

***WEST VIRGINIA NETWORK FOR  
EDUCATIONAL TELECOMPUTING***

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

# WEST VIRGINIA NETWORK FOR EDUCATIONAL TELECOMPUTING

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## **INDEPENDENT AUDITORS' REPORT**

To the West Virginia Higher Education Policy Commission:

We have audited the accompanying financial statements of the West Virginia Network for Educational Telecomputing (the "WVNET") as of June 30, 2001 and 2000, and for the years then ended, listed in the foregoing Table of Contents. These financial statements are the responsibility of the management of the WVNET. 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 WVNET at June 30, 2001 and 2000, and the changes in fund balances and the current funds revenues, expenditures, transfers and other changes for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2001, on our consideration of WVNET's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

DELOITTE & TOUCHE LLP

October 5, 2001

# WEST VIRGINIA NETWORK FOR EDUCATIONAL TELECOMPUTING

## BALANCE SHEET JUNE 30, 2001

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	<b>Current Funds</b>		<b>Plant Funds</b>
	<b>Unrestricted</b>	<b>Restricted</b>	
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 1,384,102	\$ 99,962	\$ 170,224
Accounts receivable - no allowance for doubtful accounts deemed necessary	553,273		
Interest receivable	6,251		
Grants receivable	128,891		
Equipment			11,482,496
Prepaid expenses	<u>3,062</u>	<u>          </u>	<u>220,917</u>
	<u><u>\$ 2,075,579</u></u>	<u><u>\$ 99,962</u></u>	<u><u>\$ 11,873,637</u></u>
<b>LIABILITIES AND FUND BALANCES:</b>			
Accounts payable	\$ 885,977		
Compensated absences	500,668		
Leases payable			\$ 716,676
Accrued interest payable			3,888
Deferred revenue	84,958		
Fund balances:			
WVNET funds	603,976	\$ 99,962	391,141
Net investment in plant	<u>          </u>	<u>          </u>	<u>10,761,932</u>
	<u><u>\$ 2,075,579</u></u>	<u><u>\$ 99,962</u></u>	<u><u>\$ 11,873,637</u></u>

See notes to financial statements.

# WEST VIRGINIA NETWORK FOR EDUCATIONAL TELECOMPUTING

## BALANCE SHEET JUNE 30, 2000

	<b>Current Funds</b>		<b>Plant Funds</b>
	<b>Unrestricted</b>	<b>Restricted</b>	
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 1,542,102	\$ 678,682	\$ 170,232
Accounts receivable - no allowance for doubtful accounts deemed necessary	818,618		
Interest receivable	30,487		
Grants receivable		43,309	
Equipment			10,777,807
Prepaid expenses			536,877
	<b>\$ 2,391,207</b>	<b>\$ 721,991</b>	<b>\$ 11,484,916</b>
<b>LIABILITIES AND FUND BALANCES:</b>			
Accounts payable	\$ 821,739		
Compensated absences	480,702		
Leases payable			\$ 1,595,035
Accrued interest payable			8,612
Deferred revenue	85,432		
Fund balances:			
WVNET funds	1,003,334	\$ 721,991	707,109
Net investment in plant			9,174,160
	<b>\$ 2,391,207</b>	<b>\$ 721,991</b>	<b>\$ 11,484,916</b>

See notes to financial statements.

