

***SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE***

*Financial Statements for the
Years Ended June 30, 2001 and 2000, and
Independent Auditors' Reports*

SOUTHERN WEST VIRGINIA COMMUNITY AND TECHNICAL COLLEGE

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INDEPENDENT AUDITORS' REPORT

To the Southern West Virginia Community and Technical College Governing Board:

We have audited the accompanying financial statements of Southern West Virginia Community and Technical College (the "College"), as of June 30, 2001 and 2000, and for the years then ended, listed in the foregoing Table of Contents. These financial statements are the responsibility of the management of the College. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the College at June 30, 2001 and 2000, and the changes in fund balances and the current funds revenues, expenditures, transfers and other changes for the years 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 a report dated October 5, 2001 on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance, with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

DELOITTE & TOUCHE LLP

October 5, 2001

**SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE**

**BALANCE SHEET
JUNE 30, 2001**

	<u>Current Funds</u>		Loan Funds	Plant Funds
	Unrestricted	Restricted		
ASSETS:				
Cash and cash equivalents	\$ 2,079,130	\$ 1,635,419	\$ 14,883	\$ 444,883
Student accounts receivable - net of allowance for doubtful accounts of \$151,069	327,283			
Other accounts receivable				
Loans receivable - net of allowance for doubtful accounts of \$15,434			5,561	
Due from other State agencies	64,704	314,008		
Appropriations due from primary government	349,302			
Due from the Commission	8,720	14,358		49,806
Inventories	174,669			
Other Assets	2,453			
Investment in plant				20,855,331
	<u>\$ 3,006,261</u>	<u>\$ 1,963,785</u>	<u>\$ 20,444</u>	<u>\$ 21,350,020</u>
LIABILITIES AND FUND BALANCES:				
Accounts payable	\$ 309,875	\$ 129,999		
Accrued liabilities	563,706	35,799		
Deferred revenue	44,786			
Due to the Commission	1,357	2,881		
Due to other State agencies	25,932	17,354		
Due to other governments		2,196		
Compensated absences	1,018,894	50,452		
Capital lease obligation				\$ 37
Fund balances:				
College funds	1,041,711	1,725,104		494,689
Loan funds			\$ 20,444	
Net investment in plant				20,855,294
	<u>\$ 3,006,261</u>	<u>\$ 1,963,785</u>	<u>\$ 20,444</u>	<u>\$ 21,350,020</u>

See notes to financial statements.

**SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE**

**BALANCE SHEET
JUNE 30, 2000**

	<u>Current Funds</u>		Loan Funds	Plant Funds
	Unrestricted	Restricted		
ASSETS:				
Cash and cash equivalents	\$ 1,841,279	\$ 1,559,836	\$ 8,412	\$ 430,378
Student accounts receivable - net of allowance for doubtful accounts of \$132,588	227,445			
Other accounts receivable	46,563			
Loans receivable - net of allowance for doubtful accounts of \$14,962			6,349	
Due from other State agencies	432,746	303,209		
Due from the Board	32,469	130,295		49,245
Inventories	209,080			
Investment in plant				<u>20,181,116</u>
	<u>\$ 2,789,582</u>	<u>\$ 1,993,340</u>	<u>\$ 14,761</u>	<u>\$ 20,660,739</u>
LIABILITIES AND FUND BALANCES:				
Accounts payable	\$ 140,668	\$ 33,265		\$ 345,064
Accrued liabilities	445,231	33,245		
Deferred revenue	59,523			
Due to the Board	4,001	29,689		
Due to other State agencies	220,982	43,489		
Due to other governments		12,324		
Compensated absences	964,636	58,633		
Capital lease obligation				18,523
Fund balances:				
College funds	954,541	1,782,695		134,559
Loan funds			\$ 14,761	
Net investment in plant				<u>20,162,593</u>
	<u>\$ 2,789,582</u>	<u>\$ 1,993,340</u>	<u>\$ 14,761</u>	<u>\$ 20,660,739</u>

See notes to financial statements.

