

Bluefield State College

*Combined Financial Statements and
Additional Information for the
Year Ended June 30, 2002 and
Independent Auditors' Reports*

BLUEFIELD STATE COLLEGE

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BLUEFIELD STATE COLLEGE

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2002

Our discussion and analysis of Bluefield State College's (the College) financial performance provides an overview of the College's financial activities during the year ended June 30, 2002. Since this discussion and analysis is designed to focus on current activities, resulting changes, and currently known facts, please refer to the College's basic combined financial statements on pages 8 to 13 and the notes to the combine financial statements on pages 14 to 15.

Financial Highlights

- The College's assets exceeded its liabilities at the end of the year by \$13.5 million.
- Total net assets increased during the year by \$0.2 million.
- Operating revenues increased by \$1.1 million, operating expenses increased by \$0.2 million, and nonoperating revenue increased by \$0.5 million.

Overview of the Combined Financial Statements

The College has implemented Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. These new financial reporting requirements present financial information for the College as a whole rather than focusing on individual funds. Significant changes in the information presented in the financial statements includes depreciation of capital assets and reclassifying certain loan program equity balances as liabilities. The transactions of certain federal and state loan and grant programs are no longer reported as revenues and expenses in the financial statements since the transactions are directly with the students receiving the loan or grant.

This report consists of management's discussion and analysis (this section), the basic combined financial statements, and the notes to the combined financial statements. The basic financial statements include the combined statement of net assets, combined statement of revenues, expenses, and changes in net assets, and combined statement of combined cash flows.

The combined statement of net assets presents the College's assets and liabilities, with the difference reported as net assets. Increases or decreases in net assets can be an indicator of improvement or deterioration of the College's financial position.

Changes in net assets during the year are reported in the combined statement of revenues, expenses and changes in net assets. All revenues, expenses, and changes are reported as soon as the underlying event occurs that results in the revenue, expense, or change. The combined statement of cash flows presents information on actual cash inflows or outflows as they occur.

Financial Analysis of the College

Of the College's net assets of \$13.5 million, approximately \$10.3 million, or 76% of net assets, represents its investment in capital assets such as land, buildings, equipment, and library books. These capital assets are used to provide educational and related services to students, and are not available for future spending. Unrestricted net assets, which are available to meet the College's obligations, amounted to \$3.0 million or 22% of net assets of which \$970,822 in cash was truly unrestricted, or 7% of net assets. The total \$970,822 represents the amount not restricted via plant operations, auxiliaries, grant and loan funds, and those tuition and fee related restrictions.

Combined Net Assets
As of June 30, 2002 and 2001
(in millions)

	<u>2002</u>	<u>2001</u> (Unaudited)
Cash and Cash Equivalents	\$ 5.6	\$ 5.1
Other current assets	<u>.7</u>	<u>1.1</u>
Total current assets	<u>6.3</u>	<u>6.2</u>
Capital Assets, Net	10.3	9.7
Other noncurrent assets	<u>.2</u>	<u>.2</u>
Total noncurrent assets	<u>10.5</u>	<u>9.9</u>
Total assets	<u>16.8</u>	<u>16.1</u>
Current liabilities	1.6	.9
Noncurrent liabilities	<u>1.7</u>	<u>1.9</u>
Total liabilities	<u>3.3</u>	<u>2.8</u>
Net assets:		
Invested in capital assets	10.3	10.8
Restricted, expendable	.2	.2
Unrestricted	<u>3.0</u>	<u>2.3</u>
Total net assets	<u>\$ 13.5</u>	<u>\$ 13.3</u>

**Combined Revenue Expended and Combined Current Net Assets
for the Years Ended June 30, 2002 and 2001
(in millions)**

	<u>2002</u>	<u>2001</u> (Unaudited)
Operating Revenues:		
Tuition and fees	\$ 2.7	\$ 2.8
Contracts and grants	8.5	7.3
Auxiliary	1.4	1.4
Other	<u>.4</u>	<u>.4</u>
	13.0	11.9
Less: operating expenses	<u>20.8</u>	<u>20.6</u>
Operating loss	(7.8)	(8.7)
Nonoperating revenues:		
State appropriation	8.0	7.5
Other	<u>.2</u>	<u>.3</u>
Net Nonoperating Revenue	<u>8.2</u>	<u>7.8</u>
Transfer of liability from Policy Commission	<u>.2</u>	<u>-</u>
Increase (decrease) in net assets	<u><u>\$.2</u></u>	<u><u>\$ (.9)</u></u>

The operating loss decreased \$0.9 million in 2002, which includes an increase in federal, state and local grants and contracts (\$1.2 million), a decrease in tuition and fees (\$0.1 million), and an increase in operating expenses (\$0.2 million).

Nonoperating revenues increased \$0.5 million, primarily affected by a \$0.3 million increase in a State appropriation for a specific one-year program.

