

***WEST VIRGINIA SCHOOL OF
OSTEOPATHIC MEDICINE***

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

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE

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INDEPENDENT AUDITORS' REPORT

To the West Virginia School of
Osteopathic Medicine Governing Board:

We have audited the accompanying financial statements of West Virginia School of Osteopathic Medicine ("WVSOM") 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 WVSOM. 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 WVSOM 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 WVSOM'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 SCHOOL OF OSTEOPATHIC MEDICINE

BALANCE SHEET

JUNE 30, 2001

ASSETS	Current Funds		Loan Funds	Plant Funds
	Unrestricted	Restricted		
CASH AND CASH EQUIVALENTS	\$ 6,050,849	\$ 78,417	\$ 565,697	\$ 701,654
ACCOUNTS RECEIVABLE	155,601			
APPROPRIATION DUE FROM PRIMARY GOVERNMENT	17,704			
DUE FROM COMMISSION			70,309	
GRANTS AND CONTRACTS RECEIVABLE		32,810		
LOANS RECEIVABLE - Net of an allowance for doubtful loans of \$178,302			4,188,325	
INVENTORIES	58,396			
PREPAID EXPENSES	86,756			
INVESTMENT IN PLANT	_____	_____	_____	<u>20,262,771</u>
	<u>\$ 6,369,306</u>	<u>\$ 111,227</u>	<u>\$ 4,824,331</u>	<u>\$ 20,964,425</u>
LIABILITIES AND FUND BALANCES				
ACCOUNTS PAYABLE	\$ 206,775	\$ 2,943		\$ 324,764
ACCRUED LIABILITIES	77,823	10,212		
DEFERRED REVENUE	1,451,864			
COMPENSATED ABSENCES	1,232,057			
FUND BALANCES:				
University funds	3,400,787	98,072		376,890
Loan funds			\$ 4,824,331	
Net investment in plant	_____	_____	_____	<u>20,262,771</u>
	<u>\$ 6,369,306</u>	<u>\$ 111,227</u>	<u>\$ 4,824,331</u>	<u>\$ 20,964,425</u>

See notes to financial statements.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE

BALANCE SHEET

JUNE 30, 2000

ASSETS	Current Funds		Loan Funds	Plant Funds
	Unrestricted	Restricted		
CASH AND CASH EQUIVALENTS	\$ 4,418,942	\$ 86,628	\$ 575,898	\$ 280,812
ACCOUNTS RECEIVABLE	62,529		61,616	
GRANTS AND CONTRACTS RECEIVABLE		21,215		
LOANS RECEIVABLE - Net of an allowance for doubtful loans of \$177,543			3,916,703	
INVENTORIES	48,518			
PREPAID EXPENSES	68,761			
INVESTMENT IN PLANT	_____	_____	_____	19,355,722
	<u>\$ 4,598,750</u>	<u>\$ 107,843</u>	<u>\$ 4,554,217</u>	<u>\$ 19,636,534</u>
 LIABILITIES AND FUND BALANCES				
ACCOUNTS PAYABLE	\$ 143,246	\$ 4,531		\$ 78,938
ACCRUED LIABILITIES	78,235	14,693		
DEFERRED REVENUE	1,077,037			
COMPENSATED ABSENCES	1,299,236			
FUND BALANCES:				
University funds	2,000,996	88,619		201,874
Loan funds			\$ 4,554,217	
Net investment in plant	_____	_____	_____	19,355,722
	<u>\$ 4,598,750</u>	<u>\$ 107,843</u>	<u>\$ 4,554,217</u>	<u>\$ 19,636,534</u>

See notes to financial statements.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE

