

***WEST VIRGINIA HIGHER EDUCATION FUND***

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

# WEST VIRGINIA HIGHER EDUCATION FUND

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## **INDEPENDENT AUDITORS' REPORT**

To the West Virginia Higher Education Policy Commission:

We have audited the accompanying combined balance sheet of the West Virginia Higher Education Fund (the "Fund") as of June 30, 2001, and the related combined statements of changes in fund balances and current funds revenues, expenditures, transfers and other changes for the year then ended. These combined financial statements are the responsibility of the management of the Fund. Our responsibility is to express an opinion on these combined financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined 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 combined financial statements present fairly, in all material respects, the combined financial position of the Fund at June 30, 2001, its changes in fund balance and the 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.

DELOITTE & TOUCHE LLP

November 14, 2001

# WEST VIRGINIA HIGHER EDUCATION FUND

## COMBINED BALANCE SHEET

JUNE 30, 2001

(Dollars in Thousands)

	Current Funds		Loan Funds	Endowment and Similar Funds	Plant Funds
	Unrestricted	Restricted			
<b>ASSETS:</b>					
Cash and cash equivalents	\$ 148,443	\$ 9,935	\$ 7,101	\$ 154	\$ 92,243
Investments	4,807	535	130	3,167	61,907
Accounts receivable - net of allowance for doubtful accounts of \$4,289	6,804	3,118		1	800
Grants and contracts receivable - net of allowance for doubtful accounts of \$1,312	1,114	23,814			76
Loans receivable - net of allowance for doubtful accounts of \$7,563			50,801		
Due from other funds	12,989		4		21
Due from State agencies	121	403			333
Due from primary government	3,555				3,742
Inventories	4,700				
Prepaid expenses	302	2			221
Other assets	70				2,187
Net investment in lease					1,050
Investment in plant					1,475,674
	<u>\$ 182,905</u>	<u>\$ 37,807</u>	<u>\$ 58,036</u>	<u>\$ 3,322</u>	<u>\$ 1,638,254</u>
<b>LIABILITIES AND FUND BALANCES:</b>					
Accounts payable	\$ 19,109	\$ 5,554		\$ 79	\$ 17,709
Accrued liabilities	14,564	1,518	\$ 25		910
Deposits	1,571				
Deferred revenue	10,719	164			
Due to other funds		13,012		2	
Due to primary government		136			
Due to Federal government		26			
Compensated absences	73,658	638			
Capital lease obligations					21,899
Bonds payable					353,025
Interest payable		2			5,001
Note payable					3,335
Fund balances:					
Higher Education Fund funds	63,284	16,757		3,241	138,960
Loan funds			58,011		
Net investment in plant					1,097,415
	<u>\$ 182,905</u>	<u>\$ 37,807</u>	<u>\$ 58,036</u>	<u>\$ 3,322</u>	<u>\$ 1,638,254</u>

See notes to combined financial statements.

# WEST VIRGINIA HIGHER EDUCATION FUND

## COMBINED STATEMENT OF CHANGES IN FUND BALANCES

YEAR ENDED JUNE 30, 2001

(Dollars in Thousands)