SOUTHERN WEST VIRGINIA COMMUNITY AND TECHNICAL COLLEGE

STATEMENT OF CHANGES IN FUND BALANCES YEAR ENDED JUNE 30, 2001

	<u>Current Funds</u>		Loan Funds	Plant Funds
	Unrestricted	Restricted		
FUND BALANCES, BEGINNING OF YEAR	\$ 954,541	\$ 1,782,695	\$ 14,761	\$ 20,297,152
REVENUES AND OTHER ADDITIONS:				
Unrestricted current fund revenues	10,183,331			
Auxiliary enterprises	862,470			
Contracts and grants - restricted:				
Federal		3,554,397		
State		2,172,493		
Private		29,174		
Investment income	192,031	137,392	131	
Interest on loans receivable			142	
Expended for plant facilities - net of disposals				674,204
Retirement of indebtedness				18,487
Miscellaneous income			<u>391</u>	
Total revenues and other additions	<u>11,237,832</u>	<u>5,893,456</u>	<u>664</u>	<u>692,691</u>
EXPENDITURES AND OTHER DEDUCTIONS:				
Educational and general expenditures	10,021,449	5,640,987	471	184,161
Auxiliary enterprises expenditures	854,994			
Reduction in allowance for doubtful accounts			210	
Net tuition and fees retained by the Commission	15,391			
Expended for plant facilities				
Retirement of indebtedness				18,486
Interest on indebtedness				<u>401</u>
Total expenditures and other deductions	<u>10,891,834</u>	<u>5,640,987</u>	<u>681</u>	<u>203,048</u>
TRANSFERS AMONG FUNDS - (DEDUCTIONS)				
ADDITIONS:				
Mandatory transfers - principal and interest and SEOG/College Workstudy Matching	(39,056)	20,169		18,887
Nonmandatory transfers	<u>(219,772)</u>	<u>(330,229)</u>	<u>5,700</u>	<u>544,301</u>
Total transfers	<u>(258,828)</u>	<u>(310,060)</u>	<u>5,700</u>	<u>563,188</u>
NET INCREASE (DECREASE)	<u>87,170</u>	<u>(57,591)</u>	<u>5,683</u>	<u>1,052,831</u>
FUND BALANCES, END OF YEAR	<u>\$ 1,041,711</u>	<u>\$ 1,725,104</u>	<u>\$ 20,444</u>	<u>\$ 21,349,983</u>

See notes to financial statements.

SOUTHERN WEST VIRGINIA COMMUNITY AND TECHNICAL COLLEGE

STATEMENT OF CHANGES IN FUND BALANCES YEAR ENDED JUNE 30, 2000

	Current Funds		Loan Funds	Plant Funds
	Unrestricted	Restricted		
FUND BALANCES, BEGINNING OF YEAR	\$ 1,063,971	\$ 2,726,611	\$ 25,245	\$ 18,046,820
REVENUES AND OTHER ADDITIONS:				
Unrestricted current fund revenues	9,503,352			
Auxiliary enterprises	847,246			
Contracts and grants - restricted:				
Federal		2,522,865		
State		2,735,878		
Private		15,051		
Investment income	108,188	116,826	123	
Interest on loans receivable			370	
Expended for plant facilities - net of disposals				2,466,262
Retirement of indebtedness				28,593
Miscellaneous income		36,965	189	312,100
Total revenues and other additions	10,458,786	5,427,585	682	2,806,955
EXPENDITURES AND OTHER DEDUCTIONS:				
Educational and general expenditures	9,265,505	6,545,039	10,913	20,535
Auxiliary enterprises expenditures	852,650			
Reduction in allowance for doubtful accounts			253	
Net tuition and fees retained by the Board	34,386			
Expended for plant facilities				263,361
Retirement of indebtedness				28,591
Interest on indebtedness				1,999
Total expenditures and other deductions	10,152,541	6,545,039	11,166	314,486
TRANSFERS AMONG FUNDS - (DEDUCTIONS)				
ADDITIONS:				
Mandatory transfers - principal and interest and SEOG/College Workstudy Matching	(81,770)	51,180		(30,590)
Nonmandatory transfers	(333,905)	122,358		(211,547)
Total transfers	(415,675)	173,538		(242,137)
NET (DECREASE) INCREASE	(109,430)	(943,916)	(10,484)	2,250,332
FUND BALANCES, END OF YEAR	\$ 954,541	\$ 1,782,695	\$ 14,761	\$ 20,297,152

See notes to financial statements.

