West Virginia Higher Education Fund

Combined Financial Statements for the Year Ended June 30, 2002 and Independent Auditors' Report

WEST VIRGINIA HIGHER EDUCATION FUND

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Overview of the Combined Financial Statements and Financial Analysis

The West Virginia Higher Education Fund (the "Fund") is comprised of sixteen public colleges and universities and two administrative units. The Fund is a discretely presented component unit of the State of West Virginia. The supervision and management of the affairs of each institution is the responsibility of individual Governing Boards, while the West Virginia Higher Education Policy Commission (the "Commission") is responsible for the development and implementation of a higher education policy agenda.

The Governmental Accounting Standards Board (GASB) issued new directives for presentation of college and university financial statements that have been adopted for presentation in Fiscal Year 2002 by the Fund. The previous reporting format presented financial balances and activities by fund groups. The new format places emphasis on the overall economic resources of the organization. This is the first fiscal year for this new format and a direct comparison with previously issued financial statements is not required and will not always be consistent.

The following discussion and analysis of the Fund's Combined Financial Statements provides an overview of its financial activities for the year and is required supplemental information. The emphasis of discussions about these statements will focus on current year data. There are three financial statements presented: the Combined Statement of Net Assets; the Combined Statement of Revenues, Expenses, and Changes in Net Assets; and, the Combined Statement of Cash Flows.

Combined Statement of Net Assets

The Combined Statement of Net Assets presents the assets, liabilities, and net assets of the Fund as of June 30, 2002. The statement is a point of time financial statement, designed to present to the readers of the financial statements a fiscal snapshot of the Fund. The Combined Statement of Net Assets presents end-of-year data concerning Assets (current and noncurrent), Liabilities (current and noncurrent), and Net Assets (assets minus liabilities).

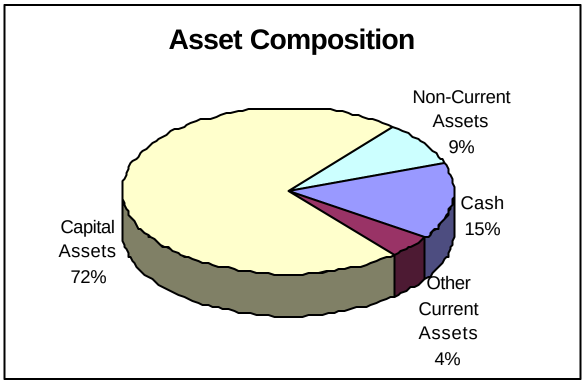
From the data presented, readers of the Combined Statement of Net Assets are able to determine the assets available to continue the operations of the Fund. They are also able to determine how much the Fund owes vendors, employees, investors and lending institutions.

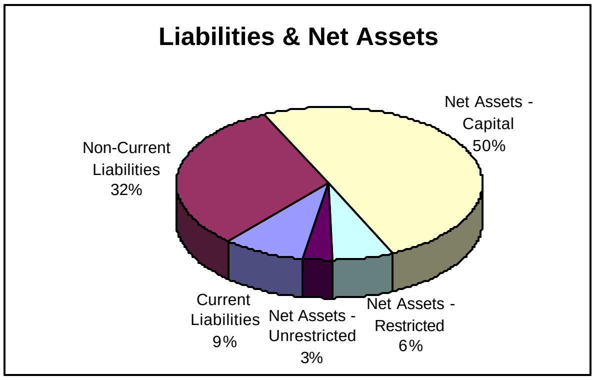
Finally, the Combined Statement of Net Assets provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the Fund.

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the Fund's equity in property, plant and equipment owned by the Fund. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. Nonexpendable restricted net assets are not available for expenditure by the Fund, but these funds are invested and generate earnings that are available for certain types of expenditures. Expendable restricted net assets are available for expenditure by the Fund but have a specific purpose. The final category is unrestricted net assets. Unrestricted assets are available to be used for any lawful purpose of the Fund.

Combined Net Assets
(In thousands of dollars)

	June 30, 2002
Assets:	
Current Assets	$ 281,646
Other Non-Current Assets	123,944
Capital Assets, net	1,046,655
Total Assets	$1,452,245
Liabilities	
Current Liabilities	$ 127,007
Noncurrent Liabilities	458,376
Total Liabilities	585,383
Net Assets	
Invested in Capital Assets, net of debt	729,323
Restricted – expendable	91,265
Restricted – nonexpendable	3,774
Unrestricted	42,500
Total Net Assets	866,862
Total Liabilities and Net Assets	$ 1,452,245





Major items of note in the Combined Statement of Net Assets include:

- Due to the new accounting and reporting changes required by GASB Statements No. 34 and 35, only the June 30, 2002 Combined Statement of Net Assets is presented. In future years, comparative statements will be presented.
- Total current assets of $281.6 million exceed total current liabilities of $127.0 million.
    - The major components of currents assets include cash and cash equivalents of $221.8 million and net accounts receivable of $38.3 million. The majority of the cash and cash equivalents represent interest earning assets invested through the office of the West Virginia State Treasurer and the West Virginia Investment Management Board.
    - The major components of current liabilities include $34.7 million in accounts payable, $26.5 million in accrued compensated absences, $21.3 million of deferred revenue, and $17.3 million of other accrued liabilities.
- Non-current assets total $1,170.6 million and non-current liabilities total $458.4 million.
    - The primary non-current asset is $1,046.7 million of net capital assets. Also included as non-current assets are cash and cash equivalents primarily reserved for capital purposes of $53.8 million and investments reserved for capital purposes totaling $26.7 million. Net loans to students total $41.2 million.
    - Major components of non-current liabilities include long-term bonds payable totaling $330.5 million, accruals for compensated absences of $56.0 million, advances from federal sponsors of $41.6 million, and capital leases of $21.8 million.
- The net assets of the Fund total $866.9 million.
    - With the change to the new GASB 35 reporting format, the June 30, 2001 combined fund balance of $1,377.7 million has been restated to $829.0 million in net assets. Major components of the restatement include reductions for the recording of $700.1 million in accumulated depreciation and $40.9 million in reclassification of advances from federal loan programs, and an increase of $201.5 million for the capitalization of infrastructure.
    - Net assets invested in capital assets total $729.3 million.
    - Restricted net assets total $91.3 million and include $40.6 million dedicated for specific operating purposes by State statute, $18.6 million for capital projects, and $18.0 million for loan programs.
    - Unrestricted net assets total $42.5 million, and represent net assets available to the Fund for any lawful purpose of the Fund.

Combined Statement of Revenues, Expenses and Changes in Net Assets

Changes in total net assets as presented on the Combined Statement of Net Assets are based on the activity presented in the Combined Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues of the Fund, both operating and nonoperating, and the expenses of the Fund, operating and nonoperating, and any other revenues, expenses, gains or losses of the Fund.