# WEST VIRGINIA NETWORK FOR EDUCATIONAL TELECOMPUTING

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

	<b>Current Funds</b>		<b>Plant Funds</b>
	<b>Unrestricted</b>	<b>Restricted</b>	
FUND BALANCES, BEGINNING OF YEAR	<u>\$ 1,003,334</u>	<u>\$ 721,991</u>	<u>\$ 9,881,269</u>
REVENUES AND OTHER ADDITIONS:			
Unrestricted current fund revenues	8,668,430		
Contracts and grants - restricted:			
Local		80,000	
State		125,000	
Investment income	142,324		
Other sources			282,736
Expended for plant facilities, net of disposals			421,953
Retirement of indebtedness			<u>927,424</u>
Total revenues and other additions	<u>8,810,754</u>	<u>205,000</u>	<u>1,632,113</u>
EXPENDITURES AND OTHER DEDUCTIONS:			
Educational and general expenditures	8,229,582	810,030	
Retirement of indebtedness			927,424
Interest on indebtedness			65,381
Other uses			<u>365,033</u>
Total expenditures and other deductions	<u>8,229,582</u>	<u>810,030</u>	<u>1,357,838</u>
TRANSFERS AMONG FUNDS - ADDITIONS (DEDUCTIONS):			
Mandatory transfers - principal and interest	(997,529)		997,529
Nonmandatory transfers	<u>16,999</u>	<u>(16,999)</u>	
Total transfers	<u>(980,530)</u>	<u>(16,999)</u>	<u>997,529</u>
NET (DECREASE) INCREASE	<u>(399,358)</u>	<u>(622,029)</u>	<u>1,271,804</u>
FUND BALANCES, END OF YEAR	<u><u>\$ 603,976</u></u>	<u><u>\$ 99,962</u></u>	<u><u>\$ 11,153,073</u></u>

See notes to financial statements.

# WEST VIRGINIA NETWORK FOR EDUCATIONAL TELECOMPUTING

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

	Current Funds		Plant Funds
	Unrestricted	Restricted	
FUND BALANCES, BEGINNING OF YEAR	\$ 463,382	\$ 113,764	\$ 7,653,579
REVENUES AND OTHER ADDITIONS:			
Unrestricted current fund revenues	7,934,279		
Contracts and grants - restricted:			
Local		349,534	
State		654,906	
Investment income	70,188		
Other sources		125,000	1,779,808
Expended for plant facilities, net of disposals			177,274
Retirement of indebtedness			863,868
Total revenues and other additions	<u>8,004,467</u>	<u>1,129,440</u>	<u>2,820,950</u>
EXPENDITURES AND OTHER DEDUCTIONS:			
Educational and general expenditures	6,504,066	521,213	
Retirement of indebtedness			863,868
Interest on indebtedness			111,465
Other uses			578,376
Total expenditures and other deductions	<u>6,504,066</u>	<u>521,213</u>	<u>1,553,709</u>
TRANSFERS AMONG FUNDS - ADDITIONS (DEDUCTIONS):			
Mandatory transfers - principal and interest	(960,449)		960,449
Total transfers	<u>(960,449)</u>		<u>960,449</u>
NET INCREASE	<u>539,952</u>	<u>608,227</u>	<u>2,227,690</u>
FUND BALANCES, END OF YEAR	<u>\$ 1,003,334</u>	<u>\$ 721,991</u>	<u>\$ 9,881,269</u>

See notes to financial statements.

# WEST VIRGINIA NETWORK FOR EDUCATIONAL TELECOMPUTING

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

	Unrestricted	Restricted	Total
REVENUES:			
Institutional collections	\$ 3,868,792		\$ 3,868,792
Government appropriations - State	2,682,659		2,682,659
Government contracts and grants:			
State		\$ 570,038	570,038
Local		239,992	239,992
Sales and services of educational activities	1,988,072		1,988,072
Other sources	<u>271,231</u>		<u>271,231</u>
	<u>8,810,754</u>	<u>810,030</u>	<u>9,620,784</u>
EXPENDITURES, TRANSFERS AND OTHER CHANGES:			
Educational and general:			
Institutional support	8,015,964	810,030	8,825,994
Research			
Public service			
Academic support			
Student services			
Operations and maintenance of plant	213,618		213,618
General institutional support			
Scholarships and fellowships			
Total educational and general expenditures	<u>8,229,582</u>	<u>810,030</u>	<u>9,039,612</u>
TRANSFERS AMONG FUNDS - ADDITIONS (DEDUCTIONS):			
Mandatory transfers - principal and interest	(997,529)		(997,529)
Nonmandatory transfers	<u>16,999</u>	<u>(16,999)</u>	
Total transfers	<u>(980,530)</u>	<u>(16,999)</u>	<u>(997,529)</u>
TOTAL EXPENDITURES, TRANSFERS AND OTHER CHANGES	<u>9,210,112</u>	<u>827,029</u>	<u>10,037,141</u>
OTHER RESTRICTED RECEIPTS - Less recognized revenues		<u>(605,030)</u>	<u>(605,030)</u>
NET DECREASE	<u>\$ (399,358)</u>	<u>\$ (622,029)</u>	<u>\$ (1,021,387)</u>

See notes to financial statements.