**Operating Expenses
for the Years ended June 30, 2002 and 2001
(in millions)**

	<u>2002</u>	<u>2001</u> (Unaudited)
Instruction	\$ 7.5	\$ 7.1
Public service	.6	.5
Academic support	1.5	1.4
Student services	2.2	2.2
Operation and maintenance of plant	1.5	2.1
Institutional support	2.7	2.8
Student financial aid	2.0	1.8
Depreciation	1.0	1.1
Auxiliary enterprises	1.7	1.4
Total	<u><u>\$ 20.8</u></u>	<u><u>\$ 20.6</u></u>

Increases in student financial aid expenditures are related to a 4.5% increase in enrollment, other increases related mostly to increased salary and benefit costs.

**Combined Statement of Cash Flows
for the Year Ended June 30, 2002**

The Statement of Cash Flows presents detailed information about the cash activities of Bluefield State College during the year. The statement is divided into five parts. The first section deals with operating cash flows and shows the net cash used in the operating activities of Bluefield State College. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes. The third section deals with the cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital assets and related items, and related funding received. The fourth section reflects the cash flows from investing activities and shows interest received from investing activities. The fifth section reconciles the net cash used in operating activities to the operating loss reflected in the SRECNA. Overall, cash and cash equivalents increased approximately \$534,000 for the fiscal year. GASB 35 does not require restatement of prior year cash flows in the implementation year. This is a completely new statement for FY 2002 and there is no prior year data available for comparative purposes.

**Cash Flows
(In thousands of dollars)**

	FY 2002
Cash provided by (used in):	
Operating activities	(\$ 6,211)
Non capital financing activities	8,118
Capital and related financing activities	(1,660)
Investing activities	287
Increase in cash and cash equivalents	534
Cash and cash equivalents, beginning of year	5,125
Cash and cash equivalents, end of year	5,659

Capital Asset and Debt Administration

- Due to the change in the governance of higher education in the state of West Virginia, debt obligations previously held by Higher Education Policy Commission were distributed to the higher education institutions. For Bluefield State College this debt service obligation amounted to \$217,341 as of June 30, 2002.

Bluefield State College had several projects during fiscal year 2002:

- Completion of electrical/mechanical upgrade to Othello Harris Jefferson Student Center of \$192,320.

- Restoration of Hatter Hall to Bluefield State College Alumni House began with \$112,605 expended in fiscal year 2002.
- Continuation of campus wide sidewalk/ADA upgrade with \$495,000 expended in fiscal year 2002, at 95% completion year end.
- Equipment purchases of \$679,299 including 200 computers, security system equipment including 80+ cameras (interior and exterior, centralized to central site over fiber optic backbone), and various other equipment items.
- Library book purchases of \$45,815.

Economic Outlook

Southern West Virginia continues to show slow economic growth and employment appears to be stable. High school enrollment in surrounding counties is continuing to decline. However, College initiatives have successfully targeted adult population segments as well as those who have recently completed their secondary education. As a result, the College's enrollment for year ended June 30, 2002 increased to record levels. Although the slowing of economic growth has not resulted in a decline in State appropriations, future appropriations may need to be reduced if the economic outlook for the State as a whole does not improve.

The College's overall financial position is strong and continues to grow as evidenced by the increase in net assets during the past year. By continuously assessing post secondary educational needs of its market area and developing educational programs to meet those needs, the College expects to maintain and grow its enrollment.

Contacting the College's Financial Management

This financial report is designed to provide a general overview of the Bluefield State College's finances. Questions concerning any of the information provided in this report should be addressed to the Vice President of Financial and Administrative Affairs at Bluefield State College, 219 Rock Street, Bluefield, WV 24701.

INDEPENDENT AUDITORS' REPORT

To the Bluefield State College Governing Board

We have audited the accompanying combined financial statements of Bluefield State College (the "College") as of June 30, 2002, and for the year then ended, listed in the foregoing Table of Contents. These financial statements are the responsibility of the management of the College. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with accounting principles 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 combined financial statements present fairly, in all material respects, the financial position of the College at June 30, 2002, the combined changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, the College changed its financial statement presentation to adopt the provisions of the Governmental Accounting Standards Board ("GASB") Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, as amended by GASB Statements No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*, as of July 1, 2001.