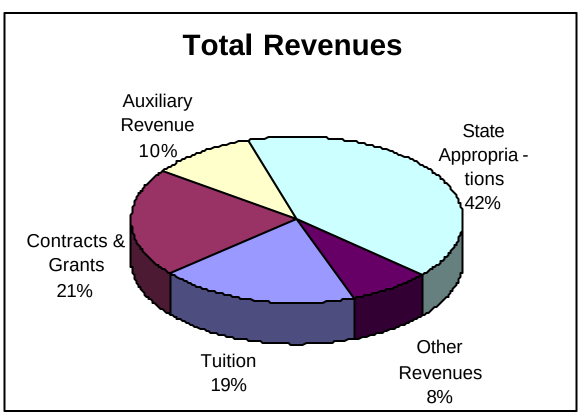
Operating revenues represent the receipts earned from providing goods and service to the various customers and constituencies served by the Fund, including fees from students and revenue in the form of Federal and State grants used to support operations and various initiatives. Operating expenses are those expenses incurred in the form of staff salaries, benefits and various goods and services to carry out the mission of the Fund. Revenues 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 West Virginia State Legislature to the Fund without the Legislature directly receiving commensurate goods and services for those revenues.

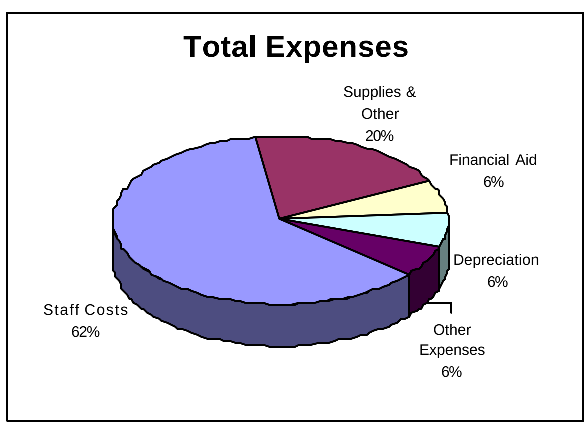
Combined Revenues, Expenses and Changes in Net Assets
(In thousands of dollars)

	FY 2002
Operating Revenues	$ 576,413
Operating Expenses	986,087
Operating Loss	(409,674)
Net Nonoperating Revenues	424,340
Income Before Other Revenues, Expenses, Gains or Losses	14,666
Other Revenues, Expenses, Gains or Losses	23,173
Increase in Net Assets	37,839
Net Assets – Beginning of Year (As Restated)	829,023
Net Assets-End of Year	$ 866,862

Major items of note in the Combined Statement of Revenue, Expenses and Changes in Net Assets include:

- Due to the new accounting and reporting changes required by GASB Statements No. 34 and 35, the Combined Statement of Revenues, Expenses and Changes in Net Assets presents only the activity for the one-year period ending June 30, 2002. In future years, comparative statements will be presented.
- Operating income of the Fund totaled $576.4 million.
  - Student tuition and fees collected totaled $203.2 million. Under the new reporting requirements of GASB 35, tuition is reported net of scholarship and financial aid allowances totaling $51.9 million.
  - Federal grant and contracts totaled $158.2 million.
  - Auxiliary enterprises generated $109.7 million, net of $5.0 million of scholarship allowances.
  - State grants and contracts totaled $29.0 million
  - Private grants and contracts totaled $34.3 million.
- Operating expenses totaled $986.1 million.
  - Staff costs including salaries and benefits totaled $623.1 million.
  - Supplies and other services totaled $203.3 million.
  - Scholarships and fellowships totaled $60.4 million.
  - Depreciation of capital assets recorded under the new requirements of GASB 35 totaled $64.7 million.
- The result from operations was a net operating loss of $409.7 million, primarily reflecting the recording of State appropriations of $431.6 million as non-operating revenue.
- Net non-operating revenue totaled $424.3 million.
  - State general revenue and lottery appropriations totaled $431.6 million.
  - Interest incurred on indebtedness totaled $20.7 million, while interest earned on investments totaled $14.5 million.
- Other revenues consisted of capital grants and gifts totaling $23.2 million.
- The activity for the year resulted in an increase of net assets totaling $37.8 million, primarily in net assets invested in capital assets.





Combined Statement of Cash Flows

The final statement presented is the Combined Statement of Cash Flows. The Combined Statement of Cash Flows presents detailed information about the cash activity of the Fund during the year. The statement is divided into five parts. The first section deals with operating cash flows and shows the net cash used by the operating activities of the Fund. 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 cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fifth part reconciles the net cash used to the operating loss reflected on the Combined Statement of Revenues, Expenses, and Changes in Net Assets.

Combined Statement of Cash Flows
(In thousands of dollars)

	FY 2002
Cash Provided (Used) By:	
Operating Activities	$(332,659)
Noncapital Financing Activities	437,070
Capital and Related Financing Activities	(135,170)
Investing Activities	56,602
Increase in Cash and Cash Equivalents	25,843
Cash and Cash Equivalents, beginning of year	195,944
Cash and Cash Equivalents, end of year	$221,787

Major items of note in the Combined Statement of Cash Flows include:

- Due to the new accounting and reporting changes required by GASB Statements No. 34 and 35, the Combined Statement of Cash Flows presents only the activity for the one-year period ending June 30, 2002. In future years, comparative statements will be presented.
- Cash provided from operating revenues was exceeded by cash expended for operating activities by $332.7 million, primarily due to the reporting of State appropriations received of $436.1 million as a noncapital financing activity. Major variances from that reported on the Combined Statement of Revenue, Expenses and Changes in Net Assets include depreciation expense and accruals for compensated absences.

- Net cash provided from Noncapital Financing Activities totaled $437.1 million, of which $390.9 million was from State general revenue appropriations and $45.2 million was from West Virginia lottery funding.
- Net cash used by Capital Financing Activities totaled $135.2 million primarily for capital construction payments.
- Net cash provided from Investing Activities totaled $56.6 million and primarily resulted from a reduction in investments to fund expenditures for construction projects.
- Net cash for the year increased by $25.8 million, and includes $13.0 million in excess lottery funding received by the Commission in late June 2002 for future payments for Promise scholarships and capital improvements.

Capital Asset and Long-Term Debt Activity

The Fund continued to expand its capital facilities to further its mission of providing quality programs to students and to provide expanded research capabilities. Purchases of capital assets totaled $128.9 million in fiscal year 2002, with expenditures at West Virginia University and Marshall University accounting for $111.0 million of this total. Major projects at West Virginia University included in these expenditures include a new student recreation center, an addition to the Wise Library, a new Life Sciences Building, continuation of an asbestos abatement program, and various projects focused on infrastructure improvements. Major projects underway at Marshall University include a new housing complex, a new parking garage, and planning for a new biotechnology science center. The remaining expenditures reflect on-going capital projects at the state colleges and community and technical colleges. The institutional Boards of Governors have plans for additional significant capital projects over the next five years.

Funding for capital projects comes from a variety of sources, including student tuition and other operating revenues, fund raising, bond proceeds, capital lease financing, and other external financing arrangements. The institutions have participated in a number of System Bonds issued in previous years, with a balance outstanding of $221.9 million as of June 30, 2002. Individual institutional bonds outstanding totaled $120.1 million as of June 30, 2002. There have been no significant changes in credit ratings or debt limitations that may affect future financing for the Fund. Further details concerning the long-term liabilities of the Fund are included in Notes 7 through 12 of the Notes to the Combined Financial Statements.