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

	Current Funds		Loan Funds	Plant Funds
	Unrestricted	Restricted		
FUND BALANCES, BEGINNING OF YEAR	<u>\$ 2,000,996</u>	<u>\$ 88,619</u>	<u>\$ 4,554,217</u>	<u>\$ 19,557,596</u>
REVENUES AND OTHER ADDITIONS:				
Unrestricted current fund revenue	13,176,991			
Auxiliary enterprise revenue	472,736			
Contracts and grants - restricted:				
Federal		183,221		
State		926,329		600,000
Private		25,808		
U.S. government advances			29,160	
Fees returned by the Commission	289,100			
Investment income	323,661		25,093	
Interest on loans receivable			97,531	
Expended for plant facilities - net of disposals				985,987
Miscellaneous income			<u>2,450</u>	
Total revenues and other additions	<u>14,262,488</u>	<u>1,135,358</u>	<u>154,234</u>	<u>1,585,987</u>
EXPENDITURES AND OTHER DEDUCTIONS:				
Educational and general expenditures	11,718,503	1,125,905		
Auxiliary enterprises expenditures	461,541			
Expended for plant facilities				1,011,875
Administrative and collection fees			<u>58,820</u>	
Total expenditures and other deductions	<u>12,180,044</u>	<u>1,125,905</u>	<u>58,820</u>	<u>1,011,875</u>
TRANSFERS AMONG FUNDS - (DEDUCTIONS) ADDITIONS				
Nonmandatory transfers	<u>(682,653)</u>		<u>174,700</u>	<u>507,953</u>
Total transfers	<u>(682,653)</u>		<u>174,700</u>	<u>507,953</u>
NET INCREASE	<u>1,399,791</u>	<u>9,453</u>	<u>270,114</u>	<u>1,082,065</u>
FUND BALANCES, END OF YEAR	<u>\$ 3,400,787</u>	<u>\$ 98,072</u>	<u>\$ 4,824,331</u>	<u>\$ 20,639,661</u>

See notes to financial statements.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE

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

	Current Funds		Loan Funds	Plant Funds
	Unrestricted	Restricted		
FUND BALANCES, BEGINNING OF YEAR	\$ 1,172,399	\$ 187,304	\$ 4,342,143	\$ 18,503,572
REVENUES AND OTHER ADDITIONS:				
Unrestricted current fund revenue	11,906,088			
Auxiliary enterprise revenue	433,531			
Contracts and grants - restricted:				
Federal		365,100		
State		791,777	152,849	
Private		3,953		
U.S. government advances			29,834	
Fees returned by the University System Board	497,791			
Investment income	185,240		11,163	
Interest on loans receivable			93,473	
Expended for plant facilities - net of disposals				1,017,474
Miscellaneous income			6,314	
Total revenues and other additions	<u>13,022,650</u>	<u>1,160,830</u>	<u>293,633</u>	<u>1,017,474</u>
EXPENDITURES AND OTHER DEDUCTIONS:				
Educational and general expenditures	11,072,885	1,259,515		
Auxiliary enterprises expenditures	400,684			
Expended for plant facilities				683,934
Administrative and collection fees			81,559	
Total expenditures and other deductions	<u>11,473,569</u>	<u>1,259,515</u>	<u>81,559</u>	<u>683,934</u>
TRANSFERS AMONG FUNDS - (DEDUCTIONS) ADDITIONS				
Nonmandatory transfers	(720,484)			720,484
Total transfers	<u>(720,484)</u>			<u>720,484</u>
NET INCREASE (DECREASE)	<u>828,597</u>	<u>(98,685)</u>	<u>212,074</u>	<u>1,054,024</u>
FUND BALANCES, END OF YEAR	<u>\$ 2,000,996</u>	<u>\$ 88,619</u>	<u>\$ 4,554,217</u>	<u>\$ 19,557,596</u>

See notes to financial statements.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE

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

	Unrestricted	Restricted	Total
REVENUES AND OTHER ADDITIONS:			
Tuition and fees	\$ 5,189,255		\$ 5,189,255
State government appropriations	7,641,351	\$ 868,000	8,509,351
State government contracts and grants	150,720	50,441	201,161
Federal government contracts and grants		181,026	181,026
Private gifts, grants and contracts	3,350	26,438	29,788
Auxiliary enterprise revenue	472,736		472,736
Income from investments	323,661		323,661
Other sources	192,315		192,315
Fees returned by the Commission	<u>289,100</u>		<u>289,100</u>
Total revenues and other additions	<u>14,262,488</u>	<u>1,125,905</u>	<u>15,388,393</u>
EXPENDITURES, TRANSFERS AND OTHER CHANGES:			
Educational and general:			
Instruction	5,655,503	58,787	5,714,290
Research	127,725	2,140	129,865
Public service	180,368	915,220	1,095,588
Academic support	912,718	115,908	1,028,626
Student services	762,304		762,304
Operations and maintenance of plant	1,364,617		1,364,617
General institutional support	2,416,329		2,416,329
Scholarships and fellowships	<u>298,939</u>	<u>33,850</u>	<u>332,789</u>
Total educational and general expenditures	<u>11,718,503</u>	<u>1,125,905</u>	<u>12,844,408</u>
Transfers - Nonmandatory transfers	<u>682,653</u>		<u>682,653</u>
Total educational and general expenditures, transfers and other changes	12,401,156	1,125,905	13,527,061
Auxiliary enterprises - Expenditures	<u>461,541</u>		<u>461,547</u>
TOTAL EXPENDITURES, TRANSFERS AND OTHER CHANGES	<u>12,862,697</u>	<u>1,125,905</u>	<u>13,988,602</u>
OTHER RESTRICTED RECEIPTS - Less recognized revenues		<u>9,453</u>	<u>9,453</u>
NET INCREASE IN FUND BALANCE	<u>\$ 1,399,791</u>	<u>\$ 9,453</u>	<u>\$ 1,409,244</u>

See notes to financial statements.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE

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

	Unrestricted	Restricted	Total
REVENUES AND OTHER ADDITIONS:			
Tuition and fees	\$ 4,516,199		\$ 4,516,199
State government appropriations	7,076,194	\$ 859,644	7,935,838
State government contracts and grants	210,416	46,052	256,468
Federal government contracts and grants		349,522	349,522
Private gifts, grants and contracts	30,308	4,297	34,605
Auxiliary enterprise revenue	433,531		433,531
Income from investments	185,240		185,240
Other sources	72,971		72,971
Fees returned by the University System Board	<u>497,791</u>		<u>497,791</u>
 Total revenues and other additions	 <u>13,022,650</u>	 <u>1,259,515</u>	 <u>14,282,165</u>
EXPENDITURES, TRANSFERS AND OTHER CHANGES:			
Educational and general:			
Instruction	5,285,213		5,285,213
Research	93,457	39,514	132,971
Public service	196,405	869,861	1,066,266
Academic support	899,993	276,894	1,176,887
Student services	714,932	22	714,954
Operations and maintenance of plant	1,193,635		1,193,635
General institutional support	2,414,652	2,679	2,417,331
Scholarships and fellowships	<u>274,598</u>	<u>70,545</u>	<u>345,143</u>
 Total educational and general expenditures	 <u>11,072,885</u>	 <u>1,259,515</u>	 <u>12,332,400</u>
 Transfers - Nonmandatory transfers	 <u>720,484</u>		 <u>720,484</u>
 Total educational and general expenditures, transfers and other changes	 11,793,369	 1,259,515	 13,052,884
 Auxiliary enterprises - Expenditures	 <u>400,684</u>		 <u>400,684</u>
 TOTAL EXPENDITURES, TRANSFERS AND OTHER CHANGES	 <u>12,194,053</u>	 <u>1,259,515</u>	 <u>13,453,568</u>
 OTHER RESTRICTED RECEIPTS - Less recognized revenues		 <u>(98,685)</u>	 <u>(98,685)</u>
 NET INCREASE (DECREASE) IN FUND BALANCE	 <u>\$ 828,597</u>	 <u>\$ (98,685)</u>	 <u>\$ 729,912</u>

