# *Southern West Virginia Community and Technical College*

*Financial Statements and Additional Information for the Year Ended June 30, 2002, and Independent Auditors' Reports*

# SOUTHERN WEST VIRGINIA COMMUNITY AND TECHNICAL COLLEGE

## TABLE OF CONTENTS

SOUTHERN WV COMMUNITY & TECHNICAL COLLEGE
**Management Discussion and Analysis**
Fiscal Year 2002

## Overview of the Financial Statements and Financial Analysis

Southern West Virginia Community & Technical College ("the College") presents its financial statements for fiscal year 2002. The emphasis of discussions about these statements will be on current year data. There are three financial statements presented: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and, the Statement of Cash Flows. This discussion and analysis of the College's financial statements provides an overview of its financial activities for the year and is required supplemental information. Since this analysis is designed to focus on current activities, resulting change and currently known facts, please read it in conjunction with the College's basic financial statements (pages 12 to 16) and the footnotes (pages 17 to 29). Responsibility for the completeness and fairness of this information rests with the College.

The Governmental Accounting Standards Board (GASB) issued new directives for presentation of college and university financial statements. The previous reporting format presented financial balances and activities by fund groups. The new format places emphasis on the overall economic resources of the College. This is the first fiscal year for this new format.

## Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of the College as of the end of the fiscal year. The Statement of Net Assets is a point of time financial statement. The purpose of the Statement of Net Assets is to present to the readers of the financial statements a fiscal snapshot of the College. The Statement of Net Assets presents end-of-year data concerning Assets (current and noncurrent), Liabilities (current and noncurrent), and Net Assets (Assets minus Liabilities). The difference between current and noncurrent assets and liabilities is discussed in the footnotes to the financial statements.

From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the College. They are also able to determine how much the College owes vendors and lending institutions.

Finally, the Statement of Net Assets provides a picture of the net assets (assets minus liabilities) and their availability for expenditure for the College.

Net assets are divided into three major categories. The first category, invested in capital assets, net of debt, provides the College's equity in property, plant and equipment owned by the College. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. Southern does not currently have nonexpendable restricted net assets since all funds of this nature would be directed to the Southern West Virginia Community and Technical Foundation, Incorporated. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the College but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted assets are available to the College for any lawful purpose of the College.

**Net Assets**
**(In thousands of dollars)**

| | FY 2002 | FY 2001(*) |
|---|---|---|
| **Assets** | | |
| Current assets | $5,849 | $5,480 |
| Other non-current assets | 422 | 6 |
| Capital Assets, net | 14,569 | 14,204 |
| **Total Assets** | 20,840 | 19,690 |
| **Liabilities** | | |
| Current Liabilities | 1,261 | 1,177 |
| Noncurrent Liabilities | 1,278 | 1,027 |
| **Total Liabilities** | 2,539 | 2,204 |
| **Net Assets** | | |
| Invested in capital assets, net | 14,222 | 14,204 |
| Restricted – expendable | 3,305 | 1,746 |
| Unrestricted | 773 | 1,536 |
| **Total Net Assets** | $18,300 | $17,486 |

*GASB 35 does not require audited restatement of prior years during the implementation year. Numbers presented in the FY 2001 column are based on management estimates for comparative purposes only and are not audited.

Total net assets of the College increased by $814 thousand. This increase is related to a number of changes as described below:

- Current assets increased by $369 thousand; this increase is primarily due to increases in state grants.

- Although the increase of $18 thousand of net assets invested in capital is minor, it is comprised of several components that are material in nature. Capital assets increased by $931 thousand for acquisition of buildings and equipment. Equipment purchases amounted to approximately $536 thousand of the $931 thousand increase in capital assets. Included in equipment purchases is the "Meet U Bus" in the amount of $185 thousand. A lease purchase agreement was entered into for the Logan Mercantile building ($175 thousand). This building will primarily house the offices of the Workforce Development department. In addition, interactive classroom equipment was also purchased through a lease purchase agreement for $220 thousand. This equipment will serve the four campuses plus three area high schools.

- Current ratio for fiscal year 2002 is 4.64 times. The current ratio measures the ability to meet short-term obligations. The current ratio is the most widely-used measure of liquidity. Typically, current ratios will range from about 2 to almost 4 to 1.

**Capital Assets, Net**
**June 30,**
**(in thousands)**

| | 2002 | 2001* | Increase (Decrease) | Percent Change |
|---|---|---|---|---|
| Capital Assets | | | | |
| Land and Improvements | $ 941 | $ 916 | $ 25 | 2.7 |
| Buildings | 16,323 | 16,308 | 15 | .1 |
| Equipment | 3,160 | 2,968 | 192 | 6.5 |
| Leased Equipment | 220 | 0 | 220 | |
| Library Holdings | 3,720 | 3,596 | 124 | 3.4 |
| Total | 24,364 | 23,788 | 576 | 2.4 |
| Less: Accum Depreciation | (9,795) | ( 9,584) | (211) | (2.2) |
| Net Capital Assets | $ 14,569 | $ 14,204 | $ 365 | 2.6 |
| | | | | |

*GASB 35 does not require audited restatement of prior years during the implementation year. Numbers presented in the FY 2001 column are based on management estimates for comparative purposes only and are not audited.