Other Factors Impacting the Financial Position and Results of Operations of the Fund

The mission of the West Virginia Higher Education System is to contribute to the long-term growth and diversification of West Virginia's economy as outlined in It All Adds Up: Compact for the Future of West Virginia (the "Compact"). The Compact focuses on goals in the following six major areas: Preparation, Participation, Affordability, Competitive Work Force, Economic Development, and Accountability.

The achievement of the goals for the higher education system as described in the Compact are dependent upon many factors, one of which is adequate resources to implement the strategies necessary to achieve the goals. At the present time the Fund maintains a strong financial condition. The net asset position of the Fund is $866.9 million, including $42.5 million in unrestricted net assets and $40.6 million in net assets restricted for specific operating purposes by State code. The continued success of the Fund is closely tied to the economic strength of the State of West Virginia. Over 42% of the funding received by the Fund is from State general revenue and lottery revenues. This funding is critical to the success of the higher education system in meeting the Compact goals.

State of West Virginia budget constraints in fiscal year 2003 required most state agencies to reduce general revenue funding by 3% as compared to fiscal year 2002. In November 2002, the Governor announced additional budget reductions that will reduce general revenue appropriations by an additional 3.4% in the last half of fiscal year 2003. For fiscal year 2004, state agencies are being requested to submit a general revenue budget appropriation request with a further 10% budget reduction. The strategies for implementing the budget reductions are currently in the process of being evaluated prior to implementation.

The demographics of the State of West Virginia also have an impact on the future operations of the Fund. The number of high school graduates has declined in recent years and is projected to decline further over the next ten years. Significant efforts are underway to expand the participation rate in higher education by both high school graduating seniors as well as adults to improve the economic environment of the state. Increased attendance by non-resident students is another factor in the future financial stability of the Fund. Although faced with difficult demographic trends, enrollment increases have been encouraging in recent periods, with over a 3% increase in Fall 2002 full-time equivalent students versus Fall 2001. Net student tuition and fees provide approximately 19 percent of the total revenues of the fund.

One of the key goals of the higher education system is to improve the economic environment of the State of West Virginia. The full impact of the current economic environment and the resulting impact on the future economic environment by various factors including the performance of the higher education system cannot be predicted with any certainty. The current strong financial condition of the Fund will be beneficial in meeting the challenges that lie ahead.

INDEPENDENT AUDITORS' REPORT

To the West Virginia Higher Education Policy Commission

We have audited the accompanying combined statement of net assets of the West Virginia Higher Education Fund (the "Fund") as of June 30, 2002, and the related combined statement of revenues, expenses and changes in net assets and the combined statement of cash flows for the year then ended. These combined financial statements are the responsibility of the management of the Fund. Our responsibility is to express an opinion on these combined financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Fund 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 Fund changed its financial statement presentation to adopt the provisions of the Governmental Accounting Standards Board ("GASB") Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, as amended by GASB Statements No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*, as of July 1, 2001.

The Management's Discussion and Analysis (MD&A) on pages 1 to 8 is not a required part of the financial statements but is supplemental information required by the GASB. This supplementary information is the responsibility of the Fund's management. We have applied certain limited procedures, which consisted principally of inquires 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 Fund's internal control over financial reporting and 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.

Deloitte & Touche LLP

October 11, 2002

WEST VIRGINIA HIGHER EDUCATION FUND

COMBINED STATEMENT OF NET ASSETS
JUNE 30, 2002
(Dollars in thousands)

ASSETS:	
Current assets:	
Cash and cash equivalents	$ 221,787
Short-term investments	372
Appropriations due from Primary Government	5,940
Accounts receivable, net	38,250
Loans receivable, current portion	9,186
Interest receivable	1,104
Prepaid expenses	587
Inventories	4,420
Total current assets	281,646
Noncurrent assets:	
Cash and cash equivalents	53,820
Investments	26,690
Loans receivable, net of allowance of $9,303	41,248
Other assets	2,186
Capital assets, net	1,046,655
Total noncurrent assets	1,170,599
TOTAL ASSETS	$ 1,452,245

(Continued)

WEST VIRGINIA HIGHER EDUCATION FUND

COMBINED STATEMENT OF NET ASSETS
JUNE 30, 2002
(Dollars in thousands)

LIABILITIES:	
Current liabilities:	
Accounts payable	$ 34,722
Accrued liabilities	17,331
Deferred revenue	21,333
Deposits	7,306
Severance payable, current portion	897
Compensated absences, current portion	26,519
Notes payable, current portion	84
Capital lease obligation, current portion	3,732
Interest payable	3,548
Bonds payable, current portion	11,535
Total current liabilities	127,007
Noncurrent liabilities:	
Advances from federal sponsors	41,584
Severance payable	570
Compensated absences	55,974
Notes payable	3,233
Capital lease obligation	21,837
Deferred interest payable	4,644
Bonds payable	330,534
Total noncurrent liabilities	458,376
TOTAL LIABILITIES	585,383
NET ASSETS:	
Invested in capital assets, net of related debt	729,323
Restricted for:	
Expendable:	
Specific purposes by State Code	40,629
Scholarships	3,219
Sponsored projects	7,051
Loans	18,007
Capital projects	18,561
Debt service	1,513
Other	2,285
Total restricted expendable	91,265
Nonexpendable	3,774
Unrestricted	42,500
Total net assets	866,862
TOTAL LIABILITIES AND NET ASSETS	$ 1,452,245

See notes to combined financial statements (Concluded)

WEST VIRGINIA HIGHER EDUCATION FUND

COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2002
(Dollars in thousands)

OPERATING REVENUES:	
Student tuition and fees (net of scholarship allowance of $51,881)	$ 203,228
Federal appropriations	7,910
Local appropriations	635
Contracts and grants:	
Federal	158,231
State	28,968
Local	1,668
Private	34,311
Interest on student loans receivable	1,153
Sales and services of educational activities	11,174
Auxiliary enterprise revenue (net of scholarship allowance of $5,042)	109,705
Other operating revenue	19,430
Total operating revenues	576,413
OPERATING EXPENSES:	
Salaries and wages	491,165
Benefits	131,912
Supplies and other services	203,284
Utilities	31,518
Student financial aid - scholarships and fellowships	60,440
Depreciation	64,677
Loan cancellations and write-offs	1,463
Other operating expenses	1,628
Total operating expenses	986,087
OPERATING LOSS	(409,674)

(Continued)

WEST VIRGINIA HIGHER EDUCATION FUND

COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2002
(Dollars in thousands)

NONOPERATING REVENUES (EXPENSES):	
State appropriations	$ 431,627
Gifts	6,134
Investment income	14,530
Interest on indebtedness	(20,749)
Student financial aid payments to other institutions	(5,457)
Loss on investments	(517)
Other nonoperating expenses - net	(1,228)
Net nonoperating revenues	424,340
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	14,666
CAPITAL GRANTS AND GIFTS	23,173
INCREASE IN NET ASSETS	37,839
NET ASSETS, BEGINNING OF YEAR (AS RESTATED)	829,023
NET ASSETS, END OF YEAR	$ 866,862

See notes to combined financial statements.

