

WEST LIBERTY STATE COLLEGE

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

WEST LIBERTY STATE COLLEGE

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INDEPENDENT AUDITORS' REPORT

To the West Liberty State College Governing Board:

We have audited the accompanying financial statements of West Liberty State College (the "College") 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 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, 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 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 5, 2001

WEST LIBERTY STATE COLLEGE

BALANCE SHEET JUNE 30, 2001

	<u>Current Funds</u>		Loan Funds	Plant Funds
	Unrestricted	Restricted		
ASSETS:				
Cash and cash equivalents	\$ 868,990	\$ 442,259	\$ 287,191	\$ 215,756
Student accounts receivable - net of allowance for doubtful accounts of \$148,671	121,178			
Other receivables	1,863			
Loans receivable - net of allowance for doubtful accounts of \$708,428			1,252,346	
Due from the Commission	5,688	4,922		152,997
Inventories	116,151			
Prepaid expenses	7,848			
Investment in plant				43,251,611
	<u>\$ 1,121,718</u>	<u>\$ 447,181</u>	<u>\$ 1,539,537</u>	<u>\$ 43,620,364</u>
LIABILITIES AND FUND BALANCES:				
Accounts payable	\$ 530,508			\$ 116,781
Accrued liabilities	378,575			690
Deferred revenue	130,340			
Compensated absences	2,239,103			
Due to the Commission	19,375			
Capital lease obligations				2,098,416
Bonds payable				138,000
Fund balances:				
College funds	(2,176,183)	\$ 447,181		251,282
Loan funds			\$ 1,539,537	
Net investment in plant				41,015,195
	<u>\$ 1,121,718</u>	<u>\$ 447,181</u>	<u>\$ 1,539,537</u>	<u>\$ 43,620,364</u>

See notes to financial statements.

WEST LIBERTY STATE COLLEGE

BALANCE SHEET JUNE 30, 2000

	<u>Current Funds</u>		Loan Funds	Plant Funds
	Unrestricted	Restricted		
ASSETS:				
Cash and cash equivalents	\$ 1,238,558	\$ 432,580	\$ 260,795	\$ 1,716,576
Student accounts receivable - net of allowance for doubtful accounts of \$152,003	79,532			
Other receivables	10,228			
Loans receivable - net of allowance for doubtful accounts of \$712,809			1,260,092	
Due from the Board	2,199			157,849
Inventories	110,244			
Prepaid expenses	9,644			
Investment in plant				<u>38,852,966</u>
	<u>\$ 1,450,405</u>	<u>\$ 432,580</u>	<u>\$ 1,520,887</u>	<u>\$ 40,727,391</u>
LIABILITIES AND FUND BALANCES:				
Accounts payable	\$ 585,525			\$ 8,934
Accrued liabilities	362,812			780
Deferred revenue	126,830			
Compensated absences	2,044,796			
Capital lease obligations				127,637
Bonds payable				156,000
Fund balances:				
College funds	(1,669,558)	\$ 432,580		1,864,711
Loan funds			\$ 1,520,887	
Net investment in plant				<u>38,569,329</u>
	<u>\$ 1,450,405</u>	<u>\$ 432,580</u>	<u>\$ 1,520,887</u>	<u>\$ 40,727,391</u>

See notes to financial statements.

