

***Eastern West Virginia  
Community and Technical  
College***

*Financial Statements and  
Additional Information for the  
Years Ended June 30, 2003 and 2002 and  
Independent Auditors' Reports*

# EASTERN WEST VIRGINIA COMMUNITY AND TECHNICAL COLLEGE

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## INDEPENDENT AUDITORS' REPORT

To the Eastern West Virginia Community and Technical College Governing Board

We have audited the accompanying financial statements of Eastern West Virginia Community and Technical College (the "College") as of June 30, 2003 and 2002, and for the years then ended, listed in the foregoing Table of Contents. These financial statements are the responsibility of the management of the College. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of the College at June 30, 2003 and 2002, and the changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

The Management's Discussion and Analysis on pages 3 to 7 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the College's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2003 on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Deloitte & Touche LLP*

October 3, 2003

**Eastern West Virginia Community and Technical College**  
Management's Discussion and Analysis  
Fiscal Year 2003

## **Overview of the Financial Statements and Financial Analysis**

The Governmental Accounting Standards Board (GASB) issued new directives for presentation of college and university financial statements which were adopted in Fiscal Year 2002 by Eastern West Virginia Community and Technical College (the "College"). The previous reporting format presented financial balances and activities by fund groups. The new format places emphasis on the overall economic resources of the College.

The following discussion and analysis of the College's financial statements provides an overview of its financial activities during the fiscal year ended June 30, 2003. This discussion and analysis is required supplementary information. 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.

### **Statement of Net Assets**

The Statement of Net Assets presents the assets, liabilities, and net assets of the College as of June 30, 2003 and June 30, 2002. 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 are discussed in the footnotes to the financial statements.

From the data presented, readers of the Statement of Net Assets are able to determine the availability of net assets (assets minus liabilities) for expenditure to continue the operations of the College. They are also able to determine how much the College owes vendors and employees.

Net assets are divided into three major categories. The first category, invested in capital assets, net of debt, provides the College's equity in equipment and library books owned by the College. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. Nonexpendable restricted net assets are for the Endowment Program where funds are invested and the earnings are available for expenditure but the original investment (corpus) is not. The College does not currently have nonexpendable restricted net assets since all funds of this nature would generally be directed to The Eastern West Virginia Community and Technical College Foundation, Incorporated. Expendable restricted net assets are available for expenditure by the College but have a specific purpose (i.e. time or purpose restrictions). The final category is unrestricted net assets. Unrestricted assets are available to the College for any lawful purpose of the College.

	<u>June 30, 2003</u>	<u>June 30, 2002</u>	<u>Increase (Decrease)</u>
<b>Assets:</b>			
Current assets	\$1,339,510	\$ 1,528,102	\$( 188,592)
Capital assets, net	<u>1,034,652</u>	<u>867,299</u>	<u>167,353</u>
<b>Total Assets</b>	<b>\$2,374,162</b>	<b>2,395,401</b>	<b>( 21,239)</b>
<b>Liabilities</b>			
Current liabilities	665,717	460,866	204,851
Noncurrent liabilities	<u>90,747</u>	<u>62,621</u>	<u>28,126</u>
<b>Total Liabilities</b>	<b>756,464</b>	<b>523,487</b>	<b>232,977</b>
<b>Net Assets</b>			
Invested in capital assets, net of debt	1,034,652	867,299	167,353
Restricted – expendable	211,871	51,723	160,148
Unrestricted	<u>371,175</u>	<u>952,892</u>	<u>( 581,717)</u>
<b>Total Net Assets</b>	<b><u>\$1,617,698</u></b>	<b><u>\$ 1,871,914</u></b>	<b><u>\$( 254,216)</u></b>

Financial Highlights:

- Assets

Current assets reflect a decrease of \$188,592. Cash increased by \$447,040 due to in large part to the collection of additional tuition and fees based on enrollment growth. Increased investment in capital assets contributed to the decrease of \$659,621 in appropriations due from Primary Government. Similarly, these investments are reflected in the increase in noncurrent assets of \$167,353.

