West Liberty State College

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

WEST LIBERTY STATE COLLEGE

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Overview of the Financial Statements and Financial Analysis

West Liberty State College ("WLSC") is proud to present its financial statements for fiscal year 2002. The emphasis of discussions about these statements will be for the year ended June 30, 2002. There are three financial statements presented: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. This discussion and analysis of WLSC's financial statements provides an overview of its financial activities for the fiscal year 2002 and is required supplemental information.

The Governmental Accounting Standards Board (GASB) issued new directives for presentation of college and university financial statements. The previous reporting format presented financial balances and activities by fund groups. The new format places emphasis on the overall economic resources of WLSC. This is the first fiscal year for this new format.

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of WLSC as of June 30, 2002. The purpose of the Statement of Net Assets is to present to the readers of the financial statements a fiscal snapshot of West Liberty State College. The Statement of Net Assets presents end-of-year data concerning Assets (current and noncurrent), Liabilities (current and noncurrent), and Net Assets (Assets minus Liabilities). The difference between current and noncurrent assets and liabilities are discussed in the footnotes to the financial statements.

From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of WLSC. They are also able to determine how much is owed to vendors and lending institutions.

Finally, the Statement of Net Assets provides a picture of the net assets and their availability for expenditure by WLSC.

Net assets are divided into three major categories. The first category, invested in capital assets, provides equity in the property, plant and equipment owned by WLSC, with title held by the West Virginia Higher Education Policy Commission ("HEPC"). The next asset category is restricted net assets, which is divided into two categories, nonexpendable (permanently restricted) and expendable. Expendable restricted net assets are available for expenditure but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. Within expendable net assets are balances that have been restricted by the West Virginia Legislature ("Legislature"). These restricted activities are fundamental to the normal ongoing operations of WLSC and are subject to change by future actions of the Legislature. The final category is unrestricted net assets, which are available for expenditure for any lawful purpose of WLSC.

Net Assets
(In thousands of dollars)

	June 30, 2002
Assets:	
Current assets	$ 3,334
Other non-current assets	1,199
Capital assets, net	27,669
Total Assets	$ 32,203
Liabilities	
Current Liabilities	$ 3,232
Non-current Liabilities	10,052
Total Liabilities	13,284
Net Assets (Deficit)	
Invested in capital assets	20,299
Restricted – expendable	1,260
Unrestricted	(2,640)
Total Net Assets	18,919
Total Liabilities and Net Assets	$ 32,203

GASB Statement No. 35 does not require inclusion of prior year's financial statements in management's discussion and analysis for comparative purposes during the implementation year. Comparative information will be provided in the future.

Statement of Revenues, Expenses and Changes in Net Assets

Changes in total net assets, as presented on the Statement of Net Assets, are based on the activities presented in the Statement of Revenues, Expenses, and Changes in Net Assets ("SRECNA"). The purpose of the SRECNA is to present the revenues received, both operating and nonoperating, and the expenses paid, operating and nonoperating, and any other revenues, expenses, gains and losses received or spent by WLSC.

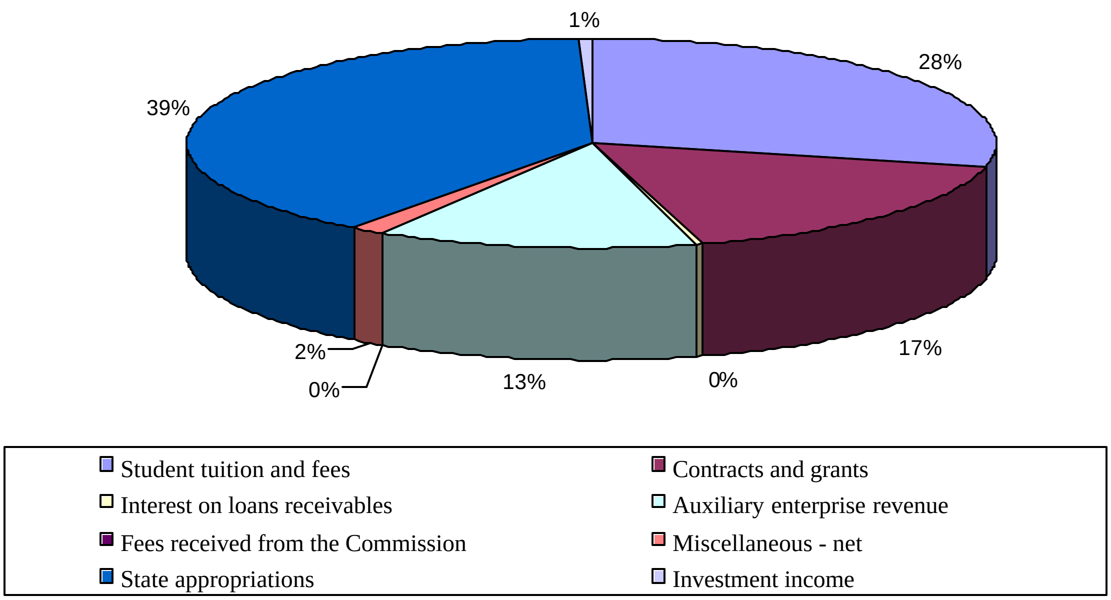
Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of WLSC. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the WLSC mission. Revenues received for which goods and services are not provided are reported as nonoperating revenues. For example, State appropriations are nonoperating revenues because they are provided by the Legislature to WLSC without the Legislature directly receiving commensurate goods and services for those revenues.

