Concord College

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

CONCORD COLLEGE

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Concord College

Management's Discussion & Analysis
For the Year Ended June 30, 2002

Concord College (the "College") is pleased to present its combined financial statements for the year ended June 30, 2002. The three statements reporting the financial results of the College are the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and, the Statement of Cash Flows. Each of these statements is discussed below.

The Governmental Accounting Standards Board ("GASB") issued a new directive for presentation of college and university financial statements for fiscal years beginning after June 15, 2001. The previous reporting format presented financial balances and activities by different fund groups. The new format places emphasis on the overall economic resources of the College with all fund groups combined. Depreciation of capital assets is now included as an expense, and State appropriations are shown as non-operating revenue. This is the first fiscal year for this new reporting format.

Financial Highlights

On an accrual basis, before a one-time transfer of the Debt Obligation Due Commission ("Debt Obligation"), combined net assets increased .2% in fiscal year 2002. After transfer of the Debt Obligation, combined net assets decreased by 2.5%. This includes all plant, equipment and current assets of a restricted, dedicated or unrestricted nature for federal programs and auxiliary enterprises, as well as the education and general operations of the College.

Statement of Net Assets

The Statement of Net Assets presents the Assets (current and non-current), Liabilities (current and non-current), and Net Assets (assets minus liabilities) of the College as of the end of the fiscal year. Assets denote the resources available to continue the operations of the College. Liabilities indicate how much the College owes vendors and lending institutions. Net Assets provide a way to measure the financial position of the College.

The Statement of Net Assets is similar to a balance sheet in format. It presents information about the resources available to the College and claims against those resources. Both resources and claims are classified in a format: that segregates assets that are not, or are not intended to be available within the next year for operations, and liabilities which are not expected to be due within the next year.

Net Assets are displayed in three major categories:

1) *Invested in capital assets, net of related debt*. This category 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.

2) *Restricted Net Assets*. This category includes net assets whose use is restricted either due to externally imposed constraints or because of restrictions imposed by law. They are further divided into two additional components - expendable and nonexpendable. **Expendable restricted net assets** include resources in which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties. **Nonexpendable restricted net assets** include 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.

3) *Unrestricted Net Assets*. This category represents the resources derived primarily from tuition and fees, state appropriations and sales and services of educational activities that are not restricted. These resources are used for transactions related to the educational and general operations of the College, and may be used at the discretion of the College's Governing Board to meet current expenses for any purpose.

<u>Net Assets</u>
June 30, 2002

			Percent
Assets			
Current Assets	$	9,518,822	26.39%
Non-Current Assets		26,549,686	73.61%
Total Assets		36,068,508	100.00%
Liabilities			
Current Liabilities		3,610,999	45.61%
Non-Current Liabilities		4,306,287	54.39%
Total Liabilities		7,917,286	100.00%
Net Assets			
Invested in Capital Assets, Net of Related Debt		21,535,089	76.50%
Restricted			
Expendable		4,346,618	15.44%
Non-expendable		100,000	0.35%
Unrestricted		2,169,515	7.71%
Total Net Assets	$	28,151,222	100.00%

An indicator of the short-term financial health of the College is the ratio of current assets to current liabilities (current ratio). At June 30, 2002 the current ratio was 2.63 to 1.00, indicating that the College has sufficient available resources to meet its obligations.

At the end of fiscal year 2002, total College assets were $36.1 million. The College's investment in physical plant was the largest asset held by the College with a total investment of $22.3 million at June 30, 2002. Cash and cash equivalents were $8.1 million at year-end. The receivable, Loans to Students at $ .7 million net of an allowance, is the second largest current asset of the College.

The College's total liabilities were $ 7.9 million at June 30, 2002. Long-term debt of $4.3 million consists of Advances from Federal Sponsors, Compensated Absences, Deposits and Debt Obligations.

Significant Changes in Net Assets

The College reported a decrease in net assets at year end June 30, 2002 as opposed to an increase in the prior year. The GASB Statements No. 34 and 35 have been fully implemented for the College as of the year ended June 30, 2002. These new standards for accounting and reporting for not-for-profit organizations has resulted in several changes to the total net assets and accounted for the reduction in net assets for this fiscal year end.

