West Virginia State College

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

WEST VIRGINIA STATE COLLEGE

TABLE OF CONTENTS

West Virginia State College

Management Discussion and Analysis

For the Year ended June 30, 2002

Overview of the Financial Statements and Financial Analysis

West Virginia State College (the "College") is pleased to present the year ended June 30, 2002 combined Financial Statements. 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 required, supplemental information in the form of a narrative analysis or Management Discussion and Analysis offers an overview of the financial activities for the fiscal year ended June 30, 2002.

The Governmental Accounting Standards Board ("GASB") issued new directives for the presentation of financial statements for colleges and universities in the United States. This is the first year of these new GASB reporting expectations. Previously the reporting had presented financial information in the format of fund groups. The new GASB format focuses on reporting the overall economic resources of the College.

Statement of Net Assets

The purpose of the College's combined Statement of Net Assets is to take a snapshot of the financial statements at a point in time. This statement shows the assets, liabilities, and net assets of the College as of June 30, 2002.

The year-end data regarding assets (current and noncurrent), liabilities, (current and noncurrent) and net assets (assets minus liabilities) is also presented in the financial statements. The difference between current and noncurrent assets and liabilities are discussed in the footnote section of the combined financial statements.

By reviewing the Statement of Net Assets, the reader is able to ascertain the assets available to continue the operations of the College. Also, readers can see data presented in a way to discern how much the College owes vendors, employees and lending institutions. In addition, the Statement of Net Assets offers an overview picture of the net assets (assets minus liabilities) and the College's availability of the assets to utilize for future expenditure by the College.

Net assets are divided into three major types:

- Invested in Capital Assets, Net of Debt = cost of the College's Capital Assets less any related debt

- Restricted Net Assets = restricted assets categorized as:

    a. Nonexpendable
    b. Expendable

  The College only has $66,621 of nonexpendable restricted net assets since most net affect of this type has been directed to the College's related Foundation.

  Expendable Restricted Net Assets are net assets which are available for expenditure as determined by donors and/or external entities in regard to time or purpose.

- Unrestricted Net Assets = assets available to the College to utilize for any lawful purpose.

Statement of Net Assets
June 30, 2002

Assets:		
Current Assets		$10,501,914
Non-current Assets		23,562,202
Total Assets		$34,064,116
Liabilities:		
Current Liabilities		$ 3,759,304
Non-current Liabilities	8,913,158	
Total Liabilities	12,672,462	
Net Assets <Deficit>:		
Investment in Capital Assets, Net of Related Debt		16,575,818
Restricted Nonexpendable		66,621
Restricted Expendable	4,933,981	
Unrestricted		(184,766)
Total Net Assets		21,391,654
Total Liabilities and Net Assets	$34,064,116	

In fiscal year 2002, there were increases in the College's total assets of $916,000, due to changes in total current assets, primarily in cash and cash equivalents of $885,000, mainly because of budget restrictions imposed by the College's executive council. Also, changes occurred in appropriations due from primary government, totaling $135,000, via funds that were reappropriated by the State of West Virginia ("State"). Total noncurrent assets decreased $338,000 in great part to investment in Capital Assets, net, totaling $350,000.

Total liabilities for the College increased by approximately $331,000, due primarily to changes in accounts payable and accrued liabilities totaling $300,000. On the other hand, there was a total increase in total noncurrent liabilities of $316,000, due to an increase in compensated absences totaling $311,000.

The College, along with other higher educational institutions in West Virginia, continued implementation of long-term legislative goals which included significant salary increases for employees and other programs which represented substantial expenses.

Finally, total net assets for the College increased by $585,000 for fiscal 2002. This increase was generally due to investment in capital assets, net of related debt increase of $229,000. This was primarily because of land and equipment purchases by the College's Research Corporation. Also, the increase was due to an increase in balances restricted by State code for specific purposes in the amount of $462,000, for example, grants from the State of West Virginia.

Statement of Revenues, Expenses and Changes in Net Assets

The purpose of the statement is to present the revenues received by the College, operating and nonoperating, and any other revenues, expenses, gains and losses experienced or incurred by the College.