(Concluded)

WEST VIRGINIA HIGHER EDUCATION FUND

COMBINED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2002
(Dollars in thousands)

CASH FLOWS FROM OPERATING ACTIVITIES:	
Student tuition and fees	$ 207,857
Federal and local appropriations	8,545
Contracts and grants	226,810
Payments to and on behalf of employees	(611,373)
Payments to suppliers	(208,618)
Payments to utilities	(30,158)
Payments for scholarships and fellowships	(64,758)
Loans issued to students	(5,791)
Collection of loans to students	5,035
Sales and service of educational activities	11,422
Interest earned on loans to students	814
Auxiliary enterprise charges	108,169
Other receipts - net	19,387
Net cash used in operating activities	(332,659)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
State appropriations	390,945
Lottery surplus	45,179
Student financial aid payments to other institutions	(5,457)
Gift receipts	6,255
Direct and Stafford lending receipts	163,836
Direct and Stafford lending payments	(163,789)
Other nonoperating receipts - net	101
Net cash provided by noncapital financing activities	437,070
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:	
Capital appropriations	9,667
Payment for bond issuance costs	(201)
Proceeds from capital asset disposals	195
Decrease in noncurrent cash and cash equivalents	8,689
Capital grants and gifts received	9,502
Purchases of capital assets	(128,919)
Principal paid on notes, bonds and leases	(15,622)
Interest paid on notes, bonds and leases	(18,481)
Net cash used in capital financing activities	(135,170)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Receipts from sales of investments	45,419
Investment income	(473)
Interest on investments	11,656
Net cash provided by investing activities	56,602
INCREASE IN CASH AND CASH EQUIVALENTS	25,843
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	195,944
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 221,787

(Continued)

WEST VIRGINIA HIGHER EDUCATION FUND

COMBINED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2002
(Dollars in thousands)

RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:	
Operating loss	$ (409,674)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation expense	64,678
Loss on disposals	251
Changes in assets and liabilities:	
Receivables, net	(11,002)
Appropriations due from the primary government	(70)
Loans receivable, net	253
Prepaid expenses	19
Inventories	280
Accounts payable	8,977
Accrued liabilities	1,115
Compensated absences	8,197
Severance payable	1,286
Deferred revenue	2,041
Deposits	164
Advances from Federal Sponsors	767
Other	59
NET CASH USED IN OPERATING ACTIVITIES	$ (332,659)
NONCASH TRANSACTIONS:	
Equipment purchased on capital lease	$ 7,521
Donated capital assets	$ 7,449
Loss on investments	$ 458
Bond discount amortization	$ 105
Parking facility received in lieu of cash	$ 525

See notes to combined financial statements. (Concluded)

WEST VIRGINIA HIGHER EDUCATION FUND

NOTES TO COMBINED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2002

1. ORGANIZATION

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

Bluefield State College
Concord College
Eastern West Virginia Community and Technical College
Fairmont State College
Glenville State College
Marshall University (including Marshall University Graduate College)
Shepherd College
Southern West Virginia Community and Technical College
West Liberty State College
West Virginia Higher Education Policy Commission
West Virginia Network for Educational Telecomputing
West Virginia Northern Community College
West Virginia State College
West Virginia School of Osteopathic Medicine
West Virginia University (including Potomac State College, West Virginia University Institute of Technology and West Virginia University at Parkersburg)

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The combined financial statements of the Fund have been prepared in accordance with 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 Fund's assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows and replaces the fund-group perspective previously required.

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

Reporting Entity—The accompanying combined financial statements present all funds under the authority of the Fund including:

Bluefield State College Research and Development Corporation
Concord College Research and Development Corporation
Glenville State College Research Corporation
Glenville State College Housing Corporation
Marshall University Research and Development Corporation
West Virginia State College Research and Development Corporation
West Virginia University Research and Development Corporation

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

Financial Statement Presentation—During fiscal 2002, the Fund 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 Fund as a whole. Previously, financial statements focused on the accountability of individual fund groups rather than on the Fund 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 Fund's net assets are classified as follows:

- *Invested in capital assets, net of related debt*—This represents the Fund'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 Fund 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 State Code. These restrictions are primarily for the following: debt service; graduate or branch colleges; off campus intruction; student unions; public interest research group; libraries, library supplies and improvement in student services; faculty improvement; health education student loan fund; health sciences education; athletic programs; student activities; auxiliary operations; bookstore operations; and special programs. These activities are fundamental to the normal ongoing operations of the Fund. These restrictions are subject to change by future actions of the West Virginia Legislature.

- *Restricted net assets, nonexpendable*—This includes endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

- *Unrestricted net assets*—Unrestricted net assets represent resources derived from student tuition and fees, state appropriations and sales and services of educational activities. These resources are used for transactions relating to the educational and general operations of the Fund, and may be used at the discretion of the respective governing boards 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:

	June 30, 2001 (In thousands)
Combined fund balances, as previously reported	$ 1,377,670
Accumulated depreciation	(700,079)
Infrastructure capitalization	201,475
Reclassification and adjustment of grant and contract revenue	(9,107)
Reclassification of federal loan programs	(40,936)
Combined fund balances, restated as net assets	$ 829,023

Basis of Accounting—For financial reporting purposes, the Fund is considered a special-purpose government engaged only in business-type activities. Accordingly, the Fund'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 Fund 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.

Investments—GASB Statement No. 31 requires the Fund to record certain investment balances at fair value. As provided in the statement, the Fund's investments maintained by the IMB and the Municipal Bond Commission are determined by the pool's share price, which approximates fair value. Other investments are presented at fair value, based upon quoted market values.

Allowance for Doubtful Accounts—It is the Fund'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 Fund on such balances and such other factors which, in the Fund'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 to 20 years for library assets, 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 Fund accounts for compensated absences in accordance with the provisions of GASB Statement No. 16, *Accounting for Compensated Absences*. This statement requires entities to accrue for employees' rights to receive compensation for vacation leave, or payments in lieu of accrued vacation or sick leave, as such benefits are earned and payment becomes probable.

The Fund's full-time 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 Fund 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 Fund 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 Fund and its employees. Such coverage may be provided to the Fund 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 Fund or other participants in BRIM's insurance programs. As a result, management does not expect significant differences between the premiums the Fund is currently charged by BRIM and the ultimate cost of that insurance based on the Fund's actual loss experience. In the event such differences arise between estimated premiums currently charged by BRIM to the Fund and the Fund's ultimate actual loss experience, the difference will be recorded, as the change in estimate becomes known.

Classification of Revenues—The Fund 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.

Use of Restricted Net Assets—The Fund 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 Fund attempts to utilize restricted net assets first when practicable.

Federal Financial Assistance Programs—The Fund makes loans to students under the Federal Direct Student Loan Program. Under this program, the U.S. Department of Education makes interest subsidized and nonsubsidized loans directly to students, through the institution within the Fund. The Fund also makes loans to students under the Stafford Loan Program. Direct and Stafford student loan receivables are not included in the Fund's combined statements of net assets. In 2002, the Fund received and disbursed approximately $164 million under both Student Loan Programs, which is not included as revenue and expense on the combined statement of revenues, expenses and changes in net assets.

The Fund 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 Fund received and disbursed approximately $62 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 combined 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 Fund, 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 combined 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 Fund recognizes revenue associated with direct costs as the related costs are incurred. Recovery of related indirect costs is generally recorded at fixed rates negotiated for a period of one to five years.