# WEST VIRGINIA NETWORK FOR EDUCATIONAL TELECOMPUTING

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

	Unrestricted	Restricted	Total
REVENUES:			
Institutional collections	\$ 3,462,119		\$ 3,462,119
Government appropriations - State	2,496,673		2,496,673
Government contracts and grants:			
State		\$ 171,679	171,679
Local		349,534	349,534
Sales and services of educational activities	1,869,923		1,869,923
Other sources	<u>175,752</u>		<u>175,752</u>
	<u>8,004,467</u>	<u>521,213</u>	<u>8,525,680</u>
EXPENDITURES, TRANSFERS AND OTHER CHANGES:			
Educational and general:			
Institutional support	6,317,176	517,650	6,834,826
Research			
Public service			
Academic support			
Student services			
Operations and maintenance of plant	186,890	3,563	190,453
General institutional support			
Scholarships and fellowships			
Total educational and general expenditures	<u>6,504,066</u>	<u>521,213</u>	<u>7,025,279</u>
TRANSFERS AMONG FUNDS - ADDITIONS (DEDUCTIONS):			
Mandatory transfers - principal and interest	<u>(960,449)</u>		<u>(960,449)</u>
Total transfers	<u>(960,449)</u>		<u>(960,449)</u>
TOTAL EXPENDITURES, TRANSFERS AND OTHER CHANGES	<u>7,464,515</u>	<u>521,213</u>	<u>7,985,728</u>
OTHER RESTRICTED RECEIPTS - Less recognized revenues		<u>608,227</u>	<u>608,227</u>
NET INCREASE	<u>\$ 539,952</u>	<u>\$ 608,227</u>	<u>\$ 1,148,179</u>

See notes to financial statements.

# WEST VIRGINIA NETWORK FOR EDUCATIONAL TELECOMPUTING

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

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### 1. ORGANIZATION

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

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

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

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

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

- a. *Reporting Entity* - WVNET is an operating unit of the West Virginia Higher Education Fund and represents separate funds of the State that are not included in the State’s general fund. WVNET is

a separate entity which, along with all State institutions of higher education and the Higher Education Policy Commission, form the Higher Education Fund of the State. WVNET is considered a component unit of the State, and its financial statements are combined with the other higher education institutions and related components and are discretely presented in the State's comprehensive annual financial report.

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

- b. Description of Business – WVNET was founded in 1975 to serve West Virginia's State System of higher education by providing central computing and telecommunication facilities linking the State system of Colleges and Universities. WVNET's communications systems provide access to a number of other state networks and systems.
- c. *Basis of Accounting* - The financial statements of WVNET have been prepared on the accrual basis of accounting. Revenues are reported when earned and expenditures are reported when materials or services are received. The statement of current funds revenues, expenditures, transfers and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the year as would a statement of income or a statement of revenues and expenses.

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

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

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

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

- e. *Cash and Cash Equivalents* - Cash and cash equivalents balances on deposit with the West Virginia Treasurer's Office (the "Treasurer") are pooled by the Treasurer with other available funds of the State for investment by the West Virginia Investment Management Board (the "IMB"). These funds are transferred to the IMB, and the IMB is directed by the Treasurer to invest these funds in specific external investment pools. Balances in the investment pools are recorded at fair value, which is determined by a third party pricing service based on asset portfolio pricing models and other sources, in accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments for External Investment Pools." The IMB was established by the State Legislature and is subject to oversight by the State Legislature. Fair value and investment income are allocated to participants in the pool based upon the funds that have been invested. The amounts on deposit with the Treasurer are available for immediate withdrawal and, accordingly, are presented as cash and cash equivalents in the accompanying financial statements.
- f. *Equipment* - Equipment is stated at cost at the date of acquisition or construction, or fair market value at the date of donation in the case of gifts. Consistent with current generally accepted accounting principles for public colleges and universities, depreciation on plant assets is not recorded.
- g. *Deferred Revenue* - Revenues for services to be conducted primarily in the next fiscal year are classified as deferred revenue and include internet access subscription fees.
- h. *Compensated Absences* - WVNET 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.