The Management's Discussion and Analysis (MD&A) on pages 1 to 5 is not a required part of the financial statements but is supplemental information required by the GASB. This supplementary information is the responsibility of the College's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we do not express such an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2002, on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

October 24, 2002

BLUEFIELD STATE COLLEGE

COMBINED STATEMENT OF NET ASSETS

JUNE 30, 2002

ASSETS:

Current assets:

Cash and cash equivalents	\$ 5,591,100
Accounts receivable, net of allowance of \$221,615	343,404
Loans to students, current portion	49,500
Prepaid expenses	23,216
Inventories	<u>287,105</u>

Total current assets 6,294,325

Noncurrent assets:

Cash and cash equivalents	67,978
Loans to students, net of allowance of \$401,000	172,819
Capital assets, net	<u>10,327,740</u>

Total noncurrent assets 10,568,537

TOTAL ASSETS \$ 16,862,862

(Continued)

BLUEFIELD STATE COLLEGE

COMBINED STATEMENT OF NET ASSETS

JUNE 30, 2002

LIABILITIES:

Current liabilities:

Accounts payable	\$ 425,769
Accrued liabilities	726,992
Deferred revenue	21,798
Compensated absences, current portion	402,542
Debt obligation due Commission, current portion	<u>26,777</u>

Total current liabilities 1,603,878

Advances from federal sponsors	257,269
Compensated absences	1,272,244
Debt obligation due Commission	<u>190,564</u>

Total noncurrent liabilities 1,720,077

TOTAL LIABILITIES 3,323,955

NET ASSETS:

Invested in capital assets, net of related debt 10,327,740

Restricted for:

Expendable:

Scholarships	7,011
Loans	37,393
Other	<u>168,039</u>

212,443

Unrestricted 2,998,724

Total net assets 13,538,907

TOTAL LIABILITIES AND NET ASSETS \$ 16,862,862

See notes to combined financial statements

(Concluded)

BLUEFIELD STATE COLLEGE

COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2002

OPERATING REVENUES:

Student tuition and fees (net of scholarship allowance of \$3,240,593)	\$ 2,679,466
Contracts and grants:	
Federal	6,626,573
State	1,330,090
Private	521,194
Interest on student loans receivable	6,666
Sales and services of educational activities	326,683
Auxiliary enterprise revenue (net of scholarship allowance of \$188,132)	1,422,404
Miscellaneous - net	<u>66,789</u>
 Total operating revenues	 <u>12,979,865</u>

OPERATING EXPENSES:

Salaries and wages	10,671,853
Benefits	2,380,116
Supplies and other services	4,105,310
Utilities	461,113
Student financial aid - scholarships and fellowships	2,124,291
Depreciation	980,657
Fees assessed by the Commission for operations	<u>96,414</u>
 Total operating expenses	 <u>20,819,754</u>

OPERATING LOSS (7,839,889)

(Continued)

BLUEFIELD STATE COLLEGE

COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2002

NONOPERATING REVENUES (EXPENSES):	
State appropriations	\$ 8,048,220
Investment income	286,762
Fees assessed by the Commission for debt service	<u>(42,706)</u>
Net nonoperating revenues	<u>8,292,276</u>
INCREASE IN NET ASSETS BEFORE TRANSFERS	452,387
TRANSFER OF LIABILITY FROM POLICY COMMISSION	<u>217,341</u>
INCREASE IN NET ASSETS	235,046
NET ASSETS, BEGINNING OF YEAR (AS RESTATED)	<u>13,303,861</u>
NET ASSETS, END OF YEAR	<u>\$ 13,538,907</u>
See notes to combined financial statements	(Concluded)

BLUEFIELD STATE COLLEGE

COMBINED STATEMENT OF CASH FLOWS YEAR ENDED JUNE 30, 2002

CASH FLOWS FROM OPERATING ACTIVITIES:

Student tuition and fees	\$ 2,684,330
Contracts and grants	8,690,093
Payments to and on behalf of employees	(12,843,698)
Payments to suppliers	(4,022,521)
Payments to utilities	(461,113)
Payments for scholarships and fellowships	(2,124,291)
Loans issued to students	(49,750)
Collection of loans to students	64,220
Sales and service of educational activities	326,683
Auxiliary enterprise charges	1,461,390
Fees assessed by Commission	79,144
Other payments - net	<u>(16,181)</u>
Net cash used in operating activities	<u>(6,211,694)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

State appropriations	8,088,141
William D. Ford direct lending receipts	3,654,722
William D. Ford direct lending payments	<u>(3,624,098)</u>
Net cash provided by noncapital financing activities	<u>8,118,765</u>

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:

Purchases of capital assets	(1,617,513)
Fees assessed by Commission for debt service	(42,706)
Decrease in noncurrent cash and cash equivalents	<u>371</u>
Cash used in capital financing activities	<u>(1,659,848)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest on investments	<u>286,762</u>
Cash provided by investing activities	<u>286,762</u>

INCREASE IN CASH

533,985

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR

5,057,115

CASH AND CASH EQUIVALENTS, END OF YEAR

\$ 5,591,100

(Continued)

BLUEFIELD STATE COLLEGE

COMBINED STATEMENT OF CASH FLOWS YEAR ENDED JUNE 30, 2002

RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:

Operating loss	\$ (7,839,889)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation expense	980,657
Loss on disposal of equipment	24,405
Changes in assets and liabilities:	
Accounts receivables, net	223,847
Loans to students, net	14,470
Due to the Commission	71,740
Prepaid expenses	(21,026)
Inventories	(42,961)
Accounts payable	101,345
Accrued liabilities	153,409
Compensated absences	85,506
Deferred revenue	(9,619)
Deposits held in custody for others	(7)
Advances from federal sponsors	2,872
Other	<u>43,557</u>
Net cash used in operating activities:	<u>\$ (6,211,694)</u>

NONCASH TRANSACTIONS:

Transfer of liability from Policy Commission	<u>\$ 217,341</u>
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See notes to combined financial statements.