### Statement of Revenues, Expenses and Changes in Net Assets

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues received by the College, both operating and nonoperating, and the expenses paid by the College, operating and nonoperating, and any other revenues, expenses, gains and losses received or spent by the College.

Operating revenues are received for providing goods and services to the various customers and constituencies of the College. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the College. Revenues received for which goods and services are not provided are reported as nonoperating revenues. For example state appropriations are nonoperating because they are provided by the Legislature to the College without the Legislature directly receiving commensurate goods and services for those revenues.

**Results for the Years Ended**
**June 30**
**(In thousands)**

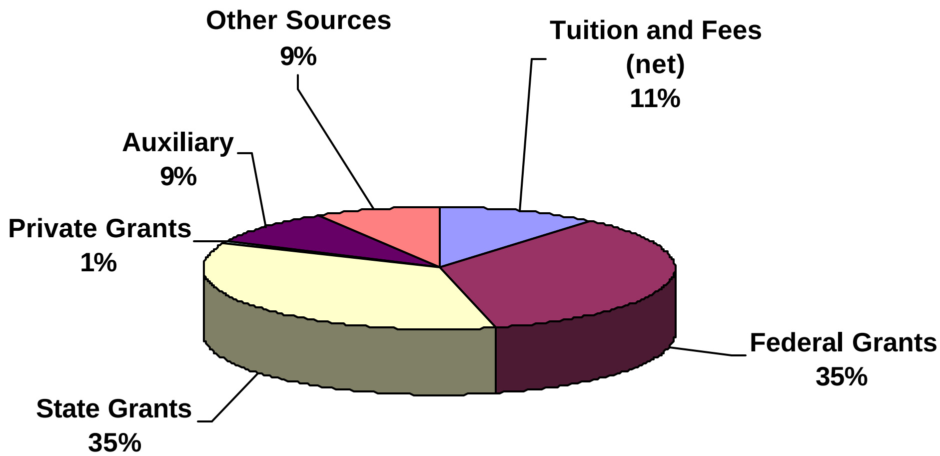
| | FY 2002 | FY 2001(*) |
|---|---|---|
| Operating revenues | $9,380 | $8,185 |
| Operating expenses | 17,047 | 15,000 |
| Operating loss | (7,667) | (6,815) |
| Nonoperating revenues | 8,482 | 7,462 |
| Increase in Net Assets | $815 | $647 |

*GASB 35 does not require audited restatement of prior years during the implementation year. Numbers presented in the FY 2001 column are based on management estimates for comparative purposes only and are not audited.

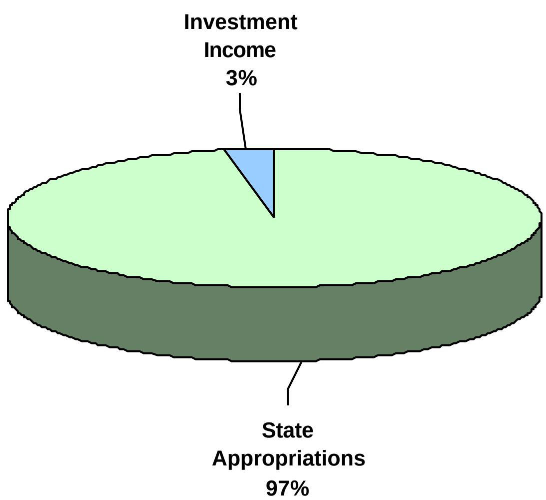
A review of the individual revenue and expense categories that contribute to the overall increase of Net Assets reveals the following explanations:

- Tuition and fees contributed approximately 11% of the total operating revenues for the year. In FY 2001, tuition and fees accounted for approximately 14% of the total operating revenues.
- Grant and contract revenues increased by $933 thousand for a 16% increase. As a percentage of operating revenue, grant and contract revenue accounted for nearly 70% in FY 2001, compared to 71% of operating revenues for FY 2002. From year to year, the number of grants awarded can vary significantly.
- Sales and services of auxiliary enterprises decreased by $42 thousand, a 5% decrease in FY 2002 over FY 2001. The auxiliary operations revenue represents approximately 9% of total operating revenue for FY 2002.
- Other revenues increased by $366 thousand with the largest portion of increase representing reimbursement from the grant programs for office space, new furniture, equipment, utilities, training, etc.
- The total cost of benefits increased by nearly 21% for FY 2002 over FY 2001 reflecting premium increases by the Public Employees Insurance Agency (PEIA) in addition to benefit cost increases associated with raises granted.
- Non-operating revenues from state appropriations increased by $1,291 thousand or approximately 18%. Of this increase, $733 thousand was related to grants allocated through state appropriations. Investment income decreased by $70 thousand or 21%. The College participates in the investment pool managed by the state. Through early spring of 2001 the interest rate factors were high with the drop in interest rate factors beginning in late spring continuing through 2002.