WVNET's full-time employees earn up to two vacation leave days for each month of service and are entitled to compensation for accumulated, unpaid vacation leave upon termination. Full-time employees also earn 1-1/2 sick leave days for each month of service and are entitled to extend their health or life insurance coverage upon retirement in lieu of accumulated, unpaid sick leave. Generally, two days of accrued sick leave extends health insurance for one month of single coverage and three days extends health insurance for one month of family coverage. (For employees hired after 1988, the employee shares in the cost of the extended benefit coverage to the extent of 50% of the premium required for the extended coverage.)

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, WVNET 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 WVNET for such coverage and estimated the probability of the payment of that benefit to employees upon retirement.

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

- i. *Risk Management* - The State's Board of Risk and Insurance Management ("BRIM") provides general, property and casualty liability coverage to WVNET and its employees. Such coverage may be provided to WVNET 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 WVNET or other participants in BRIM's insurance programs. As a result, management does not expect significant differences between the premiums WVNET is currently charged by BRIM and the ultimate cost of that insurance based on WVNET's actual loss experience. In the event such differences arise between estimated premiums currently charged by BRIM to WVNET and WVNET's ultimate actual loss experience, the difference will be recorded as the change in estimate becomes known.
- j. *Government Grants and Contracts* - Government grants and contracts normally provide for the recovery of direct and indirect costs, subject to audit. WVNET recognizes revenue associated with direct costs as the related costs are incurred. Recovery of related indirect costs is generally recorded at fixed rates negotiated for a period of one to three years.
- k. *Income Taxes* - WVNET 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.
- l. *Use of Estimates* - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
- m. *Institutional Collections* - Institutional collections represent revenues earned from the colleges and universities throughout the State for the use of central site computing services which are provided by WVNET.
- n. *Recent Statements Issued by the Government Accounting Standards Board* - WVNET adopted GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions," as amended by GASB No. 36, during the year ended June 30, 2001. The effect of the adoption of these statements did not have a material impact on WVNET's financial statements. GASB has also issued Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments," and Statement No. 35, "Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities." These statements are effective for periods beginning after June 15, 2001. WVNET has not completed the process of evaluating the impact that will result from adopting Statements No. 34 and No. 35. These statements, when adopted, will substantially alter the appearance of WVNET's financial statements.

### 3. CASH AND CASH EQUIVALENTS

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

	<u>2001</u>		
	<u>Current Funds</u>		<u>Plant Funds</u>
	<u>Unrestricted</u>	<u>Restricted</u>	
Cash on deposit with the Treasurer	<u>\$ 1,384,102</u>	<u>\$ 99,962</u>	<u>\$ 170,224</u>

	<u>2000</u>		
	<u>Current Funds</u>		<u>Plant Funds</u>
	<u>Unrestricted</u>	<u>Restricted</u>	
Cash on deposit with the Treasurer	<u>\$ 1,542,102</u>	<u>\$ 678,682</u>	<u>\$ 170,232</u>

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

### 4. ACCOUNTS PAYABLE

Accounts payable of the current funds were as follows at June 30, 2001 and 2000:

	<u>2001</u>	<u>2000</u>
	<u>Unrestricted</u>	<u>Unrestricted</u>
Institutional - State of West Virginia	\$ 292,658	\$ 329,808
Other	<u>593,319</u>	<u>491,931</u>
	<u>\$ 885,977</u>	<u>\$ 821,739</u>

## 5. CAPITAL LEASES

Capital leases payable consisted of the following at June 30, 2001 and 2000:

	Interest Rate	Principal Amount Outstanding	
		2001	2000
Environmental Managers, due in varying principal amounts through October 4, 2002	5.76 %	\$ 58,100	\$ 94,175
CISCO, due in varying principal amounts through August 5, 2002	5.41 %	68,727	124,287
DEC ALPHA COMPUTER, due in varying principal amounts through August 5, 2000	5.60 %	-	13,677
IBM CMOS Enterprise Server, due in varying principal amounts through March 3, 2002	6.05 %	357,545	867,598
IBM CMOS Upgrade, due in varying principal amounts through March 3, 2002	4.25 %	82,894	202,912
Automated tape library system, due in varying principal amounts through July 9, 2001	5.98 %	100,345	292,386
Xerox Copier Equipment, due in varying principal amounts through June 11, 2006	12.5 %	<u>49,065</u>	<u>-</u>
		<u>\$ 716,676</u>	<u>\$ 1,595,035</u>

The obligations above represent financing for office and communication equipment as well as research and education equipment.