Revenues, Expenses and Changes in Net Assets
(In thousands of dollars)

	FY 2002
Operating revenues	$ 16,045
Operating expenses	25,734
Operating loss	(9,689)
Nonoperating revenues and expenses	9,509
Decrease in net assets before transfer	(180)
Transfer of Liability From Policy Commission	4,834
Decrease in net assets	(5,014)
Net assets, beginning of year (as restated)	23,933
Net assets, end of year	$ 18,919

A review of the individual revenue and expense categories that contributed to the overall increase in net assets reveals the following:

FY 2002 Total Revenues
Operating, Nonoperating, and Capital



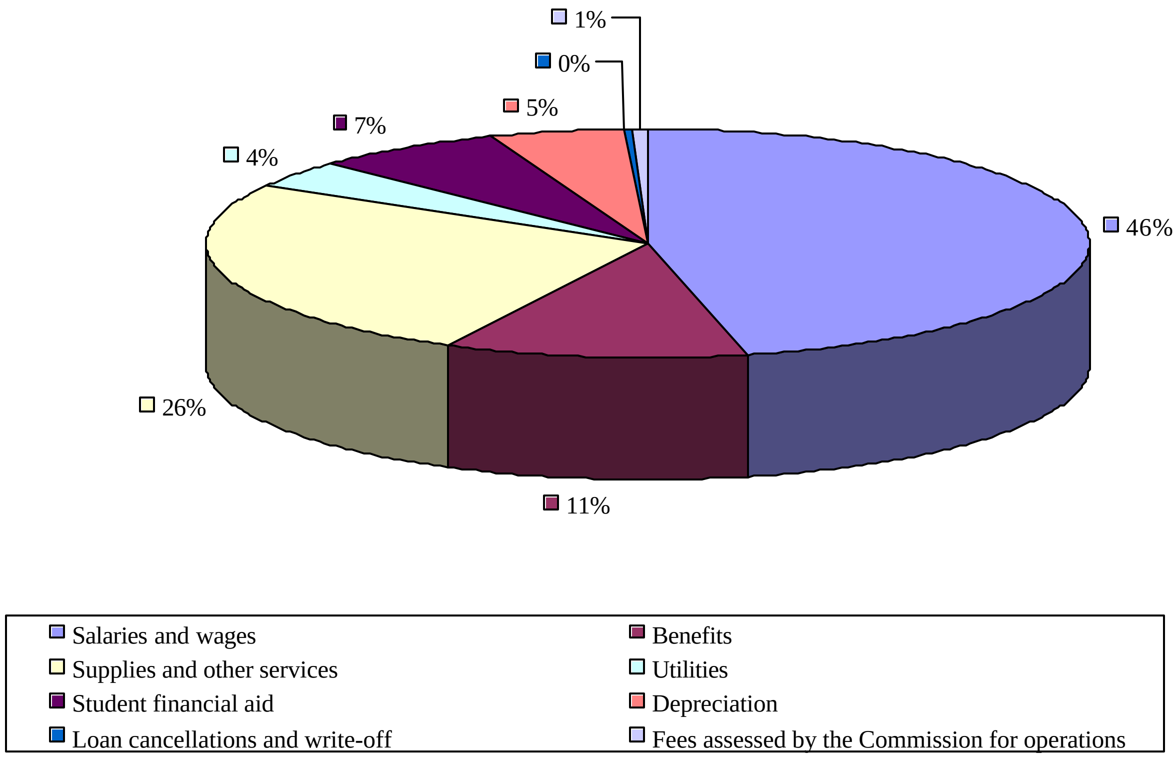
- Student tuition and fees (net of scholarship allowance) made up 47.5% of WLSC's operating revenues and, as the pie chart shows, 28% of total revenues. Tuition and fee revenues increased over the previous year because both resident and non-resident tuition and fees were increased by 3.97% for resident and 6.62% for non-residents. We also entered the fourth year of increased enrollment.