## REVENUE BY SOURCE
## Operating Revenues




## REVENUE BY SOURCE
## Nonoperating Revenues




## Operating Expenses

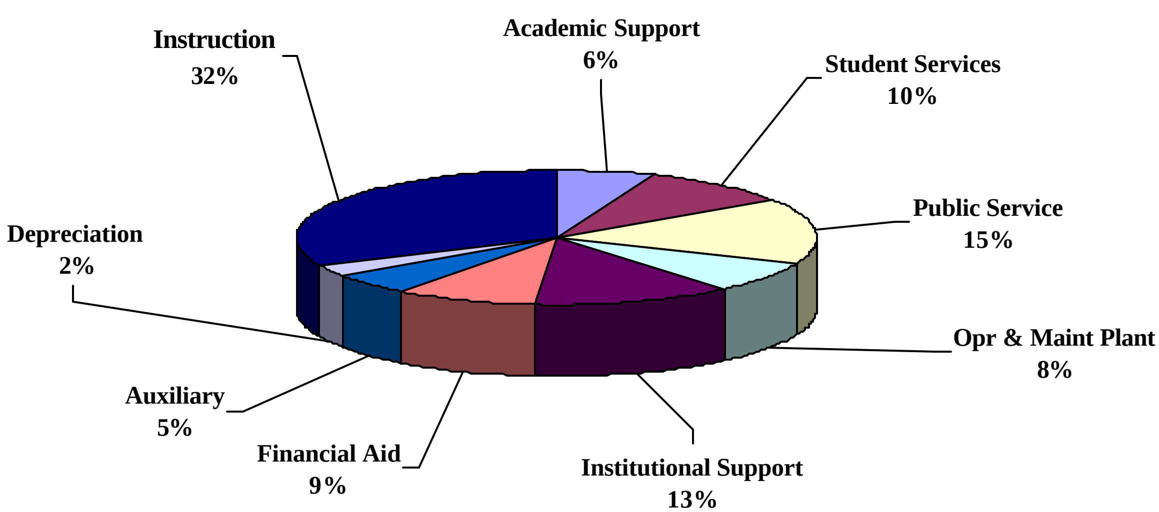
**For the Years Ended June 30**
**(in thousands)**

| | FY 2002 | FY2001* | Increase (Decrease) | Percent Change |
|---|---|---|---|---|
| Operating Expense | | | | |
| Instruction | $ 5,377 | $ 5,244 | $ 133 | 2.5 |
| Academic Support | 1,028 | 858 | 170 | 19.8 |
| Student Services | 1,624 | 1,500 | 124 | 8.3 |
| Public Service | 2,649 | 1,301 | 1,348 | 103.6 |
| Opr & Maint Plant | 1,325 | 1,509 | (184) | (12.2) |
| Institutional Support | 2,145 | 2,082 | 63 | 3.0 |
| Financial Aid | 1,510 | 1,200 | 310 | 25.8 |
| Auxiliary | 863 | 850 | 13 | 1.5 |
| Depreciation | 517 | 441 | 76 | 17.2 |
| Other | 10 | 0 | 10 | |
| Total | $17,048 | $14,985 | $ 2,063 | 13.8 |

*GASB 35 does not require audited restatement of prior years during the implementation year. Numbers presented in the FY 2001 column are based on management estimates for comparative purposes only and are not audited.

The following is a graphic illustration of operating expenses:

## Operating Expenses



Operating expenses for fiscal year 2002 increased especially in salaries and benefits. Southern had an increase of twenty nine employees. The greatest increase occurred in the Public Service area. The increase in the number of grants received in FY 2002 necessitated the hiring of additional employees.

## Statement of Cash Flows

The final statement presented by the College is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the College during the year. The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the College. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes. The third section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fifth section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

GASB 35 does not require restatement of prior year cash flows in the implementation year. Because this is a completely new statement for FY 2002, there is no prior year data available for comparative purposes only and are not audited.

**Cash Flows**
**Year Ended June 30,**
**(In thousands of dollars)**

| | FY 2002 |
|---|---|
| Cash provided (used) by: | |
| Operating activities | ($6,984) |
| Noncapital financing activities | 8,129 |
| Capital and related financing Activities | (703) |
| Investing activities | 247 |
| Net change in cash | 689 |
| Cash, beginning of year | 3,715 |
| Cash, end of year | $4,404 |

## Capital Asset and Debt Administration

The College had several large expenditures for new equipment added to capital assets during Fiscal Year 2002. One of the larger expenditures (approximately $185 thousand) was for a “Meet U Bus”. This is an acronym for “Mobile Education Evaluation and Training Unit”. The Meet U Bus is a new 38 foot mobile unit that provides convenient, state of the art, educational and employment instruction opportunities for the people of southern West Virginia. It contains 12 computer stations, 1 instructor station, 2 printers, a large TV/VCR, 2 small television screens, whiteboards, sound system and a variety of software. The Meet-U bus will travel throughout Southern's service district providing on-the-job and customized workforce training along with conventional education. The Meet U Bus can provide a variety of services including basic literacy training, transitional education, career exploration, work skills, assessment testing and computer training. Another large addition to the capital assets was for replacement and upgrade of the interactive classroom (approximately $220 thousand). This equipment provides access to courses at seven sites throughout the College's region.