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

Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2002

Operating Revenues		$36,337,957
Operating Expenses		50,229,542
Operating Loss	(13,891,585)	
Nonoperating Revenues		14,282,333
Income Before other Revenues, Expenses, Gains or Losses		390,748
Capital Grants and Gifts		1,060,799
Increase in Net Assets before Transfers		1,451,547
Transfer of Liabilities from Policy Commission	(3,088,632)	
Decrease in Net Assets		(1,637,085)
Net Assets, Beginning of Year (as restated)		23,028,739
Net Assets, End of Year		$21,391,654

A review of the individual revenue and expense categories that contribute to the overall increase of Net Assets reveals the following explanations:

Student tuition and fees decrease during 2002 is attributed to a combination of factors including a reclassification of Athletic and Student Union fees that were reported under tuition and fees, a 4% increase in tuition and fees for all baccalaureate students, and a 1% increase in Full-Time Equivalent ("FTE") enrollment. The College's Community Technical College ("CTC") tuition and fees remained unchanged.

Federal, local and private grants and contracts revenues increased by almost $3,600,000. From year to year, the number of grants awarded can vary significantly. The majority of grant and contract revenue is routed through the College Research and Development Corporation as the fiscal agent for most grants to the College. For example, Title III B and Land-Grant funding contributed to this increase in revenues.

Finally, total operating expenses decreased by nearly $2,500,000, although salaries and wages increased by $800,000, as well as supplies and utilities. On the other hand, scholarships decreased by almost $1,400,000 and fees assessed by the Commission decreased around $700,000. Nonoperating revenues such, as state appropriations, increased by $650,000, although the percent to total budget did not change.

Statement of Cash Flows

The final statement presented by the College is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the College during the year. The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the College. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes. The third section reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fourth section deals with the cash used for the acquisition and construction of capital and related items. The fifth section reconciles the net cash used to the operating loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets**.**

Statement of Cash Flows
For the Year Ended June 30, 2002

Cash provided (used) by:		
Net Cash used in Operating Activities	$(11,912,330)	
Net Cash Provided by Noncapital Financing Activities	13,993,252	
Net Cash Used in Capital Financing Activities	(1,548,890)	
Net Cash Provided by Investing Activities		353,181
Increase in Cash and Cash Equivalents	885,213	
Cash and Cash Equivalents, Beginning of Year	7,948,470	
Cash and Cash Equivalents, End of Year		$ 8,833,683

Cash provided by operating activities had a net decrease due in part to decreases in student tuition and fees which is attributed to a combination of factors including a reclassification of Athletic and Student Union fees that were reported under tuition and fees, a 4% increase in tuition and fees for all four year students, and a 1% increase in FTE enrollment. The College-CTC tuition and fees remained unchanged. Grants and contracts, payments to suppliers and auxiliary enterprise charges also increased. This change was also due to decreases in payment for scholarships.

Increases in state appropriations and direct lending receipts and payments and also decrease in fees assessed by the West Virginia Higher Education Policy Commission for debt service and reserves contributed to a net decrease in cash provided by noncapital financing activities.

Finally, cash used by capital financing activities had a net increase due in part to purchases of capital assets and capital grants received by the College.

Capital Asset and Debt Administration

The College had two significant capital asset additions to facilities in fiscal year 2002. New roofs were added to Ferrell Hall and Fergusson Lincoln ROTC buildings. In addition, construction at the South end of campus better prepared the area for the digester research through Land-Grant program. There were no new bond issues in fiscal year 2002, however, the preliminary work for the bond issue for the Wilson College Union renovation resulted in an A3 rating for the fiscal 2003 bond issuance. The College purchased property on Barron Drive known informally as the Crowder property. The College Research and Development Corporation through a Housing and Urban Development grant allowed for the building of a transitional residence for females who have been battered and a second one for first-time college students who have been Awards of the State. Other capital improvements included the purchase of BANNER-Human Resources computer software; various telecommunications equipment; the building of a Land-Grant motor pool; and other various equipment purchases. There have been no significant changes in credit ratings or debt limitations that may affect future financing for the College.

Economic Outlook

The College is not aware of any currently known facts, decisions, or conditions that are expected to have a significant effect on the financial position or results of operations during this fiscal year beyond those unknown variations having a global effect on virtually all types of business operations. Spending freezes might result if the less than promising economic forecasting continues for the State.

