

Southern West Virginia
Community and Technical College
Financial Statements

Years Ended June 30, 2004 and 2003
and
Independent Auditors' Reports

SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE
TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	3
MANAGEMENT'S DISCUSSION AND ANALYSIS (RSI)	5 - 13
FINANCIAL STATEMENTS	
Statements of Net Assets	14
Statements of Revenues, Expenses and Changes in Net Assets	15
Statements of Cash Flows	16
Notes to Financial Statements	17
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	36

INDEPENDENT AUDITORS' REPORT

To the Governing Board
Southern West Virginia Community and Technical College

We have audited the accompanying basic financial statements of Southern West Virginia Community and Technical College (the College), a component unit of the West Virginia Higher Education Policy Commission and the State of West Virginia, as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the College as of June 30, 2003 were audited by other auditors whose report dated October 17, 2003 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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, the financial statements referred to above present fairly, in all material respects, the financial position of the College as of June 30, 2004, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 5 through 13 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information, and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 29, 2004, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Buttle & Stalmer, PLLC

October 29, 2004

SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE
MANAGEMENT DISCUSSION & ANALYSIS
JUNE 30, 2004

Overview of the Financial Statements and Financial Analysis

Southern West Virginia Community & Technical College (“the College”) presents its financial statements for the fiscal years ended June 30, 2004, and June 30, 2003. 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 and the footnotes to these financial statements. Responsibility for the completeness and fairness of this information rests with the College.

The Governmental Accounting Standards Board (GASB) establishes standards for the presentation format of college and university financial statements. The current format places emphasis on the overall economic resources of the College. The previous reporting format presented financial balances and activities by fund groups.

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

Net assets are divided into three major categories. The first category, invested in capital assets, net of related 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. The College does not currently have nonexpendable restricted net assets since all funds of this nature would be directed to the Southern West Virginia Community College 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.

SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE
MANAGEMENT DISCUSSION & ANALYSIS
JUNE 30, 2004

Statements of Net Assets
June 30
(in thousands)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Assets			
Current assets	\$ 5,838	\$ 6,307	\$ 5,849
Other non-current assets	332	355	422
Capital assets, net	<u>14,837</u>	<u>14,353</u>	<u>14,569</u>
Total assets	<u>21,007</u>	<u>21,015</u>	<u>20,840</u>
Liabilities			
Current liabilities	1,528	1,409	1,261
Noncurrent liabilities	<u>1,419</u>	<u>1,431</u>	<u>1,279</u>
Total liabilities	<u>2,947</u>	<u>2,840</u>	<u>2,540</u>
Net assets			
Invested in capital assets, net	14,660	14,090	14,222
Restricted - expendable	1,450	3,039	3,305
Unrestricted	<u>1,950</u>	<u>1,046</u>	<u>773</u>
Total net assets	<u>\$ 18,060</u>	<u>\$ 18,175</u>	<u>\$ 18,300</u>

Total net assets of the College decreased by \$115 thousand from June 30, 2003 to June 30, 2004. Total net assets decreased by \$125 thousand from June 30, 2002 to June 30, 2003. These decreases are related to a number of changes as described below:

- June 30, 2004 current assets decreased by \$469 thousand. This decrease is primarily due to a decrease in appropriations due from the primary government (State of West Virginia) of \$416 thousand as of the year end. A budget cut for FY 2004 of \$106 thousand and the overall decrease in State appropriations of approximately \$330 thousand contributed to this decrease. For 2003, current assets increased by \$458 primarily due to increases in State grants and a service agreement entered into with Eastern Community and Technical College.

SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE
MANAGEMENT DISCUSSION & ANALYSIS
JUNE 30, 2004

- The FY 2004 increase of \$570 thousand of net assets invested in capital is comprised of several components. Gross capital assets increased by \$1.9 million. This increase included construction in progress for HVAC at our Williamson Campus in the amount of \$783 thousand. Due to the deteriorating condition of the present heating and cooling system, it was necessary to totally replace the system. Also, the College purchased a parcel of property located in front of Logan District office for \$50 thousand. This property was obtained in preparation for future construction of an Allied Health and Technology Building. In addition, a donation of scientific equipment by the Foundation in the amount of \$367 thousand is reflected in gross capital assets. This equipment was initially given to the Foundation by the U.S. Department of Energy. The equipment is being housed at the Wood Products Complex at Holden, WV. The plans are to have a functioning lab facility and offer a program in analytical instrumentation to prepare lab technicians to use this equipment in a variety of industry based settings. Equipment purchases in the amount of approximately \$580 thousand represents predominantly computer acquisitions. Offsetting the \$1.9 million gross capital assets increase is depreciation and other capital impairment/adjustments in the amount of approximately \$1.4 million.
- For 2003, gross capital assets increased by \$373 thousand for acquisition of equipment and library holdings. Equipment purchases amounted to approximately \$291 thousand of the \$373 thousand increase in capital assets. Offsetting the purchase of equipment is the depreciation in the amount of \$589 thousand.
- The current ratio for fiscal year 2004 is 3.82 times compared to 4.48 for the 2003 fiscal year. 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 range from about 2 to almost 4 to 1.

Capital Assets, Net
June 30,
(in thousands)

	<u>2004</u>	<u>2003</u>	<u>2002</u>	(2003 to 2004) Increase (Decrease)	(2003 to 2004) Percent Change
Capital Assets					
Land and Improvements	\$ 991	\$ 941	\$ 941	\$ 50	5.3%
Construction in Progress	782	-	-	782	100.0%
Buildings	16,323	16,323	16,323	-	0.0%
Equipment	3,926	3,089	3,160	837	27.1%
Leased Equipment	220	220	220	-	0.0%
Library Holdings	<u>3,779</u>	<u>3,731</u>	<u>3,720</u>	<u>48</u>	1.3%
Total	26,021	24,304	24,364	1,717	7.1%
Less: Accum Depreciation	<u>(11,184)</u>	<u>(9,951)</u>	<u>(9,795)</u>	<u>(1,233)</u>	12.4%
Net Capital Assets	<u>\$ 14,837</u>	<u>\$ 14,353</u>	<u>\$ 14,569</u>	<u>\$ 484</u>	3.4%

SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE
MANAGEMENT DISCUSSION & ANALYSIS
JUNE 30, 2004

Statements 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 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.

Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended June 30,
(in thousands)

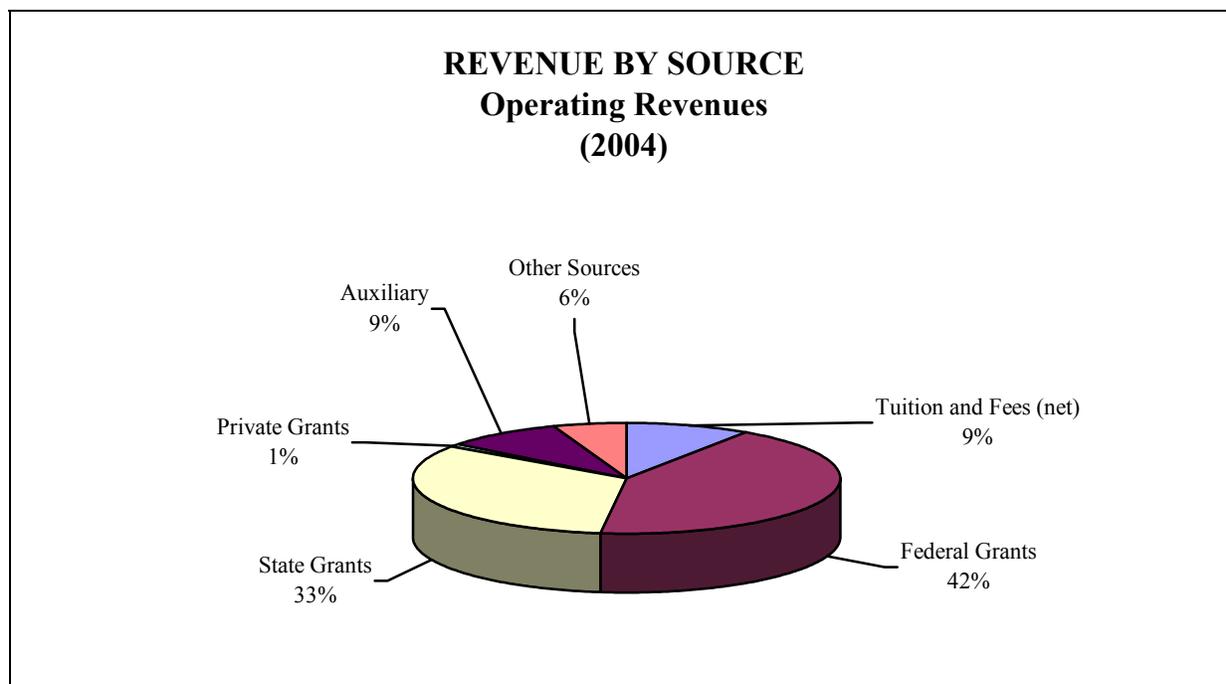
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Operating revenues	\$ 9,970	\$ 9,846	\$ 9,380
Operating expenses	<u>17,756</u>	<u>18,227</u>	<u>17,047</u>
Operating loss	(7,786)	(8,381)	(7,667)
Nonoperating revenues	7,750	8,199	8,482
Capital Project Proceeds from Commission	31	56	-
Capital Grants and Gifts	<u>367</u>	<u>-</u>	<u>-</u>
Increase (decrease) in Net Assets before Special Items	362	(126)	815
Less: Special Items	<u>(476)</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Assets after Special Items	<u>\$ (114)</u>	<u>\$ (126)</u>	<u>\$ 815</u>

A review of the individual revenue and expense categories and those items that contributed to the overall decreases in Net Assets reveals the following explanations:

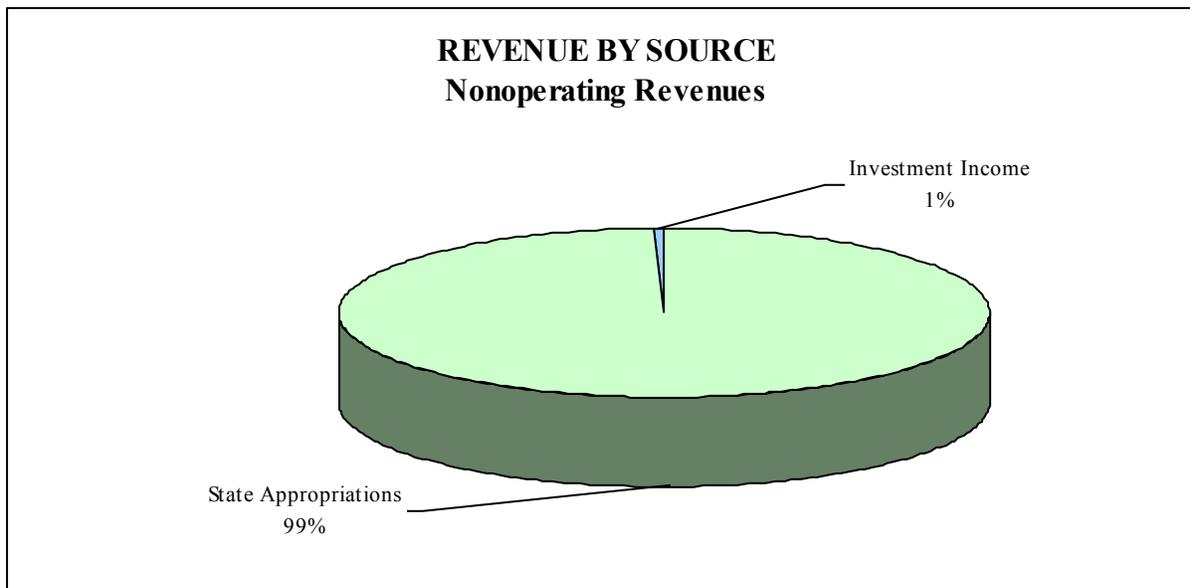
- For FY 2004, tuition and fees contributed approximately 9% of the total operating revenues for the year. In FY 2003, tuition and fees accounted for approximately 10% of the total operating revenues.

SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE
MANAGEMENT DISCUSSION & ANALYSIS
JUNE 30, 2004

- For FY 2004 grant and contract revenues increased by \$165 thousand for a 2% increase. As a percentage of operating revenue, grant and contract revenue accounted for nearly 76% in FY 2004, and 75% for FY 2003. From year to year, the number of grants awarded can vary significantly.
- Sales and services of auxiliary enterprises increased \$87 thousand, a 11% increase in FY 2004 over FY 2003. The auxiliary operations revenue represents approximately 9% of total operating revenue for FY 2004.
- In FY 2004 other revenues decreased by \$66 thousand with the largest portion of decrease representing reimbursements from the grant programs.
- The total cost of benefits increased by nearly 21% for FY 2004 over FY 2003 reflecting premium increases by the Public Employees Insurance Agency (PEIA).
- In FY 2004 non-operating revenues decreased by \$449 thousand or approximately 5.5%. Of this decrease, \$330 thousand was related to grants allocated through state appropriations. Investment income decreased by \$122 thousand or 75%. The College participates in the investment pool managed by the state. Funds previously invested were needed to make urgent repairs to buildings. The College anticipated the funds to be replenished by the proceeds of bonds issued by the Higher Education Policy Commission in early 2005.
- In FY 2004 other revenue consisted of \$367 thousand of donated equipment from the Foundation. Special items related to capital impairment adjustment for a one-time expense of \$476 charged against the net assets of the College.



SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE
MANAGEMENT DISCUSSION & ANALYSIS
JUNE 30, 2004

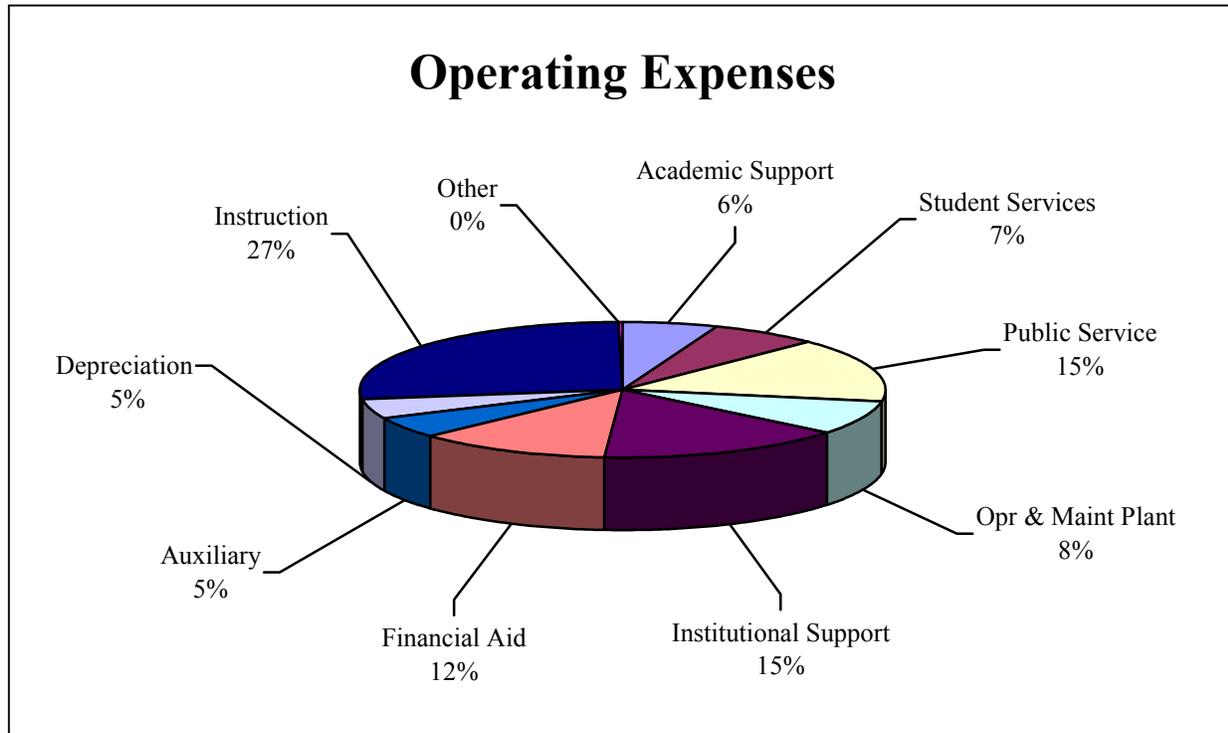


Operating Expenses
Years Ended June 30,
(in thousands)

	<u>2004</u>	<u>2003</u>	<u>2002</u>	(2003 to 2004) Increase (Decrease)	(2003 to 2004) Percent Change
Operating expense					
Instruction	\$ 4,804	\$ 5,678	\$ 5,377	\$ (874)	(15.4)%
Academic support	1,031	826	1,028	205	24.8%
Student services	1,198	1,389	1,624	(191)	(13.8)%
Public service	2,713	2,648	2,649	65	2.5%
Operations & maintenance plant	1,441	1,566	1,325	(125)	(8.0)%
Institutional support	2,714	2,471	2,145	243	9.8%
Financial aid	2,098	2,048	1,510	50	2.4%
Auxiliary	889	1,001	863	(112)	(11.2)%
Depreciation	825	589	517	236	40.1%
Other	43	11	9	32	290.9%
Total	<u>\$ 17,756</u>	<u>\$ 18,227</u>	<u>\$ 17,047</u>	<u>\$ (471)</u>	(2.6)%

SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE
MANAGEMENT DISCUSSION & ANALYSIS
JUNE 30, 2004

The following is a graphic illustration of FY 2004 operating expenses:



Operating expenses for fiscal year 2004 decreased in the area of salaries and benefits. The College had a decrease of eleven employees. Salaries and benefits in instruction decreased \$489 thousand. This is a result of attrition and temporaries replacing full time faculty with adjunct instructors. The greatest increase in salaries and benefits occurred in the Public Service area (\$143 thousand). The increase in the number of grants received in FY 2004 necessitated the hiring of additional employees.