SOUTHERN WEST VIRGINIA COMMUNITY AND TECHNICAL COLLEGE

STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, TRANSFERS AND OTHER CHANGES YEAR ENDED JUNE 30, 2001

	Unrestricted	Restricted	Total
REVENUES:			
Tuition and fees	\$ 2,599,828		\$ 2,599,828
Government appropriations - State	7,132,387		7,132,387
Government contracts and grants:			
Federal		\$ 3,259,842	3,259,842
State		2,189,601	2,189,601
Private gifts, grants and contracts		29,503	29,503
Auxiliary enterprises	862,470		862,470
Income from investments	192,031	137,392	329,423
Other sources	<u>451,116</u>	<u>24,649</u>	<u>475,765</u>
TOTAL REVENUES	<u>11,237,832</u>	<u>5,640,987</u>	<u>16,878,819</u>
EXPENDITURES, TRANSFERS AND OTHER CHANGES:			
Educational and general:			
Instruction	4,501,152	833,007	5,334,159
Public service	279,752	1,032,005	1,311,757
Academic support	984,381	32,127	1,016,508
Student services	832,113	672,398	1,504,511
Operations and maintenance of plant	1,148,754	500,126	1,648,880
General institutional support	2,151,401	2,669	2,154,070
Scholarships and fellowships	123,896	2,560,808	2,684,704
Other	<u> </u>	<u>7,847</u>	<u>7,847</u>
Total educational and general expenditures	<u>10,021,449</u>	<u>5,640,987</u>	<u>15,662,436</u>
Transfers and other deductions:			
Net tuition and fees retained by the Commission	15,391		15,391
Mandatory Transfers - principal and interest and SEOG/College Workstudy Matching	39,056	(20,169)	18,887
Nonmandatory Transfers	<u>219,772</u>	<u>330,229</u>	<u>550,001</u>
Total transfers and other deductions	<u>274,219</u>	<u>310,060</u>	<u>584,279</u>
Total educational and general, transfers and other deductions	10,295,668	5,951,047	16,246,715
Auxiliary enterprises - Expenditures	<u>854,994</u>	<u> </u>	<u>854,994</u>
TOTAL EXPENDITURES, TRANSFERS AND OTHER CHANGES	11,150,662	5,951,047	17,101,709
OTHER RESTRICTED RECEIPTS - Less recognized revenues	<u> </u>	<u>252,469</u>	<u>252,469</u>
NET INCREASE (DECREASE)	<u>\$ 87,170</u>	<u>\$ (57,591)</u>	<u>\$ 29,579</u>

See notes to financial statements.