The overall financial position of the College is adequate. The College was able to generate a modest increase in Net Assets during fiscal year 2002. The College anticipates for fiscal 2003 will be much like fiscal 2001, and a close watch will be maintained over resources to maintain the College's ability to react to unknown internal and external issues.

INDEPENDENT AUDITORS' REPORT

To the West Virginia State College Governing Board

We have audited the accompanying combined financial statements of West Virginia 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 combined 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 – 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 6 is not a required part of the basic financial statements, but is supplementary information required by the GASB. This supplementary information is the responsibility of the College's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we 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 VIRGINIA STATE COLLEGE

COMBINED STATEMENT OF NET ASSETS
JUNE 30, 2002

ASSETS:	
Current assets:	
Cash and cash equivalents	$ 8,833,683
Appropriations due from Primary Government	160,370
Accounts receivable	891,915
Loans to students, current portion	163,887
Inventories	375,211
Prepaid expenses	76,848
Total current assets	10,501,914
Noncurrent assets:	
Restricted cash and cash equivalents	244,887
Loans to students, net of allowance of $218,249	376,822
Investment in capital assets, net	22,940,493
Total noncurrent assets	23,562,202
TOTAL ASSETS	$ 34,064,116

(Continued)

WEST VIRGINIA STATE COLLEGE

COMBINED STATEMENT OF NET ASSETS
JUNE 30, 2002

LIABILITIES:	
Current liabilities:	
Accounts payable	$ 882,196
Accrued liabilities	1,227,220
Compensated absences, current portion	779,527
Deferred revenue	410,428
Debt obligation to the Commission, current portion	380,564
Notes payable, current portion	79,369
Total current liabilities	3,759,304
Noncurrent liabilities:	
Deposits	66,974
Compensated absences	2,362,319
Debt obligation to the Commission	2,708,068
Notes payable	3,196,674
Advances from federal sponsors	579,123
Total noncurrent liabilities	8,913,158
TOTAL LIABILITIES	12,672,462
NET ASSETS (DEFICIT):	
Invested in capital assets, net of related debt	16,575,818
Restricted for:	
Nonexpendable	66,621
Expendable:	
Balances restricted by State Code for specific purposes	4,606,239
Sponsored projects	85,128
Loans	64,348
Debt service	178,266
Total expendable	4,933,981
Unrestricted deficit	(184,766)
Total net assets	21,391,654
TOTAL LIABILITIES AND NET ASSETS	$ 34,064,116

See notes to combined financial statements. (Concluded)

WEST VIRGINIA STATE COLLEGE

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

OPERATING REVENUES:	
Student tuition and fees (net of scholarship allowance of $2,136,236)	$ 7,330,041
Contracts and grants:	
Federal	20,050,894
State	1,908,476
Private	197,447
Sales and services of educational activities	109,978
Auxiliary enterprise revenue (net of scholarship allowance of $1,307,595)	4,479,141
Miscellaneous - net	2,261,980
Total operating revenues	36,337,957
OPERATING EXPENSES:	
Salaries and wages	19,870,005
Benefits	5,123,426
Supplies and other services	9,328,180
Utilities	1,417,721
Student financial aid - scholarships and fellowships	12,164,458
Depreciation	1,509,725
Loan cancellations and write-offs	6,936
Fees assessed by the Commission	164,041
Other expenditures	645,050
Total operating expenses	50,229,542
OPERATING LOSS	(13,891,585)

(Continued)

WEST VIRGINIA STATE COLLEGE

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

NONOPERATING REVENUES (EXPENSES):	
State appropriations	$ 14,704,552
Investment income	353,181
Interest on indebtedness	(168,622)
Fees assessed by the Commission for debt service and reserves	(606,778)
Net nonoperating revenues	14,282,333
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	390,748
Capital grants and gifts	1,060,799
INCREASE IN NET ASSETS BEFORE TRANSFERS	1,451,547
TRANSFER OF LIABILITY FROM POLICY COMMISSION	(3,088,632)
DECREASE IN NET ASSETS	(1,637,085)
NET ASSETS, BEGINNING OF YEAR (AS RESTATED)	23,028,739
NET ASSETS, END OF YEAR	$ 21,391,654