Principally, these investments were in new academic program equipment, student support centers and distance learning classrooms.

- Liabilities

Current Liabilities increased by \$204,851. Accounts payable constituted 80 percent of this increase because of the timing of the closeout of several state grants and contracts for academic programs and services.

Noncurrent or long-term liabilities represent accrued compensated absences. Included are employee's balances of annual leave which is in excess of one year's annual leave rate, and all sick leave. Overall, the long-term balance increased by \$28,126 which reflects growth in the number of employees and continued employment.

- Net Assets

Investment in Capital Assets reflects an increase of \$167,353 in fixed assets (net of depreciation), as described in the above highlighted Assets section.

The increase in Restricted Net Assets of \$160,148 is primarily a result of increased cash balances of tuition and fee funds which are considered restricted in nature.

Unrestricted Net Assets decreased by \$581,717 because of the significant investment of funds due from primary government in capital assets used for initial equipping of classrooms and service centers.

Net Assets decreased by \$254,216.

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

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues generated and expenses incurred by the College, both operating and nonoperating. In addition, any other revenues, expenses, gains or losses are also reflected in this financial statement.

*Operating revenues* are generated by providing goods and services to the College's customers and constituencies and in the form of federally-funded and State-funded grants. *Operating expenses* are expenses incurred by the College in order to generate operating revenue and to carry out the mission of the College.

*Nonoperating revenue* is revenue received for which goods and services are not provided. For example, state appropriations are nonoperating because they are provided by the West Virginia Legislature to the College without the West Virginia Legislature directly receiving commensurate goods and services for those revenues.

	<u>FY 2003</u>	<u>FY 2002</u>	<u>Increase (Decrease)</u>
Operating revenues	\$ 922,895	\$ 392,927	\$ 529,968
Operating expenses	<u>3,195,774</u>	<u>2,658,954</u>	<u>536,820</u>
Operating income (loss)	( 2,272,879)	( 2,266,027)	( 6,852)
Nonoperating revenue	<u>2,018,663</u>	<u>2,021,865</u>	<u>( 3,202)</u>
Decrease in Net Assets	( 254,216)	( 244,162)	( 10,054)
Net Assets—Beginning of Year (as restated in 2002)	<u>1,871,914</u>	<u>2,116,076</u>	<u>( 244,162)</u>
Net Assets—End of Year	<u>\$ 1,617,698</u>	<u>\$ 1,871,914</u>	<u>\$ ( 254,216)</u>

## Financial Highlights:

Operating revenues increased \$529,968 which reflects an increase in tuition and revenue of \$81,973 and an increase in state grants and contracts of \$457,851.

Operating expenses increased \$536,820 over the same period in the previous fiscal year. This increase is primarily due to increased courses provided to students reflecting increases in costs associated with faculty and staff costs (\$148,913), rental expense (\$60,859), and costs relating to full implementation of the distance education network. In addition, depreciation increased \$58,127. Many assets which were not depreciated for an entire twelve-month period in the prior year were currently depreciated for the entire year.

Nonoperating revenue decreased \$3,202. Reflected in this decrease is a State mandated reduction of \$69,872 in State appropriations.

Net Assets decreased by \$254,216.

## Statement of Cash Flows

The final statement presented by the College is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the College during the year. The statement is divided into five sections.