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

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 combined 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 Fund 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 Fund's combined financial statements.

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents was as follows at June 30, 2002 (dollars in thousands):

	Current	Noncurrent	Total
Cash on deposit with the State Treasurer	$ 194,477	$ 14,159	$ 208,636
Cash on deposit with Municipal Bond Commission	1,912	2,329	4,241
Cash on deposit with Trustee	2,052	36,748	38,800
Cash in bank	22,461	406	22,867
Cash in money market	738		738
Cash on hand	147	178	325
	$ 221,787	$ 53,820	$ 275,607

Cash shown above as held by the Municipal Bond Commission or Trustee represents various project revenue, debt service and other repair and replacement reserve funds required to be escrowed by various bond trust indentures. Other cash held by the State Treasurer includes $49.0 million of restricted cash.

The combined carrying amounts of cash in the bank at June 30, 2002 was $22.9 million, as compared with the combined bank balance of $29.6 million. The difference is primarily caused by outstanding checks and items in transit. The bank balances were covered by federal depository insurance or were secured by financial instruments held as collateral by the State's agent.

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

4. INVESTMENTS

Investments were as follows at June 30, 2002 (dollars in thousands):

	Current	Noncurrent	Total
Investment Management Board	$ -	$ 2,484	$ 2,484
Municipal Bond Commission - money market funds	372	409	781
Financial institutions:			
Repurchase obligations		18,827	18,827
U.S. Government securities		2,447	2,447
High-grade corporate obligations		1,521	1,521
Equity securities		1,002	1,002
	$ 372	$ 26,690	$ 27,062

Approximately $19 million of investments represent unexpended proceeds of bond issuances, and are restricted to expenditures for capital improvements and bond related costs. Accordingly, these investments are classified as noncurrent, but are available for immediate withdrawal.

Fund investments on deposit with the State's Investment Management Board and Municipal Bond Commission, are non-categorized with respect to risk and collateral disclosure. The Fund's other investments are categorized as to credit risk as insured and registered.

5. ACCOUNTS RECEIVABLE

Accounts receivable were as follows at June 30, 2002 (dollars in thousands):

Students, net of allowance of $4,830	$ 3,558
Grants and contracts, net of allowance of $1,216	26,277
Auxiliary services, net of allowance of $856	361
Due from West Virginia Hospitals, Inc.	551
Due from other State agencies	5,465
Other - net of allowance of $54	2,038
	$ 38,250

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

6. CAPITAL ASSETS

The following is a summary of capital assets transactions for the Fund for the year June 30, 2002 (dollars in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	$ 36,181	$ 1,252	$ -	$ 37,433
Construction in progress	110,499	83,620	(94,198)	99,921
Other	132			132
Total capital assets not being depreciated	$ 146,812	$ 84,872	$ (94,198)	$ 137,486
Other capital assets:				
Land Improvements	$ 15,277	$ 1,506	$ -	$ 16,783
Infrastructure	212,347	5,573		217,920
Buildings	940,557	86,160	6,373	1,033,090
Equipment	239,258	39,132	(17,755)	260,635
Software	33,545	902		34,447
Library Books	90,858	6,713	(915)	96,656
Total other capital assets	1,531,842	139,986	(12,297)	1,659,531
Less accumulated depreciation for:				
Land Improvements	4,993	961		5,954
Infrastructure	154,053	8,013		162,066
Buildings	307,022	19,578	(1,028)	325,572
Equipment	154,586	24,201	(15,855)	162,932
Software	12,562	6,826		19,388
Library Books	70,098	5,098	(746)	74,450
Total accumulated depreciation	703,314	64,677	(17,629)	750,362
Other capital assets, net	$ 828,528	$ 75,309	$ 5,332	$ 909,169
Capital asset summary:				
Capital assets not being depreciated	$ 146,812	$ 84,872	$ (94,198)	$ 137,486
Other capital assets	1,531,842	139,986	(12,297)	1,659,531
Total cost of capital assets	1,678,654	224,858	(106,495)	1,797,017
Less accumulated depreciation	703,314	64,677	(17,629)	750,362
Capital assets, net	$ 975,340	$ 160,181	$ (88,866)	$ 1,046,655

In the above schedule, certain beginning balance amounts have been reclassified to conform with fiscal year 2002 presentation.

The Fund maintains certain 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.

7. CHANGES IN LONG-TERM LIABILITIES

The following is a summary of long-term obligation transactions for the Fund for the year ended June 30, 2002 (dollars in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds, capital leases, and notes payable:					
Notes payable	$ 3,360	$ 1	$ (44)	$ 3,317	$ 84
Capital leases payable	21,908	8,222	(4,561)	25,569	3,732
Revenue bonds payable	353,026	1	(10,958)	342,069	11,535
Total bonds, capital leases, and notes payable	378,294	8,224	(15,563)	370,955	15,351
Other noncurrent liabilities:					
Advances from Federal Sponsors	40,887	844	(147)	41,584	
Severance payable		1,827	(360)	1,467	897
Accrued compensated absences	73,637	8,856		82,493	26,519
Deferred interest payable	2,253	2,391		4,644	
Total long-term liabilities	$ 495,071	$ 22,142	$ (16,070)	$ 501,143	$ 42,767

8. COMPENSATED ABSENCES

The composition of the compensated absences liability was as follows at June 30, 2002 (dollars in thousands):

Health or life insurance benefits	$ 53,686
Accrued vacation leave	28,807
	$ 82,493

For the year ended June 30, 2002, the amounts paid by the Fund for extended health or life insurance benefits totaled approximately $1.8 million. As of June 30, 2002, there were approximately 1,500 retirees currently receiving these benefits.

9. LEASE OBLIGATIONS

Capital—The Fund leases certain property, plant and equipment through capital leases. The following is a schedule by year of future annual minimum payments required under the lease obligations existing at June 30, 2002 (dollars in thousands):

Year Ending June 30	Total
2003	$ 5,007
2004	4,473
2005	3,503
2006	3,021
2007	2,833
2008 - 2012	8,347
2013 - 2017	4,762
2018 - 2022	1,514
2023 - 2027	466
Future minimum lease payments	33,926
Less interest	(8,357)
	$ 25,569

The following are related party capital leases:

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

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

The State, on behalf of the Commission and Bluefield State College ("Bluefield") entered into an agreement to lease a branch facility, to be known as the Greenbrier Community College Center, (the "Facility") from the Greenbrier County Building Commission. The agreement provides for rent payments of one dollar per month for a rental period of 40 years. The Facility was being renovated with $1,375,000 of funding provided by the Commission and other State and federal funds, with the balance to be provided by the Greenbrier Community College Foundation, Inc. At the conclusion of the lease term, the Facility will be transferred to Bluefield. In addition, Bluefield has the right to purchase the Facility at any time prior to the expiration of the lease term for the amount required to redeem any obligations on the Facility at the date of purchase. In June 2002, Bluefield exercised its right to purchase the Facility, however, title to the property has not been transferred and contribution revenue has not been recognized as of June 30, 2002.