(Concluded)

BLUEFIELD STATE COLLEGE

NOTES TO COMBINED FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2002

1. ORGANIZATION

Bluefield State College (the “College”) is governed by the Bluefield State College Board of Governors (the “Board”). The Board was established by Senate Bill 653 (“S.B. 653”). S.B. 653 was enacted by the West Virginia Legislature on March 19, 2000 and restructured public higher education in West Virginia. S.B. 653 abolished the Board of Trustees of the College System of West Virginia 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 was granted all powers, duties, and authorities of the Board of Trustees and was transferred each valid agreement and obligation previously transferred to or vested in the Board of Trustees.

Effective July 1, 2001, certain powers were transferred to the newly created Governing Board of each of the institutions of higher education. These powers and duties include, but are 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

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The combined financial statements of the College have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (“GASB”), including 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 of Public Colleges and Universities* (an Amendment of GASB Statement No. 34). The financial statement presentation required by GASB Statements No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the College’s assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows and replaces the fund-group perspective previously required.

The College follows all GASB pronouncements as well as Financial Accounting Standards Board (“FASB”) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, and has elected not to apply the FASB Statements and Interpretations issued after November 30, 1989, to its combined financial statements.

Reporting Entity—The College is an operating unit of the West Virginia Higher Education Fund and represents separate funds of the State of West Virginia (the “State”) that are not included in the State’s general fund. The College is a separate entity which, along with all State institutions of higher education, the Commission and the West Virginia Network for Educational Telecomputing (“WVNET”), form the Higher Education Fund of the State. The Higher Education Fund is considered a component unit of the State, and its financial statements are discretely presented in the State’s comprehensive annual financial report.

The accompanying combined financial statements present all funds under the authority of the College, including Bluefield State College Research Corporation. The basic criterion for inclusion in the accompanying combined financial statements is the exercise of oversight responsibility derived from the College’s ability to significantly influence operations and accountability for fiscal matters of related entities. Related foundations and an alumni association of the College are not part of the College reporting entity and are not included in the accompanying financial statements as the College has no ability to designate management, cannot significantly influence operations of these entities and is not accountable for the fiscal matters of these entities.

Financial Statement Presentation—During fiscal 2002, the College adopted GASB Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*, as amended by GASB Statements No. 37, *Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*. These statements establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a combined basis to focus on the College as a whole. Previously, financial statements focused on the accountability of individual fund groups rather than on the College as a whole. GASB Statement No. 35 reports equity as “net assets” rather than “fund balance”. Net assets are classified into four categories according to external donor restrictions or availability of assets for satisfaction of College obligations. The College’s net assets are classified as follows:

- *Invested in capital assets, net of related debt*—This represents the College’s total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.
- *Restricted net assets, expendable*—This includes resources in which the College is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.
- *Restricted net assets, nonexpendable*—This includes endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. The College does not have any restricted nonexpendable net assets at June 30, 2002.
- *Unrestricted net assets*—Unrestricted net assets represent resources derived from student tuition and fees, state appropriations and sales and services of educational activities. These resources are used for transactions relating to the educational and general operations of the College, and may be used at the discretion of the Board of Governors to meet current expenses for any purpose. These resources also include resources of auxiliary enterprises, which are substantially self-supporting activities, that provide services for students, faculty and staff.

GASB Statement No. 35 requires the statements of net assets, revenues, expenses, and changes in net assets, and cash flows to be reported on a combined basis. The provisions of GASB Statement No. 35 have been applied to the year presented. Following is a reconciliation of total June 30, 2001 fund balances, as previously reported, to the restated net asset balances for the same date:

	June 30, 2001
Combined fund balances, as previously reported	\$ 28,025,123
Accumulated depreciation	(14,458,578)
Reclassification of federal loan programs	<u>(262,684)</u>
Combined fund balances, restated as net assets	<u><u>\$ 13,303,861</u></u>

Basis of Accounting—For financial reporting purposes, the College is considered a special-purpose government engaged only in business-type activities. Accordingly, the College’s financial statements have been prepared on the accrual basis of accounting with a flow of economic resources measurement focus. Revenues are reported when earned and expenditures when materials or services are received. All intercompany accounts and transactions have been eliminated.