## Economic Outlook

During the 2000 Legislative Session the governance of higher education in the state was changed. Effective July 1, 2001, Higher Education Policy Commission was established at the state level and the institutional Board of Advisors was replaced by the institutional Board of Governors. Although the impact of these changes is still unfolding there is potential impact to the institution's finances while details of system-wide debt redistribution are considered. In addition, with less than promising economic forecasts for the state and approximately 48% of operations funded by state appropriation, the College may be vulnerable to spending freezes if there is a significant downturn in the state's economy. The governor is currently asking all state agencies to reduce state funds by 10%; however, the Higher Education Policy Commission is requesting that community colleges be exempted from this reduction.

Although the economic forecasts for the state of West Virginia and the number of high school graduates in the state continues to decline, the College attracts and maintains non-traditional students to replace losses of traditional college age students. Also emphasis is placed on dual credit course offerings in high schools. The College has offered incentives to faculty to develop modular and web based courses as alternate methods of course delivery. Improved physical plant and favorable comparison of fee structures with peer institutions indicate that the College should be able to remain competitive for new and returning students.

## 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, 2002, and for the year 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 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 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 audit provides 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, 2002, and the changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, the College changed its financial statement presentation to adopt the provisions of the Governmental Accounting Standards Board ("GASB") Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, as amended by GASB Statements No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*, as of July 1, 2001.

The Management's Discussion and Analysis on pages 1 to 9 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the College's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 11, 2002 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.

October 11, 2002

## SOUTHERN WEST VIRGINIA COMMUNITY AND TECHNICAL COLLEGE

### STATEMENT OF NET ASSETS
### JUNE 30, 2002

| | |
|---|---|
| ASSETS: | |
| Current Assets: | |
| Cash and cash equivalents | $ 4,403,572 |
| Appropriations due from Primary Government | 643,570 |
| Accounts receivable | 600,102 |
| Inventories | 201,540 |
| Total current assets | 5,848,784 |
| Noncurrent Assets: | |
| Cash and cash equivalents | 414,883 |
| Loans to students, net of allowance of $15,882 | 4,190 |
| Other assets | 2,459 |
| Investment in capital assets, net | 14,569,427 |
| Total noncurrent assets | 14,990,959 |
| TOTAL ASSETS | $ 20,839,743 |

(Continued)

# SOUTHERN WEST VIRGINIA COMMUNITY AND TECHNICAL COLLEGE

## STATEMENT OF NET ASSETS
## JUNE 30, 2002

| | |
|---|---|
| LIABILITIES: | |
| Current Liabilities: | |
| Accounts payable | $ 239,640 |
| Due to the Commission | 33,290 |
| Due to other State Agencies | 40,981 |
| Due to other governments | 1,989 |
| Accrued liabilities | 441,506 |
| Compensated absences, current portion | 356,317 |
| Deferred revenue | 62,789 |
| Capital lease, current portion | 84,348 |
| Total current liabilities | 1,260,860 |
| Noncurrent Liabilities: | |
| Compensated absences | 1,015,141 |
| Capital lease obligations | 263,386 |
| Total noncurrent liabilities | 1,278,527 |
| TOTAL LIABILITIES | 2,539,387 |
| NET ASSETS: | |
| Invested in capital assets, net of related debt | 14,221,693 |
| Restricted for: | |
| Expendable: | |
| Specific purposes by State Code | 1,733,502 |
| Sponsored projects | 1,550,646 |
| Loans | 20,613 |
| Total restricted net assets | 3,304,761 |
| Unrestricted | 773,902 |
| Total net assets | 18,300,356 |
| TOTAL LIABILITIES AND NET ASSETS | $ 20,839,743 |

See notes to financial statements. (Concluded)