Unrestricted net assets comprise 7.71% of the total net assets of the College.

The restatement effect of the "change in accounting principle" accounted for a decrease in the total net assets of the College in the amount of approximately $18.9 million. The items included in the restatement were an adjustment for prior periods depreciation expense, reclassifying federal loan programs, and the reclassifying of certain grant and contract revenue**.** The current year's depreciation expense has been recorded in the amount of $1.1 million for the year ended June 30, 2002.

The Debt Obligation is the result of the assignment of long-term system debt by the West Virginia Higher Education Policy Commission, ("Commission"). The total net assets of the College were reduced and no new assets received in exchange. This Debt Obligation due Commission reported on the Statement of Net Assets for the College is debt for bonds issued previously by the Commission.

The College has recorded a liability of $.8 million for this debt. This debt was recorded as a transfer, which resulted in a decrease in net invested in capital assets as of June 30, 2002. The principal payment for this debt for the fiscal year ended June 30, 2003 will amount to $92,805, as determined by the Commission, and is reported as a current liability as Debt Obligation due commission on the Statement of Net Assets of the College.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets presents revenues of the College (operating and non-operating), the expenses of the College (operating and non-operating), and any other revenues, expenses, gains and losses of the College for the year ended June 30, 2002. State Appropriations, while budgeted for operations, are considered and reported as non-operating revenues. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

<u>Revenues, Expenses and Changes in Net Assets</u>
For the Year Ended June 30, 2002

Operating Revenues	$ 19,601,346
Operating Expenses	29,376,548
Operating Loss	(9,775,202)
Non-operating Revenues	10,337,912
Non-operating Expenses	516,473
Net Non-operating Revenues	9,821,439
Income before other Revenues, Expenses, Gains or Loses	46,237
Other Revenues, Expenses, Gains or Losses	11,500
Transfer of Liability from Commission	(781,147)
Decrease in Net Assets	(723,410)
Net Assets at Beginning of Year - Restated	28,874,632
Net Assets at End of Year	$ 28,151,222

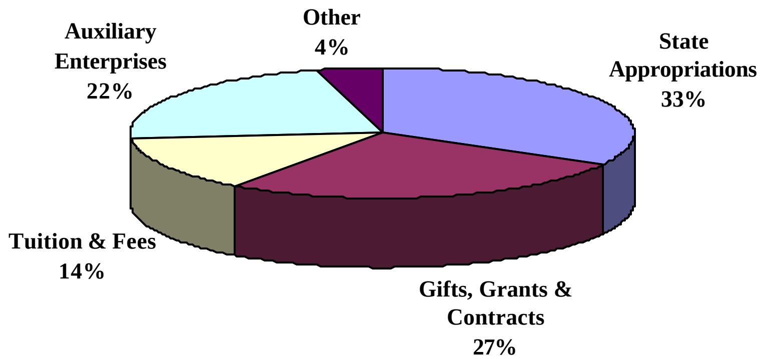
Revenues:

Major sources of revenue for the College are program and general revenues. The following is list of the sources of the total revenue reported for the year ended June 30, 2002.

Program revenues (by major source)	
Tuition & fees before allowances	$ 8,113,233
Less scholarship discounts & allowances	(4,051,506)
	4,061,727
Research grants & contracts	8,044,371
Auxiliary enterprise sales & services, net	6,643,582
Miscellaneous	851,666
General revenues (by major source)	
State appropriations	9,902,040
Investment income	435,872
Capital gifts and grants	11,500
Total revenues	$ 29,950,758

The following is a graphic illustration of revenues by source and the percentage distribution of these revenues.

TOTAL REVENUES
For the year ended June 30, 2002



The majority of the total revenue was derived from four major sources with state appropriations at 33%, tuition and fees at 14%, auxiliary enterprises at 22% and gifts, grants and contracts at 27%. The majority of gifts, grants and contracts are restricted revenues, and are not available for general use in the operations of the College.

The total operating revenues for the year ended June 30, 2002, increased by 2% over the previous year. The increase was created by raising the tuition and fees charged to students by approximately 4%, offset by a decrease in full time student enrollment of .9%. Operating revenues were decreased by the adjustment of discounts and allowances for scholarships for the year ended June 30, 2002. This allowance for scholarships increased over the previous year by 18.1%. Growth in restricted revenues amounted to 16% over the previous year.