Cash and Cash Equivalents—For purposes of the statement of net assets, the College considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Cash and cash equivalents balances on deposit with the State of West Virginia Treasurer’s Office (the “State Treasurer”) are pooled by the State Treasurer with other available funds of the State for investment purposes by the West Virginia Investment Management Board (the “IMB”). These funds are transferred to the IMB and the IMB is directed by the State Treasurer to invest the 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 State Treasurer are available for immediate withdrawal and, accordingly, are presented as cash and cash equivalents in the accompanying combined financial statements.

Allowance for Doubtful Accounts—It is the College’s policy to provide for future losses on uncollectible accounts, contracts, grants and loans receivable based on an evaluation of the underlying account, contract, grant and loan balances, the historical collectibility experienced by the College on such balances and such other factors which, in the College’s judgment, require consideration in estimating doubtful accounts.

Inventories—Inventories are stated at the lower-of-cost or market, cost being determined on the first-in, first-out method.

Noncurrent Cash and Cash Equivalents—Cash, that is (1) externally restricted to make debt service payments, long-term loans to students or to maintain sinking or reserve funds, and (2) to purchase capital or other noncurrent assets, is classified as a noncurrent asset in the statement of net assets.

Capital Assets—Capital assets include property, plant and equipment, books and materials that are part of a catalogued library, and infrastructure assets. Capital assets 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. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 20 to 50 years for buildings and infrastructure, 20 years for land improvements and library books, and 3 to 10 years for furniture and equipment.

Deferred Revenue—Revenues for programs or activities to be conducted primarily in the next fiscal year are classified as deferred revenue, including items such as football ticket sales, orientation fees, room and board. Financial aid and other deposits are separately classified as deposits.

Compensated Absences—The College accounts for compensated absences in accordance with the provisions of GASB Statement No. 16, *Accounting for Compensated Absences*. This statement requires entities to accrue for employees' rights to receive compensation for vacation leave, or payments in lieu of accrued vacation or sick leave, as such benefits are earned and payment becomes probable.

The College's full-time employees earn up to two vacation leave days for each month of service and are entitled to compensation for accumulated, unpaid vacation leave upon termination. Full-time employees also earn 1-1/2 sick leave days for each month of service and are entitled to extend their health or life insurance coverage upon retirement in lieu of accumulated, unpaid sick leave. Generally, two days of accrued sick leave extend health insurance for one month of single coverage and three days extend 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. Employees hired July 1, 2001 or later will no longer receive sick leave credit toward insurance premiums when they retire.

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, the College has identified the accrued sick leave benefit earned to date by each employee, determined the cost of that benefit by reference to the benefit provisions and the current cost experienced by the College for such coverage, and estimated the probability of the payment of that benefit to employees upon retirement.

The estimated expense and expense incurred for the vacation leave, sick leave or extended health or life insurance benefits are recorded as a component of benefits expense on the statement of revenues, expenses and changes in net assets.

Risk Management—The State's Board of Risk and Insurance Management ("BRIM") provides general, property and casualty, and medical malpractice liability coverage to the College and its employees. Such coverage may be provided to the College by BRIM through self-insurance programs maintained by BRIM or policies underwritten by BRIM that may involve experience-related premiums or adjustments to BRIM.

BRIM engages an independent actuary to assist in the determination of its premiums so as to minimize the likelihood of premium adjustments to the College or other participants in BRIM's insurance programs. As a result, management does not expect significant differences between the premiums the College is currently charged by BRIM and the ultimate cost of that insurance based on the College's actual loss experience. In the event such differences arise between estimated premiums currently charged by BRIM to the College and the College's ultimate actual loss experience, the difference will be recorded, as the change in estimate becomes known.

Classification of Revenues—The College has classified its revenues as either operating or non-operating revenues according to the following criteria:

- ***Operating revenues***—Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most Federal, state, local, and nongovernmental grants and contracts, and (4) sales and services of educational activities.
- ***Nonoperating revenues***—Nonoperating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenues that are defined as nonoperating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting* and GASB Statement No. 34, such as state appropriations and investment income.

Use of Restricted Net Assets—The College has not adopted a formal policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Generally, the College attempts to utilize restricted net assets first when practicable.

Federal Financial Assistance Programs—The College makes loans to students under the Federal Direct Student Loan Program. Under this program, the U.S. Department of Education makes interest subsidized and nonsubsidized loans directly to students, through universities like the College. Direct student loan receivables are not included in the College's balance sheets as the loans are repayable directly to the U.S. Department of Education. In 2002, the College received and disbursed approximately \$3,600,000 under the Federal Direct Student Loan Program on behalf of the U.S. Department of Education, which is not included as revenue and expense on the statement of revenues, expenses and changes in net assets.

The College also distributes other student financial assistance funds on behalf of the federal government to students under the federal Pell Grant, Supplemental Educational Opportunity Grant and College Work Study programs. The activity of these programs is recorded in the accompanying combined financial statements. In 2002, the College received and disbursed approximately \$3,900,000 under these federal student aid programs.