WEST LIBERTY STATE COLLEGE

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

	Current Funds		Loan Funds	Plant Funds
	Unrestricted	Restricted		
FUND BALANCE, BEGINNING OF YEAR	\$ (1,669,558)	\$ 432,580	\$ 1,520,887	\$ 40,434,040
REVENUES AND OTHER ADDITIONS:				
Unrestricted current fund revenue	17,855,127			
Auxiliary enterprise revenues	4,647,707			4,630
Contracts and grants - restricted:				
Federal		8,655,157		
State		909,152		
Private		438,528		
Investment income	196,842	29,001	14,650	11,851
Interest on loans receivable			34,568	
Expended for plant facilities - net of disposals				4,904,250
Retirement of indebtedness				18,000
Other sources	291,720		32,380	
Total revenues and other additions	22,991,396	10,031,838	81,598	4,938,731
EXPENDITURES AND OTHER DEDUCTIONS:				
Educational and general expenditures	15,826,220	10,001,992		198,194
Auxiliary enterprise expenditures	5,495,014	15,245		60
Loan cancellations and write-offs			48,028	
Net tuition and fees retained by the Commission	1,168,633			
Expended for plant facilities				4,809,277
Retirement of indebtedness				18,000
Interest on indebtedness			14,920	4,320
Administrative and collection fees				84,597
Total expenditures and other deductions	22,489,867	10,017,237	62,948	5,114,448
TRANSFERS AMONG FUNDS - (DEDUCTIONS) ADDITIONS :				
Mandatory transfers - Principal and interest	(22,410)			22,410
Nonmandatory transfers	(985,744)			985,744
Total transfers	(1,008,154)			1,008,154
NET INCREASE (DECREASE)	(506,625)	14,601	18,650	832,437
FUND BALANCE, END OF YEAR	\$ (2,176,183)	\$ 447,181	\$ 1,539,537	\$ 41,266,477

See notes to financial statements.

WEST LIBERTY STATE COLLEGE

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

	Current Funds		Loan Funds	Plant Funds
	Unrestricted	Restricted		
FUND BALANCE, BEGINNING OF YEAR	\$ 281,945	\$ 248,669	\$ 1,520,206	\$ 35,285,046
REVENUES AND OTHER ADDITIONS:				
Unrestricted current fund revenue	16,725,618			
Auxiliary enterprise revenues	4,237,854			4,122
Contracts and grants - restricted:				
Federal		7,998,335		
State		883,499		
Private		396,192		
Investment income	142,968	13,798	8,084	21,495
Interest on loans receivable			32,813	
Expended for plant facilities - net of disposals				5,134,419
Retirement of indebtedness				17,000
Other sources	269,247		20,803	
Total revenues and other additions	<u>21,375,687</u>	<u>9,291,824</u>	<u>61,700</u>	<u>5,177,036</u>
EXPENDITURES AND OTHER DEDUCTIONS:				
Educational and general expenditures	15,530,846	9,095,789		78,683
Auxiliary enterprise expenditures	5,473,062	12,124		66
Loan cancellations and write-offs			33,121	
Increase in allowance for doubtful accounts			17,906	
Net tuition and fees retained by the Board	561,307			
Expended for plant facilities				1,689,418
Retirement of indebtedness				17,000
Interest on indebtedness				4,850
Administrative and collection fees			9,992	
Other				
Total expenditures and other deductions	<u>21,565,215</u>	<u>9,107,913</u>	<u>61,019</u>	<u>1,790,017</u>
TRANSFERS AMONG FUNDS - (DEDUCTIONS) ADDITIONS :				
Mandatory transfers - Principal and interest	(21,935)			21,935
Nonmandatory transfers	(1,740,040)			1,740,040
Total transfers	<u>(1,761,975)</u>			<u>1,761,975</u>
NET INCREASE (DECREASE)	<u>(1,951,503)</u>	<u>183,911</u>	<u>681</u>	<u>5,148,994</u>
FUND BALANCE, END OF YEAR	\$ <u>(1,669,558)</u>	\$ <u>432,580</u>	\$ <u>1,520,887</u>	\$ <u>40,434,040</u>

See notes to financial statements.