	Current Funds		Loan Funds	Endowment and Similar Funds	Plant Funds
	Unrestricted	Restricted			
FUND BALANCES, BEGINNING OF YEAR	\$ 63,285	\$ 13,334	\$ 56,306	\$ 3,499	\$ 1,181,980
REVENUES AND OTHER ADDITIONS:					
Unrestricted current fund revenues	705,896				
Auxilliary enterprise revenues	113,418				893
Contracts and grants - restricted:					
Federal		271,984	197		90
State		43,651			1,455
Local		1,661			70
Private		28,683	115		
Government appropriations - restricted:					
Federal		9,855			
Local		586			
U.S. government advances			607		
Investment income		794	337	4	8,415
Interest on loans receivable			1,087		
Expended for plant facilities - net of disposals					103,390
Retirement of indebtedness					14,738
Miscellaneous income		2,067	212		2,385
Total revenues and other additions	<u>819,314</u>	<u>359,281</u>	<u>2,555</u>	<u>4</u>	<u>131,436</u>
EXPENDITURES AND OTHER DEDUCTIONS:					
Educational and general expenditures	652,206	340,111	56	52	382
Indirect costs recovered		14,035			
Auxilliary enterprise expenditures	117,391	948			18
Loan cancellations and write-offs			1,808		
Expended for plant facilities					88,677
Disposal and write-off of plant facilities					2,157
Retirement of indebtedness					14,738
Interest on indebtedness					19,013
Administrative and collection fees			94		92
Loss of investments				210	
Refunds to grantors		811			
Miscellaneous expenditures			15		512
Total expenditures and other deductions	<u>769,597</u>	<u>355,905</u>	<u>1,973</u>	<u>262</u>	<u>125,589</u>
TRANSFERS AMONG FUNDS - ADDITIONS (DEDUCTIONS):					
Mandatory transfers - plant activity	(27,853)	(191)			28,044
Mandatory transfers - federal programs	(515)	511	4		
Mandatory transfers - other	(520)	436	84		
Nonmandatory transfers	<u>(20,830)</u>	<u>(709)</u>	<u>1,035</u>		<u>20,504</u>
Total transfers	<u>(49,718)</u>	<u>47</u>	<u>1,123</u>		<u>48,548</u>
NET (DECREASE) INCREASE	<u>(1)</u>	<u>3,423</u>	<u>1,705</u>	<u>(258)</u>	<u>54,395</u>
FUND BALANCES, END OF YEAR	<u>\$ 63,284</u>	<u>\$ 16,757</u>	<u>\$ 58,011</u>	<u>\$ 3,241</u>	<u>\$ 1,236,375</u>

See notes to combined financial statements.

# WEST VIRGINIA HIGHER EDUCATION FUND

## COMBINED STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, TRANSFERS AND OTHER CHANGES YEAR ENDED JUNE 30, 2001 (Dollars in Thousands)

	Unrestricted	Restricted	Total
REVENUES:			
Tuition and fees	\$ 226.263		\$ 226.263
Government appropriations:			
Federal		\$ 8.834	8.834
State	390.540	868	391.408
Local		503	503
Government contracts and grants:			
Federal	11.666	261.917	273.583
State	11.093	38.260	49.353
Local	1.124	508	1.632
Private gifts, grants and contracts	4.969	24.866	29.835
Income from investments	8.299	718	9.017
Auxiliary enterprise revenues	113.418		113.418
Other sources	<u>51.942</u>	<u>4,585</u>	<u>56,527</u>
<b>TOTAL REVENUES</b>	<u><b>819,314</b></u>	<u><b>341,059</b></u>	<u><b>1,160,373</b></u>
EXPENDITURES, TRANSFERS AND OTHER CHANGES:			
Educational and general:			
Instruction	268.121	19.355	287.476
Research	30.643	52.577	83.220
Public service	26.439	43.479	69.918
Academic support	64.445	2.304	66.749
Student services	46.835	3.101	49.936
Operations and maintenance of plant	65.495	1.532	67.027
General institutional support	102.279	8.102	110.381
Scholarships and fellowships	<u>47.949</u>	<u>209.661</u>	<u>257,610</u>
Total educational and general expenditures	<u>652,206</u>	<u>340,111</u>	<u>992,317</u>
Transfers and other deductions (additions):			
Mandatory transfers - plant activity	24.871	191	25.062
Mandatory transfers - federal programs	515	(511)	4
Mandatory transfers - other	520	(436)	84
Nonmandatory transfers	18.733	709	19.442
Refunds to grantors	<u>          </u>	<u>811</u>	<u>811</u>
Total transfers and other deductions	<u>44,639</u>	<u>764</u>	<u>45,403</u>
Total educational and general, transfers and other deductions	<u>696,845</u>	<u>340,875</u>	<u>1,037,720</u>
Auxiliary enterprises:			
Expenditures	117.391	948	118.339
Mandatory transfers - principal and interest	2.982		2.982
Nonmandatory transfers	<u>2,097</u>		<u>2,097</u>
Total auxiliary enterprises	<u>122,470</u>	<u>948</u>	<u>123,418</u>
<b>TOTAL EXPENDITURES, TRANSFERS AND OTHER CHANGES</b>	<u><b>819,315</b></u>	<u><b>341,823</b></u>	<u><b>1,161,138</b></u>
OTHER RESTRICTED RECEIPTS - Less recognized revenues		<u>4,187</u>	<u>4,187</u>
<b>NET (DECREASE) INCREASE</b>	<u><b>\$ (1)</b></u>	<u><b>\$ 3,423</b></u>	<u><b>\$ 3,422</b></u>

See notes to combined financial statements.