See notes to financial statements.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE

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

1. ORGANIZATION

The West Virginia School of Osteopathic Medicine (“WVSOM”) was governed by the University of West Virginia System Board of Trustees (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 University System of West Virginia, of which WVSOM 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 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 will be 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 WVSOM have been prepared in accordance with the accounting guidance and reporting practices applicable to 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 *Colleges and University Business Administration*, published by the National Association of College and University Business Officers. WVSOM 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* - WVSOM 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. WVSOM is a separate entity which, along with all State institutions of higher education, the Higher Education Central Office 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 WVSOM. The basic criteria for inclusion in the accompanying financial statements is the exercise of oversight responsibility derived from WVSOM's ability to significantly influence operations and accountability for fiscal matters of related entities. A related foundation, clinic and consortium are not part of the WVSOM reporting entity and are not included in the accompanying financial statements as WVSOM has no ability to designate management, cannot significantly influence operations of the foundation, the clinic, or the consortium and is not accountable for the fiscal matters of the foundation, the clinic, or the consortium.

- b. *Basis of Accounting* - The financial statements of WVSOM 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 library books and movable 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.

- c. *Fund Accounting* - The accounts of WVSOM 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 WVSOM President or the Board. Restricted resources may only be used for the purposes 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 transfer of WVSOM 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, and related indebtedness. Maintenance and repairs are recorded as current fund 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 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 and 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 is allocated to participants in the pools 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. *Inventories* - Inventories are stated at the lower-of-cost or market, cost being determined on the first-in, first-out method.
- f. *Allowance for Doubtful Accounts* - It is WVSOM'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 WVSOM on such balances and such other factors which, in the judgment of management, require consideration in estimating doubtful accounts.
- 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. WVSOM capitalizes all items greater than \$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 tuition and fees.
- i. *Compensated Absences* - WVSOM 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.

WVSOM'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 based upon accumulated, 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. For employees hired after July 2001, the employee pays 100% of the premium.

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, WVSOM 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 current cost experienced by WVSOM for such coverage and estimated the probability of the payment of that benefit to employees upon retirement.

The estimated liability and the payments for vacation leave, sick leave or extended health or life insurance retirement payments are recorded in the current unrestricted fund.

- j. *Risk Management* - The State's Board of Risk and Insurance Management ("BRIM") provides general, property and casualty and medical malpractice liability coverage to WVSOM and its employees. Such coverage may be provided to WVSOM 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 WVSOM or other participants in BRIM's insurance programs. As a result, management does not expect significant differences between the premiums WVSOM is currently charged by BRIM and the ultimate cost of that insurance based on WVSOM's actual loss experience. In the event such differences arise between estimated premiums currently charged by BRIM to WVSOM and WVSOM's ultimate actual loss experience, the difference will be recorded as the change in estimate becomes known.
- k. *Government Grants and Contracts* - Government grants and contracts normally provide for the recovery of direct and indirect costs, subject to audit. WVSOM 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.
- l. *Income Taxes* - WVSOM 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.
- m. *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 expenses during the reporting period. Actual results could differ from those estimates.
- n. *Recent Statements Issued by the Government 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 No. 36, in the year ended June 30, 2001. The effect of the adoption of these statements did not have a material impact on WVSOM'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. WVSOM 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 WVSOM's financial statements.
- o. *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 at June 30, 2001 and 2000 was as follows:

	2001			
	Current Funds		Loan Funds	Plant Funds
	Unrestricted	Restricted		
Cash on deposit with the State Treasurer	\$ 6,050,849	\$ 78,417	\$ 278,086	\$ 701,654
Cash in bank, including interest-bearing accounts	_____	_____	<u>287,611</u>	_____
Total cash and cash equivalents	<u>\$ 6,050,849</u>	<u>\$ 78,417</u>	<u>\$ 565,697</u>	<u>\$ 701,654</u>