The *first section* reflects cash in-flows/out-flows generated from operating activities. The *second section* reflects cash flows from non-capital financing activities. This section reflects the cash received and spent for non-operating, non-investing, and non-capital 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 loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

	<u>FY 2003</u>	<u>FY 2002</u>	<u>Increase (Decrease)</u>
Cash provided by (used in):			
Operating activities	\$(1,825,411)	\$(2,283,572)	\$ 458,161
Non capital financing activities	2,624,716	2,275,568	349,148
Capital and related financing activities	( 369,917)	(109,004)	( 260,913)
Investing activities	<u>17,652</u>	<u>19,996</u>	<u>( 2,344)</u>
Increase (Decrease) in Cash	447,040	(97,012)	544,052
Cash and cash equivalents--beginning of year	<u>315,250</u>	<u>412,262</u>	<u>( 97,012)</u>
Cash and cash equivalents--end of year	<u>\$ 762,290</u>	<u>\$ 315,250</u>	<u>\$ 447,040</u>

## Financial Highlights:

Cash provided from Operating activities increased \$458,161 over the previous fiscal year's Operating Activities. This reflects \$104,308 increase in cash received for tuition and fees, and a \$237,035 increase in cash provided by contracts and grants.



Non capital financing activities reflected an increase in cash flows of \$349,148 over the previous fiscal year. This consists entirely of cash provided by the State.

Capital and related financing resulted in a \$260,913 decrease in cash flows as compared to fiscal year 2002. This reflects the purchase price of capital assets purchased during the year (equipment, etc.).

\$17,652 cash provided by investing activities reflected a \$2,344 decrease over fiscal year 2002.

Overall cash increased by \$544,052.

### **Economic Outlook**

Fiscal year 2003 marked the second consecutive year of academic offerings in the history of the College. Consequently, the most significant factor impacting the College's financial position and its operations during fiscal year 2003 was the increase in enrollment and the commensurate tuition and fee revenue.

Both enrollment growth and moderate increases in tuition and fee rates are forecast for the College. Located in the second most rapidly developing region in the State, the College's mission is to serve the adult population and to provide increased access for recent high school graduates. In addition, the College's tuition and fee structures compare favorably to other comparably situated Colleges.

Among the other factors impacting the financial position and operations of the College are the changes in economic forecasts for the State and the financing policies of the West Virginia Higher Education Policy Commission (the "Commission"). For fiscal year 2004, all state agencies submitted a general revenue budget appropriation request with a budget reduction ranging from 3% to 10%. Similarly, all state agencies have submitted a budget request for fiscal year 2005 at 9% less than fiscal year 2004. Although community colleges budgets were reduced by the low end of range in fiscal year 2004, the College may be subjected to maximum reductions in future years. Concurrently, restrictions were imposed limiting increases in tuition and fee revenues. Other factors impacting the financial position and operations of the College are the possibility that the Commission may revise the current practices for funding to meet State goals or the State may establish new State goals. As a result, budget constraints may impact the College's strategic plan for growth and development.

# EASTERN WEST VIRGINIA COMMUNITY AND TECHNICAL COLLEGE

## STATEMENTS OF NET ASSETS JUNE 30, 2003 AND 2002

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	2003	2002
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 762,290	\$ 315,250
Appropriations due from Primary Government	501,392	1,161,014
Accounts receivable	<u>75,828</u>	<u>51,838</u>
Total current assets	<u>1,339,510</u>	<u>1,528,102</u>
Noncurrent assets:		
Investment in capital assets—net	<u>1,034,652</u>	<u>867,299</u>
TOTAL ASSETS	<u>\$ 2,374,162</u>	<u>\$ 2,395,401</u>
LIABILITIES:		
Current liabilities:		
Accounts payable	\$ 307,735	\$ 143,644
Accrued liabilities	26,284	7,474
Compensated absences—current portion	66,250	58,943
Deferred revenue	<u>265,448</u>	<u>250,805</u>
Total current liabilities	<u>665,717</u>	<u>460,866</u>
Noncurrent liabilities:		
Compensated absences	<u>90,747</u>	<u>62,621</u>
TOTAL LIABILITIES	<u>756,464</u>	<u>523,487</u>
NET ASSETS:		
Invested in capital assets	1,034,652	867,299
Restricted for:		
Expendable:		
Specific purposes by State Code	211,871	51,723
Unrestricted	<u>371,175</u>	<u>952,892</u>
Total net assets	<u>1,617,698</u>	<u>1,871,914</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,374,162</u>	<u>\$ 2,395,401</u>

See notes to financial statements.