SOUTHERN WEST VIRGINIA COMMUNITY AND TECHNICAL COLLEGE

STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, TRANSFERS AND OTHER CHANGES YEAR ENDED JUNE 30, 2000

	Unrestricted	Restricted	Total
REVENUES:			
Tuition and fees	\$ 2,268,522		\$ 2,268,522
Government appropriations - State	6,879,206		6,879,206
Government contracts and grants:			
Federal		\$ 3,060,137	3,060,137
State		3,330,174	3,330,174
Private gifts, grants and contracts		937	937
Income from investments	108,188	116,826	225,014
Auxillary enterprises	847,246		847,246
Other sources	<u>355,624</u>	<u>36,965</u>	<u>392,589</u>
 TOTAL REVENUES	 <u>10,458,786</u>	 <u>6,545,039</u>	 <u>17,003,825</u>
 EXPENDITURES, TRANSFERS AND OTHER CHANGES:			
Educational and general:			
Instruction	4,103,898	1,375,009	5,478,907
Public service	255,828	718,289	974,117
Academic support	1,143,245	84,199	1,227,444
Student services	829,714	772,251	1,601,965
Operations and maintenance of plant	926,500	1,380,945	2,307,445
General institutional support	1,868,000	10,853	1,878,853
Scholarships and fellowships	127,040	2,198,290	2,325,330
Other	<u>11,280</u>	<u>5,203</u>	<u>16,483</u>
 Total educational and general expenditures	 9,265,505	 6,545,039	 15,810,544
 Transfers and other deductions (additions):			
Mandatory transfers - principal and interest	81,770	(51,180)	30,590
Net tuition and fees retained by the Board	34,386		34,386
Nonmandatory transfers	<u>333,905</u>	<u>(122,358)</u>	<u>211,547</u>
 Total transfers and other deductions	 <u>450,061</u>	 <u>(173,538)</u>	 <u>276,523</u>
 Total educational and general, transfers and other deductions	 9,715,566	 6,371,501	 16,087,067
 Auxillary enterprises - Expenditures	 <u>852,650</u>	 <u> </u>	 <u>852,650</u>
 TOTAL EXPENDITURES, TRANSFERS AND OTHER CHANGES	 10,568,216	 6,371,501	 16,939,717
 OTHER RESTRICTED RECEIPTS - Less recognized revenues	 <u> </u>	 <u>(1,117,454)</u>	 <u>(1,117,454)</u>
 NET INCREASE (DECREASE)	 <u>\$ (109,430)</u>	 <u>\$ (943,916)</u>	 <u>\$ (1,053,346)</u>

See notes to financial statements.

SOUTHERN WEST VIRGINIA COMMUNITY AND TECHNICAL COLLEGE

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2001 AND 2000

1. ORGANIZATION

Southern West Virginia Community and Technical College (the “College”) was governed by the Board of Directors of the State College System of West Virginia (the “Board”). The Board was an agency of the State of West Virginia (the “State”) and was responsible for the general determination, control, supervision and management of the financial, business and educational policies and affairs of the State’s higher education institutions within the State College System of West Virginia, of which the College was one.

Effective July 1, 2000, the West Virginia Legislature made changes to the governance and structure of West Virginia higher education. On March 19, 2000, the West Virginia Legislature enacted Senate Bill No. 653 (“S.B. 653”), which restructured public higher education in West Virginia. S.B. 653 abolished the Board effective June 30, 2000, and replaced it with a transition year board, the West Virginia Higher Education Interim Governing Board (the “Interim Governing Board”). The Interim Governing Board is granted all powers, duties, and authorities of the Board of Trustees and is transferred each valid agreement and obligation previously transferred to or vested in the Board. The Interim Governing Board is comprised of nine persons appointed by the Governor with the advice and consent of the Senate.

S.B. 653 also created the West Virginia Higher Education Policy Commission (the “Commission”), which will be responsible for developing, gaining consensus around and overseeing the implementation and development of a higher education public policy agenda. Effective July 1, 2001, certain powers transferred to the Interim Governing Board will be transferred to the newly created Governing Boards of each of the institutions of higher education.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the College have been prepared in accordance with the accounting guidance and reporting practices applicable to public colleges and universities, as outlined in the accounting pronouncements issued by the Governmental Accounting Standards Board (“GASB”), the American Institute of Certified Public Accountants Industry Audit Guide *Audits of Colleges and Universities* and the *College and University Business Administration*, published by the National Association of College and University Business Officers. The College follows all GASB pronouncements as well as Financial Accounting Standards Board (“FASB”) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, and has elected not to apply the FASB Statements and Interpretations issued after November 30, 1989 to its financial statements.

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

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

- b. *Basis of Accounting* - The financial statements of the College have been prepared on the accrual basis of accounting. Revenues are reported when earned and expenditures are reported when materials or services are received. The statement of current funds' revenues, expenditures, transfers and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the year as would a statement of income or a statement of revenues and expenses.