## SOUTHERN WEST VIRGINIA
## COMMUNITY AND TECHNICAL COLLEGE

### STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
### YEAR ENDED JUNE 30, 2002

| | |
|---|---|
| OPERATING REVENUES: | |
| Student tuition and fees (net of scholarship allowance of $1,521,489) | $ 1,052,475 |
| Contracts and grants: | |
| Federal | 3,273,210 |
| State | 3,326,215 |
| Private | 90,131 |
| Auxiliary enterprise revenue (net of scholarship allowance of $155,773) | 820,865 |
| Miscellaneous - net | 817,288 |
| Total operating revenues | 9,380,184 |
| OPERATING EXPENSES: | |
| Salaries and wages | 8,099,407 |
| Benefits | 2,447,128 |
| Supplies and other services | 4,067,267 |
| Utilities | 396,763 |
| Student financial aid - scholarships and fellowships | 1,509,719 |
| Depreciation | 517,085 |
| Loan cancellations and write-offs | 120 |
| Fees assessed by the Commission for operations | 10,057 |
| Total operating expenses | 17,047,546 |
| OPERATING LOSS | (7,667,362) |
| NONOPERATING REVENUES (EXPENSES): | |
| State appropriations | 8,423,178 |
| Investment income | 259,937 |
| Interest on indebtedness | (3,235) |
| Write off of fixed assets | (197,580) |
| Net operating revenues | 8,482,300 |
| INCREASE IN NET ASSETS | 814,938 |
| NET ASSETS, BEGINNING OF YEAR (AS RESTATED) | 17,485,418 |
| NET ASSETS, END OF YEAR | $ 18,300,356 |

See notes to financial statements.

## SOUTHERN WEST VIRGINIA
## COMMUNITY AND TECHNICAL COLLEGE

### STATEMENT OF CASH FLOWS
### YEAR ENDED JUNE 30, 2002

| | |
|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | |
| Student tuition and fees | $ 1,170,916 |
| Contracts and grants | 6,777,632 |
| Payments to and on behalf of employees | (10,505,027) |
| Payments to suppliers | (3,474,433) |
| Payments to utilities | (404,755) |
| Payments for scholarships and fellowships | (1,308,540) |
| Collection of loans to students | 801 |
| Interest on loans receivable | 375 |
| Auxiliary enterprise charges (net) | (24,138) |
| Fees retained by/from Commission | (10,057) |
| Other receipts (payments) - net | 793,179 |
| Net cash used in operating activities | (6,984,047) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | |
| State appropriations | 8,128,910 |
| Cash provided by noncapital financing activities | 8,128,910 |
| CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES: | |
| Purchases of capital assets | (696,555) |
| Principal paid on leases | (47,194) |
| Interest paid on leases | (3,610) |
| Decrease in noncurrent cash and cash equivalents | 44,883 |
| Net cash used in capital financing activities | (702,476) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | |
| Interest on invesments | 246,636 |
| Cash provided by investing activities | 246,636 |
| INCREASE IN CASH AND CASH EQUIVALENTS | 689,023 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 3,714,549 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | $ 4,403,572 |

(Continued)

## SOUTHERN WEST VIRGINIA COMMUNITY AND TECHNICAL COLLEGE

### STATEMENT OF CASH FLOWS
### YEAR ENDED JUNE 30, 2002

| | |
|---|---|
| RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES: | |
| Operating loss | $ (7,667,362) |
| Adjustments to reconcile net operating loss to net cash used in operating activities: | |
| Depreciation expense | 517,085 |
| Changes in assets and liabilities: | |
| Appropriations due from Primary Government | |
| Accounts receivables, net | (3,986) |
| Loans to students, net | 1,371 |
| Due from the Commission | 37,889 |
| Due from other State Agencies | 144,874 |
| Inventories | (26,871) |
| Accounts payable | (175,702) |
| Due to the Commission | 29,052 |
| Due to other State Agencies | (2,305) |
| Due to other governments | (207) |
| Accrued liabilities | (157,999) |
| Compensated absences | 302,112 |
| Deferred revenues | 18,002 |
| NET CASH USED IN OPERATING ACTIVITIES | $ (6,984,047) |
| Noncash Transactions: | |
| Equipment purchased on capital lease | $ 394,891 |

See notes to financial statements. (Concluded)

## 1. ORGANIZATION

Southern West Virginia Community and Technical College (the "College") is governed by the Southern West Virginia Board of Governors (the "Board"). The Board was established by Senate Bill 653 ("S.B. 653"). S.B. 653 was enacted by the West Virginia Legislature on March 19, 2000 and restructured public higher education in West Virginia. S.B. 653 abolished the Board of Directors of the College System of West Virginia 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 was granted all powers, duties, and authorities of the Board of Directors and was transferred each valid agreement and obligation previously transferred to or vested in the Board of Directors.

Effective July 1, 2001, certain powers were transferred to the newly created Governing Board of each of the institutions of higher education. These powers and duties include, but are not limited to, the power to determine, control, supervise and manage the financial, business and educational policies and affairs of the institution(s) under its jurisdiction, the duty to develop a master plan for the institution, the power to prescribe the specific functions and institution's budget request, the duty to review at least every five years all academic programs offered at the institution, and the power to fix tuition and other fees for the different classes or categories of students enrolled at its institution.

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the College have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board ("GASB"), including 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 of Public Colleges and Universities* (an Amendment of GASB Statement No. 34). The financial statement presentation required by GASB No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the College's assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows and replaces the fund-group perspective previously required.

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.

***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 Commission and the West Virginia Network for Educational Telecomputing ("WVNET"), form the Higher Education Fund of the State. The Higher Education Fund is considered a component unit of the State, and its financial statements are discretely presented in the State's comprehensive annual financial report.