# EASTERN WEST VIRGINIA COMMUNITY AND TECHNICAL COLLEGE

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEARS ENDED JUNE 30, 2003 AND 2002

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	2003	2002
OPERATING REVENUES:		
Student tuition and fees	\$ 251,520	\$ 169,547
Contracts and grants:		
State	622,682	170,831
Private	6,000	
Sales and services of educational activities	30,319	35,123
Fees received from the Commission		10,987
Miscellaneous—net	<u>12,374</u>	<u>6,439</u>
Total operating revenues	<u>922,895</u>	<u>392,927</u>
OPERATING EXPENSES:		
Salaries and wages	1,438,653	1,322,172
Benefits	317,390	284,958
Supplies and other services	961,111	702,994
Rent	218,019	157,160
Utilities	19,361	8,557
Depreciation	239,714	181,587
Fees assessed by the Commission for operations	<u>1,526</u>	<u>1,526</u>
Total operating expenses	<u>3,195,774</u>	<u>2,658,954</u>
OPERATING LOSS	<u>(2,272,879)</u>	<u>(2,266,027)</u>
NONOPERATING REVENUES:		
State appropriations	1,965,094	2,000,000
Investment income	<u>16,419</u>	<u>21,865</u>
Nonoperating revenues	<u>1,981,513</u>	<u>2,021,865</u>
CAPITAL CONTRIBUTION:		
Donated equipment	<u>37,150</u>	<u>          </u>
DECREASE IN NET ASSETS	(254,216)	(244,162)
NET ASSETS—Beginning of year (as restated in 2002)	<u>1,871,914</u>	<u>2,116,076</u>
NET ASSETS—End of year	<u>\$ 1,617,698</u>	<u>\$ 1,871,914</u>

See notes to financial statements.

# EASTERN WEST VIRGINIA COMMUNITY AND TECHNICAL COLLEGE

## STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2003 AND 2002

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	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	\$ 245,366	\$ 141,058
Contracts and grants	619,900	382,865
Fees received from Commission		10,987
Payments to and on behalf of employees	(1,710,879)	(1,557,230)
Payments to suppliers	(792,682)	(1,128,620)
Payments to utilities	(237,638)	(165,717)
Sales and service of educational activities	30,319	35,123
Fees retained by Commission	(1,526)	(1,526)
Other receipts (payments)—net	<u>21,729</u>	<u>(512)</u>
Net cash used in operating activities	<u>(1,825,411)</u>	<u>(2,283,572)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	<u>2,624,716</u>	<u>2,275,568</u>
Cash provided by noncapital financing activities	<u>2,624,716</u>	<u>2,275,568</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Purchases of capital assets	(369,917)	(163,231)
Proceeds on disposal of capital assets	<u>                    </u>	<u>54,227</u>
Net cash used in capital financing activities	<u>(369,917)</u>	<u>(109,004)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on investments	<u>17,652</u>	<u>19,996</u>
Cash provided by investing activities	<u>17,652</u>	<u>19,996</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	447,040	(97,012)
CASH AND CASH EQUIVALENTS—Beginning of year	<u>315,250</u>	<u>412,262</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 762,290</u>	<u>\$ 315,250</u>

(Continued)

# EASTERN WEST VIRGINIA COMMUNITY AND TECHNICAL COLLEGE

## STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2003 AND 2002

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	2003	2002
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (2,272,879)	\$ (2,266,027)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	239,714	181,587
Gain on disposal of capital assets		(2,158)
Changes in assets and liabilities:		
Receivables	(25,224)	(49,580)
Accounts payable	164,092	(425,602)
Accrued liabilities	18,810	1,559
Compensated absences	35,433	48,642
Deferred revenue	<u>14,643</u>	<u>228,007</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (1,825,411)</u>	<u>\$ (2,283,572)</u>
NONCASH TRANSACTION:		
Donated equipment	<u>\$ 37,150</u>	<u>\$ -</u>
See notes to financial statements.		(Concluded)