# WEST VIRGINIA HIGHER EDUCATION FUND

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

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### 1. ORGANIZATION

The West Virginia Higher Education Fund (the “Fund”) is comprised of the following:

- Bluefield College
- Concord College
- Eastern West Virginia Community and Technical College
- Fairmont College
- Glenville College
- Marshall University
- Shepherd College
- Southern Community and Technical College
- West Liberty College
- West Virginia Higher Education Policy Commission
- West Virginia Network for Educational Telecomputing
- West Virginia Northern Community and Technical College
- West Virginia State College
- West Virginia School of Osteopathic Medicine
- West Virginia University

The Fund is a discretely presented component unit of the State of West Virginia (the “State”).

Each college and university (the “Institutions”) in the Fund is governed by a Governing Board, which is responsible for the general determination, control, supervision and management of the financial business and educational policies and affairs of the institution(s). The West Virginia Higher Education Policy Commission (the “Policy Commission”), in accordance with Senate Bill No. 653, is responsible for developing, gaining consensus around and overseeing the implementation and development of a higher education public policy agenda. The Policy Commission is comprised of nine persons appointed by the Governor with the advice and consent of the Senate.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The combined financial statements of the Fund 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 *College and University Business Administration*, published by the National Association of College and University Business Officers. The Fund 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 combined financial statements.

- a. *Reporting Entity* - The accompanying combined financial statements present all funds under the authority of the Fund including:

**Regional Campuses**

Marshall University Graduate College  
Potomac State College of West Virginia University  
West Virginia University Institute of Technology  
West Virginia University at Parkersburg

**Wholly-Owned Subsidiaries**

Concord College Research and Development Corporation  
Marshall University Research and Development Corporation  
West Virginia State College Research and Development Corporation  
West Virginia University Research and Development Corporation

The basic criterion for inclusion in the accompanying combined financial statements is the exercise of oversight responsibility derived from the Fund's ability to significantly influence operations and accountability for fiscal matters of related entities. Related foundations and other affiliates of the Fund (see Notes 12 and 13) are not part of the Fund's reporting entity and are not included in the accompanying combined financial statements as the Fund has no ability to designate management, cannot significantly influence operations of these entities and is not accountable for the fiscal matters of the foundations and other affiliates.

- b. *Basis of Accounting* - The combined financial statements of the Fund 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 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.

- c. *Fund Accounting* - The accounts of the Fund 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 are classified into separate funds. Similar funds are 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 institution presidents, the Governing Boards, or the Commission. Restricted resources can 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 the Higher Education Fund 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.

Endowment and similar funds are held by West Virginia University and West Virginia State College and are subject to the restrictions of gift instruments requiring that the principal be invested and only the income be expended.

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 equivalents balances on deposit with the West Virginia Treasurer's Office (the "State Treasurer") are pooled by the State Treasurer with other available funds of the State for investment by the West Virginia Investment Management Board (the "IMB"). The IMB was established by the State Legislature and is subject to its oversight. These funds are transferred to the IMB, and the IMB is directed by the State Treasurer to invest these funds in specific external investment pools. Investment income from the investment pools is allocated by the State Treasurer to the various participants in the investment pools based on the balances of the various participants and their deposits with the State Treasurer in the month in which the income was earned. 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." Fair value and investment income are allocated to participants in the pool based upon funds that have been invested. The amounts on deposit with the State Treasurer are available for immediate withdrawal and, accordingly, are presented as cash and cash equivalents in the accompanying combined financial statements.
- e. *Investments* - The Fund's investments in the current funds and certain investments in the endowment and similar funds are on deposit with the State Treasurer. These investments are pooled with other State funds in a cash liquidity pool maintained by the IMB to maximize investment income. Income on these investments is allocated as described above. Investments held by the IMB are noncategorized in accordance with the provisions of GASB Statement No. 3. Investments in the loan funds consist of certificates of deposit held at commercial financial institutions. Such certificates of deposit are fully insured. Investments in the endowment and similar funds also include mutual fund shares and common stock held in trust at commercial financial institutions. Certain income earned on endowment and similar fund investments is assigned to the restricted and loan funds for use as stipulated by the donors. The Fund'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. Plant fund investments 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.