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

***Financial Statement Presentation***—During fiscal 2002, the College adopted GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis for Public Colleges and Universities,* as amended by GASB Statements No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*. These statements establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a basis to focus on the College as a whole. Previously, financial statements focused on the accountability of individual fund groups rather than on the College as a whole. GASB Statement No. 35 reports equity as "net assets" rather than "fund balance". Net assets are classified into four categories according to external donor restrictions or availability of assets for satisfaction of College obligations. The College's net assets are classified as follows:

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

- *Restricted net assets, expendable*—This includes resources in which the College is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

  The West Virginia Legislature, as a regulatory body outside the reporting entity, has restricted the use of certain funds by "Article 10, Fees and Other Money Collected at State Institutions of Higher Education" of the West Virginia Code. These restrictions are primarily for the following: student unions; libraries, library supplies, and improvement in student services; faculty improvement; student activities; auxiliary operations; bookstore operations; and special programs. These activities are fundamental to the normal ongoing operations of the institution. These restrictions are subject to change by future actions of the West Virginia Legislature.

- *Restricted net assets, nonexpendable*—This includes endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. The College does not have any restricted nonexpendable net assets at June 30, 2002.

- *Unrestricted net assets*—Unrestricted net assets represent resources derived from student tuition and fees, state appropriations and sales and services of educational activities. These resources are used for transactions relating to the educational and general operations of the College, and may be used at the discretion of the Board of Governors to meet current expenses for any purpose. These resources also include resources of auxiliary enterprises, which are substantially self-supporting activities, that provide services for students, faculty and staff.

GASB Statement No. 35 requires the statements of net assets, revenues, expenses, and changes in net assets, and cash flows to be reported on an entity wide basis. The provisions of GASB Statement No. 35 have been applied to the year presented. Following is a reconciliation of total June 30, 2001 fund balances, as previously reported, to the restated net asset balances for the same date:

| | **June 30, 2001** |
|---|---|
| Combined fund balances, as previously reported | $ 24,137,242 |
| Accumulated depreciation and other valuation adjustments | (6,651,824) |
| Combined fund balances, restated as net assets | $ 17,485,418 |

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

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

Cash and cash equivalents balances on deposit with the State of West Virginia Treasurer's Office (the "State Treasurer") are pooled by the State Treasurer with other available funds of the State for investment purposes by the West Virginia Investment Management Board (the "IMB"). These funds are transferred to the IMB and the IMB is directed by the State Treasurer to invest the 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 pools based upon the funds that have been invested. The amounts on deposit with the State Treasurer are available for immediate withdrawal and, accordingly, are presented as cash and cash equivalents in the accompanying financial statements.

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

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

***Noncurrent Cash and Cash Equivalents***—Cash, that is (1) externally restricted to make debt service payments, long-term loans to students or to maintain sinking or reserve funds, and (2) to purchase capital or other noncurrent assets, is classified as a noncurrent asset in the statement of net assets.

***Capital Assets***—Capital assets include property, plant and equipment and books and materials that are part of a catalogued library. Capital assets are stated at cost at the date of acquisition or construction, or fair market value at the date of donation in the case of gifts. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 50 years for buildings and infrastructure, 20 years for land improvements, 7 years for library holdings, and 5 to 10 years for furniture and equipment.

***Deferred Revenue***—Revenues for programs or activities to be conducted primarily in the next fiscal year are classified as deferred revenue. Deferred revenue at the College primarily consists of summer tuition collected in advance. Financial aid and other deposits are separately classified as deposits.

***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 extend health insurance for one month of single coverage and three days extend health insurance for one month of family coverage. For employees hired after 1988, the employee shares in the cost of the extended benefit coverage to the extent of 50% of the premium required for the extended coverage. Employees hired July 1, 2001 or later will no longer receive sick leave credit toward insurance premiums when they retire.

Certain faculty employees (generally those with less than a 12-month contract) earn a similar extended health or life insurance coverage retirement benefit based on years of service. Generally 3-1/3 years of teaching service extend health insurance for one year of single coverage and five years extend health insurance for one year of family coverage.

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 expense and expense incurred for the vacation leave, sick leave or extended health or life insurance benefits are recorded as a component of benefits expense on the statement of revenues, expenses and changes in net assets.

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

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

***Classification of Revenues***—The College has classified its revenues as either operating or non-operating revenues according to the following criteria:

- *Operating Revenues*—Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most federal, state, local, and nongovernmental grants and contracts, (4) federal appropriations, and (5) sales and services of educational activities.

- *Nonoperating revenues*—Nonoperating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenues that are defined as nonoperating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting* and GASB No. 34, such as state appropriations and investment income.

***Use of Restricted Net Assets***—The College has not adopted a formal policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Generally, the College attempts to utilize restricted net assets first when practicable.

***Federal Financial Assistance Programs***—The College distributes student financial assistance funds on behalf of the federal government to students under the federal Pell Grant, Supplemental Educational Opportunity Grant and College Work Study programs. The activity of these programs is recorded in the accompanying financial statements. In 2002, the College received and disbursed $2,651,338 under these federal student aid programs.