WEST LIBERTY STATE COLLEGE

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

	Unrestricted	Restricted	Total
REVENUES:			
Tuition and fees	\$ 7,778,332		\$ 7,778,332
State government appropriations	10,076,795		10,076,795
Government contracts and grants:			
Federal		\$ 8,579,823	8,579,823
State		1,004,758	1,004,758
Private gifts, grants and contracts		432,656	432,656
Income from investments	196,842		196,842
Sales and services of auxiliary enterprises	4,647,707		4,647,707
Other sources	<u>291,720</u>		<u>291,720</u>
TOTAL REVENUES	<u>22,991,396</u>	<u>10,017,237</u>	<u>33,008,633</u>
EXPENDITURES, TRANSFERS AND OTHER CHANGES:			
Educational and general:			
Instruction	7,581,416	365,082	7,946,498
Research	167,118	20,066	187,184
Public service	30,955		30,955
Academic support	1,734,425	44,191	1,778,616
Student services	1,898,612	21,838	1,920,450
Operations and maintenance of plant	1,860,378	291,449	2,151,827
General institutional support	2,250,455	41,582	2,292,037
Scholarships and fellowships	<u>302,861</u>	<u>9,217,784</u>	<u>9,520,645</u>
Total educational and general expenditures	<u>15,826,220</u>	<u>10,001,992</u>	<u>25,828,212</u>
Transfers and other deductions:			
Nonmandatory transfers	985,744		985,744
Net tuition and fees retained by Commission	1,168,633		1,168,633
Mandatory transfers - principal and interest	<u>22,410</u>		<u>22,410</u>
Total transfers and other	<u>2,176,787</u>		<u>2,176,787</u>
Total educational and general, transfers and other deductions	18,003,007	10,001,992	28,004,999
Total auxiliary enterprises	<u>5,495,014</u>	<u>15,245</u>	<u>5,510,259</u>
TOTAL EXPENDITURES, TRANSFERS AND OTHER CHANGES	23,498,021	10,017,237	33,515,258
OTHER RESTRICTED RECEIPTS - Less recognized revenues		<u>14,601</u>	<u>14,601</u>
NET (DECREASE) INCREASE IN FUND BALANCE	<u>\$ (506,625)</u>	<u>\$ 14,601</u>	<u>\$ (492,024)</u>

See notes to financial statements.

WEST LIBERTY STATE COLLEGE

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

	Unrestricted	Restricted	Total
REVENUES:			
Tuition and fees	\$ 7,469,297		\$ 7,469,297
State government appropriations	9,256,321		9,256,321
Government contracts and grants:			
Federal		\$ 8,015,409	8,015,409
State		697,348	697,348
Private gifts, grants and contracts		395,156	395,156
Income from investments	142,968		142,968
Sales and services of auxiliary enterprises	4,237,854		4,237,854
Other sources	<u>269,247</u>		<u>269,247</u>
TOTAL REVENUES	<u>21,375,687</u>	<u>9,107,913</u>	<u>30,483,600</u>
EXPENDITURES, TRANSFERS AND OTHER CHANGES:			
Educational and general:			
Instruction	7,378,573	338,184	7,716,757
Research	110,588	9,893	120,481
Public service	15,324		15,324
Academic support	1,760,732	54,211	1,814,943
Student services	1,873,627	21,569	1,895,196
Operations and maintenance of plant	1,904,138	148,253	2,052,391
General institutional support	2,185,563	47,691	2,233,254
Scholarships and fellowships	<u>302,301</u>	<u>8,475,988</u>	<u>8,778,289</u>
Total educational and general expenditures	<u>15,530,846</u>	<u>9,095,789</u>	<u>24,626,635</u>
Transfers and other deductions:			
Nonmandatory transfers	1,740,040		1,740,040
Net tuition and fees retained by Board	561,307		561,307
Mandatory transfers - principal and interest	<u>21,935</u>		<u>21,935</u>
Total transfers and other	<u>2,323,282</u>		<u>2,323,282</u>
Total educational and general, transfers and other deductions	17,854,128	9,095,789	26,949,917
Total auxiliary enterprises	<u>5,473,062</u>	<u>12,124</u>	<u>5,485,186</u>
TOTAL EXPENDITURES, TRANSFERS AND OTHER CHANGES	23,327,190	9,107,913	32,435,103
OTHER RESTRICTED RECEIPTS - Less recognized revenues		<u>183,911</u>	<u>183,911</u>
NET (DECREASE) INCREASE IN FUND BALANCE	<u>\$ (1,951,503)</u>	<u>\$ 183,911</u>	<u>\$ (1,767,592)</u>

See notes to financial statements.