GASB Statement No. 31 requires the Fund to record certain investment balances at fair value. As provided in the Statement, the Fund's position in the cash liquidity pool maintained by the IMB is determined by the pool's share price, which approximates fair value. All other investments are reported at fair value except for certain short-term investments for which the difference between cost and fair value is immaterial.

- f. *Allowance for Doubtful Accounts* - It is the Fund's policy to provide for future losses on uncollectible accounts, grants, contracts and loans receivable based on an evaluation of the underlying account balances, the historical collectibility experienced by the Fund on such balances and such other factors which, in the judgment of management, require consideration in estimating doubtful accounts.
- g. *Inventories* - Inventories are stated at the lower-of-cost or market, cost being determined on the first-in, first-out method.
- h. *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 Fund capitalizes items over \$1,000.
- i. *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, tuition and fees, and room and board. Financial aid and other deposits are separately classified as deposits.
- j. *Compensated Absences* - The Fund 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 Fund's full-time classified and nonclassified employees earn up to two vacation leave days for each month of service and are entitled to compensation for accumulated, unpaid vacation leave up to a maximum of 48 days upon termination. Full-time employees also earn 1-1/2 sick leave days for each month of service and are entitled to extended 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 benefits is calculated using the vesting method in accordance with the provisions of GASB Statement No. 16. Under that method, the Fund identifies the accrued sick leave benefit earned to date by each employee, determines the cost of that benefit by reference to the benefit provisions and the current cost experienced by the Fund for such coverage and estimates 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 Fund's current funds.

- k. *Risk Management* - The State's Board of Risk and Insurance Management ("BRIM") provides general liability, property and casualty and medical malpractice insurance coverage to the Fund and its employees including those physicians employed by the Institutions and the Institution's schools of medicine at Marshall University, West Virginia School of Osteopathic Medicine and West Virginia University. Such coverage is provided to the Fund by BRIM through self-insurance programs maintained by BRIM or policies underwritten by BRIM that 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 Fund or other participants in BRIM's insurance programs. As a result, management does not expect significant differences between the premiums the Fund is charged by BRIM and the ultimate cost of that insurance based on the Fund's actual loss experience. In the event such differences arise between estimated premiums charged by BRIM to the Fund and the Fund's ultimate actual loss experience, the difference will be recorded as the change in estimate becomes known.

- l. *Student Aid* - The Fund 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 those within the Fund. The activity of this program is recorded in the accompanying combined financial statements as current restricted funds revenues and expenditures. Direct student loan receivables are not included in the Fund's combined balance sheet as the loans are repayable directly to the U.S. Department of Education. The Fund received and disbursed approximately \$145,829,000 during the year ended June 30, 2001, under the Federal Direct Student Loan Program on behalf of the U.S. Department of Education.

The Fund also distributed 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 is also recorded in the accompanying combined financial statements as current restricted funds revenues and expenditures. During the year ended June 30, 2001, the Fund received and disbursed approximately \$51,184,000 under these other federal student aid programs.

- m. *Gifts and Pledges* - The Fund does not report pledges in the combined financial statements until the gifts are collected. The Fund's gift records indicate that an immaterial amount of pledges were outstanding at June 30, 2001.
- n. *Government Grants and Contracts* - Government grants and contracts normally provide for the recovery of direct and indirect costs, subject to audit. The Fund recognizes revenue associated with direct costs as the related costs are incurred. Recovery of related indirect costs is generally recorded at fixed rates negotiated for a period of one to five years.
- o. *Income Taxes* - The Fund 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.
- p. *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.

- q. *Recent Statements Issued by the Governmental Accounting Standards Board* - The colleges and universities of the Fund adopted GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions," as amended by GASB Statement 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 Fund's combined 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. The Fund has not completed the process of evaluating the impact that will result from adopting GASB Statements No. 34 and No. 35 on its combined financial statements. These statements, when adopted, will substantially alter the appearance of the Fund's combined financial statements.