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

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

***Gifts and Pledges***—The College does not report pledges in the financial statements until the gifts are collected.

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

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

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

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

***Recent Statements Issued by the Government Accounting Standards Board***—The GASB issued Statement No. 39, *Determining Whether Certain Organizations are Component Units*, an amendment of GASB Statement No. 14. This statement is effective for periods beginning after June 15, 2003. The College has not completed the process of evaluating the impact, if any, that will result from adopting GASB Statement No. 39. This statement, when adopted, could result in additional entities being included in the College's financial statements.

## 3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents was as follows at June 30, 2002:

| | Current | Noncurrent | Total |
|---|---|---|---|
| Cash on deposit with the State Treasurer | $ 4,306,884 | $ 398,464 | $ 4,705,348 |
| Cash in bank | 92,388 | 16,419 | 108,807 |
| Cash on hand | 4,300 | | 4,300 |
| | $ 4,403,572 | $ 414,883 | $ 4,818,455 |

Cash held by the State Treasurer includes $1,566,894 of restricted cash primarily for grants.

The combined carrying amount of cash in the bank at June 30, 2002 was $113,107, as compared with the combined bank balance of $129,604. The difference is primarily caused by items in transit. The bank balances were covered by federal depository insurance or were secured by financial instruments 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, *Deposits with Financial Institutions Investments (Including Receivable Agreements), and Reverse Repurchase Agreements*.

## 4. ACCOUNTS RECEIVABLE

Accounts receivable were as follows at June 30, 2002:

| | |
|---|---|
| Student tuition and fees, net of allowance for doubtful accounts of $154,174 | $ 223,683 |
| Grants and contracts receivable: | |
| Due from the Commissioner | 34,995 |
| Due from other State agencies | 233,838 |
| Other accounts receivable | 107,586 |
| | $ 600,102 |

## 5. CAPITAL ASSETS

The following is a summation of capital asset transactions for the College for the year ended June 30, 2002:

| | Beginning Balance | Additions | Reductions | Other | Ending Balance |
|---|---|---|---|---|---|
| Capital assets not being depreciated: | | | | | |
| Land | $ 915,970 | $ 25,000 | $ - | $ - | $ 940,970 |
| Construction in progress | | | | | |
| Total capital assets not being depreciated | $ 915,970 | $ 25,000 | $ - | $ - | $ 940,970 |
| Other capital assets: | | | | | |
| Buildings | $ 16,308,165 | $ 175,000 | $ - | $ (160,680) | $ 16,322,485 |
| Equipment | 2,968,168 | 535,991 | (307,094) | (36,900) | 3,160,165 |
| Leased Equipment | | 219,891 | | | 219,891 |
| Library Holdings | 3,595,599 | 135,564 | (10,859) | - | 3,720,304 |
| Total other capital assets | 22,871,932 | 1,066,446 | (317,953) | (197,580) | 23,422,845 |
| Less accumulated depreciation for: | | | | | |
| Buildings | 4,392,832 | 326,448 | | | 4,719,280 |
| Equipment | 2,032,470 | 50,652 | (307,094) | | 1,776,028 |
| Leased Equipment | | | | | |
| Library Holdings | 3,159,095 | 139,985 | | | 3,299,080 |
| Total accumulated depreciation | 9,584,397 | 517,085 | (307,094) | - | 9,794,388 |
| Other capital assets, net | $ 13,287,535 | $ 549,361 | $ (10,859) | $ (197,580) | $ 13,628,457 |
| Capital asset summary: | | | | | |
| Capital assets not being depreciated | $ 915,970 | $ 25,000 | $ - | $ - | $ 940,970 |
| Other capital assets | 22,871,932 | 1,066,446 | (317,953) | (197,580) | 23,422,845 |
| Total cost of capital assets | 23,787,902 | 1,091,446 | (317,953) | (197,580) | 24,363,815 |
| Less accumulated depreciation | 9,584,397 | 517,085 | (307,094) | | 9,794,388 |
| Capital assets, net | $ 14,203,505 | $ 574,361 | $ (10,859) | $ (197,580) | $ 14,569,427 |

Title for certain real property is with the Commission.

## 6. CHANGES IN LONG-TERM LIABILITIES

The following is a summary of long-term obligation transactions for the College for the year ended June 30, 2002:

| | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
|---|---|---|---|---|---|
| Capital leases payable | $ 37 | $ 394,891 | $ 47,194 | $ 347,734 | $ 84,348 |
| Other noncurrent liabilities: | | | | | |
| Accrued compensated absences | 1,069,346 | 302,112 | | 1,371,458 | 356,317 |
| Total noncurrent liabilities | $ 1,069,383 | $ 697,003 | $ 47,194 | $ 1,719,192 | $ 440,665 |

Additional information regarding leases payable is included in Note 7.