A summary of the annual aggregate principal payments for capital leases for years subsequent to June 30, 2001 is as follows:

Year Ending June 30,	
2002	\$ 645,142
2003	38,537
2004	9,663
2005	10,942
2006	<u>12,392</u>
	<u>\$ 716,676</u>

## 6. RETIREMENT PLANS

Substantially all full-time employees of WVNET 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"). 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 WVNET employees have not been significant to date.

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

Total contributions to the STRS for the years ended June 30, 2001, 2000 and 1999, were \$25,158, \$23,136 and \$21,278, respectively, which consisted of \$17,970, \$16,526 and \$14,385 from WVNET in 2001, 2000 and 1999, respectively, and \$7,188, \$6,610 and \$6,893 from the covered employees in 2001, 2000 and 1999, 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 WVNET. Historical trend and net pension obligation information is available from the annual financial report of the Consolidated Public Retirement Board, Building 5, Room 1000, Charleston, WV 25305.

Total contributions to the TIAA-CREF for the years ended June 30, 2001, 2000 and 1999, were \$337,576, \$308,210 and \$282,152, respectively, which consisted of contributions of \$168,788, \$154,105 and \$141,076 from WVNET and \$168,788, \$154,105 and \$141,076 from the covered employees in 2001, 2000 and 1999, respectively.

WVNET's total payroll for the years ended June 30, 2001 and 2000, was \$2,934,827 and \$2,684,469, respectively; total covered employees' salaries in the TIAA-CREF and STRS were \$2,815,024 and \$119,803 in 2001, respectively, \$2,574,298 and \$110,171 in 2000, respectively.



**7. COMPENSATED ABSENCES LIABILITY**

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

	<b>2001</b>	<b>2000</b>
Health or life insurance benefits	\$ 174,693	\$ 155,539
Accrued vacation leave	315,532	309,046
Current retirees health insurance	<u>10,443</u>	<u>16,117</u>
	<u>\$ 500,668</u>	<u>\$ 480,702</u>

**8. CONTINGENCIES**

The nature of the educational industry is such that, from time-to-time, claims will be presented against WVNET 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 WVNET would not seriously impact 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. WVNET's management believes disallowances, if any, will not have a significant financial impact on WVNET's financial position.

WVNET occupies a building which is known to contain asbestos. The WVNET is not required by Federal, State or Local Law to remove the asbestos from the building. The WVNET is required by Federal Environmental, Health and Safety Regulations to manage the presence of asbestos in the building in a safe condition. The WVNET addresses its responsibility to manage the presence of asbestos in the building. Significant problems of dangerous asbestos conditions are abated as the condition becomes known. The WVNET 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.

**9. REIMBURSED EXPENDITURES**

WVNET acts as purchasing agent for the State College System of West Virginia and other state agencies to obtain bulk pricing discounts for maintenance and equipment purchases. In addition, WVNET provides purchasing services regarding computer equipment purchases. In fiscal years 2001 and 2000, \$4,108,520 and \$1,579,747, respectively, was reimbursed by the schools and other state agencies to WVNET. WVNET treats these items as reimbursed expenditures so as to not distort total revenues and expenditures.

**10. NONMANDATORY TRANSFERS**

During the year ended June 30, 2001, WVNET had a nonmandatory transfer from restricted to unrestricted in the amount of \$16,999. The purpose of the transfer was to transfer the remaining income from K-12 funds to cover the remaining communication and support costs.

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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 West Virginia Higher Education Policy Commission:

We have audited the financial statements of West Virginia Network for Educational Telecomputing ("WVNET") as of and for the year ended June 30, 2001, and have issued our report thereon dated October 5, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether WVNET'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 WVNET's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in 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 internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of WVNET in a separate letter dated October 5, 2001.

This report is intended solely for the information and use of the Policy Commission, management of WVNET, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

DELOITTE & TOUCHE LLP

October 5, 2001