See notes to combined financial statements. (Concluded)

WEST VIRGINIA STATE COLLEGE

COMBINED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2002

CASH FLOWS FROM OPERATING ACTIVITIES:	
Student tuition and fees	$ 7,321,135
Contracts and grants	21,773,119
Payments to and on behalf of employees	(23,645,866)
Payments to suppliers	(10,329,548)
Payments to utilities	(1,408,748)
Payments for scholarships and fellowships	(12,164,458)
Loans issued to students	(113,250)
Collection of loans to students	76,549
Sales and service of educational activities	109,978
Auxiliary enterprise charges	4,529,405
Fees retained by Commission	(164,041)
Other receipts (payments) - net	2,103,395
Net cash used in operating activities	(11,912,330)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
State appropriations	14,569,479
Advances from federal sponsor	41,565
William D. Ford direct lending receipts	8,868,437
William D. Ford direct lending payments	(8,879,451)
Fees assessed by the Commission for debt service and reserves	(606,778)
Net cash provided by noncapital financing activities	13,993,252
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:	
Capital grants and gifts received	1,060,799
Purchases of capital assets	(2,409,305)
Principal paid on notes, bonds and leases	(38,948)
Interest paid on notes, bonds and leases	(168,622)
Decrease in noncurrent cash and cash equivalents	7,186
Net cash used in capital financing activities	(1,548,890)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest on investments	353,181
Cash provided by investing activities	353,181
INCREASE IN CASH AND CASH EQUIVALENTS	885,213
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	7,948,470
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 8,833,683

(Continued)

WEST VIRGINIA STATE COLLEGE

COMBINED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2002

RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:	
Operating loss	$ (13,891,585)
Adjustments to reconcile net operating loss to net cash used in operating activities:	
Depreciation expense	1,509,725
Loss on sale of asset	21,615
Changes in assets and liabilities:	
Receivables, net	(90,808)
Loans to students, net	(18,751)
Prepaid expenses	(67,445)
Inventories	(65,429)
Accounts payable and accrued liabilities	300,521
Compensated absences	385,656
Deferred revenue	(12,404)
Deposits held in custody for others	16,575
NET CASH USED IN OPERATING ACTIVITIES	$ (11,912,330)

See notes to combined financial statements. (Concluded)

1. ORGANIZATION

West Virginia State College (the “College”) is governed by the West Virginia 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 State Legislature on March 19, 2000 and restructured public higher education in the State of West Virginia (the “State”). 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 combined financial statements of the College have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (“GASB”), including Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, and Statement No. 35, *Basic Financial Statements and Management’s Discussion and Analysis of Public Colleges and Universities* (an Amendment of GASB Statement No. 34). The financial statement presentation required by GASB Statements No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the College’s assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows and replaces the fund-group perspective previously required.

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

Reporting Entity—The College is an operating unit of the West Virginia Higher Education Fund and represents separate funds of the State 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, the West Virginia State College Research and Development Corporation, a non-profit, nonstock corporation. The basic criteria 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 West Virginia State College 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 Statement No. 35 reports equity as "net assets" rather than "fund balance". Net assets are classified into four categories according to external donor restrictions or availability of assets for satisfaction of College obligations. The College's net assets are classified as follows:

- *Invested in capital assets, net of related debt*—This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

- *Restricted net assets, expendable*—This includes resources in which the College is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

- *Restricted net assets, nonexpendable*—This includes endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. The College does not have any restricted nonexpendable net assets at June 30, 2002.

- *Unrestricted net assets*—Unrestricted net assets represent resources derived from student tuition and fees, state appropriations and sales and services of educational activities. These resources are used for transactions relating to the educational and general operations of the College, and may be used at the discretion of the Board of Governors to meet current expenses for any purpose. These resources also include resources of auxiliary enterprises, which are substantially self-supporting activities, that provide services for students, faculty and staff.

