

Southern West Virginia
Community and Technical College
Financial Statements

Years Ended June 30, 2005 and 2004
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 - 40
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>	41

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 years ended June 30, 2005 and 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.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the College as of June 30, 2005 and 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 September 2, 2005, 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.

Suttle & Stalvaker, PLLC

September 2, 2005

SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE
MANAGEMENT DISCUSSION & ANALYSIS
JUNE 30, 2005

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, 2005, and June 30, 2004. 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 College expenditures.

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, 2005

Statements of Net Assets
June 30
(in thousands)

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Assets			
Current assets	\$ 5,918	\$ 5,838	\$ 6,307
Other non-current assets	88	332	355
Capital assets, net	<u>15,700</u>	<u>14,837</u>	<u>14,353</u>
Total assets	<u>21,706</u>	<u>21,007</u>	<u>21,015</u>
Liabilities			
Current liabilities	1,902	1,528	1,409
Noncurrent liabilities	<u>1,304</u>	<u>1,419</u>	<u>1,431</u>
Total liabilities	<u>3,206</u>	<u>2,947</u>	<u>2,840</u>
Net assets			
Invested in capital assets, net	15,700	14,660	14,090
Restricted - expendable	1,437	1,449	3,039
Unrestricted	<u>1,363</u>	<u>1,951</u>	<u>1,046</u>
Total net assets	<u>\$ 18,500</u>	<u>\$ 18,060</u>	<u>\$ 18,175</u>

Total net assets of the College increased by \$440 thousand from June 30, 2004 to June 30, 2005. Total net assets decreased by \$115 thousand from June 30, 2003 to June 30, 2004. These changes are related to a number of changes as described below:

- June 30, 2005 current assets increased by \$80 thousand. This increase is primarily due to an increase in inventory for sale in the College's bookstores. For 2004, current assets decreased by \$469 thousand primarily due from the primary government (State of West Virginia).
- The FY 2005 increase of \$1.04 million of net assets invested in capital is comprised of several components. Gross capital assets increased by \$2.6 million. This increase included the purchase of land in preparation for the new Technology and Allied Health Building. Among the equipment that was purchased was two vehicles and two software packages. Construction improvements included the snack bar and repair of the roof on the Logan Campus and replacement of the HVAC and roof on the Williamson Campus. Also included is the construction in progress of the College's site at the new Lincoln County Consolidated High School. Offsetting the \$2.6 million gross capital assets increase is depreciation in the amount of approximately \$915 thousand.

SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE
MANAGEMENT DISCUSSION & ANALYSIS
JUNE 30, 2005

- 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 the Williamson Campus in the amount of \$783 thousand. 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 a Technology and Allied Health 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 made possible by a federal grant. Offsetting the \$1.9 million gross capital assets increase is depreciation and other capital impairment/adjustments in the amount of approximately \$1.4 million.
- The current ratio for fiscal year 2005 is 3.11 times compared to 3.82 for the 2004 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>2005</u>	<u>2004</u>	<u>2003</u>	(2004 to 2005) Increase (Decrease)	(2004 to 2005) Percent Change
Capital Assets					
Land and Improvements	\$ 1,288	\$ 991	\$ 941	\$ 297	29.97%
Construction in Progress	979	782	-	197	25.19%
Buildings	17,434	16,323	16,323	1,111	6.81%
Equipment	4,210	3,926	3,089	284	7.23%
Leased Equipment	-	220	220	(220)	(100.00)%
Library Holdings	<u>3,745</u>	<u>3,779</u>	<u>3,731</u>	<u>(34)</u>	<u>(.90)%</u>
Total	27,656	26,021	24,304	1,635	6.28%
Less: Accum Depreciation	<u>(11,956)</u>	<u>(11,184)</u>	<u>(9,951)</u>	<u>(772)</u>	<u>(6.90)%</u>
Net Capital Assets	<u>\$ 15,700</u>	<u>\$ 14,837</u>	<u>\$ 14,353</u>	<u>\$ 863</u>	<u>5.82%</u>

SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE
MANAGEMENT DISCUSSION & ANALYSIS
JUNE 30, 2005

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)