Scholarship Allowances—Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances in the statement of revenues, expenses and changes in net assets. Scholarship allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the student's behalf.

Financial aid to students is reported in the financial statements under the alternative method as prescribed by the National Association of College and College Business Officers (NACUBO). Certain aid such as loans, funds provided to students as awarded by third parties, and Federal Direct Lending is accounted for as a third party payment (credited to the student's account as if the student made the payment). All other aid is reflected in the financial statements as operating expenses, or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method, these amounts are computed on a College basis by allocating the cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third party aid.

Government Grants and Contracts—Government grants and contracts normally provide for the recovery of direct and indirect costs, subject to audit. The College recognizes revenue associated with direct costs as the related costs are incurred. Recovery of related indirect costs is generally recorded at fixed rates negotiated for a period of one to five years.

Income Taxes—The College is exempt from income taxes, except for unrelated business income, as a nonprofit organization under federal income tax laws and regulations of the Internal Revenue Service.

Cash Flows—Any cash and cash equivalents escrowed, restricted for noncurrent assets or in funded reserves have not been included as cash and cash equivalents for the purpose of the statement of cash flows.

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.

Recent Statements Issued by the Government Accounting Standards Board—The GASB issued Statement No. 39, *Determining Whether Certain Organizations are Component Units*, an amendment of GASB Statement No. 14. This statement is effective for periods beginning after June 15, 2003. The College has not completed the process of evaluating the impact, if any, that will result from adopting GASB Statement No. 39. This statement, when adopted, could result in additional entities being included in the College's financial statement.

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents was as follows at June 30, 2002:

	Current	Noncurrent	Total
Cash on deposit with the State Treasurer	\$ 5,481,278	\$ 12,930	\$ 5,494,208
Cash in bank	102,072	55,048	157,120
Cash on hand	<u>7,750</u>	<u> </u>	<u>7,750</u>
	<u>\$ 5,591,100</u>	<u>\$ 67,978</u>	<u>\$ 5,659,078</u>

Cash held by the State Treasurer and cash in bank includes \$4,688,256 and \$157,120, respectively, of restricted cash for specific purposes by State Code grant resources and loan funds.

The combined carrying amounts of cash in the bank at June 30, 2002 was \$157,120, as compared with the combined bank balance of \$113,748. The difference is primarily caused by items in transit. The bank balances were covered by federal depository insurance or were secured by financial instruments held as collateral by the State's agent.

Cash on deposit with the State Treasurer is a noncategorized deposit (with respect to risk and collateral disclosure) in accordance with GASB Statement No. 3, *Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements*.

4. ACCOUNTS RECEIVABLE

Accounts receivable were as follows at June 30, 2002:

Student tuition and fees, net of allowance for doubtful accounts of \$221,615	\$ 137,645
Grants and contracts receivable	114,915
Due from other State agencies	74,457
Other accounts receivable	<u>16,387</u>
	<u>\$ 343,404</u>

5. CAPITAL ASSETS

The following is a summary of capital asset transactions for the College for the year ended June 30, 2002:

	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	\$ 502,242	\$ -	\$ -	\$ 502,242
Construction in progress	<u>205,130</u>	<u>542,178</u>	<u>(46,840)</u>	<u>700,468</u>
Total capital assets not being depreciated	<u>\$ 707,372</u>	<u>\$ 542,178</u>	<u>\$ (46,840)</u>	<u>\$ 1,202,710</u>
Other capital assets:				
Land improvements	\$ 789,657	\$ -	\$ -	\$ 789,657
Buildings	15,762,064	397,061		16,159,125
Equipment	5,459,759	679,299	(419,329)	5,719,729
Library books	<u>1,455,015</u>	<u>45,815</u>		<u>1,500,830</u>
Total other capital assets	<u>23,466,495</u>	<u>1,122,175</u>	<u>(419,329)</u>	<u>24,169,341</u>
Less accumulated depreciation for:				
Land improvements	198,145	52,643		250,788
Buildings	9,107,050	311,694		9,418,744
Equipment	3,888,446	566,798	(394,924)	4,060,320
Library books	<u>1,264,937</u>	<u>49,522</u>		<u>1,314,459</u>
Total accumulated depreciation	<u>14,458,578</u>	<u>980,657</u>	<u>(394,924)</u>	<u>15,044,311</u>
Other capital assets, net	<u>\$ 9,007,917</u>	<u>\$ 141,518</u>	<u>\$ (24,405)</u>	<u>\$ 9,125,030</u>
Capital asset summary:				
Capital assets not being depreciated	\$ 707,372	\$ 542,178	\$ (46,840)	\$ 1,202,710
Other capital assets	<u>23,466,495</u>	<u>1,122,175</u>	<u>(419,329)</u>	<u>24,169,341</u>
Total cost of capital assets	24,173,867	1,664,353	(466,169)	25,372,051
Less accumulated depreciation	<u>(14,458,578)</u>	<u>(980,657)</u>	<u>394,924</u>	<u>(15,044,311)</u>
Capital assets, net	<u>\$ 9,715,289</u>	<u>\$ 683,696</u>	<u>\$ (71,245)</u>	<u>\$ 10,327,740</u>

The College maintains various collections of inexhaustible assets to which no value can be determined. Such collections include contributed works of art, historical treasures and literature that are held for exhibition, education, research and public service. These collections are neither disposed of for financial gain nor encumbered in any means. Accordingly, such collections are not capitalized or recognized for financial statement purposes.