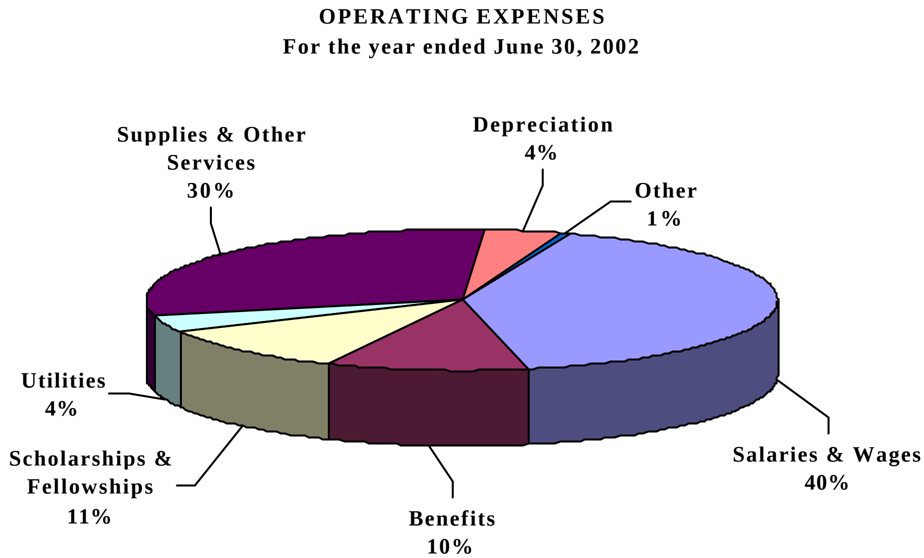
Operating Expenses:

The operating expenses of the College by natural classification are as follows:

Salaries	$ 12,006,670
Benefits	3,043,386
Supplies	8,738,297
Utilities	1,183,435
Student financial aid and fellowships	3,112,816
Depreciation	1,138,070
Other	153,874
Total Operating Expenses	$ 29,376,548

Salary and benefit costs comprised approximately 50% of the total operating expenses of the College for the year ended June 30, 2002. This reflects an increase in these costs over the prior year of 5%. The increase in PEIA employer contributions of 2% was made effective at July 1, 2001. Scholarships, personnel expense and insurance premiums are the main categories of increased cost.

The following is a graphic illustration of operating expenses.



Statement of Cash Flows

The Statement of Cash Flows provides information about the cash receipts, cash payments, and net change in cash resulting from the operating, investing, and financing capital and non-capital activities of the College during the year. This statement helps users assess the College's ability to generate net cash flows, its ability to meet obligations as they come due, and its need for external financing.

The Statement of Cash Flows is divided into five parts:

1) *Cash flows from operating activities*. This section shows the net cash used by the operating activities of the College.

2) *Cash flows from non-capital financing activities*. This section reflects the cash received and paid for non-operating, non-investing, and non-capital financing purposes.

3) *Cash flows from capital and related financing activities*. This section includes cash used for the acquisition and construction of capital and related items.

4) *Cash flows from investing activities*. This section shows the purchases, proceeds, and interest received from investing activities.

5) *Reconciliation of net cash used to operating loss.* This part provides a schedule that reconciles the accrual-based operating loss and net cash flow used in operating activities.

Cash Flows
For the Year Ended June 30, 2002

Cash Provided (Used) By:	
Operating Activities	$ (8,093,364)
Non-capital Financing Activities	9,939,556
Investing Activities	(1,452,412)
Capital and Financing Related Activities	392,292
Increase in Cash	786,072
Cash, Beginning of Year	7,290,013
Cash, End of Year	$ 8,076,085

The College generated a positive cash flow for the year ending June 30, 2002. This positive cash flow was due to the increase in restricted funds. The balance reported in the Statement of Cash Flows, accounts for current cash and cash equivalents. The State appropriations are not included as a part of the operating activities but are reported as non-capital financing activities.