WEST LIBERTY STATE COLLEGE

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

1. ORGANIZATION

West Liberty State College (the "College") was governed by the University of West Virginia System 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, of which the College is one.

Effective July 1, 2000, the West Virginia Legislature 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 restructured public higher education in West Virginia. S.B. 653 abolished 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 creates 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. Effective July 1, 2001, certain powers transferred to the Interim Governing Board were transferred to 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 the College 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 ("AICPA") 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. 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.

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

- b. *Basis of Accounting* - The financial statements of the College 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 period 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 library books and moveable equipment; (2) mandatory transfers, in the case of required provisions for debt amortization and interest, and equipment renewal and replacement; and (3) nonmandatory transfers for all other cases.

- c. *Fund Accounting* - The accounts of the College 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 the College president or the Commission. 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.

Loan funds are used to account for resources that may be lent to students. These funds are provided by various sources, including the U.S. government, private donors or by the transfer of College funds. Generally, student loan funds are operated on a revolving fund basis with principal and interest payments remaining in the loan funds for future lending.

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 funds' expenditures.

- d. *Cash and Cash Equivalents* - Cash and cash equivalent 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.
- e. *Allowance for Doubtful Accounts* - It is the College's policy to provide for future losses on uncollectible accounts and loans receivable based on an evaluation of the underlying accounting and loan balances, the historical collectibility experienced by the College on such balances and such other factors which, in the judgment of management, require consideration in estimating doubtful accounts.
- f. *Inventories* - Inventories are stated at the lower-of-cost or market, cost being determined on the first-in, first-out method.
- g. *Property, Plant and Equipment* - Property, plant and equipment and books and materials, which are part of a catalogued library, 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. Consistent with current accounting principles generally accepted in the United States of America for public colleges and universities, depreciation on plant assets is not recorded. The College capitalizes items over \$1,000.
- h. *Deferred Revenue* - Revenues for programs or activities to be conducted primarily in the next fiscal year are classified as deferred revenue, including items such as football ticket sales, orientation fees, room and board and financial aid deposits. Such deposits are separately classified.
- i. *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 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.

Certain faculty employees (generally those contracted employees 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 extends 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 liability for vacation leave, sick leave or extended health or life insurance retirement payments are recorded principally within the College's current funds.

- j. *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.

- k. *Student Aid* - The College makes loans to students under the Federal Direct Student Loan Program. Under this program, the U.S. Department of Education makes interest subsidized and nonsubsidized loans directly to students, through colleges and universities like the College. The activity of this program is recorded in the accompanying financial statements as restricted current funds' revenues and expenditures. Direct student loan receivables are not included in the College's balance sheet as the loans are repayable directly to the U.S. Department of Education. The College received and disbursed approximately \$6,053,345 in 2001 and \$5,614,358 in 2000 under the Federal Direct Student Loan Program on behalf of the U.S. Department of Education.

The College also distributes other student financial assistance funds on behalf of the federal government to students under the Pell Grant, Supplemental Education Opportunity Grant and Federal Work Study Programs. The activity of these programs are also recorded in the accompanying financial statements as restricted current funds' revenues and expenditures. In 2001 and 2000, the College received and disbursed approximately \$2,217,380 and \$2,115,017, respectively, under these other federal student aid programs.

- l. *Gifts and Pledges* - The College does not report pledges in the financial statements until the gifts are collected. The College's gift records indicate that an immaterial amount of pledges are outstanding at June 30, 2001 and 2000.
- m. *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 three years.
- n. *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.