GASB Statement No. 35 requires the statements of net assets, revenues, expenses, and changes in net assets, and cash flows to be reported on a 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:

Fund balances, as previously reported	$ 42,711,852
Accumulated depreciation	(23,930,855)
Infrastructure capitalization and land improvements	4,785,300
Reclassification of federal loan programs (Perkins)	(537,558)
	$ 23,028,739

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

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

Cash and cash equivalents balances on deposit with the State of West Virginia Treasurer's Office (the "State Treasurer") are pooled by the State Treasurer with other available funds of the State for investment purposes by the West Virginia Investment Management Board (the "IMB"). These funds are transferred to the IMB and the IMB is directed by the State Treasurer to invest the funds in specific external investment pools. Balances in the investment pools are recorded at fair value, which is determined by a third-party pricing service based on asset portfolio pricing models and other sources, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments for External Investment Pools*. The IMB was established by the State Legislature and is subject to oversight by the State Legislature. Fair value and investment income are allocated to participants in the pools based upon the funds that have been invested. The amounts on deposit with the State Treasurer are available for immediate withdrawal and, accordingly, are presented as cash and cash equivalents in the accompanying combined financial statements.

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

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

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

Capital Assets**—**Capital assets include property, plant and equipment, books and materials that are part of a catalogued library, and infrastructure assets. Capital assets are stated at cost at the date of acquisition or construction, or fair market value at the date of donation in the case of gifts. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 20 to 50 years for buildings and infrastructure, 20 years for land improvements and library books, and 3 to 10 years for furniture and equipment.

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

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

The College's full-time employees earn up to two vacation leave days for each month of service and are entitled to compensation for accumulated, unpaid vacation leave upon termination. Full-time employees also earn 1-1/2 sick leave days for each month of service and are entitled to extend their health or life insurance coverage upon retirement in lieu of accumulated, unpaid sick leave. Generally, two days of accrued sick leave extend health insurance for one month of single coverage and three days extend health insurance for one month of family coverage. For employees hired after 1988, the employee shares in the cost of the extended benefit coverage to the extent of 50% of the premium required for the extended coverage. Employees hired July 1, 2001 or later will no longer receive sick leave credit toward insurance premiums when they retire.

Certain faculty employees (generally those with less than a 12-month contract) earn a similar extended health or life insurance coverage retirement benefit based on years of service. Generally 3-1/3 years of teaching service extend health insurance for one year of single coverage and five years extend health insurance for one year of family coverage.

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

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

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

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

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

- *Operating revenues*—Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees (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, (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 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 practical.

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 $8.7 million 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 $4.9 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 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 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	$ 8,163,061	$ 66,621	$ 8,229,682
Municipal Bond Commission for the College	300,165		300,165
Cash in escrow		178,266	178,266
Cash in bank	370,457		370,457
	$ 8,833,683	$ 244,887	$ 9,078,570

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 indenture. Other cash held by the State Treasurer includes $4,672,860 of restricted cash for specific purposes due to State Code. Cash shown above as cash in escrow is required by the Educational Direct Loan Mortgage Corporation to be held in escrow until the loan described in Note 7 is paid in full.

The combined carrying amounts of cash in the bank at June 30, 2002 was $370,458, as compared with the combined bank balance of $668,133. 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.

4. ACCOUNTS RECEIVABLE

Accounts receivable were as follows at June 30, 2002:

Student tuition and fees, net of allowance for doubtful accounts of $501,117	$ 146,538
Grants and contracts receivable	668,710
Due from the Commission	42,800
Due from other State agencies	29,196
Other accounts receivable	4,671
	$ 891,915