Capital Asset and Long Term Debt Activity

The College's capital asset additions for the fiscal year ended June 30, 2002, amounted to a total of $1,432,637. These improvements included exterior renovations, concrete improvements, and a new roof for Carter Hall; a new fire alarm system for the Towers residential housing units; replacement of air conditioning chillers with computer monitoring for greater efficiency in the Administration Building; an upgrade of the swimming pool and a new roof for the Physical Education Building; a new roof for the Science Building; and parking lot improvements. Modifications for compliance with the American Disability Act, including new sidewalks, door closures and other related work were also included in the projects started during the fiscal year.

As part of the State College System, the College made a significant investment in Banner finance and accounting software, unifying the campus with common software since the other campus modules were already using Banner.

The College obtained a $1.9 million grant to help fund renovations to White Hall. Other funds are being sought. Architectural design work began on limited scale in the fiscal year ended June 30, 2002. The total cost of the project is estimated to be $6.2 million and it is likely to take approximately two years to complete.

The College has no bond issues outstanding nor has it liquidated any bond issues during the fiscal year ended June 30, 2002. The long-term debt reported on the Statement of Net Assets consists of Debt Obligation transferred from the Commission.

There have been no significant changes in the credit rating or the availability of credit for the College during the fiscal year ended June 30, 2002.

Economic Outlook

The College's financial position is closely tied to that of the State of West Virginia and is therefore subject to the ups and downs of the state's economy. State appropriations contribute approximately 33% of all revenues. State agencies in West Virginia have been advised to plan for potential reductions in the FY 03 state appropriations, and significant increases in premiums for employee health insurance.

Undergraduate tuition at the College remains below the range of peer averages and the College continues to offer an exceptional educational value in the marketplace.

INDEPENDENT AUDITORS' REPORT

To the Concord College Governing Board

We have audited the accompanying combined financial statements of Concord 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the College at June 30, 2002, and the 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 on pages 1 to 8 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. 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 did not audit such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 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 11, 2002

CONCORD COLLEGE

COMBINED STATEMENT OF NET ASSETS
JUNE 30, 2002

ASSETS:	
Current Assets:	
Cash and cash equivalents	$ 8,076,085
Due from Commission	44,316
Accounts receivable	364,301
Loans to students, current portion	652,523
Prepaid expenses	43,186
Inventories	338,411
Total current assets	9,518,822
Noncurrent Assets:	
Cash and cash equivalents	2,520,645
Loans to students, net of allowance of $276,729	1,712,805
Investment in plant, net	22,316,236
Total noncurrent assets	26,549,686
TOTAL ASSETS	$ 36,068,508

(Continued)

CONCORD COLLEGE

COMBINED STATEMENT OF NET ASSETS
JUNE 30, 2002

LIABILITIES:	
Current Liabilities:	
Accounts payable	$ 509,104
Accrued liabilities	1,251,856
Due to the Commission	14,587
Compensated absences, current portion	647,368
Debt obligation due Commission, current portion	92,805
Deferred revenue	1,095,279
Total current liabilities	3,610,999
Noncurrent Liabilities	
Advances from federal sponsors	2,210,418
Deposits	59,778
Compensated absences, noncurrent portion	1,347,749
Debt obligation due Commission	688,342
Total noncurrent liabilities	4,306,287
TOTAL LIABILITIES	7,917,286
NET ASSETS:	
Invested in capital assets, net of related debt	21,535,089
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	100,000
Expendable:	
Specific purposes by State Code	2,215,214
Loans	295,999
Capital projects	1,835,405
Total expendable	4,346,618
Unrestricted	2,169,515
Total net ssets	28,151,222
TOTAL LIABILITIES AND NET ASSETS	$ 36,068,508

See notes to combined financial statements (Concluded)

CONCORD 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 $4,051,506)	$ 4,061,727
Contracts and grants:	
Federal	5,440,987
State	2,059,849
Private	543,535
Interest on student loans receivable	34,692
Sales and services of educational activities	28,725
Auxiliary enterprise revenue (net of scholarship allowance of $3,413)	6,643,582
Miscellaneous - net	788,249
Total operating revenues	19,601,346
OPERATING EXPENSES:	
Salaries and wages	12,006,670
Benefits	3,043,386
Supplies and other services	8,738,297
Utilities	1,183,435
Student financial aid - scholarships and fellowships	3,112,816
Depreciation	1,138,070
Loan cancellations and write-offs	19,354
Fees assessed by the Commission for operations	134,520
Total operating expenses	29,376,548
OPERATING LOSS	$ (9,775,202)