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of normal replacement of library books and moveable equipment; (2) mandatory transfers, in the case of required provisions for debt amortization and interest, and equipment renewal and replacement; and (3) transfers of a nonmandatory nature for all other cases.

- c. *Fund Accounting* - The accounts of the College are maintained in accordance with the principles of fund accounting for educational organizations to reflect the limitations and restrictions on the use of available resources. The accounts relating to specified activities or objectives have been classified into separate funds. Similar funds have been combined for financial reporting purposes.

Within each fund group, resources restricted as to use by outside sources are distinguished from unrestricted resources allocated or designated to specific purposes by the College president or the Board. Restricted resources may only be used for the purpose established by the source of such funds. Restricted current funds are recorded in the restricted fund balance until they are reported as revenues and expenditures when expended for current operating purposes.

Loan funds are used to account for resources that may be lent to students. These funds are provided by various sources, including the U.S. government, private donors or by the transfer of College funds. Generally, student loan funds are operated on a revolving fund basis with principal and interest payments remaining in the loan funds for future lending.

Plant funds are used to account for unexpended plant funds, long-lived assets and related indebtedness and retirement of indebtedness. Maintenance and repairs are recorded as current funds expenditures.

- d. *Cash and Cash Equivalents* - Cash and cash equivalents balances on deposit with the West Virginia Treasurer's Office (the "Treasurer") are pooled by the Treasurer with other available funds of the State for investment by the West Virginia Investment Management Board (the "IMB"). These funds are transferred to the IMB and the IMB is directed by the Treasurer to invest these funds in specific external investment pools. Balances in the investment pools are recorded at fair value, which is determined by a third party pricing service based on asset portfolio pricing models and other sources, in accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments for External Investment Pools." The IMB was established by the State Legislature and is subject to oversight by the State Legislature. Fair value and investment income are allocated to participants in the pool based upon the funds that have been invested. The amounts on deposit with the Treasurer are available for immediate withdrawal and, accordingly, are presented as cash and cash equivalents in the accompanying financial statements.
- e. *Allowance for Doubtful Accounts* - It is the College's policy to provide for future losses on uncollectible accounts and loans receivable based on an evaluation of the underlying accounting and loan balances, the historic collectibility experienced by the College on such balances and such other factors which, in the judgment of management, require consideration in estimating doubtful accounts.
- f. *Inventories* - Inventories are stated at the lower-of-cost or market, cost being determined on the first-in, first-out method.
- g. *Property, Plant and Equipment* - Property, plant and equipment and books and materials, which are part of a catalogued library, 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. Consistent with current generally accepted accounting principles for public colleges and universities, depreciation on plant assets is not recorded. The College capitalizes items over \$1,000.
- h. *Deferred Revenue* - Revenues for programs or activities to be conducted primarily in the next fiscal year are classified as deferred revenue, including primarily tuition fees paid in advance.
- i. *Compensated Absences* - The College accounts for compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." This statement 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 extends health insurance for one month of single coverage and three days extends health insurance for one month of family coverage. (For employees hired after 1988, the employee shares in the cost of the extended benefit coverage to the extent of 50% of the premium required for the extended coverage.)

Certain faculty employees (generally those contracted employees 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 extends health insurance for one year of single coverage and five years extends health insurance for one year of family coverage.

The estimate of the liability for the extended health or life insurance benefit has been calculated using the vesting method in accordance with the provisions of GASB Statement No. 16. Under that method, the College has identified the accrued sick leave benefit earned to date by each employee, determined the cost of that benefit by reference to the benefit provisions and the current cost experienced by the College for such coverage and estimated the probability of the payment of that benefit to employees upon retirement.

The estimated liability for vacation leave, sick leave or extended health or life insurance retirement payments are recorded principally within the College's current funds.