- o. *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 the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
- p. *Recent Statements Issued by the Governmental Accounting Standards Board* - The colleges and universities of The West Virginia Higher Education Fund adopted GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions," as amended by GASB Statement No. 36, in the year ended June 30, 2001. The adoption of these statements did not have a material impact on the College'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 GASB 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. The College has not completed the process of evaluating the impact that will result from adopting GASB Statements No. 34 and No. 35. These statements, when adopted, will substantially alter the appearance of the College's financial statements.
- q. *Reclassifications* - Certain amounts in the 2000 financial statements have been reclassified to conform to the current year presentation.

3. CASH AND CASH EQUIVALENTS

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

	2001			
	Current Funds		Loan Funds	Plant Funds
	Unrestricted	Restricted		
Cash on deposit with the Treasurer:				
College	\$ 865,667	\$ 409,683	\$ 158,336	\$ 96,928
Municipal Bond Commission				118,828
Cash in bank	<u>3,323</u>	<u>32,576</u>	<u>128,855</u>	<u> </u>
	<u>\$ 868,990</u>	<u>\$ 442,259</u>	<u>\$ 287,191</u>	<u>\$ 215,756</u>
	2000			
	Current Funds		Loan Funds	Plant Funds
	Unrestricted	Restricted		
Cash on deposit with the Treasurer:				
College	\$ 1,235,253	\$ 427,769	\$ 144,602	\$ 1,563,069
Municipal Bond Commission				153,507
Cash in bank	<u>3,305</u>	<u>4,811</u>	<u>116,193</u>	<u> </u>
	<u>\$ 1,238,558</u>	<u>\$ 432,580</u>	<u>\$ 260,795</u>	<u>\$ 1,716,576</u>

Cash shown above as held by the Municipal Bond Commission represents debt service and other repair and replacement reserve funds required to be escrowed by the College's bond trust indentures.

The combined carrying amount of cash in the bank at June 30, 2001 and 2000, was \$164,754 and \$124,309, respectively, as compared with the combined bank balances of \$156,659 and \$111,228, respectively. The difference is primarily caused by items in transit and outstanding checks. The bank balances were covered by federal depository insurance or were secured by securities held as collateral by the State's agent.

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

4. INVESTMENT IN PLANT

The composition of investment in plant was as follows at June 30, 2001 and 2000:

	2001	2000
Land and land improvements	\$ 100,000	\$ 100,000
Buildings and building improvements	37,523,858	33,399,722
Equipment	3,267,546	3,014,671
Library books	<u>2,360,207</u>	<u>2,338,573</u>
	<u>\$43,251,611</u>	<u>\$38,852,966</u>

5. CAPITAL LEASE OBLIGATIONS

The College leases various equipment. These obligations are accounted for as capital leases. The following is a schedule by year of future annual minimum payments required under the lease obligations existing at June 30, 2001:

Year Ending June 30.	
2002	\$ 272,469
2003	257,096
2004	262,968
2005	265,551
2006	275,886
Thereafter	<u>764,446</u>
Total	<u>\$ 2,098,416</u>

6. BONDS PAYABLE

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

	Interest Rate	Annual Principal Installment Due	Principal Amount Outstanding	
			2001	2000
Student Union Revenues Bonds Series B 1967, due 2007	3.0 %	<u>\$ 18,000</u>	<u>\$ 138,000</u>	<u>\$ 156,000</u>

In November 1992, the College placed \$2,127,000 into an escrow account with the West Virginia Municipal Bond Commission (the "Trustee") for payment of future principal and interest obligations related to the 1966 Housing and Dining Revenue Bonds. The College entered into a trust arrangement with the Trustee to pay debt service on the Housing and Dining Revenue Bonds so long as the bonds are outstanding. The Trustee invested the escrowed amounts primarily in the U.S. government obligations. In fiscal 1998, the bonds were retired and the escrow was returned to the College. Subsequently, those amounts were transferred into the current unrestricted fund to be utilized for operations of the College.

Each of the above bond issues is specific to the College, although the bonds were also issued in the name of the State's former Board of Regents, previously responsible for the governance of the State's higher education system, or the State itself. As debt service is required on these bond issues, the College remits the funds to either the Policy Commission (as successor to the Board of Regents) or the State's Municipal Bond Commission for payment to the trustee of the bond issue and the bond holders. The mandatory debt service transfers are recorded as the funds are so remitted. The Policy Commission and the Municipal Bond Commission may hold certain cash and cash equivalents for debt service or other bond issue purposes on behalf of the College.