# EASTERN WEST VIRGINIA COMMUNITY AND TECHNICAL COLLEGE

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2003 AND 2002

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### 1. ORGANIZATION

Eastern West Virginia Community and Technical College (the “College”) is governed by the Eastern 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 include, but are not limited to, the power to determine, control, supervise and manage the financial, business and educational policies and affairs of the institution(s) under its jurisdiction, the duty to develop a master plan for the institution, the power to prescribe the specific functions and institution’s budget request, the duty to review at least every five years all academic programs offered at the institution, and the power to fix tuition and other fees for the different classes or categories of students enrolled at its institution.

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

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the College have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (“GASB”), including Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, and Statement No. 35, *Basic Financial Statements—and Management’s Discussion and Analysis—for Public Colleges and Universities* (an Amendment of GASB Statement No. 34). The financial statement presentation required by GASB Statements No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the College’s assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows and replaces the fund-group perspective previously required.

The College follows all GASB pronouncements as well as Financial Accounting Standards Board (“FASB”) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, and has elected not to apply the FASB Statements and Interpretations issued after November 30, 1989, to its financial statements.

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

The accompanying financial statements present all funds under the authority of the College. The basic criterion for inclusion in the accompanying financial statements is the exercise of oversight responsibility derived from the College’s ability to significantly influence operations and accountability for fiscal matters of related entities. A related foundation and another affiliate of the College are not part of the College reporting entity and are not included in the accompanying financial statements as the

College has no ability to designate management, cannot significantly influence operations of these entities and is not accountable for the fiscal matters of these entities.

***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 combined basis to focus on the College as a whole. Previously, financial statements focused on the accountability of individual fund groups rather than on the College as a whole. GASB Statement No. 35 reports equity as “net assets” rather than “fund balance”. Net assets are classified into four categories according to external donor restrictions or availability of assets for satisfaction of College obligations. The College’s net assets are classified as follows:

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

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

- *Restricted net assets, nonexpendable*—This includes endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. The College does not have any restricted nonexpendable net assets at June 30, 2003 or 2002.
- *Unrestricted net assets*—Unrestricted net assets represent resources derived from student tuition and fees, state appropriations and sales and services of educational activities. These resources are used for transactions relating to the educational and general operations of the College, and may be used at the discretion of the Board of Governors to meet current expenses for any purpose.

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

Fund balances—as previously reported	\$ 2,181,435
Accumulated depreciation	(42,561)
Reclassification of grant and contract revenue	<u>(22,798)</u>
 Fund balances, restated as net assets	 <u><u>\$ 2,116,076</u></u>

***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.

***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. At June 30, 2003 and 2002, there was no allowance for doubtful accounts.

***Capital Assets***—Capital assets include furniture 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 7 years for library books, and 3 to 10 years for furniture and equipment.

***Deferred Revenue***—Revenues for programs or activities to be conducted primarily in the next fiscal year are classified as deferred revenue.



**Compensated Absences**—The College accounts for compensated absences in accordance with the provisions of GASB Statement No. 16, *Accounting for Compensated Absences*. This statement requires entities to accrue for employees' rights to receive compensation for vacation leave, or payments in lieu of accrued vacation or sick leave, as such benefits are earned and payment becomes probable.

The College's full-time employees earn up to two vacation leave days for each month of service and are entitled to compensation for accumulated, unpaid vacation leave upon termination. Full-time employees also earn 1-1/2 sick leave days for each month of service and are entitled to extend their health or life insurance coverage upon retirement in lieu of accumulated, unpaid sick leave. Generally, two days of accrued sick leave extend health insurance for one month of single coverage and three days extend health insurance for one month of family coverage. For employees hired after 1988, the employee shares in the cost of the extended benefit coverage to the extent of 50% of the premium required for the extended coverage. Employees hired July 1, 2001 or later will no longer receive sick leave credit toward insurance premiums when they retire.