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

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

- k. *Student Aid* - The College distributes student financial assistance funds on behalf of the federal government to students under the Pell Grant, Supplemental Education Opportunity Grant and Federal Work Study Programs. The activity of these programs is recorded in the accompanying financial statements as current restricted funds revenues and expenditures. In 2001 and 2000, the College received and disbursed approximately \$2,639,000 and \$2,325,000, respectively, under these other federal student aid programs.
- l. *Gifts and Pledges* - The College does not report pledges in the financial statements until the gifts are collected. The College's gift records indicate that an immaterial amount of pledges are outstanding at June 30, 2001 and 2000.
- m. *Government Grants and Contracts* - Government grants and contracts normally provide for the recovery of direct 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 three years.
- n. *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.
- o. *Use of Estimates* - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

- p. *Use of Estimates in the Preparation of Financial Statements* - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, as well as the reported amounts of income and expenses during the reporting period. Actual results could differ those estimates (see Note 7).
- q. *Recent Issued Statements* - The colleges and universities of West Virginia Higher Education Fund adopted GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions," as amended by GASB Statement No. 36, in the year ended June 30, 2001. GASB has also issued Statement No. 34, "Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments," and Statement No. 35, "Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities." These statements are effective for periods beginning after June 15, 2001. The University has not completed the process of evaluating the impact that will result from adopting Statements No. 34 and No. 35. These statements, when adopted, will substantially alter the appearance of the College’s financial statements.
- r. *Reclassifications* - Certain amounts in the 2000 financial statements have been reclassified to conform to the current year presentation.

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents was as follows at June 30, 2001 and 2000:

	2001			
	Current Funds		Loan Funds	Plant Funds
	Unrestricted	Restricted		
Cash on deposit with the Treasurer:				
College	\$ 2,025,594	\$ 1,595,959	\$	\$ 444,883
Cash on hand	4,300			
Cash in bank	<u>49,236</u>	<u>39,460</u>	<u>14,883</u>	
	<u>\$ 2,079,130</u>	<u>\$ 1,635,419</u>	<u>\$ 14,883</u>	<u>\$ 444,883</u>
	2000			
	Current Funds		Loan Funds	Plant Funds
	Unrestricted	Restricted		
Cash on deposit with the Treasurer:				
College	\$ 1,814,259	\$ 1,462,203		\$ 430,378
Cash on hand	4,300			
Cash in bank	<u>22,720</u>	<u>97,633</u>	<u>\$ 8,412</u>	
	<u>\$ 1,841,279</u>	<u>\$ 1,559,836</u>	<u>\$ 8,412</u>	<u>\$ 430,378</u>

The combined carrying amount of cash in the bank at June 30, 2001 and 2000, was \$103,579 and \$128,765, respectively, as compared with the combined bank balances of \$113,912 and \$195,539, respectively. The difference is primarily caused by items in transit. The bank balances were covered by federal depository insurance or were secured by securities held as collateral by the State’s agent.

Cash on deposit with the Treasurer is a noncategorized deposit in accordance with GASB Statement No. 3.

4. INVESTMENT IN PLANT

The composition of investment in plant was as follows at June 30, 2001 and 2000:

	2001	2000
Land and land improvements	\$ 915,970	\$ 915,970
Buildings and building improvements	16,308,165	14,053,645
Equipment	2,968,168	2,737,275
Library books	663,028	701,171
Construction in progress	<u> </u>	<u>1,773,055</u>
	<u>\$20,855,331</u>	<u>\$20,181,116</u>

During the year ended June 30, 2000, the College sold the Boone Administrative Center building and land for approximately \$321,100, of which \$9,000 was used to reduce rent payments due from the purchaser, Madison Health Care, Inc.

In the year ended June 30, 2001, the College completed construction of a new library on the Williamson campus. The project was funded with \$1 million in State funding and \$1,232,500 from the Department of Housing and Urban Development ("HUD").

5. LEASE OBLIGATIONS

Future minimum payments, under capital leases, which consist primarily of various equipment leases and a building lease, and noncancelable operating leases, which consist primarily of automobile leases, with initial or remaining terms of one year or more, are as follows:

Year Ending June 30.	Capital Leases	Operating Leases
2002	\$ 1	\$ 10,827
2003	1	1,635
2004	1	
2005	1	
2006	1	
2007 and thereafter	<u>32</u>	<u> </u>
Total	<u>37</u>	<u>\$ 12,462</u>
Less portion representing interest		
Present value of net minimum capital lease payments	<u>\$ 37</u>	

Total rent expense for operating leases amounted to \$13,346 and \$11,711 for the years ended June 30, 2001 and 2000, respectively.