- Other operating revenues such as noncapital grants and contracts, revenues from auxiliary enterprises, fees received from the HEPC, and other operating revenues comprised 52.5% of WLSC's operating revenues and, as the pie chart shows, 32% of total revenues.

- Nonoperating revenues from the State consisted mainly of appropriated State funds and a very small amount of appropriated Lottery Special Revenue funds. These State appropriations accounted for 39.6% of total operating and nonoperating revenues in FY 2002. These funds are used to support the operations of WLSC.

- Investment income made up of less than 1% of total operating and nonoperating revenues in FY 2002. WLSC participates in the investment pool managed by the State.

FY 2002 Operating Expenses



- The salaries and wages, and employee benefits categories made up approximately 57% of the operating expenses of WLSC. A pool of money equal to 3.71% of the base salaries of all filled faculty, classified, and non-classified positions was made available to distribute to each group of employees. Faculty increases were distributed in accordance with the WLSC Faculty Salary Policy. With rounding and promotion in rank increases included, the faculty pool of money equaled 3.25%. All classified employees who were not at the equity step were brought to 50% of the equity step on the new Mercer Schedule and all other classified staff advanced 16% on the new schedule. With rounding, the classified staff pool of money equaled 5.0%. With rounding, the pool of money used to increase the non-classified staff equaled 2.9%. Benefit costs also increased because of increased employer matching for Public Employees Insurance Agency premiums as well as other matching costs for social security, worker's compensation, etc., associated with raises granted.

Statement of Cash Flows

The Statement of Cash Flows presents detailed information about the cash activities of WLSC 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 WLSC. 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 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 $1.1 million for the fiscal year.

Cash Flows
(In thousands of dollars)

	FY 2002
Cash provided by (used in):	
Operating activities	($ 7,568)
Non capital financing activities	10,513
Capital financing activities	(2,028)
Investing activities	179
Increase in cash and cash equivalents	1,096
Cash and cash equivalents, beginning of year	1,660
Cash and cash equivalents, end of year	$ 2,756

Capital Asset and Debt Administration

WLSC had a few renovations completed or started during FY 2002 that were added to capital assets. These projects were funded from a variety of sources including a Federal and private grants, and use of WLSC funds. No capital debt was incurred.

- WLSC has completed renovations for a roof replacement and Parapet wall restoration of Main Hall during FY 2002. Our Dental Hygiene Clinic was renovated with new education lab equipment with a Federal Grant from Congressmen Alan Monahan and from WLSC funds. The tuition and registration fee revenues deposited in the Capital Building/Land Improvement account are dedicated for these types of projects.

- Several land improvements were completed or started in FY 2002. Our campus lighting system was being upgraded in the Quad area. Sidewalks and road paving was completed in phase II of our Campus Master Plan.

- In FY 2003, WLSC is submitting a request to the HEPC for a new Technology and Renovation upgrades that may be funded through the sale of bonds guaranteed with Capital Fee proceeds.

Economic Outlook

During the 2000 West Virginia Legislative Session, the governance of higher education in the State was changed. During FY 2001, the governance was vested with the West Virginia Higher Education Interim Governing Board (Interim Governing Board) and, to some extent, the HEPC through June 30, 2001. The HEPC is responsible for developing and overseeing the implementation of a higher education public policy agenda. Effective July 1, 2001 the Interim Governing Board was replaced with a Board of Governors on each campus. Although the impact of these changes is still unfolding, there is a potential impact to WLSC finances while details of the System wide debt redistribution are considered.