Operating - The Fund had entered into various operating lease agreements. Future annual minimum lease payments for years subsequent to June 30, 2002 are as follows (dollar's in thousands):

Year Ending June 30	
2003	$ 4,131
2004	3,938
2005	3,444
2006	3,045
2007	2,434
2008 - 2012	10,218
2013 - 2017	9,875
2018 - 2022	9,875
2023 - 2027	9,875
2028 - 2032	7,900
Total	$ 64,735

Total rent expense for these operating leases for the year ended June 30, 2002 was approximately $3.7 million.

The following is a related party operating lease:

West Virginia University leases an office building from the West Virginia University Foundation, Incorporated. Rental expense under the operating lease of $1,975,000 per year through 2031. West Virginia University retains the right to cancel the lease upon giving thirty days written notice.

Direct Financing—Marshall has a direct financing lease arrangement for a portion of an educational facility being leased under a capital lease, with title delivered to Marshall at completion of the lease. The facility sub-lease expires in twenty-five years. At the end of the sub-lease, the sublessee shall have the option to purchase its leased premises for the sum of one dollar. The following lists the components of the net investment in direct financing lease as of June 30, 2002 (dollars in thousands).

Total minimum lease payments to be received	$ 1,721
Less: unearned income	(692)
Net investment in direct financing and sales-type leases	$ 1,029

10. NOTES PAYABLE

During fiscal year 1997, West Virginia State College signed an agreement with the Educational Direct Loan Mortgage Corporation ("Eddie Mac") to have available a line of credit of $3.5 million to be used to renovate dormitories. As of June 30, 2002, the Fund had $3.3 million outstanding. 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 approximately $21,000 are payable through 2026. Eddie Mac has a security interest for this loan on the net revenues from West Virginia State College's dormitories and receives a monthly service fee. West Virginia State College is also subject to certain operating covenants and restrictions on incurrence of additional debt per the loan document.

The Fund also has other notes of approximately $41,000 outstanding at June 30, 2002.

11. INSTITUTION BONDS PAYABLE

The Institutions within the Fund have the following outstanding bonds payable at June 30, 2002 (dollars in thousands):

	Interest Rate	Annual Principal Installment Due	Principal Amount Outstanding
West Virginia University Dormitory Refunding Revenue Bonds 1997, Series A, due through 2017	3.95% - 5.30%	$115 to $1,070	$ 11,280
West Virginia University Dormitory Revenue Bonds 1997, Series B, due through 2022	5.00%	$1,480 to $2,035	10,735
West Virginia University Athletic Facilities Refunding Revenue Bonds 1997, Series A, due through 2016	4.00% - 5.20%	$80 to $255	2,600
West Virginia University Athletic Facilities Revenue Bonds 1997, Series B, due through 2027	5.00%	$265 to $455	4,250
West Virginia University Student Union Refunding Bonds 1997, Series A, due through 2011	3.95% - 4.95%	$190 to $280	2,125
West Virginia University Student Union Revenue Bonds 1997, Series B, due through 2027	4.20% - 5.00%	$220 to $2,970	37,780
Marshall University University Center Revenue Bonds 1969, due through 2009	4.00% - 6.00%	$155 to $215	1,295
Marshall University University Facilities Revenue Bonds 2001, due through 2031	3.6% - 5.3%	$895 to $3,035	46,610
West Liberty State College Student Union Revenue Bonds Series B 1967, due 2007	3.0%	$18	120
Glenville State College Student Housing Bonds, Series 2000A, due 2030	5.0% - 6.2%	$70 to $1,280	4,990
			121,785
Less: Unamortized bond discount			(1,647)
			$ 120,138

Each of the above bond issues is specific to an individual institution within the Fund, although the bonds were also issued in the names of the Fund's former governing boards, previously responsible for the governance of the State's higher education system.

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

Year Ending June 30	**Principal**	**Interest**	**Total**
2003	$ 1,389	$ 6,072	$ 7,461
2004	1,454	6,008	7,462
2005	2,630	5,938	8,568
2006	2,745	5,822	8,567
2007	2,861	5,701	8,562
2008-2012	16,006	26,419	42,425
2013-2017	22,760	21,899	44,659
2018-2022	31,225	15,223	46,448
2023-2027	28,125	7,616	35,741
2028-2032	12,590	1,613	14,203
	$ 121,785	$ 102,311	$ 224,096

12. SYSTEM BONDS PAYABLE

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

The State has chartered the Fund with the responsibility to construct or renovate, finance and maintain various academic and other facilities of the State's universities and colleges, including certain facilities within the Fund. Financing for these facilities was provided through revenue bonds issued by varuous former governing boards which are now administered by the Commission.

The Commission has the authority to assess each institution of the Fund for payment of debt service on these system bonds. The tuition and registration fees of the institution's are generally pledged as collateral for the Fund's bond indebtedness. Student fees collected by an institution in excess of the debt service allocation are retained by the institution for internal funding of capital projects and maintenance. The bonds remain a capital obligation of the Fund.

The Commission has the following outstanding bonds payable at June 30, 2002 (dollars in thousands):

	Maximum Interest Rate	Annual Principal Installment Due	Principal Amount Outstanding
Series 1992 University System Bonds, due through 2012	6.0 %	$5,030 to $8,450	$ 65,990
Series 1996 University System Bonds, due through 2016	5.75%	$600 to $1,185	11,945
Series 1997 University System Bonds, due through 2027	5.5 %	$245 to $795	11,645
Series 1998 University System Bonds, due through 2028	5.5 %	$1,020 to $3,625	53,105
Series 2000A University System Bonds, due through 2031	6.26%	$1,019 to $3,264	36,591
Series 2000B University System Bonds, due through 2025	5.96%	$200 to $670	8,885
Series 1992 College System Bonds, due through 2012	6.0 %	$1,415 to $3,065	24,620
Series 1997 College System Bonds, due through 2027	5.25%	$195 to $625	9,150
			$ 221,931

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

Year Ending June 30	Principal	Interest	Total
2003	$ 10,215	$ 10,403	$ 20,618
2004	10,745	9,843	20,588
2005	10,250	9,252	19,502
2006	10,785	8,678	19,463
2007	11,360	8,062	19,422
2008-2012	65,440	29,657	95,097
2013-2017	33,746	35,359	69,105
2018-2022	29,876	34,218	64,094
2023-2027	31,404	31,273	62,677
2028-2032	8,110	22,906	31,016
	$ 221,931	$ 199,651	$ 421,582

13. RETIREMENT PLANS

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

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

Total contributions to the STRS for the years ended June 30, 2002, 2001 and 2000 were $8,670,000, $9,111,000 and $9,157,000, respectively, which consisted of approximately $6,520,000, $6,635,000 and $6,665,000, from the Fund in 2002, 2001 and 2000, respectively, and approximately $2,410,000 $2,476,000 and $2,492,000 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 institutions within the Fund. Historical trend and net pension obligation information is available from the annual financial report of the Consolidated Public Retirement Board. A copy of the report may be obtained by writing to the Consolidated Public Retirement Board, Building 5, Room 1000, Charleston, WV 25305.

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

Total contributions to the TIAA-CREF for the years ended June 30, 2002, 2001 and 2000 were approximately \$47,406,000, \$46,262,000 and \$43,074,000, respectively, which consisted of approximately \$23,703,000, \$23,131,000 and \$21,537,000, from the Fund and from the covered employees in 2002, 2001 and 2000, respectively.

