

***WEST VIRGINIA HIGHER EDUCATION  
POLICY COMMISSION  
(Formerly the Central Office for the State  
College and University Systems of West  
Virginia)***

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

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION  
(Formerly the Central Office for the State College and  
University Systems of West Virginia)**

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## INDEPENDENT AUDITORS' REPORT

To the West Virginia Higher Education  
Policy Commission:

We have audited the accompanying financial statements of the West Virginia Higher Education Policy Commission (formerly the Central Office for the State College and University Systems of West Virginia) (the "Commission") as of June 30, 2001 and for the year then ended, listed in the foregoing Table of Contents. These financial statements are the responsibility of the management of the Commission. Our responsibility is to express an opinion on these financial statements based on our audit.

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. 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 audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Commission at June 30, 2001 and the changes in its fund balances and its current funds revenues, expenditures, transfers, and other changes for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14, the Commission's fund balances as of July 1, 2000 have been restated.

In accordance with *Government Auditing Standards*, we have issued a report dated November 14, 2001, on our consideration of the Commission'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

November 14, 2001

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION**  
**(Formerly the Central Office for the State College and**  
**University Systems of West Virginia)**

**BALANCE SHEET**  
**JUNE 30, 2001**

	<b>Current Funds</b>		<b>Plant</b>
	<b>Unrestricted</b>	<b>Restricted</b>	<b>Funds</b>
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 3,578,643	\$ 2,689,603	\$ 10,297,661
Investments			61,906,803
Interest receivable	531,195	10,023	755,032
Accounts receivable - students, net of allowance for doubtful accounts of \$180,000	300,013		
Due from higher education institutions	16,200	49,448	115,730
Due from WVUIT			2,766,039
Due from Federal Government		23,294	
Due from Primary Government	961,395		
Investment in plant			944,597
	<u>\$ 5,387,446</u>	<u>\$ 2,772,368</u>	<u>\$ 76,785,862</u>
 <b>LIABILITIES AND FUND</b>			
<b>BALANCES (DEFICITS):</b>			
Accounts payable	\$ 129,662	\$ 63,868	\$ 438
Accrued liabilities	38,054	413,752	5,228
Due to higher education institutions	361,769	76,467	1,409,156
Due to Federal Government		19,433	
Due to Primary Government	37,435	2,290	
Compensated absences	679,656		
Interest payable	503,540	1,378	4,996,471
Bonds payable			231,640,868
Funds balance (deficit):			
System funds	3,637,330	2,195,180	69,429,972
Net investment in plant			(230,696,271)
	<u>\$ 5,387,446</u>	<u>\$ 2,772,368</u>	<u>\$ 76,785,862</u>

See notes to financial statements.

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION**  
**(Formerly the Central Office for the State College and**  
**University Systems of West Virginia)**

**STATEMENT OF CHANGES IN FUND BALANCES (DEFICITS)**  
**YEAR ENDED JUNE 30, 2001**

	<u>Current Funds</u>		<b>Plant Funds</b>
	<u>Unrestricted</u>	<u>Restricted</u>	
FUND BALANCES (DEFICITS), BEGINNING OF YEAR, AS RESTATED (See Note 14)	\$ 4,825,141	\$ 2,063,403	\$ (144,077,563)
REVENUES AND OTHER ADDITIONS:			
Unrestricted current fund revenues	3,578,830		
Contracts and grants - restricted		4,342,855	
Net fees received from higher education institutions	2,855,574		20,978,746
WVUIT interest payment			211,631
Other sources - lottery surplus	21,895,371	287,716	60,848
Income from investments	176,669	224,879	6,114,301
Retirement of indebtedness			9,350,000
Expended for plant facilities			<u>142,135</u>
Total revenues and other additions	<u>28,506,444</u>	<u>4,855,450</u>	<u>36,857,661</u>
EXPENDITURES AND OTHER DEDUCTIONS:			
Educational and general expenditures	21,587,433	4,350,771	
Allocations to higher education institutions	6,306,822	2,172,902	
Retirement of indebtedness			9,350,000
Interest on indebtedness			13,494,800
Expended for plant facilities			<u>31,201,597</u>
Total expenditures and other deductions	<u>27,894,255</u>	<u>6,523,673</u>	<u>54,046,397</u>
TRANSFERS AMONG FUNDS - ADDITIONS (DEDUCTIONS) -			
Nonmandatory transfers	<u>(1,800,000)</u>	<u>1,800,000</u>	
Total transfers	<u>(1,800,000)</u>	<u>1,800,000</u>	
NET (DECREASE) INCREASE	<u>(1,187,811)</u>	<u>131,777</u>	<u>(17,188,736)</u>
FUND BALANCES (DEFICITS), END OF YEAR	<u>\$ 3,637,330</u>	<u>\$ 2,195,180</u>	<u>\$ (161,266,299)</u>