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

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

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

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

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

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

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

- *Nonoperating revenues*—Nonoperating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenues that are defined as nonoperating revenues by GASB 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 has never made loans to students under the Federal Direct Student Loan Program or Stafford Loan Program.

The College also did not distribute any other 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. Pell funds distributed through June 30, 2003 and 2002 were made through Southern West Virginia Community and Technical College and West Virginia Northern Community College, respectively.

***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. The College did not provide any scholarships for 2003 or 2002.

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

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

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

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

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

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.

The GASB has also issued Statement No. 41, *Budgetary Comparison Schedule—Perspective Differences*, that clarifies existing guidance on budgetary comparisons in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. The College does not believe the adoption of GASB Statement No. 41 will have an effect on the financial statements.

### 3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents was as follows at June 30, 2003 and 2002:

	<b>2003 Current</b>	<b>2002 Current</b>
Cash on deposit with the State Treasurer	\$ 761,990	\$ 314,950
Cash on hand	<u>300</u>	<u>300</u>
	<u>\$ 762,290</u>	<u>\$ 315,250</u>

Cash held by the State Treasurer includes \$147,315 and \$64,408 of restricted cash for purposes specified by State Code as of June 30, 2003 and 2002, respectively.

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*.

### 4. ACCOUNTS RECEIVABLE

Accounts receivable were as follows at June 30, 2003 and 2002:

	<b>2003</b>	<b>2002</b>
Student tuition and fees	\$37,693	\$31,729
Grants and contracts receivable	36,348	12,733
Other accounts receivable	<u>1,787</u>	<u>7,376</u>
	<u>\$75,828</u>	<u>\$51,838</u>

## 5. CAPITAL ASSETS

The following is a summary of capital asset transactions for the College for the years ended June 30, 2003 and 2002:

	<b>Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance</b>
Capital assets:				
Equipment	\$ 1,082,548	\$ 407,067	\$ -	\$ 1,489,615
Library books	<u>6,477</u>	<u>          </u>	<u>          </u>	<u>6,477</u>
Total capital assets	<u>1,089,025</u>	<u>407,067</u>	<u>-</u>	<u>1,496,092</u>
Less accumulated depreciation for:				
Equipment	220,692	238,790		459,482
Library books	<u>1,034</u>	<u>924</u>		<u>1,958</u>
Total accumulated depreciation	<u>221,726</u>	<u>239,714</u>	<u>-</u>	<u>461,440</u>
Capital assets—net	<u>\$ 867,299</u>	<u>\$ 167,353</u>	<u>\$ -</u>	<u>\$ 1,034,652</u>

	<b>2002</b>			
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
Capital assets:				
Equipment	\$ 973,808	\$ 163,231	\$ (54,491)	\$ 1,082,548
Library books	<u>6,477</u>	<u>          </u>	<u>          </u>	<u>6,477</u>
Total capital assets	<u>980,285</u>	<u>163,231</u>	<u>(54,491)</u>	<u>1,089,025</u>
Less accumulated depreciation for:				
Equipment	42,451	180,663	(2,422)	220,692
Library books	<u>110</u>	<u>924</u>	<u>          </u>	<u>1,034</u>
Total accumulated depreciation	<u>42,561</u>	<u>181,587</u>	<u>(2,422)</u>	<u>221,726</u>
Capital assets—net	<u>\$ 937,724</u>	<u>\$ (18,356)</u>	<u>\$ (52,069)</u>	<u>\$ 867,299</u>

The College has no capital assets that are not being depreciated. Also, the College currently does not maintain any collections of inexhaustible assets.