### 3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents was as follows at June 30, 2001(\$'s in thousands):

	<u>Current Funds</u>		Loan Funds	Endowment and Similar Funds	Plant Funds
	Unrestricted	Restricted			
Cash on deposit with the State Treasurer:					
Fund	\$ 139,524	\$ 8,499	\$ 1,369	\$ 91	\$ 29,123
Municipal Bond Commission or Bond Trustee					61,609
Cash in escrow					178
Cash in bank	7,860	1,434	5,732	63	1,333
Cash on hand	76	2			
Cash in money market	983				
	<u>\$ 148,443</u>	<u>\$ 9,935</u>	<u>\$ 7,101</u>	<u>\$ 154</u>	<u>\$ 92,243</u>

Cash shown above as held by the Municipal Bond Commission or Bond Trustee represents various project revenue, debt service and other repair and replacement reserve funds required to be escrowed by various of the Fund's bond trust indentures (see Notes 9 and 10).

Cash shown above as held in escrow is required by the Educational Direct Loan Mortgage Corporation to be held in escrow until the note payable described in Note 8 is paid in full.

The combined carrying amount of cash in the bank at June 30, 2001 was \$16,422,000 as compared with the combined bank balances of \$20,831,000. The difference is primarily caused by outstanding checks and items in transit. Of these combined bank balances at June 30, 2001 approximately \$20,809,000 were covered by federal depository insurance or was collateralized by securities held by the State's agent, while \$22,000 was uninsured and uncollateralized. The uninsured and uncollateralized balances are maintained by the Marshall University Research Corporation.

Cash on deposit with the State Treasurer is a noncategorized deposit.

**4. ACCOUNTS RECEIVABLE**

Accounts receivable were as follows at June 30, 2001 (\$'s in thousands):

	<u>Current Funds</u>		<u>Endowment Funds</u>	<u>Plant Funds</u>
	<u>Unrestricted</u>	<u>Restricted</u>		
Students, net of allowance for doubtful accounts of \$3,275	\$ 2,482		\$ 1	\$ 19
Auxiliary services - net of allowance for doubtful accounts of \$854	461			
Due from West Virginia Hospitals, Inc.		\$ 3,083		
Other - net of allowance for doubtful accounts of \$160	<u>3,861</u>	<u>35</u>		<u>781</u>
	<u>\$ 6,804</u>	<u>\$ 3,118</u>	<u>\$ 1</u>	<u>\$ 800</u>

West Virginia Hospitals, Inc. receivables represent various administrative expenditures incurred by West Virginia University on behalf of West Virginia Hospitals, Inc. for which reimbursement has not yet been received.

**5. INVESTMENT IN PLANT**

The composition of investment in plant was as follows at June 30, 2001 (\$'s in thousands):

Land and land improvements	\$ 49,796
Buildings and building improvements	944,222
Equipment	287,802
Library books	87,336
Construction in progress	<u>106,518</u>
	<u>\$ 1,475,674</u>

**6. COMPENSATED ABSENCES**

The composition of the compensated absences liability was as follows at June 30, 2001 (\$'s in thousands):

Health or life insurance benefits	\$ 47,708
Accrued vacation leave	<u>26,588</u>
	<u>\$ 74,296</u>

For the year ended June 30, 2001, the amounts paid by the Fund for extended health or life insurance benefits totaled approximately \$1,984,000. As of June 30, 2001, there were 1,427 retirees currently eligible for these benefits.

## 7. LEASE OBLIGATIONS

- a. *Capital* - The Fund leases certain property, plant and equipment through capital leases. The following is a schedule by year of future annual minimum payments required under the lease obligations existing at June 30, 2001 (\$'s in thousands):

Year Ending June 30,	
2002	\$ 4,181
2003	2,975
2004	2,485
2005	2,381
2006	2,219
Thereafter	<u>15,845</u>
Minimum lease payments	30,086
Less amount representing interest	<u>8,187</u>
Present value of minimum lease payments	<u><u>\$ 21,899</u></u>

Marshall University ("Marshall") has a capital lease agreement with the Marshall University Graduate College Foundation, Inc. (the "MUGC Foundation") for the Marshall University Graduate College's administration facility (the "Facility"). The fair value of the facility was estimated by independent appraisal during the year ended June 30, 1995 at \$5,000,000 (building \$4,300,000, land \$700,000), and the 21-year lease term commenced with the Marshall University Graduate College's occupancy of the facility in June 1995. Ownership of the Facility transfers to Marshall at the end of the lease term.