(Continued)

CONCORD COLLEGE

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

NONOPERATING REVENUES (EXPENSES):	
State appropriations	$ 9,902,040
Investment income	435,872
Fees assessed by the Commission for debt service and reserves	(504,841)
Other nonoperating expenses - net	(11,632)
Net nonoperating revenues	9,821,439
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	46,237
Capital grants and gifts	11,500
INCREASE IN NET ASSETS BEFORE TRANSFERS	57,737
TRANSFER OF LIABILITY FROM POLICY COMMISSION	(781,147)
DECREASE IN NET ASSETS	(723,410)
NET ASSETS, BEGINNING OF YEAR (AS RESTATED)	28,874,632
NET ASSETS, END OF YEAR	$ 28,151,222

See notes to combind financial statements (Concluded)

CONCORD COLLEGE

COMBINED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2002

CASH FLOWS FROM OPERATING ACTIVITIES:	
Student tuition and fees	$ 7,828,522
Contracts and grants	8,368,861
Payments to and on behalf of employees	(14,918,319)
Payments to suppliers	(8,379,964)
Payments to utilities	(1,168,561)
Payments for scholarships and fellowships	(6,849,354)
Loans issued to students	(420,035)
Collection of loans to students	240,876
Sales and service of educational activities	28,725
Auxiliary enterprise charges	6,741,110
Fees assessed by Commission	(134,520)
Other receipts - net	569,295
Net cash used in operating activities	(8,093,364)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
State appropriations	9,902,040
Advances from federal sponsor	25,884
Other - net	11,632
Cash provided by noncapital financing activities	9,939,556
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:	
Capital grants and gifts received	11,500
Purchases of capital assets	(1,328,179)
Decrease in noncurrent cash and cash equivalents	369,108
Fees assessed by the Commission for debt service and reserves	(504,841)
Net cash used in capital financing activities	(1,452,412)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest on investments	392,292
Cash provided by investing activities	392,292
INCREASE IN CASH AND CASH EQUIVALENTS	786,072
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	7,290,013
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 8,076,085

(Continued)

CONCORD 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	$ (9,775,202)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation expense	1,138,070
Changes in assets and liabilities:	
Accounts receivables, net	(66,657)
Loans to students, net	(119,708)
Prepaid expenses	16,185
Inventories	79,060
Due from Commission, net	111,383
Accounts payable	48,109
Accrued liabilities	52,193
Compensated absences	136,968
Deferred revenue	283,560
Deposits held in custody for others	2,675
NET CASH USED IN OPERATING ACTIVITIES	$ (8,093,364)

See notes to combined financial statements. (Concluded)

1. ORGANIZATION

Concord College (the "College") is governed by the Concord 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 Directors 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 Directors and was transferred each valid agreement and obligation previously transferred to or vested in the Board of Directors.

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 is 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 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 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 its component unit, Concord College Research and Development Corporation (the "Research Corporation"), which was formed on July 28, 1999 as a non-profit, non-stock corporation. The Research Corporation is included on the Blended Method. 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. A related Foundation and Alumni Association of the College are not part of the College reporting entity and are not included in the accompanying combined financial statements as the College, has no ability to designate management, cannot significantly influence operations of these entities, and is not accountable for the fiscal matters of the Foundation and Alumni Association.

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 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 Statements No. 34 and 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.

  The West Virginia Legislature, as a regulatory body outside the reporting entity, has restricted the use of certain funds by "Article 10, Fees and Other Money Collected at State Institutions of Higher Education" of the West Virginia Code. These restrictions are primarily for the following: debt service; graduate or branch colleges; off campus instruction; student unions; public interest research group; libraries, library supplies, and improvement in student services; faculty improvement; health education student loan fund; health sciences education; athletic programs; student activities; auxiliary operations; bookstore operations; and special programs. These activities are fundamental to the normal ongoing operations of the institution. These restrictions are subject to change by future actions of the West Virginia Legislature.

- *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.