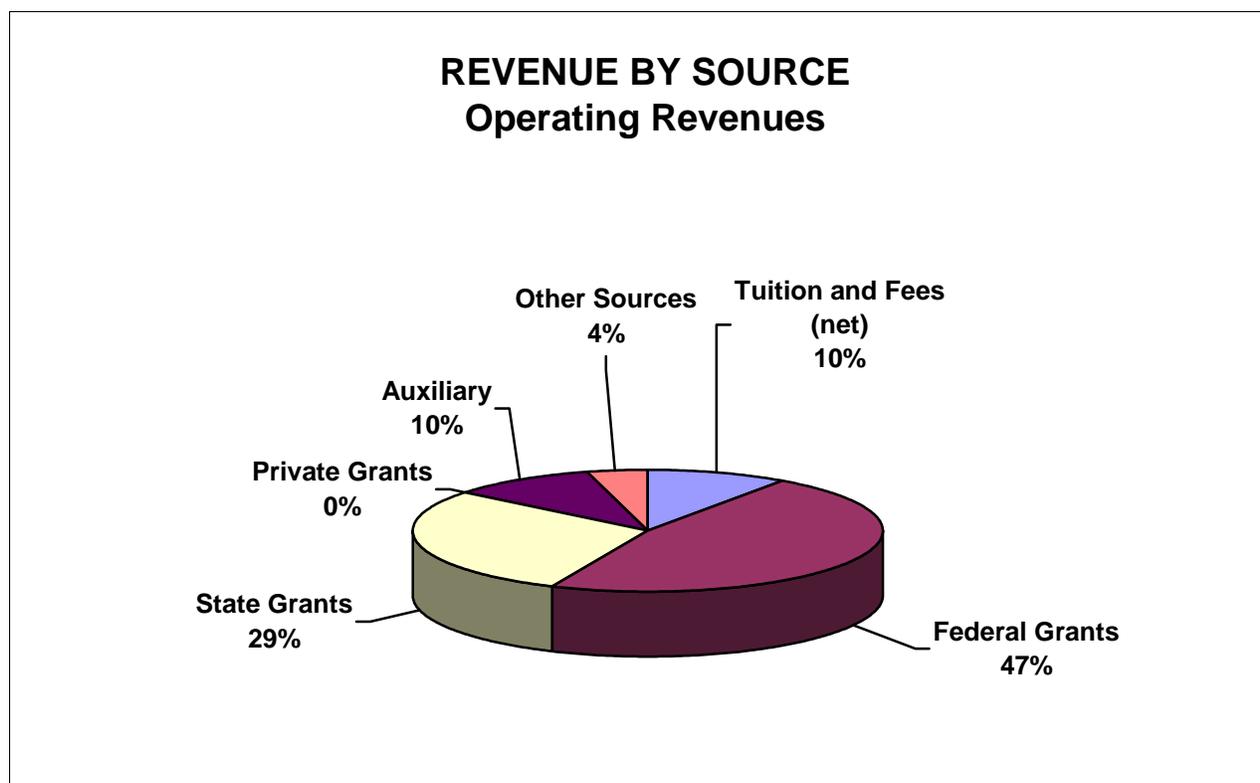
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Operating revenues	\$ 9,482	\$ 9,970	\$ 9,846
Operating expenses	<u>19,341</u>	<u>17,756</u>	<u>18,227</u>
Operating loss	(9,859)	(7,786)	(8,381)
Nonoperating revenues	7,993	7,750	8,199
Bond Proceeds from Commission	2,140	-	-
Capital Project Proceeds from Commission	31	31	56
Capital Grants and Gifts	<u>135</u>	<u>367</u>	<u>-</u>
Increase (decrease) in Net Assets before Special Items	440	362	(126)
Less: Special Items	<u>-</u>	<u>(476)</u>	<u>-</u>
Increase (Decrease) in Net Assets after Special Items	<u>\$ 440</u>	<u>\$ (114)</u>	<u>\$ (126)</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:

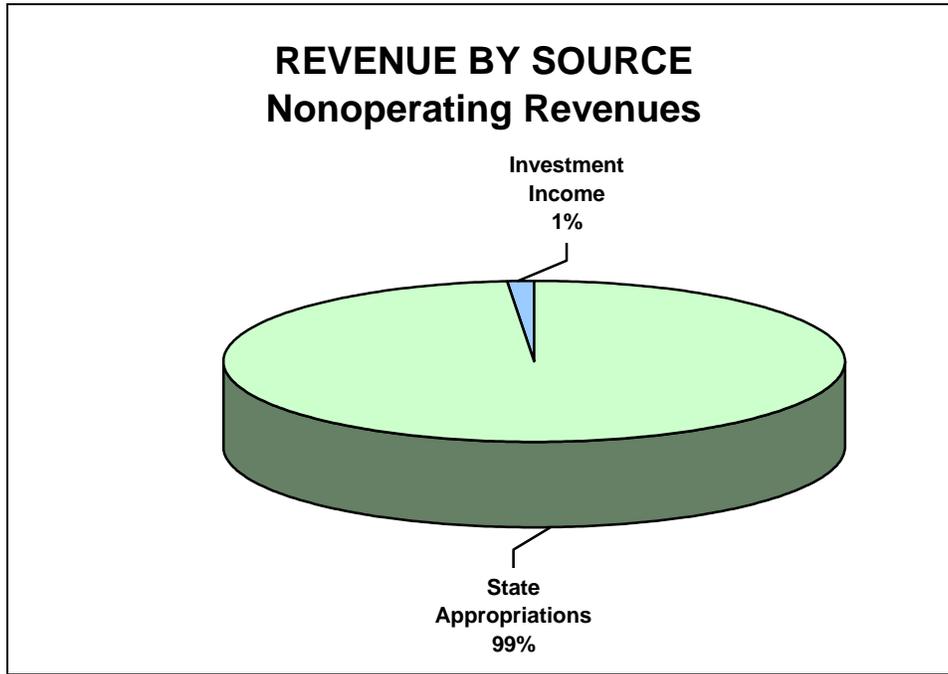
- For FY 2005, tuition and fees contributed approximately 10% of the total operating revenues for the year. In FY 2004, tuition and fees accounted for approximately 9% of the total operating revenues.

SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE
MANAGEMENT DISCUSSION & ANALYSIS
JUNE 30, 2005

- For FY 2005 grant and contract revenues decreased by \$380 thousand for a 5% decrease. As a percentage of operating revenue, grant and contract revenue accounted for nearly 76% in FY 2005, and 76% for FY 2004. From year to year, the number of grants awarded can vary significantly.
- Sales and services of auxiliary enterprises increased \$49 thousand, a 5% increase in FY 2005 over FY 2004. The auxiliary operations revenue represents approximately 10% of total operating revenue for FY 2005.
- In FY 2005 other revenues increased by \$1.9 million with the largest portion of increase representing bond proceeds received from the Commission.
- The total cost of benefits increased by nearly 1% for FY 2005 over FY 2004 reflecting premium increases by the Public Employees Insurance Agency (PEIA).
- In FY 2005 non-operating revenues increased by \$243 thousand or approximately 3%. Of this increase, \$179 thousand was related to grants allocated through state appropriations. Investment income increased by \$62 thousand or 149%. The College participates in the investment pool managed by the state.