In December 1996, Marshall entered into a lease agreement with the MUGC Foundation for an academic center to be used by the Marshall Graduate College. The construction of the academic center was financed by the MUGC Foundation through the issuance of governmental revenue bonds. Effective September 1, 1997, the MUGC Foundation leased the academic center to Marshall for 20 years. Upon expiration of the lease term, Marshall will have the right to purchase the academic center for a sum equal to the amount required to redeem or otherwise satisfy or defease the MUGC Foundation's bonds on the date of such purchase.

- b. *Operating* - The Fund had entered into various operating lease agreements. Future annual minimum lease payments for years subsequent to June 30, 2001 are as follows (\$'s in thousands):

Fiscal Year Ending June 30,	
2002	\$ 729
2003	566
2004	490
2005	402
2006	187
Thereafter	<u>471</u>
Total	<u><u>\$ 2,845</u></u>

Total rent expense for these operating leases for the year ended June 30, 2001 approximated \$725,000.

The State, on behalf of the Board and Bluefield State College (“Bluefield”) entered into an agreement to lease a branch facility, to be known as the Greenbrier Community College Center, from the Greenbrier County Building Commission. The agreement provides for rent payments of one dollar per month for a rental period of 40 years. The facility was being renovated with \$1,375,000 of funding provided by the Board and other State and federal funds, with the balance to be provided by the Greenbrier Community College Foundation, Inc. At the conclusion of the lease term, the facility will be transferred to Bluefield. In addition, Bluefield has the right to purchase the facility at any time prior to the expiration of the lease term for the amount required to redeem any obligations on the facility at the date of purchase.

Bluefield has guaranteed the timely payment of principal and interest in the event that the Greenbrier Community College Foundation, Inc. is unable to make such payments. The amount outstanding at June 30, 2001 was approximately \$200,000. No amounts have been accrued by the Fund for such guaranty.

- c. *Direct Financing* - Marshall University has a direct financing lease arrangement for a portion of an educational facility being leased under a capital lease, with title delivered to Marshall University at completion of the lease. The facility sub-lease expires in twenty-five years. At the end of the sub-lease, the sublessee shall have the option to purchase its leased premises for the sum of one dollar. The following lists the components of the net investment in direct financing lease as of June 30, 2001 (\$'s in thousands).

Total minimum lease payments to be received	\$ 1,796
Less: unearned income	<u>746</u>
Net investment in direct financing and sales-type leases	<u><u>\$ 1,050</u></u>

## 8. NOTE PAYABLE

During fiscal year 1997, West Virginia State College signed an agreement with the Educational Direct Loan Mortgage Corporation (“Eddie Mac”) to have available a line of credit of \$3,500,000 to be used to renovate dormitories. As of June 30, 2001, the College borrowed \$3,335,000. Under the terms of the agreement, interest is calculated on an advance specific basis. Interest on each advance is calculated by the Federal Financing Bank and is generally based upon the interest rate on the most recently auctioned 13-week United States Treasury Bills. Additionally, the agreement calls for an adjustment of the interest rate to be applied to the entire outstanding principal balance upon the final draw on the line of credit. The average interest rate at June 30, 2001 was approximately 6.3%.

Project completion according to the agreement is limited to three years. Interest payments of \$21,000 commenced March 1999 and are payable through 2026. The annual principal and interest payments will adjust annually to reflect additional advances on the line of credit. Eddie Mac has a security interest for this loan on the net revenues from West Virginia State College’s dormitories and receives a monthly service fee. West Virginia State College is also subject to certain operating covenants and restrictions on incurrence of additional debt per the loan document.

Principal maturities for the years ending after June 30, 2001 are as follows (\$'s in thousands):

2002	\$ 65
2003	63
2004	68
2005	71
2006	75
Thereafter	<u>2,993</u>
Total	<u><u>\$ 3,335</u></u>

**9. INSTITUTION BONDS PAYABLE**

The Institutions within the Fund have the following outstanding bonds payable at June 30, 2001 (\$'s in thousands):