Statements 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.

SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE
MANAGEMENT DISCUSSION & ANALYSIS
JUNE 30, 2004

Statements of Cash Flows
Years Ended June 30,
(in thousands)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Cash provided (used) by:			
Operating activities	\$ (6,879)	\$ (7,645)	\$ (6,984)
Noncapital financing activities	8,126	8,244	8,129
Capital and related financing Activities	(1,455)	(384)	(703)
Investing activities	<u>43</u>	<u>205</u>	<u>247</u>
Net change in cash	(165)	420	689
Cash, beginning of year	<u>4,824</u>	<u>4,404</u>	<u>3,715</u>
 Cash, end of year	 <u>\$ 4,659</u>	 <u>\$ 4,824</u>	 <u>\$ 4,404</u>

Capital Asset and Debt Administration

Capital assets increase of \$570 thousand comprised predominantly of infrastructure improvements, a major donation of scientific equipment, and an increase in depreciation. The College has no long term debt related to capital assets due to effective use of external resources and conservative spending.

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 (HEPC) was established at the state level and the institutional Board of Advisors was replaced by the institutional Board of Governors. The 2004 Legislature created the Council for Community and Technical College Education, removing governance of the College from the HEPC. It is anticipated that this change will have a positive impact on the College in the future. The economic outlook for West Virginia continues to be negative for several more years, leaving the College vulnerable to spending freezes if there is a significant downturn in the state's economy. The governor has asked all state agencies to reduce state budgets 5.5% for the coming year.

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 continues to offer 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.

SOUTHERN WEST VIRGINIA
 COMMUNITY AND TECHNICAL COLLEGE
 MANAGEMENT DISCUSSION & ANALYSIS
 JUNE 30, 2004

Very positive things are happening at the College, even though budget cuts are occurring throughout the State. In FY 05 the College has received \$9.6 million in bond proceeds as a result of excess lottery funds. The bonds will be repaid by excess Lottery funds. The largest project with the bond proceeds is to build a new Technology and Allied Health center. The receipt of these proceeds allows Southern to perform deferred maintenance. Several of our facilities are aging and are in need of repair. In addition, these funds provide new opportunities to train allied health and technology professionals to meet the needs of industry in our area. A complete detail of the planned use of the \$9.6 million is as follows:

Williamson Campus HVAC	\$ 450,000
Williamson Roof Repairs Replacement	150,000
Logan Roof Repairs/Replacement	150,000
Logan Downtown Annex Building	318,000
Williamson Elevator	115,000
Technology and Allied Health Center	6,500,000
Logan Building Renovations	417,000
Lincoln County Building Costs	<u>1,500,000</u>
 Total	 <u>\$ 9,600,000</u>

SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE
STATEMENTS OF NET ASSETS
JUNE 30, 2004 AND 2003

14

	<u>2004</u>	<u>2003</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 4,658,776	\$ 4,823,735
Appropriations due from Primary Government	24,553	440,280
Accounts receivable	887,823	798,957
Prepaid Expenses	18,750	-
Inventories	247,986	243,598
Total current assets	<u>5,837,888</u>	<u>6,306,570</u>
Noncurrent assets		
Cash and cash equivalents	330,499	352,449
Loans to students-net of allowance of \$16,438 and \$16,068	2,228	3,084
Investment in capital assets-net	14,836,764	14,352,914
Total noncurrent assets	<u>15,169,491</u>	<u>14,708,447</u>
Total assets	<u>21,007,379</u>	<u>21,015,017</u>
LIABILITIES		
Current liabilities		
Accounts payable	513,751	344,697
Due to the Commission	91,091	73,562
Due to other State Agencies	29,228	62,920
Due to other governments	6,599	3,575
Accrued liabilities	427,376	437,816
Compensated absences-current portion	379,156	361,656
Deferred revenue	36,640	38,691
Capital lease-current portion	43,760	86,593
Total current liabilities	<u>1,527,601</u>	<u>1,409,510</u>
Noncurrent liabilities		
Compensated absences	1,286,266	1,253,877
Capital lease obligations	133,033	176,793
Total noncurrent liabilities	<u>1,419,299</u>	<u>1,430,670</u>
Total liabilities	<u>2,946,900</u>	<u>2,840,180</u>
NET ASSETS		
Invested in capital assets-net of related debt	<u>14,659,971</u>	<u>14,089,524</u>
Restricted for Expendable:		
Specific purposes by State Code	-	1,535,059
Sponsored projects	1,439,650	1,438,571
Loans	9,082	9,225
Capital proceeds from the Commission	-	56,500
Total restricted net assets	<u>1,448,732</u>	<u>3,039,355</u>
Unrestricted	<u>1,951,776</u>	<u>1,045,958</u>
Total net assets	<u>\$ 18,060,479</u>	<u>\$ 18,174,837</u>