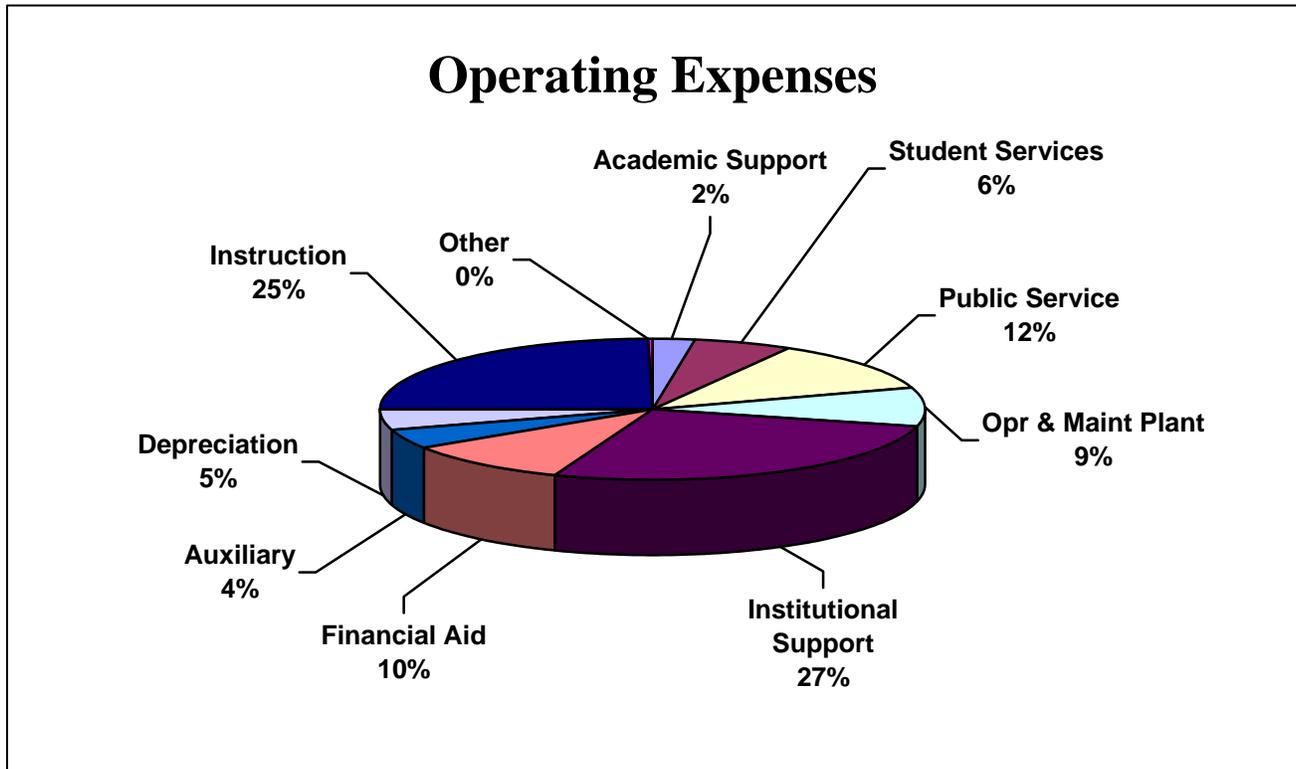
SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE
MANAGEMENT DISCUSSION & ANALYSIS
JUNE 30, 2005



Operating Expenses
Years Ended June 30,
(in thousands)

	<u>2005</u>	<u>2004</u>	<u>2003</u>	(2004 to 2005) Increase (Decrease)	(2004 to 2005) Percent Change
Operating expense					
Instruction	\$ 4,747	\$ 4,804	\$ 5,678	\$ (57)	(1.2)%
Academic support	462	1,031	826	(569)	(55.2)%
Student services	1,161	1,198	1,389	(37)	(3.1)%
Public service	2,269	2,713	2,648	(444)	(16.4)%
Operations & maintenance plant	1,769	1,441	1,566	328	22.8%
Institutional support	5,196	2,714	2,471	2,482	91.5%
Financial aid	1,946	2,098	2,048	(152)	(7.2)%
Auxiliary	833	889	1,001	(56)	(6.3)%
Depreciation	916	825	589	91	11.0%
Other	42	43	11	(1)	(2.3)%
Total	<u>\$ 19,341</u>	<u>\$ 17,756</u>	<u>\$ 18,227</u>	<u>\$ 1,585</u>	8.9%

The following is a graphic illustration of FY 2005 operating expenses:



Operating expenses for fiscal year 2005 increased in the area of salaries and benefits. The College had a increase of 6.24 full time equivalent (FTE) positions. Salaries and benefits in instruction decreased \$267 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 general institutional support area (\$2.0 million). The increase in the number of grants received in FY 2005 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, 2005

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Cash provided (used) by:			
Operating activities	\$ (8,920)	\$ (6,879)	\$ (7,645)
Noncapital financing activities	7,914	8,126	8,244
Capital and related financing Activities	424	(1,455)	(384)
Investing activities	<u>103</u>	<u>43</u>	<u>205</u>
Net change in cash	(479)	(165)	420
Cash, beginning of year	<u>4,659</u>	<u>4,824</u>	<u>4,404</u>
 Cash, end of year	 <u>\$ 4,180</u>	 <u>\$ 4,659</u>	 <u>\$ 4,824</u>

Capital Asset and Debt Administration

Capital assets net increase of \$863 thousand was predominantly a result of the Williamson building improvements and land acquisition in Logan offset by depreciation expense. The College has no long term debt related to capital assets due to effective use of external resources and conservative spending.

Readers interested in more detailed information regarding capital assets and debt administration should review the accompanying notes 5 and 6 to the financial statements.

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 2005 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.

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, 2005

Very positive things are happening at the College, even though budget cuts are occurring throughout the State. In FY 05 the Higher Education Policy Commission sold approximately \$165 million in bonds which will be repaid from excess Lottery Funds. The College's share of the Bond sale was \$9.6 million. The largest project with the bond proceeds is to build a new Technology and Allied Health center. These funds also allow Southern to proceed with much needed deferred maintenance. 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>

Requests for Information

The financial report is designed to provide an overview of the finances of the College for those with an interest in this organization. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Southern West Virginia Community and Technical College at Post Office Box 2900, Mount Gay, West Virginia 25637.

SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE
STATEMENTS OF NET ASSETS
JUNE 30, 2005 AND 2004

14

	<u>2005</u>	<u>2004</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 4,179,657	\$ 4,658,776
Appropriations due from Primary Government	-	24,553
Accounts receivable	599,795	535,077
Due from State Agencies	151,419	350,245
Due from the Commission	649,659	2,501
Prepaid expenses	-	18,750
Inventories	<u>337,752</u>	<u>247,986</u>
Total current assets	<u>5,918,282</u>	<u>5,837,888</u>
Noncurrent assets		
Cash and cash equivalents	88,066	330,499
Loans to students-net of allowance of \$0 and \$16,438	-	2,228
Investment in capital assets-net	<u>15,699,902</u>	<u>14,836,764</u>
Total noncurrent assets	<u>15,787,968</u>	<u>15,169,491</u>
Total assets	<u>21,706,250</u>	<u>21,007,379</u>
LIABILITIES		
Current liabilities		
Accounts payable	885,632	513,751
Due to the Commission	76,059	91,091
Due to other State Agencies	2,505	29,228
Due to other governments	3,706	6,599
Accrued liabilities	497,682	427,376
Compensated absences-current portion	412,143	379,156
Deferred revenue	24,057	36,640
Capital lease-current portion	<u>-</u>	<u>43,760</u>
Total current liabilities	<u>1,901,784</u>	<u>1,527,601</u>
Noncurrent liabilities		
Compensated absences	1,303,897	1,286,266
Capital lease obligations	<u>-</u>	<u>133,033</u>
Total noncurrent liabilities	<u>1,303,897</u>	<u>1,419,299</u>
Total liabilities	<u>3,205,681</u>	<u>2,946,900</u>
NET ASSETS		
Invested in capital assets-net of related debt	<u>15,699,902</u>	<u>14,659,971</u>
Restricted for Expendable:		
Sponsored projects	1,430,115	1,439,650
Loans	<u>7,297</u>	<u>9,082</u>
Total restricted net assets	<u>1,437,412</u>	<u>1,448,732</u>
Unrestricted	<u>1,363,255</u>	<u>1,951,776</u>
Total net assets	<u>\$ 18,500,569</u>	<u>\$ 18,060,479</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, 2005 AND 2004

15

	<u>2005</u>	<u>2004</u>
Operating revenues		
Student tuition and fees (net of scholarship allowance of \$2,116,650 and \$2,054,219)	\$ 932,851	\$ 929,853
Contracts and grants:		
Federal	4,437,340	4,256,996
State	2,761,046	3,248,395
Private	8,750	81,347
Auxiliary enterprise revenue (net of scholarship allowance of \$186,207 and \$158,528)	935,353	890,864
Miscellaneous-net	406,485	562,714
Total operating revenues	<u>9,481,825</u>	<u>9,970,169</u>
Operating expenses		
Salaries and wages	8,789,365	8,476,949
Benefits	2,504,499	2,483,123
Supplies and other services	4,561,613	3,275,070
Utilities	586,833	577,322
Student financial aid-scholarships and fellowships	1,941,203	2,075,108
Depreciation	915,592	825,278
Loan cancellations and write-offs	-	386
Fees assessed by the Commission for operations	41,844	42,921
Total operating expenses	<u>19,340,949</u>	<u>17,756,157</u>
Operating loss	<u>(9,859,124)</u>	<u>(7,785,988)</u>
Nonoperating revenues (expenses)		
State appropriations	7,889,477	7,710,619
Investment income	103,296	41,449
Interest on indebtedness	-	(2,203)
Net nonoperating revenues	<u>7,992,773</u>	<u>7,749,865</u>
Income (loss) before other revenues, expenses, gains or losses	<u>(1,866,351)</u>	<u>(36,123)</u>
Bond Proceeds from the Commission	2,139,741	-
Capital grants and gifts	135,500	366,972
Capital projects proceeds from the Commission	31,200	31,200
Total other revenues	<u>2,306,441</u>	<u>398,172</u>
Increase in net assets before special items	440,090	362,049
Capital assets impairment / adjustment	<u>-</u>	<u>(476,407)</u>
Increase (decrease) in net assets	440,090	(114,358)
Net assets, beginning of year	<u>18,060,479</u>	<u>18,174,837</u>
Net assets, end of year	<u>\$ 18,500,569</u>	<u>\$ 18,060,479</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, 2005 AND 2004

16

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities		
Cash received from student tuition and fees	\$ 855,550	\$ 709,401
Cash received from contracts and grants	7,346,109	7,588,432
Payments to and on behalf of employees	(11,172,939)	(10,906,344)
Payments to suppliers	(4,613,185)	(2,847,329)
Payments to utilities	(555,210)	(459,271)
Payments for scholarships and fellowships	(1,941,203)	(1,989,496)
Interest on loans receivable	-	113
Auxiliary enterprise charges-net	935,353	148,965
Fees assessed by Commission	(41,844)	(42,921)
Other receipts (payments)-net	<u>267,014</u>	<u>919,905</u>
Net cash used in operating activities	<u>(8,920,355)</u>	<u>(6,878,545)</u>
Cash flows from noncapital financing activities		
State appropriations	<u>7,914,030</u>	<u>8,126,346</u>
Cash provided by noncapital financing activities	<u>7,914,030</u>	<u>8,126,346</u>
Cash flows from capital financing activities		
Bond Proceeds from the Commission	1,507,788	-
Purchases of capital assets	(1,179,527)	(1,419,749)
Principal paid on leases	(176,793)	(86,592)
Interest paid on leases	(1,191)	(2,203)
Capital project proceeds from the Commission	31,200	31,200
Decrease in noncurrent cash and cash equivalents	<u>242,433</u>	<u>21,950</u>
Net cash used in capital financing activities	<u>423,910</u>	<u>(1,455,394)</u>
Cash flows from investing activities		
Interest on investments	<u>103,296</u>	<u>42,634</u>
Cash provided by investing activities	<u>103,296</u>	<u>42,634</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(479,119)	(164,959)
Cash and cash equivalents - beginning of year	<u>4,658,776</u>	<u>4,823,735</u>
Cash and cash equivalents - end of year	<u>\$ 4,179,657</u>	<u>\$ 4,658,776</u>
Reconciliation of net operating loss to net cash used in operating activities		
Operating loss	\$ (9,859,124)	\$ (7,785,988)
Adjustments to reconcile net operating loss to net cash used in operating activities		
Depreciation expense	915,592	825,278
Changes in assets and liabilities		
Accounts receivable-net	(64,718)	(88,866)
Other assets	18,750	(18,750)
Loans to students-net	2,228	856
Inventories	(89,768)	(4,388)
Accounts payable	(90,629)	169,054
Due from Commission	(15,205)	-
Due from other State Agencies	198,826	-
Due to Commission	(15,032)	17,529
Due to other State Agencies	(26,723)	(33,692)
Due to other governments	(2,893)	3,024
Accrued liabilities	70,306	(10,440)
Compensated absences	50,618	49,889
Deferred revenues	<u>(12,583)</u>	<u>(2,051)</u>
Net cash used in operating activities	<u>\$ (8,920,355)</u>	<u>\$ (6,878,545)</u>
Noncash Activities		
Donated capital assets	<u>\$ 135,500</u>	<u>\$ 366,972</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, 2005 AND 2004