Title for certain real property is with the Commission.

6. CHANGES IN LONG-TERM LIABILITIES

The following is a summary of long-term obligation transactions for the College for the year ended June 30, 2002:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Advances from federal sponsors	\$ 254,397	\$ 2,872	\$ -	\$ 257,269	\$ -
Accrued compensated absences	1,589,280	85,506		1,674,786	402,542
Debt obligation due Commission	<u> </u>	<u>217,341</u>	<u> </u>	<u>217,341</u>	<u>26,777</u>
Total noncurrent liabilities	<u>\$ 1,843,677</u>	<u>\$ 305,719</u>	<u>\$ -</u>	<u>\$ 2,149,396</u>	<u>\$ 429,319</u>

7. COMPENSATED ABSENCES

The composition of the compensated absence liability was as follows at June 30, 2002:

Health or life insurance benefits	\$ 1,088,065
Accrued vacation leave	<u>586,721</u>
	<u>\$ 1,674,786</u>

The cost of health and life insurance benefits paid by the College is based on a combination of years of service and age. For the year ended June 30, 2002, the amount paid by the College for extended health or life insurance coverage retirement benefits totaled approximately \$37,185. As of June 30, 2002, there were 20 retirees currently receiving these benefits.

8. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

The College is a State institution of higher education, and the College receives a State appropriation to finance its operations. In addition, it is subject to the legislative and administrative mandates of State government. Those mandates affect all aspects of the College’s operations, its tuition and fee structure, its personnel policies and its administrative practices.

The State has chartered the Commission with the responsibility to construct or renovate, finance and maintain various academic and other facilities of the State’s universities and colleges, including certain facilities of the College. Financing for these facilities was provided through revenue bonds issued by the former Board of Regents or the former Boards of the College and College Systems (the “Boards”). These obligations administered by the Commission are the direct and total responsibility of the Commission, as successor to the former Boards.

The Commission has the authority to assess each public institution of higher education for payment of debt service on these system bonds. The tuition and registration fees of the members of the former State University System are generally pledged as collateral for the Commission's bond indebtedness. Student fees collected by the institution in excess of the debt service allocation are retained by the institution for internal funding of capital projects and maintenance. Although the bonds remain as capital obligation of the Commission, an estimate of the obligation of each institution is reported as a long-term payable by each institution and as a receivable by the Commission, effective as of June 30, 2002. The total liability transferred to the College was \$217,341.

9. RETIREMENT PLANS

Substantially all full-time employees of the College participate in either the West Virginia Teachers' Retirement System (the "STRS") or the Teachers' Insurance and Annuities Association - College Retirement Equities Fund (the "TIAA-CREF"). Previously, upon full-time employment, all employees were required to make an irrevocable selection between the STRS and TIAA-CREF. Effective July 1, 1991, the STRS was closed to new participants. Current participants in the STRS are permitted to make a one-time election to cease their participation in that plan and commence contributions to the West Virginia Teachers' Defined Contribution Plan. Contributions to and participation in the West Virginia Teachers' Defined Contribution Plan by College employees have not been significant to date.

The STRS is a cost sharing, multiple employer defined benefit public employee retirement system. Employer and employee contribution rates are established annually by the State Legislature. The College accrued and paid its contribution to the STRS at the rate of 15% of each enrolled employee's total annual salary for the year ended June 30, 2002. Required employee contributions were at the rate of 6% of total annual salary for the year ended June 30, 2002. Participants in the STRS may retire with full benefits upon reaching age 60 with five years of service, age 55 with 30 years of service, or any age with 35 years of service. Lump-sum withdrawal of employee contributions is available upon termination of employment. Pension benefits are based upon 2% of final average salary (the highest five years' salaries out of the last 15 years) multiplied by the number of years of service.

The TIAA-CREF is a defined contribution benefit plan in which benefits are based solely upon amounts contributed plus investment earnings. Employees who elect to participate in this plan are required to make a contribution equal to 6% of total annual compensation. The College matches the employees' 6% contribution. Contributions are immediately and fully vested.

Total contributions to the STRS for the years ended June 30, 2002, 2001 and 2000, were \$180,503, \$198,454, and \$184,778, respectively, which consisted of \$128,931, \$141,587, and \$131,902 from the College, and \$51,572, \$56,867, and \$52,876 from the covered employees in 2002, 2001 and 2000, respectively.