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

Year Ending June 30.	
2002	\$ 18,000
2003	19,000
2004	19,000
2005	20,000
2006	20,000
Thereafter	<u>42,000</u>
	<u><u>\$ 138,000</u></u>

The College's tuition and fees generally are pledged as collateral for the bond indebtedness.

7. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

The College is a State institution of higher education. It 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 University System of West Virginia and the State College System of West Virginia (collectively the "Systems") 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 current Policy Commission. These obligations are the direct and total responsibility of the Policy Commission.

Students of the State’s universities and colleges, including students of the College are assessed certain tuition charges and fees which must be remitted by the universities and the colleges to the Commission for use in repayment of the bonds so issued. Any shortfalls between such tuition and fees remitted and actual debt service obligations are the responsibility of the Commission and the State. To the extent that tuition charges and fees so collected by the Commission exceed debt service obligations, the Commission may remit funds back to the universities and colleges for renewal and replacement or maintenance and repair of the facilities so financed.

Effective July 1, 1999, the Board of Trustees approved changes to the process for assignment of responsibility by institution for payment of the University System general capital fund obligations such as system-wide debt service. Each institution’s share of system-wide obligations will remain at a fixed percentage unless changed by the annual review process. The shares are based on an average of the original Resource Allocation Policy percentages and historical fee collection data in order to make the assignment for system-wide obligations more equitable.

The amounts of tuition and fees remitted by the College to the Commission and the amounts returned or due back from the Commission to the College are summarized as follows for the years ended June 30, 2001 and 2000:

	2001	2000
Tuition and fees contractually required to be remitted by the College to the Commission (Mandatory transfers)	\$ 1,780,615	\$ 1,784,750
Less amounts returned or due back from the Commission to the College for plant renewal and maintenance purposes	<u>(611,982)</u>	<u>(1,223,443)</u>
Net amount retained by the Commission	<u>\$ 1,168,633</u>	<u>\$ 561,307</u>

The tuition and fees earned by the College from its students are recorded as unrestricted current fund revenues of the College. The net amount retained by the Commission is recorded as an unrestricted current fund deduction to the College.

To the extent that any funds returned or due back from the Commission to the College are not currently expended, they are transferred to the plant fund for future plant fund purposes (i.e., plant additions and debt retirement). Amounts due from the Commission at year end are so unexpended and, accordingly, transferred to and recorded as an asset of the College’s plant fund at year end.

The Commission’s debt information cannot be extracted so as to present the College’s portion of the Commission’s bond indebtedness outstanding. It cannot be assumed that the amount of the tuition and fees contractually assessed and collected from College students, or that the net amount retained by the Commission, bears any relationship to the College’s portion of the Commission’s debt service.

8. 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, defined benefit 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 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 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 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 matched the employees' 6% contribution in 2001 and 2000. Contributions are immediately and fully vested.

Total contributions to the STRS for the years ended June 30, 2001, 2000 and 1999 were \$268,748, \$247,204 and \$224,379, respectively, which consisted of \$191,722, \$174,974 and \$155,320 from the College in 2001, 2000 and 1999, respectively, and \$77,026, \$72,230 and \$69,059 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 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, 2001, 2000 and 1999, were \$1,150,721, \$1,024,830 and \$994,369, respectively, which consisted of contributions of \$574,104 from the College and \$576,617 from the covered employees in 2001, \$505,737 from the College and \$519,093 from the covered employees in 2000, and \$492,690 from the College and \$501,679 from the covered employees in 1999.

The College's total payroll for the years ended June 30, 2001 and 2000, was \$11,478,548 and \$10,584,571, respectively; total covered employees' salaries in the STRS and TIAA-CREF were \$1,274,673 and \$9,367,970 in 2001, respectively, and \$1,166,494 and \$8,352,439 in 2000, respectively.