## 6. CHANGES IN LONG-TERM LIABILITIES

The following is a summary of long-term obligation transactions for the College for the years ended June 30, 2003 and 2002:

	<b>2003</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Accrued compensated absences	<u>\$ 121,564</u>	<u>\$ 35,433</u>	<u>\$ -</u>	<u>\$ 156,997</u>	<u>\$ 66,250</u>

  

	<b>2002</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Accrued compensated absences	<u>\$ 72,922</u>	<u>\$ 48,642</u>	<u>\$ -</u>	<u>\$ 121,564</u>	<u>\$ 58,943</u>

## 7. LEASE OBLIGATION

Future minimum payments under noncancelable operating leases, which consist primarily of office space, with initial or remaining terms of one year or more, are as follows:

<b>Year Ending June 30</b>	
2004	\$ 251,910
2005	197,958
2006	196,836
2007	<u>14,000</u>
	<u>\$ 660,704</u>

Total rent expense for operating leases amounted to \$218,019 and \$157,160 for the years ended June 30, 2003 and 2002, respectively.

## 8. COMPENSATED ABSENCES

The composition of the compensated absence liability was as follows at June 30, 2003 and 2002:

	<b>2003</b>	<b>2002</b>
Health or life insurance benefits	\$ 80,997	\$ 59,632
Accrued vacation leave	<u>76,000</u>	<u>61,932</u>
	<u>\$ 156,997</u>	<u>\$ 121,564</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, 2003 and 2002, the College made no payments for extended health or life insurance coverage retirement benefits, as there were no retirees currently eligible for these benefits.

## **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. As of June 30, 2003, the College has no such facilities.

## **10. RETIREMENT PLANS**

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

The STRS is a cost sharing, public employee retirement system. Employer and employee contribution rates are established annually by the State Legislature. The College accrued and paid its contribution to the STRS at the rate of 15% of each enrolled employee's total annual salary for both years ended June 30, 2003 and 2002. Required employee contributions were at the rate of 6% of total annual salary for both years ended June 30, 2003 and 2002. Participants in the STRS may retire with full benefits upon reaching age 60 with five years of service, age 55 with 30 years of service, or any age with 35 years of service. Lump-sum withdrawal of employee contributions is available upon termination of employment. Pension benefits are based upon 2% of final average salary (the highest 5 years' salary out of the last 15 years) multiplied by the number of years of service.

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

Total contributions to the STRS for the years ended June 30, 2003, 2002 and 2001, were \$14,013, \$13,592 and \$13,356, respectively, which consisted of \$10,009, \$9,709 and \$9,540, from the College, and \$4,004, \$3,883 and \$3,816 from the covered employees for 2003, 2002 and 2001, 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.

Total contributions to the TIAA-CREF for the years ended June 30, 2003, 2002 and 2001 were \$128,391, \$105,690 and \$59,316, respectively, which consisted of contributions of \$64,195, \$52,845 and \$29,658 for 2003, 2002 and 2001, respectively, from both the College and covered employees.

The College's total payroll for the years ended June 30, 2003 and 2002 was \$1,438,653 and \$1,320,397, respectively; total covered employees' salaries in the STRS and TIAA-CREF were \$66,728 and

\$1,066,688, respectively, for the year ended June 30, 2003 and were \$64,725 and \$1,137,703, respectively, for the year ended June 30, 2002.

#### **11. FOUNDATION (UNAUDITED)**

The Eastern West Virginia Community and Technical College Foundation, Incorporated (the "Foundation"), which was incorporated in fiscal year 2001, 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. Accordingly, the financial statements of the Foundation are not included in the accompanying financial statements.

The Foundation's net assets, all of which are principally restricted, totaled approximately \$23,600 and \$20,000 at June 30, 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 \$12,804 and \$2,204 for the years ended June 30, 2003 and 2002, respectively. During the year ended June 30, 2003, the Foundation made approximately \$900 in contributions to the College. During the year ended June 30, 2002, no such contributions were made.