The College entered into an agreement to lease a branch facility from the Boone County Board of Education. The agreement provides for rent payments of \$1 per year continuing for 40 years beginning on April 1, 1999. The facility was constructed with \$807,380 of funds provided by the College with the balance of \$1 million provided by the Boone County Board of Education through the West Virginia School Building Authority.

6. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

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

The State has chartered the Commission with the responsibility to construct or renovate, finance and maintain various academic and other facilities of the State's universities and colleges, including certain facilities of the College. Financing for these facilities was provided through revenue bonds issued by the former Commission Boards. These obligations are the direct and total responsibility of the Commission.

Students of the State's universities and colleges, including students of the College are assessed certain tuition charges and fees which must be remitted by the universities and the colleges to the Commission for use in repayment of the bonds so issued. Any shortfalls between such tuition and fees remitted and actual debt service obligations are the responsibility of the Commission. To the extent that tuition charges and fees so collected by the Commission exceed debt service obligations, the Commission may remit funds back to the universities and colleges for renewal and replacement or maintenance and repair of the facilities so financed.

The amounts of tuition and fees remitted by the College to the Commission and the amounts returned or due back from the Commission to the College are summarized as follows for the years ended June 30, 2001 and 2000:

	2001	2000
Tuition and fees contractually required to be remitted by the College to the Commission (mandatory transfers)	\$ 214,618	\$ 201,852
Less amounts returned or due back from the Commission to the College for plant renewal and maintenance purposes	<u>(199,227)</u>	<u>(167,467)</u>
Net amount advanced by the Commission	<u>\$ 15,391</u>	<u>\$ 34,385</u>

The tuition and fees earned by the College from its students are recorded as unrestricted current funds' revenues of the College. The net amount retained by the Commission is recorded as an unrestricted current funds' deduction to the College.

Funds returned or due back from the Commission are transferred to the plant fund for future plant fund purposes (i.e., plant additions and debt retirement).

The Commission's debt information cannot be extracted so as to present the College's portion of the Commission's bond indebtedness outstanding. It cannot be assumed that the amount of the tuition and fees contractually assessed and collected from College students, or that the net amount retained by the Commission, bears any relationship to the College's portion of the Commission's debt service.

7. RETIREMENT PLANS

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

The STRS is a cost sharing, defined benefit employee public retirement system. Employer and employee contribution rates are established annually by the State Legislature. The College accrued and paid its contribution to the STRS at the rate of 15% of each enrolled employee's total annual salary for the years ended June 30, 2001 and 2000, respectively. Required employee contributions were at the rate of 6% of total annual salary in both 2001 and 2000. Participants in the STRS may retire with full benefits upon reaching age 60 with five years of service, age 55 with 30 years of service, or any age with 35 years of service. Lump-sum withdrawal of employee contributions is available upon termination of employment. Pension benefits are based upon 2% of final average salary (the highest 5 years salary out of the last 15 years) multiplied by the number of years of service.

The TIAA-CREF is a defined contribution benefit plan in which benefits are based solely upon amounts contributed plus investment earnings. Employees who elect to participate in this plan are required to make a contribution equal to 6% of total annual compensation. The College matches the employees' 6% contribution. Contributions are immediately and fully vested.

Total contributions to the STRS for the years ended June 30, 2001 and 2000, were \$372,696 and \$365,641, respectively, which consisted of \$266,212 and \$261,172 from the College in 2001 and 2000, respectively, and \$106,485 and \$104,469 from the covered employees in 2001 and 2000, respectively.

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

Total contributions to the TIAA-CREF for the years ended June 30, 2001 and 2000, were \$561,864 and \$526,910, respectively, which consisted of equal contributions from the College and covered employees in 2001 and 2000 of \$280,932 and \$263,455, respectively.