In addition, with less than promising economic forecasts for the State as well as looming deficits in Medicaid and the Public Employees Insurance Agency, no growth or slow growth in Lottery revenues, etc., and with approximately 52.2% operations funded by nonoperating State appropriations, WLSC may be vulnerable to spending freezes and/or a reduction in State appropriations if there is a significant downturn in the State's economy. All State agencies have been asked to submit State appropriation budget requests for FY 2004 at 90% of the FY 2003 level and WLSC is preparing a strategic plan to offset this anticipated 10% decrease in State funding. The plan has been partially implemented in FY 2003 to prepare for the potential 10% reduction in FY 2004 from nonoperating State appropriations. In FY 2003, both resident and non-resident tuition and fees are increasing by 9.22% and 13.25% respectively, while in FY 2004, we are projecting another additional increase for both resident and non-resident students in anticipation of a 10% reduction in State appropriations.

Although the economic forecasts for the State of West Virginia may be tenuous, WLSC is well positioned to attract and maintain students. Increases in non-resident students and class sizes, improved physical plant, and favorable comparison of academic programs at the national level with peer schools indicate that WLSC should be able to remain competitive for recruitment of new students.

INDEPENDENT AUDITORS' REPORT

To the West Liberty State College Governing Board

We have audited the accompanying financial statements of West Liberty 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 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 7 is not a required part of the 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

WEST LIBERTY STATE COLLEGE

STATEMENT OF NET ASSETS
JUNE 30, 2002

ASSETS:	
Current assets:	
Cash and cash equivalents	$ 2,756,000
Accounts receivable, net	199,220
Loans to students, current portion	270,000
Prepaid expenses	7,350
Inventories	101,871
Total current assets	3,334,441
Noncurrent assets:	
Cash and cash equivalents	230,579
Loans to students, net of allowance of $708,428	968,339
Capital assets, net	27,669,207
Total noncurrent assets	28,868,125
TOTAL ASSETS	$ 32,202,566

(Continued)

WEST LIBERTY STATE COLLEGE

STATEMENT OF NET ASSETS
JUNE 30, 2002

LIABILITIES:	
Current liabilities:	
Accounts payable	$ 1,048,087
Accrued liabilities	435,273
Deferred revenue	405,494
Compensated absences, current portion	731,567
Due to Commisssion, current portion	243,495
Capital leases, current portion	348,508
Bonds payable, current portion	19,000
Total current liabilities	3,231,424
Noncurrent liabilities:	
Advances from federal sponsors	1,603,710
Compensated absences	1,706,914
Due to Commission	4,590,548
Capital leases	2,050,186
Bonds payable	101,000
Total noncurrent liabilities	10,052,358
Total liabilities	13,283,782
NET ASSETS:	
Invested in capital assets, net of related debt	20,298,409
Restricted for:	
Expendable:	
Specific purposes by State Code	913,818
Scholarships	57,179
Debt service	57,391
Other	231,595
Total restricted expendable	1,259,983
Unrestricted	(2,639,608)
Total net assets	18,918,784
TOTAL LIABILITIES AND NET ASSETS	$ 32,202,566

See notes to financial statements. (Concluded)

WEST LIBERTY STATE COLLEGE

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 $1,401,137)	$ 7,615,801
Contracts and grants:	
Federal	3,435,952
State	828,663
Private	326,725
Interest on student loans receivable	39,753
Auxiliary enterprise revenue (net of scholarship allowance of $690,112)	3,394,301
Miscellaneous - net	403,749
Total operating revenues	16,044,944
OPERATING EXPENSES:	
Salaries and wages	11,932,370
Benefits	2,843,882
Supplies and other services	6,653,835
Utilities	1,027,275
Student financial aid - scholarships and fellowships	1,792,411
Depreciation	1,275,412
Loan cancellations and write-offs	54,743
Fees assessed by the Commission for operations	153,713
Total operating expenses	25,733,641
OPERATING LOSS	(9,688,697)

(Continued)

WEST LIBERTY STATE COLLEGE

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

NONOPERATING REVENUES (EXPENSES):	
State appropriations	$ 10,522,627
Investment income	179,381
Interest on indebtedness	(157,484)
Fees assessed by the Commission for debt service	(933,842)
Other nonoperating expenses - net	(101,659)
Net nonoperating revenues	9,509,023
DECREASE IN NET ASSETS BEFORE TRANSFER	(179,674)
TRANSFER OF LIABILITY FROM POLICY COMMISSION	4,834,043
DECREASE IN NET ASSETS	(5,013,717)
NET ASSETS, BEGINNING OF YEAR (AS RESTATED)	23,932,501
NET ASSETS, END OF YEAR	$ 18,918,784