- *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 Statements No. 34 and No. 35 requires the statements of net assets, revenues, expenses, and changes in net assets, and cash flows to be reported on a entitywide 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
Fund balances, as previously reported	$ 47,788,928
Accumulated depreciation	(16,039,310)
Reclassification of grant and contract revenue	(659,667)
Reclassification of federal loan programs (Perkins)	(2,215,319)
Fund balances, restated as net assets	$ 28,874,632

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 15 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 extends health insurance for one year of single coverage and five years extends health insurance for one year of family coverage.

The estimate of the liability for the extended health or life insurance benefit has been calculated using the vesting method in accordance with the provisions of GASB Statement No. 16. Under that method, the College has identified the accrued sick leave benefit earned to date by each employee, determined the cost of that benefit by reference to the benefit provisions and the current cost experienced by the College for such coverage, and estimated the probability of the payment of that benefit to employees upon retirement.

The estimated 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, (4) federal appropriations, and (5) 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 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 Stafford Loan Program. The activity of this program is not recorded in the accompanying combined financial statements. The College received and disbursed approximately $4 million in 2002 under the Federal Stafford Loan Program on behalf of the U.S. Department of Education.

The College also distributes other student financial assistance funds on behalf of the federal government to students under the 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 $3.2 million 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 University 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:			
College	$ 7,515,930	$ 471,381	$ 7,987,311
Municipal Bond Commission for the College		1,835,405	1,835,405
Cash in bank	518,850	213,859	732,709
Cash on hand	41,305		41,305
	$ 8,076,085	$ 2,520,645	$ 10,596,730

Cash shown above as held by the Municipal Bond Commission represents repair and replacement reserve funds. Other cash held by the State Treasurer includes $1,547,461 of restricted cash for future use for grants, loans and fixed assets.

The combined carrying amounts of cash in the bank at June 30, 2002 was $732,709, as compared with the combined bank balance of $770,205. The difference is primarily caused by deposits in transit and outstanding checks. 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 Treasurer is a noncategorized deposit in accordance with GASB Statement No. 3, *Deposits With Fnancial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements*.

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 {University / 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 {University / College's} financial statements.

4. ACCOUNTS RECEIVABLE

Accounts receivable were as follows at June 30, 2002:

Student tuition and fees, net of allowance for doubtful accounts of $83,103	$ 84,679
Grants and contracts receivable	217,219
Other accounts receivable	62,403
	$364,301

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	$ 194,303	$ -	$ -	$ 194,303
Construction in progress	103,296	888,687	(991,983)	
Total capital assets not being depreciated	$ 297,599	$ 888,687	$ (991,983)	$ 194,303
Other capital assets:				
Land Improvements	$ -	$ 69,034	$ -	$ 69,034
Buildings	32,767,945	922,949		33,690,894
Equipment	3,914,955	346,734	(248,076)	4,013,613
Leased Equipment				
Library Books	1,195,408	93,920	(20,659)	1,268,669
Total other capital assets	37,878,308	1,432,637	(268,735)	39,042,210
Less accumulated depreciation for:				
Land Improvements		(2,301)		(2,301)
Buildings	(13,659,523)	(621,189)		(14,280,712)
Equipment	(2,188,522)	(489,732)	236,444	(2,441,810)
Leased Equipment				
Library Books	(191,265)	(24,848)	20,659	(195,454)
Total accumulated depreciation	(16,039,310)	(1,138,070)	257,103	(16,920,277)
Other capital assets, net	$21,838,998	$ 294,567	$ (11,632)	$22,121,933
Capital asset summary:				
Capital assets not being depreciated	$ 297,599	$ 888,687	$ (991,983)	$ 194,303
Other capital assets	37,878,308	1,432,637	(268,735)	39,042,210
Total cost of capital assets	38,175,907	2,321,324	(1,260,718)	39,236,513
Less accumulated depreciation	(16,039,310)	(1,138,070)	257,103	(16,920,277)
Capital assets, net	$22,136,597	$ 1,183,254	$(1,003,615)	$22,316,236

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
Long-term liabilities:					
Advances from federal sponsors	$2,184,534	$ 25,884	$ -	$2,210,418	$ -
Deposits held in custody for others	57,103	2,675		59,778	
Accrued compensated absences	1,199,663	795,454		1,995,117	647,368
Debt obligation due Commission		781,147		781,147	92,805
Total long-term liabilities	$3,441,300	$1,605,160	$ -	$5,046,460	$740,173

7. COMPENSATED ABSENCES

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

Health or life insurance benefits	$ 1,341,053
Accrued vacation leave	654,064
	$ 1,995,117

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 $60,835. As of June 30, 2002, there were 31 retirees currently eligible for these benefits.