See notes to financial statements.

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION**  
**(Formerly the Central Office for the State College and**  
**University Systems of West Virginia)**

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

	<u>Current Funds</u>		Total
	Unrestricted	Restricted	
REVENUES:			
Government appropriations - State	\$ 3,578,830		\$ 3,578,830
Government contracts and grants:			
Federal		\$ 1,354,225	1,354,225
State		2,376,124	2,376,124
Income from investments	176,669	332,706	509,375
Net fees received from higher education institutions	2,855,574		2,855,574
Other sources - lottery surplus	<u>21,895,371</u>	<u>287,716</u>	<u>22,183,087</u>
<b>TOTAL REVENUES</b>	<u>28,506,444</u>	<u>4,350,771</u>	<u>32,857,215</u>
EXPENDITURES, TRANSFERS AND OTHER CHANGES:			
Educational and general:			
General institutional support	5,040,896	1,891,144	6,932,040
Scholarships and fellowships	<u>16,546,537</u>	<u>2,459,627</u>	<u>19,006,164</u>
Total educational and general expenditures	<u>21,587,433</u>	<u>4,350,771</u>	<u>25,938,204</u>
Transfers and other deductions (additions):			
Nonmandatory transfers	1,800,000	(1,800,000)	
Allocations to higher education institutions	<u>6,306,822</u>	<u>2,172,902</u>	<u>8,479,724</u>
Total transfers and other deductions	<u>8,106,822</u>	<u>372,902</u>	<u>8,479,724</u>
<b>TOTAL EXPENDITURES, TRANSFERS AND OTHER CHANGES</b>	29,694,255	4,723,673	34,417,928
OTHER RESTRICTED RECEIPTS - Less recognized revenues		<u>504,679</u>	<u>504,679</u>
<b>NET (DECREASE) INCREASE</b>	<u>\$ (1,187,811)</u>	<u>\$ 131,777</u>	<u>\$ (1,056,034)</u>

See notes to financial statements.

# **WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION (Formerly the Central Office for the State College and University Systems of West Virginia)**

## **NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2001**

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### **1. ORGANIZATION**

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 created a transition year board, the West Virginia Higher Education Interim Governing Board (the "Interim Governing Board") which replaced the Board of Trustees of the State University System of West Virginia and the Board of Directors of the State College System of West Virginia (the "former College and University System Boards") effective June 30, 2000. The Interim Governing Board was granted all powers, duties, and authorities of the former College and University System Boards and was transferred each valid agreement and obligation previously transferred to or vested in the former College and University System Boards. The Interim Governing Board was 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 is responsible for developing, gaining consensus around and overseeing the implementation and development of a higher education public policy agenda. The Commission replaced the Central Office for the State College and University Systems of West Virginia.

Effective July 1, 2001, certain powers of the Interim Governing Board were transferred to thirteen newly created Governing Boards (the "Governing Boards") at each institution within the West Virginia higher education system.

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 the institution(s).

Thirteen institutions of higher education, the Commission and the West Virginia Network for Educational Telecomputing comprise the West Virginia Higher Education Fund. The West Virginia Higher Education Fund is a discretely presented component unit of the State of West Virginia.