## 7. 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 |
|---|---|---|
| 2003 | $ 88,806 | $ 8,500 |
| 2004 | 88,806 | 6,943 |
| 2005 | 44,003 | 5,785 |
| 2006 | 12,001 | |
| 2007 | 12,001 | |
| 2008 and thereafter | 109,031 | |
| Total | 354,648 | $ 21,228 |
| Less portion representing interest | 6,914 | |
| Present value of net minimum capital lease payments | $ 347,734 | |

Total rent expense for operating leases amounted to $6,521 for the year ended June 30, 2002.

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.

## 8. COMPENSATED ABSENCES LIABILITY

The composition of the compensated absences liability was as follows at June 30, 2002:

| | |
|---|---|
| Health or life insurance benefits | $ 932,175 |
| Accrued vacation leave | 439,283 |
| | $ 1,371,458 |

The cost of health and life insurance benefits paid by the College is based on a combination of years of service and age. For the year ended June 30, 2002, the amount paid by the College for extended health or life insurance coverage retirement benefits totaled $46,965. There were 22 retirees eligible for these benefits as of June 30, 2002.

## 9. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

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

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

The Commission has the authority to assess each public institution of higher education for payment of debt service on these system bonds. The tuition and registration fees of the members of the former State University System are generally pledged as collateral for the Commission's bond indebtedness. Registration fees collected by the College in excess of the debt service allocation are retained by the institution for internal funding of capital projects and maintenance. Although the bonds remain as capital obligation of the Commission, an estimate of the obligation of each institution is reported as a long-term payable by each institution and as a receivable by the Commission, effective as of June 30, 2001.

## 10. 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, public employee 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 year ended June 30, 2002. Required employee contributions were at the rate of 6% of total annual salary for the year ended June 30, 2002. 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, 2002, 2001, and 2000 were $373,486, $372,696 and $365,641, respectively, which consisted of $266,776, $266,212 and $261,172 from the College in 2002, 2001 and 2000, respectively, and $106,710, $106,485 and $104,469 from the covered employees in 2002, 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, 2002, 2001 and 2000 were \$662,496, \$561,864 and \$526,910, respectively, which consisted of equal contributions from the College and covered employees in 2002, 2001 and 2000 of \$331,248, \$280,932 and \$263,455, respectively.

The College's total payroll for the years ended June 30, 2002 was \$8,834,041; total covered employees' salaries in the STRS and TIAA-CREF were \$1,778,506 and \$5,520,802 in 2002, respectively.

**11. 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, strength 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.

The Foundation's net assets totaled approximately \$354,000 at June 30, 2002. The net assets include amounts which are restricted by donors to use for specific projects or departments of the College and its affiliated organizations. Contributions to the Foundation, which are not reflected in the accompanying financial statements, totaled approximately \$135,000 for the year ended June 30, 2002. During the year ended June 30, 2002, the Foundation did not make any contributions to the College.

**12. 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.

**13. CONTINGENCIES**

The nature of the educational industry is such that, from time-to-time, claims will be presented against the College on account of alleged negligence, acts of discrimination, breach of contract or disagreements arising from the interpretation of laws or regulations. While some of these claims may be for substantial amounts, they are not unusual in the ordinary course of providing educational services in a higher education system.

In the opinion of management, all known claims are covered by insurance or are such that an award against the College would not 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.

## 14. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

For the year ended June 30, 2002, the following table represents operating expenses within both natural and functional classifications:

| | Salaries and Wages | Benefits | Supplies and Other Services | Utilities | Scholarships and Fellowships | Depreciation | Loan Cancellations and Write-offs | Fees Retained by the Board | Total |
|---|---|---|---|---|---|---|---|---|---|
| Instruction | $ 3,685,793 | $1,021,970 | $ 669,015 | $ 255 | $ - | $ - | $ - | $ - | $ 5,377,033 |
| Public service | 1,153,580 | 249,306 | 1,221,199 | 25,390 | | | | | 2,649,475 |
| Academic support | 655,485 | 227,255 | 143,568 | 1,334 | | | | | 1,027,642 |
| Student services | 946,877 | 301,646 | 375,478 | | | | | | 1,624,001 |
| General institutional support | 1,219,946 | 423,345 | 500,911 | 238 | | | | | 2,144,440 |
| Operations and maintenance of plant | 312,945 | 205,512 | 437,221 | 369,546 | | | | | 1,325,224 |
| Student financial aid | | | | | 1,509,719 | | | | 1,509,719 |
| Auxiliary enterprises | 124,780 | 18,095 | 719,875 | | | | | | 862,750 |
| Depreciation | | | | | | 517,085 | | | 517,085 |
| Other | | | | | | | 120 | 10,057 | 10,177 |
| Total | $ 8,099,406 | $2,447,129 | $ 4,067,267 | $ 396,763 | $ 1,509,719 | $ 517,085 | $ 120 | $ 10,057 | $17,047,546 |

* * * * * *

**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, 2002, and have issued our report thereon dated October 11, 2002, which contains a consistency paragraph for the adoption of Governmental Accounting Standards Board Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. 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 11, 2002.

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.

October 11, 2002