cini & Paricki, Inc.

Cleveland, Ohio
December 20, 2013

**Independent Auditor’s Report on Compliance for Each Major Federal Program;
Report on Internal Control over Compliance; and Report on the Schedule of
Expenditures of Federal Awards Required by OMB Circular A-133**

Board of Trustees
Eastern Gateway Community College
Steubenville, Ohio

Report on Compliance for Each Major Federal Program

We have audited the Eastern Gateway Community College’s (the “College”) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the College’s major federal programs for the year ended June 30, 2013. The College’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings.

Management’s Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each of the College’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the College’s compliance.

Opinion on Each Major Federal Program

In our opinion, the College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control over Compliance

Management of the College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the College's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Board of Trustees
Eastern Gateway Community College

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the business-type activities and the aggregate discretely presented component unit of the College as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements. We issued our report thereon dated December 20, 2013, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Cini & Parichi, Inc.

Cleveland, Ohio
December 20, 2013

**Eastern Gateway Community College
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2013**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Expenses
<u>U.S. Department of Education</u>			
Student Financial Assistance Programs Cluster:			
Federal Work-Study Program	84.033		\$ 75,262
Federal Supplemental Educational Opportunity Grants	84.007		54,877
Federal Pell Grant Program	84.063		6,006,607
Federal Direct Student Loans	84.268		4,385,338
Total Student Financial Assistance Programs Cluster			10,522,084
TRIO Cluster			
Student Support Services	84.042		235,494
Upward Bound Math and Science Program	84.047		287,835
EOC	84.066		206,926
Total Upward Bound Math and Science Program			730,255
Passed Through the Ohio Department of Education:			
Tech Prep Education	84.243	VETP - 2004 15 FB	77,446
A.B.L.E Workplace Literacy	84.002	AB S1-2004	111,100
Perkins Grant	84.048	VECP II 2004-521	33,455
Total passed through the Ohio Department of Education			222,001
Total Federal Assistance - U.S. Department of Education			11,474,340
<u>U.S. Department of Labor</u>			
Workforce Investment Act	17.258		27,989
Community Based Job Training Grants	17.269		4,439
Total Federal Assistance - U.S. Department of Labor			32,428
<u>U.S. Department of Justice</u>			
Appalachian Regional Development	23.001		62,706
<u>U.S. Department of Health and Human Services</u>			
Hope Grant (Office of Family Assistance)	93.093		3,957,148
Hope Impact Study Grant (Office of Family Assistance)	93.093		20,788
Total Federal Assistance - U.S. Department of Health and Human Services			3,977,936
Total Federal Assistance - All Sources			\$ 15,547,410

The notes to the schedule of federal awards receipts and expenditures are an integral part of this schedule.

Eastern Gateway Community College

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2013

Note 1: Significant Accounting Policies

The accompanying Schedule of Federal Awards Receipts and Expenditures is a summary of the activity of the Eastern Gateway Community College's federal awards programs. The Schedule has been prepared on the accrual basis of accounting. The information in the schedule is presented in accordance with requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Eastern Gateway Community College

Schedule of Findings
OMB Circular A-133 Section .505

For the Year Ended June 30, 2013

1. Summary of Auditor's Results

(d)(1)(i)	Type of Financial Statement Opinion	Unmodified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unmodified
(d)(1)(vi)	Are there any reportable findings under Section .510?	No
(d)(1)(vii)	Major Programs	Student Financial Aid Cluster: CFDA # 84.033, 84.007, 84.063, 84.268
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: All Others
(d)(1)(ix)	Low Risk Auditee?	Yes

2. Findings Related to the Financial Statements Required To Be Reported In Accordance With GAGAS

None noted.

3. Findings for Federal Awards

None noted.



Dave Yost • Auditor of State

EASTERN GATEWAY COMMUNITY COLLEGE

JEFFERSON COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 16, 2014**