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	$ 846,059	$ 67,196	$ -	$ 913,255
Construction in progress	295,814	3,294		299,108
Total capital assets not being depreciated	$ 1,141,873	$ 70,490	$ -	$ 1,212,363
Other capital assets:				
Land improvements	$ 1,344,000	$ -	$ -	$ 1,344,000
Infrastructure	3,441,300			3,441,300
Buildings	28,816,871	703,657		29,520,528
Equipment	7,573,557	1,108,844	1,334,894	7,347,507
Motor vehicles	138,250	76,378		214,628
Software	210,006	132,312		342,318
Leased equipment				
Library books	3,327,526	317,624		3,645,150
Total other capital assets	44,851,510	2,338,815	1,334,894	45,855,431
Less accumulated depreciation for:				
Land improvements	390,784	32,816		423,600
Infrastructure	2,940,700	12,280		2,952,980
Buildings	12,841,410	534,553		13,375,963
Equipment	5,169,513	631,717	1,313,279	4,487,951
Motor vehicles	11,692	35,658		47,350
Software	84,557	46,204		130,761
Library books	2,492,199	216,497		2,708,696
Total accumulated depreciation	23,930,855	1,509,725	1,313,279	24,127,301
Other capital assets, net	$ 20,920,655	$ 829,090	$ 21,615	$ 21,728,130
Capital asset summary:				
Capital assets not being depreciated	$ 1,141,873	$ 70,490	$ -	$ 1,212,363
Other capital assets	44,851,510	2,338,815	1,334,894	45,855,431
Total cost of capital assets	45,993,383	2,409,305	1,334,894	47,067,794
Less accumulated depreciation	23,930,855	1,509,725	1,313,279	24,127,301
Capital assets, net	$ 22,062,528	$ 899,580	$ 21,615	$ 22,940,493

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
Notes payable	$ 3,314,991	$ -	$ 38,948	$ 3,276,043	$ 79,369
Payable to the Commission		3,088,632		3,088,632	380,564
Other long-term liabilities:					
Accrued compensated absences	2,756,190	385,656		3,141,846	779,527
Advances from Federal Sponsors	537,558	41,565		579,123	
Deposits held in custody for others	50,399	16,575		66,974	
Total long-term liabilities	$ 6,659,138	$ 3,532,428	$ 38,948	$ 10,152,618	$ 1,239,460

Additional information regarding notes payable is included in Note 7.

7. NOTES PAYABLE

During fiscal year 1997, the College signed an agreement with the Educational Direct Loan Mortgage Corporation (“Eddie Mac”) to have available a line of credit of $3,500,000 to be used to renovate dormitories. As of June 30, 2002, the College had outstanding $3,276,043. As of June 30, 2002, the renovations have been completed and the interest rate has been finalized. The interest rate at June 30, 2002 was approximately 6.3%.

Accordingly, current monthly principal and interest payments of $21,068 are payable through 2026. Eddie Mac has a security interest for this loan on the net revenues from the dormitories and receives a monthly service fee. The College is also subject to certain operating covenants and restrictions on incurrence of additional debt per the loan document.

Principal maturities for the years ending after June 30, 2002 are as follows:

2003	$ 79,369
2004	69,089
2005	73,024
2006	77,278
2007	80,621
2008-2012	485,332
2013-2017	646,157
2018-2022	858,046
2023-2026	907,127
Total	$ 3,276,043

8. COMPENSATED ABSENCES LIABILITY

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

Health or life insurance benefits	$ 2,102,849
Accrued vacation leave	1,038,997
	$ 3,141,846

For the year ended June 30, 2002, the amount paid by the College for extended health or life insurance coverage retirement benefits totaled $44,383. As of June 30, 2002, there were 39 retirees currently eligible for these benefits.

9. OPERATING LEASES

Future annual minimum lease payments leases for years subsequent to June 30, 2002 are as follows:

2003	$ 533,145
2004	523,559
2005	511,980
2006	497,190
2007	203,695
Total	$ 2,269,569

Total rental expense for the years ended June 30, 2002 was $316,326.

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").

Students of the State's universities and colleges, including students of the College are assessed certain tuition charges and fees which must be remitted by the universities and the colleges to the Commission for use in repayment of the bonds so issued. Any shortfalls between such tuition and fees remitted and actual debt service obligations are the responsibility of the Boards. To the extent that tuition charges and fees so collected by the Commission exceed debt service obligations, the Commission may remit funds back to the universities and colleges for renewal and replacement or maintenance and repair of the facilities so financed. 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 $3,088,632.

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, defined benefit public employee retirement system. Employer and employee contribution rates are established annually by the State Legislature. The College accrued and paid its contribution to the STRS at the rate of 15% of each enrolled employee's total annual salary for the year ended June 30, 2002. Required employee contributions were at the rate of 6% of total annual salary for the year ended June 30, 2002. Participants in the STRS may retire with full benefits upon reaching age 60 with five years of service, age 55 with 30 years of service, or any age with 35 years of service. Lump-sum withdrawal of employee contributions is available upon termination of employment. Pension benefits are based upon 2% of final average salary (the highest 5 years' salaries out of the last 15 years) multiplied by the number of years of service.