See notes to financial statements (Concluded)

WEST LIBERTY STATE COLLEGE

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2002

CASH FLOWS FROM OPERATING ACTIVITIES:	
Student tuition and fees	$ 7,607,684
Contracts and grants	4,701,521
Payments to and on behalf of employees	(14,520,775)
Payments to suppliers	(6,257,725)
Payments to utilities	(1,027,275)
Payments for scholarships and fellowships	(1,792,411)
Loans issued to students	(320,960)
Collection of loans to students	280,224
Auxiliary enterprise charges	3,394,301
Fees assessed by Commission	(153,713)
Other receipts - net	520,949
Net cash used in operating activities	(7,568,180)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
State appropriations	10,522,627
William D. Ford direct lending receipts	7,355,750
William D. Ford direct lending payments	(7,365,475)
Cash provided by noncapital financing activities	10,512,902
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:	
Purchases of capital assets	(459,700)
Principal paid on bonds and leases	(398,819)
Interest paid on bonds and leases	(159,359)
Increase in noncurrent cash and cash equivalents	(76,412)
Fees assessed by Commission	(933,842)
Cash used in capital financing activities	(2,028,132)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest on invesments	179,381
Cash provided by investing activities	179,381
INCREASE IN CASH	1,095,971
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,660,029
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 2,756,000

(Continued)

WEST LIBERTY STATE COLLEGE

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2002

RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:	
Operating loss	$ (9,688,697)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation expense	1,275,412
Changes in assets and liabilities:	
Accounts receivable, net	87,428
Loans to students, net	14,007
Prepaid expenses	498
Inventories	14,280
Accounts payable	381,423
Accrued liabilities	56,008
Compensated absences	199,378
Deferred revenue	92,083
NET CASH USED IN OPERATING ACTIVITIES:	$ (7,568,180)

See notes to financial statements. (Concluded)

WEST LIBERTY STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2002

1. ORGANIZATION

West Liberty State College (the "College") is governed by the West Liberty 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 Boards 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 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 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 financial statements present all funds under the authority of the College. The basic criterion for inclusion in the accompanying 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 affiliate 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 the foundation and other affiliate.

***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.

  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; off campus instruction; graduate programs; student unions; libraries, library supplies, and improvement in student services; faculty improvement; athletic programs; student activities; auxiliary 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. 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.

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:

Combined fund balances, as previously reported	$ 41,077,012
Accumulated depreciation	(17,122,009)
Capitalization of assets and infrastructure	1,764,279
Reclassification of grant and contract revenue	(183,071)
Reclassification of federal loan programs (Perkins and NSL)	(1,603,710)
Combined fund balances, restated as net assets	$ 23,932,501

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 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 7 years for 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 (excluding portion for capital improvements), 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 Statement 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. Nonoperating revenues also exclude student fees which were billed for capital improvements.

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 $7,365,000 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 $2,701,878 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 statements.

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	$ 2,548,849	$ 109,970	$ 2,658,819
Municipal Bond Commission for the College		120,609	120,609
Cash in bank	207,151		207,151
	$ 2,756,000	$ 230,579	$ 2,986,579

Cash shown above as held by the Municipal Bond Commission represents debt service and other repair and replacement reserve funds required to be escrowed by the College's bond trust indentures. Other cash held by the State Treasurer includes $1,666,794 of restricted cash for specific purposes by State Code, loans and other sponsored projects.

The combined carrying amounts of cash in the bank at June 30, 2002 was $207,151 as compared with the combined bank balance of $176,182. 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 Treasurer is a noncategorized deposit 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 $254,382	$ 101,429
Due from the Commission	97,791
	$ 199,220