	Interest Rate	Annual Principal Installment Due	Principal Amount Outstanding
West Virginia University Dormitory Refunding Revenue Bonds 1997. Series A. due through 2017	3.95% - 5.30%	\$ 515 to \$1,070	\$ 11,835
West Virginia University Dormitory Revenue Bonds 1997. Series B. due through 2022	5.00%	\$1,480 to \$2,035	10,735
West Virginia University Athletic Facilities Refunding Revenue Bonds 1997. Series A. due through 2016	4.00% - 5.20%	\$130 to \$255	2,740
West Virginia University Athletic Facilities Revenue Bonds 1997. Series B. due through 2027	5.00%	\$265 to \$455	4,250
West Virginia University Student Union Refunding Bonds 1997. Series A. due through 2011	3.95% - 4.95%	\$175 to \$280	2,315
West Virginia University Student Union Revenue Bonds 1997. Series B. due through 2027	4.20% - 5.00%	\$220 to \$2,970	38,000
Marshall University University Center Revenue Bonds 1969. due through 2009	4.00% - 6.00%	\$150 to \$215	1,445
Marshall University University Facilities Revenue Bonds 2001. due through 2031	3.6% - 5.3%	\$895 to \$3,035	46,655
West Liberty State College Student Union Revenue Bonds Series B 1967. due 2007	3.0%	\$18	138
Glenville State College Student Housing Bonds. Series 2000A. due 2030	5.0% - 6.2%	\$45 to \$350	4,990
Glenville State College Student Housing Bonds. Series 2000B. due 2001	8.0%	\$45	<u>45</u>
			123,148
Less: Unamortized bond discount			<u>(1,674)</u>
			<u>\$ 121,474</u>

In 1997, West Virginia University defeased certain bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, neither the assets held in trust nor the refunded bonds appear in the accompanying financial statements. At June 30, 2001, bonds outstanding of \$13,000,000 refunded by the above-mentioned issues are considered defeased.

Each of the above bond issues is specific to an individual institutions within the Fund, although the bonds were also issued in the name of the State’s former Board of Regents, former State College System of West Virginia or former University System of West Virginia, 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 institutions remits the funds to either the Commission, the State’s Municipal Bond Commission or the Bond Trustee for payment of the bond issue. Mandatory debt service transfers are recorded as the funds were so remitted. The Commission, the Municipal Bond Commission and the Bond Trustee maintain certain cash and cash equivalents (see Note 3) for debt service or other bond issue purposes on behalf of the Fund.

A summary of the annual aggregate principal payments for years subsequent to June 30, 2001 is as follows (\$’s in thousands):

<b>Year Endina June 30.</b>	
2002	\$ 1,619
2003	1,686
2004	1,748
2005	2,920
2006	3,030
Thereafter	<u>112,415</u>
	123,148
Less: unamortized bond discount	<u>1,674</u>
	<u><u>\$ 121,474</u></u>

The Institution’s tuition and fees generally are pledged as collateral for the Commission’s bond indebtedness (see Note 10).

#### **10. SYSTEM BONDS PAYABLE**

The Fund receives State appropriations to finance its operations. In addition, it is subject to the legislative and administrative mandates of State government. Those mandates affect various aspects of the Fund’s operations, its tuition and fee structure, its personnel policies and its administrative practices.

The State has chartered the Fund 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 within the Fund. Financing for these facilities was provided through revenue bonds issued by the former Board of Regents, former State College System of West Virginia or former University System of West Virginia (the “Boards”). These obligations, administered by the Commission, are the direct and total responsibility of these Boards and the State.

The Commission, on behalf of the Fund, has recorded the following bonds payable at June 30, 2001 (\$'s in thousands):

	<b>Interest Rate</b>	<b>Annual Principal Installment Due</b>	<b>2001 Principal Amount Outstanding</b>
Series 1992 University System Bonds. due through 2012	5.6 % to 6.0 %	\$4,765 to \$8,450	\$ 70,755
Series 1996 University System Bonds. due through 2016	4.7 % to 5.75%	\$570 to \$1,185	12,515
Series 1997 University System Bonds. due through 2027	4.3 % to 5.5 %	\$235 to \$795	11,880
Series 1998 University System Bonds. due through 2028	4.3 % to 5.5 %	\$980 to \$3,625	54,085
Series 2000A University System Bonds. due through 2031	5.82% to 6.26%	\$3,264 to \$1,019	36,501
Series 2000B University System Bonds. due through 2025	5.25% to 5.96%	\$190 to \$670	9,075
Series 1992 College System Bonds. due through 2012	5.6 % to 6.0 %	\$2,780 to \$1,415	27,400
Series 1997 College System Bonds. due through 2027	4.3 % to 5.25%	\$190 to \$625	<u>9,340</u>
			<u>\$ 231,551</u>

Proceeds of these bonds were used to construct facilities at institutions within the Fund.