The Accompanying Notes Are An Integral
Part Of These Financial Statements

SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2004 AND 2003

15

	<u>2004</u>	<u>2003</u>
Operating revenues		
Student tuition and fees (net of scholarship allowance of \$2,054,219 and \$1,941,054)	\$ 929,853	\$ 991,508
Contracts and grants:		
Federal	4,256,996	3,731,464
State	3,248,395	3,601,013
Private	81,347	89,549
Auxiliary enterprise revenue (net of scholarship allowance of \$158,528 and \$177,369)	890,864	803,672
Miscellaneous-net	<u>562,714</u>	<u>629,082</u>
Total operating revenues	<u>9,970,169</u>	<u>9,846,288</u>
Operating expenses		
Salaries and wages	8,476,949	8,788,026
Benefits	2,483,123	2,601,843
Supplies and other services	3,275,070	3,685,199
Utilities	577,322	503,733
Student financial aid-scholarships and fellowships	2,075,108	2,047,490
Depreciation	825,278	589,262
Loan cancellations and write-offs	386	420
Fees assessed by the Commission for operations	<u>42,921</u>	<u>11,721</u>
Total operating expenses	<u>17,756,157</u>	<u>18,227,694</u>
Operating loss	<u>(7,785,988)</u>	<u>(8,381,406)</u>
Nonoperating revenues (expenses)		
State appropriations	7,710,619	8,040,724
Investment income	41,449	163,121
Interest on indebtedness	<u>(2,203)</u>	<u>(4,458)</u>
Net nonoperating revenues	<u>7,749,865</u>	<u>8,199,387</u>
Income (loss) before other revenues, expenses, gains or losses	<u>(36,123)</u>	<u>(182,019)</u>
Capital grants and gifts	366,972	-
Capital projects proceeds from the Commission	<u>31,200</u>	<u>56,500</u>
Total other revenues	<u>398,172</u>	<u>56,500</u>
Increase (decrease) in net assets before special items	362,049	(125,519)
Capital assets impairment / adjustment	<u>(476,407)</u>	<u>-</u>
Increase (decrease) in net assets	(114,358)	(125,519)
Net assets, beginning of year	<u>18,174,837</u>	<u>18,300,356</u>
Net assets, end of year	<u>\$ 18,060,479</u>	<u>\$ 18,174,837</u>

The Accompanying Notes Are An Integral
Part Of These Financial Statements

SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2004 AND 2003

16

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities		
Cash received from student tuition and fees	\$ 709,401	\$ 721,230
Cash received from contracts and grants	7,588,432	7,597,560
Payments to and on behalf of employees	(10,906,344)	(11,123,752)
Payments to suppliers	(2,847,329)	(3,019,274)
Payments to utilities	(459,271)	(467,835)
Payments for scholarships and fellowships	(1,989,496)	(2,043,842)
Interest on loans receivable	113	19
Auxiliary enterprise charges-net	148,965	(200,203)
Fees assessed by Commission	(42,921)	(11,721)
Other receipts (payments)-net	<u>919,905</u>	<u>902,545</u>
Net cash used in operating activities	<u>(6,878,545)</u>	<u>(7,645,273)</u>
Cash flows from noncapital financing activities		
State appropriations	<u>8,126,346</u>	<u>8,244,014</u>
Cash provided by noncapital financing activities	<u>8,126,346</u>	<u>8,244,014</u>
Cash flows from capital financing activities		
Purchases of capital assets	(1,419,749)	(301,153)
Principal paid on leases	(86,592)	(84,348)
Interest paid on leases	(2,203)	(4,458)
Capital projects proceeds not transferred to plant funds	-	(56,500)
Capital project proceeds from the Commission	31,200	-
Decrease in noncurrent cash and cash equivalents	<u>21,950</u>	<u>62,434</u>
Net cash used in capital financing activities	<u>(1,455,394)</u>	<u>(384,025)</u>
Cash flows from investing activities		
Interest on investments	<u>42,634</u>	<u>205,447</u>
Cash provided by investing activities	<u>42,634</u>	<u>205,447</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(164,959)	420,163
Cash and cash equivalents - beginning of year	<u>4,823,735</u>	<u>4,403,572</u>
Cash and cash equivalents - end of year	<u>\$ 4,658,776</u>	<u>\$ 4,823,735</u>
Reconciliation of net operating loss to net cash used in operating activities		
Operating loss	\$ (7,785,988)	\$ (8,381,406)
Adjustments to reconcile net operating loss to net cash used in operating activities		
Depreciation expense	825,278	589,262
Changes in assets and liabilities		
Accounts receivable-net	(88,866)	(198,855)
Other assets	(18,750)	2,459
Loans to students-net	856	1,106
Inventories	(4,388)	(42,058)
Accounts payable	169,054	105,057
Due to Commission	17,529	40,272
Due to other State Agencies	(33,692)	21,939
Due to other governments	3,024	1,586
Accrued liabilities	(10,440)	(3,690)
Compensated absences	49,889	244,075
Deferred revenues	(2,051)	(24,098)
Other	<u>-</u>	<u>(922)</u>
Net cash used in operating activities	<u>\$ (6,878,545)</u>	<u>\$ (7,645,273)</u>
Noncash Activities		
Donated capital assets	<u>\$ 366,972</u>	<u>\$ -</u>

The Accompanying Notes Are An Integral
Part Of These Financial Statements

SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004 AND 2003

NOTE 1 - ORGANIZATION

Southern West Virginia Community and Technical College (the “College”) is governed by the Southern West Virginia Community and Technical College Board of Governors (the “Board”). The Board was established by Senate Bill 653 (“S.B. 653”).

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

S.B. 653 also created the West Virginia Higher Education Policy Commission (the “Commission”), which is responsible for developing, gaining consensus around and overseeing the implementation and development of a higher education public policy agenda. In 2004, Senate Bill 448 created the Council for Community and Technical College Education and the College’s governance shifted from the commission to the new Council.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the College have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by 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 - for Public Colleges and Universities* (an Amendment of GASB Statement No. 34). The financial statement presentation required by GASB Statement 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.

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.

SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004 AND 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reporting Entity - The College is an operating unit of the West Virginia Higher Education Fund and represents a separate fund of the State of West Virginia (the "State") that is not included in the State's general fund. The College is a separate entity which, along with all State institutions of higher education and the Commission (which includes West Virginia Network for Educational Telecomputing), 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.

As of July 1, 2003, the College reviewed the requirements of GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, an amendment to GASB Statement No. 14. The financial statements of The Southern West Virginia Community and College Foundation, Incorporated (the "Foundation") are not presented here with the College's financial statements for the fiscal years ended June 30, 2004 because the College has determined that the economic resources received or held by the Foundation are not significant to that of the College for inclusion in the College's financial statements.

A related Alumni Association of the College is not part of the College's reporting entity and is 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 Alumni Association under GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39.

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. 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:

SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004 AND 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The West Virginia State Legislature, as a regulatory body outside the reporting entity, has restricted the use of certain funds by *Article 10, Fees and Other Money Collected at State Institutions of Higher Education* of the West Virginia State Code. House Bill 101, passed in March 2004, simplified the tuition and fee restrictions. For 2004, these restrictions are for auxiliaries and capital items. For 2003, these restrictions were primarily for the following: student unions; library, 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 State Legislature.

- *Restricted net assets, nonexpendable* - This includes endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. The College does not have any restricted nonexpendable net assets at June 30, 2004 or 2003.
- *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.

SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004 AND 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

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.

SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004 AND 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. The College's capitalization threshold is \$1,000.

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 extends health insurance for one year of single coverage and five years extend health insurance for one year of family coverage.

SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004 AND 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004 AND 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- *Nonoperating revenues* - Nonoperating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenues that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting* and GASB Statement 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 2004 and 2003, the College received and disbursed \$3,686,133 and \$3,473,796, respectively, under these federal student aid programs.

Scholarship Allowances - Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances in the 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 and funds provided to students as awarded by third parties are 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.

SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004 AND 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Special Item - The College recorded a one-time expense for capital impairment related depreciation expense for the year ended June 30, 2004. The total effect resulted in an expense of \$476,407 and related reduction in the investment in capital assets.

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

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

Interest Expense - The College accounts for interest on debt as an expense of the period in which it is incurred. The College does not capitalize interest on debt as part of the cost of the asset.

Recent Statements Issued by the Government Accounting Standards Board - The GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures*. This statement is effective for periods beginning after June 15, 2004. The College has not completed the process of evaluating the impact, if any, that will result from adopting GASB Statement No. 40. The statement, when adopted, could result in additional disclosure in the College's financial statements regarding custodial credit risk, concentration of credit risk, and interest rate risk related to deposits and investments.

SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004 AND 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The GASB has also issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, effective for fiscal years beginning after December 15, 2004. This statement requires the College to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred and record impaired assets and impairment losses accordingly. This statement also addresses the appropriate recording of an insurance recovery associated with events or changes in circumstances resulting in impairment of a capital asset. The College has not yet determined the effect that the adoption of GASB Statement No. 42 may have on the financial statements.

The GASB has also issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective for fiscal years beginning after December 15, 2006. This statement provides standards for the measurement, recognition and display of other postemployment benefit expenditures, assets, and liabilities, including applicable note disclosures and required supplementary information. The College has not yet determined the effect that the adoption of GASB Statement No. 45 may have on the financials.

NOTE 3 - CASH AND CASH EQUIVALENTS

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

2004	Current	Noncurrent	Total
Cash on deposit with the State Treasurer	\$ 4,525,968	\$ 324,135	\$ 4,850,103
Cash in bank	128,508	6,364	134,872
Cash on hand	<u>4,300</u>	<u>-</u>	<u>4,300</u>
	<u>\$ 4,658,776</u>	<u>\$ 330,499</u>	<u>\$ 4,989,275</u>
2003	Current	Noncurrent	Total
Cash on deposit with the State Treasurer	\$ 4,741,090	\$ 346,812	\$ 5,087,902
Cash in bank	78,345	5,637	83,982
Cash on hand	<u>4,300</u>	<u>-</u>	<u>4,300</u>
	<u>\$ 4,823,735</u>	<u>\$ 352,449</u>	<u>\$ 5,176,184</u>

Cash held by the State Treasurer includes \$1,411,801 and \$1,550,647 of restricted cash primarily for grants as of June 30, 2004 and 2003, respectively.

SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004 AND 2003

NOTE 3 - CASH AND CASH EQUIVALENTS (Continued)

The combined carrying amount of cash in the bank and on hand at June 30, 2004 and 2003 was \$139,172 and \$88,282, respectively, as compared with the combined bank balance of \$161,091 and \$109,282, respectively. The difference is primarily caused by items in transit and outstanding checks. The bank balances were covered by federal depository insurance or were collateralized by securities held by the State's agent.

Cash on deposit with the State Treasurer is a noncategorized deposit in accordance with GASB Statement No. 3, *Deposits with Financial Institutions Investments (Including Receivable Agreements), and Reverse Repurchase Agreements*.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable were as follows at June 30:

	<u>2004</u>	<u>2003</u>
Student tuition and fees - net of allowance for doubtful accounts of \$164,849 and \$139,246	\$ 344,174	\$ 289,020
Grants and contracts receivable:		
Due from the Commission	2,501	19,436
Due from other State agencies	350,245	326,566
Other accounts receivable	<u>190,903</u>	<u>163,935</u>
	<u>\$ 887,823</u>	<u>\$ 798,957</u>

SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004 AND 2003

NOTE 5 - CAPITAL ASSETS

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

	2004			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated				
Land	\$ 940,970	\$ 50,000	\$ -	\$ 990,970
Construction in progress	-	782,559	-	782,559
Total capital assets not being depreciated	<u>\$ 940,970</u>	<u>\$ 832,559</u>	<u>\$ -</u>	<u>\$ 1,773,529</u>
Other capital assets				
Buildings	\$ 16,322,485	\$ -	\$ -	\$ 16,322,485
Equipment	3,089,233	946,724	(109,735)	3,926,222
Leased equipment	219,891	-	-	219,891
Library holdings	3,730,912	78,462	(30,475)	3,778,899
Total other capital assets	<u>23,362,521</u>	<u>1,025,186</u>	<u>(140,210)</u>	<u>24,247,497</u>
Less accumulated depreciation for				
Buildings	5,045,728	326,448	-	5,372,176
Equipment	1,435,454	951,693	(101,249)	2,285,898
Leased equipment	58,028	30,396	-	88,424
Library holdings	3,411,367	56,872	(30,475)	3,437,764
Total accumulated depreciation	<u>9,950,577</u>	<u>1,365,409</u>	<u>(131,724)</u>	<u>11,184,262</u>
Other capital assets-net	<u>\$ 13,411,944</u>	<u>\$ (340,223)</u>	<u>\$ (8,486)</u>	<u>\$ 13,063,235</u>
Capital asset summary				
Capital assets not being depreciated	\$ 940,970	\$ 832,559	\$ -	\$ 1,773,529
Other capital assets	<u>23,362,521</u>	<u>1,025,186</u>	<u>(140,210)</u>	<u>24,247,497</u>
Total cost of capital assets	24,303,491	1,857,745	(140,210)	26,021,026
Less accumulated depreciation	<u>9,950,577</u>	<u>1,365,409</u>	<u>(131,724)</u>	<u>11,184,262</u>
Capital assets-net	<u>\$ 14,352,914</u>	<u>\$ 492,336</u>	<u>\$ (8,486)</u>	<u>\$ 14,836,764</u>

SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004 AND 2003

NOTE 5 - CAPITAL ASSETS (Continued)

	2003			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated				
Land	\$ 940,970	\$ -	\$ -	\$ 940,970
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets not being depreciated	<u>\$ 940,970</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 940,970</u>
Other capital assets				
Buildings	\$ 16,322,485	\$ -	\$ -	\$ 16,322,485
Equipment	3,160,165	290,546	(361,478)	3,089,233
Leased equipment	219,891	-	-	219,891
Library holdings	<u>3,720,304</u>	<u>82,203</u>	<u>(71,595)</u>	<u>3,730,912</u>
Total other capital assets	<u>23,422,845</u>	<u>372,749</u>	<u>(433,073)</u>	<u>23,362,521</u>
Less accumulated depreciation for				
Buildings	4,719,280	326,448	-	5,045,728
Equipment and leased equipment	1,776,028	78,932	(361,478)	1,493,482
Library holdings	<u>3,299,080</u>	<u>183,882</u>	<u>(71,595)</u>	<u>3,411,367</u>
Total accumulated depreciation	<u>9,794,388</u>	<u>589,262</u>	<u>(433,073)</u>	<u>9,950,577</u>
Other capital assets-net	<u>\$ 13,628,457</u>	<u>\$ (216,513)</u>	<u>\$ -</u>	<u>\$ 13,411,944</u>
Capital asset summary				
Capital assets not being depreciated	\$ 940,970	\$ -	\$ -	\$ 940,970
Other capital assets	<u>23,422,845</u>	<u>372,749</u>	<u>(433,073)</u>	<u>23,362,521</u>
Total cost of capital assets	24,363,815	372,749	(433,073)	24,303,491
Less accumulated depreciation	<u>9,794,388</u>	<u>589,262</u>	<u>(433,073)</u>	<u>9,950,577</u>
Capital assets-net	<u>\$ 14,569,427</u>	<u>\$ (216,513)</u>	<u>\$ -</u>	<u>\$ 14,352,914</u>

SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004 AND 2003

NOTE 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:

<u>Year Ending June 30</u>	<u>Capital Leases</u>	<u>Operating Leases</u>
2005	\$ 44,003	\$ 5,785
2006	12,001	-
2007	12,001	-
2008	12,001	-
2009	12,001	-
2010 and thereafter	<u>85,029</u>	<u>-</u>
Total	177,036	<u>\$ 5,785</u>
Less portion representing interest	<u>243</u>	
Present value of net minimum capital lease payments	<u>\$ 176,793</u>	

Total rent expense for operating leases amounted to \$8,575 and \$11,039 for the years ended June 30, 2004 and 2003, 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.

NOTE 8 - COMPENSATED ABSENCES LIABILITY

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

	<u>2004</u>	<u>2003</u>
Health or life insurance benefits	\$ 1,230,600	\$ 1,179,297
Accrued vacation leave	<u>434,822</u>	<u>436,236</u>
	<u>\$ 1,665,422</u>	<u>\$ 1,615,533</u>

SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004 AND 2003

NOTE 8 - COMPENSATED ABSENCES LIABILITY (Continued)

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 years ended June 30, 2004 and 2003, the amount paid by the College for extended health or life insurance coverage retirement benefits totaled \$74,255 and \$63,091, respectively. There were 28 and 26 retirees eligible for these benefits as of June 30, 2004 and 2003, respectively.

NOTE 9 - STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

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

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

NOTE 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.

Effective January 1, 2003, higher education employees enrolled in the basic 401(a) retirement plan with TIAA-CREF have an option to switch to the Educators Money 401(a) basic retirement plan. New hires have the choice of either plan. As of June 30, 2004, there were no employees enrolled in the Educators Money 401(a) basic retirement plan.

SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004 AND 2003

NOTE 10 - RETIREMENT PLANS (Continued)

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 both the years ended June 30, 2004 and 2003. Required employee contributions were at the rate of 6% of total annual salary for both the years ended June 30, 2004 and 2003. Participants in the STRS may retire with full benefits upon reaching age 60 with 5 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.

Total contributions to the STRS for the years ended June 30, 2004, 2003 and 2002 were \$360,984, \$368,598 and \$373,486, respectively, which consisted of \$257,846, \$263,285 and \$266,776 from the College in 2004, 2003 and 2002, respectively, and \$103,138, \$105,314 and \$106,710 from the covered employees in 2004, 2003 and 2002, respectively.