The contribution rate is set by the State Legislature on an overall basis and the STRS does not perform a calculation of the contribution requirement for individual employers, such as the College. Historical trend and net pension obligation information is available from the annual financial report of the Consolidated Public Retirement Board. A copy of the report may be obtained by writing to the Consolidated Public Retirement Board, Building 5, Room 1000, Charleston, WV 25305.

Total contributions to the TIAA-CREF for the years ended June 30, 2002, 2001 and 2000, were \$981,608, \$939,976, and \$864,482, respectively, which consisted of equal contributions of \$490,804, \$469,988, and \$432,241 respectively, from both the College and covered employees.

The College's total payroll for the year ended June 30, 2002 was \$10,414,373; total covered employees' salaries in the STRS and TIAA-CREF were \$859,537 and \$8,180,062, respectively, in 2002.

10. LEASES

The College leases various branch campus facilities in the State. Rental payments for these facilities were \$98,052 for the year end June 30, 2002. Following is a schedule of future minimum lease payments for the term of the leases.

Year Ending June 30	Rental Payments
2003	\$ 123,352
2004	125,652
2005	125,652
2006	27,600
2007	27,600

The State, on behalf of the Board and the College has entered into an agreement to lease a branch facility, to be known as the Greenbrier Community College Center (the "Facility"), from the Greenbrier County Building Commission. The agreement provides for rent payments of \$1 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 the College. In addition, the College 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. In June 2002, the College exercised its right to purchase the Facility, however, the College has not taken title to the Facility. The College has not recognized the contribution revenue related to the Facility for the year ended June 30, 2002. The Facility is included in construction in progress as of June 30, 2002.

11. FOUNDATION (UNAUDITED)

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

During the year ended June 30, 2002, the Foundation contributed \$156,843 to the College for scholarships and grants.

12. AFFILIATED ORGANIZATION

The College has separately incorporated affiliated organizations, the Bluefield State College Alumni Association and Greenbrier Community College Foundation, Inc. Oversight responsibility for these entities rests with independent boards and management not otherwise affiliated with the College. Accordingly, the financial statements of these organizations are not included in the College's accompanying financial statements.

13. CONTINGENCIES

The nature of the educational industry is such that, from time-to-time, claims will be presented against colleges on account of alleged negligence, acts of discrimination, breach of contract or disagreements arising from the interpretation of laws or regulations. While some of these claims may be for substantial amounts, they are not unusual in the ordinary course of providing educational services in a higher education system. In the opinion of management, all known claims are covered by insurance or are such that an award against the College would not seriously impact the financial status of the institution.

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

The College owns various buildings which are known to contain asbestos. The College is not required by Federal, state or local Law to remove the asbestos from its buildings. The College is required under Federal Environmental, Health and Safety Regulations to manage the presence of asbestos in its buildings in a safe condition. The College addresses its responsibility to manage the presence of asbestos in its buildings on a case by case basis. Significant problems of dangerous asbestos conditions are abated as the condition becomes known. The College also addresses the presence of asbestos as building renovation or demolition projects are undertaken and through asbestos operation and maintenance programs directed at containing, managing or operating with the asbestos in a safe condition.

14. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

For the year ended June 30, 2002, the following table represents operating expenses within both natural and functional classifications:

	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Fees Retained by the Board	Total
Instruction	\$ 5,447,406	\$ 1,165,959	\$ 845,713	\$ -	\$ 50,626	\$ -	\$ -	\$ 7,509,704
Research	22,499	1,265	(6,315)					17,449
Public service	498,645	88,919	50,683		370			638,617
Academic support	818,496	197,069	464,536	1,570	180			1,481,851
Student services	1,313,460	323,049	513,906	810	40,650			2,191,875
General institutional support	1,663,101	382,197	662,145		(5,160)			2,702,283
Operations and maintenance of plan	634,374	161,531	239,539	426,182				1,461,626
Student financial aid					2,037,625			2,037,625
Auxiliary enterprises	273,872	60,127	1,305,815	32,551				1,672,365
Depreciation						980,657		980,657
Other			29,288				96,414	125,702
Total	<u>\$ 10,671,853</u>	<u>\$ 2,380,116</u>	<u>\$ 4,105,310</u>	<u>\$ 461,113</u>	<u>\$ 2,124,291</u>	<u>\$ 980,657</u>	<u>\$ 96,414</u>	<u>\$ 20,819,754</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 Bluefield State College Governing Board

We have audited the financial statements of Bluefield State College (the "College") as of and for the year ended June 30, 2002, and have issued our report thereon dated October 24, 2002, which contains a consistency paragraph for the adoption of Governmental Accounting Standards Board ("GASB") Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the College's internal control over financial reporting and its operation that we consider to be material weaknesses.

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

October 24, 2002