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. Senate Bill 448 gives the West Virginia Council for Community and Technical College Education the responsibility of developing, overseeing and advancing the State’s public policy agenda as it relates to community and technical college education.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the College have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by 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, 2005 AND 2004

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, the West Virginia Council of Community and Technical Colleges, 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 College Foundation, Incorporated (the "Foundation") are not presented here with the College's financial statements for the fiscal years ended June 30, 2005 and 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 Southern Alumni Association (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 - 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* 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, 2005 AND 2004

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 as State Institutions of Higher Education* of the West Virginia State Code. House Bill 101 passed in March 2004 simplified the tuition and fee structure and removed the restrictions but included designations associated with auxiliary and capital items. These activities are fundamental to the normal ongoing operations of the institution. These restrictions are subject to change by future actions of the 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, 2005 or 2004.
- *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.

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.

SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 in accordance with West Virginia Code, policies set by the IMB, and by provisions of bond indentures and trust agreements, when applicable. 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.

The IMB maintains the Consolidated Fund investment fund which consists of five investment pools and participant-directed accounts, in which the state and local governmental agencies invest. The IMB also manages other investment pools which include amounts invested by pension funds of the State, as well as certain operating funds of the Workers' Compensation Fund and other funds. These pools have been structured as multiparticipant variable net asset funds to reduce risk and offer investment liquidity diversification to the Fund participants. Funds not required to meet immediate disbursement needs are invested for longer periods. A more detailed discussion of the IMB's investment operations pool can be found in the IMB's annual report. A copy of the IMB's annual report can be obtained from the following address: 500 Virginia Street East, Suite 200, Charleston, WV 25301 or <http://www.wvimb.org>.

SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Permissible investments for all agencies include those guaranteed by the United States of America, its agencies and instrumentalities (U.S. Government obligations); equities; corporate debt obligations, including commercial paper, which meet certain ratings; certain money market funds; investment agreements with certain financial institutions; repurchase agreements; state and local government securities (SLGS); and other investments. Other investments consist primarily of single family mortgage loans and collateralized mortgage obligations. SLGS are direct obligations of the U.S. Government, issued to state and local government entities to provide those governments with required cash flows at yields which do not exceed IRS arbitrage limits.

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 receivable based on an evaluation of the underlying account, contract and grant 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. There was no interest capitalized as part of the cost of assets for the year ended June 30, 2005. 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 \$5,000.

SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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 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.
- *Other revenues* - Other revenues consist primarily of capital grants and gifts.

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

SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2005 and 2004, the College received and disbursed \$3,637,375 and \$3,686,133, 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.

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.

SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

Reclassifications - Certain amounts in the 2004 financial statements have been reclassified to conform to the 2005 presentation. Such reclassifications did not impact the change in net assets.

Recent Statements Issued By the Governmental Accounting Standards Board - The GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures*. This statement was adopted by the College during the fiscal year ended June 30, 2005; however, the statement did not have a significant effect on the operation of the College. The statement resulted 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.

The GASB has 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 capital assets. The College has not yet determined the effect, if any, that the adoption of GASB Statement No. 42 may have on the financial statements.

SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, if any, that the adoption of GASB Statement No. 45 may have on the financial statements.

The GASB has also issued Statement No. 46, *Net Assets Restricted by Enabling Legislation* (an amendment of GASB Statement No. 34), effective for fiscal years beginning after June 15, 2005. This statement provides guidance clarifying the meaning of the phrase “legally enforceable” as it applies restrictions imposed on net asset use by enabling legislation. The College has not yet determined the effect, if any, that the adoption of GASB Statement No. 46 may have on its financial statements.

The GASB has also issued Statement No. 47, *Accounting for Termination Benefits*, effective for fiscal years beginning after June 15, 2005. This statement provides standards for the measurement, recognition and display of voluntary termination benefit expenditures, assets, and liabilities, including applicable note disclosures. The College has not yet determined the effect, if any, that the adoption of GASB Statement No. 47 may have on its financial statements.

NOTE 3 - CASH AND CASH EQUIVALENTS

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

2005	Current	Noncurrent	Total
Cash on deposit with the State Treasurer	\$ 4,147,471	\$ -	\$ 4,147,471
Cash in bank	27,736	88,066	115,802
Cash on hand	<u>4,450</u>	<u>-</u>	<u>4,450</u>
	<u>\$ 4,179,657</u>	<u>\$ 88,066</u>	<u>\$ 4,267,723</u>
2004			
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>

Cash held by the State Treasurer includes \$1,422,142 and \$1,411,801 of restricted cash primarily for grants as of June 30, 2005 and 2004, respectively.

SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 3 - CASH AND CASH EQUIVALENTS (Continued)

The combined carrying amount of cash in the bank and on hand at June 30, 2005 and 2004 was \$120,252 and \$139,172, respectively, as compared with the combined bank balance of \$155,012 and \$161,091, 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 comprised of the following investment pools and are subject to the following IMB policies and limits.

Cash Liquidity

Credit risk

The IMB limits the exposure to credit risk in the Cash Liquidity pool by requiring all corporate bonds to be rated AA or higher. Commercial paper must be rated A1 by Standard & Poor's and P1 by Moody's. Additionally, the pool must have at least 15% of its assets in United States Treasury issues.

The following table provides information on the weighted average credit ratings of the Cash Liquidity pool's investments.

Security Type	Moody's	S&P	Carrying Value	Percent of Assets
Commercial paper	P1	A-1	\$ 598,241,394	37.9%
U. S. Treasury bills	Aaa	AAA	259,397,648	16.4%
Corporate notes	Aaa	AAA	155,559,323	9.9%
Certificates of deposit	P1	A-1	152,998,937	9.7%
Agency bonds	Aaa	AAA	147,955,465	9.4%
Agency discount notes	P1	A-1	119,564,248	7.6%
Money market funds	Aaa	AAA	4,241,278	0.3%
Total rated investments			<u>\$ 1,437,958,293</u>	<u>91.2%</u>

Unrated securities include repurchase agreements of \$141,050,000. Acceptable collateral for the repurchase agreements include U.S. Treasury and government agency securities, all of which carry the highest credit rating.

The College's ownership represents .19% of the net asset position of this pool.

Concentration of credit risk

West Virginia statutes prohibit the Cash Liquidity pool from investing more than 5% of its assets in securities issued by a single private corporation or association. At June 30, 2005, the pool did not have investments in any one private corporation or association that represented more than 5% of assets.

SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 3 - CASH AND CASH EQUIVALENTS (Continued)

Custodial credit risk

At June 30, 2005, the Cash Liquidity pool held no securities that were subject to custodial credit risk. Repurchase agreements are collateralized at 102% and the collateral is held in the name of the IMB. Securities lending collateral that is reported in the Statement of Assets and Liabilities of the IMB is invested in the lending agent's money market fund.

Interest rate risk

The weighted average maturity of the investments of the Cash Liquidity pool cannot exceed 60 days. The maturity of floating rate notes is assumed to be the next interest rate reset date. The following table provides the weighted average maturities (WAM) for the various asset types in the Cash Liquidity pool.

Security Type	Carrying Value	WAM (days)
Commercial paper	\$ 598,241,394	49
U. S. Treasury bills	259,397,648	30
Corporate notes	155,559,323	53
Certificates of deposit	152,998,937	42
Agency bonds	147,955,465	88
Repurchase agreements	141,050,000	1
Agency discount notes	119,564,248	52
Money market funds	4,241,278	1
Total assets	<u>\$ 1,579,008,293</u>	45

Foreign currency risk

The Cash Liquidity pool has no securities that are subject to foreign currency risk.

Government Money Market

Credit risk

The IMB limits the exposure to credit risk in the Government Money Market pool by limiting the pool to U. S. Treasury issues, U. S. government agency issues, money market funds investing in U. S. Treasury issues and U. S. government agency issues, and repurchase agreements collateralized by U. S. Treasury issues and U. S. government agency issues. None of the government agency issues held by the pool have the explicit guarantee of the U. S. Treasury; however, they are all rated Aaa by Moody's and AAA by Standard & Poor's. Agency discount notes held by the pool are rated P1 by Moody's and A-1 by Standard & Poor's.

The College's ownership represents .02% of the net asset position of this pool.

SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 3 - CASH AND CASH EQUIVALENTS (Continued)

Concentration of credit risk

West Virginia statutes prohibit the Government Money Market pool from investing more than 5% of its assets in securities issued by a single private corporation or association. At June 30, 2005, the pool did not have investments in any one private corporation or association that represented more than 5% of assets.

Custodial credit risk

At June 30, 2005, the Government Money Market pool held no securities that were subject to custodial credit risk. Repurchase agreements are collateralized at 102% and the collateral is held in the name of the IMB. Securities lending collateral that is reported in the Statement of Assets and Liabilities of the IMB is invested in the lending agent's money market fund.

Interest rate risk

The weighted average maturity of the investments of the Government Money Market pool cannot exceed 60 days. The maturity of floating rate notes is assumed to be the next interest rate reset date. The following table provides the weighted average maturities (WAM) for the various asset types in the Government Money Market pool.

<u>Security Type</u>	<u>Carrying Value</u>	<u>WAM (days)</u>
Agency discount notes	\$ 46,409,362	32
Agency bonds	42,571,144	75
Repurchase agreements	39,950,000	1
U. S. Treasury bills	24,903,836	48
Money market funds	<u>985,190</u>	1
Total assets	<u>\$ 154,819,532</u>	38

Foreign currency risk

The Government Money Market pool has no securities that are subject to foreign currency risk.

Enhanced Yield

Credit risk

The IMB limits the exposure to credit risk in the Enhanced Yield pool by requiring all corporate bonds to be rated A or higher. Commercial paper must be rated A1 by Standard & Poor's and P1 by Moody's. Additionally, the pool must have at least 15% of its assets in United States Treasury issues.

SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 3 - CASH AND CASH EQUIVALENTS (Continued)

The following table provides information on the weighted average credit ratings of the Enhanced Yield pool's investments.

Security Type	Moody's	S&P	Fair Value	Percent of Assets
Corporate notes	A	AA	\$ 81,631,581	30.0%
Agency bonds	Aaa	AAA	69,203,277	25.5%
U. S. Treasury notes	Aaa	AAA	66,466,539	24.5%
Corporate asset backed securities	Aaa	AAA	49,990,408	18.4%
Total rated investments			<u>\$ 267,291,805</u>	<u>98.4%</u>

Unrated securities include repurchase agreements of \$4,362,262. Acceptable collateral for the repurchase agreements include U. S. Treasury and government agency securities, all of which carry the highest credit rating.