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Commission have been prepared in accordance with the accounting guidance and reporting practices applicable to public colleges and universities, as outlined in the accounting pronouncements issued by the Governmental Accounting Standards Board ("GASB"), the American Institute of Certified Public Accountants Industry Audit Guide, *Audits of Colleges and Universities*, and the *College and University Business Administration*, published by the National Association of College and University Business Officers. The Commission 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. *Basis of Accounting* - The financial statements of the Commission 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 moveable equipment; (2) mandatory transfers, in the case of required provisions for debt amortization and interest, and equipment renewal and replacement; and (3) transfers of a nonmandatory nature for all other cases.

- b. *Fund Accounting* - The accounts of the Commission 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 former College and University System Boards, the Interim Governing Board 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.

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.

- c. *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 of West Virginia 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 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.
- d. *Investments* - The Commission's investments in the plant funds are on deposit with the Municipal Bond Commission or with external financial institutions. These funds primarily represent unexpended proceeds of bond issuances, and are restricted to expenditures for capital improvements and bond related costs. Funds on deposit with external financial institutions are invested in repurchase obligations. These funds are classified as investments due to the restrictions on expenditure, but are available for immediate withdrawal. Investments are recorded at fair value.



- e. *Allowance for Doubtful Accounts* - It is the Commission's policy to provide for future losses on uncollectible accounts receivable based on an evaluation of the underlying account balances, the historical collectibility experienced by the Commission on such balances and such other factors which, in the judgment of management, require consideration in estimating doubtful accounts.
- f. *Property, Plant and Equipment* - Property, plant and equipment 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 generally accepted accounting principles for public colleges and universities, depreciation on plant assets is not recorded. The Commission capitalizes items over \$1,000.
- g. *Compensated Absences* - The Commission 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 Commission's full-time employees earn up to two vacation leave days for each month of service and are entitled to compensation for accumulated, unpaid vacation leave upon termination. Full-time employees also earn 1-1/2 sick leave days for each month of service and are entitled to extend their health or life insurance coverage upon retirement in lieu of accumulated, unpaid sick leave. Generally, two days of accrued sick leave extends health insurance for one month of single coverage and three days extends health insurance for one month of family coverage. (For employees hired after 1988, the employee shares in the cost of the extended benefit coverage to the extent of 50% of the premium required for the extended coverage).

The estimate of the liability for the extended health or life insurance benefits has been calculated using the vesting method in accordance with the provisions of GASB Statement No. 16. Under that method, the Commission 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 Commission 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 is recorded within the Commission's current funds.

- h. *Government Grants and Contracts* - Government grants and contracts normally provide for the recovery of direct and indirect costs, subject to audit. The Commission 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.
- i. *Income Taxes* - The Commission 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.
- j. *Use of Estimates* - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

- k. *Recent Statements Issued by the Governmental Accounting Standards Board* - The Commission adopted GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions," as amended by GASB No. 36, during the year ended June 30, 2001. The effect of the adoption of this statement did not have a material impact on the Commission'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 Commission 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 Commission's financial statements.

### 3. CASH AND CASH EQUIVALENTS

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

	<b>2001</b>		
	<b>Current Funds</b>		<b>Plant Funds</b>
	<b>Unrestricted</b>	<b>Restricted</b>	
Cash on deposit with the Treasurer	<u>\$ 3,578,643</u>	<u>\$ 2,689,603</u>	<u>\$ 10,297,661</u>

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

### 4. INVESTMENTS

The composition of investments was as follows at June 30, 2001:

Money Market Funds	\$ 696,523
Repurchase Obligations	<u>61,210,280</u>
	<u>\$61,906,803</u>

All investments are stated at fair value, which agrees to carrying value. Investments in repurchase obligations provide for guaranteed rates of return ranging from 5.4% to 6.7%.

### 5. DUE FROM WEST VIRGINIA UNIVERSITY INSTITUTE OF TECHNOLOGY

The West Virginia University Institute of Technology ("WVUIT") transferred from the former State College System to the former University System, effective July 1, 1996, in accordance with the provisions of Senate Bill No. 591. In accordance with Senate Bill No. 591, WVUIT is required to make an annual payment of \$373,089 through 2012 for purposes of the former State College System's debt service.