A summary of the annual aggregate principal payments for years subsequent to June 30, 2001 is as follows (\$'s in thousands):

<b>Year Ending June 30,</b>	
2002	\$ 9,710
2003	10,215
2004	10,745
2005	10,250
2006	10,785
Thereafter	<u>179,846</u>
	<u>\$ 231,551</u>

Students of the State's universities and colleges are assessed certain tuition charges and fees which are remitted by the Institutions 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 were the responsibility of the Boards and the State. To the extent that tuition charges and fees so collected by the Commission exceed debt service obligations, the Commission remits funds back to the Institutions for renewal and replacement or maintenance and repair of the facilities so financed.

The tuition and fees earned by the Institutions from their students generally are pledged as collateral for the Board's bond indebtedness. Such tuition and fees are recorded as unrestricted current fund revenues of the Fund.

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

## **11. RETIREMENT PLANS**

Substantially all full-time employees of the Fund 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 Fund employees has not been significant.

The STRS is a cost sharing, defined benefit public retirement system. Employer and employee contribution rates are established annually by the State Legislature. The Fund 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 are at the rate of 6% of total annual salary. 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.

Contributions to the STRS for the year ended June 30, 2001 totaled \$8,810,000 which consisted of contributions of \$6,235,000 from the Fund and \$2,575,000 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 institutions within the Fund. 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.

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. The Fund matches the employees' 6% contribution. Contributions are immediately and fully vested.

Contributions to the TIAA-CREF for the year ended June 30, 2001 totaled \$45,698,000 which consisted of contributions of \$22,849,000 from the Fund and \$22,849,000 from covered employees.

The Fund's total payroll for the year ended June 30, 2001 was \$474,677,000, total covered employees' salaries in the STRS and TIAA-CREF were \$43,355,000 and \$380,014,000, respectively.

## **12. FOUNDATIONS**

Various foundations have been established as separate nonprofit organizations incorporated in the State of West Virginia having as their purpose “. . . to aid, strengthen and further in every proper and useful way, the work and services of the (individual institutions within the Fund), and their affiliated nonprofit organizations . . .” Oversight of the Foundations is the responsibility of separate and independently elected Boards of Directors, not otherwise affiliated with the Fund. In carrying out its responsibilities, the Boards of Directors of the foundations employ management, form policy and maintain fiscal accountability over funds administered by the foundations. Accordingly, the financial statements of the foundations are not included in the accompanying combined financial statements.

## **13. AFFILIATED ORGANIZATIONS**

The Fund has various separately incorporated affiliated organizations, including alumni and other associations. Oversight responsibility for these entities rests with independent boards and management not otherwise affiliated with the Fund. Accordingly, the financial statements of these organizations are not included in the Fund's accompanying combined financial statements.

## **14. CONTINGENCIES AND COMMITMENTS**

### *Contingencies*

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

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. Management believes disallowances, if any, would not have a significant financial impact on the Fund's financial position.

The college and universities within the Fund own various buildings that were known to contain asbestos. The Fund is not required by Federal, State or Local Law to remove the asbestos from the buildings. The Fund is required by Federal Environmental, Health and Safety Regulations to manage the presence of asbestos in the buildings in a safe condition. Significant problems of dangerous asbestos conditions are abated as the condition becomes known. The Fund 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.

*Commitments*

West Virginia University has signed an agreement providing for the purchase of steam for a remaining period of 31 years from a nearby facility that commenced operations in late 1992. Under the agreement, West Virginia University has an annual minimum steam purchase requirement, purchased at an operating rate calculated in accordance with the agreement. This operating rate is adjusted quarterly based on actual production costs and other cost indices. Management believes that the rate is comparable to market rates. West Virginia University's total payments for steam purchased under the agreement were \$7,100,000 in 2001, which included \$412,000 to meet West Virginia University's minimum purchase requirement in 2001. West Virginia University anticipates total payments for steam usage for the remaining term of its commitment similar to the total payments made in 2001. However, payments in future years will be dependent on actual operating costs and other cost indices in those years.

Shepherd College has signed contracts for the construction of the Scarborough Library and Center for Legislative Studies in the amount of \$9,539,000. As of June 30, 2001, \$4,157,000 has been spent on this construction.

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