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

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

Total contributions to the TIAA-CREF for the years ended June 30, 2004, 2003 and 2002 were \$692,335, \$720,056 and \$662,496, respectively, which consisted of equal contributions from the College and covered employees in 2004, 2003 and 2002 of \$346,168, \$360,028 and \$331,248, respectively.

The College's total payroll for the years ended June 30, 2004, 2003, and 2002 were \$8,476,949, \$8,788,701, and \$8,834,041, respectively; total covered employees' salaries in the STRS and TIAA-CREF were \$1,718,965 and \$5,769,462 in 2004, respectively, \$1,755,226 and \$6,000,469 in 2003, respectively, and \$1,778,506 and \$5,520,802 in 2002, respectively.

SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004 AND 2003

NOTE 11 - FOUNDATION (UNAUDITED)

The Foundation is a separate nonprofit organization incorporated in the State and has as its purpose “to support, encourage and assist in the development and growth of the College, ...to render service and assistance to the College, and through it to the citizens of the State of West Virginia...” 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. The financial statements of the Foundation were not included in the accompanying financial statements under GASB No. 14. They are not included in the College’s accompanying financial statements under GASB No. 39 because they are not significant.

The Foundation’s net assets totaled approximately \$545,000 and \$421,000 at December 31, 2003 and 2002, respectively. 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 \$257,591 and \$106,620 for the years ended December 31, 2003 and 2002, respectively. During the years ended June 30, 2004 and 2003, the Foundation made approximately \$95,145 and \$76,727, respectively, in contributions to the College.

NOTE 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 under GASB Statement No. 14 as amended by GASB Statement No. 39.

NOTE 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.

SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004 AND 2003

NOTE 13 - CONTINGENCIES (Continued)

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

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

NOTE 14 - SUBSEQUENT EVENT

During August 2004, the West Virginia Higher Education Policy Commission issued \$167,260,000 of 2004 Series B Revenue Bonds (Higher Education Facilities). The College has been approved for \$9,600,000 of the bond proceeds for construction of a new Technology and Allied Health Building, a wing on the new Lincoln County Consolidated High School, and renovation of other existing buildings throughout the College.

SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004 AND 2003

NOTE 15 - NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

These tables represent operating expenses within both natural and functional classifications for the years ended June 30:

	2004								
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Loan Cancellations & Write-offs	Fees Assessed by the Commission	Total
Instruction	\$ 3,449,097	\$ 990,792	\$ 360,854	\$ 2,973	\$ -	\$ -	\$ -	\$ -	\$ 4,803,716
Public service	1,558,634	385,361	763,383	5,679	-	-	-	-	2,713,057
Academic support	694,774	166,251	169,715	232	-	-	-	-	1,030,972
Student services	719,558	220,968	251,041	6,047	-	-	-	-	1,197,614
General institutional support	1,466,603	523,695	686,088	37,439	-	-	-	-	2,713,825
Operations and maintenance of plant	443,241	170,579	301,702	524,952	-	-	-	-	1,440,474
Other general support	-	-	898	-	-	-	-	-	898
Student financial aid	22,430	372	-	-	2,075,108	-	-	-	2,097,910
Auxiliary enterprises	122,612	25,105	741,389	-	-	-	-	-	889,106
Depreciation	-	-	-	-	-	825,278	-	-	825,278
Other	-	-	-	-	-	-	386	42,921	43,307
Total	\$ 8,476,949	\$ 2,483,123	\$ 3,275,070	\$ 577,322	\$ 2,075,108	\$ 825,278	\$ 386	\$ 42,921	\$ 17,756,157

	2003								
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Loan Cancellations & Write-offs	Fees Assessed by the Commission	Total
Instruction	\$ 3,842,550	\$ 1,086,644	\$ 748,179	\$ 795	\$ -	\$ -	\$ -	\$ -	\$ 5,678,168
Public service	1,452,048	349,013	835,780	10,938	-	-	-	-	2,647,779
Academic support	511,116	228,056	87,129	50	-	-	-	-	826,351
Student services	982,693	265,022	140,669	610	-	-	-	-	1,388,994
General institutional support	1,460,079	484,861	525,729	474	-	-	-	-	2,471,143
Operations and maintenance of plant	414,655	176,241	484,300	490,749	-	-	-	-	1,565,945
Student financial aid	-	-	-	-	2,047,489	-	-	-	2,047,489
Auxiliary enterprises	124,885	12,006	863,413	117	-	-	-	-	1,000,421
Depreciation	-	-	-	-	-	589,263	-	-	589,263
Other	-	-	-	-	-	-	420	11,721	12,141
Total	\$ 8,788,026	\$ 2,601,843	\$ 3,685,199	\$ 503,733	\$ 2,047,489	\$ 589,263	\$ 420	\$ 11,721	\$ 18,227,694



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

To the Governing Board
Southern West Virginia Community and Technical College

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, 2004, and have issued our report thereon dated October 29, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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 reportable 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 caused by error or fraud in amounts 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 internal control over financial reporting and its operation that we consider to be material weaknesses.

The Virginia Center • 1411 Virginia Street, East • Suite 100 • Charleston, West Virginia 25301
Phone (304)-343-4126 or 1-(800)-788-3844 • Fax (304)-343-8008 • E-mail: cpa@suttlecpas.com

Members of: American Institution of Certified Public Accountants • Private Companies Practice Section • West Virginia Society of Certified Public Accountants

PKF North American Network
An association of legally independent firms

A Professional Limited Liability Company
www.suttlecpas.com



Compliance and Other Matters

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

We noted other matters involving the internal control over financial reporting that we have reported to management of the College in a separate letter dated October 29, 2004.

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

Suttle & Stalrocker, PLLC

October 29, 2004