#### **12. AFFILIATED ORGANIZATION (UNAUDITED)**

The College has an affiliation agreement with Eastern WORCS (Workforce Opportunity Regional Center and Services). Although Eastern WORCS has been created "to foster and support applied research and workforce development" at the College, it is a separate nonprofit organization incorporated in the State of West Virginia. Oversight of Eastern WORCS is the responsibility of a separate and independently elected Board of Directors. Accordingly, the financial statements of Eastern WORCS are not included in the accompanying financial statements.

#### **13. CONTINGENCIES**

The nature of the educational industry is such that, from time-to-time, claims will be presented against the College on account of alleged negligence, acts of discrimination, breach of contract or disagreements arising from the interpretation of laws or regulations. While some of these claims may be for substantial amounts, they are not unusual in the ordinary course of providing educational services in a higher education system. In the opinion of management, all known claims are covered by insurance or are such that an award against the College would not seriously impact the financial position of the College.

**14. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS**

For the years ended June 30, 2003 and 2002, the following tables represent operating expenses within both natural and functional classifications:

	<b>2003</b>							<b>Total</b>
	<b>Salaries and Wages</b>	<b>Benefits</b>	<b>Supplies and Other Services</b>	<b>Rent</b>	<b>Utilities</b>	<b>Depreciation</b>	<b>Fees Assessed by the Commission</b>	
Instruction	\$ 153,433	\$ 14,473	\$ 244,268	\$ -	\$ -	\$ -	\$ -	\$ 412,174
Public service	39,975	12,026	25,789					77,790
Academic support	550,128	112,151	195,246	570				858,095
Student services	256,916	48,790	125,590					431,296
General institutional support	438,201	129,950	342,274	140				910,565
Operations and maintenance of plant			27,944	217,309	19,361			264,614
Depreciation						239,714		239,714
Other							1,526	1,526
<b>Total</b>	<b>\$ 1,438,653</b>	<b>\$ 317,390</b>	<b>\$ 961,111</b>	<b>\$ 218,019</b>	<b>\$ 19,361</b>	<b>\$ 239,714</b>	<b>\$ 1,526</b>	<b>\$ 3,195,774</b>

	<b>2002</b>							<b>Total</b>
	<b>Salaries and Wages</b>	<b>Benefits</b>	<b>Supplies and Other Services</b>	<b>Rent</b>	<b>Utilities</b>	<b>Depreciation</b>	<b>Fees Assessed by the Commission</b>	
Instruction	\$ 310,509	\$ 31,376	\$ 212,742	\$ -	\$ -	\$ -	\$ -	\$ 554,627
Public service	38,625	11,355	37,820					87,800
Academic support	351,167	71,514	72,774					495,455
Student services	256,410	52,434	100,751					409,595
General institutional support	360,607	117,865	258,382		200			737,054
Operations and maintenance of plant	4,854	414	20,525	157,160	8,357			191,310
Depreciation						181,587		181,587
Other							1,526	1,526
<b>Total</b>	<b>\$ 1,322,172</b>	<b>\$ 284,958</b>	<b>\$ 702,994</b>	<b>\$ 157,160</b>	<b>\$ 8,557</b>	<b>\$ 181,587</b>	<b>\$ 1,526</b>	<b>\$ 2,658,954</b>

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

To the Eastern West Virginia Community and Technical College Governing Board

We have audited the financial statements of Eastern West Virginia Community and Technical College (the "College"), as of and for the year ended June 30, 2003, and have issued our report thereon dated October 3, 2003, which contains a consistency paragraph for the adoption of Governmental Accounting Standards Board Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

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

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in 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 the College's internal control over financial reporting and its operations that we consider to be material weaknesses.

This report is intended solely for the information and use of the Eastern West Virginia Community and Technical College Governing Board, managements of the College and the West Virginia Higher Education Policy Commission, and the State of West Virginia and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Deloitte &amp; Touche LLP". The signature is written in a cursive, flowing style.

October 3, 2003