	2000			
	Current Funds		Loan Funds	Plant Funds
	Unrestricted	Restricted		
Cash on deposit with the State Treasurer	\$ 4,418,942	\$ 86,628	\$ 303,070	\$ 280,812
Cash in bank, including interest-bearing accounts	_____	_____	<u>272,828</u>	_____
Total cash and cash equivalents	<u>\$ 4,418,942</u>	<u>\$ 86,628</u>	<u>\$ 575,898</u>	<u>\$ 280,812</u>

The combined carrying amount of cash in the bank at June 30, 2001 and 2000 was \$287,611 and \$272,828, respectively, as compared with the combined bank balances of \$226,852 and \$342,180, respectively. The difference is primarily caused by outstanding checks and items in transit. The bank balances were covered by federal depository insurance or were collateralized by securities held by the State's agent.

Cash on deposit with the Treasurer is a non-categorized deposit (with respect to risk and collateral disclosure) in accordance with GASB Statement No. 3.

4. ACCOUNTS RECEIVABLE

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

	2001		2000	
	Unrestricted	Restricted	Unrestricted	Restricted
Grants and contracts		\$ 32,810		\$ 21,215
Interest receivable	\$ 24,149		\$ 41,578	
Due from other state agencies	13,456		10,546	
Other	<u>117,996</u>	_____	<u>10,405</u>	_____
	<u>\$ 155,601</u>	<u>\$ 32,810</u>	<u>\$ 62,529</u>	<u>\$ 21,215</u>

5. INVESTMENT IN PLANT

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

	2001	2000
Land	\$ 473,050	\$ 473,050
Buildings	15,044,781	13,886,608
Equipment	4,136,435	4,016,012
Library books	187,497	296,118
Construction in progress	<u>421,008</u>	<u>683,934</u>
	<u>\$20,262,771</u>	<u>\$19,355,722</u>

6. LEASES

WVSOM leases various equipment under agreements reported as operating leases. As of June 30, 2001, the future annual minimum lease payments are as follows:

2002	\$ 75,873
2003	38,518
2004	22,073
2005	<u>11,628</u>
	<u>\$ 147,092</u>

The total rent expense for this equipment for the years ended June 30, 2001 and 2000 was \$64,490 and \$68,531, respectively.

7. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

WVSOM receives a State appropriation to finance a portion of its operations. In addition, it is subject to the legislative and administrative mandates of State government. Those mandates affect all aspects of WVSOM'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 colleges and universities, including certain facilities of WVSOM. Financing for these facilities was provided through revenue bonds issued by the former Board of Regents or the former Boards of the State College System of West Virginia and the University System of West Virginia (the "Boards"). These obligations were the direct and total responsibility of these Boards and the current Commission and the State.

Students of the State's universities and colleges, including students of WVSOM, 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. To the extent that tuition charges and fees so remitted to 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 former 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 amount of tuition and fees remitted by WVSOM to the Commission or the former University System Board and the amounts remitted or due back from the Commission or the former University System Board to WVSOM 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 WVSOM to the Commission	\$ 196,900	\$ 313,206
Amounts remitted or due back from the Commission Board to the WVSOM for plant renewal and maintenance purposes and medical education loan funds	<u>486,000</u>	<u>810,997</u>
Net tuition and fees returned from the Commission	<u>\$ 289,100</u>	<u>\$ 497,791</u>

The tuition and fees earned by WVSOM from its students and the net amount returned from the Commission are recorded as unrestricted current fund revenues of WVSOM.

Plant Renewal and Capital Improvement funds remitted or due back from the Commission to WVSOM are transferred to the plant fund for future plant fund purposes (i.e., plant additions and debt retirement). Medical Education loan funds remitted to or due back from the Commission are transferred to the loan fund to make monies available to issue new student loans.