The College's total payroll for the years ended June 30, 2001 and 2000, was \$7,531,489 and \$7,111,350, respectively; total covered employees' salaries in the STRS and TIAA-CREF were \$1,774,743 and \$4,682,192 in 2001, respectively, and \$1,741,152 and \$4,390,912 in 2000, respectively.

8. COMPENSATED ABSENCES LIABILITY

The composition of the compensated absences liability was as follows at June 30, 2001 and 2000:

	2001	2000
Health or life insurance benefits	\$ 699,015	\$ 671,187
Accrued vacation leave	<u>370,331</u>	<u>352,082</u>
	<u>\$ 1,069,346</u>	<u>\$ 1,023,269</u>

For the years ended June 30, 2001 and 2000, the amount paid by the College for extended health or life insurance coverage retirement benefits totaled \$35,000 and \$33,000, respectively. There were 19 and 16 retirees eligible for these benefits as of June 30, 2001 and 2000, respectively.

9. FOUNDATION (Unaudited)

The Southern West Virginia Community and Technical College Foundation, Incorporated (the "Foundation") is a separate nonprofit organization incorporated in the State of West Virginia and has as its purpose "... to aid, strengthen and further in every proper and useful way, the work and services of each of the College's respective campuses and its affiliated nonprofit organizations ..." Oversight of the Foundation is the responsibility of a separate and independently elected Board of Directors, not otherwise affiliated with the College. In carrying out its responsibilities, the Board of Directors of the Foundation employs management, forms policy and maintains fiscal accountability over funds administered by the Foundation. Accordingly, the financial statements of the Foundation are not included in the accompanying financial statements. The College's endowments are under the control and management of the Foundation. No information on the financial condition of the Foundation is available.

10. AFFILIATED ORGANIZATION

The College has a separately incorporated affiliated organization, the Alumni Association. Oversight responsibility for this entity rests with an independent board and management not otherwise affiliated with the College. Accordingly, the financial statements of this organization are not included in the College's accompanying financial statements.

11. 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.

During the current year, the Supreme Court of West Virginia found the College liable in a wrongful termination suit. As part of the settlement, the College agreed to pay \$173,930 to the plaintiff for back pay and related interest as well as certain medical benefits. Accordingly, the amount of this settlement has been accrued within these financial statements as of June 30, 2001.

In the opinion of management, any additional claims are covered by insurance or are such that an award against the College would not impact seriously on the financial status of the institution.

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

The College owns various buildings which are known to contain asbestos. The College is not required by federal, state or local law to remove the asbestos from its buildings. The College is required under Federal Environments, Health and Safety Regulations to manage the presence of asbestos in its buildings in a safe condition. The College addresses its responsibility to manage the presence of asbestos in its buildings on a case by case basis. Significant problems of dangerous asbestos conditions are abated as the condition becomes known. The College also addresses the presence of asbestos as building renovation or demolition projects are undertaken and through asbestos operation and maintenance programs directed at containing, managing or operating with the asbestos in a safe condition.

12. NONMANDATORY TRANSFERS

During the year ended June 30, 2001, the College had a nonmandatory transfer to the plant fund in the amount of \$20,545. The transfer was authorized by the College's finance department during 2001. The purpose of the transfer was for capital expenditures accrued in the plant fund in 2000 but paid from the unrestricted fund in 2001.

In addition, the College had a nonmandatory transfer required by the source of funds as follows:

Plant renewal and capital improvements	<u>\$ 199,227</u>
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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Southern West Virginia Community and Technical College Governing Board:

We have audited the financial statements of Southern West Virginia Community and Technical College (the "College") as of and for the year ended June 30, 2001, and have issued our report thereon dated October 5, 2001. 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.

Compliance

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 grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amount that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the College's internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the College in a separate letter dated October 5, 2001.

This report is intended solely for the information and use of Southern West Virginia Community and Technical College Governing Board, managements of Southern West Virginia Community and Technical College and the West Virginia Higher Education Policy Commission, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

DELOITTE & TOUCHE LLP

October 5, 2001