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

Total contributions to the STRS for the years ended June 30, 2002, 2001 and 2000 were $481,425, $514,763 and $518,464, respectively, which consisted of $343,875, $367,000 and $369,195 from the College, respectively, and $137,550, $147,763 and $149,270, respectively, 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 Combined Public Retirement Board. A copy of the report may be obtained by writing to the Combined 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 $1,963,908, $1,814,862 and $1,431,915, respectively, which consisted of contributions of $896,417 from the College and $1,177,542 from the covered employees in 2002, $772,414 from the College and $1,042,448 from the covered employees in 2001 and $772,414 from the College and $752,109 from the covered employees in 2000.

The College's total payroll for the year ended June 30, 2002 was $19,307,618; total covered employees' salaries in the STRS and TIAA-CREF were $2,292,499 and $14,940,298, respectively, in 2002.

12. COOPERATIVE AGREEMENT

On July 1, 2000, the College entered into a cooperative agreement with the U.S. Department of Justice (the "Justice Department") to implement and operate a Regional Community Police Institute ("RCPI"). The RCPI is part of the Justice Department's involvement in the development and implementation of training and technical assistance services and product development for law enforcement agencies interested in implementing community policing. The initial award amount to the College was $750,000 for fiscal year 2001. Total receipts and expenditures during fiscal year 2002 were $394,338 and $385,390, respectively.

13. FOUNDATION (UNAUDITED)

The West Virginia 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 employ management, form policy and maintain fiscal accountability over funds administered by the Foundation. Accordingly, the financial statements of the Foundation are not included in the accompanying combined financial statements. Certain of the College's endowments are under the control and management of the Foundation.

The Foundation's fund balances, all of which are principally restricted, totaled $2,458,132 at June 30, 2002. The restricted fund balance includes amounts which are restricted by donors to use for specific projects or departments of the College and its affiliated organizations. Gifts, grants, pledges and bequests to the Foundation totaled $707,356 for the year ended June 30, 2002.

During the year ended June 30, 2002, the Foundation contributed $138,846 to the College for scholarships.

14. AFFILIATED ORGANIZATION

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 combined financial statements.

15. 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 impact seriously on the financial status of the institution.

In the opinion of management, all known claims are covered by insurance or are such that an award against the College would not seriously impact the financial status of the institution.

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

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

16. SUBSEQUENT EVENT

On August 1, 2002, the College issued Student Union Revenue Bonds 2002 Series A, of serial and term bonds in the amount of $5,500,000. The bonds mature in intervals through June 1, 2022 and bear interest ranging from 2.00% to 6.2%.

17. 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	Other	Total
Instruction	$ 9,602,862	$ 2,154,141	$ 1,351,706	$ 94,444	$ 59,939	$ -	$ -	$ -	$ -	$ 13,263,092
Research	554,149	129,452	594,357	6,036	1,000					1,284,994
Public service	633,672	150,609	716,125	4,645	14,800					1,519,851
Academic support	1,255,899	326,743	856,398	117,582						2,556,622
Student services	1,435,925	392,004	1,062,427	28,433	570					2,919,359
General institutional support	3,278,345	1,025,913	1,467,487	28,999	122,823					5,923,567
Operations and maintenance of plant	1,404,642	489,439	279,659	775,720	7,000					2,956,460
Student financial aid					11,873,639					11,873,639
Auxiliary enterprises	1,704,511	455,125	3,000,021	361,862	84,687					5,606,206
Depreciation						1,509,725				1,509,725
Other							6,936	164,041	645,050	816,027
Total	$ 19,870,005	$ 5,123,426	$ 9,328,180	$ 1,417,721	$ 12,164,458	$ 1,509,725	$ 6,936	$ 164,041	$ 645,050	$ 50,229,542

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

To the West Virginia State College Governing Board

We have audited the combined financial statements of West Virginia 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 consistency paragraph 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 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 operations that we consider to be material weaknesses.

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