The Commission's debt information cannot be extracted so as to present WVSOM'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 WVSOM students, or that the net amount retained by the Commission's, bears any relationship to WVSOM's portion of the Commission's debt service.

8. RETIREMENT PLANS

Substantially all full-time employees of WVSOM 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 WVSOM 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. WVSOM accrued and paid its contribution to the STRS at the rate of 15% of each enrolled employee's total annual salary for the years ended June 30, 2001 and 2000. 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. Annual 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 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. WVSOM matches the employees' 6% contribution. Contributions are immediately and fully vested.

Total contributions to the STRS for the year ended June 30, 2001 were \$56,540, which consisted of \$40,386 from WVSOM and \$16,154 from the covered employees. Total contributions to STRS for the year ended June 30, 2000 were \$51,450, which consisted of \$36,750 from WVSOM and \$14,700 from covered employees.

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 WVSOM. 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, West Virginia 25305.

Total contributions to the TIAA-CREF for the years ended June 30, 2001, 2000 and 1999 were \$753,761, \$709,380 and \$696,856, respectively, which consisted of equal contributions from WVSOM of \$376,880, \$354,690 and \$348,428 in 2001, 2000 and 1999, respectively.

WVSOM's total benefits-eligible payroll for the year ended June 30, 2001 was \$6,577,620; total covered employees' salaries in the STRS and TIAA-CREF were \$269,240 and \$6,308,380, respectively, total benefits-eligible payroll for the year ended June 30, 2000 was \$6,175,367 total covered employees' salaries in the STRS and TIAA-CREF were \$244,997 and \$5,930,370, respectively. Total benefits eligible payroll for the year ended June 30, 1999 was \$6,041,622; total covered employees' salaries in the STRS and TIAA-CREF were \$233,479 and \$5,808,143, respectively.

9. COMPENSATED ABSENCES

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

	2001	2000
Accrued health or life insurance benefits	\$ 624,269	\$ 737,906
Accrued vacation leave	<u>607,788</u>	<u>561,330</u>
	<u>\$ 1,232,057</u>	<u>\$ 1,299,236</u>

For the years ended June 30, 2001 and 2000, the amount paid by WVSOM for extended health or life insurance coverage retirement benefits totaled \$7,215 and \$8,382, respectively. As of June 30, 2001 and 2000, there were seven and nine retirees eligible for these benefits at June 30, 2001 and 2000, respectively.

10. RELATED PARTIES (UNAUDITED)

The West Virginia School of Osteopathic Medicine Foundation, Incorporated (the "Foundation") is a separate nonprofit organization incorporated in the State of West Virginia. Oversight of the Foundation is the responsibility of an independently elected Board of Directors, not otherwise affiliated with WVSOM. 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 restricted and unrestricted fund balances totaled \$1,527,161 and \$1,123,000 at June 30, 2001 and 2000, respectively. The restricted fund balance includes amounts which are restricted by donors to use for specific projects or departments of WVSOM and its affiliated organizations. The restricted and unrestricted fund balances related to the endowments totaled \$178,200 and \$172,228 for the years ended June 30, 2001 and 2000, respectively. Foundation gifts, grants, pledges and bequests totaled \$1,238,394 and \$601,025 for the years ended June 30, 2001 and 2000, respectively. The separate financial statements of the Foundation may be obtained by writing to 400 North Lee Street, Lewisburg, WV 24901.

The West Virginia School of Osteopathic Medicine Robert C. Bird Clinic, Inc. (the "Clinic") operates a health center located in Lewisburg, West Virginia. The Clinic, opened in January of 1997, was established to provide health care to the community and to serve as a laboratory for the students of WVSOM. Although the Clinic was created for the purpose of assisting WVSOM in achieving its missions, it is a separate nonprofit organization incorporated in the State of West Virginia. Oversight of the Clinic is the responsibility of an independently elected Board of Directors, not otherwise affiliated with WVSOM. The Board of Directors employs management, forms policy and maintains fiscal accountability over the financial affairs of the Clinic. Accordingly, the financial statements of the Clinic are not included in the accompanying financial statements.