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	$ 100,000	$ -	$ -	$ 100,000
Other capital assets:				
Infrastructure	154,487	45,400		199,887
Buildings	38,815,519	773,475		39,588,994
Equipment	3,412,064	145,164	(69,105)	3,488,123
Leased equipment	173,613	150,092	(26,520)	297,185
Library books	2,360,207	43,818	(11,586)	2,392,439
Total other capital assets	44,915,890	1,157,949	(107,211)	45,966,628
Less accumulated depreciation for:				
Infrastructure	2,866	7,724		10,590
Buildings	14,359,062	639,558		14,998,620
Equipment	2,699,445	261,537		2,960,982
Leased equipment	60,636	27,118		87,754
Library books		339,475		339,475
Total accumulated depreciation	17,122,009	1,275,412		18,397,421
Other capital assets, net	$ 27,793,881	$ (117,463)	$ (107,211)	$ 27,569,207
Capital asset summary:				
Capital assets not being depreciated	$ 100,000	$ -	$ -	$ 100,000
Other capital assets	44,915,890	1,157,949	(107,211)	45,966,628
Total cost of capital assets	45,015,890	1,157,949	(107,211)	46,066,628
Less accumulated depreciation	17,122,009	1,275,412		18,397,421
Capital assets, net	$ 27,893,881	$ (117,463)	$ (107,211)	$ 27,669,207

The College maintains various collections of inexhaustible assets to which no value can be practically determined. Accordingly, such collections are not capitalized or recognized for financial statement purposes. 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.

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
Bonds and capital leases:					
Revenue bonds payable	$ 138,000	$ -	$ (18,000)	$ 120,000	$ 19,000
Capital leases payable	2,098,416	681,097	(380,819)	2,398,694	348,508
Total bonds and capital leases	2,236,416	681,097	(398,819)	2,518,694	367,508
Other long-term liabilities:					
Accrued compensated absences	2,239,103	354,711	(155,333)	2,438,481	731,567
Advances from Federal Sponsors	1,603,710			1,603,710	
Debt obligation to Commission		4,834,043		4,834,043	243,495
Total long-term liabilities	$ 6,079,229	$ 5,869,851	$ (554,152)	$ 11,394,928	$ 1,342,570

7. BONDS PAYABLE

Bonds payable consisted of the following at June 30, 2002:

	Interest Rate	Annual Principal Installment Due	Principal Amount Outstanding
Student Union Revenues Bonds			
Series B 1967, due 2007	3.0 %	$ 19,000	$ 120,000

The bond issue is specific to the College, although the bonds were also issued in the name of the State's former Board of Regents, previously responsible for the governance of the State's higher education system, or the State itself. As debt service is required on the bond issue, the College remits the funds to the State's Municipal Bond Commission for payment to the trustee of the bond issue and the bondholders. The mandatory debt service transfers are recorded as the funds are so remitted. The Municipal Bond Commission may hold certain cash and cash equivalents for debt service or other bond issue purposes on behalf of the College.

A summary of the annual aggregate principal payments for years subsequent to June 30, 2002 is as follows:

Year Ending June 30	Principal	Interest	Total
2003	$ 19,000	$ 3,315	$ 22,315
2004	19,000	2,745	21,745
2005	20,000	2,160	22,160
2006	20,000	1,560	21,560
2007	21,000	945	21,945
2008	21,000	315	21,315
Total	$ 120,000	$ 11,040	$ 131,040

8. CAPITAL LEASE OBLIGATIONS

The College leases various equipment and building improvements. These obligations are accounted for as capital leases. The following is a schedule by year of future annual minimum payments required under the lease obligations existing at June 30, 2002:

Year Ending June 30	Principal	Interest	Total
2003	$ 348,508	$ 136,058	$ 484,566
2004	367,595	116,760	484,355
2005	385,181	96,257	481,438
2006	405,175	74,472	479,647
2007	402,550	41,865	444,415
2008 and Thereafter	489,685	22,307	511,992
Less interest			487,719
			$ 2,398,694

9. COMPENSATED ABSENCES

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

Health or life insurance benefits	$ 1,806,996
Accrued vacation leave	631,485
	$ 2,438,481

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 \$118,000. As of June 30, 2002, there were 47 retirees currently eligible for these benefits.

10. 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 \$4,834,043.

11. 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, 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 5 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 $260,432, $268,748 and $247,204, respectively, which consisted of $185,444, $191,722, and $174,974 from the College in 2002, 2001 and 2000, respectively, and $74,988, $77,026 and $72,230 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 $1,179,062, $1,150,721 and $1,024,830, respectively, which consisted of contributions of $584,357, $574,104 from the College and $594,705, $576,617 from the covered employees in 2002, $574,104 from the College and $576,617 from the covered employees in 2001, and $505,737 from the College and $519,093 from the covered employees in 2000.