Such payments remaining outstanding as of June 30, 2001 have been accrued at their net present value, utilizing a discount rate of 7%, and are classified in the balance sheet as amounts due from WVUIT and in the statement of changes in fund balances as retirement of indebtedness.

**6. INVESTMENT IN PLANT**

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

Equipment	<u>\$ 944,597</u>
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**7. COMPENSATED ABSENCES LIABILITY**

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

Health and life insurance	\$ 316,114
Accrued vacation liability	<u>363,542</u>
	<u>\$ 679,656</u>

For the year ended June 30, 2001, the amount paid by the Commission for extended health or life insurance coverage retirement benefits totaled \$15,471. As of June 30, 2001, there were seven employees eligible for these benefits and five retirees currently receiving these benefits.

**8. BONDS PAYABLE**

The State chartered the former University System of West Virginia and the former State College System of West Virginia with the responsibility to construct or renovate, finance and maintain various academic and other facilities of the State's higher education institutions. Financing for these facilities was provided through revenue bonds issued by the former State Board of Regents, the former College and University System Boards, the Interim Governing Board or the Commission.

Students of the State's higher education institutions are assessed certain tuition charges and fees which in past years were remitted by the institutions to the Commission. The tuition charges and fees are used 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 collected by the Commission exceeded debt service obligations, the Commission remitted funds back to the institutions for renewal and replacement or maintenance and repair of the facilities so financed.

On October 29, 1999, University System of West Virginia Administrative Bulletin 37 was approved to provide a more efficient and manageable process for assignment of responsibility by institution for payment of capital fund obligations. In addition Administrative Bulletin 37 simplified the process used for retention of the tuition and registration fee collections by the institutions. The institutions were instructed to retain tuition and registration fee revenue collections, remitting only the required amounts to the Commission as scheduled.

Bonds payable consisted of the following principal amounts outstanding at June 30, 2001:

	Interest Rate	Annual Principal Installment Due	Amount Outstanding
Series 1992 University System Bonds, due through 2012	6 %	\$4,765,000 to \$8,450,000	\$ 70,755,000
Series 1996 University System Bonds, due through 2016	5.75 %	\$570,000 to \$1,185,000	12,515,000
Series 1997 University System Bonds, due through 2027	5.25 %	\$235,000 to \$795,000	11,880,000
Series 1998 University System Bonds, due through 2028	5.25 %	\$980,000 to \$3,625,000	54,085,000
Series 2000A University System Bonds, due through 2031	6.26 %	\$3,264,000 to \$1,019,000	36,590,868
Series 2000B University System Bonds, due through 2025	5.96 %	\$190,000 to \$670,000	9,075,000
Series 1992 College System Bonds, due through 2012	6 %	\$2,780,000 to \$1,415,000	27,400,000
Series 1997 College System Bonds, due through 2027	5.25 %	\$190,000 to \$625,000	<u>9,340,000</u>
			<u><u>\$ 231,640,868</u></u>

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

Year Ending June 30,	
2002	\$ 9,710,000
2003	10,215,000
2004	10,745,000
2005	10,250,000
2006	10,785,000
Thereafter	<u>179,935,868</u>
	<u><u>\$ 231,640,868</u></u>

The higher education institution's tuition and fees generally are pledged as collateral for the Commission's bond indebtedness.

## **9. PLANT FUND DEFICIT**

Bond obligations issued by the former State Board of Regents, the former College and University System Boards, the Interim Governing Board or the Commission have been recorded within the Commission's financial statements. Proceeds from these bond obligations were utilized to construct, renovate or maintain facilities which have been recorded by the institutions of higher education. Principal and interest payments on the bond obligations are made from tuition and fees collected by the institutions of higher education which are remitted to the Commission. The Commission believes that amounts to be received from institutions of higher education in future years will be sufficient to repay all outstanding indebtedness.