The Fund's total payroll for the year ended June 30, 2002 was approximately \$488,526,000, total covered employees' salaries in the STRS and TIAA-CREF were approximately \$40,632,000 and \$410,748,000, respectively.

14. FOUNDATIONS

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

15. AFFILIATED ORGANIZATIONS

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

16. CONTINGENCIES AND COMMITMENTS

Contingencies

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

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

The Fund and universities within the Fund own various buildings that were known to contain asbestos. The Fund is not required by Federal, State or Local Law to remove the asbestos from the buildings. The Fund is required by Federal Environmental, Health and Safety Regulations to manage the presence of asbestos in the buildings in a safe condition. Significant problems of dangerous asbestos conditions are abated as the condition becomes known. The Fund also addresses the presence of asbestos as building renovation or demolition projects are undertaken and through asbestos operation and maintenance programs directed at containing, managing or operating with the asbestos in a safe condition.

Commitments

West Virginia University has signed an agreement providing for the purchase of steam for a remaining period of 31 years from a nearby facility that commenced operations in late 1992. Under the agreement, West Virginia University has an annual minimum steam purchase requirement, purchased at an operating rate calculated in accordance with the agreement. This operating rate is adjusted quarterly based on actual production costs and other cost indices. Management believes that the rate is comparable to market rates. West Virginia University's total payments for steam purchased under the agreement were approximately $7,100,000 in 2002. An additional approximate $354,000 was accrued to record the West Virginia University's liability to meet the minimum purchase requirement for the year ending September 30, 2002. West Virginia University anticipates meeting the minimum steam purchase requirement for the remaining term of its commitment; however, payments in future years will be dependent on actual operating costs and other cost indices in those years.

17. SUBSEQUENT EVENTS

On August 1, 2002, West Virginia State College issued Student Union Revenue Bonds 2002 Series A, of serial and term bonds in the amount of $5.5 million. The bonds mature in intervals through June 2022 and bear interest ranging from 2.0% to 6.2%.

On August 28, 2002, Fairmont State College sold $9.3 million and $18.7 million of revenue bonds which bear interest at ratesf rom 3.3% to 5.09% and mature commencing 2003 through 2032.

18. SEGMENT INFORMATION

Under the auspices of the State of West Virginia and former governing boards, the Fund issued 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.

Descriptive information for each of the Fund's segments is shown below:

State of West Virginia, University of West Virginia Board of Trustees, Dormitory Refunding Revenue and Revenue Bonds (West Virginia University Projects), 1997 Series A&B

In October 1997, $13,710,000 of Dormitory Refunding Revenue Bonds, 1997 Series A and $10,735,000 of Dormitory Revenue Bonds, 1997 Series B (collectively the "Dormitory Bonds") were sold. The Dormitory Bonds were issued under the authority contained in Chapter 18 of the Code of West Virginia, 1931. The proceeds of the 1997 Series A Bonds were used to (1) to refund prior bonds and (2) to pay a portion of the costs of issuance of the Dormitory Bonds. The proceeds from the 1997 Series B Bonds are being used to (1) finance a portion of the costs of construction of improvement to certain dormitories at West Virginia University and reimburse West Virginia University for certain prior capital expenditures made for such purpose and (2) to pay a portion of costs of issuance of the Dormitory Bonds.

Rents, charges, and fees, which shall at all times be adequate to produce revenue from dormitories sufficient to pay operating expenses and to make the prescribed payment into the funds and accounts created under the Bond Indenture must be fixed and established; such schedule of rents, charges, and fees shall be revised from time to time to provide for all reasonable operating expenses and leave net revenues, when combined with other monies legally available.

State of West Virginia, University of West Virginia Board of Trustees, Refunding Revenue and Revenue Bonds (West Virginia University Projects), 1997 Athletic Facilities Series A&B

In December 1997, $3,250,000 of Refunding Revenue Bonds, 1997 Athletic Facilities Series A and $4,250,000 of Revenue Bonds, 1997 Athletic Facilities Series B (collectively the "Athletic Facilities Bonds") were sold. The Athletic Facilities Bonds were part of a single issue with $3,000,000 of Refunding Revenue Bonds, 1997 Student Union Series A and with $38,000,000 of Revenue Bonds, 1997 Student Union Series B. The Athletic Facilities Bonds were issued under the authority contained in Chapter 18 of the Code of West Virginia, 1931. The proceeds of the 1997 Series A Bonds were used to (1) together with other funds, to refund prior bonds and (2) to pay a portion of the costs of issuance of the Athletic Facilities Bonds. The proceeds from the 1997 Series B Bonds are being used to (1) finance a portion of the cost of acquisition, construction and equipping of an indoor football practice center at West Virginia University, and reimburse the West Virginia University's Athletic Department Operating Fund for certain prior capital expenditures made for such purpose and (2) to pay a portion of costs of issuance of the Athletic Facilities Bonds.

The Athletic Facilities Bonds are special obligations of the State and are payable from and secured by a first lien on the net revenue derived from the collection of the special gate receipts and the student activity fees and certain funds held under the Athletic Facilities Indenture. Special gate receipts and student athletic activity fees must be fixed and collected at rates so as to provide pledged revenues, when combined with other monies legally available.

State of West Virginia, University of West Virginia Board of Trustees, Refunding Revenue and Revenue Bonds, 1997 Student Union Series A&B

In December 1997, $3,000,000 of Refunding Revenue Bonds, 1997 Student Union Series A and $38,000,000 of Revenue Bonds, 1997 Athletic Facilities Series B (collectively the "Student Union Bonds") were sold. The Student Union Bonds were part of a single issue with $3,250,000 of Refunding Revenue Bonds, 1997 Athletic Facilities Series A and with $4,250,000 of Revenue Bonds, 1997 Athletic Facilities Series B. The Athletic Facilities Bonds were issued under the authority contained in Chapter 18 of the Code of West Virginia, 1931. The proceeds of the 1997 Series A Bonds were used, together with other funds, to refund prior bonds. The proceeds from the 1997 Series B Bonds are being used to (1) finance a portion of the cost of acquisition, construction and equipping of a new student union and related capital improvements at West Virginia University; (2) to pay interest on the 1997 Series B Bonds through May 1, 2001; and (3) to pay a portion of the costs of issuance of the 1997 Series B Bonds.

The Student Union Bonds are special obligations of the State and are payable from and secured by a first lien on the net revenue derived from the student union's building fees and other revenue derived from the operation of existing student union facility, the Mountainlair, and the new student union facility at the Evansdale Campus and certain funds held under the Student Union Trust Indenture. Student union building fees must be fixed and collected at rates so as to provide pledged revenues, when combined with other monies legally available.

State of West Virginia, West Virginia Board of Education, Marshall Unversity Center Revenue Boards of 1969

In January 1969, the Board of Education sold $3,600,000 of Revenue Bonds, Marshall University Center Revenue Bonds of 1969 (the "1969 Bonds"). The 1969 Bonds were issued under the authority contained in Chapters 18 and 25 of the West Virginia State Code, as amended. The proceeds of the 1969 Bonds were used for construction of a University Center (the "Center") on the Huntingdon campus of the University. The 1969 Bonds are secured by and payable from the revenues of the Center.