The College's total payroll for the years ended June 30, 2002 was $11,570,490, total covered employees' salaries in the STRS and TIAA-CREF were $1,236,293 and $9,687,189 in 2001, respectively.

12. FOUNDATION (UNAUDITED)

The West Liberty State College Foundation, Incorporated (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 financial statements.

The Foundation's net assets, all of which are principally restricted, totaled $6,926,578 at June 30, 2002. The restricted 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 financial statements, totaled $959,080 for the year ended June 30, 2002. During the year ended June 30, 2002, the Foundation contributed $206,347 to the College for scholarships.

13. AFFILIATED ORGANIZATION (UNAUDITED)

The College has a separately incorporated affiliated organization, the 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 financial statements.

14. CONTINGENCIES

The nature of the educational industry is such that, from time-to-time, claims will be presented against the College 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 approximate 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 by 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.

15. SEGMENT INFORMATION

The College issues revenue bonds to finance certain of its auxiliary enterprise activities. Investors in those bonds rely solely on the revenues generated by the activities of the auxiliaries for repayment.

State of West Virginia, West Liberty State College, Student Union Revenue Bonds, 1967 Series B

In 1967, the College sold $890,000 of Student Union Revenue Bonds (the "Bonds"). The Bonds were issued under authority contained in Chapter 18, Article 23 of the Code of West Virginia, 1931, as amended, for the purpose of financing the costs of alteration and expansion of the existing Student Union on the College campus. The Bonds are secured by and payable from the Student Union fees and certain funds held under the indenture.

Condensed financial information for the College's segment is as follows:

Condensed Statement of Net Assets	**State of West Virginia West Liberty State College Student Union Revenue Bonds 1967, Series B**
Assets:	
Current assets	$ 115,300
Noncurrent assets	568,365
Total assets	$ 683,665
Liabilities:	
Current liabilities	$ 19,000
Noncurrent liabilities	101,000
Total liabilities	120,000
Net assets:	
Invested in capital assets, net of related debt	327,752
Restricted:	
Specific purpose by State Code	62,822
Debt service	57,791
Unrestricted	115,300
Total net assets	563,665
Total net assets and liabilities	$ 683,665

Condensed Statement of Revenues, Expenses and Changes in Net Assets	**State of West Virginia West Liberty State College Student Union Revenue Bonds 1967, Series B**
Operating:	
Operating revenues	$ 318,175
Operating expenses	(388,049)
Net operating income	(69,874)
Nonoperating:	
Nonoperating revenues	112,599
Nonoperating expenses	(32,792)
Changes in net assets	9,933
Net assets, beginning of year (as restated)	553,732
Net assets, end of year	$ 563,665

Condensed Statement of Cash Flows

Net cash provided by operating activities	$ 2,990
Net cash used by capital and related financing	(10,648)
Net increase (decrease) in cash	(7,658)
Cash, beginning of year	122,958
Cash, end of year	$ 115,300

16. 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	Cancellations and Write-offs	Assessed By Commission	Total
Instruction	$ 6,239,196	$ 1,265,909	$ 799,194	$ 1,626	$ -	$ -	$ -	$ -	$ 8,305,925
Research	123,057	28,562	31,788						183,407
Public service	17,217	2,134	6,936						26,287
Academic support	1,185,255	264,043	300,007						1,749,305
Student services	1,127,318	269,280	395,915	465					1,792,978
General institutional support	1,217,507	446,799	972,304	8					2,636,618
Operations and maintenance of plant	877,965	267,189	980,675	716,240					2,842,069
Student financial aid					1,792,411				1,792,411
Auxiliary enterprises	1,144,855	299,966	3,167,016	308,936					4,920,773
Depreciation						1,275,412			1,275,412
Other							54,743	153,713	208,456
Total	$ 11,932,370	$ 2,843,882	$ 6,653,835	$ 1,027,275	$ 1,792,411	$ 1,275,412	$ 54,743	$ 153,713	$ 25,733,641

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

To the West Liberty State College Governing Board

We have audited the financial statements of West Liberty State 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 paragraph addressing its financial statement presentation to adopt the provisions 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 internal control over financial reporting and its operation that we considered to be material weaknesses. However, we noted other matters involving internal control over financial reporting that we have reported to the management of the College, in a separate letter dated October 11, 2002.

This report is intended solely for the information and use of the West Liberty State College Governing Board, managements of the College and the 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