The College's ownership represents .29% of the net asset position of this pool.

Concentration of credit risk

West Virginia statutes prohibit the Enhanced Yield pool from investing more than 5% of its assets in securities issued by a single private corporation or association. At June 30, 2005, the pool did not have investments in any one private corporation or association that represented more than 5% of assets.

Custodial credit risk

At June 30, 2005, the Enhanced Yield pool held no securities that were subject to custodial credit risk. Repurchase agreements are collateralized at 102% and the collateral is held in the name of the IMB. Securities lending collateral that is reported in the Statement of Assets and Liabilities of the IMB is invested in the lending agent's money market fund.

Interest rate risk

SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 3 - CASH AND CASH EQUIVALENTS (Continued)

The weighted average maturity of the investments of the Enhanced Yield pool cannot exceed two years. The maturity of floating rate notes is assumed to be the next interest rate reset date. The following table provides the weighted average maturities (WAM) for the various asset types in the Enhanced Yield pool.

Security Type	Fair Value	WAM (years)
Corporate notes	\$ 81,631,581	1.7
Agency bonds	69,203,277	1.9
U. S. Treasury notes	66,466,539	2.3
Corporate asset backed securities	49,990,408	1.1
Repurchase agreement	<u>4,362,262</u>	0.0
 Total assets	 <u>\$ 271,654,067</u>	 1.7

Foreign currency risk

The Enhanced Yield pool has no securities that are subject to foreign currency risk.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable were as follows at June 30:

	<u>2005</u>	<u>2004</u>
Student tuition and fees - net of allowance for doubtful accounts of \$155,770 and \$164,849	\$ 465,894	\$ 344,174
Grants and contracts receivable:		
Due from the Commission	649,659	2,501
Due from other State agencies	151,419	350,245
Other accounts receivable	<u>133,901</u>	<u>190,903</u>
	<u>\$ 1,400,873</u>	<u>\$ 887,823</u>

SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 5 - CAPITAL ASSETS

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

	2005			Ending Balance
	Beginning Balance	Additions	Reductions	
Capital assets not being depreciated				
Land	\$ 990,970	\$ 297,500	\$ -	\$ 1,288,470
Construction in progress	<u>782,559</u>	<u>978,533</u>	<u>(782,559)</u>	<u>978,533</u>
Total capital assets not being depreciated	<u>\$ 1,773,529</u>	<u>\$ 1,276,033</u>	<u>\$ (782,559)</u>	<u>\$ 2,267,003</u>
Other capital assets				
Buildings	\$ 16,322,485	\$ 1,111,112	\$ -	\$ 17,433,597
Equipment	4,146,113	91,541	(28,132)	4,209,522
Library holdings	<u>3,778,899</u>	<u>83,566</u>	<u>(117,178)</u>	<u>3,745,287</u>
Total other capital assets	<u>24,247,497</u>	<u>1,286,219</u>	<u>(145,310)</u>	<u>25,388,406</u>
Less accumulated depreciation for				
Buildings	(5,372,176)	(365,944)	-	(5,738,120)
Equipment	(2,374,322)	(416,949)	27,169	(2,764,102)
Library holdings	<u>(3,437,764)</u>	<u>(132,699)</u>	<u>117,178</u>	<u>(3,453,285)</u>
Total accumulated depreciation	<u>(11,184,262)</u>	<u>(915,592)</u>	<u>144,347</u>	<u>(11,955,507)</u>
Other capital assets-net	<u>\$ 13,063,235</u>	<u>\$ 370,627</u>	<u>\$ (963)</u>	<u>\$ 13,432,899</u>
Capital asset summary				
Capital assets not being depreciated	\$ 1,773,529	\$ 1,276,033	\$ (782,559)	\$ 2,267,003
Other capital assets	<u>24,247,497</u>	<u>1,286,219</u>	<u>(145,310)</u>	<u>25,388,406</u>
Total cost of capital assets	26,021,026	2,562,252	(927,869)	27,655,409
Less accumulated depreciation	<u>(11,184,262)</u>	<u>(915,592)</u>	<u>144,347</u>	<u>(11,955,507)</u>
Capital assets-net	<u>\$ 14,836,764</u>	<u>\$ 1,646,660</u>	<u>\$ (783,522)</u>	<u>\$ 15,699,902</u>

SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 5 - CAPITAL ASSETS (Continued)

	2004			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated				
Land	\$ 940,970	\$ 50,000	\$ -	\$ 990,970
Construction in progress	<u>-</u>	<u>782,559</u>	<u>-</u>	<u>782,559</u>
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	<u>3,730,912</u>	<u>78,462</u>	<u>(30,475)</u>	<u>3,778,899</u>
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	<u>(3,411,367)</u>	<u>(56,872)</u>	<u>30,475</u>	<u>(3,437,764)</u>
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, 2005 AND 2004

NOTE 6 - LONG-TERM LIABILITIES

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

	2005						
	Beginning				Ending	Current	Noncurrent
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>Portion</u>	<u>Portion</u>	
Capital leases payable	\$ 176,793	\$ -	\$ 176,793	\$ -	\$ -	\$ -	
Other noncurrent liabilities-							
Accrued compensated absences	<u>1,665,422</u>	<u>50,618</u>	<u>-</u>	<u>1,716,040</u>	<u>412,143</u>	<u>1,303,897</u>	
Total noncurrent liabilities	<u>\$ 1,842,215</u>	<u>\$ 50,618</u>	<u>\$ 176,793</u>	<u>\$ 1,716,040</u>	<u>\$ 412,143</u>	<u>\$ 1,303,897</u>	
	2004						
	Beginning				Ending	Current	Noncurrent
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>Portion</u>	<u>Portion</u>	
Capital leases payable	\$ 263,386	\$ -	\$ 86,593	\$ 176,793	\$ 43,760	\$ 133,033	
Other noncurrent liabilities-							
Accrued compensated absences	<u>1,615,533</u>	<u>49,889</u>	<u>-</u>	<u>1,665,422</u>	<u>379,156</u>	<u>1,286,266</u>	
Total noncurrent liabilities	<u>\$ 1,878,919</u>	<u>\$ 49,889</u>	<u>\$ 86,593</u>	<u>\$ 1,842,215</u>	<u>\$ 422,916</u>	<u>\$ 1,419,299</u>	

SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 7 - OPERATING LEASE OBLIGATIONS

The College leases various equipment, automobiles, and buildings, under operating lease agreements. Aggregate payment for operating leases amounted to \$20,653 and \$8,575 for the years ended June 30, 2005 and 2004, respectively. Future minimum rental commitments are as follows as of June 30, 2005:

<u>Year Ending June 30</u>	<u>Operating Leases</u>
2006	\$ 25,443
2007	25,443
2008	15,107
2009	<u>8,392</u>
Total	<u>\$ 74,385</u>

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, 1998. 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

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

	<u>2005</u>	<u>2004</u>
Current:		
Health or life insurance benefits	\$ 81,920	\$ 79,961
Accrued vacation leave	<u>330,223</u>	<u>299,195</u>
	<u>412,143</u>	<u>379,156</u>
Non Current		
Health or life insurance benefits	1,155,437	1,150,639
Accrued vacation leave	<u>148,460</u>	<u>135,627</u>
	<u>1,303,897</u>	<u>1,286,266</u>
Total	<u>\$ 1,716,040</u>	<u>\$ 1,665,422</u>

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, 2005 and 2004, the amount paid by the College for extended health or life insurance coverage retirement benefits totaled \$76,214 and \$74,255, respectively. There were 24 and 28 retirees eligible for these benefits as of June 30, 2005 and 2004, respectively.

SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005 AND 2004

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 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.

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, 2004, 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, 2005, there were no employees enrolled in the Educators Money 401(a) basic retirement plan.

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, 2005 and 2004. Required employee contributions were at the rate of 6% of total annual salary for both the years ended June 30, 2005 and 2004. 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.

SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 10 - RETIREMENT PLANS (Continued)

Total contributions to the STRS for the years ended June 30, 2005, 2004 and 2003 were \$334,895, \$360,984 and \$368,598, respectively, which consisted of \$239,211, \$257,846 and \$263,285 from the College in 2005, 2004 and 2003, respectively, and \$96,684, \$103,138 and \$105,314 from the covered employees in 2005, 2004 and 2003, 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, 2005, 2004 and 2003 were \$751,336, \$692,335 and \$720,056, respectively, which consisted of equal contributions from the College and covered employees in 2005, 2004 and 2003 of \$375,668, \$346,168 and \$360,028, respectively.

The College's total payroll for the years ended June 30, 2005, 2004, and 2003 were \$8,789,365, \$8,788,701, and \$8,834,041, respectively; total covered employees' salaries in the STRS and TIAA-CREF were \$1,594,735 and \$6,261,134 in 2005, respectively; \$1,718,965 and \$5,769,462 in 2004, respectively; and \$1,755,226 and \$6,000,469 in 2003, respectively.

SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005 AND 2004

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. Furthermore, 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 \$263,800 and \$545,000 at December 31, 2005 and 2004, respectively. The net assets include amounts which are restricted by donors to use for specific projects or departments of the College. During the years ended June 30, 2005 and 2004, the Foundation made \$192,134 and \$462,117, respectively, in contributions to the College.

NOTE 12 - AFFILIATED ORGANIZATION

The College has a separately incorporated affiliated organization, the Southern 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. They are not included in the College’s accompanying combined financial statements under GASB Statement No. 39 because they are not significant.

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.

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.

SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 13 - CONTINGENCIES (Continued)

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 - COMMITMENTS

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. As of June 30, 2005, the College has drawn \$1,507,788 of these bonds to pay for capital projects. An additional \$631,953 has been requested to pay for invoices issued by the School Building Authority. State Lottery funds will be used to repay the debt, although College revenues are pledged if Lottery funds prove insufficient.

SOUTHERN WEST VIRGINIA
COMMUNITY AND TECHNICAL COLLEGE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 15 - NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

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

	2005									
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Loan Cancellations & Write-offs	Fees Assessed by the Commission	Total	
Instruction	\$ 3,668,932	\$ 504,455	\$ 507,458	\$ 65,667	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,746,512
Public service	1,170,278	280,569	816,356	2,227	-	-	-	-	-	2,269,430
Academic support	325,452	9,057	128,163	(373)	-	-	-	-	-	462,299
Student services	817,596	68,103	275,596	-	-	-	-	-	-	1,161,295
General institutional support	2,145,430	1,873,515	1,174,713	1,903	-	-	-	-	-	5,195,561
Operations and maintenance of plant	487,521	(259,616)	1,023,398	517,409	-	-	-	-	-	1,768,712
Other general support	-	-	-	-	-	-	-	-	-	-
Student financial aid	23,918	-	(18,768)	-	1,941,203	-	-	-	-	1,946,353
Auxiliary enterprises	150,238	28,416	654,697	-	-	-	-	-	-	833,351
Depreciation	-	-	-	-	-	915,592	-	-	-	915,592
Other	-	-	-	-	-	-	-	41,844	-	41,844
Total	\$ 8,789,365	\$ 2,504,499	\$ 4,561,613	\$ 586,833	\$ 1,941,203	\$ 915,592	\$ -	\$ 41,844	\$ 19,340,949	

	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	-	-	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	



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, 2005, and have issued our report thereon dated September 2, 2005. 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

Member of
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 September 2, 2005.

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.

Buttle & Stalvaker, PLLC

September 2, 2005