State of West Virginia, Higher Education Interim Governing Board, Marshall University Facilities Revenue Bonds, 2001 Series A

In June 2001, the Board sold $46,610,000 of Revenue Bonds, Marshall University Facilities 2001 Series A (the "2001 Bonds"). The 2001 Bonds were issued under the authority contained in Chapter 18, Article 23 of the Code of West Virginia, 1931, as amended, and the 2001 Bonds will be secured pursuant to a Trust Indenture (the "Indenture") dated as of June 1, 2001, by and between the Interim Governing Board and Bank One, West Virginia, National Association, Charleston, West Virginia (the "Trustee"). The 2001 Bonds are secured by and payable from the revenues of the dormitories and parking facilities and certain funds held under the Indenture. The proceeds of the 2001 Bonds are being used (1) to finance a portion of the costs of acquisition, construction and equipping of a new student housing complex and parking facilities at the University and renovations and improvements to existing dormitories at the University, (2) to fund capitalized interest on the 2001 Bonds, (3) to fund debt service reserves for the 2001 Bonds, and (4) to pay a portion of the costs of issuance of the 2001 Bonds.

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.

The County Commission of Gilmer County, West Virginia, Commerical Development Revenue Bonds, (Glenville State College Housing Corporation Project (the "Corporation")), Series 2000A

In September 2001, the Corporation sold $4,990,000 of Revenue Bonds, 2000 Housing Facilities Series A Bonds (the "Bonds"). The Bonds were issued under the authority contained in Chapter 18, Article 23 of the Code of West Virginia, 1931, as amended, and the Bonds will be secured pursuant to a Trust Indenture (the "Indenture") dated as of September 27, 2001, by and between the Interim Governing Board and United National Bank, Charleston, WV (the "Trustee"). The bonds are secured by and payable from the revenues of the student housing facilities and certain funds held under the Indenture. The proceeds of the Bonds are being used (1) to pay all or part of the cost of constructing two ten-story apartment buildings, each containing 4 units to be used as student housing and (2) paying a portion of the cost of issuing the bonds.

Condensed financial information for the Fund's segments is as follows (dollars in thousands):

	WVU 1997 Series A&B	WVU 1997 Athletic Facilities Series A&B	WVU 1997 Student Union Series A&B	Marshall 1969 University Center	Marshall 2001 Facilities Series A	West Liberty 1967 Series B	Glenville 2000 Housing Corporation Series A
CONDENSED STATEMENT OF NET ASSETS:							
Assets:							
Current assets	$ 8,742	$ 615	$ 1,164	$ 1,989	$ 42,489	$ 115	$ 360
Noncurrent assets	21,483	9,344	35,352	3,882	22,245	568	6,122
TOTAL ASSETS	$ 30,225	$ 9,959	$ 36,516	$ 5,871	$ 64,734	$ 683	$ 6,482
Liabilities:							
Current liabilities	$ 2,213	$ 477	$ 234	$ 228	$ 2,822	$ 19	$ 45
Noncurrent liabilities	22,015	6,850	39,905	1,227	47,200	101	4,962
Total liabilities	24,228	7,327	40,139	1,455	50,022	120	5,007
Net assets:							
Invested in capital assets, net of related debt	5,996	2,632	(6,303)	2,587	9,739	328	1,115
Restricted	1			1,774	4,921	120	126
Unrestricted			2,680	55	52	115	234
Total net assets	5,997	2,632	(3,623)	4,416	14,712	563	1,475
TOTAL NET ASSETS AND LIABILITIES	$ 30,225	$ 9,959	$ 36,516	$ 5,871	$ 64,734	$ 683	$ 6,482
CONDENSED STATEMENT OF REVENUES. EXPENSES AND CHANGES IN NET ASSETS:							
Operating:							
Operating revenues	$ 21,435	$ 2,617	$ 10,878	$ 1,244	$ 8,672	$ 318	$ 532
Operating expenses	(17,359)	(383)	(7,251)	(1,019)	(5,561)	(388)	(168)
Net operating income	4,076	2,234	3,627	225	3,111	(70)	364
Nonoperating:							
Nonoperating revenues	305	37	379	22	2,161	113	17
Nonoperating expenses	(1,668)	(347)	(10,147)	(83)	(2,294)	(33)	(306)
INCREASE (DECREASE) IN NET ASSETS	2,713	1,924	(6,141)	164	2,978	10	75
NET ASSETS, BEGINNING OF YEAR (AS RESTATED)	3,284	708	2,518	4,252	11,734	553	1,400
NET ASSETS, END OF YEAR	$ 5,997	$ 2,632	$ (3,623)	$ 4,416	$ 14,712	$ 563	$ 1,475
CONDENSED STATEMENT OF CASH FLOWS:							
Net cash provided by operating activities	$ 5,349	$ 483	$ 3,562	$ 365	$ 2,283	$ 3	$ 452
Net cash used in capital and related financing	(555)	(140)	(8,220)	(242)	(10,552)	(11)	(1,425)
Net cash used in investing activities	(1,362)	(448)	(2,118)				
INCREASE (DECREASE) IN CASH	3,432	(105)	(6,776)	123	(8,269)	(8)	(973)
CASH, BEGINNING OF YEAR	4,262	720	10,471	1,843	50,337	123	1,333
CASH, END OF YEAR	$ 7,694	$ 615	$ 3,695	$ 1,966	$ 42,068	$ 115	$ 360

19. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

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

	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Loan Cancellations and Write-offs	Other	Total
Instruction	$ 214,091	$ 55,914	$ 27,016	$ 411	$ 299	$ -	$ 22	$ -	$ 297,753
Research	44,598	14,870	24,895	619	13			22	85,017
Public service	41,647	9,309	23,096	404	438			95	74,989
Academic support	37,777	9,007	13,110	384					60,278
Student services	28,816	6,874	14,405	66	34,590				84,751
Operations and maintenance of plant	26,118	8,626	13,340	22,101	7				70,192
General institutional support	60,158	18,007	36,745	496	128			2	115,536
Student financial aid	281	10	36		24,791				25,118
Auxiliary enterprises	37,679	9,295	50,495	7,037	174				104,680
Depreciation						64,678		28	64,706
Waivers in Support of other institutions								356	356
Loan cancellations and write-offs							1,334		1,334
Other			146				106	1,125	1,377
Total	$ 491,165	$ 131,912	$ 203,284	$ 31,518	$ 60,440	$ 64,678	$ 1,462	$ 1,628	$ 986,087

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

To the West Virginia Higher Education Policy Commission

We have audited the accompanying combined financial statements of the West Virginia Higher Education Fund (the "Fund") as of June 30, 2002, and have issued our report thereon dated October 11, 2002, which contains a consistency paragraph for adoption of Governmental Accounting Standards Board ("GASB") Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Fund'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 Fund's internal control over financial reporting in order in 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 weaknesses 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 Fund's internal control over financial reporting and its operation that we consider to be material weaknesses.

The report is intended solely for the information and use of the management of the Fund, 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 the specified parties.

Deloitte & Touche LLP

October 11, 2002