8. OPERATING LEASE OBLIGATIONS

The College leases various equipment, automobiles, and facilities under operating lease agreements. Aggregate payments under these agreements approximated $83,715 for the year ended June 30, 2002. Future minimum rental commitments are as follows as of June 30, 2002:

2003	$ 61,536
2004	44,230
2005	27,125

9. 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 amount allocated to the College during fiscal 2002 was $781,147.

10. RETIREMENT PLANS

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

The STRS is a cost sharing, defined benefit public employee retirement system. Employer and employee contribution rates are established annually by the State Legislature. The College accrued and paid its contribution to the STRS at the rate of and 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 salary out of the last 15 years) multiplied by the number of years of service.

The TIAA-CREF is a defined contribution benefit plan in which benefits are based solely upon amounts contributed plus investment earnings. Employees who elect to participate in this plan are required to make a contribution equal to 6% of total annual compensation. The College 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 $452,925, $436,262, and $445,697, respectively, which consisted of $323,518, $311,616, and $318,276 from the College, and $129,407, $124,646, and $127,42 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 Pubic 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 $968,141, $910,050, and $843,348, respectively, which consisted of contributions of $484,070, $455,041, and $421,300 from the College and $484,071, $455,009, and $422,048 from the covered employees in 2002, 2001 and 2000, respectively.

The College's total payroll for the years ended June 30, 2002 was $11,630,129; total covered employees' salaries in the STRS and TIAA-CREF were $2,156,786 and $8,067,843 in 2002, respectively.

11. FOUNDATION (UNAUDITED)

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

The Foundation's net assets, all of which are principally restricted, totaled approximately $14,273,000 at June 30, 2002. The net assets include amounts which are restricted by donors to use for specific projects or departments of the College and its affiliated organizations. Contributions to the Foundation, which are not reflected in the accompanying combined financial statements, totaled approximately $561,000 for the year ended June 30, 2002. During the year ended June 30, 2002, the Foundation contributed approximately $263,000 to the College for scholarships. In addition, the Foundation contributed approximately $131,000 for the year ended June 30, 2002 to the College for other administrative purposes.

12. AFFILIATED ORGANIZATION

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

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. SUBSEQUENT EVENT

In late July 202, the College became aware of the mold problem. The College has committed to remediate the mold problem and repairs to the HVAC System in the Science building at an estimated cost of $550,000.

15. 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	Loan Cancellations and Write-offs	Fees Assessed by the Commission	Total
Instruction	$ 6,704,905	$ 1,545,071	$ 1,677,117	$ 29,703	$ 160,672	$ -	$ -	$ -	$ 10,117,468
Research									
Public service	116,947	22,431	145,833	548					285,759
Academic support	574,221	134,318	227,426	10,858	140				946,963
Student services	769,276	172,094	799,070	9,616	31,674				1,781,730
General institutional support	1,603,364	424,409	671,734	72,473	1,627				2,773,607
Operations and maintenance of plant	389,808	167,026	1,013,747	581,676					2,152,257
Student financial aid					2,918,703				2,918,703
Auxiliary enterprises	1,848,149	578,037	4,203,370	478,561					7,108,117
Depreciation						1,138,070			1,138,070
Other							19,354	134,520	153,874
Total	$ 12,006,670	$ 3,043,386	$ 8,738,297	$ 1,183,435	$ 3,112,816	$ 1,138,070	$ 19,354	$ 134,520	$ 29,376,548

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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 Concord College Governing Board

We have audited the combined financial statements of Concord College (the "College") as of and for the year ended June 30, 2002, and have issued our report thereon dated October 11, 2002, which contains a consistency exception for the adoption of Governmental Accounting Standards Board 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 combined 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 combined 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 Concord College Governing Board, management 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 11, 2002