## **10. RETIREMENT PLANS**

Substantially all full-time employees of the Commission 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 the Commission's 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 Commission accrued and paid its contribution to the STRS at a rate of 15% of each enrolled employee's total annual salary for the year ended June 30, 2001. Required employee contributions were at the rate of 6% of total annual salary in 2001. 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 Commission matches the employees' 6% contribution. Contributions are immediately and fully vested.

Total contributions to the STRS for the year ended June 30, 2001 were \$82,030, which consisted of \$58,593 from the Commission and \$23,437 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 the Commission. 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 year ended June 30, 2001 were \$300,058, which consisted of \$150,029, from the Commission and \$150,029, from covered employees.

The Commission's total payroll for the year ended June 30, 2001 was \$2,930,970; total covered employees' salaries in the STRS and TIAA-CREF were \$390,621 and \$2,500,485, respectively.

#### **11. ALLOCATIONS TO HIGHER EDUCATION INSTITUTIONS**

In fiscal 1999, the State Legislature passed a bill to create the Eastern West Virginia Community and Technical College ("Eastern") to be located in Hardy County, West Virginia. \$2,000,000 was received from the State Legislature in the fiscal 1999 to establish, operate and maintain Eastern. During fiscal 2000 a budget bill was passed reorganizing Eastern as its own entity. In fiscal 2000, approximately \$1,006,000 of appropriations were spent for planning and development work related to Eastern. The residual balance of government appropriations remaining to be distributed at June 30, 2000, amounting to approximately \$875,000, were transferred from the Commission's unrestricted funds to Eastern during 2001.

During fiscal 2001, the Commission provided approximately \$5,432,000 of lottery education funds from the unrestricted fund and approximately \$2,173,000 of Job Partnership Training Act and other federal award program funds from the restricted fund to the higher education institutions.

#### **12. NONMANDATORY TRANSFERS**

During the year ended June 30, 2001, the Commission had a nonmandatory transfer from the unrestricted fund to the restricted fund in the amount of \$1,800,000. The purpose of the transfer was to designate funds received for restricted grant purposes.

#### **13. CONTINGENCIES**

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

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

**14. RESTATEMENT**

Subsequent to the issuance of the Commission’s 2000 financial statements, management determined that certain amounts had not been properly recorded. As a result, the Commission’s fund balances (deficits) as of July 1, 2000 have been restated from the amounts previously reported:

	<b>Unrestricted Fund</b>	<b>Restricted Fund</b>	<b>Plant Funds</b>
Fund Balance (Deficit), Beginning of Year, as previously reported	\$ 5,520,142	\$ 2,362,521	\$ (142,054,028)
Prior Period Adjustments:			
Interest Receivable			813,493
Interest Payable			(2,837,028)
Accrued Liabilities		(299,118)	
Lottery Education Funds	<u>(695,001)</u>	<u>                    </u>	<u>                    </u>
Total Prior Period Adjustments	<u>(695,001)</u>	<u>(299,118)</u>	<u>(2,023,535)</u>
Fund Balance (Deficit), Beginning of Year, as restated	<u>\$ 4,825,141</u>	<u>\$ 2,063,403</u>	<u>\$ (144,077,563)</u>

Had the restatement been reflected in the Statement of Changes in Fund Balances for the year ended June 30, 2000, the Net Increase in Unrestricted Fund Balance would have decreased \$695,001, the Net Increase in Restricted Fund Balance would have decreased \$44,279 and the Net Decrease in Plant Fund Balance would have decreased \$284,022.

\* \* \* \* \*

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

To the West Virginia Higher Education  
Policy Commission:

We have audited the financial statements of the West Virginia Higher Education Policy Commission (the "Commission") as of and for the year ended June 30, 2001, and have issued our report thereon dated November 14, 2001 (which expresses an unqualified opinion and includes an explanatory paragraph relating to the restatement of the Commission's beginning fund balances (deficits)). 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 Commission'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 Commission'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 Commission's 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 Commission in a separate letter dated November 14, 2001.



This report is intended solely for the information and use of the West Virginia Higher Education Policy Commission, management of the 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

November 14, 2001