WVSOM owns the building in which the Clinic is operated and the cost of the building is recognized in WVSOM's financial statements. WVSOM has an operating lease with the clinic in which it charges the Clinic \$1 each month for rental of the office space and certain furniture and equipment.

In addition, WVSOM and the Clinic have agreements whereby WVSOM pays the Clinic for medical education services for students of WVSOM, certain office expenses and equipment rentals, and health services for students enrolled at WVSOM. For the years ended June 30, 2001 and 2000, the amount paid by WVSOM for instruction, office expenses and equipment rental totaled \$200,000 in each year. WVSOM made payments totaling \$25,000 in each of the years ended June 30, 2001 and 2000 to the Clinic for providing health services to WVSOM students. The financial statements of the Clinic are not publicly available.

The Mountain State Osteopathic Postdoctoral Training Institutions System, Inc. ("MSOPTI") is a consortium formed in 1998 through affiliation agreements between WVSOM and partner hospitals in the States of West Virginia, Virginia, and Ohio which provides post graduate clinical training to osteopathic interns and residents. The affiliation agreements with MSOPTI are renewed annually through contracts executed between each hospital, WVSOM and MSOPTI.

Although MSOPTI is a consortium created for the purpose of assisting WVSOM in achieving its missions, it is a separate non-profit organization incorporated in the State of West Virginia. Oversight of MSOPTI is the responsibility of a Board of Directors, as specified in the MSOPTI bylaws which is made up of three members from WVSOM and one member from each of the eight partner hospitals. In carrying out its responsibilities, the Board of Directors of MSOPTI employs management, forms policy and maintains fiscal accountability over funds administered by MSOPTI. Accordingly, the financial statements of MSOPTI are not included in the accompanying financial statements. For each of the years ended June 30, 2001 and 2000, WVSOM contributed \$45,000 and \$50,000 to MSOPTI, respectively. In addition, WVSOM incurred \$99,624 and \$92,000 of personnel costs on MSOPTI's behalf and was reimbursed for these costs in the years ended June 30, 2001 and 2000, respectively. The separate financial statements of MSOPTI are not publicly available.

11. CONTINGENCIES

The nature of the educational industry is such that, from time to time, claims will be presented against educational institutions 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 WVSOM would not impact seriously on the financial status of the institution.

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

WVSOM owns various buildings which are known to contain asbestos. WVSOM is not required by federal, state or local law to remove the asbestos from its buildings. WVSOM is required under federal environmental, health and safety regulations to manage the presence of asbestos in its buildings in a safe condition. WVSOM 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 conditions become known. WVSOM 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.

12. NONMANDATORY TRANSFERS

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

Unrestricted Fund to Loan Fund - Transfer of fees returned by the Commission to provide funding for medical education student loans	\$ 174,700
Unrestricted Fund to Plant Fund: Transfer of fees returned by the Commission to provide funding for building renewal and capital improvements	308,100
Transfer of student tuition and fees to provide for building renewal and capital improvements	<u>199,853</u>
	<u>\$ 682,653</u>

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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 School of
Osteopathic Medicine Governing Board:

We have audited the financial statements of The West Virginia School of Osteopathic Medicine 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 West Virginia School of Osteopathic Medicine'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 West Virginia School of Osteopathic Medicine'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 West Virginia School of Osteopathic Medicine, in a separate letter dated October 5, 2001.

This report is intended solely for the information of the West Virginia School of Osteopathic Medicine Governing Board and managements of the West Virginia School of Osteopathic Medicine and the West Virginia Higher Education Policy Commission, federal awarding agencies, state funding 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