9. COMPENSATED ABSENCES LIABILITY

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

	2001	2000
Health or life insurance benefits	\$ 1,622,353	\$ 1,449,242
Accrued vacation leave	<u>616,750</u>	<u>595,554</u>
	<u>\$ 2,239,103</u>	<u>\$ 2,044,796</u>

For the years ended June 30, 2001 and 2000, the amount paid by the College for extended health or life insurance coverage retirement benefits totaled \$108,955 and \$96,721, respectively. As of June 30, 2001 and 2000, there were 41 and 48 retirees currently eligible for these benefits, respectively.

10. FOUNDATION (UNAUDITED)

The West Liberty State College Foundation, Incorporated (the "Foundation") is a separate nonprofit organization incorporated in the State and has as its purpose ". . . to aid, strengthen and further in every proper and useful way, the work and services of the College and its affiliated nonprofit organizations. . ." Oversight of the Foundation is the responsibility of a separate and independently elected Board of Directors, not otherwise affiliated with the College. In carrying out its responsibilities, the Board of Directors of the Foundation employs management, forms policy and maintains fiscal accountability over funds administered by the Foundation. Accordingly, the financial statements of the Foundation are not included in the accompanying financial statements.

The Foundation's net assets, all of which are principally restricted, totaled \$6,899,168 and \$4,836,698 at June 30, 2001 and 2000, respectively. The restricted 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 \$656,116 and \$590,769 for the years ended June 30, 2001 and 2000, respectively. During the years ended June 30, 2001 and 2000, the Foundation contributed \$250,066 and \$210,657, respectively, to the College for scholarships.

11. AFFILIATED ORGANIZATION

The College has a separately incorporated affiliated organization, the Alumni Association. Oversight responsibility for this entity rests with an independent board and management not otherwise affiliated with the College. Accordingly, the financial statements of this organization are not included in the College's accompanying financial statements.

12. 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 status of the institution.

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

The College owns various buildings which are known to contain asbestos. The College is not required by Federal, State or local law to remove the asbestos from its buildings. The College is required by 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.

13. FUNDS DEFICIT FOR FISCAL YEAR ENDED JUNE 30, 2001

The following fund has a deficit at June 30, 2001:

Current Unrestricted Fund	\$ (2,176,183)
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This deficit in the Current Unrestricted Fund has occurred during the past two years because of operations and auxiliary funds being used for construction of the new Athletic and Student Recreation Complex, repairs and alterations to the dormitories and for ground improvements. Management of the College intends to reduce this deficit by increasing revenues and controlling expenditures, with the expectation that the deficit will be totally eliminated by June 30, 2010.

14. NONMANDATORY TRANSFERS

During the year ended June 30, 2001, the College had nonmandatory transfers required by the source of funds as follows:

Transfer from Current Unrestricted Fund to Plant Fund - tuition and registration fees used for capital improvements	\$ 611,984
Transfer from Current Unrestricted Fund to Plant Fund - capitalize equipment paid from Current Unrestricted Fund	318,825
Transfer from Plant Fund to Current Unrestricted Fund - repairs and maintenance of dormitories and faculty housing	<u>(43,987)</u>
Net transfer from Current Unrestricted Fund to Plant Fund	<u><u>\$ 886,822</u></u>

In addition, during the year ended June 30, 2001, the College had a nonmandatory transfer from the Current Unrestricted Fund to the Plant Fund in the amount of \$98,922. Such transfer was authorized by Dr. Ronald Zaccart, President, on July 1, 2000. The purpose of the transfer was to capitalize the field house construction paid from Bookstore Funds.

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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 Liberty State College Governing Board:

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

Internal Control Over Financial Reporting

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

This report is intended solely for the information and use of the West Liberty State College Governing Board, managements of the College and the West Virginia Higher Education Policy Commission, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

DELOITTE & TOUCHE LLP

October 5, 2001